

Date	Report / Update	Report Price (₹)	Buy Range (₹)	Target Price (₹)
15-Sep-23	Quick Insight	2,397	2,350 – 2,380	2,830 – 2,860
07-Nov-23	Q2FY24	2,338		2,830 – 2,860


SRF Ltd.
Q3FY24 Performance Highlights

Consolidated revenue from operations of the company were down -12% YoY/ -4% QoQ to ₹3,053crs. Cost of raw material were fell -8% YoY / -4% QoQ at ₹1,555crs. This led to gross margin contraction of -209bps YoY/+6bps QoQ to 49.1% and gross profit of ₹1,498crs down -16% YoY / -4% QoQ.

With commencement of various sites, the employee cost has seen on the rise, witnessing 16% YoY/ 8% QoQ increase to ₹244crs. It was somewhat offset by -6% YoY / -2% QoQ fall in other expenses to ₹689crs.

Thus, EBITDA stood at ₹566crs down -32% YoY / -10% QoQ resulting in EBITDA margin of 18.5% falling -549bps YoY/ -118bps QoQ.

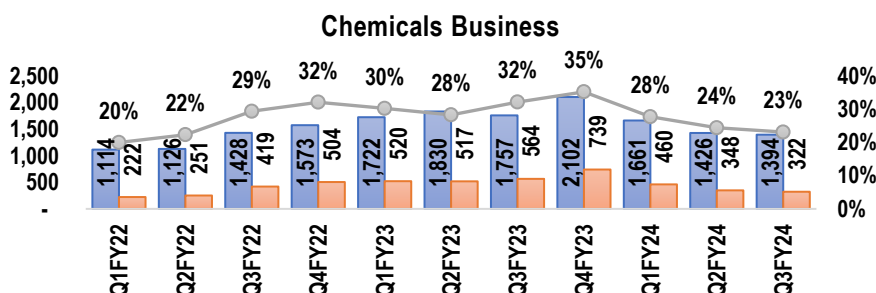
Capitalization of projects led to higher depreciation charge of ₹169crs (up +12% YoY / +5% QoQ). Resultantly, PAT decreased by -50% YoY/ -16% QoQ to ₹253crs.

(₹ cr)	Q3FY24	Q3FY23	%YoY Chng	Q2FY24	%QoQ Chng	9MFY24	9MFY23	%YoY Chng
Chemicals Business								
Revenue	1,394	1,757	-21%	1,426	-2%	4,481	5,309	-16%
Results	322	564	-43%	348	-7%	1,130	1,601	-29%
Margins	23%	32%	-902 bps	24%	-130 bps	25%	30%	-495 bps
Packaging Film Business								
Revenue	1,091	1,203	-9%	1,122	-3%	3,307	4,030	-18%
Results	45	119	-62%	77	-42%	173	515	-66%
Margins	4%	10%	-575 bps	7%	-277 bps	5%	13%	-754 bps
Technical Textile Business								
Revenue	458	426	8%	506	-9%	1,429	1,463	-2%
Results	69	34	101%	75	-8%	204	213	-4%
Margins	15%	8%	698 bps	15%	20 bps	14%	15%	-27 bps

Segmental Performance – Chemicals Business

Revenue from Chemicals segment was down -21% YoY/-2% QoQ to ₹1,394crs due to continued headwinds on account of inventory rationalization by some of the key customers. Owing to business seasonality, demand for fluoro-chemicals was sluggish thus adversely impacting business performance. Additionally, the demand for some of the key industrial chemicals was adversely impacted due to persistent challenges in agrochemical and pharmaceutical industry. All these factors cumulatively led to margin pressures as segmental results were down -43% YoY / -7% QoQ to ₹322crs resulting in -902bps YoY/ -130bps QoQ contraction to 23.1%.

During the quarter, HFC expansion project and PTFE facility was commissioned and the focus would now be on ramping up the sales of these products. Management is confident of witnessing healthy demand for ref gas as the outlook for domestic passenger vehicles and room AC market is healthy.



Source: Company, Way2Wealth Research

Important Data

Nifty	21,854
Sensex	72,086

Key Stock Data

CMP	₹2,319
Market Cap (₹ bn)	687.75
52W High/Low	₹2,636.00/2,040.0
Shares o/s (crs)	29.6424
Daily Vol. (3M NSE Avg.)	19,595
BSE Code	503806
NSE Code	SRF
Bloomberg Code	SRF:IN

Shareholding Pattern (%) – Dec'23

Promoter	50.50
DII's	19.60
FII's	14.50
Public	15.40

Financials

Particulars	FY23	FY24E	FY25E
Revenue	14,870	13,306	15,495
EBITDA	3,529	2,794	3,657
EBITDA Mar	24%	21%	24%
Net Profit	2,162	1,461	2,098
EPS	73	49	71
RoE	23%	13%	16%
RoCE	23%	14%	17%
P/E (x)	32	47	33
P/B (x)	7	6	5
EV/EBITDA (x)	20	26	20

