

Chemicals business outlook to remain weak for FY25

Specialty Chemicals ▶ Result Update ▶ October 23, 2024

TARGET PRICE (Rs): 2,600

SRF's chemicals business (CB) has again been weak in Q2FY25 (revenue lower by 8% QoQ/5% YoY) with lower margins (EBIT margin of 18% vs 24%/21% in Q2FY24/Q1FY25), on slowdown in agrochemical market and pressure due to inventory adjustments as well as volume/pricing pressure in the US refrigerant gas business (domestic market volumes have been strong). Packaging Films business' (PFB) demand-supply imbalance persists and is likely to continue in the short to mid-term. The management expects gradual recovery from H2FY25; however, there is bleak visibility on 20% growth guidance for CB due to the dynamic macro environment. We have built in flat YoY numbers for chemicals business in FY25 and cut our FY25E/26E/27E EPS by 22%/12%/6% to factor in the same; maintain ADD on SRF with our SoTP-based TP of Rs2,600.

SRF: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	148,703	131,385	144,925	170,485	194,284
EBITDA	35,292	25,841	27,583	37,143	45,737
Adj. PAT	21,623	13,357	13,402	20,593	26,271
Adj. EPS (Rs)	72.7	44.9	45.1	69.2	88.3
EBITDA margin (%)	23.7	19.7	19.0	21.8	23.5
EBITDA growth (%)	11.1	(26.8)	6.7	34.7	23.1
Adj. EPS growth (%)	14.5	(38.2)	0.3	53.7	27.6
RoE (%)	22.9	12.3	11.1	15.1	16.7
RoIC (%)	20.3	11.0	9.3	12.4	13.8
P/E (x)	30.9	50.1	49.9	32.5	25.5
EV/EBITDA (x)	19.9	27.4	25.7	19.1	15.4
P/B (x)	6.5	5.8	5.3	4.6	3.9
FCFF yield (%)	0.0	(0.3)	0.4	0.2	1.2

Source: Company, Emkay Research

Chemicals business outlook remains muted for FY25

CB revenue de-grew 5% YoY to Rs13.6bn in Q2 (EBIT margin was 18.1% vs 24.4% YoY) on prolonged slowdown in the agrochemical market, coupled with lower offtake of certain key products due to high inventory levels at the customer's end. Ref gas export volumes/pricing remained muted in Q2, impacting margins due to seasonality and high inventory. On the contrary, the company gained domestic market share in ref gases recording highest-ever volume sales in H1 (as they have to gain more quota during the baseline period). The management has guided for gradual recovery from Q3 on the back of strong order book and contribution from new molecules. SRF announced for capex in 4th gen. ref gases (HFO) of Rs11bn with expected commissioning within 30 months. Overall capex guidance for chemicals businesses in FY25 stands at Rs16-18bn.

Packaging films business to focus on value added products (VAP)

PFB revenue grew 27% YoY to Rs14.2bn in Q2 (+6% QoQ), with a nominal decline in EBIT margins to 5.8% (6.9% YoY/6.5% QoQ). EBIT margins fell due to stiff competition in south-east Asian markets impacting Thailand performance (ocean freights and container unavailability impacted exports). BOPET pricing improved in the domestic market while BOPP remained stable. However, BOPET supply still exceeds demand and imbalance will continue in the short to mid-term. Aluminium foil facility is now stabilized and expected to contribute in H2. SRF announced a capex of Rs4.45bn to set up a hybrid BOPP-BOPE film line with a capacity of 60KT. (timeline: 25 months).

Technical textile business to explore newer geographies and focus on VAPs

TTB revenue improved 6% YoY to Rs5.4bn (+2% QoQ), on healthy volume in the nylon tire cord fabric (NTCF) segment. Healthy demand was witnessed in polyester industrial yarn (PIY) segment, whereas lower demand/margins were reported in Belting Fabric (BF) which had some impact on the overall performance. EBIT margin improved to 15.2% vs 14.8% YoY/12.9% QoQ, on higher operating leverage and focus on high-end VAPs in BF (8 new VAPs in H1) with entry in newer geographies.

