

July 25, 2024

Q1FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	REDUCE		REDUCE	
Target Price	2,048		2,062	
Sales (Rs. m)	1,35,396	1,57,480	1,34,013	1,57,480
% Chng.	1.0	-		
EBITDA (Rs. m)	26,648	33,059	27,378	34,919
% Chng.	(2.7)	(5.3)		
EPS (Rs.)	44.1	58.2	46.4	63.1
% Chng.	(4.9)	(7.9)		

Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	1,48,703	1,31,385	1,35,396	1,57,480
EBITDA (Rs. m)	35,292	25,841	26,648	33,059
Margin (%)	23.7	19.7	19.7	21.0
PAT (Rs. m)	21,623	13,357	13,083	17,240
EPS (Rs.)	72.9	45.1	44.1	58.2
Gr. (%)	14.5	(38.2)	(2.0)	31.8
DPS (Rs.)	8.8	5.4	5.3	7.0
Yield (%)	0.4	0.2	0.2	0.3
RoE (%)	22.9	12.3	10.9	12.9
RoCE (%)	22.1	12.3	10.8	12.8
EV/Sales (x)	4.9	5.7	5.5	4.7
EV/EBITDA (x)	20.8	28.7	27.8	22.4
PE (x)	32.5	52.5	53.6	40.7
P/BV (x)	6.8	6.1	5.6	5.0

Key Data

SRFL.BO | SRF IN

52-W High / Low	Rs.2,697 / Rs.2,040
Sensex / Nifty	80,149 / 24,414
Market Cap	Rs.702bn/ \$ 8,383m
Shares Outstanding	296m
3M Avg. Daily Value	Rs.1391.87m

Shareholding Pattern (%)

Promoter's	50.07
Foreign	18.56
Domestic Institution	17.41
Public & Others	13.93
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(2.2)	3.6	10.4
Relative	(5.6)	(8.1)	(8.5)

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SRF (SRF IN)

Rating: REDUCE | CMP: Rs2,368 | TP: Rs2,048

Uncertainty on agrochem continues

Quick Pointers:

- Overall capex guidance of Rs15-19bn in FY25
- Agrochem continues to remain weak; recovery timeline unclear

Chemicals segment experienced an 18% sequential decline in revenue in Q1FY25. The decline was due to inventory rationalization by key customers and weak demand for key agro intermediates, which negatively impacted the Specialty Chemicals business. The Fluorochemicals business also faced challenges, with lower margins in Chloromethane; however, Refrigerant Gases performed well in the domestic market. BOPET Film segment continued to struggle with an oversupplied market, whereas the BOPP Film segment benefited from higher margins, resulting in a 22% YoY increase in the Packaging business revenue. Textiles business demonstrated resilience with a healthy 13% revenue increase YoY, driven by strong volumes in Nylon Tyre Cord Fabrics and Polyester Industrial Yarn. Looking ahead, the company is expected to perform better in the Fluorochemicals segment. However, there are concerns about agrochemical demand and excess supply from Chinese competitors, which could impact margins in the near term. We remain cautious on the stock and maintain our 'REDUCE' rating on the stock with SOTP-based target price of Rs2,048.

- Recovery seen in Packaging Film business, driven by BOPP Film:** Consolidated revenue came in at Rs34.6bn (3.8% YoY/-3% QoQ; PLE: Rs33.5bn, consensus: Rs33.4bn), down QoQ due to decrease in Chemicals (-11% YoY/-18% QoQ). Packaging Film and Technical Textiles witnessed growth of 22% YoY/13% QoQ and 13% YoY/12% QoQ, respectively.
- Margin pressure continues in Chemicals and Textiles segments:** Gross margin stood at 47.3%, down from 49.1% in Q1FY24 and 48.6% in Q4FY24, due to increased raw material prices. EBITDA stood at Rs6bn (PLE: Rs6.8bn, Consensus: Rs6.5bn), -13.3% YoY and -13.3% QoQ. EBITDAM stood at 17.4% vs 19.5% in Q4FY24 and 20.9% in Q1FY24. EBIT in Chemicals segment was down 38% QoQ and 33% YoY. EBIT margin decreased for Chemicals by 670bps to 20.7%, but increased for Packaging Film by 370bps to 6.5% QoQ.
- Key concall takeaways: Chemicals business:** (1) Sluggish demand in Agrochem sector continued, and recovery timeline is unclear. (2) Domestic Fluorochemicals business was strong in Q1FY25. (3) 20% growth guidance in Specialty Chemicals was maintained. (4) 70% capacity utilization is expected on overall available R-32 capacity in FY25. (5) From Q3FY26, 3 fluoropolymers projects will be commissioned in a phased manner. **Packaging Film business:** (6) BOPET witnessed some pricing improvement towards the end of Jun'24; however, supply still far exceeds demand. (7) Ramp-up in aluminum foil production is likely in H2FY25, and export sampling is underway. **Technical textile business:** (9) Belting Fabric demand softened. (10) Demand for NTCF and PIY remained strong. (11) Dipping and Belting Fabric capacity expansion projects are progressing as planned.

