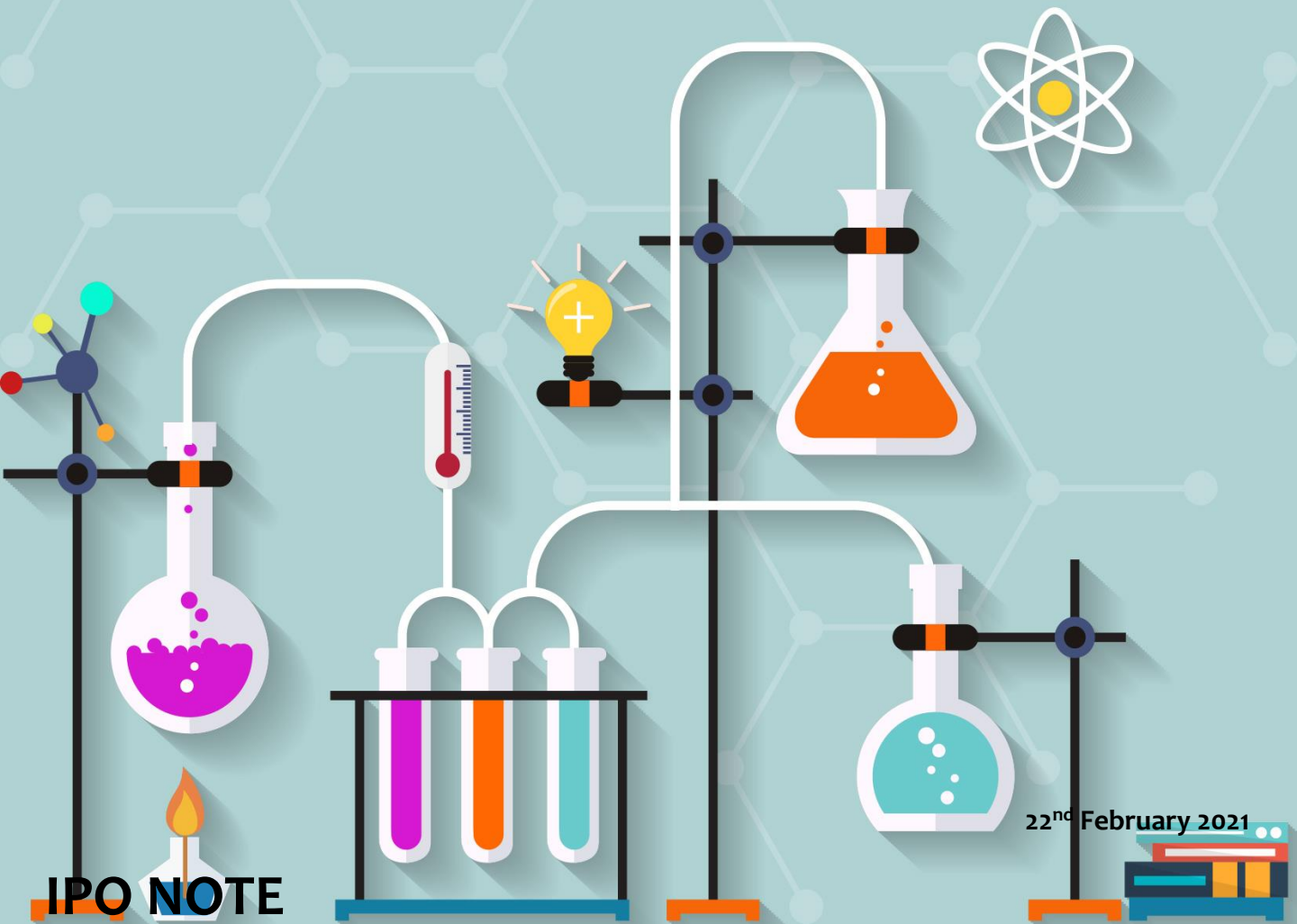


Heranba Industries Limited



Heranba Industries Ltd.

