

RESULT UPDATE

MID CAP

Share Data

Reuters code	SRFL.BO
Bloomberg code	SRF IN
Market cap. (US\$ mn)	547
6M avg. daily turnover (US\$ mn)	2.7
Issued shares (mn)	60.5
Target price (Rs)	466

Performance (%)	1M	3M	12M
Absolute	47	66	87
Relative	46	48	56

Valuation ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	61.3	75.5
+/- (%)	19.9	23.1
PER (x)	6.6	5.3
PBV (x)	1.6	1.3
Dividend/Yield (%)	3.5	3.5
EV/Sales (x)	1.1	0.9
EV/EBITDA (x)	4.4	3.5

Major shareholders (%)

Promoters	47
FII's	10
MF's	10
BFSI's	2
Public & Others	31

Financial highlights

(Rs mn)	2QFY10	2QFY11	YoY (%)	1HFY10	1HFY11	YoY (%)	FY10	FY11E	YoY (%)	FY12E	YoY (%)
Net Income from operations	5,267	7,482	42.1	10,246	13,672	33.4	21,811	28,810	32.1	36,151	25.5
EBITDA	1,519	2,138	40.7	3,076	3,428	11.4	5,851	7,593	29.8	9,503	25.2
EBITDA Margin (%)	28.8	28.6	-	30.0	25.1	-	26.8	26.4	-	26.3	-
Other Income	14.2	18.0	26.8	37.2	75.6	103.2	682	287	(57.9)	192	(33.1)
Interest	156	205	31.3	301	401	33.3	680	806	18.4	884	9.8
Depreciation	320	381	19.1	608	748	23.0	1,313	1,536	17.0	1,992	29.7
PBT	1,057	1,570	48.5	2,204	2,354	6.8	4,539	5,538	22.0	6,819	23.1
Extraordinary item/ forex gain (loss)	(27)	158	-	(206)	(179)	-	-	-	-	-	-
Tax	344	514	49.2	799	772	(3.4)	1,445	1,827	26.5	2,250	23.1
Reported PAT	686	1,214	77.0	1,200	1,404	17.0	3,094	3,710	19.9	4,568	23.1
Adjusted PAT	713	1,056	48.1	1,406	1,583	12.6	3,094	3,710	19.9	4,568	23.1
Adjusted PAT margin (%)	13.5	14.1	-	13.7	11.6	-	14.2	12.9	-	12.6	-
Adjusted EPS (Rs)	11.8	17.5	48.1	23.2	26.2	12.6	51.1	61.3	19.9	75.5	23.1

SRF

Maintain Outperformer

Price: Rs 402

BSE Index: 20,221

27 October 2010

2QFY11 Result – Excellent core business growth sans CERs

SRF's results were in line with our expectations. The company registered an impressive ~42% YoY revenue growth. The packaging film business (PFB) proved to be the key growth driver, benefiting from the capacity expansion and the prevailing robust demand. The significant improvement in BOPET film realisations both on a YoY and QoQ basis further boosted the segment's profitability. The technical textile business (TTB) revenue grew steadily, however the segment margins declined. This was due to the addition of new capacities in lamination films and polyester tyre cord which are yet to stabilise.

The company has not booked CERs during the quarter. The chemical business (CB) segment witnessed strong performance in spite of the absence of CERs. Both the refrigerant gas and fluoro specialty chemicals have done exceedingly well on the back of strong volume growth and robust realisations. Though the segment margins have declined marginally both on a YoY and QoQ basis, the current margin of ~38% is enough to add significantly to the company's net profit. The company expects to maintain the CB segment margins between 30-35% levels.

The company has terminated some CER contracts during the quarter and has received ~Rs 480 mn arising out of the forward contract termination (included in the net sales). This trend may continue in the next quarter too. The uncertainty over the CER realisations still prevails. Recently, some new methodologies have been suggested by a UN panel for determining the quantum of CERs. The norms are becoming stringent and the approval process has got elongated. Therefore we are cautious on the contribution of CERs in the near term.

In our opinion, the impressive performance of CB segment sans CERs bodes well for the long-term growth. This will also lessen the impact of CERs on the net earnings and hence provide better clarity on the core chemical business.

The PFB segment is witnessing strong demand. New applications such as thin films for LCD panels, thick films for fashion garments, coupled with the increase in the demand from existing customer segments is driving the segment.

Outlook and valuation

The strong demand momentum and the improved pricing in CB and PFB segments will drive the growth and profitability in future. In TTB segment, stabilisation of new capacities may improve the margins slightly. In the wake of robust improvement in the CB and PFB business, we have increased our revenue and earnings estimate for FY11 and FY12.

