



HERANBA
INDUSTRIES LIMITED
A Govt. Recognised *Export House

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November 20, 2021

BSE Limited

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Dalal Street,
Mumbai- 400001,
Scrip Code: 543266

National Stock Exchange of India Limited

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

Dear Sir/Madam,

Sub: Transcript of Earning Conference Call held on November 12, 2021 at 11.00 A.M. on the Financial Result for the Quarter and half year ended September 30, 2021

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

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith the Transcript of Earnings Conference Call held on November 12, 2021 at 11.00 A.M on the Financial Results for the Quarter and half year ended September 30, 2021.

You are requested to kindly take the above information on record.

Thanking You,

Yours faithfully,
For Heranba Industries Limited



Abdul Latif

Abdul Latif
Company Secretary and Compliance Officer
ICSI Membership No.: A17009

Encl. as above



“Heranba Industries Limited Q2 FY2022 Results Conference Call”

November 12, 2021



ANALYST: MR. HARSH BHATIA - EMKAY GLOBAL FINANCIAL SERVICES

**MANAGEMENT: MR. RAGHURAM K. SHETTY - MANAGING DIRECTOR – HERANBA INDUSTRIES LIMITED
MR. RAUNAK R. SHETTY - EXECUTIVE DIRECTOR - HERANBA INDUSTRIES LIMITED
MR. RAJKUMAR BAFNA - CHIEF FINANCIAL OFFICER - HERANBA INDUSTRIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2022 results conference call of Heranba Industries Limited hosted by Emkay Global Financial Services. We have with us today Mr. Raghuram K. Shetty, Managing Director, Mr. Raunak R. Shetty, Executive Director and Mr. Rajkumar Bafna, Chief Financial Officer from the company. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for 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. Harsh Bhatia from Emkay Global Financial Services. Thank you and over to you Sir!

Harsh Bhatia: Thank you. A very good morning to everyone. I would like to warmly welcome the management from Heranba and thank them for this opportunity. I shall now hand over the call to the management for the opening remarks. Over to you gentlemen!

R. K Shetty: Thank you. I am R. K. Shetty here and welcome to Heranba Q2 FY2021-FY2022 results call. I take this opportunity to wish you all a Happy Diwali. I am pleased to report that we have maintained our growth momentum in the first half of FY2022 by reporting a strong set of numbers, an increase of 14% in our revenue and **(audio cut) 1:50** in our PAT in H1 FY2022. Our continued growth trajectory in another half year and quarter shows the strong and resilient DNA that we are built on. We have a sharp uptick in our formulation sales this quarter, which formed 36% of total sales. In absolute terms our formulation sales grew by 47.5% in FY2022 on quarter-on-quarter basis. Out of this domestic formulation sales accounted for 58% quarter-on-quarter growth and exports accounted for 53% quarter-on-quarter growth. Our technical sale saw a growth of 5% year-on-year in Q2 FY2022 out of which domestic technical sale was 17% year-on-year and exports saw a dip of 10% year-on-year.

Our total domestic sales in Q2 FY2022 saw an increase of 7% year-on-year and in H1 FY2022 we saw an increase of 25%. On the export front barring the freight and logistical challenges business at broad level continued to perform well. On a long-term basis the sector fundamentals continue to remain strong. I am happy to announce that this October we have sent our first consignment of our newly registered insecticide molecule to USA, which marks our entry into the highly regulated market. I am very hopeful that our presence in this new geography will strengthen in the times to come. As mentioned in earlier calls we intend to capitalize on opportunities generated by various technicals going off patent in the coming years by manufacturing and supplying generic variants of the technicals across the globe putting greater emphasis to register these molecules in the regulated markets. **(audio cut) 4:45** last quarter is progressing as planned and we hope to reap its benefits very soon.

Our broad capex plans are also on track. I am happy to announce that our unit 4 plant in Vapi will commence in November end 2021. This unit will greatly complement our existing technical units in Vapi reducing our external dependence as well as increasing capacity and improving bottomline to some extent. **(audio cut) 5:28** 18% to 20% EBITDA margins as the company is well poised to build on the strong operations developed over the last few years. I am hopeful the company will continue to grow and surpass, FY2022 as a critical year in Heranba's trajectory and are optimistic of the future. This concludes my opening remark and I will now hand over to Mr. Bafna, our CFO to take you through the financials. Thank you.

Rajkumar Bafna:

Thank you Sir. Good evening everyone. I would like to briefly touch upon the key performance highlights for the second quarter and a half year September 2021 then we will open the floor for question and answer.

