



3R MATRIX

Right Sector (RS)

+	=	-
✓	■	■
✓	■	■
✓	■	■

Right Quality (RQ)

Right Valuation (RV)

+ Positive

= Neutral

- Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

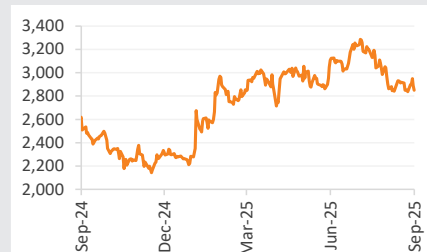
Company details

Market cap:	Rs. 84,481 cr
52-week high/low:	Rs. 3319/2128
NSE volume: (No of shares)	6.1 lakh
BSE code:	503806
NSE code:	SRF
Free float: (No of shares)	14.74 cr

Shareholding (%)

Promoters	50
FII	18
DII	19
Others	13

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-4.0	-8.8	-0.1	9.5
Relative to Sensex	-4.2	-7.0	-8.6	11.5

Source: Mirae Asset Sharekhan Research, Bloomberg

SRF Ltd

Strongly positioned for growth

Speciality Chem

Sharekhan code: SRF

Reco/View: Buy



CMP: Rs. 2,850

Price Target: Rs. 3,540



Summary

- SRF held a conference call to clarify on the quota regime for refrigerant gases.
- Companies will be allocated product wise or GWP based quotas, with quota calculations eventually to expressed in GWP terms.
- The company has given 20% revenue growth guidance for the chemical business. Specialty chemicals is expected to do well with traction in newly launched products and launch of AIs. In fluorochemicals, there is going to be good demand and pricing environment for ref gas.
- We maintain a Buy on SRF with a PT of Rs. 3,540, assigning a 37x multiple on its FY27 EPS. The stock is currently trading at 41x/30x its FY26/27 EPS.

Kigali agreement: Under the framework of the agreement, companies are divided in two large groups – Non-A5 countries which are developed nations like US, Europe and Japan, and A5 countries which are further divided in two groups – one group has China, South East Asia, Latin America and South Africa. The other group comprises developing nations like India, GCC countries and Pakistan. The Non-A5 countries had a baseline year of CY11-13. Group 1 of A5 countries' baseline was CY20-22 while for Group 2 it is CY24-26. So for India it is CY24-26 and we are in the middle of it currently. The baseline will be average of the years plus 65% of HFC consumption.

Asia to lead refrigerant gas consumption: Non-A5 countries are already phasing down their HFC consumption but some blends might see growth. They are in the process of transitioning to lower GWP alternatives. Asia is the primary geography of HFC production and consumption. The transition is happening gradually from HCFC to HFC consumption because of the agreement. India has licensing requirements for imports and exports of HFCs which ensures a strong regulation.

SRF's backward integration: The company is a fully backward integrated player and it has strong brand and distribution capabilities. The company has a good export presence in Thailand, Middle East and other geographies. SRF's fourth generation HFO capacity will come up in the near future and aid growth.

Our Call

Valuation – Maintain Buy on SRF with an unchanged PT of Rs. 3,540: SRF's chemical business is on a strong growth trajectory with both specialty chemicals and fluorochemicals segment to contribute to growth. The segment is expected to grow at a 20% CAGR over next few years. Investment in the right areas of specialty chemicals and good stable demand and pricing for Ref gas in fluorochemicals will drive a 51% PAT CAGR over FY2025-FY2027. At CMP, the stock trades at a valuation of 41x/30x its FY26/27 EPS. We maintain our Buy rating on SRF with an unchanged price target (PT) of Rs. 3,540, assigning a 37x multiple on its FY27 EPS.

Key Risks

- Slower offtake from user industries and concerns about correction in product prices can affect revenue growth.
- Dumping by Chinese players in the market and putting pressure on pricing.

Valuation (Consolidated)

	Rs cr				
Particulars	FY23	FY24	FY25	FY26E	FY27E
Revenue	14,870	13,139	14,693	17,071	19,890
OPM (%)	23.7	19.7	18.5	21.8	23.7
Adjusted PAT	2,162	1,336	1,251	2,075	2,835
% y-o-y growth	14.5	(38.2)	(6.4)	65.9	36.7
Adjusted EPS (Rs.)	72.9	45.1	42.2	70.0	95.6
P/E (x)	39.1	63.2	67.5	40.7	29.8
P/BV (x)	8.2	7.4	6.7	5.8	4.9
EV/EBITDA (x)	24.8	34.1	32.7	24.0	18.9
RoCE (%)	22.1	12.3	11.6	16.1	18.7
RoE (%)	22.9	12.3	10.4	15.2	17.7

Source: Company; Mirae Asset Sharekhan estimates

Outlook and Valuation

■ Sector Outlook – Structural growth drivers to propel sustained growth for the specialty chemical sector

We remain bullish on the medium to long-term growth prospects of the specialty chemicals sector, given a massive revenue opportunity from the perspective of import substitution, a potential rise in exports given China Plus One strategy followed by global customers and favorable government policies. We believe that conducive government policies, product innovation, massive export opportunities, and low input prices would help the sector report a high double-digit earnings growth trajectory on a sustained basis in the next 2-3 years over a depressed base.

