
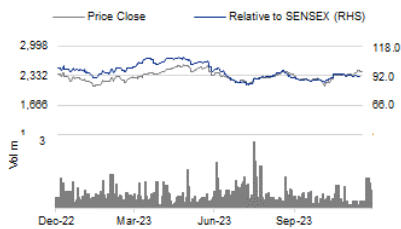


India

**REDUCE** (no change)

Consensus ratings*: Buy 24 Hold 6 Sell 3	
Current price:	Rs2,423
Target price: 	Rs1,540
Previous target:	Rs1,540
Up/downside:	-36.4%
InCred Research / Consensus:	-37.6%
Reuters:	SRFL.NS
Bloomberg:	SRF IN
Market cap:	US\$8,614m Rs718,267m
Average daily turnover:	US\$15.1m Rs1256.8m
Current shares o/s:	296.4m
Free float:	49.2%
*Source: Bloomberg	



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	3.1	(0.7)	2.4
Relative (%)	(4.2)	(4.5)	(8.8)

<b>Major shareholders</b>	% held
Promoter & Promoter Group	50.8
Amansa holdings	5.8
Kotak India	4.8

# SRF Limited

## Cut our EPS estimates; retain REDUCE

- The slowdown in the agrochemicals sector and headwinds on the HFC consumption front in the US are leading to sub-par export performance of SRF.
- At the same time, BOPP and PET films demand and profitability, driven by Covid-led disruption, are now falling and may settle down at lower levels.
- We cut our FY24F/25F/26F EPS to Rs47.9/Rs55/Rs66.6, respectively. Retain our REDUCE rating on the stock with a 12-month target price of Rs1,540.

### Agrochemical intermediates as well as HFC exports are falling

As pointed out in our earlier report, ([IN: Chemicals - Others - Agrochemicals - channel inventory too high](#)), global agrochemicals channel inventory appears to be higher than normal by at least 30%. As per our estimates, it may take 12-18 months to stabilize. After that as well, unlike what happened post-Covid and contrary to street belief, the chemicals segment will not grow at a 20% CAGR. The global agrochemicals market is 90% generic and is growing at 1-2% (in USD terms, Covid-led channel stocking was an anomaly) and hence, in INR terms, the growth in the chemical segment's revenue is unlikely to exceed 8-10%. On the other hand, HFC prices exploded (driven by anti-dumping duty on Chinese imports by the US), which led the chemical segment's margins to exceed 37%, are now falling and will settle way below their historical mean levels. Please note that beginning 2024, the US will cut HFC consumption ([IN: Chemicals - Overall - R-125 & R-134A bull run is closer to its end](#)) by 33% (in terms of GWP or global warming potential), which means there will be a structural decline in the volume as well as the prices of high-GWP refrigerants like HFC-125, HFC-22 and HFC-410A. The same is happening now and, in our view, will get accentuated in the coming months.

### Consensus EPS estimates need a massive cut

Based on BOPP/ PET margins, current HFC prices and export trajectory, we believe that SRF will do great if it can clock an EPS of more than Rs10 in 3QFY24F. In the most likely case, EPS will be around Rs8.8 for the quarter. We don't find any new molecule in SRF's portfolio that can add significant growth to the company's revenue. Consensus EPS estimates need to be cut by 10% for FY24F and at least by 30% each for FY25F and FY26F.

### We cut our below consensus EPS estimates; retain REDUCE rating

We cut FY24F/25F/26F EPS to Rs47.9/Rs55/Rs66.6, respectively. We retain our REDUCE on the stock with a 12-month target price of Rs1,540. Relative to disappointment, SRF's underperformance has not been that big in the last 12 months. The stock is in for a derating as well as EPS cuts, leading to a bigger underperformance in the coming quarters. Upside risk: A sudden recovery in refrigerant prices.

Research Analyst(s)



**Satish KUMAR**  
 T (91) 22 4161 1562  
 E satish.kumar@incredresearch.com

**Abbas PUNJANI**  
 T (91) 22 4161 1598  
 E abbas.punjani@incredresearch.com

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	124,337	148,703	135,264	139,344	148,146
Operating EBITDA (Rsm)	31,759	35,292	25,786	29,328	33,680
Net Profit (Rsm)	18,889	21,623	14,212	16,293	19,159
Core EPS (Rs)	63.7	73.0	47.9	55.0	64.6
Core EPS Growth	57.6%	14.5%	(34.3%)	14.6%	17.6%
FD Core P/E (x)	38.02	33.21	50.54	44.08	37.49
DPS (Rs)	5.6	6.4	6.4	6.4	6.4
Dividend Yield	0.23%	0.26%	0.26%	0.26%	0.26%
EV/EBITDA (x)	23.48	21.27	28.66	24.85	21.24
P/FCFE (x)	107.97	119.67	73.86	51.13	42.76
Net Gearing	32.3%	31.4%	18.1%	8.1%	(1.9%)
P/BV (x)	8.39	6.95	6.21	5.53	4.88
ROE	24.5%	22.9%	13.0%	13.3%	13.8%
% Change In Core EPS Estimates			(0.23%)	(0.12%)	0.04%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Cut our EPS estimates; retain REDUCE

