

10<sup>th</sup> February 2010

### Sabero Organics

#### Summary

Sector	Fertilizers & Chemicals
Reuters Code	SBRO.BO
BLOOMBERG Code	SOG@IN
Close Price(INR)	71
52 wk High(INR)(20 Jan 10)	76
52 wk Low(INR)(26 Feb 09)	10.25
Beta	1.171
Exchange	BSE
Total Market Cap (USD)	46.82
Total Market Cap (INR)	219.2cr
PE	6.472
EPS(Adj)(INR)	10.93
DPS(Gross)(INR)	-
Gross Div Yld %	

#### Key Ratios

Return on Equity %	29.78
Return on Total Assets %	10.09
Operating Margin %	11.88
BVPS(INR)	23.43
Quick Ratio	1.2
Total Assets / Equity	3.58
Earnings Yld %	15.451
Price To Book	3.022
Total Liab / Equity	2.58

#### Holdings Profile

Tradable Shares O/S	14.65m
Float	50.00%
Insider/Stake Ownership	50.09%
Institutional Ownership	0.17%
Mutual Funds Ownership	0.16%

Niranjan Risbood

Harshal Kute

Joseph Pulikkottil

- Sabero Organics Gujarat (SABORGGU) was established in 1991 to manufacture speciality chemicals and intermediates for the crop protection business. Sabero then forward integrated in 1997 into manufacturing crop protection chemicals including acephate and monocrotophos (insecticides), glyphosate (herbicide) and mancozeb fungicide). The company's customers include the farmers and manufacturers of pesticides, optical brighteners, formulators, herbicides, insecticides, and flame-
- Sabero also has its own brand of agrochemical formulations such as Ethephon, Cypermethrin, Chlorpyrifos, Dichlorvos, Profenofos, Triazophos, Propiconazole, Hexconazole, etc. The Company currently has distributors in various countries and exports its products to over 50 countries covering Australia, Asia, Africa, Europe, Middle East and the Americas. It has recently set up subsidiaries in Australia, Argentina, Netherlands and Brazil.

#### Positives:

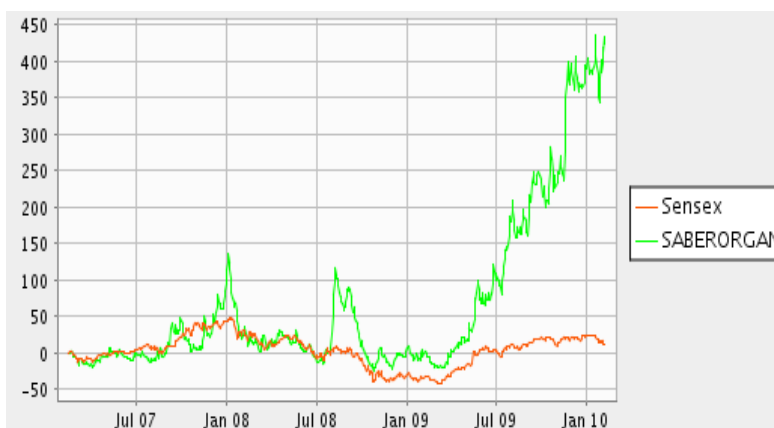
- Launched 4-5 new products in key global markets, few more in pipeline over the next two quarters.
- Significant operating leverage to drive bottomline
- Diversified export destinations with focus in key markets
- Valuation attractive compared to peers

#### Key Risks:

Agrochemical prices are dependant on crude and crude linked derivatives. As crude prices fluctuate, it impacts the prices of various crop protection products.

#### Conclusion

Going forward, growth is likely to be driven by a ramp up in sales of its existing products, product approvals in other key markets and new product launches in the domestic & global markets. At current valuations of 5.7x FY10E ,EPS of Rs 12.6 and ROE of 30%,we find the stock attractive compared to its peers in the Industry.



