

## Resilient chemical growth to back performance...

**About the stock:** Incorporated in 1970, SRF commenced operations with nylon cord tyres and, thereafter, diversified into refrigerant gases, speciality chemicals and packaging film, as a few examples over the years.

- Chemical division forms 43% of the overall revenue followed by packaging film (39%), technical textile (15%) and others (3%)
- The company exports to more than 90+ countries. The revenue from the international market constitutes 57% of the overall revenue while the rest is from the domestic market segment

**Q4FY22 Results:** SRF reported a marginal beat on the topline and operational performance front owing to better performance from the chemical segment.

- Reported revenue growth was 36% YoY to ₹ 3549.4 crore, led by chemical (up 36% YoY), technical textile (up 24% YoY), packaging film (up 42% YoY) and other segment (up 20% YoY)
- Gross margins were up 310 bps YoY to 53.1% while EBITDA margin expanded 200 bps YoY to 26.7%
- EBITDA was up 47% YoY to ₹ 948 crore
- PAT increased 59% YoY to ₹ 605.7 crore

**What should investors do?** The stock appreciated at 57% CAGR in last three years.

- We retain **BUY** rating on the back of good opportunity to play on the increasing share of fluoro chemicals across key industries

**Target Price and Valuation:** We value SRF on SOTP to arrive at a target price of ₹ 2755/share (earlier ₹ 3065/share).

### Key triggers for future price performance:

- Venturing into PTFE through backward integration of R22 diversifies business risk, to a certain extent. A prudent strategy to increase presence across other fluoropolymers can expand revenue visibility meaningfully over the medium to long run
- Continuous capex towards speciality chemical on the back of higher consumption of fluoro compounds across agrochemical and pharma supports strong business performance in the years to come
- Control over working capital along with better operational performance to improve FCF generation

**Alternate Stock Idea:** Apart from SRF, in our chemical coverage, we also like Neogen Chemical.

- Trigger for Neogen Chemical's future revenue growth would be increasing CRAMS opportunity
- BUY with a target price of ₹ 2160

### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Revenue	7,099.6	7,209.4	8,400.0	12,433.7	20.9%	14,119.6	17,013.3	17.0%
EBITDA	1,297.0	1,454.9	2,144.9	3,175.9	26.1%	3,521.8	4,255.3	15.8%
EBITDA Margins (%)	18.3%	20.2%	25.5%	25.5%		24.9%	25.0%	
Adj. PAT	641.6	1,019.1	1,197.9	1,888.9	29.7%	2,059.4	2,490.7	14.8%
Adj. EPS (₹)	21.6	34.3	40.3	63.5		69.2	83.7	
EV/EBITDA	53.9x	48.1x	32.5x	22.0x		20.1x	16.6x	
P/E	104.3x	65.7x	55.9x	35.4x		32.5x	26.9x	
ROE (%)	15.5	20.7	17.5	22.1		20.3	20.6	
ROCE (%)	15.2	16.1	18.7	23.8		22.7	23.6	

Source: Company, ICICI Direct Research



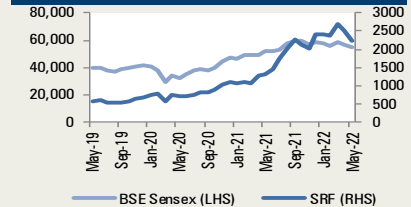
### Particulars

Particular	Amount
Market cap (₹ Crore)	66,924
FY22 Total Debt (₹ Crore)	3,655
FY22 Cash & Inv (₹ Crore)	776
EV (₹ Crore)	69,803
52 Week H/L	2773/1236
Equity Capital (₹ Crore)	297.4
Face Value (₹)	10

### Shareholding pattern

in %	Jun-21	Sept-21	Dec-21	Mar-22
Promoter	50.8	50.8	50.7	50.7
DII	11.9	10.4	9.2	8.7
FI	18.4	19.2	19.1	19.6
Others	18.9	19.6	21.0	21.0

