



India

REDUCE (no change)

Consensus ratings*: Buy 23 Hold 5 Sell 2

Current price:	Rs2,278
Target price:	Rs1,540
Previous target:	Rs1,540
Up/downside:	-32.4%
InCred Research / Consensus:	-39.2%
Reuters:	SRFL.NS
Bloomberg:	SRF IN
Market cap:	US\$9,298m
	Rs675,196m
Average daily turnover:	US\$18.7m
	Rs1360.5m
Current shares o/s:	296.4m
Free float:	49.5%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.3	(6.2)	(9.6)
Relative (%)	5.1	(10.9)	(17.0)

Major shareholders	% held
Promoter & Promoter Group	50.5
Kotak Mahindra AMC	4.1
Amansa Holdings	3.5

Analyst(s)



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SRF Limited

EPS expectation too high; retain REDUCE

- Two major headwinds are emerging for SRF:- 1) global channel destocking in agrochemicals, and 2) regulatory norm changes for refrigerants in the US.
- US channel destocking due to impending quota cut on HFC consumption led to a steep fall in the demand and prices of R-134A, SRF's profitable product.
- We believe that consensus EPS cut is on the cards as the earnings are likely to decline in the coming quarters. We retain our REDUCE rating on the stock.

Refrigerant prices are falling in the US - key export market for SRF

The US is going to cut HFC consumption quota by 33% per annum from 2024. We had written in detail regarding this in our report: [\(IN: Chemicals - Overall - R-125 & R-134A bull run is closer to its end\)](#). This quota cut is going to affect high GWP (global warming potential) refrigerants like R-125, R-410, R-134A and R-22. R-410A is a mixture of two refrigerants: R-125 and R-32. The ratio of R-125 to R-32 in R-410A is typically 50:50. R-125 is not used on its own as a refrigerant. It is used as a mixture component to make R-410A and other refrigerants. As the supply chain is preparing for the demand decline from 2024, destocking is starting and hence, incremental purchases of all the above refrigerants are declining YoY. Thus, the demand as well as prices of refrigerants are declining in the US – the main market for SRF.

Agrochemicals intermediate business likely to face headwinds

The agrochemicals sector is facing challenges due to fluctuating raw material prices and declining product prices. Major players like Bayer and Dow are warning of high channel inventory and sales slowdown. The high level of channel inventory is likely to lead to decreased demand for SRF's agrochemical intermediates. The celebrated China+1 strategy was driven by panic-induced channel filling. Hence, more quarters of destocking are needed for normalization. This is likely to put pressure on incremental demand, affecting both agrochemical companies and intermediate sellers like SRF.

Consensus earnings need a cut; retain REDUCE rating

Overall, the outlook for SRF is uncertain as the company faces several challenges. HFC export volume and margins are declining, resulting in a downward pressure on spreads for R-22, HFC-125, R-134A, and R-32. Lower HFC exports and margins are expected to result in reduction of consensus EPS estimate. In addition to the challenges in the refrigerants business, the agrochemicals sector is also likely to face destocking pressure because of the high level of channel inventory in the coming quarters, further contributing to the decline in EPS. We maintain our REDUCE rating on SRF with a target price of Rs1,540. Upside risks: Potential recovery in HFC prices and destocking easing in the agrochemicals space.

