

BSE SENSEX
35,162

S&P CNX
10,585

CMP: INR1,775 TP: INR2,271 (+28%)
Buy

Stock Info

Bloomberg	SRF IN
Equity Shares (m)	58
M.Cap.(INRb)/(USD\$)	102 / 1.4
52-Week Range (INR)	2443 / 1531
1, 6, 12 Rel. Per (%)	-4/-20/-5
12M Avg Val (INR M)	600
Free float (%)	47.6

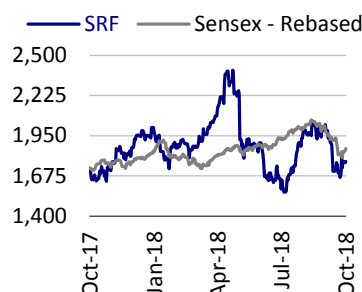
Financials Snapshot (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	55.9	68.1	76.3
EBITDA	9.1	13.0	15.3
PAT	4.6	5.9	7.6
EPS (INR)	79.0	101.8	130.9
Gr. (%)	-10.3	28.9	28.6
BV/Sh (INR)	609.9	688.6	796.2
RoE (%)	13.7	15.7	17.6
RoCE (%)	9.1	10.8	12.6
P/E (x)	22.5	17.4	13.6
P/BV (x)	2.9	2.6	2.2

Shareholding pattern (%)

As On	Jun-18	Mar-18	Jun-17
Promoter	52.4	52.4	52.4
DII	9.5	11.0	10.6
FII	19.6	19.8	18.4
Others	18.6	16.9	18.6

FII Includes depository receipts

Stock Performance (1-year)

A comeback candidate
All moving parts to work in unison to drive accelerated growth

- In the past fiscal year, SRF confronted sizeable challenges in its key business lines of *Technical Textiles* (muted revenue growth of 3.5% – led by subdued growth in NTCF), *Chemicals* (margins down 280bp – dragged by Specialty Chemicals, especially Agrochemicals) and *Packaging* (margins down 140bp – led by higher raw material prices and oversupply in BOPP business).
- However, in FY19, we expect all the moving parts to work in unison to drive accelerated growth for SRF.
 - In our view, favorable sowing conditions, a decline in closing stocks of key crops and a run-up in global commodity prices are expected to drive a turnaround in Specialty Chemicals business.
 - Biaxially-oriented polyethylene terephthalate (BoPET) business is enjoying favorable demand-supply dynamics, with most markets facing supply shortage are inclined to pay premiums. This should more than offset the pressure in biaxially oriented polypropylene (BOPP) business.
 - Nylon tyre cord fabrics (NTCF) business also appears well poised for a comeback, given the better demand outlook from OEMs and the replacement market.

Fluorochemicals on track, expect revival in Specialty too

- After exhibiting a muted show for most of FY18, Specialty Chemicals business appears well poised for a good 2018-19 season on account of favorable sowing conditions, a decline in closing stocks (-13% YoY for maize, -6% YoY for wheat and -1% YoY for rice), and higher global commodity prices (+7% YoY for maize, +3% YoY for rice, +15% YoY for wheat and +9% YoY for soybean). This augurs well for Agrochemicals, and thus, we foresee a back-ended recovery for Specialty Chemicals (expect 44% growth in FY19, in line with management guidance of +40-50%).
- FY19 demand outlook for refrigerants in the US appears optimistic, with R32 volumes likely to grow strongly. SRF also expects to boost refrigerant gas exports to Europe, given relatively high realizations in the region. Demand from OEMs in the domestic auto segment is also likely to remain healthy.
- Margins for Chemicals segment shrank by 280bp in FY18 due to a steep rise of 51% in fluorspar prices. In FY19 too, fluorspar prices have increased 17% on average, and margins were flattish YoY in 1QFY19. Nevertheless, a turnaround in Specialty Chemicals is likely to drive Chemicals margin expansion of 40bp to 16.6% in FY19.

Better traction in BoPET to cover up for hiccups in BOPP

- We expect SRF's BoPET film business to deliver strong growth in FY19. At current capacity of 123,500MTPA, the company's BoPET lines are running at peak utilization. SRF, thus, has secured approval to set up another BoPET film line (likely commissioning in FY20-21) and a resin plant (capacity of 40,000MTPA) in Thailand at a cost of USD60m.
- Furthermore, Europe is overall short on BoPET supply and is dependent on imports. Demand in Europe stands at over 350,000MTPA (growing 4% annually), which SRF plans to tap via its new plant in Hungary.
- On the other hand, the BOPP business is expected to face supply overhang due to new global capacities set up by Max and Vacmet (commissioned in early-2018). Nevertheless, we expect Packaging business to deliver revenue growth of 32% in FY19, with strong growth in BoPET films (~75% of Packaging revenue) offsetting the sluggishness in BOPP.
- Margin shrank by 140bp in FY18 due to higher raw material prices and pressure in BOPP (23% and 9% rise in MEG and polypropylene prices, respectively). In FY19 too, MEG prices have increased by 12% and polypropylene prices by 24%. However, we believe that a favorable demand-supply scenario in BoPET (where most markets are inclined to pay a premium) should compensate for higher raw material prices. In FY19, we expect Packaging margins to expand by 290bp to a sustainable level of 15.8% (15.4% in 1QFY19) led by the BoPET business.

Technical Textile to hold steady

- Technical Textile business remained flattish in 1QFY19 as the key NTCF business maintained its market share without seeing much improvement in volumes. However, we expect favorable demand from both OEM and the replacement market to drive 5% revenue growth in NTCF in FY19.
- We believe SRF's cost optimization initiatives helped offset the impact of higher RM prices (26% YoY so far for caprolactam in FY19). In 1QFY19, Technical Textile margins expanded 270bp to 14.4%. We expect full-year FY19 margins to remain at the same level (at 14.4%, up 140bp).

Change valuation methodology to SOTP – EV/EBITDA

We earlier valued SRF at 17x FY20E EPS – a premium of ~20% to its average one-year forward P/E for last five years, led by (a) strong consolidated growth prospects and (b) expected RoE of 17.6% in FY20. However, given the varied nature of SRF's three segments and a balanced proportion of revenue/EBIT from all segments, we believe SOTP-based valuation would better reflect the value generated by each business.

- We assign a multiple of 14x to SRF's Chemical business – ~25% discount to industry average trading multiple and peer PI's five-year average multiple owing to subdued RoCE of 8.1% compared to industry average of 16.6%.
- We assign Technical Textiles EV/EBITDA multiple of 6x – ~30% premium to industry average trading multiple due to much higher RoCE of 25% v/s industry average of ~7%.
- In case of Packaging business, we assign a multiple of 7x, in line with industry average trading multiple given comparable profitability and RoCE of ~12%.
- Our valuation implies a target price of INR2,271 (upside of 28%) with implied EV/EBITDA of 10.3x. The implied P/E remains unchanged at 17x post the change in valuation methodology. We have a **Buy** rating on the stock.

Fluorochemicals on track, specialty business to revive

Specialty chemicals business to revive

Fluorochemicals and specialty chemicals are a part of SRF's chemicals and polymers business. While specialty chemicals contribute ~40% to the overall chemical business revenue, agrochemicals contribute ~80% revenue to the specialty chemicals business.

The specialty chemicals business of SRF remained muted for a larger part of FY18 primarily due to a slowdown in the global agrochemical industry. The industry faced subdued offtake in volumes for most of FY18 due to high agrochemical inventory, high closing stock of key crops, subdued commodity prices and unfavorable weather conditions. Overall revenues of the specialty chemicals business declined 6% YoY in FY18, and continued subdued demand is impacting business in FY19 as well.

