

BSE SENSEX

55,959

S&P CNX

16,625

CMP: INR8,979
TP: INR8,075 (-10%)
Neutral

Stock Info

Bloomberg	SRF IN
Equity Shares (m)	60
M.Cap.(INRb)/(USDb)	532 / 7.2
52-Week Range (INR)	9299 / 3996
1, 6, 12 Rel. Per (%)	8/53/63
12M Avg Val (INR M)	1351
Free float (%)	49.2

Financials Snapshot (INR b)

Y/E MARCH	2021	2022E	2023E
Sales	84.0	113.9	132.4
EBITDA	21.3	27.6	31.6
Adj. PAT	11.9	16.3	18.8
EBITDA Margin (%)	25.4	24.2	23.9
Cons. Adj. EPS (INR)	196.9	270.0	312.5
EPS Gr. (%)	29.0	37.2	15.7
BV/Sh. (INR)	1,138	1,385	1,674

Ratios

Net D:E	0.4	0.3	0.2
RoE (%)	20.1	21.4	20.4
RoCE (%)	13.4	15.8	16.2
Payout (%)	12.1	8.8	7.7

Valuations

P/E (x)	45.2	33.0	28.5
EV/EBITDA (x)	26.4	20.5	17.8
Div. Yield (%)	0.3	0.3	0.3
FCF Yield (%)	1.1	0.1	1.3

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	50.8	50.8	52.3
DII	11.9	11.2	11.3
FII	18.4	18.4	17.1
Others	18.9	19.6	19.3

FII Includes depository receipts

Fluorochemicals to support growth in Chemicals in FY22

SRF's FY21 Annual Report highlights its performance and outlook across key businesses. Additionally, the company has announced its vision – Aspirations 2025, on the back of which it aims to achieve: (i) Professional Reputation and Value System, (ii) Customer Advocacy, (iii) Innovation and Technology Leadership, and (iv) Operational Excellence. Here are the key highlights:

Focusing on developing complex non-fluorinated intermediates

- The Specialty Chemicals Business (SCB) maintained its growth momentum during the year despite COVID-related disruptions impacted 1QFY21. SCB reported stellar revenue growth of 47% YoY to INR23.9b in FY21 despite achieving revenue growth of 56% in FY20. In FY21, SCB formed 66% of the Chemicals segment revenue and 28% of the consol revenue.
- SRF remains focused on the Agrochemicals and Pharmaceuticals segments – wherein it collaborates with major global innovators on process development, commercialization, and producing complex new-age molecules with downstream applications.
- **Capacity increase:** Three new MPPs were commissioned in FY21; it is also setting up a fourth MPP.
- **Chemicals Technology Group (CTG):** CTG is SRF's in-house R&D center with 400+ employees, which is helping the company ride the technology curve for the Chemicals business. CTG has enabled growth in the Fluorinated Molecules business, in which SRF holds over three decades of manufacturing expertise. **CTG is now increasingly developing complex non-fluorinated intermediates.** The R&D spend in FY21 in terms of capital and revenue expenditure stood at more than **INR1.1b** (v/s INR1.3b last year). The R&D spend saw a 17% CAGR over FY12–21, and as a percentage of sales/EBITDA, it stood at 1.3%/5.2%.
- CTG worked on more than 50 molecules, and 80% of products successfully entered the process development stage. Around 15 molecules were taken up for scale-up studies and commercially produced in multi-purpose/dedicated plants.
- **CTG filed 36 patents in FY21, taking the total count to 309 patent filings thus far. 23 patents were granted in FY21, taking the total count of patents granted to the company to 93.**

Fluorochemicals – multiple levers to drive growth

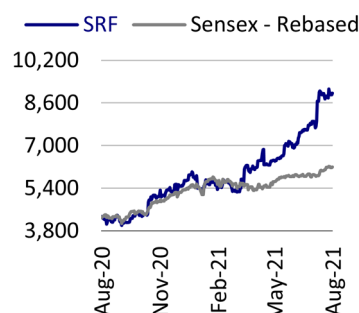
- Segmental revenue de-grew 4% YoY to INR8.9b in FY21, impacted by slowdown in the Refrigerants market globally – this was weighed by slowdown in the Auto and AC markets, coupled with pressure on prices. While some demand revival was seen only in the latter part of the year, international prices remained subdued throughout the year.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Stock performance (one-year)

- However, the Industrial Chemicals market performed well, led by growth in the Pharma and Agrochemicals segments. The Industrial Chemicals business was able to maintain market share and launched a new product, Methyl Chloride, in the Chloromethane (CMS) portfolio.
- **Outlook:** Business is expected to do well on the back of higher demand in domestic A/C and an increase in refrigerator production capacities in light of various government policies and initiatives – such as the ban on pre-charged AC imports, PLI, Atmanirbhar Bharat, and an increase in personal mobility boosting the Auto sector.
- Overall, the overall business performance is expected to improve, led by (a) better capacity utilization and the commissioning of new plants such as CMS in 2HFY22, (b) sales ramp-up in Anhydrous Hydrogen Chloride, and (c) other cost improvement initiatives, including the stabilization of the supply chain.