\* Rebalanced Price movements with respect to BSE Sensex

## History

- Promoted by Mr Hero Chuganee and Gujarat Industrial Investment Corporation, Sabero Organics was incorporated in 1991. It has its manufacturing facilities in Gujarat. It began operations in 1994 to manufacture organophosphorus intermediates for the crop protection business like Phosphorus Trichloride (PCL3), Tri Methyl Phosphite (TMP) & Di Ethyl Thio Phosphoryl Chloride (DETC).
- The company then forward integrated to manufacture active ingredients for agrochemicals like: Acephate (insecticide) and Glyphosate (herbicide) in 1998. It strengthened its focus in the international market in 1999 by setting up 6 subsidiaries and commenced exports to Asia, Europe and Australia. Further, it started production of Mancozeb (fungicide) in 2000, which is a key product of the company today and contributes 35 – 40% to its topline. Sabero Organics took its forward integration a step further by foraying into branded agrochemical formulations and built an all India distribution network to push its products in the market.
- The company ventured into Monocrotophos (India's largest selling insecticide) and DDVP in 2002. In 2005, it started manufacturing Chloropyriphos (world's largest selling insecticide). After gaining a respectable market share in these products, the company shifted its focus to expansion and growth.
- During the financial year 2008-09, it embarked on a major capex program to expand its Mancozeb, Chloropyriphos and Glyphosate capacities. Its Acephate and Monocrotophos plants also underwent debottlenecking creating opportunities for efficiency improvement.

## Management

- Sabero Organics is promoted by the Chuganee family, which has more than 3 decades of experience in the business.
- The company was incorporated by Mr. Hero Chuganee, who has extensive work experience in the specialty chemicals industry. Prior to promoting Sabero Organics, he was the CEO for Rohm & Haas, India for 15 years – a premier specialty chemicals company. Currently, the company is headed by Mr. Mohit Chuganee, Vice-Chairman & MD along with Mr. Sumit Chuganee, Joint MD both of whom have a comprehensive working experience with US multinationals.

Source –Company Reports

## Industry overview

- Global Agrochemical industry has grown at a CAGR of 7.1% over CY01- 08 to US\$41.7 billion. For CY08, the industry registered outstanding growth of 25% y-o-y on the back of volume growth and increase in price. Global agrochemical industry is highly consolidated since top 6 companies contribute ~80% of total revenues. We believe that generic companies have to follow inorganic growth route, given the excessive regulatory environment and regional nature of different markets.
- Lengthy registration processes, extremely regulated environment, knowledge of regional markets, legislative framework and access to distribution channels create strong entry barriers for any new player to enter into the market. It also results in a long gestation period of 3-4 years for commercial launch of any new product. To cop with this challenging environment and to reduce the time line, generic players usually follow the inorganic route.
- North America, with a share of 26% in total consumption, is the largest consumer of agrichemicals globally, The Asia-pacific and EU Regions consume almost the same amount of agrochemicals. India's consumption of agrichemical is one of the lowest in the world. Standing at 0.6kg/hectare. This compares very poorly with other countries that have less arable under coverage. For instance, countries like Taiwan, Japan, Holland

and Korea have higher consumption than India. We believe this again highlights the under usage of agrochemicals by Indian farmers and unexploited opportunity for the agrochemical companies. India produces ~16% of the world's total food grain production and uses only ~2% of pesticides.

- Globally demand for pesticides would continue to grow at a CAGR of 3 – 4% for next few years. Indian agrochemical industry is poised to grow at 10% p.a. on the back of lower per capita consumption, stagnant acreage under cultivation and yield, increasing population to demand more food grains

## Competition and Players

Globally, six major innovators control 75% of the total market, while 4-5 generic players control 10% and the balance 15% is controlled by hundreds of small regional players.

Company	Sales (US\$ bn)
Bayer	9.3
Syngenta	9.1
Dupont	7.9
BASF	4.9
Dow	4.5
Monsanto	4
MAI	2.3
Nufarm	2.2
Sumitomo	2.2
FMC	1
UPL	1

