

Medium term outlook remains strong; re-iterate BUY

Specialty Chemicals ▶ Company Update ▶ February 26, 2025

CMP (Rs): 2,768 | TP (Rs): 3,250

We re-iterate BUY on SRF with revised SoTP-based TP of Rs3,250 (rollover to Mar-27E; up by 4.8%), as we believe the worst is behind for all businesses of SRF and, going forward, we should see a) gradual pick up in specialty chemicals driven by stabilization of existing products and incremental contribution from newer products (largely Active Ingredients), b) firming up of refrigerant gas prices globally, led by increase in pricing in China and phase down-led cuts in some geographies, and c) improvement in the packaging films business, led by narrowing of the demand-supply gap across BOPP and BOPET over the next 2-3 years. SRF is best placed—with capex ready in the specialty chemicals business and a complete basket of refrigerant gases—to garner benefits of the agchem cycle turning around and improving refrigerant prices globally.

Fluorochemicals witnessing strong volume growth

SRF has been seeing strong volume/pricing in refrigerant gases domestically. Prices of R32/22 are going up globally on a) increase in Chinese refrigerant gas prices, b) supply being capped by freezing of quota across geographies, and c) shift of OEM demand toward lower GWP gases. We expect a decent pricing environment going into this season, at least for CY25. Ref gas capacities in India are expected to maximize utilizations owing to quota determination during CY24/25/26. Chloromethane capacities are now seeing optimal utilization. PTFE volumes will continue growing in FY26E, once samples are approved for export customers and new fluoropolymers being commissioned in H2FY26E.

Fluorospecialty to see decent pick-up in the medium term

The fluorospecialty business is seeing improved traction in H1CY25 owing to gradual demand pick-up in key products, which were deferred earlier, and reasonable offtake at the customers' end. FY24/H1FY25 witnessed pricing pressure in some key products owing to competition from China; these have now stabilized. SRF has made efforts to optimize costs in some key products by introducing various measures aimed at maintaining the absolute contribution margin. New AIs will start contributing meaningfully from FY26 and reach optimal utilization by FY28 – total opportunity of manufacturing these AIs would be ~USD1-1.5bn; SRF targets ~35-40% market share in manufacturing these AIs. Overall capex guidance for CB in FY25/FY26 stands at Rs15bn/Rs15-20bn. There is a possibility of a scale-up of FY26/27 capex, for continuing the investment cycle.

Packaging films business to remain under pressure

PFB business is likely to see near-term pressure, and pricing/margins to improve over coming 2-3 years. BOPP faring better than BOPET in the medium term would continue, with SRF focusing on VAPs it is better placed during this downcycle. The cyclical average EBIT margin in this business would be above 18%. The aluminum foil facility is operating at 55% utilization now and seeing EBITDA-level losses (expect positive contribution from FY26). ADD implementation would support higher utilizations (13-14% margin).

Target Price – 12M	Mar-26
Change in TP (%)	4.8
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	17.4

Stock Data	SRF IN
52-week High (Rs)	2,995
52-week Low (Rs)	2,089
Shares outstanding (mn)	296.4
Market-cap (Rs bn)	821
Market-cap (USD mn)	9,409
Net-debt, FY25E (Rs mn)	39,708.3
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	1,873.3
ADTV-3M (USD mn)	21.5
Free float (%)	0.0
Nifty-50	22,547.6
INR/USD	87.2

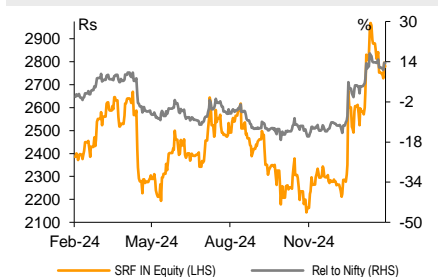
Shareholding, Dec-24

Promoters (%)	50.3
FPIs/MFs (%)	18.3/17.8

Price Performance

(%)	1M	3M	12M
Absolute	7.1	24.5	16.0
Rel. to Nifty	9.7	33.7	14.3

1-Year share price trend (Rs)



SRF: Financial Snapshot (Consolidated)

