November 07, 2017

# Hexagon Nutrition Private Limited

**Summary of Rated Instruments**

| Instrument* | Rated Amount (in Rs. crore) | Rating Action |
|---|---|---|
| Long-term: Fund based limits – Cash Credit | 7.00 (enhanced from 6.00) | [ICRA]BBB+ (Stable); Upgraded from [ICRA]BBB (Stable) |
| Long-term: Fund based limits – Term Loans | 9.00 (reduced from 11.00) | |
| Short-term: Fund based limits – Post-shipment Credit (PCFC) | 4.00 (enhanced from 1.00) | [ICRA]A2; Upgraded from [ICRA]A3+ |
| Short-term: Non Fund based limits | 2.00 (enhanced from Nil) | |
| Long-term/ Short-term, fund base d/ non-fund based working capital facilities | Nil (earlier 4.00) | - |
| **Total** | **22.00** | |

*Instrument Details are provided in Annexure-1

**Rating action**

ICRA has upgraded the long-term rating to [ICRA]BBB+ (pronounced ICRA triple B plus) from [ICRA]BBB (pronounced ICRA triple B) for the Rs. 7.00 crore[1] (enhanced from Rs. 6.00 crore) cash credit facility and Rs. 9.00 crore (reduced from Rs. 11.00 crore) term loan facilities of Hexagon Nutrition Private Limited ('HNPL' or 'the company')[2]. ICRA has also upgraded the short-term rating to [ICRA]A2 (pronounced ICRA A two) from [ICRA]A3+ (pronounced ICRA A three plus) for the Rs. 4.00 crore (enhanced from Rs. 1.00 crore) fund based limits and Rs. 2.00 crore (enhanced from Nil) non fund based limits of HNPL. The outlook on the long-term rating remains 'Stable'.

**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) and Hexagon Nutrition (International) Private Limited (HNIPL).

The ratings upgrade takes into account the strengthening of capital structure and debt coverage indicators and improvement in liquidity position at consolidated level, as a result of fresh private equity infusion of Rs. 25.00 crore in FY2017 in HNPL; and expected improvement in the company's scale of operations in the near to medium term on the back of increased sales from the over the counter (OTC) segment. The ratings continue to factor in the vast experience of the promoters in manufacturing of micronutrient premixes and dietary supplements spanning over three decades; the company's association with reputed international organisations like Global Alliance for Improved Nutrition (GAIN) and World Food Programme (WFP) ensuring repeat business; established network with large hospital chains in India to recommend and sell disease specific branded dietary supplements; and absence of any large debt funded capital expenditure over the medium term. The ratings are, however, constrained by the relatively small scale of company's operations at present; exposure to intense competition from the established multinational and other unorganised players in the OTC dietary supplements and retail nutraceutical segment resulting in pricing pressures; and vulnerability of the company's profitability to exchange rate risks to the extent of unhedged forex exposure given the significant export portfolio.

