



HERANBA

INDUSTRIES LIMITED

A Govt. Recognised * Export House

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Date:- June 16, 2021

BSE Limited

Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai- 400001,

National Stock Exchange of India Limited

Exchange Plaza, 5th Floor
Plot no. C/1, G Block,
Bandra - Kurla Complex,
Bandra(E), Mumbai - 400 051.

Scrip Code: 543266

Symbol: HERANBA

Dear Sir/Madam,

Sub: Transcript of Earnings Conference Call held on June 11, 2021 at 16.00 hrs on the Financial Result for Q4 and F.Y. 2020-21

Ref: Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015 ('Regulations')

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015 ('Regulations'), we are enclosing herewith the Transcript of Earnings Conference Call held on June 11, 2021 at 16.00 hrs on the Financial Result for Q4 and F.Y. 2020-21

We request you to kindly take the above information on record.

Thanking You,

Yours faithfully,
For Heranba Industries Limited

Abdul Latif
Company Secretary and Compliance Officer
Encl as above





“Heranba Industries Limited Q4 and FY ’21 Earnings Conference Call”

June 11, 2021

**MANAGEMENT: MR. R. K. SHETTY – MANAGING DIRECTOR, HERANBA
INDUSTRIES LIMITED
MR. RAUNAK SHETTY – EXECUTIVE DIRECTOR,
HERANBA INDUSTRIES LIMITED
MR. MAHESHWAR GODBOLE – CHIEF FINANCIAL
OFFICER, HERANBA INDUSTRIES LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Heranba Industries Limited Q4 and FY '21 Earnings Conference Call. As a reminder, all participants' 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Mayura Bhusari from Christensen Advisory. Thank you and over to you, Madam.

Mayura Bhusari: Thanks Steve. Good afternoon to all participants in this call. A warm Welcome to the Q4 and full year FY'21 Earnings Call of Heranba Industries Limited. The Results and the Investor Presentation have been made to you and is also available on the company website at www.heranba.co.in. In case any one does not have a copy of the press release and the presentation, please do write to us and we will be happy to send the same to you.

To take us through the results today and answer your question, we have with us the top Management of the company represented by Mr. R. K. Shetty – Managing Director; Mr. Raunak Shetty – Executive Director; and Mr. Maheshwar Godbole – Chief Financial Officer.

Mr. R. K. Shetty will start the call with a brief overview of the company and will then be followed by Mr. Godbole giving highlights of the financials for the quarter Q4 and the full year. We will then open the floor for the question-and-answer session.

I would like to remind you that anything that is said in this call which gives any outlook for the future, or which can be construed as a forward-looking statement must be viewed in conjunction with the risks and uncertainties that we face. These risks and uncertainties included but not limited to what we have mentioned in the prospectus filed with SEBI and also in the subsequent annual reports that you will find on the website.

With that introduction, I will now hand over call to Mr. R. K. Shetty, over to you, Sir.

R. K. Shetty: Thank you. Hello to all and Welcome to the Q4 and FY2021earnings call of Heranba. First of all I hope you all along with your family members are safe and keeping well. These are tough times and one-of-a-kind pandemic situation world is facing. The second wave especially has been much worse than the first one. We all experienced our closed ones getting affected, hope now it is past us.

We at Heranba being a part of an essential sector could keep our factory operations running with enough manpower. We have been maintaining utmost hygiene norms in all our facilities. For us employee health and their well-being are paramount, and we continue to work from home for our administrative staff.

Now, coming to business updates:

As you all know, this is our first call post our successful IPO in March 2021. Thanks to your support and belief in the Management, our IPO was oversubscribed more than 80 times. We the senior Management to the company are on our toes to take the company to the next level with a clear focus on long-term growth of the company. For the benefit of new investors in the call, I will take you through a journey along with brief walk through around our product facilities and our long-term vision for the business. Also, as you know our current CFO, Mr. Maheshwar Godbole, is retiring and we have appointed a new CFO, so far this call Mr. Maheshwar Godbole will take you through the highlights of financial and operational performance and from next time onwards you will hear from our new CFO.

We formed Heranba in 1996 with an objective of providing innovative products to farmers. Our vision is to improve crop productivity and public health. We manufacture synthetic pyrethroids and its intermediates in India. We have wide network of business across the world with India being a manufacturing hub. We produce advanced agro chemical solutions based on specially developed technology. Our public health products are supplied through both Government tenders and to pest control companies. We have fully equipped in-house R&D facility with all the necessary laboratory equipment in place.

Now, coming to our manufacturing facility:

We have fully integrated and modern manufacturing facilities with R&D facility situated in prime industrial township of Gujarat at a distance of 150 kilometers from Mumbai. There are three independent manufacturing units of which two are situated in the industrial belt of Vapi and one in Sarigam. These manufacturing facilities offer a range of crop protection and public health solutions. Of these three independent manufacturing units, two of these units situated in Vapi are involved in production of various technical and intermediates while the third unit at Sarigam is purely a formulation and packing facility. We have separate R&D facility at Vapi and Sarigam for product development and process intensification. The plot size of our Sarigam unit is 55,000 square meters of which 22,300 square meter is operational with formulation and packaging facilities and the rest 32,700 square meters is earmarked for future expansion into technical manufacturing and we have applied for necessary permission before the relevant authority. For additional capacity in one of the plots in Vapi, we have already initiated capital expenditure and expect our production to start from Q3 FY '22. Recently, we have also acquired another plot adjacent to our existing units. This will also help us to increase our current capacities as well as introduce new products in our baskets. We have recently received consent from Gujarat Pollution Control Board to establish manufacturing of products at Saykha, it is a 34,600 square meter land parcel which is to be used for further expansion. We already have environmental clearance in place. The plan is to set up a manufacturing unit of approximately 10,680 tons per annum capacity.

