

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


Target ₹2,830 – 2,860
Recommendation Buy
Highlights

- SRF posted soft performance in Q2FY24 amid challenging business environment as demand from key end-user market remains muted especially from Agro-chemical industry while persistent dumping from China leading to supply side pressures.
- Revenue from Chemicals segment was down 22%YoY/14% QoQ to ₹1,426crs primarily on account of soft performance by the Fluoro-chemicals segment, as it witnessed lower volumes and realizations in a seasonally weak quarter for the domestic market as well as Chinese dumping led to lower revenues in Q2FY24 while the profitability was impacted by sluggish demand in refrigerant gas business.
- In Q2FY24, sluggish growth in Packaging Film Business (PFB) was partially due to decline in the prices of key raw material while it was also impacted by the ongoing oversupply situation in the industry resulting in revenues falling 16% YoY but up 2% QoQ to ₹1,122crs. Despite persistent demand-supply mismatch, margin pressures have slightly come off sequentially expanding 220bps QoQ (-73bps YoY) to 6.9% with segmental result increasing 51% QoQ (-24% YoY) to ₹77crs.
- Technical textile business remained resilient during the quarter as the improvement in NTCF sales volume as well as recovery in demand for Belting Fabrics and Polyester Yarn segment led to 9% YoY and QoQ growth to ₹77crs. Resultantly, segment margins of the segment also expanded 132bps YoY/ 175bps QoQ to 14.8%.
- A project has been approved to set up manufacturing facility of Capacitor Grade BoPP film at Indore site. This facility with proposed capacity of 4,500 MTPA would likely be completed in 31 months and entail ₹275crs of capex investment.
- Another project worth ₹235crs of investment was also approved to set up a new facility to produce agrochemical intermediate at Dahej site. It will have 600 MTPA capacity and would be completed in 10 months.
- Thus, we remain optimistic on the company's future outlook despite existing temporary headwinds, which provides a good opportunity to accumulate this stock at current levels. **We remain positive on the stock's long term story and thus recommend to ACCUMULATE for a good potential upside over the medium term.**

SRF Ltd.

Q2FY24 Performance Highlights

SRF posted soft performance in Q2FY24 amid challenging business environment as demand from key end-user market remains muted especially from Agro-chemical industry while persistent dumping from China leading to supply side pressures. Growth in chemicals business remained muted as revenue and operating profits saw decline on YoY and QoQ basis, however, packaging films business witnessed sequential improvement. Technical textile business posted resilient performance on the back of robust demand aiding margin improvement as well. On the operational front, higher depreciation charges and elevated finance cost had an adverse impact on the profitability of the company.

(₹ cr)	Q2FY24	Q2FY23	%YoY Chng	Q1FY24	%QoQ Chng	1HFY24	1HFY23	%YoY Chng
Chemicals Business								
Revenue	1,426	1,830	-22%	1,661	-14%	3,087	3,553	-13%
Results	348	517	-33%	460	-24%	808	1,038	-22%
Margins	24%	28%	-388 bps	28%	-333 bps	26%	29%	-303 bps
Packaging Film Business								
Revenue	1,122	1,331	-16%	1,095	2%	2,216	2,827	-22%
Results	77	101	-24%	51	51%	129	397	-68%
Margins	6.9%	8%	-73 bps	5%	220 bps	6%	14%	-823 bps
Technical Textile Business								
Revenue	506	466	9%	465	9%	971	1,037	-6%
Results	75	63	19%	61	23%	136	179	-24%
Margins	14.8%	13%	132 bps	13%	175 bps	14%	17%	-330 bps

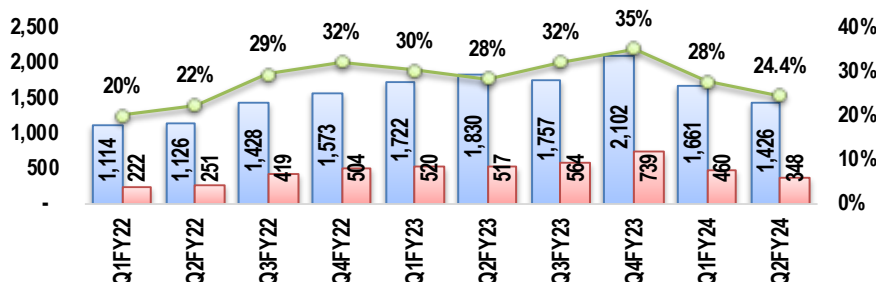
Segmental Performance – Chemicals Business

