Glenmark
A new way for a new world

July 12, 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:- 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'. 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 Ltd.

Harish Kuber
Company Secretary & Compliance Officer

Encl. – Fitch Ratings

Glenmark Pharmaceuticals Ltd.
Glenmark House, B D Sawant Marg, Andheri (E), Mumbai - 400 099, India
T: 91 22 4018 9999 F: 91 22 4018 9986 CIN No: L24299MH1977PLC019982 W: www.glenmarkpharma.com
Registered office: B/2, Mahalaxmi Chambers, 22 Bhulabhai Desai Road, Mumbai 400 026 E: complianceofficer@glenmarkpharma.com

Glenmark Pharmaceuticals Ltd (/gws/en/esp/issr/96281410)

Fitch Affirms Glenmark Pharmaceuticals at 'BB'; Outlook Stable

Fitch Ratings-Singapore/Mumbai-12 July 2018: Fitch Ratings has affirmed India-based Glenmark Pharmaceuticals Ltd's Long-Term Issuer Default Rating (IDR) at 'BB'. The Outlook is Stable. The agency also affirmed the rating on Glenmark's USD200 million 4.50% senior unsecured notes due 2021 at 'BB'.

Glenmark's rating incorporates its geographic diversification and strong track record of regulatory compliance, which help to mitigate business risks arising from its small size relative to other global generic drug makers. The rating also reflects Glenmark's healthy product pipeline, which will support revenue and profitability despite continued pricing pressure in the US generic pharmaceutical market. Glenmark has adequate in-house R&D capabilities and financial flexibility to support its novel drug development programme.

The Stable Outlook reflects Fitch's expectation that new product launches and cost efficiency measures will support Glenmark's profitability amid pricing pressure in the US. Free cash generation will be largely neutral after a moderate level of capex and stable dividend payout, limiting any material improvement in leverage over the medium term.

KEY RATING DRIVERS

Financial Profile to Remain Stable: Fitch expects Glenmark's financial leverage, measured by adjusted net debt/operating EBITDAR, to remain at 2.0x-2.3x and fixed-charge coverage above 4.5x over the medium term. Leverage increased to 2.3x in the financial year ended 31 March 2018 (FY18) from 2.0x at FYE17 due to lower EBITDAR after the six-month exclusivity period for Ezetimibe ended in 1QFY18 and continued pressure on generic drug prices in the US, even as improved free cash generation helped reduce net debt.

Fitch believes new product launches, cost efficiency measures and steady growth in other markets will support a gradual increase in EBITDAR over the next two to three years. Glenmark's free cash generation is likely to remain largely neutral over the

medium term after R&D spending on novel drugs, a moderate level of capex and stable dividend outflow, which will limit deleveraging.

Small but Diversified: Glenmark's revenue and operating EBITDAR are small compared with those of global major generic drug makers, but the risk of its small size is counterbalanced by its geographic diversification across pure and branded generic markets globally - including USA (35% of revenue in FY18), India (28%), Europe (10%), LATAM (4%) and Others (23%). Scale and diversification are important for generic drug companies to maintain stable margins. The company also has a good competitive position in its core therapy areas of dermatology and respiratory.

Adequate Product Pipeline: Glenmark received 21 abbreviated new drug application (ANDA) approvals (including three tentative nods) from the US Food and Drug Administration (FDA) in FY18. The company has 62 ANDAs in various stages of the approval process with the US FDA, 28 of which are Paragraph IV applications (implying a challenge to existing patents). In Fitch's view, Glenmark's healthy product pipeline will enable a steady flow of new product launches, particularly in the US, which will support sales growth and protect margins amid pricing pressure.

Progress in Novel Drug Programme: Fitch believes success in Glenmark's strategy to build presence in speciality and novel drugs will help reduce its dependence on the highly competitive generic drugs business over the long term. Glenmark aims to launch some R&D assets in advanced stages of development in the medium term, which could provide significant earnings. Our rating case does not include any launches given uncertainty in the approval process. Fitch believes Glenmark has adequate financial flexibility to fund its novel drug programme given the R&D budget is at 12% of sales and its willingness to partly license out product rights for molecules to meet shortfalls.

Good Compliance Track Record: Glenmark has continued to remain compliant with the standards set by various regulatory agencies (such as US FDA and the UK's Medicines and Healthcare products Regulatory Agency) over the years. This has helped Glenmark to avoid any disruptions in its business as well as in getting new ANDA approvals in a timely manner. In Fitch's view, this also helps to mitigate regulatory risks arising from a lower degree of production facility diversification compared with larger global pharmaceutical companies.

