

Estimate change

TP change

Rating change



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Asiamoney Brokers Poll 2020 for India
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Bloomberg	SRF IN
Equity Shares (m)	59
M.Cap.(INRb)/(USDb)	209.7 / 2.9
52-Week Range (INR)	4259 / 2492
1, 6, 12 Rel. Per (%)	-9/29/40
12M Avg Val (INR M)	1062

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	72.1	75.4	94.4
EBITDA	14.6	15.5	20.5
PAT	9.2	7.4	11.1
EBITDA (%)	20.2	20.5	21.7
EPS (INR)	157.2	125.7	189.9
EPS Gr. (%)	49.4	(20.0)	51.0
BV/Sh. (INR)	860	963	1,130

Ratios

Net D/E	0.7	0.6	0.5
RoE (%)	20.1	13.8	18.1
RoCE (%)	13.3	9.7	13.0
Payout (%)	9.6	18.5	12.2

Valuations

P/E (x)	23.2	29.0	19.2
EV/EBITDA (x)	17.2	16.1	12.0
Div Yield (%)	0.4	0.5	0.5
FCF Yield (%)	(1.7)	3.2	2.9

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	52.3	52.3	52.3
DII	11.3	11.6	11.6
FII	18.3	18.4	17.1
Others	18.1	17.7	19.0

Note: FII includes depository receipts

CMP: INR3,648
TP: INR4,244 (+16%)
Buy

Packaging business drives operating performance

Revenue/EBITDA below estimates; PAT in line

- 4QFY20 performance of SRF was impacted due to the COVID-19 pandemic and the auto sector slowdown, which in turn impacted the Technical Textiles and Refrigerant segments. However, strong margin expansion in the Packaging segment led to 4% EBITDA growth despite revenue decline of 4%.
- We have cut PAT estimates by 21%/4% for FY21/22E due to (a) lower demand for refrigerants on the slowdown in auto/white goods, and (b) the technical textiles business getting affected due to the auto slowdown.

COVID-19 drags Chemicals business' growth momentum

- Revenue declined 4% YoY to INR18.6b (v/s est. INR22.3b) while EBITDA grew 4% YoY to INR3.9b (v/s est. INR4.4b). PAT was up 22% YoY to INR2.2b (v/s est. INR2.3b) due to tax benefit during the quarter. For FY20, revenue/EBITDA/adj. PAT grew 2%/10%/49%.
- Chemicals** revenue grew 5% YoY to INR8.8b with EBIT margin contraction of 170bp YoY to 18% (EBIT grew 4%). The segment's performance was impacted by COVID-19, otherwise it has been consistently reporting >25% revenue growth since 1QFY19. Additionally, fluorochemicals' performance was impacted by the auto slowdown and drop in global prices of refrigerants.
- Packaging film** revenues declined 3% YoY to INR6b with margin expansion of 480bp YoY to 21.7% (EBIT grew 24% YoY). Margin expansion was on account of product mix and the demand/supply scenario.
- Technical Textiles'** revenue declined by a significant 22% YoY to INR3.2b due to slump in the automotive sector. Segmental margins were flat YoY to 11.7%. SRF saw inventory loss of INR30-40m due to fall in caprolactam prices.

Highlights from management commentary

- Management remains confident of achieving 20-25% revenue growth in FY21 for specialty chemicals on a high base. The company achieved 59% growth in FY20 (to INR16.5b), which is commendable, in our view.
- 4-5 new BOPET lines with capacity of 38-40kMT each have been commissioned (accounts for ~5% of global supply), which may impact packaging segment margins in FY21.
- In May'20, SRF commissioned BOPET film line of 40kMT in Thailand at a capex of USD51m. Commissioning of the BOPET plant in Hungary has been delayed due to the COVID-19 pandemic, but should commence in Jul'20.

