October 27, 2021

Hexagon Nutrition (Exports) Private Limited: Ratings upgraded, and outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based Limit– Term Loan	6.00	4.00	[ICRA]A-; Upgraded from [ICRA]BBB+; Outlook revised to Stable from Positive
Short-term, Fund-based Limit	11.00	14.00	[ICRA]A2+; Upgraded from [ICRA]A2
Short-term, Non-fund Based	5.30	-	-
Unallocated Amount	-	4.30	[ICRA]A-(Stable)/[ICRA]A2+; Upgraded from [ICRA]BBB+(Positive)/[ICRA]A2
Total	**22.30**	**22.30**	

**Instrument details in Annexure*

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. ICRA has noted the common management, and close financial and operational linkages between these entities, while arriving at the ratings.

The upgrade in ratings of the Hexagon Group is driven by the growing scale of the Group's operations which is expected to sustain due to the rising demand for nutraceutical and dietary supplements along with its expansion into overseas markets. ICRA also notes that there has been a reduction of the Group's total debt over the years, which has resulted in improved capitalisation and debt coverage indicators along with adequate liquidity position of the Group, backed by sizable cash balances and sufficient buffer in sanctioned working capital limits.

The ratings also continue to favourably factor in the extensive experience of the Group's promoters in the nutraceutical and dietary supplements segment as well as its affiliation with reputed international organisations like Global Alliance for Improved Nutrition (GAIN) and the United Nations' World Food Programme (WFP).

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 players and various small, unorganised players. The ratings also remain constrained by the Group's high working capital intensity of operations, because of its high stock of raw materials due to its extensive 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. Further, any material impact on the Group's cash flows arising from the event of exit of the private equity investor over the medium term will be monitored.

The Stable outlook on the company's rating reflects ICRA's expectation that the company will benefit from the rising demand for nutraceutical and branded dietary supplements in the domestic as well as international markets due to changing lifestyle preferences of consumers.

Key rating drivers and their description

Credit strengths

Increasing scale of the Group's operations; rising demand for immunity-boosting products in view of changing lifestyles, coupled with expansion into overseas markets and UNICEF certification to help increase its revenue base over the near-to-medium term – Over the past five years (FY2017-FY2021), the Group's consolidated revenues grew at a Compounded Annual Growth Rate (CAGR) of ~12% driven by increased demand. The Group's consolidated revenues for FY2021 witnessed muted growth to Rs. 217.0 crore compared to Rs. 209.5 crore in FY2020, due to lower export revenues as the demand was hit by the pandemic situation. The sales in H1FY2022 grew by 18% YoY to Rs. 124.0 crore and was driven by increased demand for branded dietary supplements. The receipt of the UNICEF certification and the rising demand for nutritional products in the domestic and export markets in the wake of changing lifestyle preferences of mass consumers is expected to drive the Group's revenue in the near to medium term.

Reduction of debt leading to improved capitalisation and debt coverage indicators; adequate liquidity position of the Group- The total debt has declined to Rs. 20.3 crore as on March 31, 2021 from Rs. 33.7 crore as on March 31, 2020 driven by repayment of term loans and lower working capital utilization, which has benefitted the capital structure and coverage indicators; the total debt as on September 30, 2021 was at ~Rs. 24 crore (provisional numbers). The capital structure is comfortable at present, as reflected by a gearing of 0.2 time as on March 31, 2021 (0.3 time as on March 31, 2020). The debt coverage indicators have remained robust as reflected by an interest coverage ratio of 15.3 times in FY2021 (11.0 times in FY2020), NCA[1]/Total debt was at 135% as on March 31, 2021 (78% as on March 31, 2020) and Total debt/OPBDITA of 0.5 time in FY2021 (1.0 time in FY2020). The Group's liquidity position remained adequate, supported by adequate cushion available in the form of its undrawn working capital limits and a healthy free cash balance and liquid investments of Rs. 39.8 crore as on March 31, 2021 (Rs. 35.6 crore as on March 31, 2020).

Extensive experience of promoters in the field of micronutrient premixes and dietary supplements – Incorporated in 2012, HNEPL 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 operations and have prior experience of working with multinational FMCG companies.

Affiliation with international organisations like GAIN and WFP -- HNEPL 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.

