



“Blue Jet Healthcare Limited
Q3 & 9M FY '24 Earnings Conference Call”
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Moderator: Ladies and gentlemen, good day and welcome to Blue Jet Healthcare Limited Q3 FY '24 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Advait Bhadekar from EY. Thank you and over to you sir.

Advait Bhadekar: Thank you Yusuf. Good morning and a warm welcome everyone to Q3 and 9M FY '24 earnings call of Blue Jet Healthcare Limited. Please note, investor presentation and the financial results are available on the company website and the stock exchanges.

Also, anything said on this call which reflects our outlook for the future or which could be construed as a forward-looking statement must be reviewed in conjunction with the risks that the company faces. The conference call is being recorded and the transcript along with the audio of the same will be made available on the website of the company as well as on the exchanges. Please also note that the audio of the conference call is a copyright material of Blue Jet Healthcare Limited and cannot be copied, rebroadcasted or attributed in press or media without specific and written consent of the company.

From the management, we have with us today Mr. Shiven Arora, Managing Director, Mr. V.K. Singh, Chief Operating Officer, Mr. Ganesh Karuppannan, Chief Financial Officer and Mr. Sanjay Sinha, Deputy Chief Financial Officer.

Now I request Mr. Ganesh Karuppannan, Chief Financial Officer of Blue Jet Healthcare Limited to provide you with updates on the quarter. Over to you sir.

Ganesh Karuppannan: Good morning everybody. Before we start with the performance of Q3, I would now request Mr. Shiven to give you a brief about the Mahad incident and then we will actually get into the performance review.

Shiven Arora: Good morning and a warm welcome to all. We had informed about this incident that took place in Mahad on the investor call dated 12, November 2023. The incident took place in Unit 3 in Mahad and the incident was localized in a particular block. Our foremost concern was the loss of life due to the accident which can never be compensated. Our responsibility is towards the families who had lost a member in their family and the compensation was paid to them. Injured persons have been treated and are now discharged.

We had received an order to stop production in the impacted site that is Unit 3 from MPCB. The suspensory process of the affected area is started and will take another six weeks. As on today, we have received the approval to initiate the capex activities in Unit 3.

Our original plan was to move the production of raw material that we are currently importing to in-house which remains intact in Unit 3. We expect this block to be validated by Q3 FY '25. We will also add another block for multi-production as per plan.

We do expect this block to be validated by Q1 FY '26. We are in continuous communication with all the regulatory agencies and cooperating with them in the inquiry process. Consequent to this incident, we are re-validating the safety system to identify the gaps in all locations wherever required.

Certain additional equipment and systems were installed to ensure the highest level of safety standards. We are also undertaking a complete systemic review of all safety systems and renowned consultants are engaged to conduct the risk assessment and suggest best-in-class practices including safety training. We have made a change in the organization by bringing in a safety senior resource with responsibility of safety of all our units.

We have ensured properties of the unit. Loss assessment is being carried out and a final report is expected. As a prudence measure, we have taken property damage as a loss in the P&L and will reverse it on the admissibility of the claim by the insurer.

As an important business update, I would like to highlight two opportunities that we were closely tracking and have touched an important milestone at a customer's end in December. Such as a label expansion for the cardiovascular drug which is an NCE molecule and an NCE intermediate in the MRI space.

These were two important credible opportunities for Blue Jet Healthcare as well. And we were doing capex in Unit 2 in the past 12 months. So this capacity build-up would be ready for validation in Q1 FY '25 to meet up with the growing requirements of our customers in these two specific areas such as the pharma intermediate space in the CDMO business and the contrast media.

On this note, I would like to pass on to Mr. Ganesh to explain more about the financial performance.

Ganesh Karuppannan:

Hi, we have uploaded our performance in our website for you to have a detailed understanding. We will be sharing certain key highlights in this business call for your assessment. We will start with sales.

