January 27, 2023

# Hexagon Nutrition (Exports) Private Limited: Ratings reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long-term, Fund-based Limit– Term Loans** | 4.00 | 4.00 | [ICRA]A- (Stable); reaffirmed |
| **Short-term, Fund-based Limit** | 14.00 | 14.00 | [ICRA]A2+; reaffirmed |
| **Short-term, Non-fund Based Limit** | - | 0.30 | [ICRA]A2+; reaffirmed |
| **Unallocated Amount** | 4.30 | 4.00 | [ICRA]A- (Stable)/[ICRA]A2+; |
| **Total** | **22.30** | **22.30** | |

**Instrument details are provided in Annexure-I*

## Rationale

To arrive at the ratings, ICRA has consolidated the business and financial risk profiles of Hexagon Nutrition Limited (HNL), and its subsidiaries including, Hexagon Nutrition (Exports) Private Limited (HNEPL) and Hexagon Nutrition (International) Private Limited (HNIPL), together referred to as the Hexagon Group. ICRA has noted the common management, close financial and operational linkages between these entities while arriving at the ratings.

The reaffirmation of the ratings of Hexagon Group factor in its established business position and the extensive experience of its promoters in the nutraceutical and dietary supplements segment, as well as its affiliation with reputed international organisations like Global Alliance for Improved Nutrition (GAIN), United Nations Children's Fund (UNICEF) and the World Food Programme (WFP) of the United Nations. The ratings also favourably factor in the rising demand for nutraceuticals across the globe with an increased focus on addressing malnutrition in developing and underdeveloped countries across the world. This has contributed to the growth in the Group's revenue to Rs. 273.3 crore in FY2022 from Rs. 213.8 crore in FY2021. However, the revenue growth momentum has moderated in H1 FY2023 due to considerably low contribution from the Environments, Social and Governance (ESG) segment. Nevertheless, the same has picked up in recent months and is expected to scale up considerably in FY2024, supported by healthy order inflow from WFP and UNICEF.

Additionally, the ratings derive comfort from the Group's comfortable capitalisation and debt coverage indicators along with its adequate liquidity position. HNL was net debt negative at a consolidated level with total debt of ~Rs. 42 crore as on March 31, 2022, against total cash/liquid investments of ~Rs. 51 crore.

However, the ratings are constrained by the Group's moderate scale of operations in an intensely competitive dietary supplements and nutraceutical segment comprising large, established players as well as various small, unorganised players. Also, the Group's profitability remains vulnerable to volatility in raw material prices and foreign currency exchange rates. This is also demonstrated by the decline in operating margins over FY2022 and H1 FY2023. Despite some expected improvement in H2 FY2023, operating margins are likely to remain considerably lower than the previous fiscal. Though with the stabilisation of raw material prices and healthy anticipated revenue growth, operating margins are expected to improve sequentially in FY2024. Further, any material impact on the Group's credit profile or liquidity position, arising from the event of exit of the private equity (PE) investor over the near term, will be a key rating monitorable.

The Stable outlook on HNL's long-term rating reflects ICRA's expectation that the Group will continue to witness a steady growth in revenues backed by the rising demand for nutraceutical and branded dietary supplements across the globe while maintaining a comfortable credit profile with adequate liquidity.

## Key rating drivers and their description

### Credit strengths

**Extensive experience of the promoters in micronutrient premixes and dietary supplements –** HNL is a part of the Mumbai-based Hexagon Group established in 1993 by Mr. Arun Kelkar and family. It has been in the business of manufacturing micronutrient premixes and dietary supplements ever since. 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 –** HNL is one of the 44 premix blenders in the world 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 underdeveloped nations. It is also one of the 22 companies across the globe approved by UNICEF and WFP for procurement of ready-to-use therapeutic food (RUTF) and micronutrient powders (MNP). In recent months, the Group has received healthy orders from these agencies, which is expected to support its revenue growth, going forward.

**Comfortable capitalisation and debt coverage indicators; adequate liquidity position –** Steady internal accrual generation and no major increase in debt levels has continued to result in comfortable capitalisation and debt coverage indicators for the Group, with gearing of 0.3 time as on March 31, 2022, and total debt/OPBDITA of 1.1 times, Net debt/OPBDITA of (0.2) time and interest coverage of 17.4 times in FY2022. Additionally, the Group's liquidity profile remains adequate supported by steady internal accrual generation, cash/liquid investments and undrawn bank lines.

