

Sabero Organics Gujarat Ltd.**₹: 73****Robust growth potential!!****BUY**

Decline in Net sales: Net sales for Q1FY10 declined significantly by 17% y-o-y to ₹100.1 crore on the account of shutdown of Monocrotophos plant & Chloropyriphos plant for debottlenecking & expansion process. Domestic business registered a strong performance accounting for 50% of the total revenue on the back of 25% growth in Domestic formulation business. USA contributed 18% to the topline followed by 15% from Australasia. Insecticides contributed ~45% of the topline followed by Fungicides and Herbicides & speciality chemicals which contributed 40% & 15% respectively. Net profit declined by 25% y-o-y to ₹ 7.01 crore on the back of 46% y-o-y decline in other income & increase in effective tax rate (30% in Q1FY10 to 34% in Q1FY11). Consequently NPM declined by 80 bps y-o-y to 8.4%.

Decline in Operating Profit: Operating profit declined by 18% y-o-y to ₹18 crores on account of increase in other expenditure (from 15.5% in Q1FY10 to 19.4% in Q1FY11) & employee cost (2.9% in Q1FY10 to 4.6% in Q1FY11) as % to sales. OPM however remained flat at 18%.

Other Developments: Debottlenecking for Monocrotophos plant has been completed & capacity has been doubled to 4400 TPA. Operations are expected to stabilize by end of July 2010. Expansion of Chloropyriphos plant to 3000TPA is expected to be completed by Q3FY11. Going forward we believe Sabero would make up for the volume loss of this quarter with commissioning of these added capacities.

New Product Launches & Registrations: Sabero organics has been added as a source of Methamidaphos in Peru. Sabero has received registration for Glyphosate in Ireland, Spain & Germany. Sabero received registration for chloropyriphos technical & Mancozeb technical in China. Sabero plans to introduce 3 new products in FY11 i.e Propineb (broad spectrum fungicide with worldwide market of \$110m) & roll out is expected by Q4FY11. Trichlopyr (Herbicide) & Tricyclazole (Rice fungicide) are expected to be rolled out by Q3FY11.

Valuations & Views: With introduction of 3 new products & more registrations, expansion to new geographies, strong growth in Domestic, Latin America & African markets, completion of de-bottlenecking of facilities by next quarter we expect Sabero's volumes to improve going forward. Also with commissioning of Dahej facility by Q3FY12 and entry into newer geographies 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 ₹96.0, implying an upside potential of 31%. At CMP of ₹ 73.0 Sabero is trading at 5x FY11E EPS of ₹14.6, which is very attractive compared to its peers.

Key Financials**Rs. Crore**

Particulars	FY 08	FY09	FY 10	FY 11E	FY12E
Revenues	196.1	366.7	430.3	586.5	692.0
EBITDA	24.9	51.3	82.2	103.2	124.6
PAT	5.3	21.8	39.0	49.4	62.3
EPS	1.8	7.5	11.5	14.6	18.4
P/E	40.3	9.8	6.3	5.0	3.9
OPM	12.7%	14.0%	19.1%	17.6%	18.0%
NPM	2.7%	5.9%	9.1%	8.4%	9.0%

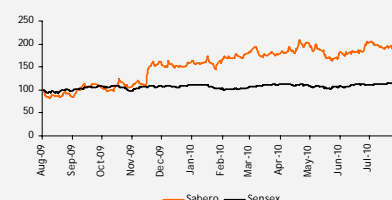
Source: Company Data, KRChoksey Estimates

Price Outlook (₹): 96

Market Data	Aug 04, 2010
Shares outs (Cr)	2.9
Equity Cap (₹. Cr)	29.3
Mkt Cap (₹. Cr)	212
52 Wk H/L (₹)	87.45 / 70
Avg Vol (1yr avg)	93,879
Face Value (₹)	10.0
Bloomberg Code	SOG IN

Market Info:

SENSEX	18217
NIFTY	5467

Price Performance**Share Holding pattern (%)**

Particulars	Jun-10	Mar-10	Chg
Promoters	42.24	42.15	0.09
MF/Ins. Co.	0.19	0.28	-0.09
FII's	0.71	0.15	0.56
Public	56.86	57.42	-0.56
Total	100.0	100.0	