I would like to talk briefly about our R&D and testing. We have the state of the art R&D center and the pilot plant. Our formulation development lab has been set up with a lab scale equipment like Bed Mill, Air Jet Mill, Extruders, Fluidized Bed Dryer and many more. The facility fulfills the requirements for organic synthesis as well as formulation development. We have well equipped, qualified team of research personnel and scientist working for the continuous improvement of existing product and the development of new products.

Now, where do we go from here? I think we are well positioned to exploit the widespread growth opportunities especially in the agrochemical markets. Some steps we think here are our top priorities in coming three years, strengthening our R&D facilities and pilot plant, enhancing production capabilities, enhancing formulation and technical business in international markets through registration, enhancing branded formulation and public health business. These steps will definitely lead us to our immediate goal of entering into regulated markets as well as other untapped geographies across the globe and longer term goal of having a diversified geographical portfolio.

We have already started our journey towards this. Here are some initiatives we have already taken. On the research and development side, five molecules are in R&D, out of which two are fungicides, two are herbicides, one is an insecticide for sale in the regulated market. Once the new molecules are successfully established, they will be filed for registration across the globe considering its market potential through company's international distribution partners. We are looking to exploit opportunities in various technical going off-patent in the coming year whereby the company can manufacture and supply the generic questions of the molecules in the highly regulated markets of US, Europe, and Latin America. As of now, in Europe, our distribution partners have already received registration for deltamethrin technical, lambda cyhalothrin technical, alpha-cypermethrin technical, and metribuzin technical is in process before the relevant authority in US. While in USA our partners have applied for registration of lambda cyhalothrin technical and recently one of them has already received the registration.

Now, I would like to hand over the call to Mr. Maheshwar Godbole to take us through the financials.

Maheshwar Godbole:

Thank you Mr. Shetty and Good Evening to everyone. Now, I would like to briefly touch upon the key performance highlights for the quarter and year ended March '21 and then we will open up the floor for the question and answer.

On the revenue side, Q4 for the Financial Year '21, we had a revenue at 2,731.75 million versus Rs. 2,295.25 million in Q4 FY '20, a growth of 19.02% on Y-O-Y basis and a degrowth of 18.04% on Q-O-Q basis. For the Financial Year '21, revenue is at Rs. 12,256.77 million versus Rs. 9679.06 million in Financial Year '20, a growth of 26.63%.

Now, looking at the EBITDA and margins:

Q4 FY '21 EBITDA was at Rs. 630.45 million versus Rs. 412.96 million in Q4 Financial Year '20, a growth of 52.67% on Y-O-Y basis and a degrowth of 3.27% on Q-O-Q basis.

Coming to Q4 of Financial Year '21, EBITDA margins including other income margins was at 23.54% versus 19.33% in Q4 of FY '20, and 19.60% in Q3 for Financial Year '21. For full Financial Year '21, EBITDA including other income was at 2,283.69 million versus Rs. 1,458.82 million in Financial Year '20 with a margin at 18.74% versus margin of 15.33% last year. Despite the challenging environment, the margins of the company have been stable as a result of our strong product mix and presence across geographies.

Now, coming to the profit after tax:

For the Q4, for the Financial Year '21, PAT was at Rs. 431.99 million versus Rs. 262.64 million in Q4 for the Financial Year '20, a growth of 64.48% on Y-O-Y basis. For the Financial Year '21, PAT was at Rs. 1,542.26 million versus Rs. 976.57 million for the Financial Year '20, a growth of 57.93%. This resulted in earning per share being at Rs. 39.41 during the Financial Year '21 as against Rs. 25 for the Financial Year '20, a growth of 57.64%.

Now moving onto the balance sheet as of March 31, 2021:

As most of you know the company does not have any long-term debt on our books and cash position stood at approximately Rs. 847.80 million. For Financial Year '21, ROE stood at 36.33% and ROCE stood at 49.25%.

Now with this, we will now open up for discussions, and question and answers. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Pritesh Chheda from Lucky Investment. Please go ahead.

Pritesh Chheda: Sir, last year China had this worm infestation which shot up the pyrethroid prices and volumes, so how would have it influenced our year gone by numbers and how should it influence the numbers for next year, and are the prices of pyrethroids holding up, that is my first question? My second question is considering that the pyrethroid market is single digit growth market, what should be our strategy for growth and do we have any white spaces of any products which we do not manufacture in the core, so I know we make lambda, delta, and alpha, but are there any products where there are white spaces and opportunities, and my last question is our cash flow for FY '21 which the year gone by was little bit weak considering the receivable days, so any comments there on the cash flow side?