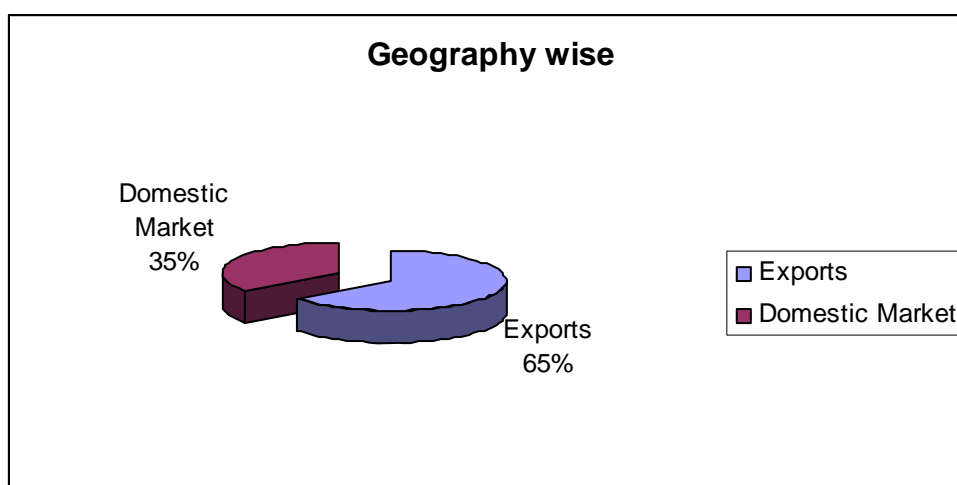
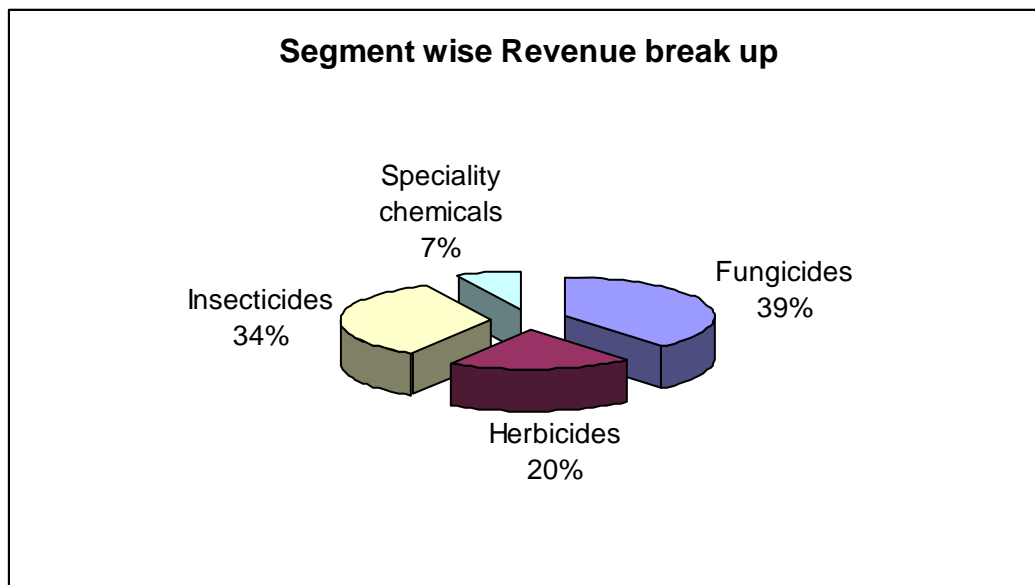
Source – Industry, KRC

## Sabero Products

- Herbicides, fungicides and insecticides contribute 19%, 40% and 32% to the topline of the company. In fungicides, Mancozeb is the highest contributor with 80-90% of its fungicides revenues and SOL is the world's 2nd largest manufacturer of Mancozeb after United Phosphorus Ltd. In herbicides, the company's main product is Glyphosate (50-60% of herbicides revenues) while in insecticides, key products are Acephate (25-30%), Monocrotophos (25-30%) and Chloropyriphos (25-30%).  
Unlike a domestic agrochemicals company, SOL is fairly insulated from volatility in revenues owing to its balanced product portfolio and global exposure.
- Sabero Organics has both branded and unbranded products in its portfolio. Products sold under the company's brand name (sold to dealers and distributors) contribute ~25% to the company's topline and command higher margins (2-4% higher than average margins) compared to its unbranded business. Its unbranded business primarily comprises of B2B under which, Sabero's products are packaged and sold to other companies who then sell them under their own brand name. SOL has, over a period of time, established brands like Mophos, Acehero and Glyweed, which are currently amongst the top 5 brands in the country. Its other brands include Robust, Lava and Emthane 45.

- SOL has been aggressively filing for new product registrations in key markets like US, Europe, Australia, Argentina, Brazil, Latin America etc over the last 2-3 years. In the previous 3-4 quarters, it has already registered 4-5 new products in key markets like Australia, Argentina etc. Management expects approval of 3-4 more products in the next two quarters. All these product registrations offer a revenue potential Rs 400 mn to Rs 800 each (US\$ 8 mn – 15 mn) and is expected drive company's topline.

### Revenue Breakup



Source –Company Reports

## Valuations

Considering the other leading players in the industry like Rallis India and United Phosphorous which are trading at FY10 P/E of 11-14x we found that valuations of Sabero are attractive. It is trading at 5.7x FY10 & 3.9x FY11 street estimates. It has attractive Return on Equity of 30%.