Exhibit 1: Valuation – SOTP-based TP at Rs2,048; maintain ‘Reduce’ rating

	EBITDA (Rs mn) FY26E	Target EV/EBITDA multiple	Total Enterprise Value (Rs mn)
Specialty Chemicals	24,344	22.0	5,35,564
Packaging Films Business	7,355	10.0	73,553
Technical Textiles Business	3,381	11.0	37,189
Total Enterprise Value	35,080		6,46,306
less : Net Debt			40,183
Total			6,06,123
No of shares			296
TP			2,048

Source: PL

Exhibit 2: Q1FY25 Result Overview – Consolidated (Rs mn)

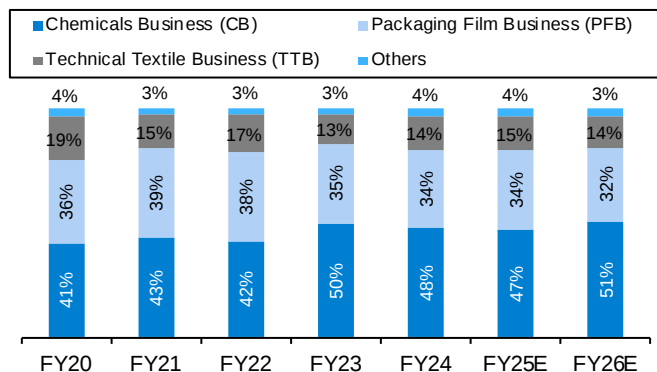
Y/e March	Q1FY25	Q1FY24	YoY gr. (%)	Q1FY25E	% Var.	Q4FY24	QoQ gr. (%)	FY25E	FY24	YoY gr. (%)
Net Sales	34,641	33,384	3.8	33,503	3.4	35,697	(3.0)	1,34,013	1,31,385	2.0
Gross Profit	16,371	16,379	(0.0)	16,639	(1.6)	17,362	(5.7)	66,558	64,297	3.5
Margin (%)	47.3	49.1		49.7		48.6		49.7	48.9	
EBITDA	6,034	6,963	(13.3)	6,845	(11.8)	6,958	(13.3)	27,378	25,841	5.9
Margin (%)	17.4	20.9		20.4		19.5		20.4	19.7	
Other Income	253	118	114.8	239	5.8	234	8.0	955	830	15.0
Depreciation	1,882	1,566	20.1	2,106	(10.6)	1,859	1.2	8,423	6,726	25.2
EBIT	4,153	5,396	(23.0)	4,739	(12.4)	5,099	(18.6)	18,955	19,115	(0.8)
Interest	965	656	47.1	618	56.1	900	7.3	2,473	3,023	(18.2)
PBT before exceptional items	3,440	4,858	(29.2)	4,359	(21.1)	4,433	(22.4)	17,436	16,922	3.0
Total Tax	918	1,265	(27.5)	918	(0.1)	211	334.7	3,673	3,565	3.0
ETR (%)	26.7	26.0		21.1	26.6	4.8	460.2	21.1	21.1	0.0
Adj. PAT	2,522	3,593	(29.8)	3,441	(26.7)	4,222	(40.3)	13,763	13,357	3.0
Exceptional Items	0	0		0		0		0	0	
PAT	2,522	3,593	(29.8)	3,441	(26.7)	4,222	(40.3)	13,763	13,357	3.0

