August 25, 2020

Hexagon Nutrition Private Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based – Cash Credit	10.00	10.00	[ICRA]BBB+ Reaffirmed; Outlook revised to Positive from Stable
Long-term, Fund-based – Term Loans	7.00	7.00	[ICRA]BBB+ Reaffirmed; Outlook revised to Positive from Stable
Short-term, Fund-based	9.00	9.00	[ICRA]A2; Reaffirmed
Short-term, Non-fund based	3.00	3.00	[ICRA]A2; Reaffirmed
Total	**29.00**	**29.00**	

**Instrument details are provided in Annexure-1*

Rationale

To arrive at the ratings, ICRA has consolidated the business and financial risk profiles of Hexagon Nutrition Private Limited (HNPL), and its subsidiaries, Hexagon Nutrition (Exports) Private Limited (HNEPL), Hexagon Nutrition (International) Private Limited (HNIPL) and Nutralytica Research Private Limited (NRPL), together referred to as the Hexagon Group.

The revision in the outlook to 'Positive' takes into consideration the rising demand for nutraceutical and dietary supplement products in both domestic and international markets. This is largely attributable to the fast-changing lifestyle preference of mass consumers, which renders favourable growth prospect for the Hexagon Group. Nevertheless, the company's ability to leverage on the growing opportunities in the dietary and nutraceutical segment by ramping up its scale of operations and notably expanding its market share remains to be seen. The ratings also continue to draw comfort from the Group's satisfactory credit metrics as reflected by its improving operating profitability margin, comfortable capital structure and strong coverage indicators coupled with adequate liquidity position backed by sizable cash balances and sufficient buffer in sanctioned working capital limits. The rating also continues to favourably factor in the extensive experience of the Hexagon Group's promoters in the nutraceutical and dietary supplements segment as well as the Group's affiliation with reputed international organisations like Global Alliance for Improved Nutrition (GAIN) and the UN World Food Programme (WFP) coupled with its established network of large hospital chains in India to recommend and sell disease-specific, company-branded dietary supplements. Further, ICRA takes cognisance of the notable progress in the Group's ongoing plans to diversify its presence in international markets, which is likely to aid the near-term revenue growth as well as recent listing of the Tuticorin plant as a UNICEF-approved facility, widening its scope for bidding in international tenders.

The ratings, however, remain constrained by the Group's moderate scale of operations in an intensely competitive dietary supplements-and-nutraceutical segment comprising some of the large, established multinational players and various small, unorganised players. The ratings also remain constrained by the Group's high working capital intensity of operations, as a result of high storage of raw materials against the backdrop of its product profile, along with an elongated receivables cycle. ICRA notes the vulnerability of the Group's profitability to volatility in raw material prices and foreign currency exchange rates. In the near-term, ICRA expects the debt to increase at the consolidated level due to its debt-funded capex towards overseas expansion wherein the stabilisation of operations on commencement remains critical. Further, any material impact on the cash flows of the Group arising from the event of exit of the private equity investor over the medium term will be monitored.

The positive outlook on the company's rating reflects ICRA's expectation that the company's financial position will improve over the near-to-medium term. This is attributable to the rising demand for nutraceutical and dietary supplement products in the domestic as well as international markets due to changing lifestyle preferences of mass consumers. Its credit metrics are expected to remain comfortable due to its healthy net-worth and adequate liquidity position.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters in the field of micronutrient premixes and dietary supplements – Incorporated in 1993, HNPL is a part of the Mumbai-based Hexagon Group, promoted by the Kelkar family, which has been in the business of manufacturing micronutrient premixes and dietary supplements for over three decades. The promoters are professionally qualified in their field of operation and have prior experience of working with multinational FMCG companies.

Affiliation with international organisations like GAIN and WFP – HNPL is one of the 21 premix blenders in the world (one of the seven Indian premix blenders in the list) selected by GAIN under its GAIN Premix Facility (GPF) initiative. The company partners with WFP and other international NGOs in supplying them with vitamin and mineral premixes for their food fortification initiatives in developing and under-developed nations.

Relationship with large hospital chains in India to recommend and sell disease-specific branded dietary supplements – The Group enjoys established relationships with large hospital chains, and long associations with many reputed doctors in the country for prescribing its dietary supplements. The Group also has its own e-commerce portals, 'www.pentasurenutrition.com' and 'www.obesigo.com', to expand its reach, besides being listed on Amazon and other online retail platforms.

