



# **Detailed Study of the Financial Health, Strengths, Challenges and Export potentials of Hindustan Insecticides Limited**

**By  
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**NTPC Vidyut Vyapar Nigam Ltd.**

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### About the Company:

It was incorporated in 1954, HIL (India) Limited, formerly Hindustan Insecticides Limited) and has three plants viz Rasayani (Maharashtra), Udyogamandal (Kerala) & Bathinda (Punjab) and Six regional offices viz. Chandigarh, Kolkata, Ahmedabad, Hyderabad, Pune & Coimbatore. It was registered as sick company by the Board for Industrial and Financial Reconstruction (BIFR) in Mar 2004. However, company came out of BIFR in 2005.

It is a sole producer and supplier of Dichloro Diphenyl Trichloroethane (DDT) to GoI for control of vector borne diseases in the country. (supplied to various states as per the directives of Ministry of Health). Its products includes Insecticides, Fungicides, Herbicide, Seeds, Fertilizers, Bio-pesticides, Micro-nutrients

### Parent/Group Support Parent:

100% GoI enterprise – (falls under the administrative control of Ministry of Chemicals & Petrochemicals)

**Director (Marketing) & CMD (Addl. charge):** Shri S.P. Mohanty

### Rating:

[ICRA] BB+(Stable) : BBB Outlook : Stable

Ratings are constrained by the moderate financial risk profile characterised by low profitability, high gearing, tight liquidity and poor debt protection metrics, which has resulted in delays in servicing of loans extended by GoI.

### Competitors:

Barring DDT, the various industry segments that HIL operates in are characterised by high competition with many large and small players. The agrochemicals industry has several MNC and domestic incumbents such as **Monsanto India, Rallis India** etc owing to the low capital intensity of the business. In the Seeds business also there, a large number of PSU and private players such as **KRIBHCO, National Seed Corporation, Neziveedu Seeds** etc.

### Key Performance Indicators:

	UNIT	2018-19	2017-18	Interpretations
<b>Assets Management</b>				
Current Ratio	times	1.13	1.245	Company's ability to pay its bill, higher ratio indicates greater financial strength.
Quick Ratio	times	0.935	1.038	Company's ability to deal with its liability quickly without liquidating its inventory.
Fixed Assets Turnover	times	6.358	6.36	Higher the number, better the company is at employing the assets to generate revenue
Days sales outstanding	days	304.860	318.17	Tells how long it takes a company to collect what its owed
<b>Capital Productivity</b>				
Resource Input		0.784	0.758	Tells the characteristics of the industry and it should be greater than 1
<b>Profitability</b>				
Net Profit Margin	%	0.825	0.855	Tells how much a company earns as a percentage of every sales rupees
Operating Profit Margin	%	-0.047	-1.161	Tells how profitable a company's operating activities are
ROE	%	3.49	3.4	Profit company is generating as a percentage of owner's investment
Return on Asset	%	0.623	0.623	Efficiency of a company for using its assets to generate profit
ROCE	%	4.558	2.456	Higher ROCE implies a more economical use of capital
<b>Financial Leverage</b>				
Debt-Equity Ratio	times	1.526	1.669	Company's borrowings compared to equity, higher D/E ratio shows high leverage to raise capital.
Interest Coverage Ratio	times	0.251	0.258	How many times over the company could make its interest payments from its operating profit. It should be greater than 1.
Debt Service Coverage Ratio	times	0.383	0.258	Measurement of the company's ability to produce enough cash to cover its debt payment. DSCR<1 implies negative cashflow.

Company's ability to pay its bill is quite good but it has huge amount of receivables outstanding which is causing liquidity crunch. Its profitability ratios are not showing good signs as its RoE and other ratios are very less. Its ability to pay its principal repayments and interest payment is very bad.

