

January 31, 2024

Q3FY24 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	REDUCE		HOLD	
Target Price	2,127		2,155	
Sales (Rs. m)	1,48,411	1,64,153	1,61,298	1,79,041
% Chng.	(8.0)	(8.3)		
EBITDA (Rs. m)	32,059	37,321	35,966	41,694
% Chng.	(10.9)	(10.5)		
EPS (Rs.)	55.4	65.2	65.3	76.2
% Chng.	(15.1)	(14.5)		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	1,48,703	1,28,972	1,48,411	1,64,153
EBITDA (Rs. m)	35,292	25,972	32,059	37,321
Margin (%)	23.7	20.1	21.6	22.7
PAT (Rs. m)	21,623	12,895	16,426	19,322
EPS (Rs.)	72.9	43.5	55.4	65.2
Gr. (%)	14.5	(40.4)	27.4	17.6
DPS (Rs.)	8.8	5.2	6.6	7.8
Yield (%)	0.4	0.2	0.3	0.3
RoE (%)	22.9	11.8	13.5	14.1
RoCE (%)	22.1	12.1	13.6	14.4
EV/Sales (x)	4.8	5.6	4.9	4.5
EV/EBITDA (x)	20.4	28.0	22.8	19.6
PE (x)	31.8	53.3	41.9	35.6
P/BV (x)	6.7	6.0	5.3	4.7

Key Data

SRFL.BO | SRF IN

52-W High / Low	Rs.2,637 / Rs.2,040
Sensex / Nifty	71,752 / 21,726
Market Cap	Rs.688bn/ \$ 8,281m
Shares Outstanding	296m
3M Avg. Daily Value	Rs.1048.67m

Shareholding Pattern (%)

Promoter's	50.53
Foreign	19.60
Domestic Institution	14.53
Public & Others	15.35
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(6.4)	6.9	6.3
Relative	(5.8)	(0.9)	(11.8)

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SRF (SRF IN)

Rating: REDUCE | CMP: Rs2,320 | TP: Rs2,127

Chemical segment disappoints

Quick Pointers:

- While specialty chemicals segment has witnessed ~10% decline in 9M; the company expects ramp up in Q4FY24 due to deferred contracts
- Capex worth Rs11bn has been capitalized in 9M in specialty chemicals segment, expects another Rs7bn to be capitalized in Q4FY24; ramp up to bring growth

Both Chemicals and Packaging Films segments witnessed decline in revenues of 21% and 9% YoY while Technical Textiles registered 8% YoY growth. The company is in the process of ramping up the newly commissioned PTFE & R32 plants. Three new agrochem products have been launched in Q3FY24 while two more are expected to be ramped up in Q4FY24. No major capex has been shelved off as a result of the slowdown in demand although some deferment may happen. While the company appears strong in terms of product launches and growth, it is trading at 30x FY26 EPS and 17.4x FY26 EV/EBITDA. Due to continued concerns on agrochemical demand in the near-term and lack of recovery in ref gas prices, we downgrade to Reduce rating on the stock with SOTP based target price of Rs2,127.

