



TM

26 February 2025

SRF

Chemicals segment to spur growth

MANAGEMENT MEET UPDATE

Sector: Chemicals Rating: HOLD

CMP: Rs 2,768 Target Price: Rs 2,913

Stock Info

Sensex/Nifty	74,602/ 22,548
Bloomberg	SRF IN
Equity shares (mn)	296.4
52-wk High/Low	Rs 2,984/ 2,089
Face value	Rs 10
M-Cap	Rs 818bn/ USD 9.3bn

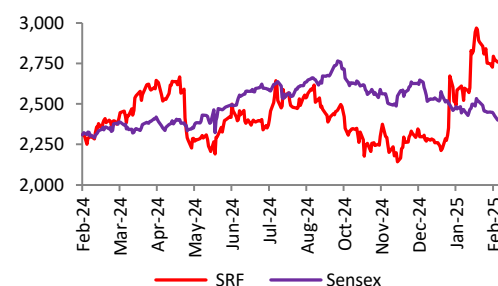
Financial Snapshot (Rs bn)

Y/E Mar	FY25E	FY26E	FY27E
Net sales	145.8	177.3	212.3
EBITDA	26.3	36.3	46.8
PAT	12.3	20.0	27.8
EPS (Rs)	41.4	67.4	93.7
PE (x)	68.0	41.7	30.0
EV/EBITDA (x)	34.0	24.6	19.0
P/B (x)	6.7	5.9	5.0
RoE (%)	10.2	14.9	18.0
RoCE (%)	9.7	13.7	16.8
D/E (x)	0.49	0.44	0.36
OPM (%)	18.0	20.5	22.0
DPS (Rs)	6.2	10.1	14.1
Dividend payout (%)	15.0	15.0	15.0

Shareholding pattern (%)

	Dec'24	Sep'24	Jun'24
Promoter	50.3	50.3	50.3
—Pledged	-	-	-
FII	18.4	18.3	18.8
DII	17.8	17.8	16.6
Others	13.6	13.7	14.4

Stock Performance (1-year)



We recently met with Mr. Rahul Jain, President of Finance at SRF Limited (SRF IN), to gain insights into the company's latest developments. After a healthy sequential improvement in 3Q, management is confident 4Q would also be better sequentially, with FY26 too expected to outperform FY25. New product launches in the agrochemical (agro) and pharmaceutical (pharma) segments would drive this growth. The company is working to build quota in refrigerant gas during CY25/CY26. While US volumes could decline, higher volumes in the domestic, Middle East, Thailand, and Southeast Asian markets would compensate for the slip. We reiterate HOLD with an unchanged SoTP-based target price of Rs 2,913. Key risks: Slower-than-anticipated recovery in the agrochem segment and supply chain constraints.

Key takeaways from the discussion

Specialty Chemicals: Progressive recovery underway

The specialty chemicals segment is gaining meaningful traction across legacy products and new offerings (non-active ingredients), demonstrating recovery in volume and pricing metrics. While management expects FY25 to close with flat to marginal growth versus FY24, SRF is positioning itself for a huge medium-term expansion. Active intermediates are poised to gain momentum within 3-6 months, with management expecting considerable traction in FY26. The company successfully introduced 6 new products (3 each in agro and pharma) in 9MFY25. The capex commissioned in FY24 is yet to be fully utilized; management aims to improve utilization rates through new product launches. A new capex announcement for the specialty chemicals segment is expected between May and July 2025.

Healthy product portfolio with high market opportunity

SRF's agro portfolio comprises 1-2 generic products, with the remainder as branded offerings. Our assessment shows total addressable market (TAM) of USD 150-450mn for these products, with that of the few flagship ones at ~USD 300-450mn each. The new products would also command superior margins. Overall, we estimate ~27% (±3%) margin in the specialty chemicals segment, which should sustain over next three years. Revenue in the pharma portfolio is projected at Rs 8bn-10bn over three years, primarily focusing on building blocks in the pharma value chain. New products for existing customers could drive growth, with Europe and the US as primary revenue contributors.

Strategic positioning and market dynamics

The company is capitalizing on "Europe Plus One" strategy, which seems more tangible than "China Plus One", as manufacturing in Europe faces increasing constraints owing to rising power costs. While "China Plus One" presents opportunities for Indian chemical manufacturers, depressed pricing of Chinese products continues to serve as a negotiating lever for the players there.

Refrigerant business (R32)

India's demand for R32 is projected at 35,000-40,000 tonnes over the next three years from ~20,000 tonnes currently. The company holds pricing power in the secondary market as the sole domestic player selling R32 in toners, jugs, and cans. In

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the OEM market, it commands ~5% premium compared to competitors, given its just-in-time delivery capabilities. Capitalizing on its 80-85% market share in the domestic auto OEM market, the company aims to achieve ~30,000 tons of R32 production capacity, focusing primarily on volume growth in CY25 and CY26. Management expects the HFC plant to achieve optimal utilization in FY26.