Valuation and view

- Performance in 4QFY20 was impacted due to the COVID-19 pandemic and the auto slowdown. While sluggishness in the auto sector dented performance of the technical textiles business, the slowdown in white goods/auto impacted the refrigerants business.
- Additionally, packaging film margins are also likely to moderate in FY21 owing to oversupply.

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- However, on the positive side, management remains confident of achieving 20-25% revenue growth in the specialty chemicals segment (forms 23% of FY20 sales).
- Also, increase in replacement demand for the auto sector (when normalcy is achieved) should boost performance of technical textiles/refrigerants. Factoring in the same, we have cut our PAT estimates by 21%/4% for FY21/22E. We value SRF on an SOTP basis to arrive at a target price of INR4,244. Maintain **Buy**.

Consolidated - Quarterly Earning Model

(INR Million)

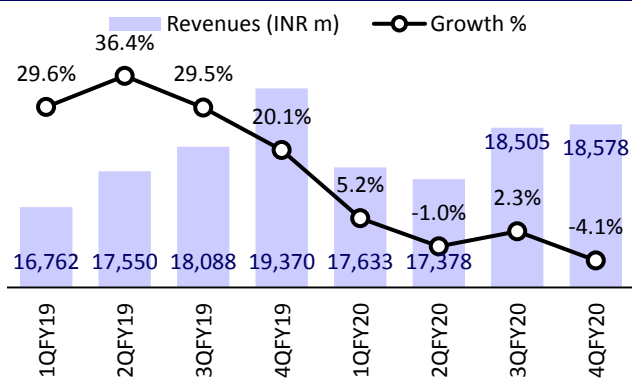
Y/E March	FY19				FY20				FY19	FY20	FY20	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	%
Net Sales	16,762	17,550	18,088	19,370	17,633	17,378	18,505	18,578	71,769	72,094	22,277	-17
YoY Change (%)	29.6	36.4	29.5	20.1	5.2	-1.0	2.3	-4.1	28.4	0.5	10.6	
Total Expenditure	13,576	14,375	14,968	15,630	14,186	14,026	14,603	14,695	58,549	57,510	17,874	
EBITDA	3,186	3,175	3,120	3,740	3,447	3,352	3,902	3,884	13,221	14,584	4,402	-12
Margins (%)	19.0	18.1	17.2	19.3	19.5	19.3	21.1	20.9	18.4	20.2	19.8	
Depreciation	879	877	909	949	925	929	1,019	1,014	3,614	3,886	1,030	
Interest	442	491	534	524	515	550	475	466	1,990	2,007	500	
Other Income	38	29	65	161	152	220	56	63	294	491	149	
PBT before EO expense	1,904	1,836	1,741	2,428	2,159	2,093	2,463	2,467	7,909	9,182	3,021	
Extra-Ord expense	103	-52	-226	-100	-289	-960	-103	355	-275	-997	0	
PBT	1,801	1,889	1,967	2,528	2,448	3,053	2,566	2,112	8,184	10,179	3,021	
Tax	462	377	310	619	554	41	-864	255	1,768	-14	760	
Rate (%)	24.3	20.5	17.8	25.5	25.7	2.0	-35.1	10.3	22.4	-0.2	25.2	
Reported PAT	1,338	1,512	1,657	1,909	1,894	3,011	3,430	1,857	6,416	10,193	2,261	
Adj PAT	1,441	1,460	1,431	1,809	1,605	2,051	3,327	2,212	6,141	9,196	2,261	-2
YoY Change (%)	56.0	53.1	29.9	54.0	11.3	40.5	132.5	22.3	47.8	49.7	19.6	
Margins (%)	8.6	8.3	7.9	9.3	9.1	11.8	18.0	11.9	8.6	12.8	10.1	

