SINCE 1986
DALAL STREET INVESTMENT JOURNAL
DEMOCRATIZING WEALTH CREATION

April 2021

SRF Ltd.

BSE Code	:	**503806**
Time Duration	:	**18 months**
CMP	:	**₹6131.85 (as on 22 April 2021)**
Target Price	:	**₹7,360**

Large Rhino

Swiftest Performers
Among Heavy Weights

Our Large Rhino pick for the month of April 2021 is SRF Limited, a chemical-based multi-business entity engaged in the manufacturing of industrial & speciality intermediates. The company has a wide and diversified business portfolio that covers fluorochemicals, speciality chemicals, packaging films, technical textiles, coated and laminated fabrics. The business segments of the company are classified into the chemical segment (CB)-41 per cent of revenue, packaging films business (PFB)-36 per cent of revenue along with technical textile segment (TTB)-19 per cent of the revenue. In the CB segment, the company manufactures fluorochemicals, fluorospeciality chemicals, and chloromethane. In the PFB segment, SRF provides flexible packaging solutions to a wide gamut of applications, ranging from food to non-food, both in the category of fast-moving consumer goods and industrial products. SRF has 11 manufacturing units in India, one each in South Africa & Thailand, and an upcoming unit for PFB in Hungary and Thailand. Under the TTB segment, the company manufactures nylon tyre cord fabrics, belting fabrics as well as industrial yarn.

Strong market leadership : SRF is the market leader in most of the business segments it operates in. Owing to the company's rich and extensive experience in handling fluorine, it is the sole producer of some key refrigerants in the country. In the speciality chemical segment, its strong R&D and improved manufacturing capability have made it a one-of-its-kind player, exporting products that find application in pharmaceutical and agro-based products. In the TTB segment, SRF is considered the largest nylon tyre cord fabric manufacturer in the country whereas, in the PFB segment, its market position is supported by large capacities and a high volume of value-added products. Given the company's leadership position, established track record and R&D capability, its healthy market position is likely to be sustainable.

Key beneficiary of China Plus One strategy : All of the company's plants are currently operating at full capacity while growth is seen in both the domestic as well as export markets. China Plus One strategy is playing out well for the company since the pandemic outbreak. In its speciality chemical business, SRF is looking at more complex products, which have the ability to help the company in better margins. India, becoming an alternate supplier to Chinese/European players, is a key tailwind. The company is positive about its chemicals business as there will be a ramp-up in the existing projects and newer Capex in the next 12-18 months that will help it to meet demand in a better way. It is currently working on eight different product campaigns and plans to commercialise 3-5 products every year to add value to its chemicals business. The management gave a 15-20 per cent YoY revenue growth guidance for the speciality chemicals segment, going forward. Growth in fluorochemicals will be capacity led and recovery in refrigerant gas prices will create a positive price impact. However, this has not been the only reason for growth for SRF. According to the management, the market is expanding, requirements are larger, and enquiries are substantial. This is due to the capacities, the company has developed over the years.

Large Capex plans: The company is undertaking significant Capex in the packaging films business (PFB), which has seen rising spreads in the market, growing at a significant pace. The company is adding two new lines currently and will be adding 7-8 lines in the domestic market in the next 12-18 months. The BOPP facility in Thailand would be commissioned by June-August 2021. New BOPET facilities would come on stream in the next 12-18 months. The plant in Hungary is currently operating at 60-70 per cent capacity. In about 6-8 months, it will reach its peak utilisation. Once this happens, capacity is expected to outstrip demand.

In the CB segment, the company has undertaken an increase in chloromethane capacity. The additional chloromethane capacity of 100 KTPA in Dahej is under implementation and should come on stream in Q4FY22. The total cost of this project is Rs 320 crore-Rs 350 crore. Development of the new integrated facility for Polytetrafluoroethylene (PTFE) of investment of Rs 420 crore is also on track and the company plans on commissioning it in September 2022. It is expected that PTFE returns initially will be more commoditised, after which, the company will foray and concentrate more on speciality grades. On full capitalisation, the return on this investment is expected to be around 14-17 per cent. The company envisages strong demand for PTFE, and its revenue mix is expected to be 60 per cent exports and 40 per cent domestic sales.

Financials: During the 9MFY21 period, SRF's revenue increased by 8 per cent YoY from Rs 5,352 crore to Rs 5,792 crore. The company's PBIT increased by 36 per cent YoY from Rs 918 crore to Rs 1,253 crore. Besides, the company's PAT also increased by 13 per cent YoY from Rs 722 crore to Rs 817 crore. Net of one-time tax adjustments in the year-ago period, PAT increased by 37 per cent

Continued On PG 2...

DSIJ Pvt. Ltd. : Office no 211, Vascon Platinum Square, Next to Hyatt Regency, Vimannagar, Pune- 411014 I **For Customer Service : 020-66663-802/803 OR service@dsij.in**

Registered Office Address: 419-A, 4th Floor, Arun Chambers, Tardeo, Next to AC Market, Mumbai - 400034

CIN No. : CIN-U22120MH2003PTC139276 SEBI Research Analyst - INH000006396

DSIJ INVESTMENT ADVISORY UNIT (CRU)

from Rs 598 crore to Rs 817 crore.

