

February 22, 2021

Heranba Industries (Heranba) incorporated in 1992, is an agrochemical company. It is also one of the leading domestic producers of synthetic pyrethroids. The company is present in the entire product value chain of the agrochemicals industry. The business verticals include (a) domestic bulk sales of Technicals (31.6% of FY20 sales), (b) technicals bulk exports (36.5%) (c) branded formulations (12.7%), (d) formulations exports (12.8%) and (e) insect control chemicals (6.4%). Heranba has more than 9,400 dealers having access to multiple states in India. It has three manufacturing facilities in and around Vapi with a capacity of 14,024 MTPA.

## Leading integrated domestic player in synthetic pyrethroids

Heranba is one of the leading domestic producers of pyrethroids (~68% of FY20 revenues; 19.5% domestic market share in 2019). It is in the entire value chain of synthetic pyrethroids that provides flexibility to shift between products depending on the demand-supply and pricing dynamics. The company also has a strong pending product pipeline in pyrethroids including formulations filed by partners in domestic, export markets. Apart from this, more than half of the global demand for Pyrethroids comes from China. Hence, due to shutdown of chemical plants in China amid pollution, higher volumes of Pyrethroids are expected to be exported out of India.

## Strong product portfolio, wide distribution network

Heranba manufactures and supplies Technicals to leading agrochemical companies operating in and outside India. In domestic formulations, it has more than 9,400 dealers having access to 21 depots in multiple states. The company's International distribution partners have obtained registrations for 371 products in 41 countries across the Middle East, CIS, Asia, South East Asia and Africa. Further, 172 of the company's products have been filed by its overseas customers, which are pending for registration.

## Key risk & concerns

- Strict regulation of environmental matters
- Sensitive to seasonal fluctuations and climatic variations
- Concern on increase in competition in key products
- Delay in product approvals, may lose market opportunities
- Dependency on China -- Any restrictions on exports/import may adversely affect business

## Priced at FY20 P/E of 25.7x on upper band

Benefiting from being an integrated pyrethroids manufacturer with a strong product pipeline, geographical expansion coupled with favourable macro factors are likely to drive growth. Apart from this, it has one of the strongest return ratios in Industry and healthy balance sheet. We have a **SUBSCRIBE** recommendation on the IPO. At ₹ 627, the stock is available at 25.7x FY20.



### Particulars

#### Issue Details

Issue Opens	23-02-2021
Issue Closes	25-02-2021
Issue Size (₹ crore)	624-625
Price Band (₹)	626-627
No. of Shares on Offer	9,973,466 - 9,971,938
QIB (%)	50.0
Non-Institutional (%)	15.0
Retail (%)	35.0

### Shareholding Pattern (%)

	Pre-Offer	Post-Offer
Promoters & Promoter Group	1.2	25.85
Others	98.9	74.15

### Objective of issue

Objects of the Issue	₹ crore
Fund working capital	60.0
General Corporate purpose	NA
Fresh issue	60.0
Offer for Sale*	565.2

\*Upper Band

### Research Analyst

Mitesh Shah  
mitesh.sha@icicisecurities.com

Dhavan Shah  
dhavan.shah@icicisecurities.com

### Key Financial Summary

₹ crore	FY18	FY19	FY20	CAGR FY18-20 (%)
Total Revenues	745.1	1004.4	951.4	13.0
EBITDA	87.8	131.4	129.4	21.4
EBITDA Margins (%)	11.8	13.1	13.6	
PAT	46.9	75.4	97.8	44.4
EPS (₹)	11.7	18.8	24.4	
P/E (x)	53.5	33.3	25.7	
P/B (x)	15.9	11.0	7.8	
RoE (%)	29.8	33.0	30.5	
RoCE (%)	35.5	45.1	33.3	