Source: Company Data, Way2Wealth

Relative Performance

Return (%)	1Yr	3Yr	5Yr
SRF	4%	108%	423%
Nifty50	23%	47%	100%
Sensex	18%	42%	97%

Source: Company, Way2Wealth Research

Prasad Hase

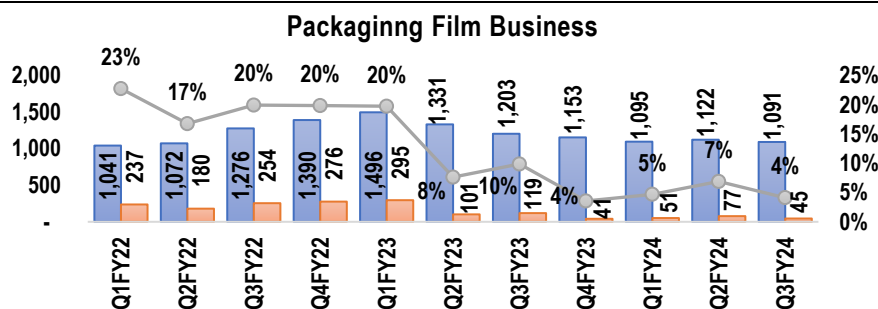
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Packaging Film Business

In Q3FY24, revenue from Packaging Film Business (PFB) fell by -9% YoY / -3% QoQ to ₹1,091crs as significant capacity addition in global as well as domestic markets adversely impacted business dynamics. This also resulted in pricing pressure across the market, leading to segmental margin contraction of -575bps YoY / -277 bps QoQ to 4.1%. Amid an overall demand slowdown in global markets and excess production capacity, the company aims to prioritize enhance profitability via focusing on increasing operational efficiencies and cost optimization. While geopolitical tension over Red Sea issue is leading to longer shipping cycles, it may create demand for local new suppliers.

On January 1, 2024, company commenced its Aluminum foil manufacturing facility, undertaking capex investment of ₹536crs. A healthy ramp up of this facility over ensuing quarters, may offset some of the impact of sluggish growth, PFB segment is currently witnessing.



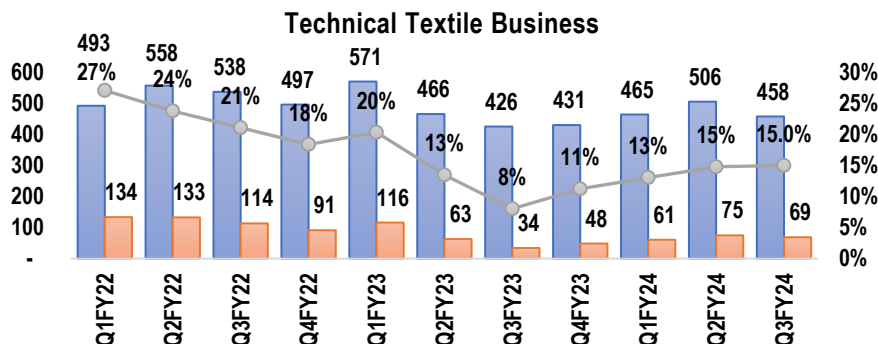
Source: Company, Way2Wealth Research

Technical Textile Business

Technical textile business reported growth of 8% YoY / -9% QoQ to ₹458crs. Business performance was impacted sequentially as operations at the Manali plant were impacted in December 2023 by Cyclone Michaung. Domestic demand for Nylon Tyre Cord Fabric remained healthy during the quarter along-with demand for belting fabrics and polyester yarn. Resultantly, segmental margins remained firm at 15% +698bps YoY / +20bps QoQ and segmental profit rose +101% YoY / -8% QoQ to ₹69crs.

Management remains upbeat on near term outlook as the government's emphasis on infrastructure development likely to drive increased demand for belting fabrics and polyester industrial yarn.

SRF completed phase capacity enhancement project of TCF value chain in Q2FY24. Progress in the expansion project of belting fabrics and polyester industrial yarn also remains on track.