In the last five years, the company's consolidated net sales have recorded 8.79 per cent CAGR to reach Rs 7,418.65 crore in FY20. Similarly, PBIDT and PAT have grown at a CAGR of 15.19 per cent and 27.47 per cent, respectively, between FY15 and FY20.

Valuation & outlook:

At CMP, SRF is trading at a TTM PE of 36.35x as compared to the industry average of 21.25. EV/TTM EBITDA stands at 20.82x. The valuations are on the higher side, given the strong growth prospects of the company. The stock price has given good returns of 82.48 per cent and 41.93 per cent CAGR over a period of 1 year and 3 years, respectively. SRF has a 3Y revenue CAGR of 15.44 per cent and a 3Y PAT CAGR of 25.55 per cent. ROCE stood at 15.09 per cent while its ROE was 22.50 per cent as of FY20. The debt/equity stood at 0.82x in FY20. Promoters hold a 50.77 per cent holding in the company, a holding that remains unpledged. Given the positive implications of China Plus One strategy, increasing capacities and strong rate of market expansion, we are positive on this scrip. Considering all these factors, we recommend a BUY on the stock with a target of Rs 7,360, representing a 20 per cent potential upside.

Inc/Exp Statement (Consolidated) (in Rs Crore)

Description	202003	201903	201803	201703	201603
Net Sales	7418.65	7692.68	5589.04	4821.8	4592.72
Total Income	7703.25	7732.83	5704.16	4895.21	4620.56
Total Expenditure	6043.41	6349.4	4682.8	3852.81	3630.2
PBIDT	1659.84	1383.43	1021.36	1042.4	990.36
PAT	1019.09	641.63	461.71	514.99	429.89
Dividend %	140	120	120	120	100
Adj. EPS(Rs)	177.29	111.63	80.41	89.69	74.87

Quarter On Quarter (Consolidated) (in Rs Crore)

Particulars	202012	202009	Q on Q Var %	201912	Y on Y Var %
Net Sales	2129.43	2062.98	3.22	1807.45	17.81
Total Expenditure	1601.77	1528.34	4.8	1460.33	9.69
PBIDT (Excl OI)	544.64	572.49	-4.86	390.16	39.59
PAT	324.25	315.68	2.71	345.47	-6.14
PBIDTM% (Excl OI)	25.37	27.25	-6.9	21.08	20.35
PBIDTM%	27.39	27.71	-1.15	22.07	24.11
PATM%	15.11	15.03	0.53	18.67	-19.07
Adj. EPS(Rs)	54.81	54.84	-0.05	59.67	-8.14

DISCLAIMER & DISCLOSURE:

This report has been prepared by DSIJ Private Limited and is meant for sole use by the recipient and not for circulation. For all content we have relied upon and assumed, without any independent verification, accuracy and completeness of all information available in public domain or from sources considered reliable. The content contains certain assumptions and views, which DSIJ considers reasonable now, and which are subject to change. Computations adopted are indicative and are based on current market prices and general market sentiment. No representation or warranty is given by DSIJ as to the achievement or reasonableness or completeness of any idea and/or assumptions. The content does not purport to contain all the information that the recipient may require. Recipients should not construe any of the contents herein as advice relating to business, financial, legal, taxation, or other matters and they are advised to consult their own business, financial, legal, taxation and other experts / advisors concerning the company regarding the appropriateness of investing in any securities or investment strategies discussed or recommended and should understand that statements regarding future prospects may not be realized. It may be noted that investments in equity and equity-related securities involve a degree of risk and investors should not invest any funds unless they can afford to take the risk of losing their investment. Investors are advised to undertake necessary due diligence before making an investment decision. For making an investment decision, investors must rely on their own examination of the Company including the risks involved. Investors should note that income from investment in such securities, if any, may fluctuate and that each security's price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

- Neither DSIJ nor any of its employees shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this material. The content does not constitute an offer for sale, or an invitation to subscribe for, or purchase equity shares or other assets or securities of the company and the information contained herein shall not form the basis of any contract. It is also not meant to be or to constitute any offer for any transaction.
- DSIJ or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report.
- Subject company may have been client of DSIJ or its associates during twelve months preceding the date of publication of the research report.
- DSIJ or its associates may have received compensation from the subject company in the past twelve months.
- DSIJ or its associates have not managed or co-managed public offering of securities for the subject Company in the past twelve months.
- The Research Analysts of the company have not served as an officer, director or employee of the subject Company.
- The Research Analysts or the Company have not been engaged in market making activity for the subject Company.
- Research analyst or his/her relatives may have actual/ beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report.
- DSIJ or Research analyst or his/her relatives may have financial interest in the subject company in ordinary course of business.
- DSIJ and its associate company(ies), their directors and employees may from time to time, have a long or short position in, and buy or sell the
- securities of the company(ies) mentioned herein or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

Definitions of Terms Used in the research reports:

'Subject company' means the company where a recommendation is being suggested.

- **Buy:** The intended audience is being informed that they can consider purchasing the shares of the said company
- **Sell:** The intended audience is being informed that they can consider selling the shares of the said company
- **Hold:** The intended audience is being informed that they can consider to neither purchase or sell but continue to hold, if any, the shares of the said company