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Q4FY21 result review
and TP change

Specialty Chemicals

Target price: Rs6,756

Earnings revision

(%)	FY22E	FY23E
Revenues	↑ 1.3	↑ 1.3
EBITDA	↑ 7.3	↑ 6.3
PAT	↑ 11.5	↑ 9.9

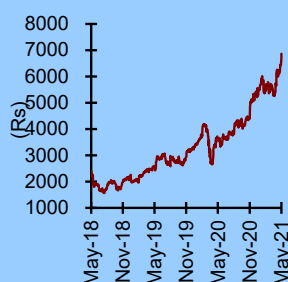
Target price revision

Rs6,756 from Rs5,644

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	52.3	50.8	50.8
Institutional investors	28.5	30.6	29.6
MFs and other	11.1	11.0	10.9
Insurance/FIs	0.3	0.2	0.3
FII	17.1	19.4	18.4
Others	19.2	18.6	18.6

Price chart



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INDIA

ICICI Securities

SRF Limited

HOLD

Maintained

FY22E growth capped on higher plants utilisation Rs6,862

SRF's chemical business revenues and EBIT came above estimates in Q4FY21, and performance in other businesses were equally strong. Specialty chemical revenue rose 43% YoY in FY21 (guidance: >25%) was strong, but flattish ref-gas revenues disappointed. SRF has guided for 10-15% growth in specialty chemicals in FY22 on large base while its fresh capex may show result only in FY23E. But, FY22E can see expansion in margins on operating leverage, but FY23E may see pressure on the same due to large planned launches. SRF remains aggressive on capex in specialty chemicals and it has been strongly rewarded with growth, which may continue in the medium term too. We raised our EPS estimates by 11.5%/10% in FY22E/FY23E on higher packaging film margins. We raise our target price to Rs6,756 (from Rs5,644) on higher chemical segment multiple at 22x (from 18x). **Maintain HOLD.**

- **Chemical business delivers growth on high base.** SRF's revenues rose 40% YoY to Rs26bn driven by higher realisation in packaging film business and technical textiles on rise in RM prices and strong performance in chemical business. Chemical business revenues were up 31% YoY to Rs11.5bn on higher growth in both specialty and ref-gas. Specialty chemicals benefited from a few high-value batch-manufactured products. Packaging film revenues rose 63% YoY to Rs9.8bn on ramp-up in Thailand and Hungary, and higher realisation on rise in RM cost. Technical textile revenues were up 27% YoY on faster than expected recovery in domestic tyre industry and RM inflation.
- **EBITDA up 78% YoY to Rs6.4bn.** Gross profit rose 39% YoY to Rs13bn and margin dipped 61bps YoY to 50% due to steady spread and higher realisation. EBITDA was up 78% YoY to Rs6.4bn due to operating leverage. EBIT expanded 101% YoY to Rs5.2bn.
- **Strong EBIT across business.** Chemical business EBIT rose 73% YoY to Rs2.8bn. EBIT margin increased by 590bps YoY to 24% on higher contribution from specialty chemicals. Packaging films EBIT was up 67% on rise in volumes and strong spreads, while margin dip was due to stable spread and higher RM prices. Technical textile EBIT came in at Rs728mn, up 96% on low base and likely inventory gains.
- **Call highlights:** 1) Specialty chemical revenues were Rs23bn in FY21, up 43% YoY; SRF has guided for 10-15% growth in FY22 (existing capacity can deliver revenues of Rs27bn-28bn). 2) Company does see long-term growth intact and continues to commit capex of Rs6bn-6.5bn in specialty chemicals in FY22. 3) SRF has R&D product pipeline of 60 and plans to commercialise 2-3 products each quarter with 15-16 products under production. 4) Ref-gas exit capacity utilisation for HFC is peaked, but we see headroom for capacity utilisation from full year perspective; SRF is investing in R-134a efficiency through change in catalyst. 5) Capex for FY22 is seen at Rs16bn-19bn with 60-70% allocation for chemical business (including spend on PTFE, MPP-4, CMS, R-32 and others), Rs1.5bn in technical textiles and balance in packaging films.

