

BSE SENSEX

31,798

S&P CNX

9,908

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Bloomberg	SRF IN
Equity Shares (m)	57
M.Cap.(INRb)/(USDb)	88.7 / 1.4
52-Week Range	1970 / 1352
1, 6, 12 Rel. Per (%)	-8/-30/-22
Avg Val, INRm	384
Free float (%)	47.6

Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Net Sales	48.2	55.3	64.1
EBITDA	9.7	10.1	12.4
PAT	4.9	4.6	6.0
EPS (INR)	85.9	80.2	103.0
Gr. (%)	12.8	-6.6	28.3
BV/Sh (INR)	544.6	604.9	684.7
RoE (%)	16.6	13.7	16.0
RoCE (%)	17.7	17.6	22.1
P/E (x)	16.7	17.9	14.0
P/BV (x)	2.6	2.4	2.1

Estimate change

TP change

Rating change


CMP: INR1,437 TP: INR1,648(+15%)
Buy

Order book deferred; Recovery pushed to 2HFY18

- **Revenue exceeds estimate; PAT in-line:** SRF reported overall revenue of INR13.88b (est. of INR11.46b) in 1QFY18 v/s INR12.9b in 1QFY17. On a YoY basis, Chemicals segment declined 8%, while Technical textiles/Packaging grew by 11.3%/19.4%. EBITDA margin contracted from 22.8% in 1QFY17 to 15.1% (est. of 21.3%) in 1QFY18. EBITDA during the quarter stood at INR2,091m (est. of INR2,441m), as against INR2,962m in 1QFY17 – down 29% as gross margin contracted 610bp YoY to 48.3%. Consequently, adj. PAT declined 33% from INR1,546m in 1QFY17 to INR1,038m (est. of INR1,063m) in 1QFY18.
- **SpChem continues facing headwinds:** SpChem witnessed another subdued quarter due to unfavorable global agrochem environment. Overall, SRF faced pressure from higher effective tax rate, channel destocking on account of GST, and unfavorable currency movement. However, the company continues to develop products and commit capex on demand revival expectations. Management expects the operating macroeconomic situation to ease in 2HFY18, enabling execution of the deferred order book.
- **Ref gas grows despite domestic turbulence:** On the domestic front, Ref gas witnessed a loss of sale of ~200 tonnes due to GST transitional phase in peak season. However, exports (~60% of total ref gas) remained strong, with 1QFY18 witnessing highest production and sales of refrigerants and blends due to higher HFC32 usage. The segment is likely to continue increasing market share.
- **Valuation and view:** SRF continues to invest in R&D/capacity expansion, keeping itself ready for demand revival. However, with no visibility of recovery in global agrochem before 4QFY18, we cut our FY18/FY19E earnings by 8%/6%. We expect CAGR of 15% in revenue and 10% in adj. PAT over FY17-19E. We value the stock at 16x FY19E EPS and maintain **Buy** with a TP of INR1,648.

Quarterly Performance (Consolidated)

Consolidated - Quarterly Earning Model

Y/E March									(INR Million)			
	FY17				FY18				FY17E	FY18E	FY18	Var
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	%
Net Sales	12,994	12,154	12,055	14,164	13,884	14,037	14,104	16,997	48,218	55,309	11,461	21
YoY Change (%)	6	5	10.0	27.3	7	16	17.0	20.0	5.0	14.7	-6.0	
Total Expenditure	10,032	9,827	9,742	12,007	11,793	11,497	11,453	14,142	38,524	45,187	9,019	
EBITDA	2,962	2,326	2,313	2,157	2,091	2,541	2,652	2,856	9,694	10,122	2,441	-14
Margins (%)	22.8	19.1	19.2	15.2	15.1	18.1	18.8	16.8	20.1	18.3	21.3	
Depreciation	696	735	709	730	758	814	782	733	2,834	3,146	817	
Interest	281	242	269	228	271	217	231	237	1,018	939	254	
Other Income	62	70	64	259	203	68	66	80	455	275	61	
PBT before EO expense	2,047	1,419	1,400	1,459	1,266	1,578	1,705	1,966	6,296	6,312	1,431	-12
Extra-Ord expense	0	-72	45	-185	0	0	0	0	-276	0	0	
PBT	2,047	1,491	1,355	1,644	1,266	1,578	1,705	1,966	6,572	6,312	1,431	-12
Tax	501	298	271	352	228	431	462	468	1,422	1,704	368	
Rate (%)	24.5	20.0	20.0	21.4	18.0	27.3	27.1	23.8	21.6	27.0	25.7	
Reported PAT	1,546	1,193	1,084	1,292	1,038	1,147	1,243	1,498	5,150	4,608	1,063	-2
Adj PAT	1,546	1,135	1,120	1,147	1,038	1,147	1,243	1,498	4,934	4,608	1,063	-2
YoY Change (%)	37.5	3.5	10.1	7.0	-32.8	1.0	11.0	30.6	14.4	-6.6	-23.8	
Margins (%)	11.9	9.3	9.3	8.1	7.5	8.2	8.8	8.8	10.2	8.3	9.3	