Source: Company, PL

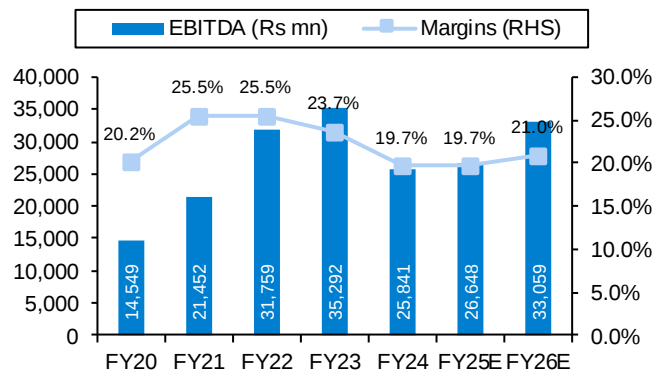
Exhibit 3: Segmental Details (Rs mn)

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Revenue from Operations	34,776	37,797	33,387	31,808	30,567	35,734	34,698
Chemicals Business (CB)	17,566	21,017	16,605	14,263	13,941	18,161	14820
Packing Film Business (PFB)	12,027	11,531	10,948	11,215	10,907	11,824	13363
Technical Textile Business (TTB)	4,259	4,307	4,647	5,062	4,584	4,689	5253
Others	923	943	1,187	1,269	1,136	1,062	1261.6
Less : Inter Segment Revenues	79	16	3	35	37	37	56
Total Segment Revenue	34,697	37,781	33,384	31,774	30,530	35,697	34,641
Add : Other Unallocable Income	-	-	-	-	-	-	-
Net Revenue from Operations	34,697	37,781	33,384	31,774	30,530	35,697	34,641
Change (YoY %)							
Chemicals Business (CB)	4%	6%	-14%	-15%	-12%	-6%	4%
Packing Film Business (PFB)	23%	34%	-4%	-22%	-21%	-14%	-11%
Technical Textile Business (TTB)	-6%	-17%	-27%	-16%	-9%	3%	22%
Others	-21%	-13%	-19%	9%	8%	9%	13%
	-14%	1%	12%	26%	23%	13%	6%
Change (QoQ %)							
Chemicals Business (CB)	-7%	9%	-12%	-5%	-4%	17%	-3%
Packing Film Business (PFB)	-4%	20%	-21%	-14%	-2%	30%	-18%
Technical Textile Business (TTB)	-10%	-4%	-5%	2%	-3%	8%	13%
Others	-9%	1%	8%	9%	-9%	2%	12%
	-8%	2%	26%	7%	-10%	-7%	19%
Revenue Mix (%)							
Chemicals Business (CB)							
Packing Film Business (PFB)	51%	56%	50%	45%	46%	51%	43%
Technical Textile Business (TTB)	35%	31%	33%	35%	36%	33%	39%
Others	12%	11%	14%	16%	15%	13%	15%
	3%	2%	4%	4%	4%	3%	4%
Profit/Loss Before Interest and Tax							
Chemicals Business (CB)	7,259	8,399	5,952	5,331	4,567	6,161	4,844
Packing Film Business (PFB)	5,639	7,393	4,601	3,478	3,219	4,977	3,064
Technical Textile Business (TTB)	1,186	410	513	773	449	331	868
Others	342	484	607	750	688	698	677
Less: Other Un-allocable Expenditure	91	113	232	331	212	156	236
Unallocated Exp as % of Rev	330	407	438	390	410	828	439
EBIT (incl Other Income)	0.9%	1.1%	1.3%	1.2%	1.3%	2.3%	1.3%
Less: Other Income	6,929	7,993	5,514	4,941	4,157	5,333	4,405
EBIT	100	223	118	291	188	234	253
Less: Finance Costs	6,829	7,770	5,396	4,650	3,969	5,099	4,153
PBT	620	659	656	793	674	900	965

