

## RESULT UPDATE

### MID CAP

#### Share Data

Reuters code	SRFL.BO
Bloomberg code	SRF IN
Market cap. (US\$ mn)	297
6M avg. daily turnover (US\$ mn)	2.2
Issued shares (mn)	60.5
Target price (Rs)	240

#### Performance (%) 1M 3M 12M

Absolute	2	18	142
Relative	9	12	75

#### Valuation ratios

Yr end 31 Mar	FY11E	FY12E
EPS (Rs)	48.3	58.7
+/- (%)	(5.5)	21.5
PER (x)	4.5	3.7
PBV (x)	0.9	0.8
Dividend/Yield (%)	6.5	6.5
EV/Sales (x)	0.8	0.7
EV/EBITDA (x)	3.5	3.0

#### Major shareholders (%)

Promoters	47
FII's	5
MF's	11
Public & Others	37

#### Financial highlights

(Rs. mn)	4QFY09	4QFY10	YoY (%)	FY09	FY10	YoY (%)	FY11E	YoY (%)	FY12E	YoY (%)
Net Income from operations	4,110	6,809	65.7	18,008	21,939	21.8	26,064	18.8	29,603	13.6
EBITDA	904	2,027	124.2	4,593	5,978	30.2	6,268	4.8	7,252	15.7
EBITDA Margin (%)	22.0	29.8	-	25.5	27.3	-	24.0	-	24.5	-
Other Income	(105.7)	153.6	-	(628)	554	-	110	(80.1)	115	4.5
Interest	161	201	25.5	511	681	33.1	633	(7.0)	525	(17.1)
Depreciation	273	375	37.2	994	1,313	32.0	1,382	5.3	1,541	11.5
PBT	365	1,604	340.0	2,460	4,539	84.6	4,363	(3.9)	5,300	21.5
Tax	153	498	225.1	827	1,445	74.8	1,440	(0.4)	1,749	21.5
Reported PAT	212	1,107	423.2	1,633	3,094	89.5	2,923	(5.5)	3,551	21.5
PAT margin (%)	5.1	16.3	-	9.1	14.1	-	11.2	-	12.0	-
Adj EPS (Rs.)	3.5	18.3	423.2	27.0	51.1	89.5	48.3	(5.5)	58.7	21.5
P/E (x)	-	-	-	8.0	4.2	-	4.5	-	3.7	-

## SRF

## Maintain Outperformer

Price: Rs 216

BSE Index: 16,769

07 May 2010

### 4QFY10 Result – Continue to perform well

**SRF's results were ahead of our expectations. The company registered ~ 66% YoY and ~39% QoQ, revenue growth. The robust performance of packaging film business (PFB) due to the capacity expansion and the contribution of CERs in the chemical business (CB) coupled with the strong performance of the core CB business, were the main reasons for the good revenue growth. The technical textile business (TTB) grew at a moderate 6.4% QoQ, during the quarter.**

**The overall operating margins improved both on a YoY and QoQ basis. The TTB segment margins continue to be in the double digits. The Nylon Tyre Cord Fabric (NTCF) prices are determined on import parity basis in domestic market, the appreciation of the rupee against USD led to the decline in realisations and thus QoQ segment margins witnessed 90 bps decline.**

**Improvement in core CB business, which includes refrigerant gases (RG) and fluoro specialty chemicals, is a positive sign. The demand for RG gases is improving on back of strong demand from the user industry (Air-conditioners and refrigerators) and the realisations also continue to remain healthy. Further to this, the contribution of CERs during the quarter helped the segment margins to improve appreciably.**

### Outlook and valuation

The company is progressing with the capex plans of setting up a dipping plant for nylon chips and expansion of HFC-134 A capacity. The laminating film capacity has already been commissioned during the quarter. The company will also expand its coated fabric capacity in FY11. The 14,500 MT, polyester cord capacity will start contributing from FY11, however the contribution will be meagre. Currently, the products from this new facility are under validation stage. We expect this to add significantly to the TTB segment growth in the next two-three years.

Currently, the margins across the segments continue to be healthy and in the double digits. However, in our opinion the margins for the TTB and PFB segments will be under pressure in future. However, the improvement in the CB segment profitability augurs well for the company and the CER contribution will continue to add cushion to the overall margins for the next two-three years.