Revenue from Chemicals segment was down 22% YoY/14% QoQ to ₹1,426crs primarily on account of soft performance by the Fluoro-chemicals segment, as it witnessed lower volumes and realizations in a seasonally weak quarter for the domestic market as well as Chinese dumping leading to lower revenues in Q2FY24 while profitability was impacted by the sluggish demand in refrigerant gas business. Demand environment for some of the industrial chemicals also remained subdued in Agrochemical and Pharma industries. Additionally, ongoing destocking and inventory rationalization by some of the key customers in Specialty Chemicals business had an adverse impact on demand from exports market. All these factors cumulatively led to margin pressures as segmental results were down 33% YoY/ 24% QoQ to ₹348crs resulting in 388bps YoY/ 333bps QoQ contraction to 24.4%.

While the management witnessing rescheduling of some of the orders, no cancellation of orders have been observed yet. As far as product pipeline is concerned, it remains strong with the introduction of six new products comprising of 4 from agrochemical sector and 2 from pharma industry.

The management is optimistic from H2FY24 outlook perspective, as it anticipate an uptick in pricing of HFCs in key markets like India, Middle East, South Asia and US. New HFC project would come online soon which would enable the company to cater to its key domestic and global customers. One of key projects under Chemicals Business i.e. PTFE project, has been successfully commissioned. Products have received positive response from customers, however, it will take some time to receive necessary approvals and may see capacity ramp up from FY25 onwards.

Chemicals Business



Source: Company, Way2Wealth Research

Important Data

Nifty	19,412
Sensex	64,959
Key Stock Data	
CMP	₹2,338
Market Cap (₹ bn)	693.83
52W High/Low	₹2,636.00/2,040.0
Shares o/s (crs)	29.6424
Daily Vol. (3M NSE Avg.)	17,376
BSE Code	503806
NSE Code	SRF
Bloomberg Code	SRF:IN

Shareholding Pattern (%) – Sep'23

Promoter	50.53
DII's	19.08
FII's	14.13
Public	15.56

Financials

Particulars	FY23	FY24E	FY25E
Revenue	14,870	14,673	17,141
EBITDA	3,529	3,125	4,045
EBITDA Margin	24%	21%	24%
Net Profit	2,162	1,684	2,427
EPS	73	57	82
RoE	23%	15%	18%
RoCE	23%	16%	20%
P/E (x)	32	41	28
P/B (x)	7	6	5
EV/EBITDA (x)	21	24	18

Source: Company Data, Way2Wealth

Relative Performance

Return (%)	1Yr	3Yr	5Yr
SRF	-4%	128%	462%
Nifty50	6%	58%	83%
Sensex	6%	55%	84%

Source: Company, Way2Wealth Research

Prasad Hase

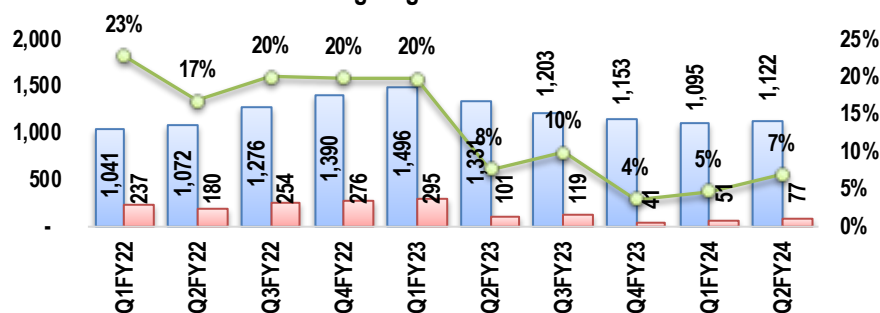
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Packaging Film Business

In Q2FY24, sluggish growth in Packaging Film Business (PFB) was partially due to decline in the prices of key raw material while it was also impacted by the ongoing oversupply situation in the industry resulting in revenues falling 16% YoY but up 2% QoQ to ₹1,122crs. Despite persistent demand-supply mismatch, margin pressures have slightly come off sequentially expanding 220bps QoQ (-73bps YoY) to 6.9% with segmental result increasing 51% QoQ (-24% YoY) to ₹77crs.