Packaging Films: Volume growth to partly offset margin pressure

- In FY21, the Packaging Films Business (PFB) witnessed robust growth of 26% YoY (to INR32.9b), with EBIT margins of 27.3% (the highest in the last 10 years). This was largely attributable to higher spreads (between the final product and RMs such as PET chips, PTA, MEG, and PP chips) and operating leverage.
- **VAP:** SRF launched 14 new products (v/s 5 in FY20), and overall VAP sales grew >20% YoY in FY21.
- SRF commissioned a new BOPET film plant in Thailand, making it the first ever remote commissioning of a film line anywhere in the world. Additionally, it commissioned a new BOPET film line in Hungary and a resin plant in Thailand amid strict travel restrictions – which limited the availability of supplier personnel and field experts on site. With this, SRF now has a combined annual capacity of 270k MT of BOPET and BOPP films, making it one of the largest producers of both types of films. Additionally, in July'21, SRF commissioned its first BOPP film plant in Rayong, Thailand.
- **On-going expansion:** In India, civil work for its new BOPP line and metallizer at Indore is progressing as per schedule.
- **Outlook:** In recent times, several new film plant expansions have been announced across the world. As a result, the industry may witness an oversupplied market in the future, resulting in pressure on profitability. However, SRF's primary focus would be on running its plants optimally, keeping costs in check, and continuing its work on VAPs. Efforts would also be directed towards achieving maximum utilization at the new BOPP facility in Thailand.

Financials

- Revenue grew 17% YoY to INR84b in FY21, with EBITDA growth coming in at 46% (to INR21.3b) on margin expansion across segments. Adj PAT growth came in lower at 29% YoY (to INR11.9b), weighed by tax benefit during the base year.
- **In FY21, SRF incurred capex of INR12.5b (down 25% YoY) – capex for the Packaging Films segment declined 50% YoY to INR5.5b, whereas it increased by 23% YoY to INR6.2b in the Chemicals segment.**
- Net WC cycle days improved by 9 days in FY21 and stood at 45 days on the back of an increase in payables by 34 days. This was offset by an increase in inventory/receivable days by 14/10 days.

- SRF generated CFO of INR17.7b (up 36% YoY), whereas FCF generation stood at INR5.7b during the year as the company incurred capex of INR12.6b. SRF's five-year average CFO/EBITDA stood at 82% over FY16–20, which increased to 83% in FY21 (v/s 89% in FY20).
- FY21 RoE/RoCE stood at 20.1%/13.4% (flat YoY).
- Net debt declined by INR10.2b in FY21 and stood at INR27b, aided by INR7.5b capital raised through QIP.

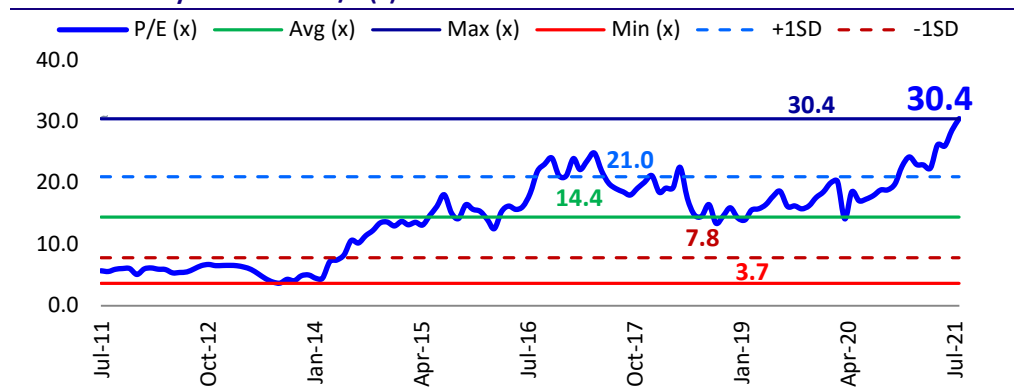
Valuation and view

- SRF's performance has been robust over the last three years, with a revenue/EBITDA/PAT CAGR of 15%/33%/42%. The stock price has seen a ~40% CAGR over this period.
- The earnings momentum is likely to slow due to (a) margin contraction in the Packaging Films segment (EBIT margin of 27.3% in FY21 v/s 20–21% over FY22–23E) and (b) slower growth momentum in Specialty Chemicals due to a high base (three-year revenue CAGR of 61% v/s 26% over FY21–23E). Going forward, we expect SRF to post a revenue/EBITDA/PAT CAGR of 26%/22%/26% over FY21–23.
- On a one-year forward EV/EBITDA basis, SRF is currently trading at 20.5x (on FY22E) – this is at a premium of ~70% each to its average trading multiple for the last three/five years. This, in our view, is rich v/s the earnings growth expectation.
- We are encouraged by the long-term structural opportunity in the Chemicals sector and the company's ability to participate in the same. We maintain our **Neutral** stance on SRF on higher valuations.

