

**SRF Ltd.****₹ 153**

Chemically Yours

**Accumulate**

Sep 13, 2013

**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 2nd largest producer of Nylon 6 tyre cord fabrics and belting fabrics. It exports its products to over 75 countries. SRF is market leader in Technical Textiles, Refrigerants, Engineering Plastics & 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.

**Key Highlights**

- ➔ SRF reported 100% growth in net PAT at Rs. 44 Cr during the first quarter of 2013-14 against Rs. 22 Cr reported during the corresponding period last year. The company's net sales during April-June of 2013 marginally improved to Rs. 819 Cr as against Rs. 810 Cr recorded during CPLY. SRF's profit before tax (PBT) improved by 70%, from Rs. 30 Cr to Rs. 51 Cr during Apr-Jun 2013.
- ➔ SRF has decided to turnaround and diversify into newer segments to counter the sluggish demand in its core business. The newly identified arena is the Speciality Chemicals and the management is quite confident that SRF can achieve tremendous success in this field.
- ➔ Taking business on its heels, SRF has made a bold decision to induct 6 new CEO's, one to manage each of the business segment it is into. They will also guide the Company in its newly started Speciality Chemicals Business.
- ➔ The management of SRF is confident that the HFC's which are generated by SRF could be used in the Speciality Chemical Business since it will allow the use and stop spending on the disposal.
- ➔ The CER's issued to SRF would continue for a few more years till the HFC's are phased off. SRF has already stabilised itself encashing on its previous CER earnings and this is the reason of its turn around and planned expansion.
- ➔ 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.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 11	Mar 12	Mar 13
Revenue (INR mn)	31,054.5	35,575.6	33,765.5
Rev. growth (%)	38.24	14.56	(5.09)
EBITDA (INR mn)	9,098.0	8,464.3	6,478.7
Net profit (INR mn)	4,834.4	3,873.8	2,585.1
Shares outstanding (mn)	60.5	57.4	57.4
EPS (INR)	79.9	67.5	45.0
EPS growth (%)	56.24	(15.57)	(33.27)
P/E (x)	4.0	3.7	3.8
RONW (%)	34.6	22.8	11.7
ROCE (%)	21.2	14.8	7.6

**Nishant Chopra**

nishantc@indiratrade.com

**Info Codes**

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

**Market Data**

52 Wk Range (₹)	: 126 / 240
Shares in Issue (mn)	: 57.4
Mkt. Cap (₹ bn)	: 1.53
BSE 2 Wk Avg Vol	: 17301

**Share Holding Pattern (%)**

Promoters	: 51.78
DII's	: 12.96
FII's	: 7.07
Others	: 28.19

**Investment Theme**

SRF has continued to work towards strengthening long-term fundamentals & global competitiveness by 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 during the year. The company also took several strategic initiatives to expand their global operations. It is also worthwhile to note that SRF Management bought back a substantial set of shares from shareholders to extinguish them and at the same time its parent company Kama holdings continues to buy its share at market prices. Looking at the risk review these developments clearly points to a brighter future.

**Text to Chem**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 11	Mar 12	% Chg	Mar 13	% Chg
Total Sales + Excise	32058.1	33470.3	4.41	33422.0	(0.14)
Other Income	1821.1	4668.6	156.36	3187.9	(31.72)
Change in Stocks	448.0	65.3	(85.42)	237.1	263.09
Raw Material Con.	16507.4	20418.5	23.69	19456.2	(4.71)
Employee Exp.	1424.3	1548.0	8.68	1912.1	23.52
Indirect Taxes	2851.8	2635.9	(7.57)	2901.1	10.06
Other Exp.	4445.7	5137.5	15.56	6098.9	18.71
Operating Exp.	24781.2	29674.6	19.75	30131.2	1.54
Operating Profit	7276.9	3795.7	(47.84)	3290.8	(13.30)
Total Interest	777.0	1268.2	63.22	1009.6	(20.39)
Gross Profit	8321.0	7196.1	(13.52)	5469.1	(24.00)
Net Dep.	1546.7	1582.2	2.30	1795.2	13.46
Total Taxation	1939.9	1740.1	(10.30)	1088.8	(37.43)
Net Profit/Loss	4834.4	3873.8	(19.87)	2585.1	(33.27)

