Sharekhan
by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

SRF Ltd

Stock appears to have reached its bottom with strong recovery expected

Speciality Chem	Sharekhan code: SRF
Reco/View: Buy ↔	CMP: Rs. 2,248
Price Target: Rs. 2,707 ↑	

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

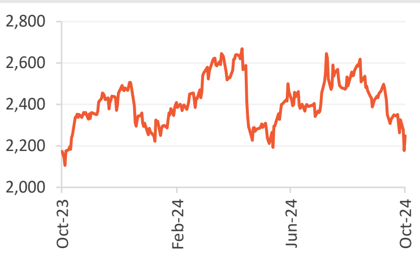
Company details

Market cap:	Rs. 66,595 cr
52-week high/low:	Rs. 2,697/2,081
NSE volume: (No of shares)	17 lakh
BSE code:	503806
NSE code:	SRF
Free float: (No of shares)	14.74 cr

Shareholding (%)

Promoters	50
FII	18
DII	18
Others	14

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.9	-4.8	-14.1	3.5
Relative to Sensex	-2.2	-4.3	-22.5	-23.3

Sharekhan Research, Bloomberg

Summary

- In Q2FY2025, revenue reached Rs. 3,424 crore, up 8% y-o-y, but down 1% q-o-q. Operating profit stood at Rs. 538 crore, reflecting a 14% y-o-y decrease and an 11% q-o-q decline. Margins were recorded at 16%, down 399 bps y-o-y and 167 bps q-o-q. PAT stood at Rs. 202 crore, down 33% y-o-y and 20% q-o-q.
- The chemical segment saw declines in key financial metrics, with revenue at Rs. 1,358 crore, down 5% y-o-y and 8% q-o-q. EBIT stood at Rs. 246 crore, down 29% y-o-y and 20% q-o-q, with EBIT margin at 16%, down 626 bps y-o-y and 255 bps q-o-q.
- The Board has approved two major projects: the establishment of production facilities for fourth-generation refrigerants at an estimated cost of Rs. 1,100 crore, expected to be completed in about 30 months, and a manufacturing facility for the BOPP-BOPE film line in Indore, costing Rs. 445 crore, and anticipated to be operational in approximately 25 months. The latter project not only expands substrate offerings but also aligns with the company's sustainability agenda due to the recyclability of polyolefin substrates.
- We maintain BUY, adjusting our PT to Rs. 2,707, reflecting a valuation of 30x P/E, based on the projected FY2027E EPS of Rs. 90.24, considering ongoing challenges in the chemical sector.

SRF Limited (SRF) has once again delivered a disappointing set of results, with total revenue reaching Rs. 3,424 crore — an 8% y-o-y increase, down 1% q-o-q. Within its segments, the chemicals business faced challenges, reporting a 5% drop in revenue, while the packaging films business showed a robust 27% increase, driven by improved BOPET film margins in India. The technical textiles business also contributed positively, with a 6% rise in the segment's revenue. However, other businesses struggled, experiencing an 11% decline in revenue. Operating profit fell to Rs. 538 crore, down 14% y-o-y and 11% q-o-q, despite the packaging films business benefiting from improved margins. Ultimately, PAT came in at Rs. 202 crore, reflecting a significant drop of 33% y-o-y and 20% q-o-q, highlighting the ongoing pressures faced by the company.

Key positives

- The company's order book remains robust for the second half, and improved performance is expected.
- The fluorochemicals business experienced strong performance in the domestic market, marked by an increase in overall volumes.
- Domestic margins for BOPET films have shown improvement.

Key negatives

- Operating profit in the chemicals business fell by 29%.
- In the fluorochemical segment, lower export realisations have pressured margins.
- The Thailand business remains impacted by Chinese dumping practices.

Management Commentary

- The company anticipates performance improvement from Q3, with an even stronger finish expected in Q4. It foresees a positive impact in the second half of the year, driven by a gradual recovery in demand and a robust order book.
- The company's sourcing initiatives have produced favourable outcomes, resulting in the approval of several new raw materials and suppliers. This development has further strengthened their supply chain and improved operational flexibility.
- Elevated inventory levels can be attributed to weak demand from agro customers, resulting in rationalisation and reduced offtake.
- The company has expanded its market share in both the room air conditioners (RAC) and mobile air conditioners (MAC) segments.

