

Spec-chem outlook could improve over next 6-9 months

Our recent interaction with SRF's management during its analyst day gave us insights on the progress of company's on-going growth plans along with long-term opportunities in various sub-segments the company operates in. Key takeaways – 1) sequential growth in specialty chemicals majorly driven by ramp-up of new products rather than a seasonal uptick; 2) for specialty chemicals, kept target of single digit growth in FY24 intact and indicated aspiration of ~15-20% growth in FY25 and beyond; 3) ref gas prices are likely to improve from current levels and demand-supply situation to remain tight with a possibility of R32 shortages over medium term; 4) looking to enter the HFO market over the next 2-3 years; and 5) aluminium foil capacity likely to get commissioned in Jan'24. We remain constructive on the company's long term plans. We maintain BUY with an unchanged Dec'24 TP of INR 3,040 (SoTP based).

- Specialty chemicals business – aspiration of 15-20% growth in FY25 and beyond:** Similar to what we have highlighted (click [here](#) and [here](#)), SRF's management has also pointed out robust crop pricing would lead to higher acreages. As a result, once the excess agchem inventory situation subsides, offtake normalisation should follow. According to the management, although the recovery timelines continue to remain uncertain, things could improve over the next 6-9 months. It was indicated that large part of growth in 2HFY24 and in FY25 is likely to be on account of new product launches while ramp-up in existing products could be on top of this. Further, plans of launch of 6-7 active ingredients remain intact with some of the products having a potential to touch a USD 100mn mark. We had highlighted some of the possible products in our detailed thematic report (click [here](#)).
- Ref gas business – medium term outlook remains positive:** Management indicated that demand for R32 is likely to pick up significantly over the next few years as it is getting pushed currently across the globe. Besides, there are numerous HFO blends where R-32 would be used significantly. R-452a and R-452b, are blends of R-32, R-125 and HFO1234yf, R-452c and R-454a, are blends of R-32 and HFO-1234yf, and R-448 is a blend of R-32, R-134a, HFO1234yf and HFO1234ze. (click [here](#) for our report whereby we had indicated that R-32 demand is likely to peak around CY35-37 and [here](#) for our report where we had discussed various details of HFOs). Moreover, it was highlighted that China dumped HFCs at lower prices to get higher quota as their baseline was CY21-23. This is unlikely to be the case starting CY24 given China indigenous consumption would also increase amid no possibility of production increase. Besides this, SRF is also eager to enter into the HFO space once the patents of various HFOs (especially of 1234yf) expire over the next 2-3 years.
- PTFE plant likely to achieve optimum utilisation over next one year; maintain BUY:** SRF has started commercial sales of PTFE in the domestic market and has begun supplying samples to Europe. Management expects to start sampling of value added grades (except modified) to start over the next 5-6 month and achieve optimum utilisation in a years' time. We retain our estimates and maintain BUY as we believe SRF remains at the forefront of capturing growth in the fluorochemicals space.

Krishan Parwani
krishan.parwani@jmfl.com | Tel: (91 96) 62095500

We acknowledge the support of Prashanth Kamath in the preparation of this report

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	3,040
Upside/(Downside)	28.4%
Previous Price Target	3,040
Change	0.0%

Key Data – SRF IN

Current Market Price	INR2,368
Market cap (bn)	INR697.1/US\$8.4
Free Float	43%
Shares in issue (mn)	296.2
Diluted share (mn)	296.2
3-mon avg daily val (mn)	INR891.7/US\$10.7
52-week range	2,637/2,040
Sensex/Nifty	66,902/20,097
INR/US\$	83.3

Price Performance

%	1M	6M	12M
Absolute	8.1	-7.2	1.3
Relative*	3.1	-12.8	-5.1

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	1,23,128	1,45,918	1,44,662	1,72,056	2,01,184
Sales Growth (%)	48.4	18.5	-0.9	18.9	16.9
EBITDA	31,759	35,292	32,007	40,928	50,439
EBITDA Margin (%)	25.5	23.7	22.1	23.8	25.1
Adjusted Net Profit	18,889	21,623	17,472	22,907	28,810
Diluted EPS (INR)	63.8	73.0	59.0	77.3	97.3
Diluted EPS Growth (%)	57.6	14.5	-19.2	31.1	25.8
ROIC (%)	19.0	18.2	12.7	14.3	15.7
ROE (%)	24.5	22.9	15.7	17.8	19.0
P/E (x)	36.9	32.2	39.9	30.4	24.2
P/B (x)	8.1	6.7	5.9	5.0	4.2
EV/EBITDA (x)	22.8	20.6	22.9	18.0	14.5
Dividend Yield (%)	0.3	0.3	0.3	0.4	0.5

