Glenmark Generics Ltd

CRISIL IPO Grade 4/5 (above average)

February 09, 2010

IPO Grade
CRISIL IPO Grade '4/5': The grade indicates that the fundamentals of the issue are above average relative to other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals.

Issue Details	
Shares offered to public	Not available at the time of grading
As per cent of post issue equity	Not available at the time of grading
Object of the issue	Paying off the loan partially due to GHSA (Glenmark Holding S.A., subsidiary of parent company - GPL) for buying its generics business and general corporate purposes
Amount proposed to be raised	Rs 5,750 million
Price band	Not available at the time of grading
Lead managers	Enam Securities Private Limited, Kotak Mahindra Capital Company Limited

Company Background
Glenmark Generics Limited (GGL), a subsidiary of Glenmark Pharmaceuticals, is an integrated generic and API (Active pharmaceutical ingredient) player. GGL has an established presence in North America, EU and Argentina and maintains marketing front-ends in these countries. GGL also markets APIs to more than 65 countries across the world. The manufacturing facilities of the company are situated at Goa, Ankleshwar in Gujarat and Kurkumbh and Mohol in Maharshtra. The company's API plant at Ankleshwar and formulation plant at Goa are approved by US FDA, MHRA, UK and many other overseas regulatory authorities.

Media contact:	*Analytical contacts:*	*Client- servicing contact:*
Mitu Samar Head, Market Development & Communications CRISIL Limited Tel: +91-22- 3342 1838 Mobile: +91- 98200 61934 Fax: +91-22- 3342 3001 Email: msamar@crisil.com	Chetan Majithia Head, Equities CRISIL Limited Phone: +91-22-3342 4148 Fax: +91-22-3342 3501 Email: chetanmajithia@crisil.com	Client servicing Tel: +91-22-3342 3561 Email: clientservicing@crisil.com

The grading analysis of Glenmark Generics Ltd is largely based on the information provided in the Draft Red Herring Prospectus (DRHP) and interaction with the management.

Grading Highlights

Business prospects

- GGL is one of the fastest growing Indian generics company.
- According to CRISIL Research estimates, drugs worth USD 137 billion are scheduled to go off-patent in the US and Europe over the next 5 years. Therefore, CRISIL believes India is well positioned to take advantage of the resulting generic opportunity and strengthen its presence in the regulated markets. Formulation exports to regulated markets are expected to surge at a CAGR of nearly 20-22 per cent from 2008-09 to 2013-14.
- The increasing number of ANDA approvals continues to strengthen India's confidence in gaining a larger share of the generic market, and consequently, boost formulation exports from India.
- While the opportunities continue to grow, competition has also intensified significantly. Indian generic players have to constantly optimise product mix to ensure profitability and sustainability.
- GGL is well placed to capitalise on the emerging opportunities in generics and strengthen its presence in the regulated markets of US and Europe.
- GGL's strategy of focussing on mid-sized and smaller molecules in the US market has paid off in the form of strong revenue growth and healthy profitability due to relatively lower price erosion.
- GCL has a strong ANDA pipeline to fuel its future growth.
- GGL's growth in US market to be driven by niche segments such as dermatology, extended release, hormones, controlled substances and oncology.
- The company has filed Para IVs [sole first to file (FTF) opportunities] for drugs including Zetia, Tarka, Cutivate and Malarone. Any judgement in favour of the company on these products can provide significant upside to its revenues.

Financial performance

- The company clocked revenues of around Rs 10.4 billion in 2008-09.
- Of the total revenues, US formulation business contributed 71 per cent in 2008-09.
- In 2008-09, the company posted operating margins of 30.4 per cent which were relatively higher than that of peers in the generics business. This is on account of the company's strategy of focussing on niche segments where the realisations are better due to relatively lower competition.
- The funds to be raised via the IPO are crucial for the company to part pay the loan due to GHSA (Glenmark Holding S.A., subsidiary of parent company - GPL) arising out of the share purchase agreement, and to continue its growth strategy.

Management capabilities

- The promoter has been in the pharmaceutical industry for more than a decade; first as a consultant to the major pharmaceutical companies and later as the director of GPL
- The promoter has a clear vision for the company and is aware of the need to focus on R & D in order to maintain and constantly improve GGL's position in the generics market across the world.
- GCL has a professionally qualified second line of management which has been a part of the pharmaceutical industry for more than a decade and has the technical expertise and the business acumen to take the business forward.
- The management has successfully captured opportunities and followed up with detailed strategies to enhance business growth.

