

February 27, 2025

Management Meet Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	HOLD		HOLD	
Target Price	2,820		2,698	
Sales (Rs. m)	1,54,499	1,69,872	1,54,477	1,69,847
% Chng.	-	-	-	-
EBITDA (Rs. m)	27,766	33,404	27,762	33,399
% Chng.	-	-	-	-
EPS (Rs.)	42.3	53.9	42.3	53.8
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	1,31,385	1,39,752	1,54,499	1,69,872
EBITDA (Rs. m)	25,841	23,922	27,766	33,404
Margin (%)	19.7	17.1	18.0	19.7
PAT (Rs. m)	13,357	10,170	12,527	15,965
EPS (Rs.)	45.1	34.3	42.3	53.9
Gr. (%)	(38.2)	(23.9)	23.2	27.4
DPS (Rs.)	5.4	4.1	5.1	6.5
Yield (%)	0.2	0.1	0.2	0.2
RoE (%)	12.3	8.5	9.7	11.3
RoCE (%)	12.3	9.6	10.5	12.1
EV/Sales (x)	6.6	6.2	5.6	5.1
EV/EBITDA (x)	33.3	35.9	31.1	25.8
PE (x)	61.4	80.7	65.5	51.4
P/BV (x)	7.1	6.6	6.1	5.5

Key Data

	SRFL.BO SRF IN
52-W High / Low	Rs.2,995 / Rs.2,089
Sensex / Nifty	74,602 / 22,548
Market Cap	Rs.821bn/ \$ 9,409m
Shares Outstanding	296m
3M Avg. Daily Value	Rs.1873.29m

Shareholding Pattern (%)

Promoter's	50.26
Foreign	18.36
Domestic Institution	17.77
Public & Others	13.60
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	7.1	11.1	16.0
Relative	9.4	20.8	13.8

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Scaling up in Refrigerants and Specialty Chemicals

Quick Pointers:

- Aims to gain 40% market share in 6-7 agrochemical intermediates (AIs) with TAM of \$1.2bn
- Capex for FY26 to be Rs17-19bn, rise to Rs27-30bn for FY27

We recently met with the management of SRF Limited, to understand its business prospects and get an update on key ongoing projects. The management continues to remain positive on its refrigerants business and expects R-32 realization to rise further in the near term. With a capex of Rs11bn, the 4th generation refrigerants plant is expected to come online by 2027. SRF also targets to gain 40% market share in 6-7 AIs with TAM of \$1.2bn. The fluoropolymers vertical is expected to be commercialized by Nov'25, which, along with PTFE at full capacity utilization, has potential to reach EBITDA of Rs3.75-4bn. The aluminum foil plant, launched in FY24, is struggling and has negative EBITDA. ADD for aluminum foil is expected to be introduced in FY26. Coupled with approval from a few European customers, this business is expected to improve further in FY26. Going ahead, we expect continued strength in refrigerants and further improvement in specialty, especially in the newer products launched. Some products continue to face competition due to China dumping, which may impact the company's performance. The stock currently trades at 52x FY27 EPS, we maintain "Hold" rating with a target price of Rs2,820, based on a sum-of-the-parts (SOTP) valuation approach. Our numbers are conservative as compared to consensus FY27E EPS at Rs80.

- HFCs prices to rise further:** Total domestic demand for R-32 from OEMs stands at 7,700 tons. With rising AC penetration and a strengthening replacement cycle of 3-5 years, R-32 realization is expected to increase further. HFCs are currently under the observation phase in India, and consumption quotas will be decided for manufacturers based on average production and sales during 2024-2026, with SRF aiming for highest quota. SRF is also foraying into 4th generation refrigerants and has announced a capex of Rs11bn with the plant likely to commercialize by 2027. HFO usage on gram basis is lower than HFCs. However, based on the value basis, it is 20% higher.
- Specialty chemicals business to improve steadily:** SRF's older flagship products like P17 and DFPA have witnessed a price erosion due to intense competition. Consequently, the company has undertaken cost reduction initiatives to improve profitability. The management has guided EBIT margin of 25-26% for the chemicals business and expects Q4FY25 to be better sequentially. SRF also aims to gain a 40% market share in 6-7 AIs, which are in the pipeline and have TAM of \$1.2bn. Of this, 2-3 AIs, which will be launched soon, are likely to gain traction in FY26. Of the planned AIs, at least 2 are off patented, and others will be off patent in the next 4-6 years.