At the current market price of Rs 402, the stock trades at 6.6x FY11E and 5.3x FY12E, revised earnings, respectively. We have arrived at the SOTP value of Rs 466 per share considering the revised FY12 estimates and maintain an Outperformer rating on the stock.

2QFY11 segmental highlights

(Rs mn)	2QFY10	2QFY11	YoY (%)	1HFY10	1HFY11	YoY (%)
Revenues						
TTB	3,044	3,553	16.7	5,600	6,925	23.7
CB	1,564	1,805	15.4	3,313	3,086	(6.8)
PFB	675	2,139	216.9	1,342	3,687	174.9
Less: Inter-segment revenues	16	15	(5.6)	26	27	–
Total	5,267	7,482	42.1	10,229	13,672	33.7
EBIT						
TTB	642	336	(47.6)	991	733	(26.1)
CB	606	675	11.3	1,488	1,167	(21.5)
PFB	47	890	1,805.8	164	1,197	629.1
Total	1,295	1,901	46.8	2,643	3,097	17.2
Interest	156	205	31.3	301	401	33.3
Unallocable expenditure	108	(32)	(129.3)	(68)	163	(338.4)
PBT	1,030	1,728	67.7	2,410	2,533	5.1
Capital employed						
TTB	12,096	11,757	(2.8)	12,096	11,757	(2.8)
CB	4,794	5,283	10.2	4,794	5,283	10.2
PFB	1,686	4,642	175.2	1,686	4,642	175.2
Capital WIP	2,315	680	(70.6)	2,315	680	(70.6)
Add: Unallocable asset less liabilities	2,052	1,456	(29.1)	2,052	1,456	(29.1)
Total	22,943	23,817	3.8	22,943	23,817	3.8
EBIT margins (%)						
TTB	21.1	9.5	–	17.7	10.6	–
CB	38.8	37.4	–	44.9	37.8	–
PFB	6.9	41.6	–	12.2	32.5	–
RoCE (%)						
TTB	5.3	2.9	–	8.2	6.2	–
CB	12.6	12.8	–	31.0	22.1	–
PFB	2.8	19.2	–	9.7	25.8	–
Revenue mix (%)						
TTB	57.8	47.5	–	54.8	50.7	–
CB	29.7	24.1	–	32.4	22.6	–
PFB	12.8	28.6	–	13.1	27.0	–

New initiatives

The company has capitalised 61,000 MTPA polyester chip plant for PFB segment during the quarter. It is also setting up a polyester film plant in Bangladesh in a joint venture with Nitol-Niloy group having an initial capacity of 28,500 MTPA. SRF will hold 80% stake in the JV and total project cost is estimated to be ~US\$ 65 mn. SRF is also setting up new units for fluoro specialty chemicals at Dahej at the estimated cost of Rs 2 bn. These new projects are expected to come on stream in FY13. The new initiatives will further strengthen the company's position in the respective segments.

Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net Sales	18,008	21,811	28,810	36,151
<i>Growth (%)</i>	<i>11.0</i>	<i>21.0</i>	<i>32.0</i>	<i>25.0</i>
Operating Expenses	(13,415)	(15,960)	(21,217)	(26,648)
Operating Profit	4,593	5,851	7,593	9,503
EBITDA	4,593	5,851	7,593	9,503
<i>Growth (%)</i>	<i>36.5</i>	<i>27.4</i>	<i>29.8</i>	<i>25.2</i>
Depreciation	(994)	(1,313)	(1,536)	(1,992)
Other Income	(628)	682	287	192
EBIT	2,971	5,219	6,343	7,703
Interest Paid	(511)	(680)	(806)	(884)
Pre-tax profit	2,460	4,539	5,538	6,819
(before non-recurring items)				
Pre-tax profit	2,460	4,539	5,538	6,819
(after non recurring items)				
Tax (current + deferred)	(827)	(1,445)	(1,827)	(2,250)
Net Profit	1,633	3,094	3,710	4,568
Reported PAT	1,633	3,094	3,710	4,568
Adjusted net profit	1,633	3,094	3,710	4,568
<i>Growth (%)</i>	<i>17.7</i>	<i>89.5</i>	<i>19.9</i>	<i>23.1</i>

Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Current assets	5,712	8,219	10,247	12,906
Cash & marketable securities	31	653	1,298	1,672
Other current assets	5,681	7,566	8,949	11,234
Investments	1,336	1,646	1,646	1,646
Net fixed assets	16,604	18,988	20,681	21,689
Total assets	23,653	28,853	32,575	36,241
Current liabilities	3,307	4,721	5,525	5,917
Total debt	8,848	9,393	9,893	9,893
Other non-current liabilities	1,733	2,059	2,059	2,059
Total liabilities	13,888	16,173	17,478	17,870
Share capital	617	615	615	615
Reserves & surplus	9,148	12,065	14,481	17,756
Shareholders' funds	9,765	12,680	15,097	18,371
Total equity & liabilities	23,653	28,853	32,575	36,241
Capital employed	20,346	24,132	27,049	30,324