Raunak Shetty: Regarding the price questions that you had, last year in FY '19-20, prices of pyrethroids were more or less stable only, it had not gone up maybe in the previous year to that, the prices were high, then it stabilized at a price point and now it is at that level only, so during the pandemic also there has not been a major effect in the prices of pyrethroids, maybe a minor effect of around

approx. 5% to 7% in some of the products. So coming to your second point of growth in pyrethroids, basically we have started from a low base and over the period, we have increased our volumes, so we do not feel it is saturated market even though it is growing at a pace of single digit growth that is around 7 percentage, but our exports from India have been in double digit and there have been cases where multinationals like Bayer and all have also projected of better growth prospects for pyrethroid market as such because organophosphorus compounds are facing issues from few of the restricted markets like USA and Europe, so pyrethroids would directly be benefiting from this decision from regulatory authorities. Thirdly, regarding cash flows, so our cash flow from operations last year were around 54 crores which has gone up to 60 crores, so I feel over the period we have improved on our cash flows from operations. Also our free cash flows have been positive over the last three-four years, and I think that should not be a concern.

Pritesh Chheda:

Are there any white spaces in our product portfolio because I think pyrethroids have a fairly large portfolio, I saw we have the three main ones, but are there any white spaces. Second on the growth rate and what you mentioned about Bayer saying that growth is going to be good in pyrethroids, some countries in Europe have kind of banned pyrethroids and on the other hand we have this organophos compounds whose benefits can flow into pyrethroids, so there if you have any comments on these two observations?

Raunak Shetty:

So countries where there are, basically pyrethroids are safer molecules. None of the bigger markets where pyrethroids are going in good volumes have banned this product yet, but there are lot of cases where organophosphorus like acephate or chlorpyrifos have come in the light of few of the regulatory authorities like in USA and Europe, so I do not think in your terms there would be any issue in pyrethroids. Regarding white spaces, I think you mean to ask about opportunities then we have not yet fully entered in all the geographies, so today we are very strong in the Asia-Pacific region. We have not yet tapped some of the restricted markets like Latin America, US, Europe, so those are where we see good growth opportunities in future plus not all the pyrethroids have been looked into yet, so we will be looking into few other pyrethroids also, the bigger ones like lambda cyhalothrin, we have recently received registration in USA and for few of the molecules in the pyrethroid segment, we have received registration in EU. Also we have applied for one registration for one of the pyrethroids which is not a very big pyrethroid today in US and Europe. Once we get that product registration it would also contribute to our top line.

Pritesh Chheda:

So Lat Am which is 40% of the market is a white space for us where we have opportunity?

Raunak Shetty:

Yeah, Lat Am could be good opportunity that we could look into in future. We do not have registrations today, but in few of the countries like US and Europe, we have recently received that is last year, so this could be some of the growth areas where pyrethroids would move well.

Moderator:

Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: Thanks for the opportunity, Sir the first question is in terms of our revenues is there any quarterly variation and out of the total technical exports, how much is the regulated and non-regulated markets?

Raunak Shetty: Regarding the revenue gaps, I think as in variation in revenues, we are fairly present in most of the countries, we are present today in 60 countries and so we do not face major issues when it comes to the major revenue differences quarter-to-quarter, so it is fairly constant or stable you could say.

Rohit Nagraj: Out of the total exports I think 81% is technical exports, so which and all geographies are targeted for the same?

Raunak Shetty: Currently major geography that we sell in are Asia-Pacific and Middle East and Africa, and we have recently received registrations in some of the European CIS and US countries. In Latin, we have applied, not received yet, some business is going on today, but there is good scope in these markets.

Rohit Nagraj: The second question is on the EHS front, so how are we placed in terms of our environmental initiative?

Raunak Shetty: We have all the necessary EHS related facilities in-house as well as we have membership in Gujarat, GIDC, Vapi estate, so that way we follow utmost care in all the EHS related environment and safety aspects within our facility.

Rohit Nagraj: Just wanted to understand whether our plans are zero liquid discharge, or we are planning to grow over the foreseeable future?

R. K. Shetty: No, it is not zero discharge, we have the required permission for discharge so now not necessary to go for ZLD, we have in-house treatment facility as well as we are member in the common facility also, so no need to go for zero discharge in future also, we are comfortable.

Moderator: Thank you. The next question is from the line of Varshit Shah from Emkay Global. Please go ahead.

Varshit Shah: Thanks for the opportunity and congratulations to the Management for a good set of numbers, Sir I want to allude to your earlier comment on the new facility that Sarigam and Dahej, you alluded that you have roughly greater than 10,000 tons per annum capacity at Dahej has to still come up over the course of time and you have similar land parcel at Sarigam also, so if I do the rough math I think currently from around 9000 odd tons of capacity actually will go up to maybe 30,000-31,000 tons let us say over a period of like two to two-and-a-half years whenever you fully execute the CAPEX, so is that assessment right that your capacity will actually treble let us say in two to two-and-a-half years probably from a metribuzin manufacturing point of view?

