

# SRF's chemical biz to do heavy lifting

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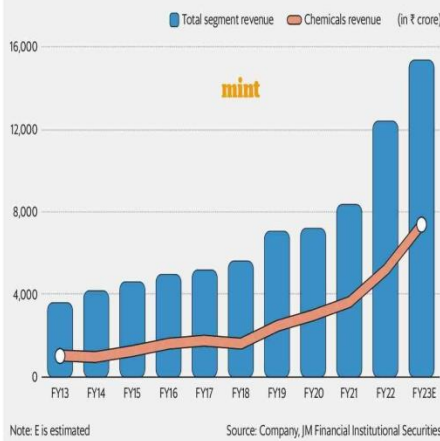
**S**RF Ltd has been gung-ho on its chemicals business for some time now. Recall that SRF has guided for a cumulative capital expenditure (capex) outlay of ₹15,000 crore over FY24-28. Out of this, ₹12,000-13,000 crore will be directed toward the chemicals business.

In this backdrop, its Dahej plant in Gujarat, which houses specialty chemicals and fluorochemicals units, is key. SRF's board recently approved capex worth ₹604 crore to enhance the existing capacity at Dahej and to set up four new agrochemical plants. These are expected to be completed in the next ten-to-twelve months.

SRF's optimism toward this segment stems from strong traction aided by increasing customer enquiries. "Around six-seven years ago, the speciality chemicals business used to produce only 6-7 products; this has now scaled up to 40-45 products (some of the dedicated plants produce more than one product)," said analysts at Kotak Institutional Equities in a report dated 13 December. "SRF sets up capacities only

## Key catalyst

Contribution of chemicals business in SRF's total revenues has risen significantly over the past decade.



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when there are firm commitments from customers, and these agreements can span 3-5 years in duration," added the report.

"This bodes well for the medium-term order visibility of the chemicals business, which is SRF's highest revenue contributor. Apart from chemicals, SRF

has exposure to technical textiles and packaging films businesses. Performance of these businesses was subdued in the September quarter (Q2FY23).

To be sure, the overall earnings drag from the weak performance of these two businesses, especially packaging, is one factor that has weighed on investors'

sentiments. In CY22 so far, the SRF stock has declined by 4%, while the Nifty 500 index has risen almost 5%. From its 52-week low of ₹2,002.20 in July, SRF shares quickly recovered to a 52-week high of ₹2,865 in September. However, its fall from glory was swift, with the stock currently down 19% from the recent high.

There is also rising concern over a slowdown in the agrochemicals business. "India's chemical export volumes have declined 29% and 49% year-on-year in September and October, respectively, raising concerns of a possible slowdown in global agrochemical demand," said analysts from Jefferies India in a report on 14 December.

They added, "SRF's agrochem portfolio has over 40 products currently vis-à-vis only 5-6 in the last agrochem downturn in FY17-18. It expects the impact of any such slowdown to be muted given its diversified portfolio."

Meanwhile, SRF's efforts to tap into various opportunities in the chemicals sector should offer some comfort. In

addition to agrochemicals, SRF is also developing a Kilo Lab at Bhiwadi to cater to the pharmaceutical market. According to Nilesh Ghuge, institutional analyst, HDFC Securities Ltd, there is a huge opportunity in the fluorochemicals business.

"Also, in terms of R&D, the numbers of patents filed have gone up significantly over the last five to seven years," he added.

Meanwhile, on the valuations front, more than 75% of SRF's fair value is derived from their chemicals business—specialty and refrigerant gas—where the company is surpassing expectations every quarter in terms of earnings, said Abhishek Navalgund, research analyst at Nirmal Bang Institutional

## ROUGH PATH

SRF's recent earnings drag stems from weak performance in technical textiles and packaging films biz

MEANWHILE, there is also rising concern over a slowdown in its agrochemicals business and exports

Equities.

Even so, investors should be mindful of some potential downside risks. For instance, delay in the commissioning of new specialty chemicals plants. Secondly, demand uptick in SRF's newly forayed fluoropolymers sector has been slower than expected. Also, a prolonged product approval cycle could be a risk.