

Accumulate

- **SRF reported a stellar quarter with all growth engines firing. SRF Ltd Reported Sales of Rs 27.0bn, ahead of our estimates (D.est: Rs 26.2bn) up by 74.7% YoY and 3.5% QoQ.**
- **EBITDA too showed a strong growth of 78.4% YoY and 4.7% QoQ to Rs 6.64bn. PAT growth was at 123.5% YoY to Rs 3.95bn ahead of our estimates (D.est: Rs 3.71bn).**
- **SRF delivered strong operating leverage despite fall in gross margins by 134bps YoY (marginally improved gross margins by 66bps QoQ) to 50.7%, due to which EBITDA margins stood at 24.6% (up 51bps YoY).**
- **Lower interest costs, down by 36% YoY to Rs 275mn and higher other income of Rs 210mn (up 19.7x YoY) helped in boosting PAT growth by 123.5% YoY to Rs 3.95bn.**

Outlook and valuation

SRF Ltd has an untethered outlook towards their capex plan with ~Rs 20.0bn worth investment in FY22 and ~Rs 16.0bn in FY23. Capex in the Chemicals business would be upwards of Rs 10.0bn in FY22 which presents a strong case for RoCE improvement in the long-run. The balance capex's would be for Packaging films - ~Rs 4.0bn and maintenance capex + technical textiles - ~Rs 6.0bn. Outlook for growth in specialty chemicals is likely to be in the range of ~15-20%, however we expect a growth of ~25% given a strong global agriculture situation. We anticipate near-term margin pressure in packaging films, which could be partially off-set by an improvement in margins of technical textiles. SRF's growth engines especially in the Chemicals business are likely to improve RoCE's of the company from 13.8% in FY21 to 15.7% in FY24E.

We expect SRF's total debt/EBITDA ratio to moderate from 1.72x in FY21 to 0.98x in FY24E as we expect the company to start generating a positive FCFF beyond FY23E. We have upgraded our EPS by 9% and 6% respectively in FY22 and FY23 owing to higher than expected sales from refrigerant gases and an improvement in the margins of technical textiles. We maintain our accumulate rating on the stock with a revised SOTP based valuation of Rs 8,837/share.

Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	26,994	15,452	74.7	26,077	3.5
Total Expense	20,350	11,728	73.5	19,734	3.1
EBITDA	6,644	3,723	78.4	6,343	4.7
Depreciation	1,230	1,040	18.2	1,185	3.8
EBIT	5,414	2,683	101.8	5,158	5.0
Other Income	210	10	1975.2	220	(4.8)
Interest	275	432	(36.4)	262	5.0
EBT	5,349	2,262	136.5	5,117	4.5
Tax	1,396	493	183.2	1,302	7.2
RPAT	3,953	1,769	123.5	3,815	3.6
APAT	3,953	1,769	123.5	3,815	3.6
			(bps)		(bps)
Gross Margin (%)	50.7	52.0	(134)	50.0	66
EBITDA Margin (%)	24.6	24.1	51	24.3	29
NPM (%)	14.6	11.4	320	14.6	2
Tax Rate (%)	26.1	21.8	431	25.4	66
EBIT Margin (%)	20.1	17.4	269	19.8	28

CMP	Rs 7,932
Target / Upside	Rs 8,837 / 11%
NIFTY	15,779
Scrip Details	
Equity / FV	Rs 603mn / Rs 10
Market Cap	Rs 470bn
	USD 6bn
52-week High/Low	Rs 8,114 / 3,727
Avg. Volume (no)	1,93,369
Bloom Code	SRF IN
Price Performance	
	1M 3M 12M
Absolute (%)	12 23 102
Rel to NIFTY (%)	12 17 63

Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	50.8	50.8	50.8
MF/Banks/FIs	11.2	11.2	11.9
FII	19.4	18.4	18.4
Public / Others	19.6	19.6	19.6

Valuation (x)

	FY22E	FY23E	FY24E
P/E	30.8	27.6	22.9
EV/EBITDA	18.5	16.4	13.9
ROE (%)	20.3	19.1	19.6
RoACE (%)	15.5	15.2	16.1

Estimates (Rs mn)

