

# Heranba Industries Ltd

## Multiple headwinds to keep performance under pressure!

### Result Synopsis

Heranba Industries posted a disappointing set of numbers wherein consolidated revenue declined sharply by 30%YoY and 34%QoQ to Rs2.76Bn. Due to benign demand and higher channel inventory, revenue from technical segment (49% of Revenue) declined sharply by 51%YoY and 45%QoQ. Company reported lowest quarterly margin of 8.6%, as compared to 18% in Q3FY22 and 15.6% in Q2FY23. Margin contracted due to high inventory cost and low volume uptake.

Usually, in Q3 & Q4 demand from exports is buoyant, but due to on-going global scenario, demand continues to remain lackluster. However, demand from China (25% of exports) is likely to improve post Chinese New-year. Moreover, management expects flattish top-line growth for FY23 (earlier 12-15% growth guidance) and guided for 18-20% growth in FY24E, which will be driven by better demand coupled with contribution from new capacities, introduction of new products & supply to new geographies.

Due to ongoing global destocking, declining prices of pyrethroids and other insecticide molecules, we expect near term outlook will continue to be challenging for the company. Owing to multiple headwinds in terms of demand as well as margins, we have revised our FY24E EPS to Rs.37.3 (revised downward by 32%) and revalued the company at P/E(x) multiple of 12x on FY24E EPS. Hence though we maintain our BUY rating on the stock, we have revised our target price to Rs447.

### Result Highlights

- Revenue:** Revenue for the quarter stood at Rs2.76Bn, declined by 30%YoY and 34%QoQ. (Vs est of Rs3.76Bn)
- Margin:** EBITDA margin for the quarter came in at 8.6% (Vs est of 13%), as compared to 18%/ 15.6% in Q3FY22/Q2FY23 respectively. Margin contraction is due to higher COGS which came in at 68.8% of sales Vs 64% in Q3FY22 and 64.4% in Q2FY22
- Absolute EBITDA stood at Rs238Mn, declined by 67%YoY and 64%QoQ.
- Net profit stood at Rs126Mn, declined by 73%YoY & 76%QoQ. (Vs est of Rs340Mn).
- Segment Revenue:** (i) Domestic technical revenue stood at Rs 497Mn, declined by 53% YoY & 59% QoQ, (ii) Revenue from export of technical declined by 50%YoY and 32% QoQ to Rs856Mn. (iii) Branded Formulation revenue stood at Rs856Mn, a growth of 14% YoY but declined sequentially by 46% QoQ, (iv) Export Formulation registered growth of 27%YoY and 250% QoQ to Rs552Mn.

### Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	2,760	3,756	-	(26.5)	-	Sharp fall in revenue due to lower demand for insecticide and fungicide.
EBITDA	238	485	-	(50.9)	-	
EBITDA Margin (%)	8.6%	12.9%	-	-427 bps	-	
Adjusted PAT	126	340	-	(63.0)	-	

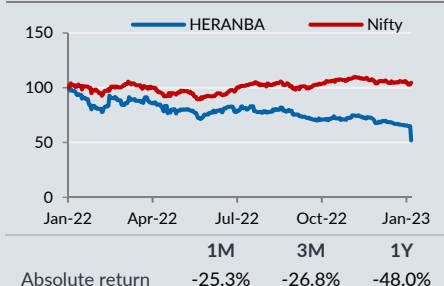
Source: Company, YES Sec

Reco	: <b>BUY</b>
CMP	: Rs 372
Target Price	: Rs 447
Potential Upside	: +20%

### Stock data (as on January 30, 2023)

Nifty	17,649
52 Week h/l (Rs)	737 / 373
Market cap (Rs/USD mn)	18652 / 229
Outstanding Shares (mn)	40
6m Avg t/o (Rs mn):	22
Div yield (%):	0.4
Bloomberg code:	HERANBA IN
NSE code:	HERANBA

### Stock performance



### Shareholding pattern (As of Dec'22 end)

Promoter	74.9%
FII+DII	2.6%
Others	22.6%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	447	767

### Δ in earnings estimates

	FY23e	FY24e
EPS (New)	27.6	37.3
EPS (Old)	42.5	54.8
% change	-35.2%	-32%

### Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Net Revenue	14,504	13,351	15,713
YoY Growth	19.0	(7.9)	17.7
EBITDA	2,598	1,621	2,326
EBITDA(%)	17.9	12.1	14.8
PAT	1,891	1,097	1,491
YoY Growth	22.6	(42.0)	35.9
ROE	26.5	13.4	15.5
EPS	47.3	27.6	37.3
P/E	11.7	13.5	10.0
BV/Share	179	205	240
P/BV	3.1	1.8	1.5

