

Indian Agriculture Industry:

Overview:

- Agriculture remains a cornerstone of India's economy, supporting livelihoods for 58% of the population. As of 2022-23, it constitutes 15.1% of the Gross Value Added (GVA) and stands as the largest employer.
- The sector has witnessed a steady 4.3% Compound Annual Growth Rate (CAGR) in GVA from ₹18,871 billion in 2018-19 to ₹22,343 billion in 2022-23. This growth is attributed to measures such as credit support, market reforms, and food processing initiatives.
- Allied sectors like livestock, dairying, and fisheries play a pivotal role in this expansion, contributing significantly to the overall growth. The government's focus on productivity, market reforms, and food management programs, including subsidies, has been instrumental.
- Despite being a global agricultural powerhouse, India faces challenges such as low yield per hectare. While food grain production increased at a CAGR of 3.2% from 285 million tonnes in 2018-19 to 324 million tonnes in 2022-23, sustaining this growth amid a constant arable land and rising population is crucial.
- To address this, the government has implemented measures like Minimum Support Price (MSP), agricultural marketing reforms, and support for natural farming. These steps aim to enhance farm productivity, ensuring food security in the face of growing demand.
- India holds 3rd position globally for various food items, yet its yield per hectare remains comparatively lower. The challenge lies in balancing the need for increased production with sustainable practices and technology adoption.
- In summary, while India's agriculture sector plays a pivotal role in the economy, addressing yield challenges through technology adoption and sustainable practices is essential for long-term food security and prosperity.

Crop Nutrition Industry:

The crop nutrition industry primarily consists of fertilizers (chemical, organic and bio-fertilizers) and bio-stimulants.

Urea and non-urea fertilizers:

- During the five-year period FY19 to FY23, fertilizers output in India increased at a Compound Annual Growth Rate (CAGR) of 3.9% from 41.7 million tonnes in FY19 to 48.6 million tonnes in FY23.
- The fertilizers production is primarily divided into broad categories, urea and non-urea fertilizers where urea dominates the total output with an average share of 59%, produced 28.5 million tonnes and non-urea contributing the remaining 41%, produced 20.1 million tonnes.

Micronutrients:

- The micronutrient market has grown at a Compound Annual Growth Rate (CAGR) of 7.1% from 6,85,000 MT in FY17 to 9,00,000 MT in FY21. The Indian agricultural micronutrient market size was USD 704 million in 2024.
- Going forward, the market size is likely to grow at a CAGR of around 8%-10% by 2025.

Bio-Fertilizer:

- The total production in 2021-22 of carrier-based solid biofertilizers in India was about 169 thousand tonnes. This marked a growth of about 40% from 2018-19. It increased at a CAGR of 8.7% during 2017-18 to 2021-22.
- In the case of liquid fertilizers, India produced about 2,32,934 kiloliters of liquid biofertilizers in 2021-22. This marked a growth of about 2,479% from 9,033 kiloliters in 2017-18. This segment grew by a higher 125% CAGR during 2017-18 to 2021-22.

Organic Fertilizer:

- During the five-year period 2017-2021, the production of organic fertilizers has grown at a Compound Annual Growth Rate (CAGR) of 11.3% from 28.03 million tonnes in 2017 to 42.94 million tonnes in 2021.

- The most widely used organic fertilizer is farmyard manure, holding approximately 80% share followed by rural compost which is around 10%.

Crop Protection Industry:

The crop protection industry primarily consists of pesticides (Insecticides, Fungicides and Herbicides)

Overall Indian Pesticides Market:

- The overall Indian pesticides market grew at a CAGR of 6.6% from Rs.368 billion in 2013-14 to Rs.655 billion in 2022-23. In terms of USD, the Indian market increased at a CAGR of 3.0% from USD 6.1 billion in 2013- 14 to USD 7.9 billion in 2022-23.
- The top ten states and UTs that reported chemical pesticide consumption accounted for around 83 % of the total chemical pesticide domestic consumption in India during 2022-23.
- Of the total, Uttar Pradesh and Maharashtra contributed to a significant share of 23% and 13%, respectively. Telangana accounted for around 9% in overall chemical pesticides consumption.

