

## Decent Performance across all segments...

**About the stock:** Incorporated in 1970, SRF started with nylon cord tyre and thereafter diversified into refrigerant gases, speciality chemicals and packaging film to name a few over the time.

- Chemical division forms 43% to the overall revenue followed by packaging film (39%), technical textile (15%) and others (3%).
- The company exports to more than 90+ countries. The revenue from international market constitute 57% to the overall revenue and rest from domestic market segment

**Q1FY23 Results:** Topline growth better than estimates led by chemicals, packaging film, while margins marginally moderated.

- Reported revenue growth was 44% YoY to ₹ 3894.7 crores, led by chemical (up 55% YoY), technical textile (up 16% YoY), packaging film (up 44% YoY) and other segment (up 97% YoY)
- Gross margins were up 160bps YoY to 52.3% while EBITDA margin expanded 60 bps YoY to 25.5%
- EBITDA was up 48% YoY to ₹ 995 crores
- PAT increased 54% YoY to ₹ 606 crores

**What should investors do?** The stock appreciated at 58% CAGR in last three years.

- We retain **BUY** rating on the back of good opportunity to play on the increasing share of fluoro chemicals across key industries.

**Target Price and Valuation:** We value SRF on SOTP to arrive at a target price of ₹ 2735/share (earlier ₹ 2755/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 supports strong business performance in the years to come
- Venturing into PTFE through backward integration of R22 diversifies business risk to a certain extent. With prudent strategy to increase presence across other fluoropolymers can expand revenue visibility meaningfully over the medium to long run
- Control over working capital along with better operational performance to improve FCF generation

**Alternate Stock Idea:** Apart from 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 ₹ 1870.



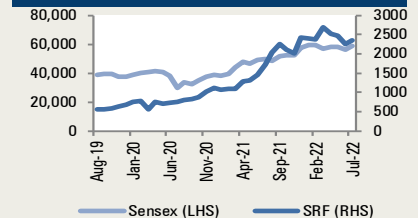
### Particulars

Particular	Amount
Market cap (₹ Crore)	69,466
FY22 Total Debt (₹ Crore)	3,655
FY22 Cash & Inv (₹ Crore)	776
EV (₹ Crore)	72,345
52 Week H/L	2773/1514
Equity Capital (₹ Crore)	297.4
Face Value (₹)	10

### Shareholding pattern

in %	Sept-21	Dec-21	Mar-22	Jun-22
Promoter	50.8	50.7	50.7	50.7
DII	10.4	9.2	8.7	19.2
FII	19.2	19.1	19.6	9.4
Others	19.6	21.0	21.0	20.7

### Price Chart



### Recent event & key risks

- Capex announcement of ₹ 484 crore towards chemical and technical textile segment
- **Key Risk:** (i) Seasonally weaker Q2 FY23 in fluorochemicals segment (ii) BOPET films likely to witness inventory impact due to sharp drop in RM prices.

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### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Revenue	7,099.6	7,209.4	8,400.0	12,433.7	20.9%	14,119.6	17,013.3	17.0%
EBITDA	1,297.0	1,454.9	2,144.9	3,175.9	26.1%	3,521.8	4,255.3	15.8%
EBITDA Margins (%)	18.3%	20.2%	25.5%	25.5%		24.9%	25.0%	
Adj. PAT	641.6	1,019.1	1,197.9	1,888.9	29.7%	2,050.5	2,461.2	14.1%
Adj. EPS (₹)	21.6	34.3	40.3	63.5		68.9	82.7	
EV/EBITDA	54.8x	48.9x	33.1x	22.4x		20.6x	17.0x	
P/E	106.2x	66.9x	56.9x	36.1x		33.2x	27.7x	
ROE (%)	15.5	20.7	17.5	22.1		20.3	20.4	
ROCE (%)	15.2	16.1	18.7	23.8		21.6	22.5	

