

## Specialty chemical continues to influence numbers...

**About the stock:** Incorporated in 1970, SRF started with nylon cord tyre and thereafter diversified into refrigerant gases, speciality chemicals and packaging film among others.

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

**Q3FY23 Results:** Sales growth in line with estimates led by chemicals while margins were below expectations due to cost pressure in packaging and technical textiles divisions.

- Reported revenue growth was 4% YoY to ₹ 3,469.7 crores, led by chemicals (up 23% YoY), but pulled down by technical textile (down 21% YoY), packaging film (down 6% YoY) and other segment (down 14% YoY)
- Gross margins increased 22 bps YoY to 51.2% while EBITDA margin fell 232 bps YoY to 24%. Absolute EBITDA was down 5% YoY to ₹ 833.5 crore
- PAT increased 1% YoY to ₹ 511 crore. Finance cost increased 111% YoY to ₹ 62 crore due to higher capex investment

**What should investors do?** The stock appreciated at 47% CAGR in last three years.

- We retain **BUY** rating on the back 1) sustained efforts to ride on the increasing opportunities for specialty + fluorochemicals across key industries, 2) entering into new segment of Fluoropolymer PTFE and 3) optical visibility capex drive with a heavy tilt towards chemicals

**Target Price and Valuation:** We value SRF on SOTP to arrive at a target price of ₹ 2550/share (earlier ₹ 2900/share).

### Key triggers for future price performance:

- Continuous capex towards speciality chemical on the back of higher consumption of fluoro compounds across agrochemical and pharma to support strong business performance in the years to come
- Venturing into PTFE through backward integration of R22. Commencement of production, which is behind schedule
- Control over working capital along with better operational performance to improve FCF generation

**Alternate Stock Idea:** Besides 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 ₹ 1680



### Particulars

Particular	Amount
Market cap (₹ Crore)	64,894
FY22 Total Debt (₹ Crore)	3,655
FY22 Cash & Inv (₹ Crore)	776
EV (₹ Crore)	67,773
52 Week H/L	2865/2002
Equity Capital (₹ Crore)	297.4
Face Value (₹)	10

### Shareholding pattern

in %	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	50.7	50.7	50.5	50.5
DII	8.7	9.4	14.0	14.9
FII	19.6	19.2	19.2	18.3
Others	21.0	20.7	16.2	16.3

### Price Chart



### Recent event & key risks

- Capex announcement of ₹ 595 crore towards specialty fluoropolymers and ₹ 110 crore towards agrochemical intermediate
- Key Risk:** (i) Stretched payback of specialty chemicals capex due to lower margins or longer execution. (ii) Persistent pricing pressure in other segments

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### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-24E)
Net Revenue	7,099.6	7,209.4	8,400.0	12,433.7	20.9%	13,871.4	16,538.8	19,271.0	15.7%
EBITDA	1,297.0	1,454.9	2,144.9	3,175.9	26.1%	3,080.2	3,859.2	4,823.4	14.9%
EBITDA Margins (%)	18.3%	20.2%	25.5%	25.5%		22.2%	23.3%	25.0%	
Adj. PAT	641.6	1,019.1	1,197.9	1,888.9	29.7%	1,734.2	2,188.1	2,816.3	14.2%
Adj. EPS (₹)	21.6	34.3	40.3	63.5		58.3	73.6	94.7	
EV/EBITDA	52.3x	46.7x	31.6x	21.3x		22.4x	17.9x	14.3x	
P/E	101.2x	63.7x	54.2x	34.4x		37.4x	29.7x	23.0x	
ROE (%)	15.5	20.7	17.5	22.1		17.7	19.0	20.4	
ROCE (%)	15.2	16.1	18.7	23.8		18.9	21.0	23.7	

## Key takeaways of recent quarter & conference call highlight

### Q3FY23 Results: Specialty chemical segment continues to grow strongly

- Stellar growth from chemical drive overall performance:** Revenues were up 4% YoY to ₹ 3469.7 crore, led by chemical segment, which was up 23% YoY to ₹ 1756.6 crore. The growth from the chemical segment was driven by new products witnessing significant traction and strong customer engagement on flagship and downstream products. Apart from this, higher realisation growth and stable volumes in the HFC segment along with pharma grade gas (Dymel HFA 134a/P) supported overall growth, to a certain extent
- Margins under pressure across all segment except specialty chemicals:** OPM for the quarter declined 232 bps YoY to 24%. EBIT from chemical segment remained at 32% (+275bps YoY) while the same from technical textile, packaging film and other segments was at 8% (-1308bps YoY), 10% (-1006 bps YoY) & 10% (+189 bps YoY), respectively

