

SRF Ltd.

Nifty	9,973
Sensex	33,781

Key Stock Data

CMP	₹3,683
Market Cap (₹mn)	2,11,704
52W High/Low	4,259/2,492
Shares o/s (mn)	57

Shareholding pattern Mar 2020

Promoters	52.3%
FII	18.3%
DII	11.3%
Public & Others	18.1%

Key Result Highlights – Q4FY20

- SRF Ltd reported a topline de-growth of ~8% YoY to ₹18,578mn on the back of drop in its segments such as technical textiles and packaging solutions which declined 34% & 3% YoY in Q4FY20. Packaging solutions segment reported drop in revenues due to lower product prices whereas technical textiles revenues declined amid persisting weakness in the automobiles segment in Q4FY20. In FY20, topline grew to ₹72,094mn on the back of robust volume led growth in agrochemical revenues however partly offset by decline in technical textiles, weakness in refrigerants and slowdown in automobile sector.
- EBITDA grew by 1.2% to ₹3884mn on account of lower operating expenditure while EBITDA margins expanded by 186 bps to 20.9% in the mentioned quarter. In FY20, EBITDA surged 10.4% YoY to ₹14,584mn from ₹13,209mn and EBITDA margins improved by 163 bps to 20.2%.
- PAT dropped to ₹1858mn (down~2.7% YoY & ~45.8% QoQ) on account of subdued operating profit & higher interest expense. PAT margins stood at 10.0% vs. 9.5%/18.5% in Q4FY19/Q3FY20 respectively.

Earnings Highlights

- **Covid-19 impacts company's topline** – SRF Ltd reported a topline de-growth of ~8% YoY to ₹18,578mn on the back of drop in its segments such as technical textiles and packaging solutions which declined 34% & 3% YoY in Q4FY20. Packaging solutions segment reported drop in revenues due to lower product prices whereas technical textiles revenues declined amid persisting weakness in the automobiles segment in Q4FY20. While, Chemicals segment reported strong growth especially in specialty chemicals segment however offset by weakness in refrigerants business. In FY20, topline grew to ₹72,094mn on the back of robust volume led growth in agrochemical revenues however partly offset by decline in technical textiles and weakness in refrigerants coupled with slowdown in automobile sector.
- **Lower Operating Expenses despite sales decline aided margin expansion** – EBITDA grew by 1.2% to ₹3,884mn on account of lower operating expenditure despite sales decline while EBITDA margins expanded by 186 bps to 20.9% in the mentioned quarter. Operating expenditure such as Raw material expenses plunged 17% YoY to ₹9,175mn from ₹11,083mn in Q4FY19. In FY20, EBITDA surged 10.4% YoY to ₹14,584mn from ₹13,209mn and EBITDA margins improved by 163 bps to 20.2%. PAT for the quarter dropped to ₹1858mn (down~2.7% YoY & ~45.8% QoQ) on account of subdued operating profit & higher interest expense while PAT margins stood at 10.0% vs. 9.5%/18.5% in Q4FY19/Q3FY20 respectively.
- **Capex & Earnings Outlook** – Management highlighted it plans to incur capex of ₹12,000-₹13,000mn in FY21E. Also it expects specialty chemicals segment to grow by 20-25% in FY21E notwithstanding near-term headwinds and margins for the packaging business to moderate in FY21 amid surplus supply additions across key geographies. Management indicated new packaging film plant in Thailand (BOPET film line of 40kMT at capex of USD51mn) was commissioned during Q4FY20 and is expected to ramp up over the next few quarters while BOPET plant in Hungary is expected to be commissioned by July 2020.

