

Q2FY21 Result Update SRF Ltd

Solid outperformance by specialty chemicals and packaging films

SRF Ltd's (SRF) Q2FY21 performance was significantly ahead of our expectations with revenue at INR 2,101 cr, up 21% YoY/36% QoQ. Continued strong performances in packaging films (PFB) and specialty chemicals (SCB) segment were key driving factors. Consolidated earnings before interest, tax, depreciation and amortisation (EBITDA) rose 73% YoY/58% QoQ to INR 572 crore. EBITDA margin expanded 820bps YoY/374bps QoQ to 27.3%. Consolidated profit after tax (PAT) increased 57% YoY/78% QoQ to INR 316 crore. We maintain BUY, as performance of SCB and PFB continue to be robust, and consistent capex alongwith diversification into new and complex chemistries is expected to drive future growth.

SCB and PFB remain robust, TTB bounces back

SRF's Chemical Business (CB) clocked a 30% YoY/25% QoQ growth in turnover mainly due to SCB, while fluorochemical business (FCB) was muted during the quarter due to weak demand and low prices of refrigerants. SCB's growth was on the back of higher volume and new product launch, which also helped the margin profile (at 20%, up 47bps YoY/ 724 bps QoQ) through operating leverage.

PFB (revenue at record quarterly highs of INR 833 cr, up 26% YoY/23% QoQ) benefited from increasing utilization in the Thailand BOPET facility, along with higher volumes and better margin for products. Lower demand and excess inventory with converters at the end of Q2 and new lines could soften margin profile going forward.

Technical textiles segment (TTB) recorded revenue at pre-COVID level (INR 332 cr, up 3% YoY/136% QoQ), with expansion in margins. This is on the back of recovery in volumes. With traction in the domestic tyre industry, performance of TTB can improve going forward.

Capex pipeline strong

SRF's capex plans remain strong and would aid growth over the next few years in both CB and PFB. While sweating of recently commissioned capex in FCB and PFB will aid in FY21-22, further growth will come from next leg of capex like those in chloromethanes, SCB and BOPP business. SRF aims to move into complex chemistries beyond fluorination through investment of QIP proceeds, which we believe could be a significant positive and open up new growth opportunities.

Outlook and valuation: Revise FY21/22 estimates; maintain BUY

We maintain our BUY recommendation due to robust future growth expectations across CB and PFB and revise our FY21/22 EPS estimates upwards to INR 193/226, respectively, with a revised target price of INR 5,647 per share, valuing the company at 25x FY22E EPS.

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CMP: INR 4,952

Rating: BUY

Target price: INR 5,647

Upside: 14%

Bloomberg:	SRF IN
52-week range (INR):	2,468/5,064
Share in issue (crore):	5.7
M-cap (INR crore):	28,834
Promoter holding (%)	52.32

Year to March (INR)	Q2FY21	Q2FY20	Change	Q1FY21	Change	FY21E	FY22E	FY23E
Revenue	2,101	1,738	20.9	1,545	36.0	7,970	9,470	10,666
Revenue growth (%)	21	1		(12)		11	19	13
EBITDA	572	331	73.0	363	57.6	1,953	2,250	2,549
EBITDA margin (%)	27	19		24		25	24	24
Net profit	316	201	57.1	177	78.5	1,112	1,298	1,487
Net profit margin (%)	15	12		11		14	14	14
EPS (INR)	54.8	52.4	4.7	30.8	78.0	193.4	225.9	258.7
EPS growth (%)	5	99		(6)		9	17	15
P/E (x)						25.6	21.9	19.1
EV/EBITDA (x)						16.0	13.9	12.1
RoACE (%)						16	17	17
RoAE (%)						20	20	19

Date: 06th November, 2020

Q2FY21 result highlights

Key takeaways – Q2FY21 results**Specialty Chemicals business (SCB)**

- SCB had a robust quarter on the back of higher volumes and healthy demand in most products, particularly products that cater to fungicides and herbicides, which has led to better operating leverage.
- During the quarter SRF launched one product each for application in agrochemical and pharmaceutical industries.
- Board has approved capex of INR 17.5 cr for P16, which is a key intermediate for some products that are seeing demand expansion.
- Taking in account the performance of this segment in H1FY21, management has revised upwards the FY21 growth guidance for the segment to north of 25%.
- More capex announcements are expected in SCB. Around 55-60% of future capex is expected to be made in the Chemical Business (CB).
- SCB to focus mostly on exports, at least in the medium term.
- SRF is looking to diversify in complex chemistries beyond fluorination and undertake bromination, iodization, chlorination, Grignard reactions etc., to address the significant opportunity that the company is seeing in the agrochemical space.
- On the pharma side, the company is focusing on 4-5 therapies.

