

SRF Ltd's annual report vividly speaks of creating value for its shareholders by the virtue of the company's investments in its growth engines and R&D. SRF's strategic initiatives in terms of investments and minor restructurings within the company have borne fruits in FY20.

Mr. Arun Bharat Ram has exuded his confidence in SRF's business operations amidst the pandemic as the company refrained from announcing any job losses. This has been possible on the back of a strong growth in profitability as PAT grew by 54.8% YoY to Rs 9.16bn. The company's debt position has increased by Rs 3.79bn (which also includes the leased amount). The company incurred a capex of Rs 15.6bn (including CWIP of Rs 13.9bn) and generated FCFF of Rs 1.62bn (however FCFF yields are lower at 0.6%, OCF yield stands higher at 6.8%). We expect the company to start generating FCFF of Rs 7.97bn in FY22.

During FY20, SRF has announced a capital expenditure of Rs 10.7bn for various projects and the management has indicated staying invested in specialty chemicals holds a key to long term success.

SRF's focus on R&D from its dedicated facilities has helped not only in molecule development but has also streamlined processes with multiple scale-up campaigns in their pilot, multi-purpose and dedicated plants. SRF invested Rs 1.32bn in its R&D in FY20, their team worked on 69 molecules and 38 products were successfully taken up for process development. CTG filed 35 patents taking the total count to 205 patents filed so far. 37 patents were granted in FY20 taking the total count of patents granted to the company to 70.

Outlook and valuation

The management has guided for a 20-25% growth in specialty chemicals for FY21, with a beckoning order book and optimised product funnel. Specialty Chemicals grew by ~60% YoY in FY20 to ~Rs 16.5bn and continues to be a growth driver of the company. It is given that the technical textiles business (proxy to the replacement & OEM demand of tyres) may see hick ups in 1HFY21, recovery is expected in 2HFY21, we expect 30% de-growth in revenues in TTB. Refrigerant gases too, may witness headwinds especially in R-134A (used in Automobiles as coolant gas).

We expect a 10% de-growth in FY21 in refrigerant gases sales. Packaging films may see volume uptick (expect 10% growth in FY21) due to the facility commissioned in Thailand (now total Thailand BOPET capacity is 70KTPA post expansion). SRF Ltd's strong capex plans (~Rs 13.0bn in FY21) and focus on growing specialty chemicals business are expected to be RoCE accretive at full capacity utilisations. We like SRF's moat in fluorination and ability to scale up its growth engines. We value SRF on a SOTP basis, and maintain our rating to Buy with a target price of Rs 4,306/share.

CMP	Rs 3,766
Target / Upside	Rs 4,306 / 14%
BSE Sensex	37,920
NSE Nifty	11,132

Scrip Details

Equity / FV	Rs 585mn / Rs 10
Market Cap	Rs 216bn
	US\$ 3bn
52-week High/Low	Rs 4,260/Rs
Avg. Volume (no)	257,563
NSE Symbol	SRF
Bloomberg Code	SRF IN

Shareholding Pattern Jun'20(%)

Promoters	52.3
MF/Banks/FIs	11.3
FIIIs	17.1
Public / Others	19.3

SRF Relative to Sensex



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Annual Report Macro View

Key Management	There were no appointments or cessations of the key managerial personnel.		
Board of Directors	Mr. Pramod C Gujarathi, a director of the company is retiring by rotation and has offered him-self for re-appointment.		
Auditors	No change. M/s BSR & Co. LLP, Chartered Accountants (Registration No. 101248W/W-100022) were appointed as Statutory Auditors for 5 years in 47th annual general meeting		
Credit rating	Fund Based and Non-Fund Based Limits	India Ratings	IND AA+/Stable/IND A1+
	Fund Based and Non-Fund Based Limits	CRISIL	CRISIL AA+/Stable/CRISIL A1+
	Long Term Loans	India Ratings	IND AA+/Stable
	Long Term Loans	CRISIL	CRISIL AA+/Stable
	Commercial Papers	India Ratings	IND A1+
	Commercial Papers	CRISIL	CRISIL A1+
	Non-Convertible Debentures	CRISIL	CRISIL AA+/Stable
Pledged Shares	No pledged shares		
Macro-economic factors	Availability of Fluorspar, Agricultural situation in key geographies like Germany, Switzerland, Belgium, Fluctuations in USD/INR, demand for Auto/Tyre OEM's.		
Key Holders	Category of Shareholder (%)	FY2019	FY2020
	Promoters	52.32	52.32
	Mutual Funds	10.93	11.02
	FPI's	17.1	17.09
	Insurance Companies	0.57	0.25
	Central Government & State Government	0	0
	Others	19.08	19.32
	Total	100	100