Market Cap	Rs407bn/US\$5.5bn		Year to March	FY20	FY21P	FY22E	FY23E
Reuters/Bloomberg	SRFL.BO/SRF IN		Revenue (Rs bn)	72.1	84.0	101.2	118.3
Shares Outstanding (mn)	59.2		Net Income (Rs bn)	10.2	12.0	14.7	17.6
52-week Range (Rs)	6862/3325		Recurring EPS (Rs)	159.3	202.3	248.7	296.6
Free Float (%)	49.2		% Chg YoY	42.7	26.9	23.0	19.3
FII (%)	18.4		P/E (x)	43.1	33.9	27.6	23.1
Daily Volume (US\$'000)	17,430		CEPS (Rs)	244.9	278.6	328.2	384.3
Absolute Return 3m (%)	23.2		EV/E (x)	29.7	20.3	17.7	15.1
Absolute Return 12m (%)	88.6		Dividend Yield (%)	0.2	0.3	0.4	0.5
Sensex Return 3m (%)	(3.4)		RoCE (%)	12.7	13.0	14.0	14.8
Sensex Return 12m (%)	56.2		RoE (%)	22.5	20.5	19.9	19.9

Please refer to important disclosures at the end of this report

Table 1: Q4FY21 result (consolidated)

(Rs mn, year ending March 31)

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ (%)	YoY (%)
Net revenue	18,578	15,452	21,008	21,464	26,077	21.5	40.4
Cost of Goods sold	9,175	7,415	9,550	10,186	13,038	28.0	42.1
Gross profit	9,404	8,036	11,458	11,278	13,039	15.6	38.7
Gross profit margin (%)	50.6	52.0	54.5	52.5	50.0		
Employee cost	1,470	1,375	1,507	1,579	1,753	11.1	19.3
Power & Fuel	1,716	1,233	1,897	1,946	2,097	7.8	22.2
Other expenses	2,605	1,796	2,328	2,092	2,755	31.7	5.8
Total expenses	5,791	4,404	5,733	5,617	6,606	17.6	14.1
EBITDA	3,613	3,633	5,725	5,661	6,433	13.6	78.1
EBITDA margin (%)	19.4	23.5	27.3	26.4	24.7		
Depreciation	1,014	1,040	1,140	1,166	1,185	1.6	16.9
EBIT	2,599	2,592	4,585	4,496	5,249	16.7	101.9
EBIT margin (%)	14.0	16.8	21.8	20.9	20.1		
Other income	63	101	98	217	130	(40.2)	105.1
Finance cost	466	432	362	285	262	(8.2)	(43.9)
PBT	2,196	2,262	4,321	4,428	5,117	15.6	133.0
Tax expenses	255	493	1,164	1,185	1,302	9.9	411.0
ETR (%)	11.6	21.8	26.9	26.8	25.4		
PAT	1,858	1,769	3,157	3,243	3,809	17.5	105.1
Net profit margin (%)	10.0	11.4	15.0	15.1	14.6		
EPS (Rs)	33.8	30.8	54.9	56.4	66.4	17.6	96.5

Source: Company data, I-Sec research

Table 2: Q4FY21 segmental result (consolidated)

(Rs mn, year ending March 31)

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ (%)	YoY (%)
Revenue							
Technical Textile	3,168	1,404	3,321	3,670	4,006	9.2	26.5
Chemical & Polymers	8,819	7,052	8,812	9,059	11,526	27.2	30.7
Packaging Film	6,015	6,774	8,329	8,020	9,795	22.1	62.8
Others	577	237	569	738	777	5.2	34.6
Total revenue	18,578	15,452	21,008	21,464	26,077	21.5	40.4
EBIT							
Technical Textile	372	(140)	502	679	728	7.2	95.6
Chemical & Polymers	1,589	886	1,744	1,899	2,752	44.9	73.2
Packaging Film	1,307	2,207	2,462	2,124	2,186	2.9	67.2
Others	53	(3)	88	83	88	6.2	66.1
Total EBIT	3,321	2,950	4,796	4,785	5,753	20.2	73.2
EBIT margin (%)							
Technical Textile	11.7	(10.0)	15.1	18.5	18.2		
Chemical & Polymers	18.0	12.6	19.8	21.0	23.9		
Packaging Film	21.7	32.6	29.6	26.5	22.3		
Others	9.2	(1.2)	15.5	11.2	11.3		
Total EBIT	17.9	19.1	22.8	22.3	22.1		

Source: Company data, I-Sec research

Table 3: Segmental mix (consolidated)

(Rs mn, year ending March 31)

