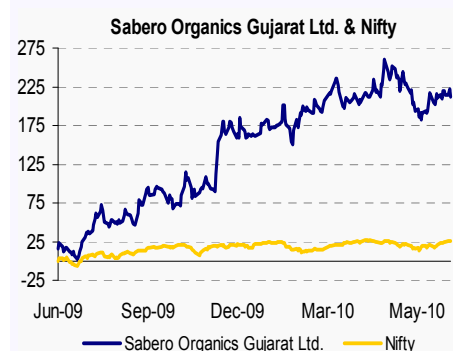


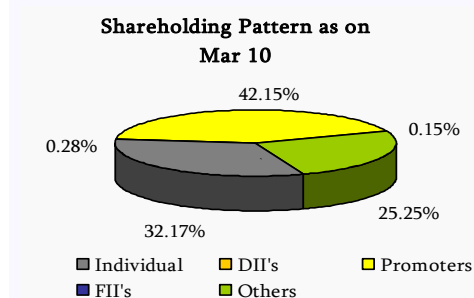
SABERO ORGANICS GUJARAT LIMITED

JUNE 28, 2010
STOCK INFO

Sector	Agrochemicals
Listing	NSE/BSE
Bloomberg	SOG.IN
Reuters	SBRO.BO
Nifty (June 28, 2010)	5333.50
Market cap (Rs mn)	2590.58
Free float (%)	57.85
Average last six month vol.	218680
52 week H/L (Rs)	89/24
Beta (Bloomberg)	1.24
Face value (Rs)	10

RELATIVE PERFORMANCE

KEY RATIOS

EPS (Rs)	11.47
BV (Rs)	27.78
Price/Earning (x)	6.68
Price/BV (x)	27.5
Dividend yield (%)	No dividend in last 3 yr

SHAREHOLDING PATTERN

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Company Background

Sabero Organics Gujarat Ltd. (SABERO) was established in the year 1991 to manufacture specialty and crop protection chemicals. It manufactures and markets a variety of fungicides, herbicides, insecticides & specialty chemicals. The company, apart from sales of unbranded technical and formulations, has its business of branded agrochemical formulations. SABERO has a strong distributor base in various countries, drives its revenue from exports. During FY10 the company was accorded Trading House status by Ministry of Commerce and Industry, Government of India.

Key Highlights

- ▶ The combination of limited arable land, low per capita consumption of pesticides and increasing food demand is likely to drive the growth of agrochemical industry
- ▶ The company's product portfolio is well-diversified across geographies de-risking its business; also over 240 of its products are registered in more than 50 countries acting as a strong entry barrier for new players
- ▶ The company has 6 subsidiaries located across the globe facilitating acquisition of product registrations and entry into local market
- ▶ Introduction of new products in the herbicides segment during 2HFY11 would improve the margins as herbicides commands superior margins
- ▶ Brazil, the second largest agrochemical market in the world after US, is the biggest market for Mancozeb, the company's top revenue contributor
- ▶ At CMP of Rs 76.65, SABERO is trading at 4.53x FY11E EPS of Rs. 16.9, which is very attractive compared to its peers

Key Risks

- ▶ Rupee appreciation would have shrink the export margins of the company
- ▶ Environmental restrictions and increase in the prices of raw materials could negatively influence the performance of the company
- ▶ Mancozeb, the flagship product, alone contributes 35-40% to its top-line

Exhibit: Key Financials
Figures in Millions

Particulars	FY2007	FY2008	FY2009	FY2010
Total Income	1543.30	2073.40	3773.50	4303.20
PAT	4.00	61.70	200.90	387.80
PAT Margins (%)	0.26	2.98	5.32	9.01
Diluted EPS	0.15	2.20	7.00	11.47
P/E (x)	77.55	7.03	1.81	6.46
P/BV (x)	0.71	0.94	0.59	2.67
Net Debt / Equity Ratio (x)	1.42	1.42	1.42	1.42
ROE (%)	0.92	12.85	32.16	41.31
EV/EBITDA (x)	4.85	3.64	1.77	3.29

Source: Company Data, Kredent Research Advisors

Global Agrochemical Industry

There is a great potential in the global agrochemical industry, which has grown from USD 25.8 billion in CY 2001 to USD 41.7 billion in CY 2008. There has been a boom in research in the recent years by companies seeking to develop new chemicals and improve existing ones. The industry is expected to be worth \$196 billion by 2014, with Asian markets accounting for nearly 43% of the total revenues.

