

SRF Ltd: Promising outlook

Robust demand for chemicals, healthy fundamentals and expectations of all-round growth are key positives.

Helped by lower tax rate and strong performance of the chemicals and packaging segment, SRF reported a robust set of numbers for the fourth quarter of 2021-22. The reported net profit of ₹606 crore was 5.6% higher than the consensus estimate of analysts compiled by Bloomberg. Its operating profit and net profit grew 47% and 59% y-o-y respectively. The company's EBIT margins also improved in the fourth quarter as it was able to partially pass through the rising costs.

The chemicals segment was supported by the strong performance of fluorochemicals and refrigerants in both domestic and export markets. On the other hand, the packaging segment was helped by stronger volumes in overseas markets for polyester films – BOPET and BOPP.

The specialty chemicals sector is poised to grow given supportive government policies (tax incentives, PLI), export opportunities, product innovation, and revenue growth opportunities. The segment is gaining ground in agro-chemicals and pharmaceuticals and the management has guided a 20% y-o-y revenue growth in 2022-23. Further, cost reduction initiatives will provide additional support to the segment.

The fluorochemicals business will benefit due to a robust refrigerant gas price environment supported by volume growth and realisations in domestic as well as international markets. SRF is expanding its fluorochemicals business across India, Bangladesh, Argentina, Thailand, Greece and Taiwan.

Capacity additions in Thailand and Hungary will support the packaging segment. Moreover, the demand for both BOPET and BOPP films is expected to remain strong. However, increased global capacity additions and high legis-

tics costs might create pressure on BOPET margins.

The technical textiles segment will benefit from robust demand from polyester industrial yarns and belting fabrics. The management expects healthy demand in the belting segment with the reopening of the mining sector. SRF continues to maintain its price and volume leadership in sub-segments of technical textiles: coated fabrics and laminated fabrics.

The company generates strong FCF and has a robust balance sheet. The management has planned a capex of ₹2,500-2,700 crore in 2022-23 compared to a capex of ₹2,000 crore in 2021-22. Its RoE averaged 19.5% in the past five years. Its stock currently trades at a premium valuation in terms of the 12-month forward PE ratio of 29.4 times compared to BSE Sensex which trades at 18.6 times, according to Bloomberg data.

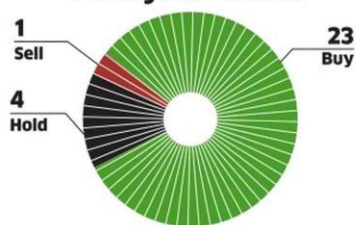
Rising crude prices, logistics challenges and global raw material shortage are some of the key risks for SRF going forward.

Selection Methodology: We pick up the stock that has shown the maximum increase in 'consensus analyst rating' during the past

month. The consensus rating is arrived at by averaging all analyst recommendations after attributing weights to each of them (ie 5 for strong buy, 4 for buy, 3 for hold, 2 for sell and 1 for strong sell) and any improvement in consensus analyst rating indicates that the analysts are getting more bullish on the stock. To make sure that we pick only companies with decent analyst coverage, this search will be restricted to stocks with at least 10 analysts covering them. You can see similar consensus analyst rating changes during the past week in E/TW 50 table.

—Sameer Bharadwaj

Analysts' views



SRF is expanding its fluorochemicals business across India, Bangladesh, Argentina, Thailand, Greece and Taiwan. Its strong FCF, robust balance sheet, premium valuation are the other factors that have made the company a favourite of analysts.

Fundamentals

	ACTUAL		CONSENSUS ESTIMATE	
	2021	2022	2023	2024
Revenue (₹ cr)	8,400.04	12,312.75	14,339.05	16,487.77
EBITDA (₹ cr)	2,134.70	3,103.20	3,606.55	4,146.51
Net Income (₹ cr)	1,181.12	1,888.92	2,156.69	2,500.25
Basic EPS (₹)	40.53	63.75	73.33	85.08

Valuations

	PBV	PE	DIVIDEND YIELD (%)
Aarti Industries	7.67	21.50	0.19
Deepak Nitrite	11.15	24.54	0.29
Atul	6.32	39.99	0.25
Navin Fluorine International	11.79	73.23	0.28
Vinati Organics	11.93	58.22	0.33

Brokerage calls

RECO DATE	RESEARCH HOUSE	ADVICE	TARGET PRICE (₹)
11 May	YES Research	Buy	2,920
10 May	Sharekhan	Buy	2,800
10 May	Motilal Oswal	Neutral	2,415
10 May	Dolat Capital	Buy	2,595
10 May	Nirmal Bang	Buy	2,700

Relative performance