Key Performance Indicators

Y/E March	FY19				FY20				FY19	FY20
Consolidated	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Segment Revenue Growth (%)										
Technical Textile	-1.2	8.7	0.5	-12.5	-23.8	-28.8	-26.1	-21.6	-1.4	-25.1
Chemicals & Polymers	33.8	56.6	45.8	65.8	26.4	25.1	38.5	5.0	51.8	21.7
Packaging Film	52.3	69.5	63.3	18.3	11.1	-4.8	-9.2	-3.5	48.9	-1.9
Segment EBIT Margins (%)										
Technical Textile	14.4	15.3	16.0	11.8	14.9	6.5	10.9	11.7	14.4	11.2
Chemicals & Polymers	16.5	11.6	13.1	19.8	13.0	19.3	17.6	18.0	15.7	17.2
Packaging Film	15.4	17.3	12.5	17.0	20.7	19.6	23.4	21.7	15.5	21.3
Cost Break-up										
RM Cost (% of sales)	55.0	57.0	56.7	55.2	54.1	50.8	50.4	49.4	56.0	51.1
Staff Cost (% of sales)	7.0	6.4	6.5	6.5	7.3	7.4	7.4	7.9	6.6	7.5
Power and Fuel Cost (% of sales)	8.8	8.6	8.1	7.6	8.8	9.4	9.8	9.2	8.3	9.3
Other Cost (% of sales)	10.2	9.9	11.5	11.4	10.3	13.0	11.3	12.6	10.8	11.8
Gross Margins (%)	45.0	43.0	43.3	44.8	45.9	49.2	49.6	50.6	44.0	48.9
EBITDA Margins (%)	19.0	18.1	17.2	19.3	19.5	19.3	21.1	20.9	18.4	20.2
EBIT Margins (%)	13.8	13.1	12.2	14.4	14.3	13.9	15.6	15.4	13.4	14.8