On the revenue side Q2 FY2022 revenue at Rs.3534 million versus Rs.3491 million in Q2 FY2021, a growth of around 1% on year-on-year basis and growth of around 0.5% on quarter-on-quarter basis. H1 FY2022 revenue at Rs.7048 million versus Rs.6183 million in H1 FY2021, a growth of around 14%. On the EBITDA side Q2 FY2022 EBITDA margin including other income at 18.77% versus 16.20% in Q2 FY2021 and 19.66% in Q1 FY2022, quarter-on-quarter depend margin was primary due to increase in logistic cost and energy cost. H1 FY2022 EBITDA margin including other income at 19.2% versus 16.2% in H1 FY2021. Coming to the profit after tax Q2 PAT was at Rs.4456 million versus Rs.377 million in Q2 FY2021, an increase of around 21% year-on-year and Rs.473 million in Q1 FY2022. Q2 FY2022 PAT margin was at around 12.91% versus 10.8% in Q2 FY2021 and 13.48% in Q1 FY2022. H1 FY2022 PAT at Rs.930 million versus Rs.363 million in H1 FY2021, an increase of around 40%. H1 FY2022 PAT margin at around 13% versus 10.7% in H1 FY2021. This resulted in the EPS being at Rs.11.4 per share during Q2 FY2022 versus Rs.9.66 in Q2 FY2021, an increase of around 18%, in Rs.23.24 during H1 FY2022 versus 16.98 in H1 FY2021, an increase of around 37% year-on-year basis. That concludes the update on financial and we can open the floor for question and answer.

Moderator:

Thank you very much Mr. Bafna. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Varshit Shah from Veto Capital. Please go ahead.

Varshit Shah:

Thanks for the opportunity. First of all congratulations on your first consignment to US and all the best for the geography. My question is on actually two front, first on the technical domestic sales growth of 19% on a Y-O-Y basis so if I understand we operate more in the insecticide segment wherever five of our products lie and the domestic insecticides market actually kind of suffered overall so is there a differentiation between the pilots or its

consumption in the kharif season or particularly Q2 and other insecticide consumption in the domestic market and hence you have seen a higher growth I am just trying to correlate because your performance is slightly different from the other industry insecticide sales so that is my first question, let me rephrase my question so you have reported 19% increase in domestic technical sales and we manufacture a lot of insecticides in our portfolio, now the domestic end-use market saw a decline actually in the insecticide on a Y-o-Y basis in Q2 so you have done exceptionally well or the Pyrethroids segment overall has done well vis-à-vis other insecticides in the technical domestic market?

R. K Shetty: I will not say the Pyrethroids segment as such done exceptionally well. We had introduced two fungicides and on a campaign basis made one high value insecticide also just on a trial basis so I think all the molecules contributed.

Varshit Shah: Two new molecules basically to ramp up the domestic part?

R. K Shetty: Yes we started it this year, so maybe next year will be able to tell.

Varshit Shah: Sure that is helpful and my question was secondly on the export front so we saw Y-o-Y decline in exports and Q-o-Q also some sort of a muted decline on the export front on the technical side so my question is, is there just a delay in the shipments and hence the delay in looking of revenue in this quarter and probably that will recover in third quarter or this is a permanent loss that is point one and second what is the reason for this slow down in export growth?

R. K Shetty: There are two things, one would be the logistic issue that we are facing today, so there have been delays in dispatches because of these logistical issues that is why we focus more on domestic and it will not be a permanent deal, it is being you can say it is delayed by a month or so, so maybe whatever loss visible in the last quarter will be visible in two, three and some switch to domestic.

Varshit Shah: Is it safe to assume that your Q3 exports Y-o-Y would be better than otherwise than the normal trend because of some revenue shifting out of Q2-Q3 on the relative basis?

R. K Shetty: Yes.

Varshit Shah: Sure one last question from my end to Bafna Ji, you alluded in your opening remarks regarding higher cost and especially on the transport in freight which resulted in higher SG&A expenses so should we assume that the current level of SG&A expenses is the new normal and something which we should model going ahead in this range?

