

## Heranba Industries Ltd

### **Leading domestic producers of synthetic pyrethroids**

Heranba Industries are a crop protection chemical manufacturer, exporter and marketing company based out of Vapi, Gujarat. Company manufactures intermediates, technicals and formulations. Company is one of the leading domestic producers of synthetic pyrethroids. Company's pesticides range includes insecticides, herbicides, fungicides.

**Positives:** (a) Presence in a wide range of products across the entire value chain of synthetic pyrethroids (b) Product registrations in the domestic and international markets enabling global outreach (c) Strong product portfolio and wide distribution network (d) Experienced Promoters and Management Team.

**Investment concerns:** (a) There are outstanding legal proceedings involving the Company, Promoters and certain Directors (b) Absence of large customers and dependence on smaller customers increases uncertainty of demand which may have an adverse impact on the business operations and financial performance (c) Company has not entered into long-term agreements with the customers for purchasing the products nor for the supply of raw materials with the suppliers.

**Outlook & Valuation:** Company has a robust past track record of performance. In the future, we expect Company to gain market share and improve margins. Company has priced its issue at 22.1x PE on a trailing basis, which is quite reasonable by looking at the future prospects of the Company. Its peers such as Rallis India, Sumitomo Chemicals and Bharat Rasayan are trading at 23.1x, 47.3x and 27.0x PE on a trailing basis respectively. Company return ratios are superior to peers (ROE is above 30%). Company has a strong financial position and has been generating positive cash flow. We expect a good listing for the Company. We are positive on the long-term prospects of the Company, **we recommend "SUBSCRIBE" to the Heranba Industries IPO for long term as well as for listing gains.**

### Key Financials

Y/E March (₹ cr)	FY18	FY19	FY20
<b>Net Sales</b>	745.1	1,004.4	951.4
% chg	-	34.8	-5.3
<b>Net Profit</b>	46.9	75.4	97.8
% chg	-	60.9	29.6
EBITDA (%)	11.8	13.1	13.6
<b>EPS (Rs)</b>	12.0	19.3	25.0
P/E (x)	52.3	32.5	25.1
P/BV (x)	15.6	10.7	7.6
ROE (%)	29.8	33.0	30.5
ROCE (%)	37.8	47.8	37.8
EV/EBITDA	28.6	18.9	19.2
EV/Sales	3.4	2.5	2.6

Source: Company, Angel Research.

Note: Valuation ratios at upper price band.

## SUBSCRIBE

Issue Open: February 23, 2021

Issue Close: February 25, 2021

Face Value: ₹ 10

Present Eq. Paid up Capital: ₹ 39.1 cr

Offer for Sale: 0.9 cr sh.

Fresh issue: ₹ 60 cr

Post Eq. Paid up Capital: ₹ 40.0 cr

Issue size (amount): ₹ 625.2 cr

Price Band: ₹ 626-627

Lot Size: 23 shares and in multiple thereafter

Post-issue mkt. cap: \*₹ 2505 cr - \*\*₹ 2509 cr

Promoters holding Pre-Issue: 98.8%

Promoters holding Post-Issue: 74.0%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

### Post Issue Shareholding Pattern

Promoters	74.0%
Others	26.0%

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## Company background

Company started their manufacturing activity in the year 1996 with production of an Intermediate product CMAC. By the FY 2001-2002, Management forward integrated Company into the manufacturing of various Technicals like metametron, cypermethrin, alpha, permethrin and deltamethrin. By the end of the FY 2004-2005, Management further expanded the product range to Formulations, which are final products sold to farmers as Pesticides, Herbicides, Fungicides for crop protection and into public health products in the FY 2010-11. Company is present in the entire product value chain of the agrochemicals industry i.e. Intermediates, Technicals and Formulations and holds registrations for eighteen Technicals for manufacture and sale in India, one hundred and three Technicals & Formulations for manufacture and sale in the export markets and one hundred and sixty nine Formulations registered for manufacturing and sale in India.

## Issue details

Company issues comprise ₹60 crore through fresh issue and 90,15,000 equity shares through offer for sale and in the price band of ₹626-627.

### Pre and post IPO shareholding pattern

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter	38,606,530	98.8	29,591,530	74.0
Public	450,000	1.2	10,421,938	26.0
<b>Total</b>	<b>39,056,530</b>	<b>100.0</b>	<b>40,013,468</b>	<b>100.0</b>

Source: Company, Angel Research & RHP.

