

Sabero Organics Gujarat Ltd.

INR: 74



Healthy profitability!

BUY

**Marginal decline in Net sales:** Net sales for Q4FY10 declined marginally by 3% y-o-y to Rs 96.57 crore as couple of plants were down for debottlenecking process & lower realizations. However the operating profit improved 19% y-o-y to Rs 14.73 crore on the back of 6% y-o-y decline in total expenditure. Net profit was up by 233% y-o-y to Rs 7.01 Cr on the back of 103% y-o-y increase in other income & lower interest & tax expense.

**Significant improvement in Margins:** During the quarter, RM consumed as % to sales declined to 54.9% compared to 74% in Q4FY09, lowest in last 8 quarters partially offset by increase in manufacturing expenses as % to sales from 17.1% in Q4FY09 to 25.2% in Q4FY10. Consequently OPM improved 282bps y-o-y to 15.3% in Q4FY10. Net Profit increased by 233% to Rs 7crores on the back of 103% y-o-y increase in other income & 54% y-o-y decline in interest expense. As a result NPM improved 538bps y-o-y to 7.5%.

**Robust FY10 performance:** Sabero registered strong Net sales growth of 17.4% y-o-y to Rs 430 crores on the back of increase in Domestic & American revenue by 48% & 46% y-o-y respectively. OPM improved by 600 bps to 19.9% on the back of 660 bps decline in RM consumed as a percentage to sales. Net profit improved 78% y-o-y on the back of 146% y-o-y increase in other income partially offset by higher tax incidence for FY10.

**Capex plans:** Sabero is setting up 2650 mtpa capacity facility at Dahej with a capex of Rs 55.0 crore, out of which Rs 40 crore will be funded through ECB & balance by internal accruals. The facility is set to commission in Q3FY11 & will be used for manufacturing of new products in which Sabero doesn't have presence currently along with formulation & packaging facility & would add ~Rs150 crore to top line in next 2- 3 years. It has also spent ~Rs 5 - 10 Crores for debottlenecking of its facilities which would further improve its capacity.

**Management guidance:** Sabero management is confident of achieving a top line growth of 15-20% in FY11 & would be able to maintain margins of ~16-18% factoring lower realization in some of the markets. With de-bottlenecking of some of its facilities & addition of export unit at Dahej, Sabero is expecting to achieve sales of Rs 1,000 crore in couple of years.

**Valuations & Views:** With introduction of 4 new products, strong growth in Latin America & African markets, completion of de-bottlenecking of facilities by next quarter, commissioning of Dahej facility by Q3FY11 and new registration we expect Sabero's performance to improve significantly. This would improve the valuations further. Strong financial track record, good management pedigree, diversified product portfolio and wide spread geographical presence are the reasons that make Sabero attractive in the agrochemical space. We maintain our 'BUY' recommendation on the stock with a target price of Rs 96.0, implying an upside potential of 30%. At CMP of Rs 74.0 Sabero is trading at 4.5x FY11E EPS of Rs. 16.9, which is very attractive compared to its peers.

### Key Financials

Rs. Crore

Particulars	FY 08	FY09	FY 10P	FY 11E
Revenues	196.1	366.7	430.3	586.5
EBITDA	24.9	51.3	82.2	103.2
PAT	5.3	21.8	39.0	49.4
EPS	1.8	7.5	11.5	16.9
EV/EBIDTA	10.4	5.5	2.8	2.2
P/E	42.0	10.2	4.9	4.5
ROCE	20.5%	30.4%	39.0%	37.1%
RONW	9.5%	29.9%	34.3%	31.6%

Source: Company Data, KRC Estimates

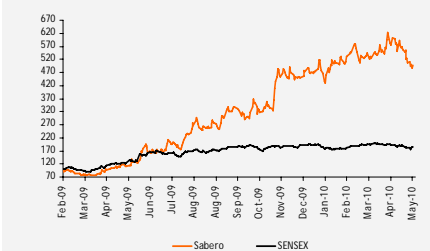
Price Outlook (INR): 96

Market Data	Jun 07, 2010
Shares outs (Cr)	2.9
Equity Cap (Rs. Cr)	29.3
Mkt Cap (Rs. Cr)	214
52 Wk H/L (Rs)	88.9 / 21.4
Avg Vol (1yr avg)	93,879
Face Value (Rs)	10.0
Bloomberg Code	SOG IN

