December 10, 2024

Hexagon Nutrition 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 – Cash Credit	4.00	4.00	[ICRA]A- (Stable); reaffirmed
Long-term, Fund-based Limit – Term Loans	5.00	10.00	[ICRA]A- (Stable); reaffirmed
Short-term, Fund-based Limit	31.00	23.00	[ICRA]A2+; reaffirmed
Short-term, Non-fund Based Limit	(3.00)#	(3.00)#	[ICRA]A2+; reaffirmed
Short-term, Non-fund Based Limit	0.00	(3.00)**	[ICRA]A2+; reaffirmed
Unallocated	22.00	25.00	[ICRA]A- (Stable)/[ICRA]A2+; reaffirmed
Total	**62.00**	**62.00**	

**Instrument details are provided in Annexure-I; #sublimit of cash credit limit; **Sublimit of short-term fund-based-limit*

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 among these entities while arriving at the ratings.

The ratings reaffirmation of the Hexagon Group factors in its established operational track record and extensive experience of its promoters in the nutraceuticals and dietary supplements industry, and its long affiliation with reputed global organisations like GAIN[1], UNICEF[2]and WFP[3]. While the Group's revenues rose moderately to Rs. 300.7 crore in FY2024 and Rs. 133 crore in H1 FY2025 (Rs. 279.8 crore in FY2023), ICRA expects the Group to report a healthy revenue growth in the latter half of FY2025, supported by its healthy order book position and higher offtake from key customers. Moreover, growing demand for ready-to-eat supplementary foods due to increased global focus on addressing malnutrition in developing and underdeveloped countries and higher revenue contribution of its branded nutritional products, are expected to support future revenue growth and improvement in profit margins for the Group. Additionally, the ratings continue to derive comfort from the Group's comfortable capitalisation and debt coverage indicators and an adequate liquidity position.

However, the ratings are constrained by the Group's moderate scale of operations and limited pricing flexibility owing to intense competition, especially in the dietary supplements and nutraceutical segments. However, the Hexagon Group benefits to some extent for being one of the 44 companies globally, which are certified by GAIN under the GAIN Premix Facility, aimed at easing the procurement of good quality premixes for organisations that manufacture food products. Moreover, the Group's profitability continues to remain vulnerable to volatility in raw material prices, which coupled with lower-than-anticipated growth in FY2024 led to a moderate operating margin of 9.3% in FY2024 (7.9% in FY2023). However, there has been some recovery in margin in the current fiscal with further improvement anticipated over the near-to-medium term, supported by stabilisation of raw material prices and increased contribution from margin-accretive branded products. Further, the margins

[1] *Global Alliance for Improved Nutrition*

[2] *United Nations International Children's Emergency Fund*

[3] *World Food Programme*

are exposed to fluctuations in forex rates, given the sizeable level of exports. ICRA has also noted that the Group is in the advanced stages of onboarding a new investor to provide an exit to its existing private equity (PE) investor, and the same will remain a key monitorable.

The Stable outlook on the long-term rating reflects ICRA's expectation that the Group will continue to witness a steady revenue growth, 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 that manufacture food products. Moreover, the company partners with organisations like UNICEF and WFP for supplying 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's gearing stood at 0.20 times as on March 31, 2024 and other credit metrics also remained comfortable with net debt/OPBDITA of 0.50 times and interest coverage of 6.7 times in FY2024. Additionally, the Group's liquidity profile remains adequate, supported by steady internal accrual generation, healthy cash/liquid investments and undrawn bank lines.

Expansion into overseas markets and UNICEF certification to help expand revenue base over near-to-medium term – Rising demand of dietary supplements and nutraceuticals, coupled with the increasing focus of various governments, international agencies, and NGOs towards addressing malnutrition issue across the globe are 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 and increasing sales of its branded products through e-commerce and exports. In FY2024, contribution from the branded segment stood at 24%, which rose to 34% in H1 FY2025. However, the ESG segment moderated during the period owing to seasonality and is expected to pick up in the latter half of the financial year. The premix segment continues to contribute a major portion to the revenue, whereas margins under this segment remained under pressure due to intense competition.