	FY22E	FY23E	FY24E
Revenue	1,05,787	1,18,087	1,43,396
EBITDA	26,913	30,450	35,622
PAT	15,258	17,020	20,508
EPS (Rs.)	257.5	287.3	346.2

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Segmental Performance

- **Technical Textiles BU:** Sales were up by 251/23% YoY/QoQ to Rs 4.92bn despite the 2nd COVID wave in April-21 and May-21. EBIT performance was even better with margin expansion of 890bps QoQ to 27.1% (highest ever EBIT margin in TTB). On account of re-negotiations we can expect EBIT margins in technical textiles to be upwards of 20% in the near term and can be assumed to be largely sustainable in the mid-to-long term.
- **Chemicals BU:** Both specialty chemicals and refrigerant gases showed a healthy volume growth helping a sales growth of 57.1% YoY to Rs 11.13bn. EBIT margin stood at 20.0%, up 740bps YoY and down 390bps QoQ. The company is remains positive on the out-look of agrochemicals and indicated commensurate time and efforts being invested in growing the pharmaceuticals piece within specialty chemicals.
- **Packaging Films:** Strong sales growth of 53.7% YoY and 6.3% QoQ to Rs 10.4bn came at the back of newly commissioned BoPET capacities in Thailand and Hungary. EBIT performance too shows resilience on a sequential basis (in the base quarter, tailwinds in BoPET were higher leading to a higher EBIT margin). EBIT margins improved sequentially by 40 bps to 22.7%. The management highlighted that performance in the 2nd quarter could be impacted owing to re-emergence of COVID-19 cases in ASEAN geography, coupled with political unrest and riots in South Africa.

Exhibit 1: SOTP Valuation

EBITDA (Rs mn)	FY20	FY21E	FY22E	FY23E	FY24E	EV/EBITDA(x)	EV
Technical Textile Business(TTB)	1,862	2,099	4,151	3,789	3,865	8	30,922
Chemicals Business(CB)	7,568	9,817	12,302	14,709	17,748	22	3,90,458
Packaging Film Business(PFB)	6,419	10,491	10,126	11,605	13,650	10	1,36,500
Total	15,849	22,407	26,578	30,103	35,263		5,57,880
Gross debt							38,481
Cash and Equivalents							4,147
Market Cap							5,23,546
No of Shares							59
Target Price (Rs)							8,837

Source: DART, Company

Exhibit 2: Actual vs DART Estimates – Q1FY22

Particulars	Actual	Estimated	Variance %	Comments
Revenue	26,994	26,205	3.0	Higher than expected sales from Technical Textiles and Packaging Business
EBITDA	6,644	6,263	6.1	
EBITDA Margin (%)	24.6	23.9	71	Lower than expected opex
PAT	3,953	3,713	6.4	Higher than expected other income

Source: DART, Company

Exhibit 3: Change in Estimates

Particulars (Rs Mn)	FY22E			FY23E		
	New	Previous	Chg. (%)	New	Previous	Chg. (%)
Revenue	1,05,787	1,04,141	1.6	1,18,087	1,16,194	1.6
EBITDA	26,913	24,701	9.0	30,450	28,049	8.6
EBITDA Margin(%)	25.4	23.7	172	25.8	24.1	165
PAT	15,258	14,052	8.6	17,020	16,070	5.9
EPS(Rs)	257.5	237.2	8.6	287.3	271.2	5.9

Source: DART, Company

Conference Call Highlights

Business Updates

- SRF's performance in Q1FY22 was impacted due to the 2nd Covid wave in India.
- Despite the disruptions the overall volumes saw substantial growth YoY as well as sequentially and for a number of its products witnessed higher realizations.
- Higher logistical costs coupled with increase in RM prices impacted the overall margins.
- The company has announced an interim dividend of Rs 12 per share which will result in a total outlay of Rs 710mn.

