

Packaging films margins propel consecutively, Chemicals business in-line

- SRF reported a strong 2QFY21 performance led by growth in Chemicals business (up 30.0% YoY) and Packaging films (up 25.7% YoY). Consolidated Sales grew by 20.9% YoY to Rs 21.0bn (D.est: Rs 19.1bn).
- Gross margins saw a strong improvement of 538bps YoY to 54.5% led by higher margins garnered from packaging films (EBIT of 29.6%).
- EBITDA, consequently saw a strong growth of 73.6% YoY to Rs 5.82bn (D.est: Rs 4.17bn) led by gross margin expansion and low Opex (up 1.4% YoY to Rs 2.23bn). Power and Fuel/Employee costs were at a higher end and up by 16.1/16.7% YoY to Rs 1.89/1.50bn.
- EBITDA margins stood at 28.2%, up 850bps YoY.
- Tax for the quarter stood at Rs 1.16bn @26.9% of PBT (up from 2.0% in 2QFY20). PAT thus grew by 57.1% YoY to Rs 3.15bn.

Outlook and valuation

SRF Ltd's strong capex plans of ~Rs 15.0-18.0bn over FY21-23E are expected to provide growth visibility for a foreseeable future. The company's QIP proceeds (Rs 7.5bn) are largely expected to be invested in specialty chemicals segment as the China+1 story plays out. The company continues to launch new products in specialty chemicals (1 product each for agrochemicals and pharmaceuticals in 1HFY21) which augurs well for the company. SRF announced a Rs 4.24bn capex for building a BoPP facility in Indore of 60,000 TPA which will commission a couple of years later. SRF Ltd is expected to build capabilities in complex chemistries to broaden their offerings in the pharma and agrochemicals sectors and has expressed to take opportunistic investments in packaging films. We believe that SRF Ltd's investments in Specialty chemicals continue to be RoCE accretive at peak utilizations which justify current valuations. We have fine-tuned our estimates and are valuing SRF Ltd on SOTP basis (Exhibit 1) using EV/EBITDA methodology, maintain buy with a target price of Rs 5,968/share.

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	21,008	17,378	20.9	15,452	36.0
Total Expense	15,188	14,026	8.3	11,728	29.5
EBITDA	5,821	3,352	73.6	3,723	56.3
Depreciation	1,140	929	22.7	1,040	9.6
EBIT	4,681	2,423	93.2	2,683	74.4
Other Income	2	178	(99.1)	10	(84.2)
Interest	362	550	(34.3)	432	(16.2)
EBT	4,321	2,051	110.7	2,262	91.0
Tax	1,164	41	2725.0	493	136.1
RPAT	3,157	2,009	57.1	1,769	78.5
APAT	3,157	2,009	57.1	1,769	78.5
			(bps)		(bps)
Gross Margin (%)	54.5	49.2	538	52.0	253
EBITDA Margin (%)	27.7	19.3	842	24.1	361
NPM (%)	15.0	11.6	346	11.4	358
Tax Rate (%)	26.9	2.0	2493	21.8	514
EBIT Margin (%)	22.3	13.9	834	17.4	491

CMP	Rs 4,867
Target / Upside	Rs 5,968 / 23%
NIFTY	12,120

Scrip Details

Equity / FV	Rs 592mn / Rs 10
Market Cap	Rs 288bn
	USD 4bn
52-week High/Low	Rs 4,887/ 2,468
Avg. Volume (no)	2,95,915
Bloom Code	SRF IN
Price Performance	1M 3M 12M
Absolute (%)	18 27 65
Rel to NIFTY (%)	12 18 62

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	52.3	52.3	52.3
MF/Banks/FIs	11.3	11.3	11.3
FIIIs	18.3	17.1	17.1
Public / Others	18.1	19.3	19.2

Valuation (x)

	FY22E	FY23E	FY24E
P/E	24.8	22.1	19.7
EV/EBITDA	14.5	13.0	11.6
ROE (%)	18.1	17.3	16.7
RoACE (%)	13.6	13.9	14.1

Estimates (Rs mn)

	FY22E	FY23E	FY24E
Revenue	94,675	1,07,771	1,23,255
EBITDA	21,866	24,198	26,717
PAT	11,627	13,032	14,632
EPS (Rs.)	196.3	220.0	247.0

