

June 20, 2022

Hikal Limited: Rating watch revised to negative implications from developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loan	460.1	460.1	[ICRA]A+@; removed from watch with developing implications and placed on watch with negative implications
Long-term, Fund-based - Working capital	254.0	254.0	[ICRA]A+@; removed from watch with developing implications and placed on watch with negative implications
Long-term Loan (USD million)*	9.28	9.28	[ICRA]A+@; removed from watch with developing implications and placed on watch with negative implications
Short-term – Fund-based	240.5	240.5	[ICRA]A1@; removed from watch with developing implications and placed on watch with negative implications
Short-term, Non-fund Based	115.0	115.0	[ICRA]A1@; removed from watch with developing implications and placed on watch with negative implications
Total	1069.6 USD 9.28 million	1069.6 USD 9.28 million	

*Instrument details are provided in Annexure-1

*Though a part of the long-term loans of Hikal are denominated in foreign currency, ICRA's ratings for the same are on national rating scale, as distinct from an international rating scale

Rationale

ICRA had earlier placed the ratings of Hikal Limited (Hikal) on watch with developing implications, following the notice issued by the Maharashtra Pollution Control Board (MPCB) for the closure of its manufacturing facility in Taloja (Maharashtra), and ongoing legal proceedings related to the company's involvement in a gas leak accident at Surat (Sachin GIDC area) in Gujarat. The High Court (HC) of Bombay had disposed Hikal's writ plea and set aside the notice issued by the MPCB. Moreover, the MPCB was directed by the HC to grant fresh personal hearing to Hikal in this matter.

The Sachin GIDC case remains sub judice. However, as per the recent developments, after conducting the personal hearing, the MPCB issued another closure notice for the Taloja facility in the last week of April 2022. While Hikal has shut down its facility from mid-May 2022 to comply with the order, it has also filed a writ petition in the Bombay HC against this closure notice. As per the company's management, a preventive maintenance shutdown has been undertaken during this period of shutdown. However, given that this plant contributes around 12-15% to the company's revenues and operating profit, an extended closure is likely to have an adverse impact on the company's crop protection business segment performance and profitability metrics in the current fiscal. Thus, ICRA has revised the watch on the ratings to negative implications from developing implications.

ICRA also notes that Hikal reported marginal revenue degrowth and considerable decline in operating margins (12.1% from 18.1% in the previous quarter) in Q4 FY2022, owing to the challenges in availability and pricing of key raw material prices and increased logistics costs due to the rise in crude oil prices, in line with the input cost inflation being witnessed by the industry. While the pressures have continued in Q1 FY2023 as well, ICRA expects a sequential improvement in the margins in the

subsequent quarters and will continue to monitor the developments and will take appropriate rating action, as may be required.

Please refer to the following link for the previous detailed rationale that captures key rating drivers and their description, liquidity position, rating sensitivities, and key financial indicators: [Click here](#)

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry Rating Methodology for Entities in the Agrochemicals Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Hikal Limited. As on March 31, 2022, the company had two subsidiaries, which are listed in Annexure-2.

About the company

Hikal was incorporated on July 8, 1988, as a private limited company, Hikal Chemicals Industries Private Limited, by the Hiremath family and Surajmukhi Investments & Finance Limited, a wholly-owned subsidiary of Kalyani Steels Limited. The company was listed in 1995 and subsequently, in 2000, it was renamed as Hikal Limited.

The company has a commercial production facility at Mahad (Maharashtra) for intermediates used in dyes, pharmaceuticals and agrochemicals. The plant at Taloja (Maharashtra), which manufactures crop protection chemicals is the only fully-integrated plant in the world to produce thiabendazole. The facility at Panoli (Gujarat) produces key intermediates and regulatory starting materials for the pharmaceutical industry and is USFDA, PMDA (Japan) and EUGMP certified. The company's Bengaluru facility manufactures key active pharmaceutical ingredients (APIs) for the pharmaceutical industry and has been approved by the USFDA, PMDA (Japan) and EU authorities. The company has a research and development (R&D) centre in Pune (Maharashtra), which provides end-to-end services from APIs and active ingredients, custom synthesis, analytical development and scale-up from development to commercial manufacturing.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument			Current Rating (FY2023)		Chronology of Rating History for the past 3 years							
				Amount Outstanding (Rs. crore)*		Date & Rating in FY2022				Date & Rating in FY2021		Date & Rating in FY2020	
		June 20, 2022	Mar 8, 2022			Jan 21, 2022	Dec 16, 2021	Mar 05, 2021	Dec 21, 2020	Oct 18, 2019	Sept 27, 2019		
1	Term Loan	Long-term	460.1	460.1	[ICRA]A+@	[ICRA]A+ &	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	
2	Working Capital Facility	Long-term	254.00	-	[ICRA]A+@	[ICRA]A+&	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	
3	Term loan USD million	Long-term	9.28	9.28	[ICRA]A+@	[ICRA]A+&	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	
4	Working capital Facility	Short-term	240.5	-	[ICRA]A1@	[ICRA]A1&	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	
5	Non- fund Based Facility	Short-term	115.00	-	[ICRA]A1@	[ICRA]A1&	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	

*Outstanding as on September 30, 2021

& - under watch with developing implications

@ - under watch with negative implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based-Term loan	Simple
Fund-based- Working capital	Simple
Long term: Term loan (USD million)*	Simple
Short term-Fund based	Simple
Short-term Non-fund based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan 1	28-Sep-15	NA	31-Mar-23	12.00	[ICRA]A+@
NA	Term loan 2	31- Dec-2015	NA	31-Mar-23	22.50	[ICRA]A+@
NA	Term loan 3	15-Feb-2016	NA	31-Mar-23	9.0	[ICRA]A+@
NA	Term loan 4	26-Feb-2016	NA	31-Mar-23	3.0	[ICRA]A+@
NA	Term loan 5	24-Sep-15	NA	31-Mar-23	19.50	[ICRA]A+@
NA	Term loan 6	26-Feb-2016	NA	31-Mar-23	6.00	[ICRA]A+@
NA	Term loan 7	03 Mar-2016	NA	31-Mar-23	6.00	[ICRA]A+@
NA	Term loan 8	5-Sep-2018	NA	05-Jun-26	65.40	[ICRA]A+@
NA	Term loan 9	6-Feb-2019	NA	02-Jun-2027	66.70	[ICRA]A+@
NA	Term loan 10	15-Sept-2020	NA	01-Jun-2028	250.0	[ICRA]A+@
NA	Term loan 11	10-Dec-2015	NA	11-Dec-2023	USD 9.28 million	[ICRA]A+@
NA	Working capital limits	NA	NA	NA	254.00	[ICRA]A+@
NA	Fund-based facilities	NA	NA	NA	240.5	[ICRA]A1@
NA	Non-fund based	NA	NA	NA	115.00	[ICRA]A1@

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Acoris Research Limited	100.00%	Full Consolidation
Hikal LLC, USA	100.00%	Full Consolidation

Source: Hikal Q4 FY2022 Result Update

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