

- SRF reported a healthy set of 4QFY21 financials, Sales/EBITDA/PAT grew by 40.4/63.3/96.5% YoY to Rs 26/6.3/3.8bn respectively.
- Strong operative leverage helped EBITDA margin increase of 340 bps YoY to 24.3%, gross margins however seem to have declined by 60 bps YoY to 50.0%.
- PAT growth of 96.5% was fuelled by strong operating performance and lower interest costs of Rs 262mn, down by 44% YoY.

Outlook and valuation

SRF Ltd expects to incur capex of ~Rs 16.0-19.0bn in FY22-23E. ~60-70% of the planned capex would be dedicated to the chemicals business. The company has announced a new capex of Rs 3.75bn in specialty chemicals (which is a part of the aforementioned capex plan). As per the management, after sweating existing capacities of specialty chemicals one can expect peak sales of ~Rs 28.0bn (higher by ~15% from FY21 sales of Rs 23.5bn). Implying, growth beyond FY22E would be capex led as capacity utilisations may hit their peak by FY22E.

We believe that, with ~50-60 specialty chemical molecules under development SRF would need to expand its capacities in a timely manner to keep pace with the underlying demand. The fluoropolymers business could achieve peak sales of ~Rs 25.0bn with addition of PTFE and R-32 capacity, and underlying organic growth. With 2 new plants of BOPP taking shape, volume growth in Packaging films should not disappoint in the mid-term. We continue to like SRF Ltd and are building in Sales/EBITDA/PAT growth of 17.6/14.3/15.8% CAGR over FY21-23E. We value SRF Ltd on SOTP basis, using EV/EBITDA based methodology and arrive at a target price of Rs 7,179/share.

Q4FY21 Result (Rs Mn)

Particulars	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
Revenue	26,077	18,578	40.4	21,464	21.5
Total Expense	19,734	14,694	34.3	16,018	23.2
EBITDA	6,343	3,884	63.3	5,446	16.5
Depreciation	1,185	1,014	16.9	1,166	1.6
EBIT	5,158	2,870	79.7	4,281	20.5
Other Income	220	(208)	(206.1)	432	(49.0)
Interest	262	466	(43.9)	285	(8.2)
EBT	5,117	2,196	133.0	4,428	15.6
Tax	1,302	255	411.0	1,185	9.9
RPAT	3,815	1,942	96.5	3,243	17.6
APAT	3,815	1,942	96.5	3,243	17.6
			(bps)		(bps)
Gross Margin (%)	50.0	50.6	(61)	52.5	(254)
EBITDA Margin (%)	24.3	20.9	342	25.4	(105)
NPM (%)	14.6	10.5	418	15.1	(48)
Tax Rate (%)	25.4	11.6	1385	26.8	(132)
EBIT Margin (%)	19.8	15.4	433	19.9	(16)

CMP	Rs 6,863
Target / Upside	Rs 7,179 / 5%
NIFTY	14,725

Scrip Details

Equity / FV	Rs 603mn / Rs 10
Market Cap	Rs 407bn
	USD 6bn
52-week High/Low	Rs 6,999/ 3,306
Avg. Volume (no)	192,973
Bloom Code	SRF IN

Price Performance	1M	3M	12M
Absolute (%)	11	23	91
Rel to NIFTY (%)	12	27	36

Shareholding Pattern

	Sep'20	Dec'20	Mar'21
Promoters	52.3	50.8	50.8
MF/Banks/FIs	11.3	11.2	11.2
FIIIs	17.1	19.4	18.4
Public / Others	19.2	19.6	19.6

Valuation (x)

	FY22E	FY23E	FY24E
P/E	28.9	25.3	20.7
EV/EBITDA	17.4	15.1	12.6
ROE (%)	18.8	18.3	19.0
RoACE (%)	14.6	15.0	16.1

Estimates (Rs mn)

	FY22E	FY23E	FY24E
Revenue	104,141	116,194	141,125
EBITDA	24,701	28,049	33,182
PAT	14,052	16,070	19,663
EPS (Rs.)	237.2	271.2	331.9

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Chemicals Business Unit: - Chemicals business reported strong growth (30.7% YoY) in both specialty chemicals and fluorochemicals business, chloromethane sales contributed to growth as well. EBIT margins continue to be healthy at 23.9% up by 590bps YoY. One may expect margins to pick up (from operating leverage) owing to higher volume growth from Refrigerant gases in FY22, than in FY21.

Packaging films Business Unit: - SRF reported a strong growth across segments, packaging films being the highest in growth of 62.8% YoY on account of increased sales volumes from new capacities in Thailand and Hungary. We have started witnessing a correction (which was expected) in EBIT margins of Packaging films. EBIT margins dropped by 260 bps QoQ to 22.3%. Margins in BOPET have been coming off, as has been the expectation. However, BOPP spreads have picked up and should be sustainable in the near-term.

