

February 22, 2021

## IPO Note

### IPO Fact Sheet

Opening Date	February 23, 2021
Closing Date	February 25, 2021
BRLMs	Emkay Globa, B&K Securities
Issue Price	Rs 626 – 627
Issue Size	Rs 625.24 crs*
No. of Shares	10.0
Face value	Rs10
Bid lot	23 shares

### Issue Details

Pre-issue equity shares (Mn)	39.1
Post-issue equity shares*	40.01
Post-issue Market Cap (Rs Mn)#	25,048
Post-issue Market Cap (Rs Mn)*	25,088

\* Upper Band / # Lower Band

### Object of the Issue

Fresh Issue- To fund Working Cap requirements (Rs 500 mn)  
OFS by promoters

### Shareholding Pattern

(%)	Pre-Issue	Post-Issue
Promoters	98.8%	74.0%
Public & Others	1.2%	26.0%

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## Proxy play on Indian agrochemical growth story

### Quick Pointers:

- Presence in entire value chain of Synthetic pyrethroid
- Multiple levers for structural growth

**Promoted by Mr. Sadashiv K Shetty and Mr. Raghuram K Shetty, Heranba Industries Ltd. is an integrated player (intermediates, technical and formulations) in crop protection business. It is a market leader of synthetic pyrethroids in India with market share of ~20%. Leveraging its cost leadership status, the company plans to commercialize few molecules (2 fungicides, 2 herbicides and an insecticide) which are going off-patent. Garnering own registrations & for distribution partners in overseas markets of Europe & NAFTA (2 received, 3 pending), ramping up formulation business (59% utilisation in FY20) and making capacity enhancement (vacant land of ~33000 sqm in Sarigam and 34600 sqm in Saykha) would be the growth mantra for Heranba going forward. While its growth has been rapid between FY17-20 (EBITDA/APAT CAGR @ 39%/70%), we expect growth rates to moderate between ~15-17% CAGR over the next few years. At the price band of Rs 626-627, Heranba will trade at indicative P/E multiple of Rs 17.5x FY23 EPS of Rs 35.8 which is at the median valuation of its comparable peers i.e. Rallis India (trades @ 16.3x FY23 EPS of Rs 16.1) & Astec Lifescience (trades @ 18.7x FY23 consensus EPS of Rs 56.4). Hence we recommend long term investors to SUBSCRIBE to the issue.**

### Key Investment points

- Heranba Industries, India's market leader in synthetic pyrethroids segment (~20% MS), Operates across value chain of Intermediates, Technicals & Formulations and is most competitive among peers.
- It is in process of developing two (2) Fungicides, two (2) Herbicides and one (1) Insecticides for exclusive sale to the European markets post securing registrations.
- Ramp up from Sarigam unit to be driven by better demand from India and overseas.
- Capacity expansion at Sarigam and Saykha to drive growth in the medium term.
- The company plans to garner its own registration in US & Europe.
- Heranba's Int'l distribution partners in Europe have already received registration for Deltamethrin & Alpha Cypermetrin technical, while application for registration of Lambda Cyhalothrin Technical and Metribuzin Technical are pending.

## Investment Argument

### Presence in entire value chain of synthetic pyrethroids

- Heranba is present in the entire value chain of synthetic pyrethroids i.e. Intermediates, Technicals and Formulations. Operating across value chain not only makes it most competitive among peers, but also gives flexibility to shift between products depending on the demand-supply and pricing dynamics of domestic as well as international agrochemicals industry.
- Its cost leadership in the segment has also given it status as 'India's market leader in synthetic pyrethroids' (~20% MS).
- Heranba started manufacturing Cypermethric Acid Chloride (CMAC) intermediate in 1995 and then forward integrated into manufacturing of technicals like Metameton, Cypermethrin, Alphacypermetrin, Permethrin and Deltamethrin in 2001. In 2004, the company expanded its product basket to formulations and then switched to its own branded formulations in 2005. Now it has presence in the entire value chain.