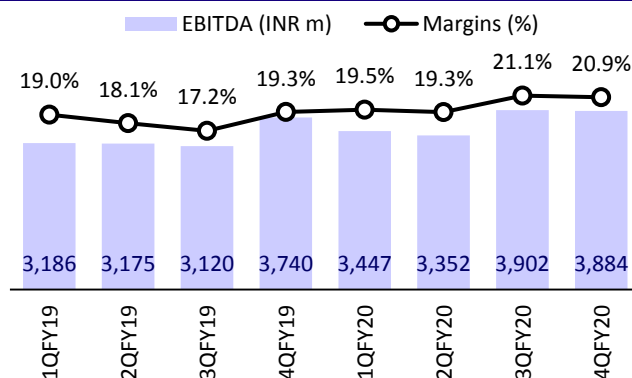
Key Exhibits

Exhibit 1: Consolidated revenue trend



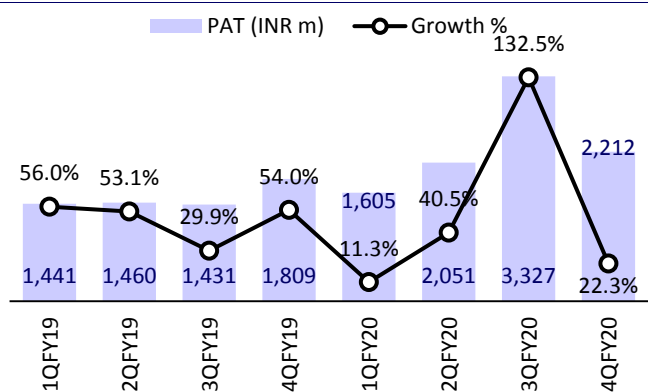
Source: Company, MOFSL

Exhibit 2: Consolidated EBITDA trend



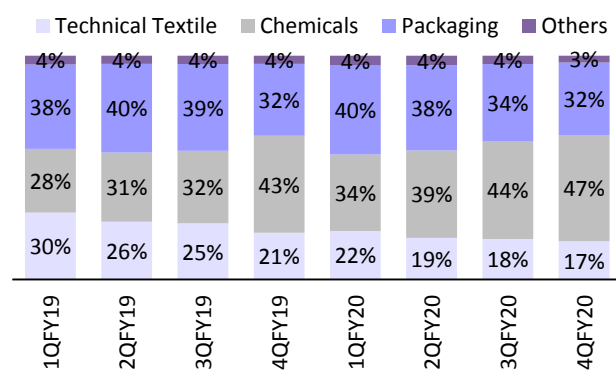
Source: Company, MOFSL

Exhibit 3: Consolidated adj. PAT trend



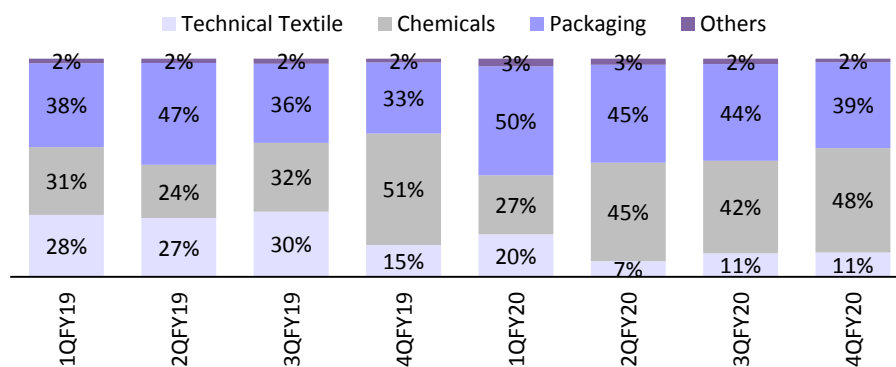
Source: Company, MOFSL

Exhibit 4: Revenue mix trend



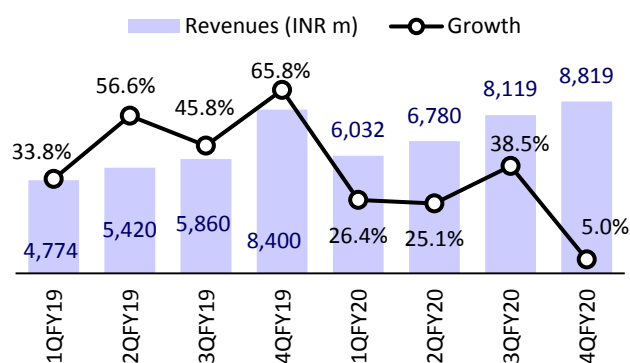
Source: Company, MOFSL

Exhibit 5: EBIT mix trend



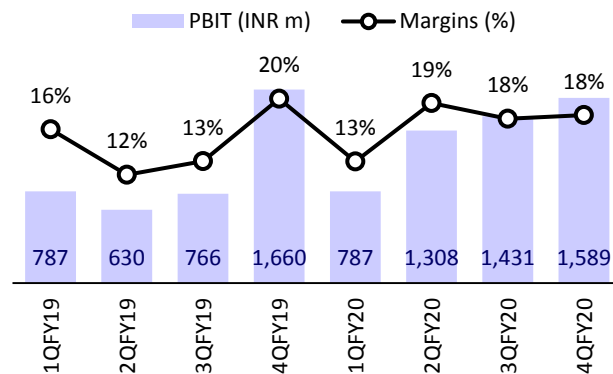
Source: Company, MOFSL

Exhibit 6: Chemicals revenue trend



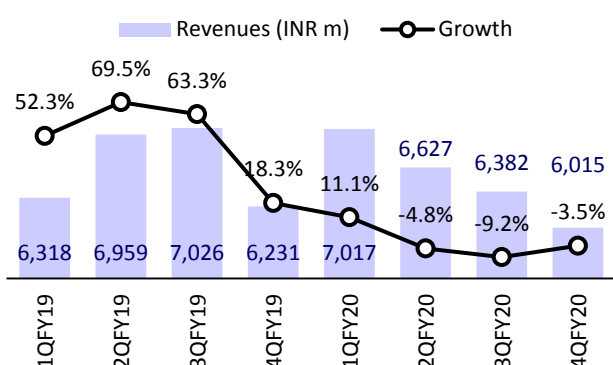
Source: Company, MOFSL

Exhibit 7: Chemicals EBIT trend



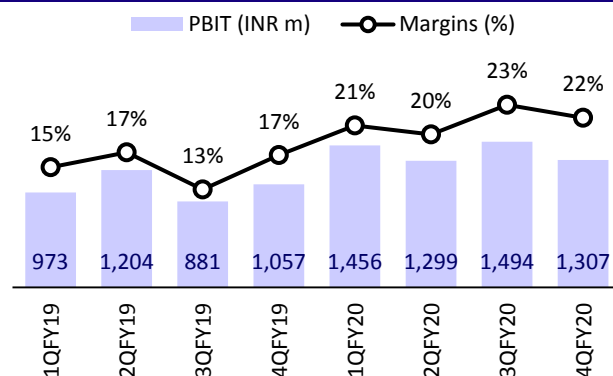
Source: Company, MOFSL

Exhibit 8: Packaging films revenue trend