Issue Opens On
Feb 23, 2021

Issue Closes On
Feb 25, 2021

Price Band (INR)
626-627

Issue Size (INR Cr.)
624.3-625.2

Rating
SUBSCRIBE

Heranba Industries is a crop protection, chemical manufacturer, exporter and marketing company. It started its manufacturing operation in 1996 with production of an Intermediate product CMAC. Heranba manufactures Intermediates, Technicals and Formulations and is one of the leading domestic producers of synthetic pyrethroids like cypermethrin, alphacypermethrin, deltamethrin, permethrin, lambda cyhalothrin etc. Heranba has a network of ~9,400 dealers and access to 21 depots and caters to 16 states and one union territory of India. Heranba has in-house R&D team for product development and improvisation. Its R&D facilities at Unit I and II are recognized by the Department of Scientific and Industrial Research, Ministry of Science & Technology, Government of India (DSIR) and its new R&D facility at Unit III, Sarigam has become operational from October, 2020. Heranba has 18 Technicals registered for manufacturing and sales in India, 167 Formulation registered for sales in India and 93 Technicals & Formulation registered for manufacturing and sales in export markets.

OFFER STRUCTURE

Particulars	IPO Details
No. of shares under IPO (#)	9,971,938-9,973,466
Fresh offer (# shares)	9,56,938-9,58,466
Price band (INR)	626-627
Post issue MCAP (INR Cr.)	2,505-2,509

Source: IPO Prospectus

Indicative Timetable	
Offer Closing Date	Feb 25, 2021
Finalization of Basis of Allotment with Stock Exchange	On or about 2 nd Mar-21
Initiation of Refunds	On or about 3 rd Mar-21
Credit of Equity Shares to Demat accounts	On or about 4 th Mar-21
Commencement of Trading of Eq.shares on NSE	On or about 5 th Mar-21

Source: IPO Prospectus

Issue break-up	No. of shares (#)
QIB	Up to 50% of the Net Offer
Non-Institutional	15% of the Net Offer
Retail	35% of the Net Offer
Net Offer	9,971,938-9,973,466

Source: IPO Prospectus

Shareholding Pattern		
Name of the Shareholder	Prior Holding (%)	Post IPO Holding (%)
Promoters and members of Promoter Group	98.9%	74%
Others	1.1%	26%

Source: IPO Prospectus

Particulars (In INR Mn)*	FY18	FY19	FY20	Sep-20
Revenue	7,412	10,044	9,514	6,183
EBITDA	878	1,314	1,294	993
EBITDA Margin	11.8%	13.1%	13.6%	16.1%
PAT	469	754	978	664
PAT Margin	6.3%	7.5%	10.3%	10.7%
ROE	29.8%	33.0%	30.5%	17.4%
ROCE	37.8%	47.8%	37.8%	22.3%

Source: IPO Presentation, * Restated Consolidated, # Proforma Ind AS

Heranba Industries Ltd.

INVESTMENT RATIONALE

Market leader in the expanding pyrethroid market:

The global pyrethroid market is estimated at USD 7.4 Bn in 2021 and is projected to increase at a CAGR of 5.5% between 2021 and 2026 and reach USD 8.06 Bn by 2026. The pyrethroids market in India is expected to reach USD 205 Mn by 2025, from USD 84 Mn in 2020, growing at a CAGR of 19.6% (Source: IMARC Group). This augurs well for the company in terms of future growth prospects of its products. Heranba Industries Ltd. is a leader in the Indian pyrethroid market, accounting for 19.5% (2019) of the total market size; followed by Tagros Chemicals India Ltd. (14.8%).

Presence across the entire value Chain and wide product range:

Company manufactures Intermediates, Technicals and Formulations which form part of the entire value chain of synthetic pyrethroids and other active ingredients in the agrochemicals business. It is leading domestic producer of synthetic pyrethroids like cypermethrin, alphacypermethrin, deltamethrin, permethrin, lambda cyhalothrin etc. Company's capability to manufacturing Intermediates, Technicals and Formulations and its presence in the entire value chain of synthetic pyrethroids provides Heranba the flexibility to shift between products depending on the demand-supply and pricing dynamics of the domestic and international agrochemicals industry. The presence in entire value chain and flexibility to adjust production based on demand provides an ample opportunity for company to enhance its revenue and profitability. Going forward, product pipeline for company is expected to expand once it receives necessary approvals from the CIB&RC for the manufacture and sale in India of 14 Technicals and Formulations, 7 Technicals and Formulations for the export markets and 172 Technicals and Formulations filed for registration by Heranba's International Distribution Partners before regulatory authorities in 41 overseas jurisdictions, excluding Europe.

