

At the current price of Rs. 35.25, SOGL is available at 4.7 times its FY09 EPS. We feel that investors could buy the stock at current levels and average on dips to Rs 28 with sequential targets of Rs 42 to Rs 49 in the next 2 quarters.

Company Background

Sabero Organics Gujarat Limited (SOGL) was established in the year 1991 to manufacture specialty chemicals and intermediates for the crop protection business. It then forward integrated in 1997 into manufacturing crop protection chemicals. In order to have a diversified portfolio, SOGL chose one or two key products in each sector such as Acephate and Monocrotophos (Insecticides), Glyphosate (Herbicide) and Mancozeb (Fungicide). As the company was already manufacturing some of the intermediates for these products, it excelled in the technology for manufacturing organophosphorus and dithiocarbamate products.

Apart from sales of unbranded technical and formulations, the Company also established in 1997 its business of branded agrochemical formulations. It launched a full range of products, which included in addition to its own technical based product, other products such as Ethephon, Cypermethrin, Chlorpyrifos, Dichlorvos, Profenofos, Triazophos, Propiconazole, and Hexconazole etc. The company went public in the year 1994 through an IPO, which was followed up by a Rights Issue in 1997.

SOGL has an extensive manufacturing facility with state-of-the-art sophisticated equipments and PLC based process control. The Company is a signatory to the Responsible Care Program and has extensive facilities for treatment of all wastes to meet statutory environmental standards. It has extensive facilities centered on various methods of treatment & mitigation with redundancy including a biological effluent treatment plant, chemical treatment plant, incinerators, by product recovery plant and multiple effect evaporators. All these facilities were extensively upgraded and expanded in FY09.

The company first started manufacturing Organo Phosphorous Pesticide Intermediates, Phosphorus Trichloride (PCL3), Tri Methyl Phosphite (TMP) & Di Ethyl Thio Phosphoryl Chloride (DETC), in 1994. In 1998, SOGL forward integrated into the manufacture of active ingredients, Acephate and Glyphosate. In 2000, it started production of Mancozeb and also forward integrated into branded formulations, building an all India distribution network. It started exports to Asia, Australia & Europe in 1999 onwards. It also then formed subsidiaries in Europe and Australia. In the year 2002 it started manufacturing Monocrotophos and Dichlorvos. It later expanded the export business to Latin America, USA and Africa from 2002 onwards. In the year 2005 it started to manufacture Chlorpyrifos and set up subsidiaries in Brazil and Argentina by 2006. It debottlenecked Acephate & Monocrotophos plants in 2008. During the financial year 2008 –09 it undertook a major project to expand Mancozeb, Chlorpyrifos & Glyphosate capacities with majority of the capital investment in Mancozeb.

Company Highlights

- Manufacturing facility located in Gujarat
- Recognized export house with more than 65% of its revenues coming from exports
- Amongst the lowest cost producers in the world for its main products
- ISO 9001 & ISO 14001 certified
- R&D Department recognized by Govt. of India
- Employs 525 people
- Pioneer industry title by Govt. of Gujarat

Promoter Background

The Chuganee Family promoted SOGL. Its Chairman H J Chuganee has more than 4 decades of experience as a technocrat and was the CEO of Rohm & Haas, India for 15 years. The shareholding of Chuganee family and associated stands at 42% (post warrant conversion – 46.72 lac warrants allotted in June 2009).

Products

The segments of the market that SOGL operates in are:

- Intermediates: PCL3, TMP & TEP
- Technicals: Acephate, Mancozeb, Maneb, Propineb, Zineb, Monocrotophos, Glyphosate, DDVP and Chlorpyrifos
- Formulations: 13 different products sold under different brand names based on own and 3rd party technicals

Planning to Introduce:

- Insecticides: Fipronil
- Herbicides: Trichlopyr, Clodinafop Propargyl Bispyribac Sodium

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.

