



“R Friday Morning Coffee Corporate Speaker Access with the Management of Heranba Industries”

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ANALYST: MR. YOGESH PATIL - RESEARCH ANALYST - RELIANCE SECURITIES

**MANAGEMENT: MR. RAUNAK SHETTY- EXECUTIVE DIRECTOR - HERANBA INDUSTRIES LIMITED
MR. RAJ BAFNA – CHIEF FINANCIAL OFFICER - HERANBA INDUSTRIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to R Friday Morning Coffee Corporate Speaker Access with the Management of Heranba Industries Limited hosted by Reliance Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Yogesh Patil, Research Analyst at Reliance Securities. Thank you and over to you, Mr. Patil!

Yogesh Patil: Good morning ladies and gentlemen. On behalf of Reliance Securities, myself Yogesh Patil, welcome all of you R Friday Morning Coffee Corporate Access. Today we are hosting Heranba Industries. The management is represented by Mr. Raunak Shetty – Executive Director and Mr. Raj Bafna – Chief Financial Officer of Heranba Industries.

The key topic of discussions will revolve around outlook on the entire value chain of agrochemicals in Indian market, update on revenue growth guidance, introduction of new molecule and the capacity expansion along with this a prospect of pipeline molecules in the domestic and international market. Now I hand over the floor to Mr. Raunak Sir who will be taking us through the brief outlook of the company and the industry and then we will open the call for question and answers. Thanks and over to you Sir!

Raunak Shetty: Good morning to all. I will give a brief background about the company, Heranba Industries Limited. We started our operations in 1996 with one intermediate that is Cypermethric Acid Chloride. Then in the early 2000s we went formal to make the pioneer products, Synthetic Pyrethroids, so we started our business with that. That is cypermethrin, alphacypermethrin, and permitherin. These were our initial products. Then 2005 we started our first brand in India. So, we have today pan India presence with presence in 18 states and 21 stock points across India.

In 2009, we touched our first 100 Crores. It took a long time to touch our first milestone. In 2015, we touched our first 500 Crores. By the time we touched 500 Crores we thought that we should diversify our risks, we are only acted in few countries and the major business was from India. Also, we were predominantly into a few Pyrethroids. So, we thought of entering into other Pyrethroids as well as other insecticides products which have scope and which were growing at that time and we also thought of increasing our registration portfolio and entering new geographies. So that is if there is any risk in one country, we could always have the benefit of selling in the other countries or so. That started around 2014-2015

In 2019, we touched our first 1000 Crores and last year we closed our books at 1225 Crores. This is our brief background about us. Agrochemical industry as such is a \$15 billion industry and Pyrethroids forms a very big portion of the insecticide portfolio; however, over the period we had as I said, we have also entered into few new generation other molecules in that and a few organophosphorus compounds and now in future, the revenue sites coming in, we will be focusing on the other crop protection segments like the fungicides and the herbicides.

We could go to the questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Pratik Oza from Reliance Securities. Please go ahead.

Pratik Oza: Sir, my first question is we have entered into USA, which is a very highly regulated market. Sir, what is your strategy, you have to float differentials with your peers and also what is the full potential we are expecting from this geography and by when you are expecting to achieve this?

Raunak Shetty: First our strategy for US is to enter this market with our registration and all. So, we will be focusing on our B2B business in this geography for now where we will put in our registration and then sell our products to select partners and we will continue in this country. The potential for this geography over the next three years or so would be around \$25 million. Basically our plan today for US would be to enter with our registrations and we have already selected a few partners in US, but we have got one registration today and a few registrations are in pipeline, which we may get by next year or so. Over the next three years, we feel that we will be able to touch a target of around \$25 million that is our first milestone we can say for US geography and it will be a B2B business now in USA.

Pratik Oza: Sir, one more question I have I think, we have introduced a few fungicide and some high value insecticides in 2Q FY2022 so, I just wanted to know by when can we expect scale up on these two products and the incremental revenue and margins on these two products?

Raunak Shetty: We have introduced what?

Pratik Oza: Two fungicides and one high value insecticide in Q2 FY2022.

Raunak Shetty: We will be looking for now we are seeing how good product is. The potential is good but then the product moves in regulated market. So today we are not selling big quantity, maybe next year when our new facility comes up, we will see the scope for this and then decide.

