

September 28, 2023

To,
Dy. General Manager
Department of Corporate Services,
BSE Ltd.,
P. J. Towers, Dalal Street,
Fort, Mumbai – 400 001.

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 Code: 532296

Ref: Scrip Name: GLENMARK

Dear Sir,

Sub:- Regulation 30 of SEBI (Listing Obligation and Disclosure Requirements)
Regulation, 2015 – CRISIL Ratings

With reference to the subject mentioned above, kindly find enclosed rating rationale issued by CRISIL Ratings for your reference.

Request you to kindly take the same on record.

Thanking you,

Yours faithfully,
For Glenmark Pharmaceuticals Limited

Harish Kuber
Company Secretary & Compliance Officer

Rating Rationale

September 28, 2023 | Mumbai

Glenmark Pharmaceuticals Limited

Long term rating placed on 'Watch Positive'; Short-term rating reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.1850 Crore
Long Term Rating	CRISIL AA-/Watch Positive (Placed on 'Rating Watch with Positive Implications')
Short Term Rating	CRISIL A1+ (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has placed its rating on the long-term bank facilities of Glenmark Pharmaceuticals Ltd (Glenmark) on '**Rating Watch with Positive Implications**'. The rating on the short-term bank facilities has been reaffirmed at 'CRISIL A1+'.

The rating action follows expected improvement in the financial risk profile, post completion of Glenmark's stake sale plans in its subsidiary, Glenmark Life Sciences Ltd (GLS). On September 21, 2023, Glenmark announced sale of 75% stake in GLS, for an aggregate consideration of Rs 5,651.5 crore, subject to closing adjustments. Glenmark will own 7.84% in GLS after the divestment. The transaction is subject to customary conditions precedent, including receipt of regulatory and shareholder approvals and is expected to conclude by the fourth quarter of fiscal 2024.

Proceeds from the sale are expected to be utilised to pay off a substantial portion of the debt, thereby improving the debt protection metrics. Significant reduction of debt using the sale proceeds will be a key monitorable. CRISIL Ratings also notes that the company's business risk profile could be marginally impacted in the near term, with expected moderation in revenue and operating profit, given that GLS contributed to about 11% and 25% of consolidated revenue (after adjusting for inter-company transactions) and operating profit, respectively. CRISIL Ratings will continue to monitor progress on the transaction and will remove the rating from watch and take a final rating action post the conclusion of the transaction, receipt of funds and higher certainty on debt reduction plans.

The ratings continue to reflect the expanding presence of Glenmark in the international generics market, strong position in the fast-growing chronic therapeutic segments in India and adequate financial risk profile. These strengths are partially offset by large working capital requirement, high research and development (R&D) expenditure for new molecules and differentiated generics, intensifying competition in the US generics market and adverse regulatory outcomes of US Food and Drug Administration (USFDA) inspections.

Revenue grew moderately at 6% year-on-year in fiscal 2023 on a higher base, wherein growth was driven by higher sales of Covid-related products. The growth improved in the first quarter of fiscal 2024 and is expected to grow 7-9% for the full year. This would be supported by healthy growth in India, Europe and rest of the world, even as growth in the US market remains modest. Sales growth in the US may remain average over the next couple of years amid lower number of product launches (given the regulatory issues related to three of its five manufacturing facilities supplying to the US) along with high pricing pressure. Excluding high foreign exchange gains, operating profitability moderated to 17.5% in fiscal 2023 against 18.9% in fiscal 2022 because of high input cost and revival in marketing expenses. Operating profitability was 19% in the first quarter of fiscal 2024 and is expected to remain at 18-19% for the full year.

Currently, Glenmark's debt level is high with higher working capital utilisation and refinancing of foreign currency convertible bond (FCCB) last year. Debt to earnings before interest, tax, depreciation and amortisation (Ebitda) ratio increased to 1.7 times in fiscal 2023, as compared to 1.5 times in the previous fiscal. Annual capital expenditure (capex) by the company is expected to come down to Rs 550-650 crore post the stake-sale in GLS, from Rs 700-800 crore currently. On account of sizeable exports, including to developing nations, the working capital metrics of Glenmark have traditionally remained higher relative to its peers, and this is expected to continue over the medium term.

