

CMP: INR 596

Target Price: INR 1,073

Rating: BUY

Stock Info

BSE	543266
NSE	HERANBA
Bloomberg	HERN:IN
Reuters	HERN.NS
Sector	Agrochemicals
Face Value (INR)	10
Equity Capital (INR Mn)	400.1
Mkt Cap (INR Mn)	23,840
52w H/L (INR)	866 / 551
Avg. Yearly Volume (in 000')	106

Shareholding Pattern %

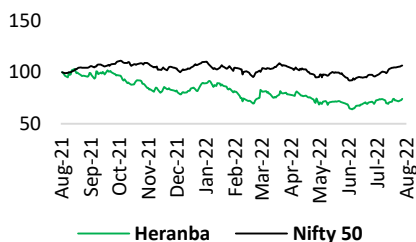
(As on June, 2022)

Promoters	74.77
FII	2.62
DII	1.58
Public & Others	21.03

Stock Performance (%) 1M 6M 1Y

Heranba Industries	-5.1%	-14%	-32.7%
Nifty 50	9.4%	2.8%	7.5%

Heranba Vs Nifty



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Heranba Industries Ltd. is a crop protection chemical manufacturer, exporter and marketing company. The manufacturing facilities are located in Vapi and at Sarigam near Vapi. It is currently expanding its capacity at Sarigam and also possess additional land bank at Saykha, Dahej for future capacity expansion.

The company announced its Q1FY23 results, where-in the top-line and bottom-line were below estimates. The company faced challenges on the cost front with raw material cost inflation. Also, the lock-down in China hurt its major export market and negatively affected the growth in revenues. Due to pressure on both the company operations and cost front, it generated negative cash flow from operations in Q1FY23, although the quantum was minor in nature in the range of INR 100 to 150 million.

Q1FY23 Result Highlights:

- In Q1FY23, Revenues from operations increased by 3.0% YoY/and was up by 3.4% QoQ to INR 3,619 Mn. It came in below our estimates of INR 4,040 Mn.
- The lower growth in revenues was attributed to macro challenges related to lockdown in its major export market - China, subdued export of technical products and delayed onset of monsoon in India.
- The Shanghai port in China was mostly inaccessible for the supply of finished products into the country.
- Contribution of exports to the total revenues shrunk and formed about 30% compared to 38% in the corresponding period last year.
- Raw material cost pressure and higher power, fuel and solvent prices negatively affected the operating margins.
- Employee cost also increased by 7.6% YoY / up 41.5% QoQ to INR 149 Mn.
- EBITDA declined by 28.6% YoY / down 26.0% QoQ to INR 463 Mn and came in below expectation of INR 720 Mn.
- Operating margin compressed by 565 basis points YoY / down 507 basis points QoQ to 12.8%.
- Net Profit declined by 28.9% YoY / down 20.8% QoQ to INR 337 Mn and came in below expectation of INR 530 Mn.
- Net Profit margin compressed by 417 basis points YoY / down 285 basis points QoQ to 9.3%.
- Cashflow from operations was negative for the quarter, around -100 to -150 Mn.
- The Sarigam facility near Vapi, Gujarat will be commissioned by Q4FY23 and will be ramped up gradually.

Outlook & Valuations: At the CMP of INR 596 per share, the stock is trading at a P/E multiple of 10.1x/8.3x its FY23E/FY24E EPS of INR 58.8/INR 71.6 respectively. It has already acquired another land bank and possess necessary infrastructure for future expansion if required. The company is penetrating into higher margin export market. We believe that these drivers will facilitate the growth in the company's topline, going forward while maintaining the operating margins in the range of 18-20% in the long term. The stock has corrected significantly in-line with the broader market and is trading at attractive valuation from long term investment horizon. Considering the future growth drivers, we continue to value the company at a P/E multiple of 15x its FY24E EPS of INR 71.6 and maintain our Target Price of INR 1,073 per share. Accordingly, we reiterate our BUY rating on the shares of Heranba Industries Ltd.