Technical textiles Business Unit: Technical textiles business grew by 26.5% YoY to Rs 4.06bn, with improvement in EBIT margins by 650 bps YoY.

Exhibit 1: SOTP Valuation

EBITDA (Rs mn)	FY20	FY21E	FY22E	FY23E	FY24E	EV/EBITDA(x)	EV
Technical Textile Business(TTB)	1,862	2,099	2,420	2,471	2,518	7	17,623
Chemicals Business(CB)	7,568	9,061	11,979	14,187	17,231	20	3,44,624
Packaging Film Business(PFB)	6,419	10,188	9,968	11,046	13,076	7	91,531
Total	15,849	21,348	24,368	27,704	32,825		4,53,778
Gross debt							34,081
Cash and Equivalents							5,599
Market Cap							4,25,296
No of Shares							59
Target Price (Rs)							7,179

Source: DART, Company

Exhibit 2: Actual vs DART Estimates – Q4FY21

Particulars	Actual	Estimated	Variance %	Comments
Revenue	26,077	22,638	15.2	Higher than expected sales from Fluoro chemicals
EBITDA	6,343	5,695	11.4	Better operating leverage from Chemical and Technical Textile business
EBITDA Margin (%)	24.3	25.2	(83)	
PAT	3,815	3,302	15.5	

Source: DART, Company

Exhibit 3: Change in Estimates

Particulars (Rs Mn)	FY22E			FY23E		
	New	Previous	Chg. (%)	New	Previous	Chg. (%)
Revenue	1,04,141	94,675	10.0	1,16,194	1,07,771	7.8
EBITDA	24,701	22,145	11.5	28,049	24,335	15.3
EBITDA Margin(%)	23.7	23.4	33	24.1	22.6	156
PAT	14,052	12,012	17.0	16,070	13,323	20.6
EPS(Rs)	237.2	202.8	17.0	271.2	220.0	23.3

Source: DART, Company

Conference Call Highlights

Chemicals Business

- Commissioned 2 new dedicated plants of Agro Chemical products.
- Total of 50-60 molecules are in development at any point in time across different stages.
- 20-30% of commercialized molecules are produced in MPP and rest in the dedicated plants.
- Management expects growth of 10-15% in FY22 as the new capacities will take some time in ramping up and management considers expected growth to be reasonable as it on higher levels.
- Management plans to increase pharmaceutical industry share in 3-5 years.

Fluoro Chemicals

- Higher volumes of Refrigerant gases in both Domestic and International markets.
- Contributions from Chloromethane segment increased in Q4FY21.
- Increased domestic market share of R-134a Pharma grade gas under Dymel brand.
- Refrigerant plants are currently at full capacity.
- Peak revenue from current capacity is expected to be ~Rs 27-28bn.
- EBIT margins of 20% base could be considered in the segment.

Packaging Films Business

- Contribution from Value Added products increased in Q4FY21.
- Significant volume expansion from Thailand and Hungary plants.
- All the packaging films plants were operating at ~100% utilization.
- South African plant achieved a 5-star OHS rating from the British Safety Council.
- BOPP plant in Thailand is expected to be operational in Q1FY22.
- BOPP spreads for atleast 2-3 months is expected to be positive.

Technical Textiles Business

- Company witnessed change in customer's preference for domestic products, leading to import substitution.
- In Q4FY21, contribution increased from Belting Fabrics segment.

Others

- Laminated fabric margins were under pressure due to oversupply situation in the market.
- Coated Fabrics gained volumes due to higher plant efficiency.

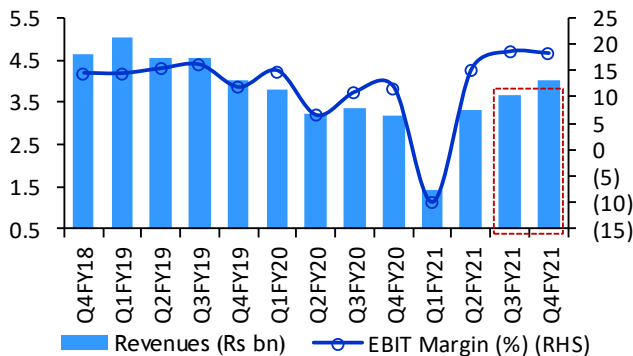
Other Business Updates

- Working capital requirements were higher due to commissioning of new plants.
- Interest cost in FY21 was down by ~33% YoY.

