

## Rating Advisory

July 21, 2020I Mumbai

Advisory as on July 21, 2020

This rating advisory is provided in relation to the rating of Heranba Industries Limited.

CRISIL vide its publication dated June 25, 2020 highlighted the aspect of non-co-operation by Heranba Industries Limited.

Heranba Industries Limited has now shared the information requested and is cooperative.

You may access the Rating Rationale as appended below.

## Rating Rationale

August 28, 2019 | Mumbai

### Heranba Industries Limited

*Ratings upgraded to 'CRISIL A-/Stable/CRISIL A2+'*

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.152.5 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL A-/Stable (Upgraded from 'CRISIL BBB+/Positive')</b>
<b>Short Term Rating</b>	<b>CRISIL A2+ (Upgraded from 'CRISIL A2')</b>

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL has upgraded its ratings on bank facilities of Heranba Industries Limited (HIL) to '**CRISIL A-/Stable/CRISIL A2+**' from '**CRISIL BBB+/Positive/CRISIL A2**'.

The upgrade reflects consistent improvement in business risk profile, which has exceeded expectations, and sustenance of the healthy financial risk profile. Revenue grew by 34% to Rs 997 crore in fiscal 2019 (Rs 746 crore in fiscal 2018), while the operating margin improved to 13.7% (12.5% in fiscal 2018). Better performance was driven by capacity enhancement, addition of new products, geographical expansion, and favorable demand.

Cash accrual grew 63% year-on-year, to Rs 85 crore in fiscal 2019, and may further improve over the medium term. In absence of any maturing debt, cash accrual should suffice to cover the routine capital expenditure (capex), and incremental working capital requirement. CRISIL believes the business risk profile will further strengthen with scaling up of operations while sustaining its operating performance over the medium term.

The ratings continue to reflect HIL's established market position in the agrochemicals industry, aided by a diverse product line and strong marketing network, and the healthy financial risk profile. These rating strengths are partially offset by large working capital requirement and susceptibility to cyclicity in the agricultural inputs industry.

#### Key Rating Drivers & Detailed Description

##### **Strengths:**

- \* **Robust financial risk profile:** HIL's financial risk profile is marked by a healthy network of around Rs 232.80 crore and low gearing of 0.25 time, estimated as on March 31, 2019. Debt protection metrics were robust, led by interest coverage and net cash accrual to total debt ratios of 13.93 times and 1.3 times, respectively, recorded for fiscal 2019.
- \* **Established track record and presence in key markets:** The company has established its market position in the agrochemicals industry, backed by a robust product portfolio of over 100 registered brands in three segments. It has a strong foothold in the domestic formulations market, through a network of over 5,000 plus dealers, and a strong marketing network with 200 people across India.

## Weaknesses:

- \* **Moderate working capital requirement:** Gross current assets stood at 163 days over the four fiscals ended March 31, 2019, driven by large receivables and moderate inventory.
- \* **Susceptibility to cyclical in the agricultural inputs industry:** The domestic agrochemicals industry is cyclical, and depends on monsoon and farm incomes, as demand for agrochemicals is driven by agricultural production, which depends on rainfall.

## Liquidity: Strong

Liquidity should remain strong over the medium term, backed by sizeable cash accrual and the prudent working capital management. External long-term debt remains nil, and bank limit of Rs 113 crore was utilised moderately, at an average 71% in the 12 months through May 2019. Cash accrual of Rs 85-95 crore per annum, over the medium term, will be utilised to meet working capital and capex requirements. Current ratio was around 1.41 times as on March 31, 2019.

## Outlook: Stable

CRISIL believes HIL will continue to benefit from its pan-market India presence, established market position, and strong financial risk profile.

## Rating Sensitivity Factors

### Upward Factors

- \* Further strengthening of the business risk profile along with sustenance of margins of around 12%
- \* Sustenance of working capital cycle

### Downward Factors

- \* Sharp dip in operating income and operating margins falling below 9%
- \* Significant stretch in working capital cycle with GCA days beyond 250 days
- \* Large debt funded capex plans resulting in weakening of financial and liquidity profile.

## About the Company

HIL was incorporated in 1992, and taken over by current promoters, Mr Sadashiv K Shetty and Mr Raghuram K Shetty, in 1994. It manufactures formulations and active ingredients for insecticides, fungicides, and herbicides at its three manufacturing units in Vapi, Gujarat.

## Key Financial Indicators

As on/for the period ended March 31	Unit	2019	2018
Operating income	Rs crore	997.15	746.56
Reported profit after tax	Rs crore	80.47	47.85
PAT margin	%	8.1	6.29
Adjusted Debt/Adjusted Networkth	Times	0.28	0.48
Interest coverage	Times	13.93	7.89

**Any other information:** Not applicable

## Note on complexity levels of the rated instrument:

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they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

## Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Cr.)	Rating Assigned with Outlook
NA	Cash Credit	NA	NA	NA	18.5	CRISIL A-/Stable
NA	Cash Credit & Working Capital demand loan	NA	NA	NA	65	CRISIL A-/Stable
NA	Foreign Discounting Bill Purchase	NA	NA	NA	15	CRISIL A2+
NA	Inland/Import Letter of Credit	NA	NA	NA	30	CRISIL A2+
NA	Letter of credit & Bank Guarantee	NA	NA	NA	10	CRISIL A2+
NA	Packing Credit in Foreign Currency	NA	NA	NA	14	CRISIL A2+

## Annexure - Rating History for last 3 Years

	Current			2019 (History)		2018		2017		2016		Start of 2016
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	112.50	CRISIL A-/Stable/CRISIL A2+			31-05-18	CRISIL BBB+/Positive/CRISIL A2	16-02-17	CRISIL BBB+/Stable/CRISIL A2	16-05-16	CRISIL BBB/Stable/CRISIL A3+	CRISIL BBB/Stable/CRISIL A3+
Non Fund-based Bank Facilities	LT/ST	40.00	CRISIL A2+			31-05-18	CRISIL A2	16-02-17	CRISIL A2	16-05-16	CRISIL A3+	CRISIL A3+

All amounts are in Rs.Cr.

## Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit	18.5	CRISIL A/Stable	Cash Credit	18.5	CRISIL BBB+/Positive
Cash Credit & Working Capital demand loan	65	CRISIL A/Stable	Cash Credit & Working Capital demand loan	65	CRISIL BBB+/Positive

Foreign Discounting Bill Purchase	15	CRISIL A2+	Foreign Discounting Bill Purchase	15	CRISIL A2
Inland/Import Letter of Credit	30	CRISIL A2+	Inland/Import Letter of Credit	30	CRISIL A2
Letter of credit & Bank Guarantee	10	CRISIL A2+	Letter of credit & Bank Guarantee	10	CRISIL A2
Packing Credit in Foreign Currency	14	CRISIL A2+	Packing Credit in Foreign Currency	14	CRISIL A2
<b>Total</b>	<b>152.5</b>	<b>--</b>	<b>Total</b>	<b>152.5</b>	<b>--</b>

## Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Criteria for rating short term debt](#)

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