Corporate governance

- Highly respected and experienced independent directors.
- The independent directors have a fairly good understanding of the company's business and have the ability to exercise management oversight.
- Adequate corporate governance systems and processes.
- Our conversations with the independent directors indicated that they joined the board after being convinced about the activities of the company and the integrity of the people running the business.

Detailed Grading Rationale

Overall grading summary (CRISIL IPO Grade 4/5)

To arrive at the overall grade, CRISIL has considered the following parameters:

- Business prospects and financial performance
- Management capability
- Corporate governance

CRISIL has assigned a CRISIL IPO Grade '4/5' (pronounced 'four on five') to the proposed IPO of Glenmark Generics Ltd. The grade indicates that the fundamentals of the issue are above average relative to other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The offer price for the issue may be higher or lower than the level justified by its fundamentals. The grade is not a recommendation to buy/sell or hold the graded instrument, the graded instrument's future market price or its suitability for a particular investor. The analysis related to the grading of Glenmark Generics Ltd is largely based on the information contained in the Draft Red Herring Prospectus (DRHP) and interaction with the management.

The IPO grade assigned to GGL reflects the current position of the company as one of the fastest growing Indian generics company. According to estimates by CRISIL Research, drugs worth an estimated USD 137 billion is scheduled to go off-patent in the US and Europe over the next 5 years, which implies significant generics opportunities for India. GGL is well placed to capitalise on the opportunities extended by the increasing genericisation and strengthen its presence in the regulated markets of US and Europe. The grading takes into account the company's healthy product pipeline and strategy of focusing on niche and complex molecules in the US market which has paid off in the form of healthy profitability. The grading also takes into account the relevant experience and domain expertise of the promoter and top management who have successfully captured opportunities to drive business growth.

The grading is, however, constrained by the stiff competition the company faces from the Indian as well as the international generic players in the US and European markets. It is further affected by the inherent nature of the pharmaceutical industry where the extent of competition going forward (till the time the company gets the USFDA approval) can significantly change the expected revenues as well as profitability. The grading is also tempered by the fact that in the pharmaceutical industry, any incidence of non-compliance with the regulatory requirements and cGMP norms can be detrimental to business growth.

- ***Strong growth expected in formulation exports to regulated markets augurs well for company***

The USA, which has the largest regulated generic market and contributes to over 70 per cent of the company's business, is estimated to expand at a CAGR of 10-11 per cent to USD 50-60 billion by 2012-13 from around USD 35-40 billion in 2007-08. Of the total ANDA approvals granted by the US FDA, India's share has risen from a mere 6.8 per cent in 2004 to 27.3 per cent in 2008. Thus, the increasing number of ANDA approvals continues to strengthen India's confidence in gaining a larger share of the generic market, and consequently, boost formulation exports from India. The European generic market is also projected to grow at a similar rate from USD 20-25 billion in 2007-08 to USD 35-40 billion by 2012-13.

- ***Focus on mid-sized and small molecules as a business strategy in US generic market***

GGL's strategy of focusing on niche and complex molecules in the US market has paid off in the form of healthy profitability for 2008-09. The company's operating margins are at around 30 per cent, which is better than that of most of the Indian pharmaceutical players catering to the US generic market. This is on account of the relatively lesser competition and hence lower price erosion.

- ***Strong ANDA pipeline to fuel growth***

The company is authorized to distribute approx 49 FDF's (finished dose formulations) (Sep 2009) in the US generics market. The company continues to expand its formulation exports business in the regulated markets by setting up its own subsidiaries in the regulated markets. In 2008-09, the company filed 22 ANDAs to the USFDA taking the total tally to 87. In the first half of 2009-10, the company has filed 9 ANDAs. In the next few years, growth in the US is expected to be fuelled by a healthy ANDA pipeline.

- ***Strong promoter background***

The promoter has been in the pharmaceutical industry since 14-15 years; first as a consultant to the major pharmaceutical companies and later as a director of GPL. GGL has, in its short span of existence, shown excellent ability to spot market opportunities which is reflected in US business growth. CRISIL Research believes that a large part of the credit for this should go to the foresight of the promoter. The promoter has a clear vision for the company and is aware of the need to focus on R & D in order to maintain and constantly improve GGL's position in the generics market across the world.

- ***Capability of the second line***

The second line of management of the company has the required technical and business knowledge which further strengthens our confidence on the growth of the company. The CEO - Mr. Terrance J. Coughlin, API business head – Mr. Sanjeev Krishan, Senior VP Quality Assurance - Mr. Rangarajan Subramanian, all have been a part of the pharmaceutical industry for more than a decade and have the technical expertise and the business acumen to take the business forward. Our interactions with the second line of management indicate that they lay significant emphasis on the compliance and regulatory issues which is a critical risk factor in the pharmaceutical industry.

