

Hexagon Nutrition Private Limited

March 27, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action ¹
Long-term: Fund based – Cash Credit	7.00	7.00	[ICRA]BBB+(Stable); Reaffirmed
Long-term: Fund based – Term Loans	9.00	8.00	[ICRA]BBB+(Stable); Reaffirmed
Short-term: Fund based	4.00	9.00	[ICRA]A2; Reaffirmed
Short-term: Non-fund based	2.00	6.00	[ICRA]A2; Reaffirmed
Total	22.00	30.00	

*Instrument Details are provided in Annexure-1

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 as the Hexagon group.

The reaffirmation of the ratings factors in the recovery in group's profitability in 9MFY2019 post a weak performance in FY2018, resulting from closure of the loss-making over-the-counter (OTC) business under HNPL's wellness division in December 2017 and various cost control measures undertaken at group-level. The ratings continue to derive comfort from the vast experience of the promoters spanning over three decades in manufacturing of micronutrient premixes and dietary supplements, and the group's association with reputed international organisations like Global Alliance for Improved Nutrition (GAIN) and World Food Programme (WFP). Furthermore, the group's credit profile is supported by its established network with large hospital chains in India to recommend and sell disease-specific branded dietary supplements.

The ratings, however, continue to remain constrained by the group's moderate scale of operations in an intensely competitive dietary supplements and nutraceutical segment which comprises some of the large established multinational and various small unorganised players. The ratings also factor in the high working capital intensity of the group's operations because of high inventory requirements and elongated receivables; and vulnerability of its profitability to volatility in raw material prices and foreign currency exchange rates.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA expects that the Hexagon group will continue to benefit from the extensive experience of its promoters and its established position in the nutraceuticals industry. The outlook may be revised to Positive if consistent growth in revenues along with notable improvement in profitability, and improved working capital management strengthens its financial risk profile. The outlook may be revised to Negative if cash accrual is lower than anticipated, or any strain on the working capital cycle or any further leveraging of the capital structure, weakens its liquidity.

Key rating drivers

Credit strengths

Extensive experience of the promoters in the field of micronutrient premixes and dietary supplements - Incorporated in 1993, HNPL is a part of the Mumbai based Hexagon group, promoted by Kelkar family who has been in the business of manufacture of micronutrient premixes and dietary supplements for over three decades. The promoters are professionally qualified in their field of operations and have prior experience working with multinational FMCG companies.

Longstanding association with reputed international organizations like GAIN and WFP - HNPL is one of the 19 premix blenders in the world (one of the 7 Indian premix blenders in the list) selected by GAIN under its GAIN Premix Facility (GPF) initiative. 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. The Hexagon group currently exports to more than 70 countries with focus on under-developed and developing countries where it supplies premixes under various initiatives run by United Nations' departments, NGOs and local government bodies.

Relationship with large hospital chains in India to recommend and sell disease specific branded dietary supplements - The group has established relationship with large hospital chains like Apollo Hospitals, Fortis Healthcare, Tata Memorial Hospital, Lilavati Hospital, Jaslok Hospital, AIIMS, Bombay Hospital, Defence Hospitals and 17 railway hospitals etc. It also has long association with many reputed doctors in the country for prescription of its dietary supplement products. The group also has its e-commerce portal 'mynutrishop.co.in' to expand its reach to the remote locations.

Healthy recovery in profitability in the current fiscal post a sharp decline in FY2018; healthy revenues reported in 9MFY2019 - The operating profit margins declined sharply to 5.95% in FY2018 from 13.11% in FY2017, primarily because of losses from the over-the-counter (OTC) business under HNPL's wellness division, coupled with a sharp rise in raw material prices, mainly under HNPL and HNEPL. However, the group closed its loss-making OTC business in December 2017 and also undertook various cost control measures, leading to recovery in the profitability as reflected by operating profit margin of 15.65% during 9M FY2019, as per provisional estimates. The interest coverage also improved in the current fiscal after a significant weakening in FY2018 and stood at 10.02 times in 9M FY2019, as against 3.93 times in FY2018 (6.74 times in FY2017). HNPL plans to enter into joint venture with its key supplier (Sinoco Chemicals Co. Ltd, China, which accounts for 80% of its imports) which will control price variation to some extent going forward. The group reported a robust revenue growth of ~50% in FY2018 and has continued to witness healthy growth in the current fiscal too.