Note: Calculated at upper price band.

## Objectives of the Offer

- To fund working capital requirements.
- General Corporate Purposes.

## Key Management Personnel

**Sadashiv K. Shetty**, aged 66 years, is the Promoter, Chairman and Executive Director of the Company. He holds a bachelor's (physics and chemistry) and master's (chemistry) degree in science from University of Mysore. He has experience of more than three decades in agrochemicals industry. He has been on the Board since September 29, 1994. He has been and is responsible for the overall supervision, direction and management of the Company. He is fully involved in day-to-day affairs of the Company and future business strategies. He has been instrumental in new products development and addition of capacities.

**Raghuram K. Shetty**, aged 61 years, is the Promoter and Managing Director of the Company. He holds a bachelor's degree in economics from University of Mysore. He has pursued government commercial diploma from the Department of Education, Bureau of Government Examinations, Maharashtra. He has also done diploma in export and import management from the India International Trade Centre, Mumbai. He has experience of more than three decades in agrochemicals industry. He has been on the Board since September 29, 1994 and has been instrumental in developing export business of the Company.

**Consolidated Profit & Loss Statement**

Y/E March (₹ cr)	FY18	FY19	FY20	H1FY20	H1FY21
<b>Total operating income</b>	745.1	1,004.4	951.4	501.6	618.3
<i>% chg</i>	-	34.8	-5.3		23.3
<b>Total Expenditure</b>	657.3	873.0	822.0	425.9	519.1
Cost of material consumed	497.0	708.4	639.8	337.4	451.8
Purchase of stock in trade	0.0	6.5	15.3	3.4	13.8
Changes in Inventories	6.7	-17.1	-17.7	-14.0	-46.2
Excise Duty	3.8	0.0	0.0	0.0	0.0
Employee Benefits Expense	33.2	38.0	46.5	22.5	22.9
Other Expenses	116.5	137.3	138.1	76.7	76.8
<b>EBITDA</b>	87.8	131.4	129.4	75.7	99.3
<i>% chg</i>	-	49.7	-1.6		31.1
<i>(% of Net Sales)</i>	11.8	13.1	13.6	15.1	16.1
Depreciation & Amortisation	5.0	6.0	8.2	3.6	6.6
<b>EBIT</b>	82.8	125.5	121.1	72.1	92.7
<i>% chg</i>	-	51.5	-3.4		28.5
<i>(% of Net Sales)</i>	11.1	12.5	12.7	14.4	15.0
Interest & other Charges	11.8	10.7	8.8	3.8	3.5
Other Income	5.3	7.4	16.5	0.6	0.9
<i>(% of Sales)</i>	0.7	0.7	1.7	0.1	0.1
<b>Recurring PBT</b>	76.3	122.1	128.8	68.9	90.1
<i>% chg</i>	-	60.0	5.5		30.8
Tax	29.4	46.7	31.1	15.6	23.8
<b>PAT (reported)</b>	46.9	75.4	97.8	53.2	66.3
<i>% chg</i>	-	60.9	29.6		24.5
<i>(% of Net Sales)</i>	6.3	7.5	10.3	10.6	10.7
<b>Basic &amp; Fully Diluted EPS (Rs)</b>	12.0	19.3	25.0	13.6	17.0
<i>% chg</i>	-	60.9	29.6		24.6

