22 September 2022

Company Update | Sector: Chemicals

SRF

BSE SENSEX	S&P CNX
59,120	17,630

Stock Info

Bloomberg	SRF IN
Equity Shares (m)	297
M.Cap.(INRb)/(USDb)	777.5 / 9.6
52-Week Range (INR)	2864 / 1975
1, 6, 12 Rel. Per (%)	9/-2/22
12M Avg Val (INR M)	2497
Free float (%)	49.3

Financials Snapshot (INR b)

Y/E MARCH	2022	2023E	2024E
Sales	124.3	155.9	173.6
EBITDA	31.0	38.4	42.0
Adj. PAT	18.2	24.1	26.1
EBITDA margin (%)	25.0	24.7	24.2
Cons. Adj. EPS (INR)	61.1	81.2	87.6
EPS Gr. (%)	53.1	32.9	8.0
BV/Sh. (INR)	288	351	422
Ratios			
Net D:E	0.3	0.3	0.2
RoE (%)	23.6	25.4	22.7
RoCE (%)	17.2	19.1	18.1
Payout (%)	26.4	21.2	19.4
Valuations			
P/E (x)	43.0	32.3	30.0
EV/EBITDA (x)	26.1	21.2	19.2
Div. Yield (%)	0.6	0.6	0.6
FCF Yield (%)	0.4	0.1	1.6

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	50.7	50.7	50.8
DII	9.4	8.7	11.9
FII	19.2	19.6	18.4
Others	20.7	21.0	18.9

FII Includes depository receipts

CMP: INR2,623 TP: INR2,510 (-4%) Neutral

Building capacity to seize the opportunity

In this report, we have analyzed SRF's Packaging Films division. The company has aggressively expanded its capacity to capitalize on the impending opportunity in the Packaging Film industry, with a shift in consumer buying behavior. We have analyzed the Packaging Film industry and the competitive intensity of SRF. The key highlights are as follows:

- **Over the last seven years, SRF aggressively incurred a cumulative capex of INR32.3b on building its Packaging Film division, resulting in an industry leading revenue/EBIDTA CAGR of 21%/39%, followed by Polyplex Corporation (PPC) at 11%/24%.**
- **Global demand for Packaging Films is expected to be driven by low penetration of packaged food, higher adaptability of Flexible Packaging, rising trend toward easily recyclable packaging solutions, innovative packaging, and e-commerce.**
- **However, higher competitive intensity and additional capacity build up in the industry may pressurize industry profitability in the short term.**

SRF aggressively scales up its Packaging division to capitalize on industry opportunities

- Given the growing need for packaged products, the management has intensified its capex spend in the Packaging Film division since FY16, with a cumulative capex of INR32.3b in the last seven years (FY16-22), of which INR6.4b was incurred in FY22, taking its total capacity to 315,000MT as of Mar'22. It generated a cumulative EBITDA of INR40.5b over the same period, earning more than the capex incurred.
- Capital employed for SRF's Packaging segment has clocked 19% CAGR over the last seven years (FY16-22), with the same standing at INR41.8b in FY22. It has generated a RoCE of 22.6% in FY22, which is much higher than its historical average of 18.1% over FY16-22.
- Currently, SRF has six manufacturing units, including international units in South Africa, Thailand, and Hungary. Recently, SRF commissioned a second BOPP Film line and Metallizer at Indore (Madhya Pradesh), with a capacity of 60,000mtpa, taking its total capacity to 375,000MT.
- The company is diversifying into the manufacture of aluminum foil and has allocated a capex of INR4.3b to set up a manufacturing facility in Madhya Pradesh.
- Revenue/EBIDTA contribution from the SRF's Packaging Film division has risen to 38%/35% in FY22 from 28%/25% in FY16.
- Over FY16-22, revenue/EBITDA for SRF's Packaging Films division grew the fastest (at a CAGR of 21%/39%) among domestic players, followed by PPC (a CAGR of 11%/24%), Uflex - UFLX (a CAGR of 11%/17%), Cosmo First (Erstwhile Cosmo Films) - CFLM (a CAGR of 9%/27%), and Jindal Poly Films - JDPF (a CAGR of -4%/11%).

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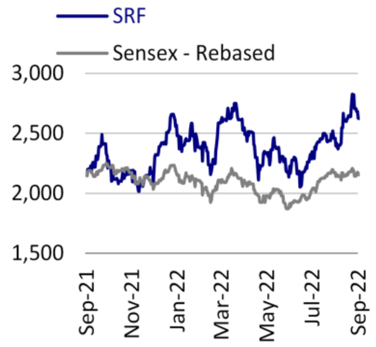
Stock's performance (one-year)



Growing demand for packaged food to drive growth in the Flexible Packaging industry

- As per CRISIL, the global Flexible Plastic Packaging market is estimated at USD194.4b in CY21 (of which, BOPP/BOPET is ~USD10b/~USD15.2b), and is expected to touch USD257.4b by CY27 (4.7% CAGR). The Indian Flexible Plastic Packaging market is estimated at USD19.3b in CY21 (of which, BOPP/BOPET is ~USD0.9b/~USD0.8b), which is expected to touch USD35.3b over CY27 (~10.2% CAGR).
- Of the global demand for BOPP Films, 60-70% is used by the Food Packaging industry, which is expected to grow by 5.5% over FY21-26 (as per Mordor Intelligence). Share of demand from industrial/non-food packaging stands ~17%/18% of global demand for BOPP Films.
- Out of the global demand for thick PET films, ~68% is used in the Electrical and Electronic industry. Around 75% of global thin PET film demand is used in the Packaging industry. As per Fortune Business Insights, the global Electrical and Electronic industry is projected to grow by 5.3% CAGR till FY27.
- Going forward, we expect a robust domestic demand for Packaging Films, supported by: a) low packaged food penetration and rising personal disposable income, b) Investment in the organized Retail industry, c) change in the pack format to flexible from rigid, d) the use of easily recyclable and sustainable packaging solutions.
- End-user industries like Pharmaceutical, Food Processing, and Personal Care is expanding with huge investments from large multinational corporations. This has resulted in the need for developing cheaper and sustainable packaging solutions, which is fueling expansion in the Packaging sector.
- Factors like an increase in the working population that requires instant food solutions, with a higher shelf-life, have forced companies to come up with innovative and durable packaging solutions.
- According to the Indian Institute of Packaging (IIP), consumption of packaging in India has increased by 200% in the past decade.

Innovative packaging and a rise in e-commerce to drive long-term demand

- **Innovative Packaging:** Key players in the industry are developing innovative packages that are aimed at attracting customers. Several global FMCG companies are giving their packaging designs a fresher look, keeping in mind the fact that a 'good packaging protects your product, while great packaging protects your brand'.
- **e-commerce:** The e-commerce and the packaged food segment received a big boost due to the COVID-19 pandemic as consumers preferred to buy hygienically packaged products. A rise in e-commerce can place an intense focus on increased packaging requirements.
- **Sustainable packaging solutions:** Increasing awareness of sustainable packaging is a huge opportunity for the industry. Major industry players have partnered with some of the best global brands to offer rationalization of the packaging structure and recyclability solutions in categories such as biscuits, noodles, tea and coffee sachets, and soap wrapper. Industry continues to invest in R&D to offer sustainable solutions like Oxo Biodegradable Films for a better tomorrow and has increased the use of water-based coatings. With growing awareness, the requirement for ecofriendly and sustainable packaging is steadily on the rise.

Over-supply and sustainability are key challenges for the industry

- Recently, several new manufacturing lines of BOPET have been commissioned, with many more expected to turn operational in the coming months (majorly in India and China). This may create a demand-supply imbalance, resulting in an oversupplied market, which, in turn, will exert pressure on profitability of industry players.
- Macro headwinds in Europe are also dampening demand, which is expected to be short-lived. With the easing of headwinds in Europe, the demand-supply imbalance is expected to normalize in the medium term, driving growth in the global Packaging Film industry.
- Also, certain headwinds such as high logistics cost and supply-chain constraints will continue to weigh over margin in the near-term.
- Poor waste collection and the nascent stage of recycling facilities globally can be a significant threat to the industry in the long run, considering the growing demand for sustainability.

Valuation and view

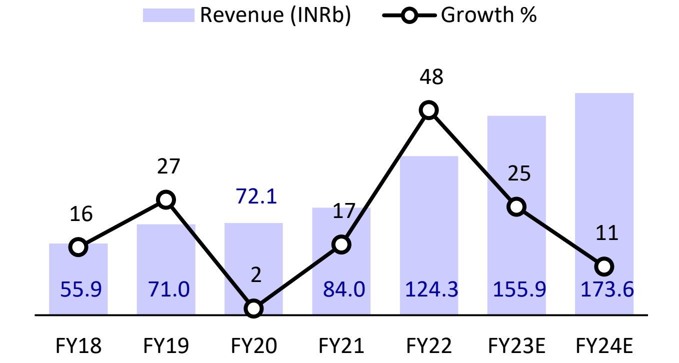
- SRF's Packaging business clocked a revenue/EBIDTA CAGR of 21%/39% over FY16-22 on the back of an aggressive capacity buildup and improvement in operating margin.
- Given the growing need for Packaging Films across Food, Electronics, and sustainable solutions, SRF's strong capability will enable it to capitalize on the growth opportunity.
- We expect 17% revenue CAGR from the Packaging Films business over FY22-24, with EBIT margins to decline to 18.2%/18% in FY23/FY24 from 19.8% in FY22, due to an expected pressure on BOPET margin, with new capacities coming on stream.
- Going forward, we expect SRF to register a revenue/EBITDA/PAT CAGR of 18%/16%/20% over FY22-24.
- While we expect the management to cash-in on these opportunities, we maintain our **Neutral** rating, given to its rich valuation, which has been priced into its near-term upside.