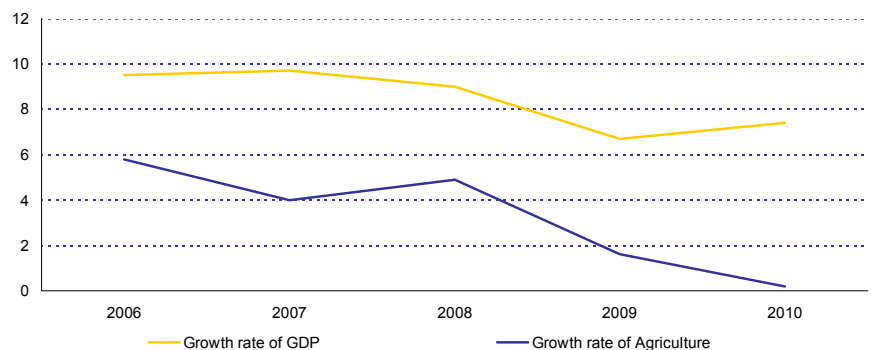
The main drives for agrochemicals will be the growing global population and the pressure on limited agricultural land. The world's population is 6.7 billion and is expected to reach 9 billion by 2050 with around 750 million people born every year. This means more demand for higher food yielding crops in nations like the U.S., Brazil, China, India, Canada, Argentina and Australia, where agrochemicals have built a strong foothold catering to this segment.

Indian Agriculture

With agriculture contributing to approximately 17.0% of the country's GDP and providing livelihood to almost 60.0% of the population, it continues to be the main stay of the Indian economy. Initially it was dominated by family farms, but now large companies that are better aligned across the supply chain characterize it. Food sector is highly fragmented but the booming retail chain business is likely to lead to consolidation in this sector and be a force behind the increase of processed food.

About 60.0% of India's population depends on agriculture, but its contribution to the national output is less than 20.0%

Exhibit: Growth rate of Agriculture vs Growth rate of GDP



Source: Company, Kredent Research Advisors

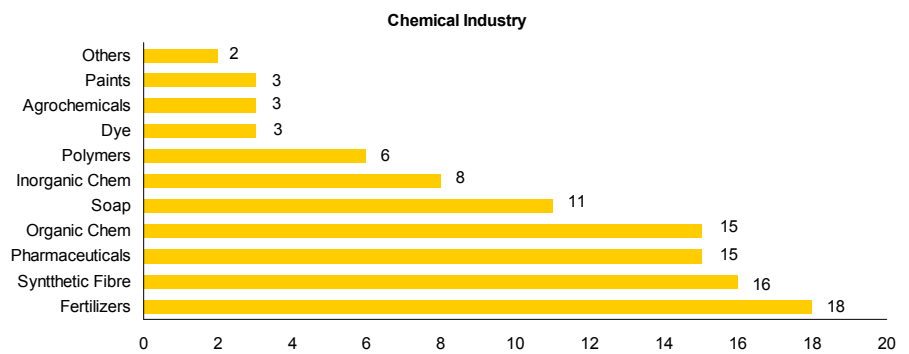
It is estimated that if the country has to maintain a GDP growth rate of over 8.0%, the agricultural sector has to grow at the rate of at least 4.0%. The country has a huge potential for growth in agriculture with about 184 million hectares of arable land and diverse agro climatic conditions, suitable for cultivation of a wide variety of crops.