Nova Agritech Limited IPO Overview:

Nova Agritech Limited, a prominent agri-input manufacturer, is set to launch its Initial Public Offering (IPO) on Jan 22, 2024, closing on Jan 24, 2024.

IPO Details:

- **Open Date:** Jan 22 2024
- **Close Date:** Jan 24 2024
- **Total Shares:** 35,075,693
- **Face Value:** ₹ 2 Per Equity Share
- **Issue Size:** 143.81 Cr.
- **Lot Size:** 365 Shares
- **Issue Price:** ₹ 39 - 41 Per Equity Share

- **Cost of 1 Lot:** 14965
- **Listing At:** NSE,BSE
- **Listing Date:** Jan 29 2024

Business Highlights:

1. Incorporated in 2007 in Hyderabad, Andhra Pradesh, Nova Agritech focuses on providing comprehensive agri-solutions, including soil health management, crop nutrition, and crop protection products.
2. The company's diversified product portfolio encompasses soil health management, crop nutrition, bio stimulants, bio pesticides, Integrated Pest Management (IPM), new technologies, and crop protection products.
3. Notably, crop protection products are manufactured by the subsidiary, Nova Agri Sciences Private Limited.
4. **Total product registrations received:** 720

Categories:

- **Soil Health Management:** 7 registrations
- **Crop Nutrition:** 176 registrations
- **Bio Pesticide:** 4 registrations
- **Technical Indigenous Manufacture:** 7 registrations
- **Crop Protection:** 526 registrations (all under Nova Agri Sciences Private Limited)

5. New Product Registrations Applied for:

- **Nova Agri Sciences Private Limited (NASPL):** 14 registrations
- **Nova Agritech Limited (NATL):** 22 registrations

6. Dealer Network:

- **Total dealers in the network:** 11,722
- **Active dealers during the current financial year:** Approximately 6,769

7. Geographical Presence:

- **States in India with active dealer network:** 16 (Andhra Pradesh, Telangana, Maharashtra, Karnataka, Madhya Pradesh, Rajasthan, Chhattisgarh, Tamil Nadu, Uttar Pradesh, Odisha, West Bengal, Bihar, Gujarat, Jharkhand, Uttarakhand, Jammu & Kashmir).
- **International presence:** Marketing, distribution, and supply agreements in Bangladesh, Sri Lanka, and Vietnam (awaiting necessary permissions).

Leadership Team:

1. **Adabala Seshagiri Rao:** Chairperson and Independent Director with over 34 years of banking industry experience.
2. **Malathi S:** Promoter and Executive Director overseeing company operations
3. **Kiran Kumar Atukuri:** Promoter and Managing Director with almost two decades of experience in the agricultural inputs business.

Financial Utilization of IPO Proceeds:

The net proceeds from the IPO will be utilized for strategic purposes:

1. Investment in the subsidiary, Nova Agri Sciences Private Limited, for a new formulation plant.
2. Funding Capital Expenditure for expanding the existing formulation plant.
3. Catering to the working capital requirements of Nova Agritech Limited and its subsidiary.
4. Further investment in the subsidiary for additional working capital needs.
5. General corporate purposes.

Research and Development (R&D) and Quality Assurance:

Nova Agritech Limited maintains a dedicated in-house R&D and Quality Control/Quality Assurance facility at its manufacturing units. This facility supports technology transfer for new products and on-site process improvement, including an incubation center. Collaborations with various universities enhance access to process know-how, innovation, knowledge transfer, and development. The company has leased 67.13 acres of land in Valaparla Village, Andhra Pradesh, for R&D activities, focusing on testing product efficacy on various crops.

Competitive Strengths:

1. One-stop solution for diverse agricultural needs with a comprehensive product portfolio.
2. Established distribution network with a broad reach across multiple states in India.
3. Farmer outreach program, Nova Kisan Seva Kendra, facilitates agricultural education.
4. Technology-driven product development and marketing.
5. Experienced Management Team and committed Promoters.
6. Well-equipped Research & Development facility.