We cut our EPS estimates for FY24F, FY25F and FY26F. 3QFY24F EPS of SRF is likely to be around Rs9, which make consensus earnings estimates totally out of reality. Most likely the FY24F EPS of SRF will be Rs47, which is 25% below the consensus EPS estimate.

### BOPP and PET film profits have peaked and they will trend downwards

#### BOPP is oversupplied in the global market ➤

Against the global demand for 8mt, the installed BOPP film capacity is 10mt. The commodity is super easy to manufacture as most manufacturers buy polypropylene (PP) from petrochemical manufacturers. These PP chips are melted and pulled to form films of various thickness. The key for any manufacturer is to reduce the wastage in cutting films in different widths (In industry terms, it's called deckle matching).

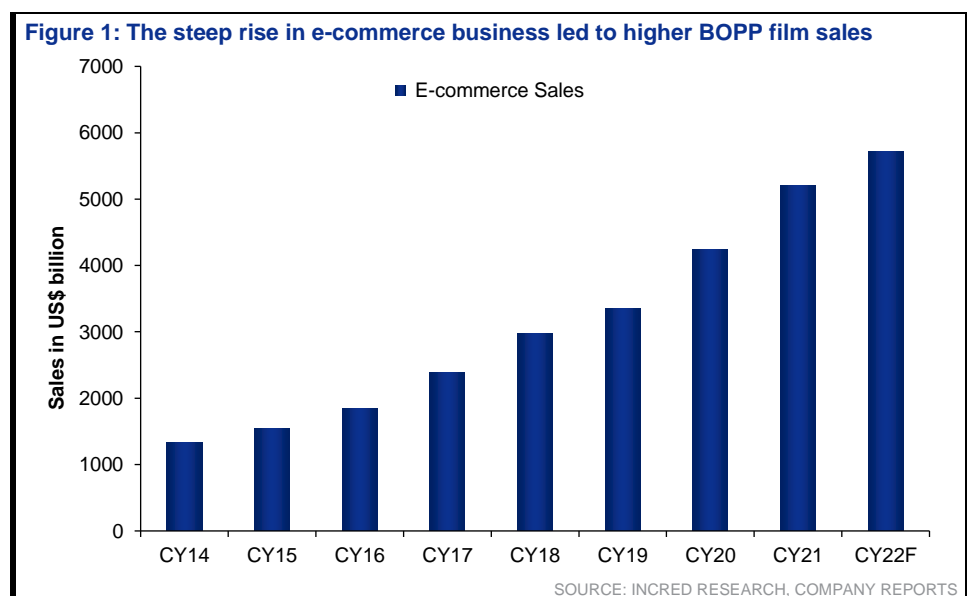
#### One of the main usages of BOPP is in food packaging, labelling and making tapes ➤

BOPP films are highly versatile materials used in various applications, with the global consumption touching nearly 8mt in 2022. Key applications of BOPP films are in:

- **Food packaging:** BOPP films are widely used in food packaging due to their excellent barrier properties, preventing moisture, oxygen, and contaminants from reaching the food item.
- **Labelling:** BOPP films are ideal for labels due to their high printing quality, durability, and resistance to chemicals and abrasion.
- **Tapes:** BOPP films are used in various types of tapes, including packaging tapes, electrical tapes, and masking tapes.
- **Industrial lamination:** BOPP films are used for laminating various materials, such as paper, cardboard, and textiles, to improve their strength, durability, and appearance.