**Manufacturing Capacities of Different Products**

Product	TPA
PCL3	20000
TMP/TEP	6000/5200
DETC/DMTC Amide - product discontinued - may restart	2000
Monocrotophos	1980
Chlorpyriphos	2080
Mancozeb Technical/Wettable Powder/Other liquid formulations/Propineb/Zineb/Maneb/WDG	30000
Dichlorovoros	1500
Glyphosate Tech/41% SL (MT/KL) WDG	5000
Acephate including WDG	2600

TriggersVarious product registrations obtained from around the globe

One of the prime tasks of a chemical company that wishes to spread its wing in the international arena is to obtain the necessary product registrations in the desired countries. SOGL has obtained comprehensive registration dossiers of its products from European and Indian labs. In all SOGL and its subsidiaries have got 240 registrations in 50 countries and are selling its products in these countries, including those where importers have their own registrations. This has enabled the company to spread its wing widely into the global market and take advantage of the international arena. Registrations are granted by the EPA/Dept of Agriculture in respective countries and are a barrier to entry into that market and prerequisite to selling in that market. Registrations are tedious and take long time and large sum of money to be obtained especially in the North and South American countries. It could take anytime between three months to even three years in certain regions to get the product registrations. SOGL obtained its first registration of Chlorpyriphos in Brazil in April 2009 after a struggle of 3 long years and is expected to obtain three more registrations in Mancozeb, Acephate & Glyphosate in Brazil the current fiscal year. The company also obtained Glyphosate registration in Europe in 2008.

Stabilization of raw material prices over the last few months to help SOGL

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 a net increase in the finished goods prices, which has enabled the company to have a larger spread on its profits since it is able to procure the raw materials at lower prices and sell the finished goods at higher prices thereby enhancing the margins. The stability in the raw material price is likely to continue going forward and therefore provides the company ample scope to continue to reap benefits from the pricing spread available.

Strategic setting up of subsidiaries around the globe

SOGL has 6 subsidiaries in Australia, Europe, Brazil (2), Philippines and Argentina. These subsidiaries have been set up with the initial purpose of obtaining registrations in the concerned countries. These subsidiaries also enable SOGL to build a strong distribution network in the relevant regions. One of the subsidiaries has started local distribution services in Brazil. Because of the presence of its own subsidiaries in different parts of the world, SOGL is able to access the locals in those countries easily and also is able to obtain registrations comfortably. It has wide network of overseas distribution and agents in 50 countries.

Diversified product portfolio and exports to different geographies

SOGL produces products in each of the main segments of agrochemicals namely Fungicides, Insecticides & Weedicides. The main products are Acephate, Mancozeb and Glyphosate. SOGL is the largest producer of Glyphosate and Mancozeb in the country. It recently completed an expansion of Mancozeb plant to 30000 TPA making itself the second largest manufacturer of the product in the world. SOGL's portfolio of products in different segments of Fungicides (39% of FY09 sales), Insecticides (34%) and Herbicides (20%) has different seasons through out the year. The company therefore exports majority of its production to countries in both southern and northern hemisphere thereby negating the seasonality issue as both the hemispheres have opposing climates throughout the year.

The exports of SOGL in FY09 were 65% of the sales and are expected to reach 70% by the end of the current fiscal. The widespread presence of the company in the global arena enables it to generate more leads for exports and minimizes the risk of seasonality in its business. Export sales have grown from Rs 94 crores in FY07 to Rs 240 crores in FY09 and is expected to grow to Rs 350 crores in FY10. Also 35% of its business is to the multinational companies like Syngenta, Dow, Bayer, Nufarm, Arysta etc, which enables the company to have stability in its business flow going forward. Another 50% is to strong independent domestic companies (in their respective countries, eg India: Rallis, Meghmani, Nagarjuna, Excel, USA: Amvac, Brazil: DVA Brazil, Nortox, CCAB) and balance through dealer as distribution network.

The products produced by SOGL are all premium products and in big demand both in the domestic and international markets. It is the sole supplier globally of TEP as the only other manufacturer Bayer has shut down its production in Germany since December 2003. It is a niche product with good margins. Mancozeb an intermediate is one of the star products of the company (35% of FY09 sales) and the largest selling fungicide globally. Glyphosate a pesticide is the world's largest selling herbicide at a whopping US\$ 4 bn and continues to grow. It is the most widely used herbicide and promoted heavily for use on genetically modified (GM) crops such as Soyabean, maize etc. Its completely backward integrated starting from yellow phosphorous. Monocrotophos a pesticide is among India's largest selling insecticide with United Phosphorous Limited being the only other producer of this insecticide in the country. There are other pesticides like Acephate, which are also leading products in the country and form a major chunk of SOGL's product portfolio.