Strategies:

1. **Product Portfolio Enhancement:** Expand manufacturing capacities to enhance the product portfolio and increase competencies.
2. **Market Expansion:** Focus on product registrations for both domestic and international markets.
3. **Geographical Expansion:** Expand to new geographies, including broader international market reach.
4. **Seasonal Sector Considerations:** Acknowledge the seasonal nature of the agricultural sector, particularly dependence on monsoons.
5. **Integrated Crop Advisory Platform:** Develop an integrated crop advisory platform to provide farmers with knowledge, information, and guidance on evolving trends and methods for better yields.
6. **Modern Technologies Implementation:** Implement the IAE Concept (Identify, Assess, Execute) for technology-based products and value addition.
7. **Focus on Modern Technologies and Solutions:** Establish fully automated state-of-the-art formulation technology for safer biocontrol and pesticide formulations.

Product Categories:

Nova Agritech manufactures, distributes, and markets a diverse range of products:

1. Soil health management products (Organic Fertilizers, Bio Fertilizers, Soil Conditioners).

2. Crop nutrition products (Water-soluble NPK fertilizers, Micronutrient Fertilizers, Beneficial Element Fertilizers, Straight Nitrogen Fertilizers, Straight Potash Fertilizers).
3. Biostimulant products.
4. Bio pesticide products.
5. Integrated Pest Management (IPM) products.
6. New technologies.
7. Crop protection products (Manufactured by subsidiary Nova Agri Sciences Private Limited).

Strategic Ventures:

The company entered the pesticide business by acquiring stakes in Nova Agri Sciences Private Limited and ventured into seed enhancement research & development through Nova Agri Seeds India Private Limited, making them subsidiaries.

Nova Agritech Limited is poised for growth, with a focus on innovation, strategic expansions, and a commitment to providing holistic solutions to farmers.

Raw Material - Manufacturing Supply Chain:

1. Company uses different raw materials for the manufacturing of different products, like Thiamethoxim, Lambda Cyhalothrin, different emulsifiers and solvents as raw material to manufacture Liquids.
2. In Powders and granules, they use China clay, Precipitated Silica, Talc Powder, Quartz sand as filling agents , wetting agents like F.Con CMC, BN 200 as dispersing agents.
3. The key raw material for Crop Nutrition mainly includes different Nutrients like NPK consortium, Macronutrients and Micronutrients.
4. Company sourced many products from India like Zinc, ferrous, manganese copper, and magnesium sulphate and imports other products from China and Taiwan like potassium nitrate, fulvic acid, amino acids and Paraquat dichloride.

Raw Material Handling:

1. Received raw materials undergo testing before use.

2. Stored under conducive conditions based on product nature.
3. FIFO (First In, First Out) system for material handling efficiency.

Raw Material Process (5S Concept):

1. **Sort:** Identify and retain necessary materials.
2. **Set-in-Order:** Organize retained materials for easy accessibility.
3. **Shine:** Regular cleaning and organizing of the work area.
4. **Standardize:** Standardize processes to make problems visible.
5. **Sustain:** Maintain gains to prevent backsliding.

Manufacturing Facilities:

Located at Sy.No.251/A/1 Singannaguda Village, Mulugu Mandal, Siddipet District, Telangana. Spreads over 12 acres and 5 guntas. Includes warehousing facilities for both raw material and finished goods storage.

Manufacturing Process:

1. **Planning of Production Schedule:** Strategizing production timelines.
2. **Procurement of Raw Materials:** Sourcing raw materials from suppliers.
3. **Quality Control of Raw Materials:** Checking the quality of received raw materials.
4. **Raw Material Finalization:** Finalizing raw materials based on quality control checks.
5. **Processing of Raw Materials:** Converting raw materials into finished goods based on required combinations.
6. **Quality Control of Finished Products:** Ensuring quality standards of the finished products.
7. **Packaging:** Labeling finished products with product and brand information.
8. **Transfer to Warehouse:** Transferring finished packaged products to the finished goods warehouse.
9. **Dispatch to Dealers:** Dispatching final packaged products to various dealers.