R&D expenses remained high at 11-13% of sales in the past 3-5 years till fiscal 2022. However, the company has re-evaluated its R&D requirement with such spends declining in fiscal 2023 and is expected to remain in the range of 8-9% of sales going forward. The company will remain exposed to risks related to R&D in the innovative pipeline, wherein investments are high and returns uncertain. Glenmark invested Rs 683 crore in Ichnos Sciences Inc (Ichnos) in fiscal 2023 (against Rs 663 crore in fiscal 2022) for innovation in medicine through its transformative treatments in the oncology and autoimmune diseases. Any further out-licencing opportunities or divestment in Ichnos will likely reduce future R&D expenses and help deleverage the balance sheet of Glenmark.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of Glenmark and its 43 subsidiaries and stepdown subsidiaries. All the entities, collectively referred to as Glenmark, operate in the pharmaceutical segment and have significant operational linkages and common management. CRISIL Ratings has also amortised goodwill arising from consolidation and intangibles over five years.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description **Strengths**

- **Diversified presence in the international market**

Glenmark has a significant presence in the US and Europe, which together accounted for about 38% of the total revenue in fiscal 2023. Revenue from the US market was impacted over the past few years due to pricing pressure and lower contribution from certain top products. The company had 50 abbreviated new drug applications pending approval as on June 30, 2023. Moreover, Glenmark has an established position in the semi-regulated markets of Africa, Asia, Commonwealth of Independent States, Latin America, and Central and Eastern Europe. Launch of a specialty product, Ryaltris, in 29 countries with filings in 41 additional countries as on June 30, 2023, will provide traction in revenue growth across geographies.

- **Strong position in the chronic therapeutic segment in the domestic market**

In the domestic formulations market, Glenmark is ranked 14th with a market share of 2.12%; nine of its brands were in the top 300 as per IQVIA MAT (moving annual total) as of June 2023. Contribution of the domestic market to overall sales has been increasing over the past few years and accounted for 31% of the total revenue in fiscal 2023. Revenue in the domestic market remained flattish in fiscal 2023 post a high growth of 16% year-on-year in fiscal 2022, backed by high Covid-related product sales. Domestic revenue is expected to grow 9-12% over the medium term, led by its strong market position in the chronic therapeutic segments such as antivirals, dermatology, respiratory and cardiovascular therapy.

- **Adequate financial risk profile**

The financial risk profile improved in the first half of fiscal 2022 with the company paying off significant foreign exchange debt using proceeds from the initial public offering (IPO) of GLS. However, gross debt increased to Rs 4,348 crore as on March 31, 2023, from Rs 3,670 crore as on March 31, 2022, amid higher working capital utilisation and adverse impact of currency movement. Also, the company refinanced its entire outstanding FCCBs of \$95 million in April-May 2022. Coupled with moderation in operating profitability, the debt to Ebitda ratio increased to 1.7 times in fiscal 2023. With large addition to networth from the IPO of GLS, adjusted gearing remained healthy at 0.5 time as on March 31, 2023.

Adjusted networth was sizeable at Rs 8,707 crore as on March 31, 2023. Accretion to networth is expected to be impacted in fiscal 2024, with company making a provision of \$30 million towards the settlement of all its court proceedings with the U.S. Department of Justice, Antitrust Division (DOJ) involving historical pricing practices relating to the generic drug pravastatin. Glenmark also provided for \$87.5 million in fiscal 2023 towards settlement of the lawsuits in connection with the generic version of Zetia in the US. Other antitrust lawsuits have also been filed against the company in the US, and any material settlement amount and funding will remain a monitorable. Nonetheless, cash accrual will be sufficient to meet the debt obligation, incremental working capital requirement and annual capex.

The announced divestment of majority stake in GLS, if concluded successfully, will boost the company's liquidity and allow it to substantially deleverage its balance sheet in fiscal 2025 to become net cash positive. This will be monitorable.

Weaknesses

- **Large working capital requirement**

The working capital cycle is stretched, compared to peers, due to significant presence of the company in emerging economies. Gross current assets remained high at 273 days as on March 31, 2023, and will remain sizeable given the large working capital requirement in the US and semi-regulated markets. Moderate payables and short-term bank borrowing help meet the working capital requirement.

- **High R&D expenditure towards new molecule entities and differentiated generics**

R&D expenditure has been higher than its peers because of focus on new molecules and differentiated generics. The company has signed out-licensing deals and received cumulative revenue of more than \$200 million since 2004. Also, Ryaltris has been successfully launched in several geographies, including the US and a few countries in Europe. R&D expense was Rs 1,250 crore (9.6% of sales) in fiscal 2023 against 11-14% of sales incurred in the past. The company has re-evaluated its R&D requirement and this spend is expected to remain at 8-9% of sales going forward. Uncertainty regarding revenue visibility and R&D leads to investment risk. However, focus on out-licensing molecules as it reaches advanced stages will help keep the absolute R&D expenditure at similar levels over the medium term. Furthermore, in fiscal 2020, Glenmark incorporated Ichnos for innovation in medicine through its transformative treatments in the oncology and autoimmune disease segments. The company plans to continue to monetise the pipeline over the medium term.