Quarterly Result

INR, Mn	Q1FY23	Q4FY22	Q1FY22	QoQ	YoY
Revenue from operations	3,619.3	3,501.4	3,514.1	3.4%	3.0%
Cost of material consumed	2,768.0	2,342.5	2,695.8	18.2%	2.7%
Purchase of stock-in-trade	0.0	0.0	0.0	NA	NA
Change in inventories of Finished Goods and WIP	-291.8	-126.0	-392.6	131.6%	-25.7%
Gross Profit	1,143.1	1,284.9	1,210.8	-11.0%	-5.6%
Gross Profit Margin	31.6%	36.7%	34.5%	-511	-287
Employee Cost	148.7	105.0	138.2	41.5%	7.6%
Other Expenses	531.5	554.5	424.5	-4.2%	25.2%
EBITDA	463.0	625.4	648.2	-26.0%	-28.6%
EBITDA Margin	12.8%	17.9%	18.4%	-507	-565
Depreciation	52.8	82.2	35.7	-35.8%	48.0%
EBIT	410.2	543.2	612.5	-24.5%	-33.0%
EBIT Margin	11.3%	15.5%	17.4%	-418	-610
Finance Cost	12.0	8.4	12.2	42.6%	-1.6%
Other Income	44.4	47.8	42.7	-7.2%	3.8%
Exceptional items	0.0	0.0	0.0	NA	NA
Profit Before Tax	442.6	582.6	643.1	-24.0%	-31.2%
Tax Expense	105.6	156.9	169.2	-32.7%	-37.6%
Profit After Tax	337.1	425.8	473.9	-20.8%	-28.9%
PAT Margin	9.3%	12.2%	13.5%	-285	-417

Source: Company, Arihant Research

Conference Call Highlights:

- In the domestic market, delay in monsoon negatively affected sentiments in the agrochemical industry. However, monsoon picked up well in Q2FY23 and will benefit the sector, going forward.
- In the international business, China is one of its major market, contributing about 25% of the revenues. The country went into lockdown, which affected the shipment of products through ports in China.
- The export of technical products suffered during the quarter, which resulted in lower export sales in the period.
- The margin differential between domestic and export market is in the range of 3-4%, wherein the latter enjoys higher margin.
- The company continued to face challenges on the logistics and transportation front in the export market due to higher freight cost and availability and docking of containers, at times. The higher cost of logistics was visible in the increase in the Other Expenses component.
- Raw material cost inflation was high and the company was not able to pass on the entire increase in cost to the customers.
- It will take further price increase in the range of 3%-4% in Q2FY23 to offset the remaining increase in raw material cost. Also, the company will benefit from the recent decline in commodity prices and the effect may be reflected from the second half of the financial year.
- Post the Q1FY23 results, the management has taken a conservative stance of marginally reducing the guidance from 18%-20% (earlier) to 16%-18% (now) in reference to the growth in revenues.
- The Sarigam plant expansion is expected to be commissioned in Q4FY23 with gradual ramp up in operations.

Key Financials

Income Statement (INR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	10,044	9,514	12,186	14,504	16,739	20,087
Total Operating Expenses	6,978	6,374	7,795	9,306	10,880	13,056
Employee Cost	380	465	522	584	668	748
Other Expenses	1,373	1,381	1,656	2,016	1,901	2,249
Operating Profit	1,314	1,293	2,213	2,598	3,290	4,033
Depreciation	60	82	147	198	232	306
PBIT	1,255	1,211	2,067	2,400	3,058	3,727
Other income	74	165	70	194	136	150
Interest	107	88	54	41	49	49
PBT	1,221	1,288	2,083	2,553	3,145	3,828
Profit before tax (post exceptional)	1,221	1,288	2,083	2,553	3,145	3,828
Provision for tax	467	312	541	662	792	965
Reported PAT	754	977	1,542	1,891	2,352	2,863
MI	-	-	-	-	-	-
Net Profit	754	977	1,542	1,891	2,352	2,863

