

November 18, 2021

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 Kuber
Company Secretary & Compliance Officer



Encl. – S&P Global Ratings

Glenmark Pharmaceuticals Ltd.

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Research Update:

Glenmark Pharmaceuticals Upgraded To 'BB' On Expected Maintenance Of Lower Leverage; Outlook Stable

November 18, 2021

Rating Action Overview

- Glenmark Pharmaceuticals Ltd.'s debt is likely to decline by about 25% in fiscal 2022 (year ending March 31, 2022) given management's commitment to maintain lower leverage following a recent equity raising at its subsidiary.
- We expect the India-based pharmaceutical player to maintain conservative debt levels given limited upcoming capital investments and healthy free operating cash flow. This should boost the company's ratio of funds from operations (FFO) to debt to 35%-40% in fiscal 2022.
- Therefore, we raised our long-term issuer credit rating on Glenmark to 'BB' from 'BB-'.
- The stable outlook reflects our view that Glenmark will maintain its financial policy such that its FFO-to-debt ratio will remain comfortably above 30%.

PRIMARY CREDIT ANALYST

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Rating Action Rationale

Glenmark will likely prioritize debt reduction over the next 12-18 months. We expect the company to repay up to Indian rupees (INR) 16 billion in debt during fiscal 2022 in line with management's commitment to deleverage. Glenmark's subsidiary, Glenmark Lifesciences Ltd., concluded its public equity offering in July 2021 and raised about INR15 billion. Subsequently, Glenmark repaid about INR11 billion of its outstanding borrowings. We believe Glenmark will direct its surplus operating cash flow over the next few quarters toward further debt reduction to meet its stated target. Thereafter, we expect the company's adjusted gross debt to remain stable at INR35 billion-INR40 billion over fiscals 2022 and 2023, compared with INR51 billion at the end of fiscal 2021.

Glenmark's healthy revenue growth and cost optimization measures, including reduced investments (measured as a percentage of revenues) in research and development (R&D), will bolster its operating cash flow. We estimate the company will generate INR12 billion-INR14 billion in operating cash flow annually over fiscals 2022 and 2023. Moreover, Glenmark has limited

upcoming capital investment requirements over this period. Capital spending of INR6 billion-INR7 billion annually should be restricted to maintenance and minor capacity enhancements--adequately covered by its operating cash flow, in our assessment.

We believe Glenmark will sustain its conservative policy on shareholder distributions and acquisitions over the next two years. Consolidation in the generics pharmaceutical industry could present opportunities for inorganic growth. Still, we do not expect Glenmark's management to adopt an acquisition-led growth policy that could stretch its credit metrics beyond our base-case estimate. The company has historically focused on organic growth--a trend that will likely continue.

New product launches and favorable operating conditions should support growth. In our view, Glenmark's revenue from India, Europe and other international markets will continue to rise over the next 12-18 months. India, the company's largest market, accounts for more than 30% of overall revenues and we expect revenue from the country to grow 15%-20% in fiscal 2022. Sales for the company's base portfolio of products across segments such as diabetes, consumer care, dermatology and respiratory will likely rise. However, stabilizing COVID-19 infection rates could lead to lower sales of FabiFlu (oral antiviral used to treat COVID-19 patients) in the coming quarters, with the medicine to account for about 10% of fiscal 2022 revenue from India.

New product launches such as Ryaltris (a nasal spray for treatment of symptoms associated with allergic rhinitis) in Russia will also support growth in international markets. Glenmark has filed 11 Abbreviated New Drug Applications with the U.S. Food and Drug Administration (FDA) over the first half of fiscal 2022 and the company is likely to file 18-20 such applications in the full fiscal year. However, competitive pressures and continued price erosion in the U.S. (25% of Glenmark's revenue) is likely to offset the growth from new product launches. Overall, we expect revenues to grow 9%-10% in fiscal 2022 and EBITDA margin to remain at 19%-19.5%.