Y/E (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	148,703	131,385	144,958	174,917	200,413
EBITDA	35,292	25,841	26,824	37,687	49,281
Adj. PAT	21,623	13,357	12,722	21,156	29,398
Adj. EPS (Rs)	72.7	44.9	42.8	71.1	98.8
EBITDA margin (%)	23.7	19.7	18.5	21.5	24.6
EBITDA growth (%)	11.1	(26.8)	3.8	40.5	30.8
Adj. EPS growth (%)	14.5	(38.3)	(4.8)	66.3	39.0
RoE (%)	22.9	12.3	10.6	15.6	18.5
RoIC (%)	20.9	11.3	9.4	13.5	16.3
P/E (x)	38.1	61.6	64.7	38.9	28.0
EV/EBITDA (x)	24.2	33.5	32.2	22.9	17.5
P/B (x)	8.0	7.2	6.5	5.7	4.8
FCFF yield (%)	-	(0.2)	0.6	0.7	1.3

Source: Company, Emkay Research

Meet Vora

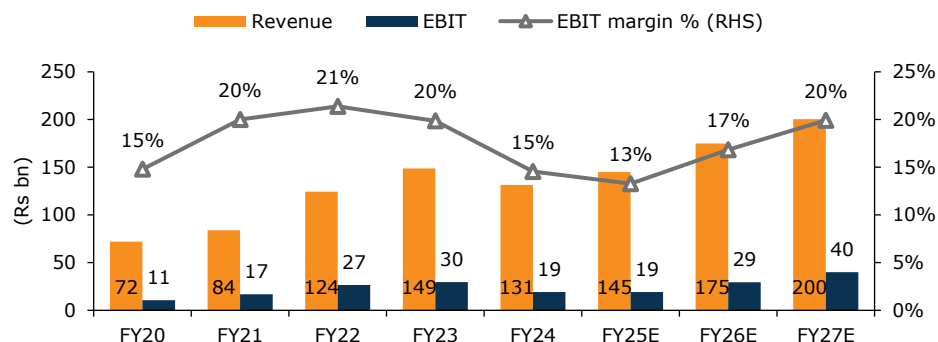
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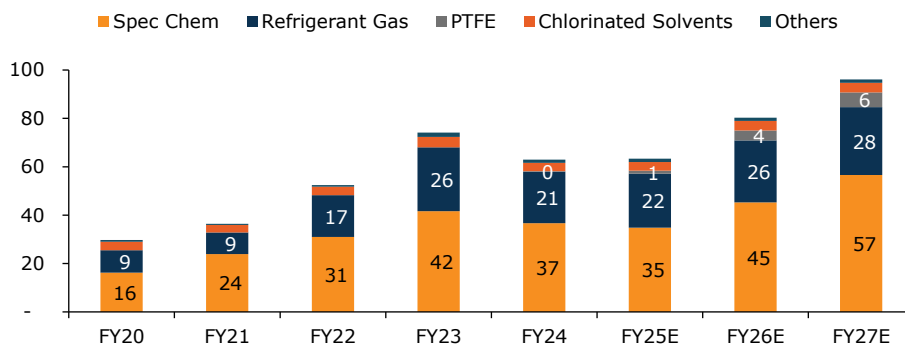
Story in Charts

Exhibit 1: Overall revenue expected to see ~15% CAGR over FY24-27E



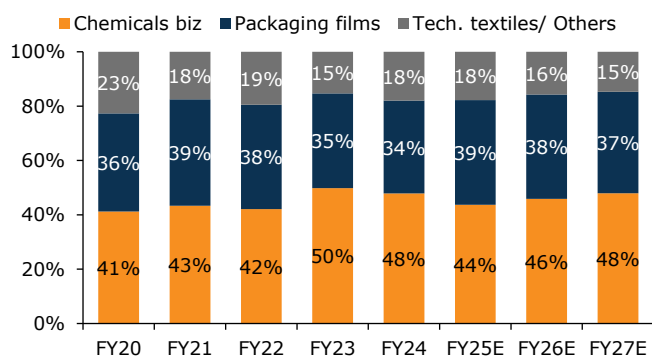
Source: Company, Emkay Research

Exhibit 2: Break-up of chemical business revenue; growth coming from the specialty chemicals portfolio