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Revenue					
Technical Textile	17.1	9.1	15.8	17.1	15.4
Chemical & Polymers	47.5	45.6	41.9	42.2	44.2
Packaging Film	32.4	43.8	39.6	37.4	37.6
Others	3.1	1.5	2.7	3.4	3.0
EBIT					
Technical Textile	11.2	(4.8)	10.5	14.2	12.7
Chemical & Polymers	47.8	30.0	36.4	39.7	47.8
Packaging Film	39.4	74.8	51.3	44.4	38.0
Others	1.6	(0.1)	1.8	1.7	1.5

Source: Company data, I-Sec research

Table 4: Q4FY21 result (standalone)

(Rs mn, year ending March 31)

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ (%)	YoY (%)
Net revenue	16,465	12,977	17,566	18,109	21,232	17.2	29.0
Cost of Goods sold	8,018	6,254	7,908	8,584	10,361	20.7	29.2
Gross profit	8,448	6,722	9,658	9,525	10,871	14.1	28.7
Gross profit margin (%)	51.3	51.8	55.0	52.6	51.2		
Employee cost	1,314	1,232	1,305	1,327	1,477	11.3	12.3
Power & Fuel	1,614	1,084	1,686	1,720	1,831	6.5	13.5
Other expenses	2,274	1,674	1,956	1,829	2,240	22.5	(1.5)
Total expenses	5,203	3,990	4,947	4,876	5,548	13.8	6.6
EBITDA	3,245	2,732	4,710	4,649	5,323	14.5	64.0
EBITDA margin (%)	19.7	21.1	26.8	25.7	25.1		
Depreciation	933	936	967	968	966	(0.3)	3.5
EBIT	2,312	1,796	3,744	3,681	4,358	18.4	88.5
EBIT margin (%)	14.0	13.8	21.3	20.3	20.5		
Other income	71	113	115	244	162	(33.9)	129.2
Finance cost	435	387	308	228	190	(16.6)	(56.3)
PBT	1,947	1,522	3,551	3,697	4,329	17.1	122.3
Tax expenses	201	431	1,068	1,131	1,219	7.8	505.5
ETR (%)	10.3	28.3	30.1	30.6	28.2		
PAT	1,746	1,091	2,483	2,567	3,110	21.2	78.2
Net profit margin (%)	10.6	8.4	14.1	14.2	14.6		

Source: Company data, I-Sec research

Table 5: Q4FY21 segmental result (standalone)

(Rs mn, year ending March 31)

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ (%)	YoY (%)
Revenue							
Technical Textile	3,168	1,404	3,321	3,670	4,006	9.2	26.5
Chemical & Polymers	8,805	7,038	8,799	9,034	11,498	27.3	30.6
Packaging Film	3,915	4,313	4,899	4,689	4,979	6.2	27.2
Others	577	237	569	738	777	5.2	34.6
Total revenue	16,465	12,977	17,566	18,109	21,232	17.2	29.0
EBIT							
Technical Textile	372	(140)	502	679	728		
Chemical & Polymers	1,608	891	1,743	1,909	2,758	44.5	71.5
Packaging Film	1,004	1,414	1,643	1,328	1,294	(2.6)	28.9
Others	53	(3)	88	83	88		
Total EBIT	3,037	2,161	3,976	3,999	4,868	21.7	60.3
EBIT margin (%)							
Technical Textile	11.8	(10.0)	15.1	18.5	18.2		
Chemical & Polymers	18.3	12.7	19.8	21.1	24.0		
Packaging Film	25.6	32.8	33.5	28.3	26.0		
Others	9.2	(1.2)	15.5	11.2	11.3		
Total EBIT	18.4	16.7	22.6	22.1	22.9		

Source: Company data, I-Sec research

Table 6: SRF – performance of international operations

(Rs mn, year ending March 31)

