

April 09, 2025

## Hikal Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term fund-based term loans	396.00	323.96	[ICRA]A+ (Stable); reaffirmed
Long-term – fund-based – working capital facilities	254.00	254.00	[ICRA]A+ (Stable); reaffirmed
Long-term – unallocated limits (\$ million)#	6.27	6.27	[ICRA]A+ (Stable); reaffirmed
Short-term – fund-based facilities	280.50	280.50	[ICRA]A1; reaffirmed
Short-term – non-fund based facilities	40.00	40.00	[ICRA]A1; reaffirmed
Short-term – unallocated facilities	123.70	195.74	[ICRA]A1; reaffirmed
<b>Total</b>	<b>1,094.20 + \$ 6.27 million</b>	<b>1,094.20 + \$ 6.27 million</b>	

\*Instrument details are provided in Annexure I

# 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

The reaffirmation of ratings for Hikal Limited (Hikal) factors in its established business position and diversified presence in manufacturing APIs<sup>1</sup> and intermediates for pharmaceutical and crop protection industries. The company is also expected to grow gradually in the animal healthcare segment, following the successful validation of its products from the facility located at Panoli (Gujarat), commissioned in December 2023. Moreover, Hikal has a reputable and diversified client base, including some leading global innovator companies and it enjoys exclusive supply contracts with some of its large customers. The ratings also factor in Hikal's adequate financial risk profile, supported by some reduction in leverage over 9M FY2025. While debt protection metrics were suppressed in the past on account of the debt-funded capex undertaken over the past few years, total debt (excluding lease liability) reduced to Rs. 731.0 crore as on December 31, 2024 from Rs. 814.7 crore as on March 31, 2024 and ICRA expects its debt to continue reducing gradually over the medium term. This, coupled with an expected enhancement in revenues and profitability with gradual stabilisation of the crop-protection industry, is expected to aid the improvement of Hikal's financial risk profile.

Hikal generated revenues of Rs. 1,307.4 crore in 9M FY2025 with a 2.9% YoY growth after a decline of 11.8% in FY2024. The recovery in revenues was driven by a 7.1% YoY growth in revenues from the pharmaceutical segment to Rs. 816.8 crore while revenues from the crop protection segment contracted by 3.4% to Rs. 490.6 crore. That said, the contraction in the crop protection segment has moderated from the 24.4% decline in 9M FY2024 and ICRA expects the revenues from the segment to stabilise and gradually grow over the medium term, supported by the normalisation of the channel inventory in the industry, leading to some improvement in demand. The company's profitability also improved, registering an OPM<sup>2</sup> of 15.7% in 9M FY2025 as against 12.7% in FY2023. This was aided by a gradual improvement in the profitability of the pharmaceutical segment, driven by demand enhancement during the period. While overall profitability remains moderated on account of the

<sup>1</sup> Active pharmaceutical ingredients

<sup>2</sup> Operating profit margin

reduction in the profitability of the crop-protection segment, ICRA expects gradual improvement in the same, supported by the stabilisation/ improvement of demand in the crop-protection industry.

However, Hikal's OPM remains vulnerable to adverse movement in key raw material prices, which is also demonstrated by the volatility in its OPM in the recent past. Its profitability also remains exposed to volatility in foreign currency rates on account of its exports. This is partly mitigated by a natural hedge on account of Hikal's imports. The ratings also factor in Hikal's product concentration with its key molecule-Gabapentin, contributing up to 35-40% of its revenues from the pharmaceutical segment while over 50% of the revenues from the crop protection segment continue to be driven by the top three products. However, the risk is mitigated by its diversified customer base and an established presence in its key products like Gabapentin and Thiabendazole. The ratings also factor in Hikal's high working capital intensity due to the elevated inventory levels required for its generic portfolio and contract manufacturing.