### Market Info:

SENSEX	16,781
NIFTY	5,034

### Price Performance



### Share Holding pattern (%)

Particulars	Mar-10	Dec -09	Chg
Promoters	42.15	39.03	3.12
MF/Ins. Co.	0.28	0.19	0.09
FIIIs	0.15	0.13	0.02
Public	57.42	61.19	(3.7)
Total	100.0	100.0	

Source: BSE

### Analysts :

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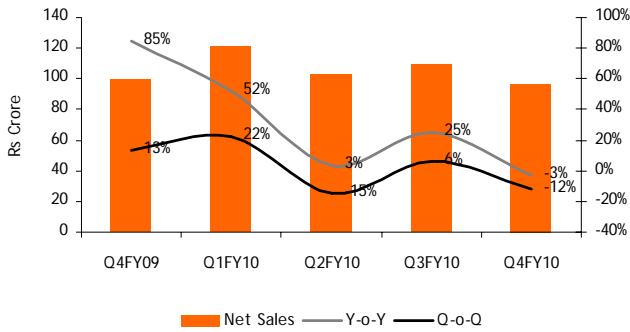
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**Key Highlights of the Conference call -**

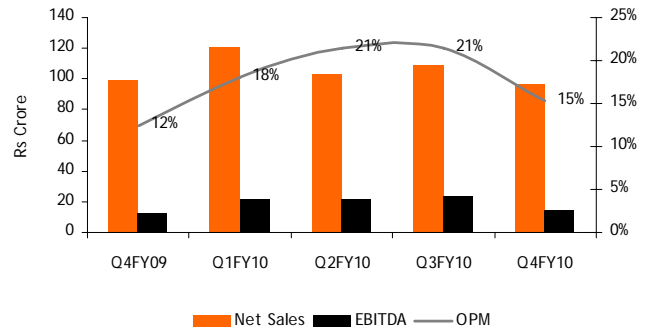
- Sabero Organics Gujarat Ltd. has received three new registrations during the quarter - Acephate technical & Acephate Prills in USA, Glyphosate technical in Spain & Germany. Also presence of Glyphosate & Mancozeb was expanded to 11& 20 countries respectively.
- Debottlenecking of Monocrotophos plant has been completed in May, increasing the capacity to 4400tpa
- Sabero has debt of -Rs 80 crores 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. D/E ratio is 0.71 as on 31<sup>st</sup> March,2010.
- 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 increase in share from American markets. Also 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.
- Sabero has spent Rs. 4.0 - 5.0 crore in registration of two formulations of Glyphosate - to be introduced in European markets.
- Sabero has planned capex of Rs. 50 crore for FY11 towards new plant & de-bottlenecking of existing plant.



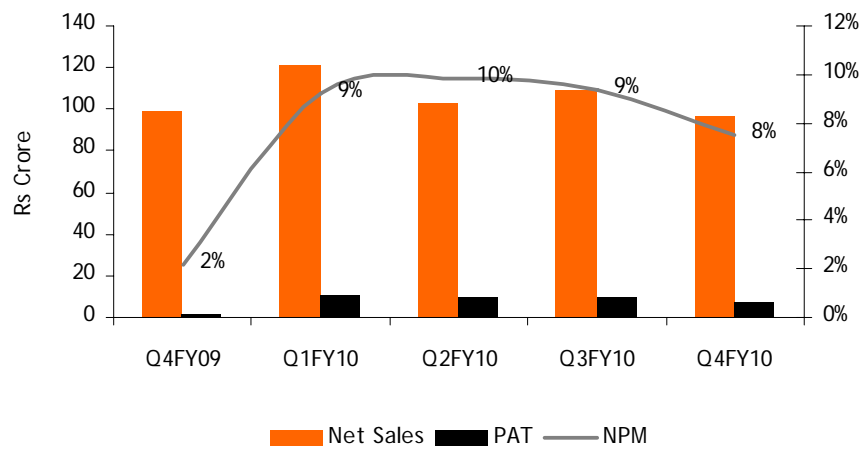
Net sales (Rs. Crore)