#### SRF - ESG Disclosure Score\*

Score	FY20	FY21	FY22
Environmental	14.4	6.3	NA
Social	19.2	21.6	NA
Governance	78.6	78.6	NA
<b>Overall ESG Score</b>	<b>37.45</b>	<b>35.56</b>	<b>NA</b>

Source: Bloomberg, ICICI Direct Research, \*Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

### Q3FY23 Earnings Conference Call highlights

- Speciality Chemical Business**
  - Technical textile and packaging film business continues to witness a difficult operating environment while chemical business performed exceedingly well both on operating and financial parameters
  - Chemical business posted robust growth. Within chemical business specialty chemical segment delivered a record performance with successful addition of new products that received substantial market traction, ramp up of MPP4 facility in Dahej, strong demand for key products & downstream derivatives
  - High level of customer engagement with global derivative continues to be good in complex, AI and advance products
  - Pharma Intermediate plant is also being commissioned and should be ramped up very quickly
  - The Board has approved a project to set up a dedicated facility to produce 300 MT per year of SS20 at Dahej at a cost of ₹ 110 crore
- Fluorochemical Business**
  - Fluorochemical business reported a healthy performance on account of several key factors including strong traction into domestic market for refrigerants and continues demand for Dymel @HFA 134a/P (pharma grade gas), healthy contribution from chloromethane and gradual ramp up of volumes of the recently commissioned facilities
  - Ref-gas is benefiting from strong demand from domestic market and supply to the US market. It has not seen any major pressure on prices of HFCs
  - All fluorochemical facilities are running well and full benefits of chloromethane plant should be available in the next quarter. Chloromethane plant has been successfully ramped up
  - Outlook for domestic demand for HFCs remained strong and is also witnessing traction from the US market
  - Slight delay in commissioning of PTFE plant due to certain logistical issues. PTFE asset turnover will have asset turnover of 1.25-1.3x and likely to be commissioned by Q4FY23 or maximum by early Q1FY24. The company expects likely ramp up in six months
  - The board has approved a project for production of a range of specialty fluoropolymers at a cost of ₹ 595 crore. Fluoropolymers includes PVDF, FEP, which caters to a wide range of industries such as battery, chemical, coating, solar, automotive and aerospace
  - In Dahej, a new 20 MW mega power plant has been commissioned, which allows the company to optimise power expenses

- **Packaging Films Business**
  - The segment faced several headwinds that impacted performance during the quarter including significant supply addition in BOPET, global demand slowdown, rising energy costs in Europe and sharp fall in commodity prices
  - The company believes BOPP will start to improve in price, going forward
  - Energy cost in the US is witnessing some softness and expect a better performance in the next quarter while full benefit of energy cost will reflect in the next financial year
  - Aluminium foil plant is likely to get commissioned in Q2FY24
- **Technical textiles business**
  - The performance was impacted owing to subdued demand for nylon tyre demand and polyester industrial yarn

#### **Other Points**

- Hungary plant is operating at 40-45% currently.
- Specialty fluoropolymers – The company is considering a payback period of four years and IRR of 25-28%
- Agrochemicals – No order has been delayed due to higher inventory at customers end
- Specialty fluoropolymers has overall capacity of 4500 tonnes
- Overall capex in the specialty business till date is ~₹ 1700 crore
- The company believes fluoropolymer business is backward integrated and PFOA – free (toxic surfactant)

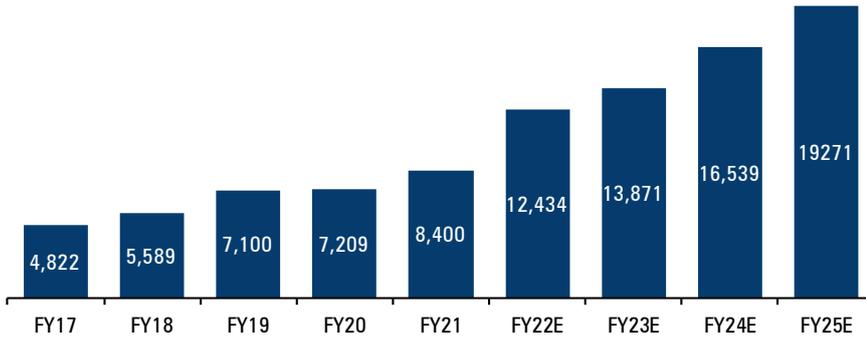
## SOTP valuation

In ₹ Crore unless other mentioned	Revenue			EBITDA			EV/EBITDA	EV
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY25E	FY25E
Technical textile	1,887	1,981	2,080	264	297	333	5.0x	1,664
Chemical Business	6,429	8,281	10,303	2,057	2,650	3,297	22.0x	72,532
Packaging film	5,174	5,858	6,427	724	879	1,157	5.0x	5,784
Other business	381	419	461	34	34	37	5.0x	184
<b>Consolidated EV</b>								<b>80,164</b>
Less: Net debt								4,166
<b>Target MCAP</b>								<b>75,844</b>
No. of shares								29.7
<b>Target price/share</b>								<b>2,550</b>
CMP								2,182
<b>Upside/downside</b>								<b>17%</b>