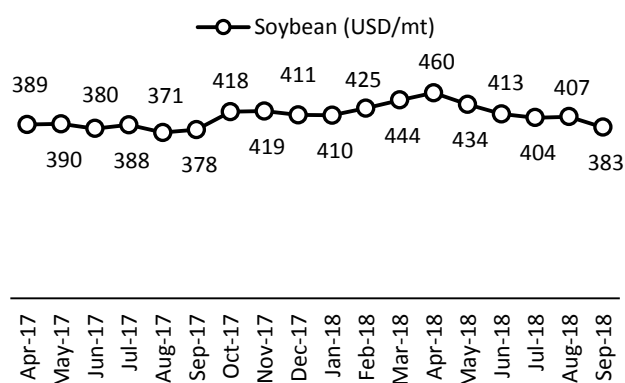
However, 2018-19 is witnessing favorable sowing conditions for most crops, auguring well for agrochemical consumption. Further, the season witnessed a decline in closing stocks—down 13% YoY for maize, 6% YoY for wheat, and 1% for rice. Prices of global commodities have also strengthened—up 7% YoY for maize, 3% YoY for rice, 15% YoY for wheat, and 9% YoY for soybean in 1HFY19. Given the recent run-up in global commodity prices and declining closing stocks of key crops, prices should further strengthen leading to better farm profitability in 2018-19, which in turn should translate into healthy volume growth for agrochemicals across regions.

Moreover, owing to high channel inventory, low commodity prices and unfavorable weather conditions, growth in the global crop protection market has been restrained since the past three years. This was aggravated by multiple global acquisitions in the industry (Dow-DuPont, ChemChina-Syngenta etc.). Going forward, volume growth in agrochemicals is expected to be aided by the low base hence created.

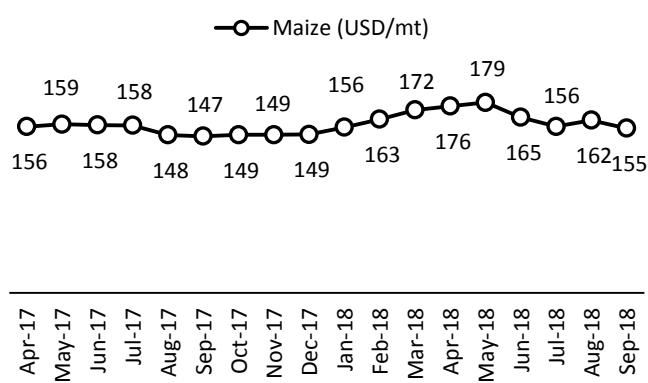
Exhibit 1: Global closing stocks (m tonnes)

	2014-15	2015-16	2016-17	2017-18	2018-19	% Chg.
Maize	279.8	287.4	330.1	299.6	261.1	-13%
Rice	122.0	122.6	123.2	125.7	124.4	-1%
Soybean	34.3	32.3	46.3	40.5	52.2	29%
Wheat	207.5	226.8	243.9	266.9	249.8	-6%

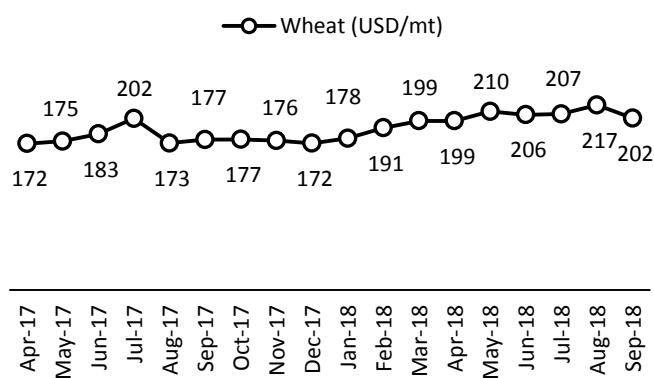
Source: AMIS, IGC

Exhibit 1: 9% YoY rise in soybean prices in 1HFY19

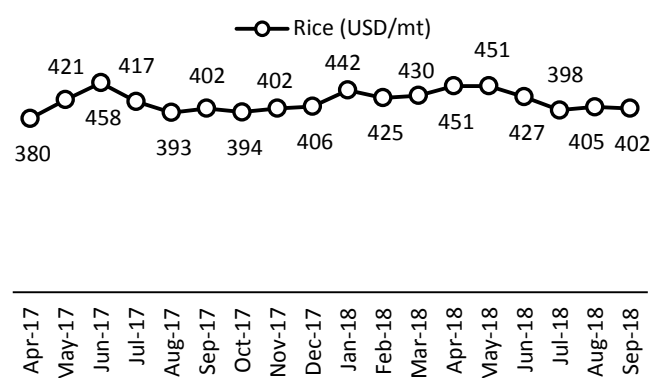
Source: World Bank

Exhibit 2: 7% YoY rise in maize prices in 1HFY19

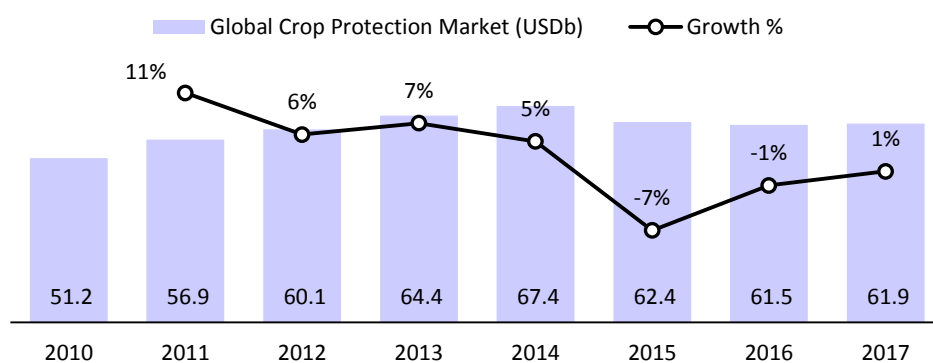
Source: World Bank

Exhibit 2: 15% YoY rise in wheat prices in 1HFY19

Source: World Bank

Exhibit 3: 3% YoY rise in rice prices in 1HFY19

Source: World Bank

Exhibit 4: Global crop protection market

Source: Industry, MOSL

In line with the revival signs in the global agrochemical industry, management has guided for a back-ended recovery in the specialty chemical (driven by agrochemical) business owing to reducing channel inventory. Management continues to guide for 40-50% growth in specialty chemicals business in FY19 driven by commissioning of two dedicated plants in 2HFY19 at a capex of INR2,650m. Further, to capture demand, the company has nearly 20 products in the pipeline with plans to launch 4-5 products per year.

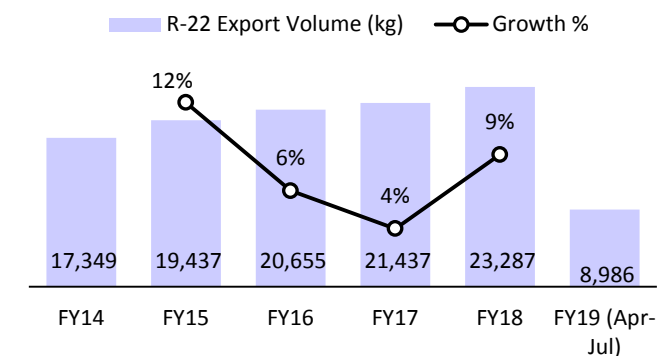
Refrigerants to keep fluorochemicals steady

The robust growth in the overall chemicals business was driven by fluorochemicals in 1QFY19. The company witnessed healthy demand from automotive OEMs, and maintained a market share of more than 50% in the air-conditioning segment. Demand for refrigerants in the US was impacted due to high inventory levels. But, outlook for FY19 remains robust with strong growth expected in R32 volumes for both pharmaceuticals and non-pharmaceuticals end-uses. The company also expects to increase exports of refrigerant gases to Europe owing to relatively higher realizations in the region.

