glenmark
A new way for a new world

July 11, 2019

To, **Dy. General Manager** **Department of Corporate Services,** **BSE Ltd.,** **P. J. Towers, Dalal Street,** **Fort, Mumbai – 400 001.**	**To,** **The Manager – Listing,** **National Stock Exchange of India Ltd.,** **Plot No. C/1, G Block,** **Bandra Kurla Complex,** **Bandra (E), Mumbai – 400 051.**
Ref: Scrip Code: 532296	**Ref: Scrip Name: GLENMARK**

Dear Sirs,

Sub:- Regulation 30 of SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015 - Credit Rating by Fitch Ratings

Glenmark would like to inform you that Fitch Ratings, as part of their annual review cycle, has reaffirmed the Company's credit rating at 'BB', outlook 'stable'. This credit rating assigned to Glenmark is much higher than some of its global peers as mentioned in the enclosed report. The agency also affirmed the rating on Company's USD200 million 4.50% senior unsecured notes issued in 2016 at 'BB'.

Kindly find enclosed rating research update issued by Fitch Ratings for your reference.

Thanking You.

Yours faithfully,
For Glenmark Pharmaceuticals Ltd.

Harish Kuber
Company Secretary & Compliance Officer

Encl. – Fitch Ratings

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FitchRatings

Fitch Affirms Glenmark Pharmaceuticals at 'BB'; Outlook Stable

Fitch Ratings-Singapore/Mumbai-11 July 2019: Fitch Ratings has affirmed India-based Glenmark Pharmaceuticals Ltd's Long-Term Issuer Default Rating (IDR) at 'BB'. The Outlook is Stable. The agency also affirmed the rating on Glenmark's USD200 million 4.50% senior unsecured notes due 2021 at 'BB'. The notes are rated at the same level as the IDR because they constitute Glenmark's direct and senior unsecured obligations.

Glenmark's geographic diversification and strong record of regulatory compliance help to mitigate business risks arising from its small size and support its rating relative to other larger global generic drug makers. The rating also factors in Glenmark's adequate product pipeline, which will support revenue and profitability despite continued pricing pressure in the US generic pharmaceutical market. Glenmark's measured approach and de-risking strategies in its novel drug development programme will help to preserve its financial flexibility from the inherent risks.

The Stable Outlook reflects Fitch's expectation that new product launches in the US will support Glenmark's profitability despite sustained pricing pressure. This, coupled with continued growth in other markets, will lead to a moderate increase in EBITDA. Improvement in leverage will however be limited as we expect free cash generation to be marginally negative after considering a moderate level of investments over the medium term.

KEY RATING DRIVERS

Leverage to Remain Stable: Fitch expects Glenmark's financial leverage, measured by adjusted net debt/operating EBITDAR, to decline slightly to 2.3x over the next few years, from 2.5x in the financial year ended 31 March 2019 (FY19). We expect Glenmark to continue to incur a moderate level of capex on fixed assets and on acquiring territorial sale rights for other companies' drugs, consistent with our view of the company's growth strategy, leading to marginally negative free cash generation over the next few years. Our rating case does not include debt reduction from the potential sale of its active pharmaceutical ingredient business or other non-core pharmaceutical assets.

We expect Glenmark's EBITDA margin to improve from 16.1% in FY19 as it is likely to meet its aim of lowering R&D spending to around 12% of sales, and benefit from growth in non-US markets and revenue from recently acquired products. Nonetheless, sustained pricing pressure in the US will limit any significant improvement.

Risks in Novel Drugs: Glenmark faces above-average risks in its novel drug development programme due to its small scale and limited record, and a more aggressive approach could hurt its financial flexibility, potentially outweighing the benefits of reduced dependence on the highly competitive generic drug business over the long term. Glenmark's FY19 profitability was affected as its R&D expenditure on novel drugs remained higher than Fitch's previous expectations. We expect Glenmark to take a more measured and collaborative approach to R&D spending, in line with its strategy, evident from the signing of multiple partnerships for its R&D assets over the past year, although any significant deviation could pressurise credit metrics and financial flexibility.

Glenmark aims to launch or monetise its R&D drugs in the advanced stages of development in the medium term, which could provide significant earnings. Our rating case does not include any launches due to the uncertainty and potential delays in the approval process, which was highlighted by the US Food and Drug Administration's (FDA) recent response letter on Ryaltris, Glenmark's maiden new drug application.

Small but Diversified: Glenmark's revenue and operating EBITDAR are small compared with those of global major generic drug makers, but the risks are counterbalanced by its geographic diversification across pure and branded generic markets globally - including the US (32% of revenue in FY19), India (28%), Europe (11%), Latin America (4%) and others (25%). Scale and diversification are important for generic drug companies to maintain stable margins. The company also has a good competitive position in its core dermatology and respiratory therapy areas.