Specialty Chemicals

- Specialty Chemicals witnessed higher demand both in the domestic as well as global market which resulted in volume growth in majority of its key products.
- Increase in RM prices and higher freight cost impacted the Q1FY22 margins.
- The management expects these cost increases to be short term in nature and expects things to normalise moving ahead.
- The company has successfully commissioned 2 new Agrochemicals focussed dedicated facilities at Dahej.

Fluorochemicals

- Fluorochemicals segment reported healthy performance for the quarter with higher sale volumes both in the domestic and largely in export market.
- Strong recovery in Automobiles industry led to higher offtake in R-134a revenues.
- Prices in this segment are likely to remain at higher levels in the near term.
- Covid impact resulted in lower volumes by ~1500-1600 tons which was slightly offset to the tune of 300-400 tons by higher exports.
- Domestic refrigerant gases are linked to international prices which get adjusted automatically for any Raw material price variations.
- Covid led disruptions due to widespread 2nd wave impacted the supply chain resulting in lower than expected offtake in domestic sales.
- Company will be setting up a new 200 KV grid at a total cost of Rs 1.35bn to meet its increased power needs.

Packaging Films

- Launched 2 new products during the quarter.
- International business performed well aided by the commencement of company's 2nd plant in Thailand and steady ramp up of Hungary facility.
- The management believes that with new BOPET and BOPP lines commissioning in the next few quarters, there will be a short term demand-supply imbalance in the market.

- Company will continue to focus only on PTFE and will look into polymers like PVDF, PEKK etc post commissioning and ramping up of its new PTFE plant (expected to be commissioned in Nov 22).
- The management mentioned that the re-emergence of Covid virus in the ASEAN region could have a negative short term impact on the segments performance.
- Civil unrest in South Africa forced the company to shut down its facility which will impact its performance in Q2FY22.

Technical Textiles

- Company performed well across all its business segments - Nylon Tyre Cord, Belting Fabrics and Polyester Industrial Yarn.
- The overall industry has been witnessing a structural shift as prices have seen a sharp uptrend on the back of shutdown of large facilities in China.
- The company has started re-negotiating its long term contracts to maintain its margin profile for the business.
- Growth during the quarter was largely driven by pricing gains which are expected to continue in short to medium term.
- This segment is expected to deliver healthy performance over the next few quarters and continue its trend of generating free cash flows at a much larger scale.

New Capex

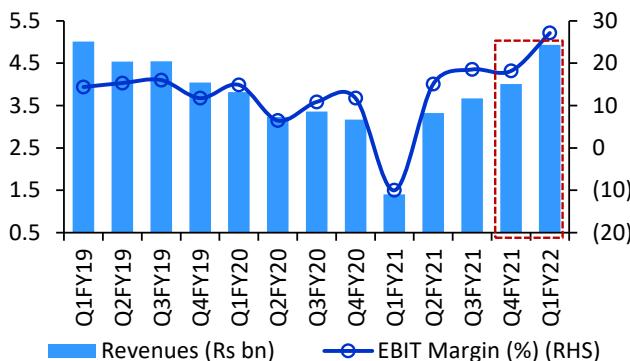
- The company has announced a Rs 5.5bn capex for expanding its Fluorocarbon Refrigerant Gas Capacity by 15,000 MTPA from its current level of ~50,000 MTPA
- This will be a swing facility capable of manufacturing both R-32 and R-134a as per the market dynamics and can be further scaled up to ~20,000 MTPA through debottlenecking activities.
- 40% of the plant capacity will be used for backward integration into a key RM while 60% will be towards external sales.