Valuation & Recommendation

Quarterly performance of the company was impacted due to Covid-19 pandemic, sluggishness in white goods and auto slowdown. We expect SRF Ltd to witness near term pain on the back of subdued demand from automotive sector impacting refrigerants and technical textiles business and competitive intensity in its packaging solutions business. However, we believe company would report higher numbers post FY21E on account of higher revenues from chemicals segment, increased share of value added products, demand recovery in technical textiles business and higher asset turns from its packaging solutions business. **At CMP of ₹3683 company is trading at ~20.8x FY20P/E and 16.8x FY20EV/EBITDA. Currently, we have not rated the stock and kept it under review for any rating/recommendation.**

(₹ mn)			
Particulars	FY18	FY19	FY20
Net Sales	55,890	70,996	72,094
EBITDA	9,062	13,209	14,584
Net Profit	4,617	6,416	10,191
EPS (₹/ share)	80.4	111.6	177.3
RoNW (%)	13.0%	14.3%	18.6%
RoCE (%)	9.3%	13.0%	13.0%
EV/EBITDA (x)	26.5	18.5	16.8

Source: Company Data, Way2Wealth Inst Equity

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Quarterly Financials

(₹ mn)					
Particulars (Consolidated)	Q4FY20	Q4FY19	Y-o-Y(%)	Q3FY20	Q-o-Q(%)
Sales	18,578	20,142	-7.8%	18,505	0.4%
Raw Material Expenses	9,175	11,083	-17.2%	9,328	-1.6%
Power & Fuel Cost	1,716	1,577	8.8%	1,821	-5.7%
Employee Cost	1,470	1,366	7.6%	1,368	7.5%
Other operating expense	2,334	2,280	2.4%	2,088	11.8%
Total Expenditure	14,694	16,306	-9.9%	14,603	0.6%
EBITDA	3,884	3,836	1.2%	3,902	-0.5%
EBITDA Margin (%)	20.9%	19.0%	186 bps	21.1%	(17.8 bps)
Depreciation	1,014	964	5.2%	1,019	-0.5%
EBIT	2,870	2,873	-0.1%	2,883	-0.4%
EBIT Margin (%)	15.4%	14.3%	119 bps	15.6%	(13.1 bps)
Interest	737	538	36.8%	348	112%
Other Income	63	163	-61.3%	56	13.7%
PBT	2,196	2,497	-12.0%	2,591	-15.2%
Taxes	255	619	-58.8%	-864	-129.5%
PAT	1,942	1,878	3.4%	3,455	-43.8%
Profit from discontinuing operations	-84	30.8	-373%	-25	236%
Total Profit of the year*	1,858	1,909	-2.7%	3,430	-45.8%
PAT Margins%	10.0%	9.5%	52.12bps	18.5%	(853.6 bps)
EPS (₹.)	32.32	33.21	-2.7%	59.67	-45.8%

* Total Profit for the year includes profit for continuing and discontinuing operations

Quarterly Segmental

Particulars (Consolidated)	Q4FY20	Q4FY19	Y-o-Y(%)	Q3FY20	Q-o-Q(%)
Segmental Revenue					
Chemicals	8,819	8,400	5.0%	8,119	8.6%
Technical Textiles	3,168	4,815	-34.2%	3,357	-5.6%
Packaging Solutions	6,015	6,231	-3.0%	6,382	-5.7%
Others	577	709	-19%	691	-16.5%
Less : Intersegment Revenue	-	12	NA	43	NA
Total Segmental Revenue	18,578	20,142	-7.8%	18,505	0.4%
Segmental EBIT					
Chemicals	1,589	1,660	-4.3%	1,431	11.0%
Technical Textiles	372	563	-33.9%	365	1.9%
Packaging Solutions	1,307	1,057	-23.7%	1,494	-12.5%
Others	52.8	57	-7.4%	82.7	-36.2%
Total EBIT	3,321	3,337	-0.5%	3,372	-1.5%
Segmental EBIT Margins (%)					
Chemicals	18.0%	19.8%	-17.5 bps	17.6%	39 bps
Technical Textiles	11.7%	11.7%	0.45 bps	10.9%	8.7 bps
Packaging Solutions	21.7%	17.0%	47.7 bps	23.4%	-16.7 bps
Others	9.2%	8.1%	10.9 bps	12.0%	-28.3 bps