- PTFE and fluoropolymers have combine potential to generate EBITDA of Rs3.75-4bn:** SRF has a 5,000mtpa PTFE plant, which is operating at 50-55% utilization and is domestically focused. With the sampling by US customers already complete, export orders are expected to come in FY26. Due to change in scope, the fluoropolymers (PVDF, FEP, FKM) project, which was expected in Apr'25, is slightly delayed and is expected to be commercialized by Nov'25. This plant will entail a capex of Rs5.5bn and will have a capacity of 4,200mtpa. At full scale, PTFE and fluoropolymers have the combine potential to generate EBITDA of Rs3.75-4bn.
- Aluminum foil business facing headwinds:** The aluminum foil business is currently struggling due to cheap imports. EBITDA for this business is negative, but is expected to reach 13-14% in FY26 supported by the proposed imposition of ADD as well as customer approvals from a few European customers.

Exhibit 1: SOTP: Maintain HOLD with TP of Rs2,820

	FY27E – EBITDA (Rs mn)	Target EV/EBITDA multiple	Total Enterprise Value (Rs mn)
Specialty Chemicals	23,784	29	6,89,739
Packaging Films Business	8,677	16	1,38,831
Technical Textiles Business	3,424	14	47,932
Total Enterprise Value	35,885		8,76,502
less : Net Debt			41,745
Total			8,34,757
No of shares			296
TP			2,820

Source: PL

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	1,31,385	1,39,752	1,54,499	1,69,872
YoY gr. (%)	(11.6)	6.4	10.6	10.0
Cost of Goods Sold	67,088	73,743	80,311	85,525
Gross Profit	64,297	66,009	74,189	84,347
Margin (%)	48.9	47.2	48.0	49.7
Employee Cost	9,350	10,202	11,278	12,401
Other Expenses	29,106	31,885	35,144	38,542
EBITDA	25,841	23,922	27,766	33,404
YoY gr. (%)	(26.8)	(7.4)	16.1	20.3
Margin (%)	19.7	17.1	18.0	19.7
Depreciation and Amortization	6,726	7,675	8,645	9,486
EBIT	19,115	16,247	19,121	23,919
Margin (%)	14.5	11.6	12.4	14.1
Net Interest	3,023	3,754	3,668	3,882
Other Income	830	1,250	1,250	1,250
Profit Before Tax	16,922	13,743	16,703	21,287
Margin (%)	12.9	9.8	10.8	12.5
Total Tax	3,565	3,573	4,176	5,322
Effective tax rate (%)	21.1	26.0	25.0	25.0
Profit after tax	13,357	10,170	12,527	15,965
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	13,357	10,170	12,527	15,965
YoY gr. (%)	(38.2)	(23.9)	23.2	27.4
Margin (%)	10.2	7.3	8.1	9.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	13,357	10,170	12,527	15,965
YoY gr. (%)	(38.2)	(23.9)	23.2	27.4
Margin (%)	10.2	7.3	8.1	9.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	13,357	10,170	12,527	15,965
Equity Shares O/s (m)	296	296	296	296
EPS (Rs)	45.1	34.3	42.3	53.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	1,69,640	1,87,358	2,05,580	2,25,580
Tangibles	1,64,429	1,82,147	2,00,369	2,20,369
Intangibles	5,211	5,211	5,211	5,211
Acc: Dep / Amortization	37,224	44,899	53,544	63,029
Tangibles	36,032	43,708	52,352	61,838
Intangibles	1,191	1,191	1,191	1,191
Net fixed assets	1,32,416	1,42,459	1,52,036	1,62,550
Tangibles	1,28,397	1,38,440	1,48,017	1,58,531
Intangibles	4,019	4,019	4,019	4,019
Capital Work In Progress	8,053	5,335	7,113	7,113
Goodwill	-	-	-	-
Non-Current Investments	5,605	3,902	3,902	3,902
Net Deferred tax assets	(9,112)	(9,112)	(9,112)	(9,112)
Other Non-Current Assets	1,976	1,976	1,976	1,976
Current Assets				
Investments	4,056	4,056	4,056	4,056
Inventories	23,265	24,746	27,358	30,080
Trade receivables	19,428	20,665	22,846	25,119
Cash & Bank Balance	4,075	7,755	8,098	12,337
Other Current Assets	1,980	2,106	2,329	2,560
Total Assets	2,04,819	2,17,200	2,34,326	2,54,739
Equity				
Equity Share Capital	2,974	2,964	2,964	2,964
Other Equity	1,11,816	1,20,716	1,31,691	1,45,691
Total Network	1,14,790	1,23,680	1,34,655	1,48,655
Non-Current Liabilities				
Long Term borrowings	22,511	22,511	22,511	22,511
Provisions	714	714	714	714
Other non current liabilities	2,609	2,609	2,609	2,609
Current Liabilities				
ST Debt / Current of LT Debt	26,691	28,391	31,387	34,510
Trade payables	21,978	23,377	25,844	28,416
Other current liabilities	6,139	6,530	7,219	7,937
Total Equity & Liabilities	2,04,819	2,17,200	2,34,326	2,54,739

