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SRF preps for HFC phase-down

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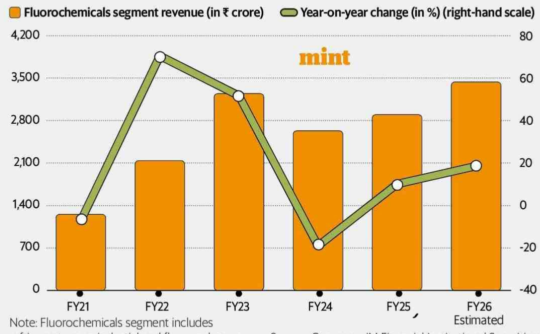
Chemical conglomerate SRF Ltd is set to navigate the hydrofluorocarbon (HFC) phase-down with backward integrated operations and a strong exports network, the management said at an investors call last week.

HFCs—potent climate pollutants—are an important part of SRF's business. The refrigerant gases producer is also investing in developing next-generation HFCs and is investing ₹1,100 crore to manufacture Hydrofluoroolefins (HFOs), which have much lower global warming potential (GWP).

The HFC phase-down is a global initiative under the 2016 Kigali Amendment to the 1987 Montreal Protocol. It mandates countries to reduce the production and consumption of HFCs based on their GWP value, a measure of the harmful impact of a gas. For instance, R32, an important HFC, has a GWP of 675, which means 1kg of R32 has the same global warming impact as 675kg of CO. The GWP of 1,430 for R134a means it is twice as harmful as R32.

Bright prospects

SRF's fluorochemicals vertical could see decent growth in FY26, aided by higher hydrofluorocarbons demand.



Note: Fluorochemicals segment includes refrigerant gases, industial and fluoropolymers

Source: Company, JM Financial Institutional Securities

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With the GWP-based mandate, developed countries are switching to HFCs like R32, leading to a demand-supply mismatch. "In our view, SRF will continue to benefit from the global refrigerant gas demand-supply mismatch, particularly for HFC-32, where it has headroom to increase its sales volume," said JM Financial Institutional Securities.

The GWP-based mandate is set to help SRF. "Significant consumption of HFC-134a and blends in India could be potentially used for HFC-32 quota in future in case of GWP-based quotas," JM Financial noted.

While the phase-down has started in the developed countries, India's reduction mandate starts in 2032. For now, SRF is running its plants at full capacity as actual production during 2024-26, the baseline period, would determine Indian firms' quota after the phase-down starts. The near-term earnings outlook would depend on how the global demand-supply mismatch for refrigerant gases evolves.

SRF saw a decent start to FY26, with Ebitda (earnings before interest, taxes, depreciation, and amortization) growth of 38% in the June quarter (QIFY26), to ₹830 crore, versus 7% in FY25. Its key chemicals business, comprising fluorocarbons and agrochemicals, saw 64% growth in Ebit with a 660 basis point margin surge to 27.3%. This segment accounted for 48% of SRF's revenue in QIFY26, up from 43% a year ago.

SRF maintained its FY26 chemical business revenue growth guidance of 20% against 12% in FY25. During the quarter, it began commercial sales of R467a, developed and patented in-house by SRF, to replace R22, a high-GWP gas. To make the optimal use of its production facilities, it also entered into an agreement in August with Chemours, a speciality chemicals company, to manufacture certain products at its Dahej plant, to be marketed globally by Chemours.

GAME PLAN

HFC phase-down has started in the developed nations, while India's cuts begin in 2032

NEAR-term earnings outlook hinges on global refrigerant gases' demand-supply mismatch

SRF stock is up 30% so far in 2025, buoyed by the strong outlook for HFCs. SRF has outlined capital expenditure of ₹2,400-2,500 crore for FY26 versus around ₹1,100 crore in FY25. Going by *Bloomberg*'s consensus estimates, SRF could record earnings per share growth of 52% in FY26. "SRF is set to benefit from regulatory shifts and evolving global consumption patterns, particularly under the Kigali Amendment," said Motilal Oswal Financial Services.

It expects SRF to post a compound annual growth rate of 16%/30% in revenue and Ebitda over FY25-27.