

Press Release

Nova Agritech Limited

March 30, 2022

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	35.87	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	35.87	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BBB-**' (read as ACUITE triple B 'Minus') on the 35.87 Cr bank facilities of Nova Agritech Limited (NATL). The outlook is '**Stable**'.

The ratings assigned favourably factors in the group's established position in the fertilisers and micronutrient premixes industry, extensive experience of the promoters, wide product portfolio and distribution network along with geographical presence in the domestic market, longstanding relation with its stake holders and positive industry outlook for the fertilisers sector. The ratings are constrained by high working capital intensity of the business and intense competition in the industry, exposure to risks related to regulated nature of the fertilizer industry in India and to volatility in raw material prices and agro-climatic risks.

About the Company

Incorporated in 2007, Hyderabad-based NATL is primarily into manufacturing and marketing of bio fertilisers, bio-pesticides, organic fertilisers, micro and macronutrients. The promoter - Mr Yeluri Sambasiva Rao, currently a Member of Legislative Assembly from the Parchur Assembly constituency in the Prakasam district of Andhra Pradesh.

About the group

Nova agri sciences private limited (NASPL) is being 100 percent held by NATL and is engaged in manufacturing of pesticides.. The group provides a one-stop solution for Crop protection and Crop Nutrients. It is present mostly in formulations which is in form of liquids, powder and granules with installed capacity of manufacturing 2,000 Kilo litres of liquid, 1,700 MT of powder and 5,500 MT of granules.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

For arriving at the ratings, ACUITE has consolidated the business and financial risk profiles of Nova agri tech limited (NATL) and Nova Agri Science Pvt Ltd (NASPL); these companies are together referred to as the "Nova group". This is because both the companies have the

same marketing team, a common management, operational and financial linkages and cross-corporate guarantees

Key Rating Drivers

Strengths

- **Established track record of operations in Agriculture manufacturing industry. Extensive Experience of the promoters of more than 2 decades.**

The Group is engaged in the manufacturing of bio fertilisers, bio pesticides, and micro and macro nutrients. The group is promoted by Mr.Y Sambasiva Rao Yeluri, Mr. Malathi and others who have more than two decades of experience in the agricultural industry. The top management is ably supported by a well-qualified and experienced team of second line of management. The company has integrated operations across the India. The group sells to dealers mostly, and also directly to the farmers. The group enjoys longstanding relationship with its customers and suppliers. This resulted in healthy growth in revenues; it reported revenue of Rs.190.34 Cr in FY2021, as against Rs.144.03 Cr in FY2020; backed by repeat orders from the customers and higher sales by selling multiple variety of products. The group operates at moderate yet growing profitability margins marked by operating margin (EBITDA) of 10.32 percent in FY2021 which has improved in comparison with the previous year. Over the years, Nova group has developed a positive brand value in mindset of the stakeholders such as customers and creditors and is among the top renowned brand in the southern region of India under bio fertilisers, bio pesticides manufacturing segment. Acuité believes that the group will continue to derive benefit from its promoter's experience, its established presence and increasing scale of operations providing healthy revenue visibility in medium term

- **Moderate debt protection metrics and capital structure**

NOVA'S Group's financial risk profile is moderate, marked by a moderate Net worth and gearing along with moderate debt protection metrics. The operating income of the group stood at Rs. 190.34 Cr in FY2021 from Rs. 144.03 cr in FY2020 and Rs. 131.49 cr in FY2019. Operating profitability i.e. EBITDA margin has seen increased trend from 14.81percent in FY2020 to 19.64percent in FY2021. Net Profit margin has been increased to 3.73 percent in FY2021. The improvement is attributable to decrease in raw material cost and selling multiple variety of products and new products of high margin. The group's net worth stood at Rs. 36.74 cr as on March 31, 2021 as against Rs. 29.63 cr as on March 31, 2020, marked by moderate profitability. Gearing levels (debt-to-equity) stood at 1.33 times as on March 31, 2021 as against 1.55 times as on March 31, 2020. Further, the interest coverage ratio stood at 2.57 times for FY2021. Total outside liabilities to total net worth (TOL/TNW) stood at 3.27 times as on FY2021 vis-à-vis 3.74 times as on FY2020. Acuité expects the financial risk profile to remain moderate over the medium to long term period on account of moderate capital structure and stable operations of the group.