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[Growth in the demand for agrochemicals in future will help the company grow and expand its capacities.](#)

The world is nearing a population of about 7 billion. It is projected that the total population of the world would be 9 billion by the year 2050. Studies have shown that due to rapid growth expected in the global population, the developing nation which includes India will have to double their food availability by 2 times of now. This pressurizes the farmers to increase their annual yields rapidly and agrochemicals being a key input to the increasing 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. This demand growth will thereby keep alive the need for further products of companies like SOGL. Therefore going forward, SOGL is poised to grow further rapidly in terms of its production capacities thereby requiring more capex from the company. SOGL has already project for expansion at a cost of Rs 35 crores in Q1FY10. Another capex of Rs 50 crores is planned to be executed in the next financial year, which will help SOGL deliver additional sales of Rs 200 crores subsequently.

[Moving up the value chain by growing its formulation business](#)

SOGL ventured into this segment of the business about 5 years ago in order to build brands and add further value. It's a comparatively newer segment for SOGL. The company made the foray conservative due to the intense working capital nature of the business. The strategy focused on building brands of formulations based on its own technicals like Mancozeb ("Emthane –45), Glyphosate (Glyweed), Acephate (Acehero), Monocrotophos (Mophos) and Chlorpyrifos (Robust) & DDVP (Lava). SOGL has been able to establish the brands of Mophos, Acehero & Glyweed among the top 5 brands domestically and aims to continue building other brands in the similar way. The formulation business also includes sale of eight other formulations that are based on technicals bought from other companies in barter with technicals supplied by SOGL. The company's business plan for this segment for the current fiscal is Rs 75 crores and could grow at more than 50% p.a. for the next three years. It has also expanded its operations to over 15 states in India and renewed focus on development work at the farmer level in order to enhance its brands for this purpose it has got over 50 sales force in various states of the country. This will enable the company to enhance its market share in the country and abroad.

Industry Outlook

Chemical Industry

The chemical industry is one of the oldest industries in India. It not only plays a crucial role in meeting the daily needs of the common man, but also contributes significantly towards industrial and economic growth of the country. Indian chemical Industry is worth USD 43 billion, which accounts 1.34% of the global market size of USD 3.2 Trillion (2007). India's share in global export and import is 1.1% and 1.5% respectively. The industry is highly diversified and meets varying demands of the society in all walks of life. It contributes 2.8% GDP of the country.

India produces a large number of fine and specialty chemicals having diverse applications. The broad segments of these are plastic additives, water and paper treatment, paints and coatings, life science and functional chemicals. With overall capacity of about 8 million MT per annum, the total size of industry is approx. USD 12 billion and is expected to grow up to USD 43 billion by 2020 with compound annual growth rate (CAGR) of 11%.

The global chemical industry was affected by the Chinese government's restrictions on the production and sale of over 257 chemicals in areas within 500-km radius of Beijing due to the Olympic games. This had spillover effect on global demand, supply and prices of various commodity chemicals and intermediates. One beneficial impact was that there was about 20-25% rise in chemical exports from India in General and its chemical Gujarat in particular.

The chemical industry in India constitutes 2.8% of GDP. Indian chemical industry has a strong and diversified base encompassing many areas such as organic and inorganic chemicals, plastics, fibres, dye stuffs, paints, pesticides, insecticides, specialty chemicals, drugs and pharmaceuticals. The growth in this sector has consistently been higher than the average growth rate of the manufacturing sector in India.

The fall in crude oil prices from peaks has given welcome breather for the World in general and the chemical sector in particular. Many of the chemicals are crude oil based derivatives, and the producers were impacted by sharp rise in input costs on the one hand and inability to pass on the same on the other. Now, they are saddled with huge inventories of inputs, intermediates and finished goods made from high cost inputs. On the other hand, there is sluggishness in demand post Olympics. But the industry is hopeful that it is heading for better times, thanks to possible exit of a lot of non-compliant small producers in China.

Indian Pesticides Industry

Agriculture is the lynchpin of the Indian economy. Ensuring food security for more than 1 bn Indian population with diminishing cultivable land resource is a herculean task. This necessitates use of high yielding variety of seeds, balance use of fertilisers, judicious use of quality pesticides along with education to farmers and the use of modern farming techniques. It is estimated that India approximately loses 18% of the crop yield valued at Rs.900 bn 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.

