

SRF Limited

30 July 2021

RESULT UPDATE

Sector: Chemical	Rating: HOLD
CMP: Rs 8,660	Target Price: Rs 7,736

Stock Info

Sensex/Nifty	52,586 / 15,763
Bloomberg	SRF IN
Equity shares (mn)	59.2
52-wk High/Low	Rs 8,720/ 3,730
Face value	Rs 10
M-Cap	Rs 513bn/ USD 7.1bn
3-m Avg volume	USD 16.7mn

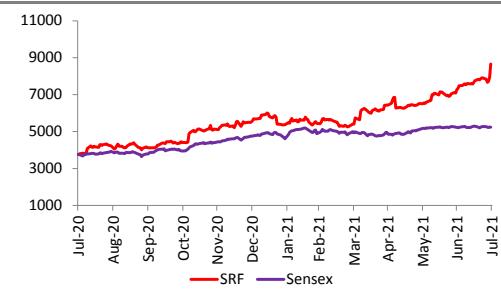
Financial Snapshot (Rs mn)

Y/E Mar	FY21	FY22E	FY23E
Net sales	84,000	104,482	121,984
EBITDA	21,452	26,739	31,138
PAT	11,983	15,518	18,332
EPS (Rs)	202.3	261.9	309.4
PE (x)	30.0	33.1	28.0
EV/EBITDA (x)	18.5	20.6	17.5
P/B (x)	5.3	6.3	5.3
RoE (%)	20.3	20.6	20.5
RoCE (%)	17.1	18.5	19.7
D/E (x)	0.6	0.5	0.4
OPM (%)	25.5	25.6	25.5
DPS (Rs)	23.8	39.3	46.4
Dividend Yield (%)	0.4	0.5	0.5
Dividend payout (%)	11.7	15.0	15.0

Shareholding Pattern (%)

	Jun'21	Mar'21	Dec'20
Promoter	50.8	50.8	50.8
- Pledged	-	-	-
FII	18.4	18.4	19.4
DII	11.9	11.2	11.2
Others	18.9	19.6	18.6

Stock Performance (1-year)



Change in technical textile business economics aids margins

SRF Limited (SRF)'s 1QFY22 result was slightly above our estimates with revenue/EBITDA/APAT growth of 74%/84%/123% YoY and 4%/4%/4% QoQ. The sequential revenue growth was led by the technical textiles business-TTB (23% QoQ) and the packaging films business-PFB (6% QoQ). Chemicals business-CB was impacted (-3% QoQ) by the slowdown in the refrigerants segment in the domestic market. OPM stood at 24.9% vs. 24.7% QoQ (24% estimated), driven by the all-time high margin in TTB due to price revisions and higher NTCF (Nylon Tyre Cord Fabric) spreads (Rs 149/kg vs. Rs 106/kg QoQ). CB EBITM was 20% (vs. 23.9% QoQ) due to lower domestic refrigerant sales (high-margin category) and higher raw material costs. PFB EBITM was at 22.7% (vs. 22.3% QoQ) due to a healthy BOPP/BOPTE spread (Rs 98/69 per kg). The management maintained its specialty chemicals growth guidance of 10-15% for FY22 (despite a high base; capacity constraints) and expects TTB margins to remain high due to price revisions and market consolidation globally. The long-term business prospects remain robust with a healthy product pipeline, a large capex plan in chemicals and packaging films and the ramp-up of new capacities in refrigerants. The shift in TTB's margin profile would increase the overall margins by 70-80bps and offset the expected softness in PFB margins to some extent. We therefore raise our FY22/23E earnings by 8%/6%. We maintain our HOLD rating with a target price of Rs 7,736 (Rs 6,414 earlier) based on 25x FY23E (PE multiple increased from 22x due to the change in TTB business economics).

Technical textile business – price revisions & industry consolidation drive margins: Segmental sales/EBIT was up 23%/84% QoQ and EBIT margin improved to 27.1% vs. 18.2% QOQ. Sales growth was led by improved pricing and demand for NTCF, leading to market share gains (~40% domestic share), given 1) certain capacity closures globally, 2) growing preference for domestic suppliers and 3) demand in the domestic tyre industry gaining momentum. Margin improvement was led by higher NTCF spreads (Rs 149/kg vs. Rs 106/kg QoQ), price revisions in long term contracts, and backward integration of yarn. While the current EBITM (27.1%) looks slightly inflated due to the spread benefit, the management believes it marks the entry into a new trajectory due to the structural changes. We estimate TTB sales CAGR of 19% and average EBITM of 20% during FY21-23E.