Source: Company data, JM Financial. Note: Valuations as of 30/Nov/2023

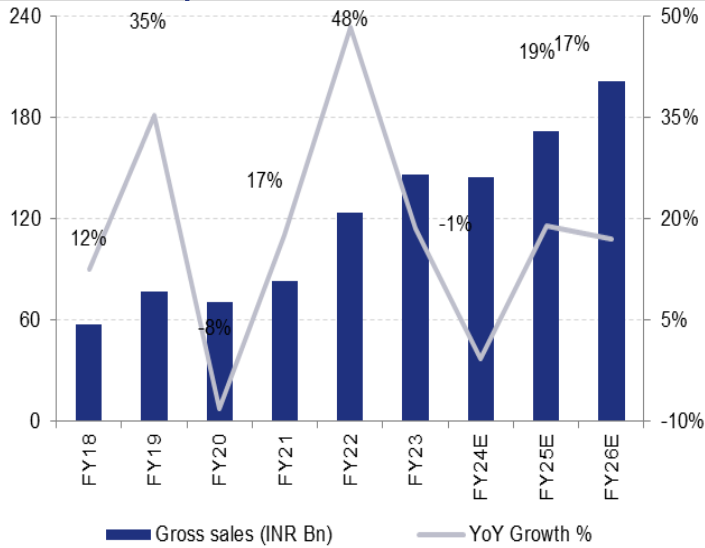
Assumptions and Estimates

Exhibit 1. Key Assumptions

INR mn	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Segment revenues									
Technical textiles	18,388	17,349	13,576	12,401	20,852	18,939	19,873	21,264	22,753
Chemicals	16,114	24,454	29,750	36,447	52,408	74,109	72,532	88,319	105,732
Packaging films	17,823	26,533	26,040	32,917	47,792	51,828	48,035	58,035	68,035
Others	4,573	2,716	2,783	2,320	3,403	3,926	4,320	4,536	4,763
Unallocated	49	57	54	87	119	99	99	99	99
Total	56,849	70,996	72,094	83,998	124,337	148,703	144,662	172,056	201,184
YoY growth (%)									
Technical textiles	-9%	-6%	-22%	-9%	68%	-9%	5%	7%	7%
Chemicals	-6%	52%	22%	23%	44%	41%	-2%	22%	20%
Packaging films	26%	49%	-2%	26%	45%	8%	-7%	21%	17%
Others	526%	-41%	2%	-17%	47%	15%	10%	5%	5%
Unallocated	15%	16%	-5%	61%	37%	-17%	0%	0%	0%
Total	9%	25%	2%	17%	48%	20%	-3%	19%	17%
Revenue contribution (%)									
Technical textiles	32%	24%	19%	15%	17%	13%	14%	12%	11%
Chemicals	28%	34%	41%	43%	42%	50%	50%	51%	53%
Packaging films	31%	37%	36%	39%	38%	35%	33%	34%	34%
Others	8%	4%	4%	3%	3%	3%	3%	3%	2%
Unallocated	0%	0%	0%	0%	0%	0%	0%	0%	0%
Segmental EBIT									
Technical textiles	2,529	2,615	1,515	1,769	4,714	2,617	2,584	2,764	2,958
Chemicals	2,694	3,843	5,115	7,281	13,969	23,407	20,309	24,729	29,605
Packaging films	2,298	4,115	5,556	8,977	9,463	5,562	3,362	5,804	9,525
Others	444	218	318	256	204	348	302	318	333
Total	7,964	10,790	12,504	18,283	28,350	31,934	26,557	33,615	42,421
EBIT margins (%)									
Technical textiles	13.8%	15.1%	11.2%	14.3%	22.6%	13.8%	13.0%	13.0%	13.0%
Chemicals	16.7%	15.7%	17.2%	20.0%	26.7%	31.6%	28.0%	28.0%	28.0%
Packaging films	12.9%	15.5%	21.3%	27.3%	19.8%	10.7%	7.0%	10.0%	14.0%
Others	9.7%	8.0%	11.4%	11.0%	6.0%	8.9%	7.0%	7.0%	7.0%
Total	14.0%	15.2%	17.3%	21.8%	22.8%	21.5%	18.4%	19.5%	21.1%