The nine months of current year sales is higher by 5%, compared to the previous year. During this nine month, contrast media grew by 8%. Artificial sweetener category de-grew by 33%. This is on account of dumping of products by Chinese manufacturers at a very low price which has impacted our sales. We are still maintaining our prices. So we are actually not getting into this price war at this stage.

The pharmaceutical intermediate business grew by 194% with commercialization of a high-value intermediate for API under patent till 2031 for cardiovascular therapeutic category.

Company hopes to see increase in sales volume in coming quarters. This could offset the de-growth in artificial sweetener business.

During the current quarter Q3 of FY '24, the total turnover dropped by 1%. Contrast media and artificial sweetener de-grew by 8% and 35% respectively while PI grew by 250%. We would like to highlight few key events in Q3 which had an impact on our operation.

We revalidated our safety systems in all the units with the support of external agencies after Mahad incident. This had an impact on the production during Q3 FY '24. In addition, during Q3, the Red Sea situation contributed to longer delivery timelines for our door delivery customers with marginal increase in shipping cost. Normally what takes 35 days to 40 days for delivery now is around 60 days to 70 days. So this is actually having an impact on our revenue recognition for door delivery customers.

We will talk about few key products in terms of performance as well as how we outlook for the next couple of quarters. Our contrast media customer for intermediate for NCE increased their uptake in the first nine months for their supplies to the US territory. You may recall we supply intermediates to one of the NCE. The innovator got the approval in the beginning of '23, calendar '23 and the supplies we were able to show significant jump compared to previous year.

They got the approval for marketing the same in Europe in December '23. We expect the traction in the uptake from Q2, Q3 of FY '25 once the marketing effort stabilizes both in US and Europe. We have one more new product launch in the contrast media. We have actually shipped the validation quantity in Q3 and the product is expected to be validated in this quarter. On completion of the regulatory process at the customer end, we expect the commercial volume to start from Q2, Q3 of FY '25.

Now we will also talk about the situation with our intermediate supplies to the innovator cardiovascular space. Our innovator customer has demonstrated a sustainable growth. While we have started supplies in Q2 in this financial year, we hope to see increase in sales quarter-on-quarter. An increased uptake in FY '25 is planned out in our unit at Ambernath.

We would have completed the investment plan in a new block by March, April of this calendar year and the facility will be ready for validation in Q1, '25. The commercialization of the increased quantity is expected from Q2, '25. So this is a critical event we are actually looking out for.

We would also like to give a quick update on our existing products in the contrast media space. We believe the potential for contrast media is on the race and expect few of our customers to strategize capacity planning for the future, which may result in planned slowdown in production to debottlenecking of capacities in the short to medium term. Once the capacity planning at the customer end is addressed, we believe our customer's need for contrast media intermediate will increase in the long run.

Now moving to artificial sweetener, we decided not to drop prices in the current scenario and will be opportunistic. We will continue to stay where we are now in this category. Considering

the market situation, to maintain few customers which having a consistent consumption company may soften the price to some extent in order to regain market share. Company is also in the process of targeting new customers in Europe and US as well as developing other sorts of saccharin such as calcium saccharin.

Now moving on to profitability, if you look at the gross margin, thanks to the softening of raw material prices, for the nine months we are around 57.5% of gross margin. We could actually see the overall trend in raw material price easing off.

As far as the operating costs are concerned, our focus on non-renewable energy sources helped us to reduce the power cost by 1% and the favorable ocean freight for most part of the year also reduced our operating cost. Marginal increase in salaries and wages was offset by the savings. So, we are able to sustain our overall operating cost at a consistent basis.

During the quarter, we took an extraordinary item. The compensation paid to the families of the casualties of in excess of INR3 crores has been taken as a charge to the P&L. This would be a one-time impact. The balance is on account of loss of property at Mahad. While the survey is going on, we have taken a hit in the P&L and it will be reversed once the insurer admits this claim, which we expect somewhere in Q4 FY24 to Q1 of FY '25.

