

SRF

Blockbuster quarter!

The robust performance of chemical segment (30/25% YoY/QoQ), led by speciality chemicals business, the continuance of strong show of packaging films segment (26/23% YoY/QoQ) owing to healthy demand, and sharp recovery in technical textile segment sequentially (3/136% YoY/QoQ%) along with improved gross margin helped SRF deliver 52/80% beat on estimates. The current momentum in the speciality chemicals business will continue in 2HFY21 as well. Thus, the management has raised the YoY growth guidance for speciality chemical from earlier guidance of 20-22% to >25% for FY21.

Over the next 3-4 years, the company will deploy ~50-60% of its Capex toward high growth business of speciality chemicals to tap the opportunities emerging from the agrochemical and pharma industry. We expect, over the next decade, the speciality business to drive the growth for SRF. Besides, it will spend ~20-30% of Capex on packaging films business. We raise the target price to INR 5,600/share (earlier INR 5,120/share) owing to higher guidance and long-term growth prospect of speciality chemicals business and capacity addition in the packaging films business. Maintain BUY.

- **Financial performance:** Revenue/EBITDA/APAT grew 21/74/57% YoY and 36/56/79% QoQ to INR 21/6/3bn owing to an outstanding performance in the Speciality Chemicals and Packaging Films businesses.
- **Chemicals business (CB):** Revenue/EBIT from jumped 30/33% YoY to INR 9/2bn. Speciality Chemicals business reported a robust performance on the back of robust demand, which led to better operating leverages and the expansion of overall margins. Fluorochemicals sales remained muted owing to weak demand for refrigerants from the automobile and airconditioning segments and low prices of refrigerants globally.
- **Packaging films business (PFB):** Revenue/EBIT from jumped 26/90% YoY to INR 8/2bn.
- **Technical textile business (TTB):** Revenue/EBIT from jumped 3/140% YoY to INR 3/1bn.
- **Capex:** The Board approved the setting up of a second BOPP film line in India in Indore at a cost of INR 4bn. It also approved the setting up of a dedicated facility to produce 200 MT per year of P16 speciality product at Dahej for INR 175mn.
- **Change in estimates:** We raised our FY21/22 EPS estimates by 64.8/36.3% to INR 170.5/172.7 on account of (1) faster than anticipated recovery in the business, (2) higher guidance and long-term growth prospect of Speciality Chemicals, and (3) robust performance of PFB and Capex announced for the segment.
- **DCF based valuation: Our target price is INR 5,600 (WACC 10%, terminal growth 3%). The stock is trading at 28.2x FY22E EPS.**

Financial Summary (Consolidated)

INR mn	2QFY21	1QFY21	QoQ(%)	2QFY20	YoY (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	21,008	15,452	36.0	17,378	20.9	69,499	70,621	75,411	81,650	88,572
EBITDA	5,821	3,723	56.3	3,352	73.6	12,970	14,549	18,848	19,545	21,145
APAT	3,157	1,769	78.5	2,009	57.1	6,297	10,015	9,800	9,926	10,791
AEPS (INR)	54.9	30.8	78.5	35.0	57.1	109.5	174.2	170.5	172.7	187.7
P/E (x)						44.4	27.9	28.6	28.2	25.9
EV/EBITDA(x)						23.9	21.3	16.3	15.6	14.2
RoE (%)						16.4	22.1	18.3	15.9	15.1

Source: Company, HSIE Research

BUY

CMP (as on 5 Nov 2020)	INR 4,869	
Target Price	INR 5,600	
NIFTY	12,120	
KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 5,120	INR 5,600
EPS %	FY21E	FY22E
	+64.8%	+36.3%

KEY STOCK DATA

Bloomberg code	SRF IN
No. of Shares (mn)	59
MCap (Rs bn) / (\$ mn)	288/3,891
6m avg traded value (Rs mn)	1,119
52 Week high / low	Rs 4,887/2,468

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	27.4	33.3	64.6
Relative (%)	17.7	1.9	61.9

SHAREHOLDING PATTERN (%)

	Jun-20	Sept-20
Promoters	52.32	52.32
FIs & Local MFs	11.32	11.34
FPIs	17.09	17.11
Public & Others	19.27	19.23
Pledged Shares	0.00	0.00

Source : BSE

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Change in estimates (Consolidated)

YE Mar	FY21E Old	FY21E New	% Ch	FY22E Old	FY22E New	% Ch
EBITDA (INR mn)	13,843	18,848	36.2	16,097	19,545	21.4
Adj. EPS (INR/sh)	103.4	170.5	64.8	126.6	172.7	36.3

Source: Company, HSIE Research

Earnings call takeaways:

- **Packaging films business:** PFB performed exceedingly well with expanded margins and better capacity utilisation post the commissioning of BOPET film capacities in Thailand and Hungary.
- **Technical textile business:** This segment delivered a healthy performance due to faster-than-expected recovery in the domestic tyre industry.
- **Capex guidance:** The Board has given a guidance of INR 15-18bn Capex p.a. for the next 2-3 years, out of which 50-60% will be spent on Speciality Chemicals business, and 20-30% on PFB.