Entering new highly regulated markets (USA and Europe):

Various Technicals will be going off-patent in the near future which may lead to good demand for the generic versions of these molecules across the world, especially in the highly regulated markets of USA and Europe. To exploit these opportunities, company will enhance its ability and capabilities with respect to R&D and registrations of the generic versions of these molecules and related formulations in USA and Europe. These markets have a significant growth potential with higher margins for its existing and new line of products for the company. Heranba's International Distribution Partner in Europe has already received registration for Deltamethrin Technical, while other International Distribution Partner has incorporated a company, Heranba Europe S.L. wherein registration of Alpha Cypermethrin Technical has been recently received. Applications for registration of Lambda Cyhalothrin Technical, and Metribuzin Technical filed by International Distribution Partners are in process before the relevant authority in EU. Distribution Partner in the USA has also applied for registration of Lambda Cyhalothrin Technical manufactured by the company as another source of supply to their existing registration for this product.

Diversified and stable customer base:

Company has diverse and vast customer base of agrochemical company (Sumitomo Chemical India Limited, Sulphur Mills Limited, Biostadt India Limited, Crystal Crop Protection Limited, NACL Limited) in domestic and international market for Technicals manufactured by the company. Top ten customers of the company contributed only 20.85% and 18.57% of total revenue in FY20 and period ended 30th Sep 2020 respectively. The diversified, stable customer base with low dependency on any single large customer provides comfort and stable revenue visibility for the company.

Streamlining and enhancing production capacities:

Heranba has 3 manufacturing and packaging facility with aggregate manufacturing capacity of 14,024 MTPA. Earlier company had 4 facilities, one on which has been integrated with Unit I for operational efficiency. Company acquired this land parcel of around 55,000 sq. mtrs in the year 2018 on lease basis from GIDC at Sarigam, out of which around 22,300 sq. mtrs has been presently used for the Formulations facility (Unit III). The remaining land shall be utilized at a later stage for manufacturing Intermediates, Technicals and for other administrative facilities. In addition to the Sarigam land, it has another parcel of land admeasuring around 34,600 square mtrs at Saykha, at GIDC – Dahej extension, Gujarat and has applied with the Ministry of Environment (Forests and Climate Change) for the proposed expansion of manufacturing activities at Saykha for environmental clearance. The availability of land for expansion and streamlining of operations will further enhance revenues and profitability in the future.

Strong Financials track record:

Company has reported strong 13.3% / 44.4% revenue and PAT CAGR respectively from FY18 to FY20 and has achieved ~65% FY20 revenue in H1FY21 itself. EBITDA margin has improved significantly from 11.8% in FY18 to 13.6% in FY20 and 16.1% in H1FY21. The management expects FY2021 revenues to be around INR1,150 to 1,200 Cr, which would be about 20% YoY growth over FY2020 and maintaining PAT margin of 10.5% in FY2021, the net profit would be about INR 125 Cr, thus increasing at a CAGR of 38% between FY2018 to FY2021. Company has zero long term debt in its book as on Sep 30, 2020 and has only working capital debt to tune of INR 380 Mn as on Sep 30, 2020. Over the period, the company has been continuously producing positive cash flow from operation, enabling smooth functioning of its operation.

Growing Indian Agrochemical market to provide growth opportunity:

Indian Agrochemical market is expected to grow at 7.9% CAGR during 2020-2025 to reach USD 3,798 mn and pesticide is expected to contribute 53.1% of total agrochemical market. Indian pesticide market stood at USD 1,493 mn a CAGR of 6.2% from 2014-2019 and is expected to grow at 7.6% CAGR between 2020-2025. Herbicides and Fungicides are expected to grow at CAGR of 8.2% and 8.3% respectively between FY20 to FY25, contributing 23.7% and 19.2% to agrochemical market by 2025.

Heranba Industries Ltd.

Industry Snapshot:

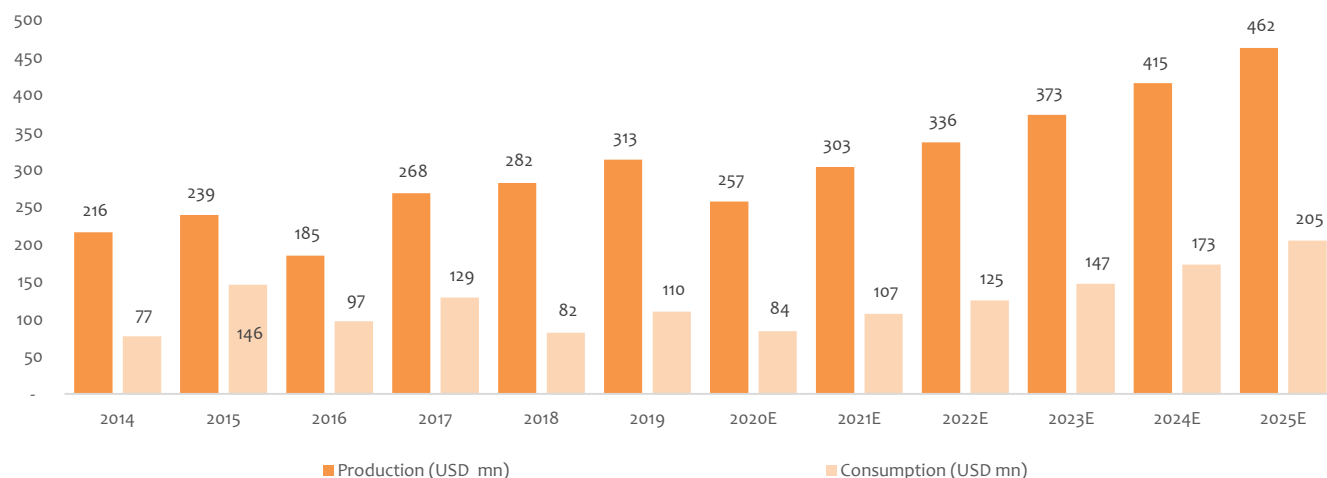
Pyrethroid Market Overview:

Pyrethroids are cost-effective alternatives for conventionally used insecticides. They exhibit biodegradable properties and are widely used as liquid powders, granules, concentrate emulsifiers, and ultra-low-volume (ULV) sprays. Additionally, they are relatively less poisonous for mammals or birds, owing to which they are used for killing bugs and flying insects in small quantities. Consequently, they are also replacing organophosphates, which were conventionally used on vegetables, such as carrots and lettuce.

The global pyrethroid market is estimated at USD 7.4 bn in 2021 and is projected to increase at a CAGR of 5.5% between 2021 and 2026 and reach USD 8.06 Bn by 2026. (Source: Market Data Forecast).

India Pyrethroids market is currently experiencing a positive trend and its consumption value has grown at CAGR of 7.4% during 2014-19 and has reached a sales value of USD 110 mn in 2019 and is expected to reach USD 205 mn in 2025 a CAGR of 19.6% from 2020 to 2025. While in terms of production market reached a value of USD 313 Mn exhibiting a CAGR of 7.7% during 2014-2019 and is expected to reach USD 462 mn in 2025 a CAGR of 12.5% from 2020 to 2025. Production volume was 17,747 tons in 2019, growing at a CAGR of 7.2% during 2014-2019. Heranba Industries Limited dominated the India pyrethroids market, accounting share of 19.5% of the total Indian pyrethroids production values followed by Tagros Chemicals India Limited (14.8%), Hemani Industries Limited (9.9%), Dhanuka Agritech Limited (8.7%), Insecticides (India) Limited (7.9%), Syngenta India Limited (6.2%), Sumitomo Chemical India Limited (5.8%), UPL Limited (4.2%), Bayer CropScience Limited (3.9%), Rallis India Limited (3.6%), Excel Crop Care (3.4%) and Others (12.1%) in 2019.

India: Pyrethroids Market: Production and Consumption Value



Source: RHP, KR Choksey Research

Agriculture represented the largest end-use segment for Pyrethroids, accounting for 79.5% of the total market, followed by public health (17.1%), and animal health (3.4%) in 2019

Export Market:

The Indian Pyrethroids market reached an export value of USD 203 mn in 2019, growing at a CAGR of 7.9% during 2014-2019.

India: Pyrethroids Export Market



Source: RHP, KR Choksey Research

Heranba Industries Ltd.

VALUATION & VIEW:

At the upper band of issue price, Heranba Industries will trade at 25.7x FY20 EPS post IPO, which is below its peers. Heranba has reported a 13.3% revenue CAGR from FY18 to FY20 and 44.4% PAT CAGR over same period. Heranba has improved its EBITDA margin significantly from 11.8% in FY18 to 16.1% in H1FY21. The company has a strong balance sheet with negligible long-term debt as on 30th September 2020 and has only working capital loan in its books. Heranba plans to meet all its expansion programme (greenfield / brownfield) through its internal accrual in coming period. Heranba has ample opportunity to expand its operation with current land, thereby lowering the capex requirement for such expansion. It is also expanding its footprint in highly regulated market of US and Europe.

