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## Rating Rationale for Glenmark Pharmaceuticals Ltd.'s Corporate Governance Quality

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### Corporate Governance Rating: BWR CG3

Brickwork Ratings (BWR) has assigned **BWR CG3 (Pronounced BWR Corporate Governance Three)** for Glenmark Pharmaceuticals Ltd's Corporate governance quality. Brickwork Ratings' 'BWR CG3" stands for a High Corporate Governance Quality. The rating has, inter alia, factored Glenmark's Value creation towards its various stakeholders, composition and quality of the Board, management transparency & disclosure practices, accounting policies, investor relations, and role of audit committee.

BWR Corporate Governance process includes review of publicly available information like Annual reports, and Corporate presentations, confidential information like Board minutes, various Committee meeting minutes, Human Resources and Insurance records as well as meetings with CEO, CFO, Independent Directors and Heads of Departments.

Glenmark's Corporate governance rating derives strength from the quality of its Board, public image of each independent director, good reward policies for employees, stable credit quality over the years, consistent accounting policies, adherence to Clause 49 of SEBI guidelines and professionalism exhibited by the CEO. However, the rating also factors negative EVA, lower ROIC compared to WACC, lack of whistle blower policy, and moderate detailing in the Board minutes.

**Background:** Glenmark Pharmaceuticals Ltd. (Glenmark), incorporated in 1977, is a leading player in the discovery of new molecules both NCEs (new chemical entity) and NBEs (new biological entity) with seven molecules in various stages of clinical development. The company has a significant presence in branded generics markets across emerging economies with thirteen manufacturing facilities in four countries and has five Research & Development (R&D) centers. The Company employs nearly 7000 people in over 80 countries.

## Key business lines include:

**Drug Discovery:** Glenmark is primarily focused in the areas of inflammation [asthma/COPD, rheumatoid arthritis etc.], metabolic disorders [diabetes, obesity, etc.] and pain [neuropathic pain and inflammatory pain]. The Company has a pipeline of 6 NCE and NBE molecules in clinical trials. In addition, the it has two in-licensed molecules, Crofelemer and a novel monoclonal antibody, BXL1H5.

**Formulations:** The branded/ Speciality formulations business focuses on 3 main therapeutic areas viz. dermatology, respiratory and oncology. India is the largest market in terms of revenue for the Company. Its subsidiary, Glenmark Generics Ltd (GGL) has a fast growing and robust US generics business. GGL has an established presence in North America, European Union (EU) and Argentina and maintains marketing front-ends in these countries.

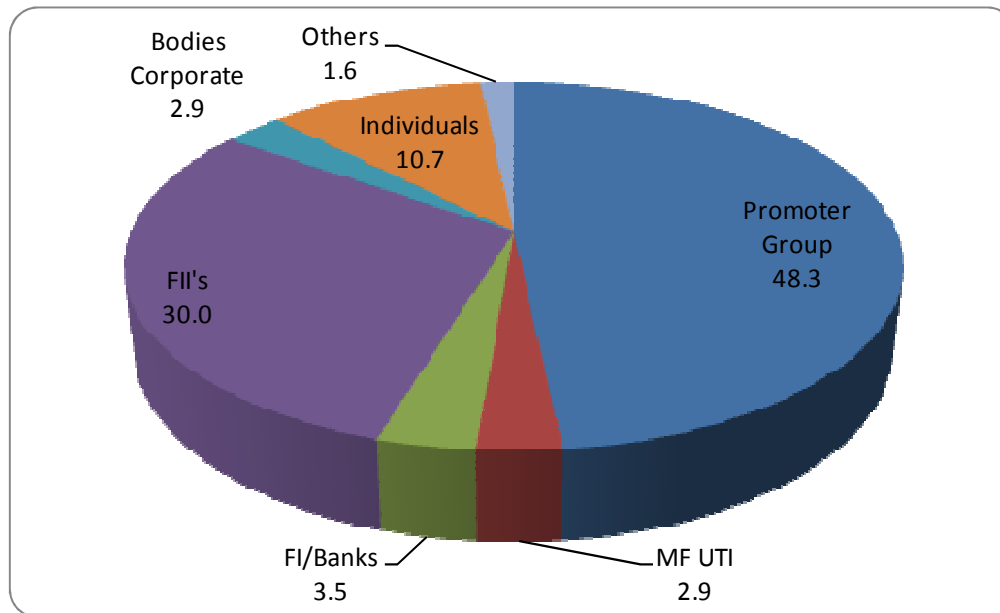
## Board of Directors:

Director	Designation	Profile
Mr. Gracias Saldanha	Chairman & Non Executive Director	Mr. Saldanha, 72, is the Founder of Glenmark & was in the executive capacity till 2001. He has over 38 years of experience in the pharmaceutical sector. Prior to setting up Glenmark, he worked with leading multinational pharmaceutical companies from 1964 to 1977. Mr. Saldanha holds a Masters Degree in Science from the Bombay University and a Diploma in Management Studies from the JBIMS, Mumbai.
Mr. Glenn Saldanha	Managing Director & CEO	Mr. Glenn joined Glenmark in 1998 as Director and took over as MD & CEO in 2001. He has built a strong branded formulations business across emerging economies and established a strong foothold in the US generics market in a short period. Mr. Glenn holds a Bachelor's Degree in Pharmacy from Mumbai University and an MBA from Leonard Stern School of Business, New York. Prior to Glenmark, he worked with Eli Lilly, USA and PriceWater House Coopers, USA.
Ms. Cheryl Pinto	Director - Corporate Affairs	Cheryl Pinto,43, belongs to the promoter family. She was over 22 years of experience in the pharmaceutical field and heads the company's HR & Admin functions. She is a Graduate in Pharmacy from the Mumbai University. She has also completed The General Management Programme from the Harvard Business School in Boston.

<b>Mr. A.S. Mohanty</b>	<b>Director – Communications &amp; CSR</b>	Mr. A. S. Mohanty, 56, is M.Sc., has over 32 years experience in pharmaceutical sales and marketing as well as healthcare sectors.
<b>Mrs. B. E. Saldanha</b>	<b>Non-Executive Director</b>	Mrs. B. E. Saldanha, 70, has graduated in B.Sc., B.Ed., from Bombay University and was a Whole-time Director of the Company from 1982 to 2005. She was responsible developing the Company's export business
<b>Mr. Julio F. Ribeiro</b>	<b>Non-Executive Director</b>	Mr. Julio F. Ribeiro, 81, is a retired government official and has been the Ex-commissioner of Police, Mumbai, former DGP Punjab, Ex-Ambassador of India to Romania, among his various positions in government office.
<b>Mr. N. B. Desai</b>	<b>Non-Executive Director</b>	Mr. N. B. Desai, 83, is a retired General Manager of Bank of Baroda. He has over 46 years experience in the Banking Sector. He was Chairman of Bank of Baroda Uganda Ltd. He was the founder and MD of Equitorial Bank PLC, UK
<b>Mr. Sridhar Gorthi</b>	<b>Non-Executive Director</b>	Mr. Sridhar Gorthi, 38 is a B.A., L.L.B., (Hons.). Mr. Sridhar Gorthi is presently a partner in Trilegal and has worked with Arthur Anderson and Lex Inde, Mumbai. He is involved in legal advisory services to multinational and domestic corporations on restructuring, debt finance, joint ventures, acquisition/mergers etc
<b>Mr. D. R. Mehta</b>	<b>Non-Executive Director</b>	Mr. D. R. Mehta, 73, has graduated in Arts and law from Rajasthan University, Royal Institute of Public Administration, London, & Sloan school of Management, Boston. He has over 40 years experience in civil services and has held various positions in the Government of Rajasthan and India. He was the Deputy Governor of Reserve Bank of India and also the chairman of SEBI
<b>Mr. Hocine Sidi Said</b>	<b>Non-Executive Director</b>	Mr. Said, 45, has graduated in B.A (International Marketing). He is the Founder & Director of Bio-nAbler, an investment company that partners with Sovereign Wealth Funds and Private Equity Firms across Asia and the MENA region to identify and execute product & company acquisitions. He has over 20 years of experience in the pharmaceuticals industry and has worked with Pfizer and UCB. At UCB, he was incharge of the Emerging Markets Region

Glenmark has 10 directors on its Board of which 5 are Independent. We believe Glenmark Board has adequate competencies in place; and encourages its members to express their views freely. Among its Directors are persons of repute from various professions including IPS, Legal and Regulatory functions. Our interactions with one of the independent directors on the Board of Glenmark gave an in depth view on the healthy policies, functioning and good corporate

governance practices followed by the Company. Glenmark's board is conducive for all directors to express their opinions and the CEO and CFO bring rich professional experience with them. The company has very few litigations.. Glenmark is also conservative on tax front and has good labour relations. Also there are no outstanding issues with PE investors or Bondholders. The independent director has been on the Board from the last 5 years and was satisfied with the internal audit systems and overall regulatory compliance culture of Glenmark.



Glenmark is working on IFRS compliance and the objective is to be ready by end of the year. The Company also hosts regular Analyst interactions by way of Quarterly Conference Calls, road shows all round year and CEO himself is present in at least 2 road shows every year. Though it is a family business, the Company is professionally managed and is not completely CEO dependent. Each operating division has a separate Head who reports to CFO for all budgeting purposes and full independence is given for innovation. The Company's vision is to be among the top 2-3 Pharmaceutical players in India in next 5 years, and grow at ~25% - 30% CAGR.

