

Company Overview

Heranba Industries Ltd (HIL) is a crop protection chemical manufacturer, exporter and marketing company based out of Vapi, Gujarat. The company manufactures Intermediates, Technicals and Formulations. HIL is a leading domestic producers of synthetic pyrethroids like cypermethrin, alphacypermethrin, deltamethrin, permitherin, lambda cyhalothrin etc. Pesticides range includes insecticides, herbicides, fungicides and public health products for pest control. The company is present in the entire product value chain of the agrochemicals industry i.e. Intermediates, Technicals and Formulations and holds registrations for eighteen (18) Technicals for manufacture and sale in India, one hundred and three (103) Technicals & Formulations for manufacture and sale in the export markets and one hundred and sixty nine (169) Formulations registered for manufacturing and sale in India. Applications for registration of fourteen (14) Technicals & Formulations for manufacture & sale in India and seven (7) Technicals and Formulations to manufacture for the export markets have been filed with the CIB&RC and are in the process of evaluation.

Objects of the issue

The issue consist of Offer for sale (INR 5.6 bn) and Fresh issue (INR 0.6 bn). Company proposes to utilize the net proceeds from fresh issue for:

- A) Funding incremental working capital requirements (INR 0.5 bn)
- B) General Corporate Purposes (INR 0.1 bn)

Investment Rationale

Strong product portfolio and wide distribution network

Heranba manufacture and supply Technicals to leading domestic and multinational agrochemical companies operating in and outside India which are used by them for manufacturing their own products. Their end customers for their Formulations are the farmers who use their products for crop protection and crop care. The company has more than 9,400 dealers/distributors supported by their 21 stock depots spread across 16 states and 1 union territory in the country in order to meet the demand of their products from farmers. Their sales & marketing teams travel extensively to maintain and strengthen existing relationships with customers and to explore new relationships with potential customers. They educate farmers on the care and protection extended by their products over their crops by conducting farmer training camps, participating in village level programmes and district exhibitions to establish a direct relationship with farmer communities all over India.

Presence in a wide range of products across the entire value chain of synthetic pyrethroids

Heranba manufacture Intermediates, Technicals and Formulations which form part of the entire value chain of synthetic pyrethroids and other active ingredients in the agrochemicals business. They are one of the leading domestic producers of synthetic pyrethroids and started manufacturing of Cypermethric Acid Chloride (CMAC) which is a key pre-cursor required to produce pyrethroids in the FY 1995-96. By the FY 2001-2002, they forward integrated their operations to manufacture Technicals like Metametrone, Cypermethrin, Alphacypermethrin, Permethrin and Deltamethrin. In the FY 2004-05 they further expanded their product line to include Formulations to then move on to launch Formulations under their own brands in the FY 2005-06. This capability of manufacturing Intermediates, Technicals and Formulations and their presence in the entire value chain of synthetic pyrethroids provides them the flexibility to shift between products depending on the demand-supply and pricing dynamics of the domestic and international agrochemicals industry.

Valuation and Outlook

Heranba Industries is crop protection, chemical manufacturer in India. The company has 50% of its revenue coming through exports. Currently, it exports to more than 60 countries with an intention to increase its exports in future. On the valuation front, at the upper price band, the company is valued at 25.7x P/E based on FY20 numbers considering the diluted equity shares which is reasonably priced compare to its listed Industry peers (i.e Punjab Chemicals - 95x and Bharat Rasayan - 27x). However, company's strategical focus on enhancing and streamlining production capacities and operations, branded formulations and public health products segment and development of new products at its new R&D facility will enable to leverage its overall operating efficiency in upcoming years. Considering all these factors, We give a "SUBSCRIBE" rating on this IPO issue.