Adequate Product Pipeline: Glenmark received 25 abbreviated new drug application (ANDA) approvals (including five tentative nods) from the US FDA in FY19. The company has 53 ANDAs in various stages of the approval process with the US FDA, 28 of which are Paragraph IV applications (implying a challenge to existing patents). In Fitch's view, Glenmark's product pipeline will enable a steady flow of new product launches, particularly in the US, which will support modest sales growth and protect margins amid pricing pressure.

Robust Growth Prospects in India: Glenmark's good market position enables the company to benefit from healthy long-term growth prospects in the Indian pharmaceutical market. The domestic market expanded by low double digits in FY19 and we expect sustained growth over the next few years from the government's focus on increasing mass access to healthcare. Glenmark ranked 14th in India with revenue market share of 2.18%, according to IQVIA MAT March 2019 data, but the highly fragmented and physician-driven nature of the market and Glenmark's stronger share in its focus areas of respiratory (4.77%), cardiovascular (4.51%) and dermatology (9.08%) underpin its position.

Good Compliance Record: Glenmark's continued compliance with the standards set by various regulatory agencies such as the US FDA and the UK's Medicines and Healthcare products Regulatory Agency has helped to avoid adverse regulatory actions. This has allowed Glenmark to continue its business without disruptions and get new ANDA approvals in a timely manner. We believe this also helps to mitigate regulatory risks arising from a lower degree of production facility diversification compared with larger global pharmaceutical companies.

DERIVATION SUMMARY

Glenmark has smaller scale and diversification compared with large generic pharmaceutical companies such as Mylan N.V. (BBB-/Negative) and Teva Pharmaceuticals Industries Limited (BB-/Negative). Large companies like Teva and Mylan also benefit from their deeper launch pipelines that are also focused on more complex products, which mitigate the price erosion risk, notably in the US. Glenmark is rated two notches below Mylan due to Glenmark's weaker business profile and free cash generation, which are partly counterbalanced by Mylan's higher leverage due to its acquisitive focus and risks to deleveraging amid sustained pressure on generic drug pricing. Glenmark is rated a notch above Teva as Teva's stronger business profile is counterbalanced by its acquisitions, which have led to high leverage and limited financial flexibility in view of pricing pressure for its top product.

Glenmark compares favourably with other peers such as Ache Laboratorios Farmaceuticos S.A. (BB/Stable) and Jubilant Pharma Limited (JPL, BB-/Stable) with its bigger scale and diversified geographic presence. JPL's greater presence in specialty pharmaceuticals helps to limit exposure to pricing pressure in the US generic pharmaceutical market. However, JPL's business profile is constrained by its parent's largely commoditised chemicals business. Ache has a strong competitive position in Brazil and robust credit ratios, but its foreign-currency IDR is capped by Brazil's Country Ceiling of 'BB'.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer
- Consolidated revenue to increase by 7% to 8% annually over FY20-FY22
- EBITDAR margin to remain between 17% and 18% as new product launches and cost-efficiency measures help counterbalance the ongoing pricing pressure in the US
- Annual capex to average around INR11 billion during FY20-FY22
- Annual dividend payout of up to 10% of net income

RATING SENSITIVITIES

Developments That May, Individually or Collectively, Lead to Positive Rating Action
- Maintaining EBITDAR margin in excess of 21%
- Sustained free cash flow generation
- Financial leverage (adjusted net debt to EBITDAR) sustained at less than 1.5x (FY19: 2.5x)

Developments That May, Individually or Collectively, Lead to Negative Rating Action
- Weakening of competitive position or any adverse US FDA action
- Deterioration in financial leverage (adjusted net debt to EBITDAR) to more than 3.0x

LIQUIDITY

Adequate Liquidity: Glenmark had a readily available cash balance of INR9.4 billion and adequate unutilised committed credit facilities as of 31 March 2019 to meet INR8.8 billion of near-term debt maturities and a moderate free cash flow deficit expected by Fitch in FY20. Near-term maturities included INR3.0 billion of short-term debt, which we expect the lenders to roll over in the normal course of business due to Glenmark's reasonable leverage levels. Glenmark has already refinanced a portion of long-term debt due in FY20.

Annual debt maturities will remain manageable at less than INR7 billion in FY21 before rising to more than INR10 billion per year in FY22 and FY23. Glenmark's free cash generation will remain marginally negative in these years, but we believe its improving leverage will support its refinancing ability. Any future disposal proceeds, if utilised to reduce debt, will help to further alleviate refinancing risk.

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Applicable Criteria
Corporate Hybrids Treatment and Notching Criteria (pub. 09 Nov 2018)
Corporate Rating Criteria (pub. 19 Feb 2019)
Corporates Notching and Recovery Ratings Criteria (pub. 23 Mar 2018)
Sector Navigators (pub. 23 Mar 2018)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
Solicitation Status
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