- R. K. Shetty:** Yes.
- Varshit Shah:** Since such a huge capacity will not be just pyrethroids, but then you also alluded that you have five new molecules also coming up which are non-pyrethroids so what is the approximate range of pyrethroid contribution today in our revenue and would that decline let us say two-three years from now as you also mentioned that you will be entering some recently off-patent molecules in some niche market as well, so while you might do the pyrethroids pie but the other molecules will grow faster so if you can just throw some light, what is the current pyrethroid contribution and how it could look like let us say in two-three years?
- Raunak Shetty:** Currently our pyrethroid contribution is around 65% of our total turnover that would include both formulations as well as technical. Over the next three years, we feel it would come to around 55 odd percentage considering both technical and formulations.
- Varshit Shah:** Sir on these new CAPEX both at Dahej and Sarigam, what is the reasonable asset turn which we should expect and would this also lead to since these products might be recently off-patent as well and some new molecules which could be higher margin than pyrethroids, so the first question is the margin higher in this new molecules which you have planned and what could be the potential market size of some of these molecules if you could share that?
- Raunak Shetty:** Regarding margins as a blended margin, our margins would be more or less in this lines that we are showing today.
- Varshit Shah:** My second question is what could be the reasonable asset turns given that you are very efficient in current operation, so what would be the reasonable asset is it this 2.5, 3 times reasonable asset turn on this asset at peak utilization?
- Raunak Shetty:** It is we will be able to maintain what we have today that is around 3.5 times in our technical front and formulation generally there are higher asset turns that is why our blended asset turns would look better than rest of the agrochemical companies.
- Varshit Shah:** Just one last question on the cash flow, so I could just observe that your payable days actually has gone up and which has led to slightly lower than expected growth in the operating cash flow, and your gross margin has actually spiked this quarter, so my first question is that you have sort of traded of extra cash with better terms on the raw material purchase and hence the margin has spiked out, so is that the right assessment and because if I were to normalize your payables roughly your payable should be higher by around 70 odd crores, 50 odd crores?
- Maheshwar Godbole:** Yes, you are right this is but of course this is one of the factors in margin expansion, right we have procured raw materials quite economically. Second thing is a better product mix and to some extent in some products some areas better realization is a combination of that, not only one factor.

- Varshit Shah:** If I were to eliminate the cash related effect on the gross margin, I think you have put out 40% gross margin this quarter and annually have reported 36%, what is the reasonable level of gross margin one should expect going to next year?
- Maheshwar Godbole:** Going ahead also we will be maintaining this kind of a margin though not much improvement, but of course this gross margins level will be maintained.
- Varshit Shah:** At the annual number right, 36%?
- Maheshwar Godbole:** Yes, right annual margin.
- Moderator:** Thank you. The next question is from the line of Ashwini Agarwal from Ashmore Investment Management. Please go ahead.
- Ashwini Agarwal:** Congratulations on very good set of numbers to kick off the season, the question I had was on domestic formulation, this is slightly we have been increasing from 18% to now nearly 21%, could you walk us through as to what are your plans on the branded formulations in India and what kind of margin profile does this piece of the business offer relative to the overall margin profile of the company?
- Raunak Shetty:** Currently our brand formulation is in the range of around 20%, so over the last two years it has been growing and we feel it will maintain this kind of growth in the coming two-three years. Regarding margins, it is more or less in line to what our gross margins are today around 35-36 percentage is our realization today. It has improved over the period because of new product launches, new product launches are of higher contribution compared to the older ones.
- Ashwini Agarwal:** In response to one of the previous questions you mentioned that pretty much you have even quarters across the year, so the fall in revenue in the fourth quarter compared to the third quarter is that something a natural or is that a seasonal factor?
- Raunak Shetty:** Quarter-4 is for any agrochemical company is soft, so you could say it is natural, but because we are geographically a well-diversified that is why we yet have posted a good turnover if you compare versus last year.
- Ashwini Agarwal:** One more question I had was on costing and pricing, we are seeing a lot of raw material cost go up base raw material as well as chemicals etc., what impact is it having upon your business and are you able to pass on any additional cost that you are facing on the raw material side?
- Raunak Shetty:** Currently, the prices are more or less even the raw material prices are stable, so last year because of COVID lot of prices got depressed and then they rebounded, so accordingly our prices also rebounded and now even final price as well as RM prices are more or less stable.

Ashwini Agarwal: There is no headwind or tailwind from RM prices or from product prices, so your margin profile we should expect it to remain stable like you have said in your previous comments?

Raunak Shetty: Yes.

Ashwini Agarwal: Last question, your capacity expanding by 3 X over the next three-four years, you have got pretty much new markets opening up in Europe, US, Latin America is a white space, your domestic formulation as a percentage of contribution to your overall revenues will keep increasing by 1% or 2% each year as we say, so I mean these are like very large growth drivers you have in place, so if you look out for the next three to five years, I mean what kind of aspirational revenue growth would you look at?

Raunak Shetty: We feel we will be able to maintain 18% to 20% growth that we have maintained in the past, same lines we feel we will be able to maintain 18% to 20% going forward as well.

Moderator: Thank you. The next question is from the line of Jigar Valia from OHM Group. Please go ahead.

Jigar Valia: Thanks for the opportunity, my question pertains to the public health business, I believe it is a very small percentage but it has been growing quite well over the past few years, so related question is what was the share of this business in FY '21 overall and as far as this business is concerned globally Bayer has announced exit in the environmental space, so any opportunities for us in the domestic market as well as some indirect opportunities in the export markets?