E: MOSL Estimates

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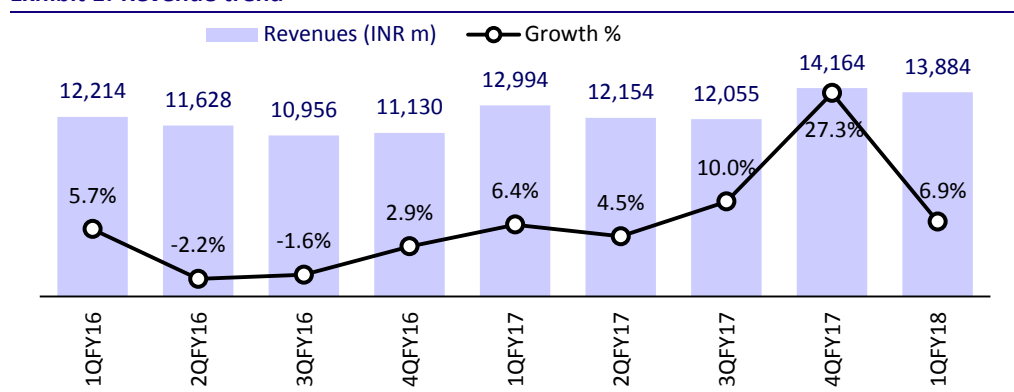
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Investors are advised to refer through important disclosures made at the last page of the Research Report.

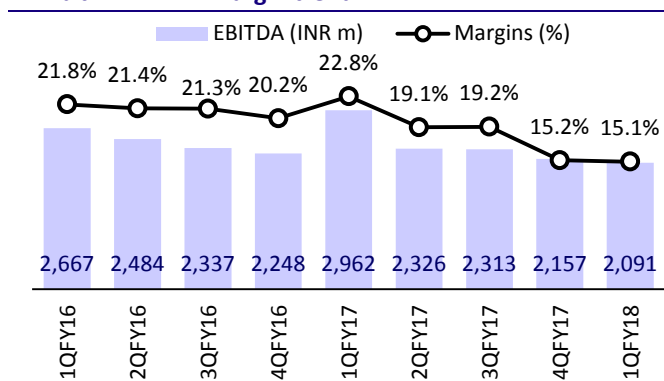
Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Revenue beats estimates; PAT in-line

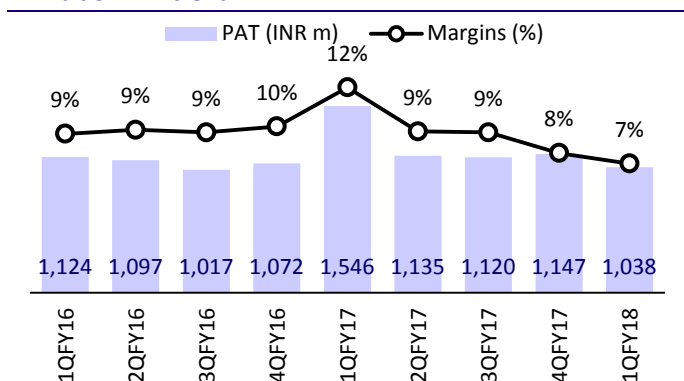
- SRF reported overall revenue of INR13.88b (est. of INR11.46b) in 1QFY18, as against INR12.9b in 1QFY17.
- On a YoY basis, Chemicals segment declined 8%, while Technical textiles/Packaging grew by 11.3%/19.4%. Chemicals and polymers business de-grew on account of weak agrochemicals and reduced offtake in the supply chain ahead of GST rollout.
- EBITDA margin contracted from 22.8% in 1QFY17 to 15.1% (est. of 21.3%) in 1QFY18. EBITDA during the quarter stood at INR2,091m (est. of INR2,441m), as against INR2,962m in 1QFY17 – down 29% as gross margin contracted 610bp YoY to 48.3%.
- PBIT margin for Technical textile came in at 11% v/s 14.1% YoY, for Chemical at 15.5% v/s 25.2% YoY, and Packaging 10.5% v/s 17.3% YoY.
- Consequently, adj. PAT declined 33% from INR1,546m in 1QFY17 to INR1,038m (est. of INR1,063m) in 1QFY18.