Financial Summary

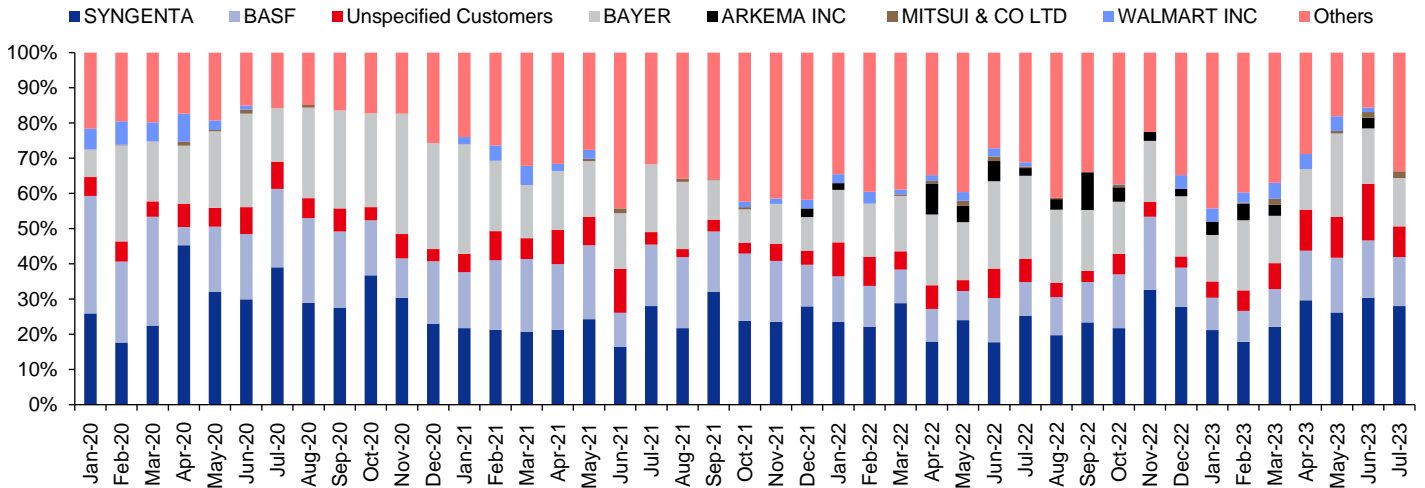
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	124,337	148,703	137,642	146,443	155,982
Operating EBITDA (Rsm)	31,759	35,292	28,257	32,665	37,362
Net Profit (Rsm)	18,889	21,623	16,060	18,789	21,913
Core EPS (Rs)	63.7	73.0	54.2	63.4	73.9
Core EPS Growth	57.6%	14.5%	(25.7%)	17.0%	16.6%
FD Core P/E (x)	35.74	31.22	42.04	35.93	30.81
DPS (Rs)	5.6	6.4	6.4	6.4	6.4
Dividend Yield	0.25%	0.28%	0.28%	0.28%	0.28%
EV/EBITDA (x)	22.13	20.05	24.58	20.88	17.84
P/FCFE (x)	101.50	112.49	60.00	42.44	34.70
Net Gearing	32.3%	31.4%	16.5%	5.3%	(5.7%)
P/BV (x)	7.88	6.54	5.75	5.03	4.37
ROE	24.5%	22.9%	14.6%	14.9%	15.2%
% Change In Core EPS Estimates			(0.13%)	0.02%	0.19%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

EPS expectations too high; retain REDUCE

SRF remains an agrochemical intermediate and HFC supplier

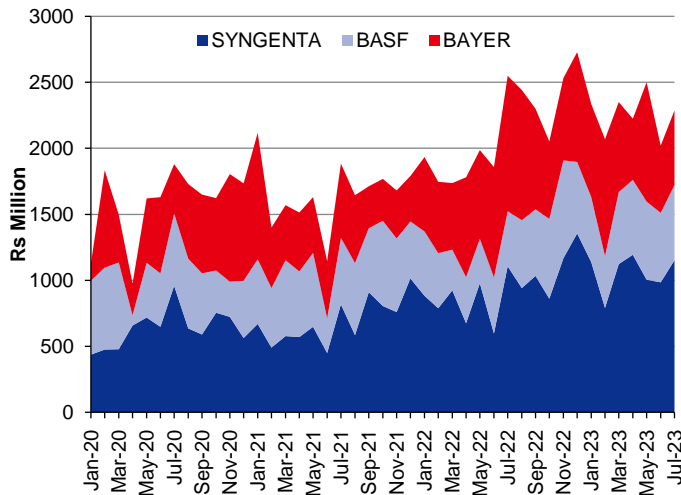
Figure 1: In the chemicals segment, SRF's main clients are agrochemicals companies who are facing demand headwinds



