

## Nova Agritech Limited

November 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	36.00	CARE BBB; Positive	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Ratings assigned to bank facilities of Nova Agritech Limited (NAL) derives strength from the company's established track record supported by efficient management team, diversified product portfolio, established distribution network across geographies, improvement in scale of operations and healthy profit margins in FY24 (FY refers to April 01 to March 31), comfortable capital structure and debt coverage indicators and stable industry outlook.

However, the rating is tempered by geographical concentration risk, elongated operating cycle, profitability margins susceptible to raw material price volatility, exposure to competition and susceptibility to changes in regulations and high dependency on vagaries of monsoon and climatic conditions.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- TOI improving above ₹300 crore with a sustainable profitability margin of over 18%.
- Operating cycle improving below 150 days.

#### Negative factors

- Decline in total operating income (TOI) and profit before interest, lease rentals, depreciation, and taxation (PBILDT) levels by over 20% for the projected period.
- Additional term debt resulting in deterioration of the company's capital structure marked by overall gearing above unity.

### Analytical approach: Consolidated

Consolidated financials of Nova Agritech Limited and its subsidiary Nova Agri Sciences Private Limited (NASPL) have been considered to arrive at the rating. NASPL is a wholly owned subsidiary of NAL. Refer Annexure-6

### Outlook: Positive

The 'Positive' outlook on the rating of NAL reflects CARE Ratings Limited's (CARE Ratings) expectation of further improvement in the company's financial profile driven by growing geographical presence and infusion of funds raised through Initial Public Offering (IPO).

### Detailed description of key rating drivers:

#### Key strengths

##### Established track record of the company supported by efficient management team

NAL was established as a private limited company on May 09, 2007, in Hyderabad, Telangana. NAL is led by a management team with extensive experience in the agricultural sector. Kiran Kumar Atukuri, the company's Managing Director and the promoter, has an experience of over 23 years in Agri-chemical companies, seed companies and fertilizer companies. He is responsible for all corporate decisions and is responsible for the company's entire business operations specifically manufacturing and sales operations. Sreekanth Yenigalla, Whole Time Director, has over a decade of experience in Agricultural industry. His functional responsibility includes developing industry networks for further business development, setting up key processes for scaling up, building business partnerships and collaborations. Nadella Basanth Kumar has 12 years of work experience in the company's R&D and manufacturing operations. His functional responsibility involves handling R&D, manufacturing and regulatory affairs activity of the company. NAL's management team consists of a mix of individuals with professional, technical and commercial experience in the agricultural industry.

##### Diversified product portfolio

The company has a diversified branded product portfolio, offering a wide range of products to meet agricultural needs, including soil health management, crop nutrition, and crop protection. Their product categories encompass soil health management items such as organic fertilizers, bio fertilizers, and soil conditioners; crop nutrition products such as micronutrient fertilizers, beneficial element fertilizers, straight nitrogen fertilizers, straight potash fertilizers, and 100% water-soluble NPK fertilizer; and crop protection solutions including insecticides, fungicides, herbicides, and plant growth regulators.

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

### **Established distribution network across geographies**

The company markets, sells, and distributes its extensive range of products to farmers across India through a robust distribution network of dealers across states. Their dealer network includes 6000+ active dealers, who purchased and distributed the company's products in the last financial year. NAL's dealer network spans 16 Indian states. NAL has established marketing, distribution, and supply agreements with third parties in Bangladesh, Sri Lanka, and Vietnam, and is currently awaiting necessary permissions to commence business operations in these regions.

### **Improvement in scale of operations and healthy profit margins**

In five years from FY20 to FY24, NAL has registered a compound annual growth rate (CAGR) of ~13%. In FY24, the company generated a total operating income (TOI) of ₹252.50 crore compared to ₹210.56 crore in FY23, which translated to a growth of ~20%. On a standalone basis, NAL has registered a CAGR of ~12% in the last five years. The company's TOI significantly improved with a revenue of ₹179.84 crore in FY24 against ₹116.75 crore in FY23.

The company's margins have been improving consistently over the years. In FY24, the company's profit after taxes (PAT) margin improved by 148 bps to 11.21% compared to 9.73% in FY23. However, the company's PBILDT margin slightly moderated to 17.56% in FY24 against 18.50% in FY23. The company's margins have improved significantly over the years because of improving scale of operations and reduction in cost of sales. Cost of sales as percentage of the TOI has come down significantly from 90% to 82.45% over the years. The company's selling expenses also came down significantly.