Hikal is involved in various regulatory actions/ litigations, including the ongoing legal proceedings related to the company's alleged involvement in a gas leak accident at Surat (Sachin GIDC area) in Gujarat. The NGT<sup>3</sup> imposed a penalty (Rs. 17.45 crore in October 2022) on Hikal on account of the alleged violation of environmental laws, which the company has contested legally before the Hon'ble Supreme Court, and the matter remains sub judice. Moreover, the Hon'ble Supreme Court has, vide its order dated April 8, 2024, stayed the recovery of the penalty imposed by NGT. ICRA also notes the suit filed by Hikal's promoters, Mr. Jaidev Hiremath and Mrs. Sugandha Hiremath, under the Specific Relief Act, 1963, in the High Court Judicature at Mumbai on March 18, 2023, seeking specific performance of obligations cast on the BNK Group<sup>4</sup> pursuant to a family arrangement between Mr. Babasaheb N Kalyani and his parents, whereby the shares of the company held by KICL<sup>5</sup> and BFIL<sup>6</sup> were required to be transferred to the Hiremath family. Based on Hikal's public disclosures and discussion with its management, ICRA understands that these developments have not had any adverse impact on the company's operations or its banking arrangements and the Company doesn't envisage any financial implication arising out the said suit. However, ICRA will continue to monitor the developments in these matters and their possible impact on the credit risk profile of the company, if any.

The Stable outlook on the long-term rating reflects ICRA's expectation that Hikal will report higher internal accruals, supported by a pipeline of generic APIs and scale-up of revenues from the crop protection and animal healthcare facilities, thus supporting the improvement in its credit metrics.

## Key rating drivers and their description

### Credit strengths

**Diversified presence in pharmaceutical and crop protection industries, supported by increasing presence in animal healthcare** – The pharmaceutical segment generated ~62% of Hikal's revenues in FY2024 and 9M FY2025 and the remaining was driven by the crop protection segment. Moreover, the animal healthcare segment, which currently forms part of the pharmaceutical segment, is also expected to grow gradually over the medium term. The manufacturing facility for the animal healthcare segment was commissioned by the company in December 2023 and the validation process has been progressing well with the validation of seven products already completed, and the balance is expected to be completed over the next few months. The diversification has helped Hikal in offsetting the negative impacts in a particular industry. For instance, while the revenues from the crop protection segment dropped by ~25% over FY2024 on account of the headwinds in the industry, stable revenue generation by the pharmaceutical segment curtailed the loss of revenue for the company to an extent.

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<sup>3</sup> National Green Tribunal

<sup>4</sup> Mr. Babasaheb N Kalyani, Kalyani Investment Company Limited, BF Investment Limited, and Mr. Amit Kalyani

<sup>5</sup> Kalyani Investment Company Limited

<sup>6</sup> BF Investment Limited (BFIL)

**Reputed and diversified client base** – Hikal has a strong clientele, which includes several reputable and leading global innovator companies. Moreover, the customer base for both segments is well diversified. The top three customers of the pharmaceutical segment generated 21% of Hikal's revenues from the segment in FY2024. The company is a market leader for Gabapentin, which is supplied to various global generic companies as well as innovators. In the crop protection segment, the top three customers generated ~52% of revenues in FY2024. However, the customer concentration risk is mitigated by Hikal's established presence and leadership position in the Thiabendazole market and exclusive supply contracts with large customers.

**Adequate financial risk profile** – Notwithstanding some moderation on account of the debt-funded capex over the last few years and the moderation in performance due to the headwinds in the industry, the financial risk profile of Hikal has remained adequate, supported by healthy capitalisation and an adequate liquidity position. Moreover, a gradual reduction in debt and improvement in scale and profitability of the base business and increasing contribution from the new manufacturing facilities is expected to result in some improvement in these indicators over the near to medium term. As on March 31, 2024, Hikal had a TD/TNW and TOL/TNW<sup>7</sup> of 0.7x and 1.1x, respectively. Moreover, these indicators are expected to gradually improve over the near to medium term, supported by the recovery in the crop protection segment, and reduced reliance on debt to fund the capex with the completion of the animal healthcare and multipurpose manufacturing facilities.

### Credit challenges

**Profitability vulnerable to competitive pressures, adverse movement in raw material prices and forex rates** – Hikal's profitability remains vulnerable to volatility in raw material prices and the competitive pressures in the industry. The reduction in demand and adverse pricing pressure in recent times led to a reduction in its OPM to 15.7% in 9M FY2025 and 15% in FY2024 from historical levels of 17-19%. While the PM is expected to recover gradually with the stabilisation of the industry, the company shall continue to remain exposed to competitive pressures and volatility in raw material prices. However, its ability to pass on raw material costs to customers with a lag of three to six months can partly mitigate the pricing risk. Hikal is also exposed to adverse movement in foreign currency rates, however, it enjoys a natural hedge on account of its imports.

