

July 11, 2020

To,
**SINGAPORE EXCHANGE SECURITIES
TRADING LIMITED**
11 North Buona Vista Drive,
#06-07 The Metropolis Tower 2,
Singapore – 138589

Dear Sir,

**Sub:- Regulation 30 of SEBI (Listing Obligation and Disclosure Requirements) Regulation,
2015 - Credit Rating by Fitch Ratings**

Glenmark would like to inform you that Fitch Ratings, as part of their annual review cycle, has reaffirmed the Company's credit rating at 'BB', outlook 'stable'. This credit rating assigned to Glenmark is much higher than some of its global peers as mentioned in the enclosed report. The agency also affirmed the rating on Company's USD200 million 4.50% senior unsecured notes issued in 2016 at 'BB'.

Kindly find enclosed rating research update issued by Fitch Ratings for your reference.

Thanking you,

Yours faithfully,
For Glenmark Pharmaceuticals Limited

Harish Kuber
Company Secretary & Compliance Officer

Encl: as above



RATING ACTION COMMENTARY

Fitch Affirms Glenmark Pharmaceuticals at 'BB'; Withdraws Proposed Bond Rating

Thu 09 Jul, 2020 - 3:12 AM ET

Fitch Ratings - Singapore/Mumbai - 09 Jul 2020: Fitch Ratings has affirmed India-based Glenmark Pharmaceuticals Ltd's Long-Term Issuer Default Rating (IDR) at 'BB'. The Outlook is Stable. The agency has also affirmed Glenmark's USD200 million 4.50% senior unsecured notes due 2021 at 'BB'. The notes are rated at the same level as the IDR because they constitute Glenmark's direct and senior unsecured obligations. At the same time, Fitch has withdrawn the rating on Glenmark's proposed US-dollar bonds assigned in January 2020 as the company chose not to proceed with the offering.

Glenmark's geographic diversification and satisfactory record of regulatory compliance mitigate the business risk arising from its small size and support its rating relative to larger global generic drug makers. The rating affirmation also factors in Glenmark's adequate product pipeline, which, combined with robust long-term growth prospects in India, will limit the impact on profitability from continued pricing pressure in the US generic pharmaceutical market. Glenmark's de-risking strategies in its novel drug development programme will preserve its financial flexibility from the inherent risks.

The Stable Outlook reflects Fitch's expectation that leverage headroom will remain comfortable, as a prudent approach to capex and R&D, combined with proceeds from already announced or completed disposals in the financial year ending March 2021 (FY21), will support cash flow and counterbalance lower profitability stemming from the coronavirus pandemic. We believe Glenmark remains on track to address large debt maturities in 2021 over the next few months, despite the withdrawal of its proposed US-dollar notes. Nonetheless, failure to address debt maturities in line with our expectations would be credit negative.

The ratings were withdrawn with the following reason: Fitch is withdrawing Glenmark's proposed bond rating as the bonds were cancelled.

KEY RATING DRIVERS

Comfortable Leverage Despite Pandemic: Glenmark benefits from the defensive nature of pharmaceutical sales, although global pandemic-mitigation efforts have moderated doctor visits and prescriptions, particularly for non-chronic therapies, such as dermatology and respiratory, two of Glenmark's core segments. We expect a gradual rebound in sales in 2HFY21, but weaker performance in 1HFY21, combined with higher input costs due to pandemic-driven supply disruption, will still lower profitability in FY21, despite Glenmark cutting R&D and other costs.

However, Fitch still expects financial leverage - measured by net debt/EBITDA - of 2.3x in FY20 to stay broadly stable at 2.2x in FY21. Glenmark is likely to incur lower capex of around INR8 billion (FY20: INR9.3 billion) and generate proceeds from already announced / completed non-core asset disposals, which will help reduce debt. Profitability should improve after FY21, but leverage will remain broadly unchanged, as we expect moderate negative free cash generation, consistent with our view of the company's growth strategy.

Large Maturities in 2021: We expect Glenmark to make concrete progress in addressing large debt maturities in 2021 by end-September 2020. A failure to do so could lead to negative rating pressure. Glenmark's USD200 million notes are due in August 2021 and, while its USD113.5 million of remaining convertible bonds have a final maturity date in June 2022, bondholders have a right to require Glenmark to redeem at a premium in July 2021. Glenmark's cash balance and internal accruals

will be insufficient to meet them, but we believe it is advanced in arranging bank financing to address the refinancing risk.

Adequate Product Pipeline: We believe Glenmark's adequate R&D capabilities and product pipeline will enable a steady flow of new product launches, particularly in the US, which will limit the impact of sustained pricing pressure on profitability. Glenmark received 14 abbreviated new drug application (ANDA) approvals, including two tentative approvals, from the US Food and Drug Administration (FDA) in FY20 and had 44 ANDAs pending approval as of end-March 2020. Glenmark was India's first company to launch generic Favipiravir to treat mild to moderate COVID-19 cases under emergency-use authorisation, after successfully synthesising the necessary active pharmaceutical ingredients in-house.

Small, but Diversified: Glenmark's revenue and operating EBITDA are small compared with that of global major generic drug makers, but the risk is counterbalanced by its geographic diversification across pure and branded generic markets globally - including the US (30% of revenue in FY20), India (30%), Europe (12%), Latin America (5%) and others (23%). Scale and diversification are important for generic drug companies to maintain stable margins. The company also has an adequate competitive position in its core dermatology and respiratory therapy segments.