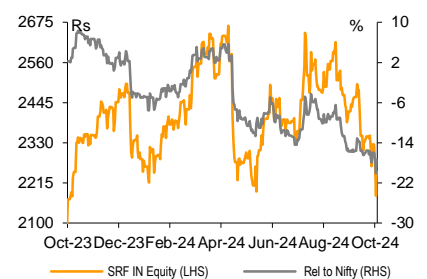
Target Price – 12M	Dec-25
Change in TP (%)	-
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	15.7
CMP (23-Oct-24) (Rs)	2,248.2

Stock Data	Ticker
52-week High (Rs)	2,697
52-week Low (Rs)	2,081
Shares outstanding (mn)	296.4
Market-cap (Rs bn)	666
Market-cap (USD mn)	7,926
Net-debt, FY25E (Rs mn)	40,745
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	1,741.0
ADTV-3M (USD mn)	20.7
Free float (%)	-
Nifty-50	24,436
INR/USD	84.1
Shareholding, Jun-24	
Promoters (%)	50.3
FPIs/MFs (%)	18.7/16.6

Price Performance

(%)	1M	3M	12M
Absolute	(7.9)	(4.8)	3.5
Rel. to Nifty	(2.2)	(4.6)	(18.3)

1-Year share price trend (Rs)



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Other Highlights

Chemicals Business (CB)

Specialty Chemicals Business (SCB)

- SCB continued to suffer from agrochemical market slowdown in Q2 as well. Inventory levels at customer's end resulted in lower offtake for some key products.
- Management highlighted that H2 will be better than H1 on improved order book. SRF planned to create a robust product pipeline of AIs for which they have done sampling with the customers. Multiple AIs are in the advanced stages of commercialization.
- SRF was granted 2 new process patents in H1FY25. No new patents were granted in Q2FY25.
- FY25E capex range guidance is Rs16-18bn, which will be largely toward three new fluoropolymers that will come on-stream by Q3FY26. The capex intensity had paced down in H1 owing to overall demand scenario. The new capex announced in Q2 for HFOs and BOPP-BOPE hybrid line will see significant cash outflow in FY26.
- SRF will confirm its CB guidance with improved visibility in the coming quarter due to demand volatility and destocking; EBIT margins will be subject to operating leverage in H2.
- **Outlook:** The agrochemical market is likely to show improvement and a gradual demand pick-up over H2FY25. Launch of new pharma intermediates and ramp up of the recently commissioned facility would drive the growth guidance.

Fluorochemicals Business (FB)

- Refrigerant gases witnessed better volumes in the domestic market compared with the company's US/Middle East geographies. SRF's market share increased in both RACs & MACs.
- R125/R32/R134a saw volume and pricing pressure in the US market due to seasonality and inventory overhang.
- The management believes that ref gas volumes and demand will be stable and growth will be primarily from India and the Middle East, while the US market may see some decline.
- Chloromethanes faced pricing pressure due to adverse commodity cycle; pricing improved toward the end of Q2.
- Company is conducting trials for free flow and fine cut grades of PTFE as planned, while sampling for certain grades are in advanced stage of discussions in export market.
- **Outlook:** The new HF plant is expected to be commissioned soon, and provide cost advantages post-stabilization; PTFE volumes to ramp-up by Q4FY25 along with building traction from value-added grades. HFO plant is expected to commission by H1FY28.