In terms of liquidity, as of 31, December, we have a cash-in investment of INR237 crores. On the Capex, our solar project got completed by December and we were able to integrate it with the grid by January '24. We have invested close to INR30 crores in this and we do expect more than 60% of our total power requirement should come from our renewable energy source and this could be a good amount of savings way forward.

We expect our capex in Amarnath to be completed by March-April with an outlay of close to INR90 crores to INR100 crores. As I mentioned earlier, we should be validating this facility by Q1 FY '25. We are also in the process of making our EC application for a greenfield site.

We actually will be fast-tracking our investment in this new greenfield site and we do expect traction in FY '25 and we should expect this facility by FY '26. We have talked separately about Mahad investment and currently the total outlay for this is going to be around INR250 crores. But the split between FY '24 and FY '25 will be largely dependent on when the site is ready for investment. I think today, the site is yet to be dismantled and once we get that requisite approval, it will be dependent on that.

In terms of Profit After Tax, Q3 we dropped to 19%. This is predominantly because of the extraordinary item and if you look at nine-month ended, including the extraordinary item, our PAT is around 23% compared to 21% of the previous year.

We are now ready for the Q&A.

Moderator:

We will now begin the question-and-answer session. First question is from the line of Sanjesh Jain from ICICI Securities. Please proceed.

Sanjesh Jain: Good morning sir. Thanks for taking my question. I have a few of them. First on the new launch of PI API, which has been highlighted in the presentation, can you give more detail on what is this product? When is this expected to be shipped and booking of revenue will start?

VK Singh: Sanjesh, as you are aware, this intermediate goes for a cardiovascular end-use product to the innovator. The product is protected by a patent till 2030 and another year of marketing exclusivity.

Supplies had commenced for this product in the last quarter of the previous year and you would have seen an uptick in the performance of this third business vertical, that is the PI vertical. As we speak, the supplies are ongoing, but there is going to be a significant uptick in the volumes, and for which the new capacity that we were adding in our Unit 2, that is USFDA approved at Ambarnath, that new capacity would be on stream in quarter 1 of FY '25. That's a time when there will be a significant uptick in the revenue from the product as well.

I think there are good tidings on the market as far as the molecule is concerned. The Esperion, the innovator, has been granted a label updation and with this label updation happening, the addressable market for the molecule increases manifold. We are, however, sticking to the original projections that we had discussed about and not factoring in any of this uptick that could come from the label updation that's happened.

You would have also seen that there has been an amicable settlement with Daiichi Sankyo. So I think as far as the innovator and the molecule are concerned, there is a lot of positive news.

Sanjesh Jain: Fair enough. So we were in the process of expanding that and that expanded capacity will come in Q1 '25 and hence we expect an uptick from Q1 '25, that's the broad assumption?

VK Singh: Yes.

Sanjesh Jain: Fair enough. Second on the MRI thing and one which we have sent for the validation, I think MRI thing has also received European Union approval. When should that materially start contributing to the contrast media? And second question related to contrast media is on the validation quantities we have sent. When should we hear a response from the customer and when should we actually look at the commercial supplies on a regular basis?

Shiven Arora: Yes. Starting off with the first update on the NCE intermediate for the MRI space. So as a company we have been supplying the advanced intermediate from Phase 3 to the customer and been a very strong partner in the overall success. We've been adding up capacities into for this particular candidate and in Q1 FY '25 this plant will be validated. However, the commercial offtake should perhaps increase from Q2 FY '25 for this particular NCE intermediate. On the generic intermediate for the iodinated space, this was an important milestone for us as a company to supply this validation quantities.

Depending on the stability studies and the time required by them, I think our best estimate would be Q2, Q3 FY '25 for a significant ramp-up when it comes to this particular candidate. It can happen earlier as well but we are being conservative when it comes to this particular outlook.

Sanjesh Jain: Will we be dependent on the Mahad side to come up for these product ramp-ups or we have enough capacities in Ambernath to support all this expansion?

Shiven Arora: It is safe to confirm that these two NCE opportunities, both CDMO linked for contrast media and the cardiovascular space are purely coming from Unit 2 Ambernath and not linked to the Mahad site.

