

October 30, 2023

Q2FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	HOLD		HOLD	
Target Price	2,156		2,143	
Sales (Rs.m)	1,39,847	1,61,298	1,40,029	1,59,142
% Chng.	(0.1)	1.4		
EBITDA (Rs.m)	30,983	36,024	31,115	35,902
% Chng.	(0.4)	0.3		
EPS (Rs.)	56.3	65.4	56.7	65.2
% Chng.	(0.7)	0.4		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	1,48,703	1,39,847	1,61,298	1,79,041
EBITDA (Rs. m)	35,292	30,983	36,024	41,694
Margin (%)	23.7	22.2	22.3	23.3
PAT (Rs. m)	21,623	16,700	19,396	22,593
EPS (Rs.)	72.9	56.3	65.4	76.2
Gr. (%)	14.5	(22.8)	16.1	16.5
DPS (Rs.)	8.8	6.8	7.9	9.1
Yield (%)	0.4	0.3	0.4	0.4
RoE (%)	22.9	15.1	15.3	15.6
RoCE (%)	22.1	15.1	15.4	15.9
EV/Sales (x)	4.6	4.9	4.3	3.8
EV/EBITDA (x)	19.3	22.1	19.1	16.4
PE (x)	30.0	38.8	33.4	28.7
P/BV (x)	6.3	5.5	4.8	4.2

Key Data

SRFL.BO | SRF IN

52-W High / Low	Rs.2,640 / Rs.2,040
Sensex / Nifty	64,113 / 19,141
Market Cap	Rs.648bn/ \$ 7,787m
Shares Outstanding	296m
3M Avg. Daily Value	Rs.1110.11m

Shareholding Pattern (%)

Promoter's	50.53
Foreign	19.80
Domestic Institution	14.12
Public & Others	15.57
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(2.8)	(13.9)	(12.3)
Relative	(0.2)	(17.9)	(18.0)

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Growth expected FY25E onwards

Quick Pointers:

- EBITDA at Rs6.3 bn (missed estimates by 11%), while bottom-line impacted by higher depreciation and tax expense.
- PTFE project commissioned and capitalized from Q2FY24; substantial revenues to come from FY25.

SRF reported weak performance with Revenue/EBITDA/PAT decline of 15%/19%/37% YoY & 5%/10%/16% QoQ amid drop in core business segments such as chemicals & packaging films. The company may witness near term headwinds across businesses due to subdued demand across agrochemicals and supply glut in packaging films business. However, management guided specialty chemicals to give better returns with commercialisation of PTFE, R32 and newer products. Furthermore, the board approved projects for setting up manufacturing facility (BOPP Film) and new dedicated facility to produce an agrochemical intermediate at projected cost of Rs 2.75bn & Rs 2.35bn in Indore & Dahej respectively. We expect Revenue/EBITDA/PAT CAGR of 6%/6%/2% over FY23-FY26E. Maintain 'Hold' rating with SOTP based TP revised to Rs2156 (Rs2143 earlier; implied consol FY25E EV/EBITDA of 11x and PE of 25x).

- Consolidated revenue at Rs31.7bn (-15% YoY/ -5% QoQ; PLe ~Rs34.6bn)**, declined majorly due to drop in chemicals segment (-22%/-14% YoY/QoQ). Technical textiles witnessed 9% growth YoY & QoQ. For H1FY24, topline dropped 15% on account of drop in major business segments such as packaging films and chemicals.
- Specialty chemicals business witnessed weak global demand** owing to inventory rationalization, while fluorochemical business was impacted due to low demand for refrigerants. Packaging films business continued to face headwinds led by supply addition in both BOPET & BOPP.
- EBITDA margin declined to 19.7% (vs 20.6% in Q2FY23; PLe 20.5%)**, despite gross margins improvement. EBITDA stood at Rs6.26bn (-19% YoY/ -10% QoQ).
- PAT at Rs3bn (-37% YoY/ -16% QoQ; PLe Rs3.5 bn)** was impacted by higher depreciation and interest expense (+16% YoY & +78% YoY respectively). PAT margins stood at 9.5% vs 10.8%/12.9% in Q1FY24/Q2FY23 respectively.
- Concall takeaways: (1)** In chemicals business, Specialty chemicals business margins were down to 24% for Q2FY24, due to operating leverage and lower pricing **(2)** For FY24E, Specialty chemicals business to see single digit growth (double digit growth expected earlier) primarily led by volume pressure in agrochemicals portfolio **(3)** Capex of Rs 14bn done in H1FY24 while for FY24E overall Rs 30bn capex remains intact **(4)** R32 project addition to commission and capitalize by Dec-23. **(5)** By FY25E, management expects HFC portfolio to operate at 80-85% utilizations **(6)** Aluminum foil project to be commercialized