Revision in estimates: We have revised our FY2025 earnings downward and adjusted our projections for FY2026 while introducing FY2027 earnings, taking into account the ongoing situation in the chemical industry.

Our Call

Valuation – Maintain BUY on SRF with a revised PT of Rs. 2,707: While there are short-term concerns regarding inventory rationalisation in the agrochemicals sector, SRF remains a strong player with solid collaborations with innovators and dedicated customer contracts. The company also holds promising long-term earnings growth prospects, as the industry appears to have bottomed out, with anticipated recovery. We view the recent decline in SRF's stock price as a favourable opportunity for investors to accumulate shares. Currently, the stock trades at a reasonable value of 25x its FY2027E EPS. Therefore, we maintain our BUY rating on SRF with a revised price target (PT) of Rs. 2,707.

Key Risks

- The chemical sector continues to face headwinds resulting in recovery in H2.
- Slower offtake from user industries and concerns about the correction in product prices can affect revenue growth.
- Input cost price volatility might affect margins.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24A	FY25E	FY26E	FY27E
Revenue	14,870	13,852	15,189	17,468	20,961
OPM (%)	24%	20%	18%	26%	26%
Adjusted PAT	2,113	1,336	1,025	1,774	2,675
y-o-y growth (%)	13%	-37%	-23%	73%	51%
Adjusted EPS (Rs.)	71.3	45.06	34.59	59.85	90.24
P/E (x)	31x	49x	64x	37x	25x
P/BV (x)	6x	6x	5x	5x	4x
EV/EBITDA (x)	20x	27x	26x	18x	13x
RoCE (%)	21%	13%	11%	15%	20%
RoE (%)	21%	12%	8%	13%	17%

Source: Company; Sharekhan estimates

Specialty chemicals business – Impact of agrochemical slowdown on performance

- Slowdown in the agrochemical market persists, affecting overall performance, as new products gained positive traction but high inventory levels among customers led to reduced offtake for certain key items.
- The company is concentrating on rapidly increasing production at its newly commissioned plants.
- SRF is maintaining its collaboration with innovators to develop more complex and downstream offerings, showcasing its R&D capabilities in creating advanced solutions.
- In H1, the company successfully launched three new agro products and three new pharmaceutical products.

Fluorochemicals – Performance overview of refrigerant gases

- Refrigerant gases exhibited strong performance in the domestic market, achieving record volume sales in H1 and increasing market share in both the RAC and MAC segments.
- However, export realisations for some refrigerant gases remained low in Q2, adversely affecting overall margins, particularly due to seasonality and inventory overhang in the U.S. market.
- The industrial chemicals segment was impacted by an unfavourable commodity cycle, although some pricing improvements were noted towards the end of Q2.
- PTFE trials for free flow and fine-cut grades are progressing as planned, with export sampling for specific grades currently in advanced discussions.
- The Board has approved a Rs. 1,100 crore project to establish production facilities for fourth-generation refrigerants that have a lower global warming potential and carbon footprint.

Packaging Films – Improved performance of the packaging films business

- The packaging films business reported enhanced performance, with BOPET showing strong results in India due to better pricing and margins in Q2.
- BOPP remained stable and met expectations, while performance in Thailand was affected by intense competition from Chinese firms.
- The ongoing emphasis on increasing sales of identified value-added products (VAPs) has yielded positive outcomes, resulting in the development of seven BOPET and eight BOPP product variants during H1.
- Aluminium foil production stabilised in H1, bolstered by rising volumes in both domestic and export markets.
- The Board has approved a ₹445 crore project to set up a hybrid BOPP-BOPE film line in India, aligning with the company's sustainability agenda.

Technical Textiles – H1 performance meets expectations

- H1 performance aligned with expectations, with Nylon Tyre Cord Fabrics (NTCF) achieving stable results and recording the highest-ever quarterly sales volumes.
- Belting Fabrics (BF) experienced healthy sales volumes; however, margins were affected by pricing pressures.
- The Polyester Industrial Yarn (PIY) segment also performed well.
- The focus on enhancing high-end VAP sales in the BF segment continues, with entry into a new geography and the commercialisation of eight new VAPs in H1.
- Capital expenditure projects are progressing as planned.