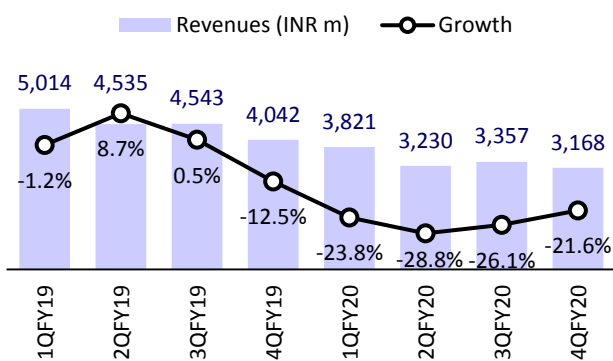
Source: Company, MOFSL

Exhibit 9: Packaging films EBIT trend



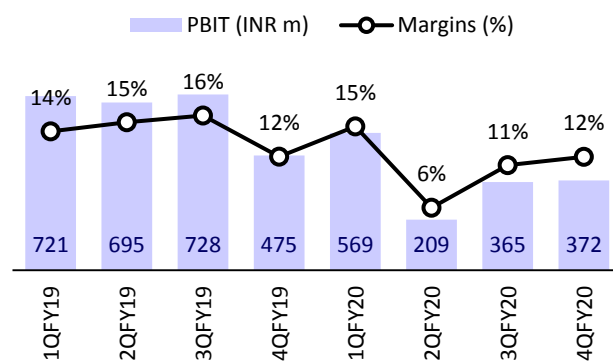
Source: Company, MOFSL

Exhibit 10: Technical textiles revenue trend



Source: Company, MOFSL

Exhibit 11: Technical textiles EBIT trend



Source: Company, MOFSL



Conference call highlights

Specialty Chemicals

- SRF faced logistics issues during the quarter, which led to delay in product delivery.
- Due to COVID-19, production facilities were completely closed for 15 days; from mid-Apr'20, operations started in a phased manner.
- **Achieved revenue of INR16.5b in the specialty chemicals segment and have guided for 20-25% growth in FY21.**
- Order-book looks strong, as growth is expected in agro and pharma segment.