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA Rating Publications*

## Key rating drivers

### Credit strengths

- **Vast experience of the promoters in the field of micronutrient premixes and dietary supplements -** Incorporated in 1993, Hexagon Nutrition Private Limited is promoted by Kelkar family who has been in the business for over three decades. The promoters are professionally qualified in their field of operations and have prior experience working with multinational FMCG companies. The company has its manufacturing facilities at Dindori (Nashik) and Chennai. While the Nashik plant caters to the domestic sales as well as exports sales of Premixes and Nutraceuticals, the Chennai plant is located in the Madras Electronic Processing Zone (MEPZ – SEZ) and caters to the export sales.
- **Longstanding association with reputed international organizations like GAIN and WFP continues to drive the premix export business -** HNPL is one of the 21 premix blenders in the world (one of the 8 Indian premix blenders in the list) selected by GAIN under its GAIN Premix Facility (GPF) initiative[3]. The company partners WFP and other international NGOs in supplying vitamin and mineral premixes for their food fortification initiatives in developing and under developed nations. HNPL currently exports to more than 70 countries; the export destinations comprise of under-developed and developing countries where under-nutrition is an issue. Several United Nations' departments, NGOs and the local government bodies run various initiatives in these countries and HNPL participates in these initiatives either by directly securing the order for premix supply or winning the tenders floated by these entities. Export sales grew by ~35% during FY2017 (70% in FY2016) owing to robust orders from WFP and other trade partners; exports accounted for ~78% of total sales in FY2017 (70% in FY2016).
- **Relationship with large hospital chains in India to recommend and sell disease specific branded dietary supplements -** The company has established relationship with large hospital chains like Apollo, Fortis, Tata Memorial Hospital, Lilavati, Jaslok, AIIMS, Bombay Hospital, Defence Hospitals and 17 railway hospitals, amongst many more and reputed doctors in the country for prescription of company's dietary supplement products and the products are being sold through the pharmacies at these hospitals. The company has also launched its e-commerce portal 'mynutrishop.co.in' and no. of other e-commerce portals to expand its reach to the remote locations. Further, the company has ventured into Over-the-Counter (OTC) segment for sale of its branded dietary supplements, which is expected to provide an impetus to domestic sales going forward.
- **Funding support by way of private equity infusion of Rs. 25.00 crore leading to strengthening of the capital structure, debt indicators and liquidity position of the company –** HNPL raised Rs. 25.00 crore from a private equity investor, Somerset Indus Healthcare Fund I, in November 2016 by issuing compulsorily convertible preference shares (CCPS). The same led to strengthening of the company's capitalisation and debt coverage indicators as reflected by improved gearing of 0.32 times, interest coverage of 6.74 times and NCA/Total Debt of 48% as on March 31, 2017. The liquidity position also improved as reflected by healthy cash balance of Rs 19.93 crore as on March 31, 2017 which is proposed to be utilised for part funding of the capex at Nasik plant and meeting the working capital requirements.
- **Expected improvement in the scale of operations in the near to medium term –** The company's revenues increased by 14% in FY2017 over previous fiscal, supported by higher orders from the export market. The company has invested heavily in the OTC segment by employing a large work workforce of ~140 personnel and incurring significant selling expenses during FY2017. The same is

[3] The GPF was set up in 2009 to help food fortification projects by establishing an easier, cost effective way of procuring high quality vitamin and mineral premix. GPF service is open to any organization or company producing nutritious food products for people vulnerable to malnutrition, in addition to GAIN supported projects

likely to support the revenue growth of the company in the near to medium term. Further, the Tuticorin plant will also support the revenue growth once it becomes fully operational.

**Credit weaknesses**

- **Relatively small scale of operations of the company at present –** The scale of operations of the company remains relatively small at present, with revenues of Rs. 139.77 crore in FY2017, on a consolidated basis.
- **Exposure to strong competition from the established multinational and other unorganized players in the OTC dietary supplements and retail nutraceutical segments –** The global feed and food nutrition ingredient market is dominated by a few multinational companies such as Kerry, DSM, Cargill, FMC and DuPont amongst others. Moreover, the market also consists of a large number of small-sized companies catering to niche requirements of the end users or the aforementioned conglomerates. The company continues to face strong competition and pricing pressures from such organized as well as unorganized suppliers. Further, the branded dietary segment also entails strong competition from established brands such as 'PediaSure' from Abbott Laboratories and from 'HiOwna' from Himalaya Herbal Healthcare. While the company traditionally sold these products through doctor prescription route, its entry into OTC segment is recent with two of its products for OTC market, 'Penta Sure' and 'ObesiGo' launched at the end of FY2017. Although the OTC market offers significantly higher sales potential than the doctor prescription route, it requires significant marketing and selling expenses during the initial phase which may constrain operating margins of the company in the near term. The company's operating profit margins have remained adequate at 18%-21% levels over FY2012-16, but dropped to 13% in FY2017 due to higher one-time personnel cost and selling expenses towards OTC products.
- **Vulnerability of profitability to fluctuations in exchange rates -** The company derives a majority of its revenues through exports which exposes it to currency risks. The risk is partly mitigated by way of natural hedge offered by import purchases. In FY2017, exports accounted for 78% of the total sales while imports stood at 45% of total purchases. Since the company does not follow any firm hedging policy, its profitability remains exposed to exchange rate fluctuations to the extent of unhedged forex exposure.

