Senores Pharmaceuticals Ltd.

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IPO Note | **19th December, 2024**

Company Overview

Senores Pharmaceuticals Limited is a global research-driven pharmaceutical company focused on developing and manufacturing a wide range of pharmaceutical products for the regulated markets of the US, Canada, and the United Kingdom across various therapeutic areas and dosage forms, with a presence in emerging markets. The company's strength lies in identifying, developing and manufacturing a diverse range of specialty, underpenetrated and complex pharmaceutical products, establishing it as a preferred partner to specific customers. Through data analytics, research, market assessment and experienced management, they strategically identify commercially underpenetrated molecules to launch products in regulated and emerging markets. The company leverages R&D capabilities to develop and manufacture a portfolio of differentiated complex pharmaceutical products. Their focus on quality and ability to identify specialty and complex molecules has resulted in a pipeline of curated complex products spanning diverse dosage forms and therapeutic domains, demonstrated through partnerships in the regulated markets of the US, Canada and the United Kingdom with foreign and Indian pharmaceutical companies including Prasco LLC, Lannett Company Inc., Jubilant Cadista Pharmaceuticals Inc., Alkem Laboratories Limited, Sun Pharmaceuticals Industries Limited, Dr. Reddy's Laboratories Inc. and Cipla USA Inc. The company's business primarily focuses on the regulated markets of the US, Canada, and the United Kingdom. Senores also has a strong presence in emerging markets across 43 countries, manufacturing critical care injectables and APIs. This strategic approach underscores Senores Pharmaceuticals' commitment to innovation and global growth, strengthening its position as a key player in the pharmaceutical industry.

Issue Details	
Offer Period	20th Dec, 2024 - 24th Dec, 2024
Price Band	Rs. 372 to Rs. 391
Bid Lot	38
Listing	BSE & NSE
Issue Size (no. of shares in mn)	14.9
Issue Size (Rs. in bn)	5.8
Face Value (Rs.)	10

Issue Structure	
QIB	75%
NIB	15%
Retail	10%
BRLM	Equirus Capital Pvt. Ltd., Ambit Pvt. Ltd., Nuvama Wealth Management Ltd.
Registrar	Link Intime India Pvt. Ltd.

Particulars	Pre Issue %	Post Issue %
Promoter & Promoter Group	66.7%	43.6%
Public	33.3%	56.4%
Total	**100.0%**	**100.0%**

(Assuming issue subscribed at higher band)

Objects of the issue

The company proposes to utilize net proceeds towards funding the following objects:

⇒ Funding incremental working capital requirements of the company;

⇒ Funding capital expenditure of the company; and

⇒ General corporate purposes.

Investment Rationale

Ability to leverage position in the regulated market through USFDA approval

Senores Pharmaceuticals manufactures products for the regulated markets of the US, Canada and the United Kingdom through a USFDA-approved OSD facility in Atlanta, US. The USFDA approval certifies the quality of manufacturing facilities and processes for consumption in a stringent regulated market such as the US, demonstrating a commitment to maintaining quality standards. This enforces belief in the product, thereby increasing the ability to scale, permits access to customers in specific markets in which the USFDA approval is a precondition, increases corporate goodwill and provides a competitive advantage. The company also has a CDMO business in the regulated markets catering to pharmaceutical companies, which is out of the Atlanta facility. The CDMO business model helps to plan and efficiently utilize manufacturing capacities and leverage product development capabilities in a viable manner. Leveraging on the strengths, abilities and track record as CDMO/ CMO partners in the regulated markets of the US, Canada and the United Kingdom, they are in the process of expanding their reach by entering into similar CDMO/ CMO partnerships in other regulated and semi regulated markets. This will ensure that the share of revenues on a consolidated basis from regulated markets will consistently grow and will also provide efficient utilization of the capacities created at the Atlanta facility. The company believes the ability to serve regulated markets through a USFDA-approved formulation manufacturing facility in the US provides a distinct competitive advantage. This approval not only ensures compliance with stringent regulatory standards but also enhances credibility and market reach, positioning favorably against competitors.

