



Sabero Organics

Web: www.sabero.com

A MINI - UNITED PHOSPHORUS

Risk	LOW
Price (Rs.)	27.00
Market Cap (Rs.Crs.)	79
52 High / Low (Rs.)	31.70 / 9.42
Sales/MCap	4.65
Book Value (Rs.)	24.23
BSE	524446
NSE	SABERORGAN
Reuters	SBRO.BO
Bloomberg	SOG IN

Key Financials

(Rs Crores)	FY08	FY09	% chg
Gross Sales	196.1	366.66	87.0
PBIDT	27.31	52.84	93.5
Other Income	2.37	1.56	-34.2
Interest	14.83	17.14	15.6
Depreciation	5.28	5.67	7.4
Tax	0.83	6.22	649.4
Net Profit	5.29	21.77	311.5
EPS (Rs)	1.81	7.46	311.5
CEPS (Rs)	3.62	9.40	159.6
F.V. (Rs)	10.00	10.00	0.0
Dividend (%)	0.00	0.00	-
Equity Capital	29.18	29.18	0.0
PE (x)	14.89	3.62	-75.7

Latest Results

(Rs Crores)	Q4 FY08	Q4 FY09	% chg
Gross Sales	64.70	110.05	70.1
PBIDT	11.00	13.31	21.0
Tax	0.83	3.55	327.7
Net Profit	1.77	2.13	20.3
Equity	29.18	29.18	0.0
EPS	0.61	0.73	20.3

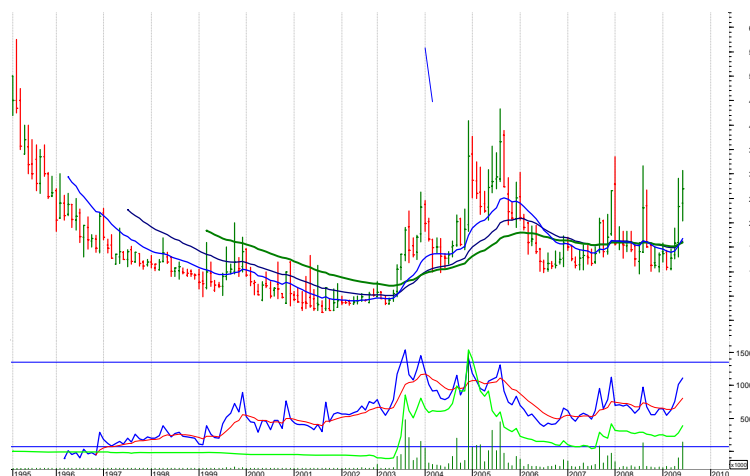
Shareholding Pattern

(%)	Dec-08	Mar-09	change
Foreign	24.15	24.02	-0.13
Institutions	0.01	0.01	0.00
Corp. Holding	4.37	4.16	-0.21
Promoters	38.80	38.80	0.00
Public&Others	32.69	33.02	0.33

Investment Argument

- Company is an integrated agrochemical player and **largest producer of 2 of its key products [Mencozed & Glyphosate]**, in India and second largest in world.
- Capacities of its key products doubled** recently [in Jan'09], full benefit of which will accrue from current year onwards. With most of the production tied up for sales to large MNCs, accounting for almost 70% of total sales, hence domestic monsoon conditions will have limited impact on sales.
- With **over 200 product registrations of bulk & 45 for formulations across 35 countries**, export potential is huge.
- Company is **targeting to grow from current sales of Rs 366 Crs to around Rs 1000 Crs in next 3 years**, with commensurate rise in profits.
- The valuations of company deserve a re-rating because – post Chinese Olympics, dynamics of industry changed for better. [This is following Chinese stricter norms for environmental protection, leading to closure of capacities and for remaining plants, there was a rise in cost due to installation of waste/water treatment facilities]. This led to a general rise in product prices since last year.
- This led to a **general improvement in margins** for this industry, which is yet not captured in by valuations of this sector, [which were very poor traditionally due to low margins], **now needs to be re-rated due to better margin trend.**
- The Present Mkt cap [Rs 80 Crs] of company is less than 25% of the sales for '09, and replacement cost is just 30%. Thus offering huge scope for appreciation.
- At present **stock discounts 2010 earnings by just 2X** and going by stated target of attaining Rs 1000 Crs turnover in 2-3 years, it deserves at least 4-5X discounting, leading to **one year target of Rs 48-60 and 2 years target of Rs over Rs 75-90.**

Technical Trends





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Projections

Key Financials

(Rs Crores)	FY09	FY10E	% chg
Gross Sales	366.66	505.00	37.7
PBIDT	52.84	70.50	33.4
Other Income	1.56	1.50	0.0
Interest	17.14	18.00	5.0
Depreciation	5.67	6.00	5.8
Tax	6.22	9.00	44.7
Net Profit	21.77	39.00	79.1
EPS (Rs)	7.46	13.37	79.1
CEPS (Rs)	9.40	15.42	64.0
F.V. (Rs)	10	10.00	0.0
Dividend (%)	0	15.00	-
Equity Capital	29.18	29.18	0.0

Background

An integrated agrochemical company - engaged in manufacturing of variety of **Fungicides, Herbicides and Insecticides**. With recent expansion of capacities in Jan-feb'09, the capacity of key products has almost doubled. Company **exports almost 65-70% of the products to MNC** agrochem giants, while 30% comes from domestic markets [where its focus is branded formulations]. It has long term supply arrangements with most of the bulk foreign buyers, where sales are based on market oriented fair prices, considering input price trend also. In domestic market it has around 13 stockiest and 500 dealers across the country.

Company is almost fully integrated and in case of key phosphorus based products, it **manufactures them right from the basic phosphorus stage**; thus value addition is quite high. Apart from this in general, Agrochemicals players in India are doing well because of the -1. shifting of production base from developed world to this part of world, due to cost advantage. 2. Rising prices of these products, due to China imposing stricter norms for environmental protection, which led to closure of large capacities and for rest, cost of production went up due to installation of waste/water treatment plants.

The entry barrier in this business is – Product registrations for sales in global markets. Like pharma generics, here you need to get **field trial** of products and inspection of manufacturing sites to **comply with GMP**, which takes time to get approvals from authorities of different countries. Here the company has almost **200 registrations for bulk technical and 45 product registrations for formulations, across US, Europe and other 30 countries.**

Company's key product is - **Mancozeb** [largest consumed fungicide in the world], where it is **largest player in India and second largest in world.** [local main competitor is United Phosphorus]. Second key product is – **Glyphosate** [largest consumed herbicide in the world], here also **company is largest producer in India and second largest in world.** [local main competitor is Excel] Third major product twines are - **Chlorpyrifos & Acephate** [new generation high growth Insecticides], where company is again a major player [main local competitor is United Phosphorus]. In this category [insecticides], company also manufactures – **Monochrotophos & DDVP**, where in also, key competitors are United Phosphorus & Excel.

Clear Water Capital Partners, holds **11.42% stake** in company [as on March '09] since last couple of years. Average cost of holding for this fund may be over Rs 50 by now.

Peer Valuations

The key competitors of Company are – **United Phosphorus, Excel and Rallis India**. If we compare the valuations of this company with Sabero for the latest '09 results, **Sabero looks quite attractive at 2.4X of '09 earnings**, compared to United Phosphorus at over 40X, Rallis at 11X and Excel at 6X. for '09.

Recommendation

Stock is available at comparatively attractive valuations compared to peers it deserves at least 4-5X discounting, leading to one year target around Rs 48-60 and 2 years target of between Rs over Rs 75-90.