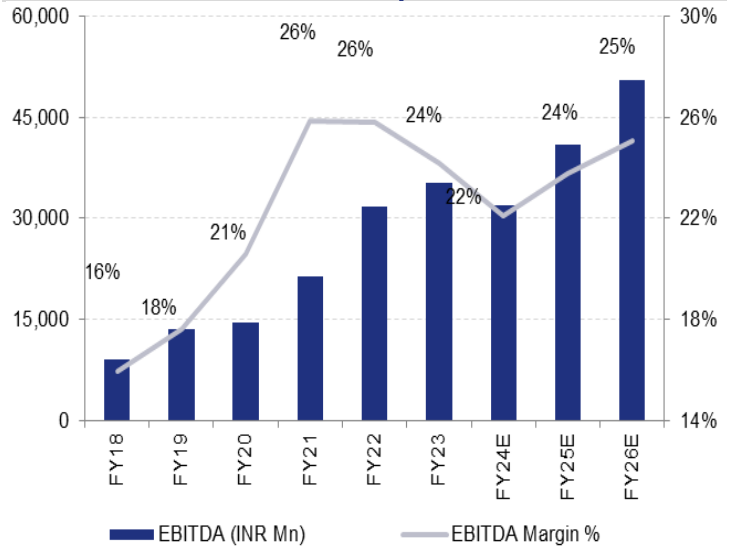
Source: JM Financial, Company

Exhibit 2. Sales likely to see 11% CAGR over FY23-26E



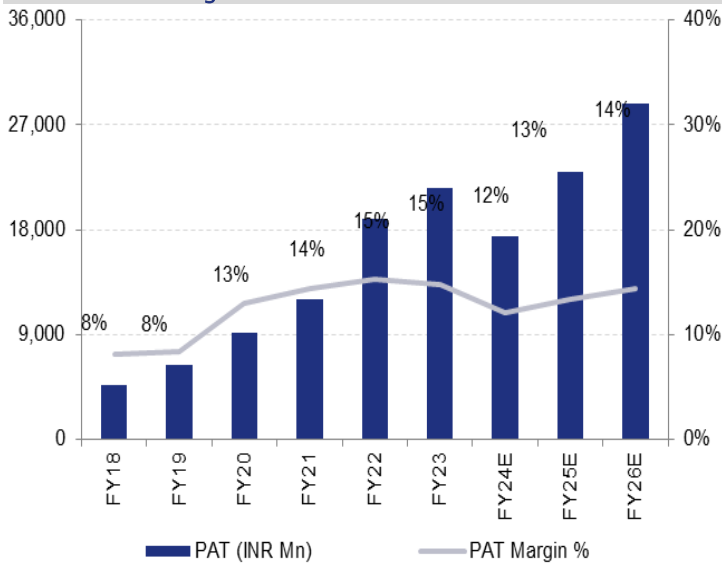
Source: Company, JM Financial

Exhibit 3. EBITDA CAGR of ~13% likely over FY23-26E...