- R. K Shetty:** I think in the near future the current elevated logistical cost will have to be considered.
- Varshit Shah:** (inaudible) 16:48?
- R. K Shetty:** Yes.
- Varshit Shah:** I have more questions but I will get back in the queue.
- Moderator:** Thank you. The next question is from the line of Bhavya Gandhi from Dalal & Broacha. Please go ahead.
- Bhavya Gandhi:** Thank you so much for taking my question and congratulations to management on stable set of numbers, my first question is how has delta and lambda performed?
- R. K Shetty:** Stable.
- Bhavya Gandhi:** If you can quantify what would be the order size of our US consignment?
- R. K Shetty:** Order size quantity?
- Bhavya Gandhi:** No I think value terms or in quantity term?
- R. K Shetty:** 50 tonnes and around 70% would be in the coming quarters.
- Bhavya Gandhi:** Our domestic sales have seen an uptick on account is it on account of import substitution and is it sustainable going forward or is it just a one-off?
- R. K Shetty:** It is not import substitution the focus is more in domestic because of the delays due to logistical issues so instead of keeping inventory we pushed more in domestic.
- Bhavya Gandhi:** There is acute food shortage in China so China being one of the largest consumers of Pyrethroids are we focusing more on China now?
- R. K Shetty:** We have always been focusing on China. We will focus on all the geographies that we have for registration.
- Bhavya Gandhi:** At current rate can we achieve our 18% to 20% guidance?
- R. K Shetty:** Revenue growth guidance.
- Bhavya Gandhi:** Thank you so much Sir. I will get back in the queue.

- Moderator:** Thank you. The next question is from the line of Imran Khan from RatnaTraya Capital. Please go ahead.
- Imran Khan:** Sir my question is on the capacity expansion side, can you please tell us about the capacity extension part not in the long-term but in the immediate term let us say this year what kind of capacity you are putting and what kind of revenue it can generate?
- R. K Shetty:** What sort of capacity we are putting?
- Imran Khan:** Yes.
- R. K Shetty:** On an annual basis around 500 tonnes.
- Imran Khan:** What would it mean in terms of incremental revenue potential?
- R. K Shetty:** I will get back.
- Imran Khan:** Second question is on the raw materials, did you see any raw material price increases this quarter and maybe in the coming quarters you feel that there will be a price increase?
- R. K Shetty:** There will be a price increase, all the basic raw materials have gone up so accordingly there will be some price hikes in the final products also so overall there will be an impact in the sales also and impact in the sense both would be positive.
- Imran Khan:** Alright. Thank you.
- Moderator:** Thank you. The next question is from the line of Ameya Karambelkar from Kotak Investment Advisors Limited. Please go ahead. As there is no response from the line of the current participant we will move on to our next question which is from the line of Ankit from Oculus Capital. Please go ahead.
- Ankit:** Thank you for the opportunity. One thing that I wanted to ask was we have heard that synthetic Pyrethroids prices have gone up a lot recently it was mentioned by UPL also in the press release so is it a margin accretive thing for us or there is significant cost increase in raw material also that it will not impact our margin in a positive or negative way if you can elaborate on that and my another question is because we export technicals to China and because of the pollution issues there are some capacity constraints where some capacities are shutting down so is that on the formulation side or on the technical side so basically will it be beneficial for our company in the long run?

- R. K Shetty:** Pyrethroids price increase the cost has also gone up but definitely there will be some advantage that we may get in the coming quarters. Regarding the pollution issues in China currently there will be some benefit that you may get and then we do not know the bigger may become bigger, the bigger players there in China would also try to gain some share out of it. We will have some advantage not a very big advantage we will be conservative, we will try our best.
- Ankit:** Thank you.
- Moderator:** Thank you. The next question is in the line of Mukesh Panjwani from Value Securities. Please go ahead.
- Mukesh Panjwani:** Congratulations for a good set of numbers. My question is that by this increase in raw material price would we be in a position to pass it on like would we be able to maintain our EBITDA margin?
- R. K Shetty:** Yes.
- Mukesh Panjwani:** Sir would we be a beneficiary of this China plus one?
- R. K Shetty:** Yes it will be.
- Mukesh Panjwani:** That is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Venkatesh Balasubramaniam from Tokio Marine. Please go ahead.
- Venkatesh B:** Before I ask a few questions I would like to give some suggestions to the management first. I would request them to make an effort and speak a little bit louder on the call because you are not really audible so if you are hosting a call it would be very useful if you could speak up a little louder and secondly it is a suggestion I hope you take it in the positive spirit when we ask if anybody is asking a question please do not answer only in mono syllables like yes and no if you could give a little bit more context to the answer it would be useful otherwise we really cannot make out anything so this is a couple of suggestions I request you to implement it going forward it could be very useful for both analysts and investors. Now coming to the three questions which I had why exactly is your topline growth in this quarter there hardly any topline growth Y-o-Y, is this in line with your guidance or we are running a little bit this quarter in itself was a little disappointing in terms of topline growth for the management now if you could give some context why, what was expected, what went wrong and why the topline growth is down and the second question is what is your

guidance for topline EBITDA and profits for the current year and the third thing is if you look at your cash flow from operations in the current quarter your cash flow from operations has turned negative why exactly has it happened has there been a receivable pileup and if at all how can it be resolved?