Fluorochemicals business (FCB)

- FCB remained weak due to lacklustre demand of refrigerants from automobile and air-conditioning segments. However, demand is expected to improve going forward across categories.
- Antidumping duty (ADD) on pre-charged air-conditioning and possible ADD on R32 imports would be beneficial for SRF and the industry, and would lead to better utilization. Application of ADD by US and other countries on Chinese imports would also be beneficial.
- Refrigerant gases capacity utilization has not yet reached pre-COVID level on an aggregate basis. While R32 capacity was fully utilized at the exit of Q2FY21, R134a and R125 are short of full utilization level.
- SRF has recently commenced export of proprietary R467A (a drop-in substitute of R22) to some customers in the Middle East.
- As HFC capacities ramp-up, some margin improvement is expected for overall CB.

Packaging films business (PFB)

- Q2FY21 robust performance was aided by healthy volumes and margins recorded on BOPP and BOPET. BOPET VAP sales were up 20% YoY.
- Exports helped margins in the segment. However, additional capacity could impact margin negatively going forward.
- BOPET film line recently commissioned in Thailand has been ramped up to 90% of rated capacity and related resin plant will be commissioned in the ensuing quarter.
- Apart from Hungary and Thailand BOPET lines, all capacities are running at full utilizations.
- SRF launched four new products during the quarter.
- Second BOPP line in Indore will be constructed for a capex of INR 424 cr and commissioned in 20-24 month. It is a 10.6 metre line, and, is expected that commissioning time would coincide with a point of shortfall in market and upcycle scenario.

Technical textiles business (TTB)

- TTB recorded faster than expected recovery due to improvement in domestic tyre industry. NTCF volume improved by 25% YoY.
- At the exit of the quarter, TTB capacity was at full utilization.

Capex plan

- INR 1,500-1,800 cr capex over the next three years, of which large share will go to specialty chemicals segment.
- INR 220 cr capex will be spent on two projects related to Water Security and Thermal Oxidation at Dahej Plant over 3 years period on modular basis.
- Additionally, management believes not much capex in infrastructure is required over the next 2-3 years.
- PTFE capex is currently delayed by one year, and will be reviewed in next 3-6 months.

Others

- QIP proceeds of INR 750 cr will be deployed over the next 12-18 months in organic growth opportunities, particularly complex chemistries beyond fluorination.

Q2FY21 result highlights

Particulars (INR Crs)	Q2FY21	Q2FY20	% change	Q1FY21	% change	FY20	FY21E	FY22E	FY23E
Income from operations	2,101	1,738	2	1,545	6	7,209	7,970	9,470	10,666
Cost of goods sold	955	883	-9	742	6	4,360	4,649	5,429	6,115
Employee expenses	151	129	17	137	6	542	599	712	802
Other expenses	423	394	10	303	-4	1,395	1,368	1,791	2,003
Total operating expenses	1,528	1,407	-3	1,182	3	5,754	6,017	7,220	8,117
EBITDA	572	331	25	363	22	1,455	1,953	2,250	2,549
Depreciation and amortisation	114	93	12	104	10	389	457	536	615
Earnings before interest & tax	458	238	30	259	26	1066	1497	1714	1934
Interest expenses	36	55	-11	43	-14	201	157	141	125
Profit before tax	432	205	40	226	26	1018	1389	1623	1859
Provision for tax	116	4	-379	49	-	-1	278	325	372
Core profit	316	201	125	177	72	1019	1112	1298	1487
Extraordinary items adjusted for tax	-0	100	0	0	-102	0	0	0	0
Adjusted net profit	315	301	107	177	14	1019	1112	1298	1487
Number of shares (crore)	6	6	0	6	0	6	6	6	6
Diluted EPS (INR)	55	52	107	31	14	177	193	226	259