### Eyeing new registrations in International markets

- To capitalise on the expected demand surge for molecules which are going off-patent, Heranba plans to enhance its R&D and registrations capabilities in USA & Europe. The company plans to garner its own registrations plus work with international distribution partners for registrations.
- Heranba's Int'l distribution partnered in Europe and already received registration for Deltamethrin & Alpha Cypermetrin technical, while application for **registration of Lambda Cyhalothrin Technical and Metribuzin Technical are pending in EU. Registration application of one of the distribution partners from USA for Lambda Cyhalothrin is also pending. Globally, its distribution partners have 172 registration applications pending in 40 countries.**
- The company is in process of developing two (2) Fungicides, two (2) Herbicides and one (1) Insecticides for exclusive sale to the European markets post securing registrations.
- Currently, Heranba's distribution partners have successfully obtained 361 registrations for its technicals and formulations.
- Heranba exports to more than 60 countries globally and accounts for ~56% of revenue.

### Ramp-up at new formulation unit and capacity expansion to drive growth:

- Recently commenced Sarigam formulation facility is expected to drive growth for the company and 2 technical facilities at Vapi are already operating at ~88-90% utilisation, thereby limiting their contribution to incremental growth. Utilisation at the formulation unit in Sarigam stood at 59% by end of FY20. We

expect that ramp up from Sarigam unit driven by better demand from India and overseas over next few years, can boost Heranba's growth.

- Heranba has ~33k sq m surplus land available at Sarigam and ~34600 sq m land at Saykha and plans to incur capex of Rs 1.1 bn for brownfield expansion at Sarigam where it can manufacture Intermediates and technicals. While the production commencement date and likely topline contribution from proposed capex is yet to be known, we believe this plant can drive medium term growth for the company. Post Sarigam brownfield capex, Heranba will likely invest in greenfield capacity at Saykha.

### Experienced promoters

Mr Sadashiv K Shetty and Mr Raghuram K Shetty have 30 years of experience in agrochemical industry. Mr SK Shetty, 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.

## About the Company

Promoted by Mr. Sadashiv K Shetty and Mr. Raghuram K Shetty, Heranba Industries Ltd. is engaged in manufacturing and marketing of crop protection intermediates, technicals and formulations. Heranba is market leader in synthetic pyrethroids in India (MS @ 19.5%) operating in its entire value chain i.e. intermediates, technicals and formulations.

It started manufacturing activities in 1996 with production of intermediate product CMAc (Cypermethric Acid Chloride)

### Product portfolio:

- 18 technicals for manufacture and sale in India
- 93 technicals and formulations for manufacture and sale in overseas markets
- 167 formulations for manufacture and sale in India
- Application for registration of 13 technicals & formulations for manufacture & domestic sale and 2 technicals to manufacture for export markets has been filed with CIBRC.

#### Exhibit 1: Key Products

Intermediates	Cypermethric acid chloride, cypermethric acid, MPBD, MPBAL
Technical	Cypermethrin, Alphacypermethrin, Deltamethrin, Permitherin and Lambda cyhalothrin
Insecticides	Cypermethrin, Deltamethrin, Alpha Cypermethrin, Acephate, Dichlorvos, Lambda Cyhalothrin, Methamidophos, Permethrin, Profenophos, Temephos, Theta Cypermethrin, Thiamethoxam and Imidacloprid.
Herbicides	Glyphosate, Metribuzin & Clodinofof
Fungicides	Tricyclazole and Hexaconazole

Source: Company, PL

## Manufacturing facility

#### Exhibit 2: 3 manufacturing facilities (2 at Vapi and 1 at Sarigam)

Units	Business segment	FY20 Capacity (TPA)	Utilisation (FY20)
Unit 1	Exclusive manufacture Intermediates and Technicals	4944	91.50%
Unit 2	Intermediates and Technicals	4080	88.50%
Unit 3 (55000 sq m)	Formulations in liquid and powder forms; new R&D facility; ~33000 sq mtrs of vacant land	5000	58.56%
Land Parcel	For future expansion (34600 sq mtrs at Saykha)	NA	NA

Source: Company, PL

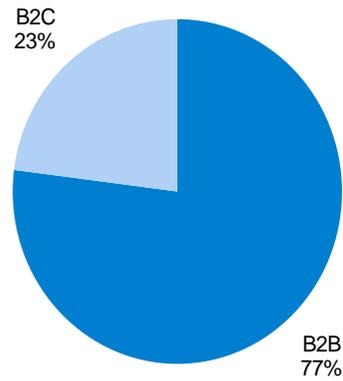
**Business verticals:** Heranba has 5 business verticals. Technical business comprising of both domestic and exports sales. Formulation business comprising of domestic and export sales. Public health vertical comprises of general insect control chemicals by participating in public health tenders.