Exhibit 1: Revenue trend

Source: Company, MOSL

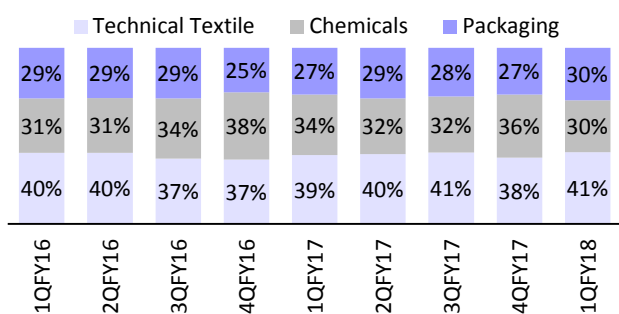
Exhibit 2: EBITDA margin trend

Source: Company, MOSL

Exhibit 3: PAT trend

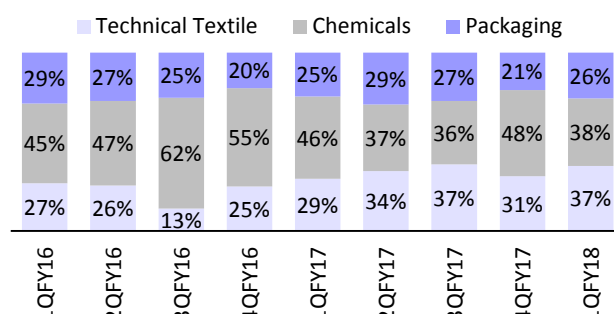
Source: Company, MOSL

Exhibit 4: Revenue mix



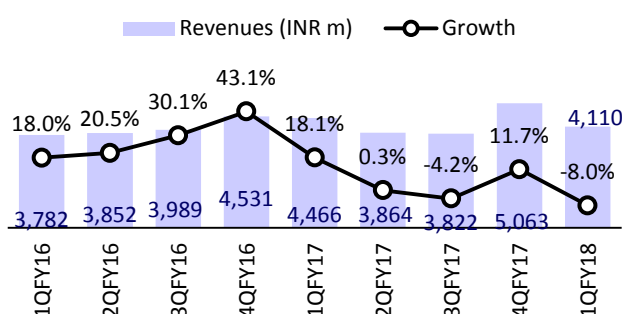
Source: Company, MOSL

Exhibit 5: PBIT mix



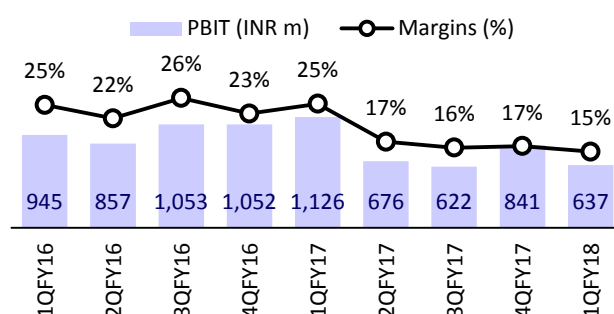
Source: Company, MOSL

Exhibit 6: Chemicals revenue trend



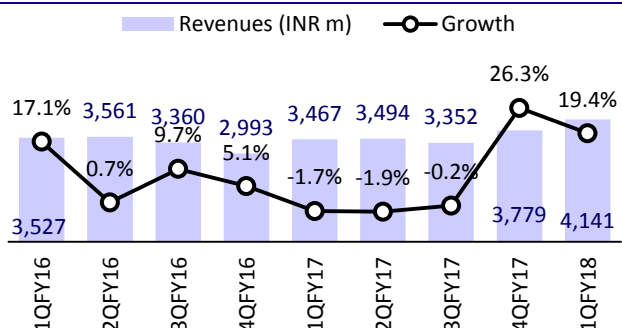
Source: Company, MOSL

Exhibit 7: Chemicals PBIT trend



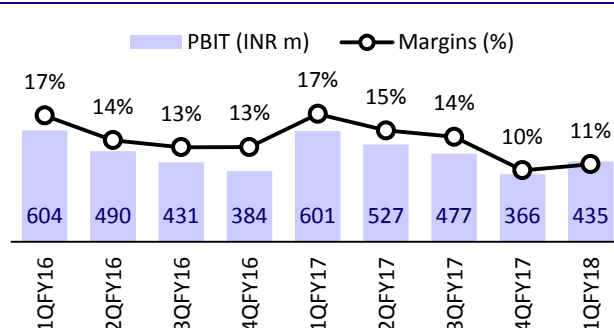
Source: Company, MOSL

Exhibit 8: Packaging revenue trend



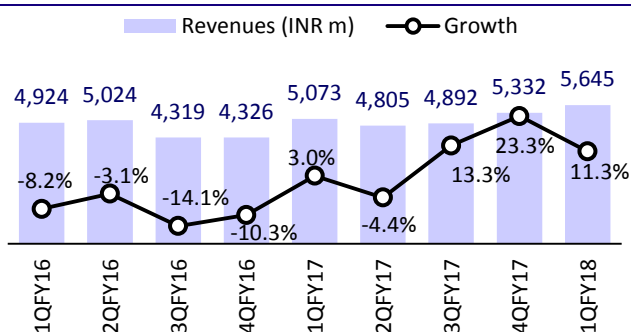
Source: Company, MOSL

Exhibit 9: Packaging PBIT trend



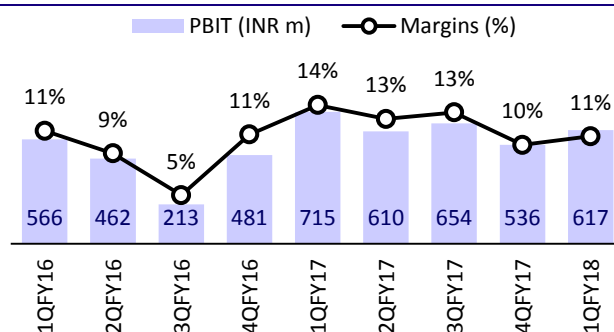
Source: Company, MOSL

Exhibit 10: Technical Textile revenue trend



Source: Company, MOSL

Exhibit 11: Technical Textile PBIT trend



Source: Company, MOSL

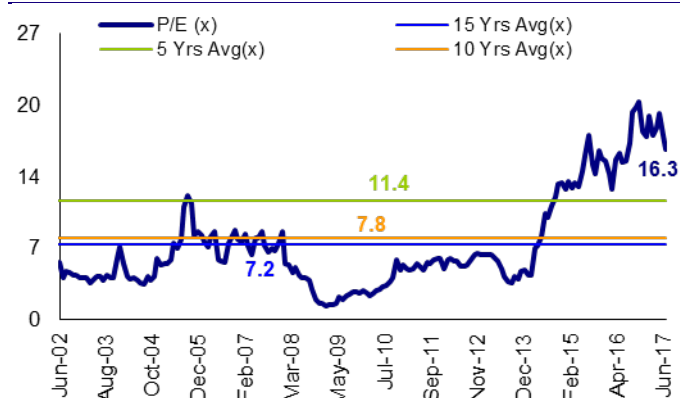
Key highlights from concall

- The company witnessed subdued performance on account of unfavorable operating macroeconomic environment, with the key challenges being subdued commodity prices, channel destocking, increase in effective tax rate and sharp appreciation of currency.
- There was reduced demand in fluoro-chemicals business due to subdued offtake leading to lower volumes in the month of June on account of transition to GST. However, the anti-dumping duty imposed by the US on Chinese imports will allow 134a plant to run at higher capacity.
- In packaging segment, oversupply in domestic market, along with the impact of GST transition, led to pressure on margins. Despite this, the plants ran at full capacity, and going forward, the focus is expected to be on efficient utilization of raw materials and addition of innovative value-added products.
- Specialty chemicals business is expected to remain under pressure till global agro-chem environment shows signs of recovery. However, the order book remains healthy (deferred, but not cancelled).
- Refrigerant continues to increase market share; however, the domestic market of the segment had a major impact of GST, as 1QFY18 is the peak season.
- Operating leverage is expected to improve toward the end of FY18, resulting in better utilization of assets on ground.
- Average effective indirect tax rate has increased from 23.6% in FY17 to 32.13% in 1QFY18, as the tax benefits have been taken away. R&D expenditure is now eligible for 150% deduction, compared to 200% deduction earlier, and capex would not get any investment allowance, which used to be at 50% earlier.

