

SRF Ltd.**₹ 213****Life full of CERs****Buy**

May 11, 2012

Company Background

Established in 1973, SRF has grown into a global enterprise with operations in 4 countries. SRF is a multi-business entity engaged in the manufacturing of chemical based industrial intermediates. SRF is world second largest producer of Nylon 6 tyre cord fabrics and belting fabrics. The company exports its products to over 75 countries. SRF is market leader in Technical Textiles, Refrigerants, Engineering Plastics and Industrial Yarns. Building on its in-house R&D facilities for Technical Textiles Business and Chemicals Business, the company strives to stay ahead in business through innovation in operations & product development.

Investment Rationale

- ➔ SRF is currently in the midst of setting up a chemical complex in Gujarat. The plant will capacity 20,000 tn is scheduled to be completed in 2012.
- ➔ SRF has continued to demonstrate their business leadership by building and augmenting new product and process capabilities.
- ➔ SRF has entered into long term contracts for transfer / sale of Certified Emission Reductions (CER's) with reputable global buyers. The cash flow from these sales forms the mainstay of SRF's multi-year capital expansion plan.
- ➔ Recently SRF has approved the investment in a thin BOPET film line (28500 TPA) and metalizer (7050 TPA) in Thailand as a cost of US\$ 65 mn equivalent to Rs 290 Cr. Further, the board has approved plan to set up 28500 MT Bopet Film plant in Bangladesh through a 80:20 joint venture with Nitol Niloy Group.
- ➔ SRF Board has approved the investment in a Biaxially Oriented Polypropylene (BOPP) Film Line (25500 TPA) and Metalizer (5400 TPA) in South Africa at a cost of US\$55 mn.
- ➔ The board has approved setting up of HFC -134a/125 plant at Dahej (15000 TPA HFC and 20000 TPA AHF) at a cost of Rs 365 crore. Further, the board has approved the enhancing capacity of captive power plant to 14 MW and utilities at Dahej at a cost of Rs 50 crore.
- ➔ At SRF, the effort to upgrade and modernise its manufacturing facilities continues. Modernisation of belting fabrics, a by-product processing unit at Chemical Complex in Gujarat and Debottlenecking of HFC plant & upgradation of utilities in Bhiwadi are some of the projects that are presently going on.

Key Financials

Year Ended 31 st	Mar 09	Mar 10	Mar 11
Revenue (INR mn)	6298.9	5419.1	6944.5
Rev. growth (%)	30.70	(13.97)	28.15
EBITDA (INR mn)	4752.0	6520.2	170.7
Net profit (INR mn)	1632.8	3094.2	4834.4
Shares outstanding (mn)	73.8	66.5	66.5
EPS (INR)	22.1	46.6	72.8
EPS growth (%)	17.70	110.55	56.24
P/E (x)	3.4	4.2	4.4
ROCE (%)	10.15	15.63	21.25

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Info Codes

Reuters	: SRFL.BO
Bloomberg	: SRF.IN
NSE	: SRF
BSE	: 503806

Previous Report

Date	: May 13, 2011
Recommendation	: Buy
Price	: ₹ 315
High Reached	: ₹ 331

Market Data

52 Wk Range (₹)	: 213 / 331
Shares in Issue (mn)	: 60.5
Mkt. Cap (₹ bn)	: 13.00
BSE 2 Wk Avg Vol	: 9925

Share Holding Pattern (%)

Promoters	: 49.95
DII's	: 12.87
FII's	: 10.47
Others	: 26.71

Investment Theme

SRF has continued to work towards strengthening their long-term fundamentals & global competitiveness through continuous investments in adding, replacing and upgrading capacity and technology. Recognising the distinctive potential of growth in all their businesses, they embarked upon several projects worth around ₹ 1500 crore during the year. The company also took several strategic initiatives to expand their global operations. These developments clearly points to a brighter future.

Environmentally Beneficial!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 09	Mar 10	% Chg	Mar 11	% Chg
Total Sales + Excise	16182.8	20929.6	29.33	32044.4	53.11
Other Income	3566.5	3183.6	(10.74)	1824.4	(42.69)
Change in Stocks	(329.5)	261.7	(179.42)	448.0	71.19
Raw Material Con.	9436.3	11377.7	20.57	16507.4	45.09
Employee Exp.	881.3	1071.0	21.53	1424.3	32.99
Indirect Taxes	1554.1	1686.2	8.50	2851.8	69.13
Other Exp.	2796.1	3719.8	33.04	4388.4	17.97
Operating Exp.	14997.3	17593.0	17.31	24723.9	40.53
Operating Profit	1185.5	3336.6	181.45	7320.5	119.40
Total Interest	1322.1	680.4	(48.54)	839.2	23.34
Gross Profit	3429.9	5839.8	70.26	8305.7	42.23
Net Dep.	982.1	1312.2	33.61	1513.7	15.36
Total Taxation	815.0	1433.4	75.88	1957.6	36.57
Net Profit/Loss	1632.8	3094.2	89.50	4834.4	56.24