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ (%)	YoY (%)
Net revenue	2,113	2,475	3,443	3,356	4,844	44.4	129.3
Cost of Goods sold	1,157	1,161	1,642	1,602	2,677	67.1	131.3
Gross profit	956	1,314	1,800	1,753	2,168	23.6	126.7
Gross profit margin (%)	45.2	53.1	52.3	52.3	44.8		
Employee cost	156	143	202	252	276	9.9	77.6
Power & Fuel	102	149	212	226	266	17.4	159.9
Other expenses	250	208	335	405	516	27.2	106.0
Total expenses	508	499	749	883	1,058	19.8	108.2
EBITDA	448	815	1,052	870	1,110	27.6	147.8
EBITDA margin (%)	21.2	32.9	30.6	25.9	22.9		
Depreciation	81	104	174	197	219	11.0	171.6
EBIT	367	710	878	673	891	32.4	142.6
EBIT margin (%)	17.4	28.7	25.5	20.0	18.4		
Other income	(7)	(12)	(17)	(28)	(32)	15.9	338.4
Finance cost	31	45	54	57	71	25.5	131.8
PBT	329	654	807	588	787	33.9	139.2
Tax expenses	54	62	96	54	83	53.2	55.5
ETR (%)	16.3	9.4	11.9	9.2	10.6		
PAT	276	592	711	534	704	31.9	155.5
Net profit margin (%)	13.0	23.9	20.7	15.9	14.5		

Source: Company data, I-Sec research

Table 7: Earnings revision

(Rs mn, year ending March 31)

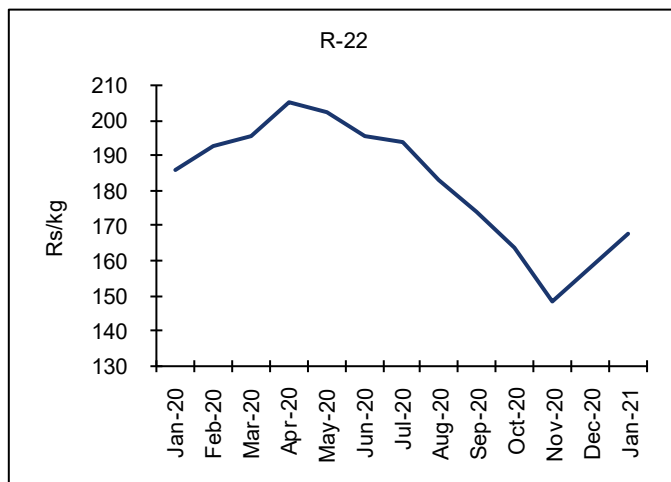
Consolidated Rs mn	Revised		Earlier		% change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Segmental revenue						
Technical Textile	13,066	13,065	13,066	13,065	-	-
Chemical & Polymers	45,347	55,437	48,921	59,702	(7.3)	(7.1)
Packaging Film	40,344	47,289	35,317	41,335	14.2	14.4
Others	2,506	2,631	2,626	2,758		
Segmental EBIT						
Technical Textile	1,814	1,623	1,552	1,492	16.8	8.8
Chemical & Polymers	9,882	12,354	10,779	13,402	(8.3)	(7.8)
Packaging Film	8,980	10,267	6,870	7,845	30.7	30.9
Others	158	177	182	202		
Financial						
Revenue	1,01,183	1,18,329	99,848	1,16,764	1.3	1.3
EBITDA	24,617	28,672	22,952	26,965	7.3	6.3
EBITDA margin (%)	24.3	24.2	23.0	23.1		
PAT	14,735	17,574	13,214	15,991	11.5	9.9
EPS (Rs)	249	297	223	270	11.5	9.9