by early Dec-23 **(7)** BOPP Capacitor grade project to be commercialized within 30 months, nominal capacity to be 4500 MTPA with IRR of 16-18% & payback period of 5 years **(8)** Management expects to get into specialty fluoropolymers such as FKM & FEP at earliest **(9)** PTFE: sales volumes to be ~100-150 tons per month for Q4FY24E **(10)** Technical textiles will see some uptick due to spike in caprolactum prices. **(11)** For FY24E, fluorochemicals segment too is expected to witness subdued performance. **(12)** Long term basis, specialty chemicals should give better returns than fluorochemicals business, according to management **(13)** 95% of specialty chemicals business remains contracted as of Q2FY24.

Exhibit 1: Q2FY24 Result Overview – Consolidated (Rs mn)

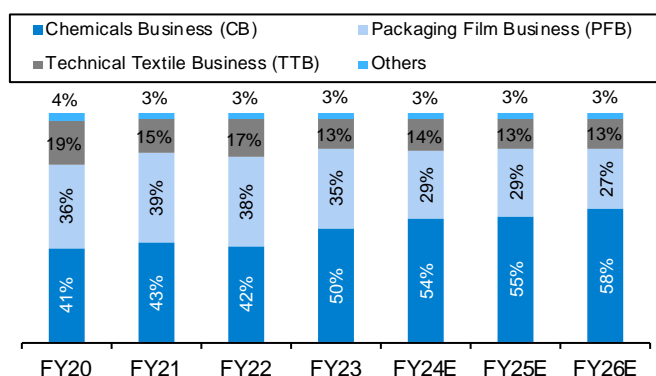
Y/e March	Q2FY24	Q2FY23	YoY gr.	Q1FY24	QoQ gr.	H1FY24	H1FY23	YoY gr.
Net Revenue	31,774	37,278	-14.8%	33,384	-4.8%	65,157	76,225	-14.5%
Material Cost	16,201	19,529	-17.0%	17,005	-4.7%	33,206	38,107	-12.9%
Gross Profit	15,573	17,749	-12.3%	16,379	-4.9%	31,952	38,118	-16.2%
<i>Gross Margin (%)</i>	<i>49.0%</i>	<i>47.6%</i>		<i>49.1%</i>		<i>49.0%</i>	<i>50.0%</i>	
Employee expenses	2,266	1,953	16.1%	2,180	4.0%	4,446	3,895	14.2%
Power and Fuel	3,438	3,737		3,528		6,966	7,840	
Other operating expenses	3,416	4,007	-14.8%	3,471	-1.6%	6,887	8,133	-15.3%
Forex	191	361		237		428	610	
EBITDA	6,262	7,691	-18.6%	6,963	-10.1%	13,225	17,641	-25.0%
<i>EBITDA margin (%)</i>	<i>19.7%</i>	<i>20.6%</i>		<i>20.9%</i>		<i>20.3%</i>	<i>23.1%</i>	
Depreciation	1,612	1,393	15.7%	1,566	3.0%	3,178	2,700	17.7%
EBIT	4,650	6,298	-26.2%	5,396	-13.8%	10,046	14,941	-32.8%
Other income	291	327	-11.1%	118	147.6%	409	426	-4.0%
Interest cost	793	445	78.3%	656	20.8%	1,449	770	88.3%
PBT	4,148	6,181	-32.9%	4,858	-14.6%	9,006	14,597	-38.3%
Tax	1,140	1,371	-16.8%	1,265	-9.8%	2,405	3,707	-35.1%
Sh of ass. / Minority int	0	0		0		0	0	
PAT	3,008	4,810	-37.5%	3,593	-16.3%	6,601	10,890	-39.4%
Extra ordinary income/ (exp.)	0	0		0		0	0	
Adjusted PAT	3,008	4,810	-37.5%	3,593	-16.3%	6,601	10,890	-39.4%
<i>Adj. PAT margin (%)</i>	<i>9.5%</i>	<i>12.9%</i>		<i>10.8%</i>		<i>10.1%</i>	<i>14.3%</i>	
No. of shares (mn)	296	296	-0.1%	296	0.0%	296	296	-0.1%
Adj. EPS (Rs.)	10.2	16.2	-37.4%	12.1	-16.3%	22.3	36.7	-39.4%

