

| | |
|-----------------------|------------------|
| Sector | Textile |
| Recommendation | Buy |
| CMP - | Rs 360 |
| Target Price- | Rs 465 |
| Tenure- | 12 Months |

| | |
|-------------------|----------------|
| Bloomberg- | SRF:IN |
| Reuters- | SRFL:BO |
| BSE-- | SRFLTD |
| NSE- | SRF |

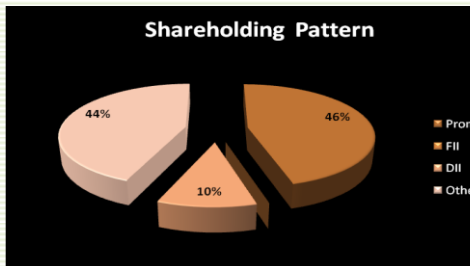
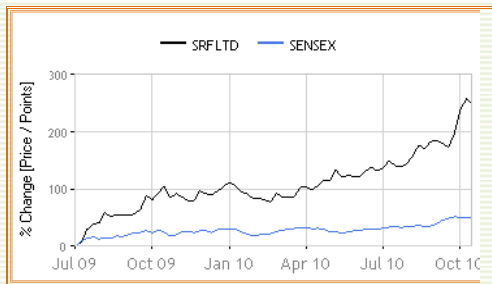
Date:- 21st Oct. 2010

Stock Info:

Weekly H/L- 379.40/347.15

Monthly H/L- 381.00/267.00

52 Weeks H/L- 381.00/173.25



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SRF Ltd.

Indian Textile Industry contributes about 11% to industrial production, 14% to the manufacturing sector, 4% to the GDP and 12 % to the country's total export earnings.

Indian Textile & Clothing industry envisages to reach US \$ 100 billion by 2015.

Company Profile:

SRF Limited is a multi-business entity and operates in three business segments: Technical textiles business (TTB), chemicals and polymers business (CPB) and packaging films business (PFB).The technical textiles business includes nylon tyre cord fabric, belting fabric, coated fabric, laminated fabric, polyester tyre cord fabric and industrial yarns.

Subsidiaries include SRF Transnational Holdings Limited, SRF Properties Limited, SRF Holiday Home Limited, SRF Energy Limited, SRF Fluoro chemicals Limited, SRF Overseas Limited, SRF Global BV, SRF Technical Textiles (Thailand) Limited and SRF Industex Belting (Pty) Limited

Investment Rationale:

***Sustainable growth in revenue from NTCF segment:-** NTCF segment and its inorganic expansion activities is likely to contribute in top line growth.Segment is expected to register a long term stable performance on the back of consistent demand from radical and non-radical tyres used in commercial and passenger vehicles respectively.Its recent initiative to manufacture Polyester Industrial Yarn (PIY) used in passenger vehicle tyres is providing a further boost to revenues as well as margin performance.*

Unlocking growth potential in Chemical business:

Chemical business is exponentially growing on the back of significant demand from SRF's core and pure chemicals. The company is also planning to invest heavily to manufacture fluorine based specialty chemicals for its international clients. Moreover being a sole integrated manufacturer of refrigerant gases in India, SRF's revenues are expected to grow exponentially by catering increasing demand from domestic markets. The company is also manufacturing high margin customized fluoro chemicals for pharmaceuticals and latter's expected growth in demand is likely to reflect in overall profitability.

Recent capacity addition to drive growth:

The company plans to invest Rs 850 million to expand the flexible multipurpose plant for production of fluoro-chemicals and Rs 800 million to expand the intermediate speciality plant at Dahej in the state of Gujarat. The company has approved investment of Rs 438 million to set up a captive power plant at the same location.

SRF begins polyester polymerization project at Indore:

SRF has announced that project for polyester polymerization for a capacity of 61,000 MT per annum at packaging film business, SEZ, Indore has been commissioned and capitalized.

SRF is the only player in india to have successfully commercialised HFC 134a, an Ozone-friendly refrigerant.

Quarterly Results:

Net profit of SRF declined 40.82% to Rs. 54.78 crore in the quarter ended June 2010 as against Rs. 92.57 crore during the previous quarter ended June 2009. Sales rose 24.30% to Rs. 616.84 crore in the quarter ended June 2010 as against Rs. 495.02 crore during the previous quarter ended June 2009.