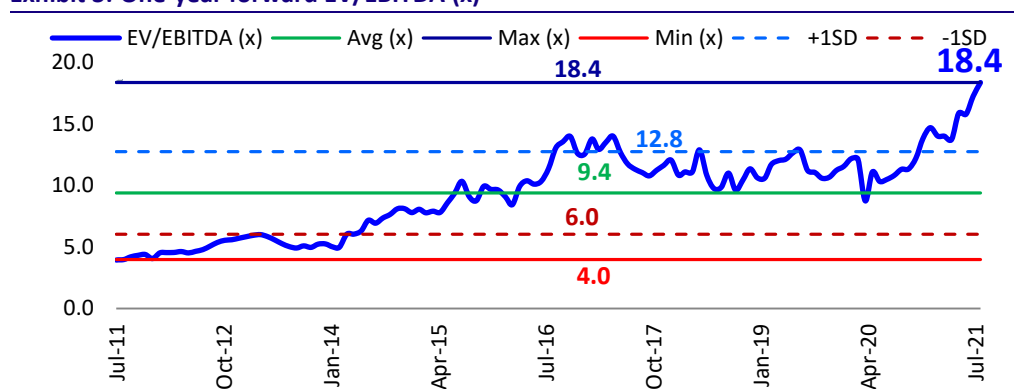
Exhibit 1: SOTP

EV/EBITDA	FY23 EBITDA (INR m)	Multiple (x)	EV (INR m)
Technical Textiles	4,449	7	31,143
Chemicals & Polymers	17,025	23	3,91,501
Packaging Films	10,962	8	87,698
Others	494	5	2,469
Total EV			5,12,812
Less: Debt			27,450
Less: Minority Interest			-
Add: Cash & Cash Equivalents			1,237
Target Mcap (INR m)			4,86,600
Outstanding share (m)			60.3
Target Price (INR)			8,075

Source: Company, MOFSL

Exhibit 2: One-year forward P/E (x)

Source: Bloomberg, MOFSL

Exhibit 3: One-year forward EV/EBITDA (x)

Source: Bloomberg, MOFSL

Other Key Highlights

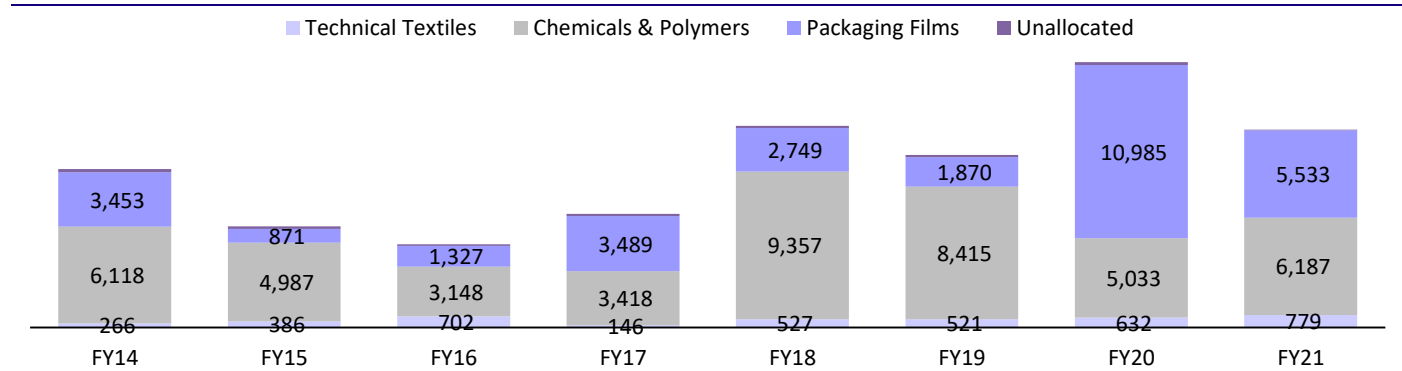
Demand revival bodes well for Technical Textiles Business

- The Technical Textiles Business (TTB) revenue declined 9% YoY (to INR12.4b), whereas EBIT grew 17% YoY (to INR1.8b), aided by a strong performance in the second half of the year. The segment had remained impacted over the last 2–3 years on the back of a slowdown in the Auto industry.
- By the end of 1HFY21, all TTB segments saw strong demand revival on the back of (a) an increase in government spending in the Infra sector, (b) focus on personal mobility (due to COVID-led fears), (c) restrictions on Chinese tyre imports, and (d) container shortage, resulting in higher sea freight. These factors triggered an increase in domestic demand.
- The **Nylon Tyre Cord Fabric** (NTCF) segment witnessed strong demand from the Original Equipment and Replacement sectors in 2HFY21. Furthermore, restrictions on tyre imports from China led to higher domestic tyre production across segments. The NTCF business also executed yarn capacity expansion and debottlenecking projects in FY21. The **Belting Fabrics** segment is a key supplier to end user industries – such as Steel, Cement, Coal, and Power Generation – which witnessed de-growth and thus resulted in margin pressure.
- **Outlook:** The business is likely to perform well in FY22, led by demand revival in all major end user industries.