### Price Chart



### Recent event & key risks

- Announcement of capex of ₹ 115 crore towards agrochemical intermediates at Dahej
- **Key Risk:** (i) Adverse agri season to affect speciality chemical growth (ii) Lower spread in packaging film to impact operational growth

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## Key takeaways of recent quarter & conference call highlight

### Q4FY22 Results: Strong growth across chemical continues

- **Stellar growth from chemical led overall performance:** Revenues were up 36% YoY to ₹ 3549.4 crore, led by the chemical segment, which was up 36% YoY to ₹ 1572.5 crore. The growth from the chemical segment was led by higher refrigerant gas along with chloromethane prices. Apart from this, higher growth from speciality chemical also supported growth for the quarter
- **Higher OPM in chemical led strong operational performance:** OPM for the quarter expanded by 200 bps YoY to 26.7%. OPM from the chemical segment remained at 34.5% (+760 bps YoY), while the same from technical textile, packaging film and other segments was at 20.1% (-20 bps YoY), 21.7% (-300 bps YoY) & 5.3% (-720 bps YoY), respectively

### Q4FY22 Earnings Conference Call highlights

- **Speciality Chemical Business**

Healthy performance recorded in this segment on account of:

- Strong demand for flagship products and downstream derivatives
- Continuous enhancement of new product portfolio, thereby strengthening customer base – six new products launched during the year

- **Fluorochemical business**

The segment delivered a robust performance on account of:

- Sustained volumes with healthy margin realisations across all HFCs in both domestic and export markets
- Strong demand for Dymel® HFA 134a/P sales. Business is expanding presence across India, Bangladesh, Argentina and Thailand. In addition, it has entered new markets such as Greece and Taiwan
- Higher sales realisations and optimised product mix from chloromethane segment augured well for the business
- Capex is on track. The board has also approved a project for capacity expansion of R 22 at Dahej at a cost of ~₹ 30 crore

- **Packaging films business**

This segment delivered a strong performance with growth in sales across domestic and international businesses:

- All plants operated at full capacities
- Both BOPET and BOPP demand remained healthy
- Ramp up of capacities in Hungary and Thailand aided volume growth
- Increasing sales growth from value-added products (VAP), further enhanced overall performance
- Continued focus on cost-competitive procurements despite supply chain constraints
- BOPET margins can remain under pressure due to new lines coming in

- **Technical textiles business**

Segment reported healthy revenues on account of:

- Subdued nylon tyre cord fabrics volumes with steady margins
- Significant growth in the belting fabrics and the polyester industrial yarn segments

- **Others**
  - **Coated Fabrics** – SRF continues to be a leader in the domestic market with focus on increased sourcing initiatives and better operating performance
  - **Laminated Fabrics** - SRF maintained its price & volume leadership with plants operating at full capacity, achieving its highest ever sales in Q4FY22

### New Capex

- To produce intermediates for agrochemicals in new plant structure
- It is located in Dahej, Gujarat
- Amount invested was ~₹ 115 crore
- Proposed capacity addition was 600-800 metric tonne per annum
- Proposed capacity to be added – February 2023
- Mode of financing is a mix of debt & individual accruals

### Capex ₹ 2500-2700 crore during FY23E

- Capex amount increases due to increase in steel & cement prices
- Capex break up – ₹ 1700 – 1800 crore in chemicals (₹ 1100 – 1200 crore in speciality chemical and rest into fluorochemical)

### Other points

- Separate company formed for aluminium foil is to gain tax benefits from optional scheme issued by government for specified companies
- Capacity utilisation of refrigerants gas – 70-75% utilisation.
- Domestic and international demand for refrigerant gas is positive as quoted by the management
- In speciality chemicals, Q4 growth is driven by both new and old products

