


**Buy Range** ₹2,350 – 2,380

**Target** ₹2,830 – 2,860

**Recommendation** Buy

**Highlights**

- SRF Ltd. (SRF) has transformed itself into a research driven specialty chemical player through continuous investment in capacity and capability building and has established a strong presence across diverse businesses and chemistries.
- In last few years, expansion and diversification have been at the forefront of the company's growth agenda. Resultantly, the company undertook aggressive investment policy and announced some of the complex projects in the recent past. Its successful implementation and operationalization is indicative of SRF's strong execution capabilities.
- Capex investment to the tune of ₹604Cr, one of the largest in current project pipeline, to set up four new dedicated plants for manufacturing of agrochemical intermediates is likely to be commissioned in H2FY24. Apart from this, there are multiple ongoing projects, may it be either existing capacity expansion or new dedicated capacity addition, which will get commercialized in FY24 itself.
- In Q2FY20, SRF announced its plans to foray into PTFE product segment, to capture the opportunity in growing market of Fluoropolymer industry, via setting up of a facility with 5,000 MTPA production capacity.
- As the PTFE plant expected to operate at optimum capacity utilization by H2FY25, a plant to manufacture Specialty Fluoropolymers such as PVDF, FEP and FKM, which are allied products of PTFE, would be set up by Q4FY25. This project would entail a capex investment of ₹595Cr, with a cumulative capacity of 4,500 MTPA.
- The management in Q4FY22, had announced its plans to foray into Aluminum Foil business. In order to capture growing demand of Aluminum Foil in domestic as well as export markets, primarily for packaging of food products, a facility with 21,000 MTPA manufacturing capacity would be set up undertaking a capex investment to the tune of ₹530Cr.
- Although many of the large capex projects such as PTFE, Aluminum Foil and dedicated plants for Agrochemical intermediates would commence operations in FY24, notable revenue contribution would start coming in from FY25 onwards. While demand challenges prevailed in H1FY24, the situation would improve in H2FY24 as per the management commentary. We expect Revenue/EBITDA/PAT growth of 12%/16%/17% CAGR over FY23-26e.
- Anticipation of challenging environment and subdued realizations led to a healthy correction in SRF and about two years of consolidations in the stock now provides a good entry point to ride on this strong capex cycle.

**SRF Ltd.**

**Company Background**

SRF Ltd. (SRF) has transformed itself into a research driven specialty chemical player through continuous investment in capacity and capability building and has established a strong presence across diverse businesses and chemistries. Aided by deep domain expertise developed over the decades, the company has been successful in handling complex projects in highly reactive fluorine chemistry. Focus on strengthening R&D potential has taken the fluoro-chemical business to the next orbit, as the company now services some of the world's leading Pharma and Agrochemical innovator companies in the world.

In last few years, expansion and diversification have been at the forefront of the company's growth agenda. Resultantly, the company undertook aggressive investment policy and announced some of the complex projects in the recent past. Its successful implementation and operationalization is indicative of SRF's strong execution capabilities. Servicing to customers from more than 90 countries and setting up three overseas manufacturing facilities under PFB segment has enabled the company to mark its strong presence in the international markets. Additionally, in PFB segment, focus on achieving operating leverage via setting up of large capacities led SRF became one of the lowest cost producers of BoPP / BoPET films in the world.

**Important Data**

Nifty	20,179
Sensex	67,783
<b>Key Stock Data</b>	
CMP	₹2,397
Market Cap (₹ bn)	710.53bn
52W High/Low	₹2,844.90/2,040.0
Shares o/s (crs)	29.6424
Daily Vol. (3M NSE Avg.)	6,32,538
BSE Code	503806
NSE Code	SRF
Bloomberg Code	SRF:IN