In line with its focus of expanding its presence in existing refrigerants and solvents market and diversifying into new ones, the company is enhancing and doubling its refrigerants capacity at a capex of INR3,560m expected to be commissioned by 4QFY19 in a phased manner. The company also plans to convert its capacity of 2,500MT of HFC32 in Bhiwadi to 134a.

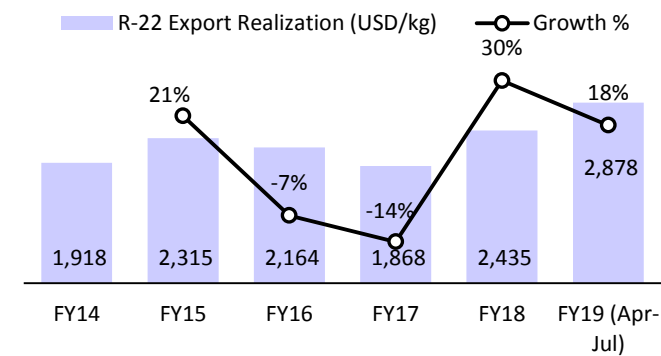
The company also launched R-407a (suitable for use in commercial refrigeration and offering a low global warming potential), which is a drop-in substitute for R22. Most companies are now ceasing the use of R-22, but it's being phased out gradually resulting in a spike in its realization. Exports of R-22 witnessed an overall growth of 16% CAGR over FY14-16 triggered by strong volume growth, but declined 10% in FY17 owing to pricing pressure in export markets (realization declined 14% YoY) due to increased competitive intensity on reduction in consumption. Going forward; however, with planned reduction in production of R-22, realization is expected to spike as witnessed in FY18 (realization increased 30% YoY). So far, realization has increased 18% YoY in FY19 (Refer exhibit 8).

Exhibit 5: Export volume of R-22



Source: Department of Commerce, MOSL

Exhibit 6: Export realization of R-22



Source: Department of Commerce, MOSL

Additionally, only SRF is capable of indigenously manufacturing other refrigerant gases, which can substitute R-22; like R-410a and R-32, and therefore the phasing-out of R-22 is expected to benefit SRF.

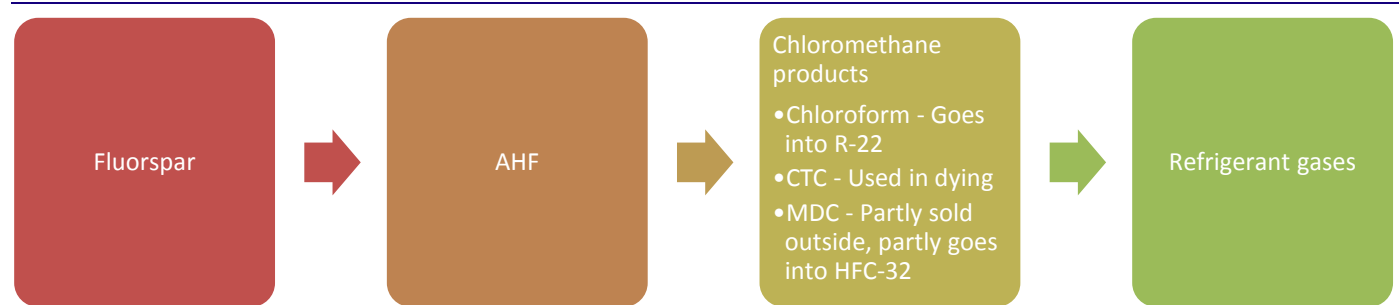
Presence across major fluorine chemistry

SRF has manufacturing capabilities across the value chain and procures fluorspar, which it processes to produce AHF (Anhydrous Hydrofluoric Acid)—a key raw material to produce chloromethane products. SRF currently produces three types of

chloromethane products—Chloroform, Carbon Tetra Chloride (CTC), and Methylene Chloride (MDC), which are either partly sold or used as a raw material in manufacturing refrigerant gases.

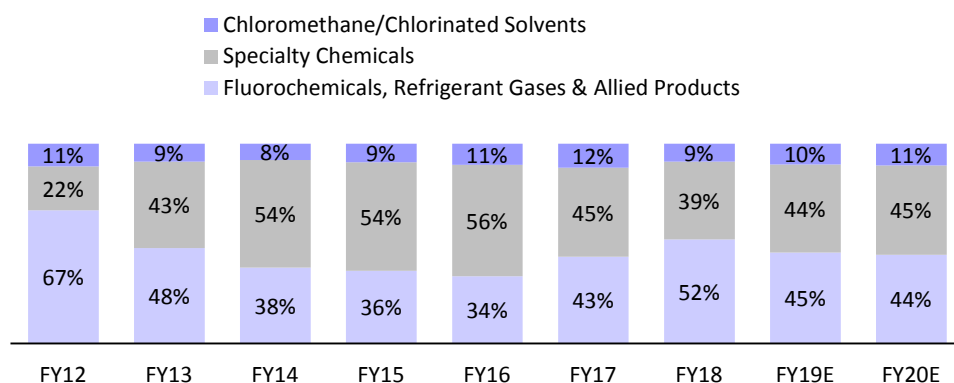
Apart from fluorochemicals, the company also has a strong presence in specialty chemicals catering to agrochemicals and pharmaceuticals (revenue mix of 80:20). It does not manufacture any active ingredients (AI); and key raw materials used for manufacturing specialty chemicals include R-22, Anhydrous Hydrogen Fluoride (AHF) and other chemicals.

Exhibit 7: SRF's fluorochemicals value chain



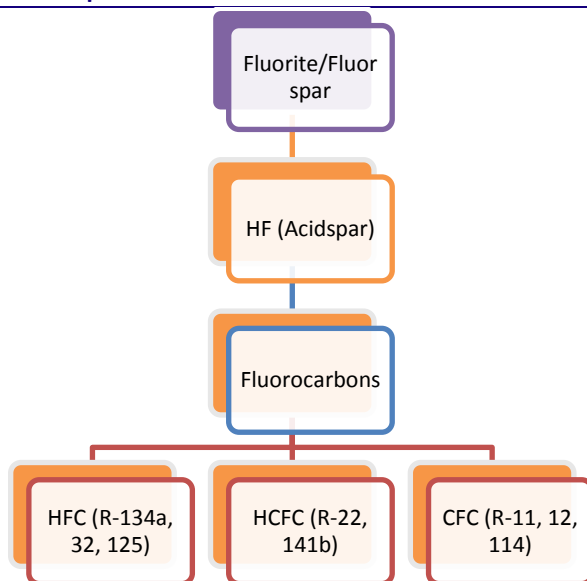
Source: Company, MOSL

Exhibit 8: Chemical segment's revenue mix



Source: Industry, MOSL

Fluorite/Fluorspar is SRF's main source of fluorine and its mining in 2017 was estimated at 6m tons/year as per the US Geological Survey, with China accounting for the largest production at 3.8m tons/year. The mined fluorite is separated into two main grades with about equal production of each—Acidspar (HF) and Metspar. Acidspar is primarily converted into Hydrofluoric acid and the resultant is mostly used to produce organofluorides and synthetic Cryolite. These organofluorides produce fluorochemicals, which SRF is strongly present in.