### **Comfortable capital structure and debt coverage indicators**

The company's capital structure consists of term debt, unsecured loans from the promoters and working capital borrowings. The company's overall gearing ratio improved to 0.32x as on March 31, 2024, compared to 1.13x as on March 31, 2023, considering significant increase in net worth. The company's net worth improved to ₹191.80 crore as on March 31, 2024, compared to ₹61.20 crore as on March 31, 2023. The company's interest coverage ratio further improved to 4.91x in FY24. The company's debt equity ratio remains low at 0.07x as on March 31, 2024. Other debt coverage indicator such as Term debt to gross cash accruals (TD/GCA) remains low at 0.54x as on March 31, 2024.

### **Stable industry outlook**

Agriculture serves as the primary livelihood for ~58% of India's population. The sector has consistently grown in the last two years and, as of 2022-23, stands as the largest employer in the workforce, contributing a significant 15.1% to the country's gross value added (GVA). With rising population, demand for food grains in India is expected to increase continuously. To meet this growing domestic demand, food grain production has been steadily rising. According to the Economic Survey 2021-22, the government has implemented several measures to improve the welfare of farmers, including the Minimum Support Price (MSP), agricultural marketing, food management, the food processing sector, and natural farming initiatives.

### **Key weaknesses**

#### **Geographical concentration risk**

The company has presence in almost 16 India states; however, the company's sales is mostly concentrated in Telangana. In FY24, ~98% revenue came from Telangana and only 2% came from other states. In H1FY25, ~93% revenue came from Telangana and remaining from other states. However, the company is taking steps to decrease their dependence on single state by diversifying in other states and geographies.

#### **Elongated operating cycle**

The company's operating cycle has elongated to 203 days in FY24 against 194 days in FY23, mainly considering decrease in creditor periods to 46 days in FY24 against 63 days in FY23. The company's collection period remains high at 163 days in FY24 as the agriculture sector is highly seasonal. Cash flow peaks in the harvest period and is significantly lower in off season. Farmers typically make payments after the harvesting season. NAL also extends better credit terms to farmers due to financial constraints. The collection period is also high because of multiple intermediaries as each intermediary delay payments further increasing collection period. Average inventory days remained stable in FY24 at 86 days. NAL operates in a working capital intensive business as a result their maximum utilisation in 12 month ended September 2024, remains high at 97.07%.

#### **Profitability margins susceptible to raw material price volatility**

Crop nutrition and crop protection industries are highly vulnerable to fluctuations in commodity prices, posing a significant challenge for companies in these sectors. Such volatility affects their profitability and planning capabilities. Prices of raw materials used in fertilizers, such as potash, nitrogen, and phosphate, can fluctuate due to factors such as global supply and demand, geopolitical tensions, and energy costs. When prices of these raw materials rise, companies have to either absorb increased costs or pass cost on to farmers. Absorbing increased cost can stress the company's margins, which can result in lower sales, if farmers seek alternative solutions.

#### **Exposure to competition and susceptibility to changes in regulations**

Domestic agrochemical industry has many unorganised players with regional presence. NAL faces intense competition from organised and unorganised players in the domestic market. Domestic agrochemicals sector depends on monsoon and the level of

farm income. The sector's fortunes are, therefore, linked to quantum, timing, and distribution of rainfall in a year, exposing players' revenue to seasonal trends. Surplus, or inadequate rainfall could hit player profitability, and lead to build-up in working capital requirement. NAL's business performance, like that of other agrochemical manufacturers, may also be impacted by changes in regulatory requirements, such as export and import policies, registration policies, and product and environment safety requirements in India and abroad.

### High dependency on vagaries of monsoon and climatic conditions

In India, agriculture largely relies on monsoon rains for water. Fertilizers and pesticides are most effective when crops are well-irrigated. Demand for these products fluctuates based on monsoon (weak, delayed, excessive). Poor rainfall leads to slowdown in agricultural activities leading to reduced demand for agrochemical products.