Credit challenges

Moderate scale of operations – The Group's scale of operations continues to remain moderate with revenue of Rs. 300.7 crore in FY2024. While the Group is expected to witness a healthy growth over the near-to-medium term, its overall scale is likely 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 Abott Nutrition, Nestle Health Science, and Hindustan Unilever, etc., and many smaller, unorganised players. Hence, its ability to grow its branded dietary supplements remains one of the key monitorable for the growth of the company.

Vulnerability of profitability to fluctuations in raw material prices and forex rates; pricing pressure owing to stiff competition – The 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 for being a part of a highly competitive industry. This has resulted in moderation of its operating margins over the years. However, margins in FY2024 improved to 9.3%, further rising to 12.3% in H1 FY2025 with stabilisation of raw material prices and higher revenue from the margin accretive branded products during the period. The profitability remains susceptible to raw material prices and pricing pressure. 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 existing PE investor, Somerset Indus Capital Partners. However, the validity of DRHP expired in March 2023 and the Group is now evaluating other options to provide an exit to the PE investor. ICRA notes that the company is in the advanced stage of onboarding a new investor, marking the exit of the existing PE investor over the next few months. While there is not likely to be any material cash outflow from the company as a part of the deal, timely execution of this deal will be monitored.

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. 64.80 crore as on September 30, 2024, and cushion in the form of undrawn working capital limits of ~Rs. 52 crore as on September 30, 2024. In FY2025, the Group has no major debt-funded capex plans, modest debt repayments of Rs. 2.0-2.5 crore and dividend payout of Rs. 5.0 crore to the existing PE investor as a part of the exit deal. These commitments are expected to be adequately met through internal accruals and available surplus liquidity.

Rating sensitivities

Positive factors – The ratings can be upgraded if there is substantial increase in scale and profitability, along with improvement in working capital intensity, while maintaining comfortable liquidity position.

Negative factors – The ratings can be downgraded if there is considerable 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 Pharmaceuticals
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of HNL.

About the company

HNL, 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 in Nashik (under HNL in Maharashtra, catering to domestic and export markets), Chennai (in MEPZ3 SEZ, under HNEPL, catering to the 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	FY2023	FY2024
Operating Income (Rs. crore)	279.8	300.7
PAT (Rs. crore)	5.7	12.3
OPBDIT/OI (%)	7.9%	9.3%
PAT/OI (%)	2.0%	4.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.5
Total Debt/OPBDIT (times)	2.4	1.4
Interest Coverage (times)	6.6	6.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

HNL – Standalone	FY2023	FY2024
Operating Income (Rs. crore)	117.4	134.1
PAT (Rs. crore)	-3.1	10.5
OPBDIT/OI (%)	2.0%	11.1%
PAT/OI (%)	-2.6%	7.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	0.9
Total Debt/OPBDIT (times)	11.5	2.7
Interest Coverage (times)	1.7	10.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs. crore)	Dec 10, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Term loan	Long-term	10.00	**[ICRA]A-(Stable)**	Nov 6, 2023	[ICRA]A-(Stable)	Jan 27, 2023	[ICRA]A-(Stable)	Oct 27, 2021	[ICRA]A-(Stable)
Cash Credit	Long-term	4.00	**[ICRA]A-(Stable)**	Nov 6, 2023	[ICRA]A-(Stable)	Jan 27, 2023	[ICRA]A-(Stable)	Oct 27, 2021	[ICRA]A-(Stable)
Fund-based limits	Short-term	23.00	**[ICRA]A2+**	Nov 6, 2023	[ICRA]A2+	Jan 27, 2023	[ICRA]A2+	Oct 27, 2021	[ICRA]A2+
Non-fund based limits*	Short-term	(3.00)	**[ICRA]A2+**	Nov 6, 2023	[ICRA]A2+	Jan 27, 2023	[ICRA]A2+	Oct 27, 2021	[ICRA]A2+
Non-fund based limits#	Short-term	(3.00)	**[ICRA]A2+**	Nov 6, 2023	-	Jan 27, 2023	-	Oct 27, 2021	-
Unallocated	Long-term and Short-term	25.00	**[ICRA]A-(Stable)/ [ICRA]A2+**	Nov 6, 2023	[ICRA]A-(Stable)/ [ICRA]A2+	Jan 27, 2023	[ICRA]A-(Stable)/ [ICRA]A2+	Oct 27, 2021	[ICRA]A-(Stable)/ [ICRA]A2+