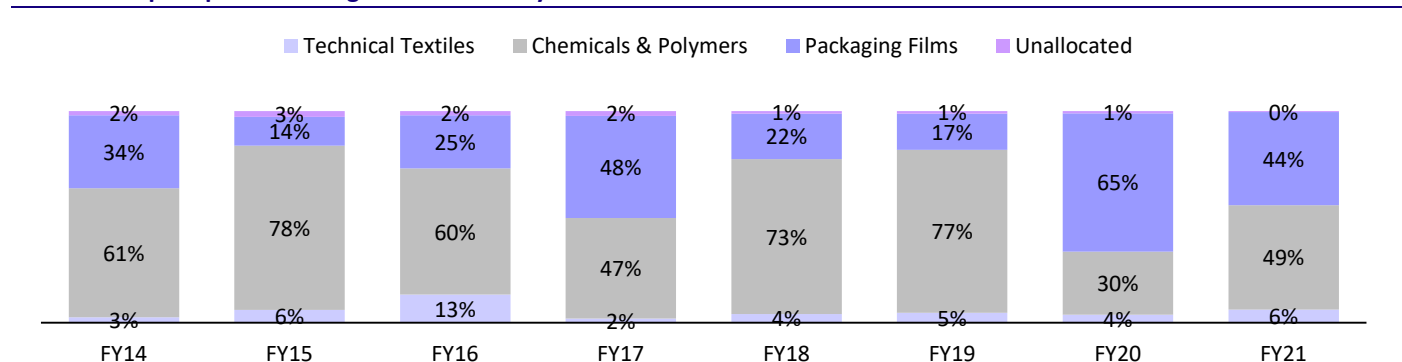
Exhibit 4: R&D spend CAGR of 17% over FY12–21

Particulars	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Capital (INR m)	62	36	78	124	223	653	160	41	331	135
Revenue (INR m)	210	278	305	440	566	719	908	1,003	997	970
Total R&D Spend (INR m)	272	314	384	564	789	1,372	1,069	1,044	1,328	1,105
Growth (%)		15	22	47	40	74	-22	-2	27	-17
R&D Spend										
as a % of Sales	0.7%	0.8%	1.0%	1.2%	1.7%	2.8%	1.9%	1.5%	1.8%	1.3%
as a % of EBITDA	3.3%	5.1%	7.6%	7.9%	8.1%	14.2%	11.8%	7.9%	9.1%	5.2%

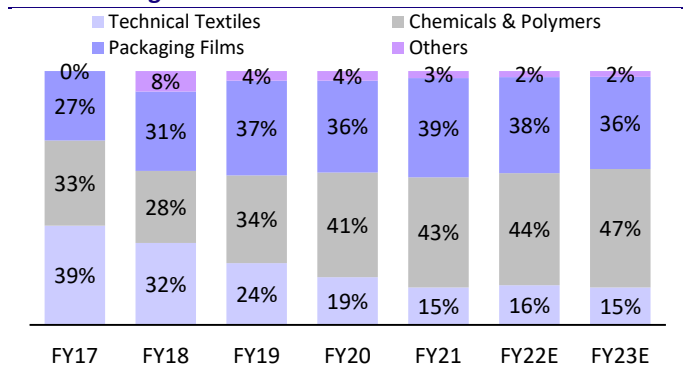
Source: Company, MOFSL

Exhibit 5: Capex in FY21 down 25% YoY on the back of lower capex in Packaging segment