- ▶ The government is targeting 4.0% growth for the agri-sector from 2005-20 and in order to achieve it, the government is making huge investments in the areas of irrigation, storage and post-harvest infrastructure and connectivity
- ▶ Private participation is increasing across the various segments of the agri-value chain. Companies are increasingly focusing on areas of contract farming, raw material sourcing and creating agri-linkages
- ▶ Corporate participation would not only yield better prices to farmers but also help them access superior farming techniques, better management and risk mitigation methods

Indian Agrochemical Industry

Indian Agrochemical Industry is estimated at about US\$1 billion i.e. Rs 5,000 cr. At the end of FY09, it ranked 2nd in Asia (behind China) and 12th globally. In FY09, overall industry witnessed marginal volume decline, but saw a price increase of 10-12%. According to ASSOCHAM, non-judicious use of pesticides is leading to an annual loss of more than Rs. 100,000 crs. Only 20% of cultivated area is treated by pesticides.

Exhibit: Agrochemicals's share in the total India chemical industry



Source: Kredent Research Advisors

The Indian chemical industry contributes 3% of India's GDP with turnover of USD35 billion

India commands over 2% of the Earth's land area and about 4% of its fresh water resources, but feeds about 17% of its population, putting tremendous pressure on natural resources

Since land and water resources do not grow, agricultural growth must come from productivity

5.8% growth projection will be a strong recovery from the 0.2% rise the farm sector recorded in the past fiscal due to the massive drought that country underwent last year-- the worst drought in the past four decades

- ▶ The task of achieving self-sufficiency in food has been a formidable task and sustaining the same is more challenging
- ▶ It is estimated that India approximately loses 18% of the crop yield valued at Rs.900.00 billion due to pest attack each year. The use of pesticides help to reduce the crop losses, provide economic benefits to farmers, reduce soil erosion and help in ensuring food safety & security for the nation
- ▶ Low consumption of pesticides can be attributed to fragmented land holdings, low level of irrigation, dependence on monsoons, low awareness among farmers about the benefits of usage of pesticides etc
- ▶ In view of limited scope for increasing the land area under cultivation, further increase in agricultural production can be achieved only through better water management, expansion of the area under irrigation, improved farming practices, research and development in scientific use of inputs and seeds and the last but not the least, more extensive and balanced use of fertilizers
- ▶ CMIE report forecasts that the agriculture and allied sector is likely to clock a healthy 5.8 per cent growth this fiscal, subject to a good monsoon
- ▶ The industry is also likely to move towards the global product mix, with an increase in the use of herbicides and fungicides. Exports will continue to remain the growth driver
- ▶ The industry has a long gestation period of 3-4 years for commercial launch of any new product due to lengthy registration processes, extremely regulated environment, and knowledge of regional markets, legislative framework and access to distribution channels.

The main products namely Mancozeb, Acephate, Glyphosate, Chlorpyrifos are the largest selling generic products in their respective segments with markets in most regions of the world

Mancozeb (Fungicides)

- Largest consumed fungicide in the world
- Largest player in India and second largest in world

Glyphosate (Herbicides)

- Largest consumed herbicide in the world
- Largest player in India and second

New product introduction plan for Q2FY2011 includes Pretilachlor (rice herbicide), Tricyclazole (rice fungicide), Trichlopyr (Herbicide) and Propineb (broad spectrum fungicide)

Product Range

The company has a diversified product portfolio for Insecticides, Herbicides, Fungicides and Specialty chemicals.

Exhibit: Product Portfolio

Fungicides	Herbicides	Insecticides	Speciality Chemicals
Mancozeb	Glyphosate	Acephate	Tri Ethyl Phosphite (TEPI)
Maneb	Triclopyr	Chlorpyrifos	Tri Methyl Phosphite (TMP)
Zineb	Pretilachlor	Monocrotophos	O,O Di Ethyl Thio Phosphoryl Chloride (DETC)
Propineb		Dichlorvos (DDVP)	Phosphorous Tri-Chloride (PCl ₃)
Tricyclazole		Cypermethrin	Meta Phenoxy Benzaldehyde (MPB)
		Lambda Cyhalothrin	Cypermethric Acid Chloride / D V Acid Chloride (CMAC/DVAC)
		Acetamiprid	Phosphono Methyl Iminodiacetic Acid (PMIDA)
		Alphamethrin	Phosphorous Thio Chloride (PSCl ₃)
		Deltamethrin	
		Permethrin	
		Methamidophos	

