A new way for a new world

November 24, 2020

To,
Dy. General Manager
Department of Corporate Services,
BSE Ltd.,
P. J. Towers, Dalal Street,
Fort, Mumbai – 400 001.

Ref: Scrip Code: 532296

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 Name: GLENMARK

Dear Sirs,

Sub:- Regulation 30 of SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015 – S&P Global Ratings

With reference to the subject mentioned above, kindly find enclosed rating research update issued by S&P Global Ratings for your reference.

Request you to kindly take the same on record.

Thanking You.

Yours faithfully,
For Glenmark Pharmaceuticals Ltd.

HARISH VINAYAK KUBER
Digitally signed by HARISH VINAYAK KUBER
Date: 2020.11.24 19:00:01 +05'30'

Harish Kuber
Company Secretary & Compliance Officer

Encl. – S&P Global Ratings

Glenmark Pharmaceuticals Ltd.
Glenmark House, B D Sawant Marg, Andheri (E), Mumbai 400 099
T: 91 22 4018 9999 F: 91 22 4018 9988 CIN No: L24299MH1977PLC019982 W: www.glenmarkpharma.com
Registered office: B/2, Mahalaxmi Chambers, 22 Bhulabhai Desai Road, Mumbai 400 026 E: complianceofficer@glenmarkpharma.com

Research Update:

Glenmark Pharmaceuticals 'BB-' Ratings Affirmed, Off CreditWatch On Easing Refinancing Risk; Outlook Stable

November 24, 2020

PRIMARY CREDIT ANALYST

Shruti Zatakia
Singapore
+ 65 6216 1094
shruti.zatakia
@spglobal.com

SECONDARY CONTACTS

Neel Gopalakrishnan
Singapore
+ 65-6239-6385
neel.gopalakrishnan
@spglobal.com

Wilfred Tan
Singapore
(65) 6597-6141
wilfred.tan
@spglobal.com

Rating Action Overview

- India-based Glenmark Pharmaceuticals Ltd.'s syndication of a US$182.5 million term loan has alleviated its near-term refinancing risk.
- The generics pharmaceutical company's stable operating cash flows and limited capital spending requirements over the next two years will support its deleveraging.
- We are affirming our long-term issuer credit rating on Glenmark and the issue rating on the company's US$200 million senior unsecured notes at 'BB-'. At the same time, we are removing all the ratings from CreditWatch, where we had placed them with negative implications on July 29, 2020.
- The stable outlook reflects our expectation that Glenmark's operating performance will remain resilient over the next 12-18 months, with its FFO-to-debt ratio sustainably above 20%.

Rating Action Rationale

Glenmark's new term loan will be enough to meet its upcoming debt maturities. Refinancing risks for Glenmark have subsided with the company raising US$182.5 million in November 2020 via a term loan to redeem a similar amount of its US$200 million senior unsecured notes due Aug. 2, 2021. While Glenmark intends to refinance the balance amount in the interim, we believe it has sufficient cash (US$118 million as of Sept. 30, 2020) to repay this amount at maturity in the event it does not refinance.

Glenmark still has access to about US$100 million under a revolving credit facility at subsidiary Glenmark Holding S.A. until mid-2023. This, together with its available cash, would be sufficient for Glenmark to repay about US$140 million of outstanding foreign currency convertible bonds (FCCBs) that have a put option on July 28, 2021.

Resilient operating performance supports Glenmark's financial position. After initial disruptions to operations and supply chain due to strict lockdowns imposed across global markets from March through June 2020, the company's revenues should pick up in the rest of the year. We estimate Glenmark's revenues will increase 6%-6.5% in fiscal 2021 (year ending March 31, 2021) and will return to fiscal 2020 growth levels of 8% by fiscal 2022.

India and Europe will drive revenue growth for Glenmark over the next 12-18 months, largely offsetting the effects of continued price erosion of generics in the U.S. markets. These two regions contribute more than 40% of the company's revenues. We estimate revenues from these regions to increase by 8%-10% in fiscal 2021, compared with 15.3% from India and 11.4% from Europe in fiscal 2020. We expect Glenmark's active pharmaceutical ingredients (API) business to also grow by 10% during this period. The company developed the API for Favipiravir and introduced an oral antiviral FabiFlu for the treatment of mild to moderate COVID-19 in India during the year. The company also launched new products in key European markets, tapping on opportunities presented by the pandemic.

We believe Glenmark's continued focus on improving cost efficiencies and lower research and development (R&D) investments augur well for earnings. The company hived off its investment-heavy innovation business into a separate entity under ICHNOS Sciences Inc. in fiscal 2020 and plans to raise fresh capital to fund investment requirements. This should help it maintain R&D investments at 12%-12.5% of revenues in the coming years, lower than the 13%-13.5% in fiscals 2018 and 2019.

Glenmark's cash flows will be sufficient to meet its capital investment requirements. Our expectations of the company's improving leverage is largely based on its stable operating performance rather than meaningful reduction in debt. Glenmark should be able to generate Indian rupee (INR) 9 billion-INR10 billion in operating cash flows during fiscals 2021 and 2022. The company intends to be conservative in capital investments and plans to pay down debt from asset sales proceeds. These factors should help Glenmark reduce its adjusted gross debt to INR48 billion-INR49 billion in fiscal 2021, from INR53 billion in fiscal 2020.

We estimate the company will spend less than INR10 billion annually over the next two years. This compares with more than INR21 billion totally in fiscals 2019 and 2020, primarily owing to the new manufacturing facility in Monroe in the U.S.