Exhibit:1

| (In Cr.) | Jun-10 | Jun-09 | % Var |
|-------------------------|---------------|---------------|-----------------|
| Income Statement | | | |
| Revenue | 618.98 | 497.97 | 24.30066 |
| Other Income | 5.76 | 2.3 | 150.4348 |
| Total Income | 624.74 | 500.27 | 24.88056 |
| Expenditure | -487.91 | -318.99 | 52.95464 |
| Interest | -19.63 | -14.49 | 35.47274 |
| PBDT | 117.2 | 166.79 | -29.732 |
| Depreciation | -36.63 | -28.78 | 27.27589 |
| PBT | 80.57 | 138.01 | -41.6202 |
| Tax | -25.79 | -45.44 | -43.2438 |
| Net Profit | 54.78 | 92.57 | -40.8232 |
| OPM % | 22.11 | 36.4 | -39.2582 |
| NPM % | 8.85 | 18.59 | -52.3938 |

Annual performance:

Net sales of the company grew by 21.12% from Rs 1,800.82 crore in 2008-09 to Rs. 2,181.08 crore in 2009-10. Profit after tax grew by 89.50% from Rs 163.28 crore in 2008-09 to Rs 309.42 crore in 2009-10.

Exhibit:2

| Income Statement | | | | | |
|-------------------|---------------|---------------|---------------|---------------|---------------|
| (In Cr.) | 2009 - 10 | 2008 - 09 | 2007 - 08 | 2006 - 07 | 2005 - 06 |
| Revenue | 2,193.85 | 1,812.70 | 1,615.30 | 1,802.45 | 1,297.56 |
| Other Income | 9.07 | 6.39 | 18.52 | 12.61 | 4.83 |
| Total Income | 2,202.92 | 1,819.09 | 1,633.82 | 1,815.06 | 1,302.39 |
| Expenditure | -1,549.70 | -1,422.61 | -1,304.80 | -1,259.66 | -1,043.45 |
| Interest | -68.05 | -51.11 | -34.68 | -35.51 | -37.66 |
| PBDT | 585.17 | 345.37 | 294.34 | 519.89 | 221.28 |
| Depreciation | -131.26 | -99.41 | -91.87 | -76.78 | -62.85 |
| PBT | 453.91 | 245.96 | 202.47 | 443.11 | 158.43 |
| Tax | -144.49 | -82.69 | -63.74 | -154.04 | -53.66 |
| Net Profit | 309.42 | 163.27 | 138.73 | 289.07 | 104.77 |
| OPM % | 29.78 | 21.87 | 20.37 | 30.81 | 19.96 |
| NPM % | 14.1 | 9.01 | 8.59 | 16.04 | 8.07 |