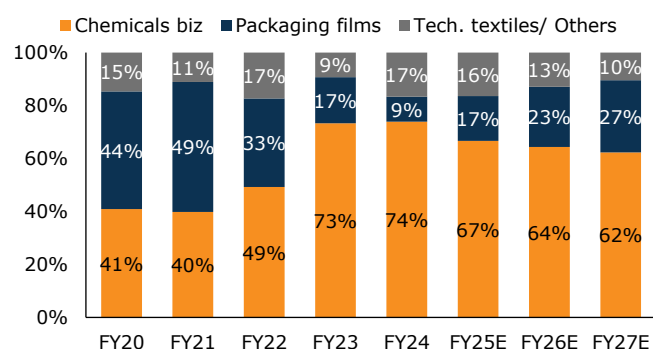
Source: Company, Emkay Research

Exhibit 3: SRF's segmental revenue contribution mix

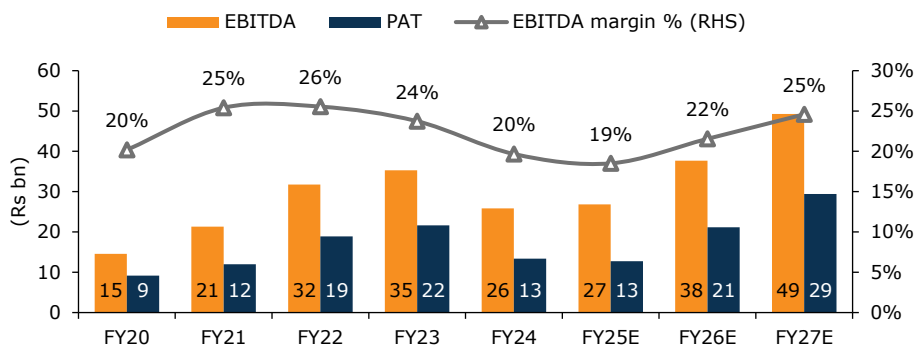


Source: Company, Emkay Research

Exhibit 4: SRF's segmental EBIT contribution mix



Source: Company, Emkay Research

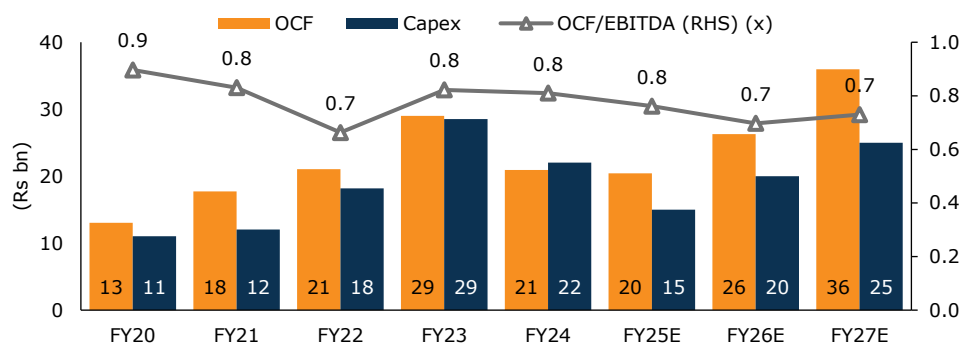
Exhibit 5: PAT to end flat in FY25E (YoY); margins to improve from FY26 on

Source: Company, Emkay Research

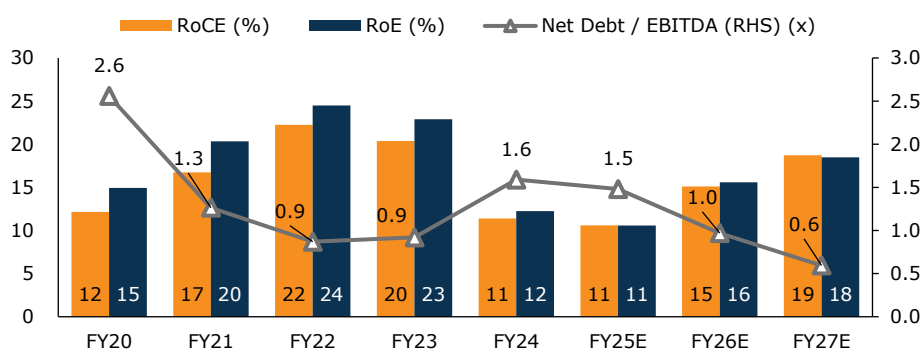
Exhibit 6: Efficient working capital management

(no of)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Inventory days	61	64	63	56	65	65	65	65
Receivable days	45	55	53	44	54	54	54	54
Payable days	56	69	62	55	61	61	61	61
Core Working Capital days	50	50	54	45	58	58	58	58