Source: RHP, ICICI Direct Research

## Company background

Heranba, incorporated in 1992, is a crop protection chemical manufacturer, exporter and marketing company based out of Vapi, Gujarat. It is one of the leading domestic producers of synthetic pyrethroids (19.5% domestic market share in 2019) like cypermethrin, alphacypermethrin, deltamethrin, permitherin, lambda cyhalothrin, etc. The company's pesticides range includes insecticides, herbicides, fungicides and public health products for pest control. Heranba is present in the entire product value chain of the agrochemicals industry. The business verticals include:

**(a) Domestic institutional sales of Technicals (31.6% of FY20 sales):** manufacturing and selling of Technicals in bulk to domestic companies

**(b) Technicals exports (36.5% of FY20 sales):** exports of Technicals in bulk to customers outside India

**(c) Branded formulations (12.7% of FY20 sales):** Manufacturing and sale of formulations under own brands through own distribution network in India

**(d) Formulations exports (12.8% of FY20 sales):** Export of formulations in bulk and customer specified packaging outside India

**(e) Public health (6.4% of FY20 sales):** Manufacturing and sale of general insect control chemicals by participating in public health tenders issued by governmental authorities and selling to pest management companies.

The company has more than 9,400 dealers with access to 21 depots of the company across 16 states and one union territory in India supporting the distribution of the company's products.

### Exhibit 2: Manufacturing facilities

#### Distribution network across the country



#### State-wise Sales from the sale of formulations

₹ crore	1HFY21	%	FY20	%
Maharashtra	285.9	16.8	300.0	15.6
Andhra Pradesh	149.7	8.8	255.3	13.27
Uttar Pradesh	103.1	6.1	159.5	8.29
Gujarat	119.7	7.1	159.0	8.27
Rajasthan	160.5	9.4	145.3	7.55
Telangana	90.4	5.3	131.1	6.81
Madhya Pradesh	181.8	10.7	130.8	6.8
West Bengal	102.4	6.0	127.4	6.62
Punjab	96.2	5.7	94.0	4.89
Odisha	73.6	4.3	87.9	4.57
Karnataka	69.7	4.1	70.0	3.64
Chhatisgarh	79.5	4.7	68.7	3.57
Haryana	68.9	4.1	57.3	2.98
Tamilnadu	39.8	2.3	50.7	2.63
Bihar	32.0	1.9	43.7	2.27
Assam	46.1	2.7	43.1	2.24
<b>TOTAL</b>	<b>1,923.6</b>	<b>100.0</b>	<b>1,699.2</b>	<b>100</b>

Source: RHP, ICICI Direct Research

The company has three manufacturing and packaging facilities in and around the industrial belt of Vapi, Gujarat having 174 reactors with an aggregate manufacturing capacity of 14,024 MTPA. These facilities will manufacture intermediates like cypermethric acid chloride, cypermethric acid and MPBD and Technicals like Cypermethrin, Alphacypermethrin, Deltamethrin, Permitherin and Lambda cyhalothrin among others and a range of insecticides, herbicides and fungicides formulations.

The company also has an in-house R&D team for product development and improvisation, which is well supported by the product registration team. The company's R&D facilities at Unit I and II are recognised by the Department of Scientific and Industrial Research, Ministry of Science & Technology, Government of India (DSIR). Its new R&D facility at Unit III, Sarigam has become operational from October, 2020.