Sanjesh Jain: So all the three products which is NCE for MRI and the generic iodine and the cardiovascular, all the three will be serviced from the existing capacity or an expanded capacity from the Unit 2, Ambernath?

Shiven Arora: Correct.

Sanjesh Jain: Got it. What is your plan for Mahad in that case because we are incurring a large capex of INR250 crores. So what are the plans for Mahad and what is the utility or utilisation we are looking for in Mahad?

Shiven Arora: So Mahad, the immediate action plan was a block for backward integration and contrast media. Fortunately, the pricing of the raw material has favoured us for the company so backward integration will happen by Q3 FY '25, that is block number 1. And the other block would be a multipurpose intermediate block for the CDMOs, the opportunities that we are tracking both in contrast media and the pharma intermediate space for different therapeutic categories such as cardiovascular, CNS and oncology. So these are two large multipurpose blocks that we are developing in this particular site in Unit 3.

Sanjesh Jain: Thanks. Can you talk about the pipeline as well because I think the capex plan looks quite large. So in that contrast, can you help us understand what is the pipeline we are looking at or having in our R&D which gives us the confidence and the visibility for the large capex in Mahad?

VK Singh: Sanjesh, as you know we had expanded our R&D. We had expanded, we had doubled the hardware and we had also doubled the number of people. There is a pipeline for contrast media as we have spoken in the past, four or five new opportunities are building up in contrast media.

On artificial sweeteners also, we are developing a couple of new artificial sweeteners. The most interesting piece is in the PI segment where something that was incubated about three years, four years back has now fructified and we see the uptake in the PI vertical business. But besides that also we are working on four to five very significant and credible opportunities in the PI segment with client visibility. So the capex and capacity that we are putting up, I would say, already has good visibility and would very quickly get to a very decent scale of utilization.

Sanjesh Jain: Got it, sir. One last question from my side.

VK Singh: Just to add, as you know that the company has been built on chemistry platforms. We have added two or three new chemistry platforms as well which will help make our pipeline more robust.

Sanjesh Jain: And which are these chemistries? One we were into the isophthalic and nitration. Which are these chemistries?

- VK Singh:** For example, we have added a pyrophoric chemistry, we have added an enzymatic chemistry and we have also commenced some work on the starting elements for proteins.
- Sanjesh Jain:** Okay. Proteins in the sense which goes into the supplements and all?
- VK Singh:** No, not that. The amino acids. But this is all in very inception phase but work is on.
- Moderator:** Next question is from the line of Bansai Desai from JPMorgan. Please go ahead.
- Bansai Desai:** My first question is on contrast media. We have seen a sequential decline here. Is this in part due to the planned shutdown which you mentioned? How long do we expect this impact to be seen in the business?
- Shiven Arora:** So, I think as a segment overall, this contrast media is quite significant. And what we learn from our customers is that there is a strong capacity expansion plan for manufacturing API at their respective geographies. Which has led to an immediate softening in terms of the offtake. But when it comes to the overall growth outlook, it seems very positive in this particular segment because the overall segment is expanding quite significantly. The impact for us could be limited to Q4 of FY '24. But with the new ramp-up of the NCE intermediates, we could see a strong recovery starting Q1 FY '25.
- Bansai Desai:** Okay. But despite this shutdown, there was no need for the innovator to stock the inventory or that has been managed with our past supply?
- Ganesh Karuppannan:** It is actually managed more with our past supplies. So, there are a couple of points. I think one is on the Red Sea impact. Our dispatchers are also now getting impacted. Like what used to take 35 days, 40 days, now it is taking 70 days. So, you would actually see a revenue recognition challenge in Q4 because this is a door delivery consignment.
- So, unless it reaches the destination, we cannot take it as an income. So, we already saw a good amount of impact in Q3. And given the Red Sea situation, I believe you would see this trend continuing in Q4. And looking at the production plans of our customers, you would actually see a softening for Q4. Probably, it can extend to a part of Q1 also of next financial year.
- Bansai Desai:** Okay. But then, the improved growth, when should one start seeing that? I would believe that we should be then kind of tracking more than what we did probably in the last two years to three in this particular segment?
- Shiven Arora:** Yes, I think when we hear about the aggressive capacity expansion plans by our customers, the ramp-up is quite significant. And Q1, Q2, you will see a good recovery in this particular space.
- Bansai Desai:** Okay. Noted. And my second question is on PI API. Shiven, you guys have ambitious targets, upgrading this segment. It is a small business as of today. I mean, last year, it contributed to INR30 crores, INR34 crores of revenues. We had ambitions of taking this to 10x, 15x in two years to three years' time. A large part of that was set to be driven by this promising intermediate, for Espirion. So, do we still stand by that? Does that still remain a material contributor in our target?