Guidance

Capex Guidance

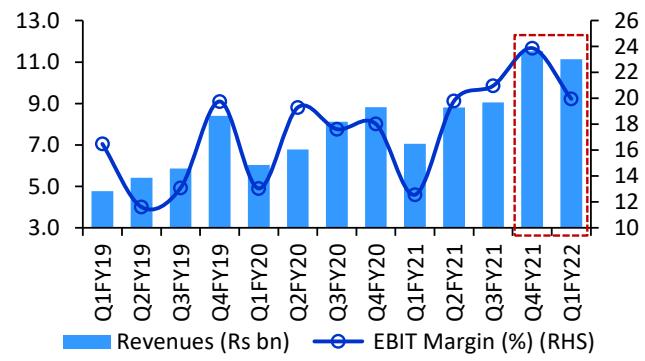
- FY22- Rs 20.0 bn with ~Rs 10-11bn towards Specialty Chemicals; ~Rs 4-5.0bn towards Packaging films; ~Rs 2.0bn yet to be budgeted and balance towards technical textiles, others and maintenance capex.
- FY23 – Rs 16-18bn
- Specialty chemicals growth guidance revised upward to 15-20% for FY22 (earlier 10-15%).

Exhibit 4: Technical Textiles Business – Revenues (Rs Bn) & EBIT Margin (%)



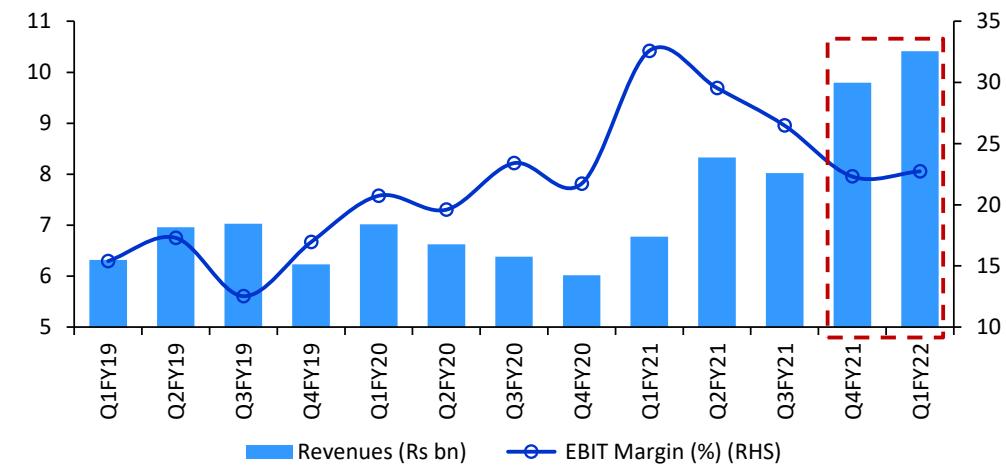
Source: DART, Company

Exhibit 5: Chemical Business – Revenues (Rs Bn) & EBIT Margin (%)



Source: DART, Company

Exhibit 6: Packaging Films Business – Revenues (Rs Bn) & EBIT Margin (%)



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY21A	FY22E	FY23E	FY24E
Revenue	84,000	1,05,787	1,18,087	1,43,396
Total Expense	62,549	78,873	87,636	1,07,774
COGS	40,189	52,030	56,390	70,919
Employees Cost	6,214	7,146	8,004	8,964
Other expenses	16,145	19,697	23,242	27,891
EBIDTA	21,452	26,913	30,450	35,622
Depreciation	4,531	5,667	6,684	7,355
EBIT	16,921	21,247	23,767	28,267
Interest	1,340	1,721	1,949	1,889
Other Income	545	550	578	606
Exc. / E.O. items	0	0	0	0
EBT	16,127	20,076	22,395	26,984
Tax	4,144	4,818	5,375	6,476
RPAT	11,983	15,258	17,020	20,508
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	11,983	15,258	17,020	20,508

Balance Sheet

(Rs Mn)	FY21A	FY22E	FY23E	FY24E
Sources of Funds				
Equity Capital	603	603	603	603
Minority Interest	0	0	0	0
Reserves & Surplus	67,962	81,087	95,619	1,12,927
Net Worth	68,564	81,689	96,221	1,13,530
Total Debt	30,083	32,483	32,483	30,483
Net Deferred Tax Liability	3,680	3,180	2,780	2,380
Total Capital Employed	1,02,328	1,17,353	1,31,485	1,46,393