Capex

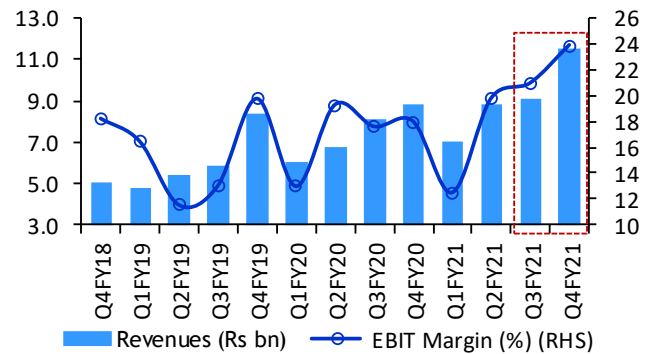
- Board has approved a capex of Rs 3.75bn for Multi Purpose Plant in Dahej.
- MPP 4 capex will take 12-14 months for completion.
- Capex of Rs 16-19bn to be done in FY22; funded by debt of Rs 2-3bn.
- Out of guided capex for FY22, ~60-70% of capex is expected in specialty chemicals segment.
- Of the planned capex of Rs 11-12bn in specialty chemicals, ~Rs 6-6.5 is expected in chemicals and rest Rs 4-5bn in Flurochemicals segment.
- Apart from big capex, the company requires capex of Rs 1-1.5bn for small projects and for maintenance.

Exhibit 4: Technical Textiles Business – Revenues (Rs Bn) & EBIT Margin (%)



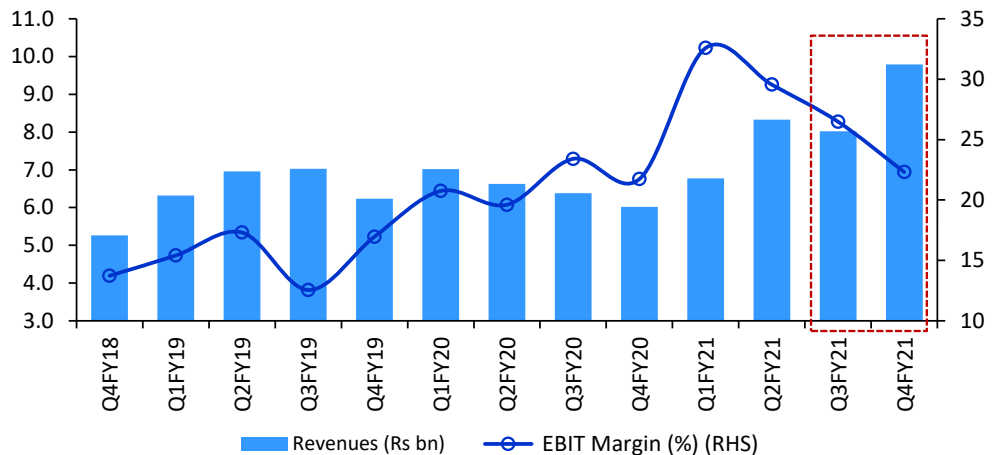
Source: DART, Company

Exhibit 5: Chemical Business – Revenues (Rs Bn) & EBIT Margin (%)



Source: DART, Company

Exhibit 6: Packaging Films Business – Revenues (Rs Bn) & EBIT Margin (%)



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY21A	FY22E	FY23E	FY24E
Revenue	84,000	104,141	116,194	141,125
Total Expense	62,549	79,440	88,144	107,943
COGS	40,189	53,615	58,112	73,259
Employees Cost	6,214	6,773	7,552	8,156
Other expenses	16,145	19,051	22,480	26,527
EBIDTA	21,452	24,701	28,049	33,182
Depreciation	4,531	5,162	5,855	6,405
EBIT	16,921	19,539	22,194	26,777
Interest	1,340	1,600	1,625	1,505
Other Income	545	550	575	600
Exc. / E.O. items	0	0	0	0
EBT	16,127	18,489	21,144	25,872
Tax	4,144	4,437	5,075	6,209
RPAT	11,983	14,052	16,070	19,663
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	11,983	14,052	16,070	19,663

Balance Sheet

(Rs Mn)	FY21A	FY22E	FY23E	FY24E
Sources of Funds				
Equity Capital	603	603	603	603
Minority Interest	0	0	0	0
Reserves & Surplus	67,962	80,094	94,102	111,561
Net Worth	68,564	80,697	94,705	112,163
Total Debt	30,083	28,083	26,083	24,083
Net Deferred Tax Liability	3,680	3,180	2,780	2,380
Total Capital Employed	102,328	111,960	123,568	138,627

Applications of Funds

Net Block	78,270	90,830	94,975	100,570
CWIP	7,723	0	0	0
Investments	42	42	42	42
Current Assets, Loans & Advances	43,079	48,140	56,585	69,147
Inventories	14,658	18,546	20,692	25,132
Receivables	12,746	14,266	15,917	19,332
Cash and Bank Balances	2,820	1,474	4,121	5,828
Loans and Advances	3,355	3,355	4,355	5,355
Other Current Assets	5,375	6,375	7,375	8,375
Less: Current Liabilities & Provisions	26,785	27,052	28,033	31,132
Payables	15,852	17,119	19,100	23,199
Other Current Liabilities	10,933	9,933	8,933	7,933
		<i>sub total</i>		
Net Current Assets	16,294	21,088	28,551	38,015
Total Assets	102,328	111,960	123,568	138,627