**Rising demand for immunity-boosting products with changing lifestyles, coupled with expansion into overseas markets and UNICEF certification to help expand revenue base over the near to medium term –** 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. Further, the increasing focus of various governments, international agencies, and NGOs towards addressing malnutrition across the globe is expected to support revenue growth. The Group commissioned its manufacturing facility in Uzbekistan in May 2022 and has registered healthy growth in this market within a short span of time.

### Credit challenges

**Moderate scale of operations –** Despite healthy growth in FY2022, the Group's scale of operations remained moderate at Rs. 273.3 crore in FY2022 and is expected to remain at similar levels in FY2023 as well. Revenue growth in the current fiscal has been relatively muted due to considerably low contribution from the ESG segment in H1 FY2023. However, the same has picked up in H2 FY2023 and is expected to scale up considerably over the near term, supported by a healthy order book. The Group is one of the largest players in India in the premix manufacturing segment; however, its presence in the dietary supplements space remains limited in a competitive market with several large players like Abott Nutrition, Nestle Health Science, and Hindustan Unilever, etc, and many smaller, unorganised players. HNL's ability to grow its branded dietary supplements remain one of the key monitorables for the growth of the company.

**Vulnerability of profitability to fluctuations in raw material prices and forex rates; stiff competition in dietary supplements and nutraceutical segments –** The primary raw materials for the manufacturing of nutraceuticals are vitamins, minerals, whey protein and skim milk powder (SMP). The Hexagon Group's profit margins remain vulnerable to the volatility in the prices of these key raw materials, given the fixed price nature of most of its contracts and high competitive intensity of the industry. This is also demonstrated by the decline in operating margins over FY2022 and H1 FY2023. Despite some expected improvement in H2 FY2023, operating margins are likely to remain considerably lower than the previous fiscal. However operating margins are expected to improve in FY2024 on the back of some stabilisation in raw material prices and healthy anticipated revenue growth. The Group is a net exporter with overall net exports of Rs. 25-30 crores per annum over the past few years. Therefore, it is exposed to foreign exchange risks to the extent not covered by natural hedge due to its imports and exports.

**Potential liability on HNL to provide exit to PE investor in the absence of an IPO may impact cash flow position –** As per the term sheet signed with the PE investor, the Group was scheduled to provide it with an exit by November 2022 and, accordingly, HNL had filed its DRHP (valid till March 2023) for an IPO. However, in case of its inability to come out with an IPO by then, the Group will have to evaluate other options to provide an exit to the PE investor. Any material liability or cash outflow to facilitate the same, impacting the Group's credit profile and liquidity position will remain a key monitorable.

## Liquidity position: Adequate

The Hexagon Group's liquidity position remains **adequate,** supported by steady internal accrual generation, healthy unencumbered cash balance and liquid investments of ~Rs. 47.0 crore as on December 15, 2022, and cushion in the form of undrawn working capital limits of around Rs. 10 crore. Additionally, the Group does not have any major debt-funded capex plans over the near term and moderate debt repayment of up to Rs. 3 crore p.a. over FY2023-FY2024, which will further support its liquidity profile.

## 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 any higher than-anticipated debt-funded capex, or a stretch in the working capital cycle weakens the liquidity position. 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<br>Rating Methodology for Entities in the Pharmaceutical Industry |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | The rating is based on the consolidated financial statements of HNL |

## About the company

Hexagon Nutrition Limited, 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 domestic sales, also exports its vitamin and mineral premixes to more than 70 countries, primarily through its collaborations with WFP, GAIN, other international organisations, and NGOs.

The Group's manufacturing facilities are at Nashik (under HNL in Maharashtra, catering to domestic and export markets), Chennai (in MEPZ3 SEZ, under HNEPL, catering to export markets) and Tuticorin (in the Food Processing Zone of Pearl City Food Port SEZ, Tamil Nadu, under HNIPL, catering mainly to export markets) and Uzbekistan (under a foreign subsidiary, Hexagon Nutrition Limited Liability Company). The domestic manufacturing facilities are ISO 22000:2005, Food Safety System Certification (FSSC) 22000:2010, GMP Australia and Halal certified. HNL also has a food testing laboratory-cum-research center in Nashik.