Credit challenges

Vulnerability of profitability to fluctuations in raw material prices and foreign exchange rates - The primary raw materials for the group are Vitamins, prices of which are highly volatile. Given the fixed priced nature of most of the contracts, the group's profitability remains exposed to adverse fluctuation in raw material prices. Further, the group derives sizeable portion 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 FY2018, the group's exports stood at Rs. 141.13 crore as against

import purchases of Rs. 97.28 crore. Although the group partially hedges its net forex exposure by way of forward covers, its profitability remains exposed to exchange rate fluctuations to the extent of unhedged forex exposure.

High working capital intensity of operations, debtors outstanding over six months remain high – At consolidated level, the working capital intensity of the group’s operations continues to remain on a higher side given the high inventory requirements and elongated receivable days and stood at 32% in FY2018 (29% in FY2017). Of the total debtors of Rs. 63.60 crore as on September 30, 2018; debtors outstanding over six months remained high at Rs. 5.51 crore. Timely recovery of the receivables remains important from a credit perspective.

Strong competition from the established multinational and other unorganized players in the dietary supplements and 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 numerous 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.

Liquidity Position

At consolidated level, the group had term loans of Rs. 19.8 crore outstanding as on March 31, 2018, against which it has moderate annual repayments of Rs. 2.79 crore in FY2019, Rs. 2.94 crore in FY2020 and Rs. 3.11 crore in FY2021. The group’s fund flow from operations has remained positive over the last five fiscals because of healthy profitability. The liquidity position has remained adequate and is supported by moderate average monthly utilization fund based working capital limits of 49% in HNPL, 63% in HNEPL and 79% in HNIPL during the period October 2017 to November 2018. At consolidated level, the group had cash and liquid investments of Rs. 7.61 crore as on March 31, 2018.

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	Ratings are based on consolidated financial statements of the issuer

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 Mumbai based Hexagon Group. HNPL has three wholly owned subsidiaries, namely Hexagon Nutrition (Exports) Private Limited (HNEPL), Hexagon Nutrition (International) Private Limited (HNIPL) and Nutralytica Research Private Limited (NRPL) which are also into similar line of business. 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 WFP², GAIN³, and other international organizations and NGOs. HNPL is one of the 19 companies in the world selected by GAIN under GAIN Premix Facility (GPF), which is aimed at easing 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.

² WFP: United Nations’ World Food Program

³ GAIN: Global Alliance for Improved Nutrition, Geneva

The group has its manufacturing facilities at Dindori near Nashik (under HNPL, catering to domestic and export markets), Chennai (in MEPZ 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 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.

On a consolidated basis, the group reported a Profit After Tax (PAT) of Rs. 2.88 crore on an operating income (OI) of Rs. 209.43 crore in FY2018 as compared to PAT of Rs. 6.00 crore on an OI of Rs. 139.77 crore in FY2017. As per provisional financials, the group has reported PAT of Rs. 16.27 crore on an OI of Rs. 181.24 crore in 9M FY2019.

Key financial indicators (Consolidated)

	FY2017 (Audited)	FY2018 (Audited)	9M FY2019 (Provisional)
Operating Income (Rs. crore)	139.77	209.43	181.24
PAT (Rs. crore)	6.00	2.88	16.27
OPBDIT/ OI (%)	13.11%	5.95%	15.65%
RoCE (%)	13.27%	5.64%	-
Total Debt/ TNW (times)	0.32	0.57	-
Total Debt/ OPBDIT (times)	1.43	3.96	-
Interest Coverage (times)	6.74	3.93	10.02

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

⁴ MEPZ: Madras Electronic Processing Zone

Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018		Date & Rating in FY2017	Date & Rating in FY2016
				Mar-19	Nov-17	Aug-16	-	
1 Term Loan	Long-term	8.00	8.17 [^]	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-	
2 Cash Credit	Long-term	7.00		[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-	
3 Fund based	Short-term	9.00		[ICRA]A2	[ICRA]A2	[ICRA]A3+	-	
4 Non-fund based	Short-term	6.00		[ICRA]A2	[ICRA]A2	-	-	

[^] as on September 30, 2018

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 name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term loan	FY2014	8.90%	FY2023	8.00	[ICRA]BBB+ (Stable)
-	Cash Credit	-	-	-	7.00	[ICRA]BBB+ (Stable)
-	Short-term, fund-based limits	-	-	-	9.00	[ICRA]A2
-	Short-term, non-fund-based limits	-	-	-	6.00	[ICRA]A2

Source: HNPL

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	100.00%	Full Consolidation
Hexagon Nutrition (International) Private Limited	100.00%	Full Consolidation
Nutralytica Research Private Limited	100.00%	Full Consolidation

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