Robust Growth Prospects in India: Glenmark's adequate market position helps it benefit from healthy long-term growth prospects in the Indian pharmaceutical market. Its revenue rose by 15.3% yoy in FY20, ahead of the 10.6% market growth rate. Notwithstanding the near-term impact of the pandemic, long-term prospects remain intact due to the government's focus on increasing mass access to healthcare. Glenmark ranked 14th in India with revenue market share of 2.2%, according to IQVIA MAT March 2020 data, but the fragmented and physician-driven market, as well as Glenmark's stronger share in its focus therapy areas of respiratory (5.1%), cardiovascular (4.7%) and dermatology (8.9%) underpin its position.

Risks in Novel Drugs: Inherent risks of novel drug development appear more pronounced for Glenmark due to its small scale and limited record. Glenmark's R&D spending - as percentage of sales - remained in the low teens, despite some reduction in FY20, weighing on profitability and free-cash generation. We expect Glenmark to take a more measured and collaborative approach to R&D spending, in line with its strategy, as evident from the signing of multiple partnerships for its R&D

assets and intent to raise equity in Ichnos Sciences Inc - a newly established subsidiary holding novel drug IPs.

A more aggressive approach could pressure credit metrics and financial flexibility, potentially outweighing the benefits of lower dependence on the highly competitive generic drug business over the long term. Glenmark aims to launch or monetise its R&D drugs in the advanced stages of development in the medium term, which could provide significant earnings. Our rating case does not include any launches due to the uncertainty and potential delays in the approval process, as highlighted by the delay in the approval of Ryaltris; Glenmark's maiden new drug application for the US market.

Regulatory Risk: Glenmark has lower production-facility diversification than larger global peers, exposing it to above-average risk from adverse regulatory actions. Nonetheless, its compliance record is satisfactory, with no further adverse actions following US FDA inspections of its other facilities subsequent to the warning letter for domestic Baddi facility in October 2019. We do not think the warning will affect the sale of existing products, which are still allowed. In addition, Baddi's contribution to Glenmark's US sales is 7% and there are no major pending new-product approvals from the plant.

Glenmark has been named as one of the defendants in a US drug-price fixing lawsuits. We will treat this as an event risk, as there is a lack of visibility on the crystallisation of potential liabilities for Glenmark.

DERIVATION SUMMARY

Glenmark has smaller scale and diversification than large generic pharmaceutical companies, such as Mylan N.V. (BBB-/Rating Watch Positive) and Teva Pharmaceutical Industries Limited (BB-/Negative). The large peers also benefit from deeper launch pipelines with a focus on more complex products, which mitigates price-erosion risk, notably in the US. Glenmark is rated two notches below Mylan due to its weaker business profile and profitability, which are partly counterbalanced by Mylan's higher leverage from its acquisitive posture. Glenmark is rated a notch above Teva, as Teva's stronger business profile is counterbalanced by acquisitions that raised leverage and limited financial flexibility in view of pricing pressure for its top product and litigation.

Glenmark compares favourably with Ache Laboratorios Farmaceuticos S.A. (BB/Negative) and Jubilant Pharma Limited (JPL, BB-/Rating Watch Positive), with a larger scale and more diversified geographic presence. Nonetheless, JPL's greater presence in specialty pharmaceuticals limits its exposure to ongoing pricing pressure in the US generic pharmaceutical market. The Rating Watch Positive reflects a probable improvement in JPL's business profile post the demerger of its parent's largely commoditised chemicals business. Ache has a strong competitive position in Brazil and robust credit ratios, but its foreign-currency IDR is capped by Brazil's Country Ceiling of 'BB'.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Consolidated revenue to increase by low- to mid-single digits annually over FY21-FY23
- EBITDA margin to decline to 14.2% in FY21 (FY20: 15.3%) due to impact of the pandemic; the margins should improve to between 15% and 16% over FY22 and FY23
- Capex of around INR8 billion in FY21 and 9.0% of sales during FY22
- Stable annual dividend payout at below 15% of net income

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- An increase in scale to around USD2 billion in sales, while improving the EBITDA margin to above 20%
- Sustained free cash flow generation
- Financial leverage, as measured by net debt/EBITDA, sustained at less than 1.5x (FY20: 2.3x)

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Weakening of the competitive position or adverse US FDA action
- Deterioration in financial leverage, as measured by net debt/EBITDA, to more than 3.0x

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

LIQUIDITY AND DEBT STRUCTURE

Liquidity Adequate Over FY21: Glenmark had readily available cash of INR11.1 billion as of end-March 2020. This was sufficient to meet INR8.3 billion of near debt maturities, which included INR4.4 billion of short-term debt that we expect lenders to roll over in the normal course of business, given Glenmark's reasonable leverage. Glenmark has already refinanced a portion (USD20 million, or INR1.5 billion) of long-term debt due FY21. We expect it to generate positive free cash in FY21, after including proceeds from disposals. This further supports its near-term liquidity profile.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING		
Glenmark Pharmaceuticals Ltd	LT IDR	BB Rating Outlook Stable	Affirmed
● senior unsecured	LT	BB	Affirmed
● senior unsecured	LT	WD	Withdrawn

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

[Corporates Notching and Recovery Ratings Criteria \(pub. 14 Oct 2019\) \(including rating assumption sensitivity\)](#)

[Corporate Hybrids Treatment and Notching Criteria \(pub. 11 Nov 2019\)](#)

[Corporate Rating Criteria \(pub. 01 May 2020\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 ([1](#))

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

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EU Endorsed

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