Exhibit 1: Valuation methodology

	FY24E EBITDA (INR m)	EV/EBITDA multiple (x)	EV (INR m)
Technical Textiles	5,205	10	52,263
Chemicals	25,538	23	5,87,367
Packaging Films	13,212	10	1,32,118
Others	620	5	3,098
Total EV			7,74,846
Less: Debt			32,394
Add: Cash and cash equivalents			4,102
Target m-cap (INR m)			7,46,554
Outstanding share (m)			297.4
Target price (INR)			**2,510**

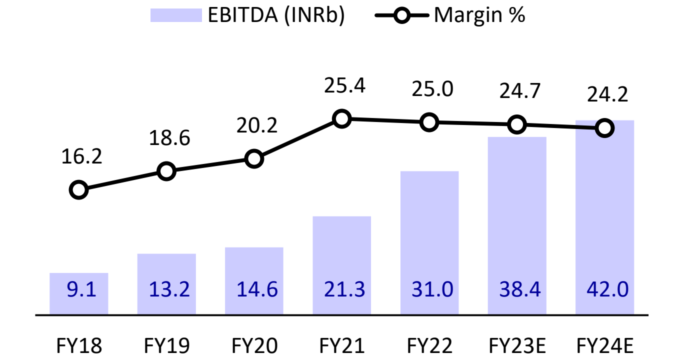
Source: MOFSL

Exhibit 2: SRF's Consolidated revenue trend



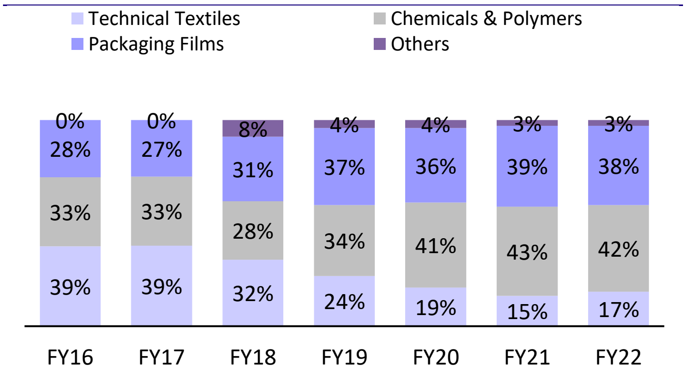
Source: Company, MOFSL

Exhibit 3: SRF's Consolidated operating performance



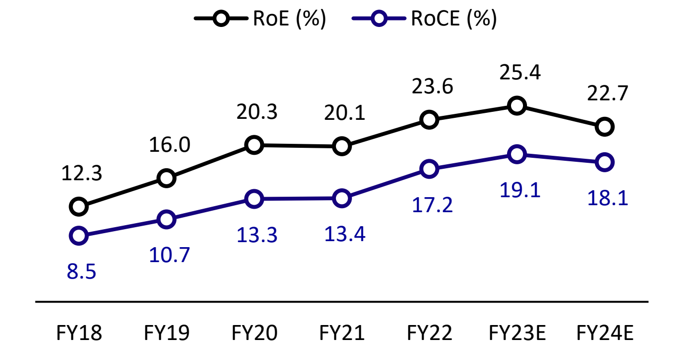
Source: Company, MOFSL

Exhibit 4: Increasing share of the Packaging business in the revenue mix



Source: Company, MOFSL

Exhibit 5: SRF's Consolidated RoE and RoCE trend

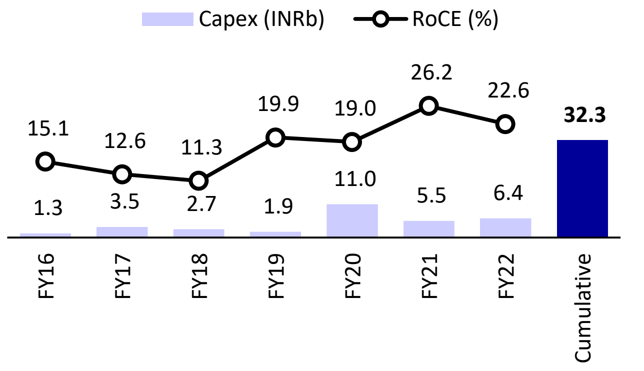


Source: Company, MOFSL

SRF aggressively scales up its Packaging division to capitalize on industry opportunities

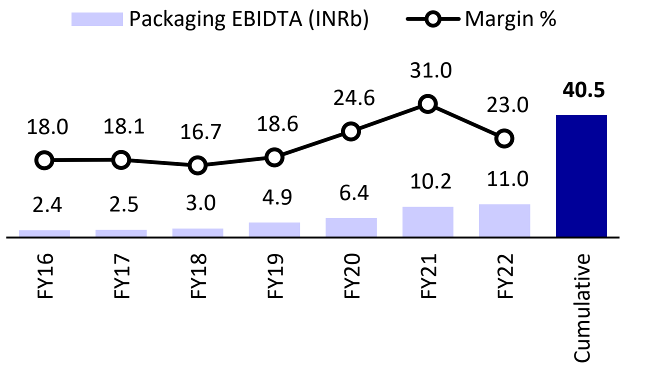
- SRF entered the Packaging Films business in CY95 by setting up a biaxially oriented polyethylene terephthalate (BOPET) Films plant in Uttarakhand with a capacity of 25,000MT. In CY13, it forayed into biaxially oriented polypropylene (BOPP) Films with a plant (capacity of 25,500MT) in South Africa.
- Given the growing need for packaged products, the management has intensified its capex spend in the Packaging Films division since FY16, with a cumulative capex of INR32.3b in the last seven years (FY16-22), of which INR6.4b was incurred in FY22, taking its total capacity to 315,000MT as of Mar'22. It generated a cumulative EBITDA of INR40.5b over the same period, earning more than the capex incurred.

Exhibit 6: Capex and RoCE trend in SRF's Packaging business



Source: Company, MOFSL

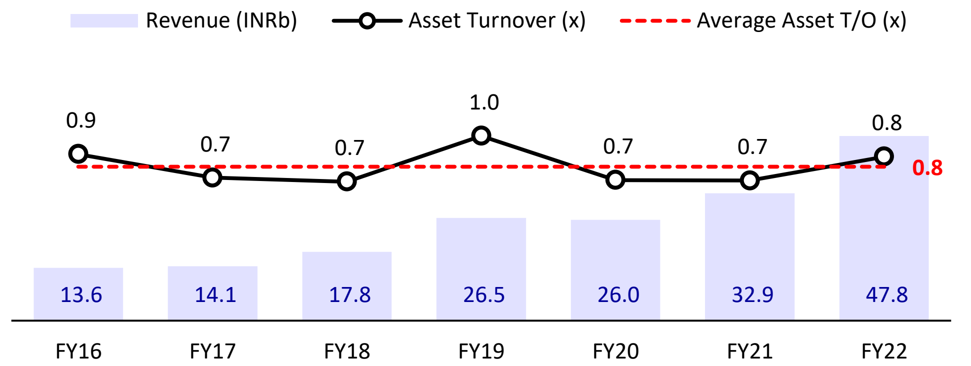
Exhibit 7: Improving margin profile with a buildup in capacity



Source: Company, MOFSL

- Currently, SRF has six manufacturing units, including international units in South Africa, Thailand, and Hungary.
- Recently, SRF commissioned a second BOPP Film line and Metallizer at Indore (Madhya Pradesh), with a capacity of 60,000mtpa, taking its total capacity to 375,000MT.
- The management is diversifying into the manufacture of aluminum foil and has allocated a capex of INR4.3b to set up a manufacturing facility in Madhya Pradesh. The company incorporated SRF Altech as a wholly-owned subsidiary to engage in the manufacture of aluminum foil.

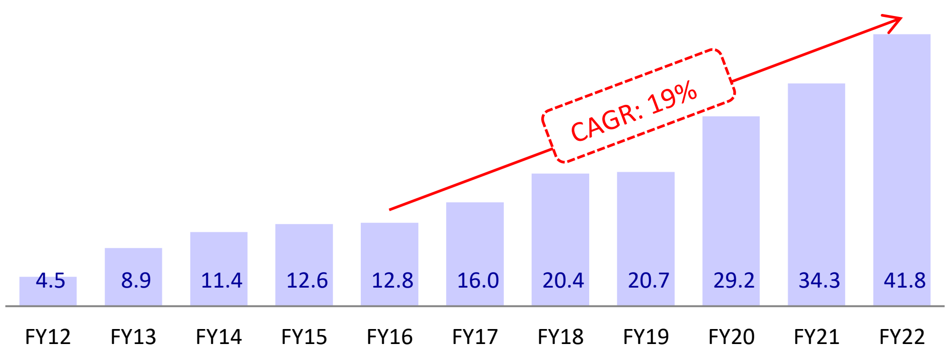
Exhibit 8: The Packaging business maintains an asset turnover of ~0.8x over the last seven years



Source: Company, MOFSL

- Capital employed for SRF's Packaging segment has clocked 19% CAGR over the last seven years (FY16-22), with the same standing at INR41.8b in FY22. It has generated a RoCE of 22.6% in FY22, which is much higher than its historical average of 18.1% over FY16-22.

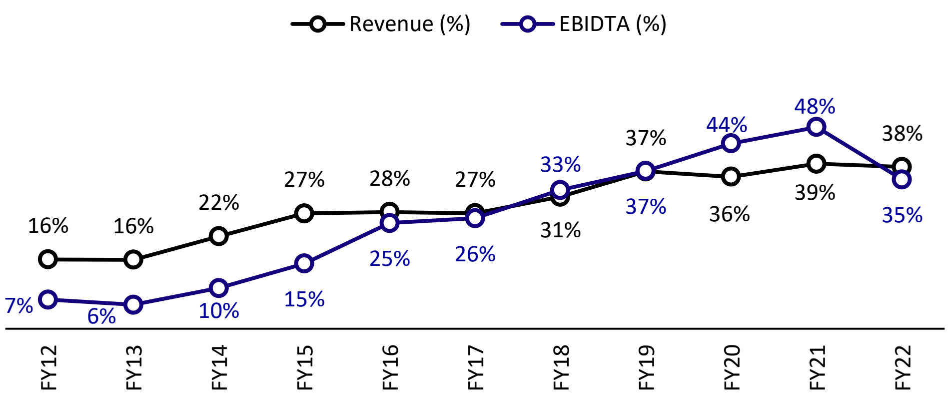
Exhibit 9: Capital employed (INR b) clocks 19% CAGR over FY16-22, generating a robust RoCE of over 22%



Source: Company, MOFSL

- Revenue/EBIDTA contribution from the SRF's Packaging Films division has risen to 38%/35% in FY22 from 28%/25% in FY16.

Exhibit 10: The contribution of SRF's Packaging Films business improves over the years