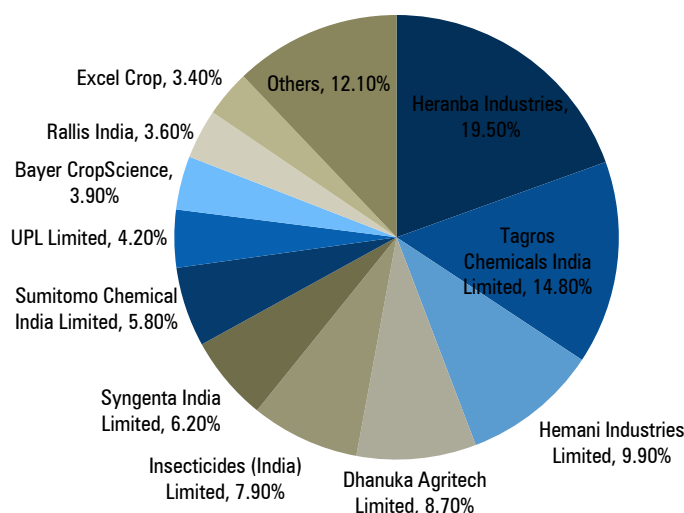
As part of expansion plans, the company, in 2018, acquired on lease from GIDC around 55,000 square metre of land at Sarigam, near Vapi, Gujarat out of which around 22,300 square metre is being used for a formulations facility, which will streamline production by some new reactors and establish an automated facility for packaging the formulations. New R&D facility at Unit III at Sarigam has become operational from October, 2020. The remaining land shall be utilised at a later stage for manufacturing intermediates, Technicals and for establishing other administrative facilities. The Sarigam Unit III also has a rooftop solar plant generating 2,66,590 units-kWh per annum for captive consumption. All manufacturing facilities have been/are being installed with well-balanced effluent treatment systems for solid, liquid and gaseous effluents and emission generated from processes.

## Competitive Strengths

### Leading integrated domestic player in synthetic pyrethroids

The company manufactures intermediates, Technicals and formulations, which form part of the entire value chain of synthetic pyrethroids. The company is one of the leading domestic producers of synthetic pyrethroids like cypermethrin, alphacypermethrin, deltamethrin, permitherin, lambda cyhalothrin, etc. Presence in the entire value chain of synthetic pyrethroids provides flexibility to shift between products depending on the demand-supply and pricing dynamics of the domestic and international agrochemicals industry. The company's product pipeline will further expand once it receives necessary approvals from the CIB&RC for the manufacture and sale in India of 14 Technicals and formulations, seven Technicals and formulations for the export markets and 172 Technicals and formulations filed for registration by international distribution partners before regulatory authorities in 41 overseas jurisdictions, excluding Europe.

Exhibit 3: India: Pyrethroids Market: Key Players Share (%), 2019



Source: RHP, ICICI Direct Research

### About Pyrethroids

Pyrethroids are a family of more than a dozen similar synthetic chemical compounds based on the chemical structure of pyrethrins, the naturally occurring botanical insecticides derived from chrysanthemum flowers. Pyrethroids are widely used in agricultural and urban areas. With the growing population and declining farmland, farmers around the world are adopting new farming practices for improved yield. Agriculture represented the largest end-use segment, accounting for 75.5% of global Pyrethroids market in 2019. In 2019, FMC Corporation dominated the global pyrethroids market, accounting for a share of 17.0% of the total market. FMC Corporation was followed by Syngenta (13.1%), Bayer Crop Science (10.9%), Corteva Agriscience (10.3%), Sumitomo Chemical (7.2%), BASF (5.4%), UPL Limited (5.3%), Nufarm (2.7%) and others (28.1%). Agriculture was followed by public health (18.7%) and animal health (5.8%). The global Pyrethroids market reached US\$3,235 million in 2019, growing at 4.50% CAGR in 2014-19.

### India Pyrethroids Market

The Pyrethroids market in India reached a production volume of 17,747 tonnes in 2019, growing at 7.2% CAGR in 2014-19. In terms of production value and consumption value, the market reached US\$313 million and US\$110 million in 2019, exhibiting a CAGR of 7.7% and 7.4%, respectively, in 2014.

## China's pollution crackdown to benefit Indian pyrethroid manufacturer

India has emerged as the largest pyrethroid manufacturer over the years. More than half of the global demand for pyrethroids comes from China, after importing intermediates from India, which is used to produce pyrethroid. Yet China's adoption of the 'Blue Sky' programme to realise 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.

The Pyrethroids market in India is projected to grow at a CAGR of 8.5% in 2020-25, reaching a production volume of 25,398 tonnes by 2025. Moreover, the production and consumption value are expected to reach US\$462 million and US\$205 million by 2025, exhibiting a CAGR of 12.5% and 19.6%, respectively.