## Key takeaways of recent quarter & conference call highlight

### Q1FY23 Results: Strong growth across chemical continues.

- **Stellar growth from chemical led overall performance:** Revenues were up 44% YoY to ₹ 3894.7 crores, led by chemical segment, which was higher by 55% YoY to ₹ 1722.4 crores. The growth from the chemical segment was driven by robust demand for flagship products. Apart from this, higher realisation growth in the ref gas segment along with packaging film supported overall growth to a certain extent.
- **Higher OPM in Chemical led strong operational performance:** OPM for the quarter expanded by 60bps YoY to 25.5%. OPM from chemical segment remained at 31.9% (+850bps YoY), while the same from technical textile, packaging film and other segments stood at 21.5% (-760bps YoY), 21% (-440bps YoY) & 6.9% (+120bps YoY) respectively.

### Q1FY23 Earnings Conference Call highlights

- **Speciality Chemical Business**  
Healthy performance recorded in this segment on account of:
  - Strong demand for flagship products and downstream derivatives
  - Launched one new Agro products in Q1FY23.
  - MPP4 plant at Dahej has been commissioned.
  - Robust investments of ₹1200-1500 crores has been planned in the time frame of 12 -18 months
- **Fluorochemical Business**  
Segment delivered robust performance on account of:
  - HFCs witnessed strong numbers led by better realizations and steady volumes. HFC facilities operating at optimal utilization levels.
  - Dymel® HFA 134a/P (pharma grade gas) continued to do well and reported significant growth.
  - Healthy contribution from chloromethanes aided performance.
- **Packaging Films Business**  
This segment delivered a strong performance with growth in sales across domestic and international businesses:
  - BOPP films delivered healthy performance. Increased sales from Value added products, further enhanced overall performance.
  - BOPP Film line at Indore, India expected to be commissioned in Q2FY23.
  - BOPET films likely to witness inventory impact due to sharp drop of RM prices.
  - Energy prices at Hungary plant likely to remain challenging.
- **Technical Textiles Business**  
Segment reported healthy revenues on account of:
  - Increased export volumes from the Nylon Tyre Cord Fabrics (NTCF) and Belting Fabrics segments.
  - Domestic NTCF volumes were subdued with steady margins.
- **Others**
  - **Coated Fabrics** – SRF continues to be a leader in domestic market with focus on increased sourcing initiatives and better operating performance
  - **Laminated Fabrics** - SRF maintained its price & volume leadership with plant operated at full capacity, achieving its highest ever sales in Q4 FY 23.

**NEW CAPEX**

- The Board has approved a project for setting up a new and dedicated facility to produce 1,000 MT per year of an agrochemical intermediate at Dahej at a projected cost of ₹250 crore to meet the growing demand for the product in the future.
- The Board has also approved a project to expand the capacity of an intermediate product that finds application in both agrochemical and pharma intermediates and related feedstock at Dahej at a projected cost of ₹72 crore.
- To cater to the growing requirements of new and upcoming plants at Dahej, the Board has approved a project to create two technical structures for new plant buildings for certain agrochemical products at a projected cost of ₹78 crore.
- The Board has approved a project for capacity expansion and modernization of belting fabrics operations at TTB-Viralimalai from 1,100 Metric Tons Per Month (MTPM) to 1,800 MTPM at a projected cost of ₹162 crore to be spent over a period of three years.

**Other Points**

- SRF Altech Limited incorporated as a wholly owned subsidiary of SRF Ltd., to engage in the manufacturing of Aluminium foil – civil work in progress.
- Capacity Utilisation of Refrigerants Gas – 70-75% utilisation.
- Sudden drop in raw material prices likely impact Q2 FY23, better positions for H2 FY23
- The company witnessed rupee depreciation against the US\$ of around 4.5% during the quarter, amid a volatile geopolitical situation. This led to restatement of net US\$ denominated liabilities, which created an exchange fluctuation loss of ₹32 crores, which is likely to be a one-time impact.
- In Fluorochemical segment due to Europe rising heat temperature there is no demand pressure on company as on now.
- For HFC – contracts has been entered for period October – March. No long term contract has been entered by company. Further management added that weakening of rupee will be beneficial to the company.
- In Fluorochemicals segment – Capex deployed as of now is approx ₹3200 - 3300 crores.
- In agrochemicals target of 20% margins is likely to achieve as some products are selling significantly well.

