

Investment Argument:

➤ Synthetic pyrethroid – Future molecule of agro-chemicals

Pyrethroids are **cost-effective alternatives & less toxic compound** as compared to conventionally used insecticides. They are also **replacing organophosphates**. Any change happening in the agro chemical value chain, pyrethroid can stand out to be a big beneficiary.

➤ Present in entire value chain of agrochemicals with domestic market share of 19.5% in pyrethroid market

- Out of the 15 major pyrethroids, Heranba is present in 5 majorly used pyrethroids namely Cypermethrin, Alphacypermethrin, Deltamethrin, Permethrin and Lambda cyhalothrin.
- Heranba Industries is present in the entire value chain of agrochemicals (i.e. intermediates, technical & formulations) with a domestic market share of 19.5% in pyrethroid market (in terms of production values). This gives company the required flexibility to switch between products based on market demand-supply & pricing dynamics.

➤ Healthy revenue guidance @18-20% CAGR

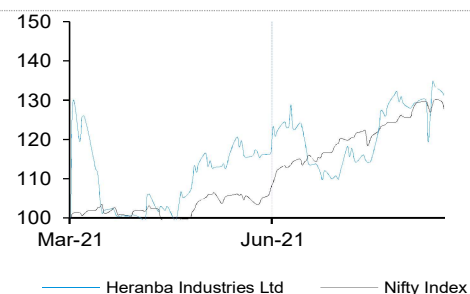
- Management has guided for **revenue growth of 18–20% CAGR over FY22 sales for next 2–3 years**. Historically company has been growing at ~18% CAGR between FY18 to FY21 aided by registrations in newer geographies & introduction of newer molecules.
- According to this guidance company should **add ~ Rs.7,000–8,000 Mn** to topline over next 2–3 years post capex plan of ~Rs.2,500 Mn getting executed assuming an asset turn of ~3–3.5 on company level. Company expects to maintain gross margins in the range of **35–36% & EBITDA margins of 18–20% over next 2–3 years**.

Rating	TP (Rs)	Up/Dn (%)
BUY	1200	55

Market data

Current price	Rs	775
Market Cap (Rs.Bn)	(Rs Bn)	31
Market Cap (US\$ Mn)	(US\$ Mn)	418
Face Value	Rs	10
52 Weeks High/Low	Rs	945/602
Average Daily Volume	('000)	363
BSE Code		543266
Bloomberg		HERANBA:IN
Source: Bloomberg		

One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	74.15	74.15
Public	25.85	25.85
Others	0.00	0.48
Total	100	100

Source: BSE

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➤ **Launching of newer molecules (Opportunity size of ~ \$600-700 Mill ; ~4,500-5,000 crores in INR)**

- Company is in process of developing **two (2) products of Fungicides, two (2) products of Herbicides and one (1) product of Insecticides**, for which research and development tests have been initiated, for exclusive sale to the European markets after registration with the regulatory authority in EU.
- Company expects to add 4–5 new molecules every year on an ongoing basis. Management has guided that the newer molecules shall have better margin profile.

➤ **Strong product portfolio with wide distribution network**

- Company has extensive distribution network in India. Company has more than **(9,400) dealers** having access to **(21) depots of company across sixteen (16) states and one (1) union territory in India.**
- Company has recently added 7 new products in the fertiliser space.
- Company has a strong marketing team of 150 employees (B2B : 8 in exports, 2 in domestic markets; B2C : 140 in domestic branded formulation) to carry out its distribution & marketing activities

➤ **Capacity expansion & ramp up of existing facilities to drive growth**

- Company's total capacity is expected to expand 1.65x (~26,000 mtpa) from current levels of ~15,000 mtpa by end of FY24 post capex realization of Rs.~2,500 Mill(majorly through internal accruals).
- Current capacity utilization levels :
Technicals : ~90%
Formulations : ~55%

➤ **Beneficiary of “China+1” effect**

- China's adoption of the 'Blue Sky' program to realize green GDP has led to the shutdown of several chemical plants. This, in turn, is expected to result in higher volumes of pyrethroids being exported out of India.

➤ **Increasing global & domestic presence by eyeing newer registrations**

- Heranba holds (18) technical & (169) formulations registrations in India & (103) technical & formulations registrations for export market. Company has further applied for (14) registrations in India & (7) Technicals and Formulations for the export market.
- Company exports its products to more than sixty (60) countries in **Latin America, CIS, Middle East, Africa, Asia and South East Asia**. As of November 15, 2020, company's International Distribution Partners have successfully obtained (371) registrations of Technicals and Formulations in (41) countries across Middle East, CIS, Asia, South East Asia and Africa & further applied for (172) registration.

➤ **Experienced promoters**

- Mr Sadashiv K Shetty and Mr Raghuram K Shetty have 30 years of experience in agrochemical industry. Mr SK Shetty, was previously associated with Sudarshan Chemicals, Gharda Chemicals, Hoechst Pharmaceuticals and Nirlon Ltd & has masters degree in Chemistry. He has been instrumental in new product development, capacity expansion and future business strategies of the company. Mr RK Shetty has been influential in developing the exports business of Heranba.