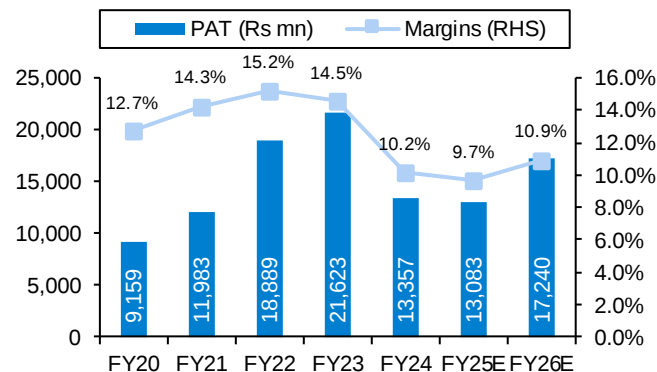
Source: Company, PL

Exhibit 4: Chemicals contribution to be at 47% in FY25


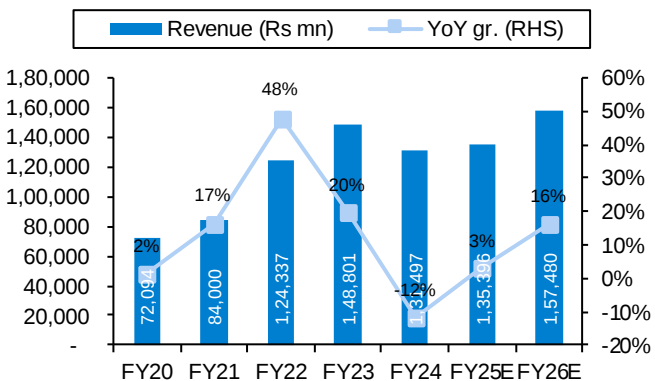
Source: Company, PL

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


Source: Company, PL

Exhibit 6: PAT margins to improve to ~11% in FY26


Source: Company, PL

Exhibit 7: Revenue to grow at 3% CAGR over FY23-FY26E


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	1,48,703	1,31,385	1,35,396	1,57,480
YoY gr. (%)	19.6	(11.6)	3.1	16.3
Cost of Goods Sold	73,935	67,088	70,518	80,642
Gross Profit	74,767	64,297	64,878	76,838
Margin (%)	50.3	48.9	47.9	48.8
Employee Cost	8,138	9,350	9,478	11,024
Other Expenses	31,337	29,106	28,752	32,756
EBITDA	35,292	25,841	26,648	33,059
YoY gr. (%)	11.1	(26.8)	3.1	24.1
Margin (%)	23.7	19.7	19.7	21.0
Depreciation and Amortization	5,753	6,726	8,349	9,298
EBIT	29,539	19,115	18,299	23,761
Margin (%)	19.9	14.5	13.5	15.1
Net Interest	2,048	3,023	2,480	2,613
Other Income	749	830	955	955
Profit Before Tax	28,240	16,922	16,774	22,103
Margin (%)	19.0	12.9	12.4	14.0
Total Tax	6,617	3,565	3,690	4,863
Effective tax rate (%)	23.4	21.1	22.0	22.0
Profit after tax	21,623	13,357	13,083	17,240
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	21,623	13,357	13,083	17,240
YoY gr. (%)	14.5	(38.2)	(2.0)	31.8
Margin (%)	14.5	10.2	9.7	10.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	21,623	13,357	13,083	17,240
YoY gr. (%)	14.5	(38.2)	(2.0)	31.8
Margin (%)	14.5	10.2	9.7	10.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	21,623	13,357	13,083	17,240
Equity Shares O/s (m)	296	296	296	296
EPS (Rs)	72.9	45.1	44.1	58.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	1,30,996	1,69,640	1,90,580	2,10,580
Tangibles	1,25,785	1,64,429	1,85,369	2,05,369
Intangibles	5,211	5,211	5,211	5,211
Acc: Dep / Amortization	30,498	37,224	45,573	54,870
Tangibles	29,306	36,032	44,381	53,679
Intangibles	1,191	1,191	1,191	1,191
Net fixed assets	1,00,498	1,32,416	1,45,007	1,55,710
Tangibles	96,479	1,28,397	1,40,988	1,51,690
Intangibles	4,019	4,019	4,019	4,019
Capital Work In Progress	24,055	8,053	7,113	7,113
Goodwill	-	-	-	-
Non-Current Investments	4,374	5,605	3,902	3,902
Net Deferred tax assets	(7,906)	(9,112)	(9,112)	(9,112)
Other Non-Current Assets	682	1,976	1,976	1,976
Current Assets				
Investments	4,901	4,056	4,056	4,056
Inventories	22,743	23,265	23,975	27,885
Trade receivables	17,856	19,428	20,021	23,287
Cash & Bank Balance	6,165	4,075	5,778	11,281
Other Current Assets	2,348	1,980	2,041	2,374
Total Assets	1,87,545	2,04,819	2,17,946	2,42,281
Equity				
Equity Share Capital	2,974	2,974	2,964	2,964
Other Equity	1,00,296	1,11,816	1,23,280	1,38,402
Total Network	1,03,271	1,14,790	1,26,244	1,41,366
Non-Current Liabilities				
Long Term borrowings	23,115	22,511	22,511	22,511
Provisions	608	714	714	714
Other non current liabilities	3,293	2,609	2,609	2,609
Current Liabilities				
ST Debt / Current of LT Debt	20,425	26,691	27,506	31,992
Trade payables	22,313	21,978	22,648	26,343
Other current liabilities	6,428	6,139	6,326	7,358
Total Equity & Liabilities	1,87,545	2,04,819	2,17,946	2,42,281