#### The Covid-19 pandemic led to higher demand for BOPP films ➤

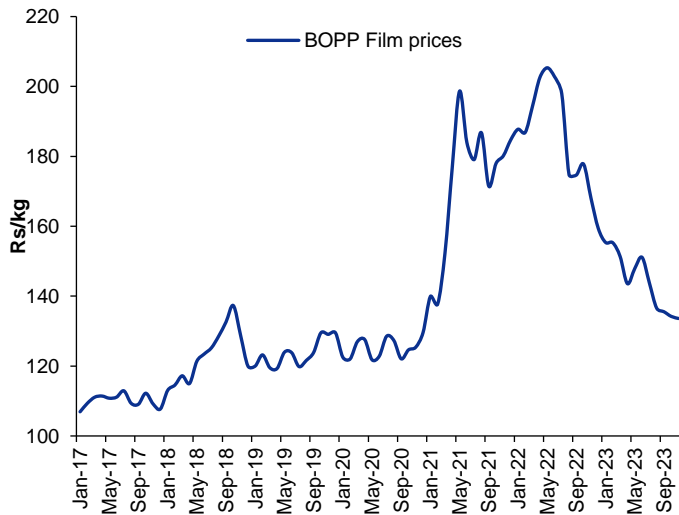
As the Covid-19 pandemic led to global lockouts and people became afraid to venture out, online sales boomed. As a result, there was a higher need for packaging, which led to a higher demand for all packaging products, be it BOPP or PET film.



**Consequently, BOPP film prices rose and spreads exploded**

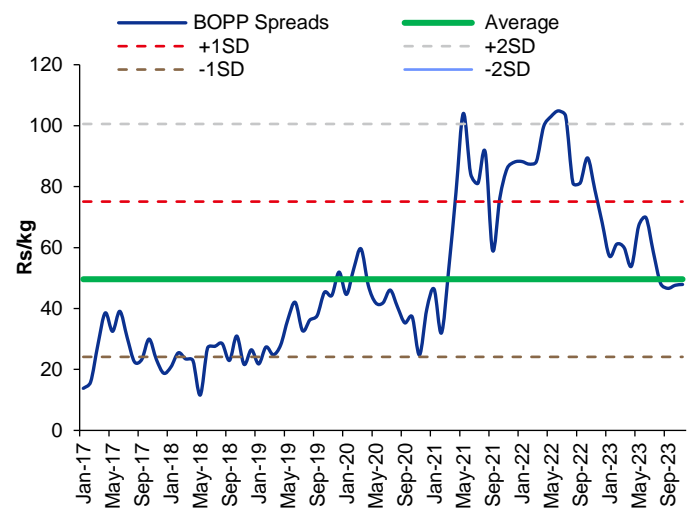
Being an oversupplied commodity, things are reverting to their mean. Please note that the mean itself is overstated because of extreme profitability during the Covid-19 pandemic period.

**Figure 2: BOPP film prices rose during the Covid pandemic as supply chain-filling picked up and the e-commerce business grew at 20%**