Packaging Films Business (PFB)

- PFB operated at optimum utilization rate in Q2FY25 as well, while facing supply overhang that resulted in pressure on margins for BOPET in Thailand.
- BOPP continued to remain stable and in line with expectations. The management believes BOPP demand would benefit from sustainability-related actions. On these hopes, the management has announced a capex of Rs4.55bn in new hybrid BOPP-BOPE line with commissioning deadlines of 25 months from now.
- 7 BOPET and 8 BOPP product variants developed during H1.
- Freight cost remained higher across the quarter due to shipping line challenges. Any ease in freight cost will directly benefit margins in this business.
- Aluminium foil production stabilized in H1, supported by rising volumes in domestic and exports market. ADD implementation on aluminium foil is under final stages of investigation.
- **Outlook:** BOPP to perform relatively better than BOPET; Hungary expected to perform better owing to sales in Mainland Europe; South Africa will continue to perform well. Thailand to see better exports with softening of global freight rates.

Exhibit 1: Result update

P&L (Rs mn)	Reported					Emkay Est.		Half year ended		
	Q2FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)	Q2FY25E	vs Est. (%)	H1FY25	H1FY24	YoY (%)
Net revenue	31,774	34,641	34,243	8	-1	35,597	-4	68,884	65,157	6
Material cost	(16,201)	(18,271)	(18,341)	13	0	(18,798)	-2	(36,611)	(33,206)	10
Gross Profit	15,573	16,371	15,903	2	-3	16,799	-5	32,273	31,952	1
Gross margin (%)	49.0	47.3	46.4	-258 bps	-82 bps	47.2	-76 bps	46.9	49.0	-219 bps
Employee cost	(2,266)	(2,522)	(2,534)	12	0	(2,561)	-1	(5,056)	(4,446)	14
Other overheads	(7,045)	(7,815)	(7,988)	13	2	(8,009)	0	(15,803)	(14,281)	11
Total expenses	(25,512)	(28,607)	(28,863)	13	1	(29,369)	(2)	(57,470)	(51,933)	11
EBITDA	6,262	6,034	5,380	-14	-11	6,229	-14	11,415	13,225	-14
EBITDA margin (%)	19.7	17.4	15.7	-400 bps	-171 bps	17.5	-179 bps	16.6	20.3	-373 bps
Other income	291	253	333	14	32	258	29	586	409	43
Interest	(793)	(965)	(938)	18	-3	(965)	-3	(1,903)	(1,449)	31
Depreciation	(1,612)	(1,882)	(1,939)	20	3	(1,938)	0	(3,821)	(3,178)	20
EO Items	-	-	-	-	-	-	-	-	-	-
PBT	4,148	3,440	2,837	-32	-18	3,583	-21	6,276	9,006	-30
Tax	(1,140)	(918)	(822)	-28	-10	(967)	(15)	(1,740)	(2,405)	-28
Adj. PAT	3,008	2,522	2,014	-33	-20	2,615	-23	4,536	6,601	-31
EO Items	-	-	-	-	-	-	-	-	-	-
Reported PAT	3,008	2,522	2,014	-33	-20	2,615	-23	4,536	6,601	-31
EPS (Rs)	10.1	8.5	6.8	-33	-20	8.8	-23	15.3	22.3	-31
Costs as a % of sales										
Material cost	51.0	52.7	53.6	257 bps	81 bps	52.8	75 bps	53.1	51.0	218 bps
Employee cost	7.1	7.3	7.4	26 bps	11 bps	7.2	20 bps	7.3	6.8	51 bps
Other overheads	22.2	22.6	23.3	115 bps	76 bps	22.5	82 bps	22.9	21.9	102 bps
Income tax rate	27.5	26.7	29.0	150 bps	231 bps	27.0	199 bps	27.7	26.7	101 bps

