

BSE SENSEX 25,036 **S&P CNX** 7,613



Bloomberg	SRF IN
Equity Shares (m)	58.4
M.Cap. (INR b)/(USD b)	69.5/1.0
52-Week Range (INR)	1,496/831
1, 6, 12 Rel. Per (%)	-4/20/46
Free float (%)	47.6

Financials & Valuation (INR Billion)

Y/E MAR	2015	2016E	2017E
Sales	45.4	47.8	53.6
EBITDA	7.2	9.8	11.3
NP	3.0	4.2	5.2
EPS (INR)	52.7	72.5	91.2
EPS Gr. (%)	86.4	37.4	25.8
BV/Sh. (INR)	392.9	448.5	518.9
RoE (%)	13.9	16.9	18.5
RoCE (%)	12.0	15.0	17.2
P/E (x)	22.5	16.4	13.0
P/BV (x)	3.0	2.7	2.3

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR1,189
TP: INR1,465 (+23%)
Buy
Dahej plant visit: Reinforces our conviction in the company

- **Dahej is SRF's single largest facility** and produces flourochemicals and specialty chemicals. The total available land is 293 acres (built-up area: 126 acres) and employee count stands at 933 (739 in operations and 193 in project). The site's development is a reflection of the rapid strides that the company has made in R&D over the last 15-20 years. The company's R&D team has filed for 68 process patents so far. Dahej is in Gujarat and is PCPIR—a chemical zone, which provides benefits in terms of sourcing bulk chemicals used in the manufacturing of products. The site is also well connected to port (12km) and national highway.
- **We met Mr Marwah—Head of Operations and Projects;** he gave us insights into the technical aspects of chemical plants, refrigerant gases and specialty chemicals.
- **New projects on track; enhance visibility:** The company expects to operationalize a new dedicated plant by mid-January 2016 and expects to set up a pharma grade HFC-134a plant by March 2016, which will be subject to cGMP approvals. In the specialty chemicals, the company has eight dedicated plants and two flexible plants—which have seen increased activity.
- **Adherence to environmental regulations helps to attract global customers:** The company adheres to environmental regulations and has set up an effluent treatment plant (ETP) at Dahej where all the waste is treated before it is disposed of. The output from ETP is monitored online by government agencies and any violation can result in heavy penalty. The strict regulatory checks are well appreciated by global innovators (clients); this helps to develop long-term relationships. Also, the company's plants are subject to regular audits by customers (BASF, Bayer CropScience, Syngenta and others)
- **Plants/Products are codified to maintain confidentiality:** The company is in a business where it has to maintain high level of confidentiality of the products manufactured for global innovator companies. Therefore, the plants are codified as P10/P11/P12 and so on, which helps to direct the floor level employees to various plants.
- **Well equipped to cater to future requirements:** Investment in capacities supporting infrastructure (mainly ETP, power plant and land) is enough to support expansion for the next 3-4 years. The power plant which has installed capacity of 20MW is currently utilizing 6-7MW and will be scaled up as per the need. Also, there is still vast swathe of unutilized land while ETP and AHP (Anhydrous Hydrofluoric Acid) have enough capacity to cater to planned future requirements of the next 3-4 years; this will ensure that incremental capex will be core investment.
- **HFC-134a available in various SKUs as per client requirements:** The HFC-134a refrigerant gases are packed in various SKUs of 5/10/60/900 Kilograms and also in 16MT ISO tanks. For replacement market and Walmart requirements, it is also available in smaller SKUs of 340gms and 450gms. The company has a total capacity of 12,500MT.

