



**Heranba posted good set of numbers inline with our expectations ; Overall numbers look sluggish on account of one off benefit in base year & seasonal quarter compared to Q3FY22**

#### Key business highlights

- Change of auditor from M/s N.S.Shetty & co to M/s Natvarlal Vepari & Co
- Board has recommended a dividend of Rs.2 per share subject to shareholder approval
- Capex of Rs.800 Mn in FY22 & Rs.1,600 in FY23 inline with guidance given earlier (funded through internal accruals)
- Annual revenue guidance of 20% met along with 18% EBITDA margin in FY22
- Management continues to maintain forward revenue guidance of 18-20% growth & EBITDA margins in the range of 18-20% in FY23 & FY24
- Sarigam technical's facility to come onstream by end of FY23 which was earlier guided as Q2FY23 but no change in revenue guidance
- Pyrethroid products (~65% of overall revenue) will continue to grow at 12% CAGR however newer products likely to see a growth of 40-50% CAGR due to lower base & on blended basis management expects a revenue growth of 18-20% CAGR for next 2-3 years

#### Key financial highlights

- Revenue at INR 3,501 Mn, -11% qoq / +31% yoy
- EBITDA (Excl OI) at INR 625 Mn, -12% qoq / +8% yoy
- EBITDA margin (Excl OI) at 17.86% vs 18.01% / 21.54% in Q3FY22 / Q4FY21
- PAT at INR 426 Mn, -20% qoq / -1% yoy
- EPS stood at INR 10.6 vs 13.4 / 10.8 in Q3FY22 / Q4FY21

#### Financial Summary

Y/E Mar (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	7,412	10,044	9,514	12,186	14,504	17,114	20,195
<i>Growth Y-o-Y (%)</i>		35.5	(5.3)	28.1	19.0	18.0	18.0
EBIDTA	878	1,314	1,293	2,213	2,598	3,173	3,806
<i>Growth Y-o-Y (%)</i>		49.7	(1.6)	71.1	17.4	22.2	19.9
Margins (%)	11.8	13.1	13.6	18.2	17.9	18.5	18.8
Adjusted net profit	469	754	977	1,542	1,891	2,303	2,734
<i>Growth Y-o-Y (%)</i>		60.9	29.5	57.9	22.6	21.8	18.7
EPS (Rs)	60.0	19.3	25.0	38.5	47.3	57.6	68.3
P/E (x)	10	31	24	16	13	11	9
EV/EBITDA (x)	6	18	19	11	9	7	5
RoCE (%)	35.5	45.1	33.3	35.7	31.3	29.7	28.1
RoE (%)	29.8	33.0	30.4	29.2	26.5	24.8	23.1

Source: Company, Dalal & Broacha Research

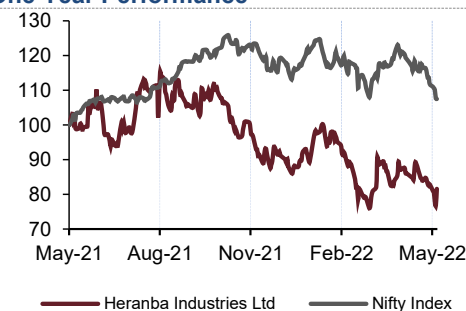
Rating	TP (Rs)	Up/Dn (%)
<b>BUY</b>	<b>1,091</b>	<b>80</b>

#### Market data

Current price	Rs	607
Market Cap (Rs.Bn)	(Rs Bn)	24
Market Cap (US\$ Mn)	(US\$ Mn)	309
Face Value	Rs	10
52 Weeks High/Low	Rs	866.85 / 551.1
Average Daily Volume	('000)	59
BSE Code		543266
Bloomberg		HERANBA.IN

Source: Bloomberg

#### One Year Performance



Source: Bloomberg

% Shareholding	Mar-22	Dec-21
Promoters	74.77	74.77
Public	25.23	25.23
<b>Total</b>	<b>100</b>	<b>100</b>

Source: Bloomberg

#### Key Risk:

- Key Pyrethroid prices & fluctuation
- Erratic monsoon
- Delay in implementation of capex