- Consolidated revenue at Rs30.5bn (-12% YoY, -4% QoQ; PLe ~Rs29.6bn)**, declined majorly due to drop in chemicals segment (-21%/-2% YoY/QoQ) and packaging films segment (-9%/-3% YoY/QoQ). Technical textiles witnessed growth of 8% YoY but a decline of 9% QoQ. For 9MFY24, Rev stood at Rs95.7bn, -13.7% YoY.
- Gross margin stood at 49.1%**, down from 51.2% in Q3FY23 but flat QoQ. EBITDA stood at Rs5.7bn (-32% YoY, -10% QoQ, PLe Rs5.7bn). EBITDAM stood at 18.5% in Q3FY24 vs 24% in Q3FY23 and 19.7% in Q2FY24. EBIT in Chemicals segment declined from 35% in Q3FY23 and 24.4% in Q2FY24 to 23% in Q3FY24. EBIT margin in rest of the two segments registered slight improvement YoY.
- PAT at Rs2.5bn (-50% YoY, -16% QoQ; PLe Rs3.2bn)**. For 9MFY24, PAT stood at Rs9.1bn, -43% YoY.
- Concall takeaways:** (1) Inventory rationalization taking place in specialty chemicals business from few customers, resulting in weakness, (2) three new products in agrochem launched in Q3FY24; expect to launch two new in Q4FY24, (3) two recently commissioned facilities- PTFE & R32 are being ramped up, (4) Rs11bn of capex capitalized in 9M in specialty chemicals; additional Rs7bn to be capitalized in Q4FY24, (5) significant recovery expected in specialty chemicals in Q4FY24 as few orders that had been deferred earlier would crystalize in Q4FY24, (6) in 9M, specialty chemicals segment degrew by ~10%; expect better performance in Q4FY24, (7) capitalized Aluminium foil facility in Q3FY24; expecting global approvals in next 6-12m, (8) expect capex of INR20-2bn in FY25- 80% in chemicals, (9) among various categories of ref gas, highest competition from Chinese being witnessed in HFCs, (10) overall, US has initiated production cuts based on GWP- may see some ref gases rising, some declining

Exhibit 1: Valuation – SOTP based TP at Rs 2155; Maintain Hold

	EBITDA (Rs mn) FY26E	Target EV/EBITDA multiple	Total Enterprise Value (Rs mn)
Specialty Chemicals	28,243	20.0	5,64,863
Packaging Films Business	7,306	10.0	73,063
Technical Textiles Business	3,529	10.0	35,289
Total Enterprise Value	39,078		6,73,214
less : Net Debt			43,734
Total			6,29,480
No of shares			296
TP			2,127

Source: PL

Exhibit 2: Q3FY24 Result Overview – Consolidated (Rs mn)

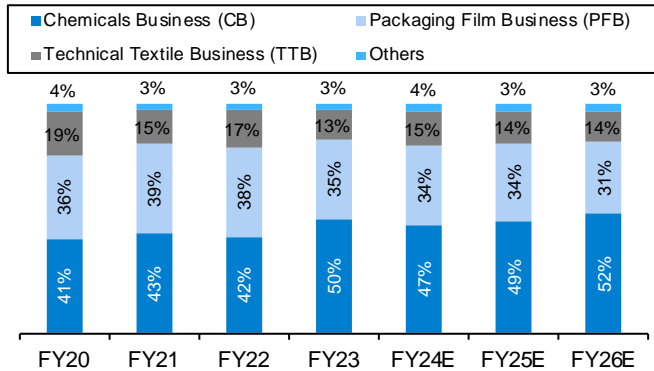
Y/e March	Q3FY24	Q3FY23	YoY gr. (%)	Q3FY24E	% Var.	Q2FY24	QoQ gr. (%)	9MFY24	9MFY23	YoY gr. (%)
Net Sales	30,530	34,697	(12.0)	29,634	3.0	31,774	(3.9)	95,688	1,10,922	(13.7)
Gross Profit	14,984	17,753	(15.6)	14,817	1.1	15,573	(3.8)	46,935	55,871	(16.0)
Margin (%)	49.1	51.2		50		49.0		49.1	50.4	
EBITDA	5,658	8,335	(32.1)	5,662	(0.1)	6,262	(9.6)	18,883	25,976	(27.3)
Margin (%)	18.5	24.0		19		19.7		19.7	23.4	
Other Income	188	100	87.3	291	(35.6)	291	(35.6)	596	526	13.4
Depreciation	1,689	1,507	12.1	728	132.0	1,612	4.8	4,867	4,207	15.7
EBIT	3,969	6,829	(41.9)	4,934	(19.5)	4,650	(14.6)	14,016	21,769	(35.6)
Interest	674	620	8.7	793	(15.0)	793	(15.0)	2,123	1,389	52.8
PBT before excep	3,483	6,309	(44.8)	4,432	(21.4)	4,148	(16.0)	12,489	20,906	(40.3)
Total Tax	949	1,200	(20.9)	1,241	(23.5)	1,140	(16.8)	3,354	4,907	(31.7)
ETR (%)	27.2	19.0		28	(2.7)	27.5	(0.9)	26.9	23.5	14.4
Adj. PAT	2,534	5,109	(50.4)	3,191	(20.6)	3,008	(15.7)	9,135	15,999	(42.9)
Exceptional Items	0	0		-		0		0	0	
PAT	2,534	5,109	(50.4)	3,191	(20.6)	3,008	(15.7)	9,135	15,999	(42.9)