At the current market price of Rs 216, the stock trades at 4.5x and 3.7x, FY11E and FY12E, earnings, respectively. We have arrived at the SOTP value of Rs 240 per share taking into consideration the FY12 estimates and maintain an Outperformer rating on the stock.

#### 4QFY10 segmental highlights

(Rs mn)	4QFY09	4QFY10	YoY (%)	FY09	FY10	YoY (%)
<b>Revenues</b>						
TTB	1,654	3,317	100.6	9,052	12,035	32.9
CB	1,794	2,192	22.2	6,177	6,578	6.5
PFB	665	1,303	96.1	2,901	3,365	16.0
Less: Inter segment revenues	3	4	37.0	3	39	1337.0
<b>Total</b>	<b>4,110</b>	<b>6,809</b>	<b>65.7</b>	<b>18,127</b>	<b>21,939</b>	<b>21.0</b>
<b>EBIT</b>						
TTB	(95)	484	-	375	1,958	421.6
CB	686	1,175	71.3	3,238	2,768	(14.5)
PFB	105	182	73.7	448	407	(9.2)
<b>Total</b>	<b>696</b>	<b>1,841</b>	<b>164.5</b>	<b>4,062</b>	<b>5,133</b>	<b>26.4</b>
Interest	161	201	25.4	511	681	33.1
Unallocable expenditure	171	35	(79.4)	1091	(86)	(107.9)
<b>PBT</b>	<b>365</b>	<b>1,604</b>	<b>339.7</b>	<b>2,460</b>	<b>4,539</b>	<b>84.5</b>
<b>Capital employed</b>						
TTB	11,834	12,229	3.3	11,834	12,229	3.3
CB	4,514	4,944	9.5	4,514	4,944	9.5
PFB	1,919	3,168	65.1	1,919	3,168	65.1
Capital WIP	876	1,101	25.7	876	1,101	25.7
Add: Unallocable asset less liabilities	630	2,128	238.1	630	2,128	238.1
<b>Total</b>	<b>19,772</b>	<b>23,569</b>	<b>19.2</b>	<b>19,772</b>	<b>23,569</b>	<b>19.2</b>
<b>EBIT margins (%)</b>						
TTB	(5.7)	14.6	-	4.1	16.3	-
CB	38.2	53.6	-	52.4	42.1	-
PFB	15.8	14.0	-	15.5	12.1	-
<b>RoCE (%)</b>						
TTB	(0.8)	4.0	-	3.2	16.0	-
CB	15.2	23.8	-	71.7	56.0	-
PFB	5.5	5.7	-	23.4	12.8	-

**Income Statement**

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>18,008</b>	<b>21,939</b>	<b>26,064</b>	<b>29,603</b>
Growth (%)	11.0	22.0	19.0	14.0
Operating Expenses	(13,415)	(15,960)	(19,796)	(22,351)
Operating Profit	4,593	5,978	6,268	7,252
<b>EBITDA</b>	<b>4,593</b>	<b>5,978</b>	<b>6,268</b>	<b>7,252</b>
Growth (%)	36.5	30.2	4.8	15.7
Depreciation	(994)	(1,313)	(1,382)	(1,541)
Other Income	(628)	554	110	115
<b>EBIT</b>	<b>2,971</b>	<b>5,220</b>	<b>4,996</b>	<b>5,825</b>
Interest Paid	(511)	(681)	(633)	(525)
Pre-tax profit (before non-recurring items)	2,460	4,539	4,363	5,300
Pre-tax profit (after non recurring items)	2,460	4,539	4,363	5,300
Tax (current + deferred)	(827)	(1,445)	(1,440)	(1,749)
<b>Net Profit</b>	<b>1,633</b>	<b>3,094</b>	<b>2,923</b>	<b>3,551</b>
<b>Reported Pat</b>	<b>1,633</b>	<b>3,094</b>	<b>2,923</b>	<b>3,551</b>
<b>Adjusted net profit</b>	<b>1,633</b>	<b>3,094</b>	<b>2,923</b>	<b>3,551</b>
Growth (%)	17.7	89.5	(5.5)	21.5

