

23rd January 2024

Nova Agritech Ltd. – SUBSCRIBE

Investment Thesis

- Nova Agritech Ltd. (NOVA) is set to launch its initial public offering (IPO) on January 23, 2024. The Issue size of the NOVA IPO is Rs. 143.8 crs comprising of a Fresh issue of Rs. 112 crs and Offer for Sale of Rs. 31.8 crs. NOVA will not receive any proceeds of the OFS. The proceeds from the fresh issue are to be utilized for the
 - Setting-up a new formulation plant for subsidiary, Nova Agri Sciences Private Limited (NASPL) (Rs. 14.2 crs)
 - Expansion of existing formulation plant of NOVA (Rs. 10.5 crs)
 - Working capital requirement of NOVA (Rs. 26.7 crs)
 - Working capital requirement of NASPL (Rs. 43.4 crs)
 - General corporate purpose (Rs. 17.2 crs)
- NOVA is a leading manufacturer of agricultural inputs that offers a diverse range of solutions to help farmers. NOVA's product portfolio includes soil health management, crop nutrition, bio stimulants, biopesticides, Integrated Pest Management, new technologies, and crop protection products. The manufacturing of the crop protection products is undertaken by NASPL.
- As of November 30, NOVA has 720 product registrations, which showcases NOVA's continued focus on product registrations for domestic and international market expansion.
- The company makes sure that its products reach farmers by manufacturing, distributing, and marketing them effectively. 70% of the total revenues are generated from Telangana (Tel), 9.3% is contributed by Andhra Pradesh (AP) and Karnataka (Ktk) accounts for 5.5%.

Revenue from business

- The revenue for NOVA has grown at steady 12.7% CAGR from FY18-23 to reach Rs. 210.6 crs. In H1FY24 the NOVA has recorded topline of Rs. 103.2 crs is on track to beat the FY23.

Particulars	FY21	FY22	FY23	H1FY24
Revenue (Rs. in crs)	160.6	185.6	210.6	103.2
Adj. EBITDA (Rs. in crs)	17.8	27.8	38.7	19.4
Adj. EBITDA Margin (%)	11.1	15.0	18.4	18.8
Adj. PAT (Rs. in crs)	6.3	13.7	20.5	10.4
PAT Margin (%)	3.9	7.4	9.7	10.1
RoCE (%)	19.9	23.8	27.6	12.9
RoE (%)	24.1	37.7	38.3	15.0

- EBITDA has grown at much faster at 20.8% CAGR to reach Rs. 38.7 crs over FY18-23. This led to growth in EBITDA margin which currently stand 18.8% against 11.1% in FY21.

IPO Details

Issue Open Date	23 January 2024
Issue Close Date	25 January 2024
Price Band (Rs.)	Rs. 39 – Rs. 41
Issue Size*	Rs. 143.8 crs
Issue Size (Shares)	3.5 crs
Market Lot	365 Shares
Listing Exchanges	NSE / BSE
Face Value (Rs.)	Rs. 2/-

* At highest price band

Key Details

Fresh Issue*	Rs. 112 crs
Issue Type	Book Building
Book Running Lead Manager	Keynote Bajaj Capital
Issue structure	QIB: 50% Non-Institutional: 15% Retail: 35%
Credit of Shares to Demat Account	30 January 2024
Issue Listing Date	31 January 2024

* At highest price band

- The strong topline growth and expanded EBITDA margin have enabled the NOVA to generate and sustain cash flows from operations (CFO). During FY21-23 NOVA cumulatively generated CFO of Rs. 13.11 crs. This surplus cash has been deployed in capital expenditure and debt repayment.

Key Business Highlights

- Seed to Shield: One Stop Shop with diverse solutions:** Boasting a comprehensive portfolio of 720+ registered products, NOVA provides holistic agricultural solutions. Their diversified offerings span organic and conventional fertilizers, biofertilizers, soil conditioners, insecticides, fungicides, and herbicides. This one-stop-shop approach positions NOVA as a robust player in the agricultural space.
- Tech-fueled Innovation: From lab to market:** NOVA embraces tech-driven innovation, leveraging data analytics to dissect market trends and farmer needs. This informs proactive portfolio expansions, delivering solutions that anticipate market shifts. Key innovations include Bhuparikshak, a groundbreaking 90-second soil health assessment app, and the DGCA-approved Nova Agribot drone, solidifying NOVA's position at the forefront of agricultural technology.
- Growth rooted in support: Nova Kisan Seva Kendra (NKSK):** NOVA cultivates farmer loyalty through NKSK, a tailored outreach program. Leveraging a network of 262 agri-experts (NKSK Coordinators, Kisan Mitras, and Sevaks), NKSK equips farmers with need-based solutions, driving knowledge transfer across products, technologies, and practices. This empowers farmers, boosting yields and contributing to NOVA's long-term growth strategy through deeper farmer engagement.
- Capacity + Competency = Portfolio Powerhouse:** Rs. 24.7 crs of IPO proceeds will fund NASPL's new formulation plant and expansion of NOVA's existing facility. This strategic investment enhances product range and vertically integrates NOVA's manufacturing, boosting self-sufficiency. Moreover, it will help NOVA in delivering sustainable products to the farmer community.