**Analytical approach:** For arriving at the ratings, ICRA has consolidated the business and financial risk profiles of Hexagon Nutrition Private Limited and its subsidiaries – Hexagon Nutrition (Exports) Private Limited and Hexagon Nutrition (International) Private Limited.

**Links to applicable criteria:**
**Corporate Credit Rating Methodology**
**Rating Methodology for Pharmaceutical Industry**

**About the company**

Hexagon Nutrition Private Limited ('HNPL' or 'the company'), incorporated in 1993 by Mr. Arun Kelkar and family, is the flagship company of the Hexagon Nutrition Group ('the group'). The group operations include operations under HNPL and its two wholly owned subsidiaries, namely Hexagon Nutrition (Exports) Private Limited (HNEPL) and Hexagon Nutrition (International) Private Limited (HNIPL). The group is engaged in manufacturing and sale of micronutrient premixes for human as well as veterinary consumption, therapeutic food, and dietary supplements (branded products). The group, besides the domestic sales, exports its vitamin and mineral premixes to more than 70 countries, primarily through its collaboration with WFP[4], GAIN[5], and other international organizations and NGOs. HNPL is one of the 21 companies in the world selected by GAIN under GAIN Premix Facility (GPF), which is aimed at easing

[4] WFP: United Nations' World Food Program
[5] GAIN: Global Alliance for Improved Nutrition, Geneva

the procurement of good quality premixes for the organizations manufacturing food items. The dietary supplements, which are the branded nutraceutical products, are being sold primarily in the domestic market through ethical promotion. The group has also commenced exports of dietary supplements and recently launched its dietary supplement products through the Over the Counter (OTC) channel in the domestic market.

The group has its manufacturing facilities at Dindori near Nashik (under HNPL directly; primarily caters to domestic sales as export Sales), Chennai (in MEPZ[6] SEZ; under HNEPL; caters to export sales) and Tuticorin (in Food Processing Zone of Pearl City FoodPort SEZ; under HNIPL; targets export sales), with a total capacity to blend approximately 18,000 tons of premix products per annum. All the manufacturing facilities are ISO 22000:2005, FSSC (Food safety system certification) 22000:2010, GMP Australia and HALAL certified. HNPL, during FY2016, has also commissioned a food testing laboratory cum research centre at Nashik under the name of "Nutralytica Research Private Limited".

HNPL, on a consolidated basis, reported a Profit After Tax (PAT) of Rs. 6.00 crore on an operating income (OI) of Rs. 139.77 crore in FY2017 over a PAT of Rs. 7.26 crore on an OI of Rs. 122.18 crore in FY2016.

**Key Financial Indicators (Consolidated)**

| | FY2016 | FY2017 |
|---|---|---|
| Operating Income (Rs. crore) | 122.18 | 139.77 |
| PAT (Rs. crore) | 7.26 | 6.00 |
| OPBDIT/ OI (%) | 17.99% | 13.11% |
| RoCE (%) | 22.91% | 13.27% |
| | | |
| Total Debt/ TNW (times) | 0.55 | 0.32 |
| Total Debt/ OPBDIT (times) | 1.32 | 1.43 |
| Interest coverage (times) | 5.13 | 6.74 |
| NWC/ OI (%) | 26% | 30% |

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);*
*NWC: Net Working Capital*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