SOURCE: COMPANY REPORTS, INCRED RESEARCH

**Figure 3: Naturally, BOPP film profitability exploded to 5x pre-Covid period profitability**

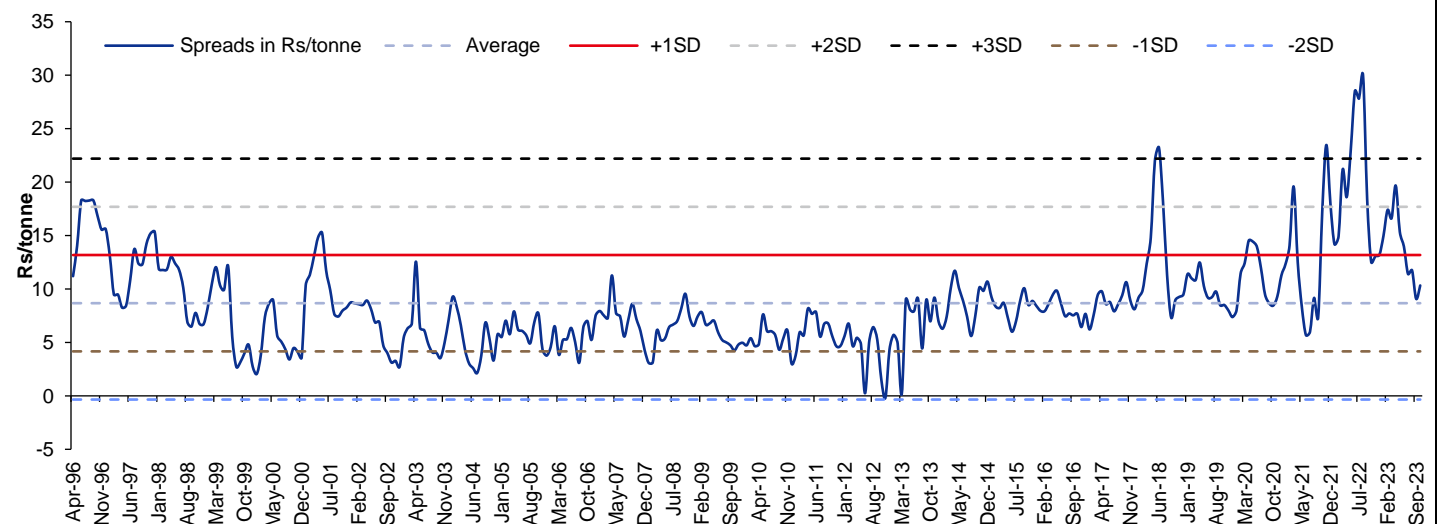


SOURCE: COMPANY REPORTS, INCRED RESEARCH

**PET films are facing a similar trend**

Given similar usage like that that BOPP films, PET films are also showing the same trend.

**Figure 4: Even PET spreads are falling to their long-term mean levels**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

PET film, or polyethylene terephthalate film, is a versatile material with a wide range of uses:

**Flexible packaging:** PET film is commonly used for food and beverage packaging due to its excellent clarity, barrier properties against moisture, oxygen, and aroma, and resistance to chemicals and oils. It is used in products like snack bags, pouches, blister packs, and trays. PET film is used for food packaging.

**Labelling:** PET film is used for various labels, including product labels, pressure-sensitive labels, and shrink sleeves. It offers good printability and durability.

**Blister packs:** PET film is used to create clear, rigid blister packs for pharmaceuticals, cosmetics, and other consumer goods.

**Capacitors:** PET film is used as a dielectric material in capacitors due to its high dielectric constant and good electrical insulating properties.

**Flexible printed circuits:** PET film can be used as the substrate for flexible printed circuits (FPCs) used in various electronic devices, including smartphones, tablets, and wearables.

**Touchscreens:** PET film coated with a conductive layer is used in touchscreens for smartphones, tablets, and other devices.

**Magnetic tape:** PET film is used as the backing material for magnetic tape used in audio and video recording.

**Industrial laminate:** PET film can be used to laminate paper, cardboard, and other materials for increased stiffness, durability, and water resistance.

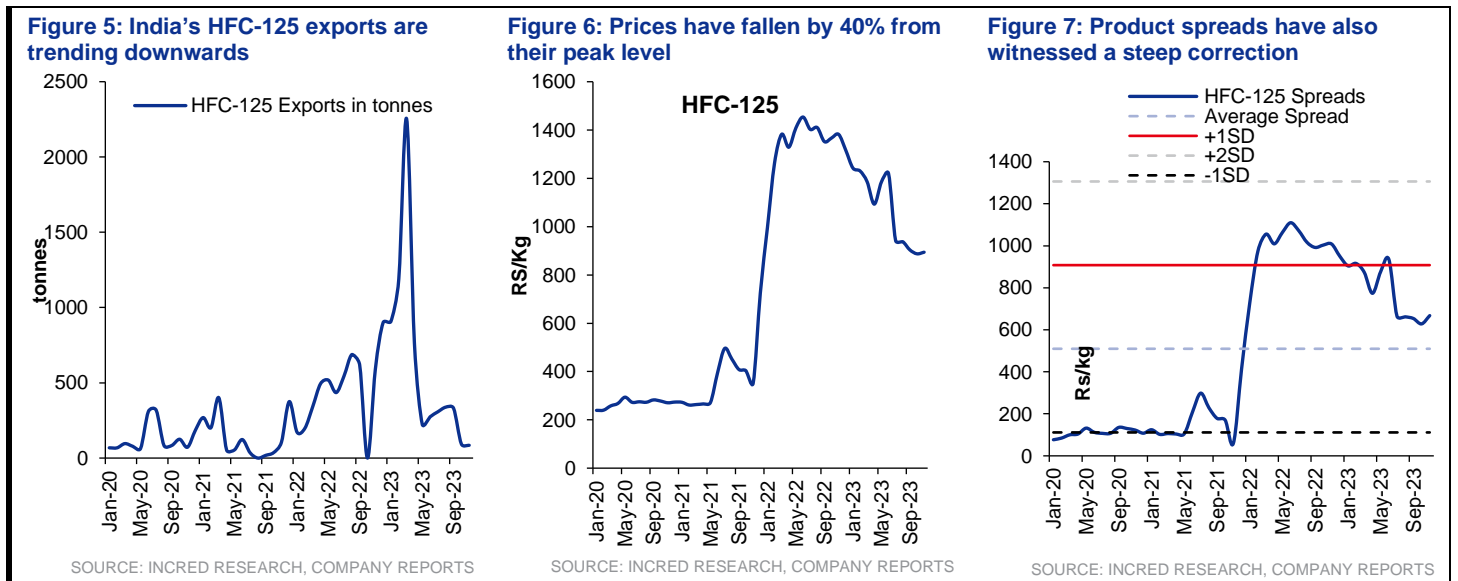
**Insulation:** PET film is used as an electrical insulator in various applications, such as wire and cable insulation.