**Balance Sheet**

Yr end 31 Mar (Rs mn)	FY09	FY10E	FY11E	FY12E
Current assets	5,721	8,492	9,054	10,764
Cash & Marketable Securities	31	90	121	519
Other Current Assets	5,690	8,402	8,933	10,245
Investments	1,336	1,336	1,336	1,336
Net fixed assets	16,604	18,405	19,023	18,981
<b>Total assets</b>	<b>23,661</b>	<b>28,233</b>	<b>29,413</b>	<b>31,082</b>
Current Liabilities	3,315	4,846	5,494	6,008
Total debt	8,848	9,548	8,148	6,743
Other non-current liabilities	1,733	1,733	1,733	1,733
<b>Total Liabilities</b>	<b>13,897</b>	<b>16,127</b>	<b>15,376</b>	<b>14,484</b>
Share capital	617	617	617	617
Reserves & Surplus	9,148	11,489	13,420	15,980
<b>Shareholder's funds</b>	<b>9,765</b>	<b>12,106</b>	<b>14,037</b>	<b>16,597</b>
<b>Total equity &amp; liabilities</b>	<b>23,661</b>	<b>28,233</b>	<b>29,413</b>	<b>31,082</b>
<b>Capital Employed</b>	<b>20,346</b>	<b>23,387</b>	<b>23,919</b>	<b>25,074</b>

**Cash Flow Statement**

Yr end 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Pre-tax profit	2,460	4,539	4,363	5,300
Depreciation	(1,000)	(1,313)	(1,382)	(1,541)
Chg in working capital	(13)	(2,121)	118	(798)
Total tax paid	(515)	(1,445)	(1,440)	(1,749)
<b>Cash flow from Oper. (a)</b>	<b>2,931</b>	<b>2,286</b>	<b>4,423</b>	<b>4,294</b>
Capital expenditure	(5,136)	(3,113)	(2,000)	(1,500)
Chg in investments	139	-	-	-
Other investing activities	(309)	-	-	-
Others	(112)	-	(4)	(6)
<b>Cash flow from Inv. (b)</b>	<b>(5,417)</b>	<b>(3,113)</b>	<b>(2,000)</b>	<b>(1,500)</b>
<b>Free cash flow (a+b)</b>	<b>(2,486)</b>	<b>(828)</b>	<b>2,423</b>	<b>2,794</b>
Equity raised / (repaid)	(757)	-	-	-
Debt raised / (repaid)	3,862	700	(1,400)	(1,405)
Dividend (incl tax.)	(873)	(52)	(991)	(991)
Cash flow from fin. (c)	2,445	886	(2,391)	(2,396)
<b>Net chg in cash (a + b + c)</b>	<b>(41)</b>	<b>59</b>	<b>31</b>	<b>398</b>

**Key Ratios**

Yr end 31 Mar (%)	FY09	FY10E	FY11E	FY12E
Adjusted EPS (Rs.)	27.0	51.1	48.3	58.7
Growth	32.1	89.5	(5.5)	21.5
Book NAV/Share (Rs)	161.3	200.0	231.9	274.2
Dividend/Share (Rs)	10.3	14.0	14.0	14.0
Dividend payout ratio	44.8	32.0	33.9	27.9
Tax	33.6	31.8	33.0	33.0
EBITDA margin	25.5	27.3	24.0	24.5
EBIT margin	16.5	23.8	19.2	19.7
RoCE	16.3	23.9	21.1	23.8
Net debt / Equity	90.3	78.1	57.2	37.5

**Valuations**

Yr end 31 Mar (x)	FY09	FY10E	FY11E	FY12E
PER	8.0	4.2	4.5	3.7
PCE	5.0	3.0	3.0	2.6
Price / Book	1.3	1.1	0.9	0.8
Yield (%)	4.8	6.5	6.5	6.5
EV / Net sales	1.2	1.0	0.8	0.7
EV / EBITDA	4.8	3.7	3.5	3.0

**Du Pont Analysis – ROE**

Yr end 31 Mar (x)	FY09	FY10E	FY11E	FY12E
Net margin (%)	9.1	14.1	11.2	12.0
Asset turnover	0.8	0.8	0.9	1.0
Leverage factor	2.2	2.4	2.2	2.0
Return on equity (%)	16.8	28.3	22.4	23.2

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  4. **SELL:** Potential downside of < -25% (absolute returns)
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