➤ **Low client & geographical concentration**

- Only ~18% of total revenues came from top 10 customers in FY21. The company's customers in B2B segment include companies like Sumitomo Chemical India, Sulphur Mills, Biostadt India, Crystal Crop Protection, NAACL (formerly Nagajuna Agrichem), Sharda Cropchem, Meghmani Organics, PI Industries, Krishi Rasayan Group, Agro Life Science Corporation and Shanghai Agricare Chemical Company, China among others who use the company's products to manufacture their own formulations and other products.
- This diversified customer base provides stability & stable revenues. Company's customer mix stands at ~23% in B2C segment & ~77% in B2B segment
- Geographical breakup of revenue stands at ~49% from exports & ~51% from domestic markets. None of the state contributes more than 16% of revenue making low geographical concentration company.

➤ **Less impact of seasonality due to diversified geographical contribution**

- Company derives ~50% revenue from exports & ~50% revenue from domestic markets thereby hedging the risk of seasonality as the spread of seasons across globe is quite diversified. This provides company stability of revenue across quarters. Also it has low geographical concentration which further reduces the impact of seasonality.

➤ **Off – Patented molecules to add significant export opportunity**

- Company sees wide opportunity in molecules that are going off patent. With its fungible capacity company can easily manufacture varied range of products which are going off patent & increase its export contribution.

Financial Summary

Y/E Mar (Rs mn)	FY-18	FY-19	FY-20	FY-21	FY-22E	FY-23E	FY-24E
Net sales	7,412	10,044	9,514	12,186	14,380	16,968	20,023
<i>Growth Y-o-Y (in %)</i>		<i>36%</i>	<i>-5%</i>	<i>28%</i>	<i>18%</i>	<i>18%</i>	<i>18%</i>
EBIDTA	878	1,314	1,293	2,213	2,603	3,125	3,748
<i>Growth Y-o-Y (in %)</i>		<i>50%</i>	<i>-2%</i>	<i>71%</i>	<i>18%</i>	<i>20%</i>	<i>20%</i>
Margins	11.8%	13.1%	13.6%	18.2%	18.1%	18.4%	18.7%
Adjusted net profit	469	754	977	1,542	1,833	2,184	2,598
<i>Growth Y-o-Y (in %)</i>		<i>61%</i>	<i>30%</i>	<i>58%</i>	<i>19%</i>	<i>19%</i>	<i>19%</i>
EPS (Rs)	60.0	19.3	25.0	38.5	45.8	54.6	64.9
P/E (x)	13	40	31	20	17	14	12
EV/EBITDA (x)	8	23	24	14	11	9	7
RoCE (%)	35.5%	45.1%	33.3%	35.7%	32.2%	30.1%	28.6%
RoE (%)	29.8%	33.0%	30.4%	29.2%	26.2%	24.2%	22.7%

Source: Company

Peer Comparison (Rs. mn)

Company	CMP	M.Cap	Sales	EBITDA	OPM	PAT	FY21 EPS	FY21 P/E	ROE	ROCE
Heranba Industries Ltd	775	31,010	12,186	2,213	18.16%	1,542	38.5	20.1	29%	36%
Peer Group										
Sumitomo Chemical India Ltd	407	203,152	26,449	4,868	18.41%	3,454	6.9	58.8	22%	29%
Rallis India Ltd	279	54,228	24,294	3,229	13.29%	2,191	11.8	23.7	14%	16%
Bharat Rasayan Limited	12,448	52,900	10,920	2,394	21.93%	1,657	385.7	32.3	23%	27%
Punjab Chemicals & Crop Protection Ltd	1,611	19,750	6,782	955	14.08%	491	40.0	40.2	34%	37%

Company overview

Heranba Industries (Heranba) incorporated in 1992, is an agrochemical company. It is also one of the leading domestic producers of **synthetic pyrethroids** with a market share of 19.5% in domestic pyrethroid market. The company is present in the entire product value chain of the agrochemicals industry (i.e. Intermediates, Technicals and Formulations)

Business verticals include :

- (a) Domestic bulk sales of Technicals (31.53% of FY21 sales),
- (b) Technicals bulk exports (38.79% of FY21 sales)
- (c) Branded formulations (20.8% of FY21 sales),
- (d) Formulations exports (8.87% of FY21 sales)

Heranba has more than 9,400 dealers across sixteen (16) states and one (1) union territory in India supporting the distribution of its products. It has three manufacturing facilities in and around Vapi with a capacity of 14,024 MTPA.

Valuation & Outlook

We see good growth potential going ahead for heranba due of its presence in the entire value chain. Growth drivers like China + 1 effect, growing agrochemical market, dependence of agro chemical companies on local supplier due to import restrictions in china, expanding in newer geographies, expanding product pipeline,newer registrations etc could be good triggers for the company going forward.

Currently the company is trading at 14x FY23E of 54.6 Rs.We have a **BUY** recommendation at current levels with a target price of Rs.1,200 valuing company at 22x FY23E.

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