Source: Company, DART

Technical Textiles

The Nylon Tyre Cord segment registered de-growth in EBIDTA due to low off-take in the OE sector. Replacement demand was also impacted due to financing issues, rural distress and job losses. During the year, the business also closed its Nylon Tyre Cord Fabric plant at Rayong (Thailand) due to high costs and lack of visibility on reaching profitable operations anytime in the near future. However, the Belting Fabrics segment performed better in terms of margins and registered a healthy EBIDTA. The management believes there could be an improvement in the OEM and TTB demand only in the second half of FY20.

Fluorochemicals and Industrial Chemicals

SRF is the only Indian manufacturer of HFC 134a, HFC 125 and HFC 32 refrigerants, which have been developed using indigenous technology. SRF has commissioned new facilities for HFCs, which has further strengthened our competitive advantage in all three major HFCs, namely HFC 134a, 32 and 125. SRF is all set to enter into another segment i.e. Fluoropolymer business through its ongoing additional F 22 capacity and new Poly-tetrafluoroethylene capacity project at Dahej. The Business will focus on maintaining its share of F 134a, F 32, F 125, HFC Blends and Methylene Chloride, apart from its ongoing efforts to pursue growth in Industrial Chemicals with the addition of new products to its portfolio. The company witnessed a robust volume growth in Chloromethanes within industrial chemicals segment. The company is expected to add couple of new products in its Industrial chemicals portfolio.

Specialty Chemicals

During the year, the Business launched six new agro intermediates and three pharma intermediates. Growth from Germany came in at 68.1% YoY to Rs 5.25bn (most likely from BASF and BAYER) while that from Switzerland came in at 102.0% YoY to Rs 4.25bn (most likely from SYNGENTA). The participation of the Business in agrochemicals market is in line with the global trends. However, the market is still susceptible to pricing pressure coming from crude pricing, unpredictable weather conditions in the customers' market and the more recent impact of COVID-19 on economies. The Business holds an optimistic outlook for the coming quarters as it continues to stay invested in the long-term projects to drive growth in the Specialty Chemicals space. In April-2020, the GPCB had forced shut-down of SRF's plants in Dahej due to pollution related concerns. It appears as if SRF has taken care of the effluent treatment requirements sufficiently, the company has paid Rs 775mn as effluent disposal expenses pursuant to the GPCB notice (the amount paid is up by 57% YoY in FY20).

Packaging Films

The company announced a BoPP project in FY20 with a capex of Rs 3.5bn. The company has already commissioned a BoPET capacity in Thailand of 40,000 TPA and is expected to commission a 40,000 TPA capacity of BoPET in Hungary as well in FY21. The company's key focus is on ramping up capacity utilisation. One can expect BoPET realisations to moderate in FY21 in the anticipation of incremental capacity addition on the global landscape.

Exhibit 1: SOTP Valuation

EBITDA (Rs mn)	FY20E	FY21E	FY22E	EV/EBITDA (x)	EV
Technical Textile Business(TTB)	1,977	1,012	1,871	7	13,094
Chemicals Business(CB)	7,008	7,130	9,949	20	1,98,979
Packaging Film Business(PFB)	7,016	5,122	7,043	10	70,927
Total	16,000	13,265	18,863		2,83,001
Gross debt					38,674
Cash and Equivalents					3,222
Market Cap					2,47,549
No of Shares					57
Target Price (Rs)					4,306

Source: Company, DART

Related Party transactions:

There has been no material related party transactions other than guarantees issued to and run down by subsidiaries which are to the tune of Rs 16.2bn and Rs 10.2bn respectively (these guarantees have increased by Rs 5.3bn and Rs 4.7bn respectively).

