

November 06, 2023

Hexagon Nutrition (International) Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, fund-based Limit – Term Loans	2.27	5.12	[ICRA]A- (Stable); reaffirmed/assigned
Short-term, fund-based/ non-fund based limit	5.00	10.39	[ICRA]A2+; reaffirmed/assigned
Short-term, non-fund based limit	5.00	5.00	[ICRA]A2+; reaffirmed
Unallocated	7.39	13.15	[ICRA]A-(Stable)/[ICRA]A2+; reaffirmed/ assigned
Total	19.66	33.66	

*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, 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 rating reaffirmation of the Hexagon Group factors in the established experience of its promoters in the nutraceuticals and dietary supplements industry, and its established business position with continued affiliation with reputed organisations like GAIN¹, UNICEF² and WFP³. The ratings also factor in the growing scale of the company supported by increased product offerings, diversification of supply chains and growing demand on account of increased global focus on addressing malnutrition in developing and underdeveloped countries. While growth (2.4% YoY) remained modest with a revenue of Rs. 279.8 crore in FY2023, it has increased in 5M FY2024 with a revenue of Rs. 140.1 crore against Rs. 88.6 crore in 5M FY2023. Moreover, HNL is expected to register a low double-digit growth annually over the near to medium term.

The ratings also derive comfort from the Group's comfortable capitalisation and debt coverage indicators and an adequate liquidity position. As on March 31, 2023, HNL had a consolidated net debt of Rs. 1.6 crore leading to comfortable leverage and coverage indicators. Moreover, its liquidity position was supported by cash and cash equivalents of Rs. 53.9 crore and significant undrawn working capital limits.

The ratings, however, are constrained by the Group's moderate scale of operations with a revenue of Rs. 279.8 crore in FY2023. The Group continues to face strong competitive pressures as part of a competitive dietary supplements and nutraceutical segment comprising large, established players as well as various small, unorganised players. However, the Hexagon Group benefits from being one of the 44 companies globally who are certified by GAIN under the GAIN Premix Facility aimed at easing the procurement of good quality premixes for organisations manufacturing food products. Moreover, the Group's profitability continues to remain vulnerable to raw material prices and pricing pressures on account of the stiff competition in the industry. This was also demonstrated by considerable contraction in its operating margins to 7.9% in FY2023 from 14.6% in FY2022.

¹ Global Alliance for Improved Nutrition

² United Nations Children's Fund

³ World Food Programme

However, there has been some recovery in margins in the current fiscal with further improvement anticipated over the near to medium term. The margins are also exposed to fluctuations in forex rates as the Group is a net exporter. Further, any material impact on the Group's credit profile or liquidity position, arising from the event of exit of the private equity⁴ (PE) investor over the near term, will continue to 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 was established by Mr. Arun Kelkar and family in 1993 and has been in the business of manufacturing micronutrient premixes and dietary supplements for around 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 – HNL is one of the 44 companies globally, certified by GAIN under the GAIN Premix Facility aimed at easing the procurement of good quality premixes for organisations manufacturing food products. Moreover, the company partners with organisations like UNICEF and WFP 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 procuring ready-to-use therapeutic food (RUTF) and micronutrient powders (MNP).

Comfortable capitalisation and coverage indicators; adequate liquidity position – The capitalisation and coverage indicators of HNL continue to remain healthy supported by steady internal accrual generation and no major increase in debt levels. On a consolidated basis, HNL had a gearing of 0.3 time as on March 31, 2023, and total debt/OPBDITA of 2.4 times, net debt/OPBDITA of 0.1 time and interest coverage of 6.6 times. Additionally, the Group's liquidity profile remains adequate supported by steady internal accrual generation, healthy cash/liquid investments and undrawn bank lines.

Improving product offerings, supply channel diversification, expansion into overseas markets and UNICEF certification to help expand revenue base over near to medium term – The increasing demand of dietary supplements and nutraceuticals coupled with the increasing focus of various governments, international agencies, and NGOs towards addressing malnutrition across the globe is expected to support the growth of the ESG segment of the Group. Growth is also expected to be supported by the Group's improving product offerings with expected product launches across four new segments (in over-the-counter space) and increasing sales of its branded products through e-commerce, which generated 15% of its 5M FY2024 sales (10% in FY2023).