Valuation

At the upper price band, the IPO is priced at 18.3x FY23 EPS. When compared against the average PE of Fertilizers and Agro Chemicals peers of 46.2x, it is priced at significant discount. Therefore, the growth capex, the product portfolio, strong network, and sector tailwinds make a compelling case for NOVA.

Considering the above we are assigning a "SUBSCRIBE" rating to the IPO of NOVA. Investors with a long-term horizon can apply for the IPO.

Risk & Concern

- The inherent seasonality of agriculture presents cyclical variations in demand for NOVA products.
- NOVA's long-term growth trajectory is susceptible to potential headwinds arising from changes in government policies related to the agricultural sector.
- NOVA's 85% reliance on Tel, AP & Ktk exposes operations to policy, regulatory, economic & climatic risks in these regions.

Graphs & Charts

Figure 1: Revenue (Rs. in Crs)

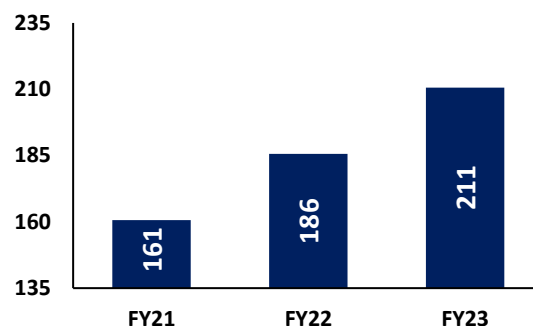


Figure 2: EBITDA & EBITDA Margin (Rs. in crs)

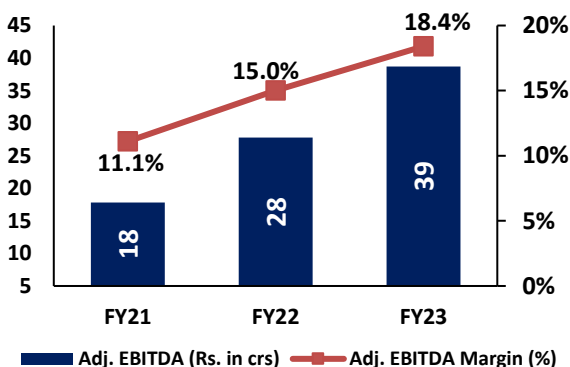


Figure 3: PAT & PAT Margin

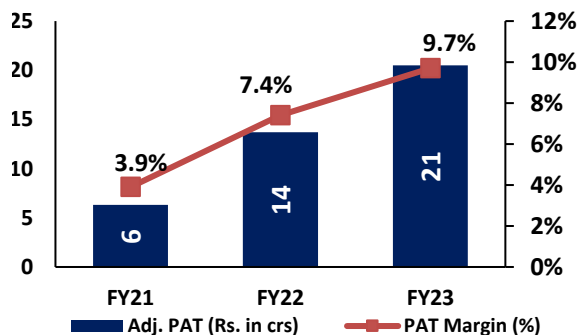
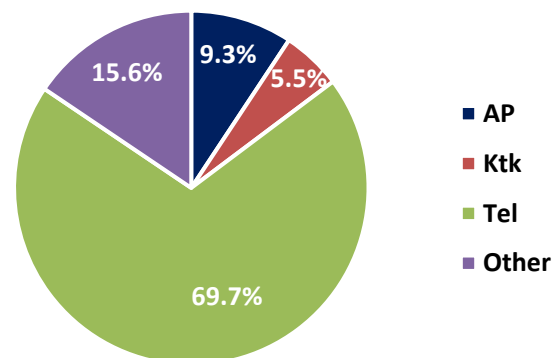


Figure 4: Region-wise Revenue Distribution (FY23)



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