**Protective film:** PET film is used as a temporary protective film for surfaces during manufacturing and transportation.

### Hey days of HFC are over

Supply chain shortage and anti-dumping duty led to higher HFC prices in US. Please note that Indian companies mostly export their products to the US and hence, higher US prices led to sky-high prices of HFC in the past few months. However, the supply chain has stabilized and at the same time the US is reducing HFC consumption, in terms of GWP (global warming potential), by 33%, beginning in 2024. All this is leading to a decline in Indian export prices as well as volume.

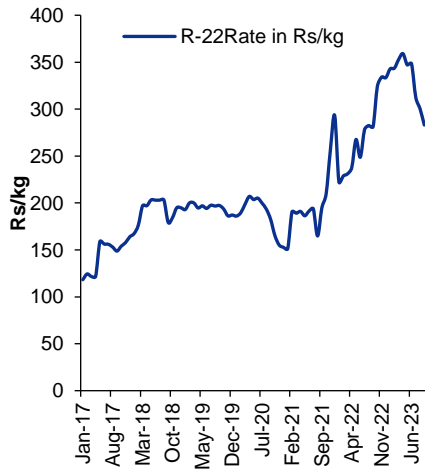
### Indian exports of HFC-125 are trending downwards and prices are also falling ➤



It is worth noting that rising HFC-125 prices and good export demand were the only reasons behind SRF posting a 37% EBIT margin in the chemical segment.

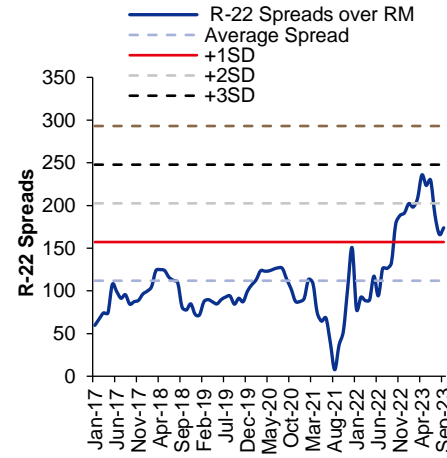
R-22 prices have also fallen and similar is the case with its spreads

Figure 8: R-22 prices are falling



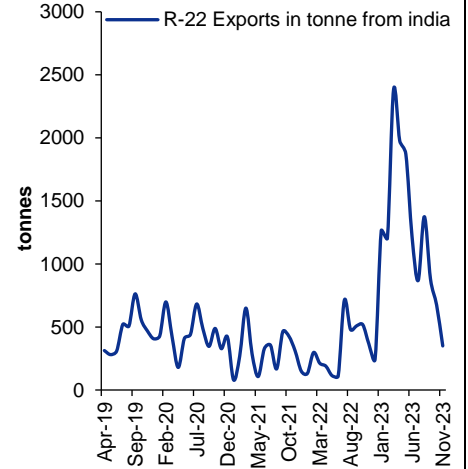
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: ...and similar is the case with its spreads over raw material