Source: Company, Emkay Research

Exhibit 7: OCF sufficient to fund the capex

Source: Company, Emkay Research

Exhibit 8: Return ratios to improve on recovery in ref gas and packaging films

Source: Company, Emkay Research

SoTP-based TP of Rs3,250

We believe the worst is behind for all businesses of SRF and, going forward, we should see a) gradual pick up in specialty chemicals, driven by stabilization of existing products and incremental contribution from newer products, b) firming up of refrigerant gas prices globally, led by increase in pricing in China and phase down-led cuts in some geographies, and c) sequential improvement in the packaging films business, led by narrowing of the demand-supply gap across BOPP and BOPET over the next 2-3 years. SRF is best placed—with capex ready in the specialty chemicals business and a complete basket of refrigerant gases—to garner benefits of the agchem cycle turning around and refrigerant prices improving globally. We expect ~62% EBITDA contribution from the chemicals business by FY27E. We believe SRF's specialty chemicals business portfolio is far more complex than that of peers and, because of several internally-generated processes with backward integration in place, generates higher EBIT margin. This warrants a higher multiple compared with most specialty chemicals peers. Our SoTP-based TP implies blended PER of 33x on Mar-27E EPS.

Exhibit 9: EBITDA contribution from the chemicals business to continue rising

Segment	EBITDA contribution		EBITDA CAGR	Target EV/EBITDA (x)
	FY24	FY27E	FY24-27E	
Spec Chem	38%	31%	14%	30
Fluoro Chem	33%	31%	20%	18
Packaging Films	14%	28%	54%	12
TTB/ Others	15%	10%	5%	8

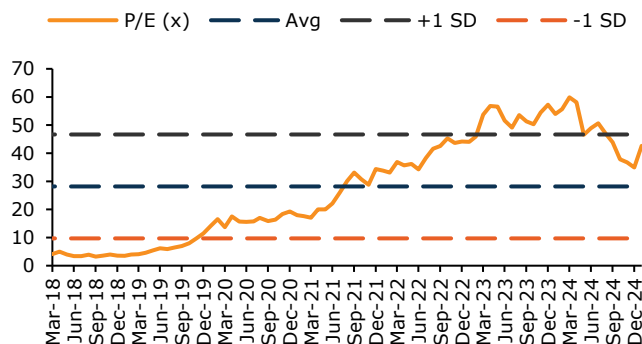
Source: Company, Emkay Research

Exhibit 10: SoTP-based TP of Rs3,250 on Mar-27E

(Rs mn)	FY26E	FY27E
Consol EBITDA	37,687	49,281
Target multiple (x)	20.9	20.4
Target EV	7,86,550	1,003,950
Less: Net Debt	36,521	29,257
Target M-Cap	7,50,029	9,74,692
No of shares (mn)	297	297
Target Price (Rs)	2,521	3,276
Target Price		3,250
EPS (Rs)	71.1	98.8
Implied PER (x)		32.9