Applications of Funds

Net Block	78,270	1,00,325	1,09,642	1,14,287
CWIP	7,723	0	0	0
Investments	42	42	42	42
Current Assets, Loans & Advances	43,079	45,758	51,763	63,570
Inventories	14,658	17,390	19,411	23,572
Receivables	12,746	14,491	16,176	19,643
Cash and Bank Balances	2,820	21	321	1,500
Loans and Advances	3,355	3,355	4,355	5,355
Other Current Assets	5,375	6,375	7,375	8,375
Less: Current Liabilities & Provisions	26,785	28,772	29,962	31,505
Payables	15,852	18,839	21,029	23,572
Other Current Liabilities	10,933	9,933	8,933	7,933
<i>sub total</i>				
Net Current Assets	16,294	16,986	21,801	32,065
Total Assets	1,02,328	1,17,353	1,31,485	1,46,393

E – Estimates

Important Ratios

Particulars	FY21A	FY22E	FY23E	FY24E
(A) Margins (%)				
Gross Profit Margin	52.2	50.8	52.2	50.5
EBIDTA Margin	25.5	25.4	25.8	24.8
EBIT Margin	20.1	20.1	20.1	19.7
Tax rate	25.7	24.0	24.0	24.0
Net Profit Margin	14.3	14.4	14.4	14.3
(B) As Percentage of Net Sales (%)				
COGS	47.8	49.2	47.8	49.5
Employee	7.4	6.8	6.8	6.3
Other	19.2	18.6	19.7	19.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.4	0.4	0.3	0.3
Interest Coverage	12.6	12.3	12.2	15.0
Inventory days	64	60	60	60
Debtors days	55	50	50	50
Average Cost of Debt	4.2	5.5	6.0	6.0
Payable days	69	65	65	60
Working Capital days	71	59	67	82
FA T/O	1.1	1.1	1.1	1.3
(D) Measures of Investment				
AEPS (Rs)	202.3	257.5	287.3	346.2
CEPS (Rs)	278.7	353.2	400.1	470.3
DPS (Rs)	24.0	30.0	35.0	45.0
Dividend Payout (%)	11.9	11.6	12.2	13.0
BVPS (Rs)	1157.3	1378.8	1624.1	1916.3
RoANW (%)	20.3	20.3	19.1	19.6
RoACE (%)	14.2	15.5	15.2	16.1
RoAIC (%)	18.5	19.6	19.1	20.5
(E) Valuation Ratios				
CMP (Rs)	7932	7932	7932	7932
P/E	39.2	30.8	27.6	22.9
Mcap (Rs Mn)	4,69,912	4,69,912	4,69,912	4,69,912
MCap/ Sales	5.6	4.4	4.0	3.3
EV	4,93,050	4,98,249	4,97,950	4,93,770
EV/Sales	5.9	4.7	4.2	3.4
EV/EBITDA	23.0	18.5	16.4	13.9
P/BV	6.9	5.8	4.9	4.1
Dividend Yield (%)	0.3	0.4	0.4	0.6
(F) Growth Rate (%)				
Revenue	16.5	25.9	11.6	21.4
EBITDA	47.4	25.5	13.1	17.0
EBIT	58.7	25.6	11.9	18.9
PBT	76.3	24.5	11.6	20.5
APAT	30.8	27.3	11.6	20.5
EPS	30.8	27.3	11.6	20.5

Cash Flow

(Rs Mn)	FY21A	FY22E	FY23E	FY24E
CFO	15,202	19,455	21,536	22,068
CFI	(12,914)	(20,000)	(16,000)	(12,000)
CFF	1,418	(2,253)	(5,237)	(7,888)
FCFF	2,179	(545)	5,536	10,068
Opening Cash	3,240	6,945	4,147	4,446
Closing Cash	6,945	4,147	4,446	6,625

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jul-20	Buy	4,306	3,793
Nov-20	Buy	5,968	4,867
Jan-21	Accumulate	6,008	5,405
Feb-21	Accumulate	6,008	5,616
May-21	Accumulate	7,179	6,863

*Price as on recommendation date

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