## **Strengths:**

- **Well diversified product portfolio and geographical presence largely mitigate the risk of underperformance of any particular region or crop**
  - It derives 38% of its sales from DDT, 25% from agrochemicals 23% from fertilisers and 13% from Seeds. It supplies a variety of seeds to a number states as per the action plan of the Ministry and distributes fertilisers (urea, DAP, SSP) manufactured by NFL, RCF, IIFCO etc in some states.
  - The company has a large portfolio of agrochemicals and a fairly well diversified geographical mix, the vulnerability of revenues to a particular region and crop are mitigated.
    - 38% of the revenue coming from the southern region
    - 12% from the eastern region
    - 25% each from the western and northern regions
- **Well established distribution network and brands, which is critical for the success of the business**
  - It has six regional offices and more than 700 dealers/distributors spread across the country and tie ups with more than 30 corporate institutions for the distribution of its products and also has a well established brands which are popular with the farming community
- **Large and valuable land holdings some of which are being monetised**
  - Company owns 58 acres of land located at Sector 20, Udyog Vihar (Gurugram) part of which has been acquired by HUDA and NHAI for construction of roads/flyovers for which the company is awaiting compensation which could generate substantial cash for the company and aid in improving liquidity and financial profile of the company.
  - It has 5.6 acres land at Zakhira, New Delhi and 6.18 acres at Motinagar, New Delhi. The company is working on redevelopment of its land at Zakhira and Moti Nagar in association with NBCC.
- **Financial flexibility owing to 100% GoI enterprise**
  - Since this company being a 100% GoI enterprise, enjoys financial flexibility in terms of availing bank facilities at finer rates.

### Challenges:

- **Delays in servicing of loans extended by Gol owing to lack of sufficient cash generation from operations**
  - It has build-up of large receivables every year owing to delays of several years in the approval of final price as initially Gol releases payment based on provisional price which is generally 25-30% lower than final price.
  - Accordingly, the differential payment based on provisional and final price is released with a lag of 2-3 years by the Ministry of Health & Family Welfare, thereby impacting the liquidity of the company.
  - Owing to the build-up of large receivables in the DDT business leading to lack of sufficient cash generation from operations, the company has been unable to service its obligations on loans extended by Gol. Although, in order to improve its financial position, the company has represented to its parent Ministry to waive off the Gol loan overdues.
- **Long Term Loans & Advances:** No provision has been made for loans and advances recoverable outstanding for more than three years amounting to Rs. 361.64 lakhs (previous year Rs.296.06 lakhs).
- **Trade Receivables:** No provision has not been made for Sundry Debtors outstanding for more than three years amounting to Rs.7819.86 lacs (previous year Rs.5101.63 lacs).
- The Company has neither availed any loan nor borrowing from financial institutions nor has issued any debenture. However, the company has defaulted in the repayment of term loans to government as detailed hereunder:

Year since which the default persisted	Amount of default (In Rs. Lakhs)
2011-12	499
2012-13	499
2013-14	580
2014-15	580
2015-16	562
2016-17	382
2017-18	382
2018-19	300
Total	3784

- **Inventories:** Inventory of Stores and Spares, Raw materials and packing materials worth Rs. 517.49 lakhs (previous year Rs. 521.13 lakhs) have not moved for more than three years. A provision of Rs.252.21 lakhs has been made against it but no provision has been made for the balance amount, as the same are considered serviceable / usable by the Management.
- **HIL faces competition from both organised as well as unorganised players as it operates in a fragmented and competitive industry**

- **Revenues are vulnerable to agro climatic risks and availability of Raw Material**
  - HIL business remains exposed to agro climatic risks. Adverse agro-climatic conditions can impact the overall demand for agrochemicals, seeds and fertilisers.
  - The total production achieved was 8931MT/KL during the financial year 2018-19 as against 10204 MT/KL during the financial year 2017-18. This shortfall of 1273 MT/KL was due to non-availability of input raw material which was mostly imported from China that attributed to some pollution issues in China. The Government of China had shut down the industries of specialty and intermediate chemicals with effects from Feb-2018, which resulted in either reduction of availability of raw material or availability of said raw material at much higher price which had lead to lower production.
  - Lack of awareness on cost benefit ratio for use of pesticides among farmers is a matter of concern. Apart from above, fluctuation in prices of crude oil, currency fluctuation, negative propaganda against pesticides in general are also areas of concern.
- **Moderate financial risk profile characterised by low profitability, high gearing, tight liquidity and poor debt protection metrics**
  - Net revenue from operation was Rs. 450.75 Crore (Previous year Rs. 404.59 Crore) and recorded a growth of 11.4%. It's revenue growth has been driven primarily by rising exports, and to some extent by improving price realizations.
  - The net profit of the company was Rs 3.62.0 crore in FY2019 as compared to Rs 3.41 crore in FY2018. Owing to moderate profitability and increase in debt over the years, the debt metrics remain subdued.
  - Company achieved a gross revenue from operations of Rs 490.19 Cr. during the financial year 2018-19 as against Rs 439.06 Cr. of last financial year 2017-18.
  - EBITDA of Rs. 29.15 Cr as against Rs. 26.47 Cr. of last year registering a growth of 12%.
  - Net worth of the Company has also increased to Rs. 103.85 Cr. as on 31.03.2019 against Rs 100.22 Cr. as on 31.03.2018.
  - Sales performance: the company achieved gross turnover of Rs. 478.24 Crore registering a growth of almost 11% over previous year.