Revised Estimates

INR (Crs)	FY21E			FY22E		
	Previous	Revised	% Change	Previous	Revised	% Change
Sales	7545	7970	6%	9098	9470	4%
EBITDA	1649	1953	18%	1897	2250	19%
EBITDA Margin (%)	22%	25%	3%	21%	24%	3%
PAT	872	1112	27%	1116	1298	16%
EPS	152.0	193.4	27%	194.0	225.9	16%

Financials in charts

Exhibit 1: CB segment to be the key growth driver (INR cr)

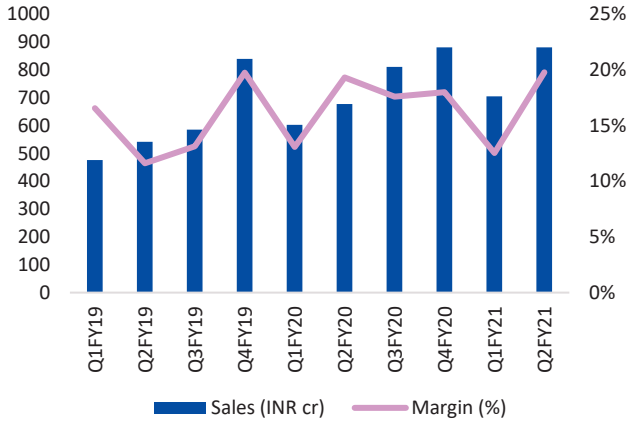
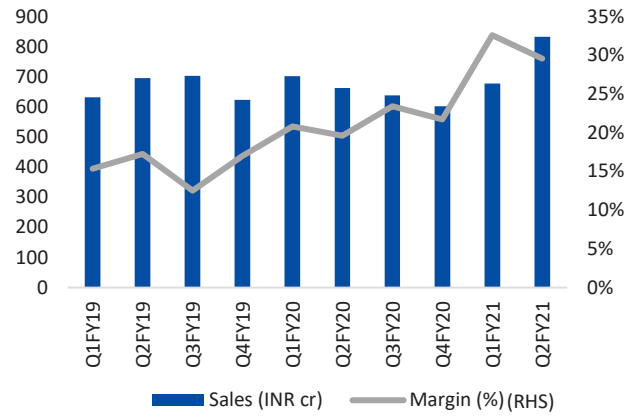


Exhibit 2: PFB margin remains stable (INR cr)



Note: Volume mix not available for FY19, hence overall volumes are displayed.

Exhibit 3: TTB segment has bounced back (INR cr)

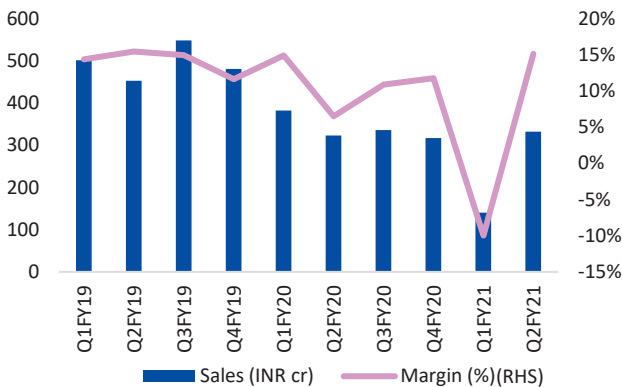


Exhibit 4: Revenue (INR cr)

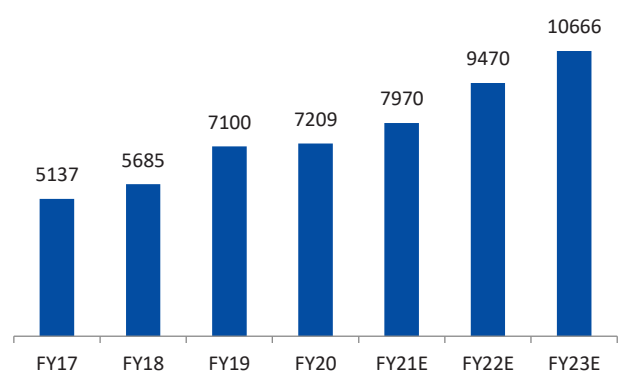


Exhibit 5: SCB- Revenue Contribution (%)

