glenmark
A new way for a new world

October 03, 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 – India Ratings and Research

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: 2023.10.03 18:56:07 +05'30'

Harish Kuber
Company Secretary & Compliance Officer

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India Ratings Places Glenmark Pharmaceuticals' Bank Facilities on Rating Watch with Positive Implications

India Ratings and Research (Ind-Ra) has placed Glenmark Pharmaceuticals Ltd's (GPL) bank facility ratings on Rating Watch with Positive Implications, as follows:

CURRENT RATINGS

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

*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.

Ind-Ra has placed the ratings on Rating Watch with Positive Implications on account of GPL's announcement on 21 September 2023 regarding the sale of its 75% equity stake in Glenmark Lifesciences (GLS; IND AA-/Stable) to Nirma Limited. The sale is likely to be completed by the end of FY24 after receiving the necessary approvals from regulatory authorities and shareholders. GPL will continue to retain 7.84% stake in GLS post the completion of the transaction. The Rating Watch with Positive Implications reflects the likely improvement in the overall financial profile of GPL, with the management stating that GPL would utilise the proceeds of the sale (INR56 billion) to prepay the entire debt on the balance sheet, making it net debt negative, and to pay taxes for the transaction. While resolving the watch, Ind-Ra would also assess the sustainability of the 1QFY24 sales to the US and the regulated markets and its impact on the overall business profile. GLS contributes about 11% to the consolidated revenue (after adjusting for inter-company transactions) and about 25% to the operating profits of the consolidated entity; post the transaction, Ind-Ra would assess GLS on a standalone basis.

The Rating Watch with Positive Implications indicates that the ratings may be either affirmed or upgraded. Ind-Ra will resolve the Rating Watch once the transaction has been completed with the receipt of the proceeds and the agency receives full clarity over its utilisation.

KEY RATING DRIVERS

Likely Improvement in Financial Profile: Ind-Ra expects GPL to report mid-single digit revenue growth and EBITDA margin of around 18% in FY24. Post the divestment of the active pharmaceutical ingredient (API) business, Ind-Ra expect the revenue to decline by 10%-11%, and the EBITDA to fall by 17%-18%. However, the credit metrics would see a sharp improvement due to the significant debt reduction and consequent fall in interest costs.

GPL has entered into a definitive agreement with Nirma for the sale of its 75% stake in GLS for INR56.5 billion. Post the transaction, GPL would own 7.84% stake in GLS. The transaction is likely to be completed in FY24, subject to the receipt of approvals from the regulatory authorities and shareholders. The companies have further signed an amended API supply and purchase agreement, pursuant to which GPL has agreed to procure APIs (active pharmaceutical ingredients) for GLS for a period of five years (starting 1 April 2024), and an amendment services agreement, pursuant to which GPL and its subsidiaries will provide support services for a specified period to GLS. Ind-Ra, at this point, does not have clarity on utilisation of the proceeds from the deal and the subsequent impact on the credit profile of GPL.

Subdued Performance in FY23: In FY23, the consolidated revenue grew by only 5.6% yoy to INR129.9 billion, led by the muted performance of GPL's India and US businesses (jointly account for 55% of its sales). 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). In 1QFY24, the revenue increased 22.5% yoy to INR34.0 billion, led by strong growth across geographies (US: over 22.0% yoy; rest of the world (RoW): over 30.4% yoy; Europe: over 73.7% yoy; API: over 15.9% yoy), except India (up by only 2.8% yoy). The EBITDA margin remained healthy at 18.6% in 1QFY24 led by moderation in research and development (R&D) spend (1FY24: 8.3% of sales; FY23: 9.5%).

Headwinds in US Business: GPL is the 15th-largest generic company in terms of prescription drugs in the US, which contributed about 24% to its total sales in FY23. However, its US business reported muted revenue growth of 2.2% yoy in FY23 (FY22: negative 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 (market size: USD2 billion) 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 might be offset by its new launches. Ind-Ra expects GPL's US business to continue to face delays in approvals and regulatory risks.