Source: Company, Emkay Research

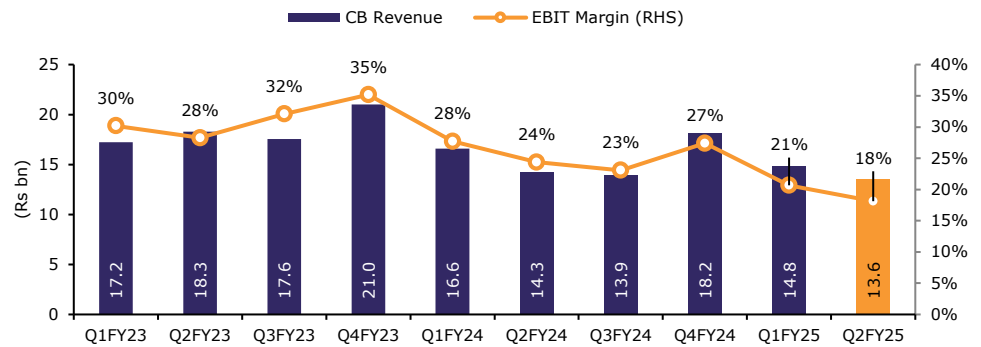
Exhibit 2: Segmental highlights

(Rs mn)	Quarter ended					Half year ended		
	Q2FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)	H1FY25	H1FY24	YoY (%)
Segment Revenue								
Chemicals Business	14,263	14,820	13,578	(4.8)	(8.4)	28,398	30,868	(8.0)
Packing Film Business	11,215	13,363	14,206	26.7	6.3	27,569	22,163	24.4
Technical Textile Business	5,062	5,253	5,355	5.8	1.9	10,608	9,708	9.3
Others	1,269	1,262	1,128	(11.1)	(10.6)	2,390	2,456	(2.7)
Segment EBIT								
Chemicals Business	3,478	3,064	2,461	(29.2)	(19.7)	5,526	8,078	(31.6)
Packing Film Business	773	868	828	7.2	(4.5)	1,696	1,286	31.9
Technical Textile Business	750	677	813	8.5	20.1	1,490	1,356	9.9
Others	331	236	172	(48.1)	(27.1)	408	563	(27.5)
EBIT Margin (%)								
Chemicals Business	24.4%	20.7%	18.1%	-626 bps	-255 bps	19.5%	26.2%	-672 bps
Packing Film Business	6.9%	6.5%	5.8%	-106 bps	-67 bps	6.2%	5.8%	34 bps
Technical Textile Business	14.8%	12.9%	15.2%	38 bps	230 bps	14.0%	14.0%	8 bps
Others	26.1%	18.7%	15.2%	-1,085 bps	-345 bps	17.1%	22.9%	-585 bps

Source: Company, Emkay Research

Exhibit 3: CB faced margin pressure of ~3%, excluding the depreciation impact

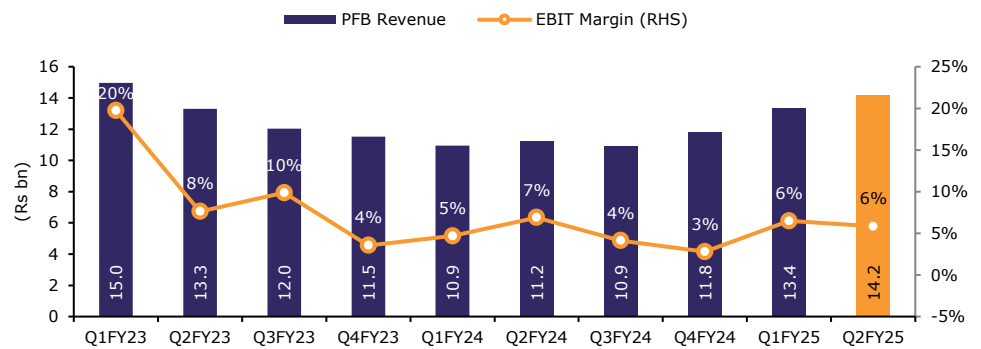
Specialty Chemicals Business to see steep recovery from Q4FY25E with strong order book