Table 8: SoTP-based valuations

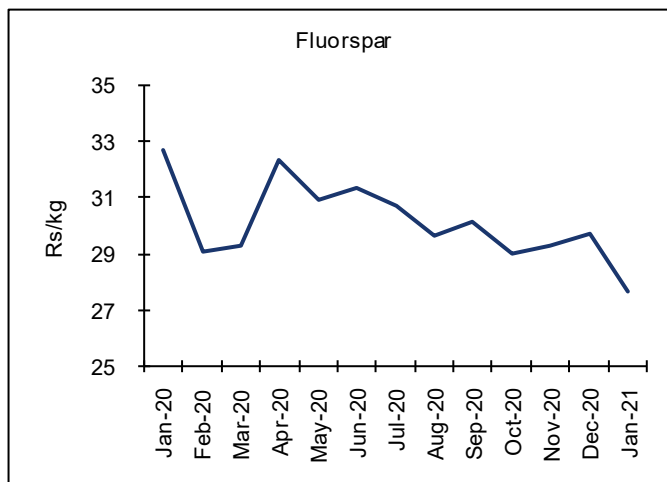
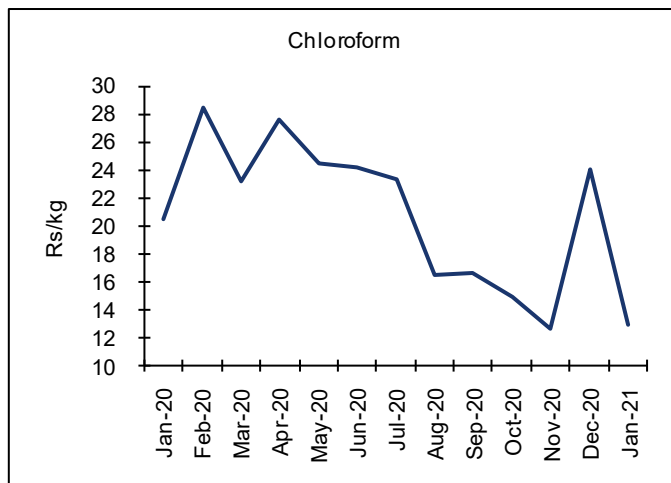
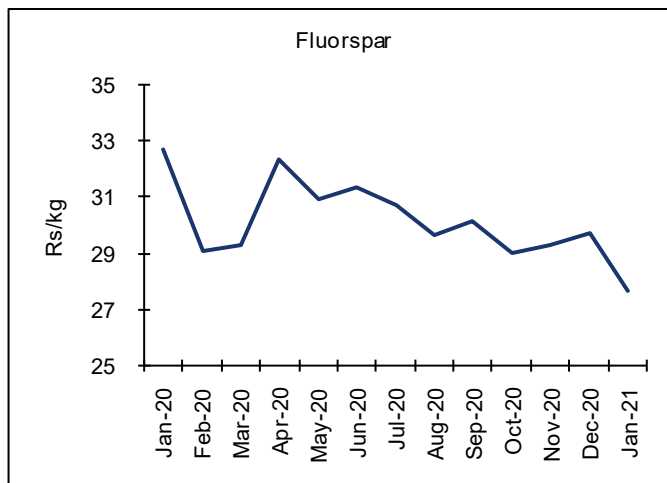
(Rs mn, year ending March 31)

Business units (Rs mn)	Methodology	Multiple (x)	FY23E
Technical Textiles	EV/EBITDA	7.0	13,981
Chemical & Polymers	EV/EBITDA	22.0	3,52,159
Packaging films	EV/EBITDA	9.0	1,04,058
Less: Unallocated	Weighted avg EV/EBITDA	14.7	44,393
Enterprise value			4,25,805
Net debt			25,523
Equity value			4,00,282
No of outstanding shares (mn)			59
Equity value (Rs/sh)			6,756