Description	2018-19 (In crore)	2017-18 (In crore)
Sales (Gross)	478.24	432.66
Less: Statutory Levies	39.44	34.47
Net Sales	438.79	398.19
Other Operating Revenue	11.96	6.4
Revenue from operation (gross)	490.2	439.06
Revenue from Operation (net)	450.75	404.59
Gross Profit(EBITDA)	29.15	26.47
Less: Depreciation	6.01	5.6
Interest	18.49	16.58
Profit before tax	4.65	4.29
Income Tax	1.03	0.88
Less : Dividend paid	- -	
Less: Dividend Distribution Tax	- -	
Net Profit for the year	3.62	3.41
Add: Brought forward Profit	8.89	5.48
Profit carried forward	12.51	8.89
Net Worth	103.85	100.22

- **Moderate capex plans exposing HIL to execution risks**

- The company is setting up a plant to produce Long Lasting Insecticide Net (LLIN). LLIN are procured by several state governments to control vector borne diseases. The capacity of the plant is 50 lakh net/annum and the capex incurred is Rs 18 crore of which Rs 14 crore is being given as grant by United Nation Industrial Development Organisation (UNIDO) (HIL has already received Rs 4.5 crore grant in YTD FY2019) and the balance is being funded from internal accruals. Besides the LLIN plant, the company has been allotted 18 acres of land in Odisha on lease for 99 years for setting up an agrochemical plant. However, this capex is contingent on monetization of some of its land holdings.

- **Liquidity Position**

- HIL's liquidity position is expected to remain tight, however release of outstanding receivables from GoI, receipt of compensation from NHAI and HUDA, and monetisation of Zakhira land are expected to provide support to liquidity. HIL does not have any committed repayment of long-term debt except for loans from GoI, which are expected to be waived off.



## Export Business:

### Financial Year 2017-18(Export)

Product	Qty.(kg)	Country to Export	Value(\$)
DDT 75% WP	3,24,902	Zimbabwe	34,11,471
DDT 75% WP	10,000	Botswana	100,000
Malathion Tech95%Min.	16,000	Philippines	56,000
Mancozeb 80% WP	12,000	Costa Rica	32,400
Mancozeb 80% WP	20,000	Tanzania	51,000
Mancozeb 80% WP	12,000	Peru	31,800
DDT 75% WP	37,000	South Africa	370,000
Mancozeb 80% WP	12,000	Peru	31,200
Mancozeb 80% WP	15,000	Singapore	37,500
Malathion 50% EC	4,556	Myanmar	16,401
Mancozeb 80% WP	12,000	Peru	31,200
DDT 75% WP	67,000	Namibia	7,03,500
Mancozeb 80% WP	12,000	Peru	31,200
<b>Total</b>	<b>554458</b>		<b>49,03,672</b>

### Financial Year 2018-19 (Export)

Product	Qty.(kg)	Country to Export	Value(\$)
Malathion Tech95%Min.	20,000	South Africa (De Export)	62714
Mancozeb 80% WP	6,000	Peru	15,600
Malathion Tech95%Min.	20,000	South Africa (De Export)	61428
Malathion Tech95%Min.	20,000	Philippines (De Export)	66197
Malathion Tech95%Min.	2,000	South Africa (De Export)	6805
Mancozeb 80% WP	10,000	Peru	25000
Malathion Tech.95% Min	20,000	Iran(De Export)	70000
DDT 75% WP	48,000	South Africa	504000
DDT 75% WP	80,000	Zambia	840000
<b>Total</b>	<b>68,000</b>		<b>16,51,744</b>

- HIL is the largest manufacturer of DDT 75% WP in the world. The Company, through a reputed GLP lab, generated the technical data for two important technical grades of pesticides namely Malathion 95% Technical and Mancozeb 80% WP so that the Company can directly register these chemicals with the importing countries. DDT 75% WP conforms to WHO specifications WHO/SIF/1.R9 and is being exported to number of African and other countries having registered themselves with the Stockholm Convention on POP's.