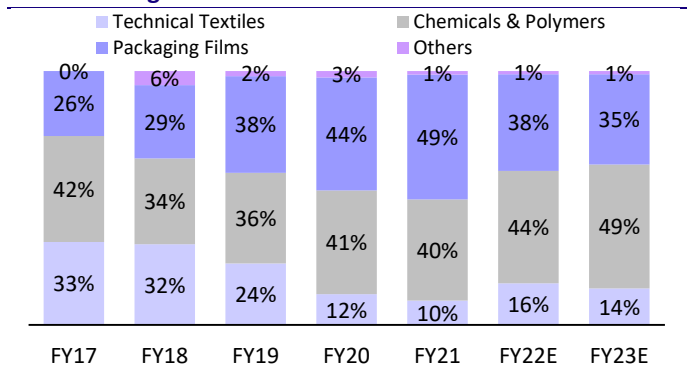
Source: Company, MOFSL

Exhibit 6: Capex split across segments over the years

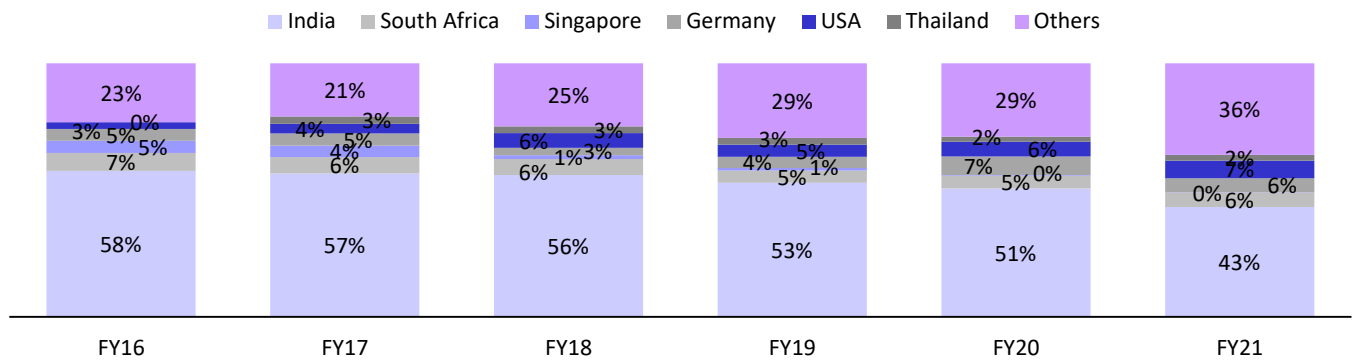
Source: Company, MOFSL

Exhibit 7: Segmental revenue mix trend

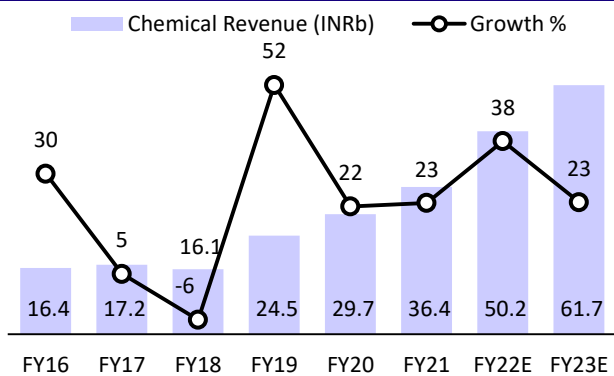
Source: Company, MOFSL

Exhibit 8: Segmental EBIT mix trend

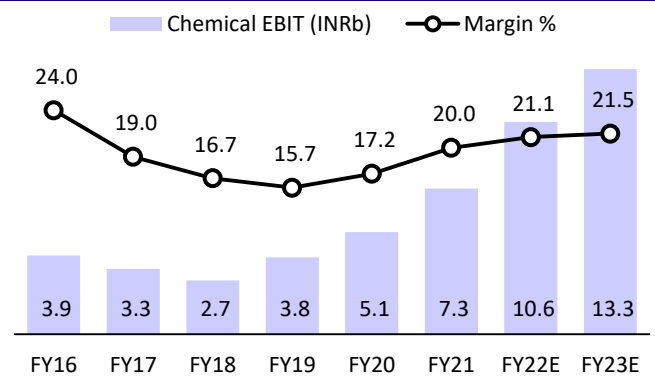
Source: Company, MOFSL

Exhibit 9: Region-wise revenue mix trend

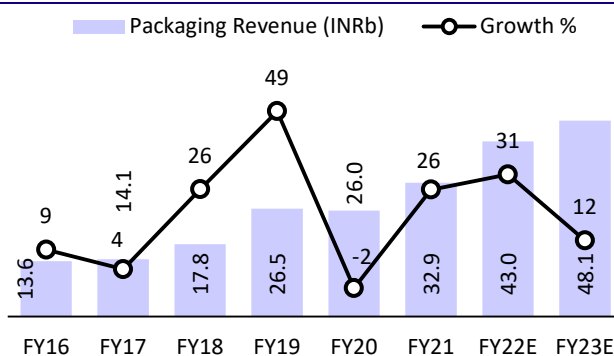
Source: Company, MOFSL

Exhibit 10: Chemicals segment to post 30% revenue CAGR over FY21-23E...

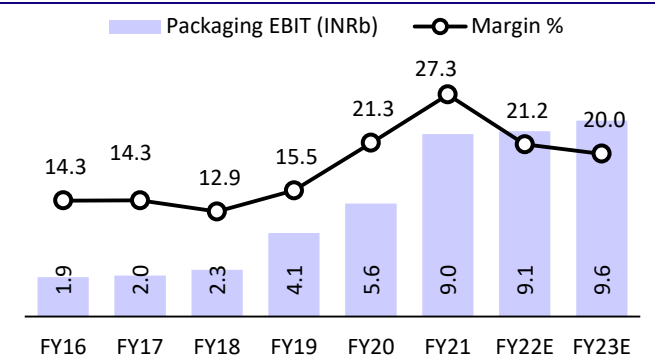
Source: Company, MOFSL

Exhibit 11: ...with EBIT margin expansion of 150bp

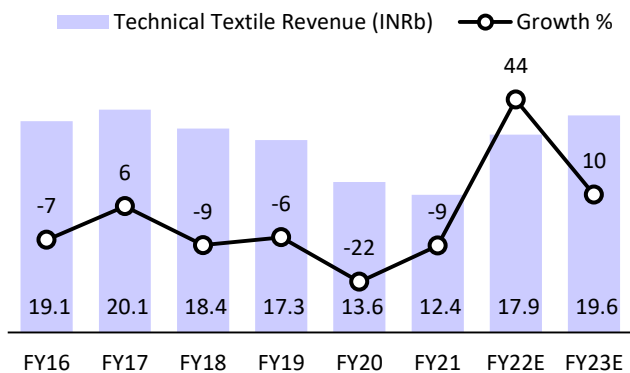
Source: Company, MOFSL

Exhibit 12: Packaging segment to see 21% revenue CAGR over FY21-23E...

