

# Nova AgriTech Ltd

**Transforming agriculture through innovation.**



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Nova AgriTech Limited (NATL) is a leading agri-input manufacturer, specializing in soil health management, crop nutrition, and crop protection products. With a focus on technology-driven solutions, the company emphasizes ecologically sustainable and nutritionally balanced products developed through extensive research and development.

As of November 30, 2023, NATL boasts a robust product portfolio with 720 registrations across categories, including soil health management, crop nutrition, bio pesticides, and crop protection. The subsidiary, Nova Agri Sciences Private Limited (NASPL), handles the manufacturing of crop protection products, contributing significantly to the company's revenue.

NATL operates an extensive dealer network of approximately 11,722 dealers spread across 16 states in India and two in Nepal. The company has also expanded its reach to Bangladesh, Sri Lanka, and Vietnam through strategic marketing, distribution, and supply agreements.

The three southern states of Andhra Pradesh, Karnataka, and Telangana play a pivotal role in NATL's revenue generation. The company envisions further growth by importing and distributing 'Technicals', as evident from its agreements with Taiwanese and Chinese entities for Butachlor 85% Tech and Emamectin Benzoate Technical 95%, respectively.

The Nova Kisan Seva Kendra program (NKSK) demonstrates NATL's commitment to farmer outreach. The program, comprising 24 agri-graduate coordinators and numerous Kisan Mitras and Kisan Sevaks, aims to educate farmers on crop management practices. NKSK leverages IOT-based solutions like the "NOVA BHUPARIKSHAK" soil health scanning device and "NOVA AGRIBOT" drones for precise farming inputs.

NATL prioritizes research and development, maintaining an in-house R&D facility and collaborating with universities. With a dedicated incubation center on 67.13 acres of leased land in Valaparla Village, Andhra Pradesh, the company tests product efficacy on various crops, fostering continuous innovation.

### Key Financial Data (INR Cr, unless specified)

|      | Revenue | EBITDA | PAT  | EBITDA (%) | PAT (%) | Adj EPS (INR) | BVPS (INR) | RoE (%) | RoIC (%) | P/E (X) | EV/Sales (X) | EV/EBITDA (X) |
|------|---------|--------|------|------------|---------|---------------|------------|---------|----------|---------|--------------|---------------|
| FY21 | 160.6   | 18.2   | 6.3  | 11.3       | 3.9     | 0.7           | 3.2        | 21.4    | 20.0     | 60.2    | 2.7          | 23.7          |
| FY22 | 185.6   | 27.9   | 13.7 | 15.0       | 7.4     | 1.5           | 4.7        | 31.7    | 24.2     | 27.7    | 2.4          | 15.9          |
| FY23 | 210.6   | 38.9   | 20.5 | 18.5       | 9.7     | 2.2           | 6.9        | 32.1    | 27.8     | 18.5    | 2.1          | 11.5          |

**Industry** Fertilizers & Agrochemicals

### Issue Details

|             |                           |
|-------------|---------------------------|
| Listing     | BSE & NSE                 |
| Open Date   | 22 <sup>nd</sup> Jan 2024 |
| Close Date  | 24 <sup>th</sup> Jan 2024 |
| Price Band  | INR 39-41                 |
| Face Value  | INR 02                    |
| Market Lot  | 365 shares                |
| Minimum Lot | 1 Lot                     |

### Issue Structure

|                     |             |
|---------------------|-------------|
| Offer for Sale      | 22.2%       |
| Fresh Issue         | 77.8%       |
| Issue Size (Amt)    | INR 144 cr  |
| Issue Size (Shares) | 35,075,693  |
| QIB Share (%)       | ≤ 50%       |
| Non-Inst Share (%)  | ≥ 15%       |
| Retail Share (%)    | ≥ 35%       |
| Pre issue sh (nos)  | 6,52,02,740 |
| Post issue sh (nos) | 9,25,19,813 |
| Post issue M Cap    | INR 379 cr  |

| Shareholding (%) | Pre (%)       | Post (%)      |
|------------------|---------------|---------------|
| Promoter & group | 84.27         | 59.39         |
| Public           | 15.73         | 40.61         |
| <b>TOTAL</b>     | <b>100.00</b> | <b>100.00</b> |

## Growth Strategies

### **Enhance product portfolio by expanding manufacturing capacities and increasing competencies.**

NATL plans to invest in NASPL for a new formulation plant and expand its existing facility in Telangana. The expansion aims to enhance manufacturing capabilities, introducing new formulation types and increasing product range. With a focus on biological pesticides and organic fertilizers, the company aims to meet the evolving needs of the agriculture sector. The company's strategic expansion aligns with its goal of offering a diverse range of high-margin, patented formulations, providing comprehensive solutions for crop protection, nutrition, and soil health management.