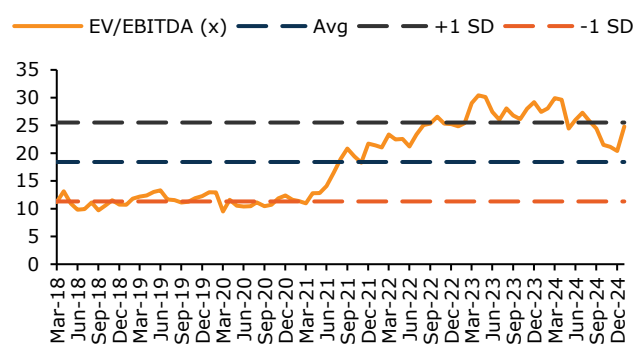
Source: Emkay Research

Exhibit 11: One-year forward P/E



Source: Company, Bloomberg, Emkay Research

Exhibit 12: One-year forward EV/EBITDA



Source: Company, Bloomberg, Emkay Research

SRF: Consolidated Financials and Valuations

Profit & Loss					
Y/E (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	148,703	131,385	144,958	174,917	200,413
Revenue growth (%)	19.6	(11.6)	10.3	20.7	14.6
EBITDA	35,292	25,841	26,824	37,687	49,281
EBITDA growth (%)	11.1	(26.8)	3.8	40.5	30.8
Depreciation & Amortization	5,663	6,726	7,580	8,247	9,360
EBIT	29,539	19,115	19,244	29,439	39,921
EBIT growth (%)	11.1	(35.3)	0.7	53.0	35.6
Other operating income	-	-	-	-	-
Other income	749	830	1,370	1,411	1,453
Financial expense	2,048	3,023	3,874	3,014	2,694
PBT	28,240	16,922	16,739	27,836	38,681
Extraordinary items	0	0	0	0	0
Taxes	6,617	3,565	4,017	6,681	9,283
Minority interest	-	-	-	-	-
Income from JV/Associates	-	-	-	-	-
Reported PAT	21,623	13,357	12,722	21,156	29,398
PAT growth (%)	14.5	(38.2)	(4.8)	66.3	39.0
Adjusted PAT	21,623	13,357	12,722	21,156	29,398
Diluted EPS (Rs)	72.7	44.9	42.8	71.1	98.8
Diluted EPS growth (%)	14.5	(38.3)	(4.8)	66.3	39.0
DPS (Rs)	7.2	7.2	5.2	5.0	8.3
Dividend payout (%)	9.9	16.0	12.2	7.0	8.4
EBITDA margin (%)	23.7	19.7	18.5	21.5	24.6
EBIT margin (%)	19.9	14.5	13.3	16.8	19.9
Effective tax rate (%)	23.4	21.1	24.0	24.0	24.0
NOPLAT (pre-IndAS)	22,618	15,088	14,625	22,374	30,340
Shares outstanding (mn)	297	297	297	297	297

Source: Company, Emkay Research

Cash flows					
Y/E (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT (ex-other income)	27,491	16,092	15,369	26,425	37,228
Others (non-cash items)	-	-	-	-	-
Taxes paid	(5,077)	(3,826)	(3,921)	(6,661)	(9,266)
Change in NWC	1,491	(1,112)	(2,383)	(4,733)	(4,028)
Operating cash flow	29,017	20,939	20,424	26,273	35,969
Capital expenditure	(29,020)	(22,747)	(15,000)	(20,000)	(25,000)
Acquisition of business	0	(1,170)	0	0	0
Interest & dividend income	-	-	-	-	-
Investing cash flow	(29,614)	(22,273)	(13,630)	(18,589)	(23,547)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	8,148	5,662	(1,550)	(2,562)	(7,300)
Payment of lease liabilities	(242)	(26)	0	0	0
Interest paid	(2,048)	(3,023)	(3,874)	(3,014)	(2,694)
Dividend paid (incl tax)	(2,133)	(2,137)	(1,556)	(1,482)	(2,465)
Others	(1,552)	(1,193)	0	0	0
Financing cash flow	2,172	(717)	(6,981)	(7,058)	(12,458)
Net chg in Cash	1,575	(2,052)	(187)	625	(36)
OCF	29,017	20,939	20,424	26,273	35,969
Adj. OCF (w/o NWC chg.)	27,526	22,051	22,806	31,006	39,997
FCFF	(3)	(1,809)	5,424	6,273	10,969
FCFE	(2,051)	(4,831)	1,549	3,259	8,276
OCF/EBITDA (%)	82.2	81.0	76.1	69.7	73.0
FCFE/PAT (%)	(9.5)	(36.2)	12.2	15.4	28.2
FCFF/NOPLAT (%)	-	(12.0)	37.1	28.0	36.2