Source: Company, PL

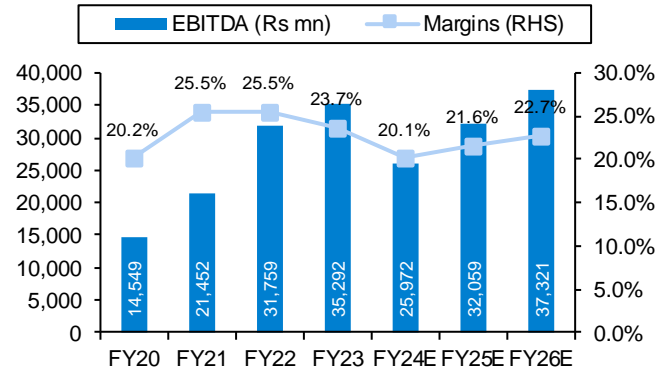
Exhibit 3: Segmental Details (Rs mn)

	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Revenue from Operations	38,951	37,278	34,776	37,797	33,387	31,808	30,567
Chemicals Business (CB)	17,224	18,302	17,566	21,017	16,605	14,263	13,941
Packing Film Business (PFB)	14,960	13,310	12,027	11,531	10,948	11,215	10,907
Technical Textile Business (TTB)	5,710	4,662	4,259	4,307	4,647	5,062	4,584
Others	1,056	1,004	923	943	1,187	1,269	1,136
Less : Inter Segment Revenues	3	-	79	16	3	35	37
Total Segment Revenue	38,947	37,278	34,697	37,781	33,384	31,774	30,530
Add : Other Unallocable Income	-	-	-	-	-	-	-
Net Revenue from Operations	38,947	37,278	34,697	37,781	33,384	31,774	30,530
Change (YoY %)	44%	31%	4%	6%	-14%	-15%	-12%
Chemicals Business (CB)	55%	62%	23%	34%	-4%	-22%	-21%
Packing Film Business (PFB)	44%	24%	-6%	-17%	-27%	-16%	-9%
Technical Textile Business (TTB)	16%	-16%	-21%	-13%	-19%	9%	8%
Others	97%	16%	-14%	1%	12%	26%	23%
Change (QoQ %)	10%	-4%	-7%	9%	-12%	-5%	-4%
Chemicals Business (CB)	10%	6%	-4%	20%	-21%	-14%	-2%
Packing Film Business (PFB)	8%	-11%	-10%	-4%	-5%	2%	-3%
Technical Textile Business (TTB)	15%	-18%	-9%	1%	8%	9%	-9%
Others	13%	-5%	-8%	2%	26%	7%	-10%
Revenue Mix (%)							
Chemicals Business (CB)	44%	49%	51%	56%	50%	45%	46%
Packing Film Business (PFB)	38%	36%	35%	31%	33%	35%	36%
Technical Textile Business (TTB)	15%	13%	12%	11%	14%	16%	15%
Others	3%	3%	3%	2%	4%	4%	4%
Profit/Loss Before Interest and Tax	9,384	6,892	7,259	8,399	5,952	5,331	4,567
Chemicals Business (CB)	5,202	5,173	5,639	7,393	4,601	3,478	3,219
Packing Film Business (PFB)	2,952	1,014	1,186	410	513	773	449
Technical Textile Business (TTB)	1,162	629	342	484	607	750	688
Others	68	76	91	113	232	331	212
Less: Other Un-allocable Expenditure	643	267	330	407	438	390	410
Unallocated Exp as % of Rev	1.6%	0.7%	0.9%	1.1%	1.3%	1.2%	1.3%
EBIT (incl Other Income)	8,741	6,626	6,929	7,993	5,514	4,941	4,157
Less: Interest cost	99	327	100	223	118	291	188
EBIT	8,642	6,298	6,829	7,770	5,396	4,650	3,969
Less: Finance Costs	325	445	620	659	656	793	674
PBT	8,416	6,181	6,309	7,334	4,858	4,148	3,483