SOURCE: INCRED RESEARCH, COMPANY REPORTS

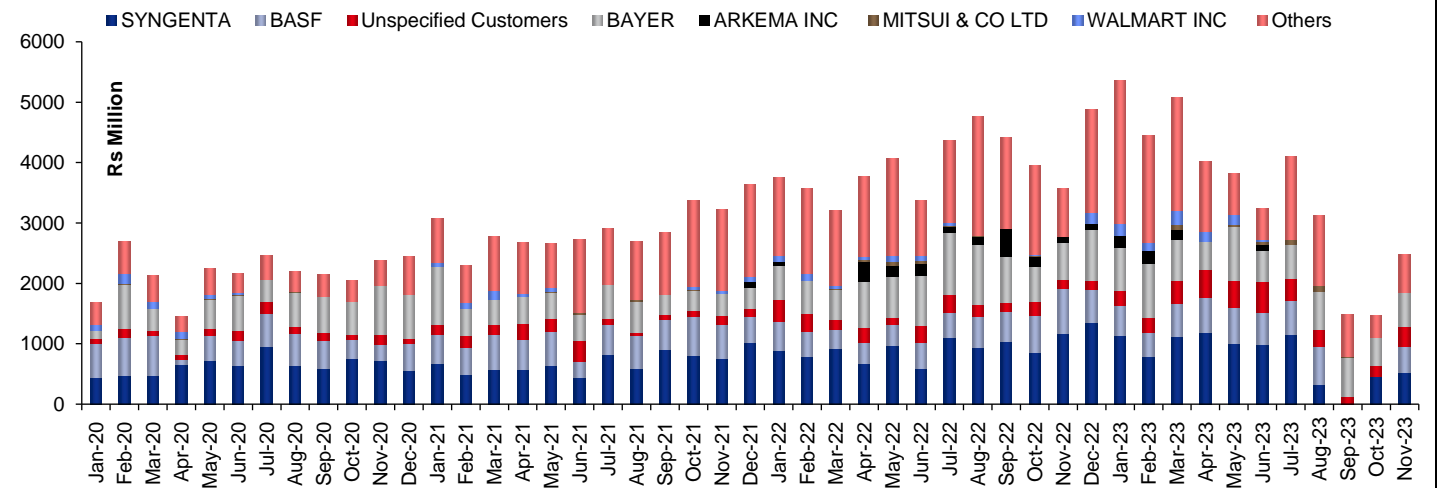
Figure 10: India is also witnessing a steep correction in export tonnage



SOURCE: INCRED RESEARCH, COMPANY REPORTS

India's overall chemicals exports are falling rapidly

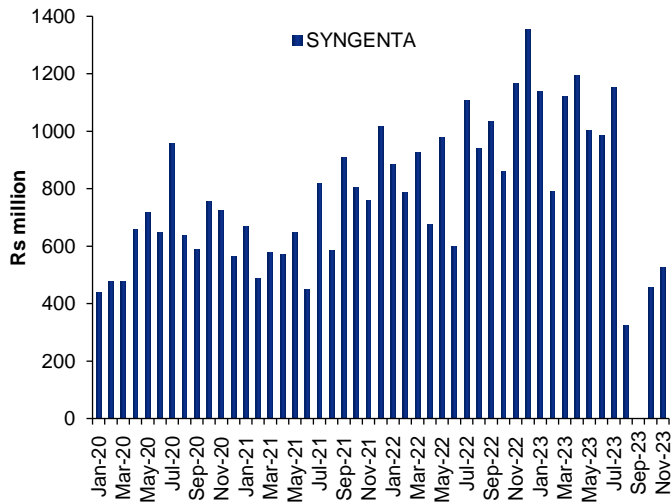
Figure 11: Overall monthly chemicals exports of India, after peaking in Jan-2023 at Rs5.5bn, have fallen by 60%



SOURCE: INCRED RESEARCH, COMPANY REPORTS

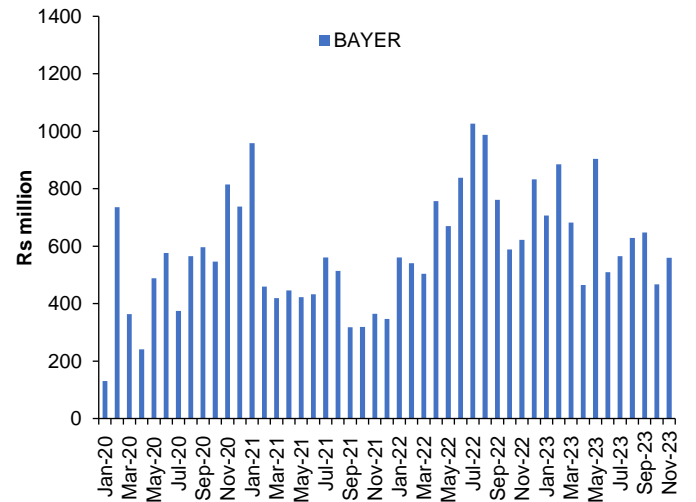
**Agrochemical customers like Syngenta and Bayer are not buying much**

**Figure 12: Syngenta's buying rate has fallen by 67% from its peak**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