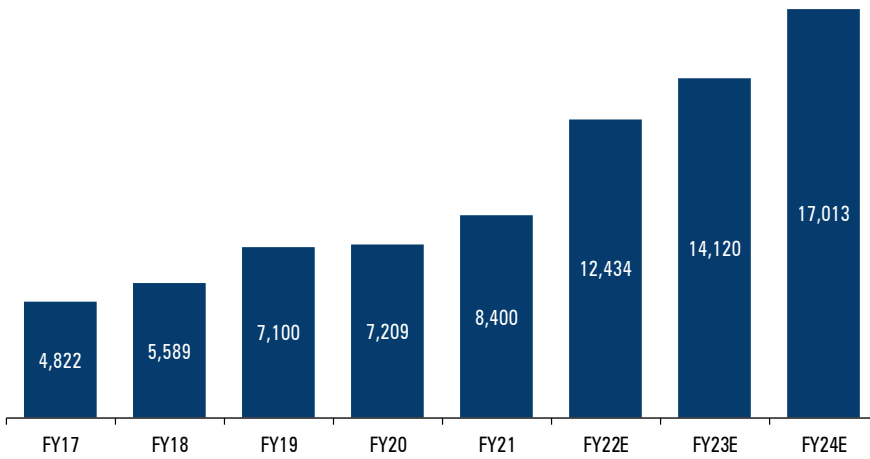
**SOTP valuation**

In ₹ Crore unless other mentioned	Revenue		EBITDA		EV/EBITDA	EV
	FY23E	FY24E	FY23E	FY24E	FY24E	FY24E
Technical textile	2,247	2,359	517	543	12.0x	6,512
Chemical Business	6,203	8,268	1,861	2,481	27.0x	66,975
Packaging film	5,313	6,010	1,116	1,202	10.0x	12,020
Other business	357	375	29	30	5.0x	150
<b>Consolidated EV</b>						<b>85,657</b>
Less: Net debt						4,320
<b>Target MCAP</b>						<b>81,337</b>
No. of shares						29.7
<b>Target price/share</b>						<b>2,735</b>
CMP						2,291
<b>Upside/downside</b>						<b>19%</b>

Source: ICICI Direct Research

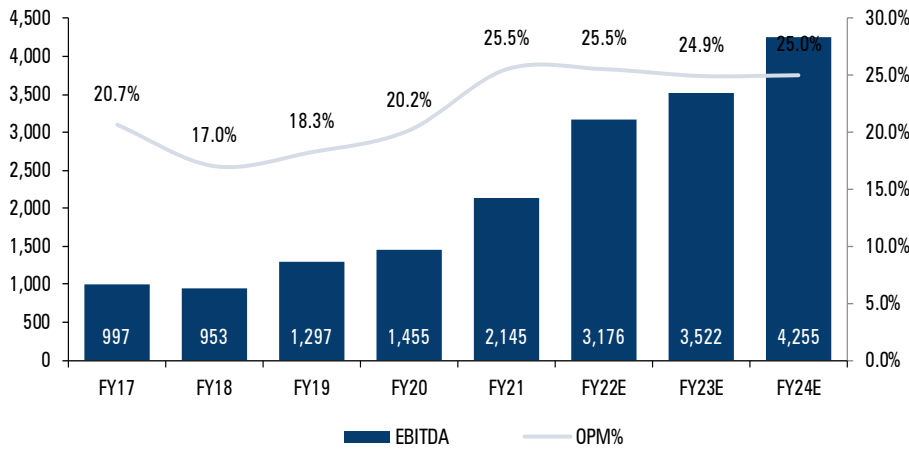
Financial story in charts....