R. K Shetty: Regarding why our topline has not grown the reason is one the logistical issues because of which there are delays in supplying in the export market, second is the domestic business in the branded side there had been some issues because of erratic rainfall otherwise technical we were able to supply in the B2B segment but there were some issues in the B2C segment that is why the branded business was affected and after the point people stop purchasing because they also had inventory so that led to these topline issues.

Venkatesh B: Now on that related context your answer to the first question these logistical problems which is basically availability of containers and all those things it is an industry-wide phenomenon how is the situation now is it getting resolved or is it getting worse and is there a possibility it can get impact the third quarter result also?

R.K. Shetty: To some extent it is getting resolved because now the customers have also become smarter they have realized that they have to book in advance if they want their material on time in their market so customers have started buying early so that is one case that we are facing and also there are some improvement in the logistical part; however, now the cost wise it has gone up so there will be some cost impact but availability better than last quarter and the stocks that have been lying. I will answer your third question also that is why are we get cash flow negative we have receivables as well as higher inventories one reason for it is the logistic issues again, there are delays in supplying this inventory in the export market which will move in the current quarter that is Q3 and receivables also is anyway Q2 generally we have higher sales so the receivables you see better movement in Q3.

Venkatesh B: That was a very useful answer. Second question is what is your guidance for sales EBITDA and profits for the current year that is if at all you have guidance?

R.K. Shetty: We have always said that our growth is in the range of 18% to 20% and we will be able to maintain that kind of growth also and EBITDA margins also will be in the range of 18% to 20%.

Venkatesh B: Thank you very much. All the very best for the future.

R.K. Shetty: Very sorry that we were earlier not answering properly, we gave a smaller reply..

Venkatesh B: I guess this is perhaps one of your early first few calls after the IPO but usually the thing is a new company we are all looking for a little more detail little more context so what happens is if you give us that context that for example yes somebody asked that have raw material prices gone up so the immediate thing is one can either say okay yes prices have gone up but the fact of the matter also is that either raw material prices have gone up immediately does that impact margin which is not with what you are selling now margins are not impacted so maybe a little bit of elaborate answers that yes your contracts with your clients allow you to pass through the raw materials if you give us that kind of a context the interpretation is much better so that is why I was making that suggestion.

R.K. Shetty: Thank you very much for the suggestion. We will definitely improve on.

Venkatesh B: Yes all the very best for the future.

Moderator: Thank you. The next question is from the line of Amanjit Singh from Oculus Capital. Please go ahead.

Amanjit Singh: Sir actually I just wanted some clarity on your capex I have gone through the past few calls and you mentioned that your capex will be about Rs.250 Crores over three years for Sarigam how much would be your capex would it be 200-220 or because in your press release you said it would be about 100 Crores and what would be the capacity that you are expecting at Sarigam and in what phases do you expect the Sarigam capacity to come in so that is my first question on capex and on the second bit Sir in Dahej in your press release you had put the capacity would be about 10680 metric tonnes but you are expecting that capacity also to have commercial production by September 2022 so does that also come in the capex guidance you have given in the previous years I was not able to reconcile, could you please help me with this?

R.K. Shetty: Initially when we were saying we used to say that our capex plans will be in the range of 150 Crores which we increased to 250 Crores mainly in three years so in that we feel that Sarigam we would have capex of around 180 Crores and in the first phase our focus would be more on Sarigam so once Sarigam facility is fully operational we will be focusing more on our Saykha facility; however, do a basic building of infrastructure in Saykha also to the tune of around may be 50 Crores.

Amanjit Singh: If I get you correctly out of the 250 Crores approximately 180 Crores is for Sarigam and 70 Crores is for Dahej correct?

R.K. Shetty: Yes.

