

Chemicals business continues to drive numbers, optimism...

About the stock: Incorporated in 1970, SRF started with nylon cord tyre and, thereafter, diversified into refrigerant gases, speciality chemicals and packaging film among others.

- Chemicals (specialty + fluorochemicals) form 50% of overall revenues followed by packaging film (35%), technical textile (13%) and others (2%)
- The company exports to more than 90+ countries. Revenue from the international market constitutes 57% of overall revenues while the rest is from the domestic market segment

Q4FY23 Results: Reported a decent performance in Q4FY23 largely led by specialty chemicals segment.

- Reported revenue growth was 6.1% YoY to ₹ 3,719.3 crore, led by chemicals (up 34% YoY) but pulled down by technical textile (down 13% YoY), packaging film (down 17% YoY) and other segment (down 1% YoY)
- Gross margins declined 311 bps YoY to 50% while EBITDA margin declined 205 bps YoY to 24.7%. Absolute EBITDA was down 2% YoY to ₹ 931.6 crore
- PAT declined 7% YoY to ₹ 562.5 crore

What should investors do? The stock appreciated at 53% CAGR in last three years.

- We retain **BUY** rating on the back of 1) sustained efforts to ride on the increasing opportunities for specialty + fluorochemicals across key industries 2) foray into Fluoropolymer PTFE, 3) optical visibility capex drive with a heavy tilt towards specialty chemicals

Target Price and Valuation: We value SRF on SOTP basis to arrive at a target price of ₹ 3000/share (earlier ₹ 2550/share).

Key triggers for future price performance:

- Continuous capex towards specialty chemical on the back of higher consumption of fluoro compounds across agrochemical and pharma is likely to support strong business performance in years to come
- Venturing into PTFE through backward integration of R22. Commencement of production is expected to begin in H1FY24
- The management guidance of 20%+ growth in specialty chemical segment and recovery in technical textile segment

Alternate Stock Idea: Apart from SRF, in our chemical coverage, we also like Tata Chemical.

- Tata Chemical's future revenue growth would be driven by increasing soda ash margins
- BUY with a target price of ₹ 1130



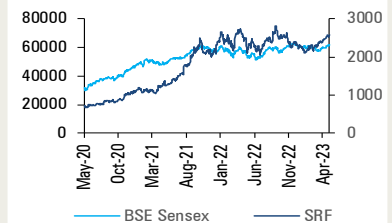
Particulars

Particular	Amount
Market cap (₹ Crore)	76,218
FY23 Total Debt (₹ Crore)	4,478
FY23 Cash & Inv (₹ Crore)	616
EV (₹ Crore)	80,079
52 Week H/L	2865/2002
Equity Capital (₹ Crore)	297.4
Face Value (₹)	10

Shareholding pattern

in %	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	50.7	50.5	50.5	50.5
DII	9.4	14.0	14.9	14.9
FII	19.2	19.2	18.3	18.5
Others	20.7	16.2	16.3	16.0

Price Chart



Recent event & key risks

- Commissioned PIP Plant for production of pharma intermediates at Dahej
- Key Risk:** (i) Stretched payback of specialty chemicals capex due to lower margins or longer execution. (ii) Persistent pricing pressure in other segments

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	FY23	5 year CAGR (FY18-23)	FY24E	FY25E	2 year CAGR (FY23-25E)
Net Revenue	7,099.6	7,209.4	8,400.0	12,433.7	14,870.3	21.6%	16,896.9	19,359.1	9.2%
EBITDA	1,297.0	1,454.9	2,144.9	3,175.9	3,529.2	29.9%	3,882.0	4,756.5	10.5%
EBITDA Margins (%)	18.3%	20.2%	25.5%	25.5%	23.7%		23.0%	24.6%	
Adj.PAT	641.6	1,019.1	1,197.9	1,888.9	2,162.3	36.2%	2,360.9	2,944.4	10.8%
Adj. EPS (₹)	21.6	34.3	40.3	63.5	72.7		79.4	99.0	
EV/EBITDA	52.3x	46.7x	31.6x	21.3x	19.3x		17.8x	14.5x	
P/E	101.2x	63.7x	54.2x	34.4x	30.0x		27.5x	22.0x	
ROE (%)	15.5	20.7	17.5	22.1	20.9		19.4	20.1	
ROCE (%)	15.2	16.1	18.7	23.8	21.9		20.6	22.1	