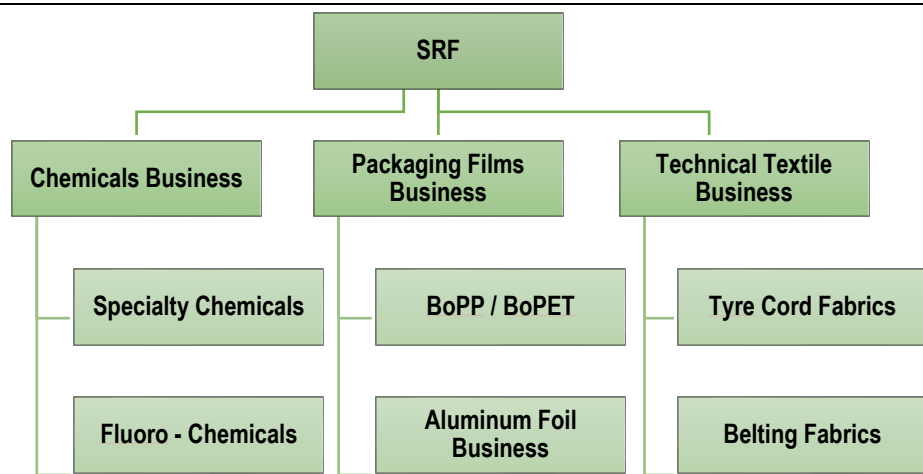
**Shareholding Pattern (%) – Jun'23**

Promoter	50.53
DII's	20.04
FII's	13.71
Public	15.72

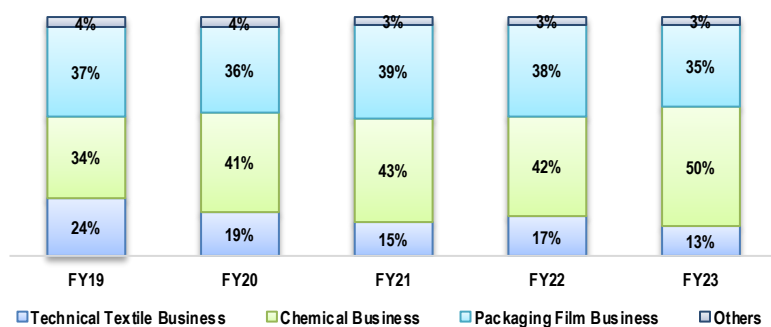
**Financials**

Particulars	FY23	FY24E	FY25E
Revenue	14,870	15,493	18,115
EBITDA	3,529	3,703	4,529
EBITDA Margin	24%	24%	25%
Net Profit	2,162	2,208	2,813
EPS	73	74	95
RoE	23%	19%	20%
RoCE	23%	20%	22%
P/E (x)	33	32	25
P/B (x)	7	6	5
EV/EBITDA (x)	21	20	16

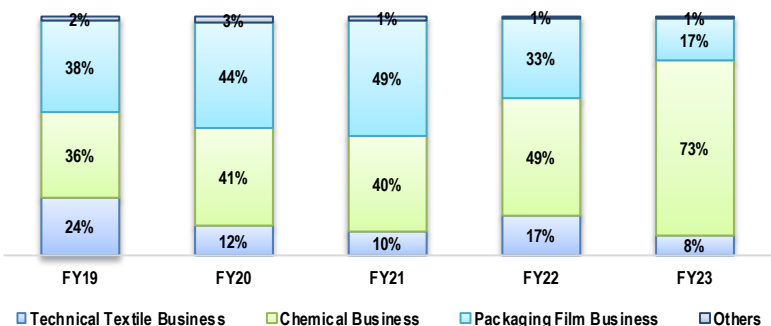
Source: Company Data, Way2Wealth



**Segmental Revenue Mix**



**Segmental Result Mix**



Source: Company, Way2Wealth Research

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## 1. Multiple dedicated plants expected to commence operations in FY24

- (i) Specialty chemical business posted resilient performance in Q1FY24 with slight moderation in sales and margins despite the challenging demand environment and inventory unwinding in the global agrochemical markets.
- (ii) These sectoral headwinds also impacted utilization levels of some of the recently added dedicated facilities for Agrochemical molecules resulting in slower than expected ramp up. Additionally, one of the large capex investments to the tune of ₹604Cr, to set up four new dedicated plants for manufacturing of agrochemical intermediates would likely be commissioned in H2FY24. Apart from this, there are multiple ongoing projects, may it be either existing capacity expansion or new dedicated capacity additions, which will get commercialized in FY24 itself. As the management commentary suggests the challenging situation to normalize by end-FY24, ramp up in capacities of all these facilities is expected to pick up well in FY25.
- (iii) On Pharmaceutical sectoral front as well, multi-product Pharma Intermediate Plant (PIP) was operationalized in May-2023. Although, its contribution to Q1FY24 sales was marginal, the ramp up would be spread over next 3-6 months and significant contribution is expected to start flowing in from FY25 onwards.
- (iv) Additionally, there are 6-7 more API / AI in the pipeline, which can also get commercialized over the due course.