Source: Company, Emkay Research

Exhibit 4: Steady improvement in realizations and volumes for the PFB in Q2

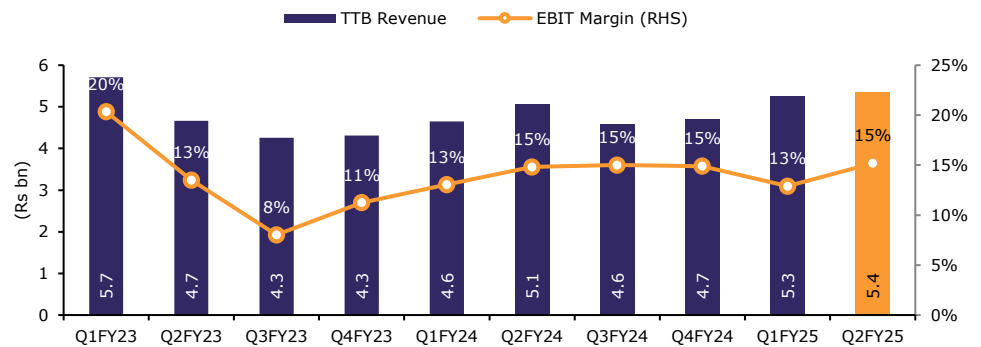
Thailand to start exports on reduced freight rates and improved container availability



Source: Company, Emkay Research

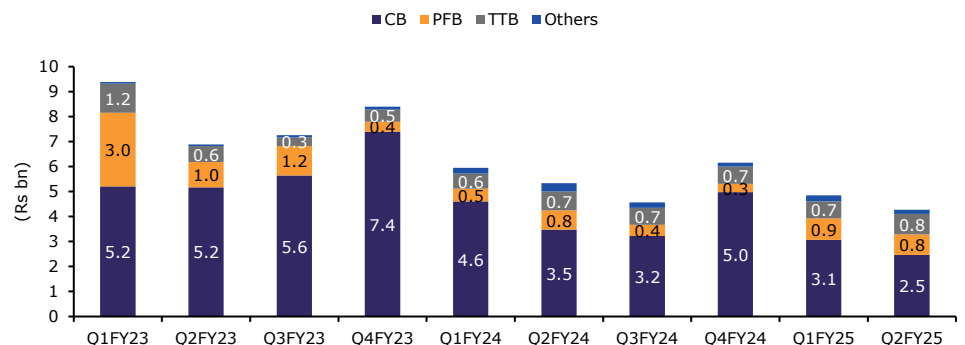
Exhibit 5: TTB outlook remains positive for its key products

TTB to evolve with venturing in new geographies and adding VAPs



Source: Company, Emkay Research

Exhibit 6: Segmental EBIT contribution



Source: Company, Emkay Research

SoTP-based TP of Rs2,600

SRF is planning aggressive capex of >Rs20-25bnpa (vs Rs13-14bnpa over FY19-21 and Rs18bn in FY22) over the next few years (FY25E to be Rs16-18bn) to be largely used toward the chemicals business (Specialty Chemicals, Ref gas, and Fluorocarbons; >75%). Such a surge in capex (largely funded internally) will continue to drive strong growth in the chemicals business, which coupled with normalization in the Packaging Films Business (industry consolidating now), should drive a steady shift in its EBITDA contribution. We expect ~63% EBITDA contribution from the chemicals business by FY27E vs ~51% in FY22. We believe SRF's specialty chemicals business portfolio is far more complex than that of peers, and because of several internally-generated processes with backward integration in place, generates higher EBIT margin. This warrants a higher multiple compared with most of its specialty chemicals peers.