Other key takeaways

- **Hydrofluoroolefins (HFOs):** Scheduled for launch in September 2027, primarily targeting export markets, with initial demand expected from automotive OEMs (specific gas type not yet disclosed).
- **Polytetrafluoroethylene (PTFE):** Phase I expected to reach full utilization by FY26-end, deploying perfluoro octane sulfonate (PFOS) free technology for cleaner manufacturing.
- **Aluminum foil:** Significant operational improvements anticipated within 6-12 months, with capacity expanding from 1,400-1,500 tons to 3,000 tons, focusing on medical-grade applications and battery separator markets (50% export-oriented).
- **Capacitor grade film:** Required in various electronic applications; currently import-dependent, domestic production slated for May 2026, with product approvals pending.
- **Packaging films:** Operating at full utilization with improving BOPET demand; industry consolidation seems imminent.

Exhibit 1: SoTP-based valuation

	Method	FY27E EBITDA (Rs mn)	Multiple (x)	Value (Rs mn)
Chemical	EV/EBITDA	33,720	24	8,09,271
Technical textile	EV/EBITDA	5,519	6	33,112
Packaging films	EV/EBITDA	8,391	8	67,130
Others	EV/EBITDA	1,304	8	10,432
Total enterprise value				9,19,945
Net debt				56,418
Target market cap				8,63,527
No. of outstanding shares (mn)				296.4
Target price (Rs/share)				2,913

Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net revenue	1,48,703	1,31,385	1,45,835	1,77,344	2,12,296
Revenue growth (%)	19.6	(11.6)	11.0	21.6	19.7
- Op. expenses	1,13,411	1,05,544	1,19,584	1,41,014	1,65,485
EBITDA (Excl. OI)	35,292	25,841	26,250	36,330	46,811
EBITDA margin(%)	23.7	19.7	18.0	20.5	22.0
- Interest expenses	2,048	3,023	3,824	4,012	3,956
- Depreciation	5,753	6,726	8,018	8,303	9,143
+ Other income	749	830	1,313	1,596	1,911
- Tax	6,617	3,565	3,459	5,634	7,837
Effective tax rate (%)	23	21	22	22	22
Reported PAT	21,623	13,357	12,263	19,977	27,785
+/- Extraordinary items	-	-	-	-	-
+/- Minority interest	-	-	-	-	-
Adjusted PAT	21,623	13,357	12,263	19,977	27,785
EPS (Rs/share)	72.9	45.1	41.4	67.4	93.7

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	2,974	2,974	2,974	2,974	2,974
Reserves & Surplus	1,00,296	1,11,816	1,22,239	1,39,219	1,62,837
Networth	1,03,271	1,14,790	1,25,214	1,42,194	1,65,811
Minority interest	-	-	-	-	-
Total debt	51,949	56,761	60,891	62,554	59,177
Def. tax liab. (net)	7,906	9,112	9,112	9,112	9,112
Capital employed	1,63,125	1,80,663	1,95,216	2,13,860	2,34,100
Net fixed assets	1,24,553	1,40,470	1,51,505	1,63,202	1,74,059
Investments	4,942	5,267	5,267	5,267	7,267
Net working capital	27,465	30,851	35,064	41,754	50,015
Cash and bank balance	6,164	4,075	3,379	3,637	2,759
Capital deployed	1,63,125	1,80,663	1,95,216	2,13,860	2,34,100
Net debt	45,784	52,685	57,511	58,917	56,418
WC (days)	45	58	60	60	60
DE (x)	0.50	0.49	0.49	0.44	0.36

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PAT	21,623	13,357	12,263	19,977	27,785
+ Non cash items	6,885	7,932	8,018	8,303	9,143
Cash profit	28,508	21,289	20,281	28,280	36,928
- Incr/(Decr) in WC	5,323	3,385	4,214	6,689	8,261
Operating cash flow	23,185	17,904	16,067	21,590	28,667
- Capex	29,337	22,642	19,053	20,000	20,000
Free cash flow	(6,152)	(4,739)	(2,987)	1,590	8,667
- Dividend	2,133	2,137	1,839	2,996	4,168
+ Equity raised	-	0	-	-	-
+ Debt raised	13,462	4,812	4,130	1,664	(3,377)
- Investments	1,733	325	-	-	2,000
- Misc. items	1,873	(300)	-	-	-
Net cash flow	1,571	(2,089)	(696)	258	(878)
+ Opening cash	4,593	6,164	4,075	3,379	3,637
Closing cash	6,164	4,075	3,379	3,637	2,759

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	38.6	62.4	68.0	41.7	30.0
P/BV (x)	8.1	7.3	6.7	5.9	5.0
EV/EBITDA (x)	24.9	34.3	34.0	24.6	19.0
RoE (%)	22.9	12.3	10.2	14.9	18.0
RoCE (%)	20.1	11.1	9.7	13.7	16.8
Fixed asset turnover (x)	1.1	0.8	0.8	0.9	0.9
DPS (Rs)	7.2	7.2	6.2	10.1	14.1
Dividend (%)	72	72	62	101	141
Dividend yield (%)	0.3	0.3	0.2	0.4	0.5
Dividend payout (%)	9.9	16.0	15.0	15.0	15.0
Debtor days	44	54	55	55	55
Creditor days	55	61	60	60	60
Inventory days	56	65	65	65	65
Revenue growth (%)	19.6	(11.6)	11.0	21.6	19.7
EBITDA growth (%)	13.7	(26.8)	1.6	38.4	28.8
PAT growth (%)	14.5	(38.2)	(8.2)	62.9	39.1

Source: Company, Systematix Institutional Research

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