Source: Company, Aриhant Research

Balance Sheet (INR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity capital	391	391	400	400	400	400
Reserves	1,891	2,818	4,881	6,744	8,996	11,672
Net worth	2,282	3,208	5,281	7,145	9,396	12,072
Non Current Liabilities	103	86	149	156	126	131
Current Liabilities	3,220	2,953	3,003	3,386	5,323	6,199
TOTAL LIABILITIES	5,604	6,248	8,433	10,686	14,845	18,401
Non Current Assets	1,088	1,534	1,750	2,299	3,064	3,973
Fixed Assets	671	1,332	1,431	2,077	2,553	3,421
Goodwill	-	-	-	-	-	-
Non Current Investments	0	37	101	21	101	101
Deferred Tax Asset	1	-	10	28	-	-
Other Financial Assets	71	84	111	114	292	322
Other Non Current Assets	345	81	97	60	117	129
Current Assets	4,516	4,713	6,683	8,387	11,781	14,428
Current investments						
Inventories	1,139	1,455	1,660	2,557	2,522	3,027
Trade Receivables	2,533	2,585	3,418	4,096	4,678	5,613
Cash and Cash Equivalents	210	32	848	950	2,630	3,503
Bank Balance other than above	-	-	131	249	1,193	1,451
Other Financial Assets	15	26	20	20	24	27
Other Current Assets	619	615	607	515	734	807
TOTAL ASSETS	5,604	6,248	8,433	10,686	14,845	18,401

Source: Company, Aриhant Research

Key Financials

Cash Flow St. (INR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Profit	754	977	1,542	1,891	2,352	2,863
Add: Dep. & Amort.	60	82	147	198	232	306
Cash profits	814	1,059	1,689	2,088	2,585	3,169
(Inc)/Dec in						
-Sundry debtors	(502)	(52)	(758)	(947)	(334)	(936)
-Inventories	(199)	(316)	(180)	(478)	(280)	(763)
-Loans/advances	-	(9)	9	-	-	-
- Other Current Assets	(109)	253	(157)	(97)	(106)	(117)
-Current Liab and Provisions	102	97	170	44	47	52
Sundry Creditors	568	(227)	(169)	370	830	825
Change in working capital	(140)	(255)	(1,085)	(1,107)	158	(939)
CF from Oper. activities	674	804	604	981	2,742	2,231
CF from Inv. activities	(257)	(780)	(407)	(817)	(917)	(1,174)
CF from Fin. activities	(326)	(202)	619	(63)	(145)	(184)
Cash generated/(utilised)	92	(178)	816	102	1,681	872
Cash at start of the year	118	210	32	848	950	2,630
Cash at end of the year	210	32	848	950	2,630	3,503

Source: Company, Arihant Research

Ratios	FY19	FY20	FY21	FY22	FY23E	FY24E
OPM	13.1%	13.6%	18.2%	17.9%	19.7%	20.1%
NPM	7.5%	10.1%	12.6%	12.9%	13.9%	14.1%
Tax Rate	38.3%	24.2%	26.0%	25.9%	25.2%	25.2%

Growth Ratios (%)	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	35.5%	-5.3%	28.1%	19.0%	15.4%	20.0%
Operating Profit	49.7%	-1.6%	71.1%	17.4%	26.7%	22.6%
PBIT	60.0%	5.5%	61.7%	22.5%	23.2%	21.7%
PAT	60.9%	29.5%	57.9%	22.6%	24.4%	21.7%

Per Share (INR)	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Earnings (EPS)	19.3	25.0	39.4	47.3	58.8	71.6
Cash Earnings (CPS)	20.8	27.1	42.2	52.2	64.6	79.2
Book Value	58	82	132	179	235	302

Valuation Ratios	FY19	FY20	FY21	FY22	FY23E	FY24E
P/E(x)	30.9	23.8	15.1	12.6	10.1	8.3
P/B(x)	10.2	7.3	4.5	3.3	2.5	2.0
EV/EBIDTA(x)	18.0	18.3	10.6	8.3	6.2	4.8

Return Ratios (%)	FY19	FY20	FY21	FY22	FY23E	FY24E
ROE	33.0%	30.4%	29.2%	28.1%	25.0%	23.7%
ROCE	45.1%	33.3%	35.7%	33.4%	30.9%	29.6%

Source: Company, Arihant Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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