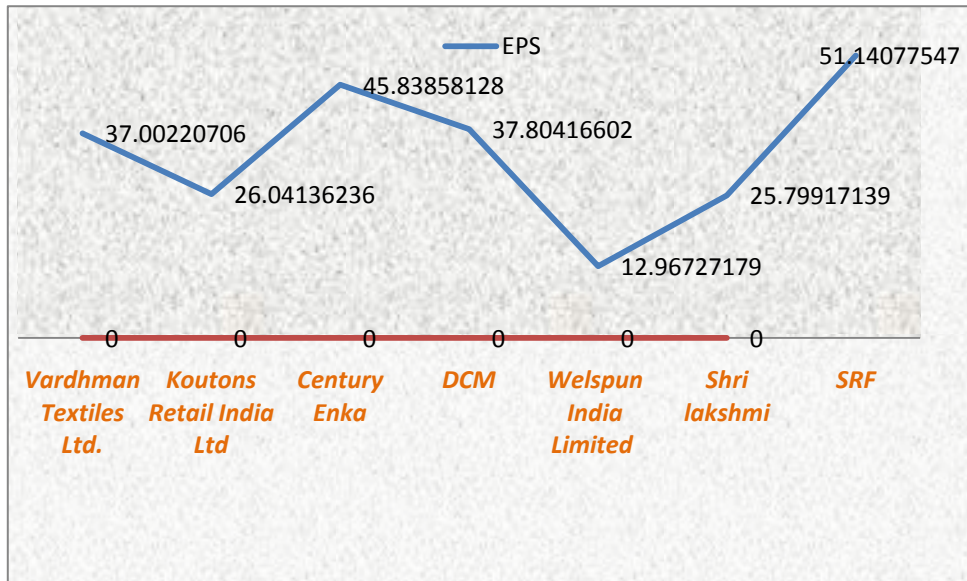
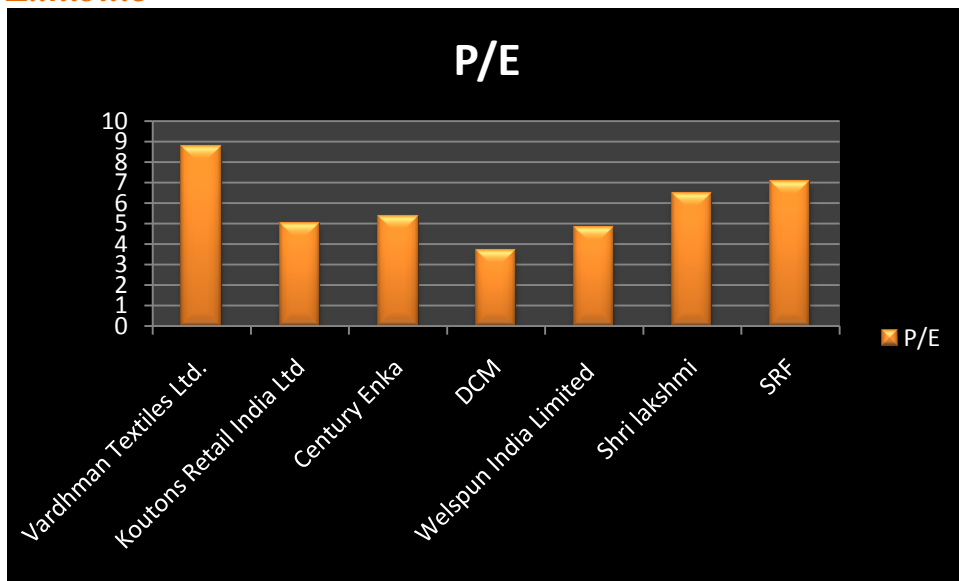
Exhibit:-3 Peer Group Comparison:

| Company | D/E | NPM(%) | EPS | P/E(X) | BV | P/BV(X) | EV/EBIDTA | EV/NET SALES | ROE(%) |
|--------------------------|------|---------|------|--------|--------|----------|-----------|--------------|--------|
| Vardhman Textiles Ltd. | 1.8 | 7.79307 | 37 | 8.7427 | 252.01 | 1.283679 | 6.5388676 | 1.555673 | 14.683 |
| Koutons Retail India Ltd | 1.47 | 7.60118 | 26 | 5.0151 | 139.17 | 0.938407 | 4.3919486 | 0.942648 | 18.712 |
| Century Enka | 0.37 | 8.13733 | 45.8 | 5.3481 | 257.96 | 0.950354 | 2.3041397 | 0.60015 | 17.77 |
| DCM | 1.32 | 27.5402 | 37.8 | 3.6821 | 79.274 | 1.755942 | 5.5674875 | 1.73984 | 47.688 |
| Welspun India Limited | 2.68 | 6.83379 | 13 | 4.8044 | 69.667 | 0.89426 | 5.3852145 | 1.264228 | 18.613 |
| Shri lakshmi | 2.99 | 4.92679 | 25.8 | 6.4886 | 136.65 | 1.225003 | 6.8798263 | 1.062176 | 18.879 |
| SRF | 0.78 | 14.1865 | 51.1 | 7.055 | 200.24 | 1.801873 | 3.7441751 | 1.401585 | 25.54 |

Valuation Outlook:

- On the basis of relative valuation, the enterprise value of the company is Rs 846.16 million and stock is currently trading at Rs 370 of PE 7.05(x) with EPS 51.1%.
- Stock is trading at 1.80 times of book value (BV) Rs 200.24 per share and ROE is 25.54% giving attractive return than peer group companies.
- From peer group comparison, SRF Ltd. has 14.19% net profit margin. Which is showing robust profit growth.

We recommend a Buy on the stock with target Rs 465 medium to long-term investment.