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	16,922	13,743	16,703	21,287
Add. Depreciation	6,726	7,675	8,645	9,486
Add. Interest	3,023	3,754	3,668	3,882
Less Financial Other Income	830	1,250	1,250	1,250
Add. Other	(762)	(1,250)	(1,250)	(1,250)
Op. profit before WC changes	25,909	23,922	27,766	33,404
Net Changes-WC	(1,145)	(1,305)	(2,301)	(2,398)
Direct tax	(3,826)	(3,548)	(4,147)	(5,292)
Net cash from Op. activities	20,939	19,068	21,318	25,714
Capital expenditures	(22,017)	(15,000)	(20,000)	(20,000)
Interest / Dividend Income	265	1,250	1,250	1,250
Others	(521)	1,694	-	-
Net Cash from Inv. activities	(22,273)	(12,056)	(18,750)	(18,750)
Issue of share cap. / premium	-	(10)	-	-
Debt changes	5,404	1,700	2,996	3,123
Dividend paid	(2,137)	(1,220)	(1,503)	(1,916)
Interest paid	(3,612)	(3,754)	(3,668)	(3,882)
Others	(407)	(49)	(49)	(49)
Net cash from Fin. activities	(752)	(3,334)	(2,225)	(2,724)
Net change in cash	(2,087)	3,679	343	4,240
Free Cash Flow	(1,231)	4,068	1,318	5,714

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	45.1	34.3	42.3	53.9
CEPS	67.8	60.2	71.4	85.9
BVPS	387.3	417.2	454.3	501.5
FCF	(4.2)	13.7	4.4	19.3
DPS	5.4	4.1	5.1	6.5
Return Ratio(%)				
RoCE	12.3	9.6	10.5	12.1
ROIC	10.3	7.5	8.5	9.8
RoE	12.3	8.5	9.7	11.3
Balance Sheet				
Net Debt : Equity (x)	0.4	0.3	0.3	0.3
Net Working Capital (Days)	58	58	58	58
Valuation(x)				
PER	61.4	80.7	65.5	51.4
P/B	7.1	6.6	6.1	5.5
P/CEPS	40.9	46.0	38.8	32.2
EV/EBITDA	33.3	35.9	31.1	25.8
EV/Sales	6.6	6.2	5.6	5.1
Dividend Yield (%)	0.2	0.1	0.2	0.2