Source: Company, Angel Research

**Consolidated Balance Sheet**

Y/E March (₹ cr)	FY18	FY19	FY20	H1FY20	H1FY21
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	7.8	39.1	39.1	39.1	39.1
Other equity	149.5	189.1	281.8	237.0	342.2
<b>Shareholders Funds</b>	<b>157.3</b>	<b>228.2</b>	<b>320.8</b>	<b>276.1</b>	<b>381.3</b>
<b>Total Loans</b>	<b>76.0</b>	<b>49.9</b>	<b>43.1</b>	<b>63.9</b>	<b>38.0</b>
Other liabilities	9.0	10.3	8.6	8.8	10.0
<b>Total Liabilities</b>	<b>242.3</b>	<b>288.3</b>	<b>372.6</b>	<b>348.8</b>	<b>429.2</b>
<b>APPLICATION OF FUNDS</b>					
Property, plant and equipment	46.2	51.1	95.4	97.8	130.7
Capital work-in-progress	1.2	16.0	37.8	10.7	3.3
Current Assets	374.5	451.6	471.3	493.0	623.8
Inventories	94.0	113.9	145.5	133.1	173.5
Trade and other receivables	203.1	253.3	258.5	267.8	372.8
Cash and cash equivalents	11.8	21.0	3.2	20.7	25.3
Other Assets	65.6	63.5	64.1	71.4	52.2
Current liabilities	208.2	272.1	252.2	270.8	358.9
<b>Net Current Assets</b>	<b>166.3</b>	<b>179.5</b>	<b>219.1</b>	<b>222.2</b>	<b>264.9</b>
Other Non Current Asset	28.6	41.7	20.2	18.1	30.3
<b>Total Assets</b>	<b>242.3</b>	<b>288.3</b>	<b>372.6</b>	<b>348.8</b>	<b>429.2</b>

Source: Company, Angel Research

**Consolidated Cash Flow Statement**

Y/E March (₹ cr)	FY18	FY19	FY20	H1FY20	H1FY21
Profit before tax	76.3	122.1	128.8	68.9	90.1
Depreciation	5.0	6.0	8.2	3.6	6.6
Change in Working Capital	(33.2)	(1.8)	(51.3)	(41.4)	(31.9)
Interest Expense	11.8	10.7	8.8	3.8	3.5
Direct Tax Paid	(17.3)	(49.1)	(39.9)	(21.5)	(15.6)
Others	9.3	(0.2)	(0.5)	1.2	(0.4)
<b>Cash Flow from Operations</b>	<b>51.9</b>	<b>87.7</b>	<b>54.2</b>	<b>14.6</b>	<b>52.3</b>
(Inc.)/ Dec. in Fixed Assets	(14.2)	(25.7)	(39.8)	(16.8)	(7.4)
Changes in investment	2.0	(0.6)	(3.8)	(3.9)	(9.9)
Others	(12.5)	(11.2)	(8.4)	0.2	1.3
<b>Cash Flow from Investing</b>	<b>(24.7)</b>	<b>(37.4)</b>	<b>(52.0)</b>	<b>(20.6)</b>	<b>(15.9)</b>
Changes in Borrowings	(8.3)	(26.1)	(6.9)	14.0	(5.1)
Interest paid	(11.4)	(10.3)	(8.4)	(3.6)	(3.3)
Dividend paid	(6.1)	(4.7)	(4.7)	(4.7)	(5.9)
<b>Cash Flow from Financing</b>	<b>(25.8)</b>	<b>(41.1)</b>	<b>(19.9)</b>	<b>5.7</b>	<b>(14.3)</b>
Inc./ (Dec.) in Cash	1.5	9.2	(17.8)	(0.3)	22.1
<b>Opening Cash balances</b>	<b>10.3</b>	<b>11.8</b>	<b>21.0</b>	<b>21.0</b>	<b>3.2</b>
<b>Closing Cash balances</b>	<b>11.8</b>	<b>21.0</b>	<b>3.2</b>	<b>20.7</b>	<b>25.3</b>

Source: Company, Angel Research

**Key Ratios**

Y/E March	FY18	FY19	FY20
<b>Valuation Ratio (x)</b>			
P/E (on FDEPS)	52.3	32.5	25.1
P/CEPS	46.5	29.9	23.7
P/BV	15.6	10.7	7.6
EV/Sales	3.4	2.5	2.6
EV/EBITDA	28.6	18.9	19.2
<b>Per Share Data (Rs)</b>			
EPS (Basic)	12.0	19.3	25.0
EPS (fully diluted)	12.0	19.3	25.0
Cash EPS	13.5	21.0	26.5
Book Value	40.3	58.4	82.2
<b>Returns (%)</b>			
ROE	29.8	33.0	30.5
ROCE	37.8	47.8	37.8
Angel ROIC (Pre tax)	37.6	52.0	37.9
<b>Turnover ratios (x)</b>			
Receivables (days)	99.5	92.0	99.2
Inventory (days)	46.0	41.4	55.8
Payables (days)	131.0	121.2	121.2
Working capital cycle (days)	14.5	12.2	33.8

Source: Company, Angel Research (Valuation at the upper price band)

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