Globally, due to consolidation in the industry, the top five global MNCs control almost 78% of the market. In India, the industry is very fragmented with about 30-40 large manufacturers and about 400 formulators. The per hectare consumption of pesticide is low in India

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at 381 grams when compared to the world average of 500 grams. Low consumption 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

With the advent of the Integrated Pest Management (IPM) technique, the use of biopesticides and Genetically Modified (GM) seeds has increased. Globally, GM seeds are used mainly for commercial crops like cotton, maize, soyabean and canola. In India, Bt cotton is widely used and the acreage stood at 6.20 mn ha for 2007, a growth of 63% over the previous year. Use of GM seeds may diminish the use of insecticides but the use of herbicides may improve.

The demand for pesticides can be augmented only through sustainable growth in agriculture. With the government's focus on development of the agriculture sector, the industry may see a better future. The Indian pesticide 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.

Risks and Concerns:

- Even though the raw material prices have stabilized over the last few quarters, there is always a risk of fluctuation in raw material prices that could affect the profitability of the company.
- About 65% of the total sales of SOGL are exported to various countries around the world. Any adverse movement in the rupee will impact the margins of the company. It is therefore exposed to the currency fluctuation issues that could arise during export transactions. However it also imports raw materials and has a partial hedge. (FY08 Exports – Rs 80 crores and Imports – Rs 56 crores)
- Even though China is not a big competitor, it still produces the largest amount of agrochemicals in the world. While China is a competitor in some products, in a majority of the products manufactured by SOGL, it is not a competitor either due to poor quality of its products or they have less/no installed capacity or because they are not cost competitive and provide no registrations/registration support
- Availability of cheap spurious products in the market and the negative image created in the public mind through misinformation about the adverse impact of pesticides on food, water and environment continues to be a cause of concern for the agrochemical industry as a whole.
- Growing competition from new/small players locally/globally continues to be a threat.
- Regulatory/Litigation risk in areas where SOGL operates is a matter of concern.
- Failure of monsoon/availability of irrigated water in key areas of exports by SOGL could affect the demand of agrochemicals and lead to fall in sales/margins of the company.

Conclusion:

SOGL is a prime agrochemicals producing company in the country. It is the largest producer of Mancozeb and Glyphosate in the country and the second largest producer of Mancozeb in the world. SOGL has obtained over 240 product registrations and is present in almost all parts of the globe. Its presence in different geographies enables it to overcome the seasonality issue in its business and therefore enjoys smooth flow of its business operations throughout the year. On a y-o-y basis the company grew its topline in FY09 by 79.48% compared to FY08 and grew its PAT significantly by 222.91% over FY08.

Going forward, it intends to expand its capacities and grow rapidly as the agrochemical industry is set to grow at a fast pace. It is looking for acquisition outside India in the year 2010-11 to grow inorganically. With an increasing sales pipeline due to the increase in the number of product registrations, the company is expected to grow its topline by 30% in FY10 and grow its PAT by 40% in FY10.

Going by the current performance of the company and the huge opportunity it has in the future, SOGL is poised to grow rapidly in the next couple of years. At the current price of Rs. 35.25, SOGL is available at 4.7 times its FY09 Consolidated EPS. We feel that investors could buy the stock at current levels and average on dips to Rs 28 with sequential targets of Rs 42 to Rs 49 in the next 2 quarters.

Financials

Standalone

Rs. Crs

Particulars	FY09	FY08	% Chg	Q4FY09	Q4FY08	y-o-y % Chg	Q3FY09	q-o-q % Chg	Q2FY09	Q1FY09
Gross Sales	366.66	196.10	86.98	110.05	64.70	70.09	87.76	25.40	106.98	87.65
Excise Duty	0.00	0.00	0.00	10.81	5.16	109.50	0.00	0.00	6.97	8.00
Net Sales	366.66	196.10	86.98	99.24	59.54	66.68	87.76	13.08	100.01	79.65
Other Income	1.56	2.37	-34.18	0.97	1.87	-48.13	0.21	361.90	0.24	0.55