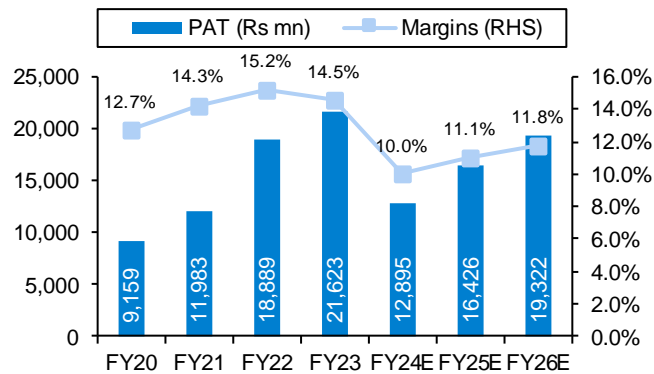
Source: Company, PL

Exhibit 4: Chemicals contri to increase to 55-60%


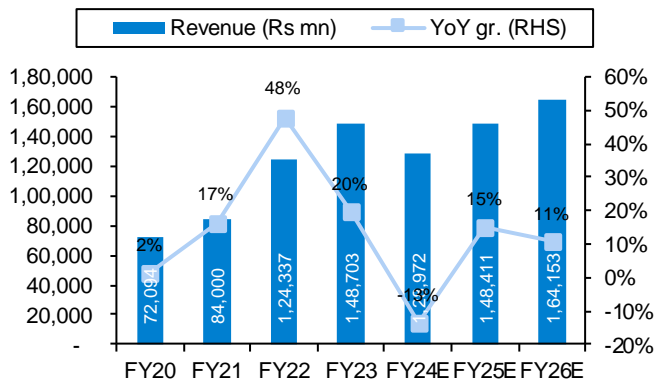
Source: Company, PL

Exhibit 5: EBITDA margin to improve with high value add mix


Source: Company, PL

Exhibit 6: PAT Margins to improve to 12-13%


Source: Company, PL

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


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	1,48,703	1,28,972	1,48,411	1,64,153
YoY gr. (%)	19.6	(13.3)	15.1	10.6
Cost of Goods Sold	73,935	65,469	73,906	79,884
Gross Profit	74,767	63,503	74,505	84,269
Margin (%)	50.3	49.2	50.2	51.3
Employee Cost	8,138	8,383	8,905	9,849
Other Expenses	31,337	29,148	33,541	37,099
EBITDA	35,292	25,972	32,059	37,321
YoY gr. (%)	11.1	(26.4)	23.4	16.4
Margin (%)	23.7	20.1	21.6	22.7
Depreciation and Amortization	5,753	7,286	8,750	10,103
EBIT	29,539	18,686	23,309	27,219
Margin (%)	19.9	14.5	15.7	16.6
Net Interest	2,048	2,370	2,460	2,588
Other Income	749	525	603	603
Profit Before Tax	28,240	16,840	21,452	25,234
Margin (%)	19.0	13.1	14.5	15.4
Total Tax	6,617	3,946	5,026	5,912
Effective tax rate (%)	23.4	23.4	23.4	23.4
Profit after tax	21,623	12,895	16,426	19,322
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	21,623	12,895	16,426	19,322
YoY gr. (%)	14.5	(40.4)	27.4	17.6
Margin (%)	14.5	10.0	11.1	11.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	21,623	12,895	16,426	19,322
YoY gr. (%)	14.5	(40.4)	27.4	17.6
Margin (%)	14.5	10.0	11.1	11.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	21,623	12,895	16,426	19,322
Equity Shares O/s (m)	296	296	296	296
EPS (Rs)	72.9	43.5	55.4	65.2