Source: Company, Way2Wealth Research

Overall Performance

Q1FY24 Performance

(₹ Cr)

(₹ cr)	Q3FY24	Q3FY23	%YoY Chng	Q2FY24	%QoQ Chng	9MFY24	9MFY23	%YoY Chng
Technical Textile Business	458	426	8%	506	-9%	1,429	1,463	-2%
Chemical Business	1,394	1,757	-21%	1,426	-2%	4,481	5,309	-16%
Packaging Film Business	1,091	1,203	-9%	1,122	-3%	3,307	4,030	-18%
Others	114	92	23%	127	-10%	359	298	20%
Revenue from Operations	3,053	3,470	-12%	3,177	-4%	9,569	11,092	-14%
Cost of Material	1,555	1,694	-8%	1,620	-4%	4,875	5,505	-11%
Gross Profit	1,498	1,775	-16%	1,557	-4%	4,694	5,587	-16%
Gross Profit Margin	49.1%	51%	-209 bps	49%	6 bps	49.05%	50.37%	-132 bps
Employee Expenses	244	210	16%	227	8%	688	600	15%
Other Expenses	689	732	-6%	704	-2%	2,117	2,390	-11%
EBITDA	566	834	-32%	626	-10%	1,888	2,598	-27%
EBITDA Margin	18.5%	24%	-549 bps	20%	-118 bps	20%	23%	-368 bps
Depreciation	169	151	12%	161	5%	487	421	16%
EBIT	397	683	-42%	465	-15%	1,402	2,177	-36%
Finance Costs	67	62	9%	79	-15%	212	139	53%
Other Income	19	10	87%	29	-36%	60	53	13%
PBT	348	631	-45%	415	-16%	1,249	2,091	-40%
Tax Expense	95	120	-21%	114	-17%	335	491	-32%
Profit after tax	253	511	-50%	301	-16%	913	1,600	-43%
PAT Margin	8%	15%	-642 bps	9%	-117 bps	10%	14%	-488 bps
EPS	8.6	17.2	-50%	10.2	-16%	30.8	54.0	-43%

Source: Company, Way2Wealth Research

View

In Q3FY24, SRF Ltd. posted a soft performance primarily on account of headwinds across Specialty Chemicals and Packaging and Films Business segments. Sluggish demand had an impact on revenue as well as operating margins. While PFB segment may continue facing challenging situation for few more quarters, management is confident of demand revival in specialty chemical from 4QFY24 onwards. Technical textile business witnessed strong demand for its products and it is likely to continue for ensuing quarters as well. On the operational front, as the company is currently under-going high capex phase, with commencement of many new facilities such as PTFE, Aluminium Foil, etc. operating expenses remain on the higher side so as the finance costs. This could pressurize operating profitability of the company in near term, however, with ramp up of capacities and anticipation of operating leverage in FY25, we expect the margins to improve significantly from the current levels.

At CMP ₹2,319, the stock is trading at 33x its FY25e P/E multiple, thus providing a valuation comfort. Chemical sector has been the laggard during the entire market rally, however, early signs of demand recovery are visible from some of the end user industries especially Pharmaceuticals. **We believe SRF could be a quality pick in chemical rebound story and hence we remain positive on the stock's long term story and recommend to BUY for a good potential upside over the medium term.**

FINANCIALS & VALUATION

(₹ Cr)

(₹ cr)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Technical Textile Business	1,735	1,358	1,240	2,085	1,894	1,932	2,106	2,358
Chemical Business	2,445	2,975	3,645	5,241	7,411	6,522	8,087	9,704
Packaging Film Business	2,653	2,604	3,292	4,779	5,183	4,405	4,802	5,378
Others	266	273	223	328	383	447	500	577
Revenue from Operations	7,100	7,209	8,400	12,434	14,870	13,306	15,495	18,017
Cost of Material	3,967	3,687	4,019	6,067	7,394	6,786	7,840	9,243
Gross Profit	3,132	3,522	4,381	6,367	7,477	6,520	7,654	8,774
Gross Profit Margin	44%	49%	52%	51%	50%	49%	51%	51%
Employee Expenses	461	542	621	780	814	865	899	1,009
Other Expenses	1,375	1,526	1,626	2,484	3,134	2,861	3,099	3,603
EBITDA	1,297	1,455	2,133	3,103	3,529	2,794	3,657	4,162
EBITDA Margin	18%	20%	25%	25%	24%	21.0%	24%	23%
Depreciation	358	389	453	517	575	679	782	763
EBIT	939	1,066	1,680	2,586	2,954	2,115	2,874	3,398
Finance Costs	198	201	134	116	205	296	242	186
Other Income	28	49	66	115	75	90	93	108
PBT	768	915	1,613	2,585	2,824	1,909	2,725	3,321
Tax Expense	177	-1	414	696	662	449	627	764
Profit after tax	592	916	1,198	1,889	2,162	1,461	2,098	2,557
PAT Margin	8%	13%	14%	15%	15%	11%	14%	14%
EPS	22	35	40	64	73	49	71	86
P/E Ratio	103	65	57	36	32	47	33	27

Source: Company, Way2Wealth Research

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Name of the Security	SRF Ltd.
Name of the analyst	Prasad Hase
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
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