- Pratik Oza:** Sir, our margin on these products would be typically higher than the normal products, right?
- Raunak Shetty:** It will be in this range only.
- Pratik Oza:** In this range only. Thank you.
- Moderator:** Thank you. The next question is from the line of Ritesh Bhagwati from Rockstud Capital. Please go ahead.
- Ritesh Bhagwati:** Thanks for taking my question. I just had this question. Basically we had a flat growth in Q2 in this quarter and I believe it was due to delay of some shipments and maybe the logistical issues. So is that assumption correct?
- Raunak Shetty:** Correct.
- Ritesh Bhagwati:** Sir, just wanted to understand, and supposing there will be a proliferation of the orders for Q2 coming into Q3, so I just want to understand what is the added run rate of growth do we expect for the next two quarter, like Q3 and Q4? Like do we expect that 380 Crores, 400 Crores kind of a runrate happening or what?
- Raunak Shetty:** Yes, it will happen.
- Ritesh Bhagwati:** So on an overall basis that means that we are doing a topline of around 18% to 19%.
- Raunak Shetty:** Correct.
- Ritesh Bhagwati:** That is good. I just want to understand like how many molecules or products are we expected to launch in this year and what is the market size for that? And do we have enough competition for that or we are very well in a better position?
- Raunak Shetty:** As such if you see product introduction in B2B segment, we have introduced two, three products and B2C segment we have introduced around eight products. So definitely there is competition in both the segments and as far as how the market size is, definitely market size is big but then it all depends on how many registrations you have and all so today we are active only in India and we are selling in the Indian market and we are seeing a scope in the other countries as well.
- Ritesh Bhagwati:** But then do we have a significant holding in terms of we able to capture those markets given the fact that there is a lot of competition already?
- Raunak Shetty:** No we are figuring that out, depends.

- Ritesh Bhagwati:** But then at least for current year we are confident to achieve a topline of 18%, 20% and the margins can sustain.
- Raunak Shetty:** Yes.
- Ritesh Bhagwati:** That is it from my end for now. Thank you.
- Moderator:** Thank you. The next question is from the line of Jigar Valia from OHM Group. Please go ahead.
- Jigar Valia:** Sir my question is our asset turns are significantly higher as compared to the domestic peers that we have. So is there any specific reason for this risk that because we started too early and it is depreciated plants as compared to others is it location or is it something else?
- Raunak Shetty:** This is model you can say the peers that you are comparing are either maybe only in the technical segment we are both in technical as well as formulations and also we are in the B2B as well as B2C segment. The formulation business has higher.
- Jigar Valia:** Understood. It is a mix of formulation and technical and on this incremental capex of say 250 we should be able to do around blended basis about 800 over two, three years?
- Raunak Shetty:** Yes.
- Jigar Valia:** So in USA how different would the gross margins be versus the other exports technical exports?
- Raunak Shetty:** Not a significant difference. It will be in this range only.
- Jigar Valia:** Does the gross margin and the working capital cycle how do they differ between domestic as well as exports?
- Raunak Shetty:** Gross margin wise may be not a big difference. Working capital wise we have removed working capital deploying the domestic business versus the exports.
- Jigar Valia:** Sorry working capital is more in domestic versus exports.
- Raunak Shetty:** It is higher in domestic business versus exports.
- Jigar Valia:** With a similar gross margin.
- Raunak Shetty:** More of the similar gross margin in that range.

- Jigar Valia:** So exports, is more better?
- Raunak Shetty:** Yes.
- Jigar Valia:** Thanks I will come back in the queue. Thanks.
- Moderator:** Thank you. The next question is from the line of Yogesh Patil from Reliance Securities. Please go ahead.
- Yogesh Patil:** Sir the question is related again to the raw material. Did you see any raw material price increase this quarter and maybe in the coming quarter, you feel that there will be a price increase and by this increase in the raw material prices would be able to pass it on like you will be able to pass on to maintain the EBITDA margin?
- Raunak Shetty:** I heard the question. It is the prices have gone up or no and whether we are able to pass it on no right?
- Yogesh Patil:** Correct and its impact and whether you will be able to maintain the EBITDA margin so it is more on that line?
- Raunak Shetty:** Prices have gone up and then now it is falling also. So our prices also had gone up but for our products the prices did not go up that high so there is on major impact in our product prices. In few products we had some issue but we could pass it on also because product became short in the market then we could increase the price and now it has fallen so we have also started reducing the prices of that product. Does that answer your question?
- Yogesh Patil:** Yes, so simply asking you again in overall by changing the prices and maintaining the demand supply you will be able to maintain your EBITDA margin going forward?
- Raunak Shetty:** Yes, it will be in this range very, very nominal answer.
- Yogesh Patil:** Thanks and the second question is regarding your capex again out of 250 Crores approximately 180 Crores will be towards this Sarigam and 70 Crores for Dahej so in the Sarigam what is the capacity that you are expecting it to be full complete once the capex will be done and what would be the full capacity coming up on the Sarigam side?
- Raunak Shetty:** Around 12000 to 15000 tons on the technical side. Formulation is separate.
- Yogesh Patil:** Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Pratik Oza from Reliance Securities. Please go ahead.

