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THE COMPASS

Strong chemicals biz outlook to support SRF stock

This could aid overall profitability, even though other segments may see margin moderation

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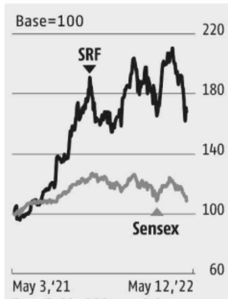
The chemicals segment was yet again the driver of revenue and operating profits for SRF, India's largest specialty chemicals firm by market capitalisation. The firm posted 36 per cent growth in consolidated revenue in Q4FY22, led by the chemicals segment, which grew at the same clip.

The segment, which accounted for 44 per cent of revenue, has grown around 28 per cent year-on-year (YoY) for five consecutive quarters. Sales growth in the quarter, according to the company, was led by higher volumes and realisation across all hydrofluorocarbons (refrigerants) in domestic and export markets. New launches and strong demand helped the specialty chemicals (pharmaceutical and agricultural applications) business.

Higher prices of refrigerants helped boost segment level profitability of the chemicals business, which jumped 82 per cent YoY. Margins expanded by a sharp 820 basis points (bps) to 32.1 per cent. The firm expects margins in the segment to sustain at FY22 levels of 26.7 per cent in FY23. The chemicals segment was the most profitable business for SRF in Q4, with technical textiles and packaging films, the other major contributors, fetching margins of 18-20 per cent.



Compiled by BS Research Bureau

The packaging films segment reported 42 per cent growth in the quarter, aided by healthy demand and a ramp-up of capacities in Hungary and Thailand. Though revenue from technical textiles rose 26 per cent, aided by belting fabric and polyester industrial yarn, it was below estimates because of weak demand for nylon tyre cord fabric. ICICI Securities expects margins for packaging films and technical textiles to moderate in FY23 amid supply concerns and demand uncertainty.

Motilal Oswal Research had upgraded its FY23 earnings estimates by 23 per cent, in light of the higher-than-estimated segment profits of the chemicals business. Though it believes SRF could benefit from the structural growth opportunity in the chemicals business, it has a 'neutral' rating, given higher valuations that could limit the upside.

IIFL Research, however, has upgraded the stock to a 'buy' and expects 19 per cent earnings growth annually over FY22-25. It believes correction in the stock (down 17 per cent over the past month) has turned valuation attractive at 26 times SRF's estimated FY23 earnings. Since the average target price of brokerages is around ₹2,600, there could be an 18 per cent upside from current levels. Investors can consider the stock on dips.