Source: Company, PL

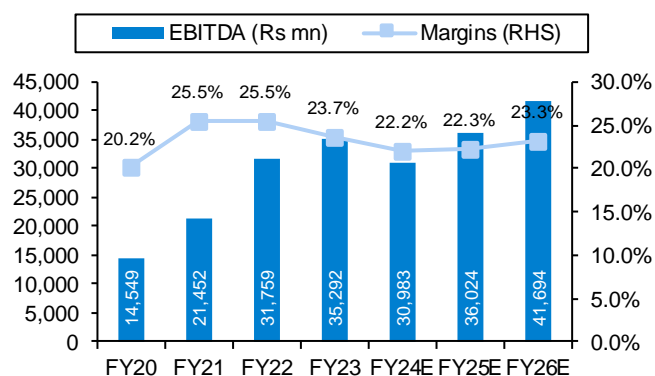
Exhibit 2: Segmental Details (Rs mn)

Y/e March	Q2FY24	Q2FY23	YoY gr.	Q1FY24	QoQ gr.	H1FY24	H1FY23	YoY gr.
Segment Revenue (Rs mn)	31,808	37,278	-14.7%	33,387	-4.7%	65,195	76,228	-14.5%
Chemicals Business	14,263	18,302	-22.1%	16,605	-14.1%	30,868	35,526	-13.1%
Packing Film Business	11,215	13,310	-15.7%	10,948	2.4%	22,163	28,270	-21.6%
Technical Textile Business	5,062	4,662	8.6%	4,647	8.9%	9,708	10,372	-6.4%
Others	1,269	1,004	26.4%	1,187	6.9%	2,456	2,060	19.2%
Intersegment Revenue	35	-		3		38	3	
Net Revenue (Rs mn)	31,774	37,278	-14.8%	33,384	-4.8%	65,157	76,225	
Segment EBIT (Rs mn)	4,941	6,626	-25.4%	5,396	-8.4%	10,455	15,366	-32.0%
Chemicals Business	3,478	5,173	-32.8%	4,601	-24.4%	8,078	10,375	-22.1%
Packing Film Business	773	1,014	-23.8%	513	50.6%	1,286	3,966	-67.6%
Technical Textile Business	750	629	19.1%	607	23.6%	1,356	1,791	-24.3%
Others	331	76	336.0%	232	42.9%	563	144	292.0%
Less: Unallocated & OI	390	267	46.0%	555	-29.8%	828	910	-9.0%
EBIT Margin (%)	15.5%	17.8%		16.2%		16.0%	20.2%	
Chemicals Business	24.4%	28.3%		27.7%		26.2%	29.2%	
Packing Film Business	6.9%	7.6%		4.7%		5.8%	14.0%	
Technical Textile Business	14.8%	13.5%		13.1%		14.0%	17.3%	
Others	26.1%	7.6%		19.5%		22.9%	7.0%	