Issue Details

Offer Period	Feb 23rd - 25th Feb 2021
Price Band	INR.626 to INR.627
Bid Lot	23
Listing	BSE&NSE
Issue Size (no. of shares in mn)	9.9
Issue Size (INR. in bn)	6.2
Face Value (INR)	10

Issue Structure

QIB	50%
Retail	35%
HNI	15%
BRLM	Emkay Global Financial, Bativala & Karani Securities
Registrar	Bigshare Services Pvt. Ltd

Particulars Pre Issue % Post Issue %

Promoter	98.85	74.15
Public	1.15	25.85
Total	100	100

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



Income Statement (In mn)

Particulars	FY18	FY19	FY20	1HFY21
Revenue				
Revenue from operations	7,451	10,044	9,514	6,183
Total revenue	7,451	10,044	9,514	6,183
Expenses				
Raw Materials Consumed	4,970	7,084	6,398	4,518
Purchase of stock in trade	-	65	153	138
Changes in Inventories	67	(171)	(177)	(462)
Employee benefit expenses	332	380	465	229
Other expenses	1,165	1,373	1,381	768
Excise Duty	38	-	-	-
Total Operating expenses	6,573	8,730	8,220	5,191
EBITDA	878	1,314	1,294	993
Depreciation and amortisation expense	50	60	82	66
Other income	53	74	165	9
EBIT	881	1,329	1,377	935
Finance costs	118	107	88	35
PBT	763	1,221	1,288	901
Current tax	280	458	336	234
Deferred Tax charge	8	5	(25)	4
Provision for Taxation	7	4	-	-
Total tax	294	467	311	238
PAT	469	754	978	663
Diluted EPS	11.7	18.8	24.4	16.6

Source: RHP, BP Equities Research

Cash Flow Statement (In mn)

Particulars	FY18	FY19	FY20	1HFY21
Cash Flow from operating activities	519	877	542	523
Cash flow from investing activities	(247)	(374)	(520)	(159)
Cash flow from financing activities	(258)	(411)	(199)	(143)
Net increase/(decrease) in cash and cash equivalents	15	92	(178)	221
Cash and cash equivalents at the beginning of the period	103	118	210	32
Cash and cash equivalents at the end of the period	118	210	32	253

Source: RHP, BP Equities Research



Balance Sheet (In mn)

Particulars	FY18	FY19	FY20	1HFY21
Equity				
Share Capital	78	391	391	391
Other Equity	1,495	1,891	2,818	3,422
Net worth	1,573	2,282	3,208	3,813
Long-Term Borrowings	3	-	-	-
Long-Term Provisions	2	4	6	13
Other Non Current Liabilities	-	-	2	2
Deferred tax Liabilities	36	41	16	20
Other Non Current Liabilities	52	57	61	65
Total Non Current Liabilities	93	103	86	100
Short Term Borrowings	757	499	431	380
Trade payables	1,784	2,352	2,125	2,976
current tax liability	129	102	37	115
Other current liabilities	49	96	163	134
Short Term Provisions	48	49	57	64
Other Financial Liabilities	70	122	139	299
Total Current Liabilities	2,839	3,220	2,953	3,969
Total liabilities	4,505	5,604	6,248	7,881
Assets				
Tangible Assets	462	511	954	1,307
Capital work in Progress	12	160	378	33
Investments	0	0	37	125
Other Financial Assets	62	71	84	98
current tax assets (net)	-	1	-	-
Other non-current assets	223	345	81	80
Total Non current assets	760	1,088	1,534	1,643
Other Financial Assets	15	15	17	20
Trade Receivables	2,031	2,533	2,585	3,728
Cash and Bank Balances	118	210	32	253
Inventories	940	1,139	1,455	1,735
Loans	-	-	9	-
Other current assets	641	619	615	502
Total Current Asset	3,745	4,516	4,713	6,238
Net Current Assets	906	1,296	1,760	2,269
Total Assets	4,505	5,604	6,248	7,881

Source: RHP, BP Equities Research

Key Risks.

- ⇒ The company does not have long term agreements with its customers for purchasing products, nor with suppliers for supply or raw materials.
- ⇒ There are outstanding legal proceeding involving company, promoters and directors, which may adversely affect its business
- ⇒ Its top 5 institutional customers constitute 11% to 15% in the last 5 years. Any loss / reduction in sales would affect its business.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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