Heranba Industries has dominated the pyrethroids market with share of 19.5% (2019) of the total market size. The consumption value of pyrethroids is expected to grow by ~20% CAGR between 2020 and 2025. It exports its product to 60+ countries. Indian agrochemical market is expected to report a 7.9% CAGR between 2020-25. While Pesticide/ Herbicides / Fungicides is expected to reported 7.6% / 8.2% / 8.3% CAGR between 2020-2025 respectively, contributing 53.1% / 23.7% / 19.2% of total agrochemical market, respectively. Given increasing Indian agrochemical market along with Heranba's expanding geographical footprint, further scope to expand its capacity on current available land, debottlenecking of current facility, new product pipeline and higher return ratios compared to its peers, we expect the IPO to be fairly priced at 25.7x FY20 EPS and hence provide a "SUBSCRIBE" rating on the stock.

Peer Comparison

Company	Revenue (Mn)	Revenue 3yr CAGR	EBITDA (Mn)	EBITDA (%)	PAT (Mn)	PAT (%)	EPS
Heranba Industries	9,514	13.3%	1,294	13.6%	978	10.3%	24.4
Rallis India	22,518	12.1%	2,614	11.6%	1,811	8.0%	9.3
Bharat Rasayan	12,151	23.6%	2,292	18.9%	1,576	13.0%	371.0
Punjab Chem. & Crop Protection	5,385	6.2%	426	7.9%	108	2.0%	4.3
UPL	3,54,780	43.9%	67,730	19.1%	22,058	6.2%	28.9

Company	MCap (Mn)	PE (x)	ROE (%)	ROCE (%)
Heranba Industries	25,090	25.7	30.5%	37.8%
Rallis India	50,950	28.2	14.0%	13.3%
Bharat Rasayan	40,040	26.3	32.1%	25.8%
Punjab Chem. & Crop Protection	10,510	97.8	11.4%	9.4%
UPL	4,15,380	18.7	10.5%	6.6%

Source: Bloomberg, KR Choksey Research

KEY RISKS & CONCERNS

- Company has not entered into long-term agreements with its customers for purchasing final products nor for the supply of raw materials with its suppliers. Hence, it is subject to uncertainties in demand and there is no assurance that these customers and suppliers will continue to purchase products or sell raw materials to company or that they will not scale down their orders.
- Raw materials constitute a significant percentage of company's total expenses. Any increase in prices and any decrease in the supply would adversely affect company's business.
- The IPO issue size is ~INR 6,252 Mn, of which fresh issue is of INR 600 Mn and the remaining ~INR 5,652 Mn is through Offer for Sale by promoters.

Heranba Industries Ltd.

Company Overview

Heranba Industries is crop protection chemical manufacturer, exporter and marketing company. It started its manufacturing operation in 1996 with production of an Intermediate product CMAC. By the FY2001-2002, company forward integrated into the manufacturing of various Technicals like metametron, cypermethrin, alphacypermethrin, permethrin and deltamethrin. By the end of the FY2004-2005, it further expanded product range to Formulations, which are final products sold to farmers as Pesticides, Herbicides, Fungicides for crop protection and forayed into public health products in FY2010-2011. Currently, the company is present in the entire product value chain of the agrochemicals industry i.e., Intermediates, Technicals and Formulations. Heranba is one of the leading domestic producers of synthetic pyrethroids like cypermethrin, alphacypermethrin, deltamethrin, permethrin, lambda cyhalothrin etc. Heranba has a network of ~9,400 dealers and access to 21 depots and caters to 16 states and one union territory of India. Heranba has in-house R&D team for product development and improvisation. Its R&D facilities at Unit I and II are recognized by the Department of Scientific and Industrial Research, Ministry of Science & Technology, Government of India (DSIR) and its new R&D facility at Unit III, Sarigam has become operational from October 2020. Company exports to 60+ countries in Latin America, CIS, Middle East, Africa, Asia and South East Asia.

Company's business segment can be classified in five verticals namely 1) Domestic Institutional sales of Technical 2) Technical Exports 3) Branded Formulation 4) Formulation Export 5) Public health.