Exhibit 7: EBITDA contribution from the chemicals business to continue rising

Segment	EBITDA contribution		EBITDA CAGR	Target EV/EBITDA (x)
	FY24	FY27E	FY24-27E	
Spec Chem	38%	36%	16%	28
Fluoro Chem	33%	27%	11%	15
Packaging Films	14%	27%	48%	10
TTB/ Others	15%	10%	3%	8

Source: Company, Emkay Research

Exhibit 8: SoTP-based TP of Rs2,600 on Dec-26E

(Rs mn)	FY26E	FY27E
Consol EBITDA	37,143	45,737
Target multiple (x)	18.7	18.6
Target EV	693,393	849,695
Less: Net Debt	43,471	38,644
Target M-Cap	649,922	811,051
No of shares (mn)	297	297
Target Price (Rs)	2,184	2,726
Target Price (Dec-26E; Rs)		2,600
EPS (Rs)	69.2	88.3
Implied PER (x)		31.1

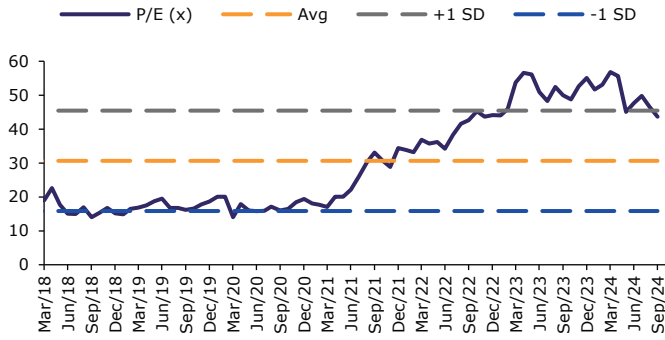
Source: Emkay Research

Exhibit 9: We have built in flat YoY numbers for chemicals business in FY25 and cut our FY25E/26E/27E EPS by 22%/12%/6%

Particulars (Rs mn)	FY25E			FY26E			FY27E		
	Revised	Earlier	Chg (%)	Revised	Earlier	Chg (%)	Revised	Earlier	Chg (%)
Revenue	144,925	155,097	(6.6)	170,485	180,484	(5.5)	194,284	203,141	(4.4)
EBITDA	27,583	32,765	(15.8)	37,143	41,075	(9.6)	45,737	48,116	(4.9)
EBITDA margin (%)	19.0	21.1	-210 bps	21.8	22.8	-98 bps	23.5	23.7	-15 bps
PAT	13,402	17,263	(22.4)	20,593	23,409	(12.0)	26,271	27,976	(6.1)
EPS (Rs)	45.1	58.0	(22.4)	69.2	78.7	(12.0)	88.3	94.1	(6.1)