### **Continued focus on product registrations for domestic and international market expansion.**

NATL emphasizes regulatory compliance for agri inputs and mitigates sector-related risks by diversifying across states. The company plans to invest in obtaining registrations and licenses, expanding its presence in domestic and international markets. Focused on innovation, NATL aims to continuously develop and register new formulations through its R&D process. As of November 30, 2023, it has received 720 product registrations, with ongoing efforts to secure additional registrations and leverage process automation for improved products and services. It intends to apply for DSIR certification to enhance collaboration with universities and capitalize on government research projects in the evolving agricultural sector.

### **To deepen farmer interface by providing holistic solutions and improve operational parameters.**

NATL plans to enhance farmer engagement by offering a comprehensive crop advisory platform, focusing on educating them about evolving trends and new agricultural methods. The company aims to introduce a subscription model, encouraging farmers to use modern technologies like Agribot and Bhuparikshak at minimized rates. This strategy aims to foster end-user loyalty, making the subscription-based model economically viable for farmers and improving scalability and operational efficiency.

### **Augment business through distributorship of Technicals.**

NASPL, a subsidiary, has secured distribution agreements for Butachlor and Emamectin Benzoate Technical. Additionally, the company obtained registration for importing Paraquat Dichloride Technical, contributing to weed control and soil preservation. These strategic partnerships and registrations align with NATL's commitment to advancing agricultural practices in India.

## Key Risks & Concerns

- NATL faces vulnerability to climatic conditions, including adverse weather patterns and seasonal variations, which significantly impact its business and financial outcomes. Weather-related factors, such as droughts and heavy rains, can influence demand for crop protection products and lead to fluctuations in sales. Despite experiencing sales reductions during specific periods, such as FY21 and FY23, due to adverse weather in certain regions. Inherent variability in quarterly sales poses challenges in relying on them as consistent indicators of future performance.
- NATL relies on imports from China for crucial raw materials, constituting a substantial portion of the cost of materials consumed. Domestically sourced materials and imports from Taiwan for its subsidiary, NASPL, further contribute to the manufacturing process. The consolidated cost of raw materials fluctuates, representing 63.4% of revenue for H1FY24.
- Though NATL's business extends across 16 states in India, the majority of its revenue is generated from Telangana, Andhra Pradesh, and Karnataka. The company's growth and operational outcomes are highly dependent on the revenue derived from these specific states. Any changes in government policies, regulations, economic conditions, or climatic factors in Telangana, Andhra Pradesh, and Karnataka may adversely affect NATL's business, operational results, and financial condition.
- NATL acknowledges instances of non-compliances and delays in regulatory filings for past corporate actions, potentially exposing it to regulatory actions and penalties. Procedural lapses, such as delays and non-filings with the Registrar of Companies in Telangana, have occurred, posing risks to NATL's business, financial condition, and reputation.

### Details of the selling shareholders

| Promoter Selling shares    | Amount offered      | No of shares |
|----------------------------|---------------------|--------------|
| Nutalapati Venkatasubbarao | Not more than 32 cr | 77,58,620    |

*The amount is based on a higher price band of INR 41*

*Source: Company Reports*

### Offer Details

NATL's proposed fresh issue size is INR 144 cr which would reduce promoter and promoter group shareholding from 84.3% (pre-issue) to 59.4 % (post-issue). The object of the issue are as follows:

- investing in its subsidiary, Nova Agri Sciences Private Limited, to establish a new formulation plant and support their working capital needs.
- capital expenditure by NATL is allocated to expand the existing formulation plant and its working capital requirements and
- general corporate purposes.