Quarterly Consolidated Financial Snapshot

(INR mn)	2QFY21	1QFY21	QoQ (%)	2QFY20	YoY (%)
Net Sales	21,008	15,452	36.0	17,378	20.9
Material Expenses	9,344	7,294	28.1	8,589	8.8
Traded Goods	207	121	70.7	245	(15.7)
Employee Expenses	1,507	1,375	9.6	1,292	16.7
Other Expenses	4,130	2,938	40.6	3,900	5.9
EBITDA	5,821	3,723	56.3	3,352	73.6
Depreciation	1,140	1,040	9.6	929	22.7
EBIT	4,681	2,683	74.4	2,423	93.2
Other Income (Including EO Items)	2	10	(84)	178	(99.1)
Interest	362	432	(16.2)	550	(34.3)
PBT	4,321	2,262	91.0	2,051	110.7
Tax	1,164	493	136.1	41	2,725.0
RPAT	3,157	1,769	78.5	2,009	57.1
EO Items (Adj For Tax)	-	-	NA	-	NA
APAT	3,157	1,769	78.5	2,009	57.1
AEPS (Rs/sh)	54.9	30.8	78.5	35.0	57.1

Source: Company, HSIE Research

Quarterly Consolidated Segmental Snapshot

INR mn	2QFY21	1QFY21	QoQ (%)	2QFY20	YoY (%)
Segmental Revenues					
Technical Textile Business	3,321	1,404	136.5	3,230	2.8
Chemicals Business	8,812	7,052	24.9	6,780	30.0
Packaging Film Business	8,329	6,774	23.0	6,627	25.7
Others (net of inter-segmental)	547	221	146.9	741	(26.2)
Total	21,008	15,452	36.0	17,378	20.9

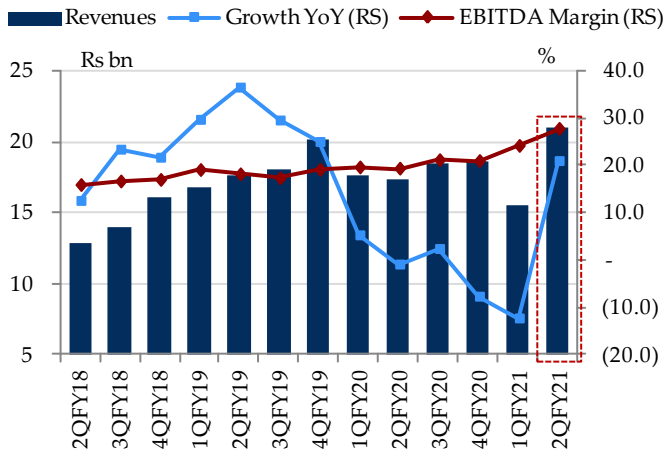
Segmental Results (EBIT)	2QFY21	1QFY21	QoQ (%)	2QFY20	YoY (%)
Technical Textile Business	502	-140	NA	209	140.2
Chemicals Business	1,744	886	97.0	1,308	33.3
Packaging Film Business	2,462	2,207	11.5	1,299	89.5
Others	88	-3	NA	81	9.1
Total	4,796	2,950	62.6	2,898	65.5
Less : Interest	362	432	(16.2)	550	(34.3)
Other Un-allocable Expenditure	114	257	(55.6)	297	(61.6)
Profit Before Tax	4,321	2,262	91.0	2,051	110.7

EBIT Margin (%)	2QFY21	1QFY21	QoQ (bps)	2QFY20	YoY (bps)
Technical Textile Business	15.1	(10.0)	NA	6.5	865
Chemicals Business	19.8	12.6	724	19.3	50
Packaging Film Business	29.6	32.6	(303)	19.6	995
Others	16.2	(1.3)	NA	10.9	524
Total	22.8	19.1	374	16.7	616

