



Silent before storm

Heranba posted stable set of numbers with muted topline growth but with stable EBITDA margins

- Revenue at INR 3,534 Mn, +0.58% qoq / +1.22% yoy
- Gross margin at 36.14% vs 34.46% / 32.62% in Q1FY22 / Q2FY21
- EBITDA(Excl OI) at INR 611.8 Mn, -5.61% qoq / +9.59% yoy
- EBITDA margin at 17.31% vs 18.45% / 15.99% in Q1FY22 / Q2FY21
- PAT at INR 456 Mn, -3.74% qoq / +20.90% yoy
- EPS stood at INR 11.4 vs 11.8 / 9.6 in Q1FY22 / Q2FY21

Business Verticals (Q2FY22)

- Domestic Technicals @ 37.89% of revenue vs 32.16% in Q2FY21**
 - New molecule helped to ramp up domestic technical sales
- Export Technicals @ 23.19% of revenue vs 25.66% in Q2FY21**
 - Saw decline on YoY basis & muted growth on QoQ basis mainly due to container issues
 - Does not tantamount to permanent loss of sales
 - Shipments delayed by a month ; Expect shift of export revenue to Q3 from Q2
 - Current elevated logistic cost could be new normal going forward
- Domestic Formulations @ 30.08% of revenue vs 32.07% in Q2FY21**
- Export Formulations @ 8.89% of revenue vs 10.11% in Q2FY21**

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net sales	7,412	10,044	9,514	12,186	13,899	16,401	19,353
<i>Growth Y-o-Y (%)</i>		<i>35.5</i>	<i>(5.3)</i>	<i>28.1</i>	<i>14.1</i>	<i>18.0</i>	<i>18.0</i>
EBIDTA	878	1,314	1,293	2,213	2,509	2,986	3,585
<i>Growth Y-o-Y (%)</i>		<i>49.7</i>	<i>(1.6)</i>	<i>71.1</i>	<i>13.4</i>	<i>19.0</i>	<i>20.1</i>
Margins (%)	11.8	13.1	13.6	18.2	18.1	18.2	18.5
Adjusted net profit	469	754	977	1,542	1,797	2,125	2,528
<i>Growth Y-o-Y (%)</i>		<i>60.9</i>	<i>29.5</i>	<i>57.9</i>	<i>16.5</i>	<i>18.3</i>	<i>19.0</i>
EPS (Rs)	60.0	19.3	25.0	38.5	44.9	53.1	63.2
P/E (x)	12	37	28	18	16	13	11
EV/EBITDA (x)	7	21	22	13	10	8	7
RoCE (%)	35.5	45.1	33.3	35.7	31.2	29.1	27.8
RoE (%)	29.8	33.0	30.4	29.2	25.8	23.7	22.4

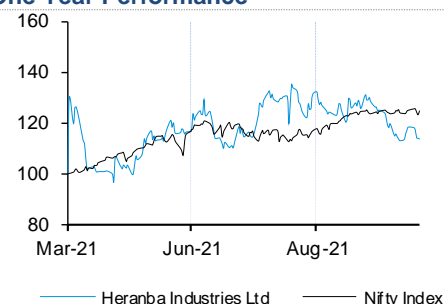
Source : Dalal & Broacha Research

Rating	TP (Rs)	Up/Dn (%)
BUY	1060	49

Market data

Current price	Rs	711
Market Cap (Rs.Bn)	(Rs Bn)	28
Market Cap (US\$ Mn)	(US\$ Mn)	382
Face Value	Rs	10
52 Weeks High/Low	Rs	945/602
Average Daily Volume	('000)	95
BSE Code		543266
Bloomberg		Heranba:IN

One Year Performance



Source: Bloomberg

% Shareholding	Sep-21	Jun-21
Promoters	74.61	74.15
Public	25.39	25.85
Total	100	100

Source: Bloomberg

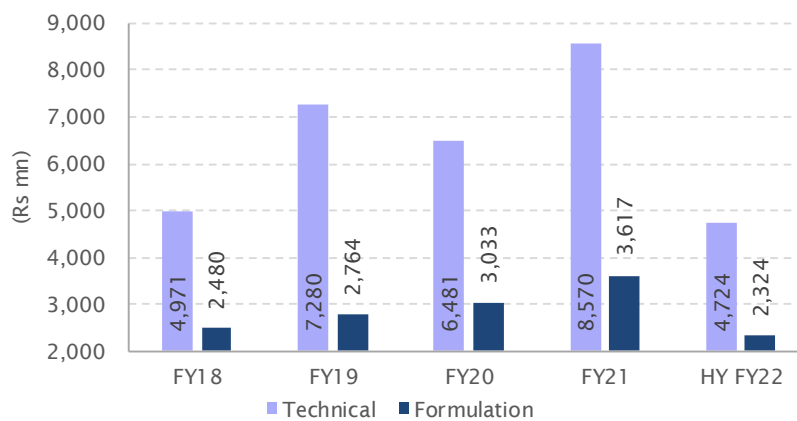
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Quarterly Financials