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



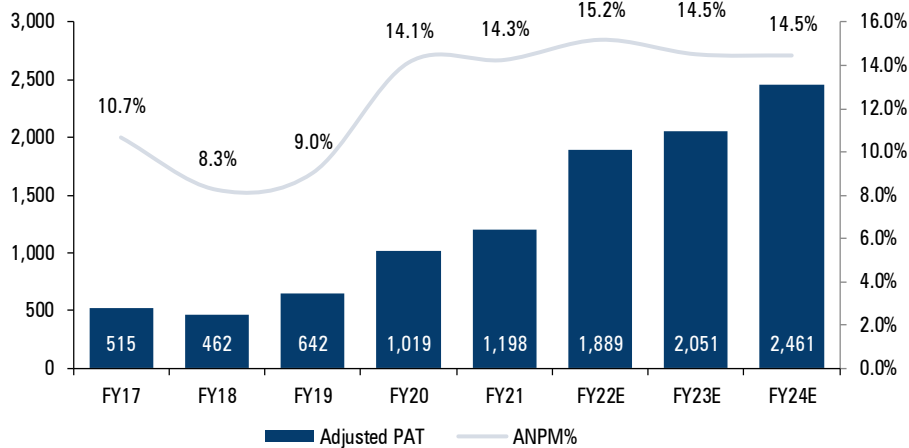
Source: Company, ICICI Direct Research

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	FY20	FY21	FY22	FY23E	FY24E
<b>Total Operating Income</b>	<b>7,209.4</b>	<b>8,400.0</b>	<b>12,433.7</b>	<b>14,119.6</b>	<b>17,013.3</b>
Growth (%)	1.5	16.5	48.0	13.6	20.5
Raw Material Expenses	3,687.0	4,018.9	6,066.9	6,777.4	8,081.3
<b>Gross Profit</b>	<b>3,522.4</b>	<b>4,381.1</b>	<b>6,366.7</b>	<b>7,342.2</b>	<b>8,932.0</b>
Employee Cost	541.9	621.4	780.0	903.7	1,071.8
Other Operating Expenses	1,525.6	1,614.8	2,410.8	2,916.7	3,604.9
<b>EBITDA</b>	<b>1,454.9</b>	<b>2,144.9</b>	<b>3,175.9</b>	<b>3,521.8</b>	<b>4,255.3</b>
Growth (%)	12.2	47.4	48.1	10.9	20.8
Other Income	152.2	54.5	42.8	51.7	58.9
<b>EBITDA, including OI</b>	<b>1,607.2</b>	<b>2,199.4</b>	<b>3,218.7</b>	<b>3,573.5</b>	<b>4,314.1</b>
Depreciation	388.6	453.1	517.2	594.6	747.0
Net Interest Exp.	200.7	134.0	115.9	172.2	198.2
Other exceptional items	0.0	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>1,017.9</b>	<b>1,612.3</b>	<b>2,585.6</b>	<b>2,806.7</b>	<b>3,368.9</b>
Total Tax	-1.2	414.4	696.6	756.2	907.7
Tax Rate	-0.1%	25.7%	26.9%	26.9%	26.9%
<b>PAT</b>	<b>1,019.1</b>	<b>1,197.9</b>	<b>1,888.9</b>	<b>2,050.5</b>	<b>2,461.2</b>
Adj. PAT after Minority interest	1,019.1	1,197.9	1,888.9	2,050.5	2,461.2
Adj. EPS (₹)	34.3	40.3	63.5	68.9	82.7
Shares Outstanding	5.9	6.0	29.7	29.7	29.7

