



## Sabero Organics Gujarat Limited

### RATING HISTORY

	Amount Outstanding as on March 2010	Maturity Date	Rating Outstanding	Previous Ratings	
			Apr 2010	Dec 2008	-
Rs 115 million Term Loans			LBBB- (Stable)	LBBB-	-
Rs 332.5 million Cash Credit facility			LBBB- (Stable)	LBBB-	-
Rs 452.5 million Short term fund based limits			A3	A3	
Rs 700 million Short term non fund based limits			A3	A3	

ICRA has reaffirmed the LBBB- and A3 ratings assigned to the various bank facilities of Sabero Organics Gujarat Limited (Sabero)<sup>†</sup>. ICRA has also assigned a 'Stable' outlook on the long term ratings. The ratings factor in the company's strengths such as vertical integration into technicals/intermediates, established presence in major export markets with registrations and its improved profitability due to rising export sales and improved economies of scale. The ratings are constrained by its product portfolio, which largely comprises of off patent molecules that are subject to pricing pressure, regulatory risk on some of organophosphorous pesticides to which the company has moderately high exposure, its current moderate financial risk profile and tight liquidity position. ICRA also notes that pesticides business revenues are vulnerable to agro-climatic conditions; however Sabero's presence in various geographies and diversified product range partially mitigate this risk.

Sabero is mainly into the production of technicals (which are used as inputs for formulation of pesticides, the end product) and bulk formulations. The company is

backward integrated into manufacture of certain key intermediates such as Phosphorous Trichloride (PCL3), Tri-Methyl Phosphate (TMP) and Tri-Ethyl Phosphate (TEP), which is an operational strength. The company is focused on the export market, the same contributing around 2/3rds of it's turnover in 2008-09. Over the last one year Sabero has obtained several product registrations which should help it to strengthen its foothold in the export market. Product registrations are significant entry barriers for agrochemical companies to sell in export market, as they involve significant investments and time horizon. The company has added as a source in the registrations of Dow for: Mancozeb Technical (Fungicide) in 7 European Union (EU) countries, Glyphosate Technical (Herbicide) in 15 EU countries and Acephate Technical and 90% prills (Insecticide) in USA. Sabero has a significant presence in South/Central American countries which account for around 55% of it's export turnover..

While historically, Sabero's product profile has remained well diversified between insecticides, fungicides and herbicides, the share of fungicides has increased significantly in 2009-10 (to around 60%) due to higher sales volumes of Mancozeb aided by recent capacity expansion. Sabero is among the three largest global manufacturers of Mancozeb, which is

the world's largest selling fungicide. The company has also consolidated it's position in Glyphosate, the largest selling herbicide worldwide. The company's main Indian competitors are United Phosphorous Limited (UPL), Indofil Organics, Cheminova, Excel Industries and Meghmani Industries. Besides, in export market, the company faces competition from Chinese companies, who hold advantage in terms of cheaper availability of raw materials such as phosphorous in certain products such as Glyphosate.

Since the company's product portfolio consists of old molecules, their prices are likely to be under pressure due to substitution from newer molecules. However, this should be relatively less pronounced for Mancozeb and Glyphosate (together account for around 50% of turnover), which are the world's largest selling fungicide and herbicide and are expected to report relatively stable demand growth particularly in the company's major markets such as Asia Pacific and Latin America. ICRA notes that Sabero has a relatively high exposure to the organophosphates family of pesticides, which are hazardous in comparison to other pesticides. There is regulatory risk in terms of phase out of extremely hazardous chemicals such as Monocrotophos (accounted for 10% of turnover in 2008-09) which has already been

<sup>†</sup> For complete rating scale and definitions, please refer to ICRA's Website, [www.icra.in](http://www.icra.in), or any of the ICRA Rating Publications



banned in developed countries such as United States. However, the domestic market for Monocrotophos has shown steady growth due to higher efficacy (vis-à-vis other insecticides), where the company has generated significant market share gains due to declining competition resulting from exit by MNCs. Nevertheless, the company plans to increase the share of Mancozeb, Glyphosate and other new range of products in order to counter risk of eventual phase out/decline in demand of hazardous products.