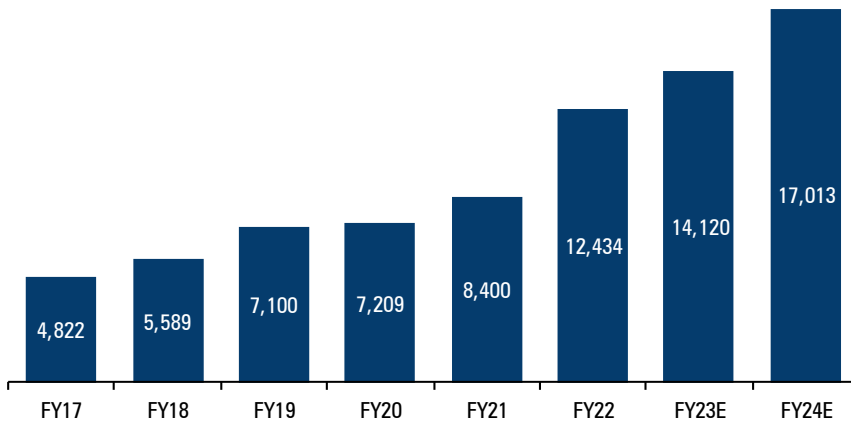
### SOTP valuation

In ₹ Crore unless other mentioned	Revenue		EBITDA		EV/EBITDA	EV
	FY23E	FY24E	FY23E	FY24E	FY24E	FY24E
Technical textile	2,247	2,359	517	543	12.0x	6,512
Chemical Business	6,203	8,268	1,861	2,481	27.0x	66,975
Packaging film	5,313	6,010	1,116	1,202	10.0x	12,020
Other business	357	375	29	30	5.0x	150
<b>Consolidated EV</b>						<b>85,657</b>
Less: Net debt						3,696
<b>Target MCAP</b>						<b>81,961</b>
No. of shares						29.7
<b>Target price/share</b>						<b>2,755</b>
CMP						2,250
<b>Upside/downside</b>						<b>22%</b>

Source: ICICI Direct Research

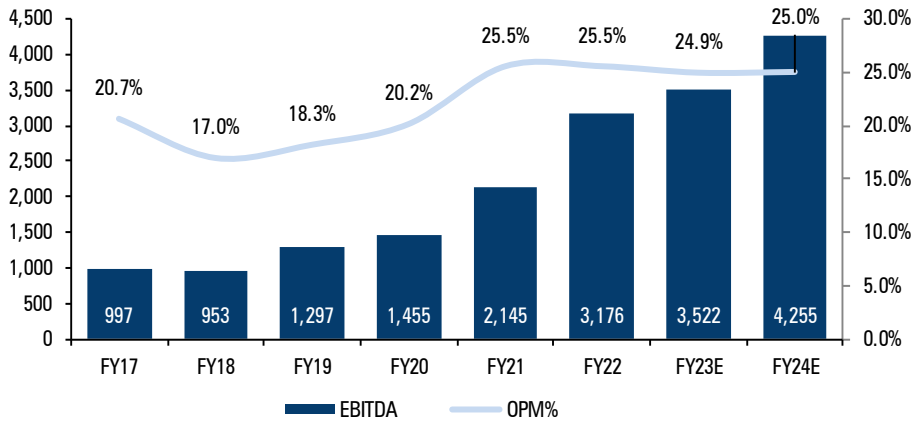
Financial story in charts....

Exhibit 1: Better growth visibility from ongoing capex to aid topline (₹ crore)