Source: ICICI Direct Research

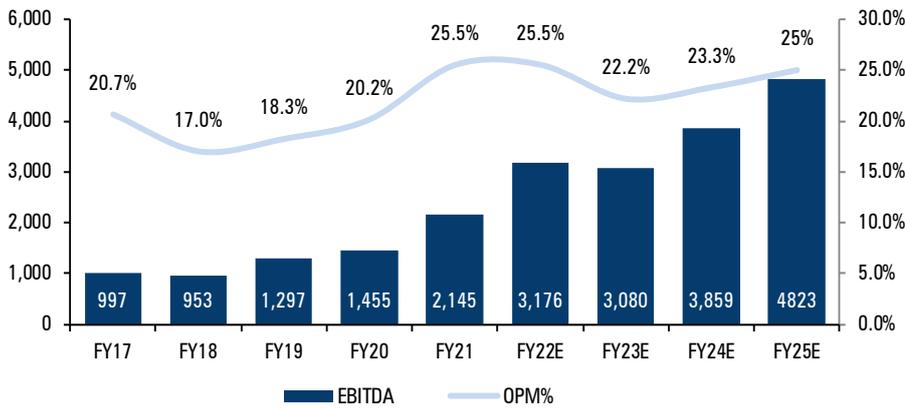
Financial story in charts....

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



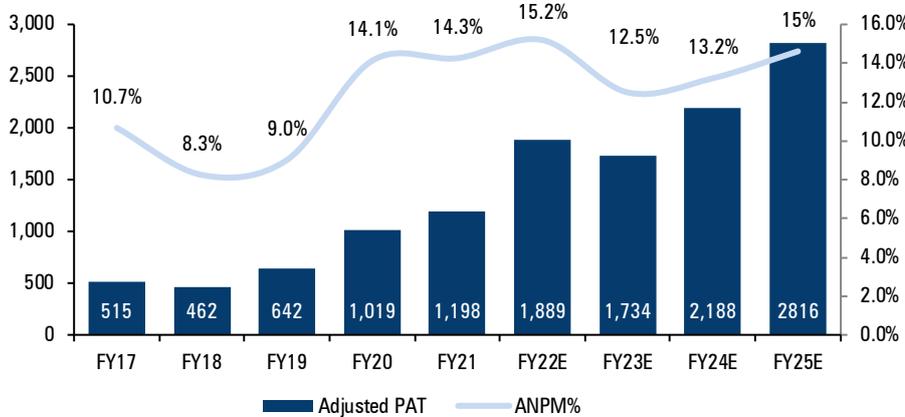
Source: Company, ICICI Direct Research

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	FY21	FY22	FY23E	FY24E	FY25E
<b>Total Operating Income</b>	<b>8,400.0</b>	<b>12,433.7</b>	<b>13,871.4</b>	<b>16,538.8</b>	<b>19,271.0</b>
Growth (%)	16.5	48.0	11.6	19.2	16.5
Raw Material Expenses	4,018.9	6,066.9	6,935.7	7,938.6	9,250.1
<b>Gross Profit</b>	<b>4,381.1</b>	<b>6,366.7</b>	<b>6,935.7</b>	<b>8,600.2</b>	<b>10,020.9</b>
Employee Cost	621.4	780.0	887.8	1,075.0	1,271.9
Other Operating Expenses	1,614.8	2,410.8	2,967.7	3,666.0	3,925.6
<b>EBITDA</b>	<b>2,144.9</b>	<b>3,175.9</b>	<b>3,080.2</b>	<b>3,859.2</b>	<b>4,823.4</b>
Growth (%)	47.4	48.1	-3.0	25.3	25.0
Other Income	54.5	42.8	51.5	58.8	73.8
<b>EBITDA, including OI</b>	<b>2,199.4</b>	<b>3,218.7</b>	<b>3,131.7</b>	<b>3,918.0</b>	<b>4,897.2</b>
Depreciation	453.1	517.2	582.8	718.6	848.1
Net Interest Exp.	134.0	115.9	175.2	204.2	194.2
Other exceptional items	0.0	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>1,612.3</b>	<b>2,585.6</b>	<b>2,373.7</b>	<b>2,995.1</b>	<b>3,854.9</b>
Total Tax	414.4	696.6	639.6	807.0	1,038.6
Tax Rate	25.7%	26.9%	26.9%	26.9%	26.9%
<b>PAT</b>	<b>1,197.9</b>	<b>1,888.9</b>	<b>1,734.2</b>	<b>2,188.1</b>	<b>2,816.3</b>
Adj.PAT after Minority interest	1,197.9	1,888.9	1,734.2	2,188.1	2,816.3
Adj. EPS (₹)	40.3	63.5	58.3	73.6	94.7
Shares Outstanding	6.0	29.7	29.7	29.7	29.7