## Strong product portfolio with wide distribution network

The company manufactures and supplies Technicals to leading domestic and multinational agrochemical companies operating in and outside India which are used by them to manufacture their own products. For formulations, the company has more than 9,400 dealers having access to 21 depots of the company across 16 states and one union territory in India in order to meet the demand for the company's products from farmers. The company participates in various international and domestic agrochemical exhibitions & industry conferences to market the company's products. The company educates farmers on the care and protection extended by its products over their crops by conducting farmer training camps, participating in village level programmes and district exhibitions to establish a direct relationship with farmer communities all over India.

## Product registrations in domestic, international markets enabling global outreach

The company's international distribution partners, with its product and technical support, have obtained registrations for 371 Technicals and formulations in 41 countries across Middle East, CIS, Asia, South East Asia and Africa. Further, 172 of the company's Technicals and formulations have been filed by its overseas customers, which are pending registration before the regulatory authorities of 41 countries in various regions across the world, excluding Europe. The company's core strength lies in the R&D of active ingredients for creating new formulations, preparing dossiers for national and international registrations of these new Formulations. Heranba's in-house registration team is led by qualified personnel who facilitate the registration process in India with the CIB&RC and its dealers/customers in overseas jurisdictions, including some highly regulated markets like Europe enabling the manufacture and export of a range of Technicals and Formulations in the international markets.

## Diversified and stable customer base

Only ~19% of total revenues comes from top 10 customers in H1FY21. The company's customers include companies like Sumitomo Chemical India, Sulphur Mills, Biostadt India, Crystal Crop Protection, NACL (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. The company also procures certain Technicals and formulations from other companies depending on demand and supply and pricing dynamics. This diverse and stable base of customers provide the necessary revenue stability.

## Experienced promoters, management team

The company's promoters have more than 30 years of individual experience in the agrochemicals sector and are adequately qualified to manage the operations of the company from manufacturing, exports and marketing. The company's promoters are completely involved in the day to day affairs and future business strategies. The second generation are also fully involved, taking active interest in the business activities of the company and have become a part of management and operations. With the right mix of youth and experience, the company is poised for growth and evolution in the near future.

## Key Risks & Concerns

- **No long term contracts:** Heranba has been dealing with most of its customers for the past several years but the company never entered into any long-term agreements with customers. Similarly, even on the supply side it has been purchasing raw materials from various suppliers, both domestic and international but has not entered into any long-term contract. As a result, customers and suppliers can terminate their relationships with the company due to a change in preference or any other reason on immediate basis, which could materially and adversely impact the business
- **Delay in product approvals** – The company’s products must receive requisite regulatory registrations after being tested for their safety, efficacy and environmental effect before they can be introduced and marketed in any jurisdiction. A submission of an application to a regulatory authority does not itself lead to a grant of such application. In India the registration process for a new product is complex, lengthy and expensive. The time taken to obtain registration in India is generally from six months to two years from the date of application. This registration process increases cost of developing new products and does not guarantee that it will be successful in selling these products after their registration is granted. If the company is unable to successfully obtain registrations in a timely manner, it may lose the market opportunities, which may result in a delay or failure to recover the costs incurred towards seeking registrations and other related activities and may adversely affect operations and profitability
- **Strict regulations of environmental matters** — The agrochemical intermediates industry is subject to strict regulations with respect to a range of environmental matters. The company’s manufacturing facilities are being inspected on regular basis by the Gujarat Pollution Control Board (GPCB). In the past, the company has received temporary closure notices from GPCB for its manufacturing units on inspection by GPCB officials. However, it was revoked post rectifying lapses. The impact of these laws and regulations, or any changes laws or regulations may adversely affect the company’s operations, financial condition or business prospects
- **Dependency on China:** in H1FY21, the company reported 14.71% of revenues from China. It imported 13.45% of raw materials from China during same period. Any restrictions, either from the central or state governments of India, or from China, on such exports/import may adversely affect business, prospects, financial condition and results of operations
- **Sensitive to seasonal fluctuations, climatic variations and other factors:** The company’s agrochemicals business is highly sensitive to seasonal and weather factors. The weather can affect the presence of disease and pest infestations in the short-term on a regional basis, and accordingly may adversely affect the demand for crop protection products. Any adverse weather conditions in India, or an inability to predict and plan for such adverse weather conditions, could affect farmers’ decisions about the types and the quantum of crops to plant, and may lead to an adverse effect on the sales of the company’s products, which could have an adverse effect on business, financial condition and results of operations.