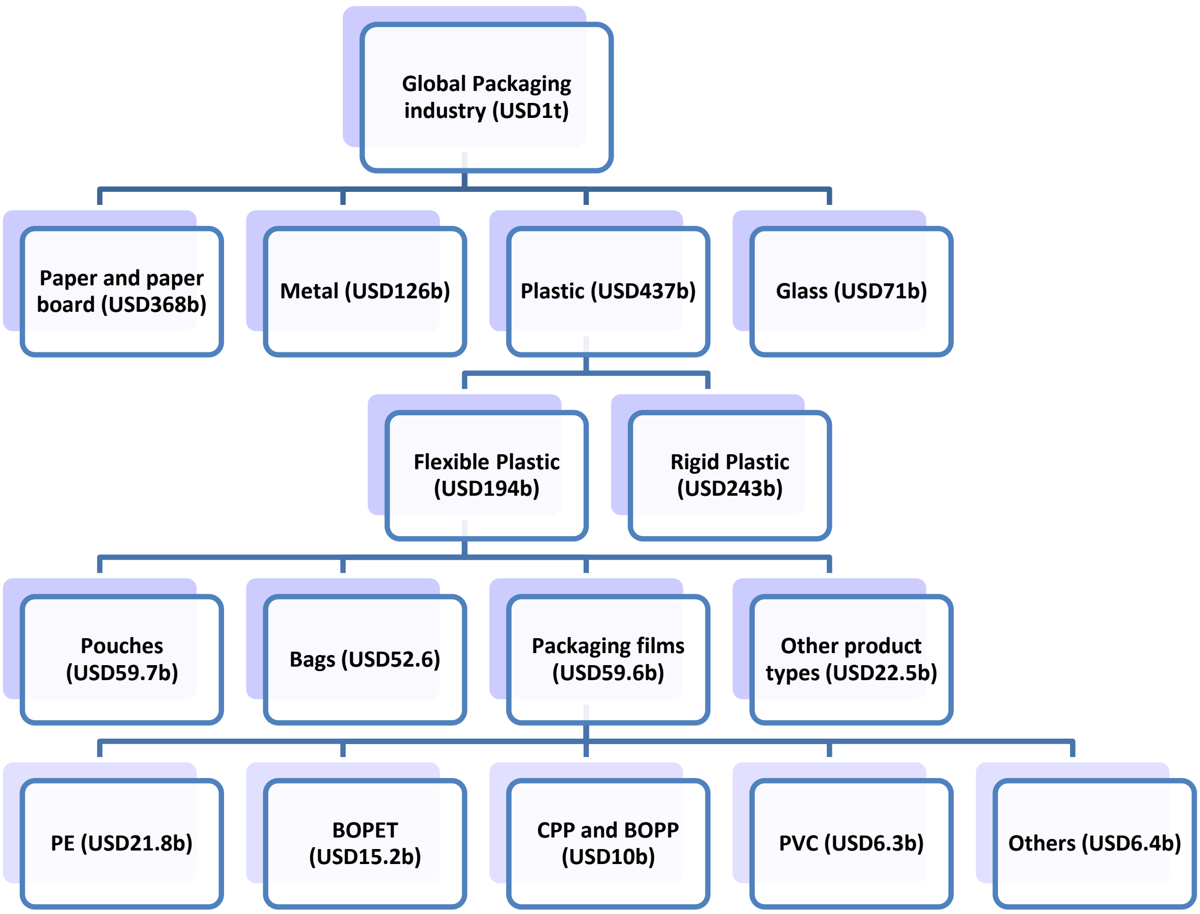


Source: Company, MOFSL

Growing demand for flexible packaged food to drive growth in the industry

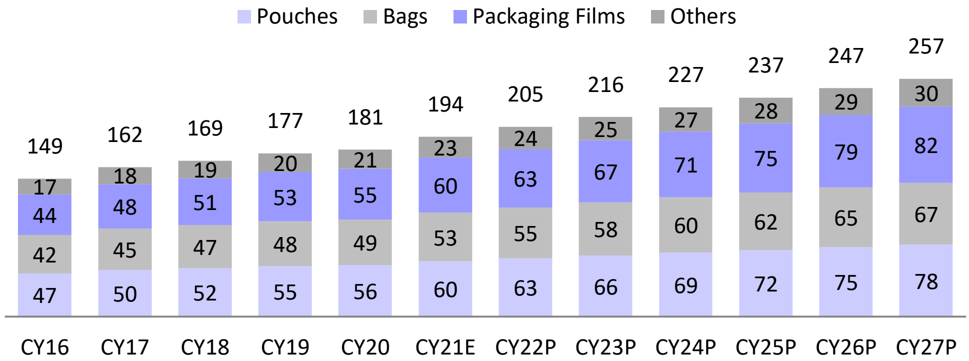
- **Industry landscape:** The global Packaging industry (USD1t) consists of paper & paper board packaging, metal packaging, plastic packaging and glass packaging. The plastic packaging consists of flexible plastic packaging and rigid plastic packaging. Flexible plastic packaging further consists of Pouches, Bags, **Packaging Films (BOPP, BOPET, and others),** Wraps, etc. This non-rigid material allow for more economical and customizable options.

Exhibit 11: Structure of the global Packaging Films industry (CY2021)



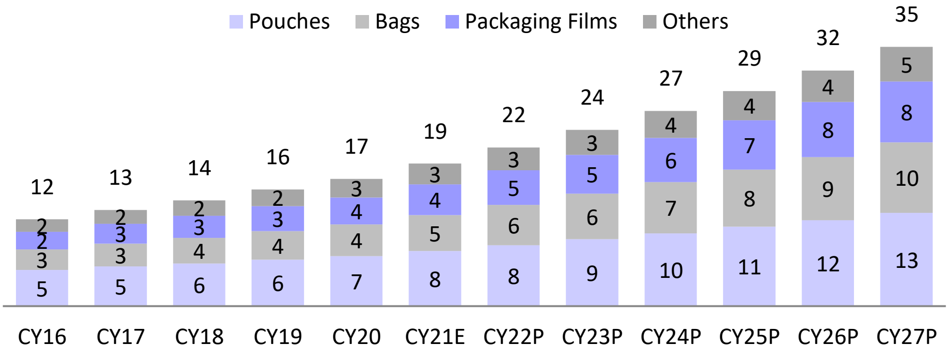
Source: Crisil, MOFSL

Exhibit 12: Global flexible plastic packaging market by type (Revenue in USD b)



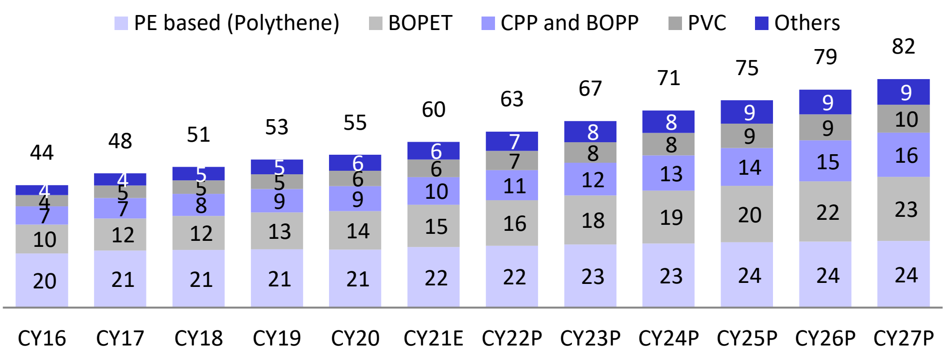
Source: Crisil, Company, MOFSL

Exhibit 13: Indian flexible plastic packaging market by type (Revenue in USD b)



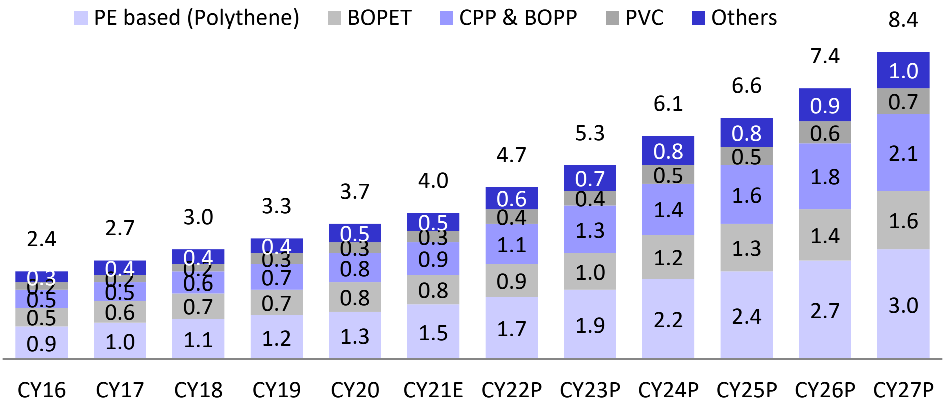
Source: Crisil, Company, MOFSL

Exhibit 14: Global plastic packaging film market (revenue in USD b)



Source: Crisil, Company, MOFSL

Exhibit 15: Indian plastic packaging film market (revenue in USD b)



Source: Crisil, Company, MOFSL

Biaxially oriented polypropylene (BOPP) Films

- **Flexible and faster packaging, with advanced sealing properties:** BOPP Films act as an excellent moisture barrier. The metalized variant of it provides excellent oxygen barrier properties, which play a crucial role in food packaging to extend the shelf life of products, thereby reducing food waste.
- One of the primary factors that will lead to the growth of BOPP Films use is their relatively low carbon footprint as compared to other plastic films. Due to its low melting point, BOPP Films require lower energy to get converted from one form to another. BOPP Films are part of a wider polyolefin chemical family, which

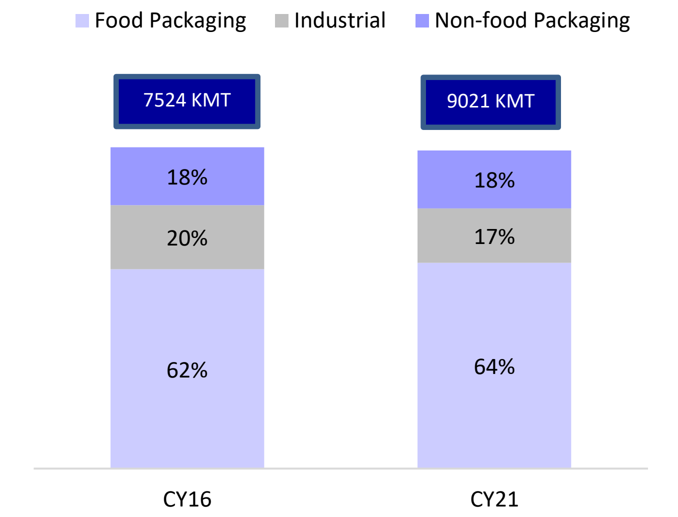
means it can be laminated with polyethylene films and still be widely accepted in the recycling waste stream. In many applications, the consumption of BOPP Films has benefitted from the sustainability drive at the expense of other polymers.

- **Improved food safety and hygiene to drive BOPP usage:** Growing awareness regarding food and nutrition packaging is expected to bolster growth in the market in coming years. The growth in population is spurring demand for agricultural products, which is likely to create a conducive environment for the market.
- In addition to this, the printability of high-resolution graphics on BOPP bags is attracting a larger consumer base. This will help in creating brand awareness and increase the application of these bags across various industries.
- Features such as dimensional stability and water resistance of the bags are projected to increase the commercialization of BOPP bags in coming years. Improved food safety standards and hygiene among consumers and manufacturers is anticipated to bolster the sales of BOPP bags worldwide.