**Sublimit of cash credit; #Sublimit of fund based limit*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund based – Term loan	Simple
Long-term Fund based – Cash Credit	Simple
Short-term Fund based	Simple
Short-term non-fund-based – Letter of Credit/ Bank Guarantee	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	FY2023	9.2%	FY2028	10.00	[ICRA]A-(Stable)
NA	Cash Credit	NA	NA	NA	4.00	[ICRA]A-(Stable)
NA	PCFC	NA	NA	NA	19.00	[ICRA]A2+
NA	Fund based limits	NA	NA	NA	4.00	[ICRA]A2+
NA	Non-fund based limits	NA	NA	NA	(3.00)#	[ICRA]A2+
NA	Non-fund based limits	NA	NA	NA	(3.00)**	[ICRA]A2+
NA	Unallocated	NA	NA	NA	25.00	[ICRA]A-(Stable)/ [ICRA]A2+

*Source: Company; #Sublimit of cash credit; **Sublimit of fund based limits*

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
Hexagon Nutrition Healthcare Pvt. Ltd.	100.00%	Full Consolidation
Hexagon Nutrition Proprietary Ltd.	100.00%	Full Consolidation
Hexagon Nutrition LLC	100.00%	Full Consolidation
Hexagon Nutrition China Ltd.	100.00%	Full Consolidation

Source: HNL annual report FY2024

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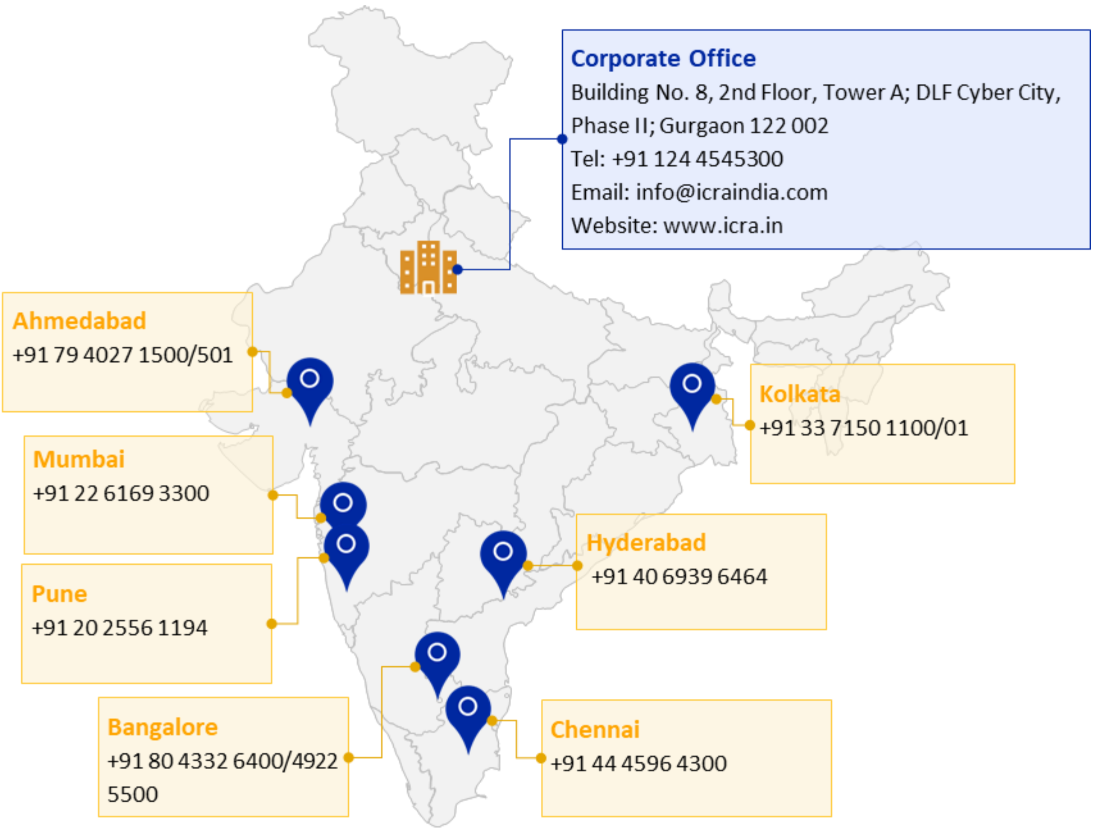

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