Rs mn	FY19	FY20
Sale of goods to:		
Subsidiaries	234	295
Enterprises over which KMP have significant influence	-	3
Total	234	298
Purchase of goods from:		
Subsidiaries	10	77
Total	10	77
Purchase of property, plant & equipment and intangible		
Holding Company	-	2
Subsidiaries	-	58
Total	-	60
Sale of property, plant & equipment and intangible assets		
Holding Company	-	2
Total	-	2
Services rendered to:		
Subsidiaries	69	70
Total	69	70
Rent paid to:		
Fellow Subsidiaries	68	66
Subsidiaries	-	0
Key management personnel	3	3
Enterprises over which KMP have significant influence	16	3
Total	86	72
Reimbursement of expenses from		
Holding Company	0	0
Subsidiaries	15	19
Fellow Subsidiaries	1	1
Total	16	20
Deposits given to		
Subsidiaries	-	0
Total	-	0

(Rs mn)	FY19	FY20
Deposits received back from		
Fellow Subsidiaries	-	1
Enterprises over which KMP have significant influence	12	0
Total	12	1
Donations to		
Enterprises over which KMP have significant influence	104	120
Total	104	120
Contribution to post employment benefit plans		
Post Employment Benefit Plans Trust	212	243
Total	212	243
Employee benefit obligations transferred to		
Holding Company	-	0
Fellow Subsidiaries	-	1
Total	-	1
Employee benefit obligations transferred from		
Holding Company	-	1
Total	-	1
Equity dividend paid		
Holding Company	360	421
Key management personnel	1	1
Relative of KMP	0	0
KMP of Holding Company		
Relative of KMP of Holding Company		
Total	361	422
Guarantees issued to subsidiaries	10,884	16,217
Guarantees run down to subsidiaries	5,559	10,278

Key managerial personnel remuneration:

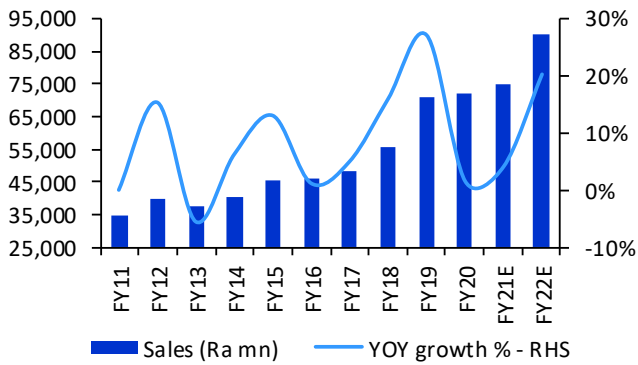
Ceiling as per the act: Rs 791mn which is 10% of net profits of the company calculated as per section 197 of the company's act, 2013. The amount paid out to the KMP's stands at Rs 196mn, which is much lower than the ceiling.

Key Managerial Personnel	Designation	Gross Salary (Rs mn)	Value of perquisites (Rs mn)	Commission (Rs mn)	Others (Rs mn)	Total (Rs mn)
Arun Bharat Ram	Chairman	26.4	0.1	25	4.5	56.0
Ashish Bharat Ram	Managing Director	32.4	10.6	20	6.5	69.5
Kartik Bharat Ram	Dep. Managing Director	32.4	10.4	20	6.5	69.3
Rahul Jain	CFO	12.4	1.1		1	14.5
Sanjay Chatrarth	CEO-TTB	22.8	0.8		2	25.6
Prashant Mehra	CEO-PFB, LF and CF	36.8	1.8		2.7	41.3
Prashant Yadav	CEO-FCB	35.7	1.4		2.7	39.8
Anurag Jain	CEO-SCB and CTG	36.6	1.4		2.7	40.7