### Specialty Chemicals segment's Capex Schedule

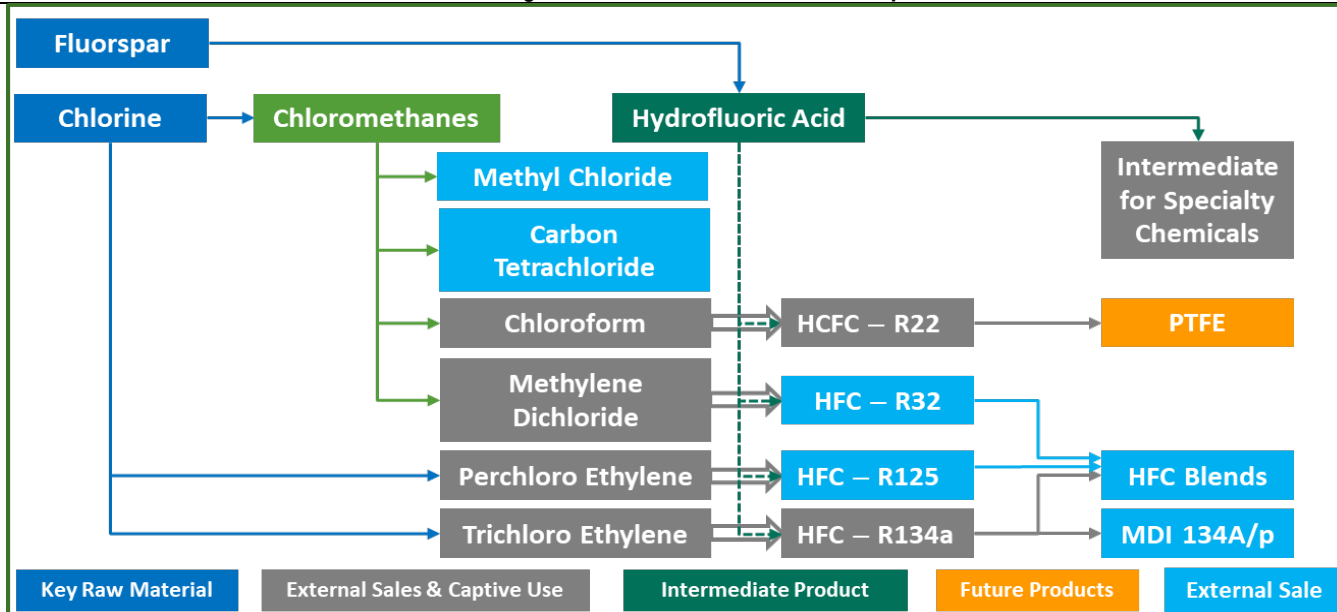
Project Name	Project Announced In	Commencement Expected In	Capex Undertaken (₹ Cr)	Description
Agrochemical Intermediate	Q4FY23	Q4FY24	110	Dedicated facility to produce an agrochemical intermediate at Dahej
Agrochemical Intermediate	Q3FY23	Q3FY24	604	Four new dedicated plants for Agrochemical intermediate
Agrochemical Intermediate	Q1FY23	Ongoing	250	New and dedicated facility to produce 1,000 MTPA Agrochemical Intermediate
Pharma & Agro Intermediate	Q1FY23	Ongoing	72	Expand the capacity by 915 MTPA of an intermediate which finds an application in both Agrochemical and Pharma intermediate
Agrochemical Intermediate	Q4FY22	Ongoing	115	Set up a dedicated facility to produce key Agrochemical specialty products
Pharmaceutical API	Q3FY22	Ongoing	190	Set up a facility to manufacture a new Pharma Intermediate
<b>Total</b>			<b>1341</b>	

Source: Company, Way2Wealth Research

## 2. Commencement of PTFE production opens up huge market opportunities

- (i) In Q2FY20, SRF announced its plans to foray into PTFE product segment, to capture the opportunity in growing market of Fluoropolymer industry, via setting up of a facility with 5,000 MTPA production capacity.
- (ii) Finding application across diverse industries such as Oil & Gas, Automotive, Aerospace & Defense, Electricals & Electronics, Pharma and Food, etc., the PTFE industry estimated to be worth USD2bn in FY22 and is likely to grow at a pace of 3-5% CAGR over next five years.
- (iii) PTFE is the end product obtained via polymerization of a monomer called TFE (Tetrafluoroethylene), which is produced through cracking of R-22. Being one of the largest producer of R-22, SRF has entire backward integration already in place making it vertically integrated producer of PTFE. Resultantly, management expects to generate healthy margins in this segment and has provided a gross profit margin guidance of 60-65%.
- (iv) Although the operationalization of the plant was delayed by 6-8 months, the production has now started since Q1FY24 in trial quantities for customer approvals. At an estimated asset turnover of ~1.25-1.3x, this plant has revenue potential of ₹500-550Cr at peak capacity. While full capacity utilization is likely to be achieved in FY25, the management expects around 1,000-1,500 tonnes of PTFE sales in H2FY24.