- Amanjit Singh:** In Sarigam what is the capacity that you are expecting is it 24900 metric tonne and by when will that full capacity come in?
- R.K. Shetty:** No it is not 24900, we will say in the first phase we will come up to around 5000-6000 tonnes, take it up to 10000 and then as and when we see better growth we will increase our capacity definitely 24000 tonnes I do not know where this figure has come.
- Amanjit Singh:** It is from your press release Sir that you have given.
- R.K. Shetty:** In that we have changed some product profile where we will be focusing on some higher value molecules so this quantity may not come in initially you were thinking of some intermediate which we will change now so may be to the tune of around 15000 tonnes and we may go up to 15000 tonnes.
- Amanjit Singh:** Phase 1 it is 5000-6000 so that would come in when Sir by what period are you expecting?
- R.K. Shetty:** Next year.
- Amanjit Singh:** End of financial year we are talking about exit?
- R.K. Shetty:** Next year as in Q2 FY2023.
- Amanjit Singh:** When you said taking it to 10000 you mean additional 10000 or 5000-6000 will go to 10000?
- R.K. Shetty:** 6000 would go to 10000, 10000 we are saying conservative, it would be higher maybe next FY2024 we may even touch 12000-13000.
- Amanjit Singh:** So your total capex for all of this phase one and phase two that is 180 right?
- R.K. Shetty:** Yes.
- Amanjit Singh:** Thank you Sir and this unit four so what was the capex spend on that at Vapi?
- R.K. Shetty:** That would be around 15 to 20 Crores.
- Amanjit Singh:** How much has this increased the capacity?
- R.K. Shetty:** On an average basis our capacity would be I think around 500-700 tonnes and maximum it would touch around 1200 tonnes.

- Amanjit Singh:** Thank you so much Sir.
- Moderator:** Thank you. The next question is in the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.
- Kunal Bhatia:** Thank you for the opportunity and I agree to the previous participant that please I request to use a better audio next time because it is very difficult to get the answers. Sir coming to the question we have seen a gross margin improvement on a quarter-on-quarter basis as well as on Y-o-Y basis so if you could just be more elaborative on what was the specific reason for it because two, three things to be taken from your call is one you also mentioned that we sold new molecules this time and also there was a lack of exports so just wanted to understand that what has been driving these gross margins because has it been that you have been able to take price increases on the existing previous products where you could mitigate the 100% cost escalation, secondly what were the newer molecule contribution significant enough that we got these kind of gross margin improvement if you could give a bit more color on that and going forward also with the kind of inflation that is already coming will we be able to take the price increases as much as required to mitigate those on our gross margin side?
- R.K. Shetty:** For the first question the new products that we have launched definitely have better market as well as we are continuously working on our existing molecules also so there are some process improvements in some of the products two to three products that we used to make on a campaign basis which we have increased this year that has also helped us and standard segment also we are able to push better molecules in the initial phase before things started becoming well in the branded segment so overall it helped our gross margins.
- Kunal Bhatia:** But anything specific to call out that lower exports helped us on gross margins or it is the other way round?
- R.K. Shetty:** No, nothing like that margins across we have a dedicated team which looks into this pricing segment so there is a minimum price that we keep irrespective of which market so that would not affect whether export or local we need that minimum price, does that answer your question?
- Kunal Bhatia:** Yes and if I may ask these newer products on delta and lambda which was introduced a few years back so how much has been the contribution from those products vis-à-vis the legacy products?
- R.K. Shetty:** Which products you want to say delta and lambda?

- Kunal Bhatia:** Yes?
- R.K. Shetty:** Delta today is our top molecule when it comes to revenue not volume, volume would be cyper, but delta as far as sales is concerned the delta is our number one product. Lambda if you could say would be number 3 and number 4 product so from some 20 tonnes per month we have scaled it up to 60 tonnes per month today.
- Kunal Bhatia:** Those would have contributed to a better gross margin if I am not wrong Sir?
- R.K. Shetty:** Secondly formulation has improved if you see overall our formulation export has increased substantially year-on-year for the last two quarters that increased the margin of overall marketing because initially we used to sell technicals so definitely formulation also adds to the margin because the base is kept the same plus some value addition we get while selling formulations and the newer molecules even though they are small they will not contribute to the entire turnover in a big way but they also have better margins.
- Kunal Bhatia:** To conclude the current gross margin, which we have reached 36% is that the new normal which we can consider or we would go back to a lower gross margin per se?
- R.K. Shetty:** That you can consider a new normal because on 36% we have been able to, we are at least last one year able to maintain around 18% EBITDA so we feel we may be able to improve also but for now we will stick to 36% and 18% because we have been guiding 18% to 20% so that is our thought.
- Kunal Bhatia:** Thanks for mentioning about the delta and lambda so how about the newer molecule contribution, the molecules or rather the molecules products which are introduced in the last one or two years, how much has their contribution increased to in the current year?
- R.K. Shetty:** Contribution see one product which we have launched, last to last year we have launched that product we used to make around 50 tonnes now we have scaled it up to around 120 metric tonnes. Our intermediate also which we used to make around 200 we have increased it to 350 so that way definitely we have been able to increase our volume by increasing our capacity for debottlenecking our existing facility to some extent and once we shift to our new facility in Sarigam there would be a better scope to increase the volumes of our new molecules that we have launched this year or maybe last year in the second half.
- Kunal Bhatia:** That sounds good. That is it from my side. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Dhaval Shah from Svan Investments. Please go ahead.