**High working capital intensity** – The working capital intensity of Hikal has historically remained high with net working capital/operating income of 30-35%. Its working capital intensity was recorded as 34.0% in FY2024. The nature of contracts, especially in contract manufacturing, requires Hikal to maintain a minimum inventory level to ensure uninterrupted flow of supplies to customers, besides stocking requirements on account of a significant dependence on China.

**Significant debt-funded capex likely to keep coverage indicators moderate over near term; achieving desired level of scale-up in capacities remains to be seen** – Hikal has undergone a high capex cycle over the last few years for developing the animal healthcare and multipurpose manufacturing facilities and some capacity expansion in the pharmaceutical segment, in addition to the general repair and maintenance capex. The capex was partly funded through debt, leading to elevated debt levels over the past few years. This, coupled with the moderation of performance on account of the headwinds faced by the industry, led to some moderation of coverage indicators in the past. It had a total debt/OPBDITA and interest cover of 2.7x and 3.6x respectively in 9M FY2025 as against 3.1x and 4.7x, respectively, in FY2024. However, the company's debt requirement is expected to reduce for the near to medium term with the commissioning of the new manufacturing facilities. This, along with an expected gradual improvement in scale and profitability, shall lead to a gradual strengthening of Hikal's coverage indicators. However, timely scale-up of the two manufacturing facilities shall remain key for the improvement.

**Product concentration risk, especially in the pharmaceuticals segment** – Gabapentin continues to contribute at least 35-40% to Hikal's annual revenues, thus creating product concentration risk in the pharmaceutical segment. However, this is partly mitigated by Hikal's leadership position in the product. In the crop protection segment, the top three products contributed

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<sup>7</sup> Total debt/ tangible net worth and total outside liability/ tangible net worth

62% to segmental revenues in 9M FY2025 (58% in FY2024). However, the risk is partly mitigated by the company's established track record and its leadership position as a supplier of Thiabendazole.

## Environmental and social risks

**Environmental considerations:** Hikal does not face any major physical climate risk. However, it remains exposed to tightening environmental regulations regarding the breach of waste and pollution norms, which can lead to an increase in operating costs and new capacity instalment costs. This can also require capital investments to upgrade its effluent treatment infrastructure to reduce the carbon footprint and waste generation. There has been increased scrutiny of its operations by the Maharashtra Pollution Control Board (MPCB), GPCB and NGT, while the committee nominated by the NGT had also recommended a fine of Rs. 17.45 crore on Hikal against which the company is seeking appropriate legal remedies. Any financial liability arising out of these issues cannot be ascertained at the moment.

To address the associated risks, Hikal is strengthening its compliance policies and Standard Operating Procedures. It has started using GPS tracking for all the trucks used for material transportation along with several other initiatives to address the concerns related to the Surat incident. Hikal has also entered multiple power purchase agreements to procure renewable energy.

**Social considerations:** The industry faces social risks related to product safety and associated litigation risks, access to qualified personnel for R&D and process engineering, and maintenance of high manufacturing compliance standards. Further, Government interventions related to product bans and price caps/control also remain a social risk.

## Liquidity position: Adequate

Hikal's liquidity is adequate, supported by steady fund flow from operations, free cash and cash equivalents of Rs. 36.5 crore as on September 30, 2024 and unutilised fund-based limits of ~Rs. 200 crore. The company's annual repayments were ~Rs. 103.3 crore in FY2025 and is expected to be ~Rs. 131.5 crore in FY2026. Hikal's cash accrual generation is expected to be more than sufficient to meet its debt servicing obligations over the medium term. The company's capex commitment is expected to be Rs. 150-200 crore per annum between FY2025 and FY2027, which is projected to be financed partly by internal accruals and by long-term debt.