Fluorochemicals

- Performance in the segment was subdued due to prolong and severe slowdown in auto/white goods sector, leading to lower demand.
- **Price of key refrigerants was low during the quarter. Demand for refrigerant from OEMs is expected to be muted in the near term. Slight pull is expected from the replacement market on lifting up of the lockdown.**
- The recently commissioned HFC capacity is expected to ramp up volumes over the next few quarters.
- Volumes of chloromethane contributed to the segment's growth. Prices of certain chloromethane products contracted, resulting in a quick shift to other products.
- **Capacity utilization in the refrigerant segment is 70-75% for FY20 (on pro-rata basis).**

Packaging

- Delivered strong performance in BOPP and BOPET due to improvement in volumes and product-mix. In India and internationally, plants were operating at optimum utilization level.
- During the lockdown, all plants were operational and functioning at reasonable capacity.
- **Operating margins should moderate as new lines in the international market are expected to impact the demand-supply scenario.**
- In May'20, SRF commissioned the BOPET film line of 40kMT in Thailand at a capex of USD51m. Commissioning of the BOPET plant in Hungary has been delayed due to COVID-19, but should commence in Jul'20.
- Growth from value-added products was 20-22% in FY20.

Technical Textiles

- Performance of Tyre Cord Fabric business was severely impacted due to sluggish domestic demand.
- Inventory loss of INR30-40m due to fall in caprolactam prices.
- OEM demand may take a longer time to recover, whereas replacement demand is expected to kick-in by end of 2QFY21.
- Coated and Laminated fabrics business reported stable performance led by new product launches. Laminated margins were affected due to oversupply in the market.

Others

- Tax rate was lower in FY20 as the company recognized INR1.8b as income tax benefit during the year. This is a one-time deferred re-measurement exercise carried out in view of the Income Tax Ordinance.
- The company has enough land at its disposal to expand for the next three years.
- **Blended cost of debt is 3.5-3.75%.**
- **Net debt was higher by INR3b in FY20. Target is to reduce net debt by INR2-3b in FY21; however, it may change depending on capex.**
- Capex of INR8b for FY21 (excluding BOPP and resin plant in Thailand and BOPET plant in Hungary).

Valuation and view

- Performance in 4QFY20 was impacted due to the COVID-19 pandemic and the auto slowdown. While sluggishness in the auto sector dented performance of the technical textiles business, the slowdown in white goods/auto impacted the refrigerants business.
- Additionally, packaging film margins are also likely to moderate in FY21 owing to oversupply.
- However, on the positive side, management remains confident of achieving 20-25% revenue growth in the specialty chemicals segment (forms 23% of FY20 sales).
- Also, increase in replacement demand for the auto sector (when normalcy is achieved) should boost performance of technical textiles/refrigerants. Factoring in the same, we have cut our PAT estimates by 21%/4% for FY21/22E. We value SRF on an SOTP basis to arrive at a target price of INR4,244. Maintain **Buy**.

Valuation Methodology

EV/EBITDA	FY22 EBITDA (INRm)	Multiple (x)	EV (INRm)
Technical Textiles	1,973	7	13,810
Chemicals & Polymers	12,056	17	2,04,953
Packaging Films	7,598	8	60,785
Others	320	5	1,599
Total EV			2,81,148
Less: Debt			34,740
Less: Minority Interest			-
Add: Cash & Cash Equivalents			1,880
Target Mcap (INR mn)			2,48,288
Outstanding share (mn)			58.5
Target Price (INR)			4,244
CMP (INR)			3,648
Upside (%)			16%

Source: MOFSL

Exhibit 12: Change in estimates

Earnings Change (INR m)	Old		New		Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	85,240	98,284	75,359	94,406	-12%	-4%
EBITDA	17,537	20,596	15,450	20,488	-12%	-1%
Adj. PAT	9,285	11,535	7,355	11,108	-21%	-4%