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Chemicals Business Unit: - Chemicals business grew by 30.0% YoY to Rs 8.81bn, EBIT grew by 33.0% YoY to Rs 1.74bn with an EBIT margin expansion of 50bps YoY, sequential improvement of 620bps. Specialty chemicals business was the key driver of a strong growth in the Chemicals BU. Refrigerant gases continues to be muted due to weak auto demand and is expected to be better in 2HFY21. The company introduced 2 new products in the specialty chemicals segment each finding application in Pharmaceuticals and Agrochemicals. The company also commercialised supplies of a drop-in replacement of R-22 refrigerant gas i.e R-467A. The management has revised the guidance of Specialty chemicals segment upwards of 25% in FY21.

Technical textiles Business Unit: - Technical textiles revenues grew by 2.8% YoY to Rs 3.32bn, it is noteworthy that sequential improvement was much stronger (up 136.5%) as demand for NTCF and other TTB applications tends towards reaching normalcy. EBIT grew by 140% YoY to Rs 502mn, with a strong margin improvement of 860bps YoY.

Packaging films Business Unit: - Packaging films continued its strong performance on the back of incremental volumes flowing in from Thailand and Hungary capacity of BoPET. Sales grew by 25.7% YoY/23.0% QoQ to Rs 8.32bn. EBIT margins stood at 29.6%, up by 10 percentage points YoY. BoPET pricing is expected to taper down by 3-5% going forward as new supplies kick in on a global landscape.

Exhibit 1: SOTP Valuation

EBITDA (Rs mn)	FY20	FY21E	FY22E	FY23E	FY24E	EV/EBITDA(x)	EV
Technical Textile Business(TTB)	1,977	1,528	2,066	2,081	2,043	7	14,300
Chemicals Business(CB)	7,008	8,136	9,980	13,149	15,677	20	3,13,540
Packaging Film Business(PFB)	7,016	9,575	9,600	8,736	8,752	7	61,265
Total	16,000	19,239	21,645	23,966	26,472		3,89,104
Gross debt							38,974
Cash and Equivalents							3,433
Market Cap							3,53,564
No of Shares							59
Target Price (Rs)							5,968

Source: DART, Company

Exhibit 2: Actual vs DART Estimates – Q2FY21

Particulars	Actual	Estimated	Variance	Comments
Revenue	21,008	19,130	9.8%	Higher than expected revenues from Technical Textiles & Packaging Films
EBITDA	5,821	4,178	39.3%	Lower than estimated other expenses.
88EBITDA Margin(%)	28.2	22.2	599	-
PAT	3,157	2,195	43.8%	-

Source: DART, Company

Exhibit 3: Change in Estimates

Particulars (Rs Mn)	FY21E			FY22E			FY23E		
	New	Previous	Chg. (%)	New	Previous	Chg. (%)	New	Previous	Chg. (%)
Revenue	78,872	75,026	5.1	94,675	90,174	5.0	1,07,771	1,03,036	4.6
EBITDA	19,449	13,459	44.5	21,866	19,222	13.8	24,198	22,281	8.6
EBITDA Margin(%)	24.7	17.9	672	23.1	21.3	178	22.5	21.6	83
PAT	10,536	5,847	80.2	11,627	9,830	18.3	13,032	11,865	9.8
EPS(Rs)	177.8	101.7	74.8	196.3	171.0	14.8	220.0	206.4	6.6

Source: DART, Company

Conference Call Highlights

Chemicals

- Chemical segment grew by 30.0% YoY to Rs 881mn in Q2FY21 on the back of improved traction from products that go into Herbicide and Fungicide manufacturing.
- Operating margins in Q2FY21 were at 19.8% up marginally by 50 bps due to depressed Fluorochemicals prices as there was continued weak demand from the Automobiles and Air Conditioning Industry.
- During Q2FY21, R32 reached peak utilization levels at the end of September.
- HFC 125 is facing challenges on the pricing front.
- DGTR is looking to initiate Anti-Dumping Duty on imports of R 32 and Blends coming from China while some other countries including US are also looking to initiate ADD on imports of R 32 from china.
- Management expects higher demand post anti-dumping imposed on China for R32 and ban on imports of Air-conditioners with refrigerants.
- In Q2FY21, the company commenced sales in Middle East of R467A which is a drop-in substitute for R22 and the company sees good domestic demand for the product coming from the replacement market.
- The company launched one new product in both the Agro and Pharma Segment.
- Specialty chemicals will continue focusing on exports for the next 3-5 years and service large innovators and international customers outside of India.