Various niche product portfolios built in a short span will aid financial performance

Senores Pharmaceuticals' approach to product selection strategy for the regulated markets targets developing and manufacturing specialty, niche and difficult-to-manufacture complex products in the small to the mid-market range, where typically global pharmaceutical companies are not present,

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resulting in less competition. Complex products offer several advantages, as they are less affected by price erosion, ensuring more stable pricing and profitability over time. The complex products that are difficult to manufacture also face lower competition and, therefore, enjoy lower price erosion and higher market share (Source: F&S Report). Following this strategy, Senores Pharmaceuticals has 19 ANDAs approved by the US FDA and has commercialized 21 products in the US and Canadian markets. As of September 30, 2024, they have identified and filed six ANDAs; seven products are on stability, two have ongoing exhibits, three are ready for exhibit, and 33 ANDAs are under development. Additionally, four of the 19 ANDAs that have received approval are CGT-designated products. This exclusivity period allows companies to establish a foothold in the market and generate revenue without competition, providing a valuable market penetration and revenue growth opportunity. Senores Pharmaceuticals was the first company globally to identify CGT for Chlorzoxazone 250mg and launched the product in October 2021 with six months of exclusivity. During the first 11 months of CY23, Senores enjoyed a volume market share of 60.9% for this product. This product selection strategy has helped rapidly grow business in the regulated markets over three years since the launch of the first commercial product in April 2020, positioning the company for continued success and market penetration.

Valuation

Senores Pharmaceuticals is a global research-driven pharmaceutical company engaged in developing and manufacturing a wide range of pharmaceutical products predominantly for the regulated markets across various therapeutic areas and dosage forms, with a presence in emerging markets. The company is an R&D-driven company with a differentiated product portfolio across dosage forms, which has enabled the company to reach a range of target markets with a presence in the US, Canada and emerging markets. Senores Pharmaceuticals partners with many CDMO customers early in the drug development process, enabling them to expand relationships as molecules progress through the clinical phase and into commercial manufacturing. This results in sustained relationships with customers and a recurring revenue stream. The company has also entered into long-term marketing arrangements for a period ranging between 5-7 years with major generic pharmaceutical and marketing companies that operate in the regulated market. On the financial front, the company's Rev/EBITDA/PAT grew at a CAGR of 289.1%/361.6%/474.5%, respectively, during the FY22-24 period. Senores Pharmaceuticals' financial performance is driven by leveraging its leadership position in key therapeutic areas, established presence in regulated markets, inorganic growth through synergistic acquisitions, niche product portfolios built in a short span in emerging markets, and robust R&D capabilities, all of which have supported strong growth. **The issue is valued at a P/E of 32.0x on the upper price band based on FY24 earnings, which is deemed fair. Therefore, we recommend a SUBSCRIBE rating for the issue.**

Key Risks:

⇒ The company depends on selling products through third-party marketing partners and distributors. The loss of one or more marketing partners or distributors, the deterioration of their financial condition or prospects, a reduction in their demand for products, or the inability to maintain and increase the number of arrangements for the marketing and distribution of products could adversely affect business, results of operations and financial conditions.

⇒ The company's business is dependent on the sale of products and continued growth of the regulated markets. A decrease in market growth for a product or failure to respond to changes in market conditions could adversely affect the business, results of operations, financial conditions, and cash flows.

⇒ Manufacturing or quality control problems may damage the company's reputation for high-quality production and expose it to potential litigation or other liabilities, which could negatively impact business prospects, results of operations, and financial conditions.

Senores Pharmaceuticals Ltd.