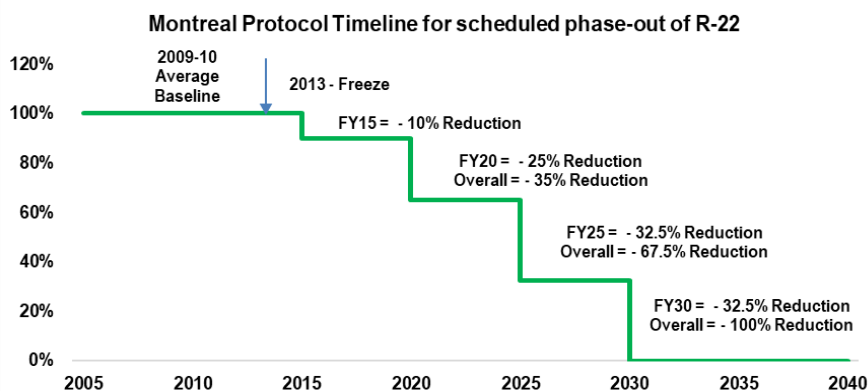
SRF's Well Integrated Fluoro-chemical Business Operations



Source: Company, Way2Wealth Research

3. Positive demand outlook to support strong capex pipeline

- (i) According to the Montreal Protocol, consumption of R-22 gas for emissive purpose i.e. for Air Conditioners would be phased out in a scheduled manner by 2030. Although India's consumption of R-22 is below its overall production capacity, domestic players (SRF, Guj Fluoro., Navin Fluor.) have significant potential in export markets, where the consumption exceeds its production quota such as Gulf countries. As a result, demand as well as realizations are expected to move along upward trajectory in years to come.



- (ii) On the fluoropolymer front, the management has plans to forward integrate further, to produce specialty products. As the PTFE plant expected to operate at optimum capacity utilization by H2FY25, a plant to manufacture Specialty Fluoropolymers such as PVDF, FEP and FKM, which are allied products of PTFE, would be operationalized by Q4FY25. This project would entail a capex of ₹595Cr, with a cumulative capacity of 4,500 MTPA. As these specialty chemicals find application in new age products across sectors such as battery chemicals, solar panels, coatings, automotive and aerospace, etc., it usually trades at high price realizations and generate lucrative margins.
- (iii) To cater to the growing demand of refrigerants in the domestic as well as exports market, the company had in Q1FY22 announced a project for an integrated expansion of the Fluorocarbon based refrigerant capacity. At an estimated project cost of ₹550Cr, this expansion would result in availability of 15,000 MTPA additional capacity likely by H2FY24.

**Fluoro- Chemicals segment's Capex Schedule (₹Cr)**

Project Name	Project Announced In	Commencement Expected In	Capex Undertaken (₹ Cr)	Description
Fluoro-chemical	Q2FY20	Q1FY24	424	PTFE plant with 5,000 MTPA capacity (delayed by 6-8 months)
Specialty Fluoropolymers	Q4FY23	Q4FY25	595	To produce range of specialty fluoropolymers
Refrigerant Gases	Q1FY22	Q3FY24	550	Expanding Ref gas capacity from existing 50,000 MTPA by 15,000 MTPA
Refrigerant Gases	Q4FY22	Ongoing	30	Expansion of R-22 capacity
<b>Total</b>			<b>1,600</b>	

Source: Company, Way2Wealth

**4. Aluminium Foil capacity to be next growth driver for PFB**

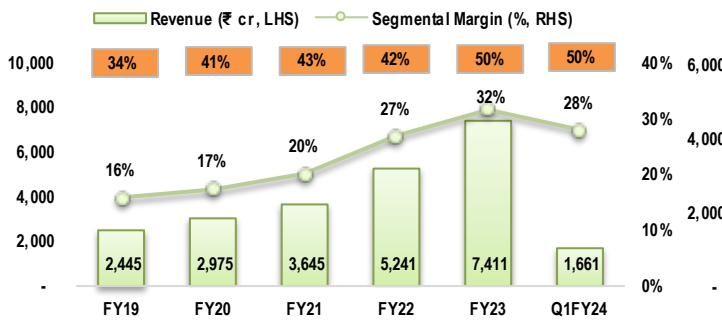
- (i) While the company commissioned a new 65,000 MTPA BoPP Film line at Indore in Q2FY23, the ramp up was gradual than expected. As new capacity additions in domestic as well as global markets for BoPP and BoPET lines resulted in excess supply, it dragged product realizations severely and impacted utilization levels too.
- (ii) This situation of demand and supply mismatch is likely to continue over the medium term and soft revenue growth in this business may lead to subdued contribution from this segment.
- (iii) However, the management in Q4FY22, had announced its plans to foray into Aluminum Foil business. In order to capture growing demand of Aluminum Foil across domestic as well as export markets, primarily for packaging of food products, a facility with 21,000 MTPA manufacturing capacity would be set up undertaking a capex investment to the tune of ₹530Cr. At an estimated asset turnover of 1.75-2x, the plant peak revenue potential would be in the range of ₹900-1,000Cr. It expected to become operational by Q3FY24 and would be ramped up over FY25.