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	19,434	22,363	24,735
Trade receivables	17,856	15,487	17,821	19,711
Cash & Bank Balance	6,165	3,309	1,979	4,452
Other Current Assets	2,348	2,037	2,344	2,592
Total Assets	1,87,545	1,99,277	2,20,256	2,42,533
Equity				
Equity Share Capital	2,974	2,964	2,964	2,964
Other Equity	1,00,296	1,11,594	1,26,000	1,42,954
Total Network	1,03,271	1,14,558	1,28,964	1,45,918
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	18,683	21,499	23,779
Trade payables	22,313	19,352	22,269	24,631
Other current liabilities	6,428	5,575	6,415	7,096
Total Equity & Liabilities	1,87,545	1,99,277	2,20,256	2,42,533

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	28,240	16,840	21,452	25,234
Add. Depreciation	5,753	7,286	8,750	10,103
Add. Interest	2,048	2,370	2,460	2,588
Less Financial Other Income	749	525	603	603
Add. Other	(1,343)	(525)	(603)	(603)
Op. profit before WC changes	34,698	25,972	32,059	37,321
Net Changes-WC	(604)	2,702	(2,331)	(1,888)
Direct tax	(5,077)	(3,976)	(4,997)	(5,888)
Net cash from Op. activities	29,017	24,698	24,731	29,545
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 Invt. activities	(29,614)	(27,834)	(24,397)	(24,397)
Issue of share cap. / premium	-	(10)	-	-
Debt changes	6,599	4,257	2,816	2,280
Dividend paid	(2,133)	(1,547)	(1,971)	(2,319)
Interest paid	(1,945)	(2,370)	(2,460)	(2,588)
Others	(325)	(49)	(49)	(49)
Net cash from Fin. activities	2,196	281	(1,665)	(2,675)
Net change in cash	1,599	(2,855)	(1,330)	2,473
Free Cash Flow	635	(5,302)	(269)	4,545

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	72.9	43.5	55.4	65.2
CEPS	92.4	68.1	84.9	99.3
BVPS	348.4	386.5	435.1	492.3
FCF	2.1	(17.9)	(0.9)	15.3
DPS	8.8	5.2	6.6	7.8
Return Ratio(%)				
RoCE	22.1	12.1	13.6	14.4
ROIC	18.2	9.9	10.9	11.5
RoE	22.9	11.8	13.5	14.1
Balance Sheet				
Net Debt : Equity (x)	0.3	0.3	0.3	0.3
Net Working Capital (Days)	45	44	44	44
Valuation(x)				
PER	31.8	53.3	41.9	35.6
P/B	6.7	6.0	5.3	4.7
P/CEPS	25.1	34.1	27.3	23.4
EV/EBITDA	20.4	28.0	22.8	19.6
EV/Sales	4.8	5.6	4.9	4.5
Dividend Yield (%)	0.4	0.2	0.3	0.3