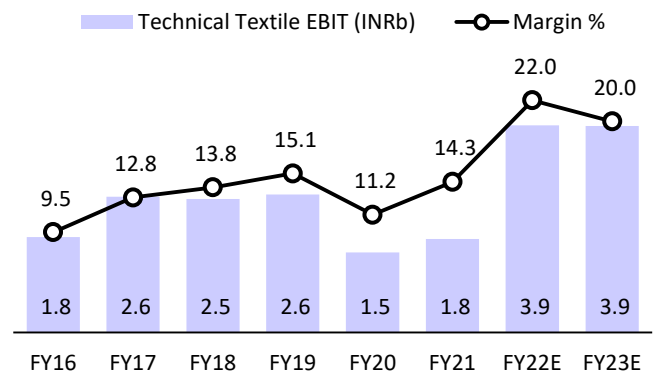
Source: Company, MOFSL

Exhibit 13: ...with EBIT margin contracting 730bp

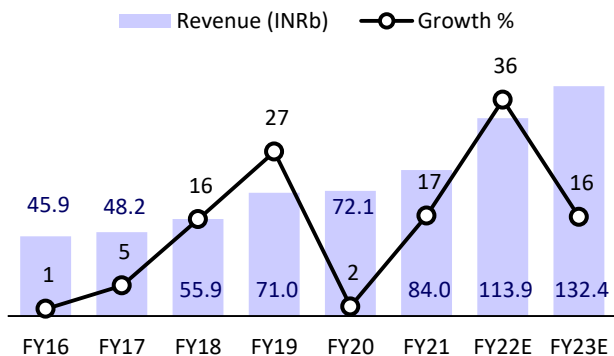
Source: Company, MOFSL

Exhibit 14: Technical Textiles segment to post 26% revenue CAGR over FY21–23E...

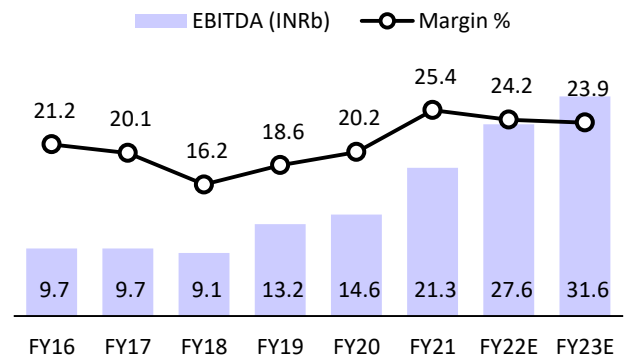
Source: Company, MOFSL

Exhibit 15: ...with EBIT margin expanding 570bp

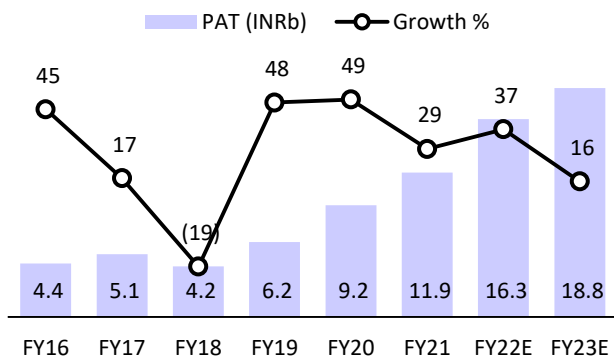
Source: Company, MOFSL

Exhibit 16: Expect 26% revenue CAGR over FY21–23E...

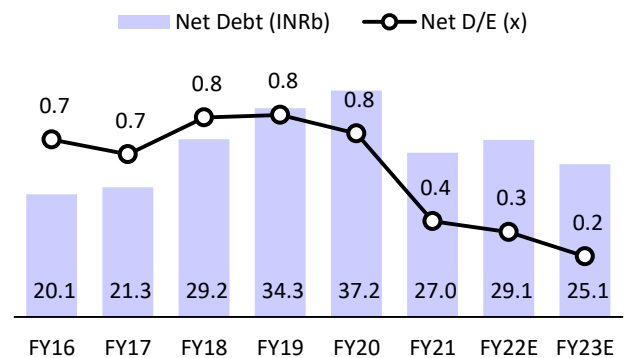
Source: Company, MOFSL

Exhibit 17: ...with EBITDA margin contracting 150bp...