Source: Company, Kredent Research Advisors

- ▶ At a capital cost of Rs 55.0 cr., the company will set up an export-oriented plant of technical active ingredients at Dahej SEZ, Gujarat with an estimated capacity of 2650 tonnes pa. The project is expected to start in 3QFY11 and will be financed by a combination of \$9.0 million external commercial borrowings and internal accruals
- ▶ In FY10, Sabero Organics introduced Methamidaphos, an insecticide. It is used across several fruit and vegetable produce and is sold in South America and Africa. Sabero is now one of the main suppliers of Methamidaphos in the world
- ▶ SABERO was added as a source of Glyphosate and Mancozeb in 11 and 20 countries respectively
- ▶ The company sells its products either as technical/active ingredient, bulk formulations, small pack formulations in customer brand name and small pack formulations in own brand name
- ▶ The debottlenecking of the Monocrotophos plant has been completed in May 2010, resulting in an increase in capacity by 60.0% to 4,400 tonnes per annum
- ▶ The company plans to increase the capacity of its Chlorpyrifos plant by 50.0% by September 2010 which result in better efficiencies
 - Including the Czech Republic, Denmark, Hungary, Italy, Norway, Finland, Switzerland, Poland, Sweden, Germany, Austria, Ireland, South Africa and Netherlands
- ▶ In India, the company is enhancing its Branded Formulation business in Andhra Pradesh, Tamil Nadu, Punjab, Gujarat, Uttar Pradesh and some parts of Maharashtra. It has ramped up its efforts in development and product promotion with a dedicated development team in the South, North and West zone of India dedicated to farmer demonstrations and product promotion

The combination of limited arable land, low per capita consumption of pesticides and increasing food demand is likely to drive the growth of agrochemical industry

The company has well-diversified range of portfolio across various geographies which help de-risk its business

Introduction of new products in the herbicides segment during 2HFY11 would improve the margins as herbicides commands superior margins

It has 6 subsidiaries located across the globe which facilitates acquisition of product registrations and entry into local market

The company has over 240 products registered in more than 50 countries which provide a strong entry barrier for new players

Investment Rationale

► Increase in population will lead to growth in the demand for agrochemicals

The total population of the world is likely to grow to 9 billion by the year 2050. Developing countries will have to double their food availability to cater to the food needs of the growing population. This will put the pressure on the farmers as they will have to increase their annual yields rapidly. Agrochemicals being a key input to the increasing yield will start finding huge demand in the market. Shortage of food around the world has already pushed the demand for agrochemicals to a huge extent. Per hectare consumption of pesticide is low in India at 381 grams when compared to the world average of 500 grams.

► Diversification across geography and product categories

The company is well diversified both geographically (sells in about 50 countries) and across product categories (Herbicides, Fungicides, Insecticides), implying lower volatility in business performance.

The company's portfolio of products in different segments of Fungicides, Insecticides and Herbicides has different selling seasons through the year due to different weather and crop seasons. It enjoys smooth flow of its business operations throughout the year due to its presence in different geographies which enables it to overcome the seasonality issue in its business. Europe is a focus market where SABERO is making its biggest investment in terms of registrations.

► Launch of new products

The company has been aggressively filing for new product registrations in key markets like US, Europe, America, Argentina, Brazil and Latin America over the last 2-3 years. In the previous 3-4 quarters it has already registered 4-5 new products in Australia and Argentina. The management expects approval for 3-4 more products in the next two quarters. The launch of new products will be revenue accretive.

During FY10, the company has spent Rs. 4.0 - 5.0 cr. in registration of two formulations of Glyphosate – to be introduced in European markets

In addition, it is working with a multinational to register its weedicide and fungicide products as a registered source in their registration in all 24 EU countries.