**5. Significant capacity expansion in TTB lined up for future**

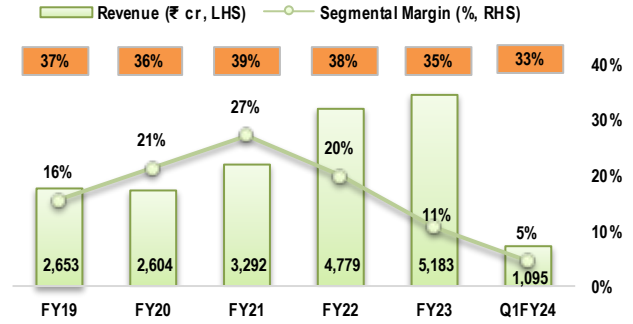
- (i) Amid healthy demand across core sectors of coal, steel, cement and power generation, belting fabrics business witnessed strong demand which led to record production in FY23. Strong growth in sales was also aided by the management's focus on improving the share of value-added-product's portfolio.
- (ii) To tap in the growing demand in this segment, plans to expand production capacity from 1,100 TPM to 1,800 TPM has already been approved. Undertaking a capex investment of ₹162Cr, this project is spread over three years to be implemented in a phased manner.
- (iii) Amid challenging demand environment in Nylon Tyre Cord Fabric segment, strong revenue growth from Belting Fabrics business due to this capacity addition can offset subdued contribution from Tyre Cord Fabric segment.

**Financials in Chart**

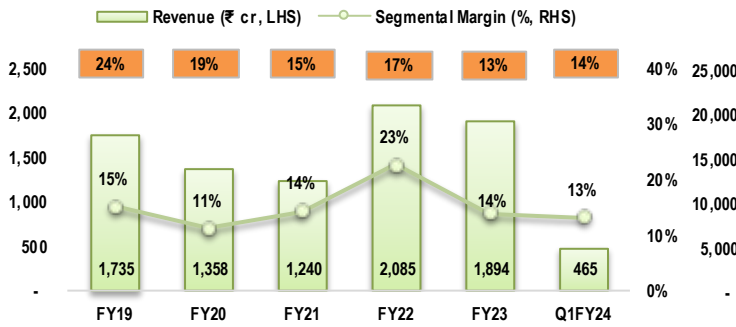
**Chemical Business**



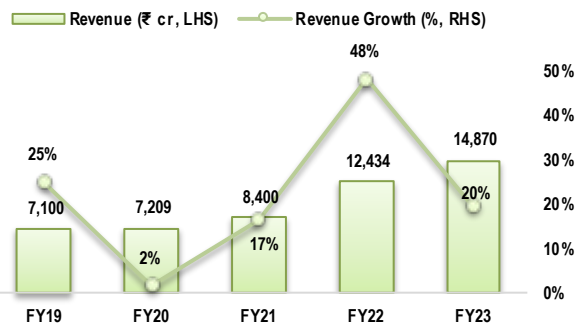
**Packaging and Films Business**



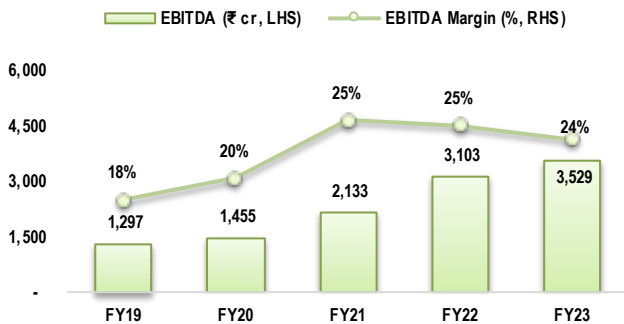
**Technical Textile Business**



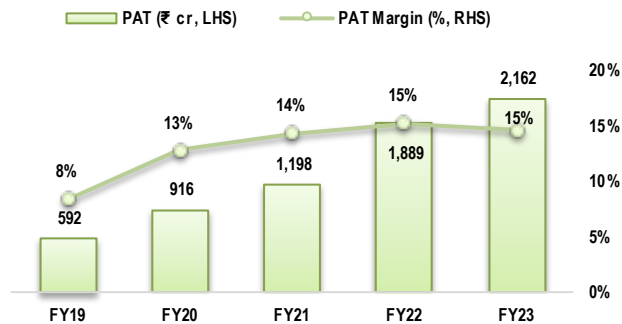
**Overall Revenue grew at 20% CAGR over FY19-23**



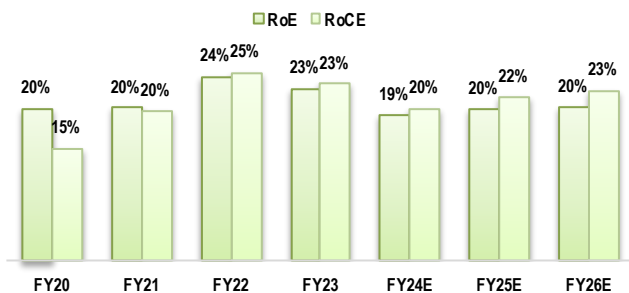
**EBITDA Margins moderates in FY23**



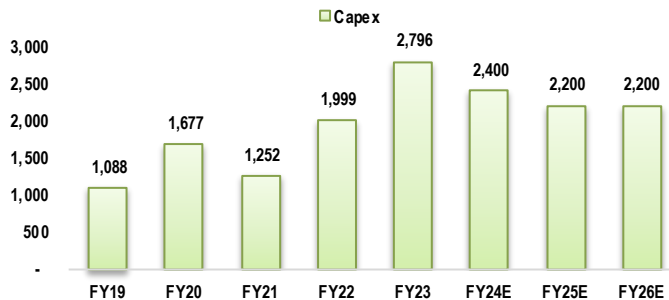
**Profitability remained largely stable in FY23**