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					
	₹ crore				
Year end March	FY20	FY21	FY22	FY23E	FY24E
PBT & Extraordinary	1,070.6	1,609.9	2,585.6	2,806.7	3,368.9
Depreciation	392.9	453.1	517.2	594.6	747.0
After other adjustments					
(Inc) / Dec in Working Capital	-23.9	-123.6	-664.5	-509.0	-514.3
Taxes	-142.7	-255.3	-401.6	-756.2	-907.7
Others	7.6	87.6	69.0	172.2	198.2
<b>CF from operating activities</b>	<b>1,304.4</b>	<b>1,771.7</b>	<b>2,105.7</b>	<b>2,308.3</b>	<b>2,892.2</b>
Purchase of Fixed Assets	-1,373.0	-1,204.7	-1,817.1	-3,175.0	-2,100.0
Others	194.4	-294.0	229.4	0.0	0.0
<b>CF from investing activities</b>	<b>-1,178.6</b>	<b>-1,498.7</b>	<b>-1,587.7</b>	<b>-3,175.0</b>	<b>-2,100.0</b>
Proceeds from issue of shares	0.0	750.0	0.2	0.0	0.0
Borrowings (Net)	101.8	-691.0	147.2	1,300.0	0.0
Others	-300.8	-310.1	-354.7	-670.4	-696.4
<b>CF from financing activities</b>	<b>-199.0</b>	<b>-251.1</b>	<b>-207.3</b>	<b>629.6</b>	<b>-696.4</b>
Net cash flow	-73.1	21.8	310.7	-237.1	95.7
Effects of foreign currency translation	0.0	0.0	1.5	0.0	0.0
Opening Cash	198.9	125.5	282.0	459.4	222.3
<b>Closing Cash</b>	<b>125.5</b>	<b>282.0</b>	<b>459.4</b>	<b>222.3</b>	<b>318.0</b>

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet					
	₹ crore				
Year end March	FY20	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>					
Share Capital	58.5	60.3	297.4	297.4	297.4
Reserves	4,874.8	6,796.2	8,267.9	9,820.2	11,783.2
<b>Total Shareholders Funds</b>	<b>4,933.3</b>	<b>6,856.4</b>	<b>8,565.4</b>	<b>10,117.7</b>	<b>12,080.7</b>
Minority Interest	0.0	0.0	0.0	0.0	0.0
Long Term Borrowings	2,385.6	2,028.8	1,848.5	2,848.5	2,848.5
Net Deferred Tax liability	175.5	386.2	677.5	677.5	677.5
Other long term liabilities	36.9	43.3	193.4	89.1	107.4
Long term provisions	37.5	43.6	51.6	88.5	106.6
<b>Current Liabilities and Provisions</b>					
Short term borrowings	969.2	1,439.8	1,806.7	2,106.7	2,106.7
Trade Payables	1,111.7	1,585.2	2,096.4	2,514.5	3,029.8
Other Current Liabilities	1,220.5	537.5	529.9	607.6	732.2
Short Term Provisions	6.6	8.7	7.4	8.5	10.2
Total Current Liabilities	3,307.9	3,571.1	4,440.3	5,237.3	5,878.8
<b>Total Liabilities</b>	<b>10,876.8</b>	<b>12,929.4</b>	<b>15,776.6</b>	<b>19,058.5</b>	<b>21,699.4</b>
<b>Assets</b>					
Net Block	6,367.6	7,827.0	8,425.3	11,102.3	13,530.3
Capital Work in Progress	1,393.3	772.3	1,671.6	1,575.0	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	14.3	18.1	11.6	11.6	11.6
Long term loans and advances	59.7	91.1	155.2	126.1	152.0
Other Non Current Assets	131.5	277.8	254.4	470.5	567.0
<b>Current Assets, Loans &amp; Advances</b>					
Current Investments	198.5	412.5	316.7	316.7	316.7
Inventories	1,201.2	1,465.8	2,138.5	2,475.8	2,983.1
Sundry Debtors	891.1	1,274.6	1,792.5	2,127.6	2,563.6
Cash and Bank	125.5	282.0	459.4	222.3	318.0
Loans and Advances	25.2	11.2	8.8	8.8	8.8
Other Current assets	464.8	492.8	538.5	617.5	744.1
Current Assets	2,906.2	3,938.9	5,254.3	5,768.7	6,934.4
<b>Total Assets</b>	<b>10,876.8</b>	<b>12,929.4</b>	<b>15,776.6</b>	<b>19,058.5</b>	<b>21,699.4</b>