► Strategically located subsidiaries around the globe

The company has set up 6 subsidiaries in Australia, Europe, Brazil (2), Philippines and Argentina. These subsidiaries provide an easy access to local market and facilitate acquiring of product registrations comfortably. The company is also trying to build a strong distribution network in the relevant regions.

► Increase in product registrations across the globe, a key entry barrier, to drive sales

In the agrochemicals business, product registrations act as effective entry barriers since they are a key prerequisite for selling products in the local market of the countries. The company has almost 200 registrations for bulk technical and 45 product registrations for formulations, across 50 countries, which enable it to spread its presence globally and take advantage of the international arena. Registrations take three months to three years depending on local requirements.

The cost of registrations can vary from a few thousand dollars to many hundred thousand dollars.

Exhibit: Product Registrations during FY10

Countries	Fungicides	Herbicides	Insecticides
USA	-	-	Acephate 90% Prills Acephate Technical
Australia	-	-	Chlorpyrifos 500 EC
Spain	-	Glyphosate Technical	-
Germany	-	Glyphosate 360 SL	-
China	Mancozeb Technical	-	Chlorpyrifos Technical
Brazil	Mancozeb Technical	-	-
South Africa	Mancozeb Technical Mancozeb 80% WP	-	-
Morocco	Mancozeb 75% WDG	-	-
Sri Lanka	Mancozeb 75% WDG	-	-
Korea	-	-	Chlorpyrifos Technical
Taiwan	-	-	Chlorpyrifos Technical
Bangladesh	Blue Green Mancozeb	-	Acephate 75 SP

Source: Company, Kredent Research Advisors

Brazil is the second largest agrochemical market in the world after US and the biggest market for Mancozeb, the company's top revenue contributor

► **Focus on Brazil, the second largest market for agro-chemicals**

Brazil is the 2nd largest market for crop protection products. Entry into Brazil is not easy like US, Europe & Japan. Therefore, an entry here not only provides volume but also above average profitability. The company got registration for Chlorpyrifos in Apr-09. It entered into two joint ventures in Brazil to tap this market. One of the JVs is 44% owned by Sabero and is into distribution of agrochemicals. The other JV is 51% owned by Sabero and is into registration of products and their sale to distributors. EM-Brazil, a large distribution company with revenues of \$400.0 million, is its JV partner in both the JVs.

The company expects sales of Rs 35.0 cr. to Rs 40.0 cr. for every new product launched in Brazil.

► **Attractive valuations**

SABERO is trading at a P/E of 6.68 at a steep discount to its peers. The valuations are likely to improve further with the introduction of new products, commissioning of Dahej facility by 3QFY11, new registrations strong growth in the Europe, Latin America and Africa markets.

► **Low cost producer**

SABERO's continued investment in high productivity machinery and skilled labour makes it one of the lowest cost manufacturer and efficient agrochemical company in the world.

The company is the lowest-cost manufacturers of organophosphorous and dithiocarbamate agrochemicals in the world including Mancozeb, Acephate, Glyphosate, Monocrotophos, etc. The key raw materials used to manufacture the finished products are Phosphorus, its intermediates and ethylene di-amines. Additional raw materials used as constituents for production are crude oil, and minerals based products. Phosphorus is usually imported from China, Vietnam, Russia and Europe. The company's state of the art operations enables efficient usage of raw materials and improved productivity.

The stock is trading at a P/E of 6.68 lower than that of its peers

The company is amongst the lowest cost producers in the world for various products in its portfolio

Financials

Sales and net profits have grown at a 3 year CAGR of 40.27% and 351.48%, respectively

Contribution from Glyphosate declined from 20% to 10% in FY10 on the account of 60% price decline. Monocrotophos & Mancozeb together accounted for 40% of the revenue contribution for FY10.