Credit challenges

Moderate scale of operations along with high working capital intensity of operations– At a consolidated level, the Group's scale of operations remains moderate with revenues of Rs. 213.8 crore in FY2021 (Rs. 209.5 crore in FY2020). ICRA notes that the company's ability to leverage on the growing opportunities in the dietary supplements and nutraceutical segment by ramping up its scale of operations and expand its market share will be a key monitorable. Further, its working capital intensity remains on a higher side, given the high inventory requirements and elongated receivable days. It stood at 31% each in FY2020 and FY2021. 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 export customers.

Vulnerability of profitability to fluctuations in raw material prices and foreign exchange rates; stiff competition in the dietary supplements and nutraceutical segments- The prices of raw materials, mainly vitamins, are highly volatile and, hence, its

[1] *NCA: Net Cash Accruals*

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 Group also continues to face stiff competition and pricing pressures from organised multinationals as well as smaller, unorganised players.

Potential liability arising on the company to provide exit to the private equity investor over the near-term may impact cash flow position- As per the term sheet signed with the private equity (PE) investor, the Group was scheduled to provide an exit to the investor starting November 2021, which has received an extension till November 2022. 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

The liquidity position of the company, the Group's liquidity position remained **adequate** with undrawn working capital limits (of around Rs. 24 crore as on March 31, 2021) and healthy free cash balance and liquid investments of Rs. 39.8 crore as on March 31, 2021. The Group had term loan repayments of Rs. 3.7 crore each in FY20222 and FY2023, and Rs. 3.2 crore in FY2024. The Group's liquidity was supported by positive fund flow from operations over the last five fiscals because of healthy profitability.

Rating sensitivities

Positive factors – Substantial increase in scale and profitability, along with improvement in working capital intensity will be key for a higher rating.

Negative factors – Decline in profitability or if any higher than-anticipated debt-funded capex occur, 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. Specific credit metrics include Total Debt/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	NA
Consolidation/Standalone	The rating is based on consolidated financial statements of HNEPL, HNEPL, HNIPL and NRPL.

About the company

Hexagon Nutrition (Exports) Private Limited, incorporated in July 2012 as a wholly-owned subsidiary of HNPL, to take over the exports business of HNPL from its MEPZ, Chennai plant. HNPL, incorporated in 1993 by Mr. Arun Kelkar and family, is the flagship company of the Mumbai-based Hexagon Group. 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, GAIN, 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.

The Group's manufacturing facilities are at Nashik (under HNPL, catering to domestic and export markets), Chennai (in MEPZ3 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.

Key financial indicators

HNEPL Consolidated	FY2020	FY2021
	Audited	Audited
Operating Income (Rs. crore)	209.5	213.8
PAT (Rs. crore)	19.8	22.3
OPBDITA/OI (%)	16.1%	17.5%
PAT/OI (%)	9.4%	10.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.5
Total Debt/OPBDITA (times)	1.0	0.5
Interest Coverage (times)	11.0	15.3

HNEPL Standalone	FY2020	FY2021
	Audited	Audited
Operating Income (Rs. crore)	90.8	112.5
PAT (Rs. crore)	9.4	16.0
OPBDITA/OI (%)	15.3%	19.9%
PAT/OI (%)	10.3%	14.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.5
Total Debt/OPBDITA (times)	1.0	0.2
Interest Coverage (times)	10.8	21.5

PAT: Profit After Tax; OPBDITA: Operating Profit Before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA Research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instruments	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					October-27-2021	August-25-2020	March-3-2020	March-27-2019
1	Term loan	Long-term	4.00	4.00	[ICRA]A-(Stable)	[ICRA]BBB+(Positive)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)
2	PCFC	Short-term	14.00	-	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2
3	Unallocated amount	Long-term and Short-term	4.30	-	[ICRA]A-(Stable)/ [ICRA]A2+	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund based - Term loan	Simple
Long-term Fund based – PCFC	Simple
Unallocated amount	Not Applicable

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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
HDFC Bank	Term loan	February 2018	8.5%	February	4.00	[ICRA]A-(Stable)
Citibank	PCFC	-	-	-	10.00	[ICRA]A2+
-	PCFC (Proposed)	-	-	-	4.00	[ICRA]A2+
-	Unallocated	-	-	-	4.30	[ICRA]A-

Source: Hexagon Nutrition (Exports) Private Limited

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%	Full Consolidation
Hexagon Nutrition (International) Private Limited	100%	Full Consolidation
Nutralytica Research Private Limited	100%	Full Consolidation

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About ICRA Limited:

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