- ***Independent directors' ability to exercise management oversight***

CRISIL Research is of the view that GGL's independent directors have excellent ability and willingness to exercise management oversight. All the independent directors on the GGL Board have an excellent reputation and standing in the society. Some of them are also on the board of other large corporations, and we believe that the experience they bring to the table would considerably aid GGL as it seeks to put systems in place to support its growth plans.

- ***Any incidence of non-compliance with the regulatory requirements and cGMP norms would be detrimental to business growth***

The regulatory requirements in international markets demand GMP-compliant facilities across all stages of development and manufacture. Any failure by the pharmaceutical company to meet the requirements can lead

to closure of the manufacturing facilities by the USFDA. This could significantly hamper the company's overall revenues. However, GGL has been proactive in terms of compliance with the regulatory requirements. GGL has laid emphasis on the quality systems across its research and manufacturing facilities while training its people to implement higher standards. The Ankleshwar API facility as well as the Goa formulations plant has been inspected by the USFDA recently without any significant observations. However, the regulatory requirements in the pharmaceutical industry are far more stringent as compared to the other industries and have far reaching impact on the company's ability to maintain growth in the case of non-compliance.

- ***Expected revenues and profitability are sensitive to competition levels in the industry***

The R & D and intellectual property team of the generics company evaluate the drugs for generic development keeping in consideration the manufacturing complexities, target market size at the launch of the product and also the competitors who are developing the same product. R&D of a generic drug typically takes 3-4 years, which includes the time taken by the USFDA to approve the drug. If the number of players at the launch of the drug exceeds the company's estimates, the expected revenues and the profitability can change significantly through relatively higher price erosion.

Financial Profile

- The company's revenues amounted to Rs 10.4 billion in 2008-09.
- Of GGL's total revenues, its US formulation business contributed to 71 per cent in 2008-09.
- In 2008-09, the company posted operating margins of 30.4 per cent which were relatively higher than that of its peers in the generics business. This is on account of company's strategy of focussing on niche segments where the realisations are better due to relatively lower competition.
- The funds to be raised via the IPO are crucial for the company to part pay the loan due to GHSA (Glenmark Holding S.A., subsidiary of parent company - GPL), arising out of share purchase agreement, and to continue its growth strategy

Financial performance snapshot (consolidated)

Particulars		2008-09
		Actual
Operating Income	Rs mn	10,378.0
Operating margins	Per cent	30.4
Net profits	Rs mn	899.4
Net margins	Per cent	8.7
RoCE	Per cent	40
RoNW	Per cent	57
No. of equity shares	Mn	75.0
Net worth	Rs mn	1,577.6
Book value (FV Rs 10)	Rs	21.0
Debt/equity ratio	Times	4.3
Current ratio	Times	2.1

Note: Numbers have been reclassified as per CRISIL standards.

Source: DRHP

Business Profile

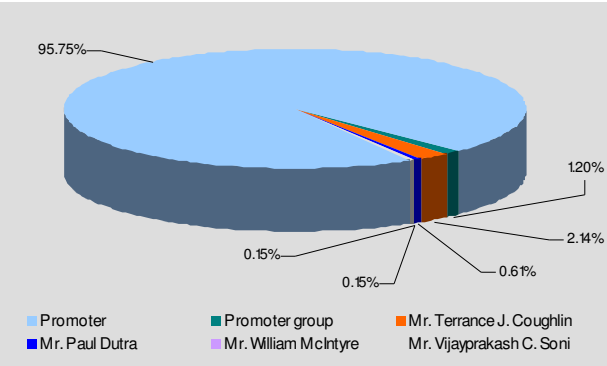
GGL was incorporated as Glenmark Organics Limited on September 29, 1994 as a public limited company. The company's name was changed to Glenmark Generics Limited on November 29, 2007. GGL functioned as a 100 per cent subsidiary of Glenmark Pharmaceuticals Ltd.

On 1st April, 2008, Glenmark Pharmaceuticals Ltd. restructured its business into two separate entities: Glenmark Pharmaceuticals Ltd (GPL) and Glenmark Generics Ltd (GGL). The speciality business (branded business) is managed under GPL with a focus on branded products markets, largely in the semi-regulated markets and new drug development. On the other hand, generics business is under the aegis of GGL with a focus on launching off-patent formulations and APIs, both in the regulated and the semi-regulated markets.