Chemicals business – margins contract; recovery in 2H: Segmental sales/EBIT declined -3%/-19% QoQ and EBIT margin was 20% vs. 23.9% QoQ. The sales decline was due to a slowdown in the domestic refrigerant business. The specialty chemicals and chloromethane divisions continue to grow. Margin contraction was due to higher RM & freight costs and lower capacity utilisation. The management has maintained its sales growth guidance of 15% in specialty chemicals for FY22 and expects a sequential margin recovery. We expect a sales CAGR of 20% and average EBITM of 22.5% between FY21-23E, given 1) Rs 3.75bn capex for the fourth multi-purpose plant (MPP4) will be operational from 1QFY23 (pharma focus), 2) 120% increase in chloromethane capacity will be effective from 4QFY22, 3) the ramp-up of two dedicated plants for Agchem products during 4QFY21 and 4) higher operating leverage in refrigerants (HFCs). *(Fresh capex announcement: Capex/capacity of Rs 5.5bn/15k tpa to be operational from 1HFY24 for refrigerants (HFC) at Dahej).*

Packaging Films Business – margins intact; to soften in 2H: Segmental sales/EBIT was up 6%/8% QoQ and EBIT margin improved to 22.7% vs. 22.3% QOQ. Sales growth was led by higher BOPP/BOPET film prices (31%/8% QoQ to Rs 192/Rs 170 per kg). Despite high freight costs and lower utilisation, margins remained strong due to the rise in BOPP spread (Rs 98/kg vs. Rs 50/kg QoQ). In our previous report ([link](#)), we estimated margins to soften gradually (from a peak of 32.6% in 1QFY21) due to the normalisation of BOPET spreads and the expected increase in supplies at the industry level for BOPP & BOPET (2-3 new lines to come in 2H). We estimate sales CAGR of 20% and average EBITM of 19% between FY21-23E, led by 1) 75k tpa BOPET capacity addition (+32% on the old base) at Thailand and Hungary in FY21, 2) 45k tpa BOPP capacity addition (+60% on the old base) at the Thailand in July'21, 3) 60k tpa additional BOPP capacity (+50% on old base) in India to be operational from 2HFY23 and 4) focus on increasing the revenue share of value-added products.

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Investors are advised to refer disclosures made at the end of the research report.

Other concall takeaways

- **Capex target of Rs 20bn in FY22**, of which Rs 11bn will be towards chemicals (specialty chemicals, PTFE, chloromethane and refrigerants), Rs 5.5bn for packaging films and balance for technical textiles and maintenance. For FY23, the company guided a capex of Rs 16-18bn.
- **PTFE capex/capacity of Rs 4.24bn/5k tpa** is on schedule and expected to be operational from 3QFY23. Out of Rs 4.24bn, Rs 1bn will be towards R22 (capacity 12.5k tpa) for captive use.
- **Coated & laminated fabrics**: Sales/EBIT declined -31%/-78% QoQ and EBITM was 3.5% vs. 11.3% QOQ due to poor truck tarpaulins, signage and hoardings demand.

Exhibit 1: Quarterly financial statement

Particulars (Rs. mn)	1QFY22	1QFY21	YoY	4QFY21	QoQ
Sales (Net)	26,994	15,452	75%	26,077	4%
Other income	138	101	36%	130	6%
Total Income	27,132	15,553	74%	26,206	4%
Expenditure:					
Cost of material	13,317	7,415	80%	13,038	2%
Employees expenses	1,820	1,375	32%	1,753	4%
Other expenses	5,141	3,029	70%	4,852	2%
Total expenditure	20,279	11,819	72%	19,643	3%
EBITDA	6,853	3,734	84%	6,563	4%
EBITDA (Excl. OI)	6,716	3,633	85%	6,433	4%
Depreciation	1,230	1,040	18%	1,185	4%
EBIT	5,624	2,693	109%	5,378	5%
Finance Cost	275	432	-36%	262	5%
Exceptional item	-	-	0%	-	0%
EBT	5,349	2,262	137%	5,117	5%
Tax	1,396	493	183%	1,302	7%
Tax rate	26%	22%		25%	
PAT	3,953	1,769	123%	3,815	4%
PAT (adj)	3,953	1,769	123%	3,815	4%
EPS (Rs.)	67	31	117%	64	4%
EPS Diluted (Rs.)	67	31	117%	64	4%
EBITDA margin	24.9%	23.5%	137 bps	24.7%	21 bps
PAT margin	14.6%	11.4%	320 bps	14.6%	2 bps

Source: Company, Systematix Institutional Research

Exhibit 2: Segment details

Particulars (Rs. mn)	1QFY22	1QFY21	YoY	4QFY21	QoQ
SEGMENT REVENUE:					
Technical Textiles	4,929	1,404	251%	4,006	23%
Chemicals	11,137	7,052	58%	11,526	-3%
Packaging Film	10,413	6,774	54%	9,795	6%
Laminated/Coated Fabrics	536	237	126%	777	-31%
Less: Inter Segment	21	16	35%	27	-22%
Net Revenue	26,994	15,452	75%	26,077	4%
Revenue mix:					
Technical Textiles	18%	9%		15%	
Chemicals	42%	47%		45%	
Packaging Film	39%	45%		38%	
Laminated/Coated Fabrics	2%	2%		3%	
EBIT:					
Technical Textiles	5,947	2,950	102%	5,753	3%
Chemicals	1,337	-140	-1053%	728	84%
Packaging Film	2,223	886	151%	2,752	-19%
Laminated/Coated Fabrics	2,368	2,207	7%	2,186	8%
	19	-3	-779%	88	-78%
EBIT margin:					
Technical Textiles	27.1%	-10.0%	3710 bps	18.2%	895 bps
Chemicals	20.0%	12.6%	740 bps	23.9%	-392 bps
Packaging Film	22.7%	32.6%	-985 bps	22.3%	42 bps
Laminated/Coated Fabrics	3.5%	-1.2%	472 bps	11.3%	-775 bps

