Glenmark
A new way for a new world

July 14, 2017

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:- Credit Rating by Fitch Ratings

Glenmark would like to inform you that, our credit rating has been reaffirmed by Fitch Ratings and remains unchanged, as part of their annual review cycle. In addition, Fitch has reconfirmed 'BB' issue rating on the senior unsecured notes issued last year. They have revised the outlook from 'Positive' to 'Stable', based on their internally defined criteria.

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

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

FitchRatings

Fitch Revises Glenmark's Outlook to Stable; Affirms at 'BB'

Fitch Ratings-Singapore/Mumbai-14 July 2017: Fitch Ratings has revised Glenmark Pharmaceuticals Ltd's (Glenmark's) Outlook to Stable from Positive, and affirmed the Long-Term Issuer Default Rating (IDR) at 'BB'. The agency also affirmed the rating on Glenmark's USD200 million 4.50% senior unsecured notes due 2021 at 'BB'.

The revision in the Outlook reflects Fitch's expectation that Glenmark's free cash flow will be largely neutral over the next two years, and its credit ratios will not improve as previously forecast. Glenmark's free cash flow remained negative in the financial year ended 31 March 2017 (FY17) as profitability was lower and cash taxes higher than Fitch expected. In Fitch's view, the high cash taxes and sustained working capital investments will curb free cash generation, even as profitability is likely to narrow after the end of the exclusivity period in 1QFY18 for Glenmark's generic version of Ezetimibe, which is used to treat high cholesterol.

Glenmark's rating incorporates its geographically diversified profile, a demonstrated track record of regulatory compliance and a healthy product pipeline. Glenmark is smaller than other global generic drug makers, but it has achieved healthy growth rates in the US and India and benefits from its in-house R&D capabilities, which support its novel drug development programme and generic business.

KEY RATING DRIVERS

Financial Profile to Remain Stable: Glenmark's financial leverage, measured by adjusted net debt/operating EBITDAR, improved to 2.0x in FY17 from 2.7x at end-FY16. This was because negative free cash flow and the resultant increase in debt were offset by the 44% increase in EBITDA following the launch of the generic version of Ezetimibe in December 2016 and growth in the base business. Fitch now expects Glenmark's EBITDAR margin to narrow to 18.5% by FY19 (FY17: 23%), after the six-month exclusivity period for Ezetimibe ended in 1QFY18. The downward revision to our forecasts also reflects the ongoing pressure on generic drug prices in the US.

Fitch believes Glenmark's financial profile will remain well-positioned for its rating, with financial leverage of around 2.0x-2.3x and fixed-charge coverage of above 5.0x over the medium term, even though lower profitability, sustained high cash taxes and working capital investments will result in neutral free cash flow.

Small but Diversified: Glenmark's revenue and operating EBITDAR are small compared with those of global major generic drugmakers, but the risk of its small size is counterbalanced by its good diversification in products and geographies. Scale and diversification are important for generic drug companies to maintain stable and durable margins. The company also has a strong competitive position in its core therapy areas of dermatology and respiratory.

Robust Domestic Position: Glenmark is the 15th-largest player by value in the highly fragmented Indian market, with a market share of 2.2% in FY17. Glenmark has continued to strengthen its market positions in its focus areas of respiratory (fifth largest versus sixth in FY16), cardiovascular (seventh largest versus eight) and dermatology (second largest, unchanged). 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.

Strong Product Pipeline: Glenmark received 17 abbreviated new drug application (ANDA) approvals (including tentative nods) from the US Food and Drug Administration (FDA) in FY17. The company has nearly 65 ANDAs in various stages of the approval process with the US FDA, 25 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 ongoing pricing pressure in the generic pharmaceutical market.

Strong Production Base: Glenmark has continued to remain compliant with the standards set by various regulators over the years; the company has successfully cleared all inspections with major regulatory agencies (such as US FDA and the UK's Medicines and Healthcare products Regulatory Agency). This has helped Glenmark to avoid any disruptions in its business as well as in getting new ANDA approvals in a timely manner.

DERIVATION SUMMARY

Glenmark's 'BB' rating reflects its smaller scale and diversification compared with large generic pharmaceutical companies such as Teva Pharmaceuticals Industries Limited (BBB/Stable) and Mylan N.V. (BBB-/Stable). Large players like Teva and Mylan also benefit from their deeper and more-complex product pipelines, which mitigate the price erosion risk. Although similar in scale to

Glenmark, Ache Laboratorios Farmaceuticos S.A. (BB+/ Negative) benefits from higher margins and a stronger financial profile although Brazil's Country Ceiling constrains its rating. Glenmark's bigger scale, diversified geographic presence and stronger regulatory track record supports its higher rating compared with Jubilant Pharma Limited (BB-/Stable). Glenmark's leverage compares well against that of larger peers such as Teva and Mylan, given their acquisitive focus. Nonetheless, Glenmark's weak free cash generation constrains its financial profile relative to peers.

KEY ASSUMPTIONS

Fitch's key assumptions within our rating case for the issuer include:
- Consolidated revenue to increase by 8% to 12% annually over FY18-FY20
- Average EBITDAR margin to reduce to about 18.5% by FY19, reflecting completion of the exclusivity period available to Ezetimibe by 1Q FY18
- Annual capex of INR7 billion-9 billion in FY18-FY20
- 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 (FY17: 2.0x)

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 2017 of INR10.6 billion was more than sufficient to meet INR1.9 billion of debt maturing in FY18 and the small FCF deficit. There are no material debt maturities before FY22.

FULL LIST OF RATING ACTIONS

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

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Additional information is available on www.fitchratings.com

Applicable Criteria

Criteria for Rating Non-Financial Corporates (pub. 10 Mar 2017) (https://www.fitchratings.com/site/re/895493)

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