Raunak Shetty: Regarding public health, it is a very small portion of our total turnover, so it would be in the range of around 5 percentage, the total turnover. We are not into exports for public health in a big way, majorly it is Government tenders as well as public health operators in India, and this year because of COVID, it has seen some dip because Government tenders also majorly the funds were deployed towards COVID, we feel over the period we would be able to maintain around 5% sort of exposure to the public health segment.

Jigar Valia: Understood, nothing major in terms of taking a big share out of Bayer locally also or nothing on these lines, it would be 5%?

Raunak Shetty: No.

Jigar Valia: Sir, with regard to the US markets and LATAM in the white spaces with regard to the organophosphate issue, is it that you think that the pyrethroids will be able to capture the market or the market may move to bio-pesticides in a large way, so if you can elaborate on bio-pesticides versus pyrethroids?

Raunak Shetty: Pyrethroids only will take that share, any switch within the agrochemicals in the chemical space would be from organophosphorus to pyrethroids or from carbamates to pyrethroids that way. Regarding bio-pesticides, it is in a very early stage, so it has not picked up much because the

cost efficiencies are less, so chemical pesticides today it has a better edge, so I think in the near three-five years we do not face any sort of such issue from bio pesticide.

Moderator: Thank you. The next question is from the line of Trisha Kanasara from Molecule Ventures. Please go ahead.

Trisha Kanasara: Thank you for the opportunity, so my first question is that in the pre-visibility report, you have mentioned the project validity figures like revenue of around 1700 crore and operating profit of around 200 crores, so are these potential numbers for the additional 10,000 tons capacity or for the total capacity of 24,000 tons?

Raunak Shetty: I did not get you?

Trisha Kanasara: Sir, in your EC report you had mentioned the project viability figures like you are expecting revenue of 1700 crore and operating profit of 200 crores, so this future numbers, are these numbers for additional 10,000 tons capacity for which you are doing CAPEX currently or are these numbers for the total capacity of 24,000 tons that you have?

Raunak Shetty: If it is an EC report then it depends on that facility, if it is a new facility that you are talking of then it is an additional capacity, turnover will be from those additional capacity.

Trisha Kanasara: Sir, my next question is that CAPEX which is currently being done is expected to commercialize in September of 2022, right?

Raunak Shetty: Yes.

Trisha Kanasara: Can you just give us a rough idea as to when do you expect the particular plant to reach 70%-80% capacity utilizations and when can we see the potential numbers which you are mentioning EC to come in your financials?

R. K. Shetty: We have just started, we got our EC recently, it is in the planning stage. Definitely, we will be starting, our planning is to start at September '22, but it will be the first stage, but due to COVID, the work is also slow, maybe it may take one more quarter also but the projection is, our effort is to start in the year September '22, maybe one quarter here and there will be there, in the meantime we are also, our Sarigam plot is lined up and there also we will take up the project in future.

Trisha Kanasara: Sir, when can we expect the potential numbers which you have mentioned in the report to kind of actually flow in the company's financials like?

R. K. Shetty: Approximately two years.

Trisha Kanasara: Sir, also has the CAPEX amount been revised or is it the same of 110 crores?

- R. K. Shetty:** It need not be 100, it is a debt-free company, and we have a good profit year-on-year that will be deployed to the future projects, approximately 50 crores per annum will be deployed and it can be slightly higher than also since the profitability is better than what it is projected earlier.
- Trisha Kanasara:** Sir, also is this CAPEX debt funded or is its internal accrual funded?
- R. K. Shetty:** It is internal accruals, we are not averse to taking the debt, but right now it is not required, internal accrual is sufficient.
- Trisha Kanasara:** Sir, my question is that do you indigenously make the technical and register it in the 9-3 section or basically I want to understand where do you stand in the entire value chain or the process chain of the agrochemicals?
- Raunak Shetty:** In pyrethroids we are fully backward integrated, for the other products the newer ones which we have introduced it depends on the number of players in the market, if there is good scope in going backwards, we have gone one-two stages backward also. It depends on the volumes that we have received over a period, if product is good we are okay to go backward as well.
- Moderator:** Thank you. The next question is from the line of Avinash Agarwal, an Individual Investor. Please go ahead.
- Avinash Agarwal:** Sir, may I know in the current quarter, this running quarter is it going better from the last quarter that is March quarter, and what is your future projection of EPS, expected guidance of 2022?
- Raunak Shetty:** Guidance would be around 18% to 20% growth. As we have grown over the past, we see that we will be able to maintain that sort of run rate in the future as well.
- Avinash Agarwal:** And the current quarter is doing better than the last quarter as it is quarter wise sale is less from the December quarter, March quarter was slightly less sale and current June quarter how it is doing?
- Raunak Shetty:** It will be in similar range quarter to quarter.
- Moderator:** Thank you. The next question is from the line of Levin Shah from Valuequest Investment Advisors. Please go ahead.
- Levin Shah:** Thanks a lot Sir for the opportunity, my question is on this gross margin, so like you obviously alluded to the fact that we have H2 much better than H1 as a seasonal kind of business, but if we look at the gross margins, there also there has been a substantial jump that we have seen in second half as compared to first half and at the same time, the prices of both raw material as well as finished goods like you said has been broadly in the range of 5% to 7% up or down, so what has led to this kind of jump in gross margins?