Chintan Modi (Chintan.Modi@MotilalOswal.com); +91 22 3982 5422

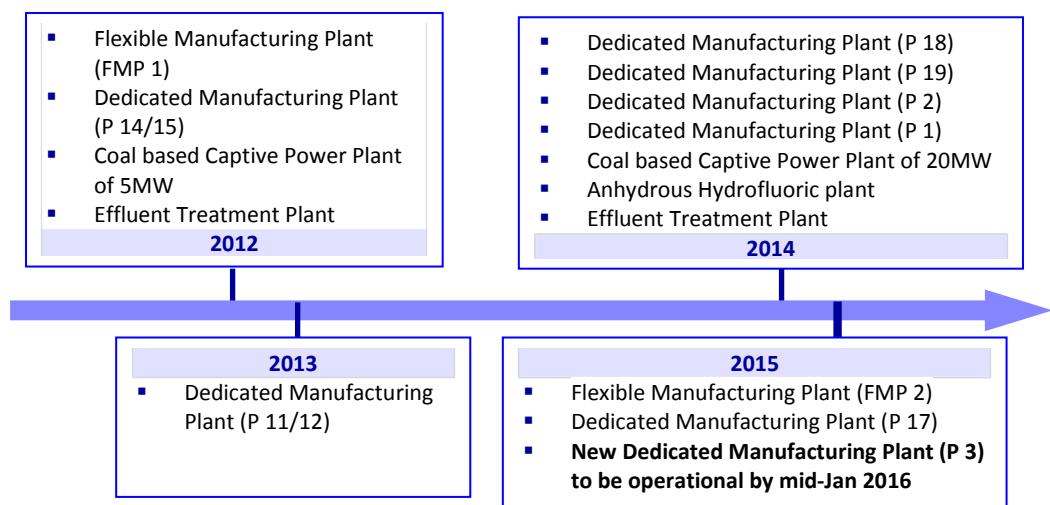
Niket Shah (Niket.Shah@MotilalOswal.com); +91 22 3982 5426

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- **Control Unit the brain of a chemical plant:** The Control Unit is a part of the plant from where the technical aspects like temperature, pressure and feeding of a chemical plant are automatically controlled. The products are produced in batches, which are of ~28 hours. For every 4-5 dedicated plants, there is one Control Unit with dedicated systems for each plant and is controlled by chemical engineers.
- **Reactors are the key component of a plant:** Each plant has various reactors depending on the kind of reactions it undergoes—like fluorination, chlorination, nitration, halogenation and oxidation. Various chemicals are fed into the reactor as per the requirement and the output undergoes distillation and collected in vessels or sent for further reactions in other reactors.
- **Total investment of INR18b:** Till date, the total investment in Dahej has been INR18b—INR6b in specialty chemicals (eight dedicated facilities and two flexible manufacturing facilities), INR4b in HFC134a plant (12500 mt), INR1.2b in a coal-based power plant (20MW), INR3b in fluorochemicals and the balance in supporting infrastructure.

Exhibit 1: Evolution of Dahej site



Source: Company

Exhibit 2: Refrigerant gas profile

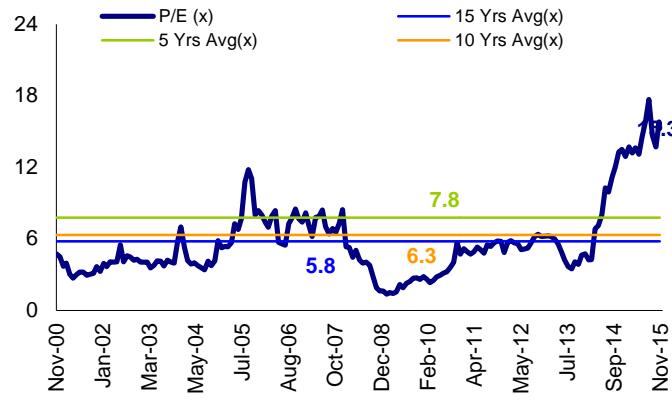
Category served	Auto	Refrigerators	Air Conditioner
Gas used	HFC-134a	HFC-134a	R-22
OEM Customers	Wal-Mart, Maruti, Hyundai, Tata Motors, Honda, Volvo, Fiat, Mitsubishi	Whirlpool, Carrier, LG, Samsung	Carrier, LG, Samsung
Domestic Market Share	60%	60%	38%
Comments	HFC-134a is the only viable solution available today for Mobile ACs	Majorly, all refrigerators bought in the last 3-4 years will have HFC-134a. New substitute is HFC-32.	Room Air conditioners are filled with R-22, which will see HFC-32 as its possible substitute.

Note: SRF has already announced plans to convert HFC-134a facility in Bhawali into HFC-32 for swing plant.