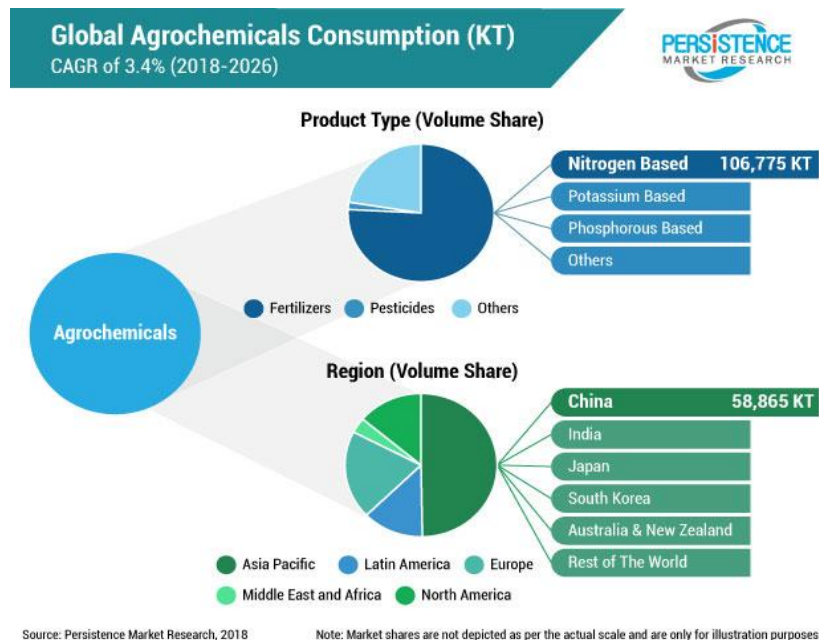
#### **Other products of high quality for export are: -**

Mancozeb 80% WP, Dicofol (Tech.)88%- 94% purity, CPP (T) 94% purity, Imidacloprid (T) 95% purity, Imidacloprid 17.8% SL, Buprofezin (T) 96% purity, Malathion (T) 96% purity, Malathion 50% EC and 57% EC

- Products manufactured by HIL are being exported to several African, South American, European, CIS and Asian countries. The volume exports has been decreased due to unavailability of raw material from China but this business has huge market potential.
- It's **Seed business** has flourished and registered a significant growth of 24% in the turnover. This has been possible because of expanding the seed sales to North Eastern States mainly West Bengal and Assam. It has a huge market potential for the nations whose dominant occupation agriculture.
- Indian seeds Industry is one of the most mature and vibrant one in the world currently occupying the 5th position with turnover of nearly US\$ 4.1 Billion in 2018 exhibiting a CAGR of 15.7% during 2011-2018. Owing to various factors like growth-inducing forces, such as growth in income levels, commercialization of agriculture, patent protection systems and intellectual rights over plant varieties, the Indian seeds market is further expected to grow at a CAGR of 13.6% during 2019-2024, reaching a value of US\$ 9.1 Billion by 2024
- Also in **Fertilizer segment**, company did business of Rs. 131 Cr registering growth of 30% in turnover against financial year 2017-18, despite facing several challenges in the fertilizer industry during the financial year 2018-19.
- The Company considering market demand and subsequently to penetrate the market, sold the traded products and also received very good response from fields.
- The Company is also exploring the possibilities of process modification for getting higher yield with lower input cost and working vigorously to achieve higher productivity through increased capacity utilisation in near future.