Exhibit 9: Process flow of fluorochemicals production

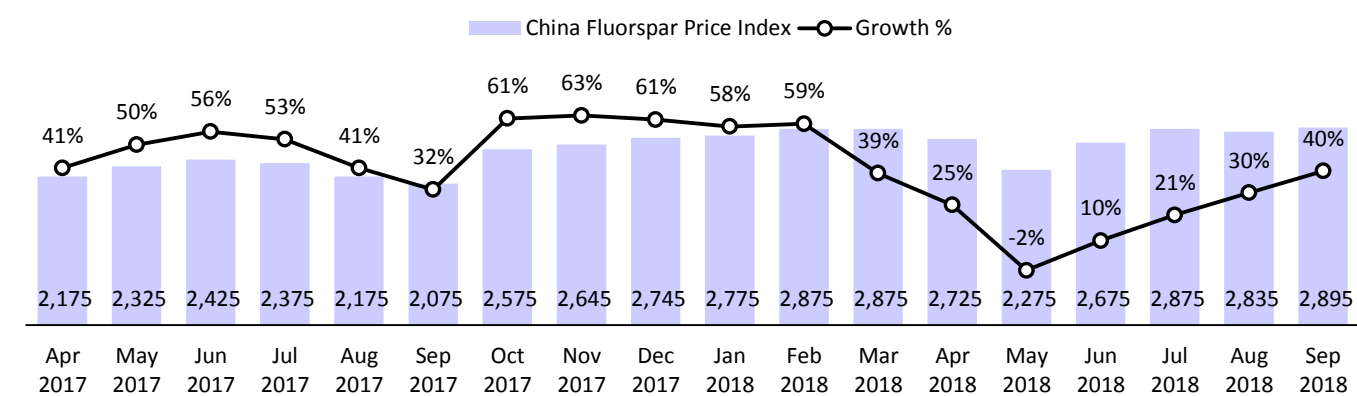
Source: Industry, MOSL

Traditionally, CFC (Chlorofluorocarbons) was the predominant fluorinated organic chemical. Prominent CFCs included R-11, R-12 and R-114. Production of CFCs grew strongly through the 1980s, primarily for refrigeration and air conditioning, but also for propellants and solvents. By the early 21st century, production of CFCs shrunk to less than 10% of the mid-1980s peak, with remaining use primarily as an intermediate for other chemicals.

The banning of CFCs initially depressed overall demand for fluorine but exposure of other fluorocarbons to various end-industry uses has resulted in the 21st century production of the source mineral being recovered to the 1980s levels. HCFCs (Hydrochlorofluorocarbons) and HFCs (Hydrofluorocarbons) now serve as replacements for CFC refrigerants. Currently, more than 90% of fluorine used for organics goes into HCFCs and HFCs in about equal amounts. Prominent HCFCs include R-22 and R-141b, while the major HFC used is R-134a.

Margins likely to remain under pressure

Fluorspar is a key raw material and accounts for 5-6% of the overall chemical segment's revenue. Moreover, fluorspar prices witnessed a steep rise of 51% on an average in FY18, leading to a decline of 280 bp in margins for the overall chemicals business. So far, fluorspar prices have increased 17% on an average in FY19 and margins have remained flattish YoY in 1QFY19. Going forward, we expect an expansion of 40bp in margin to 16.6% in FY19 aided by the revival in specialty chemicals business.

Exhibit 10: Fluorspar price movement

Source: Bloomberg

Momentum in BoPET to cover up hiccups in BOPP

Favorable demand-supply scenario for BoPET

SRF's packaging film business is witnessing stellar growth since past six quarters (~31% average YoY) primarily on account of favorable demand-supply scenario and high margins in BoPET. Although, performance of the BOPP business has remained sub-par, it has been more than offset by high volume and realization growth in BoPET.

Going forward too, BoPET film business is expected to witness strong growth in FY19. At a current capacity of 123,500MTPA, SRF's BoPET lines are running at peak utilization. Therefore, management has secured an approval to set up another BoPET film line (likely commissioning in FY20-21) along with a resin plant (capacity of 40,000MTPA) in Thailand at a cost of USD60m.

Further, Europe is overall short on BoPET supply and is dependent on imports to meet its demands. Overall demand in Europe stands at over 350,000MTPA growing at 4% per annum; which the company plans to tap via its new plant in Hungary

We believe packaging films will post a revenue growth of ~32% in FY19, as strong growth in BoPET films (which contributes ~75% to packaging revenue) is expected to offset the sluggishness in BOPP.

BoPET—one of the fastest growing polymer substrates

BoPET is a polyester film made from stretched Polyethylene terephthalate (PET) and has high tensile strength, chemical and dimensional stability, transparency, reflectivity, gas and aroma barrier properties, and electric insulation.

It is one of the fastest growing polymer substrates with demand at 4m tons in 2015, growing at 6% CAGR over 2010-15. It's used extensively in both packaging and technical applications. However, mix of its end-uses keeps changing, for e.g. demand of BoPET-based magnetic tapes for music and video cassettes vanished post the development of compact discs (CDs). However, new applications continue to emerge. Currently, photovoltaic is the fastest growing application with a 29% growth per year since 2010 driven by increased demand for renewable energy sources. Display and optical films too have seen double-digit growth boosted by expanding sales of smart phones, tablets and flat screen TVs. AMI Consulting has forecasted that overall demand for BOPET would reach 5.2m tons in 2020, maintaining its CAGR of 6% over 2015-20.

The key **end-use industries** for BoPET are varied; and hence it has such robust demand growth. It's used in the following:

- Flexible packaging and food contact applications—foil packaging, lidding for dairy goods and frozen ready-meals, roasting bags, etc.
- Covering over paper—mirror-like decorative surface on book covers, T-shirts etc., protective covering over buttons/pins, glossy top-layer of photographic print, etc.

- Insulating material—insulation for houses and tents reflecting thermal radiation, insulation in NASA's spacesuits, light insulation for indoor gardening, used by fire-fighters for protection from high amount of heat released from fuel fires.
- Solar, marine and aviation—as back face of photovoltaic modules in solar panels, reflector material for solar cooking stoves, etc.
- Electronic and acoustic—used as diaphragm material in headphones, electrostatic loudspeakers and microphones, production of banjo and drumheads, used as a substrate in magnetic recording tapes, packaging for audio media such as compact discs and vinyl records, used as core layers and overlays in smart cards.
- Others—in nail polish to create glitter effect, in dentistry when restoring teeth with composite, measuring tape, covering glass to decrease probability of shattering.

BOPP demand intact, but expect margin pressure due to oversupply

Recently, BOPP film industry has moved from a scenario of modest capacity growth and improving margins to increased pressure on account of investments in high-capacity BOPP film lines around the world. While demand for BOPP film continues to grow, it is not advancing sufficiently to absorb capacity increases. Domestic consumption is estimated to grow at 10-13% annually and capacities are being expanded too. Cosmo Films added 60,000MT capacity in Karjan in Feb-2017, Chiripal Poly Films added 45,000MT capacity of BOPP in 2017-end, and Jindal Poly Films is introducing three new BOPP lines with additional capacity of 161,000MT by 2018.

Going forward, degree of competition should rise as an increasing number of local manufacturers are lowering the final product's cost by raising production. BOPP is increasingly employed in flexible packaging owing to its inherent advantages such as ease of printing, low cost, inertness to food packaging and low moisture transmission. The key areas of use include:

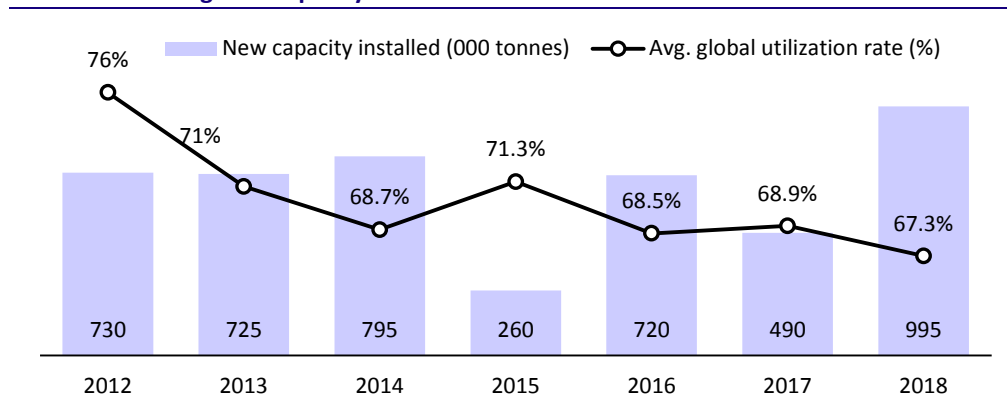
- Grade F1 films are used for packing of food and their sealing
- Used for electrical applications, printing and lamination
- Text book covering
- Extrusion coating, flower packing, reverse printing and lamination
- Adhesive tapes and pressure sensitive tapes
- Used for general purposes like printing pouching, cable overwrap, strip packaging for cough drops, etc.