**SRF's strong execution capabilities lead to healthy return ratios**



**SRF is aggressively undertaking CAPEX with guidance of ₹3,800-4000 Cr over next 2 years across business segments**



Source: Company, Way2Wealth

**Risks**

- Commencement of operations at the PTFE plant was delayed by nearly 6-8 months. While it will take couple of quarters more to get customer approvals, any further delay in start of commercial production can impact segment's top-line in FY24.
- Multiple projects have been announced to setup dedicated plants for Agrochemical and Pharmaceutical molecules. While many of these plants would get operationalized in FY24 itself, ramp up of capacities would largely depend on the demand for these molecules in the market. Thus, subdued demand for any of the product may delay the payback period for respective plants.
- Another major capex in the pipeline is the setup of Aluminium Foil manufacturing facility. It may also take few months to receive customer approvals, any delay in normalization of the plant could lead to subdued growth of PFB revenues.
- While, weak demand in TCF segment is likely to be offset by the growth in belting fabrics segment. As revenue growth for this segment would largely be driven by capacity addition in BF segment, any delay in expansion plans or slower than expected ramp up could impact segmental revenue of technical textile business.
- Increase in imports from China of key products such as NTCF or ref gases in domestic as well as end-user countries may pressure realizations.

**View**

SRF Ltd. is one of the leading domestic player in the fluorine chemistry with its presence in packaging films business and industrial fabric segment. Currently, it is going through aggressive capex cycle as projects worth upwards of ~₹3,000Cr are expected to get capitalized in FY24. Chemical business constitute a major chunk of this pie as nearly ₹1,400-1,500Cr investment pertains to Specialty Chemicals business while that for Fluoro-chemical would be worth ~₹1,100Cr. While in Specialty Chemicals multiple dedicated plants are scheduled to come online in FY24, fluoro-specialty segment would see operationalization of two key projects i.e. PTFE and integrated refrigeration gas expansion. Another major capacity slated to be added in this financial year, is of 15,000 MTPA for Aluminium Foil manufacturing, which would drive the revenue growth for PFB segment.

Post robust performance in FY23, SRF reported soft quarterly numbers in Q1FY24, as multiple business segments grappled with demand challenges. However, we believe the situation will normalize in H2FY24 and also aid in margin improvement on account of operating leverage. Fall in prices of Ref-gas due to subdued demand was a key concern, however, realization have already shown signs of improvement in Q2FY24 and is expected to strengthen further in rest of FY24.

Although many of the large capex projects such as PTFE, Aluminium Foil and dedicated plants for Agrochemical intermediates would commence operations in FY24, notable revenue contribution would start coming in from FY25 onwards. While demand challenges prevailed in H1FY24, the situation is likely to improve in H2FY24, according to the management commentary. Factoring in these expectations, we estimate SRF to post flattish performance in FY24 with 4% growth in revenue and EBITDA margins to be maintained at 24%. However, FY25 can see strong 17% top line growth and margins would also improve to 25%. Resultantly, we expect Revenue/EBITDA/PAT growth of 12%/16%/17% CAGR over FY23-26e.

Anticipation of challenging environment and subdued realizations led to a healthy correction in SRF and about two years of consolidations in the stock now provides a good entry point to ride on this strong capex cycle.

**At CMP of ₹2,397, SRF is trading at 25x its FY25e P/E multiple. We remain positive on the stock and arrive at SoTP-based target price of ₹2,850, implying 30 FY25e EPS. Hence we recommend investors BUY at the current valuation.**

## Q1FY24 Performance

(₹ Cr)