Exhibit:4**Exhibit:5**

DCM Ltd. CMP- Rs 141.55 Target- Rs196

DCM Ltd. manufactures cotton textiles & synthetic yarn, data systems and engineering products. The Company's products include electronic desk calculators, mini-sized and personal computers, and other business machines. DCM also manufactures axle counters/detectors and alloy iron/SG iron castings for the automobile industry.

Textile and Apparel domestic demand is CAGR of 10%.

Investment Argument:

Growth momentum in volume of Yarn:-

The production of yarn increased to 15827 MT from 14888 MT last year recording a growth of 6.31% (approx) in volume.

Enhancement in export:

The division is now exporting its product to around 25 countries. Efforts are being made to expand the export market by introducing some value added products in the niche segment and penetrate more into domestic market.

Quarterly Results:-

DCM has posted a net profit of Rs 5.67 crore for the quarter that ended in 30th June, 2010 which is almost five times of the net profit figure of the similar quarter in the last fiscal.

Exhibit:6

| Income Statement | | | |
|-------------------------|---------------|---------------|--------------|
| (In Cr.) | Jun-10 | Jun-09 | % Var |
| Revenue | 72.27 | 51.68 | 39.8 |
| Other Income | 0.49 | 0.14 | 250 |
| Total Income | 72.76 | 51.82 | 40.4 |
| Expenditure | -58.84 | -47.08 | 25 |
| Interest | -3.38 | -1.5 | 125 |
| PBDT | 10.54 | 3.24 | 225 |
| Depreciation | -1.98 | -2.01 | -1.49 |
| PBT | 8.56 | 1.23 | 596 |
| Tax | -2.89 | -0.21 | 1276 |
| Net Profit | 5.67 | 1.02 | 456 |
| OPM % | 19.26 | 9.17 | 110 |
| NPM % | 7.85 | 1.97 | 298 |

Annual financial performance:

The company reported a net profit of Rs 65.7 on 31st march 2009-10 from last year 2008-09(Rs 6.07).Revenue has been increased Rs 245.27 in 2009-10 from last year 2008-09 Rs 245.27.Which is 8.5% more than previous year.