Shiven Arora: Yes, absolutely. I think with the recent approvals by the regulatory agencies and the label expansion claims that are quite evident right now, I think there is a good amount of traction in this particular molecule. But we are also tracking a few other late-stage NCEs that could be a growth driver in this particular category. I mean, we saw 250% growth in this particular vertical, and it's quite healthy. It has a low base effect, but at the same time, there's a good traction in the opportunities that we are tracking.

Bansi Desai: But sequentially, when I see, the uptick is probably not to the extent that one would have anticipated, because last quarter, I guess, we had issues on the customer side, which led to delays in validation. So, is that resolved? And if that's the case, then why the ramp-up has not been material?

Shiven Arora: I think the delay in the last quarter was, of course, attributed to Part 1 would be the validation, but also for us as a company to re-look at the safety systems, not only in Mahad, but the other sites as well. So, it was a conscious decision made by the company to maybe slow down the productions, but at the same time, re-looking at the safety was our utmost concern.

Bansi Desai: Okay. And when you mentioned about the label expansion opportunity not factored in your numbers, so when we think about these opportunities, you mean to say, once the label expansion approval comes through this particular year, we see upsides to our forecast?

Shiven Arora: I mean, I think all I can confirm right now is that the capacity built-up that we were undertaking in Unit 2 for these few NCE intermediates, I think that with these positive news by the regulatory agencies, we will be able to fulfill the capacity that were being built for FY '25 and FY '26.

Moderator: Thank you. Next question is from the line of Purva Jhaveri from Girik Capital. Please go ahead.

Purva Jhaveri: So, I was asking you about the sharp moderation in revenue and sweetener business. So, can you just give an outlook over here?

Ganesh Karuppannan: Today, in the sweetener business that is actually a dumping of product by China. We actually like have two categories of customers. One is the typical CDMO with FMCG clients and the spot market. Today we are actually not focusing more on the spot market. Because we don't want to actually, like, get into this prices. So, as long as we have this Chinese import, the spot market is going to be a challenge. Our strategy is to focus more on the long-term CDMO customers and reserve our capacity for this. You would actually see this trend maybe for another two quarters to three quarters. Till then, we come and replace it with another FMCG client. I think that's our long-term goal.

Purva Jhaveri: Okay. And I wanted to ask you another thing. Can you just give a guidance on what will be the capex cycle going ahead?

Shiven Arora: Capex, I think we had indicated unit-wise in our opening remarks.

Purva Jhaveri: Okay.

Moderator: Thank you. Next question is from the line of Ritika from Value Quest. Please go ahead.