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
Year end March	FY20	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>					
Adj. EPS	34.3	40.3	63.5	68.9	82.7
Adj. Cash EPS	47.3	55.5	80.9	88.9	107.9
BV	165.9	230.5	288.0	340.2	406.2
DPS	14.0	24.0	16.8	16.8	16.8
<b>Operating Ratios (%)</b>					
Gross Margin (%)	48.9	52.2	51.2	52.0	52.5
EBITDA Margin (%)	20.2	25.5	25.5	24.9	25.0
PAT Margin (%)	14.1	14.3	15.2	14.5	14.5
Debtor Days	46	56	53	55	55
Inventory Days	62	64	63	64	64
Creditor Days	57	70	62	65	65
Cash Conversion Cycle	51	51	54	54	54
<b>Return Ratios (%)</b>					
Return on Assets (%)	9.4	9.3	12.0	10.8	11.3
RoCE (%)	16.1	18.7	23.8	21.6	22.5
Core RoIC (%)	13.4	17.6	23.2	20.1	21.4
RoE (%)	20.7	17.5	22.1	20.3	20.4
<b>Solvency Ratios</b>					
Total Debt / Equity	0.7	0.5	0.4	0.5	0.4
Interest Coverage	6.1	13.0	23.3	17.3	18.0
Current Ratio	0.9	1.1	1.2	1.1	1.2
Quick Ratio	0.5	0.7	0.7	0.6	0.7
<b>Valuation Ratios (x)</b>					
EV/EBITDA	48.9	33.1	22.4	20.6	17.0
P/E	66.9	56.9	36.1	33.2	27.7
P/B	13.8	9.9	8.0	6.7	5.6
EV/Sales	9.9	8.4	5.7	5.1	4.3

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	2340	2,735	Buy	69,466	63.5	68.9	82.7	36.1	33.2	27.7	22.4	20.6	17.0	23.8	21.6	22.5	22.1	20.3	20.4
PI Industries	2729	3,155	Buy	41,403	55.5	64.4	78.9	49.2	42.4	34.6	35.0	29.4	23.8	16.3	17.2	18.4	13.8	13.9	14.7
Aarti Industries	712	860	Hold	25,812	21.7	24.4	30.7	32.8	29.2	23.2	22.6	18.9	15.4	12.0	12.6	13.6	13.3	13.2	14.4
Tata Chemical	825	1,155	Buy	21,009	47.5	63.6	73.0	17.4	13.0	11.3	12.4	9.1	6.8	6.6	8.4	9.0	6.6	8.3	8.8
Vinati Organics	2018	2,320	Buy	20,745	33.7	40.1	51.5	59.8	50.3	39.2	44.7	37.0	28.3	24.3	23.2	23.9	19.0	19.1	20.5
Sumitomo Chemical	474	520	Buy	23,679	8.5	10.2	11.5	55.9	46.7	41.1	35.9	30.1	26.0	30.2	28.6	26.7	22.0	21.3	19.9
Navin Fluorine	3763	4,040	Hold	18,648	52.3	67.4	89.8	72.0	55.8	41.9	54.4	38.9	28.4	17.8	19.4	20.3	14.0	15.8	18.0
Rallis India	208	200	Hold	3,987	8.4	8.9	12.4	24.3	23.1	16.6	13.9	14.1	10.1	12.7	11.6	15.3	9.7	9.5	12.1
Sudarshan chemical	425	565	Buy	2,939	18.8	23.7	31.5	22.6	18.0	13.5	14.2	11.5	8.9	10.9	13.3	16.6	15.6	17.2	19.5
Neogen Chemicals	1348	1,870	Buy	3,362	17.9	30.1	37.4	75.3	44.8	36.0	43.5	30.0	24.3	12.0	15.7	17.1	10.2	14.8	15.7
Astec Lifesciences	1959	2,215	Buy	3,840	45.1	54.8	69.3	43.4	35.7	28.3	25.0	21.0	16.7	19.3	17.7	19.4	22.3	21.3	21.2

Source: Bloomberg, ICICI Direct Research

## RATING RATIONALE

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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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