Source: Company, HSIE Research

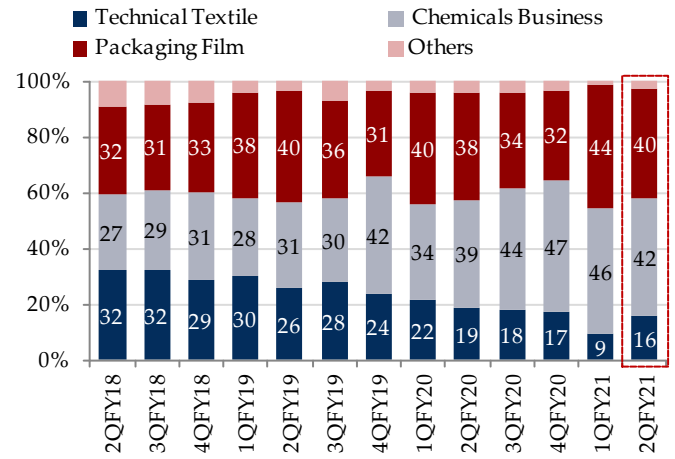
Story in charts

Revenue and EBITDA margin



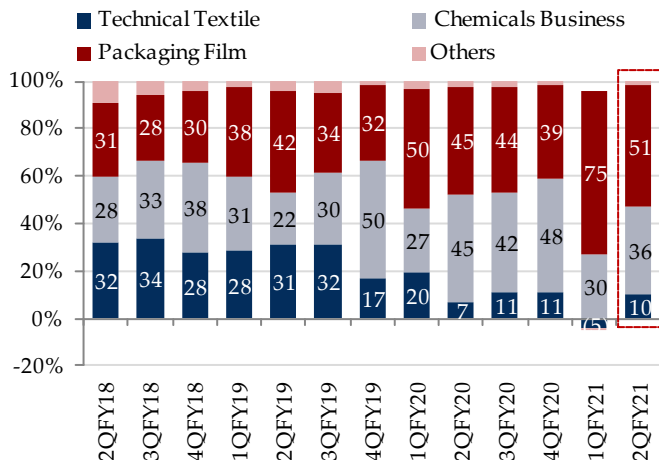
Source: Company, HSIE Research

Revenue mix (%)



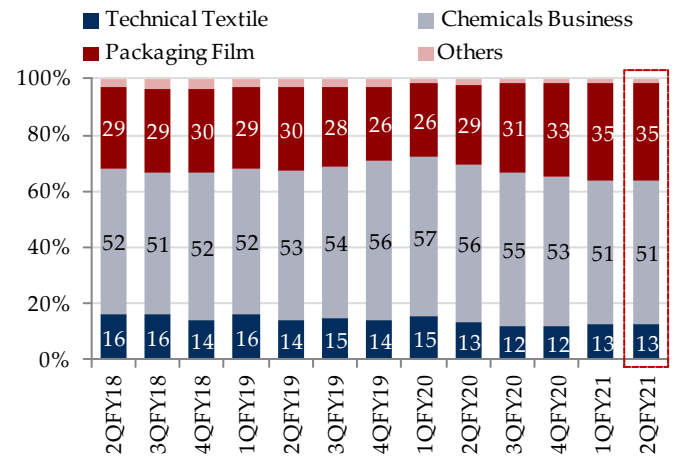
Source: Company, HSIE Research

EBIT mix (%)



Source: Company, HSIE Research

Capital employed split (%)



Source: Company, HSIE Research

Financials

Consolidated Income Statement

INR mn	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	55,108	69,499	70,621	75,411	81,650	88,572
<i>Growth (%)</i>	<i>16.3</i>	<i>26.1</i>	<i>1.6</i>	<i>6.8</i>	<i>8.3</i>	<i>8.5</i>
Material Expenses	30,320	39,671	36,870	37,735	41,841	45,618
Employee Expenses	4,740	4,608	5,419	5,853	6,204	6,576
Other Operating Expenses	11,768	13,747	15,256	14,493	15,652	16,905
Operating Profits	8,280	11,473	13,077	17,331	17,952	19,473
<i>Operating Profit Margin (%)</i>	<i>15.0</i>	<i>16.5</i>	<i>18.5</i>	<i>23.0</i>	<i>22.0</i>	<i>22.0</i>
Other Operating Income	782	1,497	1,473	1,517	1,593	1,673
EBIDTA	9,062	12,970	14,549	18,848	19,545	21,145
<i>EBIDTA Margin (%)</i>	<i>16.2</i>	<i>18.3</i>	<i>20.2</i>	<i>24.5</i>	<i>23.5</i>	<i>23.4</i>
<i>EBITDA Growth (%)</i>	<i>(6.5)</i>	<i>43.1</i>	<i>12.2</i>	<i>29.5</i>	<i>3.7</i>	<i>8.2</i>
Depreciation	3,158	3,582	3,886	4,631	5,185	5,744
Other Income (Including EO Items)	1,151	280	491	510	531	552
EBIT	7,056	9,668	11,154	14,727	14,891	15,953
Interest	1,239	1,984	2,007	2,000	2,000	1,939
PBT	5,817	7,684	9,147	12,727	12,891	14,014
Tax	1,200	1,769	(12)	2,927	2,965	3,223
Net Profit from Discontinued Operations	-	501	1,032	-	-	-
RPAT	4,617	6,416	10,191	9,800	9,926	10,791
EO (Loss) / Profit (Net Of Tax)	631	119	176	-	-	-
APAT	3,986	6,297	10,015	9,800	9,926	10,791
<i>APAT Growth (%)</i>	<i>(17.8)</i>	<i>58.0</i>	<i>59.0</i>	<i>(2.2)</i>	<i>1.3</i>	<i>8.7</i>
Adjusted EPS (Rs)	69.3	109.5	174.2	170.5	172.7	187.7
<i>EPS Growth (%)</i>	<i>(17.8)</i>	<i>58.0</i>	<i>59.0</i>	<i>(2.2)</i>	<i>1.3</i>	<i>8.7</i>