Key takeaways of recent quarter & conference call highlight

Q4FY23 Results: Specialty chemical continues growth momentum

- **Specialty chemical business drive overall performance:** Revenues were up 6.1% YoY to ₹ 3719.3 crore, led by chemical segment, which was up 34% YoY to ₹ 2101.7 crore. The growth from the chemical segment was driven by new products witnessing significant traction and strong customer engagement on flagship and downstream products. Apart from this, technical textile segment de-grew 13% YoY to ₹ 430.7 crore while packaging film segment de-grew 17% YoY to ₹ 1153.1 crore
- **Margins under pressure across all segments except specialty chemicals:** OPM for the quarter declined 205 bps YoY to 24.7%. EBIT from specialty chemical segment increased 310 bps to 35% while the same from technical textile, packaging film and other segments was at 11% (-717 bps YoY), 4% (-1629 bps YoY) & 12% (+764 bps YoY), respectively

SRF - ESG Disclosure Score*

Score	FY20	FY21	FY22
Environmental	14.4	6.3	NA
Social	19.2	21.6	NA
Governance	78.6	78.6	NA
Overall ESG Score	37.45	35.56	NA

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

Q4FY23 Earnings Conference Call highlights

- **Speciality Chemical Business**
 - The company will make strong investments in the specialty chemical industry, going forward
 - The recently commissioned PIP plant is anticipated to ramp up
 - The primary growth driver in the upcoming years will be the launch of seven to eight agrochemical active intermediates
 - In the pharma business, it aims to enter CDMO business through organic or inorganic route
- **Fluorochemical Business**
 - The company will commission the PTFE capacity in the coming quarter. The PX-1/PX-2 capacity is developing according to schedule. Due to travel restrictions imposed by China, the commissioning of PTFE was delayed
 - Regarding refrigerants, it will concentrate on the domestic market in Q1 and US markets in the following two quarters. Weak Q1 performance is anticipated. It expects to build exports in the Middle East from Q2
 - The management expects the US to remain a net importer of HFC on the back of high cost of HFC purchased locally and US restriction on Chinese gases. The new R32 plant is expected to ramp up the capacity utilisation up to 70% over the next year 12 months and up to 100% by the end of the second year
- **Packaging Films Business**
 - Segment faced several headwinds that impacted performance during the financial year including significant supply addition in BOPET, global demand slowdown, rising energy costs in Europe, and sharp fall in commodity prices. The management expects the packaging business to improve from here on
 - The capacity in Hungary has suffered due to a rise in energy costs. The utilisation for Hungary plant was at ~69% for FY23. For Q4FY23, utilisation of Hungary plant was at 65%
 - The company completed debottlenecking at the South Africa plant by increasing the capacity from 15%. It increases the capacity by ~3500 tonnes per month
 - Aluminium foil plant is progressing well and is expected to get commissioned in the end of Q2FY24. With this, SRF will become a solution provider of three major segments BOPP, BOPET and aluminium foil

- **Technical Textiles Business**

- Q4FY23 was subdued to weak demand for Nylon Tyre Cord Fabric but belting fabric reported decent numbers
- The management is witnessing a revival in demand on NTCF and belting fabric in FY24
- Polyester industrial yarn is expected to be driven by geo textile and seatbelts

