glenmark
A new way for a new world

April 25, 2024

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

Ref.:- Regulation 30 of SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015

Dear Sir,

Sub.: India Ratings upgrades Glenmark Pharmaceuticals' Long-term Bank Facilities to 'IND AA'/Stable; Off Rating Watch with Positive Implications; Affirms Short-term debt at 'IND A1+'

With reference to the subject mentioned above, kindly find enclosed rating rationale issued by India Ratings and Research 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: 2024.04.25 18:08:40 +05'30'

Harish Kuber
Company Secretary & Compliance Officer

India Ratings Upgrades Glenmark Pharmaceuticals' Long-term Bank Facilities to 'IND AA'/Stable; Off Rating Watch with Positive Implications; Affirms Short-term debt at 'IND A1+'

Apr 25, 2024 | Pharmaceuticals

India Ratings and Research (Ind-Ra) has upgraded Glenmark Pharmaceuticals Ltd's (GPL) bank facilities' long-term ratings to 'IND AA' with a Stable Outlook from 'IND AA-', while resolving the Rating Watch with Positive Implications. The instrument-wise rating actions as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/Watch	Rating Action
Fund-based working capital limits	-	-	-	INR4,500	IND AA/Stable	Upgraded; Off Rating Watch with Positive Implications
Non-fund-based limits*	-	-	-	INR4,400	IND A1+	Affirmed
Proposed fund-based limits	-	-	-	INR7,500	IND AA/Stable	Upgraded; Off Rating Watch with Positive Implications
Proposed non-fund-based limits	-	-	-	INR2,100	IND A1+	Affirmed

*Non-fund-based limits of INR4,400 million consist of a standby letter of credit of INR2,250 million and other non-fund-based limits of INR2,150 million

Analytical Approach

Ind-Ra continues to take a consolidated view of GPL and its subsidiaries to arrive at the ratings, given the strong legal, operational and strategic linkages among them.

Detailed Rationale of the Rating Action

The upgrade and resolution of Rating Watch with Positive Implications reflect the completion of sale of GPL's 75% equity stake in Glenmark Life Sciences Ltd (GLS; 'IND AA-/Rating Watch with Developing Implications/IND A1+/Rating Watch with Developing Implications) to Nirma Limited ('IND AA'/Stable) for INR56.5 billion in September 2023. The upgrade also reflects an improvement in GPL’s overall financial profile with the repayment of all long-term debt (except external commercial borrowing of USD19 million, which will be paid in FY25), making it net debt negative in FY24. Ind-Ra expects GPL to remain net debt negative in the near term without factoring in any debt-funded acquisition but has factored in capex of INR7 billion-8 billion per year.

GLS contributed about 11% to the consolidated revenue (after adjusting for inter-company transactions) and about 25% to the operating profits of the consolidated entity in FY23. Despite the decline in scale of EBITDA post the GLS equity stake sale, GPL expects cost savings in lieu of lower research and development (R&D) expenses towards Ichnos Glenmark Innovation and a ramp up in sale of Ryaltris (olopatadine mometasone; a nasal spray)in FY25. Ind-Ra believes these initiatives can largely offset the weakness in the EBITDA and return on capital employed (ROCE) post carving out of the higher margin GLS business. GLS had a longer working capital cycle and asset turnover ratio compared to GPL, hence, higher EBITDA margins during FY25 would translate into an improvement in ROCE profile in line with Ind-Ra’s ‘AA’ median players. On cash utilisation front, Ind-Ra highlights dividends could be an option since the company has a stated its intent of remaining net cash positive, provided comfort on the sustenance of the financial position as of FY24. Deviations from the stated strategy would warrant for a rating review.

List of Key Rating Drivers

Strengths:
- Strong improvement in credit profile
- India business on strong footing
- Diversified business profile

Weaknesses:
- Restructuring in India business led to subdued performance in 9MFY24
- Headwinds in US business
- Regulatory overhang

Detailed Description of Key Rating Drivers

Strong Improvement in Credit Profile: Ind-Ra expects the net leverage (net debt/EBITDA), on a consolidated basis, to have remained negative in FY24 and will continue to do so over the next two-to-three years as GPL repaid all its long-term debt in FY24, except the ECB of USD19 million, from the stake sale proceeds. The consolidated net adjusted leverage (net adjusted debt/EBITDA) was around 1.4x in FY23 (FY22: 1.1x) and the interest coverage (EBITDA/gross interest) was 6.5x (7.8x).