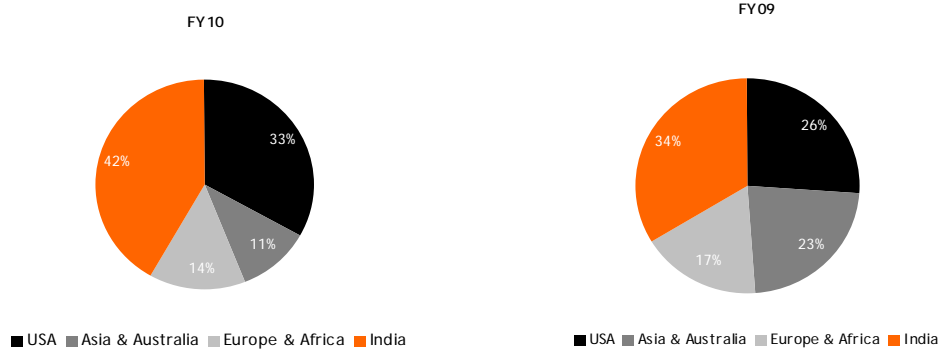
Operating Profit & OPM



Net Profit & NPM



Geography wise contribution



Source: Company Data, KRC Research



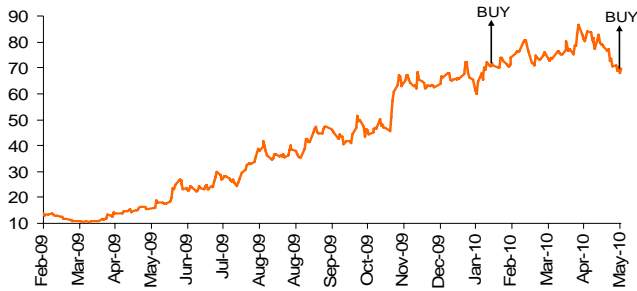
## Q4FY10 Result (Rs Crore)

Particulars (Rs. Crore)	Q4FY09	Q3FY10	Q4FY10	y-o-y	q-o-q	Comments
<b>Net Sales</b>	<b>99.2</b>	<b>109.4</b>	<b>96.57</b>	<b>-3%</b>	<b>-12%</b>	Net sales declined by 3% y-o-y to Rs 96.57 crores
<b>Growth %</b>						
Total Expenditure	86.9	86.0	81.8	-6%	-5%	
Consumption of RM/Traded Goods	73.4	62.5	53.03	-28%	-15%	
(Increase)/Decrease in WIP	-7.5	0.9	-1.11	-85%	-231%	
Employee Cost	4.1	4.4	5.63	38%	29%	
Manufacturing, Administrative & Other Expenditure	16.9	18.2	24.29	43%	33%	
<b>Operating Profit</b>	<b>12.3</b>	<b>23.4</b>	<b>14.73</b>	<b>19%</b>	<b>-37%</b>	
<b>Growth %</b>						
Other Income	0.9	0.3	1.92	103%	611%	
Operating Profit (incl. O.I.)	13.3	23.7	16.65	25%	-30%	
Depreciation	1.6	1.9	1.89	20%	-2%	
PBIT/EBIT	11.7	21.8	14.76	26%	-32%	
Interest	5.2	4.9	2.42	-54%	-51%	
PBT	6.5	16.9	12.34	90%	-27%	
Current Tax	3.6	6.6	5.08	43%	-23%	
Provision for Tax	4.4	6.6	5.08	16%	-23%	
Tax Rate	67%	39%	41%	-39%	5%	
<b>PAT</b>	<b>2.1</b>	<b>10.3</b>	<b>7.26</b>	<b>242%</b>	<b>-29%</b>	
Extraordinary Item	0.0	0.0	0.25	1289%		
<b>Adjusted Net Profit</b>	<b>2.1</b>	<b>10.3</b>	<b>7.01</b>	<b>233%</b>	<b>-32%</b>	Net profit was up by 233% y-o-y to Rs 7.01 Cr on the back of 103% y-o-y increase in other income & lower interest & Tax expense
EPS	0.7	3.5	2.15	196%	-39%	
<b>Margins</b>						
OPM	12.4%	21.4%	15.3%	282bps	-617bps	OPM improved y-o-y on the back of decrease in WIP & in RM consumption partially offset by y-o-y increase in other expenditure
NPM	2.1%	9.4%	7.5%	538bps	-185bps	NPM improved y-o-y on the back of y-o-y decrease in tax expense & interest expense

Source: Company Data, KRC Research



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**Sabero Organics Gujarat Ltd.**

**Rating Legend**

Our Rating	Upside
Strong Buy	More than 25%
Buy	15% - 25%
Hold	10% - 15%
Reduce	Nil - 10%
Sell	Less than 0%

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