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	28,240	16,922	16,774	22,103
Add. Depreciation	5,753	6,726	8,349	9,298
Add. Interest	2,048	3,023	2,480	2,613
Less Financial Other Income	749	830	955	955
Add. Other	(1,343)	(762)	(955)	(955)
Op. profit before WC changes	34,698	25,909	26,648	33,059
Net Changes-WC	(604)	(1,145)	(626)	(3,446)
Direct tax	(5,077)	(3,826)	(3,674)	(4,820)
Net cash from Op. activities	29,017	20,939	22,348	24,793
Capital expenditures	(28,243)	(22,017)	(20,000)	(20,000)
Interest / Dividend Income	273	265	955	955
Others	(1,644)	(521)	1,694	-
Net Cash from Invt. activities	(29,614)	(22,273)	(17,351)	(19,045)
Issue of share cap. / premium	-	-	(10)	-
Debt changes	6,599	5,404	815	4,486
Dividend paid	(2,133)	(2,137)	(1,570)	(2,069)
Interest paid	(1,945)	(3,612)	(2,480)	(2,613)
Others	(360)	(372)	(49)	(49)
Net cash from Fin. activities	2,161	(717)	(3,295)	(245)
Net change in cash	1,564	(2,052)	1,702	5,503
Free Cash Flow	635	(1,231)	2,348	4,793

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	72.9	45.1	44.1	58.2
CEPS	92.4	67.8	72.3	89.5
BVPS	348.4	387.3	425.9	476.9
FCF	2.1	(4.2)	7.9	16.2
DPS	8.8	5.4	5.3	7.0
Return Ratio(%)				
RoCE	22.1	12.3	10.8	12.8
ROIC	18.2	10.3	8.9	10.7
RoE	22.9	12.3	10.9	12.9
Balance Sheet				
Net Debt : Equity (x)	0.3	0.4	0.3	0.3
Net Working Capital (Days)	45	58	58	58
Valuation(x)				
PER	32.5	52.5	53.6	40.7
P/B	6.8	6.1	5.6	5.0
P/CEPS	25.6	34.9	32.7	26.4
EV/EBITDA	20.8	28.7	27.8	22.4
EV/Sales	4.9	5.7	5.5	4.7
Dividend Yield (%)	0.4	0.2	0.2	0.3