Ind-Ra has factored in a higher capex of INR8.0 billion and estimated a net working capital cycle of 104 days (on sales basis; FY24: 102 days (Ind-Ra calculated), FY23: 132 days, FY22: 98 days) in FY25. Further, Ind-Ra expects GPL to report a low double-digit revenue growth and an EBITDA margin of 15%-16% in FY25 (FY24: 10.5% (Ind-Ra calculated), FY23: 17.5%). Further, the EBITDA margin improvement will be driven by a reduction in the innovative R&D spend to USD50 million-55 million from USD80 million-90 million, the ramp-up of Ryaltris sales to USD80 million from current USD40 million, a greater focus on the high-margin India business and positive operating leverage in Europe and Latin America markets. Ind-Ra expect R&D spend to remain moderate in the range of 6%-8% of sales over the near term.

India Business on Strong Footing: Ind-Ra expects sales in the India business to have declined in FY24 on account of the one-time distribution restructuring. However, the agency expects India business sales to grow 10%-12% yoy over the medium term. GPL generates around one-third of its total sales from its India formulations business, which fell 1.4% yoy to INR40.3 billion, due to a higher base in FY22 (up 15.5% yoy to INR40.9 billion), following COVID-19. The company has been recording a steady revenue growth (CAGR of around 11.9% over FY13-FY23 against around 10% of the Indian pharmaceuticals market) while maintaining a strong competitive position in cash flow sticky chronic therapies (57% of India sales), which offers higher profitability. During 9MFY24, India business revenue declined 23.5% yoy due to the one-time restructuring of GPL’s distribution network in 3QFY24 (down 75.6% yoy). GPL’s India business continues to rank 14th with a market share of 2.13% (IQVIA MAT December 2023). GPL continues to have nine brands in the Indian pharmaceuticals market top 300 brands based on IQVIA MAT December 2023. In terms of key therapeutic areas, GPL holds the second position in both respiratory and dermatology segments, fifth in the cardiac segment and 17th in the diabetes segment.

Diversified Business Profile: GPL remains a strong and consistent player in the domestic formulation business, with higher sales contribution from the chronic segment (57% of India business), which offers steady income and higher margins. Following the GLS stake sale, GPL will generate all of its revenue from the formulations segment. The company generated 38% of the consolidated sales from the regulated market, while 50% of sales from semi-regulated markets in FY23. In terms of geography, India and the US are the largest markets for the company, accounting for 32% and 24%, respectively, of its sales, followed by Europe (14%) and rest of the world (19%). In the US business, the top 10 products contribute on an average 43%-45% to the sales for FY23. GPL has a large pipeline for the US market, with 245 abbreviated new drug application filings, of which 194 have been approved by the US Food and Drug Administration (USFDA). The company's growth prospects are being driven by its R&D spend of around 11.5% of sales over FY17-FY23, which is higher than the average R&D spend of its peers.

Restructuring in India business led to Subdued Performance in 9MFY24: In 9MFY24, the consolidated revenue grew 2.0% yoy to INR87.5 billion, primarily on account of a 2.5% yoy increase in the US business revenue, partially offset by a 23.5% yoy decrease in India business revenue due to a one-time restructuring of GPL's distribution network in 3QFY24. This led to EBITDA of INR7.6 billion in 9MFY24 (FY23: INR22.8 billion, FY22: INR23.2 billion), despite stable R&D spend of 10.5% of sales in 9MFY24 (9MFY23: 10.2%).

In FY23, the consolidated revenue grew only 5.6% yoy to INR129.9 billion (FY22: up 12.4% yoy), led by the muted performance of GPL's India and US businesses. However, the consolidated EBITDA margin fell to 17.5% in FY23 (FY22: 18.9%), due to higher operating expenses (FY23: 7.3% yoy; 12.7% yoy) and staff cost (13.6% yoy; 4.4% yoy).