(Rs.Mn)	Q2FY22	Q2FY21	YoY Growth (%)	Q1FY22	QoQ Growth (%)
Revenue from Operations	3,534	3,492	1%	3514	1%
Other Income	52	8	587%	43	21%
Cost of Goods sold	2,257	2,353	-4%	2,303	-2%
Employee Benefits Expense	150	111	35%	138	8%
Other Expenses	515	469	10%	424	21%
Total Expenses	2,923	2,934	0%	2,866	2%
EBITDA (Excluding Other Income)	612	558	10%	648	-6%
Depreciation and Amortisation Expenses	38	33	16%	36	6%
EBIT / PBIT	626	533	17%	655	-5%
Finance Costs	12	20	-43%	12	-5%
EBT/ PBT	614	513	20%	643	-5%
Tax Expense	158	135	17%	169	-7%
Net Profit after Tax	456	377	21%	474	-4%
Earning Per Share	11	10	18%	12	-4%
Margins (%)					
Gross Margins	36.1%	32.6%	352	34.5%	168
EBITDA Margins (Excl Other Income)	17.3%	16.0%	132	18.4%	-114
PAT Margins	12.7%	10.8%	194	13.3%	-60

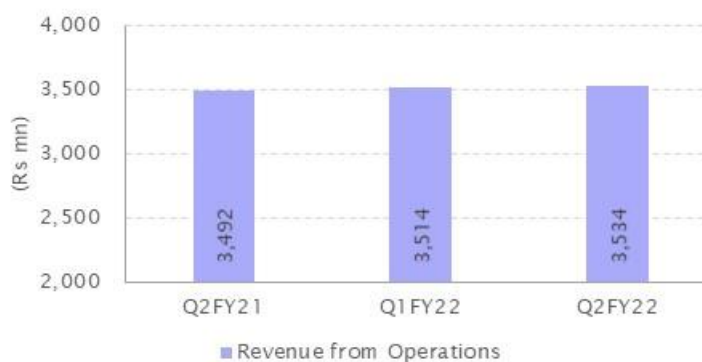
Source: Dalal & Broacha Research

Exhibit 1: Revenue from Technical and Formulations



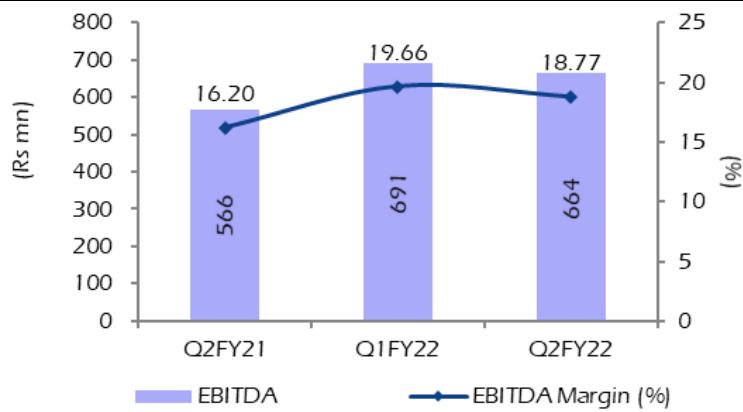
Source: Company

Exhibit 2: Revenue from Operations



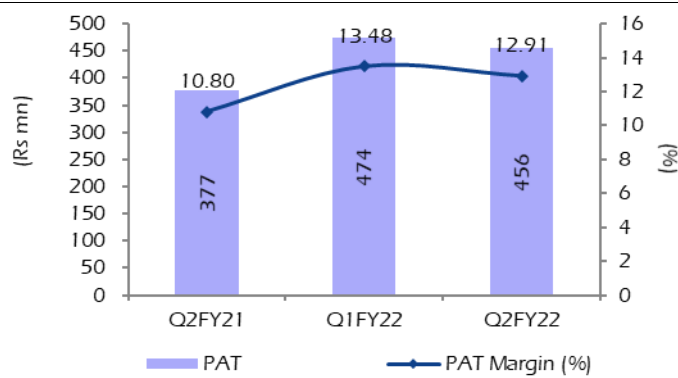
Source: Company

Exhibit 3: EBITDA (incl. Other Rev) and EBITDA Margin



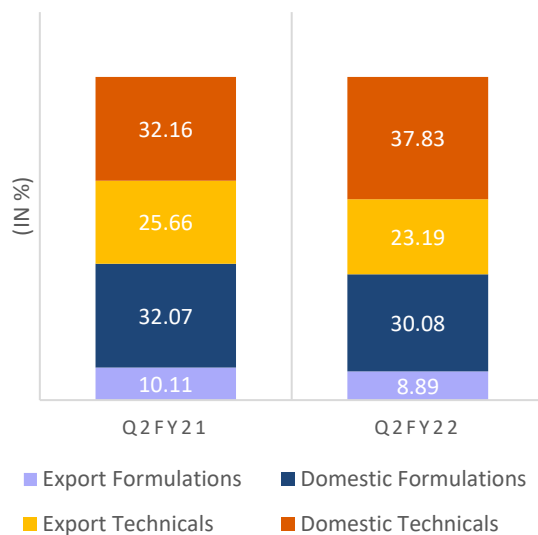
Source: Company

Exhibit 4: PAT and PAT Margin



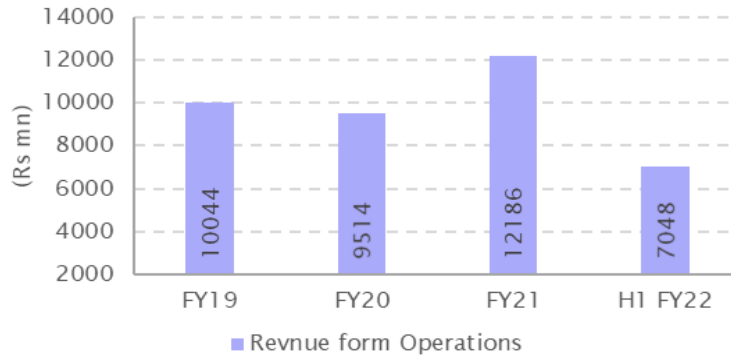
Source: Company

Exhibit 5: Business Mix



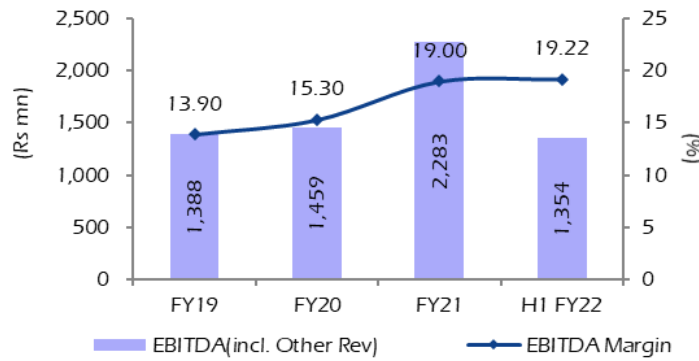
Source: Company

Exhibit 6: Net Revenue from Operation



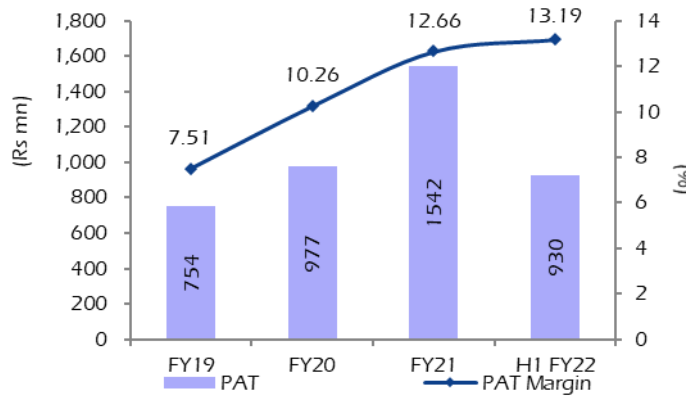
Source: Company

Exhibit 7: EBITDA(incl. Other income) & EBITDA Margin



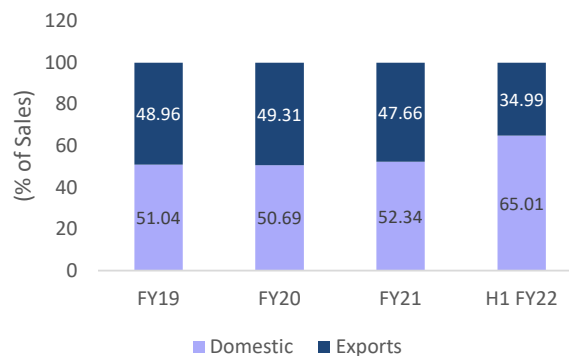
Source: Company

Exhibit 8: PAT & PAT Margin



Source: Company

Exhibit 9: Revenue from Exports



Source: Company