SOURCE: INCRED RESEARCH, COMPANY REPORTS

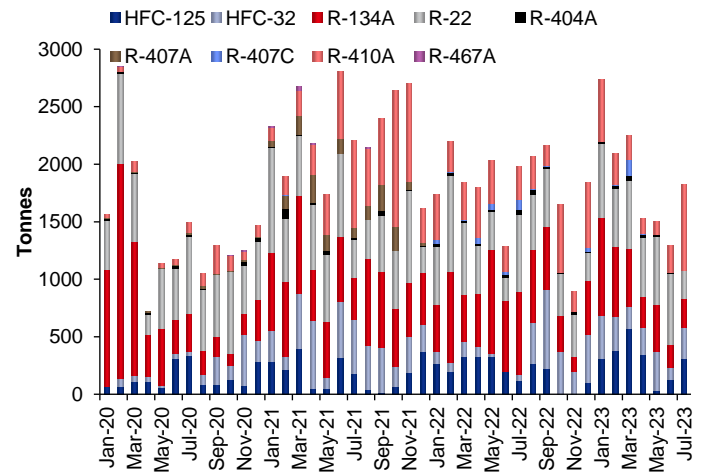
The sales to key clients seems to be plateauing ➔

Figure 2: Overall monthly exports of agrochemical intermediates appear to have touched their peak



SOURCE: COMPANY REPORTS, INCRED RESEARCH

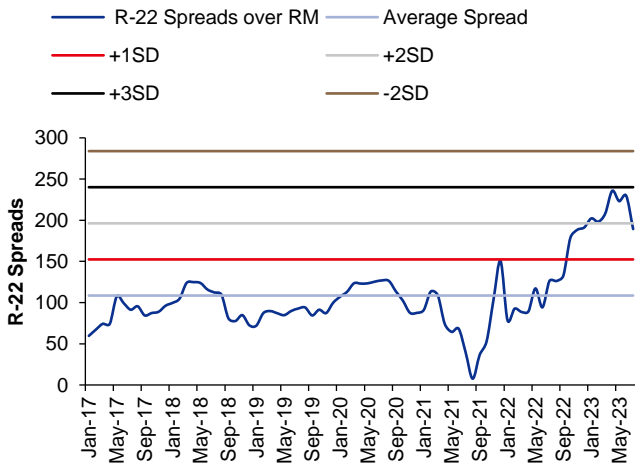
Figure 3: Overall HFC export volume is trending downwards



SOURCE: COMPANY REPORTS, INCRED RESEARCH

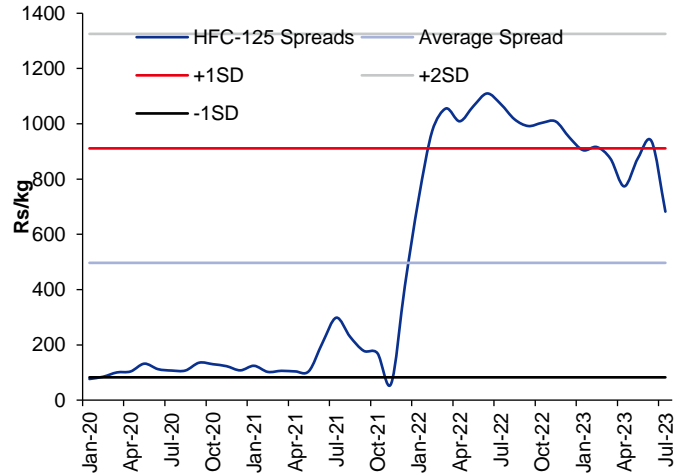
Most of the HFC spreads are falling

Figure 4: R-22 spreads appear to have peaked...



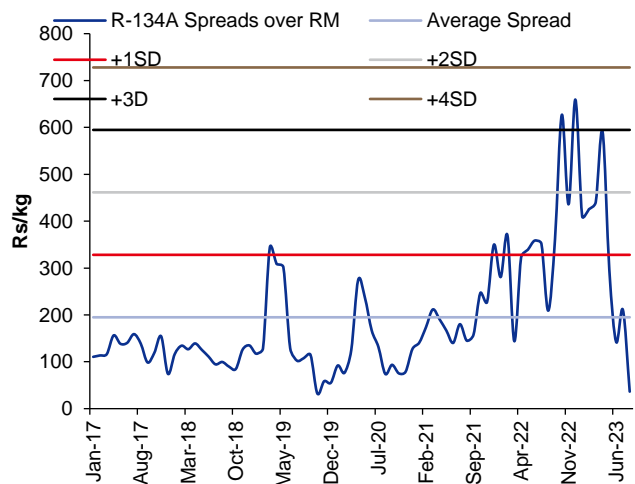
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: ...and similar is the case with HFC-125 spreads