Pratik Oza: Sir in the export side a related question in FY2022 which was said that it was basically because of the logistics issue so if you can let us know is the logistics issue still lingering on or we will see an uptick in exports?

Raunak Shetty: No there is yet logistic issues but then now customers have also become smart, they have understood, whether they have started replacing orders. So that is the change that we have seen and we have also started booking our containers in advance now that way that gap has reduced.

Pratik Oza: So in 3Q we can expect further exports right Sir?

Raunak Shetty: Yes.

Pratik Oza: Relating to this only is my second question is the freight cost from 3Q onwards, will it be the same in the range of what was seen in 2Q will it be the new normal?

Raunak Shetty: About what.

Pratik Oza: About the freight cost?

Raunak Shetty: Freight cost.

Pratik Oza: Yes, whether the freight cost will be in the same range or whether going further it will reduce or it will increase.

Raunak Shetty: No. I think it will be in the same range we would not reduce, there is a shortage so it would not reduce it will be in the same range.

Pratik Oza: Thank you Sir.

Moderator: Thank you. The next question is from the line of Yogesh Patil from Reliance Securities. Please go ahead.

Yogesh Patil: Thanks Sir. Sir my question is related to your two to three year plan and about the product mix and our focus of the company what would be the focus of the company in a next two to three years about the product mix. We will continue to focus on the current chemistry or launching a new product or goal would be there something different. So can you throw some light on this?

Raunak Shetty: See basically we started with Pyrethroids and we are very strong in Pyrethroids. We have registration across the globe for Pyrethroids and we feel that chemistry is good and worth focusing on as well, because it is a newer generation contact insecticide as compared to the older ones like organophosphorus or carbonates. I was saying that we also see a scope in the other segments also in the other insecticide segments so we have introduced a few other insecticides also in the organophosphorus segment and a few in the newer Neonicotinoids segment. Going forward when our Sarigam facility will come online we will be entering into fungicides as well. We have a base. Our customer base has fixed. We take these molecules and we are confident of selling this product to our existing partner so our going forward these products along with our registrations would be our focus.

Yogesh Patil: Sir and again the question on the same line that the competitive advantage of the company is in the Pyrethroids segment so there are various competitors also like UPL so UPL is there so what is the competitive advantage in that segment and just follow up on that?

Raunak Shetty: Competitive advantage whichever products we will make whether it is Pyrethroids or the other products, we are well backward integrated maybe in Pyrethroids we are fully backward integrated but in other products also we have backward integrated to the extent that we are quite competitive as compared to other means in comparison to other competitors whether in India or China then we have our own registrations so that is also an edge so we do not depend on just one geography, we can if there is a price issue in one we can sell it in the other geography and keep manufacturing and continuing our production.

Yogesh Patil: Thanks a lot Sir for this detail.

Moderator: Thank you. The next question is from the line of Alisha from Envision Capital. Please go ahead.

Alisha: Good morning and thank you for taking my question. Sir my question was with respect to the margins if we see while we have demonstrated healthy topline growth in the last three, four years a large part of our growth has also come from margin expansion which we have expanded quite beautifully and while you have been mentioning that the newer products etc., shall help us maintain margins is there scope to improve margins beyond this 18% on the back of changing the product mix more technical versus formulation the domestic versus exports that the newer segments were entering into or if this 18% something that we are looking to maintain?

Raunak Shetty: See we say we look to maintain the 18% to 20% margin and because of the number of segments we are there. There may be a possibility that we introduce new products now and our margins maybe higher in one segment but then there maybe some other segments which

may not see that kind of margins it depends on year-to-year so if you see one of the quarters we were able to post a margin of 23% but as a whole we see historically and we see in that 18% to 20% kind of margins would be possible with our existing setup.

Alisha: This is even including the new capacity that were expecting once that comes on stream what I am asking is not say for the next immediate year but three to five years down the line if there is scope to get the newer capacity the new products everything kicking in can we improve it further like we have in the last three, four years?

Raunak Shetty: No. We will say we will keep it in this range. The day we feel that we can increase it, we will say 20% to 22% confidently. Today we can confidently say 18% to 20%.

Alisha: Sir my next question is with respect to the 250 odd Crores capex that we are looking to do is it possible to share an update on the same, are they on track and what we have already incurred?