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## Exhibit 2: Quarterly Snapshot

Rs mn	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	y/y (%)	q/q (%)	9M FY22	9M FY23	y/y (%)
Revenue	3,514	3,534	3,954	3,501	3,619	4,207	2,760	(30)	(34)	11,002	10,586	(4)
Gross Margin	1,211	1,277	1,425	1,285	1,143	1,498	862	(39)	(42)	3,913	3,503	(10)
Gross Margin %	34.5%	36.1%	36.0%	36.7%	31.6%	35.6%	31.2%	480 bps	-437 bps	35.6%	33.1%	-247 bps
EBITDA	648	612	712	625	460	658	238	(67)	(64)	1,972	1,356	(31)
EBITDA Margin %	18.4%	17.3%	18.0%	17.9%	12.7%	15.6%	8.6%	-939 bps	-701 bps	17.9%	12.8%	-512 bps
Depreciation	36	38	42	82	53	56	58	37	4	116	167	44
Other Income	43	52	51	48	44	40	6	(87)	(84)	146	91	(38)
EBIT	655	626	721	591	452	642	187	(74)	(71)	2,002	1,280	(36)
Interest charges	12	12	9	8	12	16	23	168	48	32	51	56
PBT	643	614	713	583	440	626	164	(77)	(74)	1,970	1,230	(38)
Tax	169	158	178	157	106	155	37	(79)	(76)	505	297	(41)
PAT	474	456	535	426	334	472	126	(76)	(73)	1,465	932	(36)
PAT Margin %	13.5%	12.9%	13.5%	12.2%	9.2%	11.2%	4.6%	-895 bps	-663 bps	13.3%	8.8%	-451 bps
EPS (Rs)	12	11	13	11	8	12	3	(76)	(73)	37	23	(36)

Source: Company, YES Sec

## Exhibit 3: Operational Numbers:

Revenue Split (Mn)	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	y/y (%)	q/q (%)	9M FY22	9M FY23	y/y (%)
Domestic Technical	1,478	1,337	1,068	1,155	1,629	1,209	497	(53)	(59)	3,883	3,335	(14)
% of Sales	42%	38%	27%	33%	45%	29%	18%			35%	32%	
Export Technical	1,078	820	1,700	1,120	724	1,252	856	(50)	(32)	3,598	2,831	(21)
% of Sales	31%	23%	43%	32%	20%	30%	31%			33%	27%	
Branded Formulation	705	1,063	751	770	869	1,588	856	14	(46)	2,519	3,312	31
% of Sales	20%	30%	19%	22%	24%	38%	31%			23%	31%	
Export Formulation	253	314	435	455	398	158	552	27	250	1,002	1,108	11
% of Sales	7%	9%	11%	13%	11%	4%	20%			9%	10%	

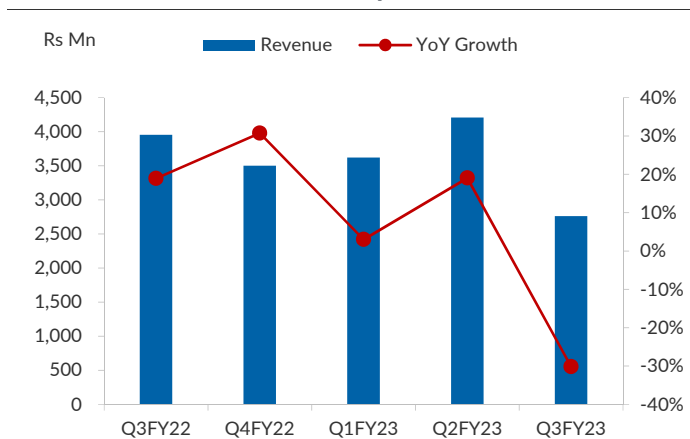
Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- **Capex:** Sarigam capex is progressing as per plan and is expected to commence commercial production from the end of Q4FY23. Company has revised its capex guidance to Rs1.2Bn for FY23 (Earlier Rs1.5Bn). Capex till 9MFY23 stood at ~Rs600Mn.
- Initially company is planning to commercialize 3 molecules in Sarigam plant under Phase I and 2 new in Phase II. Further company is evaluating 10-12 additional products.
- **Guidance:** Management expects flattish revenue growth in FY23 and 18-20% growth in FY24. Introduction of new products and supply to new geographies will drive top line in FY24. EBITDA margins will be in the range of 12-14% for FY23 and 18-20% for FY24.
- Management stated that near-term outlook for agrochemical industry would be challenging and expects demand to pick up post Chinese New Year (from Feb, 2023).
- Company has appointed Mr. Ajit Gujaral for marketing formulation products in domestic market.
- Company bagged 40 new registrations during the quarter.
- Insecticide/Fungicide/Herbicide contribute ~75%/20%/5% of revenue. Benign demand of insecticides and fungicides resulted into decline in topline
- Finished goods prices have declined by 10-12%YoY, while RM prices are still holding up. This led to sharp drop in gross margins.
- Capacity utilization during the quarter was 65-70% for Technical Plant and 55% for Formulation Plant.
- 75% of employee cost is fixed & 25% is variable.
- Company has a production capacity of 300 MTPA for Deltamethrin molecule, majority of which is exported.
- Effective tax rate for the year will be 24-25%