Profit and Loss statement	Q1FY24	Q1FY23	% YoY Chng	Q4FY23	% QoQ Chng	FY23	FY22	% YoY Chng
Technical Textile Business	465	571	-19%	431	8%	1,894	2,085	-9%
Chemical Business	1,661	1,722	-4%	2,102	-21%	7,411	5,241	41%
Packaging Film Business	1,095	1,496	-27%	1,153	-5%	5,183	4,779	8%
Others	119	106	12%	94	26%	383	328	17%
<b>Revenue from Operations</b>	<b>3,338</b>	<b>3,895</b>	<b>-14%</b>	<b>3,778</b>	<b>-12%</b>	<b>14,870</b>	<b>12,434</b>	<b>20%</b>
Cost of Material	1,701	1,858	-8%	1,888	-10%	7,393.51	6,067	22%
<b>Gross Profit</b>	<b>1,638</b>	<b>2,037</b>	<b>-20%</b>	<b>1,890</b>	<b>-13%</b>	<b>7,477</b>	<b>6,367</b>	<b>17%</b>
Gross Profit Margin	49%	52%	-324 bps	50%	-95 bps	50%	51%	-93 bps
Employee Expenses	218	194	12%	214	2%	814	780	4%
Other Expenses	724	848	-15%	744	-3%	3,134	2,484	26%
<b>EBITDA</b>	<b>696</b>	<b>995</b>	<b>-30%</b>	<b>932</b>	<b>-25%</b>	<b>3,529</b>	<b>3,103</b>	<b>14%</b>
EBITDA Margin	21%	26%	-469 bps	25%	-380 bps	24%	25%	-122 bps
Depreciation	157	131	20%	155	1%	575	517	11%
<b>EBIT</b>	<b>540</b>	<b>864</b>	<b>-38%</b>	<b>777</b>	<b>-31%</b>	<b>2,954</b>	<b>2,586</b>	<b>14%</b>
Finance Costs	66	33	102%	66	0%	205	116	77%
Other Income	12	10	19%	22	-47%	75	115	-35%
<b>PBT</b>	<b>486</b>	<b>842</b>	<b>-42%</b>	<b>733</b>	<b>-34%</b>	<b>2,824</b>	<b>2,585</b>	<b>9%</b>
Tax Expense	126	234	-46%	171	-26%	662	696	-5%
<b>Profit after tax</b>	<b>359</b>	<b>608</b>	<b>-41%</b>	<b>562</b>	<b>-36%</b>	<b>2,162</b>	<b>1,889</b>	<b>14%</b>
PAT Margin	11%	16%	-485 bps	15%	-412 bps	15%	15%	-65 bps
EPS	12	21	-41%	19	-36%	73	64	14%

Source: Company, Way2Wealth

## FINANCIALS &amp; VALUATION

(₹ Cr)

Profit and Loss statement	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	8,004	9,925	11,910
Packaging Film Business	2,653	2,604	3,292	4,779	5,183	5,079	5,536	6,201
Others	266	273	223	328	383	459	528	608
<b>Revenue from Operations</b>	<b>7,100</b>	<b>7,209</b>	<b>8,400</b>	<b>12,434</b>	<b>14,870</b>	<b>15,493</b>	<b>18,115</b>	<b>21,100</b>
Cost of Material	3,967	3,687	4,019	6,067	7,394	7,746.34	8,949	10,276
<b>Gross Profit</b>	<b>3,132</b>	<b>3,522</b>	<b>4,381</b>	<b>6,367</b>	<b>7,477</b>	<b>7,746</b>	<b>9,166</b>	<b>10,824</b>
Gross Profit Margin	44%	49%	52%	51%	50%	50%	51%	51%
Employee Expenses	461	542	621	780	814	868	1,014	1,160
Other Expenses	1,375	1,526	1,626	2,484	3,134	3,176	3,623	4,220
<b>EBITDA</b>	<b>1,297</b>	<b>1,455</b>	<b>2,133</b>	<b>3,103</b>	<b>3,529</b>	<b>3,703</b>	<b>4,529</b>	<b>5,444</b>
EBITDA Margin	18%	20%	25%	25%	24%	24%	25%	26%
Depreciation	358	389	453	517	575	669	714	760
<b>EBIT</b>	<b>939</b>	<b>1,066</b>	<b>1,680</b>	<b>2,586</b>	<b>2,954</b>	<b>3,033</b>	<b>3,815</b>	<b>4,683</b>
Finance Costs	198	201	134	116	205	244	252	257
Other Income	28	49	66	115	75	77	91	105
<b>PBT</b>	<b>768</b>	<b>915</b>	<b>1,613</b>	<b>2,585</b>	<b>2,824</b>	<b>2,867</b>	<b>3,654</b>	<b>4,532</b>
Tax Expense	177	-1	414	696	662	659	840	1,042
<b>Profit after tax</b>	<b>592</b>	<b>916</b>	<b>1,198</b>	<b>1,889</b>	<b>2,162</b>	<b>2,208</b>	<b>2,813</b>	<b>3,489</b>
PAT Margin	8%	13%	14%	15%	15%	14%	16%	17%
EPS	22	35	40	64	73	74	95	118
P/E Ratio	107	68	59	38	33	32	25	20