## Rating sensitivities

**Positive factors** – ICRA could upgrade Hikal's ratings if it demonstrates healthy revenue growth and internal accrual generation, resulting in the strengthening of its debt protection metrics and liquidity profile. Specific credit metrics that could lead to an upgrade of Hikal's rating include total debt/ OPBITDA below 1.5 times on a sustained basis.

**Negative factors** – Negative pressure on Hikal's ratings could arise if considerable decline in revenue and internal accrual generation, and/or stretch in working capital cycle results in weakening of the company's liquidity position. Any adverse impact of the ongoing litigations on the company's operations or financial profile may also result in a rating downgrade. Moreover, lower than anticipated accrual generation from the ongoing capacity expansion over the next few years, resulting in total debt/OPBITDA exceeding 2.25 times on a sustained basis, may also trigger a rating downgrade.

## Analytical approach

Analytical approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Pharmaceuticals</a> <a href="#">Agrochemicals</a>
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Hikal Limited. As on December 31, 2024, the company had two subsidiaries, who are listed in Annexure-II.

## 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 was renamed as Hikal Limited in 2000.

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 certified by the US FDA, PMDA (Japan) and EUGMP. The Bangalore facility manufactures key APIs for the pharmaceutical industry and has been approved by the US FDA, PMDA (Japan) and EU Authorities. The company has an R&D centre in Pune (Maharashtra), which provides end-to-end services for APIs, custom synthesis, analytical development and scale-up from development to commercial manufacturing.

### Key financial indicators (audited)

Hikal – Consolidated	FY2023	FY2024	9M FY2025*
Operating income	2023.0	1784.6	1307.4
PAT	78.4	69.6	40.6
OPBDIT/OI	12.7%	15.0%	15.7%
PAT/OI	3.9%	3.9%	3.1%
Total outside liabilities/Tangible net worth (times)	1.1	1.1	-
Total debt/OPBDIT (times)	2.9	3.1	2.7
Interest coverage (times)	5.4	4.7	3.6

Source: Company, ICRA Research; \* Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for past three years

Current (FY2026)				Chronology of rating history for the past 3 years					
		FY2026		FY2025		FY2024		FY2023	
Instrument	Type	Amount Rated (Rs Crore)	Apr 09, 2025	Date	Rating	Date	Rating	Date	Rating
Long term-term loan-fund based	Long Term	323.96	[ICRA]A+ (Stable)	-	-	03-APR-2023	[ICRA]A+ (Stable)	20-JUN-2022	[ICRA]A+ @
				-	-	04-MAR-2024	[ICRA]A+ (Stable)	14-MAR-2023	[ICRA]A+ (Stable)
Term loan (USD million)	Long Term	-	-	-	-	03-APR-2023	[ICRA]A+ (Stable)	20-JUN-2022	[ICRA]A+ @
						-	-	14-MAR-2023	[ICRA]A+ (Stable)
Term loan Unallocated (USD million)	Long Term	6.27	[ICRA]A+ (Stable)	-	-	03-APR-2023	[ICRA]A+ (Stable)	-	-
				-	-	04-MAR-2024	[ICRA]A+ (Stable)	14-MAR-2023	[ICRA]A+ (Stable)
Long term-cash credit-fund based	Long Term	254.00	[ICRA]A+ (Stable)	-	-	03-APR-2023	[ICRA]A+ (Stable)	20-JUN-2022	[ICRA]A+ @
				-	-	04-MAR-2024	[ICRA]A+ (Stable)	14-MAR-2023	[ICRA]A+ (Stable)
Short term-unallocated-unallocated	Short Term	195.74	[ICRA]A1	-	-	03-APR-2023	[ICRA]A1	-	-
				-	-	04-MAR-2024	[ICRA]A1	14-MAR-2023	[ICRA]A1
Short term-others-non fund based	Short Term	40.00	[ICRA]A1	-	-	03-APR-2023	[ICRA]A1	20-JUN-2022	[ICRA]A1 @
				-	-	04-MAR-2024	[ICRA]A1	14-MAR-2023	[ICRA]A1
Short term-cash credit-fund based	Short Term	280.50	[ICRA]A1	-	-	03-APR-2023	[ICRA]A1	20-JUN-2022	[ICRA]A1 @
				-	-	04-MAR-2024	[ICRA]A1	14-MAR-2023	[ICRA]A1