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					
	₹ crore				
Year end March	FY21	FY22	FY23E	FY24E	FY25E
PBT & Extraordinary	1,609.9	2,585.6	2,373.7	2,995.1	3,854.9
Depreciation	453.1	517.2	582.8	718.6	848.1
After other adjustments					
(Inc) / Dec in Working Capital	-123.6	-664.5	-464.9	-474.1	-485.6
Taxes	-255.3	-401.6	-639.6	-807.0	-1,038.6
Others	87.6	69.0	175.2	204.2	194.2
<b>CF from operating activities</b>	<b>1,771.7</b>	<b>2,105.7</b>	<b>2,027.3</b>	<b>2,636.9</b>	<b>3,373.0</b>
Purchase of Fixed Assets	-1,204.7	-1,817.1	-2,675.0	-1,900.0	-2,500.0
Others	-294.0	229.4	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>-1,498.7</b>	<b>-1,587.7</b>	<b>-2,675.0</b>	<b>-1,900.0</b>	<b>-2,500.0</b>
Proceeds from issue of shares	750.0	0.2	0.0	0.0	0.0
Borrowings (Net)	-691.0	147.2	1,450.0	0.0	-500.0
Others	-310.1	-354.7	-673.4	-702.4	-692.4
<b>CF from financing activities</b>	<b>-251.1</b>	<b>-207.3</b>	<b>776.6</b>	<b>-702.4</b>	<b>-1,192.4</b>
Net cash flow	21.8	310.7	128.9	34.5	-319.4
Effects of foreign currency translation	0.0	1.5	0.0	0.0	0.0
Opening Cash	125.5	282.0	459.4	588.2	622.7
<b>Closing Cash</b>	<b>282.0</b>	<b>459.4</b>	<b>588.2</b>	<b>622.7</b>	<b>303.3</b>

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet					
	₹ crore				
Year end March	FY21	FY22	FY23E	FY24E	FY25E
<b>Liabilities</b>					
Share Capital	60.3	297.4	297.4	297.4	297.4
Reserves	6,796.2	8,267.9	9,503.9	11,193.8	13,511.9
<b>Total Shareholders Funds</b>	<b>6,856.4</b>	<b>8,565.4</b>	<b>9,801.3</b>	<b>11,491.3</b>	<b>13,809.3</b>
Minority Interest	0.0	0.0	0.0	0.0	0.0
Long Term Borrowings	2,028.8	1,848.5	2,848.5	2,848.5	2,348.5
Net Deferred Tax liability	386.2	677.5	677.5	677.5	677.5
Other long term liabilities	43.3	193.4	87.6	104.4	121.7
Long term provisions	43.6	51.6	86.9	103.6	120.8
<b>Current Liabilities and Provisions</b>					
Short term borrowings	1,439.8	1,806.7	2,256.7	2,256.7	2,256.7
Trade Payables	1,585.2	2,096.4	2,470.2	2,945.3	3,431.8
Other Current Liabilities	537.5	529.9	596.9	711.7	829.3
Short Term Provisions	8.7	7.4	8.3	9.9	11.6
Total Current Liabilities	3,571.1	4,440.3	5,332.2	5,923.6	6,529.4
<b>Total Liabilities</b>	<b>12,929.4</b>	<b>15,776.6</b>	<b>18,834.0</b>	<b>21,148.9</b>	<b>23,607.1</b>
<b>Assets</b>					
Net Block	7,827.0	8,425.3	10,614.2	12,870.5	14,522.4
Capital Work in Progress	772.3	1,671.6	1,575.0	500.0	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	18.1	11.6	11.6	11.6	11.6
Long term loans and advances	91.1	155.2	123.9	147.8	172.2
Other Non Current Assets	277.8	254.4	462.3	551.2	642.2
<b>Current Assets, Loans &amp; Advances</b>					
Current Investments	412.5	316.7	316.7	316.7	316.7
Inventories	1,465.8	2,138.5	2,432.2	2,900.0	3,379.0
Sundry Debtors	1,274.6	1,792.5	2,090.2	2,492.1	2,903.9
Cash and Bank	282.0	459.4	588.2	622.7	303.3
Loans and Advances	11.2	8.8	8.8	8.8	8.8
Other Current assets	492.8	538.5	606.7	723.3	842.8
Current Assets	3,938.9	5,254.3	6,042.9	7,063.7	7,754.6
<b>Total Assets</b>	<b>12,929.4</b>	<b>15,776.6</b>	<b>18,834.0</b>	<b>21,148.9</b>	<b>23,607.1</b>