Source: Company, DART

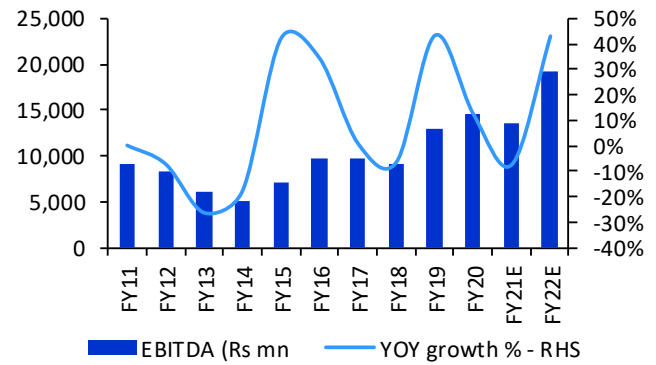
Financial Analysis

Exhibit 2: Sales and Sales Growth



Source: Company, DART

Exhibit 3: EBITDA and EBITDA growth



Source: Company, DART

Sales grew only by 1.6% YoY to Rs 70.6bn in FY20. Sales growth was a challenge largely due to the technical textiles business and the packaging films business due to a poor demand environment. However, growth in EBITDA and PAT came in much stronger due to better pricing environment for BoPET and robust margins in specialty chemicals. We are expecting the technical textiles and refrigerant gases business to under-perform in the over-all mix of the business due to the pandemic situation hampering sales of automobiles, however packaging films and specialty chemicals (proxies to agrochem, pharma and FMCG) are expected to grow in volumes.

Exhibit 4: ROE Analysis (Dupont)

ROE -DuPont	FY15	FY16	FY17	FY18	FY19	FY20
Net Profit Margin	5.9	9.5	10.9	7.0	8.5	13.0
Sales/Gross Block	1.2	1.1	1.0	0.9	1.0	0.9
Gross Block/Share holders fund	1.6	1.6	1.5	1.6	1.6	1.5
ROE(%)	11.0	15.6	16.2	10.9	14.3	18.6

Source: Company, DART

Return on Equity substantially improved in FY20 on account of a strong net profit margin expansion. Net profit margin improved by 450 bps YoY to 13.0%, which helped in a ROE improvement of 430 bps YoY to 18.6%. Historically, SRF's gross asset turnovers and the financial leverage ratio have been range-bound between 0.9-1.0x and 1.5-1.6x respectively. Evidently, SRF's ROE improvement has been largely a function of an improvement in margins. We believe that FY20 particularly has been a good year on account of pricing tailwinds in the BoPET segment, while specialty chemicals continued to remain strong with command over pricing power.

Segmental Pre-tax RoCE:

Particulars (Rs mn)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Revenues									
Technical Textiles Business (TTB)	21,485	21,313	21,857	20,396	19,050	20,102	18,388	17,349	13,576
Chemicals and Polymers Business (CPB)	12,052	10,350	9,563	12,634	16,398	17,214	16,114	24,454	29,750
Packaging Film Business (PFB)	6,607	6,208	8,830	12,460	13,606	14,092	17,823	26,533	26,040
Total	40,144	37,870	40,250	45,490	49,054	51,409	52,325	68,337	69,365
PBIT									
Technical Textiles Business (TTB)	1,145	1,234	1,631	1,957	1,810	2,543	2,529	2,615	1,515
Chemicals and Polymers Business (CPB)	5,941	3,465	1,913	2,983	3,936	3,273	2,694	3,843	5,115
Packaging Film Business (PFB)	252	60	(50)	636	1,940	1,970	2,298	4,115	5,556
Total	7,339	4,760	3,494	5,576	7,687	7,786	7,520	10,572	12,186
Capital Employed									
Technical Textiles Business (TTB)	13,986	13,298	12,942	11,516	12,176	12,150	9,395	11,435	10,814
Chemicals and Polymers Business (CPB)	10,468	13,530	19,142	23,068	24,392	27,274	35,485	44,765	47,322
Packaging Film Business (PFB)	4,494	8,936	11,415	12,807	12,840	15,960	20,377	20,661	29,187
Total Capital Employed	28,948	35,764	43,498	47,390	49,409	55,384	67,634	79,324	88,760
Add : Unallocable Assets Less Liabilities	1,584	3,172	1,382	2,981	(21,779)	(23,557)	(31,988)	(38,031)	(39,545)
Total Capital Employed	30,532	38,936	44,880	50,371	27,630	31,827	35,645	41,293	49,215
RoCE (%)									
Technical Textiles Business (TTB)	8.3	9.0	12.4	16.0	15.3	20.9	23.5	25.1	13.6
Chemicals and Polymers Business (CPB)	70.5	28.9	11.7	14.1	16.6	12.7	8.6	9.6	11.1
Packaging Film Business (PFB)	5.4	0.9	-0.5	5.3	15.1	13.7	12.6	20.1	22.3
Total	27.2	14.7	8.8	12.3	15.9	14.9	12.2	14.4	14.5

Source: Company, DART

Chemicals business:

SRF Ltd is yet to derive full potential from the specialty chemicals business from the impending allocated capital. The chemicals business derived 11% returns on the capital employed in FY20, however one should not read too much into the same considering specialty chemicals business at full capacity utilisation is RoCE accretive at the company level.