Liquidity Indicator - Adequate: The company's average monthly utilisation of the fund-based working capital limits was 26% during the 12 months ended August 2023. GPL's capex spending remained at an average of INR7.8 billion over FY20-FY23. Ind-Ra expects the company to undertake only moderate capex of INR5.5 billion-6.5 billion in the medium term (reduction pursuant to non-consolidation of GLS capex post stake sale transaction), due to the completion of expansion at its Monroe facility. 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. The free cash flow remained negative at INR4.1 billion in FY23 (FY22: negative INR0.150 billion) on account of lower cash flow from operations. The company had cash balances of INR14.4 billion at FYE23 (FYE22: INR14.1 billion), against scheduled debt repayments of USD17.7 million in FY24 (FY23: nil).

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. Formulations account for 89% of the company's sales, and APIs account for the rest. The company generates equal revenue from both regulated and semi-regulated markets. In terms of geography, India and the US are the largest markets for the company, accounting for 31% and 24%, respectively, of its sales. Other geographies such as RoW (18%), and Europe (14%) jointly account for 32% of the sales. In the US business, the top 10 products contribute on average 43%-45% to the sales. GPL has a large pipeline for the US market, with 233 abbreviated new drug application (ANDA) filings, of which 183 ANDAs 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.

India Business on Strong Footing: GPL generates one-third of its total sales from its India formulations business, which grew 15.5% yoy to INR40.9 billion in FY22 (FY21: INR35.4 billion), led by a higher contribution by Fabiflu drug and new launches. The company has been recording steady revenue growth over the past 10 years

(CAGR around 15% as 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. However, in FY23, the India business's sales fell by 1.4% yoy to INR40.3 billion, due to the higher base in FY22, following COVID-19. Ind-Ra expects mid to low double-digit sales growth in the India business in FY24.

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; OAI 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)..

Standalone Profile: GPL's revenue rose 1.0% yoy to INR82.2 billion in FY23 (FY22: INR81.4 billion), its EBITDA declined 12.8% yoy to INR14.7 billion (INR16.9 billion) and EBITDA margin contracted 282bp yoy to 17.9% (20.7%). The interest coverage was 7.1x in FY23 (FY22: 7.2x).

RATING SENSITIVITIES

The Rating Watch with Positive Implications indicates that the ratings may be either affirmed or upgraded. Ind-Ra will resolve the Rating Watch once the transaction has been completed with the receipt of the proceeds and the agency receives full clarity over its utilisation.

RATING CRITERIA

Corporate Rating Methodology'; The Rating Process; 'Policy for Placing Ratings on Rating Watch'; 'Evaluating Corporate Governance'; 'Short-Term Ratings Criteria for Non-Financial Corporates'

COMPANY PROFILE

Incorporated in 1977, GPL is an India-based global R&D-driven pharmaceutical company that produces branded and generic formulations, APIs, and has a presence in over 60 countries. GPL has 16 facilities across formulations and APIs in five countries. Its generics pipeline for the US business is focused on filings in immediate release, dermatology, hormones and injectables.

FINANCIAL SUMMARY (CONSOLIDATED)

Particulars	FY23	FY22
Revenue (INR billion)	129.9	123.0
EBITDA (INR billion)	22.8	23.2
EBITDA margin (%)	17.5	18.9
Operating EBITDA/Gross interest expense (x)	6.5	7.8
Net debt/operating EBITDA (x)	1.4	1.1
Total debt (INR billion)	46.3	39.6
Source: GPL, India		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook			
	Rating Type	Rated Limits	Rating	22 Septem	15 Decem	22 Octo	18 August 2020

		(million)		ber 2023	ber 2022	ber 2021	
Issuer rating	Long Term		-	WD	IND AA-/Stable	IND AA-/Positive	IND AA-/Stable
Fund-based cash credit limits	Long-term	INR12,000	IND AA-/ Rating Watch with Positive Implications	-	IND AA-/Stable	IND AA-/Positive	IND AA-/Stable
Non-fund-based limits	Short-term	INR6,500	IND A1+/Rating Watch with Positive Implications	-	IND A1+	IND A1+	IND A1+

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 levels of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies, and structured finance and project finance companies.

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