Maheshwar Godbole: The variation in quarter first half and second half, if you see the business our domestic formulation, majority of the business takes place in the first half say from mid-June till September end, basically which is our main kharif crop season where the formulations mostly happens, but in second half mostly the technical sale happen where we have got a better margin profile than compared to formulation because in formulation what happens we have got a big product basket, few products are made out of our technical we have better margin, but this time a lot of technical and formulated are sold, so in technical which happens majorly in second half, we have better margins, but overall margins are leveled out as we have already mentioned around 33%-35%.

Levin Shah: Sir if we compare YOY as well, so last quarter March was like around 34% kind of margins whereas currently we have done close to 41%, so what explains that kind of improvement on a YOY basis?

Raunak Shetty: Basically the improvement in margins is because of two-three factors, one is a better product mix that we have, we have been improving our product mix over the period so one is better product mix, production efficiency, and there has been even purchase efficiency, to some extent in some of the products there has been better realizations as well, so there are multiple aspects that have contributed to better margins.

Levin Shah: Okay, but going forward we expect gross margin to be around 35%-36%, or is there any scope for improvement with better product mix over there as well?

Raunak Shetty: It will be more or less in this range, plus/minus.

Levin Shah: Sir, just one last question on the growth for full year, so we have done around 28% kind of growth, if you can just break it up in terms of volume on value that would be very helpful?

Raunak Shetty: The range is around 60:40.

Levin Shah: So volume is 60 and value would be 40?

Raunak Shetty: Yeah, you could take a range of 60-65 is to 35-40, something in that range.

Moderator: Thank you. The next question is from the line of Dalwinder Singh from Canara HSBC Insurance. Please go ahead.

Dalwinder Singh: Sir, thanks for the opportunity and congrats on good set of numbers, I would like to check on the top line side you have highlighted that you can grow at 18%-20% on a CAGR basis over the medium term, so while on the gross margins you have explained clearly, on the EBITDA margin front if I see this quarter's margins are around 21%-21.5% while on a yearly basis it is around 18%-18.2%, so as a steady state company basis and not talking of quarterly margins, on annual margins is there a scope to improve margins further with 18%-20% kind of growth operating

leverage will play out or this is your max kind of margin, so on the EBITDA margin front if you can spell out what are your expectation?

Raunak Shetty: We will not limit as max margin or something, but we feel that we will be able to maintain something in this range only, as a blended we will be able to maintain this kind of margin.

Dalwinder Singh: So 18.2% what you have done for the year, that you are talking of?

Raunak Shetty: Plus or minus something, maybe 17, sometimes maybe 19 in that range.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment. Please go ahead.

Pritesh Chheda: Sir, just a clarification on the CAPEX and you initially mentioned that there is a Dahej expansion for which we have taken the land, there is an ongoing Sarigam expansion, and then there is an EHS plot which or adjacent plot in Vapi existing unit that we have taken to strengthen the EHS, all this expansion put together what is the CAPEX, and have I missed anything?

R. K Shetty: Approximately around 200 to 250 crores, if at all it is to be taken all three sites, it will be spread across 3 Sites.

Pritesh Chheda: Okay, so what is not so far concrete is Dahej, right?

R. K. Shetty: It is near Dahej, it is in industrial estate called Saykha.

Pritesh Chheda: The EHS CAPEX in this 250 is how much?

Maheshwar Godbole: It is approximately around 10-15 crores.

Pritesh Chheda: What is going to come over the next two years is the Sarigam expansion and the EHS, right?

Maheshwar Godbole: Sarigam expansion, then Saykha expansion, and the EHS.

Pritesh Chheda: This 200-250 crores combined is what you are referring and all of it is going to come over the next two years?

Maheshwar Godbole: That is what we planned right now.

Moderator: Thank you. The next question is from the line of Deepak Kolhe from B&K Securities. Please go ahead.

Deepak Kolhe: Thank you Sir, congratulations for good set of numbers, Sir can you please guide what is the current status of registration received in international and domestic market and how many molecules are there in the pipeline?

Raunak Shetty: Currently it is something around 375 both international and domestic, we have been continuously filing new registrations both in India as well as export countries so as and when we get these registrations, there would be a good scope that is good growth in our sales as well.

Deepak Kolhe: Sir, you have mentioned about the CAPEX plan, can you please guide us for the FY22 and how much of it will be in technical and formulation?

Raunak Shetty: CAPEX majorly will be technical, so formulation we have already set up formulation setup in Sarigam, so there will not be major CAPEX for formulations.

Deepak Kolhe: Sir, what would be the total CAPEX for FY22?

R. K. Shetty: Approximately 100 crores.

Moderator: Thank you. The next question is from the line of Rajesh Singla, an Individual Investor. Please go ahead.

Rajesh Singla: Thanks for taking my question and congratulation on a very good set of number, earlier you mentioned that your capacity would be growing by 3x and on the other hand you are saying that your revenue would grow at a CAGR of 20%, so how should we read into these two lines like on the one hand you are adding 3x capacity and you are saying that 20% CAGR would be there for the next few years, so can you please elaborate on these two facts?