Exhibit 3: Business verticals

Domestic Technical B2B	Technical Exports	Branded Formulations	Formulations Exports	Public Health
•33%	•32%	•23%	•9%	•3%

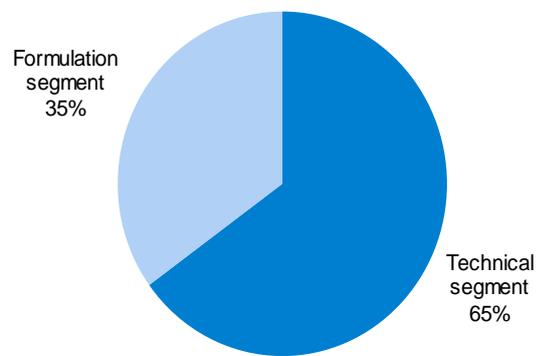
Source: Company, PL

Exhibit 4: Customer Mix



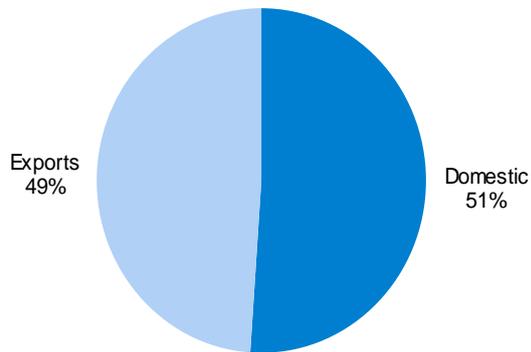
Source: Company, PL

Exhibit 5: Segment wise revenue Breakup



Source: Company, PL

**Exhibit 6: Geographical Breakup**

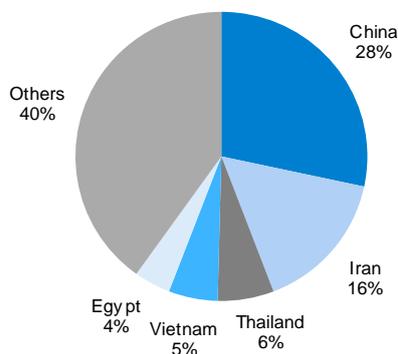


Source: Company, PL

**Distribution reach**

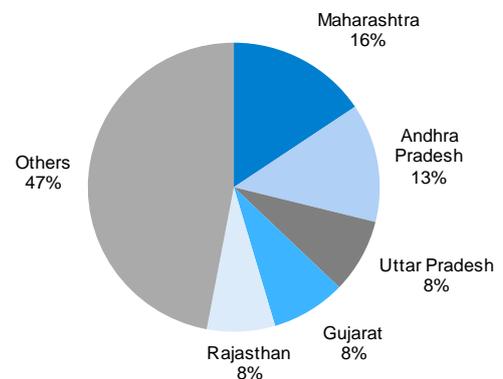
- Exports to 60 countries
- 8600 dealers/ distributors in India

**Exhibit 7: Share of export revenue**



Source: Company, PL

**Exhibit 8: Share of domestic revenue**



Source: Company, PL

- Diversified and stable customer base:** Heranba has diversified customer base for its B2B business. Top 10 customers account for 21% of revenue. Sumitomo chemical India, Sulphur Mills, Biostadt, Crystal crop, NACL, Sharda cropchem, Meghmani Organics, PI Industries, Krishi Rasayan, Agro Life science and Shanghai Agricare Chemical, China are among its key clients.

