SABERO ORGANICS GUJARAT LTD.

10th June, 2010.

SENSEX: 16922
NIFTY : 5079

Recommendation: BUY
Target Price : Rs 96

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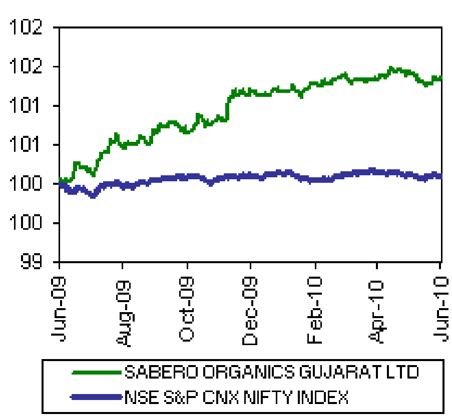
Key Statistics	
Lastest Price	75.8
52 Week High	89.0
52 Week Low	22.4
Traded on	BSE,NSE

Share Holding Pattern	
Promoters	42.2%
FIIs	0.2%
DIIs	0.3%
Others	57.4%

Market Data	
PE Ratio	5.7
EPS	13.2
Market Cap (Cr)	256.0
Outstanding Shares(Cr)	3.4
Book Value/Share(Rs)	34.0
Beta	1.2
Face Value	10.0

Technical Indicators	
200 day MA	62.6
100 day MA	74.0
50 day MA	76.5

Nifty Vs Stock Movement



Company Overview:

Sabero Organics Gujarat Ltd. (SOGL) was incorporated in 1991 by Mr. Hero Chuganee and Associates along with Gujarat Industrial Investment Corporation (GIIC). The Company was established to manufacture specialty chemicals and intermediates for crop protection.

The Company has a diversified portfolio of products which include a variety of fungicides, herbicides, insecticides and specialty chemicals.

Herbicides → The largest herbicide globally is Glyphosate, which is used to kill unwanted plants both in agricultural and non-agricultural landscapes. The demand for this product has gone up significantly. The Company recently obtained registration for glyphosate technical in Europe and is focusing on high margin markets like Africa and Latin America.

Fungicides → In fungicides, Mancozeb is the largest selling product. The Company has recently expanded its Mancozeb capacity to 30000 MT, which has potential to deliver $ 125 million of revenues at full capacity. The Company has gained significant market share in Philippines, Ecuador, Guatemala, Cameroun, Costa Rica, and Columbia and also in some European countries.

Insecticides → The largest selling insecticide globally is Chlorpyriphos. The demand for this product has increased globally. The Company has received orders from Brazil in excess of half of its capacity from Brazil alone. The Company is also a significant producer of acephate, the other large selling insecticide and a major product in India, Brazil, USA, Argentina, Paraguay and Japan.

Sabero Organics has offices and subsidiaries in Europe, Brazil, Argentina, Philippines and Australia. It is also a recognized export house with over 60% of its revenues from International markets.

Industry Overview:

India ranks second worldwide in farm output. Agriculture and allied sectors like forestry, logging and fishing accounted for 18% of the GDP in 2007, employed 70% of the total workforce and despite a steady decline of its share in the GDP, is still the largest economic sector and plays a significant role in the overall socio-economic development of India. Yields per unit area of all crops have grown since 1950, due to the special emphasis placed on agriculture in the five-year plans and steady improvements in irrigation, technology, application of modern agricultural practices and provision of agricultural credit and subsidies since the Green revolution in India.

Demand for Agrochemicals is expected to be very strong in the coming years due to the following reasons:

- International comparisons reveal that the average yield in India is only 30% to 50% of the highest average yield in the world. Shortage of food across the world has already pushed the demand for agrochemicals to a huge extent.
- The World's population is currently 6.7 billion and 750 million people are born every year. The population is expected to reach 9 billion by 2050. To keep pace with the growing population, food production, especially in the developing countries will have to double by 2050.
- The farmers will have to boost their yields. This will encourage the demand for agrochemicals, being one of the key inputs to increasing yield.