Valuation and view

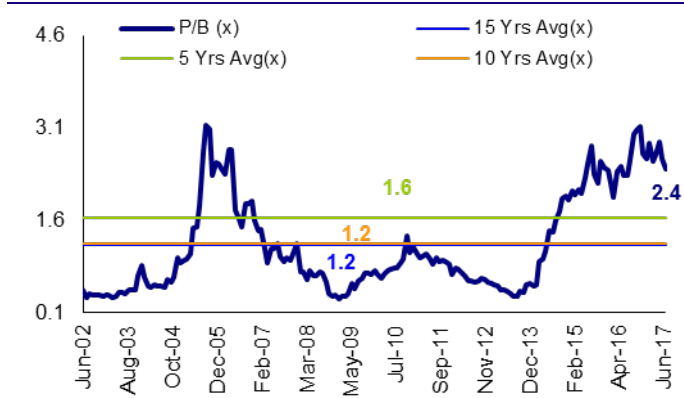
- The company continues to invest in R&D and capacity expansion, keeping itself ready for any demand revival. However, considering no visibility of recovery in global agrochem before 4QFY18, we cut our FY18/FY19 earnings estimates by 8% and 6% respectively. We expect SRF to post 15% revenue CAGR and adj. PAT to register 10% CAGR over FY17-19E. We value the stock at 16x FY19E EPS and maintain **Buy** with a target price of INR1,648.

Exhibit 12: Price to earnings (One year forward)



Source: Company, MOSL

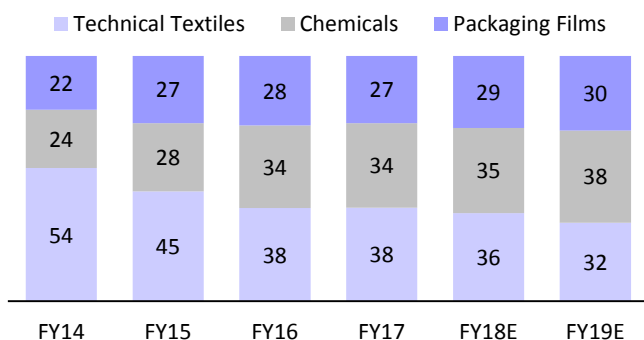
Exhibit 13: Price to book (One year forward)