- Dhaval Shah:** Is there a large variation in margins between exports and domestic or it is nearly the same?
- R.K. Shetty:** There will be some difference but you can say in this range similar.
- Dhaval Shah:** Got it and in terms of between selling technicals in exports and formulations in the export market can you a little bit explain us in terms of the customer when would a customer buy a technical or when would a customer go for buying formulations?
- Rajkumar Bafna:** It depends on customer. If he has got the facility to formulate his technicals, if he has got a facility to formulate his own then we will buy technical wherein the logistic element is less there so formulation suppose if it is 10% it is technically 110, in technical formulation it multiplies so that is it.
- Dhaval Shah:** Got it and which geographies would we be selling more formulations?
- Rajkumar Bafna:** In Africa it is mostly this formulation, rest of the area is mostly technical.
- R. K. Shetty:** In Africa to some extent CIS and Middle East.
- Dhaval Shah:** Got it but generally would we have a customer in Europe or somewhere Asia would buy more formulations because logically for buying formulations more like it is mixing water and something else also with the technical and then making the final product so it is a little expensive to buy formulation readymade for the customer is my understanding correct?
- Rajkumar Bafna:** If it is a basic formulation then yes correct but if it is a specialized formulation then they prefers buying it from those who know to make specialized formulations for example easy formulation they will make it in house as far as WDG formulations they may rely on India or they may rely on China.
- R. K. Shetty:** For your information we have all the chemistry, all the formulations we can make, the newer molecule, newer chemistry also we are in in-house facility to manufacture in Sarigam plant.
- Dhaval Shah:** Going live in the second quarter 2023 as you just mentioned will our margin range be also superior?
- R.K. Shetty:** They will be in this range. We cannot exactly say whether it will go up, some segment does not perform well somewhere comes in this range, the growth and the EBITDA margins that we have guided we will be able to maintain that kind of growth in EBITDA.

- Dhaval Shah:** In terms of two to three year plan our product mix and focus of the company would be what, we would be focusing on the current chemistry or launching a new product or as a goal do we want to create leadership in molecules which are large volume?
- R.K. Shetty:** The existing one we will continue to maintain the leadership position, it will be a mix of older molecules as well as the newer molecules so it is a big size.
- Dhaval Shah:** Okay.
- Moderator:** Thank you. The next question is from the line of Varshit Shah from Veto Capital. Please go ahead.
- Varshit Shah:** Thanks for the followup so just one question in the export side so you mentioned you started exporting it to US what is the full potential you are expecting from this geography and by what time you think that you will be able to at least reach the phase one of your internal target maybe by next year or so?
- R.K. Shetty:** In the longer term may be three-year to five year down the line we should be able to touch around 25 million tonne that is the goal. Immediate future completely depends on what registrations and how quickly we get these registrations so today we have only one registration so then depends on the geography as well. The customers' capacity and the geography so immediately we will not put a figure, but longer term we feel around 25 million tonne will be our goal.
- Varshit Shah:** Sure and secondly in terms of the type of customer in the geography so would it be a local formulator company because US market is more consolidated on the brand side, just wanted to understand the color of the customer what kind of customers you feel that this geography would cater to from our perspective?
- R.K. Shetty:** It could be both on the customer only, many times they wish to take formulation today because of logistics even they preferred technical and formulating in USA that is what they are doing today that is what our existing customer told us, maybe in future they would be interested to take formulations also from us.
- Varshit Shah:** Sure and my second question on the same geography on US typically we are competing on the course front because of backward integration in other geographies is the trend similar in US as well so we are competing on the pricing front because of our backward integration vis-a-vis at the competition because the products which you are exporting into US I think one of our competitors is also already present there and still you are able to sell incrementally so is the pricing also a key role because of backward integration?