Source: Company, Systematix Institutional Research

Exhibit 3: Change in estimates

Particulars (Rs mn)	Revised estimates		Previous estimates		Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Net Sales	104,482	121,984	101,930	120,555	3%	1%
EBITDA	26,739	31,138	25,423	29,962	5%	4%
PAT	15,518	18,332	14,365	17,271	8%	6%
OPM	25.6%	25.5%	24.9%	24.7%	65 bps	86 bps
NPM	14.9%	15.0%	14.1%	13.9%	76 bps	115 bps

Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net revenues	76,927	72,094	84,000	104,482	121,984
Revenue growth (%)	37.6	-6.3	16.5	24.4	16.8
- Op. expenses	63,375	57,543	62,549	77,743	90,846
EBITDA (Excl. OI)	13,552	14,551	21,452	26,739	31,138
EBITDA margins (%)	17.6	20.2	25.5	25.6	25.5
- Interest expenses	2,016	2,008	1,340	1,169	1,094
- Depreciation	3,669	3,886	4,531	5,556	6,392
+ Other income	401	490	545	678	791
- Tax	1,853	-1,246	4,144	5,173	6,111
Effective tax rate (%)	22	-14	26	25	25
Reported PAT	6,416	10,393	11,983	15,518	18,332
+/- Extraordinary items	-	1,234	-	-	-
+/- Minority interest	-	-	-	-	-
Adjusted PAT	6,416	9,159	11,983	15,518	18,332
EPS (Rs/share)	108.3	154.6	202.3	261.9	309.4

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Share capital	585	585	603	603	603
Reserves & Surplus	40,709	48,749	67,962	81,152	96,734
Networth	41,294	49,334	68,564	81,755	97,337
Minority interest	-	-	-	-	-
Total Debt	37,485	41,714	39,442	38,522	34,441
Def. tax liab. (net)	3,420	1,755	3,862	3,862	3,862
Capital employed	82,199	92,803	111,868	124,138	135,639
Net Fixed assets	63,630	77,609	85,993	95,442	100,621
Investments	1,007	2,069	4,167	4,167	4,167
Net Working capital	15,574	11,871	18,889	23,488	27,421
Cash and bank balance	1,989	1,255	2,820	1,042	3,431
Capital deployed	82,199	92,803	111,868	124,138	135,639
Net debt	35,496	40,459	36,622	37,480	31,010
WC (days)	30	33	48	48	48
DE (x)	0.9	0.8	0.6	0.5	0.4

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
PAT	6,416	9,159	11,983	15,518	18,332
+ Non cash items	4,175	2,221	6,637	5,556	6,392
Cash profit	10,591	11,380	18,620	21,075	24,724
- Incr/(Decr) in WC	4,329	-3,703	7,018	4,599	3,933
Operating cash flow	6,263	15,082	11,602	16,475	20,791
- Capex	10,494	17,865	12,915	15,005	11,571
Free cash flow	-4,232	-2,783	-1,313	1,470	9,220
- Dividend	805	805	1,408	2,328	2,750
+ Equity raised	1	-	7,500	-	-
+ Debt raised	5,810	4,229	-2,272	-920	-4,081
- Investments	-212	1,062	2,098	-	-
- Misc. items	-36	314	-1,156	-	-
Net cash flow	1,022	-734	1,565	-1,778	2,390
+ Opening cash	967	1,989	1,255	2,820	1,042
Closing cash	1,989	1,255	2,820	1,042	3,431

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY19	FY20	FY21	FY22E	FY23E
P/E (x)	17.1	21.3	30.0	33.1	28.0
P/BV (x)	2.6	3.8	5.3	6.3	5.3
EV/EBITDA (x)	10.7	16.2	18.5	20.6	17.5
RoE (%)	16.7	20.2	20.3	20.6	20.5
RoCE (%)	13.5	12.7	17.1	18.5	19.7
Fixed Asset turnover (x)	1.1	0.9	0.9	0.9	0.9
Dividend (%)	136	136	238	393	464
Dividend yield (%)	0.7	0.4	0.4	0.5	0.5
Dividend payout (%)	12.5	7.7	11.7	15.0	15.0
Debtors days	49	45	55	55	55
Creditor days	89	88	93	93	93
Inventory days	71	76	86	86	86
Revenue growth (%)	37.6	(6.3)	16.5	24.4	16.8
EBITDA growth (%)	49.6	7.4	47.4	24.6	16.5
PAT growth (%)	39.1	42.7	30.8	29.5	18.1

Source: Company, Systematix Institutional Research

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