Source: Company, MOFSL

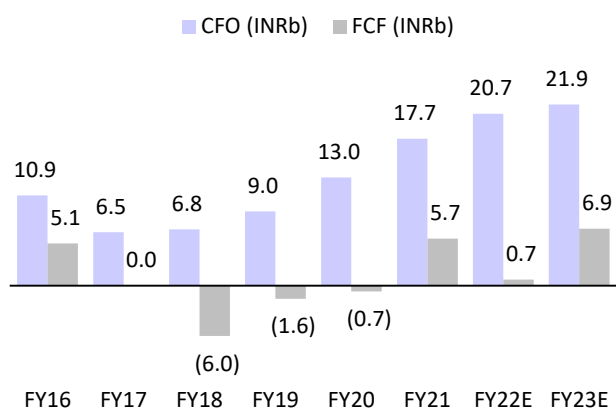
Exhibit 18: ...leading to PAT CAGR of 26%

Source: Company, MOFSL

Exhibit 19: Net debt remains at comfortable levels

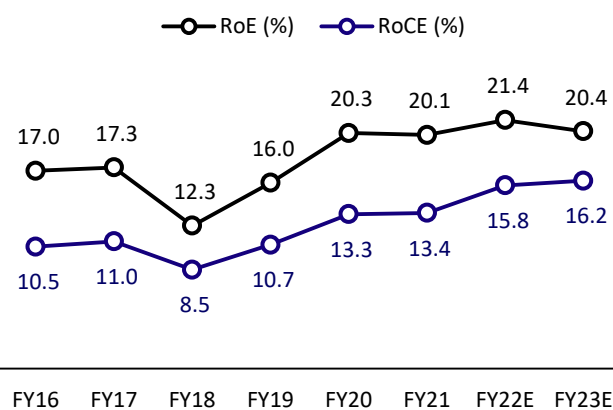
Source: Company, MOFSL

Exhibit 20: CFO and FCF generation trend



Source: Company, MOFSL

Exhibit 21: RoE and RoCE trend



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement							(INR m)	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Total Income from Operations	45,927	48,218	55,890	70,996	72,094	84,000	1,13,866	1,32,401
Change (%)	1.2	5.0	15.9	27.0	1.5	16.5	35.6	16.3
EBITDA	9,728	9,694	9,062	13,209	14,584	21,333	27,582	31,597
Margin (%)	21.2	20.1	16.2	18.6	20.2	25.4	24.2	23.9
Depreciation	2,750	2,834	3,158	3,582	3,886	4,531	5,183	5,933
EBIT	6,979	6,859	5,904	9,627	10,698	16,803	22,399	25,664
Int. and Finance Charges	1,305	1,018	1,239	1,984	2,007	1,340	1,415	1,382
Other Income	278	730	688	280	491	545	598	658
PBT bef. EO Exp.	5,952	6,572	5,353	7,923	9,182	16,008	21,583	24,940
EO Items	-103	0	463	262	997	116	72	0
PBT after EO Exp.	5,849	6,572	5,817	8,185	10,179	16,123	21,654	24,940
Current Tax	1,551	1,422	1,200	1,769	265	4,154	5,310	6,111
Deferred Tax	0	0	0	0	-277	-10	0	0
Tax Rate (%)	26.5	21.6	20.6	21.6	-0.1	25.7	24.5	24.5
Less: Minority Interest	0	0	0	0	0	0	0	0
Reported PAT	4,299	5,150	4,617	6,416	10,191	11,979	16,345	18,829
Adjusted PAT	4,402	5,150	4,154	6,155	9,194	11,864	16,273	18,829
Change (%)	45.4	17.0	-19.3	48.2	49.4	29.0	37.2	15.7
Margin (%)	9.6	10.7	7.4	8.7	12.8	14.1	14.3	14.2

Consolidated - Balance Sheet							(INR m)	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	574	574	575	575	585	603	603	603
Total Reserves	27,055	31,252	35,071	40,718	48,748	67,962	82,860	1,00,243
Net Worth	27,630	31,826	35,646	41,293	49,333	68,564	83,463	1,00,845
Minority Interest	0	0	0	0	0	0	0	0
Deferred Liabilities	3,820	2,866	2,914	3,420	1,755	3,862	3,862	3,862
Total Loans	25,153	23,962	31,418	37,302	40,468	33,950	33,950	27,450
Capital Employed	56,602	58,655	69,978	82,014	91,556	1,06,376	1,21,274	1,32,157
Gross Block	71,410	77,169	87,502	68,322	76,934	96,167	1,11,167	1,26,167
Less: Accum. Deprn.	30,334	33,169	36,327	12,269	15,540	20,071	25,254	31,187
Net Fixed Assets	41,076	44,000	51,175	56,053	61,394	76,096	85,913	94,980
Goodwill on Consolidation	49	49	41	41	6	6	6	6
Capital WIP	1,174	2,586	5,588	7,536	13,933	7,723	12,723	12,723
Current Investments	1,606	1,708	1,217	1,005	1,985	4,125	2,625	1,125
Total Investments	1,649	1,959	1,218	1,006	2,027	4,167	2,667	1,167
Curr. Assets, Loans&Adv.	20,291	21,090	25,608	34,243	31,265	41,121	47,057	54,144
Inventory	6,711	8,381	9,582	12,247	12,012	14,658	17,193	19,556
Account Receivables	5,145	6,569	6,807	10,288	8,911	12,746	14,038	16,323
Cash and Bank Balance	3,399	961	967	1,989	1,255	2,820	2,204	1,237
Loans and Advances	5,036	5,178	8,252	9,719	9,088	10,898	13,622	17,027
Curr. Liability & Prov.	8,934	11,055	13,653	16,865	17,211	22,918	27,273	31,044
Account Payables	7,146	8,089	10,442	13,824	11,117	15,852	19,225	21,867
Other Current Liabilities	1,477	2,606	2,831	2,600	5,653	6,544	7,526	8,655
Provisions	312	359	380	441	442	522	522	522
Net Current Assets	11,357	10,035	11,955	17,378	14,054	18,203	19,784	23,100
Appl. of Funds	56,602	58,655	69,978	82,014	91,556	1,06,376	1,21,274	1,32,157