### Shareholding Pattern:

The majority of promoter group holding (~ 47.23%) is on the name of Saldana Family Trust. Institutions like HSBC Global Investment Fund, Swiss Finance Corporation, Matthews India Fund, Schroder International Selection Fund Emerging and General Insurance Corporation of India currently hold over 1% each in Glenmark Pharmaceuticals Ltd.

## **Shareholding Pattern as on September 30, 2010**

*We have looked at Corporate Governance Quality by evaluating Glenmark on 4 crucial parameters viz. Stability, Transparency, Integrity and Accountability. Each parameter addresses company's commitment to its various stakeholders.*

### **Sustainability:**

Sustainability is measured by calculating excess of ROIC over WACC. Currently Glenmark has ROIC of 7.84% compared to WACC of 11.84% which represents that the Company is not generating enough returns to cover its average cost of capital. Similarly the Company's current EVA is negative. Though positive EVA represents value creation, we believe as the Company was in expansion phase last few years it incurred higher cost compared to its net operating profit after tax.

### **Corporate Social Responsibility:**

Glenmark has partnered with Bhagwaan Mahavir Viklanga Sahayata Samiti (BMVSS), better known as Jaipur Foot which provides artificial limbs to needy individuals. Company managed to give limbs to 825 individuals in last one year and has commitment to provide it to 3000 people. Glenmark do substantial amount of Charity in Healthcare segment in India & Overseas like arranging for health check camps, donating hospitals for various facilities, equipments etc.

### **Transparency & Disclosure standards:**

We looked at Audit Reports of last two years and found there are no material deviations in Accounting Standards. As per the Annual Reports there was no non-compliance during last 3 years by the Company on any matter related to capital market. There were neither penalties imposed nor strictures passed on the company by stock exchanges, SEBI or any statutory authority. Glenmark has not defaulted in repayment of dues to any financial institution or bank as on 31<sup>st</sup> March 2010. Also the Company has not granted any loans & advances on the basis of security by way of pledge of shares, debentures and other securities.

## **Accountability**

The Accountability parameter assesses the Company's responsibility towards its employees, customers, etc. The Company's policies for employee satisfaction, quality initiatives, record of tax payments etc. are aspects that have been considered.

The Company has healthy Human Resources (HR) policies and practices. The Company holds requisite training programmes for field force and research & development staff and organises regular employee interaction programmes at various plant locations. Glenmark has designed a system to identify deserving employees for career advancement. The company closely monitors attrition rates and has been able to contain attrition levels over the years. Employee grievances are looked into and addressed regularly, though there is no dedicated employee grievance cell. The company regularly offers ESOP. The HR policy is suitably modified for the country/ region of operations. The Company is regular in its income tax payments. It, however, has disputed Income Tax/ Sales Tax/ Excise duty aggregating to Rs.3.3 crs.

Glenmark's focus on Quality is evident in its efforts in the area of technology absorption and innovation including improvement in yield and quality and improvement and development of processes.

## **Board composition & effectiveness**

The integrity of the Management in its functioning and the role of the Board and Board committees are assessed. Details of company records, viz, minute books of board and board committees, composition and functioning of board and board committees etc. have been considered.

Glenmark has a highly professional management and healthy board composition. The board comprises of 10 directors with 5 independent directors, 4 promoter directors (of which two are executive) and an executive director. The independent directors come with rich experience across various fields including Banking, Law, Pharmaceutical and Government Services.

The Company has the following Sub-committees of the Board viz. Audit committee, Shareholders/ Investors Grievance cell and Compensation committee. The Audit committee comprises of independent directors. The cost auditor, CEO and CFO are invitees to the Audit

committee meeting and bring their perspective to the table while also addressing queries raised by the Audit committee. As part of better Corporate governance practice and rotation of auditors, the company has appointed Walker, Chandio & Co., a member firm of M/s Grant Thornton as their auditor for FY2011, in place of Price Water House who have been their auditors since 2003. Though there is no formal Whistle Blower Policy, Glenmark takes cognizance of the complaints made and suggestions given by the employees and others. Anonymous complaints are also looked into and whenever necessary, suitable corrective steps are taken. No employee of the company has been denied access to the Audit Committee of the Board of directors of the Company.

### Rating Outlook

Though Glenmark is a family run business, there is a high degree of professionalism in the CEO and the Management team. The Company has a strong Board with well qualified and reputed members and encourages free expression of views. Glenmark has good reward policies in place for its employees.

However, we believe the Company's board minutes and other committee minutes require some more detailing. Also Glenmark currently has negative EVA and lower ROIC compared to WACC. We observe that there is no Whistle blower policy in place; however company is expected to put it in place gradually.

After evaluating the current strengths and weaknesses, Brickwork Ratings assigns a Rating of BWR CG 3 on its Corporate Governance rating scale, which reflects a HIGH quality of Corporate Governance at Glenmark pharmaceuticals Ltd.

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