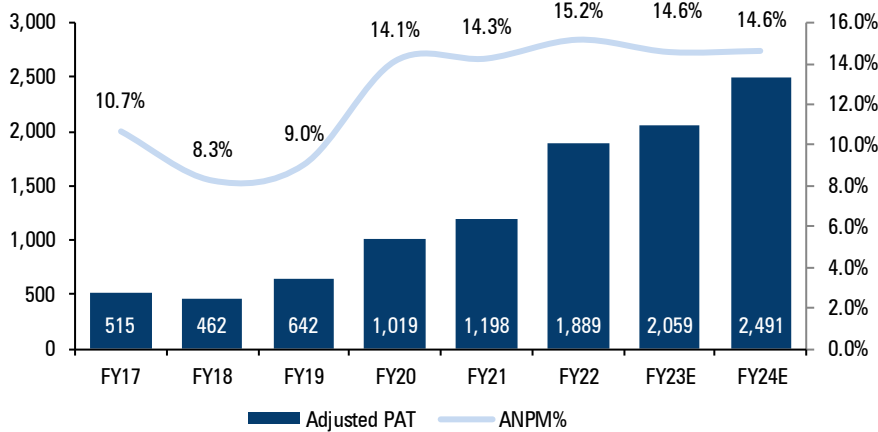
Source: Company, ICICI Direct Research

Exhibit 2: EBITDA (₹ crore) and OPM (%) trend



Source: Company, ICICI Direct Research

Exhibit 3: PAT growth trend (₹ crore)



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 4: Profit and loss statement					
	₹ crore				
Year end March	FY20	FY21	FY22	FY23E	FY24E
<b>Total Operating Income</b>	<b>7,209.4</b>	<b>8,400.0</b>	<b>12,433.7</b>	<b>14,119.6</b>	<b>17,013.3</b>
Growth (%)	1.5	16.5	48.0	13.6	20.5
Raw Material Expenses	3,687.0	4,018.9	6,066.9	6,777.4	8,081.3
<b>Gross Profit</b>	<b>3,522.4</b>	<b>4,381.1</b>	<b>6,366.7</b>	<b>7,342.2</b>	<b>8,932.0</b>
Employee Cost	541.9	621.4	780.0	903.7	1,071.8
Other Operating Expenses	1,525.6	1,614.8	2,410.8	2,916.7	3,604.9
<b>EBITDA</b>	<b>1,454.9</b>	<b>2,144.9</b>	<b>3,175.9</b>	<b>3,521.8</b>	<b>4,255.3</b>
Growth (%)	12.2	47.4	48.1	10.9	20.8
Other Income	152.2	54.5	42.8	49.8	57.1
<b>EBITDA, including OI</b>	<b>1,607.2</b>	<b>2,199.4</b>	<b>3,218.7</b>	<b>3,571.7</b>	<b>4,312.3</b>
Depreciation	388.6	453.1	517.2	594.6	732.8
Net Interest Exp.	200.7	134.0	115.9	158.2	170.2
Other exceptional items	0.0	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>1,017.9</b>	<b>1,612.3</b>	<b>2,585.6</b>	<b>2,818.9</b>	<b>3,409.3</b>
Total Tax	-1.2	414.4	696.6	759.5	918.6
Tax Rate	-0.1%	25.7%	26.9%	26.9%	26.9%
<b>PAT</b>	<b>1,019.1</b>	<b>1,197.9</b>	<b>1,888.9</b>	<b>2,059.4</b>	<b>2,490.7</b>
Adj. PAT after Minority interest	1,019.1	1,197.9	1,888.9	2,059.4	2,490.7
Adj. EPS (₹)	34.3	40.3	63.5	69.2	83.7
Shares Outstanding	5.9	6.0	29.7	29.7	29.7

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					
	₹ crore				
Year end March	FY20	FY21	FY22	FY23E	FY24E
PBT & Extraordinary	1,070.6	1,609.9	2,585.6	2,818.9	3,409.3
Depreciation	392.9	453.1	517.2	594.6	732.8
After other adjustments					
(Inc) / Dec in Working Capital	-23.9	-123.6	-664.5	-509.0	-514.3
Taxes	-142.7	-255.3	-401.6	-759.5	-918.6
Others	7.6	87.6	69.0	158.2	170.2
<b>CF from operating activities</b>	<b>1,304.4</b>	<b>1,771.7</b>	<b>2,105.7</b>	<b>2,303.2</b>	<b>2,879.5</b>
Purchase of Fixed Assets	-1,373.0	-1,204.7	-1,817.1	-2,575.0	-2,100.0
Others	194.4	-294.0	229.4	0.0	0.0
<b>CF from investing activities</b>	<b>-1,178.6</b>	<b>-1,498.7</b>	<b>-1,587.7</b>	<b>-2,575.0</b>	<b>-2,100.0</b>
Proceeds from issue of shares	0.0	750.0	0.2	0.0	0.0
Borrowings (Net)	101.8	-691.0	147.2	600.0	0.0
Others	-300.8	-310.1	-354.7	-656.4	-668.4
<b>CF from financing activities</b>	<b>-199.0</b>	<b>-251.1</b>	<b>-207.3</b>	<b>-56.4</b>	<b>-668.4</b>
Net cash flow	-73.1	21.8	310.7	-328.2	111.1
Effects of foreign currency translation	0.0	0.0	1.5	0.0	0.0
Opening Cash	198.9	125.5	282.0	459.4	131.1
<b>Closing Cash</b>	<b>125.5</b>	<b>282.0</b>	<b>459.4</b>	<b>131.1</b>	<b>242.2</b>