Other Points

- Overall capex guided by the management for FY24 was ₹ 2500 crore

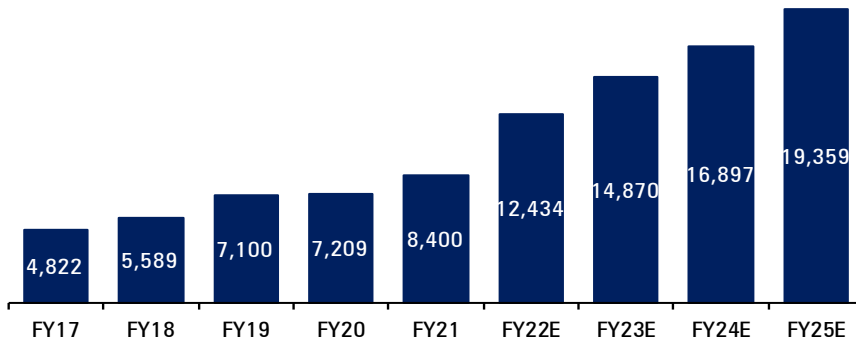
SOTP valuation

In ₹ Crore unless other mentioned	Revenue			EBITDA			EV/EBITDA	EV
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY25E	FY25E
Technical textile	1,894	1,981	2,080	294	297	333	5.0x	1,664
Chemical Business	7,411	8,898	10,672	2,536	2,847	3,522	25.0x	88,046
Packaging film	5,183	5,599	6,145	662	700	860	4.0x	3,441
Other business	381	419	461	36	38	42	5.0x	208
Consolidated EV								93,359
Less: Net debt								4,093
Target MCAP								89,172
No.of shares								29.7
Target price/share								3,000
CMP								2,570
Upside/downside								17%

Source: ICICI Direct Research

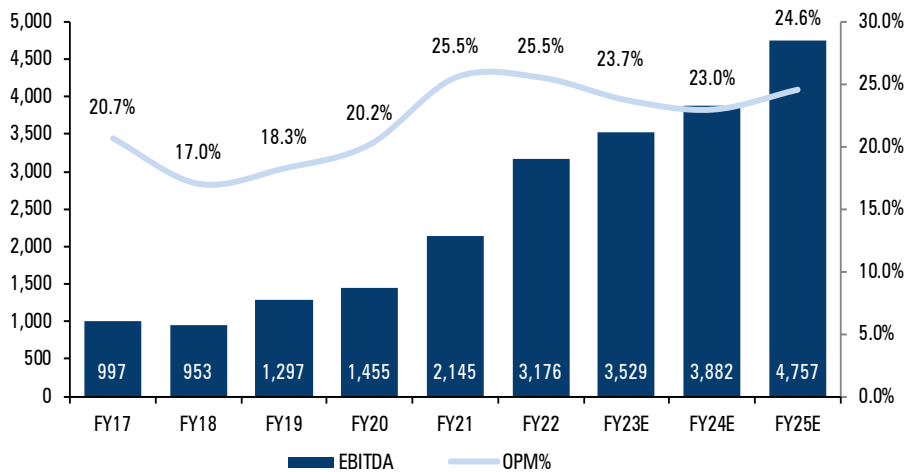
Financial story in charts....