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Pre-tax profit	2,460	4,539	5,538	6,819
Depreciation	(1,000)	(1,321)	(1,536)	(1,992)
Chg in working capital	38	(541)	(1,570)	(1,893)
Total tax paid	(515)	(1,048)	(1,827)	(2,250)
Cash flow from oper. (a)	2,983	4,271	3,676	4,668
Capital expenditure	(5,136)	(3,655)	(3,229)	(3,000)
Chg in investments	139	(310)	0	0
Other investing activities	(302)	(303)	(303)	(302)
Others	(112)	(50)	0	0
Cash flow from inv. (b)	(5,411)	(4,318)	(3,532)	(3,303)
Free cash flow (a+b)	(2,429)	(46)	144	1,365
Equity raised/(repaid)	(757)	(17)	0	0
Debt raised/(repaid)	3,862	545	500	0
Dividend (incl tax.)	(925)	(991)	(6)	(991)
Cash flow from fin. (c)	2,387	669	500	(991)
Net chg in cash (a+b+c)	(41)	622	644	374

Key Ratios

Yr end 31 Mar (%)	FY09	FY10	FY11E	FY12E
Adjusted EPS (Rs)	27.0	51.1	61.3	75.5
Growth	32.1	89.5	19.9	23.1
Book NAV/Share (Rs)	161.3	209.5	249.4	303.6
Dividend/Share (Rs)	10.3	14.0	14.0	14.0
Dividend payout ratio	44.8	32.0	26.7	21.7
Tax	33.6	31.8	33.0	33.0
EBITDA margin	25.5	26.8	26.4	26.3
EBIT margin	16.5	23.9	22.0	21.3
RoCE	16.3	23.5	24.8	26.9
Net debt/Equity	90.3	68.9	56.9	44.8

Valuations

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
PER	14.9	7.9	6.6	5.3
PCE	9.3	5.5	4.6	3.7
Price/Book	2.5	1.9	1.6	1.3
Yield (%)	2.6	3.5	3.5	3.5
EV/Net sales	1.8	1.5	1.1	0.9
EV/EBITDA	7.2	5.7	4.4	3.5

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
Net margin (%)	9.1	14.2	12.9	12.6
Asset turnover	0.8	0.8	0.9	1.1
Leverage factor	2.2	2.3	2.2	2.1
Return on equity (%)	16.8	27.6	26.7	27.3

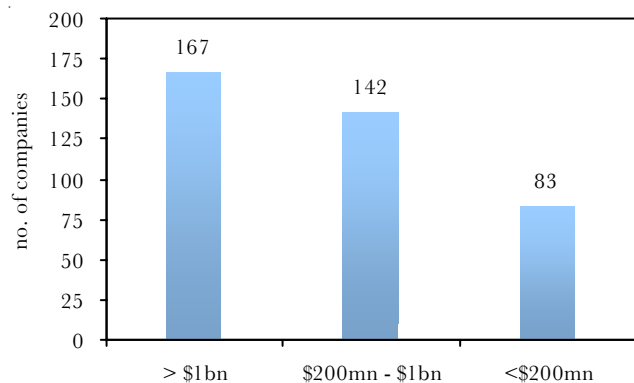
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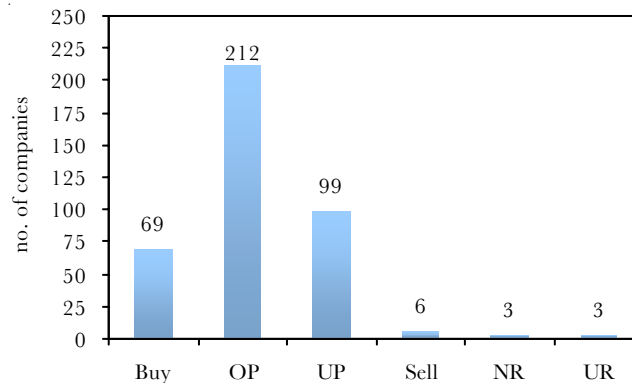
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B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

1. **BUY:** Potential upside of > +25% (absolute returns)
2. **OUTPERFORMER:** 0 to +25%
3. **UNDERPERFORMER:** 0 to -25%
4. **SELL:** Potential downside of < -25% (absolute returns)

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