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
Year end March	FY21	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>					
Adj. EPS	40.3	63.5	58.3	73.6	94.7
Adj. Cash EPS	55.5	80.9	77.9	97.7	123.2
BV	230.5	288.0	329.5	386.3	464.3
DPS	24.0	16.8	16.8	16.8	16.8
<b>Operating Ratios (%)</b>					
Gross Margin (%)	52.2	51.2	50.0	52.0	52.0
EBITDA Margin (%)	25.5	25.5	22.2	23.3	25.0
PAT Margin (%)	14.3	15.2	12.5	13.2	14.6
Debtor Days	56	53	55	55	55
Inventory Days	64	63	64	64	64
Creditor Days	70	62	65	65	65
Cash Conversion Cycle	51	54	54	54	54
<b>Return Ratios (%)</b>					
Return on Assets (%)	9.3	12.0	9.2	10.3	11.9
RoCE (%)	18.7	23.8	18.9	21.0	23.7
Core RoIC (%)	17.6	23.2	17.8	20.1	22.3
RoE (%)	17.5	22.1	17.7	19.0	20.4
<b>Solvency Ratios</b>					
Total Debt / Equity	0.5	0.4	0.5	0.4	0.3
Interest Coverage	13.0	23.3	14.5	15.7	20.8
Current Ratio	1.1	1.2	1.1	1.2	1.2
Quick Ratio	0.7	0.7	0.7	0.7	0.7
<b>Valuation Ratios (x)</b>					
EV/EBITDA	31.6	21.3	22.4	17.9	14.3
P/E	54.2	34.4	37.4	29.7	23.0
P/B	9.5	7.6	6.6	5.6	4.7
EV/Sales	8.1	5.5	5.0	4.2	3.6

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		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
SRF	2182	2,550	Buy	64,894	63.5	58.3	73.6	34.4	37.4	29.7	21.3	22.4	17.9	23.8	18.9	21.0	22.1	17.7	19.0
PI Industries	3333	3,710	Buy	50,572	55.5	67.2	82.4	57.6	47.6	38.8	40.8	34.2	27.8	16.3	17.1	18.2	13.8	14.5	15.2
Tata Chemical	960	1,370	Buy	24,451	47.5	63.6	73.0	24.3	18.2	15.8	14.7	10.9	8.5	6.6	8.4	9.0	6.6	8.3	8.8
Vinati Organics	2032	2,320	Hold	20,890	33.7	40.1	51.5	56.0	47.1	36.7	44.7	37.0	28.3	24.3	23.2	23.9	19.0	19.1	20.5
Sumitomo Chemical	485	565	Buy	24,216	8.5	10.9	12.5	56.1	43.5	38.0	38.9	30.4	26.1	30.2	30.4	28.2	22.0	22.6	21.0
Navin Fluorine	3963	4,450	Hold	19,635	52.3	67.4	89.0	80.3	62.3	47.2	58.4	41.8	30.6	17.8	18.7	19.6	14.0	15.8	17.9
Rallis India	224	223	Hold	4,353	8.4	8.7	11.8	26.5	25.7	18.9	15.2	15.5	11.4	12.7	11.4	14.7	9.7	9.4	11.6
Sudarshan chemical	379	515	Hold	2,621	18.8	19.3	28.5	24.0	23.3	15.8	14.2	12.8	9.6	10.9	11.3	15.4	15.6	14.3	18.3
Neogen Chemicals	1245	1,645	Buy	3,109	17.9	27.2	32.9	79.5	52.2	43.2	41.8	30.2	25.0	12.0	15.0	16.2	10.2	13.6	14.3
Astec Lifesciences	1710	2,215	Buy	3,356	45.1	54.8	69.3	39.7	32.7	25.9	24.6	20.7	16.5	19.3	17.7	19.4	22.3	21.3	21.2

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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## ANALYST CERTIFICATION

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