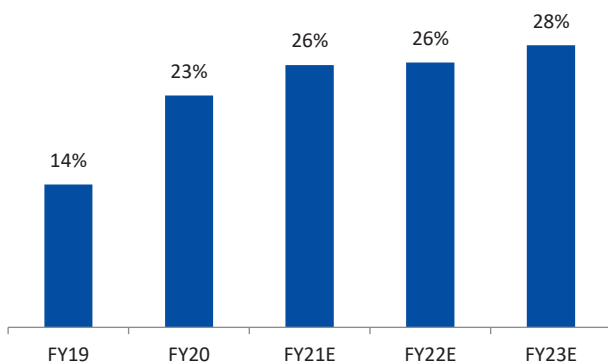
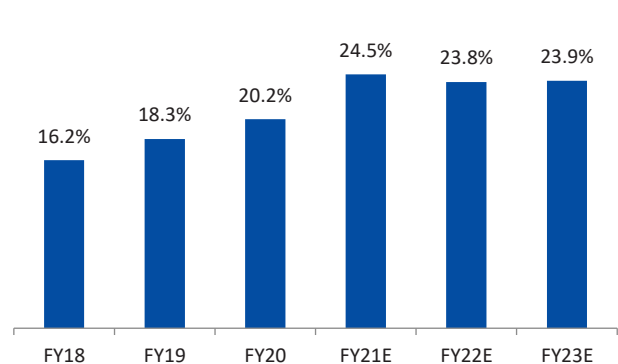


Exhibit 6: EBITDA margin to expand



Source: Edelweiss Professional Investor Research

Result outlook for Q1FY21

SCB will be a key value creator for SRF’s shareholders given its R&D capabilities in the fluorination space, product development and customer relationships, resulting in a larger contribution to revenue and profit. Growth in the PFB segment will be driven by overseas expansions. Weak demand may persist in FCB and TTB in the near term. As its long-term story remains intact, we have revised our FY21/FY22 EPS estimates to INR 152/194, respectively. We maintain our BUY rating with a revised target price of INR 4,270 per share, valuing the company at 22x FY22E EPS.

Result outlook for Q4FY20

SCB will be a key value creator for SRF’s shareholders given its R&D capabilities in the fluorination space, product development and customer relationships, resulting in a larger contribution to its revenue and profits. Growth in the PFB segment will be driven by overseas expansions. Weak demand may persist in FCB and TTB in the near term. Factoring these, a reduction in debt, consistent capex and lower tax rate, we have revised our FY21/FY22 EPS estimates to INR 144/191, respectively. We upgrade our recommendation to BUY with a target price of INR 4,007 per share, valuing the company at 21x its FY22E EPS.

Result outlook for Q3FY20

The CB segment will be a key enabler of value creation for SRF’s shareholders, on the back of its R&D capabilities in the fluorination space, product development and customer relationships. We hence expect to see continued robust growth in CB, particularly driven by SCB. Additionally, PFB’s growth will be driven by overseas expansions which will be commissioned in Q4FY20 and FY21. Consequently, we have revised our FY20/FY21 EPS estimates upwards to INR 147/166. We, however, maintain our ‘HOLD’ recommendation due to the current valuations.

Q1FY21

Quarterly Update Q1FY21
SRF Ltd

Key highlights: Revenue growth, Profitability improvement, Strong performance in PFB segment.

Key metrics: Revenue (INR 1,000 Cr), Profit (INR 150 Cr), EPS (INR 15.00).

Particulars	Q1FY21	Q1FY20	Q1FY19
Revenue	1,000	950	900
Profit	150	140	130
EPS	15.00	14.00	13.00

Q4FY20

Quarterly Update Q4FY20
SRF Ltd

Key highlights: Revenue growth, Profitability improvement, Strong performance in PFB segment.