**Exhibit 9: Peer Comparison**

Particulars	CMP	Mcap (Rs mn)	FY20						FY21-23 CAGR			FY23E	
			Revenue	EBITDA	PAT	RoCE	RoE	Net Debt / Eq	Revenue	EBITDA	PAT	P/E	EV/EBITDA
Heranba Industries	627	25,088	9,514	1,294	978	33%	30%	0.1	15%	14.6%	14.9%	17.5	11.4
Astec Lifescience	1054	20,632	5,222	852	475	18%	19%	0.4	22%	27.8%	28.8%	18.7	12.0
Rallis India	262	50,951	22,515	2,602	1,743	14%	13%	0.0	15%	25.4%	21.3%	16.3	9.8

Source: Company, PL

## Industry Snapshot

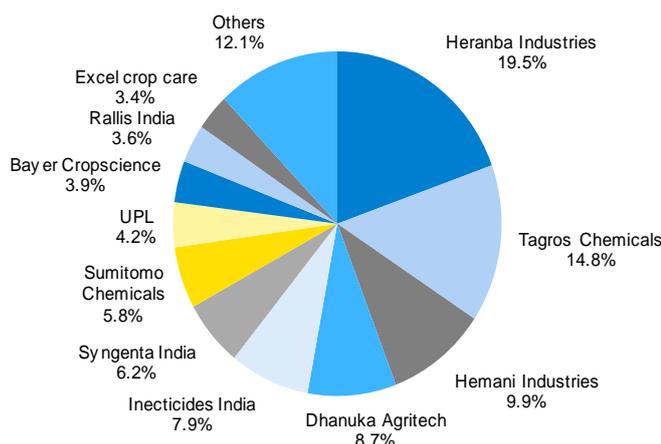
Indian pyrethroid industry was ~USD 110 mn in sales value in 2019 with a CAGR of 7.4% between 2014-19. Phasing out of various organophosphate insecticides has been the key driver for pyrethroid industry growth. These are also cost effective alternatives, exhibit bio degradable properties and are relatively less poisonous for mammals. With all these growth enabling factors, Indian pyrethroid market is expected to clock CAGR of 20% between 2020-2025 reaching sales value of USD 205 mn by 2025.

**Exhibit 10: Indian pyrethroid market**

YEAR	Production Volume (Tons)	Production Value (MN US\$)	Consumption Value (MN US\$)
2014	12,530	216	77
2025	25,398	462	205
<i>CAGR</i>	6.6%	7.2%	9.3%

Source: RHP

**Exhibit 11: Market share of key players in Pyrethroids in India (in %)**

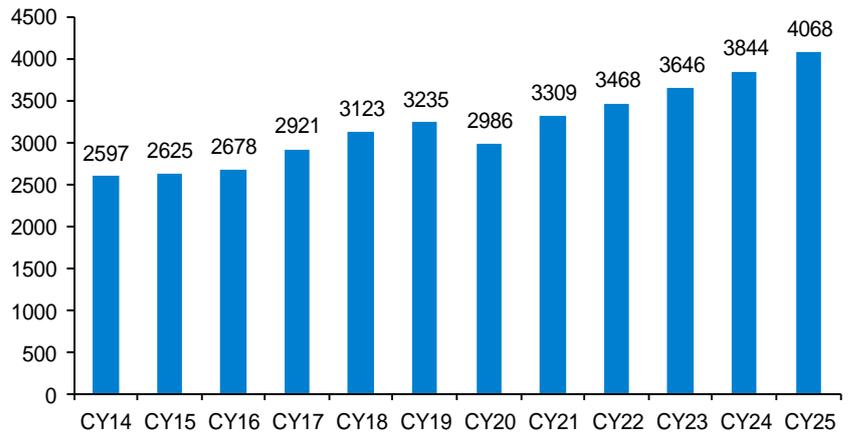


Source: RHP

Pyrethroids, widely used in agricultural and urban areas, reached a global market size of USD 3.3 bn in 2019, growing at a CAGR of 4.5% between 2014-19. Pyrethroids, compared to organophosphates, are safer for human consumption as mammals are capable of metabolizing and detoxifying pyrethroids through extensive enzyme systems.

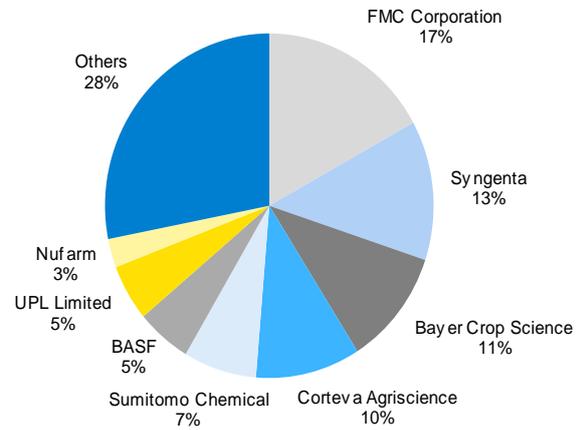
Its demand is driven by rise in concerns toward diseases transferable by insects, rapid growth of commercial pest management services, use of insecticidal nets to protect from mosquito, increase in production of food crops, insecticidal application for mites and other insects.