Source: Company, MOSL

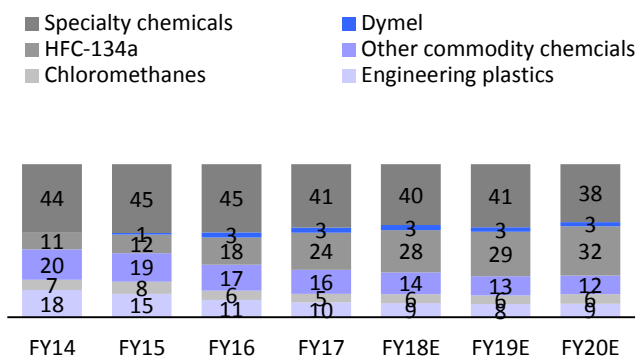
Story in charts

Exhibit 14: Share of chemicals in revenues increasing



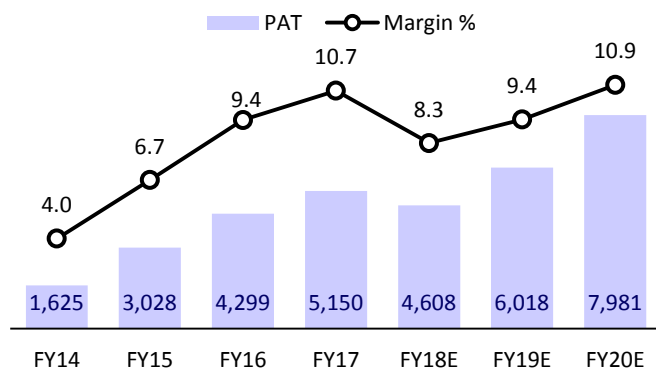
Source: MOSL, Company

Exhibit 15: Contribution within chemicals



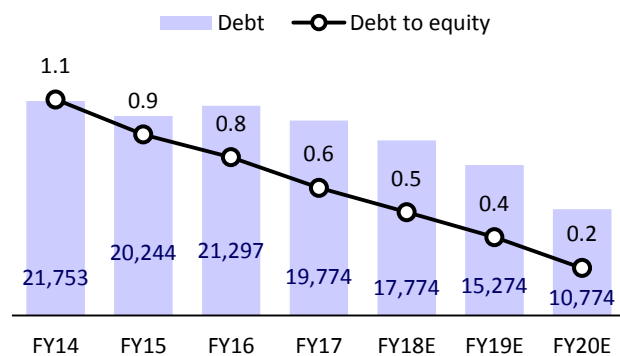
Source: MOSL, Company

Exhibit 16: PAT to post a CAGR of 16% over FY17-20E



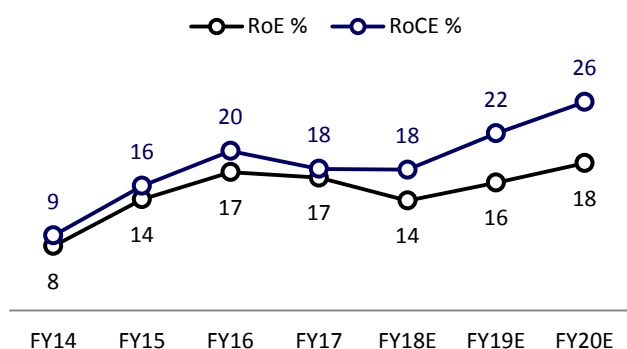
Source: MOSL, Company

Exhibit 17: Debt to equity to reduce to 0.2 in FY20E



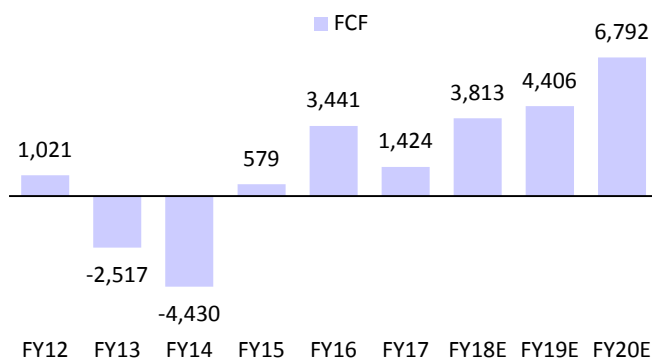
Source: MOSL, Company

Exhibit 18: RoCE to improve to 26%



Source: MOSL, Company

Exhibit 19: Strong free cash flow generating



Source: MOSL, Company

Exhibit 20: Assumption Sheet

	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Revenues (INR m)	37,829	40,181	45,398	46,001	48,447	55,309	63,944
Technical Textile	21,283	21,802	20,319	17,429	18,477	19,856	20,452
Chemicals	10,348	9,561	12,634	15,524	16,668	19,206	24,062
Packaging	6,199	8,817	12,445	13,048	13,302	16,248	19,430
Revenue growth %	-5.5	6.2	13.0	1.3	5.3	14.2	15.6
Technical Textile	-0.4	2.4	-6.8	-14.2	6.0	7.5	3.0
Chemicals	-14.0	-7.6	32.1	22.9	7.4	15.2	25.3
Packaging	-6.1	42.2	41.1	4.8	1.9	22.1	19.6
PBIT (INR m)	4,760	3,494	5,576	7,687	7,786	8,157	10,146
Technical Textile	1,234	1,631	1,957	1,810	2,543	2,462	2,475
Chemicals	3,465	1,913	2,983	3,936	3,273	3,745	5,534
Packaging	60	-50	636	1,940	1,970	1,950	2,137
PBIT margins (%)	12.6	8.7	12.3	16.7	16.1	14.7	15.9
Technical Textile	5.8	7.5	9.6	10.4	13.8	12.4	12.1
Chemicals	33.5	20.0	23.6	25.4	19.6	19.5	23.0
Packaging	1.0	-0.6	5.1	14.9	14.8	12.0	11.0