Exhibit: Annual Financials

Figures in Millions

Particulars	FY2007	FY2008	FY2009	FY2010
Total Income	1543.30	2073.40	3773.50	4303.20
Growth (%)	12.05	34.35	82.00	14.04
EBITDA	169.30	262.40	509.60	819.30
EBITDA Margin (%)	10.97	12.66	13.50	19.04
EBIT	119.00	209.60	452.60	744.40
EBIT Margin (%)	7.71	10.11	11.99	17.30
PBT	0.87	4.02	7.60	14.21
Tax	9.40	19.10	82.40	223.70
PAT	4.00	66.90	207.50	387.80
PAT Growth (%)	81.82	1572.50	210.16	86.89
PAT Margins (%)	0.26	3.23	5.50	9.01
Diluted Earning Per Share (EPS)	0.15	2.20	7.00	11.47
EPS Growth (%)	69.51	1405.59	217.57	63.95
Book Value Per Share (BVPS)	15.96	16.45	21.41	27.78
P/E (x)	77.55	7.03	1.81	6.46
P/BV (x)	0.71	0.94	0.59	2.67
Interest Coverage Ratio (x)	0.97	1.39	2.45	4.37
Net Debt / Equity Ratio (x)	1.42	1.06	1.10	0.71
Current Ratio (x)	2.22	1.86	1.60	2.45
ROE (%)	0.92	13.93	33.22	41.31
ROA (%)	2.82	11.14	15.24	17.88
EV/EBITDA (x)	4.85	3.64	1.77	3.29
EV/Total Income (x)	0.53	0.41	0.26	0.65

Source: Company Data, Kredent Research Advisors

Exhibit: Profit & Loss Account (Quarterly)

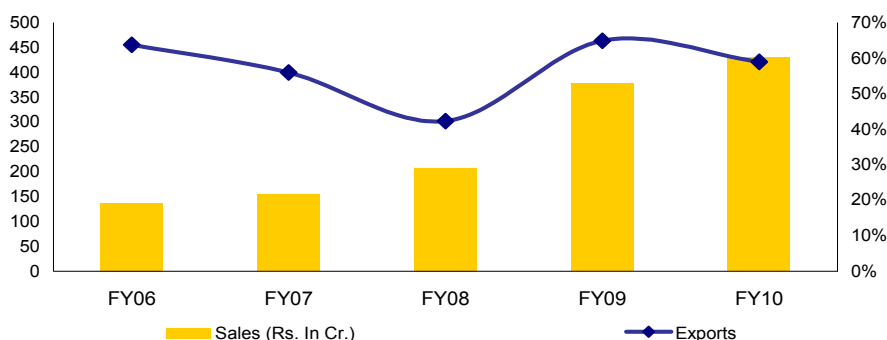
Figures in Millions

Particulars	Q4FY10	Q4FY09	Q3FY10	%Chg (y-o-y)	%Chg (q-o-q)
Total Income	965.70	992.38	1094.10	-2.69	-11.74
Total Expenditure	818.60	869.20	860.10	-5.82	-4.83
EBITDA	147.10	123.18	234.00	19.42	-37.14
EBITDA Margin (%)	15.23	12.41	21.39	282.0bps	-615.5bps
Depreciation	18.90	15.80	19.30	19.62	-2.07
EBIT	128.20	107.38	214.70	19.39	-40.29
EBIT Margin (%)	13.28	10.82	19.62	245.5bps	-634.8bps
Other Income	19.20	9.45	3.20	103.17	500.00
Interest	24.20	52.20	49.30	-53.64	-50.91
PBT & Extraordinary Items	123.20	64.63	168.60	90.62	-26.93
PBT Margin (%)	12.76	6.51	15.41	624.5bps	-265.2bps
Extraordinary Items	2.50	0.00	0.00	-	-
Profit before Tax & Extraordinary Items	120.70	64.63	168.60	86.76	-28.41
Tax	50.80	43.70	66.00	16.25	-23.03
Profit After Tax but before Minority Interest	69.90	20.93	102.60	233.97	-31.87
Minority Interest	0.00	0.00	0.00	-	-
Profit After Tax (PAT)	69.90	20.93	102.60	233.97	-31.87
PAT Margin (%)	7.24	2.11	9.38	512.9bps	-213.9bps
Diluted EPS	2.45	0.73	3.03	235.62	-19.14