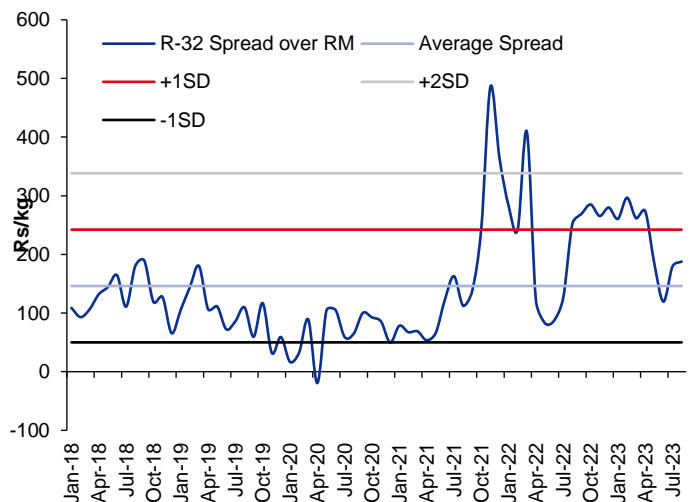
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: R-134A spreads are crashing and it's surprising mainly because R-134A is also used in pharmaceutical applications



SOURCE: INCRED RESEARCH, COMPANY REPORTS

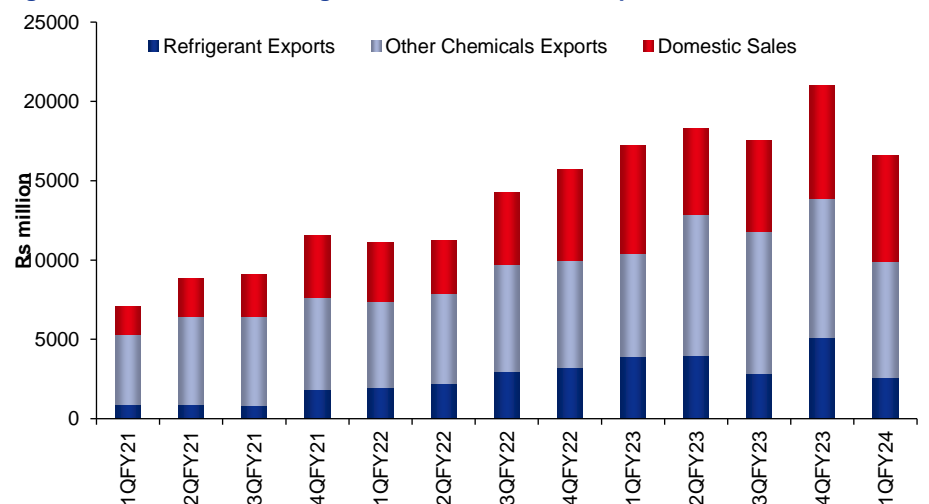
Figure 7: R-32 spreads are also a way past their peak