- Domestic Institutional Sales:** Company manufactures and sells Technicals to companies, both domestic and multinational, based out of India which are used by them for manufacturing their own products. Some of the companies to whom Heranba supply Technicals in India are Sumitomo Chemical India Limited, Biostadt India Limited, Sulphur Mills Limited, Crystal Crop Protection Limited, NACL Limited (Formerly Nagarjuna Agrichem Limited), Sharda Cropchem Limited, Meghmani Organics Limited, PI Industries Limited, Agro Life Science Corporation, Krishi Rasayan Group amongst others. Domestic Institutional Sales contributed 32.99%, 31.64%, 33.00% and 26.35% of revenue for H1FY21, FY20, FY19 and FY18 respectively.
- Technical Exports:** Company exports Technicals in bulk to customers outside India to various agrochemical companies across the world. It manufacture 103 Technicals & Formulations for export purposes only and have received necessary approvals from the CIB&RC in relation to the same. It export Technicals to certain multinational companies like Shanghai Agricare Chemical Co. Limited, China amongst others. Technical Exports contributed 32.17%, 36.48%, 39.48% and 40.37%, of revenue for H1FY21, FY20, FY19 and FY18 respectively.
- Branded Formulation:** Company manufactures and sells various Formulations of Insecticides, Fungicide, Herbicides and Public Health under its own brand through its distribution network present across India. Company have more than 9,400 dealers having access to 21 depots of the Company across 16 states and 1 union territory in India supporting the distribution of products. Branded Formulation contributed 22.80%, 12.67%, 14.52% and 22.42%, of revenue for H1FY21, FY20, FY19 and FY18 respectively.
- Formulation Exports:** Company exports Formulations in bulk and in customer specified packaging outside India. Sales of Formulations in the international market is generally undertaken by way of tie-ups with its International Distribution Partners who import company's Formulations, in bulk or final packages, after a prolonged and detailed registration process in their respective country's regulatory authority. Formulations are mostly sold by International Distribution Partners under their local brands in these markets. Company is required to comply with the local packaging disclosure requirements for the export and sale of these Formulations. Formulation Exports contributed 9.27%, 12.83%, 9.48% and 8.96%, of revenue for H1FY21, FY20, FY19 and FY18 respectively.
- Public Health:** Heranba also manufactures and sells general insect control chemicals to governmental authorities like municipalities by participating in public health tenders issued by them and to pest management companies. Company entered this business segment in the FY 2010-11. Company normally supply these products under its own brands like Alpha Shakti-5WP, Temper EC, Deltaflow or in bulk form as maybe required by them. Public health contributed 2.76%, 6.37%, 3.52% and 1.90%, of revenue for H1FY21, FY20, FY19 and FY18 respectively.

Manufacturing Units

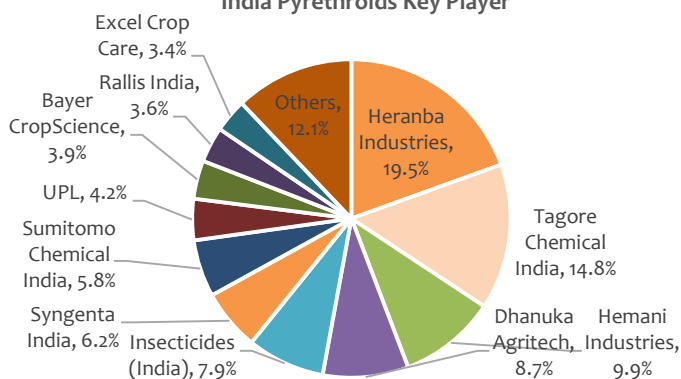
Company has three manufacturing plant with total capacity of 14,025 MTPA having 174 reactors. Company has 39,800 Sq.mn area in use along with 67,300 sq.m of additional available area.

Units	Location	Installed Capacity*	Utilization level (%)*	Products
Unit I	Vapi	4,944	91.5%	Intermediates and Technicals
Unit II	Vapi	4,080	88.5%	Intermediates and Technicals (Derivatives of CMAC)
Unit III	Sarigam	5,000	58.6%	Liquid and powder Formulations and packaging of Formulations

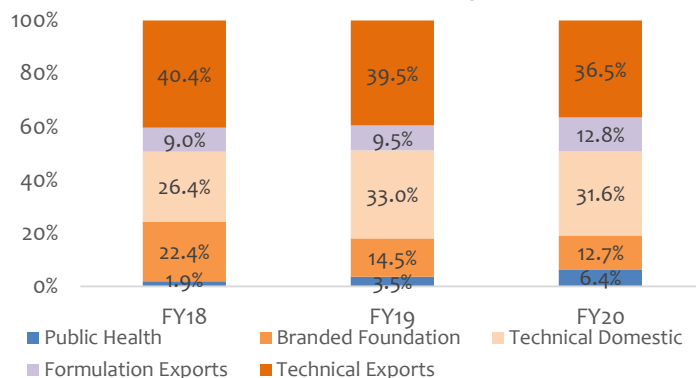
Source: Bloomberg, KR Choksey Research
Note: * Data as on FY20

Heranba Industries Ltd.