Robust Domestic Position: Glenmark is the 13th-largest drug maker by revenue in the highly fragmented Indian market, with a market share of 2.29% in FY18. Glenmark continued to grow faster than the domestic market in FY18 and strengthened its

market shares in its focus areas of respiratory (4.75% versus 4.52% in FY17), cardiovascular (4.26% versus 3.97% in FY17) and dermatology (9.20% versus 9.17% in FY17). The Indian market continues to remain physician-driven and focused on branded generics. Pharmaceutical companies tend to compete through focused marketing efforts in certain therapies rather than using a volume-based strategy.

DERIVATION SUMMARY

Glenmark has smaller scale and diversification compared to large generic pharma companies such as Mylan N.V. (BBB-/Stable) and Teva Pharmaceuticals Industries Limited (BB/Negative). Large companies like Teva and Mylan also benefit from their larger launch pipelines that are also focused on more complex products, which mitigate the price erosion risk. Glenmark is rated at the same level as Teva as Teva's stronger business profile is counterbalanced by its acquisitions, which have led to high leverage and limited financial flexibility in view of pricing pressure for its top product. Glenmark is rated two notches below Mylan due to Glenmark's weaker business profile and free cash generation, which are partly counterbalanced by Mylan's higher leverage due to its acquisitive focus. Glenmark compares favourably with other peers such as Ache Laboratorios Farmaceuticos S.A. (BB/Stable) and Jubilant Pharma Limited (BB-/Stable) with its bigger scale and diversified geographic presence. No country-ceiling, parent/subsidiary or operating environment aspects impact the rating.

KEY ASSUMPTIONS

Fitch's Key Assumptions within Our Rating Case for the Issuer
- Consolidated revenue to increase by 8% to 10% annually over FY19-FY21
- EBITDAR margin to remain between 18% and 19% as new product launches and cost-efficiency measures help counterbalance the ongoing pricing pressure in the US
- Annual capex of INR9 billion-10 billion during FY19-FY21
- Annual dividend payout of up to 10% of net income

RATING SENSITIVITIES

Developments That May, Individually or Collectively, Lead to Positive Rating Action
- Maintaining EBITDAR margin in excess of 21%
- Sustained free cash flow generation
- Financial leverage (adjusted net debt to EBITDAR) sustained at less than 1.5x (FY18: 2.3x)

Developments That May, Individually or Collectively, Lead to Negative Rating Action
- Weakening of competitive position or any adverse US FDA action
- Deterioration in financial leverage (adjusted net debt to EBITDAR) to more than 3.0x

LIQUIDITY

Robust Liquidity: Glenmark's readily available cash balance as of 31 March 2018 of INR12.3 billion was more than sufficient to meet INR5.0 billion of debt maturities and INR1.6 billion of FCF deficit expected by Fitch in FY19. Annual debt maturities in FY20 and FY21 were manageable at below INR8 billion. Moreover, Glenmark has refinanced a portion of it since March 2018. Fitch believes Glenmark's improving free cash generation and leverage will support its refinancing ability over FY22 and FY23 when annual debt maturities will exceed INR13 billion.

FULL LIST OF RATING ACTIONS

Glenmark Pharmaceuticals Ltd
-- Long-Term IDR affirmed at 'BB'; Outlook Stable
-- Rating on USD200 million 4.50% senior unsecured notes due 2021 affirmed at 'BB'

Contact:

Primary Analyst
Erlin Salim
Director
+65 6796 7259
Fitch Ratings Singapore Pte Ltd.
One Raffles Quay
South Tower #22-11
Singapore 048583

Secondary Analyst
Snehdeep Bohra
Associate Director
+91 22 4000 1732

Committee Chairperson
Vicky Melbourne
Senior Director
+61 2 8256 0325

Media Relations: Bindu Menon, Mumbai, Tel: +91 22 4000 1727, Email: bindu.menon@fitchratings.com
Leslie Tan, Singapore, Tel: +6567967234, Email: leslie.tan@fitchratings.com

Additional information is available on www.fitchratings.com

Applicable Criteria

Corporate Hybrids Treatment and Notching Criteria (pub. 27 Mar 2018) (https://www.fitchratings.com/site/re/10024296)
Corporate Rating Criteria (pub. 23 Mar 2018) (https://www.fitchratings.com/site/re/10023785)
Corporates Notching and Recovery Ratings Criteria (pub. 23 Mar 2018) (https://www.fitchratings.com/site/re/10024585)
Sector Navigators (pub. 23 Mar 2018) (https://www.fitchratings.com/site/re/10023790)

Additional Disclosures

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