In our view, Glenmark will maintain conservative financial policies on shareholder distributions and acquisitions. Despite a wave of consolidation in the generic pharmaceutical space, we expect the company's management to stay away from debt-fueled acquisitions that could stretch its financial ratios beyond our base case.

Outlook

The stable outlook on Glenmark reflects our expectation that the company's operating performance will remain resilient over the next 12-18 months such that its ratio of funds from operations (FFO) to debt stays sustainably above 20%. We also expect Glenmark to maintain sufficient surplus cash and access to credit lines to sustain its adequate liquidity status during this period.

Downside scenario

We may lower the rating if Glenmark's FFO-to-debt ratio falls below 20% on a sustainable basis.

This could happen if:

- The company's margins weaken materially due to slower-than-anticipated revenue growth or high R&D investments; or
- It makes debt-fueled acquisitions or shareholder distributions.

We may also lower the rating if Glenmark's liquidity weakens due to significantly lower cash or access to credit markets.

Upside scenario

We may upgrade Glenmark if the ratio of FFO to debt remains well above 30%. A significant reduction in the company's gross debt supported by improving EBITDA margins and steady working capital and capital spending requirements could result in such deleveraging.

Company Description

Glenmark is an India-based generics pharmaceutical company with presence in the dermatology, respiratory, cardiology, and oncology therapeutic areas. It has 15 manufacturing facilities across four countries, of which nine are approved by the U.S. Food and Drug Administration.

Mr. Glenn Saldanha and family (through trusts) held 46.5% of the company as of March 31, 2020.

Our Base-Case Scenario

Assumptions

- The global pharmaceutical industry will gradually recover in the second half of 2020, from severe pressure experienced in the first half, as hospitals and facilities reopen for elective surgeries. We assume a gradual recovery in 2021 and a full recovery in 2022.
- Glenmark's operating revenues will rise 6%-6.5% in fiscal 2021, with strong recovery in the second half of the fiscal year in line with the pharmaceutical industry. In fiscal 2022, revenues will recover to fiscal 2020 levels of about 8%.
- The company will maintain its focus on cost optimization and reduction in R&D investments, enabling it to keep EBITDA margins at 16%-16.5% in fiscals 2021 and 2022.
- Glenmark will spend 12%-12.5% of its revenues on R&D in fiscals 2021 and 2022, compared with 12.7% in fiscal 2020.
- The company's annual capital expenditure will be INR8.5 billion-INR9 billion in fiscals 2021 and 2022, compared with INR9.3 billion in fiscal 2020.
- It will pay about 10% of its net profits as dividends in fiscals 2021 and 2022.

Key metrics

Based on these assumptions, we arrive at the following key credit metrics:

- FFO-to-debt ratio of 22%-24% in fiscal 2021 and above 25% in fiscal 2022, compared with

18.8% in fiscal 2020.

- EBITDA interest coverage of about 5.5x in fiscals 2021 and 2022, compared with 4.3x in fiscal 2020.

Liquidity

We view Glenmark's liquidity as adequate. We expect the company's liquidity sources to exceed uses by about 1.2x over the 12 months ending Sept. 30, 2021, and net sources to remain positive even if EBITDA declines by 15%. This follows the company's loan syndication program through which it raised US$182.5 million in November 2020. We believe these funds, along with available revolving credit facilities will be sufficient to redeem the company's senior unsecured notes due August 2021 and the put option on its FCCBs, if exercised.

We expect Glenmark will remain prudent in its risk management. The company has a good track record with banks but limited relationships and credit standing in the capital markets.

We believe Glenmark has a low ability to sustain its liquidity in unlikely but high impact events. The company remains exposed to regulatory risks and restrictions on foreign currency transactions by India's central bank, and this could impact its debt servicing ability.

Principal liquidity sources include:

- Cash and short-term investments of INR8.9 billion and short-term undrawn committed credit lines of US$100 million as of Sept. 30, 2020.
- Cash from operations that we estimate at about INR11 billion over the 12 months ending Sept. 30, 2021.
- Proceeds from syndicated term loans of US$182.5 million to be used for meeting the senior notes maturing on Aug. 2, 2021.

Principal liquidity uses include:

- About INR31.7 billion of debt due over the 12 months ending Sept. 30, 2021, including the US$200 million senior notes maturing on Aug. 2, 2021. We assume the holders of the FCCBs will also exercise the put option on July 28, 2021.
- Maintenance capital spending of INR2 billion during this period.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of March 31, 2020, Glenmark's reported borrowings of INR48.7 billion, consisted of INR35.7 billion (including US$200 million of senior unsecured notes) in unsecured debt issued by Glenmark and about INR12.9 billion in unsecured debt issued by its subsidiaries.

Analytical conclusions

Glenmark is domiciled in India, and its substantial assets and operations are in India. Therefore, we consider India to be the relevant jurisdiction for our issuance analysis. In our view, the priority of claims in a theoretical Indian bankruptcy scenario remains highly uncertain for issuances out of India, and as a result we don't distinguish between various levels of subordination. We therefore equalize the issue rating on the senior unsecured notes with our 'BB-' issuer credit rating on Glenmark.

Ratings Score Snapshot

Issuer Credit Rating: BB-/Stable/--

Business risk: Weak

- Country risk: Intermediate
- Industry risk: Low
- Competitive position: Weak

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bb-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bb-

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Pharmaceutical Industry, April 8, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013

- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Glenmark Pharmaceuticals Ltd.		
Issuer Credit Rating	BB-/Stable/--	BB-/Watch Neg/--
Senior Unsecured	BB-	BB-/Watch Neg