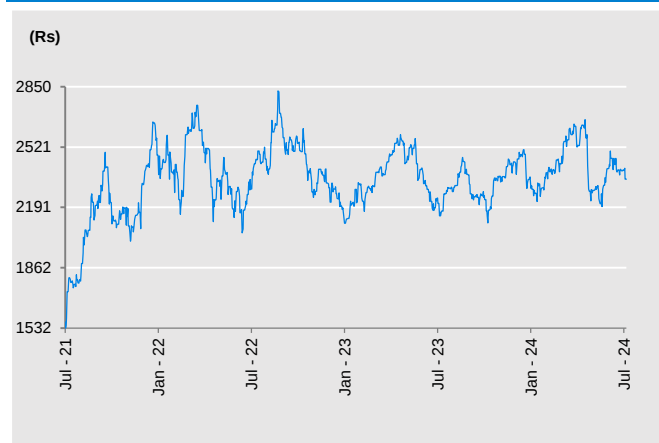
Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Net Revenue	31,774	30,530	35,697	34,641
YoY gr. (%)	(14.8)	(12.0)	(5.5)	3.8
Raw Material Expenses	16,201	15,547	18,335	18,271
Gross Profit	15,573	14,984	17,362	16,371
Margin (%)	49.0	49.1	48.6	47.3
EBITDA	6,262	5,658	6,958	6,034
YoY gr. (%)	(18.6)	(32.1)	(25.3)	(13.3)
Margin (%)	19.7	18.5	19.5	17.4
Depreciation / Depletion	1,612	1,689	1,859	1,882
EBIT	4,650	3,969	5,099	4,153
Margin (%)	14.6	13.0	14.3	12.0
Net Interest	793	674	900	965
Other Income	291	188	234	253
Profit before Tax	4,148	3,483	4,433	3,440
Margin (%)	13.1	11.4	12.4	9.9
Total Tax	1,140	949	211	918
Effective tax rate (%)	27.5	27.2	4.8	26.7
Profit after Tax	3,008	2,534	4,222	2,522
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,008	2,534	4,222	2,522
YoY gr. (%)	(37.5)	(50.4)	(24.9)	(29.8)
Margin (%)	9.5	8.3	11.8	7.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,008	2,534	4,222	2,522
YoY gr. (%)	(37.5)	(50.4)	(24.9)	(29.8)
Margin (%)	9.5	8.3	11.8	7.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,008	2,534	4,222	2,522
Avg. Shares O/s (m)	296	296	296	-
EPS (Rs)	10.2	8.6	14.3	-

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Jul-24	Reduce	2,062	2,393
2	09-May-24	Reduce	2,123	2,291
3	09-Apr-24	Reduce	2,222	2,614
4	31-Jan-24	Reduce	2,127	2,320
5	08-Jan-24	Hold	2,155	2,481
6	30-Oct-23	Hold	2,156	2,186
7	09-Oct-23	Hold	2,143	2,246
8	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	634	718
2	Ashok Leyland	Accumulate	249	230
3	Bajaj Auto	Accumulate	10,326	9,718
4	Bharat Forge	Hold	1,615	1,672
5	Bharat Petroleum Corporation	Reduce	269	302
6	Bharti Airtel	Accumulate	1,618	1,430
7	CEAT	Accumulate	2,992	2,667
8	Clean Science and Technology	Hold	1,489	1,482
9	Deepak Nitrite	Reduce	2,268	2,677
10	Divgi Torqtransfer Systems	Accumulate	831	742
11	Eicher Motors	BUY	5,335	4,737
12	Endurance Technologies	Hold	2,664	2,735
13	Exide Industries	Hold	559	568
14	Fine Organic Industries	Accumulate	5,685	5,337
15	GAIL (India)	Sell	170	223
16	Gujarat Fluorochemicals	Reduce	2,775	3,250
17	Gujarat Gas	Accumulate	623	645
18	Gujarat State Petronet	BUY	409	311
19	Hero Motocorp	Accumulate	5,914	5,558
20	Hindustan Petroleum Corporation	Sell	280	332
21	Indian Oil Corporation	Reduce	151	171
22	Indraprastha Gas	Sell	374	522
23	Jubilant Ingrevia	Hold	592	586
24	Laxmi Organic Industries	Sell	206	264
25	Mahanagar Gas	Sell	1,303	1,685
26	Mahindra & Mahindra	BUY	3,250	2,881
27	Mangalore Refinery & Petrochemicals	Sell	135	218
28	Maruti Suzuki	BUY	14,432	12,104
29	Navin Fluorine International	Accumulate	3,883	3,659

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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