Key metrics: Revenue (INR 1,000 Cr), Profit (INR 150 Cr), EPS (INR 15.00).

Particulars	Q4FY20	Q4FY19	Q4FY18
Revenue	1,000	950	900
Profit	150	140	130
EPS	15.00	14.00	13.00

Q3FY20

Quarterly Update Q3FY20
SRF Ltd

Key highlights: Revenue growth, Profitability improvement, Strong performance in PFB segment.

Key metrics: Revenue (INR 1,000 Cr), Profit (INR 150 Cr), EPS (INR 15.00).

Particulars	Q3FY20	Q3FY19	Q3FY18
Revenue	1,000	950	900
Profit	150	140	130
EPS	15.00	14.00	13.00

Financials

Income statement

Year to March (INR Crs)	FY19	FY20	FY21E	FY22E	FY23E
Income from operations	7,100	7,209	7,970	9,470	10,666
Total operating expenses	5,803	5,754	6,017	7,220	8,117
EBITDA	1,297	1,455	1,953	2,250	2,549
Depreciation and amortisation	358	389	457	536	615
EBIT	939	1,066	1,497	1,714	1,934
Interest expenses	198	201	157	141	125
Profit before tax	818	1,018	1,389	1,623	1,859
Provision for tax	177	(1)	278	325	372
Core profit	642	1,019	1,112	1,298	1,487
Extraordinary items	0	0	0	0	0
Profit after tax	642	1,019	1,112	1,298	1,487
Adjusted net profit	642	1,019	1,112	1,298	1,487
Equity shares outstanding (mn)	5.7	5.7	5.7	5.7	5.7
EPS (INR) basic	111.6	177.3	193.4	225.9	258.7
Diluted shares (Cr)	5.7	5.7	5.7	5.7	5.7
EPS (INR) fully diluted	111.6	177.3	193.4	225.9	258.7
Dividend per share	12.0	14.0	14.0	14.0	14.0
Dividend payout (%)	10.8	7.9	7.2	6.2	5.4

Common size metrics- as % of net revenues

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Operating expenses	81.7	79.8	75.5	76.2	76.1
Depreciation	5.0	5.4	5.7	5.7	5.8
Interest expenditure	2.8	2.8	2.0	1.5	1.2
EBITDA margins	18.3	20.2	24.5	23.8	23.9
Net profit margins	9.0	14.1	13.9	13.7	13.9

Growth metrics (%)

Year to March	FY19	FY20	FY21E	FY22E	FY23E
Revenues	27.0	1.5	10.5	18.8	12.6
EBITDA	43.1	12.2	34.3	15.2	13.3
PBT	40.7	24.4	36.5	16.8	14.5
Net profit	39.0	58.8	9.1	16.8	14.5
EPS	39.1	58.8	9.1	16.8	14.5

Financials

Balance sheet

As on 31st March (INR Crs)	FY19	FY20	FY21	FY22E	FY23E
Equity share capital	59	59	59	59	59
Preference Share Capital	0	0	0	0	0
Reserves & surplus	4,071	4,875	5,904	7,122	8,528
Shareholders funds	4,129	4,933	5,963	7,180	8,587
Total Debt	3,730	4,135	3,735	3,335	2,935
Other Long Term Liabilities	0	0	0	0	0
Deferred Tax Liabilities	342	161	161	161	161
Minority interest	0	0	0	0	0
Sources of funds	8,201	9,229	9,859	10,676	11,683
Gross block	6,836	7,922	9,422	10,922	12,422
Depreciation	(1,227)	(1,554)	(2,011)	(2,546)	(3,161)
Net block	5,609	6,368	7,411	8,375	9,261
Capital work in progress	754	1,393	0	0	0
Total fixed assets	6,363	7,761	7,411	8,375	9,261
Other Non Current Assets	0	0	0	0	0
Investments	101	203	203	203	203
Inventories	1,225	1,201	1,328	1,578	1,777
Sundry debtors	1,029	891	985	1,170	1,318
Cash and equivalents	199	125	888	508	443
Loans and advances	619	478	638	758	853
Other current assets	0	0	0	0	0
Total current assets	3,072	2,696	3,839	4,014	4,392
Sundry creditors and others	1,614	1,543	1,705	2,026	2,282
Provisions	16	16	17	18	19
Total CL & provisions	1,630	1,559	1,723	2,044	2,301
Net current assets	1,442	1,137	2,116	1,970	2,091
Net Deferred tax	0	0	0	0	0
Misc expenditure	296	129	129	129	129
Uses of funds	8,201	9,229	9,859	10,676	11,683
Book value per share (INR)	719	858	1,038	1,249	1,494