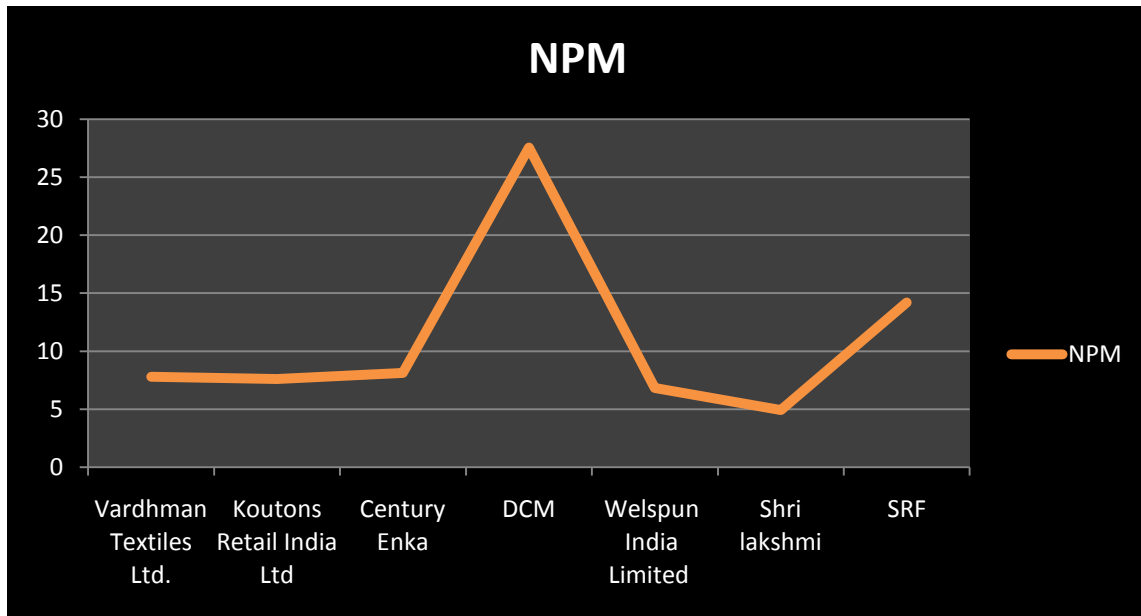
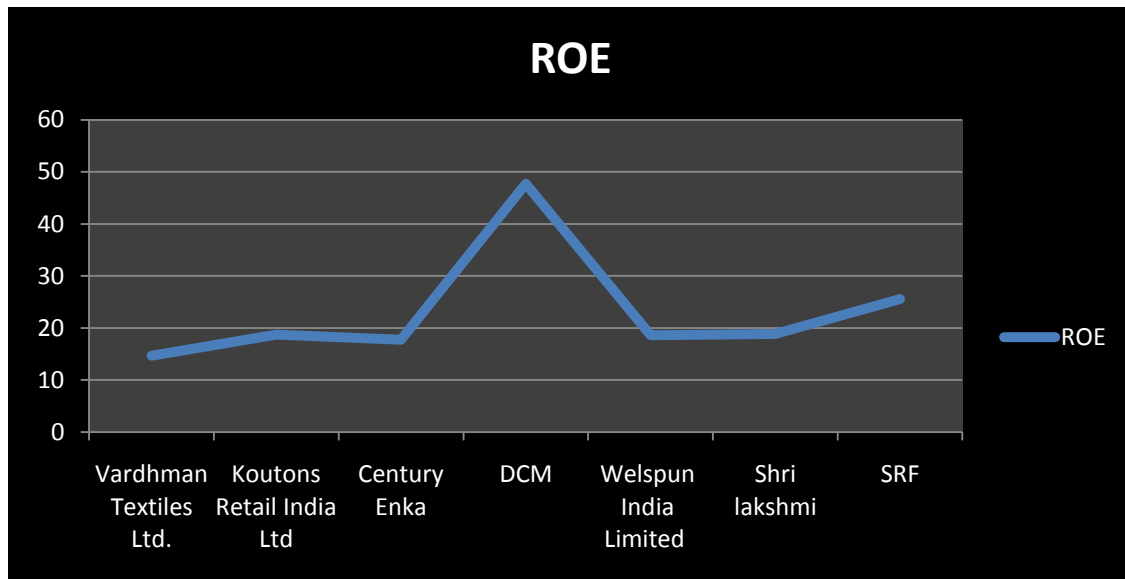
Exhibit:7

| Income Statement | | | | | |
|-------------------------|------------------|------------------|------------------|------------------|------------------|
| (In Cr.) | 2009 - 10 | 2008 - 09 | 2007 - 08 | 2006 - 07 | 2005 - 06 |
| Revenue | 245.27 | 225.96 | 163.55 | 97.99 | 136.79 |
| Other Income | 1.03 | 1.58 | 11.51 | 16.18 | 18 |
| Total Income | 246.3 | 227.54 | 175.06 | 114.17 | 154.79 |
| Expenditure | -171.9 | -204.68 | -161.68 | -92.24 | -134.36 |
| Interest | -7.72 | -7.51 | -6.91 | -3.34 | -10.23 |
| PBDT | 66.68 | 15.35 | 6.47 | 18.59 | 10.2 |
| Depreciation | -7.84 | -8.22 | -7.39 | -3.54 | -4.88 |
| PBT | 58.84 | 7.13 | -0.92 | 15.05 | 5.32 |
| Tax | 6.86 | -1.06 | -0.59 | -2.05 | -0.78 |
| Net Profit | 65.7 | 6.07 | -1.51 | 13 | 4.54 |
| OPM % | 30.33 | 10.12 | 8.18 | 22.38 | 14.94 |
| NPM % | 26.79 | 2.69 | -0.92 | 13.27 | 3.32 |

Valuation Outlook:-

- On the basis of relative valuation, the enterprise value of the company is Rs 415.06 million and stock is currently trading at Rs 141.55 of PE 3.68(x) with EPS 37.80%.
- Stock is trading at 1.76 times of book value (BV) Rs 72.99 per share and ROE is 47.7% giving attractive return than peer group companies.
- CAGR for textile exports and 12% for Apparel exports.
- From peer group comparison, DCM Ltd. has 27.54% net profit margin.

We recommend a **Buy** on the stock with target Rs 196 medium to long-term investment.

Exhibit:8**Exhibit:9**

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