Source: Company, MOSL

Financials and Valuations

Consolidated - Income Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Total Income from Operations	40,181	45,398	45,927	48,218	55,309	64,113	72,957
Change (%)	6.2	13.0	1.2	5.0	14.7	15.9	13.8
EBITDA	5,053	7,175	9,728	9,694	10,122	12,374	14,737
Margin (%)	12.6	15.8	21.2	20.1	18.3	19.3	20.2
Depreciation	2,248	2,450	2,750	2,834	3,146	3,361	3,497
EBIT	2,806	4,724	6,979	6,860	6,975	9,013	11,240
Int. and Finance Charges	961	1,376	1,305	1,018	939	826	625
Other Income	235	646	278	455	275	289	318
PBT bef. EO Exp.	2,080	3,994	5,952	6,296	6,312	8,476	10,933
EO Items	0	0	-103	276	0	0	0
PBT after EO Exp.	2,080	3,994	5,849	6,572	6,312	8,476	10,933
Current Tax	208	314	1,551	1,422	1,704	2,458	2,952
Deferred Tax	247	652	0	0	0	0	0
Tax Rate (%)	21.9	24.2	26.5	21.6	27.0	29.0	27.0
Reported PAT	1,625	3,028	4,299	5,150	4,608	6,018	7,981
Adjusted PAT	1,625	3,028	4,374	4,934	4,608	6,018	7,981
Change (%)	-35.8	86.4	44.5	12.8	-6.6	30.6	32.6
Margin (%)	4.0	6.7	9.5	10.2	8.3	9.4	10.9

Consolidated - Balance Sheet

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Equity Share Capital	584	584	584	584	584	584	584
Total Reserves	20,082	22,379	27,045	31,242	34,765	39,427	46,052
Net Worth	20,667	22,963	27,630	31,827	35,350	40,011	46,636
Deferred Liabilities	3,250	4,094	3,820	5,069	5,069	5,069	5,069
Total Loans	21,753	20,244	21,297	19,774	17,774	15,274	10,774
Capital Employed	45,670	47,301	52,747	56,670	58,192	60,354	62,479
Gross Block	61,072	66,773	71,410	77,169	84,169	88,169	91,169
Less: Accum. Deprn.	25,657	27,585	30,334	33,169	36,315	39,675	43,172
Net Fixed Assets	35,415	39,188	41,076	44,000	47,854	48,493	47,996
Goodwill on Consolidation	93	35	49	49	49	49	49
Capital WIP	1,121	1,041	1,174	2,586	0	0	0
Total Investments	366	943	1,649	1,959	1,959	1,959	1,959
Curr. Assets, Loans&Adv.	17,693	17,624	20,291	20,990	23,299	25,913	29,915
Inventory	7,464	7,635	6,711	8,381	9,467	10,493	11,825
Account Receivables	6,915	6,107	5,145	6,569	6,970	7,904	9,195
Cash and Bank Balance	825	1,073	3,399	876	665	389	701
Loans and Advances	2,489	2,810	5,036	5,164	6,197	7,126	8,195
Curr. Liability & Prov.	9,516	12,238	12,789	15,143	17,197	18,289	19,669
Account Payables	8,265	6,350	7,364	8,388	9,228	9,951	11,213
Other Current Liabilities	908	5,606	5,113	6,396	6,396	6,396	6,396
Provisions	343	283	312	359	1,573	1,942	2,060
Net Current Assets	8,177	5,386	7,502	5,847	6,102	7,625	10,247
Deferred Tax assets	498	708	1,297	2,229	2,229	2,229	2,229
Appl. of Funds	45,670	47,301	52,747	56,670	58,192	60,354	62,479

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Basic (INR)							
EPS	28.3	52.7	76.2	85.9	80.2	103.0	136.6
Cash EPS	66.3	93.7	121.9	132.9	132.7	160.5	196.4
BV/Share	353.6	392.9	472.8	544.6	604.9	684.7	798.0
DPS	10.0	10.0	10.0	12.0	16.3	20.0	20.0
Payout (%)	41.3	22.5	15.5	15.9	23.5	22.5	17.0
Valuation (x)							
P/E	50.8	27.2	18.9	16.7	17.9	14.0	10.5
Cash P/E	21.7	15.3	11.8	10.8	10.8	9.0	7.3
P/BV	4.1	3.7	3.0	2.6	2.4	2.1	1.8
EV/Sales	2.6	2.2	2.2	2.1	1.8	1.5	1.3
EV/EBITDA	20.5	14.2	10.3	10.5	9.8	7.9	6.3
Dividend Yield (%)	0.7	0.7	0.7	0.8	1.1	1.4	1.4
FCF per share	-75.8	9.9	58.9	24.4	65.2	75.4	116.2
Return Ratios (%)							
RoE	8.1	13.9	17.3	16.6	13.7	16.0	18.4
RoCE	9.4	15.6	19.9	17.7	17.6	22.1	26.0
RoIC	10.1	15.2	20.2	18.2	17.2	21.1	24.9
Working Capital Ratios							
Asset Turnover (x)	0.9	1.0	0.9	0.9	1.0	1.1	1.2
Inventory (Days)	114	110	105	126	119	116	116
Debtor (Days)	58	46	38	47	43	42	43
Creditor (Days)	126	91	115	127	116	110	110
Working Cap. Turnover (Days)	67	35	33	38	36	41	48
Leverage Ratio (x)							
Current Ratio	1.9	1.4	1.6	1.4	1.4	1.4	1.5
Interest Cover Ratio	3	3	5	7	7	11	18
Debt/Equity	1.1	0.9	0.8	0.6	0.5	0.4	0.2