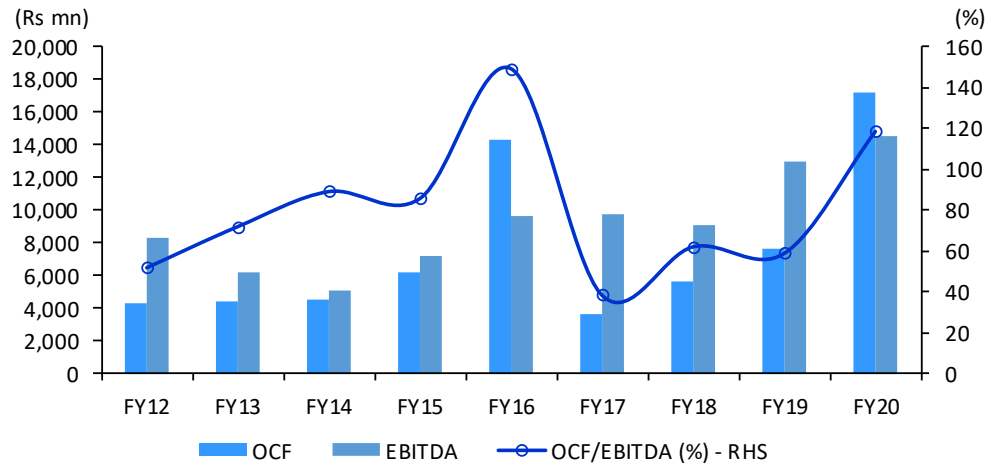
Packaging films:

The company continued enjoying higher pricing gains from BoPET due to demand supply mismatch in the market place. We expect this advantage to soon start tapering off, and are expecting a drop in EBIT margins of the packaging films business unit. RoCE from Packaging films improved from 20% to 22% in FY20.

OCF/EBITDA

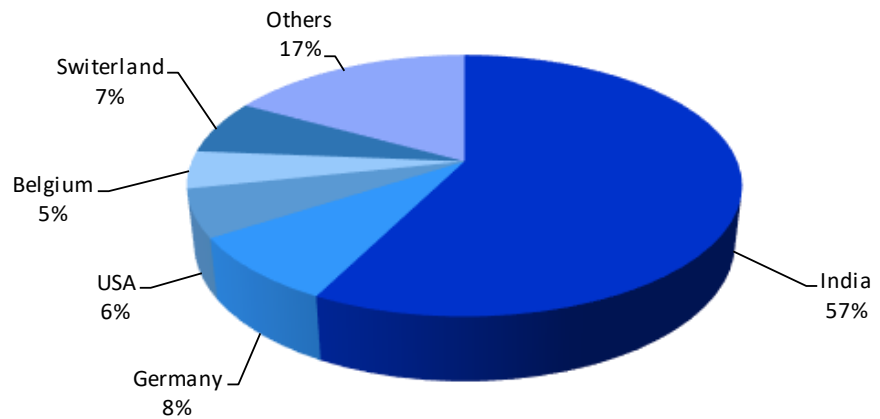
SRF Ltd improved its OCF/EBITDA to upwards of 100% in FY20. EBITDA to OCF conversion for the last 3 consecutive years till FY19 was not very encouraging.