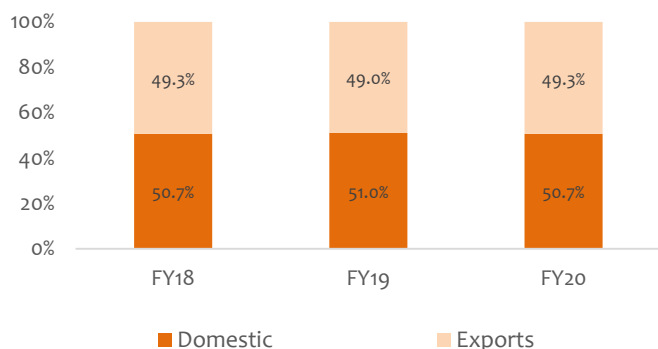
India Pyrethroids Key Player



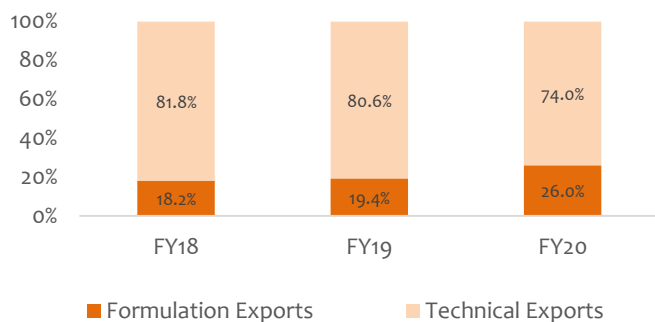
Revenue Breakup



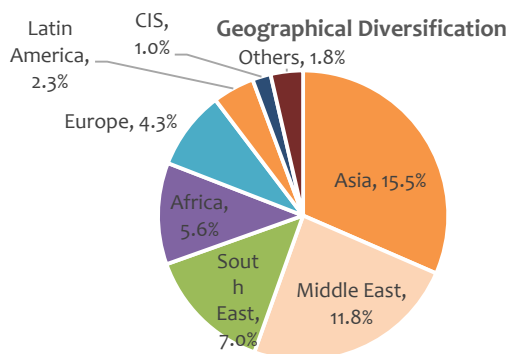
Revenue geographical breakup



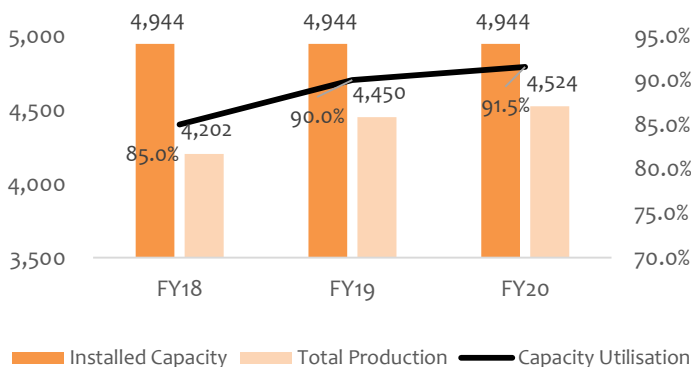
Exports Revenue Split



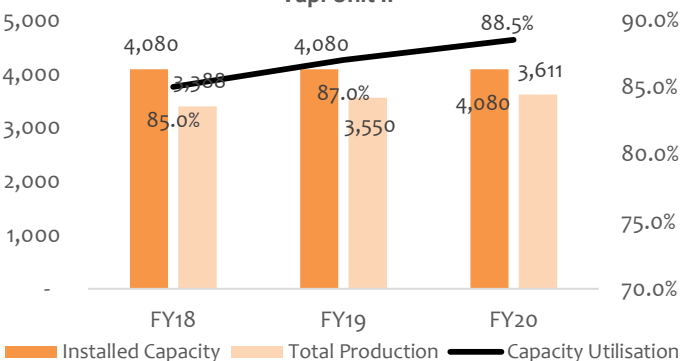
Geographical Diversification



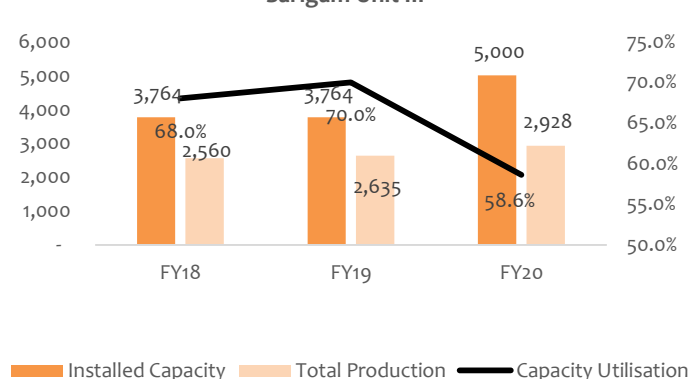
Vapi Unit I



Vapi Unit II



Sarigam Unit III



Source: IPO Prospectus

Heranba Industries Ltd.