Raunak Shetty: 18% to 20% is what we have achieved, regarding the volumes of doing 3 X, so it will not happen in one go, it will happen over the period as well as it depends on which product we are selecting, and to what stage we are going backwards, so there is a possibility that even though volumes were 3x, if we are backward integrating everything will not be sold, it will impact our margins.

Rajesh Singla: So we can assume 18% to 20% revenue CAGR and probably the bottom line, the net profit could be around 25% to 30%?

Raunak Shetty: We will maintain this range, as a blended we will be able to maintain this kind of margins.

Moderator: Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Yes Sir, on the technical side are we seeing some opportunities on contract manufacturing for patented products since we have significant experience on the pyrethroid side on technical?

Raunak Shetty: So as and when we get opportunity we would take up any contract manufacturing activities as well, unfortunately not all contract manufacturing activities are high margin business that is why we have not ventured it, but as and when we get good opportunities, we would not shy away from it.

- Ankit Gupta:** So currently are we supplying any patented molecules to any of the MNCs?
- Raunak Shetty:** No, we are not doing any patented molecules.
- Ankit Gupta:** So for the pyrethroids you are supplying to MNC customers across the globe?
- Raunak Shetty:** Yes, we supply to many of the multinationals.
- Ankit Gupta:** Sir, on this side itself because of this China plus one strategy of many of the MNCs, how has been our enquiry flow over the past one-and-a-half - two years have you seen any significant jump in that and MNCs approaching you to become their source for this technical that we manufacture?
- Raunak Shetty:** Yeah, there has been such cases where because of issues in China, India has been a major beneficiary in this space and we have got such opportunities from multinationals, but we found that we could do better in our current model. As and when we get better opportunities, we would take up those kind of contract manufacturing activities as well.
- Ankit Gupta:** But currently are we supplying to this companies on spot basis?
- Raunak Shetty:** We are on spot basis.
- Ankit Gupta:** But this are not long term, this might be a few months contract, three months, six months, one year contract?
- Raunak Shetty:** Two-three months.
- Ankit Gupta:** But normally what we have seen is like even if you supplies are good and they are satisfied with the quality and pricing, then they do become your regular customers and take annual supplies from you, has that been your experience as well?
- Raunak Shetty:** No, generally we do not prefer annual contracts because whenever it is an annual contract, it becomes very difficult to pass on the raw material changes to our customers, so we prefer having a two to three months order book, and simultaneously, we also have similar kind of purchase contracts with our suppliers, so it protects us in case of any upward movement in raw material prices as well.
- Moderator:** Thank you. The next question is from the line of Sanjay Menani, an Individual Investor. Please go ahead.
- Sanjay Menani:** Good Evening Sir, my question is any plans to take over any company in near future nationally or internationally?

- R. K. Shetty:** Option is always open, if the opportunity is good, if it is within our range definitely we will look into it.
- Sanjay Menani:** Sir, my second query is regarding the R&D facilities of the company since we are in a sector where R&D facilities matters a lot, so what are the plans regarding the R&D department of the company?
- Raunak Shetty:** R&D as mentioned in our RHP also, we have recently set up a new R&D facility in Sarigam. We already have two setups in our Vapi facility, so over the period we have been very focused and as mentioned already five new molecules have already been working on and registration some of those molecules have been in process, so such kind of developments we have been working on and we will keep working on such things.
- Moderator:** Thank you. The next question is from the line of Varshit Shah from Emkay Global. Please go ahead.
- Varshit Shah:** Thanks for the follow up, just wanted to allude to the fact on the CAPEX front, so I think we mentioned that we do around 200-250 crores CAPEX total combined through all the sites, and this will largely be spread between FY '22 and FY '23, is that the right assumption, maybe 100-120 crores range each year, is that the right way to assume CAPEX?
- Raunak Shetty:** We would say over three years, around 200-250 crores over a period of three years.
- Varshit Shah:** My second question is on the domestic formulation biz, there I think you have done a lot of turnaround in the past and now if I see your distributor count also, I think it is of decent size, so I wanted to understand have you largely utilized the potential of the renewed distribution network or at what cycle you are in terms of lets us say you people have a potential of the current distribution network, because I think it is very decent for you in terms of more focused new product etc., so what is the potential of this distribution network, is it still intact according to you?
- Raunak Shetty:** You are asking about the distribution network, how good is our distribution network today?
- Varshit Shah:** No, what I was asking was that your distribution network is fairly decent for the turnover, and I think the turnover is actually much lower compared to the distribution network you have so what I understand is that you have created a distribution network recently in the last one to two years, I mean renewed the distribution network and you are yet to fully utilize the potential, what I want to know is how much let us say the current distribution network can easily cater to 3x revenue, I am not asking a timeline, it could be four years, five years even seven years, but at least can distribution network cater to that kind of revenue base?
- Raunak Shetty:** Regarding the revenue increase over the period, we feel over the next two years there could be a possibility of 50% to 60 growth in our branded formulation business. This is majorly because

we had been conservative when it comes to formulation business due to the higher debtor period, so higher working capital was required. Today, that is not an issue and we have more or less improved our distribution network also. We have a better distribution network, and we are more confident today to increase our turnover by maybe around 70% over the next two-three years in this branded formulation business.