**Exhibit 12: Global pyrethroids market (USD mn), growing at 4% CAGR**



Source: Company, PL

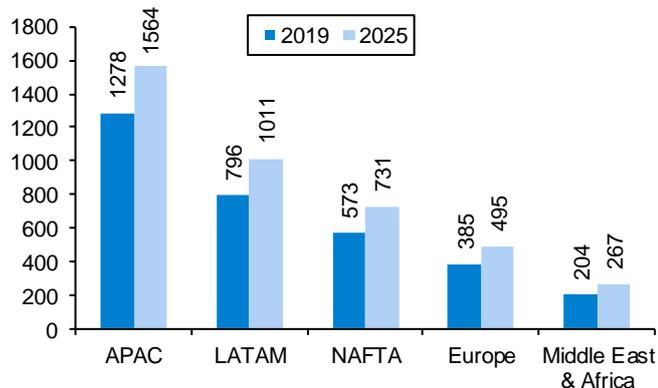
**Exhibit 13: FMC garners highest market share globally in pyrethroids**



Source: Company, PL

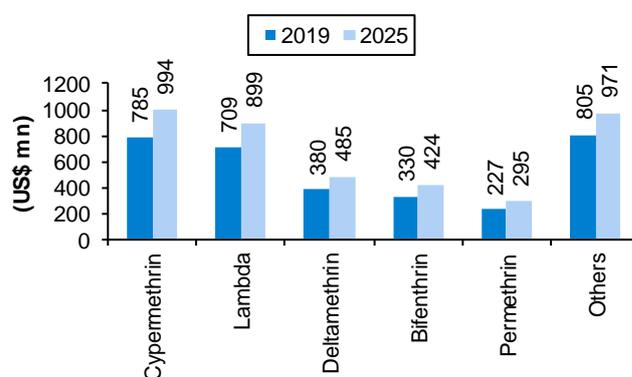
## Story in Charts

**Exhibit 14: Geographical break up of pyrethroid segment**



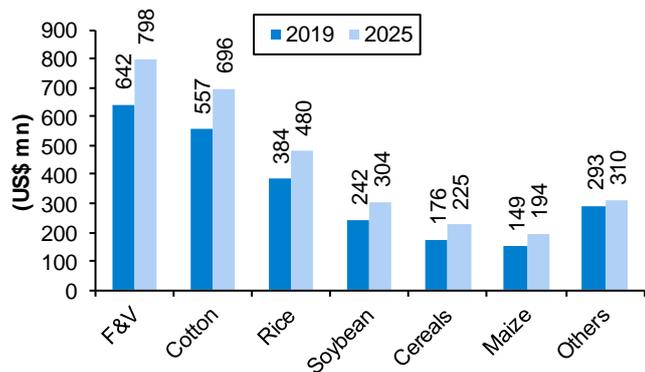
Source: Company, PL

**Exhibit 15: Product wise break up of pyrethroid segment**



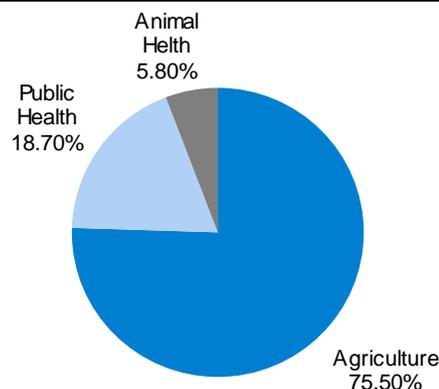
Source: Company, PL

**Exhibit 16: Crop wise break up of pyrethroid segment**



Source: Company, PL

**Exhibit 17: Segment wise break up of pyrethroid segment**



Source: Company, PL

**Exhibit 18: Historical prices of key pyrethroids**

Price Trends (in US\$/Kg)	2014	2015	2016	2017	2018	2019
Cypermethrin	2.44	2.31	2.55	2.64	3.11	2.95
Lambda cyhalothrin	2.3	2.19	2.45	2.54	3	2.86
Deltamethrin	2.66	2.55	2.87	2.99	3.57	3.47
Bifenthrin	4.71	4.51	5.1	5.35	6.41	6.43
Permethrin	5.19	4.92	5.61	5.89	7.08	7.2