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



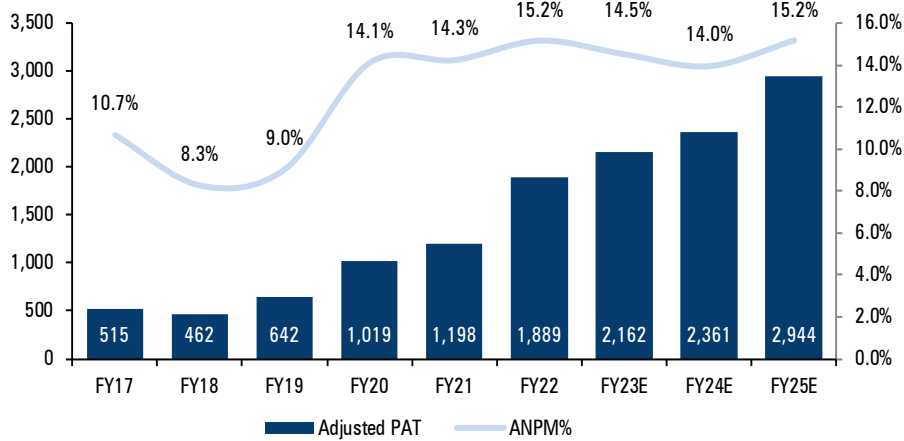
Source: Company, ICICI Direct Research

Exhibit 2: EBITDA (₹ crore) and OPM (%) trend



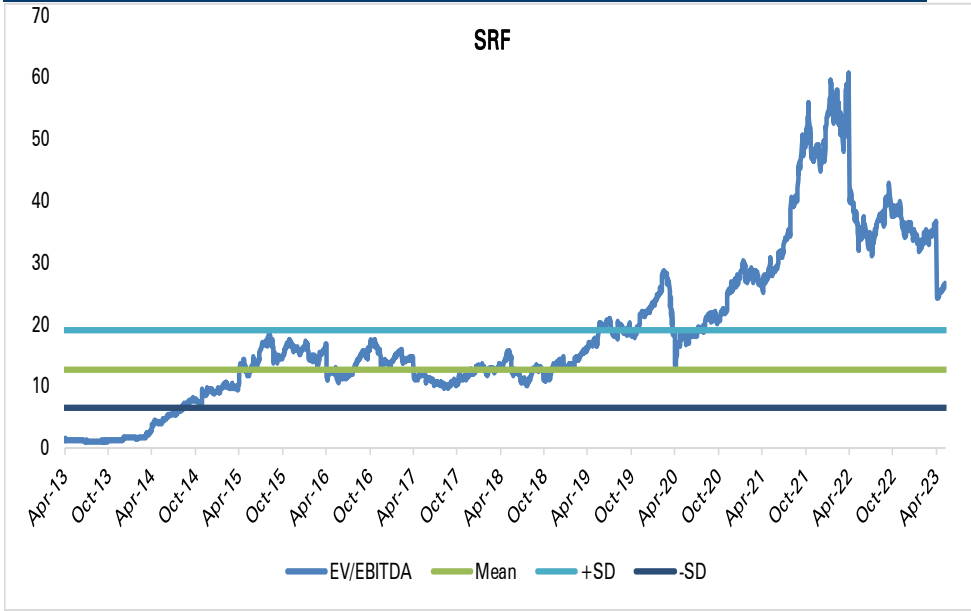
Source: Company, ICICI Direct Research

Exhibit 3: PAT growth trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 4: EV/EBITDA Band



Source: ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement ₹ crore

Year end March	FY22	FY23	FY24E	FY25E
Total Operating Income	12,433.7	14,870.3	16,896.9	19,359.1
Growth (%)	48.0	19.6	13.6	14.6
Raw Material Expenses	6,066.9	7,393.5	8,364.0	9,486.0
Gross Profit	6,366.7	7,476.7	8,532.9	9,873.1
Employee Cost	780.0	813.8	963.1	1,122.8
Other Operating Expenses	2,410.8	3,133.7	3,687.8	3,993.8
EBITDA	3,175.9	3,529.2	3,882.0	4,756.5
Growth (%)	48.1	11.1	10.0	22.5
Other Income	42.8	74.9	70.0	75.0
EBITDA, including OI	3,218.7	3,604.1	3,952.0	4,831.5
Depreciation	517.2	575.3	628.0	735.4
Net Interest Exp.	115.9	204.8	240.6	250.7
Other exceptional items	0.0	0.0	0.0	0.0
PBT	2,585.6	2,824.0	3,083.3	3,845.4
Total Tax	696.6	661.7	722.4	901.0
Tax Rate	26.9%	23.4%	23.4%	23.4%
PAT	1,888.9	2,162.3	2,360.9	2,944.4
Adj. PAT after Minority interest	1,888.9	2,162.3	2,360.9	2,944.4
Adj. EPS (₹)	63.5	72.7	79.4	99.0
Shares Outstanding	29.7	29.7	29.7	29.7