Packaging Films

- Healthy volumes and expanded margins in BOPP and BOPET films led to the growth in revenue by 25.7% YoY to Rs 833mn and EBIT margins increased by 10pps YoY to 29.6% in Q2FY21.
- The company was able to ramp up its new Thailand BOPET facility in a very short time and is already operating at 90% utilization levels.
- The segment has seen strong surge in demand for hygienic packaging on the back of ongoing Covid pandemic.
- The company launched 4 new products in packaging films in Q2FY21.
- The management mentioned that the company will keep investing into this business as and when opportunities come up in the future.
- The management stated that the PTFE plant will continue to be delayed and a review call will be taken again in the next 6-8 months.
- BoPET pricing is expected to taper down by 3-5% going forward as new supplies kick in on a global landscape.

Technical Textiles

- Technical Textile segment grew on the back of faster than expected recovery in tyre industry by 2.2% YoY to Rs 330mn with Situation normalizing in Q2FY21 with most restrictions removed on operations.
- Nylon tyre volumes increased by ~25% on a sequential quarter basis driven by increasing preference for domestic supplies.
- Polyester industry yarn segment was impacted due to sluggish domestic demand and increased competition from Chinese players who started absorbing the imposed antidumping duty which also put additional pressures on the margins.

- Coated Fabric segment posted its best growth, whereas Laminated Fabric segment was under pressure due to lower demand and higher supply dynamics.

Balance Sheet Highlights

- Receivables days were higher during H1FY21 due to covid-19 and the management expects it to be lower after Q4FY21.
- Company reduced its debt by Rs 4.5bn, its net debt currently stands at ~Rs 35.5bn as on 30th September 2020.

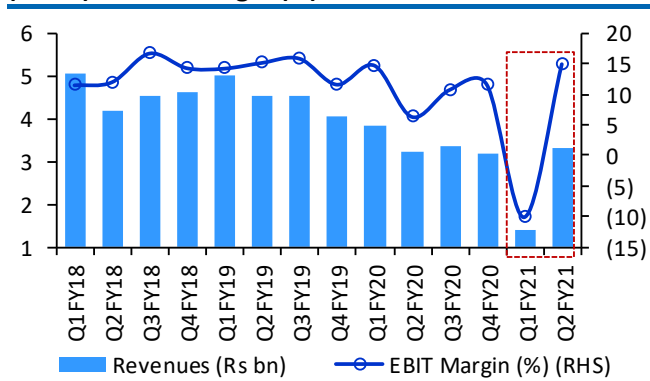
Capex

- The Board approved the setting up of a second BOPP film line in Indore at a cost of Rs 4.24bn over a period of next 20-25 months.
- The Board approved the setting up of a dedicated facility to produce 200 MT per year of P16 specialty product at Dahej at a cost of ~Rs.175mn.
- Capex of Rs 220cr over the next 3 years for Thermal Oxidation facility and water security. Capex for water security will help the company to be averse of water availability for 5-7 years after that.
- After capex of Rs 16bn in FY20, the management has guided to a capex in the range of Rs 15-18bn in the next 2-3 years. 20-30% of it will be used for Specialty Chemicals, 20-30% in Packaging films and rest for maintenance.

Guidance

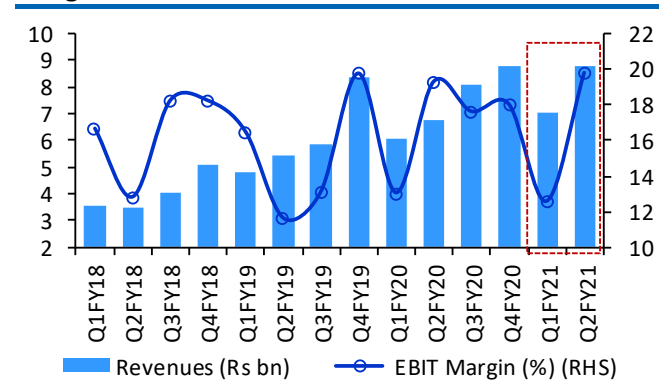
- The management after robust performance in H1FY21, has increased its revenue growth guidance for Specialty Chemical segment from 20% growth to north of 25% for FY21.
- The management does not expect to ramp up capacity in Technical Textile segment.
- QIP proceeds of Rs 7.5bn will be used towards organic growth opportunities over the next 15-18 months majorly in the Specialty Chemicals space.

