



Press Release
Nova Agritech Limited
May 24, 2023
Rating Reaffirmed

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

Rating Rationale

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

Rationale for the rating

The rating takes into account the stable operating performance and moderate financial profile of group . The group revenue stood at Rs.221.64 Cr in FY2022 as against Rs. 136.09 Cr in FY2020. In 6MFY23 the operating income stood at Rs. 94.36 Cr and is expected to generate Rs. 220-222 Cr by year end. The operating margins ranged between 10.14-12.79 percent for the last three years ended FY2022. The financial risk profile of group continues to be moderate with debt protection metrics and moderate gearing. The overall gearing of the Company stood at 1.51 times as on March 31, 2022 as against 1.80 times as on March 31, 2021. The interest coverage ratio stood at 3.94 times in FY2022 as against 2.46 times in FY2021. The rating, however, remain constrained on account of intensive working capital cycle.

About Company

Incorporated in 2007, Nova Agri Tech Limited (NATL) is primarily into manufacturing and marketing of bio fertilisers, bio-pesticides, organic fertilisers, micro and macronutrients. The manufacturing unit is located in Hyderabad (Telangana). NATL is promoted by Mr. Y Sambasiva Rao Yeluri, Mr. Y Malathi and others, who have more than two decades of experience in the agricultural industry. The company has integrated operations across the India. NATL sells to dealers, and also directly to the farmers. 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.

About the Group

Incorporated in 2010, NASPL manufactures pesticides. Promoted by Mr Mohammed Ali and Mr Yeluri Sambasiva Rao, the company operates from its unit at Singannaguda in Medak district of Telangana. The group provides a one stop solution for Crop protection and Crop Nutrients. It is present mostly in formulations part which is in form of liquids, powder and 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 operates at moderate yet growing profitability margins marked by operating margin (EBITDA) of 12.79 percent in FY2022 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 financial risk profile**

The Group's financial risk profile is moderate, marked by a moderate Net worth and gearing along with comfortable debt protection metrics. The Group has moderate financial risk profile marked by moderate net worth, and debt protection metrics. The group's net worth stood at Rs. 42.52 Cr as on March 31, 2022 as against Rs. 28.36 Cr as on March 31, 2021. Gearing levels (debt-to-equity) stood at 1.51 times as on March 31, 2022 as against 1.80 times as on March 31, 2021. The debt protection metrics was comfortable as observed from Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) which stood at 3.94 times and 2.13 times as on March 31, 2022 as against 2.46 times and 1.69 times as on March 31, 2021, respectively. Total outside liabilities to total net worth (TOL/TNW) stood at 3.11 times as on FY2022 vis-à-vis 4.09 times as on FY2021. 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 (employed 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 16 states until FY2023 namely Andhra Pradesh, Telangana, Maharashtra, Karnataka, Madhya Pradesh, Rajasthan, Chhattisgarh, Tamil Nadu, Uttar Pradesh, Odisha, West Bengal, Bihar, Gujarat, Jharkhand, Uttarakhand and Jammu & Kashmir and 02 in Nepal. Licensing process typically takes 6 months to 1 year of

time. The group has presence in almost all predominant states and planning to expand further in states of Haryana, Punjab and Kerala. As on January 31, 2023, they have received a total of 629 product registrations comprising of 7 registrations in the soil health management category, 168 registrations in the crop nutrition category, 4 registrations in bio pesticide category and 450 registrations in the crop protection category. 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 cycle is elongated due to seasonal nature of the business**

The working capital management of group remained high with Gross Current Assets (GCA) days at 256 days as on March 31, 2022 as against 263 days as on March 31, 2021. The high in GCA days is on account of debtor days. The inventory days improved to 70 days as on March 31, 2022 as against 82 days as on March 31, 2021. With the stretch in debtor days it has also shown impact on creditor days which stood at 121 days as on March 31, 2022 from 143 days as on March 31, 2021. 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.

- **Highly regulated 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.
- Any weakening of financial risk profile of the group.

Material Covenants

None

Liquidity Position: Adequate

The group has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs. 16.30 Cr for FY2022 as against Rs. 3.85 Cr of repayment obligations for the same period and expected to generate cash accruals in the range of Rs.16-18 Cr. against CPLTD of Rs.4 to 5 Cr in FY 2023-2025. The group maintains unencumbered cash and bank balances of Rs. 1.64 Cr as on March 31 2022. The current ratio of the group stood moderate at 1.40 times as on March 31, 2021. The group has an average bank limit utilization of around at 98 percent during the last 12 months period ended April 2023.

Outlook:

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	221.64	176.46
PAT	Rs. Cr.	14.07	6.30
PAT Margin	(%)	6.35	3.57
Total Debt/Tangible Net Worth	Times	1.51	1.80
PBDIT/Interest	Times	3.94	2.46

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

None

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
30 Mar 2022	Cash Credit	Long Term	4.63	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	23.37	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	7.87	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE BBB- Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.87	ACUITE BBB- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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