Headwinds in US Business: GPL's US business contributed about 24% to the consolidated sales in FY23. However, it reported muted revenue growth of 2.5% yoy in 9MFY24 (FY23: up 2.2% yoy; FY22: down 1.3% yoy) due to higher price erosion, volume impact due to supply-chain disruptions and increased competition in the base business. The management plans to launch eight-to-10 products from its Monroe injectable portfolio over FY24-FY27. The management also expects the pricing pressure to continue in the US business in the near term, but the impact of the same could be partially offset by its new launches. Ind-Ra expects GPL's US business to continue to face delays in approvals and regulatory risks.

Regulatory Overhang: GPL's ratings continue to reflect the regulatory risk emanating from the possibility of price control, with around 10% of India sales under drug price control order, and the USFDA's regulatory scrutiny of the company's manufacturing facilities. Three facilities of the company have been under the USFDA scanner: i) the Baddi plant received an import alert in October 2022 (warning letter in October 2019), ii) the Goa unit received a warning letter in November 2022 (official action indicated; official action indicated in May 2022); and iii) the formulations manufacturing unit in Monroe, North Carolina, received a warning letter in June 2023. GPL settled its drug pricing case with the US Department of Justice in August 2023 (USD30 million). GPL also settled generic Zetia lawsuits for USD87.5 million in FY23. Price control in India, USFDA inspection as well as other lawsuits in the US will remain monitorable.

Liquidity

Adequate: The company's average monthly utilisation of the fund-based working capital limits was 35% during the 12 months ended March 2024. GPL's capex spending remained at an average of INR7.8 billion over FY20-FY23. Management expects the company to undertake capex of INR6.0 billion-7.0 billion in the medium term, although, lower pursuant to non-consolidation of GLS capex post the stake sale. The cash flow from operations remained positive but fell to INR3.4 billion in FY23 (FY22: INR8.7 billion) due to unfavourable changes in working capital and lower profitability. Consequently, the free cash flow remained negative at INR4.1 billion in FY23 (FY22: negative INR0.150 billion). The company had cash balances of INR14.4 billion at FYE23 (FYE22: INR14.1 billion). It has scheduled debt repayments of USD19 million in FY25.

Rating Sensitivities

Positive: A significant improvement in the scale of business, ROCE and operating profitability, leading to a sustained improvement in the free cash flow and credit metrics, all on a sustained and consolidated basis, could lead to a positive rating action.

Negative: Subdued profitability and/or large debt-funded acquisitions leading to the net leverage of above 1.5x on a sustained and consolidated basis will lead to a negative rating action.

Any Other Information

Standalone Profile: GPL's revenue was INR57.4 billion in 9MFY24 (FY23: INR82.2 billion; FY22: INR81.4 billion), EBITDA was INR7.4 billion (INR14.7 billion; INR16.9 billion), EBITDA margin was 13.0% (17.9; 20.7%) and interest coverage was 3.8x (7.1x; 7.2x). The net leverage was at 2.1x in FY23 (FY22: 2.2x).

About the Company

Incorporated in 1977, GPL is an India-based global R&D-driven pharmaceutical company that produces branded and generic formulations, and has a presence in over 80 countries. GPL has 12 facilities across formulations in five countries. Its generics pipeline for the US business is focused on filings in immediate release, dermatology, hormones and injectables.

KEY FINANCIAL INDICATORS (CONSOLIDATED)

Particulars	9MFY24	FY23	FY22
Revenue (INR million)	87,501	1,29,901	1,23,049
EBITDA (INR million)	7,551	22,784	23,203
EBITDA margin (%)	8.6	17.5	18.9
Total adjusted debt (INR million)	-	46,272	39,620
Net adjusted leverage (x)	-	1.4	1.1
Gross adjusted coverage (x)	-	6.5	7.8
Source: GPL, Ind-Ra			

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook			
	Rating Type	Rated Limits (million)	Rating	3 October2023	22 September 2023	15 December 2022	22 October 2021
Issuer rating	Long-term	-	-	-	WD	IND AA-/Stable	IND AA-/Positive
Fund-based working capital limits	Long-term	INR12,000	IND AA/Stable	IND AA-/ Rating Watch with Positive Implications	-	IND AA-/Stable	IND AA-/Positive
Non-fund-based limits	Short-term	INR6,500	IND A1+	IND A1+	-	IND A1+	IND A1+

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Fund-based working capital limits	Low
Non-fund-based working capital limits	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

APPLICABLE CRITERIA

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

Policy for Placing Ratings on Rating Watch

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

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