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)								
EPS	73.0	85.5	68.9	102.1	152.6	196.9	270.0	312.5
Cash EPS	124.5	139.0	127.2	169.4	223.6	272.1	356.0	410.9
BV/Share	481.2	554.3	620.1	718.4	843.3	1,137.8	1,385.0	1,673.5
DPS	9.3	11.2	15.3	19.1	14.0	24.0	24.0	24.0
Payout (%)	15.2	15.7	23.1	20.8	9.9	12.1	8.8	7.7
Valuation (x)								
P/E				87.2	58.4	45.2	33.0	28.5
Cash P/E				52.6	39.8	32.7	25.0	21.7
P/BV				12.4	10.6	7.8	6.4	5.3
EV/Sales				8.0	8.0	6.7	5.0	4.2
EV/EBITDA				43.2	39.4	26.4	20.5	17.8
Dividend Yield (%)				0.2	0.2	0.3	0.3	0.3
FCF per share				-27.3	-11.7	94.1	12.4	113.9
Return Ratios (%)								
EBITDA Margins (%)	21.2	20.1	16.2	18.6	20.2	25.4	24.2	23.9
Net Profit Margins (%)	9.6	10.7	7.4	8.7	12.8	14.1	14.3	14.2
RoE	17.0	17.3	12.3	16.0	20.3	20.1	21.4	20.4
RoCE	10.5	11.0	8.5	10.7	13.3	13.4	15.8	16.2
RoIC	18.5	17.8	13.8	18.0	15.3	26.3	29.3	29.7
Working Capital Ratios								
Fixed Asset Turnover (x)	0.6	0.6	0.6	1.0	0.9	0.9	1.0	1.0
Asset Turnover (x)	0.8	0.8	0.8	0.9	0.8	0.8	0.9	1.0
Inventory (Days)	105	126	115	113	119	133	110	110
Debtor (Days)	41	50	44	53	45	55	45	45
Creditor (Days)	112	122	126	127	110	144	123	123
Leverage Ratio (x)								
Debt/Equity	0.9	0.8	0.9	0.9	0.8	0.5	0.4	0.3

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
OP/(Loss) before Tax	5,849	6,572	5,817	8,269	10,706	16,099	21,654	24,940
Depreciation	2,750	2,834	3,158	3,669	3,929	4,531	5,183	5,933
Interest & Finance Charges	1,305	1,018	1,239	2,016	2,016	1,340	1,415	1,382
Direct Taxes Paid	-1,087	-1,159	-1,176	-1,502	-1,427	-2,553	-5,310	-6,111
(Inc)/Dec in WC	2,214	-2,556	-1,909	-3,165	-239	-1,236	-2,197	-4,282
CF from Operations	11,030	6,709	7,129	9,286	14,984	18,181	20,745	21,861
Others	-130	-255	-349	-330	-1,940	-464	0	0
CF from Operating incl EO	10,901	6,454	6,780	8,956	13,044	17,717	20,745	21,861
(inc)/dec in FA	-5,789	-6,409	-12,829	-10,526	-13,730	-12,047	-20,000	-15,000
Free Cash Flow	5,112	45	-6,049	-1,570	-685	5,670	745	6,861
(Pur)/Sale of Investments	-576	25	840	332	-886	-1,886	1,500	1,500
Others	-303	251	35	53	2,813	-1,064	0	0
CF from Investments	-6,667	-6,133	-11,953	-10,142	-11,803	-14,997	-18,500	-13,500
Issue of Shares	0	0	0	1	0	7,500	0	0
Inc/(Dec) in Debt	637	-4,552	4,095	2,677	3,205	-6,856	0	-6,500
Interest Paid	-1,324	-1,109	-1,299	-2,241	-2,040	-1,574	-1,415	-1,382
Dividend Paid	-692	-829	-829	-836	-803	-1,408	-1,446	-1,446
Others	-528	3,731	3,213	2,606	-2,337	1,182	0	0
CF from Fin. Activity	-1,907	-2,760	5,179	2,207	-1,975	-1,155	-2,861	-9,328
Inc/Dec of Cash	2,326	-2,438	6	1,021	-734	1,565	-616	-966
Opening Balance	1,073	3,399	961	967	1,989	1,255	2,820	2,204
Closing Balance	3,399	961	967	1,989	1,255	2,820	2,204	1,237

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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