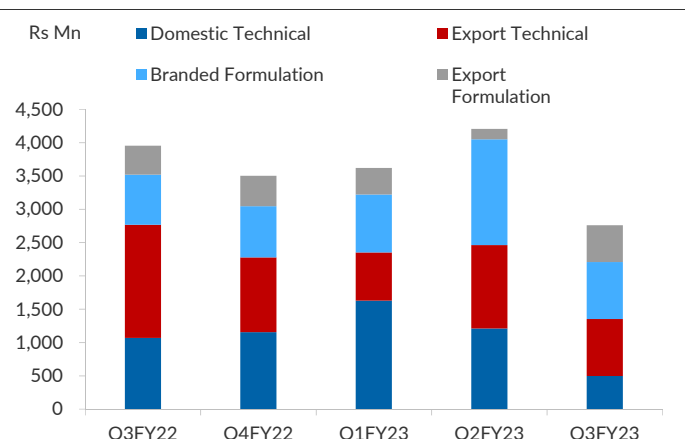
## QUARTERLY TRENDS

**Exhibit 4: Revenue declined by 30%YoY...**



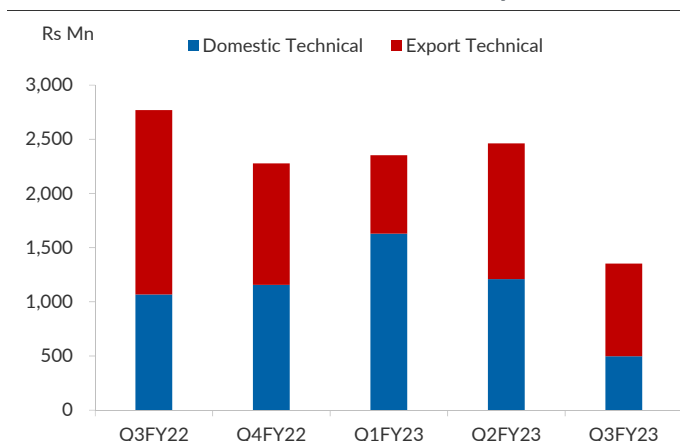
Source: Company, YES Sec

**Exhibit 5: Technical declined 51%YoY ...**



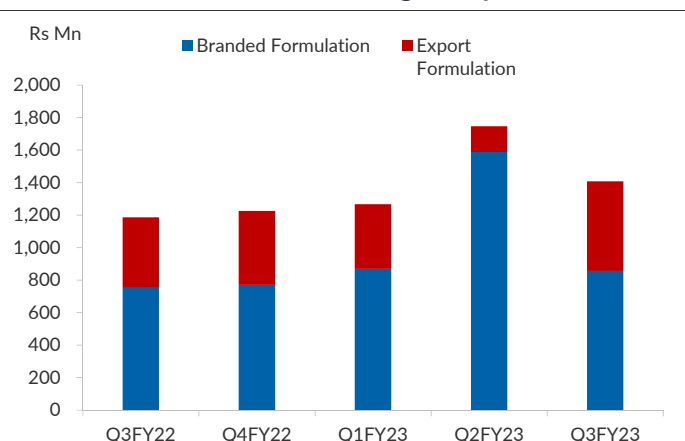
Source: Company, YES Sec

**Exhibit 6: Domestic technical declined by 53%YoY...**



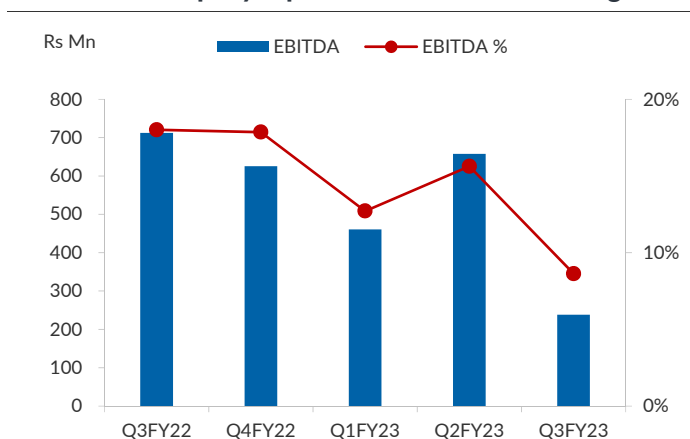
Source: Company, YES Sec

**Exhibit 7: Domestic formulation grew by 14%YoY...**



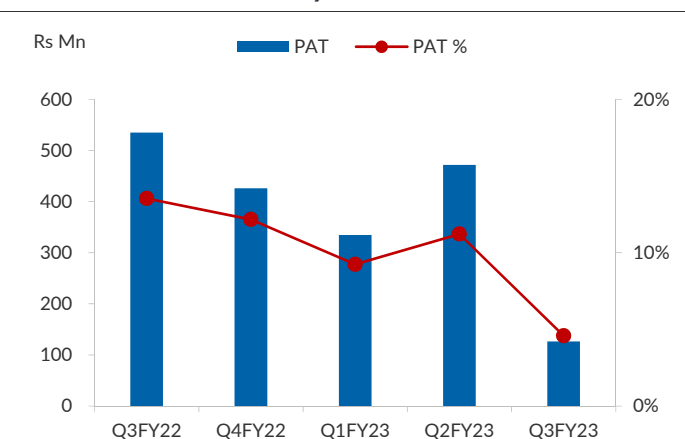
Source: Company, YES Sec

**Exhibit 8: Company reported lowest EBITDA margin ...**



Source: Company, YES Sec

**Exhibit 9: PAT declined by 76%YoY...**



Source: Company, YES Sec

## FINANCIALS

**Exhibit 10: Income Statement**

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Sales	12,186	14,504	13,351	15,713	17,983
% Change YoY	28.1	19.0	(7.9)	17.7	14.4
COGS	7,795	9,306	8,988	10,308	11,761
COGS %sales	64.0	64.2	67.3	65.6	65.4
GP	4,391	5,198	4,363	5,405	6,222
GP%	36.0	35.8	32.7	34.4	34.6
EBITDA	2,213	2,598	1,621	2,326	2,697
EBITDA%	18.2	17.9	12.1	14.8	15.0
% Change YoY	71.1	17.4	(37.6)	43.4	16.0