Since, demand for flexible packaging is rising due to rapid growth in pharmaceutical, food and beverages, electronics, and personal care industries, growth of BOPP is also intact. However, prices of BOPP are primarily dependent on prices of polypropylene, which have a strong correlation with crude oil. As a result, any fluctuation in prices of crude oil impacts BOPP prices, which acts as a major impediment to the global BOPP market.

While profitability remains a challenge, market continues to expand, with volumes growing by ~5% in 2017, the highest rate since 2012, driven by improved fundamentals in the global economy. Currently, the global market is pegged at more than 8m tons, having grown at a 5-year CAGR at 4% for 2012-17.

During 2012-17, more than 3m tons of BOPP capacity was added globally (2/3rd went to China, which accounts for nearly half the global capacity and demand). This has led to utilization rates decline below 70% on an average. Further, at least 20 more lines are expected in 2018 and 2019 adding nearly 900,000 tons of additional capacity. Hence, utilization rates are expected to remain below 70% after 2020 as well.

Exhibit 11: BOPP global capacity additions and utilization rates 2012-18



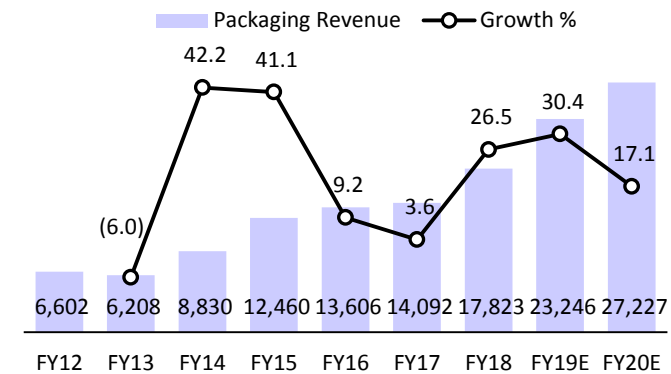
Source: AMI Consulting

BoPET to pull up overall margins in packaging

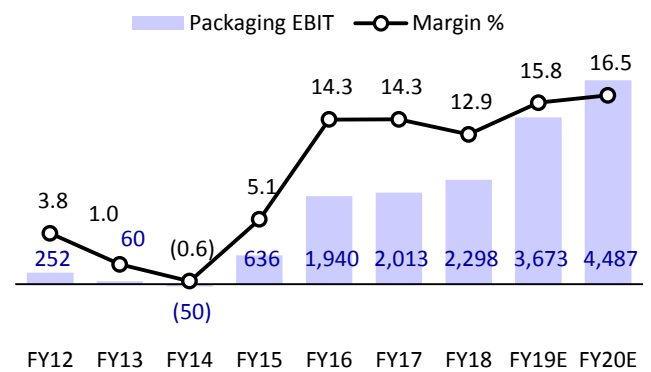
BoPET film is manufactured using molten PET, which is extruded by casting it onto a chilled roll, thereby quenching it into an amorphous state. It is then biaxially-oriented in a process to stretch metal or glass using tensile forces. Further, the film is crystallized under tension in an oven at temperatures above 200 degree Celsius. The film is then metallized by vapor deposition of a thin film of evaporated aluminium, gold or other metal onto it. This is done to improve its sealable property and to make it puncture-resistant, which is imperative for food packaging.

Key raw materials used for manufacturing of BoPET films are purified terephthalic acid (PTA) and mono-ethylene glycol (MEG), and that of BOPP is polypropylene resin. Total cost of PTA forms 14-15% of overall packaging segment revenue, while that of MEG forms 6-6.5%. The segment witnessed a dip of 140 bp in margins in FY18 on account of a rise in raw material prices—23% average rise in MEG prices and 9% average rise in polypropylene prices in FY18.

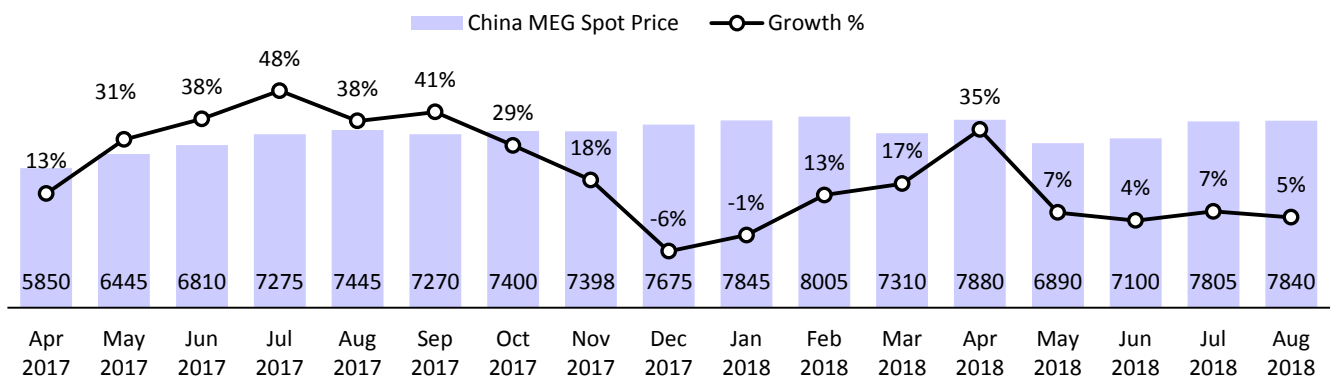
In FY19 so far, MEG prices have increased by 12% on an average, while that of polypropylene has increased by 24%. Further, BOPP is expected to have a supply overhang on account of two new global capacities set up by Max and Vacmet, which got commissioned in early 2018. However, BoPET has a favorable demand-supply scenario where most markets are inclined to pay a premium as well. Since, 66% of the company's capacities in packaging film and ~75% of the packaging revenue is contributed by BoPET, we believe that despite the drag in BOPP, overall margin in the packaging film segment would expand 290 bp in FY19 to a sustainable level of 15.8%.

Exhibit 12: Packaging revenue to grow at 24% CAGR over FY18-20

Source: MOSL, Company

Exhibit 13: Packaging EBIT margin to expand 360 bp over FY18-20

Source: MOSL, Company

Exhibit 14: Mono-ethylene glycol spot price movement

Source: Bloomberg

Technical textile business to hold steady

Steady growth in NTCF to aid growth

Growth in technical textile business remained flattish in 1QFY19 as the key business of NTCF (nylon tire cord fabric) maintained its market share without much improvement in volumes. However, the business reported improved profitability primarily to cost savings. NTCF/polyester tire cord fabric/industrial yarn fabric form 70-75% of overall technical textile revenue—any sluggishness in these results in overall subdued growth in the segment.

Tire cord fabrics are primarily used for the belt and carcass parts of the tire. It functions as reinforcement material by easing pressure and shock from the outside and extending the life of a tire. The global market for the same is projected to grow at 6% CAGR from USD3.85b in 2015 to USD6.4b in 2024. Going forward, we expect SRF's NTCF business to hold steady and deliver 5% revenue growth in FY19.