Raunak Shetty: They are on track and Sarigam facility would be operational maybe by mid of next year leave it to you can say by September.

Alisha: Sarigam facility will be operational by mid of next year.

Raunak Shetty: By mid of next year.

Alisha: What is the capex you have already incurred of the 250 Crores how much you already spent or looking to spend in this year?

Raunak Shetty: Maybe around 100 odd Crores. I do not have the exact figure now. So you can consider around 100 Crores over the two years we will be spending around 160 Crores to 180 Crores.

Alisha: Over 2022 and 2023 160 Crores to 180 Crores.

Raunak Shetty: Over the current year and the next year.

Alisha: Sir you were mentioning to an earlier participant that one of our competitive advantages that you know we are fully backward integrated in Pyrethroids and basically backward integrated in the other product but now we are also looking at expanding your chemistry entering into fungicides etc., what will our level or backward integration in these products be?

Raunak Shetty: Reasonably backward integrated.

- Alisha:** That gives us the confidence of at least maintaining margins at the current level?
- Raunak Shetty:** Yes, we basically once we have cross the certain benchmark quantity we plan to go backward, so for small quantity we would not be interested to do a backward integration because a lot of capital is required but if for example maybe if we cross 100 tons then we may think that okay we will go backward and that there is a scope further scope of improvement is from 100 we see and we can go to a 250 tons next year and we will focus on going backward that is how we look.
- Alisha:** Sir one last question if I may do we have any long-term contract so that everything sold on spot basis or if you could give a split of how much is long-term, this were long-term versus spot?
- Raunak Shetty:** We generally have a two month order book. We do not have a long-term contract.
- Alisha:** Thank you.
- Moderator:** Thank you. The next question is from the line of Jigar Valia from OHM Group. Please go ahead.
- Jigar Valia:** Sir are we present into Bifenthrin, Permethrin?
- Raunak Shetty:** Permethrin yes, Bifenthrin recently introduced.
- Jigar Valia:** Sir I wanted to understand the realizations for these two products much higher than the Cipher, Lambda, Delta and is the reason because is it like low volume or is it because of the end use in terms of crop mix for a geography or it is input cost?
- Raunak Shetty:** No. I think the margins would be more or less in this range only. It depends on year-to – year sometimes there is a good demand per one product that demand for the other that end the realizations change.
- Jigar Valia:** But historically the realizations for these have been generally almost twice that of the Cipher, Lambda, Delta Pyrethroids?
- Raunak Shetty:** Between Lambda had more than Bifenthrin sometimes maybe two three years Bifenthrin had more than Lambda so it depends.
- Jigar Valia:** So it is not necessarily something like that.
- Raunak Shetty:** The overall margin profile would be in our range.

- Jigar Valia:** Understood. Sir to understand we have a very low client concentration etc., but in terms of to get a slightly higher growth rate and as we enter into US market we would be looking at probably a kind of a stronger tie up with any particular customer or anything and an increase in client concentration?
- Raunak Shetty:** We always plan to have good tie ups. In fact the customer base that we have today is also very closely connected, now in the newer geography also that would be the focus.
- Jigar Valia:** Overall, you say that we have had four to five molecules every year. What is the total base in terms of the molecules and if you can also give in terms of registrations how many registrations were hold and how many registrations we had every year we look to add every year?
- Raunak Shetty:** We hold around 375 registrations today and around 160 odd registrations sitting are in pipeline.
- Jigar Valia:** 60 are in pipeline and in terms of number of molecules will be?
- Raunak Shetty:** Number of molecules it depends so this information, our registration team will have it does that team is in very close coordination with our marketing team so based on our customers requirement marketing people discuss with the registration department and then they file for the registration we have had that is the side.
- Jigar Valia:** So four to five molecules that we look to add every year this would be in the regular category non Pyrethroids the other agro chemicals?
- Raunak Shetty:** It could be a mix of both but after a point we will be introducing more of non-Pyrethroids because we are already in six to seven Pyrethroids today out of 15 so there will be no more scope to introduce Pyrethroids.
- Jigar Valia:** So when you enter into the other product is there a risk in terms of where you kind of also compete with the customers to whom we sell Pyrethroids products or is that something that you need to kind of manage it well and so some way or the other you maybe the customers and competitors both maybe...?
- Raunak Shetty:** Competition is there in our current products also so that we can manage. That is not an issue.
- Jigar Valia:** Thank you.

