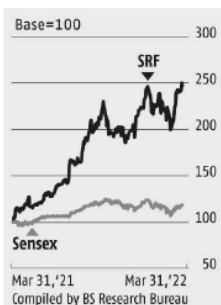


SRF shines on import curbs, growth prospects

After the recent run-up, however, valuation is in the premium zone



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The stock of the largest specialty chemicals player in the country, SRF, has rallied 25 per cent from the first week of March. Regulatory measures, incremental gains from new products and healthy growth prospects in its fluorochemicals space are the key positives for the stock.

The immediate trigger is the government's decision to put the import of hydrofluorocarbons on the restricted list. The March 9 order, aimed at boosting domestic manufacturing (40 per cent of requirement in the segment is imported), will be benefi-

cial for the company. This is expected to aid volumes, boost capacity utilisation, and enhance realisations.

The lower impact of the sharp rise in crude oil prices and pricing power is another positive. Ritesh Gupta and Prasenjit Bhuiya of Kotak Institutional Equities say the company's chemicals (43 per cent of sales) and polymers business has low dependence on crude oil derivatives as the key raw materials are fluorspar and sulphuric acid.

The key raw material in technical textiles (15 per cent of revenues) is caprolactam, which is a crude oil derivative and thus will see some impact. The impact of

higher input costs may be transient given the company's ability to pass on these costs, but with a lag.

New product launches by the specialty chemicals maker could be a key driver of growth going ahead. JM Financial believes SRF's new molecules will target higher addressable markets (agrochemicals/pesticides) and could replace Chinese competition, thus gaining market share. They expect SRF's fluoro specialty chemicals revenue to demonstrate 22 per cent annual growth over the financial year 2021-22 (FY22)-25 period. JM Financial has also raised its operating and net profit esti-

mates for FY23 and FY24 by 4-7 per cent due to above mentioned triggers.

ICICI Securities, too, believes that a key trigger for the stock is the focused capex towards specialty chemicals, keeping in mind higher consumption of fluoro-compounds across agrochemical and pharma, besides general themes of vertical integration and higher operating leverage.

Given the recent gains, the stock is trading at over 38 times its FY23 earnings estimates. While there are multiple positives across its key segments, investors should await a better opportunity to enter the stock.