Investment Rationale:

1. **Encouraging Annual performance:**

    - The company's revenue from operations stood at Rs. 461 crores for FY10 as against Rs. 399 crores recorded during the previous year, reflecting overall growth of 15.54%. Domestic sales have shown a good growth of over 40% to Rs 180 crore in FY10 from Rs 127 crore in FY09.
    - SOGL's EBITDA grew by 62.5% YoY to Rs 85.87 crores in FY10 as compared to Rs 52.82 crores in FY09. The Company's operating margins improved to 19.95% for the entire current financial year as compared to 14.41% in the previous financial year.
    - The net profit for FY10 stood at Rs. 38.72 crores as compared to Rs. 21.79 crores during the previous year, reflecting growth of 77.69%. The Net Profit margin increased to 9% in FY10 as compared to 5.92% in FY09.
    - Sabero Organcis reported an EPS growth of 76.04% YoY to Rs 13.15 in FY10 as compared to Rs 7.47 in FY09.
    - The raw material prices have come down and stabilized after reaching an all time high in the year 2008. At the same time, there has been an increase in the prices of finished products. This has enabled the Company to have a larger spread on its profits margins as it can procure raw materials at lower prices and sell finished products at higher prices.

- The Company has the following products in its portfolio:

Product	Type	Ranking in India	Ranking in the World	Closest Competitor
Mancozeb	Fungicide	First	Second	United Phosphorous
Glyphosate	Herbicide	First	Second	Excel Crop Care
Chlorpyriphos & Acephate	Insecticides	Major Player	Major Player	United Phosphorous

2. Recent Developments:

- **Foray into Formulations Business:**
In order to become an integrated player in the crop protection industry, the Company has now forayed into formulations business. The Company's strategy is to use its own technical products to form formulations such as Mancozeb (EmthaneM45), Glyphosate (Glyweed), Acephate (Acehero), Monochrotophos (Mophos) and Chlorpriphos (Robust).
The Company is also planning to set up its plant in Dahej SEZ which will help the company to further reduce its cost. Also, it plans to launch 2-3 new products every year to enhance its product base and help it in forward and backward integration.

- **Launch of New Products:**
Sabero Organics Gujarat Ltd. 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. All these product registrations offer a revenue potential of Rs 40 cr to Rs 80 cr each and is expected to drive the Company's topline.

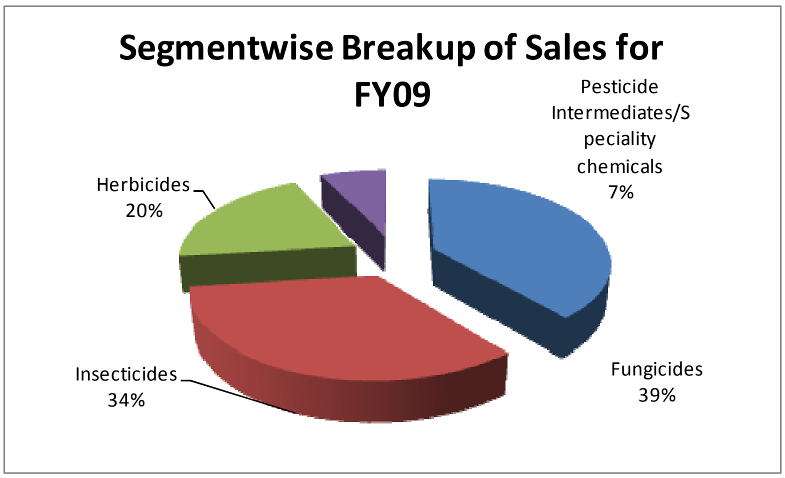
- **Environmental Restrictions in China:**
Just prior to the Olympics in China, the Chinese Government imposed strict norms for environmental protection. The Government imposed restrictions on production and sale of over 257 chemicals in areas within 500 km radius of Beijing. This led to closure of large no. of capacities and rise in cost due to installation of waste/water treatment facilities for the existing capacities. This had a spillover effect on global demand and supply as, reduction in capacity and rise in prices of Chinese products, increased the demand for Indian exports by 20-25%.

Peer Comparison:

Company	Latest Price	Equity Base (Cr)	FY 2010 (Rs in Cr)		PAT Margins	EPS	PE Ratio
			Sales	PAT			
SABERO ORGANICS GUJARAT LTD	75.8	33.8	430.3	38.7	9.0%	13.2	5.7
UNITED PHOSPHORUS LTD	187.4	87.8	5,290.0	529.6	10.0%	11.4	16.4
MONSANTO INDIA LTD	1,585.3	8.6	410.1	53.8	13.1%	62.4	25.4
EXCEL CROP CARE LTD	199.7	5.5	700.9	34.1	4.9%	31.0	6.4

3. Strengths:

To some extent the agriculture segment is insulated from the financial markets and economic scenario. However, its performance is closely linked to weather and climatic conditions. The Company exports 65% of its turnover and to that extent is insulated from regional climatic conditions, diversifying this risk by selling to countries in all parts of the world in the southern and northern hemispheres, thereby neutralizing the seasonality issue as both hemispheres have opposing climates throughout the year. In addition, it is prevalent in all three segments of insecticides, fungicides and herbicides, which have demand in different seasons, and so if there is dip in demand in one segment, it can be made up by demand in the other segments.