### Issue Structure and Offer Details

The proposed total issue size of NATL is INR 144 cr, out of which INR 112 cr is fresh issue and rest is OFS. The price band for the issue is in the range of INR 39 – 41 and the bid lot is 365 shares and multiples thereof.

| Issue Structure   |                                |
|-------------------|--------------------------------|
| Investor Category | Allocation                     |
| QIB               | Not more than 50% of the Offer |
| NIB               | Not less than 15% of the Offer |
| Retail            | Not less than 35% of the Offer |

## NATL financial summary and analysis

| Fig in INR Cr (unless specified)   | FY21         | FY22         | FY23         | Fig in INR Cr (unless specified)   | FY21         | FY22         | FY23         |
|------------------------------------|--------------|--------------|--------------|------------------------------------|--------------|--------------|--------------|
| <b>Income Statement</b>            |              |              |              | <b>Per share data &amp; Yields</b> |              |              |              |
| <b>Revenue</b>                     | <b>160.6</b> | <b>185.6</b> | <b>210.6</b> | Adjusted EPS (INR)                 | 0.7          | 1.5          | 2.2          |
| <i>YoY Growth (%)</i>              |              | <i>15.5</i>  | <i>13.4</i>  | Adjusted Cash EPS (INR)            | 0.9          | 1.7          | 2.5          |
| Raw Material Cost                  | 97.3         | 113.5        | 121.3        | Adjusted BVPS (INR)                | 3.2          | 4.7          | 6.9          |
| <i>RM Cost to Sales (%)</i>        | <i>60.6</i>  | <i>61.1</i>  | <i>57.6</i>  | Adjusted CFO per share (INR)       | 0.6          | 0.3          | 0.6          |
| Employee Cost                      | 22.1         | 26.5         | 27.3         | CFO Yield (%)                      | 1.4          | 0.7          | 1.4          |
| <i>Employee Cost to Sales (%)</i>  | <i>13.8</i>  | <i>14.3</i>  | <i>13.0</i>  | Adjusted FCF per share (INR)       | (1.2)        | (0.7)        | 0.4          |
| Other Expenses                     | 23.0         | 17.8         | 23.0         | FCF Yield (%)                      | (2.9)        | (1.6)        | 1.0          |
| <i>Other Exp to Sales (%)</i>      | <i>14.3</i>  | <i>9.6</i>   | <i>10.9</i>  |                                    |              |              |              |
| <b>EBITDA</b>                      | <b>18.2</b>  | <b>27.9</b>  | <b>38.9</b>  | <b>Solvency Ratio (X)</b>          |              |              |              |
| <i>Margin (%)</i>                  | <i>11.3</i>  | <i>15.0</i>  | <i>18.5</i>  | Total Debt to Equity               | 1.7          | 1.5          | 1.1          |
| <i>YoY Growth (%)</i>              |              | <i>53.4</i>  | <i>39.8</i>  | Net Debt to Equity                 | 1.7          | 1.4          | 1.1          |
| Depreciation & Amortization        | 2.1          | 2.2          | 2.4          | Net Debt to EBITDA                 | 2.8          | 2.2          | 1.7          |
| <b>EBIT</b>                        | <b>16.0</b>  | <b>25.6</b>  | <b>36.6</b>  |                                    |              |              |              |
| <i>Margin (%)</i>                  | <i>10.0</i>  | <i>13.8</i>  | <i>17.4</i>  | <b>Return Ratios (%)</b>           |              |              |              |
| <i>YoY Growth (%)</i>              |              | <i>60.0</i>  | <i>42.7</i>  | Return on Equity                   | 21.4         | 31.7         | 32.1         |
| Other Income                       | 0.3          | 0.0          | 0.4          | Return on Capital Employed         | 14.5         | 17.7         | 19.7         |
| Finance Cost                       | 7.6          | 7.2          | 8.8          | Return on Invested Capital         | 20.0         | 24.2         | 27.8         |
| Interest Coverage (X)              | 2.1          | 3.6          | 4.2          |                                    |              |              |              |
| Exceptional Item                   | 0.0          | 0.0          | 0.0          | <b>Working Capital Ratios</b>      |              |              |              |
| <b>PBT</b>                         | <b>8.7</b>   | <b>18.4</b>  | <b>28.2</b>  | Payable Days (Nos)                 | 105          | 64           | 47           |
| <i>Margin (%)</i>                  | <i>5.4</i>   | <i>9.9</i>   | <i>13.4</i>  | Inventory Days (Nos)               | 80           | 72           | 72           |
| <i>YoY Growth (%)</i>              |              | <i>112.7</i> | <i>52.7</i>  | Receivable Days (Nos)              | 193          | 183          | 183          |