Consolidated Balance Sheet

INR mn	FY18	FY19	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS						
Share Capital	584	585	585	585	585	585
Reserves	35,061	40,708	48,748	57,367	66,096	75,586
Total Shareholders Funds	35,645	41,293	49,333	57,952	66,681	76,171
Long-term Debt	19,073	21,613	23,116	23,116	23,116	21,116
Short-term Debt	8,508	11,274	9,554	9,554	9,554	9,554
Total Debt	27,580	32,887	32,671	32,671	32,671	30,671
Net Deferred Taxes	2,914	3,420	1,612	1,612	1,612	1,612
Long Term Provisions & Others	676	566	1,484	1,484	1,484	1,484
TOTAL SOURCES OF FUNDS	66,816	78,166	85,100	93,718	1,02,448	1,09,937
APPLICATION OF FUNDS						
Net Block	51,175	56,053	63,670	66,253	70,745	74,651
CWIP	5,588	7,536	13,933	14,466	14,493	14,387
Good will	41	41	6	6	6	6
Investments	1	1	42	42	42	42
LT Loans & Advances	2,324	3,335	1,562	1,562	1,562	1,562
Inventories	9,582	12,247	12,012	12,818	13,870	15,036
Debtors	6,807	10,288	8,911	9,508	10,289	11,154
Cash & Equivalents	2,184	2,994	3,240	5,615	7,980	10,717
Other Current Assets	5,929	6,384	5,250	5,250	5,250	5,250
Total Current Assets	24,501	31,913	29,412	33,191	37,388	42,157
Creditors	10,442	13,824	11,117	11,862	12,836	13,916
Other Current Liabilities	6,372	6,889	12,408	9,940	8,952	8,952
Total Current Liabilities	16,814	20,713	23,525	21,802	21,788	22,868
Net Current Assets	7,687	11,200	5,887	11,389	15,599	19,289
TOTAL APPLICATION OF FUNDS	66,816	78,166	85,100	93,718	1,02,448	1,09,937