Source: Company Data, Kredent Research Advisors

The domestic sales have shown a good growth of over 40.0% in FY10 from Rs. 127.0 cr. to Rs. 180.0 cr., contributing to 41.0% of total sales of the company as against just 34.0% last year

Exhibit: Sales vs Exports

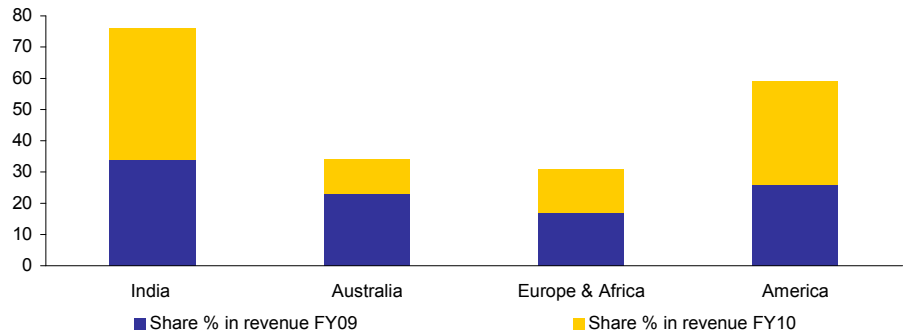


Source: Company Data, Kredent Research Advisors

The company expanded its presence in Costa Rica, Paraguay, Honduras, Cameroon, Czech, Denmark, Switzerland, Poland and South Africa

Share of Australia & Asian markets to top-line declined significantly by 1200bps y-o-y on the back of price de-growth partially offset by 700 bps increases in share from American markets

Exhibit: Geographical break-up of Sales

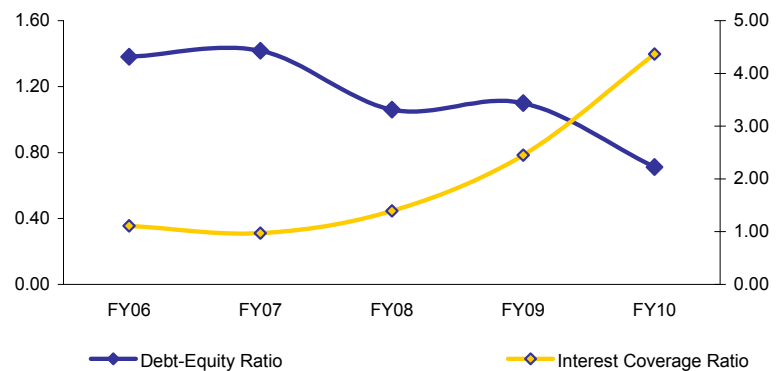


Source: Company, Kredent Research Advisors

SABERO has debt of nearly Rs 80 cr. out of which 20% is long term debt & balance is working capital loan. Around 30% of its debt is in foreign denomination & balance in Rupee.

During FY10, the debt equity ratio has declined to 0.71 from 1.10 in FY09, while the interest coverage ratio has improved to 4.37 from 2.45 in FY09

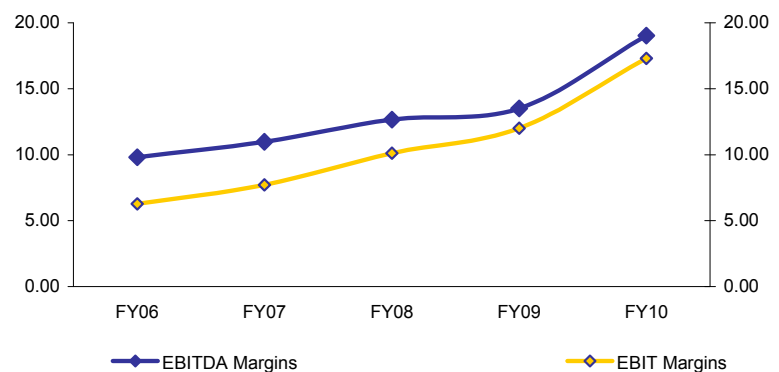
Exhibit: Debt Equity Ratio vs Interest Coverage Ratio