@: Rating watch with Negative Implications

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term term loan	Simple
Long-term fund-based – Working capital	Simple
Long-term - Unallocated (USD million)	NA
Short-term fund-based	Simple
Short-term non-fund based	Very simple
Short-term - Unallocated	NA

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: [Click here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	FY2019	NA	Feb 2027	26.20	[ICRA]A+ (Stable)
NA	Term Loan-II	FY2019	NA	Sep 2026	21.10	[ICRA]A+ (Stable)
NA	Term Loan-III	FY2021	NA	June 2028	185.00	[ICRA]A+ (Stable)
NA	Term Loan-IV	FY2023	NA	June 2030	91.66	[ICRA]A+ (Stable)
NA	Term loan - Unallocated	NA	NA	NA	USD 6.27 million	[ICRA]A+ (Stable)
NA	Working capital Facilities	NA	NA	NA	254.00	[ICRA]A+ (Stable)
NA	Fund based facilities	NA	NA	NA	280.50	[ICRA]A1
NA	Non-fund-based facility	NA	NA	NA	40.00	[ICRA]A1
NA	Unallocated	NA	NA	NA	195.74	[ICRA]A1

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

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

Source: Hikal quarterly results, December 31, 2024

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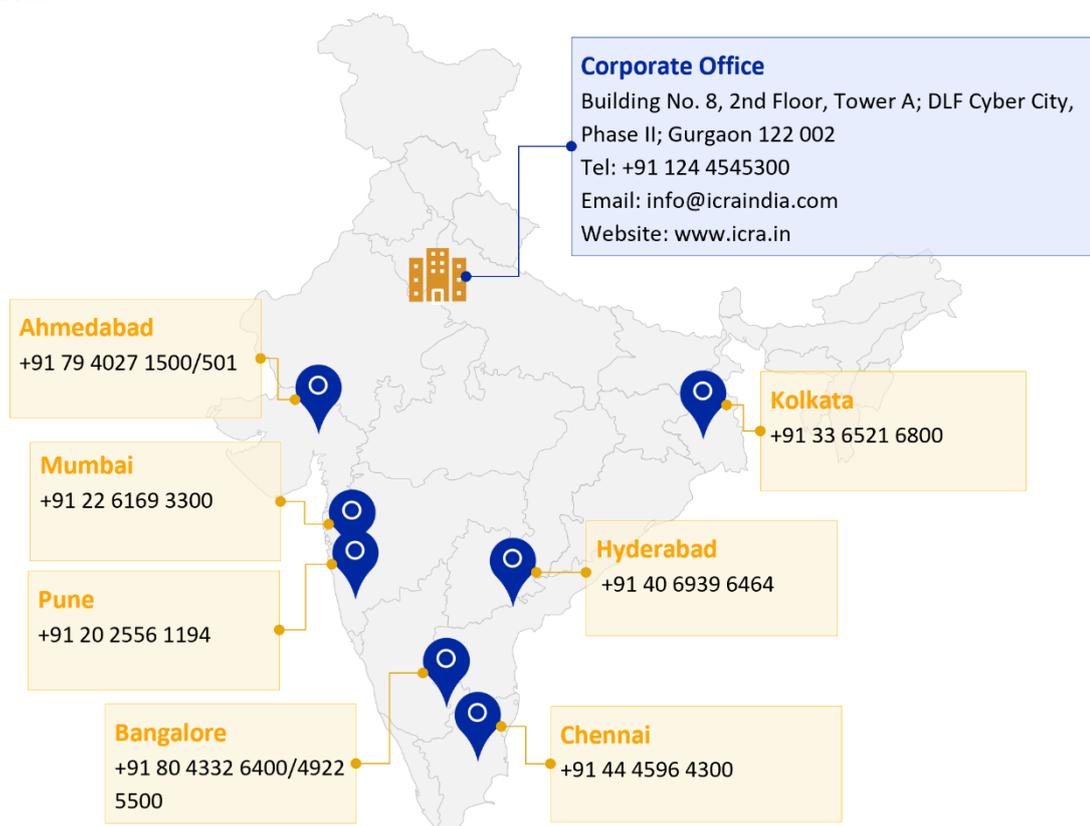
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