Valuation and view

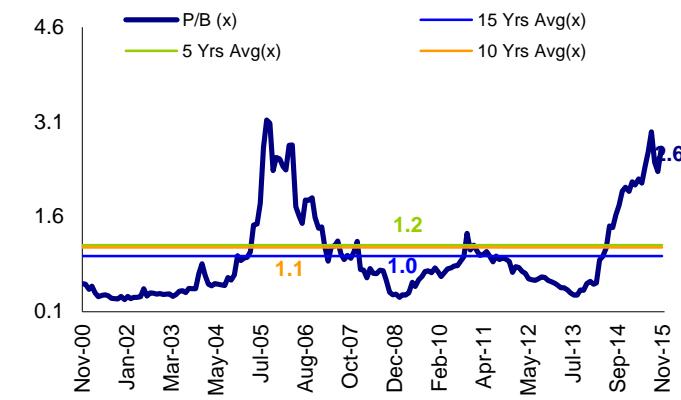
- We believe SRF will be the preferred choice for global agrochemicals and pharmaceutical players for fluorine-based molecule requirements on the back of its strong R&D capabilities and ability to provide support across the value chain—from access to critical starting materials, in-house process research and development to lab synthesis, pilot production and setting up dedicated plants for commercial production.
- The high-margin chemicals business is expected to post high revenue CAGR of 25% over FY15-17, leading to an increase in revenue contribution from 28% in FY15 to 37% in FY17. We expect strong FCF generation (INR5.7b in FY16 and INR3.6b in FY17) and significant improvement in return ratios (RoCE to improve from 12% to 17% over FY15-17). We value the stock on blended PE of 16x FY17E EPS, with a target price of INR1,465—given its strong footing in specialty chemicals, improving mix and return ratios. Maintain **Buy**.

Exhibit 3: Price-to-earnings (One-year forward)



Source: Company, MOSL

Exhibit 4: Price-to-book (one-year forward)