Results (Consolidated) Rs cr

Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Revenue	**3,424**	**3,177**	**8%**	**3,464**	**-1%**
Total Expenditure	2,886	2,551	13%	2,862	1%
Operating profit	**538**	**626**	**-14%**	**602**	**-11%**
Other Income	33	29	14%	25	32%
Depreciation	193	161	20%	188	3%
Interest	94	79	18%	95.54	-2%
PBT	284	415	-31%	344	-17%
Tax	82	114	-28%	92	-10%
Reported PAT	**202**	**301**	**-33%**	**252**	**-20%**
Reported EPS (Rs.)	6.79	10.15	-33%	8.51	-20%
Margin (%)			**YoY (BPS)**		**QoQ (BPS)**
OPM	16%	20%	-399bps	17%	-167bps
NPM	6%	9%	-356bps	7%	-138bps
Tax rate	29%	28%	143bps	27%	225bps

Source: Company, Sharekhan Research

Segmental performance (Consolidated) Rs cr

Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Segmental revenue					
Technical Textiles	536	506	6%	525	2%
Chemical	1,358	1,426	-5%	1,482	-8%
Packaging Film	1,421	1,122	27%	1,336	6%
Others	113	127	-11%	126.16	-11%
Total	**3,427**	**3,181**	**8%**	**3,470**	**-1%**
Inter Segment	2	3	-30%	6	-57%
Net Revenue	**3,424**	**3,177**	**8%**	**3,464**	**-1%**
Segmental EBIT					
Technical Textiles	71	75	-5%	68	5%
Chemical	246	348	-29%	306	-20%
Packaging Film	83	77	7%	87	-5%
Others	17	33	-48%	24	-27%
Total EBIT	**417**	**533**	**-22%**	**484**	**-14%**
EBIT Margin (%)					
Technical Textiles	13%	15%	-149bps	13%	43bps
Chemical	18%	24%	-626bps	21%	-255bps
Packaging Film	6%	7%	-106bps	6%	-66bps
Others	15%	26%	-1085bps	19%	-344bps
Overall EBIT margin	**12%**	**17%**	**-458bps**	**14%**	**-178bps**

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Structural growth drivers to propel sustained growth for the specialty chemical sector

We remain bullish on the medium to long-term growth prospects of the specialty chemicals sector, given a massive revenue opportunity from the perspective of import substitution (India's total specialty chemical imports are estimated at $56 billion), a potential rise in exports given China Plus One strategy followed by global customers and a favourable government policies (such as tax incentives and production-linked incentive scheme similar to that of the pharmaceutical sector). We believe that conducive government policies, product innovation, massive export opportunities, and low input prices would help the sector report a high double-digit earnings growth trajectory on a sustained basis in the next 2-3 years.

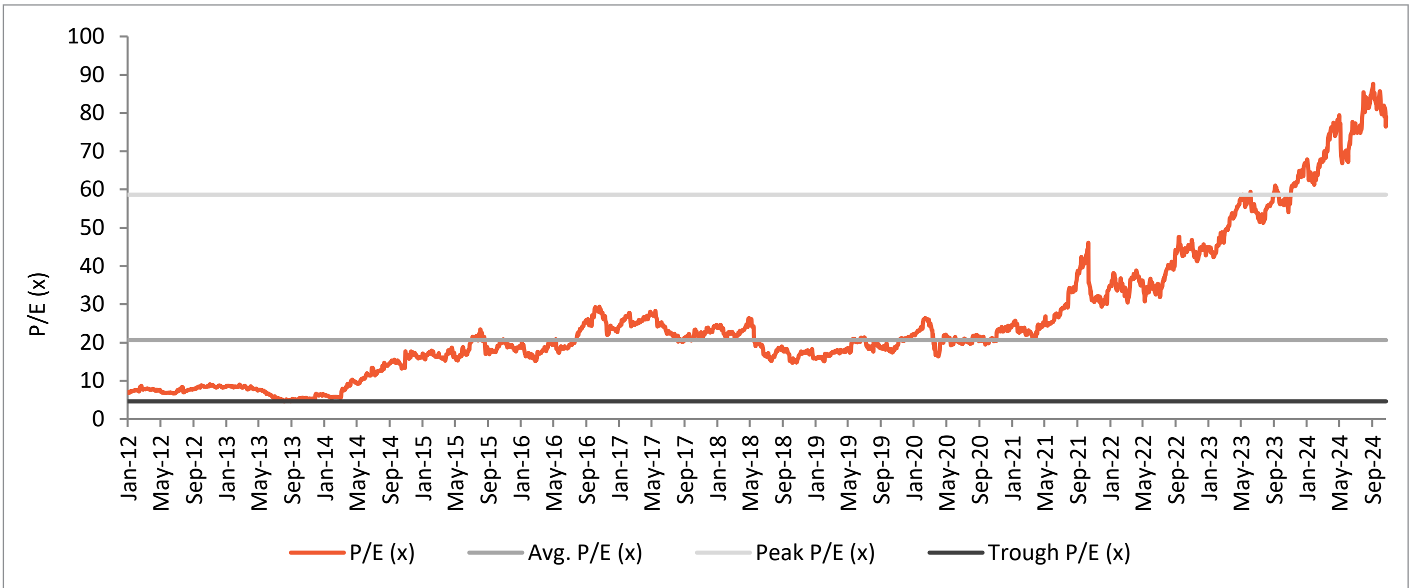
■ Company outlook - Near-term concerns seem transitionary