Income Statement (Rs. in millions)

Particulars	FY22	FY23	FY24	H1FY25
Revenue				
Revenue from operations	142	353	2,145	1,810
Total revenue	**142**	**353**	**2,145**	**1,810**
Expenses				
Cost of Material Consumed	0	3	320	476
Purchases of stock-in-trade	104	129	703	386
Changes in inventories of finished goods, work-in-progress and stock-in-trade	-24	-5	39	-37
Employee Benefits Expenses	29	48	355	267
Other expenses	13	51	313	272
Total operating expenses	**122**	**227**	**1,729**	**1,364**
EBITDA	**20**	**127**	**416**	**446**
Depreciation & amortization	7	18	100	74
EBIT	**12**	**109**	**316**	**372**
Finance costs	6	21	94	101
Other Income	5	37	28	23
Profit before Exceptional items	**11**	**124**	**249**	**294**
Exceptional Item	0	0	0	0
PBT	**11**	**124**	**249**	**294**
Current Tax	2	14	80	27
Deferred tax	0	26	-158	27
Total tax	**2**	**40**	**-78**	**55**
Net Profit	**10**	**84**	**327**	**239**
Diluted EPS	**1.8**	**6.7**	**12.2**	**7.2**

Source: RHP, BP Equities Research

Cash Flow Statement (Rs. in millions)

Particulars	FY22	FY23	FY24	H1FY25
Cash Flow from operating activities	-104	-11	-199	64
Cash flow from/(used in) investing activities	-244	-483	-547	-545
Net cash flows (used in) / from financing activities	365	463	870	490
Net increase/(decrease) in cash and cash equivalents	**16**	**-31**	**125**	**9**
Cash and cash equivalents at the beginning of the period*	**16**	**32**	**6**	**131**
Cash and cash equivalents at the end of the period	**32**	**1**	**131**	**139**

Source: RHP, BP Equities Research

**Cash & cash equivalent includes balances with Bank*

Senores Pharmaceuticals Ltd.

Balance Sheet (Rs. in millions)

Particulars	FY22	FY23	FY24	H1FY25
Assets				
Non-Current Assets				
Property, plant and equipment	53	55	1,522	1,478
Capital Work-in-Progress	3	81	178	522
Goodwill	0	0	382	382
Other Intangible assets	11	200	359	373
Intangible Assets under Development	77	264	793	960
Right of Use Assets	4	17	91	84
Financial Assets	167	171	205	30
Deferred Tax Assets (net)	5	0	150	123
Other Non-Current Assets	0	9	30	108
Total Non Current assets	**321**	**797**	**3,710**	**4,060**
Current Assets				
Inventories	30	31	374	508
Financial Assets				
(ii) Trade Receivables	196	221	1,120	1,054
(iii) Cash and cash equivalents	20	1	76	88
(iv) Bank balances other than (ii) above	12	0	54	52
(v) Loans	0	0	3	0
(vi) Other financial assets	0	168	662	699
Current Tax Assets (Net)	0	0	0	0
Other current assets	12	92	220	321
Total Current Assets	**271**	**513**	**2,509**	**2,720**
Total Assets	**592**	**1,311**	**6,219**	**6,781**
Equity and Liabilities				
Equity Share Capital	87	98	305	333
Other Equity	278	357	2,012	2,858
Total Equity	**366**	**455**	**2,317**	**3,191**
Non-Current Liabilities				
Financial Liabilities				
(i) Borrowings	122	297	1,337	1,890
(ii) Lease Liabilities	4	16	78	77
Provisions	1	3	12	16
Deferred tax liabilities (net)	0	21	0	0
Total Non-Current Liabilities	**127**	**337**	**1,427**	**1,983**
Current Liabilities				
Financial Liabilities				
(i) Borrowings	20	310	1,147	531
(ii) Lease Liabilities	1	2	15	11
(iii) Trade Payables	71	136	1,130	799
(iv) Other financial liabilities	3	45	46	51
Other current liabilities	2	9	52	88
Provisions	0	1	14	38
Current tax liabilities (Net)	1	16	71	90
Total Current Liabilities	**99**	**519**	**2,475**	**1,608**
Total Liabilities	**226**	**856**	**3,902**	**3,590**
Total Equity and Liabilities	**592**	**1,311**	**6,219**	**6,781**

Source: RHP, BP Equities Research

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Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

Analyst (s) Certification:

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