- R.K. Shetty:** Both pricing plays a key role definitely there is competition and also because we are backward integrated we have some advantage so that is what helped us get the order also.
- Varshit Shah:** Sure that is really helpful. Thanks and all the best for Q3.
- Moderator:** Thank you. The next question is a followup from Imran Khan from RatnaTraya Capital. Please go ahead.
- Imran Khan:** Thanks for the opportunity again. Sir you have provided a nice breakup for your capacity expansion at Sarigam, can you please also do the same thing for the Dahej and Saykha if it is possible?
- R.K. Shetty:** Currently we have not put a lot of thought on that site. First priority is to completely utilize the Sarigam facility, in Dahej we will be taking it up (inaudible) 51:30 but we have not exactly thought which product for the entire site we have not done so given an exact figure for the entire site would be done. We have some thoughts for some products but not for the entire site.
- Imran Khan:** Completely understand it Sir and the second question is an optional question if you feel you do not have to answer please feel free to do not answer but I have been reading about this thing in your prospectus in other areas in media that there has been a default of about Rs.50 Crores on debt by the promoter in a different company I think so would you like to explain that what kind of default it was what is intentional or it was just a mismatch of cash flows in some of the other company?
- R.K. Shetty:** This is a whole story actually, the real purpose of this public issue was one of our directors had one subsidy and he did not move well and it is out of the OFS that money that whatever the amount is cleared and the day he got the money out of the OFS.
- Imran Khan:** No Sir I completely understand it that you have cleared it my point is that why it has happened was it a situation in the business which has ended up into troubles or it has to do something personal on a personal level this is what I am asking?
- R.K. Shetty:** This was the chemical pharmaceutical intermediate company he has started for certain reasons it did not do well and there was a small outstanding and he tried his own best to clear but out of the OFS he cleared the day one in few days only he has cleared that amount and had it been intentional it would not have happened that is clear long back and it is anyway it is not a part of Heranba, he is involved in this company one of the directors that is the relation between Heranba and that company.

- Imran Khan:** Completely get it Sir. Thank you.
- Moderator:** Thank you very much. The next question is from the line of Harsh a Retail Investor. Please go ahead.
- Harsh:** Thank you Sir for taking my question. Just a request for operator that there are questions in the queue do not let participants ask followup questions and first address the questions which are there in the queue from the start . Now anyway here are my two questions so I have looked at your financials and the asset turns for Heranba are quite high at around 6.5 times of gross block however and what is the reason for such high asset turns especially when asset turns for your competitors like Tagros and Himani just around two to three times so why such a huge gap?
- R.K. Shetty:** Asset turns is higher because we are into formulations as well and the competitors that you have mentioned are not into formulations in a big way, we have a focus segment in formulation both B2B and B2C and they are quite asset light.
- Harsh:** Second question is what would be the competitive advantage of the company in the Pyrethroids segment so there are various competitors UPL is there so what is the competitive advantage in that segment and just a followup on that so we are also entering into the non-Pyrethroids segment so which are the products that we are entering into and what would be the competitor advantage of the company in those segments?
- R.K. Shetty:** Competitor advantage is we are fully backward integrated fully forward integrated and we have registration and now you can say across the globe earlier you would not say US, Europe, but now we are there everywhere that is our competitive advantage so we are not more dependent on any particular geography if one is not performing we have another facility or another geography to cater that supports us, our facility is fully possible. We can switch to whichever product is making more sense to us and for our new molecules also we have thought all directions as such if you see immediately we may come up with some insecticide and fungicide products in our new facility and the competitive advantage is what these are say R&D and our production capabilities so we have been in this production segment for a really longtime now we have a very good team, we have a very good R&D facility as well so that is going to support the next non-Pyrethroids phase growth.
- Harsh:** Which segment are we entering into exactly in the non-Pyrethroids segment?
- R.K. Shetty:** Insecticide maybe organophosphorus and a few fungicides.
- Harsh:** This was very helpful Sir.

