

October 4, 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: 543322

Ref: Scrip Name: GLS

Dear Sir/Madam,

**Sub: Regulation 30 of SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015 – India Ratings and Research**

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

Request you to kindly take the same on record.

Thanking you

Yours faithfully,  
**For Glenmark Life Sciences Limited**

**Rudalf Corriea**  
**Company Secretary & Compliance Officer**  
Encl: As above

## India Ratings Places Glenmark Life Sciences' Bank Facilities on Rating Watch with Developing Implications

### OVERVIEW

India Ratings and Research (Ind-Ra) has placed Glenmark Life Sciences Limited's (GLS) bank facilities on Rating Watch with Developing Implications. The detailed rating actions are as follows:

### CURRENT RATINGS

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Rating Watch	Rating Action
Fund-based limits*	-	-	-	INR4,500	IND AA-/Rating Watch with Developing Implications/IND A1+/Rating Watch with Developing Implications	Placed on Rating Watch with Developing Implications
Proposed non-fund-based limits*	-	-	-	INR2,500	IND AA-/Rating Watch with Developing Implications /IND A1+/Rating Watch with Developing Implications	Placed on Rating Watch with Developing Implications

\*The limits are fungible between fund-based and non-fund-based

**ANALYTICAL APPROACH:** Ind-Ra continues to notch up GLS's ratings on account of its strong operational and strategic linkages, and moderate legal linkages with its parent, Glenmark Pharmaceuticals Limited (GPL; [IND AA-/Stable; holds 82.84%](#)).

Ind-Ra has placed the ratings on Rating Watch with Developing Implications following an intimation by GPL that it would sell 75% of its equity stake in GLS to Nirma Limited. Besides, the agency has placed the rating on Rating Watch with Developing Implications given the likely change in the ownership, which will necessitate an evaluation of the linkages with the new parent and a lack of clarity on the post-sale capital structure of GLS. Ind-Ra will resolve the Rating Watch once the transactions is completed.

### KEY RATING DRIVERS

**Change in Ownership and Capital Structure to Drive Resolution:** GPL has entered into a definitive agreement with Nirma. As per the agreement, GPL would sell 75% of its equity stake in GLS for INR56.5 billion. Post-transaction, GPL would own a 7.84% stake in GLS. The transaction is likely to close by end-FY24 and would require regulatory and shareholders' approval. The companies have further signed an amended active pharmaceutical ingredient (API) supply and purchase agreement. As per the pact, GPL agreed to procure APIs for GLS for five years starting 1 April 2024. Furthermore, the companies have signed an amendment services agreement, under which GPL and its subsidiaries would provide support services for a specified period to GLS. Ind-Ra currently lacks clarity on the incoming majority shareholders' operational and strategic plans for GLS, given GLS ratings benefitted from its

association with GPL. Ind-Ra will resolve the Rating Watch with Developing Implications post clarity on the business profile and credit metrics under the new ownership structure.

**Current Linkages with GPL:** GLS sells around 30% of its products to GPL. The supply from GLS meets about 20% of GPL's raw material requirements. Furthermore, GLS contributed about 11% to GPL's consolidated revenue (after adjusting for inter-company transactions) in FY23. Both the entities have three common directors. GLS had fund-based/non-fund-based limits of INR4,500 million of which INR3,000 million was previously backed by a corporate guarantee from GPL. The corporate guarantee from GPL was released in August 2023 and the limits of INR3,000 million are now unsecured and without any backing from GPL.

**Established Market Position; Well-diversified Product Portfolio and Customer Base:** GLS continues to have strong relationships with the top 20 global generic pharmaceutical companies based in the US, Europe and Japan, which provide revenue visibility. The company's major API and intermediates have market leadership positions. GLS's strong competitive position with its customers is attributed to its ability to develop niche chemistry/synthetic pathway and the low-cost of operations for the products manufactured.

GLS's revenue from the top 10 products from its generic API business accounted for 45% of its total revenue in FY23 (FY22: 49%; FY21: 66%). Although GLS does not have long-term contracts, it has had relationships of over five years with most clients. At end-March 2023, GLS had filed over 468 drug master filings/certificates of suitability/dossiers across various markets, mainly in the US, Europe, Brazil, Canada, Japan, Russia and others. At end-4QFY23, GLS had filed 155 drug master filings in the US alone.

**Continued Healthy Credit Profile:** The company has been remaining net cash positive since FY19 as it does not have any long-term debt, with it not undertaking any sizeable capex for any of its API facilities since FY19. The last sizeable greenfield capex was completed five years ago at Dahej. Most of the total capex post FY21, an average of INR1,200 million-1,300 million each year, has been towards maintenance, de-bottlenecking and addition of manufacturing lines. GLS's capacity utilisation stood at 80%-95% in FY23 across facilities.

GLS had announced a greenfield and brownfield capacity expansion programme in FY22, which would increase the total reactor capacity to 2,405 kilolitres (kl) by 2026 (FY23: 1,198kl). The first phase of the same would be funded by a mix of internal accruals and initial public offering proceeds; the funding for the remaining phases is yet to be decided. Ind-Ra expects the greenfield capex to improve the backward integration and provide cushion to the margins. Furthermore, Ind-Ra expects GLS's net leverage (net debt/operating EBITDA) to remain below 1.0x in the near-to-medium term as its debt structure is likely to be dominated by working capital debt. The agency will continue to monitor the working capital situation, as the same will impact the cash flow generation.