## KEY RATIOS

Profitability Ratios		Market Ratios	
Return on Equity %	29.78	PE	6.472
Return on Total Assets %	10.09	PE 52W High	19.182
Return on Capital Emp. %	47.29	PE 52W Low	1.48
Return on Fixed Assets %	26.86	Gross Div Yld %	
Operating Margin %	11.88	Gross Div Yld 52W High %	
Pretax Margin %	7.52	Gross Div Yld 52W Low %	
Net Margin %	5.43	Net Div Yld %	
Cashflow / Sales	0.09	Net Div Yld 52W High %	
Cashflow / Equity	0.47	Net Div Yld 52W Low %	
Cashflow / Total Liability	0.18	Earnings Yld %	15.451
Free Cashflow	(34.20m)	Price To Book	3.022
EBIT	466.20m	Beta	1.171
EBITDA	522.90m	Price To Sales	0.551

## Liquidity and Asset Ratios

Total Assets / Equity	3.58
Cashflow / Interest	2.08
Sales / Assets	1.86
Sales / Inventory	9.02
Sales / Receivables	5.4
Sales / Working Cap	6.83
BVPS (latest)	23.43

Source –Reuters

## Key Financials

Historical Reports - Annual (Consolidated)					
	31-Mar-09	31-Mar-08	31-Mar-07	31-Mar-06	31-Mar-05
	(INR)	(INR)	(INR)	(INR)	(INR)
	12 Months	12 Months	12 Months	12 Months	12 Months
<b>Profit &amp; Loss</b>					
Revenue	3,994.4m	2,172.7m	1,700.3m	1,547.2m	1,400.1m
Operating Costs	3,478.8m	1,925.1m	1,528.4m	1,401.9m	1,134.5m
~Depreciation	56.7m	52.8m	50.3m	48.6m	46.7m
~Total Staff Costs	120.9m	98.1m	78.1m	70.8m	61.7m
Operating Result	474.5m	218.5m	139.2m	102.2m	96m
Net Int Exp/(Inc)	165.9m	143.5m	119.6m	86.8m	75.9m
Interest Payable	171.4m	148.2m	122.5m	86.8m	75.9m
Pretax Profit/Loss	300.3m	67.8m	14.2m	14.1m	19.1m
Tax	82.4m	19.1m	10.1m	12.3m	(11.9m)
Net Profit/Loss	217.9m	48.7m	4.1m	1.8m	31m
Net Attributable	217m	47.1m	2.7m	1.7m	26m
<b>Balance Sheet-Assets</b>					
Total Current Assets	1,646.4m	1,040.1m	895.6m	763.3m	584.2m
~Cash & Equivalent	184.2m	132.5m	90.4m	71.1m	46.6m
~Receivables	968.1m	510.4m	383.3m	354.7m	298.1m
~Inventories	488.9m	396.6m	421.7m	337.3m	239.2m
Fixed Assets	962.1m	653.7m	679.5m	614.2m	710.6m
Total Assets	2,608.5m	1,693.8m	1,575.1m	1,377.5m	1,294.8m
<b>Balance Sheet-Liabilities</b>					
Total Liabilities	1,879.9m	1,183.1m	1,139.2m	971.9m	1,015.2m
~Current Liabilities	962.5m	553.6m	404.7m	339.8m	329.1m
~Long Term Debt	274.8m	167.9m	235.2m	290.1m	328m
Shareholders' Equity	728.6m	510.7m	435.9m	405.6m	279.6m

Source –Reuters

## Risks

- Mancozeb is the largest product of the company. It contributes 35-40% to its topline. Large share of one product in the portfolio makes the company vulnerable to price and demand fluctuations.
- Agrochemical prices are dependant on crude and crude linked derivatives. As crude prices fluctuate, it impacts the prices of various crop protection products.
- China is a large producer of many agrochemical products and due to its economies of scale, it poses significant threat to smaller Indian players like Sabero Organics (especially in highly commoditized products like Glyphosate).
- As the company exports ~65% of its products, it is exposed to the severe currency fluctuations we have witnessed in the recent past.

## Conclusion

- Going forward, growth is likely to be driven by a ramp up in sales of its existing products, product approvals in other key markets and new product launches in the domestic as well as global markets. At current valuations of 5.7x FY10 ,EPS of Rs 12.6 and ROE of 41%, we find the stock attractive compared to leading peers in the industry.

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