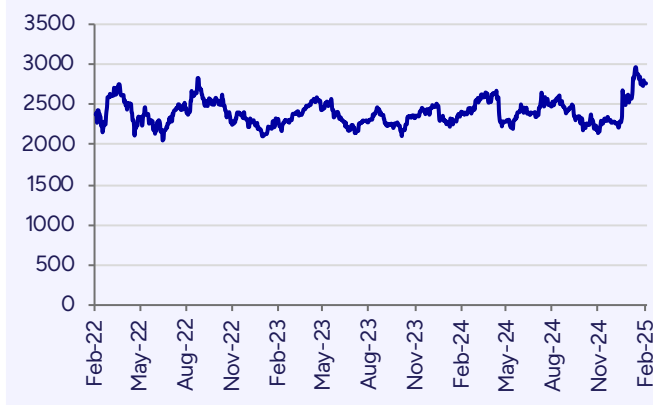
Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Net Revenue	35,697	34,641	34,243	34,913
YoY gr. (%)	(5.5)	3.8	7.8	14.4
Raw Material Expenses	18,335	18,271	18,341	18,056
Gross Profit	17,362	16,371	15,903	16,857
Margin (%)	48.6	47.3	46.4	48.3
EBITDA	6,958	6,034	5,380	6,196
YoY gr. (%)	(25.3)	(13.3)	(14.1)	9.5
Margin (%)	19.5	17.4	15.7	17.7
Depreciation / Depletion	1,859	1,882	1,939	1,943
EBIT	5,099	4,153	3,441	4,253
Margin (%)	14.3	12.0	10.0	12.2
Net Interest	900	965	938	963
Other Income	234	253	333	396
Profit before Tax	4,433	3,440	2,837	3,687
Margin (%)	12.4	9.9	8.3	10.6
Total Tax	211	918	822	976
Effective tax rate (%)	4.8	26.7	29.0	26.5
Profit after Tax	4,222	2,522	2,014	2,711
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	4,222	2,522	2,014	2,711
YoY gr. (%)	(24.9)	(29.8)	(33.0)	7.0
Margin (%)	11.8	7.3	5.9	7.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,222	2,522	2,014	2,711
YoY gr. (%)	(24.9)	(29.8)	(33.0)	7.0
Margin (%)	11.8	7.3	5.9	7.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,222	2,522	2,014	2,711
Avg. Shares O/s (m)	296	296	296	296
EPS (Rs)	14.3	8.5	6.8	9.2

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	30-Jan-25	Hold	2,698	2,831
2	08-Jan-25	Reduce	2,018	2,308
3	24-Oct-24	Reduce	2,036	2,248
4	05-Oct-24	Reduce	2,217	2,350
5	25-Jul-24	Reduce	2,048	2,368
6	04-Jul-24	Reduce	2,062	2,393
7	09-May-24	Reduce	2,123	2,291
8	09-Apr-24	Reduce	2,222	2,614

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Reduce	411	453
2	Bharat Petroleum Corporation	Hold	286	271
3	Bharti Airtel	Accumulate	1,827	1,677
4	Clean Science and Technology	Hold	1,329	1,385
5	Deepak Nitrite	Hold	1,960	1,899
6	Fine Organic Industries	BUY	5,199	4,350
7	GAIL (India)	Accumulate	204	180
8	Gujarat Fluorochemicals	Reduce	3,190	3,537
9	Gujarat Gas	Sell	395	461
10	Gujarat State Petronet	Hold	327	334
11	Hindustan Petroleum Corporation	Hold	373	353
12	Indian Oil Corporation	Hold	124	123
13	Indraprastha Gas	Sell	150	192
14	Jubilant Ingrevia	Hold	680	660
15	Laxmi Organic Industries	Hold	237	226
16	Mahanagar Gas	Accumulate	1,412	1,267
17	Mangalore Refinery & Petrochemicals	Accumulate	168	145
18	Navin Fluorine International	Accumulate	4,373	3,908
19	NOCIL	Reduce	209	223
20	Oil & Natural Gas Corporation	BUY	288	249
21	Oil India	BUY	711	424
22	Petronet LNG	Reduce	276	291
23	Reliance Industries	Accumulate	1,472	1,266
24	SRF	Hold	2,698	2,831
25	Vinati Organics	Accumulate	1,934	1,749

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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