- Ritika:** Thank you for taking my question. First question is on Pharma Intermediate. We talked about this new intermediate for Espiron. Capacity ramp up on that. Could you broadly highlight what was the capacity or peak capacity earlier? What was there with us and how much are we increasing the capacity on this Espiron drug?
- Ganesh Karuppannan:** See, our capacities are fungible. So, we actually will not be sharing those information product-wise.
- Ritika:** Sure. Second question is on capex plan. I know it was highlighted earlier on the Greenfield as well. But broadly, up till now, Q3, what kind of capex have we done? What's our guidance for '24 and '25 as well, including this Greenfield site?
- Ganesh Karuppannan:** See, for FY '24, it will be around INR160 crores because our investments in Mahad is getting pushed to FY '25. And for the next financial year, we should be targeting approximately INR200 crores to INR220 crores.
- Ritika:** Okay. So, could you give us a number on what we've spent for Ambernath Unit 2 for this new capacity for NCE MRI plus this Espiron?
- Ganesh Karuppannan:** Close to INR100 crores. That we mentioned it in the initial conversation. INR90 crores to INR100 crores is the number we are looking at.
- Ritika:** Sure, sir. And lastly, on the new iodinated contrast media intermediate that we are talking about to be validated by this quarter. Broadly, what would be the sense on ramp-up? How big this drug could be for us? Anything that you could share with us?
- Shiven Arora:** So, it is an established market for a very old contrast media API in the iodinated space. And the quantity and volume and price have been signed off with the customer and we have stability on that front. So, the ramp-up could be quite aggressive from us as a company.
- Ritika:** Sure. Thanks a lot.
- Moderator:** Thank you. Next question is from the line of Darshan from Multi Act. Please go ahead.
- Darshan:** My question is on end market size of new advanced pharma intermediate that we have talked about. The validation batch that we sent in the Q3. If you could broadly highlight that.
- Ganesh Karuppannan:** You are talking of the pharma intermediate, right?
- Darshan:** No, not pharma intermediate, contrast media. Iodine-based contrast media formulation market size.
- Ganesh Karuppannan:** This is the generic contrast media you are talking about?
- Darshan:** Yes.

Ganesh Karuppannan: In my assessment, this should be probably around 10% of the iodinated space. 10% to 12% of the iodinated space.

Darshan: Okay, thanks. That's it from my side.

Moderator: Thank you. Next question is from the line of Ganesh Nagarsekar from Bharat Bet Research. Please go ahead.

Ganesh Nagarsekar: Two questions from my side. The first is on the contrast media intermediate. Our clients there are fairly concentrated. So I just wanted to check if there is any intent and ability from the client to backward integrate and if you kind of see that as a potential risk for the business?

And the second is on the sweetener side of things. Just wanted to check with respect to the Chinese competition coming in. Do these guys have any kind of major cost advantage over us or are they basically selling below cost? And could we change anything in our cost structure to make the product more competitive?

Shiven Arora: So I think you are absolutely right when it comes to contrast media space, the customers are fairly concentrated to three or four global names. And some of these names rely on our abilities of backward integration. Today in some of the select intermediates in contrast media, we have a world leadership position. To an extent, if there is a requirement and spare capacity, we will export to China. So I think the long term plan would be to further expand their API capacities to meet with the customers and rely on CDMO partners like us for the intermediate requirements.

When it comes to artificial sweeteners, I think there are various benefits offered to the Chinese exporters. So I think in the short term, they would have a cost advantage. But in the long term, the quality that we offer and the price for a few select large consumers of artificial sweeteners in the oral healthcare space and beverages rely on us. So I feel that we should be seeing a good recovery when it comes to the saccharin supplies going forward.

Ganesh Nagarsekar: Understood. Thanks a lot, sir. That's it from my side.

Moderator: Thank you. Next question is from the line of Nitesh Dutt from Burman Capital. Please proceed.

Nitesh Dutt: Hi, thanks for taking my question. First question is on our key contrast media molecule 5-ABHPL. So I want to understand what percentage of the total requirement is coming from India? And if this is a significant number, what does India and also Blue Jet have to offer over China and other places that makes us more competitive in this space?

Shiven Arora: I think it's very difficult to comment on the supplier base for this particular intermediate or others as well. But at the same time, Blue Jet as a company is well-positioned to supply this intermediate in the long term with this base of backward integration and also adding up another critical raw material that will be useful, that will come up from Unit 3 Mahad. It only strengthens our position as a supplier to these innovators.