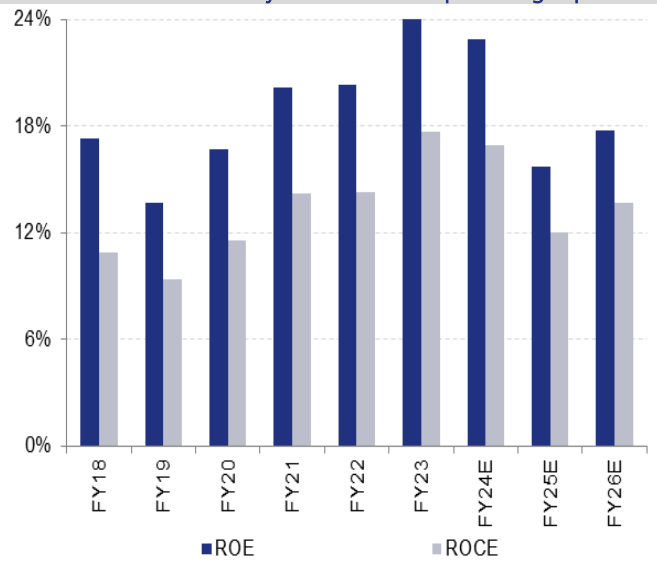
Source: Company, JM Financial

Exhibit 4. ...resulting in 10% PAT CAGR over FY23-26E



Source: Company, JM Financial

Exhibit 5. SRF's ROCEs likely to be stable despite rising capex intensity



Source: Company, JM Financial

Valuation

Exhibit 6. Our Dec'24 TP for SRF stands at INR 3,040/share

Segments	Dec'25 EBITDA (INR bn)	EV/EBITDA multiple (x)	Value (INR bn)		Value (INR/share)	
Technical Textile Business	4	6	22		75	
Chemicals Business	34	25	844		2,848	
Packaging Films Business	11	6	68		230	
Others	1	6	5		16	
Total Business EBITDA	50		939		3,169	
Less: Gross Debt			52		175	
Add: Cash & Cash Equivalents			14		46	
TP			900		3,040	
Dec'25E consolidated EPS					92	
Implied P/E multiple					33	

Source: JM Financial

Exhibit 7. Chemical companies peer valuation

Company	Rating	CMP (INR)	TP (INR)	P/E (x)				P/B (x)				EV/EBITDA (x)				ROE (%)			
				FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
SRF	BUY	2,373	3,040	32.5	40.2	30.7	24.4	6.8	5.9	5.1	4.3	20.8	23.1	18.2	14.7	22.9	15.7	17.8	19.0
UPL	BUY	571	800	11.1	15.2	10.7	8.9	1.4	1.3	1.2	1.1	6.2	6.7	5.9	5.4	13.6	8.8	11.5	12.6
PI Industries	BUY	3,770	4,295	45.3	36.5	32.2	26.8	7.7	6.4	5.3	4.4	33.9	26.8	22.5	18.6	18.4	19.1	18.0	18.0
Deepak Nitrite	BUY	2,196	2,340	33.2	40.3	27.3	22.5	6.9	5.9	4.9	4.0	21.7	24.9	17.3	14.3	22.9	15.8	19.6	19.5
Clean Science	BUY	1,363	1,790	49.4	58.6	42.3	32.1	14.4	11.7	9.2	7.2	35.4	41.1	29.0	22.5	33.2	22.0	24.3	25.1
Navin Fluorine	BUY	3,701	4,725	45.4	45.0	32.1	23.4	7.8	6.9	5.9	4.9	32.1	31.1	23.4	18.4	18.6	16.2	19.7	22.8
Fine Organics	SELL	4,229	3,185	22.4	36.2	42.1	40.3	8.7	7.3	6.4	5.7	16.4	23.4	26.2	24.4	47.6	22.0	16.3	15.1
Galaxy Surfactants	HOLD	2,848	2,650	27.5	32.5	31.0	29.2	5.6	4.7	4.1	3.6	18.5	20.1	18.8	17.3	22.0	15.8	14.2	13.2
PCBL Ltd.	BUY	271	290	23.1	21.1	19.9	16.6	3.6	3.3	3.0	2.6	15.2	12.7	11.6	10.1	16.2	16.3	15.6	16.8
Aether Industries	BUY	779	1,130	25.9	22.5	15.0	11.1	2.7	1.7	1.5	1.3	17.6	11.5	8.5	6.9	16.0	9.4	10.6	12.7
Anupam Rasayan	HOLD	987	980	54.7	51.9	36.2	26.8	4.2	3.3	3.0	2.7	22.2	20.1	16.2	13.0	8.8	7.3	8.7	10.6
Archean Chemicals	BUY	585	665	15.1	18.1	11.7	9.3	4.0	3.6	2.8	2.1	9.8	11.6	7.2	5.2	45.2	22.1	26.6	25.7
Tatva Chintan Pharma Chem	HOLD	1,520	1,530	68.6	72.4	40.8	30.2	6.5	4.6	4.1	3.7	57.6	34.1	23.3	18.6	9.9	7.4	10.7	12.9
India Pesticides	HOLD	319	200	23.2	27.4	24.5	21.2	4.3	3.7	3.3	2.8	16.6	18.3	16.1	13.8	20.3	14.6	14.2	14.3