Comfortable capitalisation and debt coverage indicators; adequate liquidity position – The company's capital structure is comfortable at present, as reflected by a gearing of 0.28 time as on March 31, 2020 (0.30 time as on March 31, 2019). The debt coverage indicators also remain adequate as reflected by an interest cover of 10.09 times in FY2020 (7.71 times in FY2019), NCA/Total debt at 79% as on March 31, 2020 (69% as on March 31, 2019) and Total debt/OPBDITA of 1.07 times as on March 31, 2020 (0.98 time as on March 31, 2019), as per provisional estimates. The liquidity position remains adequate, supported by adequate cushion available in the form of its undrawn working capital limits and a healthy free cash and bank balance as on March 31, 2020.

Rising demand for immunity-boosting products in view of changing lifestyle preferences, coupled with expansion into overseas markets and UNICEF certification, enhances HNPL's growth prospects - HNPL is setting up a manufacturing facility in Uzbekistan, with an installed capacity of 600 tonne/year to be operational by January 2021; followed by a manufacturing unit in Nigeria over the next 1-2 years. It has also expanded into South Africa with a sales office, which commenced operations from March 2020. Along with the receipt of UNICEF approval for its Tuticorin plant in January 2020 and the rising demand for nutritional products in domestic and export markets in the wake of changing lifestyle preferences of mass consumers, this is expected to help expand its revenue base.

Credit challenges

Moderate scale of operations, high working capital intensity of operations – At a consolidated level, the scale of operations remains moderate with revenues of Rs. 207.14 crore in FY2020 as per provisional estimates. ICRA notes that the company's ability to leverage on the growing opportunities in the dietary and nutraceutical segment by ramping up its scale of operations and, notably, expand its market share remain to be seen. Further, its working capital intensity remains on a higher side, given the high inventory requirements and elongated receivable days. The same stood at 31% in FY2020 (25% in FY2019). The Group maintains an inventory of 90-120 days due to high lead time for the import of vitamins and offers 60-120 days of credit to its direct export customers. Timely recovery of the receivables remains important from a credit perspective.

Vulnerability of profitability to fluctuations in raw material prices and foreign exchange rates; stiff competition in dietary supplements and nutraceutical segment – The prices of the company's raw materials, mainly vitamins, are highly volatile and, hence, its profitability remains exposed to adverse price fluctuations, given the fixed price nature of most of its contracts. It also remains exposed to foreign exchange risks to the extent not covered by natural hedge due to imports and exports. The company also continues to face stiff competition and pricing pressures from organised multinationals as well as smaller, unorganised players.

Anticipated rise in debt levels towards overseas expansion; profitability from overseas subsidiaries upon commencement of operations remains to be seen – HNPL plans to invest ~Rs. 11.9 crore, with a break-up as follows—~$1 million for overseas expansion, Rs. 1.2 crore towards building a warehouse and Rs. 2.9 crore towards NRPL in the near-to medium term. This will be funded by a mix of debt and internal accruals, which is expected to increase the debt levels in the near-term. Further, the profitability from the overseas expansion on commencement of operations remains to be seen.

Potential liability arising on the company following the exit of private equity investor over the near-to-medium term may impact cash flow position - As per the term sheet signed with the private equity investor, the Group may have to provide an exit to the investor starting November 2021. Any material liability or outflow from the cash flows of the company impacting its liquidity position to facilitate the exit will be a key monitorable over the near-to-medium term.

Liquidity position: Adequate

At a consolidated level, the Group had term loans of Rs. 15.39 crore outstanding as on March 31, 2020, against which it has moderate annual repayments of Rs. 3.11 crore in FY2021, Rs. 3.29 crore in FY2022 and Rs. 3.25 crore in FY2023. The Group's fund flow from operations has remained positive over the last five fiscals because of healthy profitability. The liquidity position has remained **adequate** and is supported by moderate average monthly utilisation of fund-based working capital limits of 40% at a consolidated level (with a buffer of Rs. 7.96 crore in cash credit limits as on June 30,

2020) during the April 2019–June 2020 period. The Group had free cash and liquid investments of Rs. 24.38 crore as on March 31, 2020, which supports its liquidity.

Rating sensitivities

Positive triggers – Improvement in the financial risk profile supported by significant improvement in scale, ability to ramp up operations in newly established subsidiaries, and sustenance of profitability margins, as well as improvement in working capital intensity will be key for a higher rating.