- Moderator:** Thank you very much. The next question is from the line of Raj Shah, an Individual Investor. Please go ahead.
- Raj Shah:** My question was so as mentioned in your DRHP the Pyrethroids market has grown at around compounded annual growth rate of around 7% over the last few years so my question was how is our company managed to maintain this growth rate of around 18% to 20% so how is this managed?
- R.K. Shetty:** So one thing is Pyrethroids as an entire segment is growing at 7% we are not there in entire Pyrethroids segment, our base is smaller and once we have been able to increase our capacities for the existing products, increase the number of products in the Pyrethroids segment, get more registration across the globe that has helped us keep a higher growth trajectory in the Pyrethroids segment and 7% is for the multinational who are into the brand segment who are selling, they have been able to grow at around 5% to 7% over the last 10 years that is the advantage that we have got.
- Raj Shah:** Another question was can you please help on the figures in terms of revenue mix in terms of insecticide, herbicide and fungicide?
- R.K. Shetty:** Revenue mix, you can say around 80% is insecticide and the rest you can say around 15% fungicide and 5% would be herbicide and others.
- Raj Shah:** Lastly I would also like to ask so as we have read in our DRHP that Pyrethroids have an inherent limitation that when it comes to open source so there is a problem of photo degeneration as well as increasing resistance from other pests so will this affect our company and is any promotion being done by the governments for Pyrethroids?
- R.K. Shetty:** Currently it is not in existence, as such it is developed for almost every chemical if you use in excess so we always tell our end consumers also because we are in the branded segment we tell them not to use the same chemicals back-to-back we have to keep alternating between chemicals so that is very critical even medicines if you say you have to do that you cannot take the same thing again and again. I do not think there have been major resistance issues across the globe that is why we have been and even because multinationals have been projecting better growth for Pyrethroids segment.
- Rajkumar Bafna:** This combination product also helps in the formulation there is so many combination products coming in the market now and we also launched a few combinations not one product the two product mix and trades that also we got few registrations that helps this resistance issue.

- R.K. Shetty:** We are having multiple mode of actions combination, different mode of actions helps in breaking the resistance.
- Raj Shah:** My last question would be going forward how do we see our revenue mix in terms of Pyrethroids and non-Pyrethroids so presently as mentioned in your previous call it is around 65% from Pyrethroids so going forward how will this figure turn?
- R.K. Shetty:** Now it is around 65% may come down to around 57% around three to five years down the line.
- Raj Shah:** Will it have a positive effect on our margins?
- R.K. Shetty:** Yes it is not because Pyrethroids as such is coming down and we are also increased in Pyrethroids segment but other molecules because the base is smaller will have a bigger impact so on a bigger turnover we will be able to maintain around 57% on Pyrethroids segment.
- Raj Shah:** FY2022 end?
- R.K. Shetty:** You consider three years down the line.
- Raj Shah:** Thank you so much. That is it for mine.
- Moderator:** Thank you. We will take our last question now which is from the line of Rishabh Sood, an Individual Investor. Please go ahead.
- Rishabh Sood:** Thank you management for answering the question. I just wanted to clarify because of the audio issue I could not get the update on the US consignment, can you please update give the details on that the quantity and the price as well which if you were talking about?
- R.K. Shetty:** We will not be able to give such data, quantity you can say around 50 tonne being able to get an order, it is a small order that is the beginning we got registration recently and order booking has started and we have shipped one consignment already.
- Rishabh Sood:** This is regarding which segment?
- R.K. Shetty:** Pyrethroids.
- Rishabh Sood:** For the capex plans you said 250 Crores of capex in the next two to three years so for phase one you were talking about 5000 to 6000 tonnes so for 5000 to 6000 tonnes that was for 180 Crores.

- R.K. Shetty:** No entire 180 Crores.
- Rishabh Sood:** So phase one and phase two were for Sarigam plant?
- R.K. Shetty:** Sarigam plant.
- Rishabh Sood:** In the previous question you were saying in the goal to reach is \$25 million can you believe what was \$25 million goal in the revenue?
- R.K. Shetty:** The question asked was in US what would be your target to reach on a midterm basis so we said around \$25 million would be our target.
- Rishabh Sood:** In the next three to four years should we expect that?
- R.K. Shetty:** Three to five years yes we should, it all depends on how quickly we get registrations or not so we feel over the next three to five years we may be able to reach around that figure if not somewhere in around that.
- Rishabh Sood:** Order size of \$25 million?
- R.K. Shetty:** Yes.
- Rishabh Sood:** That is it.
- Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to the management for closing comments. Over to you!
- R.K. Shetty:** Thank you very much and at the same time sorry for the audio issue that we are facing, maybe one reason is today we are at factory for yesterday there was a board meeting here in factory in the registered office, we had some other work in the factory and the audio issue was a bit problematic to the viewers so I am extremely sorry and thank you very much for showing interest and wish you a Happy Diwali to all the participants and their families.
- Moderator:** Thank you very much members of management. Ladies and gentlemen on behalf of Emkay Global Financial Services that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.