Source: Company Data, PL Research

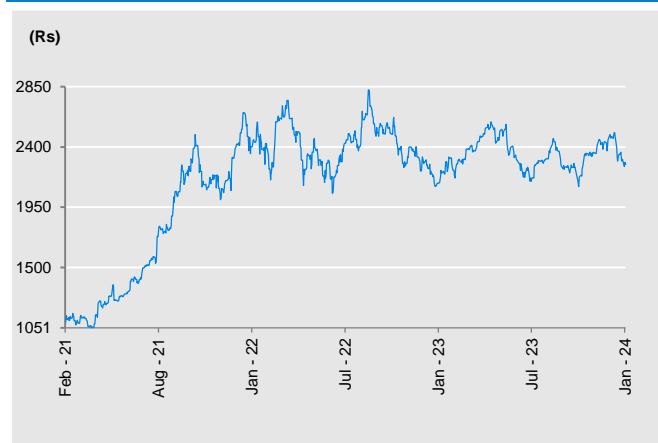
Quarterly Financials (Rs m)

Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Net Revenue	37,781	33,384	31,774	30,530
YoY gr. (%)	6.4	(14.3)	(14.8)	(12.0)
Raw Material Expenses	18,884	17,005	16,201	15,547
Gross Profit	18,897	16,379	15,573	14,984
Margin (%)	50.0	49.1	49.0	49.1
EBITDA	9,316	6,962	6,262	5,658
YoY gr. (%)	(1.7)	(30.0)	(18.6)	(32.1)
Margin (%)	24.7	20.9	19.7	18.5
Depreciation / Depletion	1,546	1,566	1,612	1,689
EBIT	7,770	5,396	4,650	3,969
Margin (%)	20.6	16.2	14.6	13.0
Net Interest	659	656	793	674
Other Income	223	118	291	188
Profit before Tax	7,334	4,858	4,148	3,483
Margin (%)	19.4	14.6	13.1	11.4
Total Tax	1,709	1,265	1,140	949
Effective tax rate (%)	23.3	26.0	27.5	27.2
Profit after Tax	5,625	3,593	3,008	2,534
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	5,625	3,593	3,008	2,534
YoY gr. (%)	(7.1)	(40.9)	(37.5)	(50.4)
Margin (%)	14.9	10.8	9.5	8.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,625	3,593	3,008	2,534
YoY gr. (%)	(7.1)	(40.9)	(37.5)	(50.4)
Margin (%)	14.9	10.8	9.5	8.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,625	3,593	3,008	2,534
Avg. Shares O/s (m)	296	296	296	296
EPS (Rs)	19.0	12.1	10.2	8.6

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-24	Hold	2,155	2,481
2	30-Oct-23	Hold	2,156	2,186
3	09-Oct-23	Hold	2,143	2,246
4	15-Sep-23	Hold	2,143	2,371

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Reduce	584	629
2	Bharat Petroleum Corporation	Sell	381	504
3	Bharti Airtel	Accumulate	1,088	1,047
4	Clean Science and Technology	Hold	1,368	1,572
5	Deepak Nitrite	Reduce	1,881	2,451
6	Fine Organic Industries	Hold	4,920	4,867
7	GAIL (India)	Reduce	157	172
8	Gujarat Fluorochemicals	Reduce	3,342	3,626
9	Gujarat Gas	Hold	473	505
10	Gujarat State Petronet	Accumulate	374	334
11	Hindustan Petroleum Corporation	Sell	284	432
12	Indian Oil Corporation	Sell	100	143
13	Indraprastha Gas	Hold	382	405
14	Jubilant Ingrevia	Hold	433	439
15	Laxmi Organic Industries	Sell	221	271
16	Mahanagar Gas	Reduce	1,124	1,345
17	Mangalore Refinery & Petrochemicals	Sell	106	134
18	Navin Fluorine International	BUY	4,260	3,823
19	NOCIL	Reduce	236	274
20	Oil & Natural Gas Corporation	BUY	259	216
21	Oil India	Hold	379	380
22	Petronet LNG	Sell	212	268
23	Reliance Industries	Accumulate	2,912	2,735
24	SRF	Hold	2,155	2,481
25	Vinati Organics	Accumulate	1,885	1,741

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

ANALYST CERTIFICATION

(Indian Clients)

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