- Moderator:** Thank you. The next question is from the line of Kush Joshi from Kitara Capital. Please go ahead.
- Kush R Joshi:** Thank you for the opportunity. As regarding your capex plan is concerned, what I understand is total plan is 250 Crores and 100 Crores is spend so far correct?
- Raunak Shetty:** Yes.
- Kush R Joshi:** You mentioned that balance will be spent over a period of current year and next year. What is the capacity we are adding here?
- Raunak Shetty:** The total capacity would be around 12000 tons to 15000 tons as the first phase we will come up with around 5000 tons. It will be in a phased manner.
- Kush R Joshi:** So this 250 Crores will be spent in a phased manner or what?
- Raunak Shetty:** Yes, phased I think this year or next year major capex would be major capital deployments would be in this two years.
- Kush R Joshi:** As you mentioned that from mid next year, we will be having 5000 tons available as of our commercial production?
- Raunak Shetty:** Yes, in the first phase you mean by September we would have 5000 maybe by March we will have more.
- Kush R Joshi:** Sorry.
- Raunak Shetty:** By September we will have around 5000 by March we will have more.
- Kush R Joshi:** All these will be with respect to technicals or a combination of technical plus formulation?
- Raunak Shetty:** Mainly technicals. Even a portion of that capex is also for the formulation and for the existing facility, some capacity expansions, the debottlenecking activities that we do for our existing products so combination of both.
- Kush R Joshi:** The 15000 tons has a potential to generate roughly 800 Crores over a period of three years at peak levels?
- Raunak Shetty:** Yes.
- Kush R Joshi:** Thank you so much.

- Moderator:** Thank you. The next question is from the line of Jigar Valia from OHM Group. Please go ahead.
- Jigar Valia:** Sir with regards to the domestic business the growth would be normally adding distribution you have about 9500 or is it more about the existing distribution probably doing more utilizing them little better?
- Raunak Shetty:** Sorry your voice is not clear.
- Jigar Valia:** Yes, my question was pertaining to the domestic market we have about 9400 distributors so the growth over here would be more a function of adding products or more on the distribution side or is it how well these distribution chain has utilized?
- Raunak Shetty:** Currently it is 9400. Now we have been trying to reduce the number of dealer distributors also so it will be once we set our distribution properly, it will be an activity of increasing the number of products and increasing turnover for the dealer distributor that would be our plan, instead of having more dealer distributors, we would focus on increasing turnover for dealer distributor.
- Moderator:** Sir there is no response from the line of the participant. The next question is from the line of Akshay Chheda from Perfect Research. Please go ahead.
- Akshay Chheda:** Can you throw some light on the margins after the current expansion?
- Raunak Shetty:** It will be in this range, 18% to 20%.
- Akshay Chheda:** Thank you.
- Moderator:** Thank you. The next question is from the line of Pratik Oza from Reliance Securities. Please go ahead.
- Pratik Oza:** Sir how big is the R&D team and are we going to increase the strength of R&D team?
- Raunak Shetty:** R&D team, I could not understand.
- Pratik Oza:** Just wanted to understand how big is the R&D team in terms of manpower?
- Raunak Shetty:** It is around 25 people team.
- Pratik Oza:** Are we intending to increase it?

- Raunak Shetty:** Yes, we are coming up with the new facility, new pilot plant in our Sarigam facility. There we will be increasing our R&D capacity and then we will need more people.
- Pratik Oza:** So expected number post that addition will be around how much?
- Raunak Shetty:** It will have a double number in that because right now we have around 25, 26 people and going forward then pilot plant will commence on that it will be increased by around 40 to 45 people will be required for that.
- Pratik Oza:** Thank you. That is helpful. Thank you.
- Moderator:** Thank you. The next question is from the line of Kush Joshi from Kitara Capital. Please go ahead.
- Kush R Joshi:** Thank you for the opportunity once again. Sir this technical capacity what you are adding and is it for the captive consumption more or it is for the customer in the domestic or export market?
- Raunak Shetty:** It is a mix.
- Kush R Joshi:** It will be weighted more with say domestic or exports?
- Raunak Shetty:** Both domestic exports and it will be a mix of both intermediate and final product which will be used in both domestic and export market.
- Kush R Joshi:** Thank you so much.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand over the conference over to Mr. Yogesh Patil for closing comments.
- Yogesh Patil:** I would like to thank entire management of Heranba Industries to give us opportunity to host the company and thank you all the participants. You may disconnect the line now. Thanks a lot.
- Raunak Shetty:** Thank you.
- Moderator:** Thank you. On behalf of Reliance Securities Limited that concludes this conference thank you for joining us. You may now disconnect your lines.