Exhibit 16: BOPP – Flexible packaging and advanced sealing properties

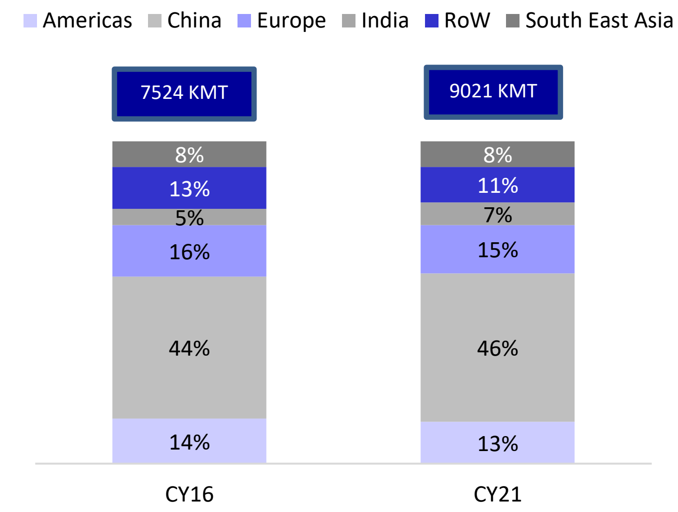
Source: Company, MOFSL

Exhibit 17: Global demand for BOPP Film by end-use



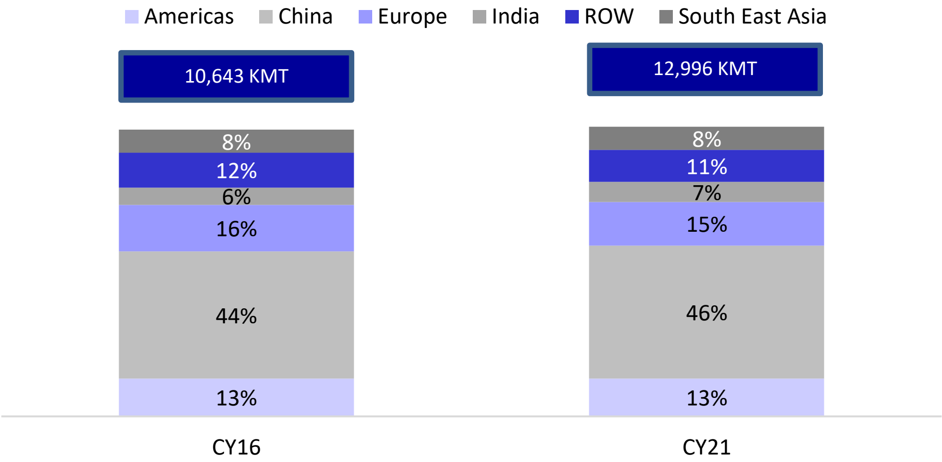
Source: PPC, MOFSL

Exhibit 18: Global demand for BOPP Film by region



Source: PPC, MOFSL

Exhibit 19: Global BOPP Film capacity by region

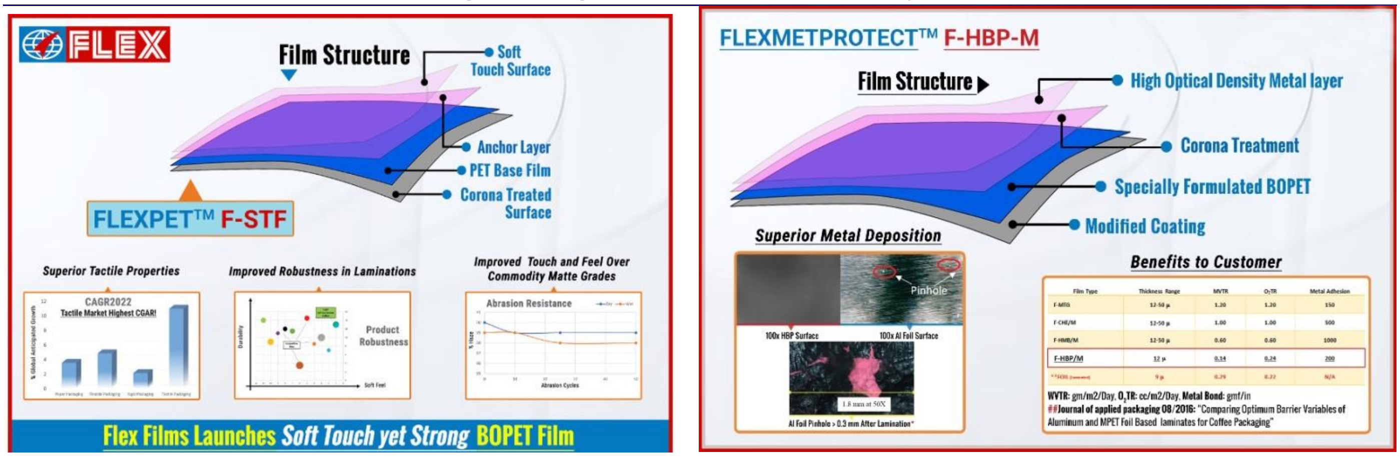


Source: PPC, MOFSL

Biaxially oriented polyethylene terephthalate (BOPET) Films

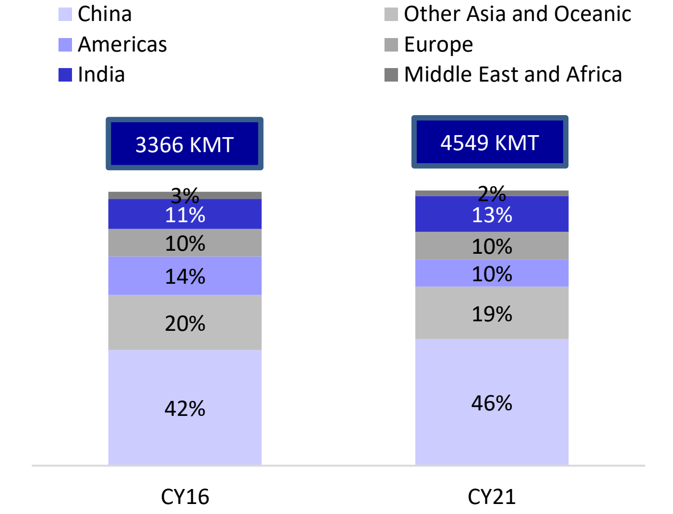
- **BOPET – A value-added product (VAP), with a high mechanical strength and thermal properties, driving demand**: We expect a surge in sales of BOPET Packaging Films as the emphasis is on total recyclability of flexible packaging products grows, devoid of any impact on the quality or shelf-life. The global BOPET Packaging Films market is expected to clock 5.5% CAGR till CY29.
- BOPET Films have excellent oxygen barrier properties. As the snacking trend is witnessing a rise, usage of single-serve as well as re-sealable flexible packaging solutions like ziplock bag is growing. Growth is anticipated to be driven by increased consumption of packaged food.
- Pouches such as stand-up (stands erect on its bottom) and retort pouches (combination of plastic films and metal foils), lidding films, and metalized film, which are used for food packaging, are among the most prominent applications of BOPET Packaging Films. Rising concerns regarding extended shelf life to reduce food waste throughout the supply chain have aided in bolstering demand for BOPET Packaging Films in the food industry.
- Increasing demand for BOPET from the Electronics and Electrical sector also contributed to the rising adoption of films. Higher consumer spending on Personal Care products has escalated demand for BOPET Films.

Exhibit 20: VAPs in BOPET Films will strengthen the growth drivers for the industry