Varshit Shah: If I were to see despite the improvement in the domestic branded formulation but debtor days has largely remained stable, so is the debtor days roughly the same in both the business export as well as branded formulation business, is that the largely similar 5-10% here and there?

Raunak Shetty: Debtor days in export is better as compared to branded formulation business, but margin wise branded formulation business would be better as compared to our normal B2B formulation business, so it is better realization and little higher debtor days.

R. K. Shetty: Because it is our own brand whereas in the international business, it is not our brand, it is other's brand.

Varshit Shah: One last question on the international side, so I think some of our intermediaries like MPBD which we produce, we have actually around 50% to 56% anti-dumping duty in China and still we are able to export to China, so is the cost differential manufacturing so high that it is still viable for the Chinese guy to import from India despite the anti-dumping duty, is the assessment correct, so this cost competitiveness has come largely because of the backward integration you are having, is that the way to understand?

Raunak Shetty: Yes, as well as some raw materials are cheaper in India as compared to China when it comes to MPBD.

Moderator: Thank you. The next question is from the line of Jigar Valia from OHM Group. Please go ahead.

Jigar Valia: Thanks for the follow up, my question was pertaining to the CAPEX by the other peer group as well, so Dhanuka is putting up 300 cr where it can manufacture synthetic pyrethroids, anything where any of the other competitors Tagros, Emami anybody else or globally because of the China plus one shift, you see any increase competition also while opportunity increase?

Raunak Shetty: No, at present we have, definitely Dhanuka must have planned for synthetic pyrethroids, but it is in a very early stage. All the other players have been older players, so we do not see any new capacities coming in this segment.

R. K. Shetty: Many are developing in these areas, but it is not limited to few products, there are so many products in India.

Jigar Valia: Exactly, so my next question was pertaining to that, if you can help us understand a little bit more between this alpha, delta, lambda, and there are other products that we are not into, so any

if you can probably educate us a little bit more if it is possible otherwise maybe we can take it offline?

Raunak Shetty: We have been more or less all the pyrethroids, all these major pyrethroids that is alpha, delta, lambda, cypermethrin and all. One product which has a good potential is bifenthrin, we are looking into and registration activities of that also we are looking, however, we are not too focused only in the pyrethroid segment, so in the future over the next three years there would be a switch where newer molecules from other segments would also form a good part of our revenues.

Jigar Valia: Existing competition landscape also all your peer group kind of work into different products or there are into the same products?

Raunak Shetty: All our not necessarily same, some make, we are into the entire pyrethroid range.

Jigar Valia: And others maybe into some specific products?

Raunak Shetty: In three of them or two of them, company like UPL makes only cypermethrin, so that way.

Jigar Valia: Any of these one category that is basically growing faster within these sub-categories, any category which are growing faster?

Raunak Shetty: Category as in?

Jigar Valia: Not category, any of these products which are seeing a faster growth versus the others?

Raunak Shetty: More or less growing at the same pace.

Jigar Valia: All are growing, so it is not that alpha is growing faster than the others?

Raunak Shetty: From period to period, maybe today alpha or lambda is doing better, in the past the delta was doing better, so it depends.

Jigar Valia: So capacities are fungible between all these three for us, but generally if somebody is into two products and they remain into those not necessarily everyone can get into everything?

R. K. Shetty: Our plant is fungible in nature, we can depend upon the situation wherever the demand is more and profitability is more, we can switch and increase the capacity accordingly.

Moderator: Thank you. We take the last question from the line of Trisha Kanasara from Molecule Ventures. Please go ahead.

Trisha Kanasara: Sir, this is a like a follow up question, you mentioned that the EC numbers are only of the additional capacity, so this is just for the clarification purpose that are you seeing that this new

CAPEX of around 100 odd crores will give us an incremental revenue of 1700 crores, is this the case Sir?

Raunak Shetty: It is already mentioned that in our new facility, the technical facility, you could consider an asset turns of around 3.5 times as an average, so it could be better than that in that range.

Trisha Kanasara: Also Sir can you give us the breakup of the percentage shares of insecticides, herbicides, and fungicides in the technical sales?

Raunak Shetty: Mainly it will be insecticides because pyrethroids are basically insecticides, our portfolio would be like at 65% of our turnover comes from pyrethroids, you could say 70% odd would be insecticides.

Trisha Kanasara: Sir, my last question would be how competitive is this market and what is China's percentage share in this market?

Raunak Shetty: Basically the products where we are backward integrated, these products we have registration in China, which is a unique factor, many other pyrethroid players, I can say most of the pyrethroid players do not have this registrations, it is a very expensive registration. We are one of the few companies in the agro chemical space who are selling products in China, these pyrethroids in China, so that would give you a feel of which country is stronger.

Moderator: Thank you. I would now like to hand the conference over to Mr. Raunak R. Shetty for closing comments, over to you, Sir.

Raunak Shetty: Thank you all investors who have shown interest in our conference call and I hope you have a very safe year ahead.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Heranba Industries Limited, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.