Glenmark will likely remain prudent in managing debt maturities beyond fiscal 2022. The company's foreign currency convertible bonds (FCCBs) are due for redemption on July 28, 2022, amounting to about US\$97 million. We believe the company has adequate funding options to meet this maturity. These options include undrawn committed bank lines of about US\$100 million (maturing mid-2023) and available cash and short-term investments (about US\$190 million equivalent as of Sept. 30, 2021). Thereafter, the company's debt maturity profile remains fairly balanced with various external commercial borrowings of about US\$60 million due in fiscal 2023 and US\$130 million in fiscal 2024. We believe the company's improved financial strength and flexibility should aid its ability to effectively manage these maturities.

Outlook

The stable outlook on Glenmark reflects our view that the company will maintain a conservative financial policy, supported by healthy operating cash flow and limited capital investments. We expect the company's FFO-to-debt ratio will remain comfortably above 30% over this period.

Downside scenario

We are likely to lower our rating on Glenmark if the company undertakes higher capital spending than we anticipate, or if profitability declines as a result of business conditions or increased R&D investments. This would be indicated by the company's FFO-to-debt ratio falling below 30% on a sustained basis. We could also lower the rating if Glenmark's liquidity weakens materially.

Upside scenario

We could consider an upgrade if:

- Glenmark demonstrates a solid track record of consistent deleveraging aided by improving profitability and strong free operating cash flow generation, such that the company's FFO-to-debt ratio stays sustainably above 45%; and
- The company continues to build scale and improve its portfolio quality, strengthening its market position.

Demonstration of improved funding access would also be supportive of a higher rating.

Company Description

Glenmark is an India-based generics pharmaceutical company operating in the dermatology, respiratory, cardiology, and oncology therapeutic areas. The company has 15 manufacturing facilities across four countries, of which nine are approved by the U.S. FDA.

Mr. Glenn Saldanha and family (through trusts) held 46.7% of the company as of Sept. 30, 2021.

Our Base-Case Scenario

Assumptions

- Glenmark's revenue to grow by 9%-10% in fiscal 2022 and 8%-9% in fiscal 2023.
- Glenmark to maintain focus on cost optimization and reasonable investments in R&D. This should help the company sustain EBITDA margins at 19%-19.5% in fiscals 2022 and 2023, compared with 19.8% in fiscal 2021.
- Glenmark to spend 9%-10% of revenue on R&D in fiscals 2022 and 2023, compared with 11.2% in fiscal 2021.
- Capital expenditure of INR6.5 billion-INR7 billion over this period, compared with INR7.8 billion in fiscal 2021.
- We expect the company will pay about 10% of its net profit as dividends in fiscals 2022 and 2023.

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

- FFO-to-debt ratio of 35%-40% in fiscal 2022 and exceeding 40% in fiscal 2023; compared with 28% in fiscal 2021.
- Debt-to-EBITDA ratio of 1.5x-2.0x in fiscal 2022 and less than 1.5x in fiscal 2023, compared with 2.4x in fiscal 2021.

Liquidity

We view Glenmark's liquidity as adequate. We expect the company's liquidity sources will exceed its uses by more than 1.5x over the 12 months ending Sept. 30, 2022, and net sources to remain positive even if EBITDA declines by 15%.

Glenmark has about US\$100 million available in undrawn revolving credit facilities, which will be sufficient to repay the company's FCCBs due in July 2022. Glenmark will remain prudent in its risk management, in our view. The company has fair banking relationships and its standing in capital markets is still developing when compared with peers at a similar rating level.

Principal liquidity sources include:

- Cash and short-term investments of INR14.3 billion as of Sept. 30, 2021.
- Cash FFO that we estimate at about INR16 billion over the 12 months ending Sept. 30, 2022.
- Available undrawn revolving credit facilities of US\$100 million.

Principal liquidity uses include:

- Debt maturities of about INR12 billion over the 12 months ending Sept. 30, 2022, including a bullet maturity of FCCBs in July 2022.
- Capital spending of INR6 billion-INR7 billion over the 12 months ending Sept. 30, 2022.
- Dividend payout of about INR900 million over this period.

Ratings Score Snapshot

Issuer Credit Rating: BB/Stable/--

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)

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
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, 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
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Ratings List

Upgraded

To	From
Glenmark Pharmaceuticals Ltd.	
Issuer Credit Rating	BB/Stable/-- 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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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