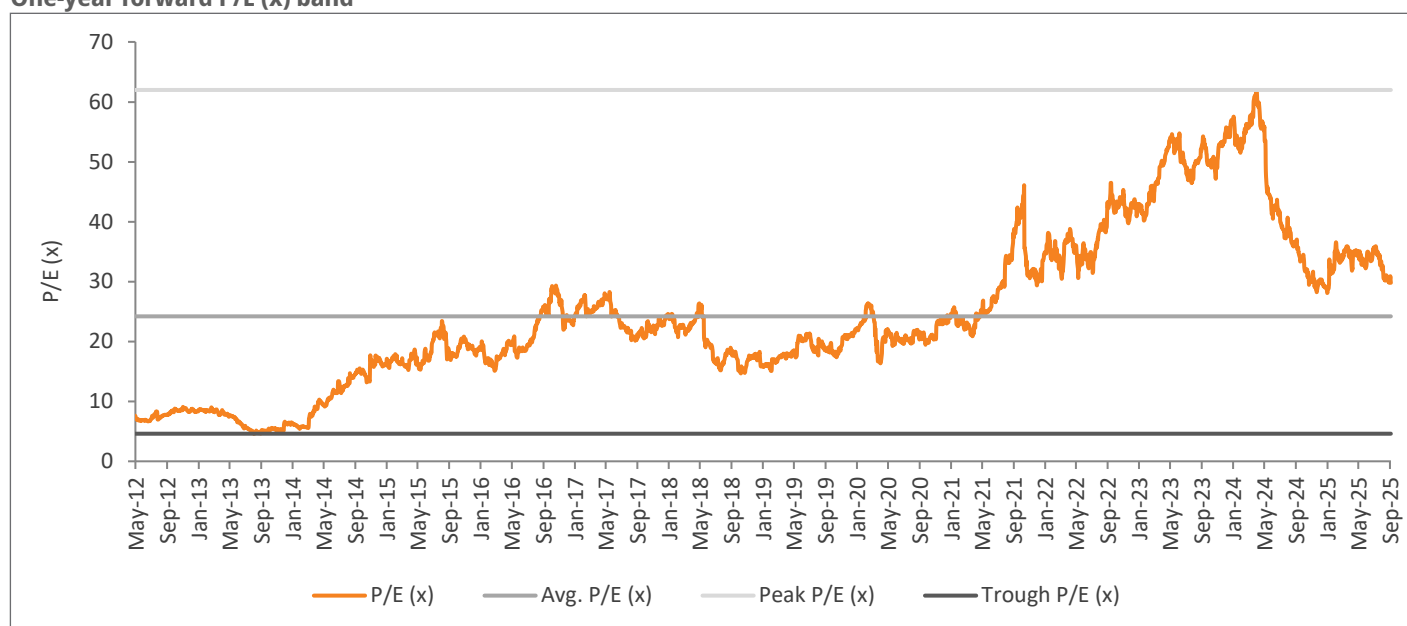
■ Company Outlook – Turnaround in the chemical business to drive growth

SRF's chemical business was sluggish for the past few quarters but things have improved now. The spec chem business has good outlook from the new launched products of the company. Moreover, the management sees strong demand for HFCs in domestic market and Middle East with improving pricing. High capital intensity toward specialty chemicals makes us confident about the long-term revenue/earnings growth of SRF. Company is expected to report a 32%/51% CAGR of EBITDA/PAT over FY25-27.

■ Valuation – Maintain Buy on SRF with an unchanged PT of Rs. 3,540

SRF's chemical business is on a strong growth trajectory with both specialty chemicals and fluorochemicals segment to contribute to growth. The segment is expected to grow at a 20% CAGR over next few years. Investment in the right areas of specialty chemicals and good stable demand and pricing for Ref gas in fluorochemicals will drive a 51% PAT CAGR over FY2025-FY2027. At CMP, the stock trades at a valuation of 41x/30x its FY26/27 EPS. We maintain our Buy rating on SRF with an unchanged price target (PT) of Rs. 3,540, assigning a 37x multiple on its FY27 EPS.

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

About company

Established in 1970, the company is a chemical-based multi-business entity engaged in the manufacturing of industrial and specialty intermediates. The company's diversified business portfolio covers technical textiles, chemicals (fluorochemicals and specialty chemicals), and packaging films. The company has 13 manufacturing plants in India, one in Thailand, one in South Africa, and one in Hungary. The company exports to more than 100 countries.

Investment theme

Favourable growth prospects in the chemical segment, led by both speciality chemicals and fluorochemicals. The spec chem business has good outlook from the new launched products of the company. Moreover, the management sees strong demand for HFCs in domestic market and Middle East with improving pricing. High capital intensity toward specialty chemicals makes us confident about the long-term revenue/earnings growth of SRF. Moreover, the structural growth opportunity for the Indian specialty chemicals sector, given favourable dynamics (China Plus One strategy by global companies) to support premium valuation for quality players like SRF.

Key Risks

- ♦ Slowdown in demand offtake from user industries and concerns over product price correction can impact revenue growth.
- ♦ Dumping by Chinese players in the market and putting pressure on pricing.

Additional Data

Key management personnel

Name	Designation
Ashish Bharat Ram	Chairman & Managing Director
Kartik Bharat Ram	Joint Managing Director
Prashant Yadav	President and CEO, Fluorochemicals Business & Technical Textiles
Anurag Jain	President and CEO, Specialty Chemicals Business & Chemicals Technology Group
Prashant Mehra	President & CEO, Packaging Films Business, Coated & Laminated Fabrics Business
Rahul Jain	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Kotak Mahindra Asset Management Co	4.62
2	Amansa Holdings Pvt Ltd	3.16
3	Life Insurance Corp of India	3.07
4	Vanguard Group Inc/The	2.07
5	Norges Bank	2.04
6	GOVERNMENT PENSION FUND - GLOBAL	1.81
7	Blackrock Inc	1.57
8	FundRock Management Co SA	1.51
9	Republic of Singapore	1.43
10	HDFC Asset Management Co Ltd	0.82

Source: Bloomberg

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Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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