

# SRF's capex plans cheer investors, but execution is critical

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SRF Ltd's shares rose by nearly 5% on Thursday, a day when the benchmark Nifty50 index fell by 1.2%. The company met analysts earlier this week and, among other things, disclosed its capital expenditure (capex) plans. Investors are pleased.

Over FY24-28, SRF has guided for a cumulative capex plan of ₹15,000 crore. Out of this, ₹12,000-13,000 crore will be directed towards the chemicals business, which constituted 42% of total consolidated operating revenues in FY22. Further, SRF expects the chemicals business to grow at a compound annual growth rate of 20% over the next five years. There is scope to clock a higher growth rate. However, this would come at the cost of dilution in return on capital employed and SRF is keen to maintain this at 20%.

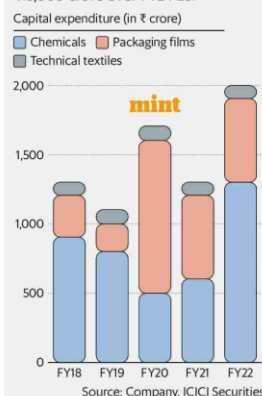
Further, the company aims to increase the revenue share from the pharma segment. SRF has formed a separate research and development team to bolster this business. The pharma vertical has grown slower than its agrochemicals counterpart, said analysts at Kotak Institutional Equities. "However, this was not by design but an outcome of the sheer scale of opportunities presented by the agrochemicals industry, more so with faster ramp-up timelines," said Kotak analysts in a report on 1 September. SRF sells one active ingredient (AI) in agrochemicals and has about 8-9 AIs in the pipeline.

The company plans to enter areas such as fluoropolymers as there is growth potential in this vertical led by rising use cases in 5G telecom technology, semiconductors and renewable energy products. In the refrigerant business, SRF has developed replacement for hydrochlorofluorocarbons

**SRF expects the chemicals business to grow at a compound annual growth rate of 20% in the next five years**

## In growth mode

After a big jump in capex in FY22, SRF has guided for a cumulative capex of ₹15,000 crore over FY24-28.



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given the shift to hydrofluorocarbon consumption.

The remainder of the planned capex will be used in SRF's packaging films business. It plans to enter into aluminium foils where the market size is 15 million tonnes per annum.

Generally, such high investments raise concerns about a company's debt levels, but SRF's cash flow generation is healthy and that's a positive, said analysts.

The stock is 4% lower than its 52-week high of ₹2,773.35 apiece, suggesting investors are capturing the brighter picture to a good extent. SRF has done well on execution, but disap-

pointments ahead will be a dampener. Some analysts said valuations are pricey notwithstanding the growth prospects. ICICI Securities has maintained its estimates, but has downgraded the rating by a notch to Hold from Add following the recent run-up in the stock price, and near-term pressures in the non-chemicals business.