| Tax Expense                        | 2.4          | 4.8          | 7.7          | Net Working Capital Days (Nos)     | 168          | 191          | 208          |
| <i>Tax Rate (%)</i>                | <i>27.3</i>  | <i>25.8</i>  | <i>27.2</i>  | Net Working Capital to Sales (%)   | 46.1         | 52.4         | 57.0         |
| <b>PAT</b>                         | <b>6.3</b>   | <b>13.7</b>  | <b>20.5</b>  |                                    |              |              |              |
| <i>Margin (%)</i>                  | <i>3.9</i>   | <i>7.4</i>   | <i>9.7</i>   | <b>Valuation (X)</b>               |              |              |              |
| <i>YoY Growth (%)</i>              |              | <i>117.3</i> | <i>49.7</i>  | P/E                                | 60.2         | 27.7         | 18.5         |
| Min Int/Sh of Assoc                | 0.0          | 0.0          | 0.0          | P/BV                               | 12.9         | 8.8          | 5.9          |
| <b>Net Profit</b>                  | <b>6.3</b>   | <b>13.7</b>  | <b>20.5</b>  | EV/EBITDA                          | 23.7         | 15.9         | 11.5         |
| <i>Margin (%)</i>                  | <i>3.9</i>   | <i>7.4</i>   | <i>9.7</i>   | EV/Sales                           | 2.7          | 2.4          | 2.1          |
| <i>YoY Growth (%)</i>              |              | <i>117.3</i> | <i>49.7</i>  |                                    |              |              |              |
| <b>Balance Sheet</b>               |              |              |              | <b>Cash Flow Statement</b>         |              |              |              |
| Share Capital                      | 12.5         | 12.5         | 12.5         | PBT                                | 8.7          | 18.4         | 28.2         |
| Total Reserves                     | 16.9         | 30.7         | 51.3         | Adjustments                        | 20.5         | 12.0         | 7.8          |
| <b>Shareholders Fund</b>           | <b>29.4</b>  | <b>43.2</b>  | <b>63.9</b>  | Change in Working Capital          | (21.6)       | (23.2)       | (22.8)       |
| Long Term Borrowings               | 18.4         | 23.6         | 16.4         | Less: Tax Paid                     | (2.4)        | (4.8)        | (7.7)        |
| Deferred Tax Assets / Liabilities  | (3.6)        | (4.2)        | (4.6)        | <b>Cash Flow from Operations</b>   | <b>5.2</b>   | <b>2.5</b>   | <b>5.4</b>   |
| Other Long Term Liabilities        | 4.0          | 0.7          | 0.7          | Net Capital Expenditure            | (3.1)        | (4.1)        | (2.3)        |
| Long Term Trade Payables           | 0.0          | 0.0          | 0.0          | Change in Investments              | (0.1)        | 0.2          | 0.4          |
| Long Term Provisions               | 0.7          | 0.9          | 0.9          | <b>Cash Flow from Investing</b>    | <b>(3.1)</b> | <b>(3.9)</b> | <b>(1.9)</b> |
| <b>Total Liabilities</b>           | <b>48.9</b>  | <b>64.3</b>  | <b>77.3</b>  | Change in Borrowings               | 5.8          | 9.9          | 6.9          |
| Net Block                          | 17.2         | 18.0         | 16.9         | Less: Finance Cost                 | (7.6)        | (7.2)        | (8.8)        |
| Capital Work in Progress           | 0.0          | 0.1          | 0.6          | Proceeds from Equity               | 0.0          | 0.0          | 0.0          |
| Intangible assets under developmen | 0.0          | 0.0          | 0.0          | Buyback of Shares                  | 0.0          | 0.0          | 0.0          |
| Non Current Investments            | 0.0          | 0.0          | 0.0          | Dividend Paid                      | 0.0          | 0.0          | 0.0          |
| Long Term Loans & Advances         | 0.9          | 0.7          | 0.3          | <b>Cash flow from Financing</b>    | <b>(1.8)</b> | <b>2.7</b>   | <b>(1.9)</b> |
| Other Non Current Assets           | 0.0          | 0.0          | 0.0          | <b>Net Cash Flow</b>               | <b>0.2</b>   | <b>1.3</b>   | <b>1.7</b>   |
| Net Current Assets                 | 30.8         | 45.5         | 59.5         | Forex Effect                       | 0.0          | 0.0          | 0.0          |
| <b>Total Assets</b>                | <b>48.9</b>  | <b>64.3</b>  | <b>77.3</b>  | Opening Balance of Cash            | 0.1          | 0.3          | 1.6          |
|                                    |              |              |              | <b>Closing Balance of Cash</b>     | <b>0.3</b>   | <b>1.6</b>   | <b>3.4</b>   |

Source: Ventura Research

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