Exhibit 5: OCF, EBITDA and OCF/EBITDA



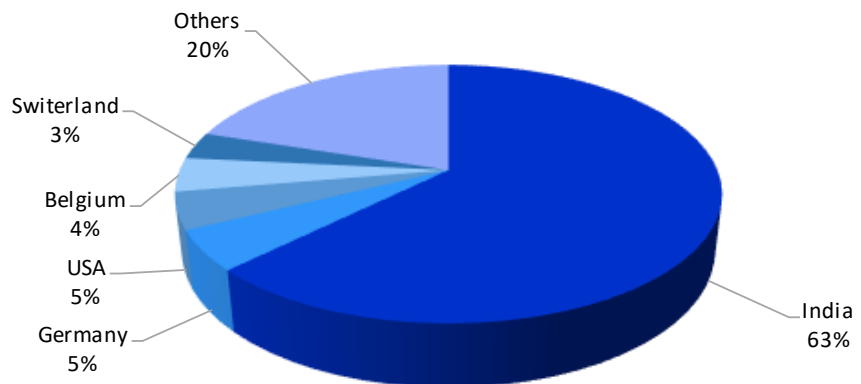
Source: Company, DART

Exhibit 6: Sales by Geography (FY19)



Source: Company, DART

Exhibit 7: Sales by Geography (FY20)



Source: Company, DART

Key Pointers from the annual report on penalties, show-cause notices and transfer pricing:

- In the matter of a demand for Stamp duty related to Tyrecord Division at Malanpur, Gwalior, Madhya Pradesh, the Division Bench of the Hon'ble High Court of Madhya Pradesh decided in favour of Revenue department during the year. The Company's petition in the Supreme Court was dismissed. The Company has paid the entire duty demand of ` 28.82 crores (including penalty of ` 5.09 crores) during the year.
- The Company has been served with show cause notices regarding certain transactions as to why additional customs/ excise duty / service tax amounting to ` 25.61 Crores (Previous year: ` 20.10 Crores) should not be levied. The Company has been advised that the contention of the department is not tenable and hence the show cause notice may not be sustainable.
- The Company has received a draft assessment order for assessment year 2016-17 in which adjustments amounting to ` 367.37 Crores have been proposed on account of transfer pricing adjustments etc. which are pending before Dispute Resolution Panel. Based on the transfer pricing study, facts of the case and applicable case laws, the company is of the view that the proposed adjustments will not sustain.
- In February 2019, the Honorable Supreme Court of India in its judgement opined on the applicability of allowances that should be considered to measure obligations under Employees Provident Funds and Miscellaneous Provisions Act, 1952. The Company believes that there are interpretative challenges on the application of judgement retrospectively and therefore has applied the judgement on a prospective basis.

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	70,996	72,094	75,026	90,174
Total Expense	58,026	57,545	61,567	70,951
COGS	39,671	36,870	39,679	46,931
Employees Cost	4,608	5,419	5,717	6,232
Other expenses	13,747	15,256	16,171	17,788
EBIDTA	12,970	14,549	13,459	19,222
Depreciation	3,582	3,886	4,194	4,780
EBIT	9,388	10,663	9,265	14,442
Interest	1,984	2,007	2,072	2,033
Other Income	280	491	500	525
Exc. / E.O. items	0	0	0	0
EBT	7,684	9,147	7,693	12,935
Tax	1,769	(12)	1,846	3,104
RPAT	5,916	9,159	5,847	9,830
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	5,916	9,159	5,847	9,830

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	585	585	585	585
Minority Interest	0	0	0	0
Reserves & Surplus	40,708	48,775	53,587	62,313
Net Worth	41,293	49,360	54,172	62,898
Total Debt	32,887	33,548	35,276	32,476
Net Deferred Tax Liability	3,420	1,755	1,755	1,755
Total Capital Employed	77,600	84,662	91,203	97,130

Applications of Funds

Net Block	56,094	63,676	86,414	88,635
CWIP	7,536	13,933	0	0
Investments	1	42	42	42
Current Assets, Loans & Advances	35,058	30,624	29,222	34,854
Inventories	12,247	12,012	12,501	15,025
Receivables	10,288	8,911	9,273	11,145
Cash and Bank Balances	1,989	1,255	502	1,737
Loans and Advances	3,400	1,655	655	655
Other Current Assets	6,130	4,806	4,806	4,806
Less: Current Liabilities & Provisions	21,089	23,612	24,476	26,400
Payables	13,824	11,117	11,980	13,905
Other Current Liabilities	7,265	12,495	12,495	12,495
<i>sub total</i>				
Net Current Assets	13,969	7,012	4,747	8,453
Total Assets	77,600	84,662	91,203	97,130