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## Quarterly Financials

(Rs.Mn)	Q4FY22A	Q4FY21	YoY Growth (%)	Q3FY22	QoQ Growth (%)
<b>Revenue from Operations</b>	<b>3,501</b>	<b>2,678</b>	<b>31%</b>	<b>3,954</b>	<b>-11%</b>
Other Income	48	53	-11%	51	-7%
Cost of Goods sold	2,258	1,591	42%	2,550	-11%
Employee Benefits Expense	105	120	-13%	191	-45%
Other Expenses	555	390	42%	521	6%
Total Expenses	2,876	2,101	37%	3,242	-11%
<b>EBITDA (Excluding Other Income)</b>	<b>625</b>	<b>577</b>	<b>8%</b>	<b>712</b>	<b>-12%</b>
Depreciation and Amortisation Expenses	82	43	91%	42	95%
<b>EBIT / PBIT</b>	<b>591</b>	<b>588</b>	<b>1%</b>	<b>721</b>	<b>-18%</b>
Finance Costs	8	10	-16%	9	-3%
<b>EBT/ PBT</b>	<b>583</b>	<b>578</b>	<b>1%</b>	<b>713</b>	<b>-18%</b>
Tax Expense	157	146	8%	178	-12%
<b>Net Profit after Tax</b>	<b>426</b>	<b>432</b>	<b>-1%</b>	<b>535</b>	<b>-20%</b>
Earning Per Share	10.6	10.8	-1%	13.4	-20%
<b>Margins (%)</b>					
Gross Margins	35.5%	40.6%	-509	35.5%	0
EBITDA Margins (Excl Other Income)	17.9%	21.5%	-368	18.0%	-15
PAT Margins	12.0%	15.8%	-382	13.4%	-136

Source: Dalal &amp; Broacha Research

Revenue saw robust growth of 31% despite base year had one time supply issue by competitor so company got one off benefit in Q4FY21. Q4 is always a seasonally poor quarter for Heranba & hence cannot be compared to Q3FY22 which is the best quarter in entire FY.

Company delivered Gross & EBITDA margin inline with our expectations. Base year saw exponential gross margin of 40%+ which was not sustainable due to one-off situation. Overall EBITDA & Profit also saw uptick in base year due to one of supply chain issue by competitor

## Did you know?

Heranba marks its entry in the most regulated market of USA in October 2021 by sending its first consignment of insecticide.

## Management Concall KTAs

## ➤ Capex plan

Place	FY22	FY23	Total	Completion Process
Sarigam	400	1,300	1,700	Block 1 : Q3FY23 End Block 2 : Q1FY24 Block 3 : Q2FY24
Saykha	200 Mn (Land)	-	200	Roadmap to set after monsoon season
Maintenance	200	300	500	
<b>Total</b>	<b>Rs.800 Mn</b>	<b>Rs.1,600 Mn</b>	<b>Rs.2,400 Mn</b>	

## ➤ Registrations

Country/Region	Received	Pipeline
USA	1 Pyrethroid	3 Registrations
Europe	4 Registrations : 3 Pyrethroid ; 1 Non-pyrethroid	2 Registrations
<b>Total</b>	<b>5 Registrations</b>	<b>5 Registrations</b>

## ➤ Product Pipeline :

- 2 Fungicide
- 2 Herbicide
- 1 Insecticide

## ➤ Overall 15-20 molecules under R&amp;D

- Fully backward integrated in all key pyrethroids (Starts manufacturing from base chemicals like phenol & bromine)

Out of these 5 molecules, 2 are in advance stage & are getting ready for exclusive sale to USA & European market

- USA Revenue potential 30-50 Mn \$ (Target Market : ~200 Mn \$)
- Productionwise no supply constraint from china as very low dependency on China (overall RM import stands @14-15% globally ; export to china stands @20%)
- This quarter saw overall increase in domestic B2B sales due to addition of newer products (sold products to large MNCs like UPL)
- CIBR Notification of banning deltamethrin due to one MNC did not submit adequate data in Europe so based on that CIBR also notified but MNC has submitted relevant data & Europe has rectified & India will also follow
- Aim to launch 3 products in FY23

## Valuation & Outlook

Management had committed 18-20% revenue growth & they delivered 18% annual growth which will instill confidence amongst investor community. Management continues to maintain forward revenue guidance of 18-20% & EBITDA guidance of 18-20%. We believe Heranba's capex & execution will be key going forward. In current inflationary condition companies like Heranba who are fully backward integrated will tend to benefit more as they will not face any supply disruption. With robust global demand for agrochemicals, Heranba is all set for exponential growth.