Source: Company, MOSL

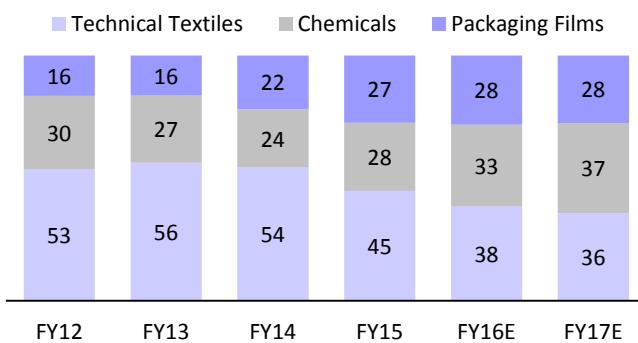
Exhibit 5: SRF Dahej Plant



Source: Company, MOSL

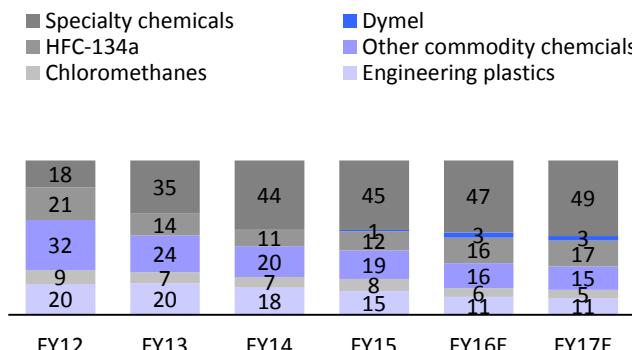
Story in charts

Exhibit 6: Share of chemicals in revenues increasing



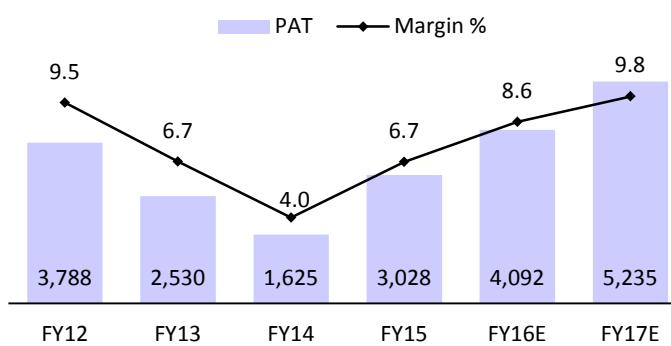
Source: MOSL, Company

Exhibit 7: Contribution of speciality chemicals within chemicals on uptrend



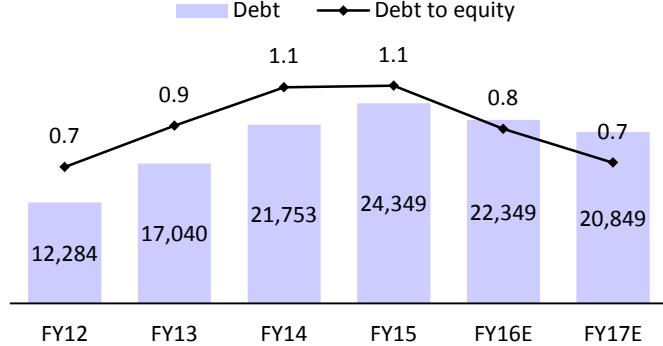
Source: MOSL, Company

Exhibit 8: PAT to post a CAGR of 32% over FY15-17



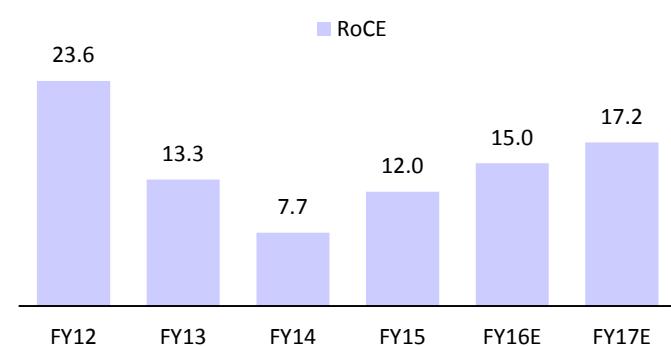
Source: MOSL, Company

Exhibit 9: Debt to equity to reduce to 0.7



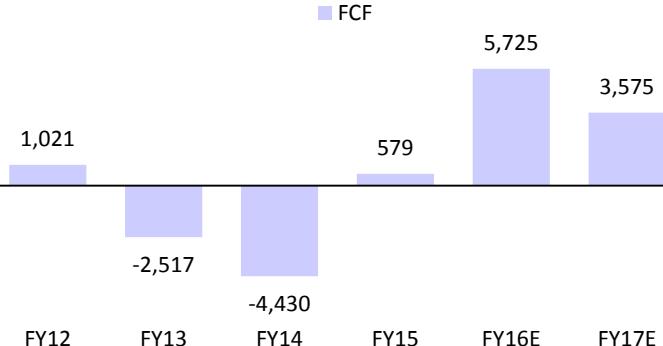
Source: MOSL, Company

Exhibit 10: RoCE to improve to 17.4%



Source: MOSL, Company

Exhibit 11: Strong free cash flow generating



Source: MOSL, Company

Exhibit 12: Key assumptions (INR m)

	FY12	FY13	FY14	FY15	FY16E	FY17E
Revenues (INR m)	40,010	37,829	40,181	45,398	47,811	53,614
Technical Textile	21,375	21,283	21,802	20,319	18,355	19,107
Chemicals	12,034	10,348	9,561	12,634	15,966	19,751
Packaging	6,601	6,199	8,817	12,445	13,491	14,756
Revenue growth %	15.0	-5.5	6.2	13.0	5.3	12.1
Technical Textile	14.8	-0.4	2.4	-6.8	-9.7	4.1
Chemicals	61.2	-14.0	-7.6	32.1	26.4	23.7
Packaging	-24.2	-6.1	42.2	41.1	8.4	9.4
PBIT (INR m)	7,339	4,760	3,494	5,576	7,354	8,742
Technical Textile	1,145	1,234	1,631	1,957	1,836	1,911
Chemicals	5,941	3,465	1,913	2,983	3,832	4,839
Packaging	252	60	-50	636	1,686	1,992
PBIT margins (%)	18.3	12.6	8.7	12.3	15.4	16.3
Technical Textile	5.4	5.8	7.5	9.6	10.0	10.0
Chemicals	49.4	33.5	20.0	23.6	24.0	24.5
Packaging	3.8	1.0	-0.6	5.1	12.5	13.5