### Liquidity: Adequate

Adequate liquidity is marked by adequate GCA of ₹26.29 crore against repayment obligations of ₹6 crore and liquid investments to the tune of ₹85.46 crore as on March 31, 2024. The company's overall gearing improved to 0.32x as on March 31, 2024, against 1.13x as on March 31, 2023. Working capital utilisation of the company's fund-based limit remains high at ~97% for 12-months ended September 2024.

**Assumptions/Covenants:** Not applicable

### Environment, social, and governance (ESG) risks

Parameters	Risk factors
Environmental	The company has installed solar panels at manufacturing facility with a capacity of ~130 KW. These solar panels allow the company to generate electricity that is required for manufacturing process and minimising electricity costs and also contributes towards reducing carbon footprint. They have also built rainwater harvesting pits for conserving rainwater and most of their water needs for manufacturing is met from such rainwater harvesting mechanism. They generate minimal amounts of effluents from their manufacturing process, which are segregated separately to keep water resources safe, clean and hygienic.
Social	NAL ensures safe working condition in manufacturing facility and handling chemicals. They also offer training programs to improve employee skills. As part of the CSR initiative policy, in FY22, to support families affected by COVID19 pandemic, NAL distributed food grains in Prakasham and Krishna districts in Andhra Pradesh and Khammam District in Telangana. In FY23, NAL organised free eye-camps in collaboration with Shankar Netralaya in Prakasham and Guntur, Andhra Pradesh. Beneficiaries of eye-camps were provided with a check-up and facilitated with surgeries, through Shankar Netralaya.
Governance	NAL is led by a management team with extensive experience in the agricultural sector. The management team consists of a mix of individuals with professional, technical, and commercial experience in the agricultural industry. The team is well-qualified and experienced in industry and has been responsible for growth of our operations. The team comprises personnel having technical, operational, and business development experience. NAL has also employed suitable technical and support staff to manage key areas of activities allied to operations.

### Applicable criteria

[Consolidation](#)

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Fertilizer](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Pesticides & Agrochemicals](#)

### About the company and industry

#### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Chemicals	Fertilizers & agrochemicals	Pesticides & agrochemicals

NAL was established as a private limited company on May 09, 2007, in Hyderabad, Telangana. NAL specialises in manufacturing agricultural inputs, offering a diverse range of products for soil health management, crop nutrition, and crop protection. Their

product portfolio includes soil health management products, crop nutrition products, bio stimulants, bio pesticides, integrated pest management (IPM) products, and crop protection products. NAL operates through an extensive dealer network across multiple states in India such as Andhra Pradesh, Telangana, Maharashtra, Karnataka, Madhya Pradesh, Rajasthan, Chhattisgarh, Tamil Nadu, Uttar Pradesh, Odisha, West Bengal, Bihar, Gujarat, Jharkhand, Uttarakhand, and Jammu & Kashmir, and Nepal. The company has established marketing, distribution, and supply agreements with third parties in Bangladesh, Sri Lanka, and Vietnam, pending regulatory approvals to commence operations in these regions. Crop protection products are manufactured by their subsidiary, NASPL. The company's shares were listed on Bombay Stock Exchange (BSE), and National Stock Exchange (NSE) on January 31, 2024.

Brief Financials Consolidated (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	210.56	252.50	41.91
PBILDT	38.95	44.34	5.89
PAT	20.49	28.31	4.28
Overall gearing (times)	1.13	0.32	NA
Interest coverage (times)	4.43	4.91	4.66

A: Audited UA: Unaudited NA: Not Available; Note: these are latest available financial results

Brief Financials Standalone (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	116.75	179.84	33.14
PBILDT	20.28	27.65	2.90
PAT	8.42	18.60	2.25
Overall gearing (times)	1.16	0.25	NA
Interest coverage (times)	2.74	4.33	3.22

A: Audited UA: Unaudited NA: Not Available; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	31.84	CARE BBB; Positive
Fund-based - LT-Term Loan		-	-	November 2026	4.16	CARE BBB; Positive

**Annexure-2: Rating history for last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	31.84	CARE BBB; Positive				
2	Fund-based - LT-Term Loan	LT	4.16	CARE BBB; Positive				

LT: Long term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

**Annexure-5: Lender details**To view lender-wise details of bank facilities please [click here](#)**Annexure-6: List of entities consolidated**

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Nova Agri Sciences Private Limited	Full	NAL owns 100% stake in NASPL

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

## Contact us

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### About us:

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