Nova Agritech Limited's supply chain ensures the efficient procurement, handling, and processing of raw materials, leading to the production of high-quality agricultural solutions. The company's commitment to quality control and strategic manufacturing processes contributes to its success in the agri-input industry.

Risks to Business:

1. **Default or Delay in Payments:** Dealers' default or delayed payments may adversely affect the company's business and financial operations.
2. **Licenses and Permits:** Dependence on obtaining and maintaining various licenses and permits poses a regulatory risk for the business.
3. **Negative Cash Flow History:** Historical negative cash flows during certain fiscal years may impact the company's financial condition if sustained over time.
4. **Dealer Network Management:** Ineffective management or expansion of the dealer network may hinder sales and profitability, affecting overall business prospects.
5. **Legal Proceedings and Litigation:** Promoters Involvement in legal proceedings and potential litigation may lead to adverse decisions, resulting in liabilities and penalties that could impact business operations.
6. **Raw Material Procurement and Operations Disruptions:** Inability to maintain or establish relationships with suppliers for raw materials may lead to disruptions or quality control risks in operations.
7. **Dependency on Third-Party Vendors:** Products like Nova Agribot and Bhuparikshak, manufactured by third-party vendors under MOUs, face the risk of premature termination or breach, potentially impacting business and prospects.
8. **Geographic Revenue Concentration:** A substantial portion of revenue is generated from Andhra Pradesh, Karnataka, and Telangana. Changes in state government policies, regulations, economic conditions, or climatic conditions in these regions may adversely affect business and results of operations.

Financials of NOVA Agritech:

P&L Statement:

Particulars (In Lakhs)	2021	2022	2023	6M-FY24
Revenue from Operations	16,064	18,559	21,056	10,322
Other Income	28	2	38	3
Total Revenue	16,093	18,561	21,093	10,324
Cost of Materials consumed	9,856	12,212	11,994	6,547
Changes in inventories	49	-863	140	-627
Employees Benefit Expenses	2,210	2,647	2,731	1,227
Other Expenses	2,164	1,784	2,319	1,239
EBITDA	1,815	2,782	3,910	1,938
Depreciation & Amortisation	215	223	236	100
Finance costs	733	715	857	435
EBIT	1,600	2,560	3,674	1,838
OPM (%)	11.28%	14.99%	18.54%	18.77%
PBT	867	1844	2816	1403
Tax	237	475.5	767	365
PAT	630	1369	2049	1038
NPM (%)	3.91%	7.38%	9.71%	10.06%
No.of Shares	925.19	925.19	925.19	925.19
EPS	0.68	1.47	2.21	1.12

Comparison With Peers:

Name of the Company	Revenue (In Crore)	PAT (In Crore)	EPS (in Rs)	P/E	CMP	Mcap (In Crore)
Nova Agritech Limited	211	20	2.21	18.5	41	379
Aries Agro Ltd	472	16	13.17	21.6	206	268
Aimco Pesticides Limited	206	-2	-2.10	N/A	122	117
Basant Agrotech Limited	565	18	2.03	30.3	22.6	205
Best Agrolife Limited	1,746	192	81.27	9.5	832	1,968
Bhagiradha Chemicals & Industries Ltd	502	46	44.60	51.2	1,491	1,557
Heranba Industries Limited	1,324	110	27.52	24.6	386	1,545
India Pesticides Limited	885	144	12.55	43.2	380	4,365
Madras Fertilizers Limited	3,447	185	11.50	26.8	112	1,807
Dharmaj Crop Guard Limited	527	33	9.80	20.2	264	895

Valuation:

After annualizing 2023-24, representing 6M FY24 data:

Particulars (In Cr)

Revenue: INR 206

PAT: INR 20.8

EPS: 2.2

P/E: 18.3

Review: The Crop Protection sector is highly competitive and many players are providing these services to the farmers. There is not much growth in the top line of the company. It has grown from 160 Cr in FY21 to 210 Cr in FY23. A CAGR growth of 14% which is low for a company with a mcap of 380 Cr. The IPO is priced at P/E of 18x which is a decently priced IPO.