Concall Takeaways

Chemicals & Refrigerants

- SRF faced logistics issues during the quarter, which led to delay in product delivery.
- Due to COVID-19, production facilities were completely closed for 15 days and from mid-Apr'20, operations started in a phased manner.
- Management indicated specialty chemicals segment would grow at rate of 20-25% in FY21E. Also order-book looks strong, as growth is expected in agro and pharmaceutical segment.
- Performance in the refrigerants segment was subdued due to prolong and severe slowdown in auto/white goods sector, leading to lower demand.
- Price of key refrigerants was low during the quarter. Management stated demand for refrigerant from OEMs is expected to be muted in the near term however slight pull is expected from the replacement market on lifting up of the lockdown. The recently commissioned HFC capacity is expected to ramp up volumes over the next few quarters.
- Capacity utilization in the refrigerant segment is 70-75% for FY20.

Packaging Solutions

- SRF delivered strong performance in BOPP and BOPET due to improvement in volumes and product-mix. In India and internationally, plants were operating at optimum utilization level.
- During the lockdown, all plants were operational and functioning at reasonable capacity.
- Operating margins in this segment should moderate as new lines in the international market are expected to impact the demand-supply scenario.
- In May'20, management stated it has commissioned the BOPET film line of 40kMT in Thailand at a capex of USD51m however commissioning of the BOPET plant in Hungary has been delayed due to COVID-19, but should commence in Jul'20.
- Growth from value-added products in packaging solutions business was 20-22% in FY20.

Technical Textiles

- Performance of Tyre Cord Fabric business was severely impacted due to sluggish domestic demand.
- Inventory loss of ₹30-40m was reported due to fall in caprolactam prices, a key raw material.
- OEM demand may take a longer time to recover, whereas replacement demand is expected to kick-in by end of 2QFY21.
- Coated and Laminated fabrics business reported stable performance led by new product launches. Laminated margins were affected due to oversupply in the market.

Others

- Tax rate was lower in FY20 as the company recognized ₹1800mn as income tax benefit during the year. This is a one-time deferred re-measurement exercise carried out in view of the Income Tax Ordinance.
- The company has enough land at its disposal to expand for the next three years.
- Net debt was higher by ₹3000mn in FY20. Target is to reduce net debt by ₹2000-3000mn in FY21; however, it may change depending on capex.
- Capex of ₹8000mn for FY21 (excluding BOPP and resin plant in Thailand and BOPET plant in Hungary).

Financials (Consolidated)

	(₹ mn)			
Income Statement	FY17	FY18	FY19	FY20
Net Sales	48,218	55,890	70,996	72,094
YoY Growth	5.0%	15.9%	27.0%	1.5%
EBITDA	9,690	9,062	13,209	14,584
EBITDA Margin	20.1%	16.2%	18.6%	20.2%
Depreciation	2,834	3,158	3,582	3,886
EBIT	6,856	5,904	9,627	10,698
EBIT Margin	14.2%	10.6%	13.6%	14.8%
Interest	1,018	1,239	2,223	2,042
Other income	734	1,151	280	491
PBT	6,572	5,817	7,684	9,147
Tax	1,422	1,200	1,769	(12)
Tax Rate	21.6%	20.6%	23.0%	-0.1%
Total Profit for the year*	5,150	4,617	6,416	10,191
PAT Margin	10.7%	8.3%	9.0%	14.1%
EPS (₹)	89.7	80.4	111.6	177.3

* Total Profit for the year includes profit for continuing and discontinuing operations