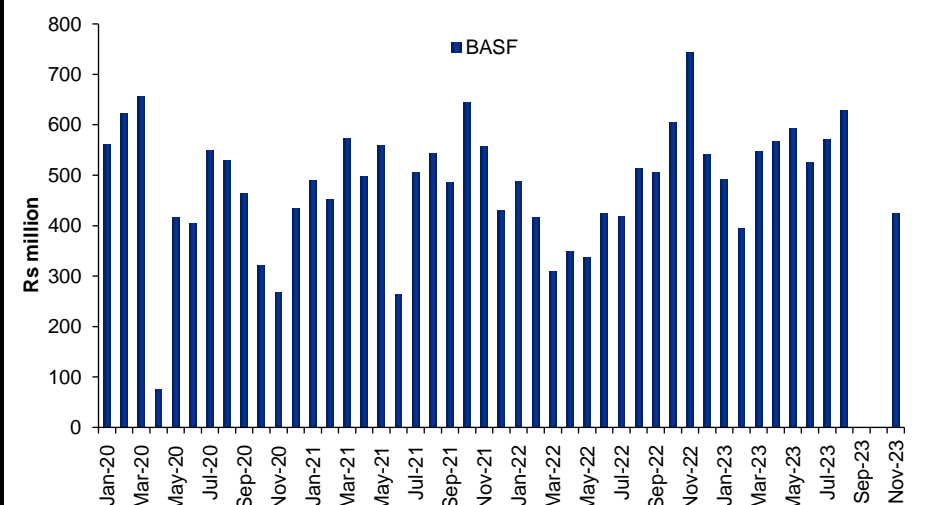
**Figure 13: While exports to Bayer have also fallen, the decline is not as steep as in the case of Syngenta**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Exports to BASF are also falling rapidly**

**Figure 14: Exports to BASF was Nil in Sep and October -2023. Its has recovered a bit in November -2023**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**The fall in exports to agrochemical customers appears to be driven by high inventory in the channel**

Global agrochemical sales in CY22 were up by ~20% (Source: FMC analyst day presentation). Going by UPL and other generic companies' results presentations for FY23, it appears that out of the 20%, half of the growth was driven by volume and the other half by higher prices. This means global channel inventory is overstocked by US\$6bn in volume terms (at CY21 price level). At the same time, as per the commentaries of generic agrochemical makers, the prices are reverting to CY21 levels. Going by the balance sheet of different companies, it appears that channel inventory remains at around four months, or around US\$20bn of agrichemicals remain in the channel. Now, as it's overstocked by US\$6bn, it means channel inventory is higher by 30%. A part of this overstocked inventory is already getting destocked but, in our view, it will take 12 more months for inventory normalization.

## We expect an earnings cut post 3QFY24F results

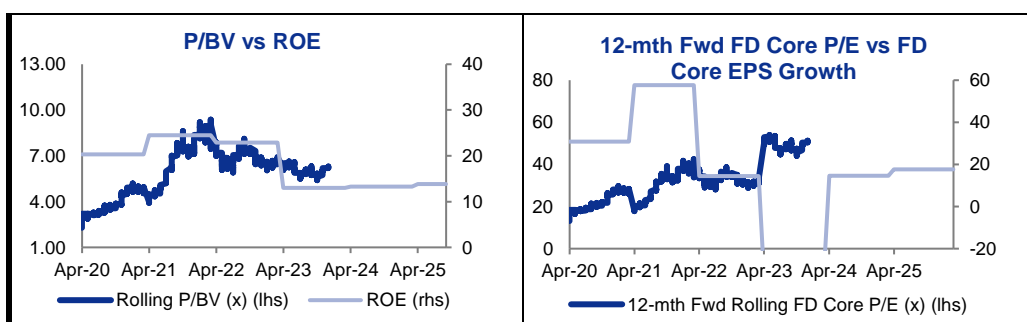
Our earnings estimate for 3QFY24F stands at Rs8.8.