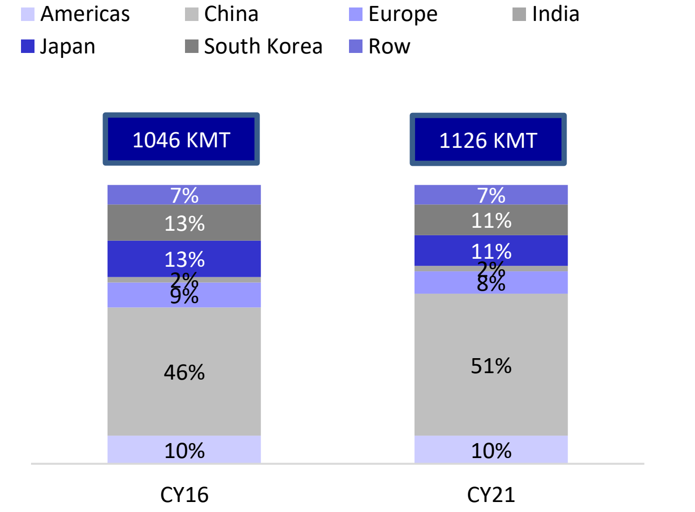
Source: Company, MOFSL

Exhibit 21: Global demand for thin PET film by region



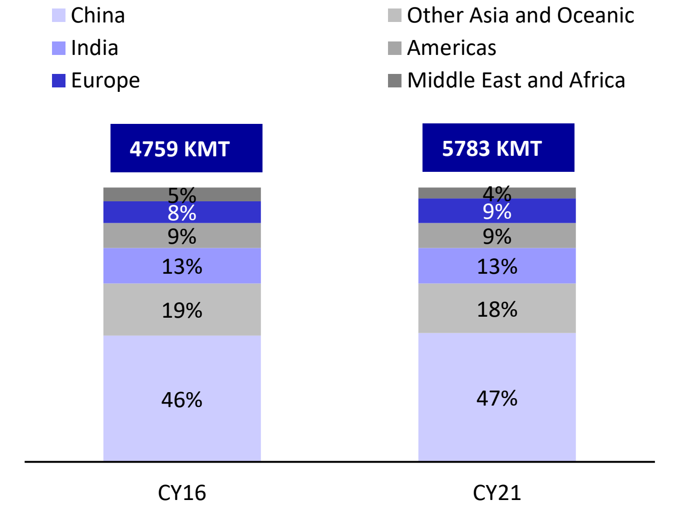
Source: PPC, MOFSL

Exhibit 22: Global demand for thick PET film by region



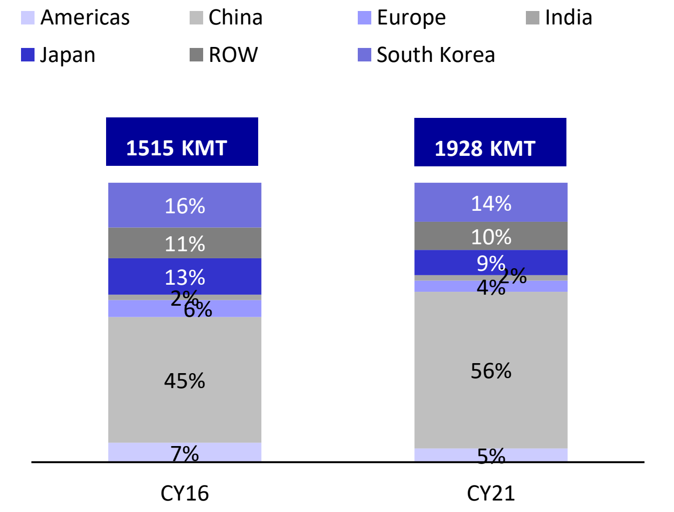
Source: PPC, MOFSL

Exhibit 23: Global thin PET film capacity by region



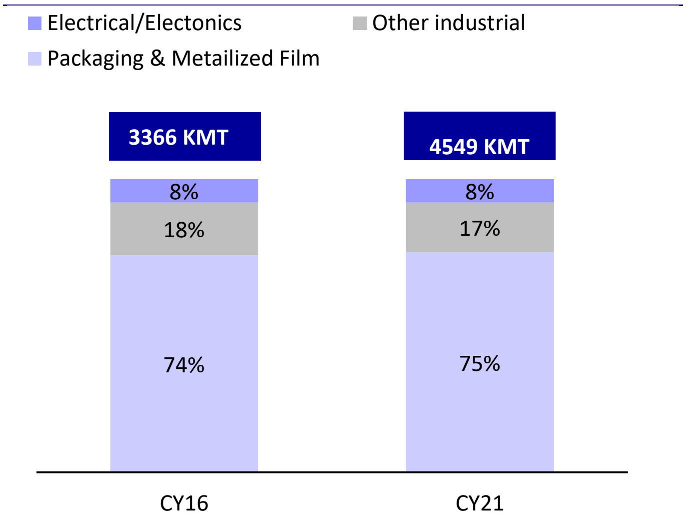
Source: PPC, MOFSL

Exhibit 24: Global thick PET film capacity by region



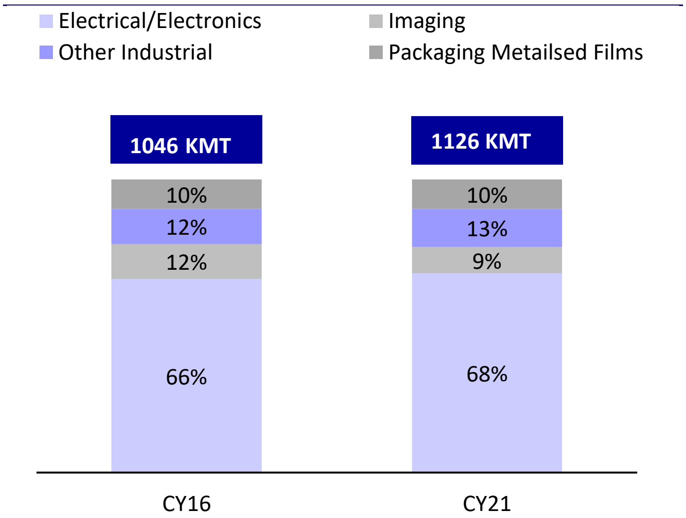
Source: PPC, MOFSL

Exhibit 25: Global demand for thin PET film by end-use



Source: PPC, MOFSL

Exhibit 26: Global demand for thick PET film by end-use

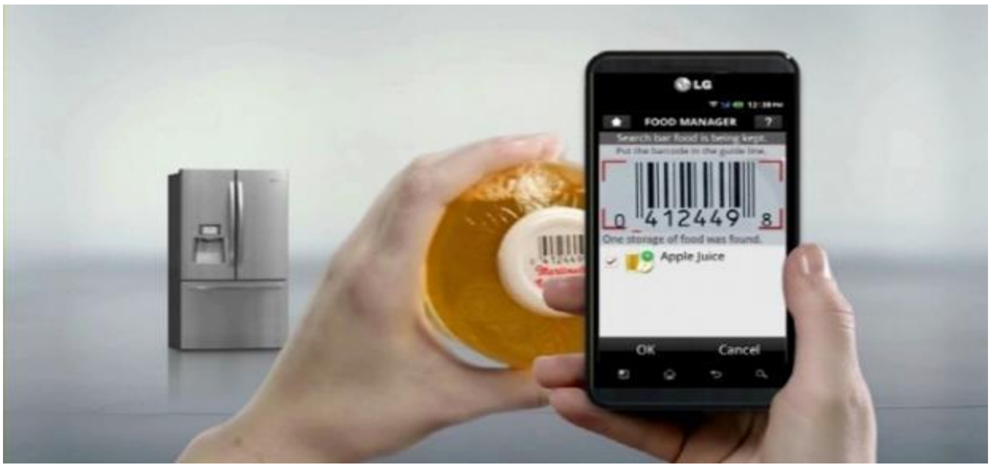


Source: PPC, MOFSL

Long-term growth prospects intact, with numerous drivers in place

- **Light packaging to replace metal cans and cartons:** The high demand to replace traditional packaging, including metal cans and cartons, coupled with a shift in consumer preference for convenient and light packaging is a major driver for the industry going forward. BOPP and BOPET Films are Specialty Films, which find use in various sectors such as Packaging, Industrial, Electrical and Electronics, Food, Beverage, Pharmaceutical and Medical, and Personal Care, and are the perfect replacement for traditional packaging.
- **Innovative packaging**: Brands are personified assets, and enjoy an image that marketers are very conscious and sensitive about. Several global FMCG companies are giving their packaging designs a fresher look, in line with the brand's attributes. Companies are focusing on packaging, keeping in mind the popular saying: 'good packaging protects your product, while great packaging protects your brand'. Key players in the industry are developing innovative packages that are aimed at attracting customers to drive sales.
- **Digitalization and Internet of Things (IoT):** Digital efforts are being used to drive down costs and increasingly gain a competitive edge with consumers — for example, by generating greater customer value and service by integrating technology in the packaging. With IoT already ruling the roost, packaging as an enabler will be far more intuitive and help provide instantaneous information to consumers about packed products.

Exhibit 27: IoT packaging



Source: PackagingNews, MOFSL

- **e-commerce everywhere:** The e-commerce space received a big boost due to the COVID-19 pandemic as consumers preferred to buy hygienically packaged products. A rise in e-commerce can place an intense focus on increased packaging requirements, including for new products, along with last-mile delivery innovations.
- **Increase in at-home food consumption:** Consumption of at-home packaged food and snacking can remain higher than pre-pandemic levels, with the emergence of a hybrid working trend. As a result, flexible packaging will continue to be the key end-use sector for the Film industry.
- **Sustainable packaging solutions:** Increasing awareness of sustainable packaging is a huge opportunity for the industry. Consumers increasingly are demanding

packaging that is more sustainable, and major industry players are working with customers to ensure that their products meet the sustainability requirements. Major companies have partnered with some of the best global brands to offer structure rationalization and recyclability solutions in categories such as biscuits, noodles, tea and coffee sachets, and soap wrapper.

- Industry continues to invest in R&D and grow its Specialty Films portfolio, offering sustainable solutions for a better tomorrow. Some key players have developed Oxo Biodegradable Films and have increased the use of water-based coatings. Bio-degradable and recyclable films are expected to play a key role in the Packaging Films industry over the next five to 10 years.

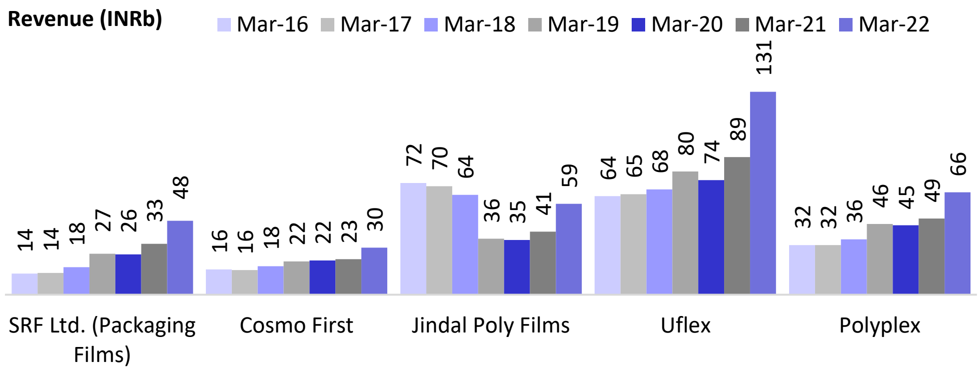
Exhibit 28: Sustainable packaging

Source: Packaging Partners, MOFSL

SRF: Superior performance among peers on the back of a robust growth in revenue and profitability

- **Competitive intensity:** The Indian Packaging Films industry is dominated by key players such as SRF (SRF), Uflex (UFLX), Polyplex Corporation (PPC), Jindal Poly Films (JDPF), and Cosmo First (CFLM).
- Revenue for SRF (Packaging Films division) grew the fastest among domestic players in the last seven years (FY16-22) at 21% CAGR. It was followed by BOPET-dominated players like PPC and UFLX, with a five-year CAGR of 11% each.
- Its high growth was supported by an expansion in the end-user industries like Pharmaceutical, Food Processing, and Personal Care. The increasing contribution of VAPs to the total sales mix had accelerated growth.
- All key players grew at a much faster pace over FY20-22 on account of heightened demand due to the COVID-19 pandemic, which resulted in a rapid expansion of the Packaged Food and the e-commerce sector. This, in turn, has given a sudden push to the Packaging sector.

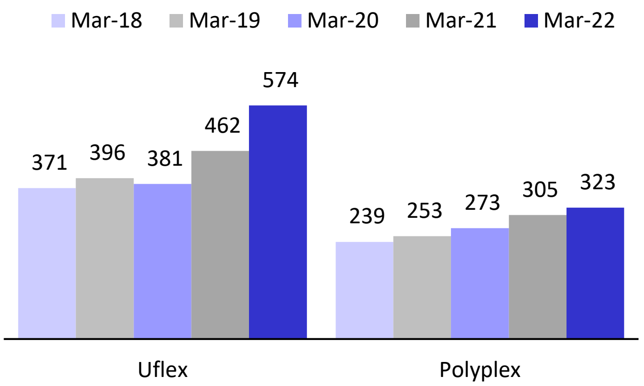
Exhibit 29: Revenue trend for key players in the industry (INR b)



Source: Companies, MOFSL

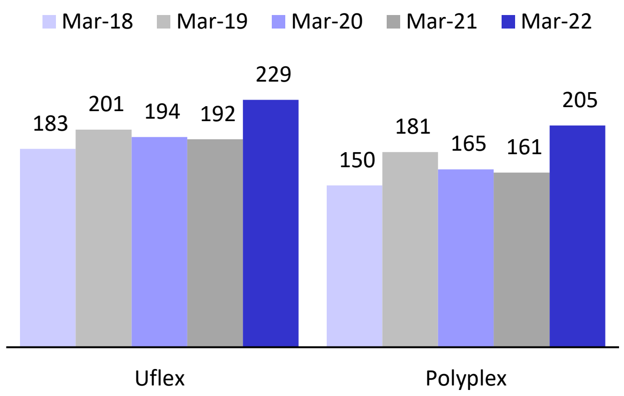
- In terms of sales volumes, UFLX clocked 12% CAGR over the last four years, followed by PPC at 8%. SRF, JDPF, and CFLM do not release volume data.
- As per our calculations, UFLX was able to garner the highest sales value per kg of ~INR229. In terms of realization growth, PPC has registered 8% CAGR over the last four years, followed by UFLX at 6%.

Exhibit 30: Sales volume trend for UFLX and PPC (in ’000MT)



Source: Company, MOFSL

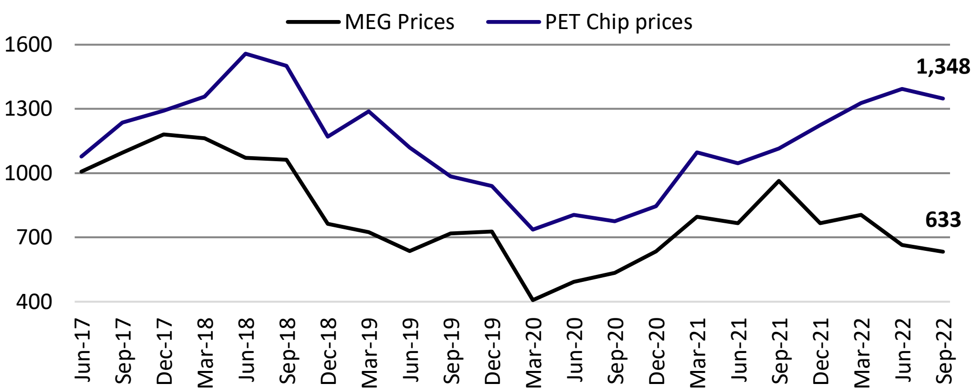
Exhibit 31: Realization trend for UFLX and PPC (INR per kg)



Source: Company, MOFSL

- The main raw material for producing Packaging Films is PET chips, PP chips, Purified Terephthalic Acid (PTA), and mono-ethylene glycol (MEG). The price of PET chips is rising, while that of MEG is declining.