Pursuant to a re-organisation of GPL, the generics business of the company was transferred to GGL with effect from April 1, 2008 through a business transfer agreement (BTA) on 24th December 2007. All assets, liabilities, company personnel (employees of GPL engaged in generics business), distribution network, intellectual property rights, goodwill, material contracts including supply and sales contracts of the generics business were transferred to GGL according to the BTA. Further, the manufacturing facilities situated at Goa, Ankleshwar, Kurkumbh, Mohol have also been transferred to GGL.

In 2008-09, the formulation business accounted for around 76 per cent of the total revenues of GGL, while the API business accounted for the balance 24 per cent. In the formulations revenues, the US formulations business accounted for 93 per cent. The company's EU and the Latin American businesses contribute to the rest.

Glenmark Generics Ltd: Pre-IPO shareholding pattern



Number of shares to be offered is not determined; hence we have not shown the post-IPO shareholding.

Source: DRHP

Profile of Management and Board

GGL's management is headed by Mr. Glenn Saldanha, Chairman and Non-Executive director of the company. He has been instrumental in growing GPL from an Indian formulations business in 1999 to a global pharmaceutical firm with interests spanning discovery research, branded, generic and API businesses globally. Mr. Terrance Coughlin and Mr. Jalaj Sharma are the two whole time directors and Mr. R. V. Desai is the non-executive director. These four top management personnel are in charge of the strategic business planning.

Further, the key management personnel of GGL have more than 10 years of relevant work experience, and all have been with the company for at least 4-5 years. The top management has the required technical knowledge and business acumen which further strengthens our confidence in the company. The API business head – Mr. Sanjeev Krishan, Senior VP Quality Assurance - Mr. Rangarajan Subramanian, EVP, Intellectual Property, USA – Mr. Vijay Soni, all have been a part of the pharmaceutical industry for more than a decade and have the technical expertise to take the business forward.

GGL has four independent directors - Mr. Julio F. Ribeiro, Mr. Sridhar Gorthi, Mr. D. R. Mehta and Mr. Natvarlal Bhimbhai Desai. All the independent directors have an excellent reputation and standing in the society. They have a reasonable understanding of the company's business and have the ability to exercise management oversight.

Annexure: Profile of the Directors

Name of directors	Designation	Age (years)	Qualification	Key position held
Mr. Glenn Saldanha	Chairman and Non-Executive Director	40	MBA from Leonard Stern School of Business, New York. B.Sc in Pharmacy.	Promoter
Mr. Terrance J. Coughlin	CEO	44	B.Sc (Science and chemistry) from Michigan University	Whole Time Director
Mr. Jalaj Sharma	President - Operations	46	PGDBM (Finance); B.E (Mechanical).	Whole Time Director
Mr. R.V. Desai	Non-Executive Director	51	C A; B.Sc from the University of Mumbai	-
Mr. Julio F. Ribeiro	Independent director	80	B.Com; LLB	Ex-Commissioner of Police, Mumbai; DGP, Punjab; Ex-Ambassador of India to Romania
Mr. D. R. Mehta	Independent director	72	BA LLB degree from Rajasthan University. Management degrees from Royal Institute of Public Administration, UK and from Alfred Sloan School of Management, US.	IAS; DGFT, Government of India; Deputy governor of the RBI; Chairman of SEBI; Chairman of the emerging markets committee of the International Organization of Securities Commission.
Mr. Natvarlal Bhimbhai Desai	Independent director	82	Matriculate from Bombay University	Bank of Baroda (Gen. Manager); Bank of Baroda Uganda Limited; Equitorial Bank PLC, UK.
Mr. Sridhar Gorthi	Independent director	37	BA, LLB (Hons.)	Partner at a law firm Trilegal

Source: DRHP

Disclaimer

A CRISIL IPO grading is a one-time assessment and reflects CRISIL's current opinion on the fundamentals of the graded equity issue in relation to other listed equity securities in India. A CRISIL IPO grading is neither an audit of the issuer by CRISIL nor is it a credit rating. Every CRISIL IPO grading is based on the information provided by the issuer or obtained by CRISIL from sources it considers reliable. CRISIL does not guarantee the completeness or accuracy of the information on which the grading is based. A CRISIL IPO grading is not a recommendation to buy / sell or hold the graded instrument; it does not comment on the issue price, future market price or suitability for a particular investor.

CRISIL is not responsible for any errors and especially states that it has no financial liability whatsoever to the subscribers / users / transmitters / distributors of CRISIL IPO gradings. For information on any IPO grading assigned by CRISIL, please contact 'Client Servicing' at +91-22-33423561, or via email: .

For more information on CRISIL IPO gradings, please visit http://www.crisil.com/ipo-gradings