Nitesh Dutt: Understood. Also, I was looking at your historical numbers and I saw that in FY '20, there's been a large jump in our profitability. So, if you would explain what this because of the ramp-up in 5-ABHPL and what exactly changed in that year in terms of pricing, cost structure, etcetera?

Shiven Arora: I think this particular jump was not only attributed by this particular intermediate that you referred to. I think as a company, we scaled up the manufacturing operations, bought in some automation with the help of our customers. And this was a well-designed plant in which we could get best-in-class recoveries, which we were not getting in FY '19. And FY '20 was the execution of a large continuous plant, semi-continuous plant for these contrast media intermediates, which resulted in a good bottom line.

Nitesh Dutt: Got it. Lastly, for the three molecules that you highlighted, cardio and cardio-intermediate, MRI NCE-intermediate, and iodine-space generic intermediate, and you mentioned that you are spending roughly INR100 crores in Ambernath. Is it fair to assume that the peak revenue potential just from this INR100 crores is roughly INR300 crores, assuming the gross asset turn remains the same as on today?

And also, do we have customer guarantees for offtake of these molecules? I mean, some negotiated amount of X crores supplies, etcetera?

Ganesh Karuppannan: I think first, if you really look at our sales realization, we have the pricing is from 1X to it can even go up to 80X. So it's sometimes very difficult to actually make an asset turnover. If you're actually making a very high-value product, the asset turnover for that particular block could be significantly higher. So I would not like to standardize a turnover ratio because of this mix of low-value as well as high-value products, what we have in our basket. I think it will be difficult to generalize. I think to me, that's number one.

Second, we get into a long-term supply agreement. I don't think we have a guarantee from the manufacturer. I think if you appreciate the pharma business, I think once a particular product is in the final output, it becomes difficult for somebody to change the source. Indirectly, I would actually put that as a sort of a comfort or a guarantee. But in the industry, I don't think there is any sort of a guarantee which is given by the customer.

Nitesh Dutt: Fair enough. Lastly, just one question. For the Mahad INR250 crores capex, can you split it in the backward integration block and the new CDMO block, just a rough guidance?

Ganesh Karuppannan: A significant portion actually goes in the utilities, as you will appreciate in the pharmaceutical sector. Your effluent, your boiler, your substations, stores. We are actually redoing the entire infrastructure. And there will be two additional blocks, one for a backward integration of our raw material and one is a multiproduct block. Normally, a production block should be in the range of INR80 crores to INR100 crores. The remaining actually goes into the utilities. You cannot actually ignore the utility, especially when you are actually upgrading it to a larger capacity.

- Moderator:** Thank you. We have our next follow-up question from the line of Bansai Desai from JPMorgan. Please go ahead.
- Bansai Desai:** Just one question on gross margins. How should we think about these trending? Because sweetener business has declined for us, but then API should pick-up from here. At the same time, the backward integration plans for some of the key molecules could get delayed because of Mahad. Given these pushes and pulls, how should we think about the margin trend going forward?
- Ganesh Karuppannan:** With the reduction in one of our key raw material, we should be in a position to sustain the 57%, 58% margin, at least for a couple of quarters. I think to me that is number one. Based on the offtake of the innovative product in the PI API segment, there could be a marginal impact. Maybe in the long run, there could be a couple of percent reduction in the gross margin.
- Bansai Desai:** Okay. Sustainable levels should be closer to 55% and the 57% could continue to grow?
- Ganesh Karuppannan:** In the medium term, it should be around in that category.
- Bansai Desai:** Okay. One question on Espiron on earlier in the year, they did mention, or they did allude that in order to improve their profitability, they could look to completely shift the manufacturing responsibility to Daichi. Have you guys had any sort of conversations around this or have you received any communication on these lines from them?
- VK Singh:** I think we are not privy to any information on that and we may not be able to share much. But what is in public domain, what they are talking about is the manufacturing of the licensed product. And by licensed product, if you will see the definition, it means the pharmaceutical product. So, I would say, it is reasonable to assume that they are talking about the formulation.
- Bansai Desai:** Okay. And for this particular intermediate, we are the primary supplier, right?
- VK Singh:** Yes, we are.
- Moderator:** Thank you. Next follow-up question is from the line of Ritika from Value Quest. Please proceed.
- Ritika:** So, an extension of the earlier participant's question. As we are the primary supplier of this pharma intermediate, do we have enough capacity or plans in place? If the formulation offtakes with the updated label expansion, do we have enough capacity to cater to increase in sales or increase in supplies that would be required?
- Shiven Arora:** In the immediate ramp-up, what the customer is expecting, I think that should be an immediate milestone for us to achieve and cater to that in a timely manner. But going forward, we are in close contact with the customer needs and requirements and our capacities will evolve as the capacities are fungible in nature and expandable.
- Ritika:** Right. And by primary supplier, we should be thinking that 70% around or 70%, 80% of the demand for this intermediate should be coming to Blue Jet? Is that how we should be thinking?