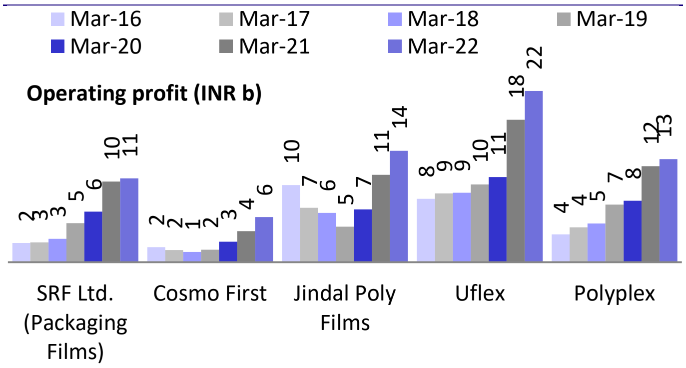
Exhibit 32: Key raw material price trends (CNY/MT)



Source: Bloomberq, MOFSL

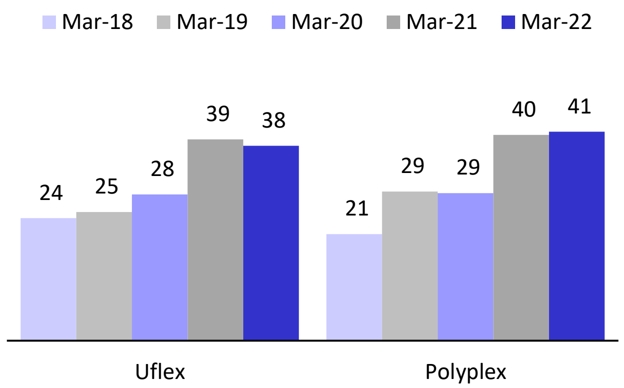
- EBITDA grew the fastest in the last seven years for SRF, at 39% CAGR, followed by CFLM and PPC at 27% and 24%, respectively. EBITDA continued to grow on account of higher value-added sales, better operating efficiency, and favorable operating leverage.
- PPC/UFLX earned an EBIDTA/kg of ~INR41/INR38 in FY22, and registered a CAGR of 18%/12% over FY18-22.
- EBITDA/kg marginally tapered off in FY22 on account of a steep rise in input cost and energy prices, amid higher inflationary pressures. A similar scenario is expected to put pressure on margin in the short-term.
- Going forward, the industry expects pressure on BOPET Films margin on account of a buildup in additional capacity in the industry as several new lines have been commissioned over the last few months, and more are expected to be operationalized in the near term. However, a better demand-supply situation for BOPP Films will support margin in the BOPP segment.

Exhibit 33: SRF has the fastest EBIDTA CAGR



Source: Company, MOFSL

Exhibit 34: EBITDA/kg trend for UFLX and PPC



Source: Company, MOFSL

- We calculated key unit economics for UFLX and PPC. Gross margin/kg for PPC/UFLX clocked 12/6% CAGR over FY18-22 on the back of 8%/6% CAGR in realizations. Raw material cost rose by only 6%/5% CAGR.

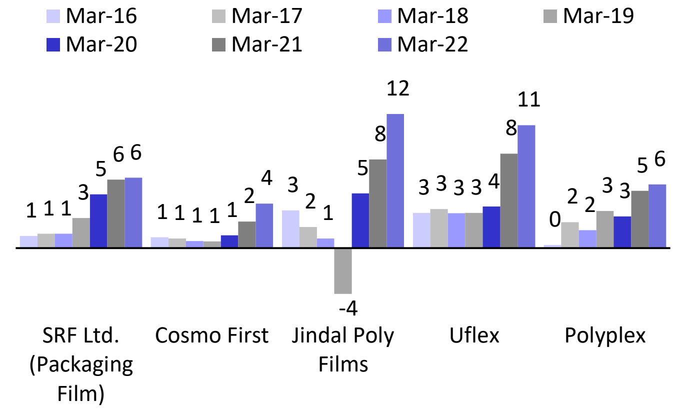
Exhibit 35: Unit economics of UFLX and PPC

	Uflex			Polyplex		
Particulars	**Mar'20**	**Mar'21**	**Mar'22**	**Mar'20**	**Mar'21**	**Mar'22**
Realizations/kg	**194**	**192**	**229**	**165**	**161**	**205**
Less: RM cost/kg	112	101	135	92	80	112
GM/kg	**83**	**91**	**94**	**73**	**82**	**93**
Less: Other cost/kg	54	52	56	44	42	52
EBITDA/kg	**28**	**39**	**38**	**29**	**40**	**41**
Less: Depreciation/kg	11	10	9	9	9	8
Add: Other income/kg	1	0	1	5	2	4
EBIT/kg	**19**	**30**	**30**	**24**	**33**	**36**
Less: Interest cost/kg	6	5	6	1	1	0
PBT/kg	**13**	**25**	**24**	**23**	**32**	**36**
Less: Tax/kg	3	6	5	5	4	6
Less: Minority interest/kg	0	0	0	8	11	12
PAT/kg	**10**	**18**	**19**	**10**	**17**	**18**

Source: Company, MOFSL

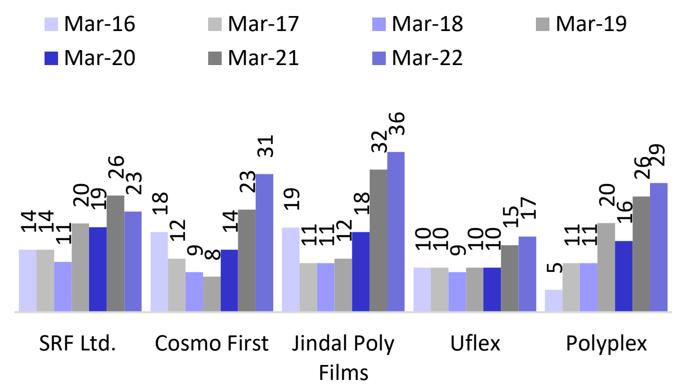
- In terms of net profitability, SRF's Packaging Films division has registered the highest seven-year PAT CAGR, at 68%, followed by PPC at 47%.
- JDPF has registered loss on INR4b in FY19 on account of exceptional loss of INR6b from write-off of preference shares of its associate company: Jindal India Powertech (JIPL).
- JDPF generates the highest Return on Capital Employed (RoCE) of 36%, followed by CFLM/PPC at 31%/29%. SRF's Packaging Films division stood fourth, at 23%, followed by Uflex at 17%.
- Overall, the industry has been able to significantly improve its returns over the last seven years on account of better growth and profitability.

Exhibit 36: SRF registers the highest PAT CAGR



Source: MOFSL, Company

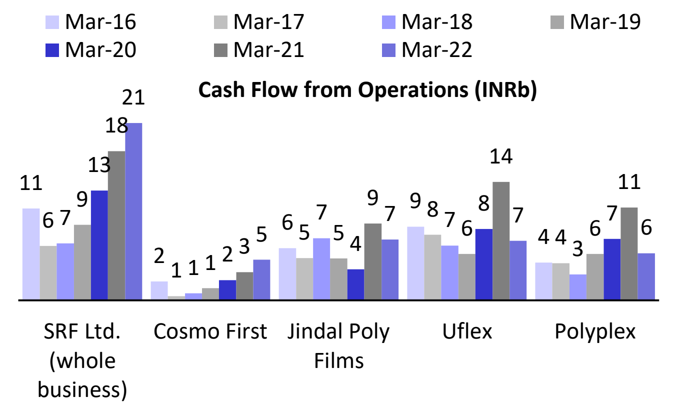
Exhibit 37: JDPF has the best RoCE in the industry (%)



Source: MOFSL, Company

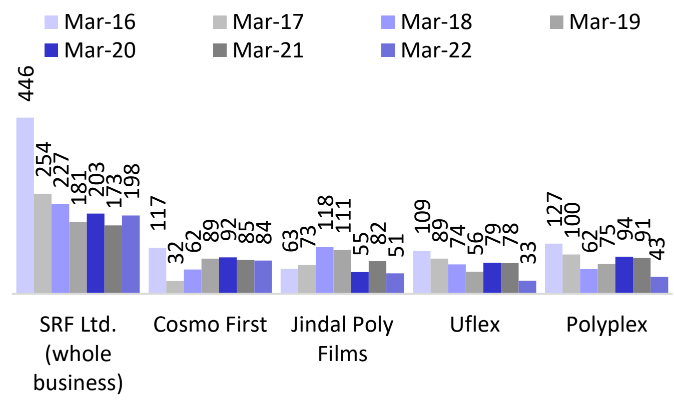
- Cash flow from operations for SRF (consolidated) clocked 21% CAGR over the last seven years and stood at INR21b in FY22 v/s INR5b in FY15. The CFO/EBITDA ratio stood at 198% in FY22. These numbers are not comparable with other pure Packaging play companies as SRF's Chemical and Technical Textiles business is a major contributor to cash flows.
- Among other four Packaging players, JDPF registered the highest CAGR at 26% (on account of a smaller base of INR1b), while CFLM clocked the highest CFO/EBITDA ratio at 84% in FY22 on the back of higher profitability and better working capital management.

Exhibit 38: Strong CFO generation in the industry, led by…



Source: Company, MOFSL

Exhibit 39: …higher CFO/EBIDTA (%) conversion



Source: Company, MOFSL

Key business highlights for peer companies

- **JDPF-Brookfield deal:** Brookfield, one of the leading global alternate asset managers, signed a strategic growth investment of INR20b in JDPF's Packaging Films business. The funds will be utilized for horizontal and vertical integration, investments in new-age businesses, and for strengthening the Balance Sheet.
- **CFLM's VAPs and new business ventures:** Revenue grew 1.5x and EBITDA doubled over the last three-years due to the higher contribution of VAPs and operating leverage. It has debottlenecked a large production line of Specialty Films. Net profit has tripled in the same period due to financial deleveraging, resulting in a reduction in interest cost. Recently, the company forayed into the D2C Pet Care business under the brand 'Zigly'
- **UFLX's foray into Aseptic Packaging:** UFLX is the market leader in thin BOPET. The management's focus is on matching the fast-paced consumption environment, with enhanced production volumes. It has commissioned a new line at its Aseptic Liquid Packaging facility at Sanand (Gujarat), thereby doubling its annual capacity to 7b packs. It will commence manufacture of paper straws, and aims to achieve a monthly production capacity of 200m straws in FY23.
- **PPC's D-PAC strategy:** PPC is one of the global leaders in thin BOPET and is further expanding in the US. It has a competitive edge over other players as it owns a PET film resin plant (a key raw material for BOPET). Therefore, the impact on the supply chain is minimal for the company. It is focusing on differentiated products, applications, and customers (D-PAC) to grow in the long run.