- **Exposure to intensifying competition and regulatory risks**

There is intense competition and pricing pressure in the regulated generics markets because of increasingly aggressive defence tactics of innovator companies through the introduction of authorised generics, especially for blockbuster drugs going off patent. Furthermore, generic players in regulated markets are adversely affected by severe price erosion because of commoditised products and by intense competition and considerable consolidation in distribution channels. Glenmark is also exposed to regulatory risks in the domestic and regulated markets. Its plant in Goa received a warning letter from the USFDA in November 2022. Furthermore, its plant at Baddi, Himachal Pradesh, received an import alert

from the USFDA in October 2022. Additionally, in August 2022, the USFDA inspection at the company's plant at Monroe, USA, was classified as Official Action Initiated. The company is working towards remediating these observations.

Liquidity: Strong

Unencumbered cash balance was Rs 1,443 crore as on March 31, 2023, and average bank limit utilisation was less than 40% over the 12 months through March 2023. Cash accrual is expected to be around Rs 1,250 crore in fiscal 2024, factoring in the payment/provision towards settlement of the lawsuits and over 1,600 crore per annum post that (excluding the gain from stake-sale in GLS) which should comfortably cover yearly debt obligation over the medium term. Successful refinancing of the FCCB in April-May 2022 through a term loan with back-ended repayments has reduced the debt obligation to ~Rs 150 crore each in fiscals 2024 and 2025. Liquidity is expected to be boosted significantly on the consummation of the announced stake sale in GLS. While funding needs for legal settlements already announced are expected to be managed, any sizeable payout for settlement of other ongoing litigations as per the anti-trust ruling may impact liquidity and debt protection metrics and will be a key monitorable.

Environment, social and governance (ESG) profile

The ESG profile of Glenmark supports its already strong credit risk profile.

The pharmaceutical sector can have a significant impact on the environment on account of greenhouse gas emissions, water use and waste generation. The social impact is characterised by impact on the health and wellbeing of its consumers, employees and local community on account of its products and operations.

Key ESG highlights:

- Glenmark intends to maximize energy consumption from renewable sources. In fiscal 2022, 7% of the total energy consumed by the company was from renewable sources. By adopting initiatives such as effluent recycling, the company strives to reduce water withdrawal and net consumption.
- The company's gender diversity remained better than industry peers, with women employees forming 14.5% of the total workforce in fiscal 2022. It focusses on upskilling of manpower through training.
- Governance structure is adequate, with majority of the board comprising independent directors. The group also has in place an investor grievance redressal mechanism, whistle-blower policy and extensive disclosures.

There is growing importance of ESG among investors and lenders. Glenmark's commitment to ESG will play a key role in enhancing stakeholder confidence, given shareholding by foreign portfolio investors.

Rating Sensitivity factors

Upward factors

- Better-than-expected revenue growth, with operating profitability sustaining at 18-20%, resulting in strong cash generation
- Improved working capital management and prudent funding of capex leading to sustained improvement in debt protection metrics; for instance, gross debt to Ebitda ratio of 1.3-1.5 times
- Maintenance of healthy liquid surplus

Downward factors

- Sluggish business performance and decline in operating profitability to below 13-15% impacting cash generation
- Further stretch in the working capital cycle or large debt-funded capex or acquisitions impacting debt protection metrics; for instance, gross debt to Ebitda ratio in excess of 2.5-2.7 times
- Significant payouts for settlement of claims as per anti-trust ruling impacting liquidity and debt protection metrics

About the Company

Glenmark was incorporated in 1977 by the late Mr Gracias Anthony Saldanha. His son, Mr Glenn Saldanha, is now the chairperson and managing director. The company manufactures pharmaceutical formulations and active pharmaceutical ingredients, which it markets in India and abroad. It also undertakes R&D on new chemical and biological entities. The company has 16 manufacturing facilities and seven R&D centres spread across India, USA and a few other countries. As on June 30, 2023, the promoters held 46.65% stake in Glenmark, foreign portfolio investors held 25.52%, mutual funds held 5.36% while the remaining was held by the public and others.

In the first quarter of fiscal 2024, the company reported revenue of Rs 3,402 crore (Rs 2,777 crore in the corresponding period of fiscal 2023) and net profit of Rs 173 crore (Rs 211 crore).

Key Financial Indicators

Particulars	Unit	2023	2022
Revenue	Rs crore	12,990	12,305
Adjusted profit after tax (APAT)*	Rs crore	121	855
APAT margin*	%	0.9	6.9
Adjusted debt/adjusted networkth*	Times	0.5	0.43
Interest coverage	Times	7.42	8.34

*Adjusted for intangibles and goodwill amortisation

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Fund-Based Facilities	NA	NA	NA	450	NA	CRISIL AA-/Watch Positive
NA	Non-Fund Based Limit	NA	NA	NA	440	NA	CRISIL A1+
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	750	NA	CRISIL AA-/Watch Positive
NA	Proposed Non Fund based limits	NA	NA	NA	210	NA	CRISIL A1+