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



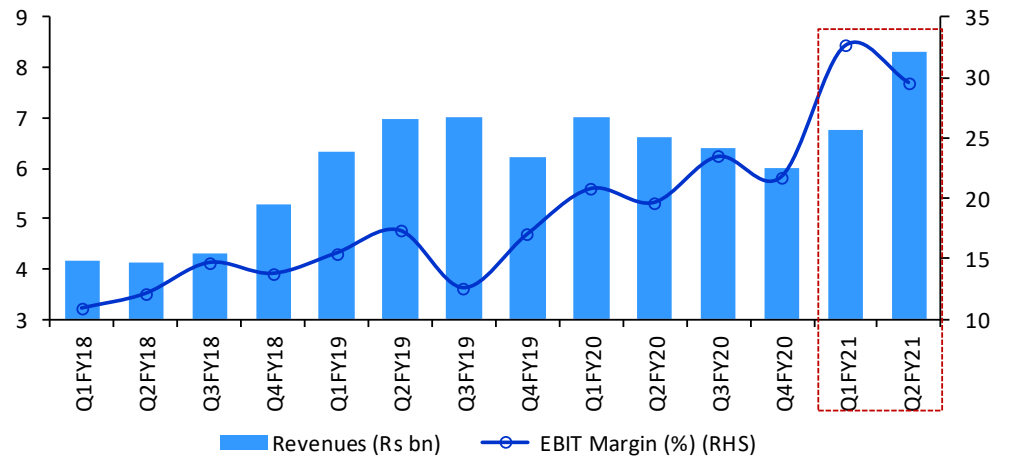
Source: DART, Company

Exhibit 5: Chemical Business – Revenues & EBIT Margin



Source: DART, Company

Exhibit 6: Packaging Films Business – Revenues & EBIT Margin



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY21E	FY22E	FY23E	FY24E
Revenue	78,872	94,675	1,07,771	1,23,255
Total Expense	59,423	72,809	83,573	96,538
COGS	36,924	46,775	53,258	61,462
Employees Cost	5,717	6,232	6,948	7,504
Other expenses	16,781	19,802	23,366	27,572
EBIDTA	19,449	21,866	24,198	26,717
Depreciation	4,354	5,202	5,702	6,326
EBIT	15,096	16,664	18,496	20,391
Interest	1,733	1,891	1,874	1,664
Other Income	500	525	525	525
Exc. / E.O. items	0	0	0	0
EBT	13,863	15,299	17,148	19,252
Tax	3,327	3,672	4,115	4,620
RPAT	10,536	11,627	13,032	14,632
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	10,536	11,627	13,032	14,632

Balance Sheet

(Rs Mn)	FY21E	FY22E	FY23E	FY24E
Sources of Funds				
Equity Capital	592	592	592	592
Minority Interest	0	0	0	0
Reserves & Surplus	58,244	68,734	80,557	93,909
Net Worth	58,836	69,326	81,150	94,502
Total Debt	35,776	32,976	29,476	25,976
Net Deferred Tax Liability	1,255	755	355	355
Total Capital Employed	95,868	1,03,057	1,10,981	1,20,833

Applications of Funds

Net Block	83,255	88,053	92,351	96,025
CWIP	0	0	0	0
Investments	42	42	42	42
Current Assets, Loans & Advances	35,951	39,205	42,847	50,145
Inventories	13,614	16,341	18,602	21,274
Receivables	10,804	12,969	14,763	16,884
Cash and Bank Balances	2,087	448	35	2,541
Loans and Advances	1,655	1,655	1,655	1,655
Other Current Assets	4,806	4,806	4,806	4,806
Less: Current Liabilities & Provisions	23,380	24,243	24,259	25,380
Payables	11,885	13,747	14,763	16,884
Other Current Liabilities	11,495	10,495	9,495	8,495
	<i>sub total</i>			
Net Current Assets	12,571	14,962	18,588	24,766
Total Assets	95,868	1,03,057	1,10,981	1,20,833

