glenmark
A new way for a new world

September 28, 2023

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 Sir,

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 Limited

HARISH VINAYAK KUBER
Digitally signed by HARISH VINAYAK KUBER
Date: 2023.09.28 19:55:25 +05'30'

Harish Kuber
Company Secretary & Compliance Officer

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Research Update:

Glenmark Pharmaceuticals Outlook Revised To Positive On Proposed GLS Stake Sale; 'BB' Rating Affirmed

September 28, 2023

Rating Action Overview

- The proposed stake sale in Glenmark Lifesciences Ltd. (GLS) by Glenmark Pharmaceuticals Ltd. (Glenmark) could accelerate the latter's deleveraging and strengthen its financial position, in our view.
- Glenmark is likely to maintain resilient operations despite the stake sale. We expect the company's EBITDA to recover to the fiscal 2023 (ended March 31, 2023) level over the next 12-24 months, absent any significant remediation costs.
- Reflecting the above, we revised the rating outlook on Glenmark to positive from stable. At the same time, we affirmed our 'BB' long-term issuer credit rating on the India-based pharmaceutical company.
- The positive outlook on Glenmark reflects our view that we could raise the ratings upon successful debt repayment.

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Rating Action Rationale

Glenmark is likely to strengthen its financial position. We believe the company will use proceeds from the proposed divestment of its stake in GLS, its active pharmaceutical ingredient (API) subsidiary, to repay debt. Glenmark does not have any acquisition plans over the next two years. It is also looking to reduce its finance costs in the current environment. Nevertheless, Glenmark will have net cash on a reported basis, given that the transaction will improve its overall credit quality, in our view.

Glenmark will be selling its 75% stake in GLS to Nirma Ltd. for Indian rupee (INR) 56.5 billion. The company had about INR44.4 billion of debt outstanding as of June 30, 2023. The transaction is subject to regulatory and shareholder approval.

The improvement in Glenmark's financial profile will be contingent on the amount of debt the company pays down. The company's earnings base is also likely to shrink following the transaction. This will increase the sensitivity of Glenmark's credit metrics to volatile earnings. Therefore, a reduction in debt will be imperative for a sustained improvement in the company's credit profile. GLS contributed 10%-12% to the company's revenue and 25%-30% to its EBITDA in the past two years.

Glenmark has a short record of operating at low leverage. Moreover, given the company's volatile credit metrics over the years, a commitment to a disciplined financial policy will also be essential for a higher rating.

Debt reduction is likely to more than offset the earnings impact. Following the completion of the transaction, we expect Glenmark's revenue to be 10%-12% lower than our previous base case. EBITDA margins could also be stagnant at about 16% in fiscal 2024 versus 15.9% in fiscal 2023. However, healthy growth of the generics business, stabilizing input costs (of fuel and energy), and normalizing supply chains will support the company's earnings.

Absent any significant remediation costs, we expect Glenmark's EBITDA to rebound to the level in fiscal 2023. EBITDA margins should average about 18% by fiscal 2025. Accordingly, we expect the company to generate positive discretionary cash flow from fiscal 2025. This would further strengthen its balance sheet.

The divestment has a marginally negative impact on Glenmark's business position. The company sources 15%-20% of its API needs from GLS. It also has a well-established supplier network. Glenmark is GLS' single largest customer and we expect it to continue its arrangement with GLS even after the transaction, given the mutual reliance of their businesses.

We believe the impact of the API divestment will be limited, even though API has maintained higher EBITDA margins of about 30% and contributed 25%-30% to Glenmark's total earnings in the past two years. This is because we expect a healthy performance from Glenmark's core generics business over the next 12-24 months.

Outlook

The positive outlook on Glenmark reflects our expectation that the company will significantly reduce debt on completion of the GLS sale and maintain healthy earnings. It also reflects our view that the debt reduction will more than offset the company's weakened business position, following the divestment.

Downside scenario

We could revise the outlook back to stable if Glenmark uses proceeds from the recent asset sale for purposes other than debt reduction, or if its earnings weaken materially and beyond our expectations.

We could also revise our outlook back to stable if Glenmark adopts a more aggressive financial policy to focus on growth investments and shareholder distributions, such that the company cannot sustain its improved leverage. A ratio of funds from operations (FFO) to debt staying below 45% sustainably would indicate this. Failure to complete the transaction would also likely result in a revision of the outlook to stable.

Upside scenario

We may raise the rating on Glenmark if the company accelerates debt repayment from the proceeds of the GLS sale, such that its FFO-to-debt ratio improves and stays comfortably above 45%.

Apart from immediate debt reduction, a higher rating will also be contingent on Glenmark's commitment to a disciplined financial policy such that the company will operate at much lower leverage than it did in the past.

Company Description

Glenmark is an India-based generic pharmaceutical company with a presence in the dermatology, respiratory, cardiology, and oncology therapy. The company has 16 manufacturing facilities in four countries. Eight of these have U.S. Food and Drug Administration approval.

Mr. Glenn Saldanha and family (through trusts) held 46.65% of the company as of June 30, 2023.

Liquidity

We view Glenmark's liquidity as adequate. We expect the company's liquidity sources to cover uses by more than 1.5x over the next 12 months ending June 30, 2024. This excludes the proceeds from the sale of the GLS stake. Net liquidity sources are likely to remain positive even if EBITDA declines by 15%.

We believe Glenmark has low ability to sustain a strong liquidity position in the unlikely scenario of high-impact events. The company remains exposed to regulatory risks and restrictions on foreign-currency transactions by India's central bank.

Glenmark has good access to diversified funding markets and fair banking relationships in India as well as abroad. This was evident during the company's timely refinancing of its senior notes due 2021 and full redemption of foreign-currency convertible bonds in May 2022, both with bank loans. The company also raised about INR10 billion from the listing of GLS in fiscal 2022. It used the proceeds to repay debt.

Principle liquidity sources:

- Cash and short-term investments of about INR15 billion as of June 30, 2023.
- FFO of about INR16 billion over the 12 months ending June 30, 2024.

Principle liquidity uses:

- Debt maturities of about INR5 billion over the 12 months ending June 30, 2024.
- Working capital outflow of about INR5 billion during the same period.
- Capital spending of about INR5 billion during this period.
- Dividend payout of about INR1.3 billion during this period.
- Litigation settlement of INR4 billion during this period.

Ratings Score Snapshot

Issuer Credit Rating	BB/Positive/--
Business risk:	Weak
Country risk	Intermediate
Industry risk	Low
Competitive position	Weak
Financial risk:	Intermediate
Cash flow/leverage	Intermediate
Anchor	bb
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile:	bb

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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; Outlook Action

	To	From
Glenmark Pharmaceuticals Ltd.		
Issuer Credit Rating	BB/Positive/--	BB/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.