- **Competition:** They compete with several domestic companies, as well as large MNCs with broader product ranges, greater brand recognition, stronger sales forces and greater financial resources and experience, including a larger budget for advertising and marketing



## Financial summary

### Exhibit 4: Income Statement

Revenue (₹ crore)	FY18	FY19	FY20	1HFY21
Revenue from operations	745.1	1,004.4	951.4	618.3
Other income	5.3	7.4	16.5	0.9
<b>Total revenue</b>	<b>750.4</b>	<b>1,011.8</b>	<b>967.9</b>	<b>619.2</b>
Raw Material Expenses	507.6	697.8	637.4	419.4
Employee expense	33.2	38.0	46.5	22.9
Other expenses	116.5	137.3	138.1	76.8
Total Expenses	657.3	873.0	822.0	519.1
<b>EBITDA</b>	<b>87.8</b>	<b>131.4</b>	<b>129.4</b>	<b>99.3</b>
Finance costs	11.8	10.7	8.8	3.5
Depreciation and amortisation expense	5.0	6.0	8.2	6.6
Profit before tax and exceptional items	76.3	122.1	128.8	90.1
Exceptional items	0.0	0.0	0.0	0.0
<b>Profit before tax</b>	<b>76.3</b>	<b>122.1</b>	<b>128.8</b>	<b>90.1</b>
Tax expense	29.4	46.7	31.1	23.8
<b>Profit after tax</b>	<b>46.9</b>	<b>75.4</b>	<b>97.8</b>	<b>66.3</b>

Source: RHP, ICICI Direct Research

### Exhibit 5: Cash Flow Statement

Cash Flow (₹ crore)	FY18	FY19	FY20	1HFY21
PBT	76.3	122.1	128.8	90.1
Operating profit before working capital chang	102.5	138.6	145.4	99.8
Changes in working capital	-33.2	-1.8	-51.3	-31.9
Income tax paid	-17.3	-49.1	-39.9	-15.6
<b>CF from operating activities</b>	<b>51.9</b>	<b>87.7</b>	<b>54.2</b>	<b>52.3</b>
(Purchase)/Sale of Fixed Assets	-14.2	-25.7	-39.8	-7.4
(Purchase)/Sale of Investment	0.0	0.0	-3.5	-8.5
Interest Received	1.6	1.0	0.5	0.4
Others	-12.126	-12.671	-9.227	-0.463
<b>CF from investing activities</b>	<b>-24.7</b>	<b>-37.4</b>	<b>-52.0</b>	<b>-15.9</b>
Proceeds from issue of share capital	0.0	0.0	0.0	0.0
(inc)/Dec in Loan	-8.3	-26.1	-6.8	-5.1
Interest Paid	-11.4	-10.3	-8.4	-3.3
Dividends Paid	-6.1	-4.7	-4.7	-5.9
Other Financial Activities	0.0	0.0	-0.1	-0.1
<b>CF from financing activities</b>	<b>-25.8</b>	<b>-41.1</b>	<b>-19.9</b>	<b>-14.3</b>
Net Cash Flow	1.5	9.2	-17.8	22.1
Opening Cash	10.3	11.8	21.0	3.2
<b>Closing Cash Flow</b>	<b>11.8</b>	<b>21.0</b>	<b>3.2</b>	<b>25.3</b>
FCF	37.8	62.0	14.4	44.9