Heranba is currently trading at 11x / 9x FY23e / FY24e EPS. We maintain our **BUY recommendation at current levels for a target price of Rs.1,091 valuing company at 16x FY24E of Rs.68.3**. It continues to remain one of the most undervalued stock amongst entire agrochemical space with superior financial ratios & a superb growth trajectory.

## Recommendation Summary

Dates	Rating	Report Type	Reco. Price	Target	Report
20-Aug-21	Buy	Management Meet Update	775	1,200	<a href="#">Click to download</a>
23-Sep-21	Buy	Initiating Coverage	810	1,200	<a href="#">Click to download</a>
12-Nov-21	Buy	Quarterly Update - Q2FY22	710	1,060	<a href="#">Click to download</a>
29-Jan-22	Buy	Quarterly Update - Q3FY22	718	1,090	<a href="#">Click to download</a>
14-May-22	Buy	Quarterly Update - Q4FY22	607	1,090	

### About the Company:

Heranba Industries (Heranba) was incorporated as an agrochemical company in 1992. It is also one of the leading domestic producers of synthetic pyrethroids with a market share of 19.5% in domestic pyrethroid market. The company is present in the entire product value chain of the agrochemicals industry (i.e. Intermediates, Technical and Formulations)

#### Business verticals include:

- (a) Domestic bulk sales of Technical
- (b) Technical bulk exports
- (c) Branded formulations
- (d) Formulations exports

Heranba has more than 9,400 dealers across sixteen (16) states and one (1) union territory in India supporting the distribution of its products. It has four manufacturing facilities in and around Vapi with a capacity of ~15,000 MTPA.

## Financials

P&L (Rs mn)	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	10,044	9,514	12,186	14,504	17,114	20,195
Total Operating Expenses	6,978	6,374	7,795	9,306	11,124	13,127
Employee Cost	380	465	522	584	655	733
Other Expenses	1,373	1,381	1,656	2,016	2,162	2,529
<b>Operating Profit</b>	<b>1,314</b>	<b>1,293</b>	<b>2,213</b>	<b>2,598</b>	<b>3,173</b>	<b>3,806</b>
Depreciation	60	82	147	198	259	337
PBIT	1,255	1,211	2,067	2,400	2,915	3,470
Other income	74	165	70	194	213	234
Interest	107	88	54	41	49	49
PBT	1,221	1,288	2,083	2,553	3,079	3,655
exceptional)	1,221	1,288	2,083	2,553	3,079	3,655
Provision for tax	467	312	541	662	776	921
Reported PAT	754	977	1,542	1,891	2,303	2,734
MI	-	-	-	-	-	-
Net Profit	754	977	1,542	1,891	2,303	2,734
<b>Adjusted Profit (excl Exceptions)</b>	<b>754</b>	<b>977</b>	<b>1,542</b>	<b>1,891</b>	<b>2,303</b>	<b>2,734</b>

Balance Sheet	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity capital	391	391	400	400	400	400
Reserves	1,891	2,818	4,881	6,744	8,899	11,445
<b>Net worth</b>	<b>2,282</b>	<b>3,208</b>	<b>5,281</b>	<b>7,145</b>	<b>9,299</b>	<b>11,845</b>
<b>Non Current Liabilities</b>	<b>103</b>	<b>86</b>	<b>101</b>	<b>156</b>	<b>164</b>	<b>172</b>
<b>Current Liabilities</b>	<b>3,220</b>	<b>2,953</b>	<b>3,051</b>	<b>3,386</b>	<b>5,192</b>	<b>5,983</b>
<b>TOTAL LIABILITIES</b>	<b>5,604</b>	<b>6,248</b>	<b>8,433</b>	<b>10,686</b>	<b>14,655</b>	<b>18,000</b>
<b>Non Current Assets</b>	<b>1,088</b>	<b>1,534</b>	<b>1,881</b>	<b>2,299</b>	<b>2,905</b>	<b>3,761</b>
Fixed Assets	671	1,332	1,431	2,077	2,693	3,530
Goodwill	-	-	-	-	-	-
Non Current Investments	0	37	101	21	21	21
Deferred Tax Asset	1	-	10	28	-	-
Other Financial Assets	71	84	242	114	125	138
Other Non Current Assets	345	81	97	60	66	72
<b>Current Assets</b>	<b>4,516</b>	<b>4,713</b>	<b>6,552</b>	<b>8,387</b>	<b>11,750</b>	<b>14,239</b>
Current investments						
Inventories	1,139	1,455	1,660	2,557	2,579	3,043
Trade Receivables	2,533	2,585	3,418	4,096	4,783	5,644
Cash and Bank Balances	210	32	848	1,199	3,801	4,905
Short Term Loans and Advances	15	26	20	20	22	24
Other Current Assets	619	615	607	515	566	623
<b>TOTAL ASSETS</b>	<b>5,604</b>	<b>6,248</b>	<b>8,433</b>	<b>10,686</b>	<b>14,655</b>	<b>18,000</b>