E – Estimates

Important Ratios

Particulars	FY21A	FY22E	FY23E	FY24E
(A) Margins (%)				
Gross Profit Margin	52.2	48.5	50.0	48.1
EBIDTA Margin	25.5	23.7	24.1	23.5
EBIT Margin	20.1	18.8	19.1	19.0
Tax rate	25.7	24.0	24.0	24.0
Net Profit Margin	14.3	13.5	13.8	13.9
(B) As Percentage of Net Sales (%)				
COGS	47.8	51.5	50.0	51.9
Employee	7.4	6.5	6.5	5.8
Other	19.2	18.3	19.3	18.8
(C) Measure of Financial Status				
Gross Debt / Equity	0.4	0.3	0.3	0.2
Interest Coverage	12.6	12.2	13.7	17.8
Inventory days	64	65	65	65
Debtors days	55	50	50	50
Average Cost of Debt	4.2	5.5	6.0	6.0
Payable days	69	60	60	60
Working Capital days	71	74	90	98
FA T/O	1.1	1.1	1.2	1.4
(D) Measures of Investment				
AEPS (Rs)	202.3	237.2	271.2	331.9
CEPS (Rs)	278.7	324.3	370.1	440.0
DPS (Rs)	240.0	27.0	29.0	31.0
Dividend Payout (%)	118.7	11.4	10.7	9.3
BVPS (Rs)	1157.3	1362.1	1598.5	1893.2
RoANW (%)	20.3	18.8	18.3	19.0
RoACE (%)	14.2	14.6	15.0	16.1
RoAIC (%)	18.5	18.6	19.3	21.2
(E) Valuation Ratios				
CMP (Rs)	6863	6863	6863	6863
P/E	33.9	28.9	25.3	20.7
Mcap (Rs Mn)	406,609	406,609	406,609	406,609
MCap/ Sales	4.8	3.9	3.5	2.9
EV	429,747	429,093	424,446	419,739
EV/Sales	5.1	4.1	3.7	3.0
EV/EBITDA	20.0	17.4	15.1	12.6
P/BV	5.9	5.0	4.3	3.6
Dividend Yield (%)	3.5	0.4	0.4	0.5
(F) Growth Rate (%)				
Revenue	16.5	24.0	11.6	21.5
EBITDA	47.4	15.1	13.6	18.3
EBIT	58.7	15.5	13.6	20.6
PBT	76.3	14.7	14.4	22.4
APAT	30.8	17.3	14.4	22.4
EPS	30.8	17.3	14.4	22.4

Cash Flow

(Rs Mn)	FY21A	FY22E	FY23E	FY24E
CFO	15,202	14,973	19,134	21,216
CFI	(12,914)	(10,000)	(10,000)	(12,000)
CFF	1,418	(6,319)	(6,487)	(6,509)
FCFF	2,179	4,973	9,134	9,216
Opening Cash	3,240	6,945	5,599	8,246
Closing Cash	6,945	5,599	8,246	10,953

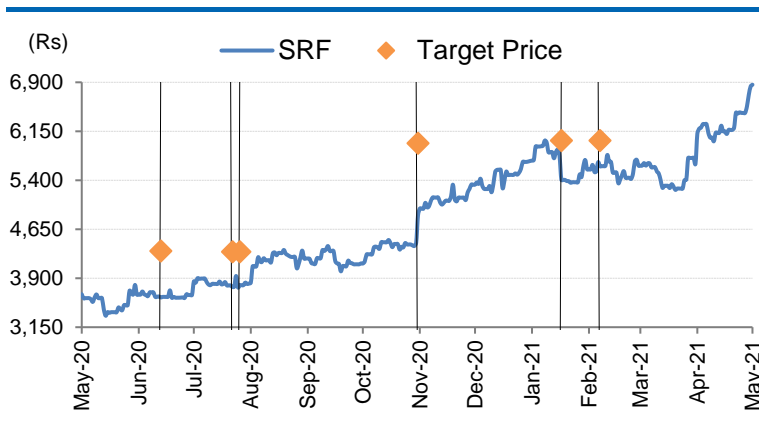
E – Estimates

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.)
Jun-20	Buy	4,318	3,605
Jul-20	Buy	4,306	3,766
Jul-20	Buy	4,306	3,793
Nov-20	Buy	5,968	4,867
Jan-21	Accumulate	6,008	5,405
Feb-21	Accumulate	6,008	5,616

*Price as on recommendation date

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