Source: Bloomberg, JM Financial

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	1,23,128	1,45,918	1,44,662	1,72,056	2,01,184
Sales Growth	48.4%	18.5%	-0.9%	18.9%	16.9%
Other Operating Income	1,209	2,784	0	0	0
Total Revenue	1,24,337	1,48,703	1,44,662	1,72,056	2,01,184
Cost of Goods Sold/Op. Exp	61,711	71,252	72,331	84,307	97,574
Personnel Cost	7,800	8,138	9,115	10,208	11,433
Other Expenses	23,067	34,020	31,209	36,612	41,738
EBITDA	31,759	35,292	32,007	40,928	50,439
EBITDA Margin	25.5%	23.7%	22.1%	23.8%	25.1%
EBITDA Growth	48.0%	11.1%	-9.3%	27.9%	23.2%
Depn. & Amort.	5,172	5,753	7,359	8,883	10,473
EBIT	26,587	29,539	24,648	32,045	39,966
Other Income	428	749	900	900	1,000
Finance Cost	1,159	2,048	2,252	2,402	2,552
PBT before Excep. & Forex	25,856	28,240	23,296	30,543	38,414
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	25,856	28,240	23,296	30,543	38,414
Taxes	6,966	6,617	5,824	7,636	9,603
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	18,889	21,623	17,472	22,907	28,810
Adjusted Net Profit	18,889	21,623	17,472	22,907	28,810
Net Margin	15.2%	14.5%	12.1%	13.3%	14.3%
Diluted Share Cap. (mn)	296.2	296.2	296.2	296.2	296.2
Diluted EPS (INR)	63.8	73.0	59.0	77.3	97.3
Diluted EPS Growth	57.6%	14.5%	-19.2%	31.1%	25.8%
Total Dividend + Tax	2,117	2,133	2,009	2,634	3,313
Dividend Per Share (INR)	7.1	7.2	6.8	8.9	11.2

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	25,856	28,240	23,296	30,543	38,414
Depn. & Amort.	5,172	5,753	7,359	9,678	11,268
Net Interest Exp. / Inc. (-)	1,159	2,048	2,252	2,402	2,552
Inc (-) / Dec in WCap.	-6,645	-559	157	-3,433	-3,650
Others	-469	-1,388	0	0	0
Taxes Paid	-4,016	-5,077	-5,824	-7,636	-9,603
Operating Cash Flow	21,057	29,017	27,241	31,555	38,980
Capex	-18,321	-28,382	-27,500	-30,000	-30,000
Free Cash Flow	2,737	635	-259	1,555	8,980
Inc (-) / Dec in Investments	1,028	-1,642	0	0	0
Others	1,416	410	0	0	0
Investing Cash Flow	-15,877	-29,614	-27,500	-30,000	-30,000
Inc / Dec (-) in Capital	2	0	0	0	0
Dividend + Tax thereon	0	0	0	0	0
Inc / Dec (-) in Loans	622	1,736	3,000	3,000	3,000
Others	-2,669	459	-4,261	-5,036	-5,865
Financing Cash Flow	-2,058	2,196	-1,261	-2,036	-2,865
Inc / Dec (-) in Cash	3,122	1,599	-1,521	-482	6,115
Opening Cash Balance	1,383	4,481	6,080	4,560	4,078
Closing Cash Balance	4,505	6,080	4,560	4,078	10,193