Cash flow statement

Year to March	FY19	FY20	FY21	FY22E	FY23E
Net profit	642	1,019	1,112	1,298	1,487
Add: Depreciation	358	389	457	536	615
Add: Misc expenses written off	(107)	167	0	0	0
Add: Deferred tax	51	(181)	0	0	0
Gross cash flow	944	1,394	1,568	1,834	2,101
Less: Changes in W. C.	333	(232)	217	233	186
Operating cash flow	610	1,626	1,352	1,600	1,916
Less: Capex	1,041	1,786	107	1,500	1,500
Free cash flow	(431)	(161)	1,245	100	416

Financials

Ratios

Year to March	FY19	FY20	FY21	FY22E	FY23E
ROAE (%)	17	22	20	20	19
ROACE (%)	12	12	16	17	17
Debtors (days)	53	45	45	45	45
Current ratio	1.9	1.7	2.2	2.0	1.9
Debt/Equity	0.9	0.8	0.5	0.4	0.3
Inventory (days)	63	61	61	61	61
Payable (days)	83	78	78	78	78
Cash conversion cycle (days)	33	28	28	28	28
Debt/EBITDA	2.9	2.8	1.9	1.5	1.2
Adjusted debt/Equity	0.9	0.8	0.5	0.4	0.3

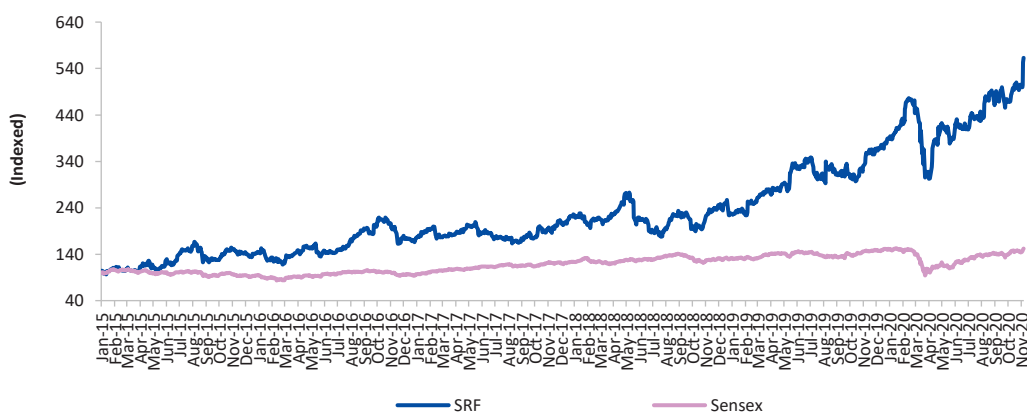
Valuation parameters

Year to March	FY19	FY20	FY21	FY22E	FY23E
Diluted EPS (INR)	111.6	177.3	193.4	225.9	258.7
Y-o-Y growth (%)	39.1	58.8	9.1	16.8	14.5
CEPS (INR)	174.0	244.9	272.9	319.1	365.7
Diluted P/E (x)	44.4	27.9	25.6	21.9	19.1
Price/BV(x)	6.9	5.8	4.8	4.0	3.3
EV/Sales (x)	4.5	4.5	3.9	3.3	2.9
EV/EBITDA (x)	24.7	22.3	16.0	13.9	12.1
Diluted shares O/S	5.7	5.7	5.7	5.7	5.7
Basic EPS	111.6	177.3	193.4	225.9	258.7
Basic PE (x)	44.4	27.9	25.6	21.9	19.1
Dividend yield (%)	0.2	0.3	0.3	0.3	0.3

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Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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