Source: Company, PL

## Financials

### Exhibit 19: Income Statement (Rs mn)

Y/e March	FY18	FY19	FY20	1HFY20	1HFY21
<b>Net Revenues</b>	<b>7,412</b>	<b>10,044</b>	<b>9,514</b>	<b>5,016</b>	<b>6,183</b>
<i>YoY gr. (%)</i>	<i>27.3</i>	<i>35.5</i>	<i>-5.3</i>		<i>0</i>
Cost of Goods Sold	5,038	6,978	6,374	3,268	4,194
Gross Profit	2,375	3,067	3,139	1,748	1,989
<i>Margin (%)</i>	<i>32.0</i>	<i>30.5</i>	<i>33.0</i>	<i>34.9</i>	<i>32.2</i>
Employee Cost	332	380	465	225	229
Other Expenses	1,165	1,373	1,381	767	768
<b>EBITDA</b>	<b>878</b>	<b>1,314</b>	<b>1,294</b>	<b>757</b>	<b>993</b>
<i>YoY gr. (%)</i>	<i>81.5</i>	<i>49.7</i>	<i>-1.6</i>	<i>-</i>	<i>31.1</i>
<i>Margin (%)</i>	<i>11.8</i>	<i>13.1</i>	<i>13.6</i>	<i>15.1</i>	<i>16.1</i>
Depreciation and Amortization	50	60	82	36	66
<b>EBIT</b>	<b>828</b>	<b>1,255</b>	<b>1,211</b>	<b>721</b>	<b>927</b>
<i>Margin (%)</i>	<i>11.2</i>	<i>12.5</i>	<i>12.7</i>	<i>14.4</i>	<i>15.0</i>
Net Interest	118	107	88	38	35
Other Income	53	74	165	6	9
<b>Profit Before Tax</b>	<b>763</b>	<b>1,221</b>	<b>1,288</b>	<b>689</b>	<b>901</b>
<i>Margin (%)</i>	<i>10.3</i>	<i>12.2</i>	<i>13.5</i>	<i>13.7</i>	<i>14.6</i>
Total Tax	294	467	311	156	238
<i>Effective tax rate (%)</i>	<i>38.6</i>	<i>38.3</i>	<i>24.1</i>	<i>22.7</i>	<i>26.4</i>
<b>Profit after tax</b>	<b>469</b>	<b>754</b>	<b>978</b>	<b>532</b>	<b>663</b>
Minority interest	NA	NA	NA	NA	NA
Share Profit from Associate	NA	NA	NA	NA	NA
<b>Adjusted PAT</b>	<b>469</b>	<b>754</b>	<b>978</b>	<b>532</b>	<b>663</b>
<i>YoY gr. (%)</i>	<i>137.1</i>	<i>60.9</i>	<i>29.6</i>	<i>-</i>	<i>0.2</i>
<i>Margin (%)</i>	<i>6.3</i>	<i>7.5</i>	<i>10.3</i>	<i>10.3</i>	<i>9.8</i>
Extra Ord. Income / (Exp)	0	0	0	0	0
<b>Reported PAT</b>	<b>469</b>	<b>754</b>	<b>978</b>	<b>532</b>	<b>663</b>
<i>YoY gr. (%)</i>	<i>137.1</i>	<i>60.9</i>	<i>29.6</i>	<i>-</i>	<i>0.2</i>
<i>Margin (%)</i>	<i>6.3</i>	<i>7.5</i>	<i>10.3</i>	<i>10.3</i>	<i>9.8</i>
Equity Shares O/s (m)	7.8	39.1	39.1	39.1	39.1
<b>EPS (Rs)</b>	<b>60.0</b>	<b>19.3</b>	<b>25.0</b>	<b>13.6</b>	<b>17.0</b>