- **Wide product portfolio, Strong marketing team and widespread Geographical presence**

The group's key strength is marketing product at various levels with its marketing team through Kisan Sevaks (employeeed on seasonal basis), Nova Kisan Seva Kendra (interacting with farmers on daily basis) and Kisan Mitra (Qualified Agri Graduates from various universities PAN India). Agrochemical industry is highly regulated as the companies have to obtain license for each product for manufacturing and marketing under FCO without which they cannot initiate business in each state. The group has widespread presence by operating in 13 states until FY2021 and has recently added 2 more states of Uttarakhand and Jharkhand; licensing for other 7 states are in pipeline. Licensing process typically takes 6 months to 1 year of time. The group is in process of reaching export markets too i.e. in Nepal, Srilanka and Ethiopia. The group has presence in almost all predominant states and planning to expand further in states of Haryana, Punjab and Kerala. The group has a wide product range with 291 products in agriscience

and 100 plus agri products serving to more than 16 lakh plus of farmers through Nova Kisan Seva Kendra (NKSK) app and its agri-clinic. The group has almost 372 registrations of different molecules. Acuité believes that the aforementioned factors will continue to aid the group's business risk profile over the medium term.

- **Favourable long-term demand outlook for fertilisers in India due to scarcity of nutrients in the soil**

Indian soil remains deficient in nutrient content which has resulted in lower agri-productivity. With increasing population, the demand for food will increase which will make productivity improvement imperative for the agri sector. Thus, the demand outlook for fertilisers remains positive in India.

Weaknesses

- **Working capital operations marked by moderate GCA days**

The working capital management of group remained high with Gross Current Assets (GCA) days at 266 days as on March 31, 2021 as against 311 days as on March 31, 2020. The decrease in GCA days is on account of decrease in debtor days from 208 days as on March 31, 2020 to 187 days as on March 31, 2021. The inventory days improved to 76 days as on March 31, 2021 as against 105 days as on March 31, 2020. With the stretch in debtor days it has also shown impact on creditor days which decreased to 155 days as on March 31, 2021 from 214 days as on March 31, 2020. Since, Group's working capital cycle is different from other industries as commonly known they have two seasons namely kharif and rabi and these vary with state in which they operate. Usually Kharif starts from June to October and Rabi starts from October to March (also these vary from state to state). Their collection in advance will be 5 percent, during season will be 15-20 percent and after season within 3 months will be 65-75 percent. They extend standard credit period of 90 days for dealers. Acuité believes that the operations of the group will remain working capital intensive on account of nature of the agriculture industry.

- **Highlyregulated industry with stiff competition keeps margins in check**

The agrochemical industry is highly fragmented with presence of a large number of organised and unorganised players, which limits its pricing flexibility and bargaining power and exerts pressure on its margins. The industry is regulated by the Ministry of Chemicals and Fertilisers and all the products have to go under a mandatory inspection before being available in the open market. Moreover, every new product launched should be registered, which is a long-drawn process that spans over several months / years.

Rating Sensitivities

Positive

- Higher-than-expected Improvement in the scale of operations and profitability as envisaged.
- Sustainable improvement in Leverage and Solvency position of the group.
- Sustainable improvement in Gross current assets (GCA) days.

Negative

- Any deterioration in working capital cycle and liquidity profile of the group.
- Any deterioration in Revenue profile and leverage position of the group. Anyweakening of financial risk profile of the group.

Material Covenants

None

Liquidity Position: Adequate

The group has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs. 9.23 cr for FY2021 as against Rs. 6.19 cr of repayment obligations for the same period. The group maintains unencumbered cash and

bank balances of Rs. 0.31 crore as on 31st March 2021. The current ratio of the group stood moderate at 1.41 times as on March 31, 2021. The group has an average bank limit utilization of around at 95 percent during the last 12 months period ended December 2021. Acuité believes that the liquidity of the group to remain healthy on account of stable scale of operations and healthy capital structure.

Outlook: Stable

Acuité believes that Nova Group's rating will maintain a 'Stable' outlook over the medium term on account of long track record of operations, experienced management in the industry. The outlook may be revised to 'Positive' if the group registers sustainable improvement in sales volumes and improvement in realizations of the products offered leading to higher-than expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case Nova Group registers lower-than expected revenues and profitability or any significant stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	190.34	144.03
PAT	Rs. Cr.	7.09	3.87
PAT Margin	(%)	3.73	2.69
Total Debt/Tangible Net Worth	Times	1.43	1.61
PBDIT/Interest	Times	2.57	2.30

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.63	ACUITE BBB- Stable Assigned
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	23.37	ACUITE BBB- Stable Assigned
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	7.87	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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