4 Years Balance Sheet

(₹ mn)

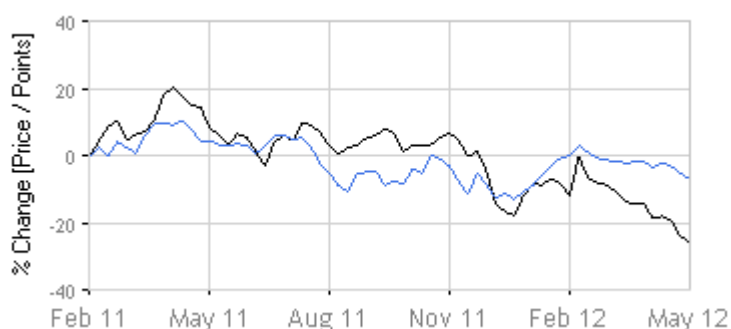
Balance Sheet as on 31 st	Mar 08	Mar 09	Mar 10	Mar 11
SOURCES OF FUNDS	14121.5	18039.4	21543.6	23960.8
Equity Share capital	689.1	617.1	615.2	615.2
Share Application Money	0.1	0.1	0.1	0.1
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	8445.9	8574.0	11499.8	15223.8
Secured Loans	4255.0	7501.4	7537.1	7071.8
Unsecured Loans	731.4	1346.8	1891.4	1049.9
USES OF FUNDS	14121.5	18039.4	21543.6	23960.8
Gross Block	18658.6	21879.7	27072.3	28869.9
Less : Revaluation Reserves	580.7	573.7	565.0	561.1
Less : Accumulated Depreciation	7194.8	8083.2	9354.9	10806.2
Net Block	10883.1	13222.8	17152.4	17502.6
Capital Work in Progress	893.0	2808.0	1270.7	1429.8
Investments	1475.3	1336.1	1646.2	2019.1
Current Assets	5694.4	5785.8	8294.9	11044.8
Less : Current Liabilities	4824.3	5113.3	6820.6	8035.5
Total Net Current Assets	870.1	672.5	1474.3	3009.3
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	980.8	985.5	1646.2	919.6
Mkt Val. Quoted Investments	510.3	350.6	0.0	1099.5
Contingent Liabilities	1515.1	2648.2	1424.2	2345.3
Dividend (%)	100	140	140	140

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Jun 11	Sep 11	Dec 11	Mar 12
Net Sales	8388.00	9139.20	9490.50	8284.80
Cost Of Sales	6748.20	6960.60	7321.80	6804.90
Operating Profit	1639.80	2178.60	2168.70	1479.90
Recurring Income	90.70	39.10	71.90	506.40
Adjusted PBDIT	1730.50	2217.70	2240.60	1986.30
Financial Expenses	202.90	209.60	209.80	277.40
Depreciation	385.40	390.10	418.00	423.30
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	1142.20	1618.00	1612.80	1285.60
Tax Charges	318.10	547.60	507.30	367.10
Adjusted PAT	824.10	1070.40	1105.50	918.50
Non Recurring Items	4.00	0.00	0.00	(48.70)
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	828.10	1070.40	1105.50	869.80

52 Week Index Relative Percentage Appreciation



SRF vs SENSEX

Risks Associated

- With a diverse business portfolio, SRF is exposed to numerous financial risks. These primarily emanate from foreign currency exchange risk from exports of its products, imports of raw material and capital goods and servicing of foreign currency debt.
- The rising inflation in economy worldwide combined with threat of sovereign default in many countries has increased the risk of global recession, which would lead to overall decrease in the consumption worldwide. It could affect all the companies' performance.
- Management of the company has undertaken a few ambitious capex project. Given the rising prices of commodities and high interest rates, this could make it difficult for the company to execute them in time and budget. Further this could lead to delay in the break even period of these projects affecting the profitability of the company.
- SRF's valuations were attributed much to its carbon credits' stock. However it depends on global policies. Any change in them would make the valuations of SRF to be re-rated.

SRF Ltd (SRF), the flagship of the Arun Bharat Group, was initially set up for the manufacturing of nylon fabric tyre cords. Established in 1973, SRF as a group has today grown into a global entity with operations in 4 countries. SRF has over the years developed a diversified portfolio of businesses consisting of industrial synthetics business, industrial fabrics business (belting & coated fabrics having application in conveyor belts) fluoro-chemicals business, packaging films business and the pharma chemicals business. The company's major revenue comes from the industrial synthetic business. The improved financial performance of SRF has enabled the management to undertake many ambitious capex projects. We believe the company would continue its performance in the future as well. Therefore recommend to buy this share.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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