Source: BSE

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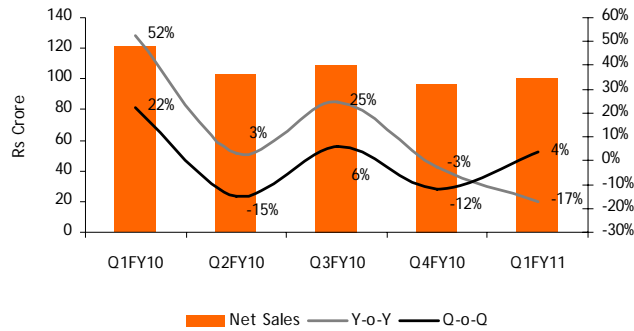
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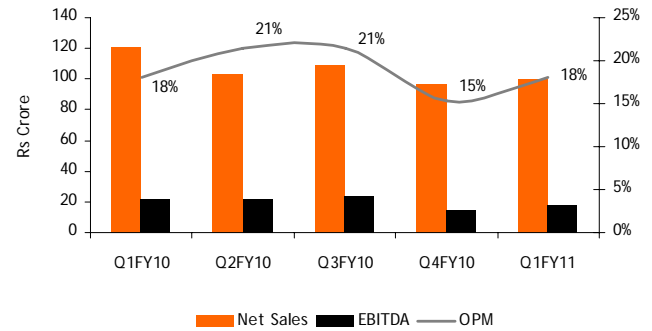
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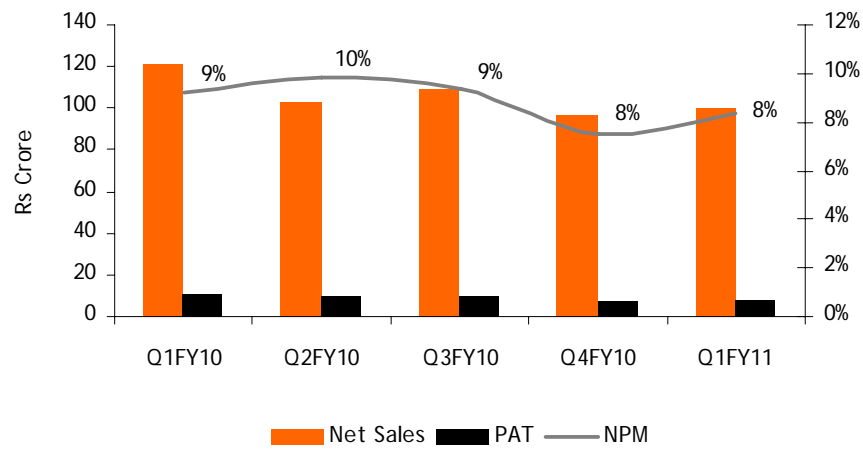
Net sales (Rs. Crore)



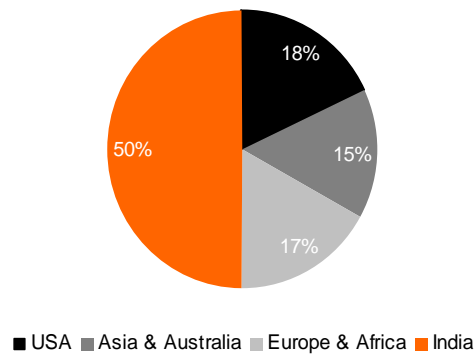
Operating Profit & OPM



Net Profit & NPM



Geography wise contribution



Source: Company Data, KRC Research



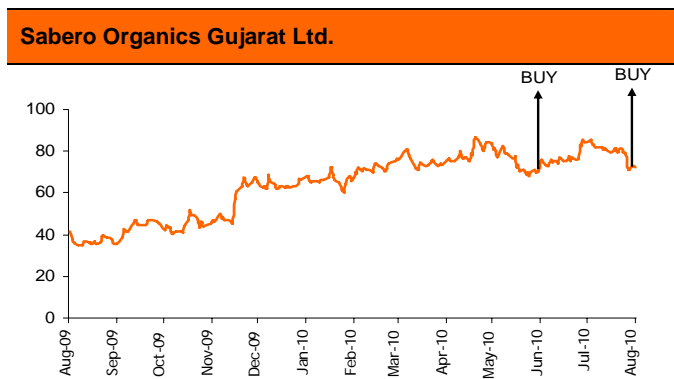
Q1FY11 Result (Rs Crore)

Particulars	Q1FY11	Q4FY10	Q1FY10	q-o-q	y-o-y	Comments
Net Sales	100.1	96.6	121.3	4%	-17%	Net sales declined significantly by on the account of plant shutdown for debottlenecking process
Total Expenditure	82.1	81.8	99.4	0%	-17%	
Consumption of RM/Traded Goods	61.9	53.0	74.2	17%	-17%	
(Increase)/Decrease in WIP	-3.8	-1.1	3.0	-	-	
Employee Cost	4.6	5.6	3.5	-18%	34%	
Other Expenditure	19.4	24.3	18.8	-20%	3%	
Operating Profit	18.0	14.7	21.8	22%	-18%	Operating profit declined on the account of increase in other expenditure & Employee cost
Other Income	0.4	1.9	0.8	-78%	-46%	
Operating Profit (incl. O.I.)	18.4	16.7	22.6	11%	-18%	
Depreciation	1.9	1.9	1.8	1%	5%	
PBIT/EBIT	16.5	14.8	20.8	12%	-21%	
Interest	3.8	2.4	4.8	55%	-21%	
PBT	12.8	12.3	16.0	3%	-20%	
Provision for Tax	4.3	5.1	4.8	-15%	-10%	
Tax Rate	34%	0.4	30%	-18%	13%	
PAT	8.4	7.3	11.2	16%	-25%	
Extraordinary Item	0.1	0.3	0.0	-75%	-	
Adjusted Net Profit	8.4	7.0	11.2	20%	-25%	Net profit declined on the back of decline in other income & increase in effective tax rate
EPS	2.50	2.1	3.8	16%	-35%	
Margins						
OPM	18.0%	15.3%	18.0%	273bps	-2bps	
NPM	8.4%	7.5%	9.2%	92bps	-80bps	

Source: Company Data, KRC Research



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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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