Source: MOFSL

Financials and valuations

Consolidated - Income Statement

(INR Million)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	45,927	48,218	55,890	70,996	72,094	75,359	94,406
Change (%)	1.2	5.0	15.9	27.0	1.5	4.5	25.3
Total Expenditure	36,199	38,524	46,828	57,787	57,510	59,908	73,918
% of Sales	78.8	79.9	83.8	81.4	79.8	79.5	78.3
EBITDA	9,728	9,694	9,062	13,209	14,584	15,450	20,488
Margin (%)	21.2	20.1	16.2	18.6	20.2	20.5	21.7
Depreciation	2,750	2,834	3,158	3,582	3,886	4,168	4,472
EBIT	6,979	6,859	5,904	9,627	10,698	11,282	16,016
Int. and Finance Charges	1,305	1,018	1,239	1,984	2,007	2,144	1,993
Other Income	278	730	688	280	491	540	594
PBT bef. EO Exp.	5,952	6,572	5,353	7,923	9,182	9,677	14,616
EO Items	-103	0	463	262	997	0	0
PBT after EO Exp.	5,849	6,572	5,817	8,185	10,179	9,677	14,616
Current Tax	1,551	1,422	1,200	1,769	265	2,323	3,508
Deferred Tax	0	0	0	0	-277	0	0
Tax Rate (%)	26.5	21.6	20.6	21.6	-0.1	24.0	24.0
Less: Mionrity Interest	0	0	0	0	0	0	0
Reported PAT	4,299	5,150	4,617	6,416	10,191	7,355	11,108
Adjusted PAT	4,402	5,150	4,154	6,155	9,194	7,355	11,108
Change (%)	45.4	17.0	-19.3	48.2	49.4	-20.0	51.0
Margin (%)	9.6	10.7	7.4	8.7	12.8	9.8	11.8

Consolidated - Balance Sheet

(INR Million)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	584	584	584	585	585	585	585
Preference Capital	0	0	0	0	0	0	0
Total Reserves	27,045	31,242	35,061	40,708	49,748	55,746	65,497
Net Worth	27,630	31,827	35,645	41,293	50,333	56,331	66,082
Minority Interest	0	0	0	0	0	0	0
Deferred Liabilities	3,820	2,866	2,914	3,420	1,755	1,755	1,755
Total Loans	25,153	23,962	31,418	36,993	40,240	37,740	34,740
Capital Employed	56,603	58,655	69,978	81,706	92,328	95,825	1,02,576
Gross Block	71,410	77,169	87,502	95,962	1,05,188	1,14,188	1,21,188
Less: Accum. Deprn.	30,334	33,169	36,327	39,908	43,795	47,963	52,435
Net Fixed Assets	41,076	44,000	51,175	56,053	61,394	66,226	68,754
Goodwill on Consolidation	49	49	41	41	41	41	41
Capital WIP	1,174	2,586	5,588	7,536	13,933	11,933	11,933
Current Investments	1,606	1,708	1,217	1,005	1,985	0	0
Total Investments	1,649	1,959	1,218	1,006	2,027	2,027	2,027
Curr. Assets, Loans&Adv.	20,291	21,090	25,608	34,243	32,373	34,607	42,005
Inventory	6,711	8,381	9,582	12,247	12,012	10,570	12,556
Account Receivables	5,145	6,569	6,807	10,288	8,911	9,291	11,639
Cash and Bank Balance	3,399	961	967	1,989	1,255	2,001	1,880
Loans and Advances	5,036	5,178	8,252	9,719	10,196	12,745	15,931
Curr. Liability & Prov.	8,934	11,055	13,653	17,173	17,440	19,007	22,182
Account Payables	7,146	8,089	10,442	13,824	11,117	12,684	15,860
Other Current Liabilities	1,477	2,606	2,831	2,908	5,881	5,881	5,881
Provisions	312	359	380	441	442	442	442
Net Current Assets	11,357	10,035	11,955	17,070	14,934	15,599	19,823
Deferred Tax assets	1,297	26	0	0	0	0	0
Misc Expenditure	0	0	0	0	0	0	0
Appl. of Funds	56,603	58,655	69,978	81,706	92,328	95,825	1,02,576