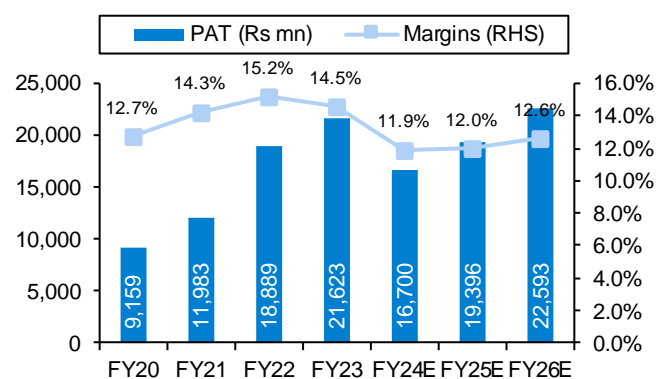
Source: Company, PL

Exhibit 3: Chemicals contri to increase to 55-60%


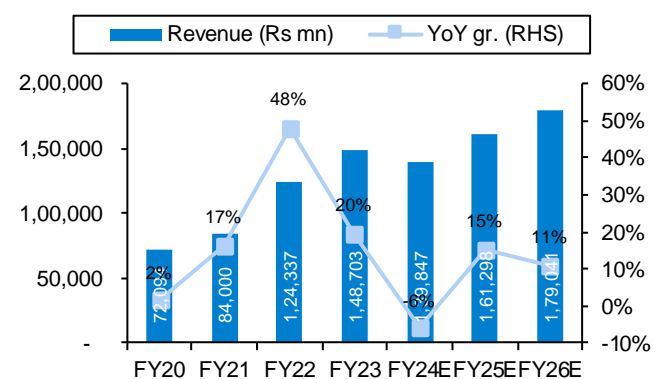
Source: Company, PL

Exhibit 4: EBITDA margin to improve with high value add mix


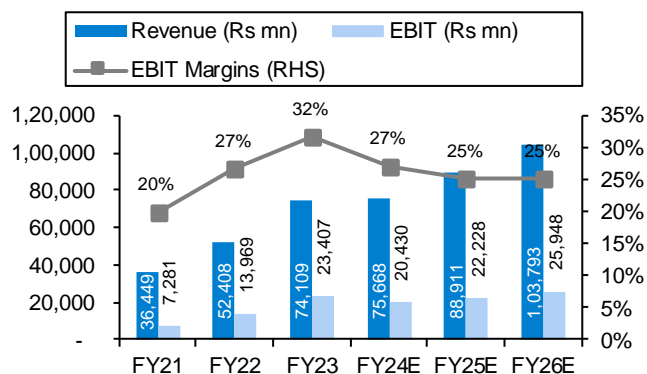
Source: Company, PL

Exhibit 5: PAT Margins to improve to 12-13%


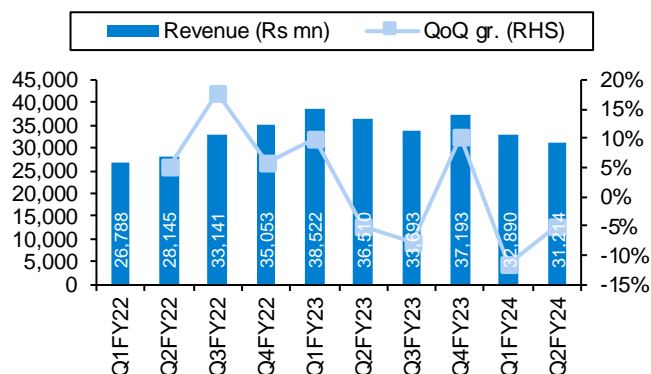
Source: Company, PL

Exhibit 6: Revenue to grow at 7% CAGR over FY23-FY26E


Source: Company, PL

Exhibit 7: Chemicals Segment to be key growth driver


Source: Company, PL

Exhibit 8: Topline dropped, headwinds expected over FY24E


Source: Company, PL

Exhibit 9: Valuation – SOTP based TP at Rs 2156a; Maintain Hold

	EBITDA (Rs mn) FY26E	Target EV/EBITDA multiple	Total Enterprise Value (Rs mn)
Chemicals Business	32,815	18.0	5,90,662
Packaging Films Business	7,306	8.0	58,450
Technical Textiles Business	3,529	8.0	28,231
Total Enterprise Value	43,650		6,77,344
less : Net Debt			39,298
			6,38,046
No of shares			296
TP			2,156

Source: PL, * Chemicals Business, Target multiple taken at 18x, due to subdued outlook