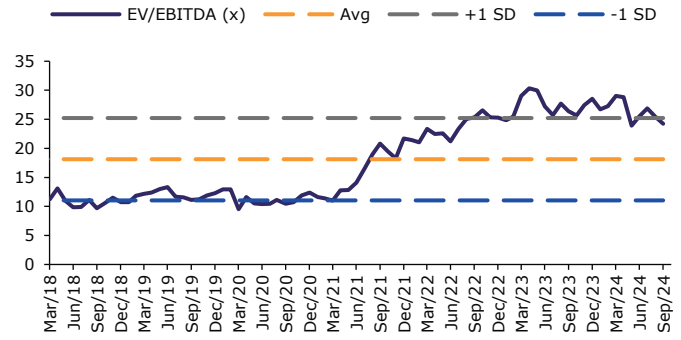
Source: Emkay Research

Exhibit 10: One-year forward P/E



Source: Bloomberg, Emkay Research

Exhibit 11: One-year forward EV/EBITDA



Source: Bloomberg, Emkay Research

SRF: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	148,703	131,385	144,925	170,485	194,284
Revenue growth (%)	19.6	(11.6)	10.3	17.6	14.0
EBITDA	35,292	25,841	27,583	37,143	45,737
EBITDA growth (%)	11.1	(26.8)	6.7	34.7	23.1
Depreciation & Amortization	5,753	6,726	7,647	8,492	9,715
EBIT	29,539	19,115	19,936	28,651	36,021
EBIT growth (%)	11.1	(35.3)	4.3	43.7	25.7
Other operating income	0	0	0	0	0
Other income	749	830	855	881	907
Financial expense	2,048	3,023	3,157	2,435	2,361
PBT	28,240	16,922	17,635	27,096	34,568
Extraordinary items	0	0	0	0	0
Taxes	6,617	3,565	4,232	6,503	8,296
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	21,623	13,357	13,402	20,593	26,271
PAT growth (%)	14.5	(38.2)	0.3	53.7	27.6
Adjusted PAT	21,623	13,357	13,402	20,593	26,271
Diluted EPS (Rs)	72.7	44.9	45.1	69.2	88.3
Diluted EPS growth (%)	14.5	(38.2)	0.3	53.7	27.6
DPS (Rs)	7.2	7.2	5.2	5.3	8.1
Dividend payout (%)	9.9	16.0	11.6	7.6	9.1
EBITDA margin (%)	23.7	19.7	19.0	21.8	23.5
EBIT margin (%)	19.9	14.5	13.8	16.8	18.5
Effective tax rate (%)	23.4	21.1	24.0	24.0	24.0
NOPLAT (pre-IndAS)	22,618	15,088	15,152	21,774	27,376
Shares outstanding (mn)	297.4	297.4	297.4	297.4	297.4

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	28,240	16,922	17,635	27,096	34,568
Others (non-cash items)	0	0	0	0	0
Taxes paid	(5,077)	(3,826)	(4,136)	(6,486)	(8,280)
Change in NWC	806	(2,925)	(2,378)	(4,038)	(3,760)
Operating cash flow	29,017	20,939	20,973	26,601	33,680
Capital expenditure	(29,020)	(22,747)	(18,000)	(25,000)	(25,000)
Acquisition of business	0	0	0	0	0
Interest & dividend income	749	830	855	881	907
Investing cash flow	(29,614)	(22,273)	(17,145)	(24,119)	(24,093)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	8,148	5,662	(1,556)	2,121	(5,092)
Payment of lease liabilities	0	0	0	0	0
Interest paid	(2,048)	(3,023)	(3,157)	(2,435)	(2,361)
Dividend paid (incl tax)	(2,133)	(2,137)	(1,556)	(1,562)	(2,399)
Others	(1,794)	(1,219)	0	0	0
Financing cash flow	2,172	(717)	(6,269)	(1,876)	(9,853)
Net chg in Cash	1,575	(2,052)	(2,441)	606	(265)
OCF	29,017	20,939	20,973	26,601	33,680
Adj. OCF (w/o NWC chg.)	29,823	18,014	18,596	22,563	29,920
FCFF	(3)	(1,809)	2,973	1,601	8,680
FCFE	(1,302)	(4,001)	672	47	7,227
OCF/EBITDA (%)	82.2	81.0	76.0	71.6	73.6
FCFE/PAT (%)	(6.0)	(30.0)	5.0	0.2	27.5
FCFF/NOPLAT (%)	0.0	(12.0)	19.6	7.4	31.7

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	2,974	2,974	2,974	2,974	2,974
Reserves & Surplus	100,296	111,816	123,662	142,693	166,565
Net worth	103,271	114,790	126,636	145,668	169,540
Minority interests	0	0	0	0	0
Deferred tax liability (net)	7,906	9,112	9,112	9,112	9,112
Total debt	43,541	49,202	47,646	49,767	44,675
Total liabilities & equity	154,717	173,104	183,394	204,547	223,327
Net tangible fixed assets	95,669	1,27,575	1,37,928	1,49,436	1,74,720
Net intangible assets	0	0	0	0	0
Net ROU assets	2,872	2,766	2,766	2,766	2,766
Capital WIP	24,055	8,053	8,053	13,053	3,053
Goodwill	0	0	0	0	0
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	11,107	9,342	6,902	7,508	7,243
Current assets (ex-cash)	54,570	57,498	60,344	69,375	77,784
Current Liab. & Prov.	32,642	31,440	31,908	36,901	41,550
NWC (ex-cash)	21,928	26,059	28,436	32,475	36,235
Total assets	154,717	173,104	183,394	204,547	223,327
Net debt	32,434	39,860	40,745	42,260	37,432
Capital employed	154,717	173,104	183,394	204,547	223,327
Invested capital	119,555	155,709	168,439	183,985	213,030
BVPS (Rs)	347.2	385.9	425.8	489.7	570.0
Net Debt/Equity (x)	0.3	0.3	0.3	0.3	0.2
Net Debt/EBITDA (x)	0.9	1.5	1.5	1.1	0.8
Interest coverage (x)	0.1	0.2	0.2	0.1	0.1
RoCE (%)	21.4	12.2	11.7	15.2	17.3

