March 1, 2018

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:- Rating by S&P Global Ratings

With reference to the above subject, we have to inform you that our credit rating has been revised by S&P Global Ratings from 'BB' to 'BB-' as part of their review cycle. They have revised the outlook from 'Negative' to 'Stable'.

In addition, they have revised the rating on the senior unsecured notes issued in 2016 from 'BB' to 'BB-'.

Kindly find enclosed rating research update issued by S&P Global for your reference.

Thanking You.

Yours faithfully,
For Glenmark Pharmaceuticals Ltd.

HARISH VINAYAK KUBER
Digitally signed by HARISH VINAYAK KUBER
Date: 2018.03.01 17:08:29 +05'30'

Harish Kuber
Company Secretary & Compliance Officer

Encl: As above

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S&P Global
Ratings

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Research Update:

Glenmark Pharmaceuticals Downgraded To 'BB-' On Continuing Weak Operating Performance; Outlook Stable

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Research Update:

Glenmark Pharmaceuticals Downgraded To 'BB-' On Continuing Weak Operating Performance; Outlook Stable

Overview

- India-based Glenmark's leverage is likely to remain elevated over the next 24 months due to the generic pharmaceutical company's weak operating performance.
- We believe weakness from severe pricing pressures in the U.S. market will continue to weigh on Glenmark, delaying a recovery in the company's financial position. The better operating performance of Glenmark's non-U.S. businesses will temper this weakness.
- We are lowering our long-term corporate credit rating on Glenmark to 'BB-' from 'BB'. We are also lowering our long-term issue rating on the company's senior unsecured notes to 'BB-' from 'BB'.
- The stable outlook reflects our view that Glenmark's FFO-to-debt ratio will be steady at 20%-25% over next 12-18 months supported by modest growth and stable EBITDA margins.

Rating Action

On March 1, 2018, S&P Global Ratings lowered its long-term corporate credit rating on India-based generic drugmaker Glenmark Pharmaceuticals Ltd. to 'BB-' from 'BB'. The outlook is stable. We also lowered our long-term issue rating on the company's senior unsecured notes to 'BB-' from 'BB'.

Rationale

The downgrade reflects our view that Glenmark's leverage is likely to remain elevated over the next 24 months due to the company's weak operating performance.

We estimate that Indian pharmaceutical companies such as Glenmark will continue to face severe pricing pressure and margin erosion in the U.S. generic drugs market, leading to an overall subdued operating performance. The better operating performance of Glenmark's non-U.S. businesses will temper this weakness. We believe the company's business is fairly well diversified.

We estimate that Glenmark's leverage measured by the ratio of funds from operations (FFO) to debt will be about 20% in fiscal 2019 (the year ending March 31, 2019). We estimate that Glenmark's leverage could improve to about 25% only by the end of fiscal 2020, provided the company significantly improves its operating performance by launching new products or through potential out-licensing deals using its innovative pipeline.

Glenmark's revenue for the third quarter of fiscal 2018 fell by 13.1% while its EBITDA margins slid sharply to below 15.0%. A 40.2% year-over-year decline in U.S. sales largely overshadowed good growth momentum elsewhere. A large part of the decline in revenue and margin compression was also due to the lack of new product launches in fiscal 2018, after one-time exclusive Zetia sales in fiscal 2017. We expect the price erosion in the U.S. market to continue over the next 12-18 months.

We believe Glenmark has a strong slate of 18-20 products, which should help the company regain growth in fiscals 2019 and 2020, and push the EBITDA margin back to the 18%-20% range.

We expect Glenmark's working capital cycle to remain longer than that of most of its peers. This factor, coupled with continuing capital expenditure (capex) and novel drug related research and development expenses, is likely to limit deleveraging opportunities over the next 12-18 months. We estimate that the company's reported debt will broadly remain unchanged over the next two years.

Our base case for fiscal years 2019-2021 assumes the following:
- Glenmark's overall revenues to grow by 8%-10% in fiscal 2019 and by 13%-15% in fiscal 2020.
- Its U.S. revenues to be US$500 million-US$550 million, mainly driven by new product launches, even as prices of existing products decline by 5%-10%.
- The company's India business to grow faster, at 15%, owing to the launch of new products with a good presence in dermatology, respiratory and cardio-metabolic therapies.
- The Europe business to have steady growth of 15%-20% from new products and entry into new markets.
- Glenmark's EBITDA margin to be 18%-20%.
- Its capex to be Indian rupee (INR) 7.0 billion-INR8.0 billion annually.
- Its working capital investment to be INR3.0 billion-INR4.0 billion annually to support revenue growth.

Based on these assumptions, we arrive at the following credit measures over the next 12-24 months:
- Ratio of FFO to debt to remain at 20%-25%.
- Ratio of gross debt to EBITDA to remain at 2.2x-3.0x.
- Free operating cash flow to fluctuate between marginally negative to marginally positive.

Our base case for Glenmark assumes significant revenue contribution from the launch of new products. Any significant delay in these launches could further pressurize the company's leverage. Our estimates do not envisage any material adverse observations by the U.S. Foods and Drug Administration (FDA) over the next 12-24 months.

Liquidity

We view Glenmark's liquidity as adequate. We expect the company's liquidity sources to exceed 1.2x its uses over the next 12 months. Net liquidity sources should remain positive even if EBITDA declines by 15%.

Glenmark maintains sound relationships with banks and has a fair standing in the local credit markets. We consider the company's financial management to be prudent because it has issued equity and addressed its refinancing needs on a timely basis.

Our liquidity estimates for the 12 months ending Dec. 31, 2018 are:

Key liquidity sources include:
- Cash balance of INR10.4 billion as of Dec. 31, 2017.
- Cash FFO of INR9.5 billion-INR10.5 billion.

Key liquidity uses include:
- Debt maturity of about INR7.0 billion.
- Negative working capital movement of INR3.0 billion-INR4.0 billion annually.
- Maintenance capex of INR3.0 billion annually.
- Dividends of up to INR800 million annually.

Outlook

Our stable outlook on Glenmark reflects our expectation that the company's FFO-to-debt ratio will be steady at 20%-25% over next 12-18 months supported by modest growth and stable EBITDA margins of 18%-20%. We also expect the company's liquidity to remain adequate over this period. In our base case, we do not foresee any new adverse U.S. FDA-related observations or proceedings.

Downside scenario

We may lower the rating if Glenmark's ratio of FFO to debt stays below 20% and free operating cash flows turn materially negative. This could happen if: (1) new product revenues fail to boost revenues and support margins; (2) working capital and capex increase significantly higher than our base case; or (3) the company engages in debt-fueled acquisitions or shareholder distributions.

Upside scenario

We may upgrade Glenmark if the ratio of FFO to debt approaches 30%. The company's revenue growing by close to 20% and EBITDA margins staying above 22%, supported by steady working capital and capex spending, could result in such a situation. Measures such as out-licensing and use of cash to reduce debt could lead to such improvement.

Ratings Score Snapshot

Corporate Credit Rating: BB-/Stable/--

Business risk: Weak
- Country risk: Intermediate risk
- Industry risk: Low risk
- Competitive position: Weak

Financial risk: Significant
- Cash flow/Leverage: Significant

Anchor: bb-

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bb-

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- Criteria - Corporates - Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- 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
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Downgraded

	To	From
Glenmark Pharmaceuticals Ltd.		
Corporate Credit Rating	BB-/Stable/--	BB/Negative/--
Senior Unsecured	BB-	BB

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 the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.