Consolidated - Cash Flow Statement

(INR Million)

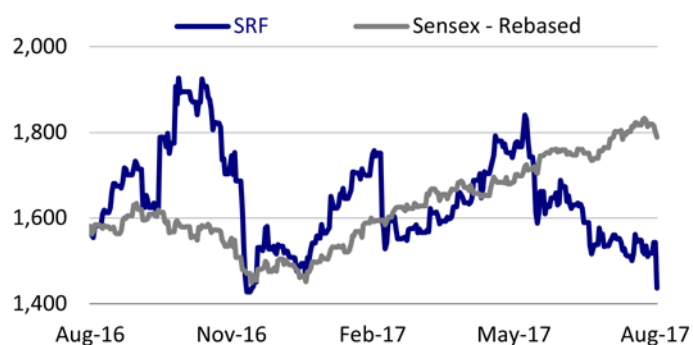
Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
OP/(Loss) before Tax	2,080	3,994	5,952	6,296	6,312	8,476	10,933
Depreciation	2,248	2,450	2,750	2,834	3,146	3,361	3,497
Interest & Finance Charges	908	1,346	1,305	1,018	939	826	625
Direct Taxes Paid	-413	-850	-1,551	-1,422	-1,704	-2,458	-2,952
(Inc)/Dec in WC	-1,199	-1,011	703	-2,151	-466	-1,799	-2,311
CF from Operations	3,623	5,931	9,159	6,576	8,227	8,406	9,792
Others	-156	-507	-947	2,018	0	0	0
CF from Operating incl EO	3,467	5,423	8,212	8,594	8,227	8,406	9,792
(inc)/dec in FA	-7,897	-4,845	-4,771	-7,170	-4,414	-4,000	-3,000
Free Cash Flow	-4,430	579	3,441	1,424	3,813	4,406	6,792
(Pur)/Sale of Investments	1,156	-632	0	0	0	0	0
Others	144	482	-707	-310	0	0	0
CF from Investments	-6,597	-4,994	-5,477	-7,479	-4,414	-4,000	-3,000
Issue of Shares	0	0	0	0	0	0	0
Inc/(Dec) in Debt	3,911	1,889	1,053	-1,523	-2,000	-2,500	-4,500
Interest Paid	-1,198	-1,392	-1,305	-1,018	-939	-826	-625
Dividend Paid	-668	-678	-664	-821	-1,085	-1,356	-1,356
Others	0	0	507	-276	0	0	0
CF from Fin. Activity	2,045	-181	-409	-3,637	-4,023	-4,682	-6,481
Inc/Dec of Cash	-1,085	248	2,326	-2,523	-211	-276	311
Opening Balance	1,910	825	1,073	3,399	876	665	389
Closing Balance	825	1,073	3,399	876	665	389	700

Corporate profile

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 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Jun-17	Mar-17	Jun-16
Promoter	52.4	52.4	52.4
DII	10.6	10.8	12.1
FII	18.4	18.1	15.8
Others	18.6	18.8	19.8

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
AMANSA HOLDINGS PRIVATE LIMITED	6.5
DSP BLACKROCK BALANCED FUND	4.4
STICHTING DEPOSITARY APG EMERGING MARKETS EQUITY POOL	1.8
SUNDARAM MUTUAL FUND A/C SUNDARAM SELECT MIDCAP	1.8
AMANSA HOLDINGS PRIVATE LIMITED	6.5

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Arun Bharat Ram	Chairman
Ashish Bharat Ram	Managing Director
Kartikeya Bharat Ram	Deputy Managing Director
Anoop K Joshi	CFO & Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
L Lakshman	Pramod Bhasin
Tejpreet S Chopra	Vellayan Subbiah
Vinayak Chatterjee	Meenakshi Gopinath
K Ravichandra	

*Independent

Exhibit 6: Auditors

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

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	80.2	92.8	-13.6
FY19	103.0	113.1	-9.0
FY20	136.6	124.9	9.4

Source: Bloomberg

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