

Press Release
NOVA AGRITECH LIMITED
August 21, 2024
Rating Upgraded



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

Rating Rationale

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

Rationale for upgrade:

The rating upgrade takes into account the improved operating revenue with healthy margins since the last two years ended in FY2024. The company reported revenue of Rs.252.48 Cr. in FY2024, registering a growth rate of ~19.70 percent against the previous year. Further, the IPO proceeds of Rs. 112.00 crore (includes IPO expenses) have further strengthened the capital structure, aiding in an improved liquidity profile and financial risk profile for the group.

The rating continues to derive strength from the established track record of operations in the agriculture manufacturing industry and the experience of the promoters for more than two decades. Further, it is expected that working capital operations will improve from the current year, i.e., FY2025, on account of IPO proceeds.

The rating, however, remains constrained on account of the intensive working capital cycle and highly regulated industry with stiff competition, which keeps margins in check.

About the Company

Incorporated in 2007, Nova agritech 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 y Mr. Kiran Kumar Atukuri, Ms. Malathi Siripurapui 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.

About the Group

Incorporated in 2010, NASPL manufactures pesticides. Promoted by Mr. Kiran Kumar Atuku, 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.

Unsupported Rating

Not applicable

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 agritech limited (NATL) and Nova Agri Sciences Private Limited (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 and extensive experience of the promoters of more than 2 decades.**

The group is engaged in the manufacturing of biofertilizers, biopesticides, and micro- and macronutrients. 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 management. The company has integrated operations across India. The group sells mostly to dealers and also directly to the farmers. Over the years, Nova Group has developed a positive brand value in mindset of stakeholders such as customers and creditors and is among the top renowned brands in the southern region of India under the biofertilizers and biopesticides manufacturing segment. Acuite believes that the group will continue to derive benefit from its promoter's experience, its established presence, and its increasing scale of operations, providing healthy revenue visibility in the medium term.

- **Improving scale of operations and healthy margins :**

The revenue of the group improved to Rs. 252.48 Cr. in FY2024 as against Rs.210.93 Cr. in FY2023, registering a growth of 19.70 percent y-o-y basis. The continued improvement in revenue is primarily on account of the increase in operations in Nova Agriscience and the improvement in realization in both companies. The operating margins stood healthy, with a range bound of 17.57–18.64 percent for the last two years ended FY2024. Acuite believes the revenue of the group will increase going forward based on the wide product portfolio, widespread geographical presence, and utilization of the IPO proceeds towards the expansion of the existing formulation plant.

- **Healthy financial risk profile**

The financial risk profile of the group is healthy, marked by a healthy net worth, debt protection metrics, and low gearing. The net worth of the group stood at Rs.191.80 Cr. and Rs.62.60 Cr. as on March 31, 2024, and 2023, respectively. The improvement in the net worth is on account of the accretion of profits and the addition of money received against the IPO Rs.100.89 Cr. The gearing of the group has been improving over the last 2 years, ending March 31, 2024, due to the repayment of long-term debt and improved net worth. It stood at 0.32 times as on March 31, 2024, against 1.13 times as on March 31, 2023. Debt protection metrics interest coverage ratio and debt service coverage ratio stood at 4.91 times and 3.02 times as on March 31, 2024, respectively, as against 4.47 times and 2.41 times as on March 31, 2023, respectively. TOL/TNW stood at 0.50 times and 1.79 times as on March 31, 2024, and 2023 respectively. The debt to EBITDA of the group stood at 1.38 times as on March 31, 2024, as against 1.80 times as on March 31, 2023. Acuite expects the financial risk profile to remain healthy over the medium- to long-term period on account of the healthy capital structure and improved operations of the group.

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

presence

The group's key strength is marketing products at various levels with its marketing team through Kisan Sevaks (employed on a seasonal basis), Nova Kisan Seva Kendra (interacting with farmers on a daily basis), and Kisan Mitra (qualified agricultural graduates from various universities in India). The agrochemical industry is highly regulated, as companies have to obtain licenses for each product for manufacturing and marketing under the FCO, without which they cannot initiate business in each state. The group has a widespread presence by operating in 16 states until FY2024, namely Andhra Pradesh, Telangana, Maharashtra, Karnataka, Madhya Pradesh, Rajasthan, Chhattisgarh, Tamil Nadu, Uttar Pradesh, Odisha, West Bengal, Bihar, Gujarat, Jharkhand, Uttarakhand, Jammu & Kashmir, and 02 in Nepal. The licensing process typically takes 6 months to 1 year. The group has a presence in all predominant states and plans to expand further in the states of Haryana, Punjab, and Kerala. 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 agricultural 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

- **Intensive working capital management**

The working capital management of the group is intensive in nature; GCA days stood at 361 days in FY 2024 as against 274 days in FY 2023. However, the increase in GCA days is on account of high cash and bank balances of Rs. 61.44 Cr. in the current account (the unutilized amount of IPO proceeds). It is expected to reduce the current account balance in the next one–two years of time as funds will be utilized as specified in IPO proceeds. Inventory days stood at 87 days in FY2024 as against 89 days in FY2023. Debtor days stood at 178 days in FY2024 as against 183 days in FY2023. Since the 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 the 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 the season will be 15-20 percent, and after the season within 3 months will be 65-75 percent. They extend the standard credit period of 90 days for dealers. Acuité believes that the operations of the group will remain working capital intensive on account of the nature of the agriculture industry.

- **Highly regulated industry with stiff competition keeps margins in check**

The agrochemical industry is highly fragmented with the presence of a large number of organized and unorganized 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 Fertilizers, and all the products have to go through 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 or 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

Liquidity Position: Adequate

The group has generated adequate net cash accruals to service its debt obligations. The net cash accruals of the group stood at Rs.30.27 Cr. in FY2024 as against the repayment of Rs.4.00 Cr. for the same period and are expected to generate cash accruals in the range of Rs.36.50-48.95 Cr. against CPLTD of Rs.2.45- 6.15 Cr. over the medium term. Unencumbered cash and bank balances stood at Rs. 1.40 Cr. as on March 31, 2024. The current ratio of the company stood at 2.82 times as on March 31, 2024. Further, the average bank limit utilization in the last ten months ended June, 24 remained at 97 percent for fund-based. Acuité believes that group liquidity will remain sufficient over the medium term, backed by repayment of its debt obligations and improving accruals.

Outlook: Stable

Acuité believes that Nova Group's rating will maintain a 'Stable' outlook over the medium term on account of its long track record of operations and 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 an 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 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	252.48	210.93
PAT	Rs. Cr.	28.31	20.49
PAT Margin	(%)	11.21	9.71
Total Debt/Tangible Net Worth	Times	0.32	1.13
PBDIT/Interest	Times	4.91	4.47

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

In order to inform the investors about complexity of instruments, Acuité 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
24 May 2023	Term Loan	Long Term	5.87	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE BBB- Stable (Reaffirmed)
30 Mar 2022	Term Loan	Long Term	7.87	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	4.63	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	23.37	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 avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	30.00	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	1.71	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
Union Bank of India	Not avl. / Not appl.	Term Loan	11 Jun 2021	Not avl. / Not appl.	31 May 2025	Simple	2.03	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
Union Bank of India	Not avl. / Not appl.	Term Loan	04 Dec 2021	Not avl. / Not appl.	30 Nov 2026	Simple	2.13	ACUITE BBB Stable Upgraded (from ACUITE BBB-)

***Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)**

Sr.No.	Company Name
1	Nova Agritech Limited
2	Nova Agri Sciences Private Limited

Contacts

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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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