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	1,48,703	1,39,847	1,61,298	1,79,041
YoY gr. (%)	19.6	(6.0)	15.3	11.0
Cost of Goods Sold	73,935	68,169	78,820	85,783
Gross Profit	74,767	71,678	82,478	93,258
Margin (%)	50.3	51.3	51.1	52.1
Employee Cost	8,138	9,090	10,001	11,101
Other Expenses	31,337	31,605	36,453	40,463
EBITDA	35,292	30,983	36,024	41,694
YoY gr. (%)	11.1	(12.2)	16.3	15.7
Margin (%)	23.7	22.2	22.3	23.3
Depreciation and Amortization	5,753	7,286	8,750	10,103
EBIT	29,539	23,696	27,274	31,592
Margin (%)	19.9	16.9	16.9	17.6
Net Interest	2,048	2,411	2,546	2,688
Other Income	749	525	603	603
Profit Before Tax	28,240	21,810	25,331	29,507
Margin (%)	19.0	15.6	15.7	16.5
Total Tax	6,617	5,110	5,935	6,913
Effective tax rate (%)	23.4	23.4	23.4	23.4
Profit after tax	21,623	16,700	19,396	22,593
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	21,623	16,700	19,396	22,593
YoY gr. (%)	14.5	(22.8)	16.1	16.5
Margin (%)	14.5	11.9	12.0	12.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	21,623	16,700	19,396	22,593
YoY gr. (%)	14.5	(22.8)	16.1	16.5
Margin (%)	14.5	11.9	12.0	12.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	21,623	16,700	19,396	22,593
Equity Shares O/s (m)	296	296	296	296
EPS (Rs)	72.9	56.3	65.4	76.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	1,30,996	1,60,452	1,89,552	2,14,552
Tangibles	1,25,785	1,55,241	1,84,341	2,09,341
Intangibles	5,211	5,211	5,211	5,211
Acc: Dep / Amortization	30,498	37,784	46,534	56,637
Tangibles	29,306	36,592	45,343	55,445
Intangibles	1,191	1,191	1,191	1,191
Net fixed assets	1,00,498	1,22,668	1,43,018	1,57,916
Tangibles	96,479	1,18,649	1,38,999	1,53,896
Intangibles	4,019	4,019	4,019	4,019
Capital Work In Progress	24,055	24,599	20,499	20,499
Goodwill	-	-	-	-
Non-Current Investments	4,374	2,733	2,733	2,733
Net Deferred tax assets	(7,906)	(7,906)	(7,906)	(7,906)
Other Non-Current Assets	682	682	682	682
Current Assets				
Investments	4,901	4,901	4,901	4,901
Inventories	22,743	21,073	24,305	26,979
Trade receivables	17,856	16,793	19,369	21,499
Cash & Bank Balance	6,165	6,946	8,282	13,687
Other Current Assets	2,348	2,209	2,547	2,828
Total Assets	1,87,545	2,06,303	2,30,576	2,56,408
Equity				
Equity Share Capital	2,974	2,964	2,964	2,964
Other Equity	1,00,296	1,14,943	1,31,962	1,51,795
Total Network	1,03,271	1,17,907	1,34,926	1,54,759
Non-Current Liabilities				
Long Term borrowings	23,115	29,115	29,115	29,115
Provisions	608	608	608	608
Other non current liabilities	3,293	3,293	3,293	3,293
Current Liabilities				
ST Debt / Current of LT Debt	20,425	20,258	23,366	25,936
Trade payables	22,313	20,984	24,203	26,865
Other current liabilities	6,428	6,045	6,972	7,739
Total Equity & Liabilities	1,87,545	2,06,303	2,30,576	2,56,408

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	28,240	21,810	25,331	29,507
Add. Depreciation	5,753	7,286	8,750	10,103
Add. Interest	2,048	2,411	2,546	2,688
Less Financial Other Income	749	525	603	603
Add. Other	(1,343)	(525)	(603)	(603)
Op. profit before WC changes	34,698	30,983	36,024	41,694
Net Changes-WC	(604)	1,398	(2,573)	(2,128)
Direct tax	(5,077)	(5,123)	(5,902)	(6,886)
Net cash from Op. activities	29,017	27,257	27,549	32,680
Capital expenditures	(28,243)	(30,000)	(25,000)	(25,000)
Interest / Dividend Income	273	525	603	603
Others	(1,644)	1,641	-	-
Net Cash from Inv. activities	(29,614)	(27,834)	(24,397)	(24,397)
Issue of share cap. / premium	-	(10)	-	-
Debt changes	6,599	5,833	3,107	2,570
Dividend paid	(2,133)	(2,004)	(2,328)	(2,711)
Interest paid	(1,945)	(2,411)	(2,546)	(2,688)
Others	(325)	(49)	(49)	(49)
Net cash from Fin. activities	2,196	1,358	(1,816)	(2,879)
Net change in cash	1,599	781	1,337	5,405
Free Cash Flow	635	(2,743)	2,549	7,680