## Growth Potential:

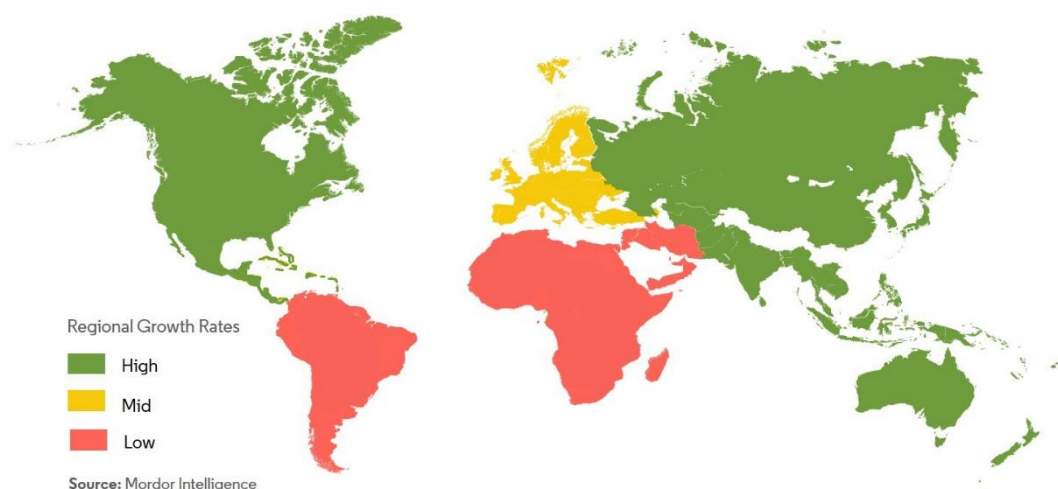
- Agro-chemicals Business:



Global agrochemicals market is expected to grow at a CAGR of 3.4% during 2018-2026. Agrochemicals are used in agricultural applications to facilitate plant growth and protection. Population growth along with high demand of food products is a major driver of agrochemicals market. Additionally, high demand of nitrogen fertilizers as well as rising concerns of food protection from various external barriers has been motivating the agrochemicals market. Rising demand of agro-chemicals in developing countries such as Africa, India and Brazil are expected to drive the market growth in future.

- Seed Business:

Seed Industry - Global Trends, Market Advancements and Forecasts to 2024- Growth Rate by Region (2019-2024)



North America is the largest commercial seeds market, accounting for more than 35% of the market share.



Study Period: 2015-2024

Base Year: 2018

Fastest Growing Market: Asia Pacific

Largest Market: North America

CAGR: 7.9%

Key Players:

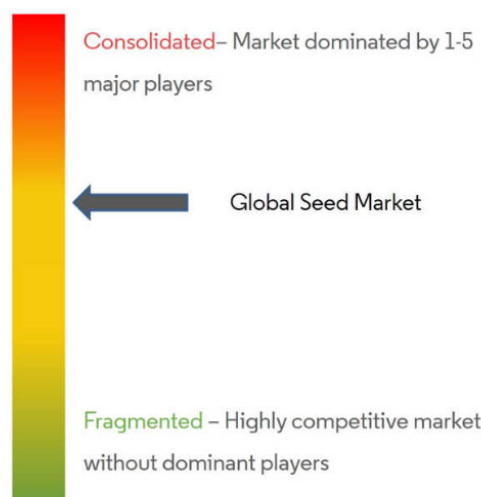


## Major Players

- 1 Monsanto
- 2 Vilmorin & Cie (Groupe Limagrain)
- 3 Syngenta International AG
- 4 DowDupont Inc.
- 5 Bayer Crop Science

\* Complete list of players covered available in the table of contents below

## Market Concentration



The seeds market is valued at USD 59.71 billion in 2018 and is expected to register USD 90.37 billion in 2024 witnessing a CAGR of 7.9% during the forecast period 2019-2024. In 2018, North America was the largest geographical segment of the market studied and accounted for a share of around 35% of the market.

### **Future Plan of Action of the Company:**

- Developed cost effective route of synthesis for Monocrotophos Formulation by in-house R&D and the same is being implemented.
- Studies have initiated to Developed cost effective route of synthesis for Chlorpyriphos and Imidachloprid Technical.
- Developing new molecule for alternate to DDT, Pilot scale studies have been initiated and, Application filed for patent.
- Continuing the study for replacing new solvents, fillers, emulsifiers and other Raw materials used in various agro formulations, which are eco-friendly and cost effective in order to make the products competitive in the market.
- To achieve Zero Discharge in the Effluent Treatment Process.
- To Reduction of energy consumption by replacing LED lights, Solar Power Plants, Rain Water Harvesting and reducing Oxygen content in flue gas.

### **Recommendations:**

- Since there is a huge potential in agro-chemical business and seed market and also the demand will flourish in the near future, therefore the company needs to expands its market share by leveraging its brand value and the support of the government.

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