glenmark
A new way for a new world

March 13, 2024

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: 2024.03.13 17:49:40 +05'30'

Harish Kuber
Company Secretary & Compliance Officer

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S&P Global Ratings

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Research Update:

Glenmark Pharmaceuticals Upgraded To 'BB+' On Expected Debt Paydown; Outlook Stable

March 13, 2024

PRIMARY CREDIT ANALYST

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Rating Action Overview

- We expect Glenmark Pharmaceuticals Ltd. to repay about 80% of its total debt over the next 12 months with proceeds from the sale of its subsidiary, Glenmark Lifesciences Ltd. (GLS).
- The company's financial position will materially improve following the paydown. Its ratio of funds from operations (FFO) to debt could rise above 90% by fiscal 2025 and stay high, given management's commitment to maintaining low leverage.
- We raised our long-term issuer credit rating on Glenmark to 'BB+' from 'BB'.
- The stable rating outlook reflects our view that Glenmark will maintain its strengthened financial position over the next 12-24 months, with help from a stable operating performance and limited investment requirements.

Rating Action Rationale

Glenmark will strengthen its financial position over the next 12 months. We expect the company to repay all its Indian rupee (INR) 39.5 billion long-term debt. This represented about 80% of its total outstanding debt as of Dec. 31, 2023.

Glenmark will fund the accelerated repayment with proceeds of about INR56.5 billion from the sale of GLS. Following the debt paydown, the company's capital structure will consist mainly of short-term working capital borrowings. We expect its FFO-to-debt ratio to rise above 90% by fiscal 2025.

Glenmark completed the divestment of its 75% stake in GLS to Nirma Ltd. earlier this week. GLS was the company's subsidiary making active pharmaceutical ingredients (API).

Healthy revenue growth and lower research and development (R&D) costs will support earnings. We expect Glenmark's revenue to increase about 7% in fiscal 2025 on the back of new product launches and steady performances from its core portfolio. Good revenue visibility for Ryaltris (nasal spray) in Australia, South Africa, and other European markets, and entry into new markets such as China and Brazil will support growth.

We also expect Glenmark to lower its R&D expenses. The company plans to consolidate all its investments in new drug discovery and novel drugs under its subsidiary, Ichnos Sciences Inc. It expects this subsidiary to self-fund through partnerships and external fund raising.

We anticipate annual R&D expenditure will decline by about INR2.5 billion starting fiscal 2025.

Glenmark's EBITDA margin may improve to 15%-16% in fiscal 2025 from about 10% in fiscal 2024, absent sizable remediation costs. R&D savings and revenue growth could partly offset the impact of the company's exit from GLS (a higher-margin API business) and higher input costs of INR6 billion-INR7 billion when the company purchases API from GLS as an external party.

Glenmark previously sourced 15%-20% of its API needs from GLS. We expect the company to maintain this arrangement after the transaction.

Prudent capital spending and preference for low leverage will help Glenmark conserve its financial strength. Following the sizable debt paydown, we expect financial flexibility to materially improve, with a sufficient buffer to the rating. Even if the company's EBITDA were to drop 50%-60% from our base case starting fiscal 2025, its FFO-to-debt ratio will likely remain above our downside trigger of 45%.

Although not part of our base case, Glenmark could also raise an additional INR15 billion in debt before breaching our downside trigger.

We believe financing needs are limited. This is given earnings will be sufficient to fund annual maintenance capital expenditure (capex) that we estimate at INR6 billion-INR7 billion. We also expect Glenmark to maintain shareholder distributions at INR1.4 billion annually.

An increased focus on branded and complex generics could entail acquisitions. However, given Glenmark's track record of limited inorganic growth investments and management's preference for low leverage, we expect the company to remain prudent on such spending.

Glenmark's weak business position constrains further rating upside. The company's revenue scale of about US$1.5 billion is materially less than peers. Hikma Pharmaceuticals PLC (BBB-/Stable/--) had revenue of US$2.8 billion in 2023 while Jazz Pharmaceuticals PLC (BB-/Positive/--) had revenue of US$3.8 billion.

Following Glenmark's exit from the API segment, the company will also have weaker EBITDA margin of 15%-16% than peers in the generic pharmaceutical industry. These peers typically have margins that are materially higher than 20%.

In addition, recurring regulatory issues at Glenmark's manufacturing sites continue to constrain the company's business profile. The company is still awaiting the resolution of observations, a warning letter, and an import alert that the U.S. Food and Drug Administration (USFDA) issued for its various manufacturing facilities.