SOURCE: INCRED RESEARCH, COMPANY REPORTS

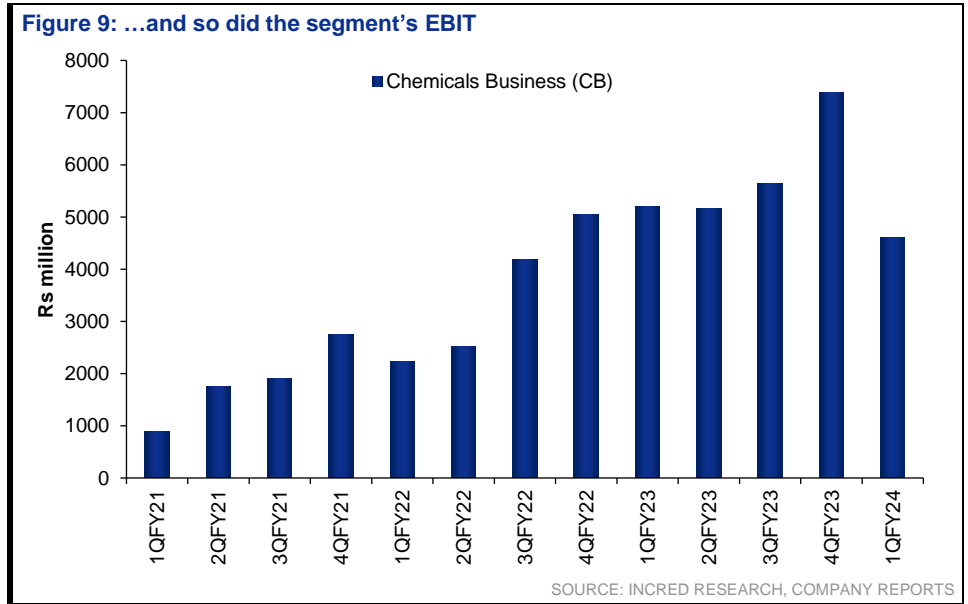
Segmental analysis of chemicals indicate that most of the gains were driven by HFC exports

Figure 8: Overall chemical segment's revenue touched a peak in 4QFY23...



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: ...and so did the segment's EBIT



Within HFC, it were R-125, R-134A and R-410A that drove the incremental EBIT ➤

Figure 10: 1QFY24 witnessed a massive decline in the export volume of key refrigerants...

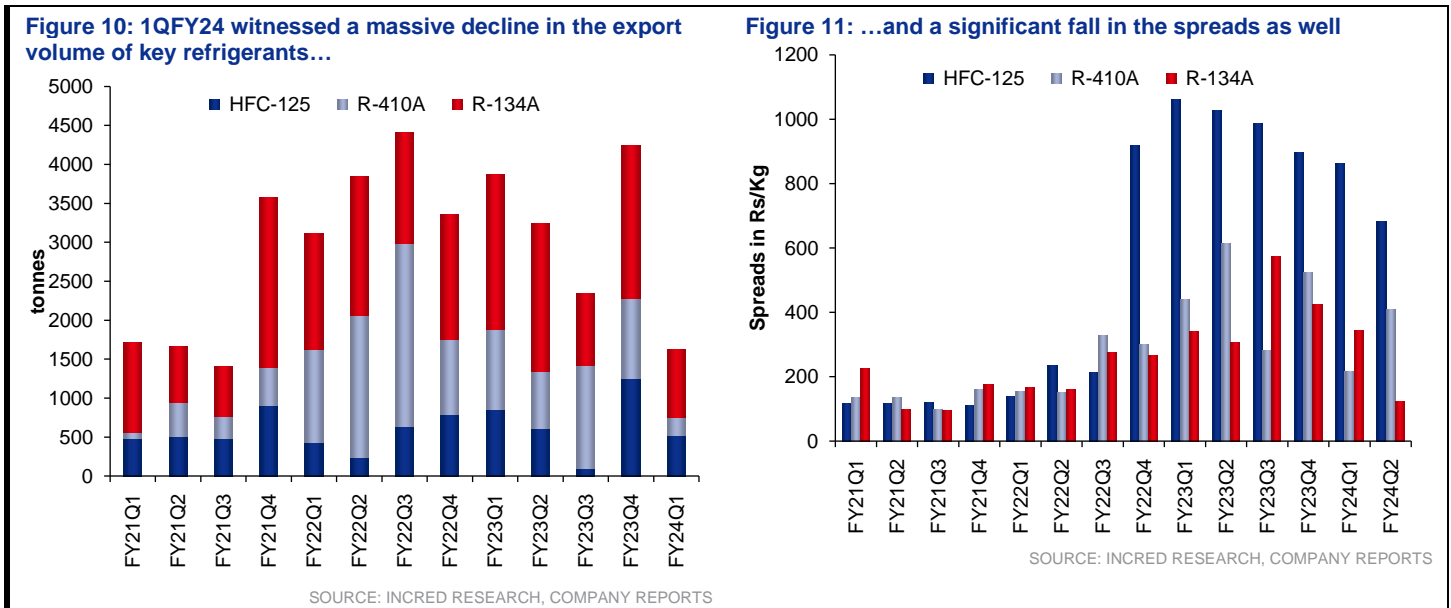
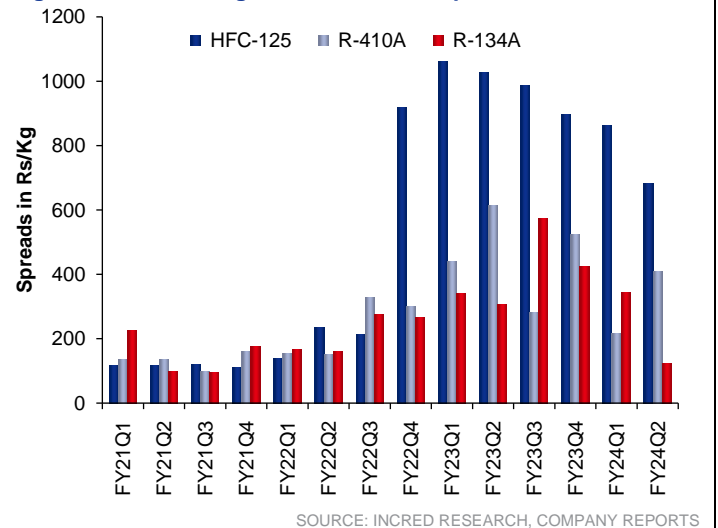