[6] MEPZ: Madras Electronic Processing Zone

**Rating history for last three years:**

**Table:**

| S. No | Name of Instrument | Current Rating (FY2018) | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|
| | | Type | Rated amount (Rs. crore) | Month-year & Rating | Month-year & Rating in FY2017 | Month-year & Rating in FY2016 | Month-year & Rating in FY2015 |
| | | | | November 2017 | July 2016 | January 2015 | November 2013 |
| 1 | Term Loan | Long Term | 9.00 | [ICRA]BBB+ (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB-(Stable) | [ICRA]BB+ (Positive) |
| 2 | Cash Credit | Long Term | 7.00 | [ICRA]BBB+ (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB-(Stable) | [ICRA]BB+ (Positive) |
| 3 | Fund based | Short Term | 4.00 | [ICRA]A2 | [ICRA]A3+ | [ICRA]A3 | [ICRA]A4+ |
| 4 | Non Fund based | Short Term | 2.00 | [ICRA]A2 | - | - | - |

**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 | Date of issuance / Sanction | Coupon rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| | Term Loan | FY2014 | - | FY2023 | 9.00 | [ICRA]BBB+ (Stable) |
| | Cash Credit | - | - | - | 7.00 | [ICRA]BBB+ (Stable) |
| | PCFC | - | - | - | 4.00 | [ICRA]A2 |
| | Bank Guarantee | - | - | - | 2.00 | [ICRA]A2 |

Source: HNPL’s Bank’s Sanction letter

## Contact Details


**Analyst Contacts**

**Subrata Ray**
+91 22 6114 3408
subrata@icraindia.com

**Harshit Shah**
+91 22 6169 3362
harshit.shah@icraindia.com

**Suprio Banerjee**
+91 22 6114 3443
supriob@icraindia.com

**Tushar Bharambe**
+91 22 6169 3350
tushar.bharambe@icraindia.com

**Relationship Contact**

**Jayanta Chatterjee**
+91 80 4332 6401
jayantac@icraindia.com


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**Registered Office**
**ICRA Limited**
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office**
**Mr. Vivek Mathur**
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

| | |
|---|---|
| **Mumbai**<br>**Mr. L. Shivakumar**<br>Mobile: +**91 9821086490**<br>Email: shivakumar@icraindia.com<br><br>3rd Floor, Electric Mansion<br>Appasaheb Marathe Marg, Prabhadevi<br>Mumbai—400025,<br>Board : +91-22-61796300; Fax: +91-22-24331390 | **Kolkata**<br>**Mr. Jayanta Roy**<br>Mobile: **+91 9903394664**<br>Email: jayanta@icraindia.com<br><br>A-10 & 11, 3rd Floor, FMC Fortuna<br>234/3A, A.J.C. Bose Road<br>Kolkata—700020<br>Tel +91-33-22876617/8839 22800008/22831411,<br>Fax +91-33-22870728 |
| **Chennai**<br>**Mr. Jayanta Chatterjee**<br>Mobile: +**91 9845022459**<br>Email: jayantac@icraindia.com<br><br>5th Floor, Karumuttu Centre<br>634 Anna Salai, Nandanam<br>Chennai—600035<br>Tel: +91-44-45964300; Fax: +91-44 24343663 | **Bangalore**<br>**Mr. Jayanta Chatterjee**<br>Mobile: +**91 9845022459**<br>Email: jayantac@icraindia.com<br><br>'The Millenia'<br>Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2,<br>Murphy Road, Bangalore 560 008<br>Tel: +91-80-43326400; Fax: +91-80-43326409 |
| **Ahmedabad**<br>**Mr. L. Shivakumar**<br>Mobile: +**91 9821086490**<br>Email: shivakumar@icraindia.com<br><br>907 & 908 Sakar -II, Ellisbridge,<br>Ahmedabad- 380006<br>Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231 | **Pune**<br>**Mr. L. Shivakumar**<br>Mobile: +**91 9821086490**<br>Email: shivakumar@icraindia.com<br><br>5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020<br>Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231 |
| **Hyderabad**<br>**Mr. Jayanta Chatterjee**<br>Mobile: +**91 9845022459**<br>Email: jayantac@icraindia.com<br><br>4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083<br>Tel:- +91-40-40676500 | |