Outlook

The stable outlook on Glenmark reflects our expectation that the company will maintain its strengthened financial position over the next 12-24 months, with aid from stable operating performances and limited investment requirements. We expect the company's FFO-to-debt ratio to remain comfortably above 45% during this period.

Downside scenario

We could lower our rating on Glenmark if it fails to maintain low leverage due to weaker operating performances than we expect or an increase in debt-funded growth investments. Failure to resolve regulatory issues at the company's manufacturing sites resulting in loss of revenue, substantial remediation costs, and potential litigation could magnify downside risks. An FFO-to-debt ratio that was not expected to remain comfortably above 45% would indicate such weakness.

Upside scenario

We could upgrade Glenmark if its business position improves materially. Significant increases in revenue with EBITDA margin staying consistently above 20% and a stable record of regulatory compliance would indicate such improvement. A higher rating will also predicate on a strong commitment from management to maintaining a disciplined financial policy and a record of operating at net cash and low leverage.

Company Description

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

Mr. Glenn Saldanha and family (through trusts) held 46.65% of the company as of Dec. 31, 2023.

Our Base-Case Scenario

Assumptions

- Revenue to decline by about 10% in fiscal 2024 due to the deconsolidation of GLS after the sale. Like-for-like revenue to increase by about 2%, weaker than our earlier expectation following changes to the company's distribution model in India. This affected sales in the third quarter of fiscal 2024. Revenue growth to return to 7%-7.5% in fiscal years 2025-2026.
- EBITDA margin to fall below 10% in fiscal 2024 due to the exit from higher-margin API, revenue loss in India, and remediation costs at U.S. and India manufacturing sites. Margins to improve to 15%-16% starting fiscal 2025.
- R&D spending at 6.5%-7% of revenue starting fiscal 2025, down from about 9% in fiscal 2024 and 9.5% in fiscal 2023. This partly offsets higher raw material costs.
- Capex of INR6 billion-INR7 billion during this period.
- Dividends of INR1.4 billion during this period.

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

- FFO-to-debt ratio of about 30% in fiscal 2024 and above 90% in fiscal 2025, up from about 20% in fiscal 2023.
- Debt-to-EBITDA ratio of about 1.7x in fiscal 2024 and below 1x in fiscal 2025, down from 2.7x in

fiscal 2023.

Liquidity

We view Glenmark's liquidity as adequate. We expect the company's liquidity sources to cover uses by more than 1.2x in 2024. Net liquidity sources will likely remain positive even if EBITDA declines by 15% during this period.

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, litigation, penalties, 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 and abroad. This was evident during the company's timely refinancing of 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 GLS's listing in fiscal 2022. It used the proceeds to repay debt.

Principal liquidity sources include:

- Cash and short-term investments of about INR14.3 billion as of Dec. 31, 2023.
- Cash FFO that we estimate at about INR8 billion for the 12 months ending Dec. 31, 2024.
- Proceeds from GLS stake sale of INR48 billion-INR50 billion, net of taxes.

Principal liquidity uses include:

- Repayment of INR11.5 billion debt over the 12 months ending Dec. 31, 2024. This includes about INR10 billion of working capital borrowings from banks that we consider as short-term debt.
- Working capital outflow of about INR5 billion during the same period.
- Capital spending of INR6.5 billion over this period.
- Dividend payout of about INR1.4 billion over this period.
- Litigation settlement of INR3 billion over this period.

Environmental, Social, And Governance

Governance factors are a neutral consideration in our credit rating analysis of Glenmark. Mr. Glenn Saldanha and family (through trusts) own about 47% of the company. Despite the entrepreneurial ownership, we have not seen any evidence of negative influences from the owners on the company's financial policies.

Effective oversight by seven independent directors on Glenmark's 12-member board mitigates the risk of shareholder interest being prioritized over that of other stakeholders. Glenmark also maintains acceptable standards on reporting, transparency, and internal controls.

Regulatory risks for Glenmark remain elevated. The company received observations on regulatory compliance from USFDA for its facilities in Monroe, North Carolina (U.S.) and Aurangabad (India). The regulators also took stronger actions against the company's Goa and Baddi units in India by issuing a warning letter and an import alert respectively.

These issues are pending resolution. Failure to satisfactorily remediate these observations could result in stringent actions from the regulators, affecting Glenmark's market position.

Ratings Score Snapshot

Issuer Credit Rating	**BB+/Stable/--**
Business risk:	Weak
Country risk	Intermediate risk
Industry risk	Low risk
Competitive position	Weak
Financial risk:	Modest
Cash flow/leverage	Modest
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	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile:	bb+

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- 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
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Upgraded

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

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.