Concall KTAs

- **H1 Revenue** grew by 14% ; double digit trajectory maintained & EBITDA margins also in the range of 18-20%
- Muted topline on account of logistic issue & domestic branded formulations (erratic monsoon) but enhanced B2B technical sales
- **Shipped first ever consignment of 50 MT of pyrethroid to highly regulated market of USA**
(Targeting sales of US\$ 25M in next 3-5 years ~ 180-190 crs)
- **Gross margin expansion to 36% to continue** :
Attributable to new product launches
- **Phase 1 implementation of Sarigam facility to be completed in November 2021.** To add significant contribution to topline & bottomline
- Received **registration of new molecule** in insecticide space in October 2021
- Logistics & energy cost continue to be at elevated levels
- **Key Products** : Delta (1st rank in terms of Value) & Lambda(4th rank in terms of value) doing well
- **New Product Launches** : +1 insecticide (Organophosphorus compound) from sarigam facility + 1 fungicide launch expected
- **Moat** : Cost advantage in terms of pricing in USA due to backward integration ; Pricing still remains key role in highly competitive market of USA
- **Exports & domestic** both garner almost same margins
- **Asset T/O** superior compared to competitors on account of forward integration in formulation business (Heranba Asset T/O: 5-5.5x ; Competitors – Tagros, Hemani Asset T/O : 2-3x)
- **Revenue mix** : 80% - Insecticides ; 15% - fungicides ; 5% - Herbicides & others
- Pyrethroid contribution to go to 57% from current levels of 65% in next 3-5 years as a result of new product contribution to overall sales
- **Capex** :