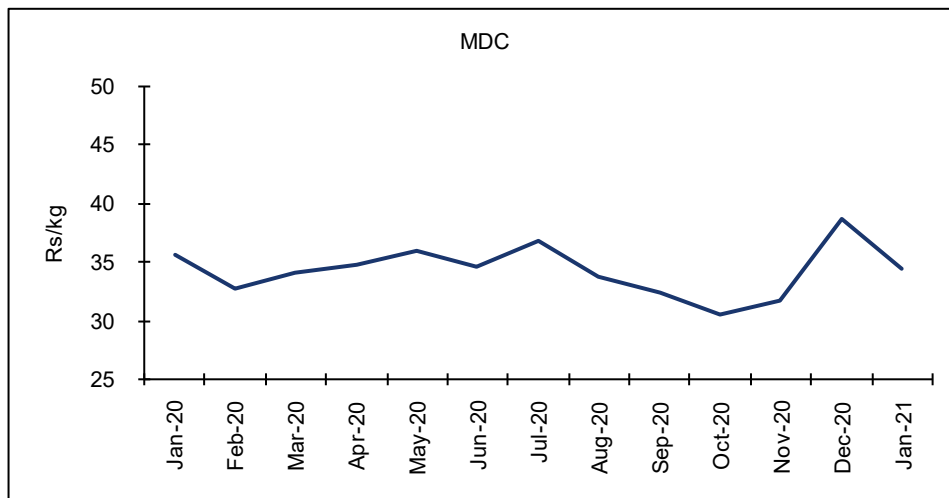
Source: Company data, I-Sec research

Chart 1: R-22 prices rose 7.0% QoQ

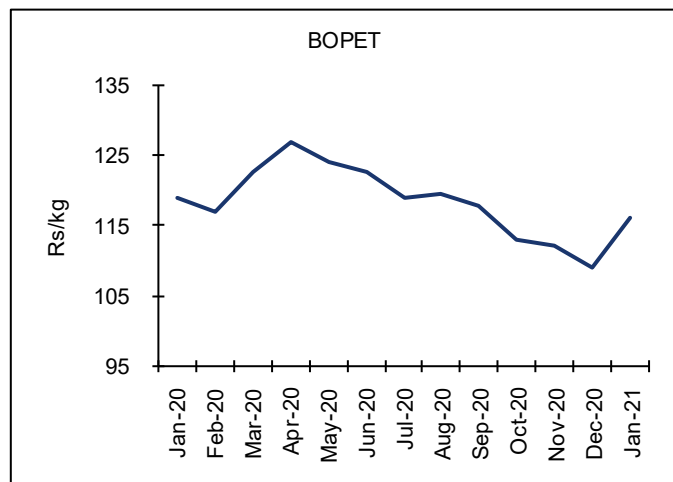
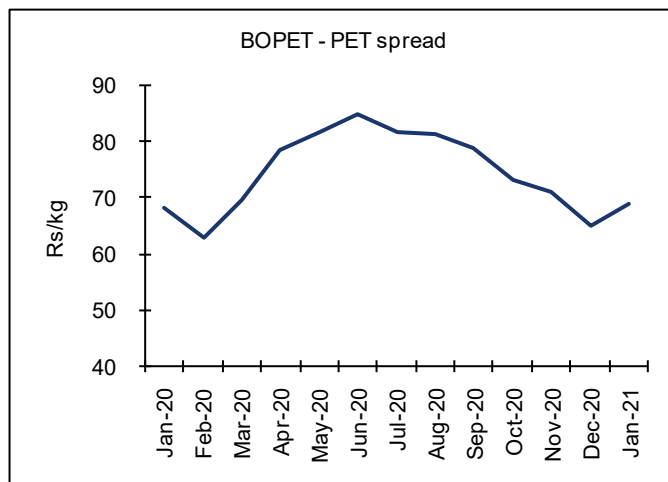
Source: I-Sec research, Commerce Ministry

Chart 2: Fluorspar prices were down 5.7% QoQ**Chart 3: Chloroform prices dipped 9.2% QoQ****Chart 4: R-22 spread rose 15.5% QoQ**

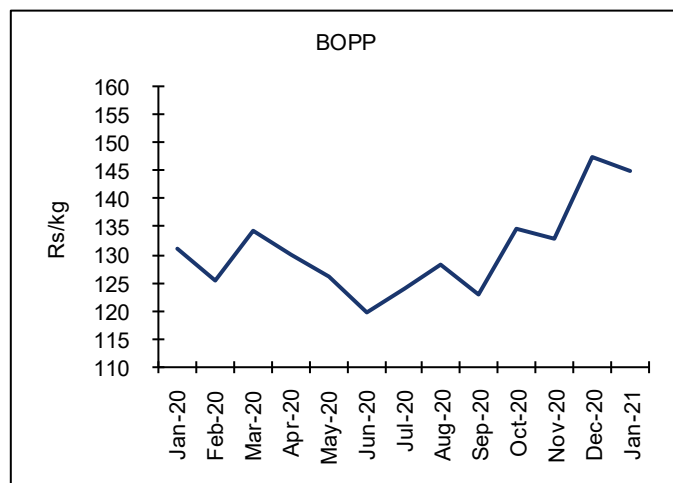
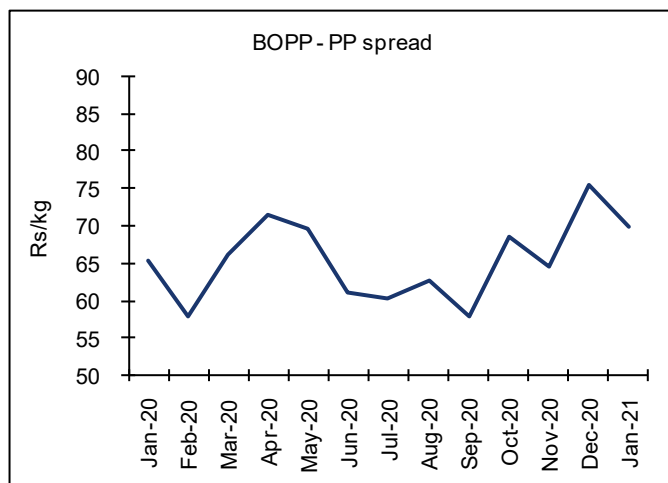
Source: I-Sec research, Commerce Ministry; Note: For calculating spread, we have assumed 1.3kg of fluorspar and 1.5kg chloroform prices for 1kg of R-22