Collectively, the technical textile business is expected to grow at 9% CAGR over FY18-20E. Apart from NTCF, growth is also expected from the company's decision to diversify into non-belting segments with reinforcement fabrics catering to industries like automotive, rubber, etc.

Cost optimization initiatives to support margins

Caprolactam and nylon yarn/fabric are the key raw materials for the segment, each contributing 22-26% to the overall technical textiles' revenue. Prices of these key raw materials are on the rise (26% YoY for caprolactam in FY19 so far), but the company's cost optimization initiatives are expected to provide some relief as witnessed in 1QFY19 where margins in the segment expanded by 270 bp to 14.4%. We expect full-year margins to remain at the same level (at 14.4%) resulting in a margin expansion of 140 bp in FY19.

Exhibit 15: Technical textile revenue to grow at 9% CAGR over FY18-20

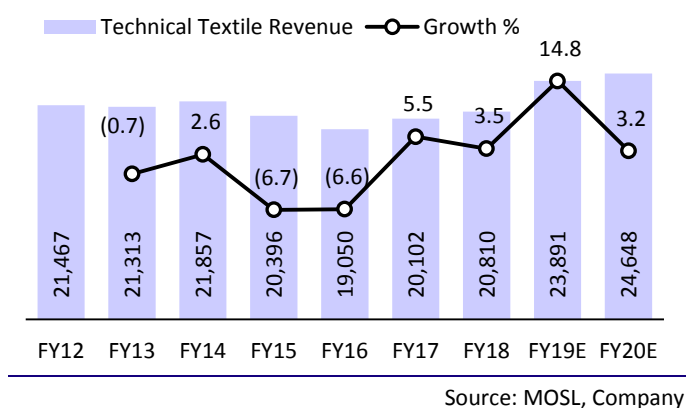


Exhibit 16: Technical textile EBIT margin to expand 240 bp over FY18-20

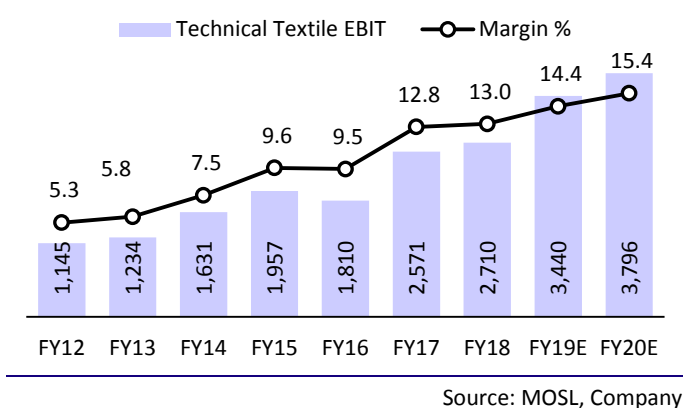


Exhibit 17: Caprolactam price movement



Source: Bloomberg

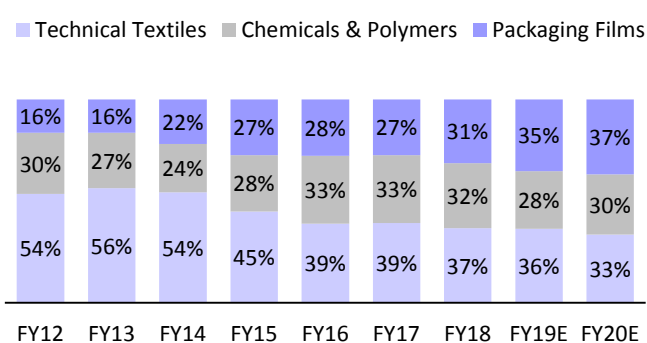
Valuation & View

Change valuation methodology to SOTP – EV/EBITDA

We earlier valued SRF at 17x FY20E EPS giving it a premium of ~20% to its average one-year forward P/E of last five years, on back of strong consolidated growth prospects and expected RoE of 17.6% in FY20.

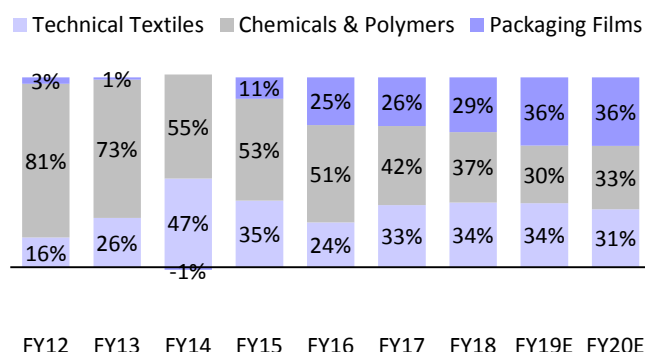
However, given the varied nature of the company's three segments and a balanced proportion of revenue and EBIT from all segments, we believe a valuation on SOTP basis would better reflect the value generated by each business.

Exhibit 18: SRF's revenue mix



Source: MOSL, Company

Exhibit 19: SRF's EBIT mix



Source: MOSL, Company

We value each of the segments on EV/EBITDA. SRF's chemicals business generates an EBIT margin of 16.2% with a relatively low RoCE of 8.1%. On an average, peers trade at 19.3x FY18 EV/EBITDA with a healthy average RoCE of 16.6%. However, PI Industries, its closest peer traded at an average EV/EBITDA multiple of 18.2x over the last five years. Given the subdued return ratio of SRF's chemical business compared to industry average and to PI, we assign a multiple of 14x to SRF's chemicals and polymers business (~25% discount to industry average trading multiple and PI's five-year average multiple).

We expect the technical textiles business to deliver revenue CAGR of 9% over FY18-20E and an EBIT margin expansion of 240 bp over the same period. The segment's closest competitor—Century Enka trades at 4.6x FY18 EV/EBITDA, although with a much subdued RoCE of 7.2% compared to SRF's technical textile's segmental RoCE of 25%. Owing to the much higher RoCE, we assign SRF's technical textiles business an EV/EBITDA multiple of 6x (~30% premium to industry average trading multiple).

The packaging films business too commands higher margins, as well as RoCE compared to its peers. FY18 EBITDA margin of Jindal Poly and Cosmo stood at 9.6% and 8.4%, respectively, whereas SRF's packaging film business delivered an EBIT margin of 16.7%, which is expected to rise further. Cosmo Films trades at 6.8x FY19 EV/EBITDA with slightly higher RoCE of 12.9% in FY17 compared to SRF's packaging segmental RoCE of 11.3% in FY18. We therefore assign a multiple of 7x to SRF's packaging business, in line with industry standards.

Our valuation implies a target price of INR2,271 with an implied EV/EBITDA of 10.3x. The implied P/E remains unchanged at 17x post the change in valuation methodology. We have a Buy rating on the stock with an upside of 28%.