 - ✓ Annual target is to increase 500MT of capacity
 - ✓ To spend **250 crs** over 3 years split :
 - ✓ ~ **180 crs in sarigam** (Additional 5k-6k MT to be added by Q2FY23 which may go upto 10k MT by FY24),
 - ✓ ~ **15-20 crs** (To add 500-700 MT of capacity) in existing Vapi facility
 - ✓ ~ **50 crs in saykha** (Focus at later stage post sarigam expansion)

Did you know?
Heranba is a market leader in pyrethroids with a domestic market share of **19.5%**

Did you know?
Heranba has one of finest Asset T/O compared to peers

- ✓ 2-3 year forward product mix : To maintain leadership position in existing products & simultaneously increase pie of newer molecules from sarigam facility
- FG price increase along with RM price increase not margin accretive
- **CFO (Cash flow from Operations) turned negative** on account of higher credit sales in Q2 & increased inventory which is expected to move in next quarter
- **Logistic issue slowly getting resolved** ; customers now booking in advance to make timely availability ; availability better than last month

Valuation & Outlook

Double digit revenue growth trajectory to continue ; 36% Gross margin is the new normal ; Management confident of maintaining EBITDA margins of 18-20%

Heranba is currently trading at 16x / 13x FY22e / FY23e EPS. We have reworked our numbers. We maintain a **BUY** recommendation at current levels with a target price of Rs.1,060 valuing company at 20x FY23E of Rs.53.

Recommendation Summary

Dates	Rating	Report Type	Reco. Price	Target
20-Aug-21	Buy	Management Meet Update	775	1,200
23-Sep-21	Buy	Initiating Coverage	810	1,200
12-Nov-21	Buy	Quarterly Update	710	1,060