Exhibit 40: Comparison of SRF's Packaging Films division v/s peers

Particulars	SRF (Packaging Films division)	Jindal Poly	Cosmo First	Uflex	Polyplex
Market capitalization (INR b)	778.1*	40.9	24.3	55.9	68.3
Sales CAGR over FY16-22 (%)	21	-4	9	11	11
EBITDA CAGR over FY16-22 (%)	39	11	27	17	24
EBITDA margin (%) in FY22	23	24	19	17	20
PAT CAGR over FY16-22 (%)	68	32	46	23	47
Capacity	375,000mtpa (BOPP – 205,000mtpa BOPET – 170,000mtpa)	251,000mtpa (BOPP), 127,000mtpa (BOPET), 16,200mtpa (CPP)	196,000mtpa (BOPP) 100,000mtpa (others)	510,000mtpa (combined)	313,000mtpa (BOPET) 123,000mtpa (others)
Manufacturing units across India	6	1	4	9	7
RoCE (%)	22.6	36.27	30.60	16.54	29.06
Five-year average RoE (%)	21*	18	23	13	13
RoA (%)	13*	20	16	9	14
Promoter holdings	50.73*	74.55	44.09	44.02	50.97
Revenue share for the Packaging business (%)	38	90	99	97	100
Other business segments	Chemical and Technical Textiles	Non-Woven Fabrics	Textile Chemicals and Pet Care	Engineering activity	NA
Location of the manufacturing facility	Uttarakhand, Madhya Pradesh, Indore, South Africa, Thailand, and Hungary	Maharashtra	Maharashtra (Waluj and Shendra), Gujarat, and Korea	India (Noida and Karnataka), Egypt, Hungary, the UAE, Mexico, Russia, Poland, Nigeria, and Hungary	India (Bazpur and Khatima), the US, Thailand, Indonesia, and Turkey
Product range	BOPP Films and BOPET Films	BOPP Films, BOPET Films, Metalized Films, and Coated Films	BOPP Films, BOPET Films, CPP Films, CSP Film, Direct Thermal Printable Film	BOPP Films, BOPET Films, CPP Films, Specialty Films, and PCR Films	BOPET Films, BOPP Films, CPP Films, and Blown PP/PE

Note: Data as of FY22 (FY21 wherever FY22 data is not available)

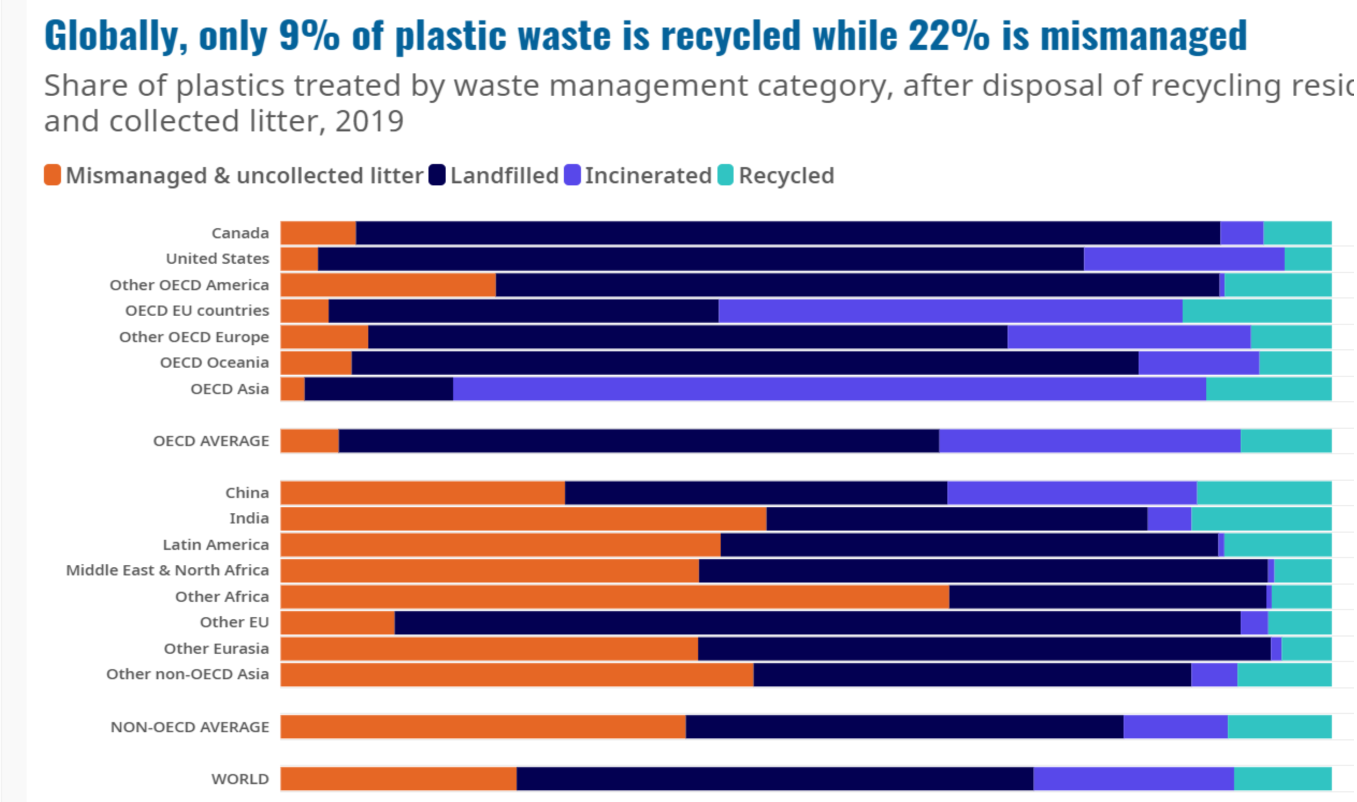
**on a consolidated basis*

Source: Industry data, Companies, MOFSL

Over-supply and sustainability are key challenges for the industry

- **Over-supply in the industry:** In the last three-to-four months, several new manufacturing lines of BOPET have been commissioned, with many more expected to turn operational in the coming months (majorly in India and China). This may create a demand-supply imbalance, resulting in an oversupplied market, which, in turn, will exert pressure on profitability of industry players.
  - Macro headwinds in Europe are also dampening demand, which is expected to be short-lived. With the easing of headwinds in Europe, the demand-supply imbalance is expected to normalize in the medium term, driving growth in the global Packaging Film industry.
- **Rapid technological changes:** In a dynamic global environment, Flexible Packaging companies constantly look at ways to improve and address consumer demand. This increases the pressure on companies to keep pace with the fast-changing demands, and compels them to make constant technology upgrades, which require huge capital investments.
- **Sustainability challenges:** Many governmental organizations, consumers, and environmental groups keep a close watch on Flexible Packing companies due to the wastages created by them. Companies, therefore, need to develop designs that can address environmental issues such as end-of-life disposal, reduction of greenhouse gases, and water footprint to sustain themselves. This at times proves to be a costly process.
- **Poor Infrastructure facilities for recycling:** Recycling of plastic packaging waste is a process that requires time-consuming state-of-the-art Infrastructure facilities. However, some parts of the globe lack these recycling facilities. Even in developed countries, such as the US, the problem of sub-standard Infrastructure for recycling persists. In the US, recyclables worth more than USD11b are thrown away annually due to a lack of recycling facilities. According to the UN Environment Program, the world produces ~330mt of plastic waste annually. To date, only 9% of plastic waste ever generated has been recycled, and only 14% is collected for recycling at present. The existing machinery infrastructure is ill-equipped to handle plastic waste.

Exhibit 41: Low plastics recycling rate at the global level



Source: OCED, MOFSL

Valuation and view

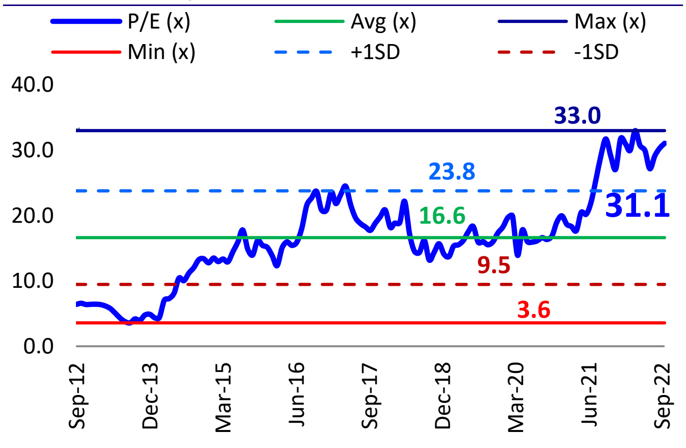
- SRF's Packaging business clocked a revenue/EBIDTA CAGR of 21%/39% over FY16-22 on the back of an aggressive capacity buildup and improvement in operating margin.
- Given the growing need for Packaging Films across Food, Electronics, and sustainable solutions, SRF's strong capability will enable it to capitalize on the growth opportunity.
- We expect 17% revenue CAGR from the Packaging Films business over FY22-24, with EBIT margins to decline to 18.2%/18% in FY23/FY24 from 19.8% in FY22, due to an expected pressure on BOPET margin, with new capacities coming on stream.
- Going forward, we expect SRF to register a revenue/EBITDA/PAT CAGR of 18%/16%/20% over FY22-24.
- While we expect the management to cash-in on these opportunities, we maintain our **Neutral** rating, given to its rich valuation, which has been priced into its near-term upside.