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet					
	₹ crore				
Year end March	FY20	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>					
Share Capital	58.5	60.3	297.4	297.4	297.4
Reserves	4,874.8	6,796.2	8,267.9	9,829.1	11,821.6
<b>Total Shareholders Funds</b>	<b>4,933.3</b>	<b>6,856.4</b>	<b>8,565.4</b>	<b>10,126.5</b>	<b>12,119.0</b>
Minority Interest	0.0	0.0	0.0	0.0	0.0
Long Term Borrowings	2,385.6	2,028.8	1,848.5	2,148.5	2,148.5
Net Deferred Tax liability	175.5	386.2	677.5	677.5	677.5
Other long term liabilities	36.9	43.3	193.4	89.1	107.4
Long term provisions	37.5	43.6	51.6	88.5	106.6
<b>Current Liabilities and Provisions</b>					
Short term borrowings	969.2	1,439.8	1,806.7	2,106.7	2,106.7
Trade Payables	1,111.7	1,585.2	2,096.4	2,514.5	3,029.8
Other Current Liabilities	1,220.5	537.5	529.9	607.6	732.2
Short Term Provisions	6.6	8.7	7.4	8.5	10.2
Total Current Liabilities	3,307.9	3,571.1	4,440.3	5,237.3	5,878.8
<b>Total Liabilities</b>	<b>10,876.8</b>	<b>12,929.4</b>	<b>15,776.6</b>	<b>18,367.3</b>	<b>21,037.8</b>
<b>Assets</b>					
Net Block	6,367.6	7,827.0	8,425.3	11,102.3	12,944.5
Capital Work in Progress	1,393.3	772.3	1,671.6	975.0	500.0
Intangible assets under devl.	0.0	0.0	0.0	0.0	0.0
Goodwill on Consolidation	0.0	0.0	0.0	0.0	0.0
Non-current investments	4.2	4.2	4.2	4.2	4.2
Deferred tax assets	14.3	18.1	11.6	11.6	11.6
Long term loans and advances	59.7	91.1	155.2	126.1	152.0
Other Non Current Assets	131.5	277.8	254.4	470.5	567.0
<b>Current Assets, Loans &amp; Advances</b>					
Current Investments	198.5	412.5	316.7	316.7	316.7
Inventories	1,201.2	1,465.8	2,138.5	2,475.8	2,983.1
Sundry Debtors	891.1	1,274.6	1,792.5	2,127.6	2,563.6
Cash and Bank	125.5	282.0	459.4	131.1	242.2
Loans and Advances	25.2	11.2	8.8	8.8	8.8
Other Current assets	464.8	492.8	538.5	617.5	744.1
Current Assets	2,906.2	3,938.9	5,254.3	5,677.6	6,858.6
<b>Total Assets</b>	<b>10,876.8</b>	<b>12,929.4</b>	<b>15,776.6</b>	<b>18,367.3</b>	<b>21,037.8</b>