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	85,654	1,03,271	1,18,733	1,39,006	1,64,503
Share Capital	2,974	2,974	2,974	2,974	2,974
Reserves & Surplus	82,679	1,00,296	1,15,759	1,36,032	1,61,529
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	35,394	43,541	46,541	49,541	52,541
Def. Tax Liab. / Assets (-)	6,659	7,906	7,906	7,906	7,906
Total - Equity & Liab.	1,27,706	1,54,717	1,73,179	1,96,452	2,24,949
Net Fixed Assets	98,416	1,21,681	1,41,822	1,62,144	1,80,875
Gross Fixed Assets	1,04,017	1,25,108	1,52,608	1,82,608	2,12,608
Intangible Assets	1,194	1,147	1,147	1,147	1,147
Less: Depn. & Amort.	23,512	28,630	35,989	45,667	56,936
Capital WIP	16,716	24,055	24,055	24,055	24,055
Investments	3,209	5,027	5,027	5,027	5,027
Current Assets	56,026	60,651	58,781	65,921	80,140
Inventories	21,385	22,743	22,547	26,817	31,357
Sundry Debtors	17,925	17,856	17,702	21,055	24,619
Cash & Bank Balances	4,594	6,080	4,560	4,078	10,193
Loans & Advances	2,346	2,459	2,459	2,459	2,459
Other Current Assets	9,776	11,513	11,513	11,513	11,513
Current Liab. & Prov.	29,944	32,642	32,450	36,639	41,093
Current Liabilities	23,850	25,606	25,414	29,603	34,057
Provisions & Others	6,095	7,036	7,036	7,036	7,036
Net Current Assets	26,081	28,009	26,331	29,282	39,047
Total - Assets	1,27,706	1,54,717	1,73,180	1,96,453	2,24,950

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	15.2%	14.5%	12.1%	13.3%	14.3%
Asset Turnover (x)	1.1	1.0	0.9	0.9	0.9
Leverage Factor (x)	1.5	1.5	1.5	1.5	1.4
RoE	24.5%	22.9%	15.7%	17.8%	19.0%

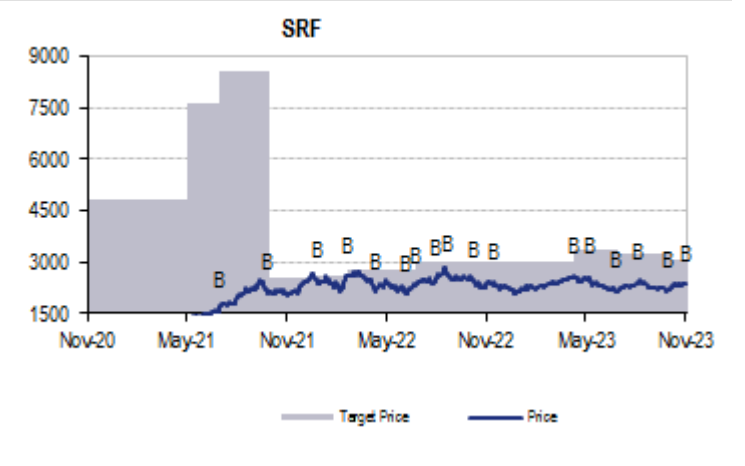
Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	289.1	348.6	400.8	469.3	555.3
ROIC	19.0%	18.2%	12.7%	14.3%	15.7%
ROE	24.5%	22.9%	15.7%	17.8%	19.0%
Net Debt/Equity (x)	0.3	0.3	0.3	0.3	0.2
P/E (x)	36.9	32.2	39.9	30.4	24.2
P/B (x)	8.1	6.7	5.9	5.0	4.2
EV/EBITDA (x)	22.8	20.6	22.9	18.0	14.5
EV/Sales (x)	5.8	4.9	5.1	4.3	3.6
Debtor days	53	44	45	45	45
Inventory days	63	56	57	57	57
Creditor days	83	72	72	73	74

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
16-Jun-20	Hold	3,100	
4-Sep-20	Hold	4,800	54.9
31-May-21	Buy	7,600	58.3
29-Jul-21	Buy	8,565	12.7
26-Oct-21	Buy	2,530	-70.5
25-Jan-22	Buy	2,575	1.8
20-Mar-22	Buy	2,765	7.4
10-May-22	Buy	2,765	0.0
5-Jul-22	Buy	2,765	0.0
22-Jul-22	Buy	3,000	8.5
30-Aug-22	Buy	3,000	0.0
21-Sep-22	Buy	3,000	0.0
6-Nov-22	Buy	3,000	0.0
14-Dec-22	Buy	3,000	0.0
10-May-23	Buy	3,380	12.7
7-Jun-23	Buy	3,380	0.0
25-Jul-23	Buy	3,245	-4.0
5-Sep-23	Buy	3,245	0.0
30-Oct-23	Buy	3,040	-6.3
30-Nov-23	Buy	3,040	0.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: sahil.salastekar@jmfl.com

Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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