Source: Company, MOSL

Financials and valuations

Consolidated – Income Statement						(INR Million)
Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E
Total Income from Operations	40,010	37,830	40,181	45,398	47,811	53,614
Change (%)	15.2	-5.4	6.2	13.0	5.3	12.1
EBITDA	8,314	6,143	5,053	7,175	9,754	11,259
Margin (%)	20.8	16.2	12.6	15.8	20.4	21.0
Depreciation	1,837	2,089	2,248	2,450	2,878	3,060
EBIT	6,478	4,054	2,806	4,724	6,876	8,199
Int. and Finance Charges	1,172	998	961	1,376	1,401	1,296
Other Income	312	420	235	646	306	367
PBT bef. EO Exp.	5,617	3,476	2,080	3,994	5,781	7,271
EO Items	0	0	0	0	-97	0
PBT after EO Exp.	5,617	3,476	2,080	3,994	5,684	7,271
Current Tax	1,687	564	208	314	1,591	2,036
Deferred Tax	142	383	247	652	0	0
Tax Rate (%)	32.6	27.2	21.9	24.2	28.0	28.0
Reported PAT	3,788	2,530	1,625	3,028	4,092	5,235
Adjusted PAT	3,788	2,530	1,625	3,028	4,162	5,235
Change (%)	-21.8	-33.2	-35.8	86.4	37.4	25.8
Margin (%)	9.5	6.7	4.0	6.7	8.7	9.8

Consolidated - Balance Sheet						(INR Million)
Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E
Equity Share Capital	584	584	584	584	584	584
Total Reserves	17,931	19,105	20,082	22,379	25,624	29,740
Net Worth	18,515	19,689	20,667	22,963	26,208	30,324
Deferred Liabilities	2,269	2,648	3,250	4,094	4,094	4,094
Total Loans	12,284	17,040	21,753	24,349	22,349	20,849
Capital Employed	33,069	39,377	45,670	51,406	52,651	55,267
Gross Block	41,463	47,566	61,072	66,773	70,273	75,423
Less: Accum. Deprn.	20,713	24,197	25,657	27,585	30,463	33,522
Net Fixed Assets	20,750	23,369	35,415	39,188	39,810	41,901
Goodwill on Consolidation	30	30	93	35	35	35
Capital WIP	4,175	5,654	1,121	1,041	1,096	1,230
Total Investments	1,405	1,512	366	943	943	943
Curr. Assets, Loans&Adv.	13,321	15,181	17,693	17,624	19,860	21,590
Inventory	4,877	5,632	7,464	7,635	7,540	8,424
Account Receivables	4,837	5,087	6,915	6,107	6,811	7,638
Cash and Bank Balance	1,401	1,910	825	1,073	2,549	2,210
Loans and Advances	2,206	2,552	2,489	2,810	2,959	3,318
Curr. Liability & Prov.	6,753	6,513	9,516	8,133	9,705	11,041
Account Payables	6,500	6,240	9,173	7,850	8,518	9,516
Provisions	253	273	343	283	1,187	1,526
Net Current Assets	6,568	8,668	8,177	9,491	10,155	10,548
Deferred Tax assets	142	145	498	708	611	611
Appl. of Funds	33,068	39,377	45,670	51,406	52,651	55,267

Financials and valuations

Ratios

Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E
Basic (INR)						
EPS	64.8	44.1	28.3	52.7	72.5	91.2
Cash EPS	96.3	79.0	66.3	93.7	120.5	141.9
BV/Share	316.8	336.9	353.6	392.9	448.5	518.9
DPS	13.9	10.0	10.0	10.0	12.7	16.8
Payout (%)	24.9	26.4	41.3	22.5	20.7	21.4
Valuation (x)						
P/E		42.0	22.5	16.4	13.0	
Cash P/E		17.9	12.7	9.9	8.4	
P/BV		3.4	3.0	2.7	2.3	
EV/Sales		2.3	2.0	1.9	1.6	
EV/EBITDA		17.9	12.9	9.2	7.8	
Dividend Yield (%)		0.8	0.8	1.1	1.4	
FCF per share		-75.8	9.9	98.0	61.2	
Return Ratios (%)						
RoE	21.3	13.2	8.1	13.9	16.9	18.5
RoCE	23.6	13.3	7.7	12.0	15.0	17.2
Working Capital Ratios						
Inventory (Days)	77	95	114	110	108	108
Debtor (Days)	41	46	58	46	49	48
Creditor (Days)	103	106	140	113	122	122
Working Cap. Turnover (Days)	47	65	67	68	58	57
Leverage Ratio (x)						
Debt/Equity	0.7	0.9	1.1	1.1	0.9	0.7