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	44.1	48.9	47.1	48.0
EBIDTA Margin	18.3	20.2	17.9	21.3
EBIT Margin	13.2	14.8	12.3	16.0
Tax rate	23.0	(0.1)	24.0	24.0
Net Profit Margin	8.3	12.7	7.8	10.9
(B) As Percentage of Net Sales (%)				
COGS	55.9	51.1	52.9	52.0
Employee	6.5	7.5	7.6	6.9
Other	19.4	21.2	21.6	19.7
(C) Measure of Financial Status				
Gross Debt / Equity	0.8	0.7	0.7	0.5
Interest Coverage	4.7	5.3	4.5	7.1
Inventory days	63	61	61	61
Debtors days	53	45	45	45
Average Cost of Debt	6.6	6.0	6.0	6.0
Payable days	71	56	58	56
Working Capital days	72	36	23	34
FA T/O	1.3	1.1	0.9	1.0
(D) Measures of Investment				
AEPS (Rs)	102.9	159.3	101.7	171.0
CEPS (Rs)	165.2	226.9	174.7	254.2
DPS (Rs)	18.0	14.0	15.0	16.0
Dividend Payout (%)	17.5	8.8	14.7	9.4
BVPS (Rs)	718.3	858.7	942.4	1094.2
RoANW (%)	15.4	20.2	11.3	16.8
RoACE (%)	11.0	13.8	9.0	12.6
RoAIC (%)	13.3	13.4	10.6	15.5
(E) Valuation Ratios				
CMP (Rs)	3766	3766	3766	3766
P/E	36.6	23.6	37.0	22.0
Mcap (Rs Mn)	216,471	216,471	216,471	216,471
MCap/ Sales	3.0	3.0	2.9	2.4
EV	246,364	246,779	249,760	245,725
EV/Sales	3.5	3.4	3.3	2.7
EV/EBITDA	19.0	17.0	18.6	12.8
P/BV	5.2	4.4	4.0	3.4
Dividend Yield (%)	0.5	0.4	0.4	0.4
(F) Growth Rate (%)				
Revenue	27.0	1.5	4.1	20.2
EBITDA	43.1	12.2	(7.5)	42.8
EBIT	59.0	13.6	(13.1)	55.9
PBT	51.5	19.0	(15.9)	68.1
APAT	52.8	54.8	(36.2)	68.1
EPS	52.8	54.8	(36.2)	68.1
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	7,586	17,207	13,925	14,971
CFI	(10,408)	(17,905)	(13,000)	(7,000)
CFF	3,631	945	(2,178)	(6,736)
FCFF	(2,822)	1,618	925	7,971
Opening Cash	2,184	2,994	3,240	1,987
Closing Cash	2,994	3,240	1,987	3,222

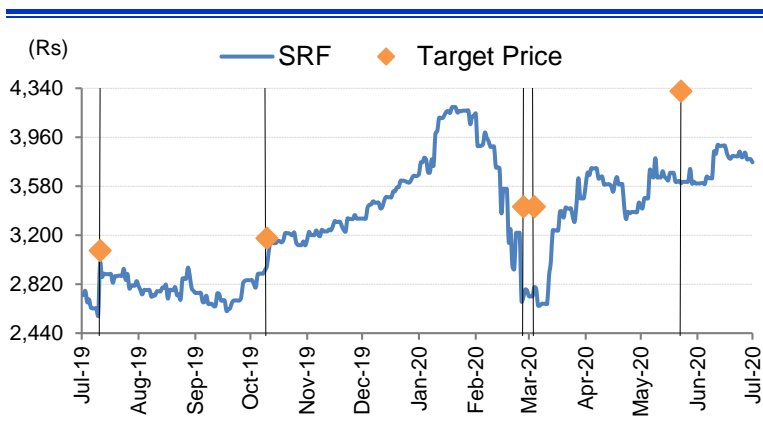
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-19	Reduce	3,081	2,981
Nov-19	Reduce	3,177	2,957
Mar-20	Buy	3,422	2,719
Mar-20	Buy	3,422	2,798
Jun-20	Buy	4,318	3,605

**Price as on recommendation date*

DART Team

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