Chart 5: MDC prices rose 4.7% QoQ

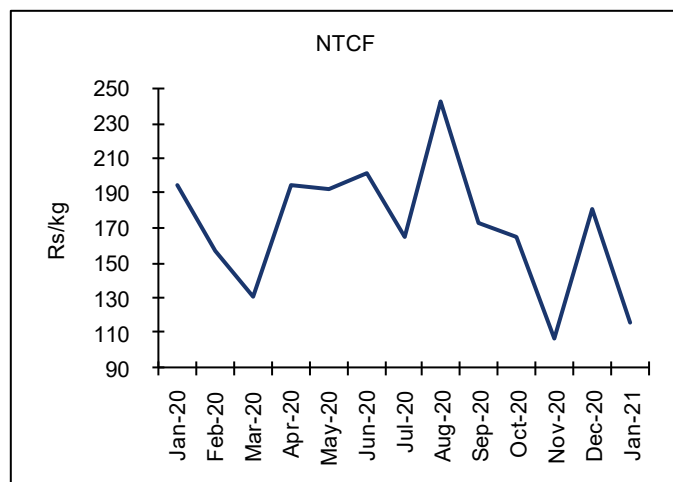
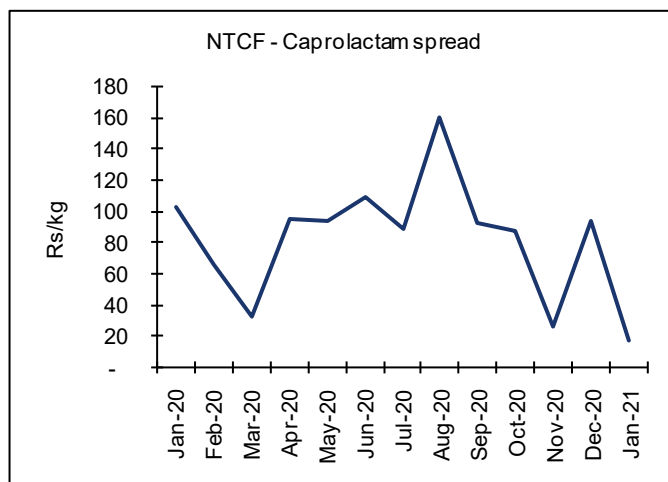
Source: I-Sec research, Commerce Ministry

Chart 6: BOPET prices were up 4.5% QoQ**Chart 7: BOPET/PET spread rose 0.9% QoQ**

Source: I-Sec research, Commerce Ministry; Note: For calculating spread, we have assumed 1kg of PET for 1kg of BOPET

Chart 8: BOPP prices were up 4.6% QoQ**Chart 9: BOPP/PP spread was flattish QoQ**

Source: I-Sec research, Commerce Ministry; Note: For calculating spread, we have assumed 1kg of PP for 1kg of BOPP

Chart 10: NTCF prices declined 18.5% QoQ**Chart 11: NTCF/caprolactam spread fell 71.7% QoQ**

Source: I-Sec research, Commerce Ministry; Note: For calculating spread, we have assumed 1kg of caprolactam for 1kg of NTCF

Financial summary

Table 9: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Operating Income (Sales)	72,094	84,000	1,01,183	1,18,329
Operating Expenses	57,545	62,549	76,566	89,657
EBITDA	14,549	21,452	24,617	28,672
% margins	20.2	25.5	24.3	24.2
Depreciation & Amortisation	3,886	4,531	4,712	5,193
Net Interest	2,007	1,340	1,526	1,526
Other Income	491	545	577	610
Recurring PBT	9,147	16,127	18,956	22,562
Add: Extraordinaries	1,032	(5)	-	-
Less: Taxes	(12)	4,144	4,221	4,988
- Current tax	(12)	4,144	4,221	4,988
- Deferred tax				
Less: Minority Interest				
Net Income (Reported)	10,191	11,977	14,735	17,574
Recurring Net Income	10,191	11,977	14,735	17,574