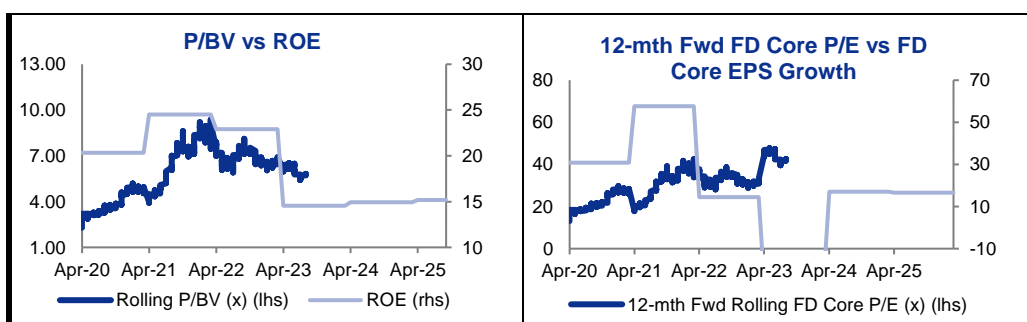
Figure 11: ...and a significant fall in the spreads as well



Slowdown in the agrochemicals sector is another headwind for SRF ➤

Bayer, Dow and all other agrochemical companies are warning of high channel inventory and the resultant slowdown in sales. As SRF is one of the major intermediate suppliers for agrichemicals, it's likely to face headwinds in base agrochemical sales.

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	124,337	148,703	137,642	146,443	155,982
Gross Profit	124,337	148,703	137,642	146,443	155,982
Operating EBITDA	31,759	35,292	28,257	32,665	37,362
Depreciation And Amortisation	(5,172)	(5,753)	(5,702)	(6,587)	(7,107)
Operating EBIT	26,587	29,539	22,555	26,078	30,255
Financial Income/(Expense)	(1,159)	(2,048)	(1,834)	(1,708)	(1,708)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	428	749	749	749	749
Profit Before Tax (pre-EI)	25,856	28,240	21,470	25,119	29,296
Exceptional Items					
Pre-tax Profit	25,856	28,240	21,470	25,119	29,296
Taxation	(6,966)	(6,617)	(5,410)	(6,330)	(7,383)
Exceptional Income - post-tax					
Profit After Tax	18,889	21,623	16,060	18,789	21,913
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	18,889	21,623	16,060	18,789	21,913
Recurring Net Profit	18,889	21,623	16,060	18,789	21,913
Fully Diluted Recurring Net Profit	18,889	21,623	16,060	18,789	21,913