Exhibit 20: Peer Comparison

Company Name	MCap (USD b)	P/E(x)			EV/EBITDA (x)			RoE(%)			RoCE(%)		
		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Packaging Films													
Jindal Poly Films	12.3	16.1			3.0			3.5			6.7		
Cosmo Films	4.8	7.4	9.3	5.5	6.8	6.2	4.8	10.8	7.8	12.4	10.2		
Technical Textiles													
Century Enka	5.8	9.4			4.6			8.0			7.2		
Chemicals & Polymers													
PI Industries	103.4	33.1			21.6			20.7			20.8		
Vinati Organics	65.3	32.3			21.2			19.5			18.1		
Aarti Industries	101.6	30.1	23.5	18.4	17.6	14.1	11.4	22.6	23.1	23.5	20.4		
Gujarat Fluorochemicals	90.3	36.4	23.2	20.4	16.2	10.4	9.5	5.5	7.6	7.9	7.7		
Clariant Chemicals	11.4	57.2			25.4			3.3			4.0		
Atul Ltd	92.4	33.6	21.5	18.3	18.7	14.0	12.0	13.1	16.1	16.4	16.6		
Navin Fluorine	33.7	18.7	18.1	15.8	14.6	12.6	10.9	19.8	16.6	17.1	28.3		

Source: Company, MOSL

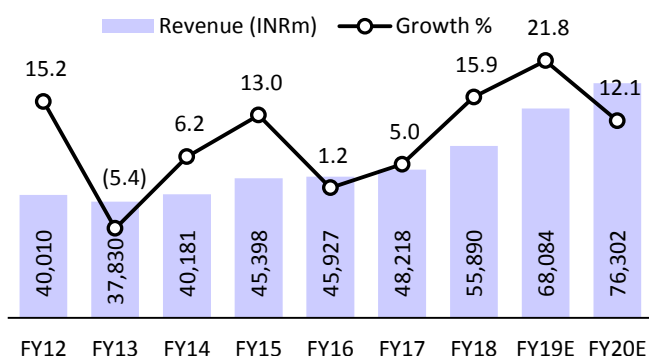
Exhibit 21: SOTP Valuation Methodology

	FY20 EBITDA	Multiple (x)	EV
Technical Textiles	3,961	6	23,769
Chemicals & Polymers	6,911	14	96,753
Packaging Films	5,301	7	37,105
Total EV			157,627
Less : Debt			26,418
Less : Minority Interest			-
Add : Cash & Cash Equivalents			1,536
Target MCap (INRm)			132,744
Outstanding shares (mn)			58.4
Target Price (INR)			2,271
CMP (INR)			1,775
Upside (%)			28%
Implied EV/EBITDA (x)			10.3
Implied P/E (x)			17

Source: Company, MOSL

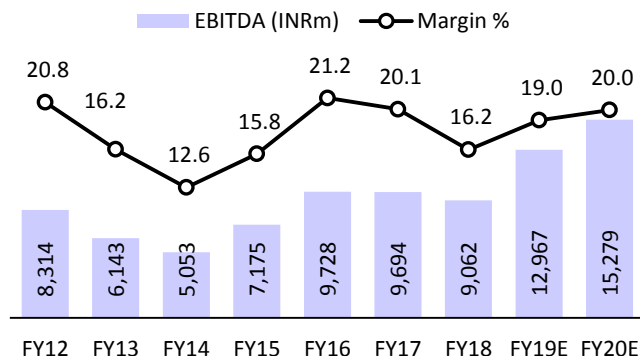
Story in charts

Exhibit 22: Revenue to post a CAGR of 17% over FY18-20E



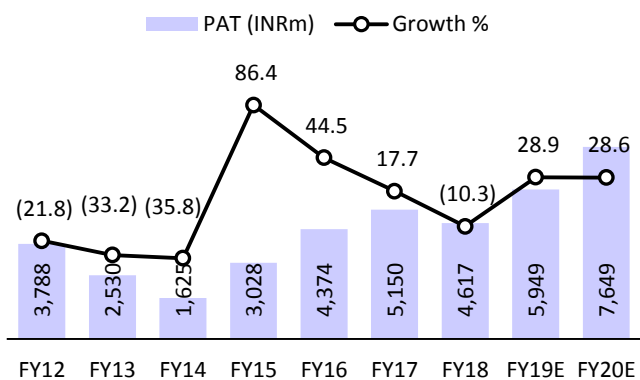
Source: Company, MOSL

Exhibit 23: Margins to expand 380bp over FY18-20E



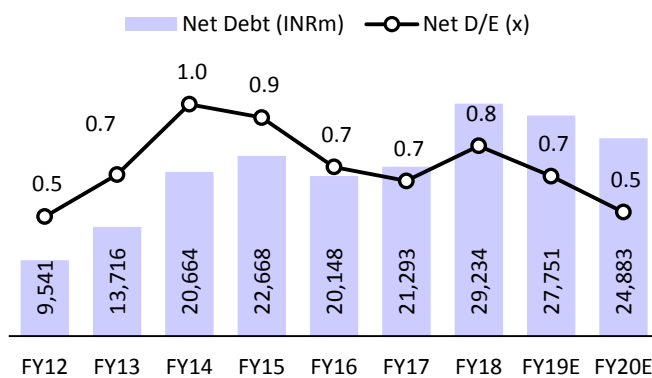
Source: Company, MOSL

Exhibit 24: PAT to post a CAGR of 29% over FY18-20E



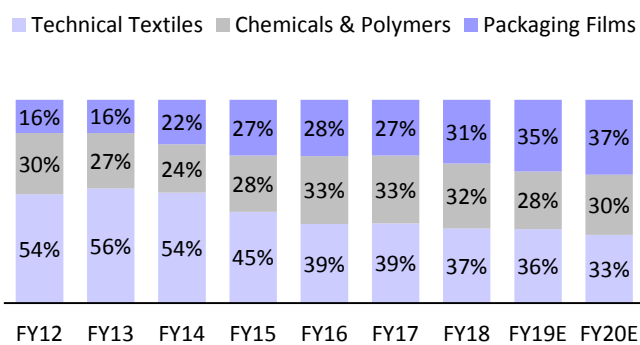
Source: Company, MOSL

Exhibit 25: Debt to equity to reduce to 0.5 in FY20E



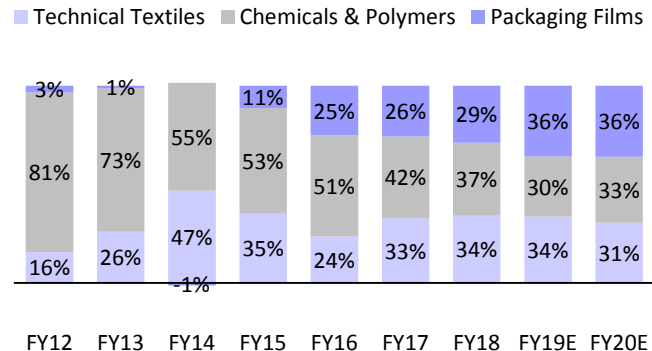
Source: Company, MOSL

Exhibit 26: Revenue Mix



Source: Company, MOSL

Exhibit 27: EBIT Mix



Source: Company, MOSL

Financials and Valuations

Consolidated - Income Statement

(INR Million)

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Total Income from Operations	40,010	37,830	40,181	45,398	45,927	48,218	55,890	68,084	76,302
Change (%)	15.2	-5.4	6.2	13.0	1.2	5.0	15.9	21.8	12.1
Total Expenditure	31,696	31,687	35,128	38,224	36,199	38,524	46,828	55,117	61,023
% of Sales	79.2	83.8	87.4	84.2	78.8	79.9	83.8	81.0	80.0
EBITDA	8,314	6,143	5,053	7,175	9,728	9,694	9,062	12,967	15,279
Margin (%)	20.8	16.2	12.6	15.8	21.2	20.1	16.2	19.0	20.0
Depreciation	1,837	2,089	2,248	2,450	2,750	2,834	3,158	3,549	3,783
EBIT	6,478	4,054	2,806	4,724	6,979	6,859	5,904	9,418	11,496
Int. and Finance Charges	1,172	998	961	1,376	1,305	1,018	1,239	1,961	1,798
Other Income	312	420	235	646	278	730	1,151	806	927
PBT bef. EO Exp.	5,617	3,476	2,080	3,994	5,952	6,572	5,817	8,263	10,624
EO Items	0	0	0	0	-103	0	0	0	0
PBT after EO Exp.	5,617	3,476	2,080	3,994	5,849	6,572	5,817	8,263	10,624
Current Tax	1,687	564	208	314	1,551	1,422	1,200	2,314	2,975
Deferred Tax	142	383	247	652	0	0	0	0	0
Tax Rate (%)	32.6	27.2	21.9	24.2	26.5	21.6	20.6	28.0	28.0
Less: Mionrity Interest	0	0	0	0	0	0	0	0	0
Reported PAT	3,788	2,530	1,625	3,028	4,299	5,150	4,617	5,949	7,649
Adjusted PAT	3,788	2,530	1,625	3,028	4,374	5,150	4,617	5,949	7,649
Change (%)	-21.8	-33.2	-35.8	86.4	44.5	17.7	-10.3	28.9	28.6
Margin (%)	9.5	6.7	4.0	6.7	9.5	10.7	8.3	8.7	10.0