Source: Company Data, PL Research

Key Financial Metrics

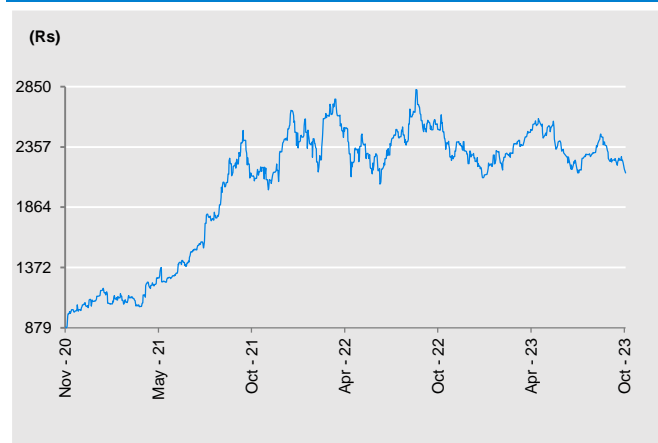
Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	72.9	56.3	65.4	76.2
CEPS	92.4	80.9	95.0	110.3
BVPS	348.4	397.8	455.2	522.1
FCF	2.1	(9.3)	8.6	25.9
DPS	8.8	6.8	7.9	9.1
Return Ratio(%)				
RoCE	22.1	15.1	15.4	15.9
ROIC	18.2	12.5	12.7	13.2
RoE	22.9	15.1	15.3	15.6
Balance Sheet				
Net Debt : Equity (x)	0.3	0.3	0.3	0.2
Net Working Capital (Days)	45	44	44	44
Valuation(x)				
PER	30.0	38.8	33.4	28.7
P/B	6.3	5.5	4.8	4.2
P/CEPS	23.7	27.0	23.0	19.8
EV/EBITDA	19.3	22.1	19.1	16.4
EV/Sales	4.6	4.9	4.3	3.8
Dividend Yield (%)	0.4	0.3	0.4	0.4

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	34,697	37,781	33,384	31,774
YoY gr. (%)	3.7	6.4	(14.3)	(14.8)
Raw Material Expenses	16,944	18,884	17,005	16,201
Gross Profit	17,753	18,897	16,379	15,573
Margin (%)	51.2	50.0	49.1	49.0
EBITDA	8,335	9,316	6,962	6,262
YoY gr. (%)	(5.4)	(1.7)	(30.0)	(18.6)
Margin (%)	24.0	24.7	20.9	19.7
Depreciation / Depletion	1,507	1,546	1,566	1,612
EBIT	6,829	7,770	5,396	4,650
Margin (%)	19.7	20.6	16.2	14.6
Net Interest	620	659	656	793
Other Income	100	223	118	291
Profit before Tax	6,309	7,334	4,858	4,148
Margin (%)	18.2	19.4	14.6	13.1
Total Tax	1,200	1,709	1,265	1,140
Effective tax rate (%)	19.0	23.3	26.0	27.5
Profit after Tax	5,109	5,625	3,593	3,008
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	5,109	5,625	3,593	3,008
YoY gr. (%)	1.1	(7.1)	(40.9)	(37.5)
Margin (%)	14.7	14.9	10.8	9.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,109	5,625	3,593	3,008
YoY gr. (%)	1.1	(7.1)	(40.9)	(37.5)
Margin (%)	14.7	14.9	10.8	9.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,109	5,625	3,593	3,008
Avg. Shares O/s (m)	296	296	296	296
EPS (Rs)	17.2	19.0	12.1	10.2

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Oct-23	Hold	2,143	2,246
2	15-Sep-23	Hold	2,143	2,371

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Hold	472	489
2	Bayer Cropscience	Accumulate	4,720	5,270
3	Bharat Petroleum Corporation	Hold	353	347
4	Bharti Airtel	Accumulate	936	926
5	Clean Science and Technology	Hold	1,418	1,410
6	Deepak Nitrite	Reduce	1,854	2,125
7	Dhanuka Agritech	BUY	950	854
8	Fine Organic Industries	Hold	4,710	4,921
9	GAIL (India)	BUY	136	125
10	Godrej Agrovet	Hold	420	515
11	Gujarat Fluorochemicals	Accumulate	3,230	2,846
12	Gujarat Gas	Accumulate	480	425
13	Gujarat State Petronet	BUY	327	290
14	Hindustan Petroleum Corporation	Hold	263	258
15	Indian Oil Corporation	Hold	97	90
16	Indraprastha Gas	Hold	539	460
17	Insecticides India	Accumulate	550	514
18	Jubilant Ingrevia	Hold	462	484
19	Laxmi Organic Industries	Reduce	220	254
20	Mahanagar Gas	Hold	1,056	1,114
21	Manglore Refinery & Petrochemicals	Hold	94	96
22	Navin Fluorine International	Accumulate	4,128	3,719
23	NOCIL	Hold	228	226
24	Oil & Natural Gas Corporation	BUY	202	181
25	Oil India	BUY	341	296
26	P.I. Industries	BUY	4,850	3,421
27	Petronet LNG	BUY	225	230
28	Rallis India	Reduce	190	217
29	Reliance Industries	BUY	2,618	2,266

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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