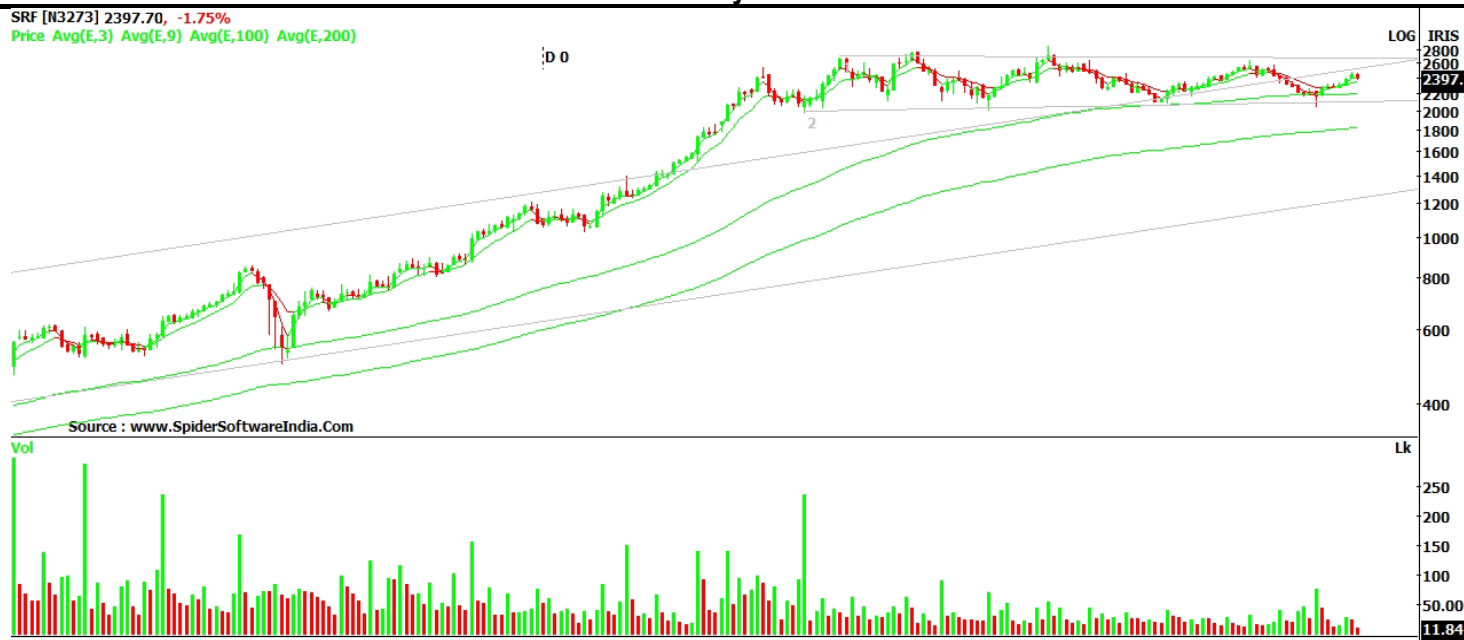
Source: Company, Way2Wealth



**Valuation Table**

				(₹ Cr)
Business Segment	FY25 EBITDA (₹ Cr)	Target Multiple	Value	
Technical Textile Business	360	7	2,700	
Chemical Business	3,387	23	78,996	
Packaging Film Business	720	6	4,670	
Others	61	6	380	
<b>Total EV</b>			<b>86,745</b>	
Net Debt			2,273	
Target Mcap			84,472	
No. of Shares			30	
<b>Share Price</b>			<b>2,850</b>	
Current Price			2,397	
<b>Upside</b>			<b>19%</b>	

Source: Company, Way2Wealth

**TECHNICAL VIEW**
**Weekly Chart**


SRF has been in consolidating mode since October 2021. After stock hit an all-time high of 2865, the consolidating pattern has led to appearance of solid trading range of 2640 and 2040 levels in short term. The RSI, 14-day EMA has now strongly strengthened between 34 and 64, indicating that the price is likely to be traded in a sideways mode. The trend indicator ADX indicates the sideways trend is anticipated to observe further if the stock breaks either above 2578/2640 or below 2080/2040 levels. Technically SRF is likely to remain consolidation mode and breaking out of 2640 levels would invite further strong buying and then the stock may face the upside targets of 2865 and 2950 levels. On the lower side, the support lies at 2040 and 2080 levels. Breakdown of 2040 would take the stock at 1784/1732 levels.

**Technical Indicators/Overlays**

Bollinger Bands (Upper - Lower)	2679 - 2121
Short Term - 20 & 50 Days EMA	2266 & 1790
Long Term - 100 & 200 Days EMA	1266 & 795
Annualised Volatility	31.91
ADX	44.86
MACD	170.47
RSI	57.55
Average True Range(ATR)	227.64
AD Line	152.86 Cr
Standard Deviation	139.5
Pivot Levels - R1, R2	2464 & 2531
Pivot Point	2408
Pivot Levels - S1, S2	2341 & 2285
ROC (%)	1.35

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Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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