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	30.9	50.1	49.9	32.5	25.5
P/CE(x)	24.4	33.3	31.8	23.0	18.6
P/B (x)	6.5	5.8	5.3	4.6	3.9
EV/Sales (x)	4.7	5.4	4.9	4.2	3.6
EV/EBITDA (x)	19.9	27.4	25.7	19.1	15.4
EV/EBIT(x)	23.7	37.1	35.6	24.8	19.6
EV/IC (x)	5.9	4.6	4.2	3.9	3.3
FCFF yield (%)	0.0	(0.3)	0.4	0.2	1.2
FCFE yield (%)	(0.2)	(0.6)	0.1	0.0	1.1
Dividend yield (%)	0.3	0.3	0.2	0.2	0.4
DuPont-RoE split					
Net profit margin (%)	14.5	10.2	9.2	12.1	13.5
Total asset turnover (x)	1.1	0.8	0.8	0.9	0.9
Assets/Equity (x)	1.5	1.5	1.5	1.4	1.4
RoE (%)	22.9	12.3	11.1	15.1	16.7
DuPont-RoIC					
NOPLAT margin (%)	15.2	11.5	10.5	12.8	14.1
IC turnover (x)	1.3	1.0	0.9	1.0	1.0
RoIC (%)	20.3	11.0	9.3	12.4	13.8
Operating metrics					
Core NWC days	53.8	72.4	71.6	69.5	68.1
Total NWC days	53.8	72.4	71.6	69.5	68.1
Fixed asset turnover	1.3	0.9	0.8	0.9	0.9
Opex-to-revenue (%)	26.5	29.3	27.0	26.2	27.5

Source: Company, Emkay Research

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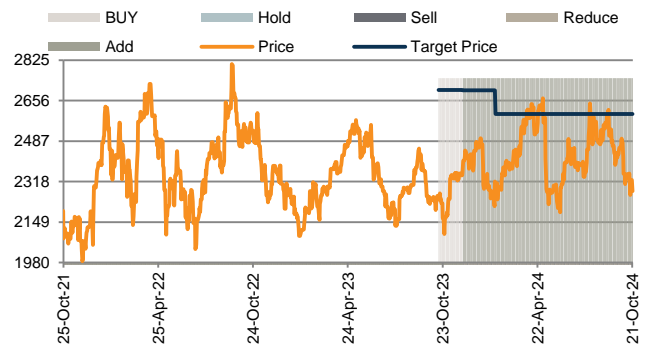
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Date	Closing Price (INR)	TP (INR)	Rating	Analyst
27-Aug-24	2,556	2,600	Add	Meet Vora
24-Jul-24	2,364	2,600	Add	Meet Vora
14-Jul-24	2,387	2,600	Add	Meet Vora
07-Jun-24	2,309	2,600	Add	Meet Vora
10-May-24	2,275	2,600	Add	Meet Vora
07-Apr-24	2,583	2,600	Add	Meet Vora
26-Feb-24	2,397	2,600	Add	Meet Vora
01-Feb-24	2,302	2,600	Add	Meet Vora
30-Nov-23	2,360	2,700	Add	Meet Vora
22-Nov-23	2,326	2,700	Buy	Meet Vora
30-Oct-23	2,175	2,700	Buy	Meet Vora
15-Oct-23	2,249	2,700	Buy	Meet Vora

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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