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement ₹ crore

Year end March	FY22	FY23	FY24E	FY25E
PBT & Extraordinary	2,585.6	2,824.0	3,083.3	3,845.4
Depreciation	517.2	575.3	628.0	735.4
After other adjustments				
(Inc) / Dec in Working Capital	-664.5	-60.4	-960.7	-434.1
Taxes	-401.6	-507.7	-722.4	-901.0
Others	69.0	70.5	240.6	250.7
CF from operating activities	2,105.7	2,901.7	2,268.8	3,496.5
Purchase of Fixed Assets	-1,817.1	-2,851.9	-2,500.0	-2,500.0
Others	229.4	-109.5	0.0	0.0
CF from investing activities	-1,587.7	-2,961.4	-2,500.0	-2,500.0
Proceeds from issue of shares	0.2	0.0	0.0	0.0
Borrowings (Net)	147.2	659.9	600.0	-200.0
Others	-354.7	-440.3	-738.9	-748.9
CF from financing activities	-207.3	219.6	-138.9	-948.9
Net cash flow	310.7	159.9	-370.0	47.6
Effects of foreign currency translation	1.5	-2.4	0.0	0.0
Opening Cash	282.0	459.4	616.5	246.8
Closing Cash	459.4	616.5	246.8	294.4

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet ₹ crore

Year end March	FY22	FY23	FY24E	FY25E
Liabilities				
Share Capital	297.4	297.4	297.4	297.4
Reserves	8,267.9	10,029.6	11,892.3	14,338.6
Total Shareholders Funds	8,565.4	10,327.1	12,189.8	14,636.0
Minority Interest	0.0	0.0	0.0	0.0
Long Term Borrowings	1,848.5	2,409.1	2,909.1	2,809.1
Net Deferred Tax liability	677.5	809.2	809.2	809.2
Other long term liabilities	193.4	231.8	106.7	122.2
Long term provisions	51.6	60.8	105.9	121.3
Current Liabilities and Provisions				
Short term borrowings	1,806.7	2,068.4	2,168.4	2,068.4
Trade Payables	2,096.4	2,231.3	3,009.0	3,447.5
Other Current Liabilities	529.9	609.0	705.2	807.9
Short Term Provisions	7.4	7.9	9.2	10.5
Total Current Liabilities	4,440.3	4,916.6	5,891.8	6,334.4
Total Liabilities	15,776.6	18,754.5	22,012.5	24,832.2
Assets				
Net Block	8,425.3	10,049.8	11,827.3	13,591.9
Capital Work in Progress	1,671.6	2,405.5	2,500.0	2,500.0
Intangible assets under devel.	0.0	0.0	0.0	0.0
Goodwill on Consolidation	0.0	0.0	0.0	0.0
Non-current investments	4.2	4.2	4.2	4.2
Deferred tax assets	11.6	18.7	18.7	18.7
Long term loans and advances	155.2	113.0	151.0	172.9
Other Non Current Assets	254.4	388.4	563.1	645.1
Current Assets, Loans & Advances				
Current Investments	316.7	490.1	490.1	490.1
Inventories	2,138.5	2,274.3	2,962.7	3,394.5
Sundry Debtors	1,792.5	1,785.6	2,546.1	2,917.1
Cash and Bank	459.4	616.5	246.8	294.4
Loans and Advances	8.8	11.0	11.0	11.0
Other Current assets	538.5	597.5	691.9	792.7
Current Assets	5,254.3	5,775.0	6,948.7	7,899.8
Total Assets	15,776.6	18,754.5	22,012.8	24,832.6