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
Year end March	FY20	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>					
Adj. EPS	34.3	40.3	63.5	69.2	83.7
Adj. Cash EPS	47.3	55.5	80.9	89.2	108.4
BV	165.9	230.5	288.0	340.5	407.4
DPS	14.0	24.0	16.8	16.8	16.8
<b>Operating Ratios (%)</b>					
Gross Margin (%)	48.9	52.2	51.2	52.0	52.5
EBITDA Margin (%)	20.2	25.5	25.5	24.9	25.0
PAT Margin (%)	14.1	14.3	15.2	14.6	14.6
Debtor Days	46	56	53	55	55
Inventory Days	62	64	63	64	64
Creditor Days	57	70	62	65	65
Cash Conversion Cycle	51	51	54	54	54
<b>Return Ratios (%)</b>					
Return on Assets (%)	9.4	9.3	12.0	11.2	11.8
RoCE (%)	16.1	18.7	23.8	22.7	23.6
Core RoIC (%)	13.4	17.6	23.2	21.0	22.3
RoE (%)	20.7	17.5	22.1	20.3	20.6
<b>Solvency Ratios</b>					
Total Debt / Equity	0.7	0.5	0.4	0.4	0.4
Interest Coverage	6.1	13.0	23.3	18.8	21.0
Current Ratio	0.9	1.1	1.2	1.1	1.2
Quick Ratio	0.5	0.7	0.7	0.6	0.7
<b>Valuation Ratios (x)</b>					
EV/EBITDA	48.1	32.5	22.0	20.1	16.6
P/E	65.7	55.9	35.4	32.5	26.9
P/B	13.6	9.8	7.8	6.6	5.5
EV/Sales	9.7	8.3	5.6	5.0	4.2

Source: Company, ICICI Direct Research

## Exhibit 8: ICICI Direct coverage universe (Chemicals)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
SRF	2250	2,755	Buy	66,924	40.3	63.5	69.2	55.9	35.4	32.5	32.5	22.0	20.1	18.7	23.8	22.7	17.5	22.1	20.3
PI Industries	2848	3,375	Buy	44,358	48.6	55.4	70.1	58.6	51.4	40.7	39.3	34.4	27.6	17.2	17.2	18.8	13.8	13.8	15.0
Aarti Industries	888	1,175	Buy	35,154	14.5	37.1	35.1	61.2	23.9	25.3	39.6	19.3	18.8	10.7	17.7	16.0	15.0	22.8	18.0
Tata Chemical	960	1,155	Buy	24,463	10.1	47.5	63.6	95.4	20.2	15.1	18.9	12.5	9.2	1.8	6.6	8.3	4.1	6.6	8.4
Vinati Organics	2099	2,320	Buy	20,493	26.2	31.5	41.8	80.1	66.7	50.2	56.3	49.4	35.2	21.7	23.3	26.0	17.4	18.0	20.0
Sumitomo Chemical	429	520	Buy	21,254	6.9	8.7	10.3	62.0	49.1	41.7	41.8	33.4	28.0	29.8	30.0	28.5	22.4	22.6	21.4
Navin Fluorine	3722	4,040	Hold	18,443	45.0	52.3	67.4	82.6	71.2	55.2	57.5	51.7	36.9	21.0	17.8	19.4	13.6	14.0	15.8
Rallis India	235	235	Reduce	4,937	11.4	8.4	8.9	20.6	27.8	26.5	14.5	17.4	17.3	18.0	12.7	11.6	13.9	9.7	9.5
Sudarshan chemical	523	695	Buy	3,723	20.4	19.7	25.7	25.7	26.6	20.4	15.7	15.9	12.7	19.0	16.1	18.2	15.2	13.6	16.2
Neogen Chemicals	1549	2,160	Buy	4,142	13.4	16.5	33.5	115.4	93.8	46.3	63.3	47.4	30.6	15.1	11.2	16.9	17.1	9.3	16.0
Astec Lifesciences	1875	2,215	Buy	3,675	33.2	45.1	54.8	56.5	41.6	34.2	34.6	25.6	21.6	18.9	19.3	17.7	21.0	22.3	21.3

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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