Consolidated - Balance Sheet

INR Million)

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	584	584	584	584	584	584	584	584	584
Total Reserves	17,931	19,105	20,082	23,463	27,045	31,242	35,061	39,655	45,948
Net Worth	18,515	19,689	20,667	24,047	27,630	31,827	35,645	40,239	46,532
Deferred Liabilities	2,269	2,648	3,250	3,186	3,820	2,866	2,914	2,914	2,914
Total Loans	12,284	17,040	21,753	24,698	25,153	23,962	31,418	28,918	26,418
Capital Employed	33,069	39,377	45,670	51,932	56,603	58,655	69,978	72,071	75,865
Gross Block	41,463	47,566	61,072	67,353	71,410	77,169	87,502	94,502	99,502
Less: Accum. Deprn.	20,713	24,197	25,657	28,107	30,334	33,169	36,327	39,876	43,659
Net Fixed Assets	20,750	23,369	35,415	39,246	41,076	44,000	51,175	54,626	55,843
Goodwill on Consolidation	30	30	93	49	49	49	41	41	41
Capital WIP	4,175	5,654	1,121	1,041	1,174	2,586	5,588	0	0
Current Investments	1,342	1,415	265	958	1,606	1,708	1,217	0	0
Total Investments	1,405	1,512	366	958	1,649	1,959	1,218	1,218	1,218
Curr. Assets, Loans&Adv.	13,321	15,181	17,693	17,306	20,291	21,090	25,608	30,262	33,971
Inventory	4,877	5,632	7,464	7,296	6,711	8,381	9,582	11,458	12,652
Account Receivables	4,837	5,087	6,915	6,107	5,145	6,569	6,807	8,394	9,616
Cash and Bank Balance	1,401	1,910	825	1,073	3,399	961	967	1,168	1,536
Loans and Advances	2,206	2,552	2,489	2,831	5,036	5,178	8,252	9,242	10,167
Curr. Liability & Prov.	6,753	6,513	9,516	7,812	8,934	11,055	13,653	14,076	15,208
Account Payables	5,316	5,182	7,886	5,815	7,146	8,089	10,442	10,865	11,998
Other Current Liabilities	1,184	1,058	1,287	1,710	1,477	2,606	2,831	2,831	2,831
Provisions	253	273	343	287	312	359	380	380	380
Net Current Assets	6,568	8,668	8,177	9,494	11,357	10,035	11,955	16,186	18,763
Deferred Tax assets	141	145	498	1,143	1,297	26	0	0	0
Appl. of Funds	33,068	39,377	45,670	51,932	56,603	58,655	69,978	72,071	75,865

Financials and Valuations

Ratios

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Basic (INR)									
EPS	64.8	43.3	27.8	51.8	74.9	88.1	79.0	101.8	130.9
Cash EPS	96.3	79.0	66.3	93.7	121.9	136.6	133.0	162.5	195.6
BV/Share	316.8	336.9	353.7	411.5	472.8	544.6	609.9	688.6	796.2
DPS	13.9	9.8	9.8	9.8	9.8	11.8	16.0	20.0	20.0
Payout (%)	24.9	26.4	41.3	22.5	15.5	15.9	23.5	22.8	17.7
Valuation (x)									
P/E	27.4	41.0	63.8	34.3	23.7	20.1	22.5	17.4	13.6
Cash P/E			26.8	18.9	14.6	13.0	13.3	10.9	9.1
P/BV	5.6	5.3	5.0	4.3	3.8	3.3	2.9	2.6	2.2
EV/Sales	2.8	3.1	3.1	2.8	2.7	2.6	2.4	1.9	1.7
EV/EBITDA			24.6	17.6	12.7	12.9	14.7	10.1	8.4
Dividend Yield (%)	0.8	0.6	0.6	0.6	0.6	0.7	0.9	1.1	1.1
Return Ratios (%)									
EBITDA Margins (%)	20.8	16.2	12.6	15.8	21.2	20.1	16.2	19.0	20.0
Net Profit Margins (%)	9.5	6.7	4.0	6.7	9.5	10.7	8.3	8.7	10.0
RoE	21.3	13.2	8.1	13.5	16.9	17.3	13.7	15.7	17.6
RoCE	15.9	9.6	6.0	8.9	10.5	11.0	9.1	10.8	12.6
RoIC	34.8	20.2	10.1	14.5	18.5	17.8	14.8	19.8	22.3
Working Capital Ratios									
Fixed Asset Turnover (x)	1	1	1	1	1	1	1	1	1
Asset Turnover (x)	1.2	1.0	0.9	0.9	0.8	0.8	0.8	0.9	1.0
Inventory (Days)	77	95	114	105	105	126	115	116	116
Debtor (Days)	44	49	63	49	41	50	44	45	46
Creditor (Days)	84	88	120	83	112	122	126	110	110
Working Cap. Turnover (Days)	47	65	67	68	63	69	72	81	82
Leverage Ratio (x)									
Current Ratio	2.0	2.3	1.9	2.2	2.3	1.9	1.9	2.1	2.2
Interest Cover Ratio	6	4	3	3	5	7	5	5	6
Debt/Equity	0.7	0.9	1.1	1.0	0.9	0.8	0.9	0.7	0.6

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
OP/(Loss) before Tax	5,617	3,476	2,080	3,994	5,952	6,572	5,817	8,263	10,624
Depreciation	2,404	2,089	2,248	2,450	2,750	2,834	3,158	3,549	3,783
Interest & Finance Charges	1,150	972	908	1,346	1,305	1,018	1,239	1,961	1,798
Direct Taxes Paid	-1,658	-632	-413	-850	-1,551	-1,422	-1,200	-2,314	-2,975
(Inc)/Dec in WC	-64	-1,445	-1,199	-1,011	703	-2,464	-2,138	-4,031	-2,208
CF from Operations	7,450	4,459	3,623	5,931	9,159	6,538	6,876	7,429	11,022
Others	-802	-232	-156	-507	-947	1,742	0	0	0
CF from Operating incl EO	6,648	4,227	3,467	5,423	8,212	8,280	6,876	7,429	11,022
(inc)/dec in FA	-5,627	-6,744	-7,897	-4,845	-4,771	-7,170	-13,335	-1,412	-5,000
Free Cash Flow	1,021	-2,517	-4,430	579	3,441	1,110	-6,460	6,017	6,022
(Pur)/Sale of Investments	-243	-63	1,156	-632	0	0	0	0	0
Others	256	92	144	482	-707	-310	741	0	0
CF from Investments	-5,614	-6,716	-6,597	-4,994	-5,477	-7,479	-12,595	-1,412	-5,000
Issue of Shares	-900	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	2,336	4,547	3,911	1,889	1,053	-1,523	7,806	-2,500	-2,500
Interest Paid	-1,028	-889	-1,198	-1,392	-1,305	-1,018	-1,239	-1,961	-1,798
Dividend Paid	-940	-660	-668	-678	-664	-821	-1,085	-1,356	-1,356
Others	-4	0	0	0	507	123	243	0	0
CF from Fin. Activity	-536	2,998	2,045	-181	-409	-3,238	5,726	-5,817	-5,654
Inc/Dec of Cash	498	509	-1,085	248	2,326	-2,438	6	200	368
Opening Balance	902	1,401	1,910	825	1,073	3,399	961	968	1,168
Closing Balance	1,401	1,910	825	1,073	3,399	961	968	1,168	1,536

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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