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Glenmark Pharmaceuticals Europe Ltd, UK	Full	Business synergies and common management
Glenmark Pharmaceuticals S.R.O.	Full	Business synergies and common management
Glenmark Pharmaceuticals SK, S.R.O.	Full	Business synergies and common management
Ichnos Sciences SA	Full	Business synergies and common management
Glenmark Holding S.A.	Full	Business synergies and common management
Glenmark Pharmaceuticals SP z.o.o.	Full	Business synergies and common management
Glenmark Pharmaceuticals Inc.	Full	Business synergies and common management
Glenmark Therapeutics Inc.	Full	Business synergies and common management
Glenmark Farmaceutica Ltda	Full	Business synergies and common management
Glenmark Generics S.A	Full	Business synergies and common management
Glenmark Pharmaceuticals Mexico, S.A. DE C.V.	Full	Business synergies and common management
Glenmark Pharmaceuticals Peru SAC	Full	Business synergies and common management
Glenmark Pharmaceuticals Colombia SAS, Colombia	Full	Business synergies and common management
Glenmark Uruguay S.A.	Full	Business synergies and common management
Glenmark Pharmaceuticals Venezuela, C.A	Full	Business synergies and common management
Glenmark Dominicana SRL	Full	Business synergies and common management
Glenmark Pharmaceuticals Egypt S.A.E.	Full	Business synergies and common management
Glenmark Pharmaceuticals FZE	Full	Business synergies and common management
Glenmark Impex L.L.C	Full	Business synergies and common management
Glenmark Philippines Inc.	Full	Business synergies and common management
Glenmark Pharmaceuticals (Nigeria) Ltd	Full	Business synergies and common management
Glenmark Pharmaceuticals Malaysia Sdn Bhd	Full	Business synergies and common management
Glenmark Pharmaceuticals (Australia) Pty Ltd	Full	Business synergies and common management
Glenmark South Africa (pty) Ltd	Full	Business synergies and common management
Glenmark Pharmaceuticals South Africa (Pty) Ltd	Full	Business synergies and common management
Glenmark Pharmaceuticals (Thailand) Co. Ltd	Full	Business synergies and common management
Glenmark Pharmaceuticals B.V.	Full	Business synergies and common management
Glenmark Arzneimittel Gmbh	Full	Business synergies and common management
Glenmark Pharmaceuticals Canada Inc.	Full	Business synergies and common management
Glenmark Pharmaceuticals Kenya Ltd	Full	Business synergies and common management
Viso Farmaceutca S.L., Spain	Full	Business synergies and common management
Glenmark Specialty SA	Full	Business synergies and common management
Glenmark Pharmaceuticals Distribution S.R.O.	Full	Business synergies and common management
Glenmark Pharmaceuticals Nordic AB	Full	Business synergies and common management
Glenmark Ukraine LLC	Full	Business synergies and common management
Glenmark-Pharmaceuticals Ecuador S.A.	Full	Business synergies and common management
Glenmark Pharmaceuticals Singapore Pte Ltd	Full	Business synergies and common management
Ichnos Sciences Biotherapeutics SA	Full	Business synergies and common management
Ichnos Sciences Inc., USA	Full	Business synergies and common management
Glenmark Life Sciences Ltd	Full	Business synergies and common management
Glenmark Farmaceutica SpA	Full	Business synergies and common management
Sintesy Pharma S.R.L	Full	Business synergies and common management

Glenmark Healthcare Limited	Full	Business synergies and common management
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Annexure - Rating History for last 3 Years

Instrument	Type	Current		2023 (History)		2022		2021		2020		Start of 2020
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	1200.0	CRISIL AA-/Watch Positive	27-04-23	CRISIL AA-/Stable	--	--	23-12-21	CRISIL AA-/Positive / CRISIL A1+	23-06-20	CRISIL A1+ / CRISIL AA-/Stable	CRISIL A1+ / CRISIL AA-/Stable
			--	25-01-23	CRISIL AA-/Stable	--	--	19-08-21	CRISIL A1+ / CRISIL AA-/Stable	--	--	
Non-Fund Based Facilities	ST	650.0	CRISIL A1+	27-04-23	CRISIL A1+	--	--	23-12-21	CRISIL A1+	23-06-20	CRISIL A1+	CRISIL A1+
			--	25-01-23	CRISIL A1+	--	--	19-08-21	CRISIL A1+	--	--	

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Fund-Based Facilities	450	Bank of India	CRISIL AA-/Watch Positive
Non-Fund Based Limit	440	Bank of India	CRISIL A1+
Proposed Fund-Based Bank Limits	750	Not Applicable	CRISIL AA-/Watch Positive
Proposed Non Fund based limits	210	Not Applicable	CRISIL A1+

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufacturing and service sector companies
Rating Criteria for the Pharmaceutical Industry
CRISILs Criteria for Consolidation

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