Negative triggers – Downward pressure on the ratings could emerge if cash accrual is lower than expected, or if higher-than-anticipated debt-funded capex, or a stretch in the working capital cycle, weakens the liquidity position. Any major supply disruptions from key import destinations or any material liability following the exit of the PE investor leading to weakening of its cash flows may also adversely impact the ratings. Other factors that may lead to a downgrade include TD/OPBDITA over 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	**Comments**
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on consolidated financial statements of HNPL, HNEPL, HNIPL and NRPL.

About the company

Hexagon Nutrition Private Limited, incorporated in 1993 by Mr. Arun Kelkar and family, is the flagship company of the Mumbai-based Hexagon Group. HNPL has three wholly owned subsidiaries—Hexagon Nutrition (Exports) Private Limited (HNEPL), Hexagon Nutrition (International) Private Limited (HNIPL) and Nutralytica Research Private Limited (NRPL)—who also operate in the same business sector. The Group manufactures and sells micronutrient premixes for human as well as veterinary consumption, along with therapeutic food and dietary supplements (branded products). The Group, besides any domestic sales, also exports its vitamin and mineral premixes to more than 70 countries, primarily through its collaboration with WFP[1], GAIN[2], and other international organisations and NGOs. HNPL is one of the 21 companies in the world selected by GAIN for its GAIN Premix Facility (GPF), which is aimed at easing the procurement of good quality premixes for organisations manufacturing food products. The dietary supplements, which are the branded nutraceutical products, are sold primarily in the domestic market through ethical promotion.

The Group's manufacturing facilities are at Dindori near Nashik (under HNPL, catering to domestic and export markets), Chennai (in MEPZ[3] SEZ, under HNEPL, catering to export markets) and Tuticorin (in Food Processing Zone of Pearl City Food Port SEZ, under HNIPL, catering mainly to export markets), with a total capacity to blend approximately 18,000 tonne of premix products per annum. All the manufacturing facilities are ISO 22000:2005, Food Safety System Certification (FSSC) 22000:2010, GMP Australia and HALAL certified. HNPL also has a food testing laboratory-cum-research centre at Nashik, called Nutralytica Research Private Limited.

[1] *WFP: United Nations' World Food Programme*

[2] *GAIN: Global Alliance for Improved Nutrition, Geneva*

[3] *MEPZ: Madras Electronic Processing Zone*

On a consolidated basis, the Group reported a Profit After Tax (PAT) of Rs. 19.65 crore on an operating income (OI) of Rs. 207.14 crore in FY2020 as per provisional estimates, over a PAT of Rs. 15.45 crore on an OI of Rs. 235.96 crore in FY2019.

Key financial indicators (Consolidated)

	FY2018 (Audited)	FY2019 (Audited)	FY2020 (Provisional)
Operating Income (Rs. crore)	209.43	235.96	207.14
PAT (Rs. crore)	2.88	15.45	19.65
OPBDIT/ OI (%)	5.95%	13.11%	15.25%
PAT / OI (%)	5.64%	6.55%	9.49%
Total Outside Liabilities/Tangible Net Worth (times)	1.22	0.90	0.76
Total Debt/ OPBDIT (times)	3.96	0.98	1.07
Interest Coverage (times)	3.93	7.71	10.09

Source: HNPL

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					25-Aug-20	03-Mar-20	27-Mar-19	07-Nov-17
1	Term Loan	Long-term	7.00	6.40*	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Cash Credit	Long-term	10.00	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	PCFC	Short-term	9.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
4	LC/BG	Short-term	3.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2

Amount in Rs. crore
** as on June 30, 2020*

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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	FY2014	8.90%	FY2023	7.00	[ICRA]BBB+ (Positive)
NA	Cash Credit	-	-	-	10.00	[ICRA]BBB+ (Positive)
NA	PCFC	-	-	-	9.00	[ICRA]A2
NA	LC/BG	-	-	-	3.00	[ICRA]A2

Source: HNPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Hexagon Nutrition Private Limited	-	Full Consolidation
Hexagon Nutrition (Exports) Private Limited	100.00%	Full Consolidation
Hexagon Nutrition (International) Private Limited	100.00%	Full Consolidation
Nutralytica Research Private Limited	100.00%	Full Consolidation

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About ICRA Limited:

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