### 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 10	Mar 11	Mar 12	Mar 13
<b>SOURCES OF FUNDS</b>	<b>21,543.6</b>	<b>23,960.6</b>	<b>27,852.2</b>	<b>30,483.2</b>
Equity Share capital	615.2	615.2	584.4	584.4
Share Application Money	0.1	0.1	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	11,499.8	15,223.7	17,325.3	19,244.5
Long Term Loans	6,379.3	6,813.6	6,998.0	6,731.3
Short Term Loans	3,049.2	1,308.0	2,944.5	3,923.0
<b>USES OF FUNDS</b>	<b>21,543.6</b>	<b>23,960.6</b>	<b>27,852.2</b>	<b>30,483.2</b>
Gross Block	27,072.3	28,869.8	30,943.1	35,881.4
Less : Revaluation Reserves	565.0	561.1	557.3	296.1
Less : Accumulated Depreciation	9,354.9	10,806.1	12,335.3	14,051.7
Net Block	17,152.4	17,502.6	18,050.5	21,533.6
Capital Work in Progress	1,270.7	1,130.7	4,142.6	2,196.9
Investments	1,646.2	2,019.0	2,187.0	2,277.5
Current Assets	8,294.9	11,245.6	11,379.1	12,379.8
Less : Current Liabilities	6,820.6	7,972.5	7,944.8	7,935.3
Total Net Current Assets	1,474.3	3,273.1	3,434.3	4,444.5
Misc. Expenses not written	0.0	35.2	37.8	30.7
<b>NOTE</b>				
Bk Val Unquoted Investments	1,646.2	919.5	923.0	926.2
Mkt Val. Quoted Investments	0.0	1,100.4	1,288.9	1,356.6
Contingent Liabilities	1,424.2	2,380.6	6,667.4	5,448.3
Dividend (%)	140	140	140	100

## Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 12	Dec 12	Mar 13	Jun 13
Net Sales	8,037.40	8,889.00	8,181.50	8,249.10
Cost Of Sales	6,923.90	6,937.90	6,849.80	7,136.20
Operating Profit	1,113.50	1,951.10	1,331.70	1,112.90
Recurring Income	455.20	28.20	373.60	87.30
Adjusted PBDIT	1,568.70	1,979.30	1,705.30	1,200.20
Financial Expenses	247.10	208.30	152.00	202.70
Depreciation	462.90	478.40	479.50	483.90
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	858.70	1,292.60	1,073.80	513.60
Tax Charges	253.10	400.10	355.00	142.30
Adjusted PAT	605.60	892.50	718.80	371.30
Non Recurring Items	148.00	0.00	0.00	66.80
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	753.60	892.50	718.80	438.10

## 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.

**In a Nutshell**

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. Further the management is also thinking of diversifying into Speciality Chemicals business and planning to take up the business into a core business thus replacing other business with slow demand. The company has also injected 6 new CEO's who will bring in more enthusiasm and expertise. We believe the company would continue its performance in the future as well. Therefore recommend to accumulate this share.

**Indira Group Offices**

<b>Registered Office</b>	: Singh House, 3rd Floor, 23/25 Ambalal Doshi Marg, Fort, Mumbai 400023
	<b>Tel :</b> +91-22-22656812 <b>Fax :</b> +91-22-22656985 <b>Email :</b> <a href="mailto:im@indiratrade.com">im@indiratrade.com</a>
<b>Administrative Office</b>	: Ramavat House, E-15 Saket Nagar, Indore 452018
	<b>Tel :</b> +91-731-2566361 <b>Fax :</b> +91-731-2562117 <b>Email :</b> <a href="mailto:ii@indiratrade.com">ii@indiratrade.com</a>
<b>Institutional Dealing Unit</b>	: Africa House, 3rd Floor, 5 Topiwala Lane, Lamington Road, Mumbai 400007
	<b>Tel :</b> +91-22-30080675 <b>Fax :</b> +91-22-23870767 <b>Email :</b> <a href="mailto:ie@indiratrade.com">ie@indiratrade.com</a>

**Rating Interpretation**

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

**Disclaimer**

This document has been prepared by Indira Group of Companies (Indira). Indira and its associate companies are a full fledged retail and institutional broking group. Our research analysts and sales persons provide important input into our investment broking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Indira or any of its affiliates shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Indira and affiliates to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Indira reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Indira is under no obligation to update or keep the information current. Nevertheless, Indira is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Indira nor any of its affiliates, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. The Analyst does not have any holding in this stock.