Source: Company, Kredent Research Advisors

EBITDA and EBIT margins of the company have improved over the years as raw material cost as a % of sales has declined from 65.32% in FY06 to 58.02% in FY10

Exhibit: EBITDA Margins & EBIT Margins



Source: Company, Kredent Research Advisors

Management Guidance for FY11

- ▶ The Board of Directors have recommended 12% final dividend, equivalent to Rs 1.20 per share on the paid up share capital of the company
- ▶ The company will achieve about 15% to 20% growth in revenues in FY11
- ▶ The company will be able to maintain margins of 16% to 18% in spite of lower realizations in some of the markets
- ▶ In couple of years, the company aims to achieve revenues to the tune of Rs.

1,000.0 cr. with de-bottlenecking of some of its facilities & addition of Dahej unit.

Valuations

With the increase in population, there will be increase in the demand for plant protection products for improving the yields of crops. The company will be able to grab a dominant share in the growing agrochemical industry as it introduces new products, gets new registrations, enters new markets and enhances its production capacity. The company is likely to grow at a CAGR of 28-30% over the next 2-3 years given its sound business model. The company will be able to maintain operating margins at 16-18.0% and net margins at 6-8%.

SABERO is undervalued compared to its peers. Based on FY11 EPS of 16.90 and P/E of 10x, the company has a target price of Rs. 169 in a year's time.

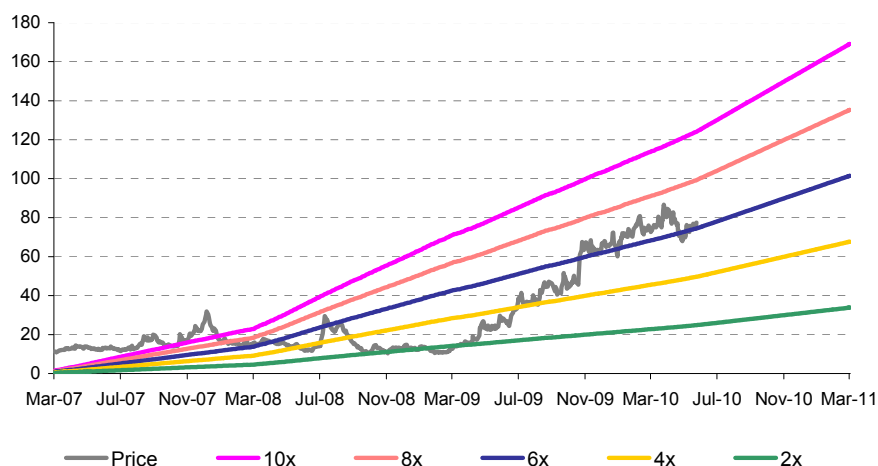
Exhibit: Comparative Landscape

Company	Sabero Organics Gujarat Ltd.	United Phosphorus Ltd.	Punjab Chemicals and Crop Protection Ltd.
Total Income	4303.20	25551.30	3182.20
EBIDTA	816.30	3767.40	-69.70
EBIDTA Margin (%)	18.97%	14.74%	-2.19%
Net Profit	387.90	1812.90	-411.20
Net Profit Margin (%)	9.01%	7.10%	-12.92%
Diluted EPS (Rs)	11.47	3.94	-58.95
BVPS (Rs)	27.78	43.71	104.83
CMP (28-June-2010)	76.65	193.8	133.75
P/E (x)	6.68	49.19	-
P/BV (x)	2.76	4.43	1.28
Interest Coverage Ratio (x)	4.37	3.68	-
Debt/Equity (x)	0.71	1.12	4.30
ROE (%)	41.31	9.43	-

Source: Company, Kredent Research Advisors

Exhibit: One year forward P/E band

We believe that there will be a strong re-rating of P/E of SABERO to 10x



Source: Company Data, Kredent Research Advisors

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BUY	Analyst value of the stock is > 20% from the current market price
HOLD	Analyst value of the stock is between +20% and -20% from the current market price
REDUCE	Analyst value of the stock is < -20% from the current market price

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