Exhibit 42: Valuation methodology

EV/EBITDA ratio	FY24E EBITDA (INR m)	Multiple (x)	EV (INR m)
Technical Textiles	5,205	10	52,263
Chemicals	25,538	23	5,87,367
Packaging Films	13,212	10	1,32,118
Others	620	5	3,098
Total EV			7,74,846
Less: Debt			32,394
Add: Cash and cash equivalents			4,102
Target m-cap (INR m)			7,46,554
Outstanding shares (m)			297.4
Target price (INR)			**2,510**

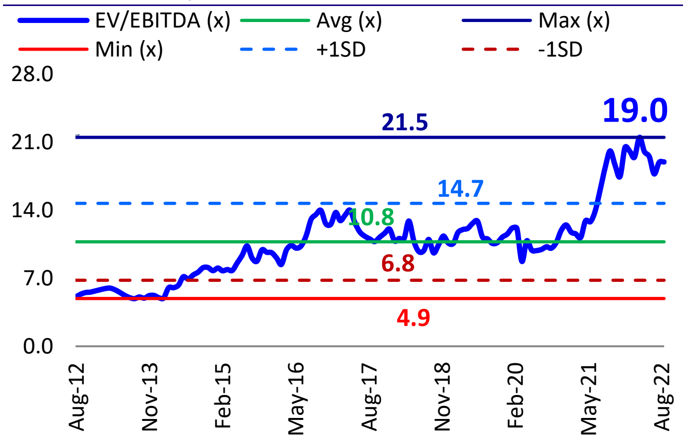
Source: MOFSL

Exhibit 43: One-year forward P/E ratio



Source: MOFSL

Exhibit 44: One-year forward EV/EBIDTA ratio



Source: MOFSL

Financials and valuations

Consolidated Income Statement									(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Income from Operations	48,983	51,366	56,849	70,996	72,094	84,000	1,24,337	1,55,874	1,73,619
Less: Excise Duty	3,056	3,148	958	0	0	0	0	0	0
Total Income from Operations	**45,927**	**48,218**	**55,890**	**70,996**	**72,094**	**84,000**	**1,24,337**	**1,55,874**	**1,73,619**
Change (%)	1.2	5.0	15.9	27.0	1.5	16.5	48.0	25.4	11.4
EBITDA	**9,728**	**9,694**	**9,062**	**13,209**	**14,584**	**21,333**	**31,032**	**38,436**	**42,003**
Margin (%)	21.2	20.1	16.2	18.6	20.2	25.4	25.0	24.7	24.2
Depreciation	2,750	2,834	3,158	3,582	3,886	4,531	5,172	5,777	6,813
EBIT	**6,979**	**6,859**	**5,904**	**9,627**	**10,698**	**16,803**	**25,860**	**32,659**	**35,189**
Int. and Finance Charges	1,305	1,018	1,239	1,984	2,007	1,340	1,159	1,225	1,204
Other Income	278	730	688	280	491	545	428	451	541
PBT bef. EO Exp.	**5,952**	**6,572**	**5,353**	**7,923**	**9,182**	**16,008**	**25,128**	**31,884**	**34,526**
EO Items	-103	0	463	262	997	116	727	-249	0
PBT after EO Exp.	**5,849**	**6,572**	**5,817**	**8,185**	**10,179**	**16,123**	**25,856**	**31,636**	**34,526**
Current Tax	1,551	1,422	1,200	1,769	265	4,154	7,139	7,744	8,460
Deferred Tax	0	0	0	0	-277	-10	-173	0	0
Tax Rate (%)	26.5	21.6	20.6	21.6	-0.1	25.7	26.9	24.5	24.5
Less: Minority Interest	0	0	0	0	0	0	0	0	0
Reported PAT	**4,299**	**5,150**	**4,617**	**6,416**	**10,191**	**11,979**	**18,889**	**23,892**	**26,066**
Adjusted PAT	**4,402**	**5,150**	**4,154**	**6,155**	**9,194**	**11,864**	**18,162**	**24,140**	**26,066**
Change (%)	45.4	17.0	-19.3	48.2	49.4	29.0	53.1	32.9	8.0
Margin (%)	9.6	10.7	7.4	8.7	12.8	14.1	14.6	15.5	15.0

Consolidated Balance Sheet									(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	574	574	575	575	585	603	2,974	2,974	2,974
Total Reserves	27,055	31,252	35,071	40,718	48,748	67,962	82,679	1,01,514	1,22,524
Net Worth	**27,630**	**31,826**	**35,646**	**41,293**	**49,333**	**68,564**	**85,654**	**1,04,489**	**1,25,499**
Minority Interest	0	0	0	0	0	0	0	0	0
Deferred Liabilities	3,820	2,866	2,914	3,420	1,755	3,862	6,775	6,775	6,775
Total Loans	25,153	23,962	31,418	37,302	40,468	33,950	35,394	36,394	32,394
Capital Employed	**56,603**	**58,655**	**69,978**	**82,014**	**91,556**	**1,06,376**	**1,27,822**	**1,47,657**	**1,64,667**
Gross Block	71,410	77,169	87,502	68,322	76,934	96,167	1,06,943	1,31,943	1,51,943
Less: Accum. Deprn.	30,334	33,169	36,327	12,269	15,540	20,071	25,243	31,021	37,834
Net Fixed Assets	**41,076**	**44,000**	**51,175**	**56,053**	**61,394**	**76,096**	**81,699**	**1,00,922**	**1,14,109**
Goodwill on Consolidation	49	49	41	41	6	6	0	0	0
Capital WIP	1,174	2,586	5,588	7,536	13,933	7,723	16,716	22,716	18,716
Current Investments	1,606	1,708	1,217	1,005	1,985	4,125	3,167	1,667	1,667
Total Investments	**1,649**	**1,959**	**1,218**	**1,006**	**2,027**	**4,167**	**3,209**	**1,209**	**1,209**
Curr. Assets, Loans, and Adv.	**20,291**	**21,090**	**25,608**	**34,243**	**31,265**	**41,121**	**56,025**	**58,140**	**68,996**
Inventory	6,711	8,381	9,582	12,247	12,012	14,658	21,385	21,695	24,548
Account Receivables	5,145	6,569	6,807	10,288	8,911	12,746	17,925	19,217	21,405
Cash and Bank Balance	3,399	961	967	1,989	1,255	2,820	4,594	2,075	4,102
Loans and Advances	5,036	5,178	8,252	9,719	9,088	10,898	12,123	15,153	18,942
Curr. Liability and Prov.	**8,934**	**11,055**	**13,653**	**16,865**	**17,211**	**22,918**	**29,944**	**35,447**	**38,480**
Account Payables	7,146	8,089	10,442	13,824	11,117	15,852	20,964	25,207	27,275
Other Current Liabilities	1,477	2,606	2,831	2,600	5,653	6,544	8,391	9,650	10,615
Provisions	312	359	380	441	442	522	590	590	590
Net Current Assets	**11,357**	**10,035**	**11,955**	**17,378**	**14,054**	**18,203**	**26,081**	**22,693**	**30,516**
Appl. of Funds	**56,603**	**58,655**	**69,978**	**82,014**	**91,556**	**1,06,376**	**1,27,822**	**1,47,657**	**1,64,667**

Financials and valuations

Ratios									
Y/E March	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
Basic (INR)									
EPS	**14.8**	**17.3**	**14.0**	**20.7**	**30.9**	**39.9**	**61.1**	**81.2**	**87.6**
Cash EPS	24.0	26.8	24.6	32.7	44.0	55.1	78.5	100.6	110.5
BV/Share	92.9	107.0	119.8	138.8	165.9	230.5	288.0	351.3	421.9
DPS	1.9	2.3	3.1	3.9	2.8	4.9	16.8	17.0	17.0
Payout (%)	15.2	15.7	23.1	20.8	9.6	12.1	26.4	21.2	19.4
Valuation (x)									
P/E ratio	177.4	151.6	188.0	126.9	84.9	65.8	43.0	32.3	30.0
Cash P/E ratio	109.2	97.8	106.8	80.2	59.7	47.6	33.5	26.1	23.7
P/BV ratio	28.3	24.5	21.9	18.9	15.8	11.4	9.1	7.5	6.2
EV/Sales ratio	17.4	16.6	14.5	11.5	11.3	9.6	6.5	5.2	4.7
EV/EBITDA ratio	82.3	82.7	89.4	61.7	56.1	37.9	26.1	21.2	19.2
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.1	0.2	0.6	0.6	0.6
FCF per share	17.2	0.2	-20.3	-5.3	-2.3	19.1	9.7	2.6	41.3
Return Ratios (%)									
EBITDA Margin (%)	21.2	20.1	16.2	18.6	20.2	25.4	25.0	24.7	24.2
Net Profit Margin (%)	9.6	10.7	7.4	8.7	12.8	14.1	14.6	15.5	15.0
RoE	17.0	17.3	12.3	16.0	20.3	20.1	23.6	25.4	22.7
RoCE	10.5	11.0	8.5	10.7	13.3	13.4	17.2	19.1	18.1
RoIC	18.5	17.8	13.8	18.0	15.3	26.3	34.2	36.6	33.9
Working Capital Ratios									
Fixed Asset Turnover (x)	0.6	0.6	0.6	1.0	0.9	0.9	1.2	1.2	1.1
Asset Turnover (x)	0.8	0.8	0.8	0.9	0.8	0.8	1.0	1.1	1.1
Inventory (Days)	105	126	115	113	119	133	129	105	108
Debtor (Days)	41	50	44	53	45	55	53	45	45
Creditor (Days)	112	122	126	127	110	144	126	122	120
Leverage Ratio (x)									
Debt/Equity ratio	0.9	0.8	0.9	0.9	0.8	0.5	0.4	0.3	0.3

Consolidated Cash Flow Statement									(INR m)
Y/E March	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
OP/(Loss) before Tax	5,849	6,572	5,817	8,269	10,706	16,099	25,856	31,636	34,526
Depreciation	2,750	2,834	3,158	3,669	3,929	4,531	5,172	5,777	6,813
Interest and Finance Charges	1,305	1,018	1,239	2,016	2,016	1,340	1,159	1,225	1,204
Direct Taxes Paid	-1,087	-1,159	-1,176	-1,502	-1,427	-2,553	-4,016	-7,744	-8,460
(Inc.)/Dec. in WC	2,214	-2,556	-1,909	-3,165	-239	-1,236	-6,645	869	-5,796
CF from Operations	**11,030**	**6,709**	**7,129**	**9,286**	**14,984**	**18,181**	**21,527**	**31,763**	**28,287**
Others	-130	-255	-349	-330	-1,940	-464	-469	0	0
CF from Operations incl. EO	**10,901**	**6,454**	**6,780**	**8,956**	**13,044**	**17,717**	**21,057**	**31,763**	**28,287**
(inc.)/dec. in FA	-5,789	-6,409	-12,829	-10,526	-13,730	-12,047	-18,171	-31,000	-16,000
Free Cash Flow	**5,112**	**45**	**-6,049**	**-1,570**	**-685**	**5,670**	**2,886**	**763**	**12,287**
(Pur.)/Sale of Investments	-576	25	840	332	-886	-1,886	1,028	2,000	0
Others	-303	251	35	53	2,813	-1,064	1,265	0	0
CF from Investments	**-6,667**	**-6,133**	**-11,953**	**-10,142**	**-11,803**	**-14,997**	**-15,877**	**-29,000**	**-16,000**
Issue of Shares	0	0	0	1	0	7,500	2	0	0
Inc./(Dec.) in Debt	637	-4,552	4,095	2,677	3,205	-6,856	622	1,000	-4,000
Interest Paid	-1,324	-1,109	-1,299	-2,241	-2,040	-1,574	-1,173	-1,225	-1,204
Dividend Paid	-692	-829	-829	-836	-803	-1,408	-2,117	-5,056	-5,056
Others	-528	3,731	3,213	2,606	-2,337	1,182	-741	0	0
CF from Fin. Activity	**-1,907**	**-2,760**	**5,179**	**2,207**	**-1,975**	**-1,155**	**-3,406**	**-5,281**	**-10,260**
Inc./Dec. in Cash	**2,326**	**-2,438**	**6**	**1,021**	**-734**	**1,565**	**1,774**	**-2,519**	**2,027**
Opening Balance	1,073	3,399	961	967	1,989	1,255	2,820	4,594	2,075
Closing Balance	**3,399**	**961**	**967**	**1,989**	**1,255**	**2,820**	**4,594**	**2,075**	**4,102**

NOTES

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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