Source: Company, PL

**Exhibit 20: Balance Sheet (Rs mn)**

<b>Y/e March</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>
<b>Non-Current Assets</b>			
Gross Block	1,024	1,132	1,656
Tangibles	1,024	1,132	1,651
Intangibles	-	-	5
Acc: Dep / Amortization	561	620	701
Tangibles	561	620	700
Intangibles	-	-	1
Net fixed assets	462	511	954
Tangibles	462	511	951
Intangibles	-	-	4
Capital Work In Progress	12	160	378
Goodwill	-	-	-
Non-Current Investments	0	0	37
Net Deferred tax assets	-	-	-
Other Non-Current Assets	286	417	165
<b>Current Assets</b>			
Investments	-	-	-
Inventories	940	1,139	1,455
Trade receivables	2,031	2,533	2,585
Cash & Bank Balance	118	210	32
Other Current Assets	656	635	641
<b>Total Assets</b>	<b>4,505</b>	<b>5,604</b>	<b>6,248</b>
<b>Equity</b>			
Equity Share Capital	78	391	391
Other Equity	1,495	1,891	2,818
Total Networth	1,573	2,282	3,208
<b>Non-Current Liabilities</b>			
Long Term borrowings	3	-	-
Provisions	2	4	6
Other non current liabilities	88	99	80
<b>Current Liabilities</b>			
ST Debt / Current of LT Debt	759	499	431
Trade payables	1,784	2,352	2,125
Other current liabilities	296	369	397
<b>Total Equity &amp; Liabilities</b>	<b>4,505</b>	<b>5,604</b>	<b>6,248</b>

Source: Company, PL

**Exhibit 21: Cash Flow (Rs mn)**

Y/e March	FY18	FY19	FY20
PBT	763	1,221	1,288
Add. Depreciation	50	60	82
Add. Interest	118	107	88
Less Financial Other Income	-15	-10	-6
Add. Other	108	7	1
Op. profit before WC changes	1,025	1,386	1,454
Net Changes-WC	-332	-18	-513
Direct tax	-173	-491	-399
<b>Net cash from Op. activities</b>	<b>519</b>	<b>877</b>	<b>542</b>
Capital expenditures	-142	-257	-398
Interest / Dividend Income	16	10	5
Others	-121	-127	-127
<b>Net Cash from Inv. activities</b>	<b>-247</b>	<b>-374</b>	<b>-520</b>
Issue of share cap. / premium	-	-	-
Debt changes	-83	-261	-68
Dividend paid	-61	-47	-47
Interest paid	-114	-103	-84
Others	-	-	-1
<b>Net cash from Fin. activities</b>	<b>-258</b>	<b>-411</b>	<b>-199</b>
Net change in cash	15	92	-177
<b>Free Cash Flow</b>	<b>378</b>	<b>620</b>	<b>144</b>

Source: Company, PL

**Exhibit 22: Key Ratios**

Y/e March	FY18	FY19	FY20
<b>Per Share(Rs)</b>			
EPS	60.0	19.3	25.0
CEPS	66.4	20.8	27.1
BVPS	201	58	82
FCF	48.3	15.9	3.7
DPS	6.5	1.0	1.0
<b>Return Ratio(%)</b>			
RoCE	35.5	45.1	33.3
RoE	29.8	33.0	30.5
<b>Balance Sheet</b>			
Net Debt : Equity (x)	0.4	0.1	0.1
Net Working Capital (Days)	17	10	33
<b>Valuation(x)</b>			
PER	53.4	33.2	25.6
P/B	15.9	11.0	7.8
P/CEPS	48.3	30.8	23.6
EV/EBITDA	29.3	19.3	19.7
EV/Sales	3.5	2.5	2.7
Dividend Yield (%)	1.0	0.2	0.2

Source: Company, PL

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	Accumulate	6,022	5,550
2	Coromandel International	Reduce	676	788
3	Dhanuka Agritech	BUY	953	741
4	Godrej Agrovet	Accumulate	587	508
5	Insecticides India	BUY	506	489
6	P.I. Industries	Hold	2,119	2,250
7	Rallis India	Accumulate	321	285
8	Sharda Cropchem	BUY	383	275
9	Sumitomo Chemical India	Accumulate	336	305
10	UPL	Accumulate	601	561

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: >15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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