

19th June, 2024

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

**Ref.: Regulation 30 of SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015**

Dear Sir/Madam,

**Sub: India Ratings Revises Outlook on Glenmark Life Sciences' Bank Loans to Positive; Affirms 'IND AA-'; Off Rating Watch with Developing Implications**

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,

Your Sincerely,

**For Glenmark Life Sciences Limited**

**Rudalf Corriea**  
**Company Secretary and Compliance Officer**

Encl: As above

# India Ratings Revises Outlook on Glenmark Life Sciences' Bank Loans to Positive; Affirms 'IND AA-'; Off Rating Watch with Developing Implications

Jun 19, 2024 | Pharmaceuticals

India Ratings and Research (Ind-Ra) has taken the following rating actions on Glenmark Life Sciences Limited's (GLS) bank facilities:

## Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/Watch	Rating Action
Fund-based working capital limits*	-	-	-	INR7,000	IND AA-/Positive/IND A1+	Affirmed; Outlook revised to Positive; off Rating Watch with Developing Implications

\*The limits are fungible between fund-based and non-fund-based. Previously rated proposed non-fund-based facility of INR2,500 million has been sanctioned by the bank.

## Analytical Approach

Ind-Ra has revised its rating approach for GLS to standalone from the bottom-up approach, given that the company is now 75% held by Nirma Limited (Nirma, ['IND AA'/Stable](#)) and is no longer a subsidiary of Glenmark Pharmaceuticals Limited (GPL; ['IND AA'/Stable](#)).

## Detailed Rationale of the Rating Action

The Positive Outlook reflects GLS' ongoing initiatives to improve its profitability through backward integration, scaling up of its revenue by taking the contract development manufacturing route as well as healthy growth in the active pharmaceutical ingredients (API) business from the enhanced capacities. Ind-Ra believes the above initiatives will help strengthen the business profile through diversification, which could support GLS's transition to a higher rating category. Ind-Ra will monitor the usage of the strong cash balance in the absence of any significant cash upstreaming (in the form of dividend) by GLS to Nirma.

The resolution of Rating Watch with Developing Implications reflects the completion of the sale of GPL's 75% equity stake in GLS to Nirma for INR56.5 billion in March 2024. The rating also factors in the healthy financial profile with GLS remaining net cash positive since FY19 as it does not have any long-term debt. After the acquisition of 75% stake by Nirma, GLS remains well positioned to capture growth opportunities without materially impacting its strong credit metrics 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.

## List of Key Rating Drivers

### Strengths

- Change in ownership
- Established market position, well-diversified product portfolio and customer base
- Continued healthy credit profile
- Operational performance to remain healthy

## Weaknesses

- Regulatory risks
- Foreign currency risk

## Detailed Description of Key Rating Drivers

**Change in Ownership:** Ind-Ra believes the financial flexibility of GPL would improve after Nirma's acquisition of the 75% stake in GLS, which was a subsidiary of GPL till 6 March 2024, for INR56.5 billion in March 2024. Nirma has become the new promoter of the company and is a part of GLS's board. Furthermore, in the absence of any significant cash upstreaming (in the form of dividend), the usage of cash surplus will remain key rating monitorable. According to the management, GPL has signed an amended supply and purchase agreement to procure APIs from GLS for five years starting 1 April 2024. Also, GLS's credit metrics are stronger limiting the support potential from the new promoter.

**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 49% of its total revenue in FY24 (FY23: 45%; FY22: 49%). Although GLS does not have long-term contracts, it has had relationships of over five years with most clients. At end-March 2024, GLS had filed over 520 drug master filings/certificates of suitability/dossiers across various markets, mainly in the US, Europe, Brazil, Canada, Japan, Russia and others. At end-4QFY24, GLS had filed 164 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. GLS's capacity utilisation stood at 90%-95% in FY24 across facilities.

GLS had announced a greenfield and brownfield capacity expansion programme, which would increase the total reactor capacity to 2,405 kilolitres (kl) by 2026 (FY24: 1,198kl). The first phase of the same would be funded by internal accruals. Ind-Ra expects the greenfield capex to improve the backward integration and provide cushion to the margins. GLS was net cash positive over FY19-FY24 and the net adjusted leverage (net debt/EBITDA) is likely to fall below 1x in the near- to medium term despite the capex plans. Ind-Ra believes GLS would continue to pursue growth opportunities for fast-tracking its growth objectives; however, it is expected to remain net cash positive over the near term.

**Operational Performance to Remain Healthy:** In FY24, its EBITDA margins marginally declined to 29.5% (FY23: 29.7%), due to an increase in the employee costs as the company provided one-time bonus to employees. The company's return on capital employed remained strong at around 27.5% in FY24 (FY23: 28.5%). GLS's average EBITDA margin remained healthy at above 30% over FY19-FY24, higher than that of its peers, owing to the company's presence in the high complexity segments that have low competition, such as cardiovascular and central nervous system.

GLS's revenue rose to INR22,832 million in FY24 (FY23: INR21,612 million), supported by the China Plus One sourcing strategy being adopted by the players globally, the continued traction in new GLS's drug master filings and its healthy growth in the regulated markets. The management expects the company to file eight-to-10 products every year. Further, the company has been expanding its presence in oncology, and iron compounds to support its growth and margins. GLS's revenue expanded at a CAGR of 17% during FY19-FY24 on account of the ramp up of operations. Further, Ind-Ra expects GLS's revenue to growth in the near term on account of the completion of brownfield project by Q1FY25.

**Regulatory Risk:** The regulated markets contributed over 80% to GLS's total sales over FY19-FY24. GLS has four manufacturing facilities for 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 FY24. However, any negative regulatory event could have an adverse impact on the company's operations.

**Foreign Currency Risk:** GLS derives 50% of its revenue in foreign currency, whereas majority of its costs are incurred in Indian rupee.



Issuer rating	Long term		-	-	WD	IND AA-/Stable	IND AA-/Stable
Fund-based working capital limits	Long-term/ Short-term	INR7,000	IND AA-/Positive/IND A1+	IND AA-/ Rating Watch with Developing Implications /IND A1+/ Rating Watch with Developing Implications		IND AA-/Stable/IND A1+	IND AA-/Stable/IND A1+

## Bank wise Facilities Details

[Click here to see the details](#)

## Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Fund-based working capital limits	Low

For details on the complexity level of the instruments, please visit [www.indiaratings.co.in/complexity-indicators](http://www.indiaratings.co.in/complexity-indicators).

## APPLICABLE CRITERIA

### Evaluating Corporate Governance

### Short-Term Ratings Criteria for Non-Financial Corporates

### Corporate Rating Methodology

### The Rating Process

### Policy for Placing Ratings on Rating Watch

## Contact

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