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)							
EPS	75.3	88.1	71.1	105.2	157.2	125.7	189.9
Cash EPS	122.4	136.6	125.1	166.4	223.6	197.0	266.3
BV/Share	472.8	544.6	609.9	705.9	860.4	962.9	1,129.6
DPS	9.8	11.8	16.0	20.0	14.0	20.0	20.0
Payout (%)	15.5	15.9	23.5	21.2	9.6	18.5	12.2
Valuation (x)							
P/E	48.4	41.4	51.3	34.7	23.2	29.0	19.2
Cash P/E	29.8	26.7	29.2	21.9	16.3	18.5	13.7
P/BV	7.7	6.7	6.0	5.2	4.2	3.8	3.2
EV/Sales	5.1	4.9	4.3	3.5	3.5	3.3	2.6
EV/EBITDA	24.0	24.2	26.8	18.7	17.2	16.1	12.0
Dividend Yield (%)	0.3	0.3	0.4	0.5	0.4	0.5	0.5
FCF per share	58.9	19.0	-110.5	-44.4	-61.2	115.3	106.5
Return Ratios (%)							
EBITDA Margins (%)	21.2	20.1	16.2	18.6	20.2	20.5	21.7
Net Profit Margins (%)	9.6	10.7	7.4	8.7	12.8	9.8	11.8
RoE	17.0	17.3	12.3	16.0	20.1	13.8	18.1
RoCE	10.5	11.0	8.5	10.7	13.3	9.7	13.0
RoIC	18.5	17.8	13.8	18.1	15.3	18.9	24.7
Working Capital Ratios							
Fixed Asset Turnover (x)	0.6	0.6	0.6	0.7	0.7	0.7	0.8
Asset Turnover (x)	0.8	0.8	0.8	0.9	0.8	0.8	0.9
Inventory (Days)	105	126	115	113	119	100	95
Debtor (Days)	41	50	44	53	45	45	45
Creditor (Days)	112	122	126	127	110	120	120
Leverage Ratio (x)							
Debt/Equity	0.9	0.8	0.9	0.9	0.8	0.7	0.5

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	5,952	6,572	5,817	8,185	10,179	9,677	14,616
Depreciation	2,750	2,834	3,158	3,582	3,886	4,168	4,472
Interest & Finance Charges	1,305	1,018	1,239	1,984	2,007	2,144	1,993
Direct Taxes Paid	-1,551	-1,422	-1,200	-1,769	-265	-2,323	-3,508
(Inc)/Dec in WC	703	-2,464	-2,138	-4,171	-3,762	80	-4,344
CF from Operations	9,159	6,538	6,876	7,811	12,044	13,748	13,229
Others	-947	1,742	0	0	0	0	0
CF from Operating incl EO	8,212	8,280	6,876	7,811	12,044	13,748	13,229
(inc)/dec in FA	-4,771	-7,170	-13,335	-10,408	-15,624	-7,000	-7,000
Free Cash Flow	3,441	1,110	-6,460	-2,597	-3,579	6,748	6,229
(Pur)/Sale of Investments	0	0	0	212	-1,021	0	0
Others	-707	-310	741	0	4,841	0	0
CF from Investments	-5,477	-7,479	-12,595	-10,196	-11,803	-7,000	-7,000
Issue of Shares	0	0	0	1	0	0	0
Inc/(Dec) in Debt	1,053	-1,523	7,806	5,575	3,246	-2,500	-3,000
Interest Paid	-1,305	-1,018	-1,239	-1,984	-2,007	-2,144	-1,993
Dividend Paid	-664	-821	-1,085	-1,357	-983	-1,357	-1,357
Others	507	123	243	1,171	-1,232	0	0
CF from Fin. Activity	-409	-3,238	5,726	3,406	-975	-6,002	-6,350
Inc/Dec of Cash	2,326	-2,438	6	1,021	-734	746	-121
Opening Balance	1,073	3,399	961	968	1,989	1,255	2,001
Closing Balance	3,399	961	968	1,989	1,255	2,001	1,880

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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