4. Threats:

Exchange Rate Fluctuations: The Company derives nearly 2/3rds of its revenues from exports. The Company also imports substantial portion of its raw materials. Thus, this import and export balance acts as a natural hedge against exchange rate fluctuations. However, under circumstances of adverse currency fluctuations, the Company may be significantly exposed.

Crude Oil Prices: The crude oil prices have cooled off from their peaks, thus playing to the advantage of agrochemical players, as prices of chemicals are linked to crude prices and crude linked derivatives. At the same time the companies are also saddled with high cost inventory purchased at the peak of price rise. Thus, as crude oil fluctuates, it impacts the prices of various crop protection products.

Registration of products: The Agrochemical products need to be registered with the Department of Agriculture of the respective countries. These products have to go through actual field trials before they are allowed to be sold. The registration process takes anywhere between 6 months to 3 years and also require significant capital investment.

Financial Performance:

(Rs. In Cr.)

ANNUAL RESULTS	201003 (12)	200903 (12)	200803 (12)	200703 (12)	200603 (12)
Income Statement					
Operating Income	430.3	366.7	207.3	154.3	137.7
Total Income	434.0	368.2	208.8	164.3	144.7
Operating Profit	85.9	52.8	28.7	18.6	14.6
Gross Profit	78.4	45.6	13.6	6.4	5.9
Profit Before Tax	61.3	30.0	8.3	1.4	1.1
Net Profit	39.0	21.8	5.9	0.4	0.2
Adjusted Net Profit	38.7	21.8	6.3	0.4	0.2
EPS (Rs)	13.2	7.5	2.0	0.2	0.1
Book Value (Unit Curr.)	34.0	24.9	17.9	16.0	15.9
Balance Sheet					
SOURCES OF FUNDS :					
Share Capital	33.8	29.2	29.2	27.3	25.5
Reserves Total	81.2	43.7	23.0	16.3	15.1
Total Shareholders Funds	115.0	72.9	52.2	43.6	40.6
Total Debt	82.0	75.7	55.3	62.2	60.0
Net Deferred Tax	11.3	6.3	4.6	3.7	3.0
Total Liabilities	***208.3***	***154.9***	***112.1***	***109.5***	***103.5***
APPLICATION OF FUNDS :					
Net Block	92.5	91.8	58.3	60.1	61.4
Capital Work in Progress	0.0	-	1.3	-	-
Investments	0.5	0.5	0.0	0.0	0.0
Total Current Assets	194.4	162.0	113.7	89.5	76.3
Total Current Liabilities	79.2	99.4	61.2	40.7	34.3
Net Current Assets	115.3	62.6	52.5	48.9	42.1
Miscellaneous Expenditure	-	-	-	0.5	-
Total Assets	***208.3***	***154.9***	***112.1***	***109.5***	***103.5***

*Figures for FY08, FY09 and FY10 are consolidated, rest are standalone

Valuation:

Based on fundamental analysis, at an estimated EPS of Rs 16 for FY11E and PE of 6x, we recommend a ‘BUY’ on Sabero Organics Gujarat Ltd. with a target price of Rs 96 a potential upside of 27%.

Technical Analysis:

Chart: Sabero Organics, weekly, Bloomberg

Technically, Sabero Organics is clear market performer when compared with benchmark index nifty. We advise long term investors to accumulate around 70- 73 levels for target of 89 / 108. The stock is having strong support@70/ 59/49 levels.

Major Support:	70/59/49
Major Resistance:	89/108/119

Note:

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1. Name of the analyst	: Praveen Kumar Dodda, Priyanka Damle
2. Qualifications of the analysts	: B.E., MBA; B.Com, C.A.
3. Analysts' ownership of any stock related to the information contained	: NIL
4. TSL ownership of any stock related to the information contained	: NIL
5. Broking relationship with company covered	: NO
6. Investment Banking relationship with company covered	: NO
7. CFD (prop book/pledge) relationship with company covered	: NO

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