Management indicated near-term concerns for the company, given temporary ref-gas pricing pressure and inventory rationalisation along with order delays by customers in agrochemical. The above-mentioned challenges seem short-term in nature and significant growth opportunities are expected in the agro-chemicals as well as active pharmaceutical ingredients (API) segments. Moreover, management sees strong global demand (especially in the U.S.) for HFCs. High capital intensity toward specialty chemicals makes us confident about the long-term revenue/ earnings growth of SRF. Moreover, investment in the right areas of the specialty chemicals business would improve earnings quality and safeguard from cyclical packaging film margins.

■ Valuation - Maintain BUY on SRF with a revised PT of Rs. 2,707

While there are short-term concerns regarding inventory rationalisation in the agrochemicals sector, SRF remains a strong player with solid collaborations with innovators and dedicated customer contracts. The company also holds promising long-term earnings growth prospects, as the industry appears to have bottomed out, with anticipated recovery. We view the recent decline in SRF's stock price as a favourable opportunity for investors to accumulate shares. Currently, the stock trades at a reasonable value of 25x its FY2027E EPS. Therefore, we maintain our BUY rating on SRF with a revised price target (PT) of Rs. 2,707.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Established in 1970, the company is a chemical-based multi-business entity engaged in the manufacturing of industrial and specialty intermediates. The company's diversified business portfolio covers technical textiles, chemicals (fluorochemicals and specialty chemicals), and packaging films. The company has 11 manufacturing plants in India, two in Thailand, one in South Africa, and an upcoming facility in Hungary. The company exports to more than 75 countries

Investment theme

Favourable growth prospects across the segment, led by speciality chemicals and fluorochemicals. Management sees significant growth opportunities in agro chemicals and API (developing two pharma molecules in collaboration with innovators). Continued high capex to expand capacities in high-growth areas of the specialty chemical business is likely to drive sustained high earnings growth. Moreover, the structural high-growth cycle for the Indian specialty chemicals sector, given favourable dynamics (China Plus One strategy by global companies), is likely to support premium valuation for quality players such as SRF.

Key Risks

- Slowdown in demand offtake from user industries and concerns over product price correction can impact revenue growth.
- Adverse input cost price volatility might impact the margin profile.

Additional Data

Key management personnel

Ashish Bharat Ram	Executive Director
Kartik Bharat Ram	Joint MD
Prashant Yadav	President and CEO, Fluorochemicals Business & Technical Textiles
Anurag Jain	President and CEO, Specialty Chemicals Business & Chemicals Technology Group
Prashant Mehra	President & CEO, Packaging Films Business, Coated & Laminated Fabrics Business
Rahul Jain	Chief Financial Officer

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp. of India	4.72
2	Kotak Mahindra Asset Management Co.	4.10
3	Amansa Holdings Pvt. Ltd.	3.26
4	Mirae Asset Financial Group	1.97
5	The Vanguard Group Inc.	1.93
6	GOVERNMENT PENSION FUND - GLOBAL	1.93
7	Norges Bank	1.79
8	Blackrock Inc.	1.78
9	FIL Ltd.	0.90
10	HDFC Asset Management Co. Ltd.	0.85

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/ information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN: - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE – 748, NSE – 10733, MCX – 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027.

Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022-69920600.