Source: Company data, I-Sec research

Table 10: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Assets				
Total Current Assets	28,990	37,512	41,438	48,213
of which cash & cash eqv.	1,255	6,498	5,327	6,663
Total Current Liabilities & Provisions	16,334	18,872	21,465	24,296
Net Current Assets	12,655	18,640	19,973	23,917
Investments	2,027	2,027	2,027	2,027
of which				
Strategic/Group	42	42	42	42
Other Marketable	1,985	1,985	1,985	1,985
Net Fixed Assets	77,603	86,175	96,535	1,06,952
Goodwill	6	6	6	6
Total Assets	92,291	1,06,848	1,18,540	1,32,902
Liabilities				
Borrowings	41,345	37,545	36,231	35,048
Deferred tax liability	1,612	1,612	1,612	1,612
Minority Interest				
Equity Share Capital	585	603	603	603
Face Value per share (Rs)	10.0	10.0	10.0	10.0
Reserves & Surplus	48,748	67,087	80,094	95,639
Net Worth	49,333	67,690	80,697	96,241
Total Liabilities	92,291	1,06,848	1,18,540	1,32,902

Source: Company data, I-Sec research

Table 11: Quarterly trend

(Rs mn, year ending March 31)

	Jun-20	Sep-20	Dec-20	Mar-21
Net sales	15,452	21,008	21,464	26,077
% growth (YoY)	(15.5)	20.9	16.0	40.4
EBITDA	3,633	5,725	5,661	6,433
Margin (%)	23.5	27.3	26.4	24.7
Other income	101	98	217	130
Add: Extraordinaries	-	-	-	(5)
Net profit	1,769	3,157	3,243	3,809

Source: Company data

Table 12: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Operating Cashflow	13,284	17,308	20,396	23,684
Working Capital Changes	(239)	(742)	(2,504)	(2,608)
Capital Commitments	(13,892)	(13,103)	(15,072)	(15,611)
Free Cashflow	(847)	3,463	2,820	5,465
Cashflow from Investing Activities	2,088	545	577	610
Issue of Share Capital	-	7,500	-	-
Inc (Dec) in Borrowings	1,207	(3,800)	(1,314)	(1,183)
Dividend paid & Others	(3,197)	(2,465)	(3,254)	(3,556)
Chg. in Cash & Bank balance	(749)	5,243	(1,171)	1,336

Source: Company data, I-Sec research

Table 13: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
Per Share Data (in Rs.)				
Recurring EPS	159.3	202.3	248.7	296.6
Reported EPS	177.3	202.2	248.7	296.6
Recurring Cash EPS	244.9	278.6	328.2	384.3
Dividend per share (DPS)	14.0	19.0	29.2	34.3
Book Value per share (BV)	858.3	1,142.6	1,362.1	1,624.5
Growth Ratios (%)				
Operating Income	(6.3)	16.5	20.5	16.9
EBITDA	7.4	47.4	14.8	16.5
Recurring Net Income	58.8	17.5	23.0	19.3
Diluted Recurring EPS	42.7	26.9	23.0	19.3
Diluted Recurring CEPS	39.6	13.8	17.8	17.1
Valuation Ratios (% YoY)				
P/E	43.1	33.9	27.6	23.1
P/CEPS	28.0	24.6	20.9	17.9
P/BV	8.0	6.0	5.0	4.2
EV / EBITDA	29.7	20.3	17.7	15.1
EV / Operating Income	6.0	5.2	4.3	3.7
EV / Operating FCF	215.1	125.5	154.1	79.1
Operating Ratios				
Other Income / PBT (%)	5.4	3.4	3.0	2.7
Effective Tax Rate (%)	(0.1)	25.7	22.3	22.1
NWC / Total Assets (%)	12.5	11.4	12.4	13.1
Inventory Turnover (days)	60.8	57.0	55.6	54.9
Receivables (days)	45.1	45.5	43.8	43.1
Payables (days)	56.3	58.1	55.7	54.5
Net Debt/EBITDA Ratio (x)	2.6	1.3	1.1	0.9
Capex % of sales	19.3	15.6	14.9	13.2
Profitability Ratios (%)				
Rec. Net Income Margins	14.1	14.3	14.6	14.9
RoCE	12.7	13.0	14.0	14.8
RoIC	13.2	13.8	15.1	15.9
RoNW	22.5	20.5	19.9	19.9
Dividend Yield	0.2	0.3	0.4	0.5
Gross Margins	48.9	52.2	49.3	48.3
EBITDA Margins	20.2	25.5	24.3	24.2

Source: Company data, I-Sec research

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