In general, the demand for pesticides is effected by development of genetically modified (GM) crops such as Bt cotton. However, in Sabero's case, the negative effect is largely mitigated by higher demand for insecticides used for sucking pests like Acephate rather than chewing pests which are controlled by Bt cotton. In general, herbicides are used to kill unwanted plants and weeds, while at times they also damage the core crops. However, the GM crops are resistant to herbicides, thereby actually increasing the usage of herbicide. Moreover, the shifting trend in consumption pattern towards more of herbicides particularly in the domestic market, partly mitigates the threat from GM crops.

Sabero's turnover witnessed significant growth of 93% in 2008-09 and 25% in 9M 2009-10 over corresponding period in the previous

year primarily driven by exports. The company's PAT increased by 300% in 2008-09 and 61% in 9M 2009-10. The significant improvement in profitability has been result of sharp growth in sales primarily in exports backed by benefits from capacity additions and resulting higher economies of scale.

The company's gearing remained average at 1.04 times as on 31-Mar-09, while debt coverage indicators showed improvement in line with profitability. However, the company's liquidity position remained constrained due to high working capital intensity in a high growth phase and delay in enhancement of working capital limits.

ICRA notes that the company has envisaged a capex of Rs 470 million on two new product lines: Propineb and Cypermethrin. The said capex is under evaluation stage and final investment decision is yet to be taken in this regard, post which ICRA would be in a position to factor the same into the rating.

Going forward, ICRA expects Sabero's revenues to show steady growth with consolidation of it's position in the exports market, particularly in Mancozeb and Glyphosate product range. However, the sustainability of the improvement in the company's profitability remains to be seen. The company's gearing is expected to remain moderate in the

near term. However, the high working capital intensive nature of operations may create stress on the company's liquidity.

### **Company Profile**

Sabero Organics Gujarat Limited (Sabero) was promoted by Chuganee family in 1991 to manufacture crop protection chemicals. Sabero's plant is located in Sarigram near Vapi in Gujarat. Gujarat Industrial Investment Corporation (GIIC) became an associated promoter in Sabero in Sep 1993, but however divested it's stake later. In 1994, Sabero commenced manufacture of pesticides intermediates & specialty chemicals such as Phosphorous Trichloride (PCL3), Tri-methyl phosphite (TMP) and Diethyl Thiophosphoryl Chloride (DETC). In 1997-98, the company forward integrated into the manufacture of Acephate (insecticide) and Glyphosate (herbicide) pesticides and DMPAT (dimethyl phosphoro amido thioate) intermediate. Over time, Sabero the company exited manufacture of certain intermediates and forward integrated into pesticides - technicals and formulations such as Mancozeb (fungicide) and Monocrotophos and Chloropyrophos (insecticide).

*April 2010*



## FINANCIALS

	Unit	9M 2009-10	2008-09	2007-08	2006-07
Net Sales		3,337	3,667	1,896	1,473
Operating Income		3,355	3,676	1,963	1,546
OPBDIT		691	634	203	142
PAT		316	218	53	3
Net Cash Accruals		372	274	106	54
Total Debt		561	758	516	622
Tangible Network		1,044	729	511	433
OPBDIT/OI	%	20.6%	17.5%	10.4%	9.2%
APAT/OI	%	9.4%	5.9%	2.7%	0.2%
PBIT/Avg (TD+TNW+DTL)	%	52.4%	36.5%	16.1%	9.8%
Total Gearing	Times	0.54	1.04	1.01	1.43
OPBDIT/Int	Times	4.72	3.76	2.02	1.54
(GCF+Int)/Int	Times	2.00	2.12	2.69	1.41
NCA/Total Debt	%	88%	36%	20%	9%
Total Debt/OPBDITA	Times	0.61	1.18	2.54	4.38
Debtor days		70	51	47	40
Inventory days		48	62	93	127
Creditor days		105	121	121	98
NWC/OI	%	15%	12%	18%	26%

Note: Amounts in Rs. Million

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