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios

Year end March	FY22	FY23	FY24E	FY25E
Per share data (₹)				
Adj. EPS	63.5	72.7	79.4	99.0
Adj. Cash EPS	80.9	92.0	100.5	123.7
BV	288.0	347.2	409.8	492.1
DPS	16.8	16.8	16.8	16.8
Operating Ratios (%)				
Gross Margin (%)	51.2	50.3	50.5	51.0
EBITDA Margin (%)	25.5	23.7	23.0	24.6
PAT Margin (%)	15.2	14.5	14.0	15.2
Asset Turnover	0.9	0.9	0.9	0.9
Debtor Days	53	45	55	55
Inventory Days	63	57	64	64
Creditor Days	62	56	65	65
Cash Conversion Cycle	54	46	54	54
Return Ratios (%)				
Return on Assets (%)	12.0	11.5	10.7	11.9
RoCE (%)	23.8	21.9	20.6	22.1
Core RoIC (%)	23.2	21.6	19.7	21.5
RoE (%)	22.1	20.9	19.4	20.1
Solvency Ratios				
Total Debt / Equity	0.4	0.4	0.4	0.3
Interest Coverage	23.3	14.8	13.8	16.3
Current Ratio	1.2	1.2	1.2	1.2
Quick Ratio	0.7	0.7	0.7	0.7
Valuation Ratios (x)				
EV/EBITDA	21.3	19.3	17.8	14.5
P/E	34.4	30.0	27.5	22.0
P/B	7.6	6.3	5.3	4.4
EV/Sales	5.5	4.6	4.1	3.6

Source: Company, ICICI Direct Research

Exhibit 9: 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	2570	3,000	Buy	76,218	63.5	72.7	79.4	34.4	30.0	27.5	21.3	19.3	17.8	23.8	21.9	20.6	22.1	20.9	19.4
PI Industries	3030	3,615	Buy	45,971	55.5	76.9	91.8	56.1	40.5	33.9	39.7	31.1	25.3	16.3	18.8	19.5	13.8	16.2	16.3
Aarti Industries	502	515	Hold	18,373	32.7	15.0	18.0	25.1	54.4	45.4	28.9	29.7	24.6	11.8	9.7	10.4	14.6	11.1	11.9
Tata Chemical	978	1,130	Buy	24,807	47.5	89.5	109.3	20.6	10.9	8.9	12.7	7.7	5.2	6.6	10.4	10.8	6.6	11.6	12.5
Vinati Organics	2027	2,055	Hold	20,829	33.7	41.6	48.0	56.0	45.4	39.4	44.7	35.6	30.3	24.3	23.9	22.4	19.0	19.7	19.2
Sumitomo Chemical	425	525	Buy	21,236	8.5	10.8	12.4	51.6	40.5	35.2	35.7	28.4	24.2	30.2	30.1	28.1	22.0	22.4	20.9
Navin Fluorine	4526	4,285	Hold	22,438	52.3	65.7	86.0	79.6	63.4	48.4	57.9	42.3	31.2	17.8	18.3	19.1	14.0	15.5	17.4
Rallis India	206	223	Hold	4,000	8.4	8.7	11.8	26.5	25.7	18.9	15.2	15.5	11.4	12.7	11.4	14.7	9.7	9.4	11.6
Sudarshan chemical	417	370	Hold	2,885	18.8	4.4	18.1	19.2	81.8	19.9	11.9	16.9	9.7	10.9	4.7	12.3	15.6	3.6	13.2
Neogen Chemicals	1605	1,535	Buy	4,003	17.9	28.2	35.2	72.4	45.9	36.8	38.1	26.9	21.5	12.0	15.4	14.8	10.2	14.0	15.0
Astec Lifesciences	1356	1,307	Reduce	2,659	45.1	27.5	39.9	30.8	50.4	34.8	19.4	26.8	19.7	19.3	10.1	12.6	22.3	12.0	14.8

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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