	(₹ mn)			
Balance Sheet (Consolidated)	FY17	FY18	FY19	FY20
Share capital	584	584	584	584
Reserves & Surplus	31,242	35,061	40,708	48,748
Net worth	31,827	35,645	41,292	49,333
Long term debt	14,319	19,072	21,613	23,116
Deferred Tax Liability	2,866	2,914	3,420	1,755
Other Non-Current liabilities	299	343	185	1,109
Long term Provision	297	334	381	375
Total Non-Current liabilities	17,781	22,662	25,600	26,355
Short term debt	5,456	8,508	11,274	9,554
Current liabilities & Provisions	8,089	10,442	13,824	11,117
Other Current Liabilities	6,495	6,326	6,829	12,342
Short Term Provisions	62	46	60	66
Total Current Liabilities	20,102	25,322	31,987	33,079
Total Liabilities	69,710	83,630	98,879	108,767
Net Block	44,000	51,175	56,053	63,668
Goodwill	49	41	41	6.2
CWIP	2,586	5,588	7,536	13,933
Non- current investments	251	1	1	42
Long term Loans & Advances	423	307	341	439
Other Non- Current Assets	1,605	2,259	3,185	1,617
Total Non-Current Assets	48,915	59,371	67,156	79,704
Current Investment	1,708	1,217	1,005	1,985
Inventories	8,381	9,582	12,247	12,012
Debtors	6,569	6,807	10,288	8,911
Cash & Equivalent & Bank Balances	961	967	1,989	1,255
Other current assets	2,129	4,113	6,083	4,529
Short Term Loans & Advances	1,047	1,573	112	252
Total Current Assets	20,794	24,259	31,273	29,062
Total Assets	69,710	83,630	98,879	108,767

(₹ mn)

Cash Flow	FY17	FY18	FY19	FY20
EBT	6,572	5,817	7,684	9,147
Depreciation	2,834	3,158	3,582	3,886
Inc/Dec in working capital	(2,556)	(1,909)	(3,165)	(239)
Others	763	890	2,358	1,677
CF from Operating activity	7,614	7,956	10,459	14,472
Inc/dec in Fixed Assets & CWIP	(6,133)	(11,953)	(10,142)	(11,803)
Others	50	48	45	156
CF from Investment activity	(6,133)	(11,953)	(10,142)	(11,803)
Inc/Dec in debt	(4,552)	4,095	2,677	3,205
Dividends paid	(829)	(829)	(836)	(969)
Others	2,537	1,686	616	-4226
CF from Financing activity	(2,844)	4,951	2,457	(1,990)
Inc/Dec in cash	(2,523)	(6)	1025	-731
Opening balance	3,399	876	870	1895
Closing balance	876	870	1,895	1,164

Ratio Analysis	FY17	FY18	FY19	FY20
Profitability Ratios (%)				
EBITDA margins	20.1%	16.2%	18.6%	20.2%
EBIT margins	14.2%	10.6%	13.6%	14.8%
Net profit margins	10.7%	8.3%	9.0%	14.1%
Return Ratios (%)				
ROCE	13.3%	9.3%	13.0%	13.0%
ROE	16.2%	13.0%	14.3%	18.6%
ROA	7.4%	5.5%	6.0%	8.4%
Shareholders' Ratios				
EPS (₹)	89.7	80.4	111.6	177.3
BVPS	544.6	610.0	718.4	858.3
DPS (₹)	11.8	12.0	12.0	14.0
Liquidity & Solvency Ratios				
Current Ratio	1.0	0.9	1.0	0.9
Quick Ratio	0.6	0.6	0.6	0.5
Net Debt/Equity Ratio	0.6	0.8	0.8	0.6
Net Debt/EBITDA	1.9	2.9	2.3	2.2
Interest Coverage Ratio	6.7	4.8	4.3	5.2
Turnover Ratios				
Debtor Days	49.7	44.5	52.9	45.1
Inventory Days	126.5	115.3	112.7	118.9
Creditor Days	122.1	125.7	127.2	110.1
Total Asset Turnover	0.69	0.67	0.72	0.66
Valuation Ratios				
EV/EBITDA	24.0	26.5	18.5	16.8
P/E	41.1	45.8	33.0	20.8
P/B	6.8	6.0	5.1	4.3
EV/Sales	4.8	4.3	3.4	3.4
EV/EBIT	24.0	26.5	18.5	16.8

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Disclosure of Interest Statement in SRF Ltd. as on June 13, 2020

Name of the Security	SRF Ltd.
Name of the analyst	Yogita Desai
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
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