Source: RHP, ICICI Direct Research

## Financial summary

Exhibit 6: Balance Sheet				
Balance Sheet (₹ crore)	FY18	FY19	FY20	1HFY21
<b>Equity and liabilities</b>				
<b>Shareholders' funds</b>				
Share capital	7.8	39.1	39.1	39.1
Reserves and surplus	149.5	189.1	281.8	342.2
<b>Non-current liabilities</b>				
Long-term borrowings	0.3	0.0	0.0	0.0
Deferred tax liabilities (net)	3.6	4.1	1.6	2.0
Other non-current liabilities	5.4	6.1	7.0	8.0
<b>Current liabilities</b>				
Short-term borrowings	75.7	49.9	43.1	38.0
Trade payables	178.4	235.2	212.5	297.6
Other current liabilities	24.9	32.0	34.0	54.9
Short-term provisions	4.8	4.9	5.7	6.4
<b>Total</b>	<b>450.5</b>	<b>560.4</b>	<b>624.8</b>	<b>788.1</b>
<b>Assets</b>				
<b>Non current assets</b>				
<b>Fixed assets</b>				
Tangible assets	46.2	51.1	95.4	130.7
Capital work in progress	1.2	16.0	37.8	3.3
Deferred tax assets (net)	0.0	0.0	0.0	0.0
Other financial assets	6.2	7.1	8.4	9.8
Other non-current assets	22.4	34.6	11.8	20.5
<b>Current assets</b>				
Inventories	94.0	113.9	145.5	173.5
Trade receivables	203.1	253.3	258.5	372.8
Cash and bank balances	11.8	21.0	3.2	25.3
Short-term loans and advances	-	-	0.9	-
Other current assets	65.6	63.5	63.3	52.2
<b>Total</b>	<b>450.5</b>	<b>560.4</b>	<b>624.8</b>	<b>788.1</b>

Source: RHP, ICICI Direct Research

Exhibit 7: Key Ratios				
Ratio Sheet	FY18	FY19	FY20	1HFY21*
<b>Per share data (₹)</b>				
Diluted EPS	11.7	18.8	24.4	16.6
Cash EPS	13.0	20.3	26.5	18.2
BV per share	39.3	57.0	80.2	95.3
Cash Per Share	2.9	5.2	0.8	6.3
<b>Operating Ratios (%)</b>				
Gross Profit Margins	31.9	30.5	33.0	32.2
EBITDA Margins	11.8	13.1	13.6	16.1
PAT Margins	6.3	7.5	10.3	10.7
Inventory days	46.0	41.4	55.8	51.2
Debtor days	99.5	92.0	99.2	110.0
Creditor days	0.0	0.0	0.0	0.0
EBITDA Conversion Rate	59.2	66.7	41.9	52.7
<b>Return Ratios (%)</b>				
RoE	29.8	33.0	30.5	34.8
RoCE	35.5	45.1	33.3	22.1
RoIC	37.4	48.8	33.6	23.5
<b>Valuation Ratios (x)</b>				
EV / Sales	3.5	2.5	2.7	4.1
EV/EBITDA	29.3	19.3	19.7	25.4
Market Cap / Sales	3.4	2.5	2.6	4.1
P/E	53.5	33.3	25.7	NA
Price to Book Value	15.9	11.0	7.8	6.6
<b>Solvency Ratios</b>				
Debt / EBITDA	0.9	0.4	0.3	0.4
Debt / Equity	0.5	0.2	0.1	0.1
Net Debt/ Equity	0.4	0.1	0.1	0.0
Current Ratio	1.8	1.7	1.9	1.7
Quick Ratio	1.3	1.2	1.3	1.3
Asset Turnover	15.7	15.0	7.1	4.6

Source: RHP, ICICI Direct Research, \* selected ratios on annualized basis; considered upper band for calculations

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Subscribe: Apply for the IPO

Avoid: Do not apply for the IPO

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Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)

## ANALYST CERTIFICATION

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