Credit challenges

Moderate scale of operations – The Group's scale of operations continues to remain moderate with a revenue of Rs. 279.8 crore in FY2023. While the Group is expected to witness a healthy growth over the near to medium term, its overall scale is expected to continue to remain moderate. The Group is one of the largest players in India in the premix manufacturing segment; however, its presence in dietary supplements remains limited in a competitive market with several large players like Abbott Nutrition, Nestle Health Science, and Hindustan Unilever, etc, and many smaller, unorganised players. Hence, its ability to grow its branded dietary supplements remain one of the key monitorables for the growth of the company.

⁴ Somerset Indus Healthcare Fund I Ltd. invested in HNL in FY2017 and currently holds ~10% stake.

Vulnerability of profitability to fluctuations in raw material prices and forex rates; pricing pressure owing to stiff competition

– Hexagon Group’s profitability is vulnerable to volatility in prices of raw materials like vitamins, minerals, whey protein and skimmed milk powder (SMP). The Group also faces pricing pressure from its customers on account of being part of a highly competitive industry. This has resulted in moderation of its operating margins to 7.9% in FY2023 from 14.6% in FY2022. While margins are expected to improve gradually from the stabilisation of raw material prices and benefits from economies of scale, they continue to remain susceptible to raw material prices and pricing pressures. Moreover, the Group’s margins are exposed to fluctuations in forex rates as a net exporter.

Potential liability on HNL to provide exit to PE investor in the absence of an IPO may impact cash flow position

– Earlier, HNL had filed a draft red herring prospectus (DRHP) to facilitate the exit of its private equity (PE) investor. However, the validity of the DRHP expired in March 2023 and the Group is now evaluating other options to provide an exit to the PE investor, which is likely to be completed by the end of the current fiscal. 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 Group’s liquidity position remains adequate, supported by steady internal accrual generation, healthy unencumbered cash balance and liquid investments of ~Rs. 44 crore as on September 19, 2023, and cushion in the form of undrawn working capital limits of around Rs. 46 crore as of end of July 2023. Additionally, the Group does not have any major debt-funded capex plans over the near term and moderate debt repayment of less than Rs. 1.5 crore p.a. over FY2024-FY2026, 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 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 certified, as well as Food Safety System Certification (FSSC) 22000:2010, GMP Australia and Halal certified. HNL also has a food testing laboratory-cum-research centre in Nashik.

Key financial indicators (audited)

HNL – Consolidated	FY2022	FY2023
Operating Income (Rs. crore)	273.3	279.8
PAT (Rs. crore)	23.3	5.7
OPBDIT/OI (%)	14.6%	7.9%
PAT/OI (%)	8.5%	2.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.8
Total Debt/OPBDIT (times)	1.0	2.4
Interest Coverage (times)	17.4	6.6

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

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

HNIPL – Standalone	FY2022	FY2023
Operating Income (Rs. crore)	41.5	31.1
PAT (Rs. crore)	1.6	-1.5
OPBDIT/OI (%)	8.2%	2.6%
PAT/OI (%)	4.0%	-4.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	2.8
Total Debt/OPBDIT (times)	1.6	35.4
Interest Coverage (times)	2.9	0.6

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

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of June 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Nov 6, 2023	Jan 27, 2023	Oct 27, 2021	Aug 25, 2020
1 Term loan	Long-term	5.12	4.55	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)
2 Fund-based/non-fund based	Short-term	10.39	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2
3 Non-fund based	Short-term	5.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-
4 Unallocated	Long-term and Short term	13.15	-	[ICRA]A- (Stable)/[ICRA]A 2+	[ICRA]A- (Stable)/[ICRA]A 2+	[ICRA]A- (Stable)/[ICRA]A 2+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund based - Term loan	Simple
Short-term Fund based /Non-Fund Based	Simple
Short-term non-fund-based	Very Simple
Unallocated	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	FY2014	9.25-10.85%	FY2028	5.12	[ICRA]A- (Stable)
NA	Short-term Fund-based/non-fund based	-	-	-	10.39	[ICRA]A2+
NA	Short-term non-fund based	-	-	-	5.00	[ICRA]A2+
NA	Unallocated	-	-	-	13.15	[ICRA]A- (Stable)/[ICRA]A2+