The Aluminum foil manufacturing facility is currently under the trial phase. Commercial production from the facility is expected soon and the product would be value accretive to the business as the addressable customers market remains the same and the industry is seeing strong demand.

Packaging Film Business


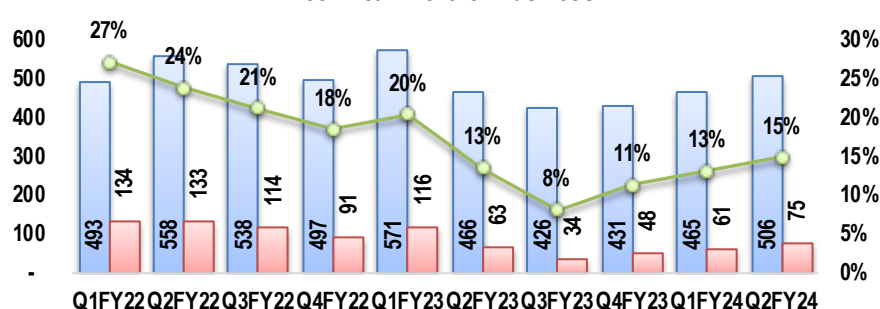
Source: Company, Way2Wealth Research

Technical Textile Business

Technical textile business remained resilient during the quarter as the improvement in NTCF sales volume as well as recovery in demand for Belting Fabrics and Polyester Yarn segment led to 9% YoY and QoQ growth to ₹77crs. Resultantly, segment margins of the segment also expanded 132bps YoY/ 175bps QoQ to 14.8%.

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.

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

Technical Textile Business


Source: Company, Way2Wealth Research

Overall Performance

- (i) Consolidated revenue from operations of the company were down 15% YoY/ 5% QoQ to ₹3,177crs. Cost of raw material were down 17% YoY/ 5% QoQ to ₹1,620crs. This led to gross margin expansion of 140bps to 49%.
- (ii) Amid commissioning of various sites, the employee cost has seen on the rise, witnessing 16% YoY/ 4% QoQ increase to ₹227crs. However, it was offset by 15% and 8% annual fall in other expenses and power & fuel costs respectively.
- (iii) Thus, EBITDA stood at ₹626crs down 19% YoY/10% QoQ resulting in EBITDA margin of 19.7% falling 92bps YoY/ 115bps QoQ.
- (iv) Capitalization of projects led to higher depreciation charge (up 16% YoY) while higher interest rates scenario both for INR and USD borrowings resulted in surge in finance cost (up 78% YoY). This pressured bottom-line profitability with PAT decreasing by 37% YoY/ 16% QoQ to ₹301crs.

Q2FY24 Performance

(₹ Cr)

Particulars	Q2FY24	Q2FY23	%YoY Chng	Q1FY24	%QoQ Chng	1HFY24	1HFY23	%YoY Chng
Technical Textile Business	506	466	9%	465	9%	971	1,037	-6%
Chemical Business	1,426	1,830	-22%	1,661	-14%	3,087	3,553	-13%
Packaging Film Business	1,122	1,331	-16%	1,095	2%	2,216	2,827	-22%
Others	127	100	26%	119	7%	246	206	19%
Revenue from Operations	3,177	3,728	-15%	3,338	-5%	6,516	7,623	-15%
Cost of Material	1,620	1,953	-17%	1,701	-5%	3,321	3,811	-13%
Gross Profit	1,557	1,775	-12%	1,638	-5%	3,195	3,812	-16%
Gross Profit Margin	49%	48%	140 bps	49%	-5 bps	49.04%	50%	-97 bps
Employee Expenses	227	195	16%	218	4%	445	389	14%
Other Expenses	704	810	-13%	724	-3%	1,428	1,658	-14%
EBITDA	626	769	-19%	696	-10%	1,322	1,764	-25%
EBITDA Margin	19.7%	21%	-92 bps	21%	-115 bps	20%	23%	-285 bps
Depreciation	161	139	16%	157	3%	318	270	18%
EBIT	465	630	-26%	540	-14%	1,005	1,494	-33%
Finance Costs	79	44	78%	66	21%	145	77	88%
Other Income	29	33	-11%	12	148%	41	43	-4%
PBT	415	618	-33%	486	-15%	901	1,460	-38%
Tax Expense	114	137	-17%	126	-10%	241	371	-35%
Profit after tax	301	481	-37%	359	-16%	660	1,089	-39%
PAT Margin	9%	13%	-344 bps	11%	-130 bps	10%	14%	-416 bps
EPS	10.2	16.2	-37%	12.1	-16%	22.3	36.7	-39%