Source: Company, HSIE Research

Consolidated Cash Flow

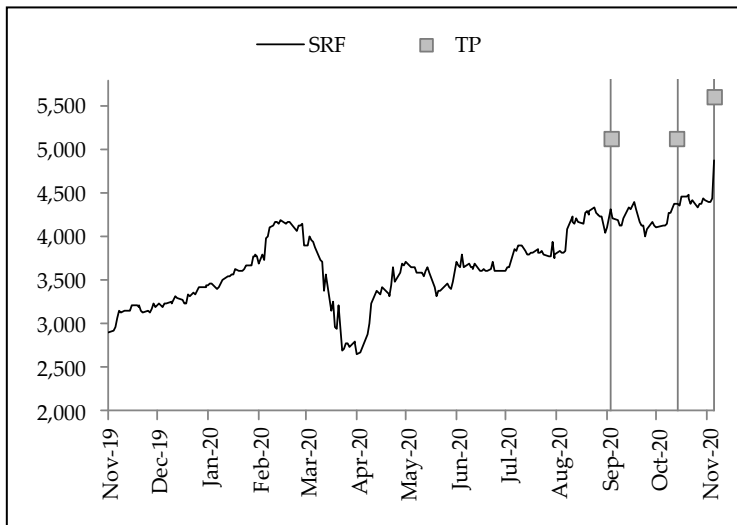
INR mn	FY18	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	5,817	8,185	10,179	12,727	12,891	14,014
Non-operating & EO Items	(1,151)	(280)	(491)	(510)	(531)	(552)
Interest Expenses	1,239	1,984	2,007	2,000	2,000	1,939
Depreciation	3,158	3,582	3,886	4,631	5,185	5,744
Working Capital Change	(2,023)	(2,704)	5,559	(3,126)	(1,846)	(952)
Tax Paid	(1,126)	(1,263)	(1,795)	(2,927)	(2,965)	(3,223)
OPERATING CASH FLOW (a)	5,913	9,504	19,345	12,794	14,734	16,970
Capex	(13,327)	(10,408)	(17,865)	(7,747)	(9,704)	(9,544)
Free Cash Flow (FCF)	(7,414)	(903)	1,480	5,047	5,031	7,426
Investments	250	0	(41)	-	-	-
Non-operating Income	1,151	280	491	510	531	552
Others	(321)	(1,012)	1,773	-	-	-
INVESTING CASH FLOW (b)	(12,247)	(11,139)	(15,642)	(7,237)	(9,173)	(8,992)
Debt Issuance/(Repaid)	7,806	5,307	(217)	-	-	(2,000)
Interest Expenses	(1,239)	(1,984)	(2,007)	(2,000)	(2,000)	(1,939)
FCFE	(847)	2,420	(744)	3,047	3,030	3,487
Share Capital Issuance	-	1	-	-	-	-
Dividend	(829)	(836)	(969)	-	-	-
FINANCING CASH FLOW (c)	5,738	2,488	(3,192)	(2,000)	(2,000)	(3,939)
NET CASH FLOW (a+b+c)	(595)	853	510	3,557	3,561	4,038
EO Items, Others	111	(43)	(264)	(1,181)	(1,197)	(1,301)
Closing Cash & Equivalents	2,184	2,994	3,240	5,615	7,980	10,717

Key Ratios

	FY18	FY19	FY20	FY21E	FY22E	FY23E
PROFITABILITY %						
Gross Margin	45.8	44.1	48.9	50.9	49.7	49.5
EBITDA Margin	16.2	18.3	20.2	24.5	23.5	23.4
EBIT Margin	12.6	13.6	15.5	19.1	17.9	17.7
APAT Margin	7.1	8.9	13.9	12.7	11.9	12.0
RoE	11.8	16.4	22.1	18.3	15.9	15.1
Core RoCE	7.6	12.5	17.6	15.8	14.7	14.6
RoCE	8.2	10.8	14.7	12.7	11.7	11.6
EFFICIENCY						
Tax Rate %	20.6	23.0	(0.1)	23.0	23.0	23.0
Asset Turnover (x)	0.9	1.0	0.9	0.9	0.8	0.8
Inventory (days)	63	63	61	61	61	61
Debtor (days)	44	53	45	45	45	45
Other Current Assets (days)	39	33	27	25	23	21
Payables (days)	68	71	56	56	56	56
Other Current Liab & Provns (days)	42	35	63	47	39	36
Cash Conversion Cycle (days)	36	42	13	27	33	35
Net Debt/EBITDA (x)	2.8	2.3	2.0	1.4	1.3	0.9
Net D/E	0.7	0.7	0.6	0.5	0.4	0.3
Interest Coverage	5.7	4.9	5.6	7.4	7.4	8.2
PER SHARE DATA (Rs)						
EPS	69.3	109.5	174.2	170.5	172.7	187.7
CEPS	124.3	171.8	241.8	251.0	262.9	287.6
DPS	12.0	12.0	14.0	17.0	17.3	18.8
BV	620.1	718.3	858.2	1,008.1	1,160.0	1,325.1
VALUATION						
P/E (x)	70.2	44.4	27.9	28.6	28.2	25.9
P/Cash EPS (x)	39.2	28.3	20.1	19.4	18.5	16.9
P/BV (x)	7.9	6.8	5.7	4.8	4.2	3.7
EV/EBITDA (x)	33.7	23.9	21.3	16.3	15.6	14.2
EV/Revenue (x)	5.5	4.4	4.3	4.0	3.7	3.3
OCF/EV (%)	1.9	3.1	6.3	4.2	4.8	5.7
FCFF/EV (%)	(2.4)	(0.3)	0.5	1.6	1.7	2.5
FCFE/M CAP (%)	(0.3)	0.9	(0.3)	1.1	1.1	1.2
Dividend Yield (%)	0.2	0.2	0.3	0.4	0.4	0.4

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
3-Sep-20	4,109	BUY	5,120
13-Oct-20	4,377	BUY	5,120
6-Nov-20	4,869	BUY	5,600

From 2nd March 2020, we have moved to new rating system

Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

Disclosure:

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