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY12	FY13	FY14	FY15	FY16E	FY17E
OP/(Loss) before Tax	5,617	3,476	2,080	3,994	5,781	7,271
Depreciation	2,404	2,089	2,248	2,450	2,878	3,060
Interest & Finance Charges	1,150	972	908	1,346	1,401	1,296
Direct Taxes Paid	-1,658	-632	-413	-850	-1,591	-2,036
(Inc)/Dec in WC	-64	-1,445	-1,199	-1,011	812	-732
CF from Operations	7,450	4,459	3,623	5,931	9,280	8,858
Others	-802	-232	-156	-507	0	0
CF from Operating incl EO	6,648	4,227	3,467	5,423	9,280	8,858
(inc)/dec in FA	-5,627	-6,744	-7,897	-4,845	-3,555	-5,283
Free Cash Flow	1,021	-2,517	-4,430	579	5,725	3,575
(Pur)/Sale of Investments	-243	-63	1,156	-632	0	0
Others	256	92	144	482	0	0
CF from Investments	-5,614	-6,716	-6,597	-4,994	-3,555	-5,283
Issue of Shares	-900	0	0	0	0	0
Inc/(Dec) in Debt	2,336	4,547	3,911	1,889	-2,000	-1,500
Interest Paid	-1,028	-889	-1,198	-1,392	-1,401	-1,296
Dividend Paid	-940	-660	-668	-678	-847	-1,119
CF from Fin. Activity	-536	2,998	2,045	-181	-4,248	-3,914
Inc/Dec of Cash	498	509	-1,085	248	1,476	-339
Opening Balance	902	1,401	1,910	825	1,073	2,549
Closing Balance	1,401	1,910	825	1,073	2,549	2,210

Corporate profile: SRF Ltd

Company description

- SRF is a multi-business entity involved in Technical Textiles (TTB; 45% of FY15 revenue), Chemicals (CB; 28%), and Packaging (PB; 27%). In terms of PBIT, TTB contributed 35%, CB 53%, and PB 11%.
- In the past few years, SRF has invested heavily (~INR18b) in Dahej for setting up a chemicals complex, which should begin to contribute meaningfully from FY15.
- The Chemicals business is likely to drive overall growth and profitability, the Packaging business is in the midst of an upturn and the Technical Textiles business continues to generate enough cash flows to support expansion of the Chemicals business.

Exhibit 13: Sensex rebased



Exhibit 14: Shareholding pattern (%)

	Sep-15	Jun-15	Mar-15
Promoter	52.4	52.4	52.4
DII	13.0	12.6	13.5
FII	15.2	15.5	11.5
Others	19.5	19.6	22.6

Exhibit 15: Top holders

Holder Name	% Holding
Amansa Holdings Pvt Ltd	5.1
Sundaram Mutual Fund A/c Sundaram Select Midcap	2.6
Goldman Sachs India Fund Ltd	2.1
DSP Blackrock Small & Mid Cap Fund	1.2
DSP Blackrock Micro Cap Fund	1.2
UTI - Midcap Fund	1.2

Exhibit 16: Top management

Name	Designation
Arun Bharat Ram	Chairman
Ashish Bharat Ram	Managing Director
Kartik Bharat Ram	Dy. Managing Director
Rajendra Prasad	President and CFO

Exhibit 17: Directors

Name	Name
Arun Bharat Ram	Vellayan Subbiah
Ashish Bharat Ram	Vinayak Chatterjee
Kartikeya Bharat Ram	Tejpreet Singh Chopra
L Lakshman	Meenakshi Gopinath
Pramod Bhasin	Anoop K Joshi

*Independent

Exhibit 18: Auditors

Name	Type
Deloitte Haskins & Sells LLP	Statutory
Sanjay Grover & Associates	Secretarial Audit
H Tara & Co	Cost Auditor
Sanjay Gupta & Associates	Cost Auditor

Exhibit 19: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY16	72.5	75.1	-3.5
FY17	91.2	95.4	-4.4

NOTES

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Kadambari Balachandran

Email : kadambari.balachandran@motilaloswal.com

Contact : (+65) 68189233 / 65249115

Office Address : 21 (Suite 31), 16 Collyer Quay, Singapore 04931



Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025

Phone: +91 22 3982 5500 E-mail: reports@motilaloswal.com