Total Income	368.22	198.47	85.53	100.21	61.41	63.18	87.97	13.91	100.25	80.20
Total Expenditure	315.38	171.16	84.26	86.90	50.41	72.39	76.85	13.08	85.40	66.64
PBIDT	52.84	27.31	93.48	13.31	11.00	21.00	11.12	19.69	14.85	13.56
Interest	17.14	14.83	15.58	5.22	6.09	-14.29	3.67	42.23	4.06	4.20
PBDT	35.70	12.48	186.06	8.09	4.91	64.77	7.45	8.59	10.79	9.36
Depreciation	5.67	5.28	7.39	1.58	1.38	14.49	1.38	14.49	1.37	1.33
PBT	30.03	7.20	317.08	6.51	3.53	84.42	6.07	7.25	9.42	8.03
Total Tax	8.24	1.91	331.41	4.37	1.76	148.30	1.07	308.41	1.40	1.40
PAT	21.79	5.29	311.91	2.14	1.77	20.90	5.00	-57.20	8.02	6.63
Equity	29.18	29.18		29.18	29.18		29.18		29.18	29.18
FV	10.00	10.00		10.00	10.00		10.00		10.00	10.00
EPS	7.47	1.81		0.73	0.61		1.71		2.75	2.27

Source: Capitaline

Consolidated

Rs. Crs

Particulars	FY09	FY08	% Chg	Q4FY09	Q3FY09	q-o-q % Chg	Q2FY09	Q1FY09
Gross Sales	410.12	228.50	79.48	116.66	90.12	29.45	113.26	90.08
Excise Duty	32.77	21.16	54.87	17.80	0.00	0.00	6.97	8.00
Net Sales	377.35	207.34	82.00	98.86	90.12	9.70	106.29	82.08
Other Income	1.89	2.41	-21.58	0.80	0.20	300.00	0.31	0.58
Total Income	379.24	209.75	80.81	99.66	90.32	10.34	106.60	82.66
Total Expenditure	326.39	180.68	80.65	86.70	79.14	9.55	91.42	69.13
PBIDT	52.85	29.07	81.80	12.96	11.18	15.92	15.18	13.53
Interest	18.47	15.03	22.89	5.93	3.70	60.27	4.34	4.50
PBDT	34.38	14.04	144.87	7.03	7.48	-6.02	10.84	9.03
Depreciation	5.70	5.28	7.95	1.61	1.38	16.67	1.37	1.34
PBT	28.68	8.76	227.40	5.42	6.10	-11.15	9.47	7.69
Total Tax	8.24	2.43	239.09	4.43	0.99	347.47	1.48	1.34
PAT	20.44	6.33	222.91	0.99	5.11	-80.63	7.99	6.35
Equity	29.18	29.18		29.18	29.18		29.18	29.18
FV	10.00	10.00		10	10.00		10.00	10.00
EPS	7.00	2.17		0.34	1.75		2.74	2.18

Source: Capitaline

Peer Comparison

Rs. Crs

Company	Net Sales		PAT		OPM%		NPM%		BV	EPS	CMP	PE	PBV
	FY09	FY08	FY09	FY08	FY09	FY08	FY09	FY08	FY09	FY09			
United Phosphorus	4802.12	3515.52	485.08	281.07	20.75	18.33	10.10	7.99	77.54	10.60	171.80	16.21	2.22
Excel Crop Care	700.90	500.45	34.16	24.28	10.94	11.01	4.87	4.85	127.21	31.04	124.00	3.99	0.97
Rallis India	836.69	674.59	72.02	125.30	15.21	24.50	8.60	18.57	217.59	53.57	724.30	13.52	3.33
Sabero Organics	377.35	207.34	20.44	6.33	14.00	14.02	5.41	3.05	17.50	7.00	35.25	5.04	2.01

* = Book Value as on 31st March 2008

Source: Capitaline

Analyst: Tiju K Samuel (tiju.samuel@hdfcsec.com)

RETAIL RESEARCH Tel: (022) 6661 1700 Fax: (022) 2496 5066 Corporate Office

HDFC Securities Ltd. Trade World, C. Wing, 1st Floor, Kamala Mills Compound, Senapati Bapat Marg, Lower Parel, Mumbai 400 013 Phone: (022) 66611700 Fax: (022) 2496 5066 Website: www.hdfcsec.com
Email: hdfcsecetailresearch@hdfcsec.com

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