Source: Company, Way2Wealth Research

Capex Announcement

1. A project has been approved to set up manufacturing facility of Capacitor Grade BoPP film at Indore site. This facility with proposed capacity of 4,500 MTPA would likely be completed in 31 months and entail ₹275crs of capex investment.
2. Another project worth ₹235crs of investment was also approved to set up a new facility to produce agrochemical intermediate at Dahej site. It will have 600 MTPA capacity and would be completed in 10 months.

View

In Q2FY24, SRF Ltd. posted a soft performance amid sectoral headwinds observed across the board owing to inventory destocking in Agrochemical Industry and dumping from China. Despite the ongoing challenging situation, management remains confident in future growth prospects as highlighted by strong capex announcements during the quarter. SRF has received positive response to its newly introduced key products such as PTFE, while it would take couple of quarters to receive the necessary customer approval, it would be significant revenue contributor from FY25 onwards. Impact due to higher depreciation charge owing to capitalization of large projects and elevated finance cost amid rising interest rate scenario are transitory in nature is likely to subside in near term with operating leverage coming in play and fall in interest rates across economies. Additionally, expectation for demand led improvement in HFC prices in upcoming quarters provides the necessary support to the assumption that performance in second half would be better than first half. Thus, we remain optimistic on the company's future outlook despite existing temporary headwinds, which provides a good opportunity to accumulate this stock at current levels. **We remain positive on the stock's long term story and thus recommend to ACCUMULATE for a good potential upside over the medium term.**

FINANCIALS & VALUATION

	(₹ Cr)							
Particulars	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Technical Textile Business	1,735	1,358	1,240	2,085	1,894	1,951	2,126	2,381
Chemical Business	2,445	2,975	3,645	5,241	7,411	7,559	9,373	11,248
Packaging Film Business	2,653	2,604	3,292	4,779	5,183	4,664	5,084	5,694
Others	266	273	223	328	383	498	558	642
Revenue from Operations	7,100	7,209	8,400	12,434	14,870	14,673	17,141	19,966
Cost of Material	3,967	3,687	4,019	6,067	7,394	7,483	8,674	10,243
Gross Profit	3,132	3,522	4,381	6,367	7,477	7,190	8,468	9,724
Gross Profit Margin	44%	49%	52%	51%	50%	49%	51%	51%
Employee Expenses	461	542	621	780	814	910	994	1,118
Other Expenses	1,375	1,526	1,626	2,484	3,134	3,155	3,428	3,993
EBITDA	1,297	1,455	2,133	3,103	3,529	3,125	4,045	4,612
EBITDA Margin	18%	20%	25%	25%	24%	21%	24%	23%
Depreciation	358	389	453	517	575	707	754	763
EBIT	939	1,066	1,680	2,586	2,954	2,418	3,291	3,849
Finance Costs	198	201	134	116	205	320	242	186
Other Income	28	49	66	115	75	90	103	120
PBT	768	915	1,613	2,585	2,824	2,188	3,152	3,783
Tax Expense	177	-1	414	696	662	503	725	870
Profit after tax	592	916	1,198	1,889	2,162	1,684	2,427	2,913
PAT Margin	8%	13%	14%	15%	15%	11%	14%	15%
EPS	22	35	40	64	73	57	82	98
P/E Ratio	104	66	58	37	32	41	28	24

Source: Company, Way2Wealth Research

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Disclosure of Interest Statement: SRF Ltd. as on 7th November 2023

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
Investment Banking relationship with company covered	NIL

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