**Liquidity Indicator - Adequate:** GLS's liquidity is supported by the available cash of INR3,094 million at FYE23 (FYE22: INR5,122 million). The utilisation of the non-fund-based limits was around 42% over the 12 months ended August 2023. However, in FY23, the free cash flow turned negative to INR2,270 million (FY22: INR3,434 million) on account of high dividend payments of INR3,859 million (INR1,287 million) and an increase in the capex to INR1,702 million (INR1,322 million). Ind-Ra expects the free cash flow to remain muted over the near term on account of an annual estimated capex of INR2,000 million and the likely locking up of working capital due to the aforementioned issues. GLS does not have any long-term debt obligations.

**Operational Performance to Remain Healthy:** Given the fluctuation in raw material prices, geopolitical disruptions and volatile currency movements, Ind-Ra expects GLS's EBITDA margins to remain at 27%-30% in the near term. In FY23, EBITDA margins marginally improved to 29.7% (FY22: 29.0%), due to improved gross margin (better product mix), production-linked incentive scheme benefits, and lower input costs. GLS's average EBITDA margin over FY16-FY21 was above 32.7%, higher than that of its peers. The margins have been healthy owing to the company's presence in the high complexity segments that have low competition, such as chorionic villus sampling and central nervous system.

GLS's recorded muted revenue growth of INR21,612 million in FY23 (FY22: INR21,232 million), due to lower API business from GPL and weak COVID-19 portfolio contribution. The management expects the company to file seven-to-10 products every year. Further, the company has been expanding its presence in oncology, peptides and iron compounds to support its growth and margins. GLS's revenue expanded at a CAGR of 25% during FY19-FY23 on account of the ramp up of operations. However, Ind-Ra expects GLS's revenue growth to slow down to 7%-10% yoy in the near term on account of strong product pipeline and higher base effect.

**Regulatory Risk:** The regulated markets contributed over 71% to GLS's total sales over FY19-FY23. GLS has four facilities for manufacturing APIs and intermediates in India, of which three units (located at Ankleshwar, Dahej and Mohol) are approved by the US Food and Drug Administration. GLS's facilities are also approved by Medicines and Healthcare Products Regulatory Agency (UK), Finnish Medicines Agency (Finland), National Agency for Medicines and Medical Devices (Romania), Pharmaceuticals and Medical Devices Agency (Japan), Federal Committee for Protection from Sanitary Risks; Mexico, Health Canada, Ministry of Food and Drug Safety (South Korea), Food and Drugs Control Administration Health & Family Welfare Department, the government of Gujarat. All these facilities were compliant with the US Food and Drug Administration at FYE23. However, any negative regulatory event could have an adverse impact on the company's operations.

**RATING SENSITIVITIES:** The Rating Watch with Developing Implications indicates that the ratings could be upgraded, affirmed or downgraded. Ind-Ra would resolve the Rating Watch after receiving further clarity or the conclusion of the transaction.

## RATING CRITERIA

'Corporate Rating Methodology'; The Rating Process; 'Policy for Placing Ratings on Rating Watch'; 'Evaluating Corporate Governance'; 'Short-Term Ratings Criteria for Non-Financial Corporates' dated 20 April 2020, is available at [www.indiaratings.co.in](http://www.indiaratings.co.in).

'Parent and Subsidiary Rating Linkage' dated 01 April 2022, is available at [www.indiaratings.co.in](http://www.indiaratings.co.in). The Rating Process (Credit policy), is available at [www.indiaratings.co.in](http://www.indiaratings.co.in).

## COMPANY PROFILE

GLS manufactures select, high-value, non-commoditised, APIs in therapy areas such as cardiovascular, central nervous system, pain management and diabetes. The company also provides contract development and manufacturing organisation services to a range of multinational and speciality pharmaceutical companies. It has a diversified portfolio of 139 molecules and supplies its products to customers in India, Europe, North America, Latin America, Japan and the rest of the world. The company has four manufacturing facilities located in Ankleshwar, Dahej, Mohol and Kurkumbh.

GPL's API business was transferred to its subsidiary, GLS, on 1 January 2019.

## FINANCIAL SUMMARY

Particulars	FY23	FY22
Revenue (INR million)	21,612	21,232
EBITDA (INR million)	6,423	6,161
EBITDA margins (%)	29.7	29.0
Interest expense (INR million)	5	280
Cash and Cash Equivalents (INR million)	3,094	5,122
Net leverage(x)	-0.5	-0.8
Interest coverage (x)	1,174.2	22.0
Source: GLS, Ind-Ra		

## RATING HISTORY

Instrument Type	Current Rating/Rating Watch			22 September 2023	Historical Rating/Outlook				
	Rating Type	Rated Limits (million)	Rating		19 July 2023	25 May 2022	26 February 2021	9 November 2020	27 November 2019
Issuer Rating	Long Term		-	WD	IND AA- /Stable	IND AA- /Stable	IND AA- /Stable	IND AA- /Stable	IND AA- /Stable
Fund-based limits	Long-term/Short Term	INR4,500	IND AA- / Rating Watch with Developing Implications/IND A1+ / Rating Watch with Developing Implications		IND AA- /Stable/IND A1+	IND AA- /Stable/IND A1+	IND AA- /Stable/IND A1+	IND AA- /Stable/IND A1+	Provisional IND AA- /Stable
Proposed non-fund-based limits	Long-term/Short Term	INR2,500	IND AA- / Rating Watch with Developing Implications/IND A1+ / Rating Watch with Developing Implications		IND AA- /Stable/IND A1+	IND AA- /Stable/IND A1+	IND AA- /Stable/IND A1+	IND AA- /Stable/IND A1+	Provisional IND AA- /Stable/IND A1+

## COMPLEXITY LEVEL OF THE INSTRUMENTS

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<b>Instrument Type</b>	<b>Complexity Indicator</b>
Fund-based working capital limits	Low
Non-fund-based working capital limits	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies, and structured finance and project finance companies.

Headquartered in Mumbai, Ind-Ra has six branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad and Kolkata. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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