- Shiven Arora:** Would not like to paint a picture on a particular number, but as a primary and majority supplier, that should qualify as being very credible and important to the customer.
- Moderator:** Thank you. Next follow-up question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.
- Sanjesh Jain:** I got one on the backward integration for the contrast media. Now that the prices of APD itself has fallen very sharply, going into a backward integration, do you assume the benefit, which we would have assumed earlier, will be significantly lower due to the backward integration? How should we see it? Because I think gross margins have scaled up to 57%, 58%?
- Shiven Arora:** Absolutely right. I think it's a very good question you've raised. I think the current pricing levels are similar to the FY '22 levels. And in FY '23, there was a significant increase in the raw material prices. However, our plan to backward integrate dates back to FY '21. So, the plan that has been designed will definitely beat the existing supplier. And it just gives us further stability and predictability in terms of the overall supplies to our advanced intermediates.
- Sanjesh Jain:** Got it. One last bit on the artificial sweetener. When do you think these revenues will stabilize? And China competition, I don't think it's going very soon. So, what's our plan exactly to see that we scale back our artificial sweetener business in the next 12 months to 18 months?
- Shiven Arora:** I think our efforts towards increasing the contractual revenues are ongoing. And that can happen by increasing the wallet share with the existing suppliers, but also by adding up new customers. And we have received some positive updates from a few FMCG players. So, our intent and we aspire to grow this category by not just seeing a strong recovery in the saccharine space, but by also adding up a few other sweeteners, which would be another CDMO opportunity with a large player. So, we are developing some other sweeteners as well.
- Sanjesh Jain:** Is it in the saccharine itself or will it be a different sweetener altogether?
- Shiven Arora:** At this point in time, it would be another sweetener altogether. But an established name.
- Sanjesh Jain:** Okay. So, we are expanding this in terms of your portfolio.
- Shiven Arora:** Yes, because similar customer profile and this helps us to expand into adjacencies. And this has been brought up by them only. So, we are just working on the bench to further optimize the process and be more competitive before we initiate the capex.
- Moderator:** Thank you. Next follow-up question is from the line of Nitesh Dutt from Burman Capital. Please proceed.
- Nitesh Dutt:** Just one question. You mentioned that gross margins over a longer term should see a couple of points reduction, like 55% of the sustainable level. At the same time, we are doing backward integration as well. So, I just want to understand why you feel that gross margins will come down in the longer term?

Shiven Arora: I think the prediction right now is fairly conservative. I think we want, firstly, the capex that we are doing for backward integration to stabilize. The catch-up could be aggressive as well. But at the same time, the estimates given by Mr. Ganesh would be true and correct at this point in time.

Nitish Dutt: All right.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to the management for the closing comments.

Ganesh Karuppannan: Thank you very much for your participation. We will see you in the next investor call for Q4. Thank you.

Shiven Arora: Thank you all.

Moderator: Thank you. On behalf of Blue Jet Healthcare Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.

(This document was edited for readability purpose.)