Depreciation	147	198	224	355	421
Other Income	70	194	119	65	74
EBIT	2,137	2,593	1,516	2,036	2,350
Finance Cost	54	41	74	48	46
PBT	2,083	2,553	1,442	1,987	2,304
Tax	541	662	345	497	576
Effective Tax Rate%	26.0	25.9	23.9	25.0	25.0
PAT	1,542	1,891	1,097	1,491	1,728
PAT%	12.7	13.0	8.2	9.5	9.6

Source: Company, YES Sec

**Exhibit 11: Balance Sheet**

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Share Capital	400	400	400	400	400
Reserves	4,881	6,744	7,783	9,215	10,884
Equity	5,281	7,145	8,183	9,615	11,285
Non-current liab	149	156	156	156	156
Payables	1,956	2,432	2,201	2,569	2,835
Provisions	13	14	14	14	14
Debt	503	523	423	403	383
Other current Liab	160	193	186	213	243
Total Equity & Liab	8,433	10,686	11,301	13,121	15,081
Gross Block	2,181	2,979	4,079	5,379	6,379
Acc Dep	847	1,044	1,269	1,624	2,045
Net Block	1,334	1,934	2,810	3,755	4,334
CWIP	97	142	326	430	510
Other Noncurrent	97	60	134	157	180
Inventory	1,660	2,557	2,279	2,893	3,222
Receivables	3,418	4,096	3,555	4,410	5,173
Cash & Bank	979	1,199	1,508	692	788
Other	627	534	534	629	719
Total Assets	8,433	10,686	11,301	13,121	15,081