Cash Flow St. (Rs. mn)	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Profit	754	977	1,542	1,891	2,303	2,734
Add: Dep. & Amort.	60	82	147	198	259	337
<b>Cash profits</b>	<b>814</b>	<b>1,059</b>	<b>1,689</b>	<b>2,088</b>	<b>2,561</b>	<b>3,070</b>
<b>(Inc)/Dec in</b>						
-Sundry debtors	(502)	(52)	(833)	(679)	(686)	(861)
-Inventories	(199)	(316)	(205)	(898)	(21)	(464)
-Loans/advances	-	(9)	9	-	-	-
- Other Current Assets	(109)	253	(168)	258	(71)	(78)
-Current Liab and Provisions	102	97	170	(71)	33	35
Sundry Creditors	568	(227)	(169)	487	1,778	760
Change in working capital	(140)	(255)	(1,196)	(903)	1,032	(608)
<b>CF from Oper. activities</b>	<b>674</b>	<b>804</b>	<b>493</b>	<b>1,185</b>	<b>3,594</b>	<b>2,462</b>
<b>CF from Inv. activities</b>	<b>(257)</b>	<b>(780)</b>	<b>(310)</b>	<b>(763)</b>	<b>(875)</b>	<b>(1,174)</b>
<b>CF from Fin. activities</b>	<b>(326)</b>	<b>(202)</b>	<b>632</b>	<b>(71)</b>	<b>(116)</b>	<b>(184)</b>
<b>Cash generated/(utilised)</b>	<b>92</b>	<b>(178)</b>	<b>816</b>	<b>351</b>	<b>2,602</b>	<b>1,104</b>
Cash at start of the year	118	210	32	848	1,199	3,801
Cash at end of the year	210	32	848	1,199	3,801	4,905

Ratios	FY19	FY20	FY21	FY22	FY23E	FY24E
OPM	13.08%	13.60%	18.16%	17.91%	18.54%	18.85%
NPM	7.45%	10.09%	12.58%	12.86%	13.29%	13.38%
Tax Rate	38.26%	24.20%	25.95%	25.93%	25.20%	25.20%

**Growth Ratios (%)**

Net Sales	35.51%	-5.28%	28.09%	19.02%	18.00%	18.00%
Operating Profit	49.66%	-1.57%	71.12%	17.36%	22.17%	19.94%
PBIT	60.04%	5.50%	61.66%	22.55%	20.61%	18.71%
PAT	60.86%	29.52%	57.93%	22.59%	21.80%	18.71%

**Per Share (Rs.)**

Net Earnings (EPS)	19.3	25.0	38.5	47.3	57.6	68.3
Cash Earnings (CPS)	20.8	27.1	42.2	52.2	64.0	76.7
Dividend	1.0	1.0	1.7	2.7	3.7	4.7
Book Value	58	82	132	179	232	296
Free Cash Flow	281	(562)	125	(154)	2,426	1,018

**Valuation Ratios**

P/E(x)	31	24	16	13	11	9
P/B(x)	10.4	7.4	4.6	3.4	2.6	2.1
EV/EBIDTA(x)	18.3	18.6	10.8	9.1	6.6	5.2
Div. Yield(%)	0.16%	0.16%	0.28%	0.44%	0.61%	0.77%

**FCF Yield(%)**

FCF Yield(%)	46.23%	-92.65%	20.53%	-25.31%	399.64%	167.74%
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**Return Ratios (%)**

ROE	33.05%	30.44%	29.20%	26.46%	24.76%	23.08%
ROCE	45.12%	33.29%	35.73%	31.30%	29.67%	28.05%

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