Source: Company, Emkay Research

Balance Sheet					
Y/E (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	2,974	2,974	2,974	2,974	2,974
Reserves & Surplus	100,296	111,816	122,981	142,654	169,587
Net worth	103,271	114,790	125,956	145,629	172,561
Minority interests	-	-	-	-	-
Non-current liab. & prov.	7,906	9,112	9,112	9,112	9,112
Total debt	43,541	49,202	47,652	45,090	37,790
Total liabilities & equity	158,877	176,702	186,317	203,429	223,061
Net tangible fixed assets	95,669	127,575	134,995	141,747	167,388
Net intangible assets	1,148	1,195	1,195	1,195	1,195
Net ROU assets	2,872	2,766	2,766	2,766	2,766
Capital WIP	24,055	8,053	8,053	13,053	3,053
Goodwill	0	0	0	0	0
Investments [JV/Associates]	42	1,211	1,211	1,211	1,211
Cash & equivalents	11,065	8,131	7,944	8,569	8,533
Current assets (ex-cash)	46,683	48,362	51,219	61,805	70,813
Current Liab. & Prov.	28,482	27,842	28,316	34,168	39,149
NWC (ex-cash)	18,202	20,520	22,903	27,636	31,665
Total assets	158,877	176,702	186,317	203,429	223,061
Net debt	32,476	41,071	39,708	36,521	29,257
Capital employed	158,877	176,702	186,317	203,429	223,061
Invested capital	115,829	150,170	159,972	171,458	201,127
BVPS (Rs)	347.4	385.9	423.5	489.6	580.2
Net Debt/Equity (x)	0.3	0.4	0.3	0.3	0.2
Net Debt/EBITDA (x)	0.9	1.6	1.5	1.0	0.6
Interest coverage (x)	14.8	6.6	5.3	10.2	15.4
RoCE (%)	22.6	12.8	12.2	16.9	20.6

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	38.1	61.6	64.7	38.9	28.0
P/CE(x)	30.1	41.0	40.6	28.0	21.2
P/B (x)	8.0	7.2	6.5	5.7	4.8
EV/Sales (x)	5.8	6.6	6.0	4.9	4.3
EV/EBITDA (x)	24.2	33.5	32.2	22.9	17.5
EV/EBIT(x)	29.0	45.2	44.9	29.4	21.7
EV/IC (x)	7.4	5.8	5.4	5.0	4.3
FCFF yield (%)	-	(0.2)	0.6	0.7	1.3
FCFE yield (%)	(0.2)	(0.6)	0.2	0.4	1.0
Dividend yield (%)	0.3	0.3	0.2	0.2	0.3
DuPont-RoE split					
Net profit margin (%)	14.5	10.2	8.8	12.1	14.7
Total asset turnover (x)	1.0	0.8	0.8	0.9	1.0
Assets/Equity (x)	1.5	1.5	1.5	1.4	1.3
RoE (%)	22.9	12.3	10.6	15.6	18.5
DuPont-RoIC					
NOPLAT margin (%)	15.2	11.5	10.1	12.8	15.1
IC turnover (x)	1.4	1.0	0.9	1.1	1.1
RoIC (%)	20.9	11.3	9.4	13.5	16.3
Operating metrics					
Core NWC days	44.7	57.0	57.7	57.7	57.7
Total NWC days	44.7	57.0	57.7	57.7	57.7
Fixed asset turnover	1.3	0.9	0.8	0.9	0.9
Opex-to-revenue (%)	26.5	29.3	29.8	29.2	28.2

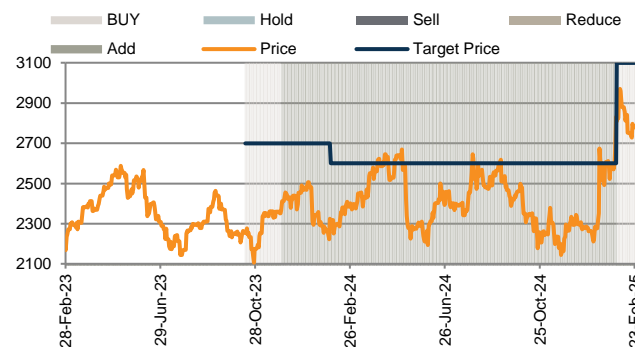
Source: Company, Emkay Research

RECOMMENDATION HISTORY – DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
31-Jan-25	2,810	3,100	Buy	Meet Vora
27-Aug-24	2,556	2,600	Add	Meet Vora
23-Aug-24	2,491	2,600	Add	Meet Vora
24-Jul-24	2,368	2,600	Add	Meet Vora
14-Jul-24	2,390	2,600	Add	Meet Vora
07-Jun-24	2,312	2,600	Add	Meet Vora
10-May-24	2,278	2,600	Add	Meet Vora
07-Apr-24	2,587	2,600	Add	Meet Vora
26-Feb-24	2,401	2,600	Add	Meet Vora
01-Feb-24	2,308	2,600	Add	Meet Vora
30-Nov-23	2,367	2,700	Add	Meet Vora
22-Nov-23	2,333	2,700	Buy	Meet Vora
30-Oct-23	2,181	2,700	Buy	Meet Vora
15-Oct-23	2,255	2,700	Buy	Meet Vora

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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