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	HNL Ownership	Consolidation Approach
Hexagon Nutrition Limited	100.00% (rated entity)	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
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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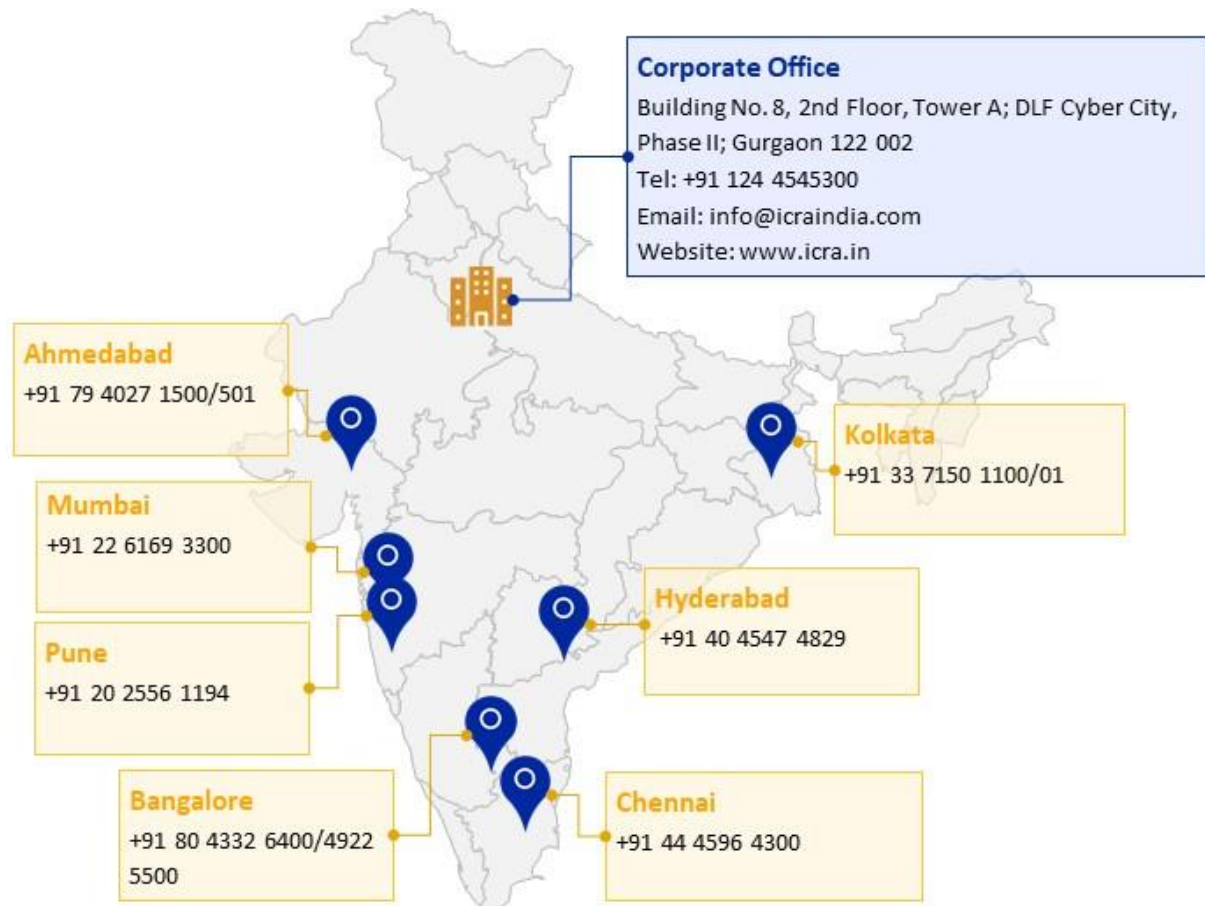
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