## Key financial indicators (audited)

| HNL – Consolidated | FY2021 | FY2022 |
|---|---|---|
| Operating Income (Rs. crore) | 213.8 | 273.3 |
| PAT (Rs. crore) | 22.9 | 23.3 |
| OPBDIT/OI (%) | 17.9% | 14.6% |
| PAT/OI (%) | 10.7% | 8.5% |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.5 | 0.6 |
| Total Debt/OPBDIT (times) | 0.5 | 1.0 |
| Interest Coverage (times) | 14.8 | 17.4 |

| HNEPL – Standalone | FY2021 | FY2022 |
|---|---|---|
| Operating Income (Rs. crore) | 112.5 | 133.3 |
| PAT (Rs. crore) | 16.2 | 14.4 |
| OPBDIT/OI (%) | 19.9% | 15.4% |
| PAT/OI (%) | 14.4% | 10.8% |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.5 | 0.5 |
| Total Debt/OPBDIT (times) | 0.2 | 0.6 |
| Interest Coverage (times) | 19.8 | 23.4 |

*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 year

| | Instruments | Current Rating (FY2023) | | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2023 | Date & Rating in FY2022 | Date & Rating in FY2021 | Date & Rating in FY2020 |
| | | | | | Jan 27, 2023 | Oct 27, 2021 | Aug 25, 2020 | Mar 03, 2020 |
| 1 | Term loan | Long-term | 4.00 | 1.53 | **[ICRA]A-(Stable)** | [ICRA]A-(Stable) | [ICRA]BBB+ (Positive) | [ICRA]BBB+(Stable) |
| 2 | PCFC | Short-term | 14.00 | - | **[ICRA]A2+** | [ICRA]A2+ | [ICRA]A2 | [ICRA]A2 |
| 3 | Short-term non fund based | Short-term | 0.30 | - | **[ICRA]A2+** | - | - | - |
| 4 | Unallocated | Long-term and Short-term | 4.00 | - | **[ICRA]A-(Stable)/ [ICRA]A2+** | [ICRA]A-(Stable)/ [ICRA]A2+ | - | - |

## Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|---|---|
| Long-term Fund based - Term loan | Simple |
| Short-term Fund based | Simple |

| | |
|---|---|
| Short-term Non-Fund-Based | Very 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, 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 | February 2018 | 8.5% | February 2025 | 4.00 | [ICRA]A-(Stable) |
| NA | PCFC | - | - | - | 10.00 | [ICRA]A2+ |
| NA | PCFC | - | - | - | 2.00 | [ICRA]A2+ |
| NA | PCFC | - | - | - | 2.00 | [ICRA]A2+ |
| NA | Non-Fund Based | - | - | - | 0.30 | [ICRA]A2+ |
| NA | Unallocated | - | - | - | 4.00 | [ICRA]A- (Stable)/[ICRA]A2+ |

*Source: Hexagon Nutrition (Export) Private Limited*

*Please click here to view details of lender-wise facilities rated by ICRA*

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

| Company Name | HNL Ownership | Consolidation Approach |
|---|---|---|
| Hexagon Nutrition Limited | 100.00% | Full Consolidation |
| Hexagon Nutrition (Exports) Private Limited | 100.00% (rated entity) | Full Consolidation |
| Hexagon Nutrition (International) Private Limited | 100.00% | Full Consolidation |
| Nutralytica Research Private Limited | 100.00% | Full Consolidation |
| Hexagon Nutrition Healthcare Pvt. Ltd. | 100.00% | Full Consolidation |
| Hexagon Nutrition (PTY) Ltd. | 100.00% | Full Consolidation |
| Hexagon Nutrition LLC | 100.00% | Full Consolidation |
| Hexagon Nutrition China Ltd. | 100.00% | Full Consolidation |

*Source: HNL annual report FY2022*

*Note: ICRA has taken a consolidated view of the parent (HNL), its subsidiaries while assigning the ratings.*

**Nutralytica Research Private Limited is merged with HNL vide order dated October 4, 2022*

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