Financials

P&L (Rs mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	10,044	9,514	12,186	13,899	16,401	19,353
Total Operating Expenses	6,978	6,374	7,795	8,993	10,660	12,579
Employee Cost	380	465	522	596	668	748
Other Expenses	1,373	1,381	1,656	1,800	2,087	2,441
Operating Profit	1,314	1,293	2,213	2,509	2,986	3,585
Depreciation	60	82	147	175	232	306
PBIT	1,255	1,211	2,067	2,335	2,754	3,279
Other income	74	165	70	124	136	150
Interest	107	88	54	48	49	49
PBT	1,221	1,288	2,083	2,410	2,840	3,380
exceptional)	1,221	1,288	2,083	2,410	2,840	3,380
Provision for tax	467	312	541	613	716	852
Reported PAT	754	977	1,542	1,797	2,125	2,528
MI	-	-	-	-	-	-
Net Profit	754	977	1,542	1,797	2,125	2,528
Adjusted Profit (excl Exceptions)	754	977	1,542	1,797	2,125	2,528
Balance Sheet	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity capital	391	391	400	400	400	400
Reserves	1,891	2,818	4,881	6,570	8,547	10,887
Net worth	2,282	3,208	5,281	6,970	8,947	11,287
Non Current Liabilities	103	86	101	121	126	131
Current Liabilities	3,220	2,953	3,051	4,577	5,240	6,018
TOTAL LIABILITIES	5,604	6,248	8,433	11,668	14,312	17,435
Non Current Assets	1,088	1,534	1,881	2,342	3,064	3,973
Fixed Assets	671	1,332	1,431	1,869	2,553	3,421
Goodwill	-	-	-	-	-	-
Non Current Investments	0	37	101	101	101	101
Deferred Tax Asset	1	-	10	-	-	-
Other Financial Assets	71	84	242	266	292	322
Other Non Current Assets	345	81	97	107	117	129
Current Assets	4,516	4,713	6,552	9,325	11,248	13,463
Current investments						
Inventories	1,139	1,455	1,660	2,094	2,471	2,916
Trade Receivables	2,533	2,585	3,418	3,884	4,583	5,408
Cash and Bank Balances	210	32	848	2,658	3,435	4,304
Short Term Loans and Advances	15	26	20	22	24	27
Other Current Assets	619	615	607	667	734	807
TOTAL ASSETS	5,604	6,248	8,433	11,668	14,312	17,435

Cash Flow St. (Rs. mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Profit	754	977	1,542	1,797	2,125	2,528
Add: Dep. & Amort.	60	82	147	175	232	306
Cash profits	814	1,059	1,689	1,972	2,357	2,834
(Inc)/Dec in						
-Sundry debtors	(502)	(52)	(833)	(466)	(699)	(825)
-Inventories	(199)	(316)	(205)	(434)	(377)	(445)
-Loans/advances	-	(9)	9	-	-	-
- Other Current Assets	(109)	253	(168)	(97)	(106)	(117)
-Current Liab and Provisions	102	97	170	44	47	52
Sundry Creditors	568	(227)	(169)	1,471	617	728
Change in working capital	(140)	(255)	(1,196)	517	(518)	(607)
CF from Oper. activities	674	804	493	2,489	1,839	2,227
CF from Inv. activities	(257)	(780)	(310)	(612)	(917)	(1,174)
CF from Fin. activities	(326)	(202)	632	(67)	(145)	(184)
Cash generated/(utilised)	92	(178)	816	1,810	778	869
Cash at start of the year	118	210	32	848	2,658	3,435
Cash at end of the year	210	32	848	2,658	3,435	4,304

Ratios	FY19	FY20	FY21	FY22E	FY23E	FY24E
OPM	13.08%	13.60%	18.16%	18.06%	18.21%	18.52%
NPM	7.45%	10.09%	12.58%	12.81%	12.85%	12.96%
Tax Rate	38.26%	24.20%	25.95%	25.44%	25.20%	25.20%

Growth Ratios (%)

Net Sales	35.51%	-5.28%	28.09%	14.05%	18.00%	18.00%
Operating Profit	49.66%	-1.57%	71.12%	13.38%	18.99%	20.07%
PBIT	60.04%	5.50%	61.66%	15.70%	17.87%	18.98%
PAT	60.86%	29.52%	57.93%	16.50%	18.25%	18.98%

Per Share (Rs.)

Net Earnings (EPS)	19.3	25.0	38.5	44.9	53.1	63.2
Cash Earnings (CPS)	20.8	27.1	42.2	49.3	58.9	70.8
Dividend	1.0	1.0	1.7	2.7	3.7	4.7
Book Value	58	82	132	174	224	282
Free Cash Flow	281	(562)	125	1,749	771	892

Valuation Ratios

P/E(x)	37	28	18	16	13	11
P/B(x)	12.2	8.6	5.4	4.1	3.2	2.5
EV/EBIDTA(x)	21.3	21.7	12.6	10.4	8.5	6.8
Div. Yield(%)	0.14%	0.14%	0.24%	0.38%	0.52%	0.66%
FCF Yield(%)	39.53%	-79.21%	17.55%	246.31%	108.63%	125.70%

Return Ratios (%)

ROE	33.05%	30.44%	29.20%	25.78%	23.75%	22.40%
ROCE	45.12%	33.29%	35.73%	31.24%	29.14%	27.81%

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