Financials:

Ratio Analysis (%)	FY18	FY19	FY20	Sep-20
EBITDA Margin	11.8%	13.1%	13.6%	16.1%
PAT Margin	6.3%	7.5%	10.3%	10.7%
RONW	29.8%	33.0%	30.5%	17.4%
ROCE	37.8%	47.8%	37.8%	22.3%
Diluted EPS (INR) (Adjusted Post IPO)	12.0	19.3	25.0	17.0

Source: IPO Presentation, * Restated Consolidated, # Proforma Ind AS

Income Statement (INR Mn)	FY18	FY19	FY20	Sep-20
Revenues	7,412	10,044	9,514	6,183
COGS	5,038	6,978	6,374	4,194
Gross profit	2,375	3,067	3,139	1,989
Employee cost	332	380	465	229
Other expenses	1,165	1,373	1,381	767
EBITDA	878	1,314	1,294	993
EBITDA Margin	11.8%	13.1%	13.6%	16.1%
Depreciation & amortization	50	60	82	66
EBIT	828	1,255	1,211	927
Interest expense	118	107	88	35
Other income	53	74	165	9
Exceptional Item	0	0	0	0
PBT	763	1,221	1,288	901
Tax	294	467	311	238
PAT	469	754	978	664
Restated Basic EPS (INR)	12.0	19.3	25.0	17.0

Source: RHP

Cashflow Statement (INR Mn)g	FY18	FY19	FY20	Sep-20
Net cash flow from operating activities	519	877	542	523
Net cash flow used in investing activities	(247)	(374)	(520)	(159)
Net cash flow generated from / (used in) in financing activities	(258)	(411)	(199)	(143)
Net increase / (decrease) in cash and cash equivalents (A+B+C)	15	92	(178)	221
Opening Cash and cash equivalents	103	118	210	32
Closing Cash and cash equivalents	0	0	0	0

Source: RHP

Heranba Industries Ltd.

Financials:

Balance Sheet (INR Mn)	FY18	FY19	FY20	Sep-20
Property, plant and equipment	462	511	954	1,307
Capital work-in-progress	12	160	378	33
Investments	0	0	37	125
Other financial assets	62	71	84	98
Deferred tax assets (Net)	0	1	0	0
Other non-current assets	223	345	81	80
Total non-current assets	760	1,088	1,534	1,643
Current assets				
Inventories	940	1,139	1,455	1,735
Trade receivables	2,031	2,533	2,585	3,728
Cash and cash equivalents	118	210	32	253
Loans	0	0	9	0
Other financial assets	15	15	17	20
Other current assets	641	619	615	502
Total current assets	3,745	4,516	4,713	6,238
TOTAL ASSETS	4,505	5,604	6,248	7,881
EQUITY AND LIABILITIES				
Equity				
Equity share capital	78	391	391	391
Other equity	1,495	1,891	2,818	3,422
Equity attributable to the equity shareholders	1,573	2,282	3,208	3,813
Non-controlling interests	0	0	0	0
Total equity	1,573	2,282	3,208	3,813
Liabilities				
Non-current liabilities				
Financial liabilities				
Borrowings	3	0	0	0
Provisions	2	4	6	13
Deferred tax liabilities (Net)	36	41	16	20
Other non-current liabilities	0	0	2	2
Total non-current liabilities	93	103	86	100
Current liabilities				
Financial liabilities				
Borrowings	757	499	431	380
Trade payables	1,784	2,352	2,125	2,976
Other financial liabilities	70	122	139	299
Provisions	48	96	163	134
Current tax liabilities (Net)	129	102	37	115
Other current liabilities	49	49	57	64
Total current liabilities	2,839	3,220	2,953	3,969
Total liabilities	2,931	3,323	3,039	4,069
TOTAL EQUITY AND LIABILITIES	4,505	5,604	6,248	7,881

Source: RHP

Heranba Industries Ltd.

ANALYST CERTIFICATION:

I, Parvati Rai (MBA-Finance, M.com), Head Research, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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