E – Estimates

Important Ratios

Particulars	FY21E	FY22E	FY23E	FY24E
(A) Margins (%)				
Gross Profit Margin	53.2	50.6	50.6	50.1
EBIDTA Margin	24.7	23.1	22.5	21.7
EBIT Margin	19.1	17.6	17.2	16.5
Tax rate	24.0	24.0	24.0	24.0
Net Profit Margin	13.4	12.3	12.1	11.9
(B) As Percentage of Net Sales (%)				
COGS	46.8	49.4	49.4	49.9
Employee	7.2	6.6	6.4	6.1
Other	21.3	20.9	21.7	22.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.6	0.5	0.4	0.3
Interest Coverage	8.7	8.8	9.9	12.3
Inventory days	63	63	63	63
Debtors days	50	50	50	50
Average Cost of Debt	5.0	5.5	6.0	6.0
Payable days	55	53	50	50
Working Capital days	58	58	63	73
FA T/O	0.9	1.1	1.2	1.3
(D) Measures of Investment				
AEPS (Rs)	177.8	196.3	220.0	247.0
CEPS (Rs)	251.3	284.1	316.2	353.7
DPS (Rs)	15.0	16.0	17.0	18.0
Dividend Payout (%)	8.4	8.2	7.7	7.3
BVPS (Rs)	993.1	1170.2	1369.7	1595.1
RoANW (%)	19.5	18.1	17.3	16.7
RoACE (%)	13.6	13.6	13.9	14.1
RoAIC (%)	17.0	17.0	17.3	17.8
(E) Valuation Ratios				
CMP (Rs)	4867	4867	4867	4867
P/E	27.4	24.8	22.1	19.7
Mcap (Rs Mn)	2,88,346	2,88,346	2,88,346	2,88,346
MCap/ Sales	3.7	3.0	2.7	2.3
EV	3,19,051	3,17,889	3,14,803	3,08,797
EV/Sales	4.0	3.4	2.9	2.5
EV/EBITDA	16.4	14.5	13.0	11.6
P/BV	4.9	4.2	3.6	3.1
Dividend Yield (%)	0.3	0.3	0.3	0.4
(F) Growth Rate (%)				
Revenue	9.4	20.0	13.8	14.4
EBITDA	33.7	12.4	10.7	10.4
EBIT	41.6	10.4	11.0	10.2
PBT	51.6	10.4	12.1	12.3
APAT	15.0	10.4	12.1	12.3
EPS	15.0	10.4	12.1	12.3

Cash Flow

(Rs Mn)	FY21E	FY22E	FY23E	FY24E
CFO	13,395	14,990	16,969	19,749
CFI	(10,000)	(10,000)	(10,000)	(10,000)
CF	(1,571)	(6,628)	(7,382)	(7,243)
FCFF	3,395	4,990	6,969	9,749
Opening Cash	3,240	5,072	3,433	3,020
Closing Cash	5,072	3,433	3,020	5,526

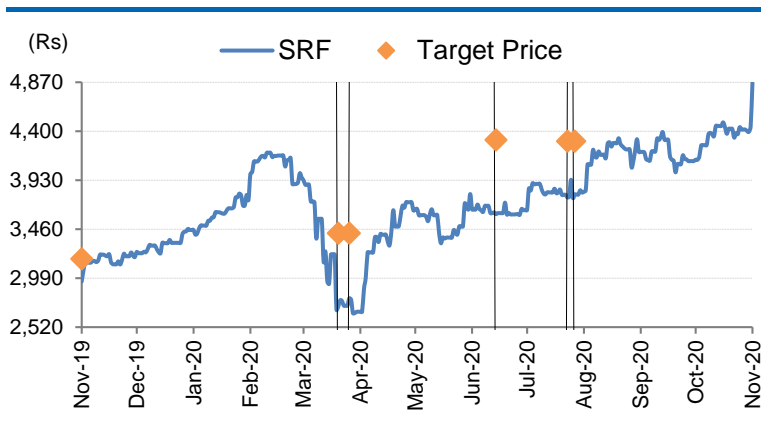
E – Estimates

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.)
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
Jul-20	Buy	4,306	3,766
Jul-20	Buy	4,306	3,793

*Price as on recommendation date

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