

SRF

Market Cap (Rs. Cr) **1435.55**

52 Week-H/L(Rs) **373 / 136**

CMP Rs. **219.00**

Target Price Rs. **260/315**

Bloomberg [SRF@IN](#)

Reuters [SRFL.BO](#)

BSE [503806](#)

NSE [SRF](#)

Investment Arguments

Company is domestic market leader in all of its key segments viz. – Tyre Cord Fabrics [35% Mkt share], Belting Fabrics [70% Mkt share] and Refrigerant gases [39% Mkt share]. Globally also its placed at 8th largest and 5th largest player in Tyre cord and Belting fabrics business respectively. The other business is **Packaging film** [PET/BOPET, 13% Mkt share] where it has set up large capacity. It is also in to pharma-chemical and intermediate business plus PTFE [Teflon] business.

The outlook for the core **Tyre cord and Belting business is turning positive with improving demand and falling raw material prices**. This may result in improvement in core business in coming quarters. Though the dumping from china is eating in to margins. The potential and outlook for new - Packaging and Pharma intermediate business is also looking positive, with falling raw material prices.

But the key upward thrust in the profits is coming from the transfer of **CERs [Certified Emmission Reductions]** to be recieved under **CDM [Clean Development Mechanism, under Kyoto Protocol.]** **Company has potential to generate 3.8 million CERs per annum through CDM mechanism and these CERs will continue to accrue for coming 5 years** [so its not a one off income] which will boost its earnings on sustained basis for next 5 years by **adding around 300 crs** to profits for company every year. In H-1 of current year, company has already realised **Rs 282.65 crs by transfer of 1.48 mill CERs. [CER receipts may not be consistent QoQ basis and can vary sharply based on time /price of transfer]** This kind of huge cash flow will enable company to reduce the debt from the balance sheet as well as fund the expansion of new business of Packaging and Pharma Intermediates.

Captive polwver plant at Bhiwadi [7.5 MW] already commissioned, while for Gwalior [15 MW] will commence by March'07. Nylon Tyre cord business is facing stiff margin pressure due to chinese dumping and strong prices of Caprolactum [despite oil fall]. Belting division is better in terms of margins, but size of belting division is small compared to Tyre cord. So overall contributions from Technical Textile division [largest with >60% sales] is negligible. Major contributor is Refrigerant gases business and now CERs. Packaging business outlook improved from current quarter and it turned positive following rising BOPET prices and falling RM prices. Pharma intermediate business is also showing better trends. In Jan'07 company is likely to announce new long term CAPEX plans based on advice of consultants.

At current price of Rs 219, the downside risk is limited and upside potential is significant. BUY.

Financials for the year ended (in Rs. Crores)

Particulars	Mar 05	Mar 06	Mar 07 E	Mar 08 E
Net Sales	1057.82	1198.44	1260.00	1400.00
CER (Certified Emmission Reduction)	0.00	93.85	283.00	350.00
Other Income	18.70	6.45	8.50	8.00
PBIDT	161.89	260.56	395.00	430.00
Interest	25.65	39.28	30.00	20.00
Depreciation	51.93	62.85	68.00	70.00
PAT	60.05	104.77	205.00	260.00
EPS (in Rs)	9.16	15.98	31.28	39.68
CEPS (in Rs)	17.08	25.57	41.66	50.36
Book Value (in Rs)	81.74	64.92	95.82	135.00
Face Value (in Rs)	10.00	10.00	10.00	10.00
Dividend (%)	25.00	30.00	40.00	50.00
Dividend Yield (%)	1.14	1.37	1.83	2.28
Net Worth	535.78	425.54	627.92	884.64
Debt	426.77	603.84	500.00	400.00
Equity Capital	65.55	65.55	65.53	65.53
P.E. (x)	23.9	13.7	7.0	5.5
NPM %	5.68	8.74	16.27	18.57
EBIDTA Margin %	15.30	21.74	31.35	30.71
RoCE %	16.8%	25.3%	35.0%	33.5%

Latest result update (in Rs. Crores)

PARTICULARS	H1 2006	H1 2005	% change
Net Sales	649.67	611.22	6.29
CER (Certified Emmission Reduction)	282.65	0.00	-
Other Income	57.90	34.60	67.34
PBIDT	308.00	95.52	222.45
Net Profit (PAT)	169.87	35.72	375.56
Equity	65.53	65.55	
EPS	25.92	5.45	375.71

Technical Trend:-



After forming a top of Rs 373 in April'06, the SRF stock fell sharply and along with other mid caps formed a low of Rs 136 in July'06. It formed a sort of double bottom around Rs 160, and then moved up shprly to touch 264 recently.

After a correction from recent top of Rs 264, the stock has bottomed out around 210 and is now again looking to resume an uptrend. One can buy the stock around Rs 220, with stop loss of Rs 210 and look for a target of Rs 260 in short term and Rs 315 in medium term

ShareHolding Pattern