Source: Company, YES Sec

## Exhibit 12: Cash Flow

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT	2,083	2,553	1,442	1,987	2,304
Depreciation	147	198	224	355	421
Finance cost	54	41	74	48	46
Movement in Working capital	(1,212)	(1,107)	247	(1,284)	(975)
Cash from operations	1,121	1,711	1,987	1,107	1,796
Taxes paid	(517)	(729)	(345)	(497)	(576)
CFO	604	982	1,642	610	1,220
Capex	(240)	(805)	(1,100)	(1,300)	(1,000)
Cash flow from investing	(407)	(817)	(1,100)	(1,300)	(1,000)
Movement in Loan	72	10	(100)	(20)	(20)
Interest paid	(51)	(35)	(74)	(48)	(46)
Cash from financing	619	(63)	(232)	(127)	(125)
Increase /(Decrease) In Cash	816	102	310	(817)	96
Opening balance of Cash	32	848	1,199	1,508	692
Closing balance of Cash	848	950	1,508	692	788

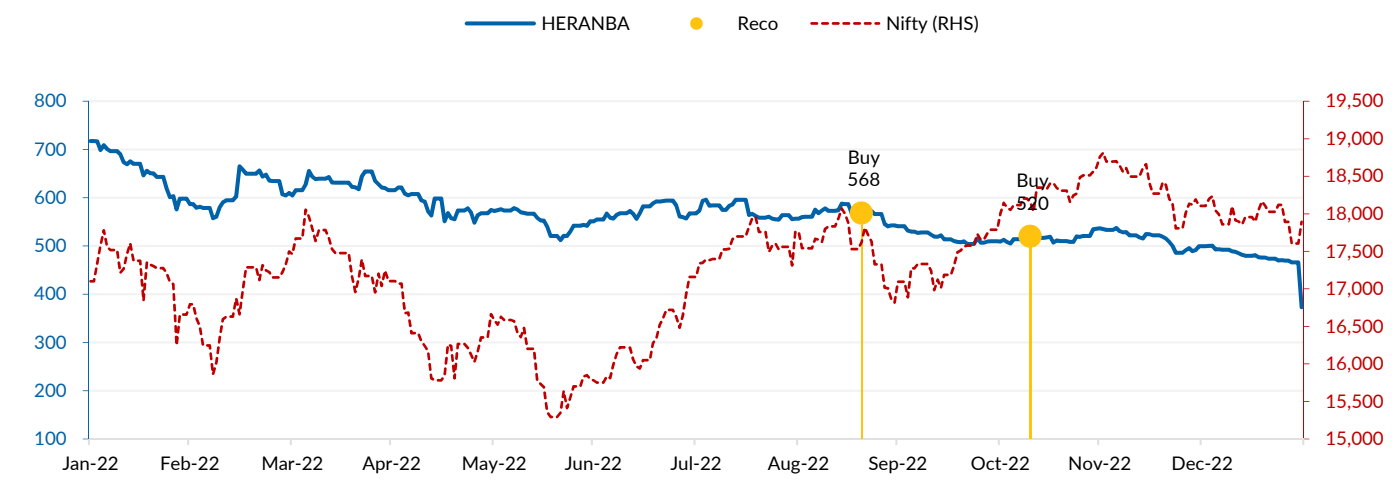
Source: Company, YES Sec

## Exhibit 13: Ratios

Key Ratios	FY21	FY22	FY23E	FY24E	FY25E
<b>Growth (%)</b>					
Total Sales	28.1	19.0	(7.9)	17.7	14.4
EBIDTA	71.1	17.4	(37.6)	43.4	16.0
PAT	57.9	22.6	(42.0)	35.9	15.9
<b>Profitability (%)</b>					
GP Margins	36.0	35.8	32.7	34.4	34.6
EBIDTA Margins	18.2	17.9	12.1	14.8	15.0
PAT Margins	12.7	13.0	8.2	9.5	9.6
<b>Return Ratios(%)</b>					
ROCE	39.3	35.5	18.2	20.8	20.5
ROE	29.2	26.5	13.4	15.5	15.3
<b>Per Share Data (Rs)</b>					
EPS	39.4	47.3	27.6	37.3	43.2
CEPS	42.2	52.2	33.0	46.1	53.7
BVPS	132.0	178.6	204.5	240.3	282.0
<b>Valuations (x)</b>					
P/E (x)	14	12	13	10	9
P/BV (x)	4.2	3.1	1.8	1.5	1.3
EV/EBIDTA	9.8	8.3	8.5	6.3	5.4
<b>Gearing Ratios</b>					
Debt/Equity	0.1	0.1	0.1	0.0	0.0
Net Debt/Equity	(0.1)	(0.1)	(0.1)	(0.0)	(0.0)
Int Coverage	39.6	63.6	20.6	42.1	51.1

Source: Company, YES Sec

## Recommendation Tracker



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Name of the Research Analyst : Udit Gajiwala, Vicky Waghvani

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**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

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