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	31,759	35,292	28,257	32,665	37,362
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(6,645)	(604)	1,686	(1,185)	(1,284)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(469)	(1,343)	1,554	8	9
Other Operating Cashflow	(6,445)	(7,357)	(8,238)	(10,203)	(12,308)
Net Interest (Paid)/Received	(1,159)	(2,048)	(1,834)	(1,708)	(1,708)
Tax Paid	4,016	5,077	5,410	6,330	7,383
Cashflow From Operations	21,057	29,017	26,835	25,908	29,454
Capex	(18,171)	(28,243)	(10,000)	(10,000)	(10,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments					
Other Investing Cashflow	2,294	(1,371)			
Cash Flow From Investing	(15,877)	(29,614)	(10,000)	(10,000)	(10,000)
Debt Raised/(repaid)	1,472	6,599	(5,582)		
Proceeds From Issue Of Shares	2				
Shares Repurchased					
Dividends Paid	(2,117)	(2,133)	(1,899)	(1,899)	(1,899)
Preferred Dividends					
Other Financing Cashflow	(1,429)	(2,270)	(1,834)	(1,708)	(1,708)
Cash Flow From Financing	(2,073)	2,196	(9,315)	(3,607)	(3,607)
Total Cash Generated	3,107	1,599	7,520	12,301	15,847
Free Cashflow To Equity	6,652	6,002	11,253	15,908	19,454
Free Cashflow To Firm	6,339	1,451	18,669	17,616	21,162

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	7,761	11,065	18,585	30,886	46,732
Total Debtors	17,925	17,856	16,528	17,585	18,730
Inventories	21,385	22,743	21,051	22,397	23,856
Total Other Current Assets	5,473	8,957	5,022	5,131	5,249
Total Current Assets	52,544	60,622	61,187	75,999	94,569
Fixed Assets	100,969	121,681	125,979	129,392	132,284
Total Investments	42	42	42	42	42
Intangible Assets					
Total Other Non-Current Assets	4,212	5,201	3,640	3,680	3,724
Total Non-current Assets	105,223	126,924	129,661	133,114	136,050
Short-term Debt	17,861	20,425	20,425	20,425	20,425
Current Portion of Long-Term Debt					
Total Creditors	20,964	22,313	20,653	21,974	23,405
Other Current Liabilities	5,579	6,428	2,818	2,825	2,832
Total Current Liabilities	44,403	49,166	43,897	45,224	46,663
Total Long-term Debt	17,533	23,115	17,533	17,533	17,533
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,886	3,293	3,293	3,293	3,293
Total Non-current Liabilities	20,419	26,409	20,826	20,826	20,826
Total Provisions	7,290	8,700	8,694	8,742	8,794
Total Liabilities	72,113	84,275	73,417	74,792	76,283
Shareholders Equity	85,654	103,271	117,431	134,321	154,335
Minority Interests					
Total Equity	85,654	103,271	117,431	134,321	154,335

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	48.0%	19.6%	(7.4%)	6.4%	6.5%
Operating EBITDA Growth	48.0%	11.1%	(19.9%)	15.6%	14.4%
Operating EBITDA Margin	25.5%	23.7%	20.5%	22.3%	24.0%
Net Cash Per Share (Rs)	(93.23)	(109.57)	(65.36)	(23.86)	29.60
BVPS (Rs)	288.98	348.42	396.19	453.17	520.70
Gross Interest Cover	22.93	14.42	12.30	15.27	17.71
Effective Tax Rate	26.9%	23.4%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	8.8%	8.8%	11.8%	10.1%	8.7%
Accounts Receivables Days	45.02	43.91	45.59	42.51	42.49
Inventory Days	nm	nm	nm	nm	nm
Accounts Payables Days	nm	nm	nm	nm	nm
ROIC (%)	21.5%	20.0%	15.2%	17.0%	19.2%
ROCE (%)	22.7%	20.9%	14.2%	15.2%	15.9%
Return On Average Assets	14.0%	13.7%	9.5%	10.2%	10.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
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