**Figure 15: We estimate 3QFY24F EPS at Rs8.8**

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24F
<b>Net Revenue</b>	<b>38,947</b>	<b>37,278</b>	<b>34,697</b>	<b>37,781</b>	<b>33,384</b>	<b>31,774</b>	30,056
<b>Expenses</b>							
<b>Total Cost of Goods Sold</b>	<b>18,578</b>	<b>19,529</b>	<b>16,944</b>	<b>18,884</b>	<b>17,005</b>	<b>16,201</b>	<b>15,325</b>
Employee Benefit Expenses	1,942	1,953	2,102	2,142	2,180	2,266	2,266
Power & Fuel Expenses	4,103	3,737	3,443	3,440	3,528	3,438	3,438
Other Expenses	4,126	4,007	3,723	3,719	3,471	3,416	3,416
<b>Total Expenses</b>	<b>28,749</b>	<b>29,226</b>	<b>26,211</b>	<b>28,185</b>	<b>26,184</b>	<b>25,320</b>	<b>24,445</b>
<b>EBITDA</b>	<b>10,198</b>	<b>8,052</b>	<b>8,486</b>	<b>9,596</b>	<b>7,200</b>	<b>6,453</b>	<b>5,612</b>
Depreciation	1,307	1,393	1,507	1,546	1,566	1,612	1,612
EBIT	8,891	6,659	6,979	8,050	5,634	4,841	3,999
Other Income	99	327	100	223	118	291	291
Forex (Gain) /Loss	249	361	150	280	237	191	0
Interest Expense	325	445	620	659	656	793	793
<b>Profit Before Tax</b>	<b>8,416</b>	<b>6,181</b>	<b>6,309</b>	<b>7,334</b>	<b>4,858</b>	<b>4,148</b>	<b>3,498</b>
Other Tax Expenses							
<b>Total Tax Expenses</b>	<b>2,336</b>	<b>1,371</b>	<b>1,200</b>	<b>1,709</b>	<b>1,265</b>	<b>1,140</b>	<b>881</b>
<b>Profit After Tax</b>	<b>6,080</b>	<b>4,810</b>	<b>5,109</b>	<b>5,625</b>	<b>3,593</b>	<b>3,008</b>	<b>2,616</b>
EPS	20.5	16.2	17.2	19.0	12.1	10.2	8.8

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS**



**Profit & Loss**

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>124,337</b>	<b>148,703</b>	<b>135,264</b>	<b>139,344</b>	<b>148,146</b>
<b>Gross Profit</b>	<b>124,337</b>	<b>148,703</b>	<b>135,264</b>	<b>139,344</b>	<b>148,146</b>
<b>Operating EBITDA</b>	<b>31,759</b>	<b>35,292</b>	<b>25,786</b>	<b>29,328</b>	<b>33,680</b>
Depreciation And Amortisation	(5,172)	(5,753)	(5,702)	(6,587)	(7,107)
<b>Operating EBIT</b>	<b>26,587</b>	<b>29,539</b>	<b>20,084</b>	<b>22,741</b>	<b>26,572</b>
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
<b>Profit Before Tax (pre-EI)</b>	<b>25,856</b>	<b>28,240</b>	<b>19,000</b>	<b>21,782</b>	<b>25,613</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>25,856</b>	<b>28,240</b>	<b>19,000</b>	<b>21,782</b>	<b>25,613</b>
Taxation	(6,966)	(6,617)	(4,788)	(5,489)	(6,455)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>18,889</b>	<b>21,623</b>	<b>14,212</b>	<b>16,293</b>	<b>19,159</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>18,889</b>	<b>21,623</b>	<b>14,212</b>	<b>16,293</b>	<b>19,159</b>
Recurring Net Profit	18,889	21,623	14,212	16,293	19,159
<b>Fully Diluted Recurring Net Profit</b>	<b>18,889</b>	<b>21,623</b>	<b>14,212</b>	<b>16,293</b>	<b>19,159</b>

**Cash Flow**

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>EBITDA</b>	<b>31,759</b>	<b>35,292</b>	<b>25,786</b>	<b>29,328</b>	<b>33,680</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(6,645)	(604)	2,005	(551)	(1,185)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(469)	(1,343)	1,554	8	9
Other Operating Cashflow	(6,445)	(7,357)	(6,993)	(8,521)	(10,452)
Net Interest (Paid)/Received	(1,159)	(2,048)	(1,834)	(1,708)	(1,708)
Tax Paid	4,016	5,077	4,788	5,489	6,455
<b>Cashflow From Operations</b>	<b>21,057</b>	<b>29,017</b>	<b>25,307</b>	<b>24,046</b>	<b>26,798</b>
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)			
<b>Cash Flow From Investing</b>	<b>(15,877)</b>	<b>(29,614)</b>	<b>(10,000)</b>	<b>(10,000)</b>	<b>(10,000)</b>
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)
<b>Cash Flow From Financing</b>	<b>(2,073)</b>	<b>2,196</b>	<b>(9,315)</b>	<b>(3,607)</b>	<b>(3,607)</b>
Total Cash Generated	3,107	1,599	5,991	10,439	13,191
<b>Free Cashflow To Equity</b>	<b>6,652</b>	<b>6,002</b>	<b>9,724</b>	<b>14,046</b>	<b>16,798</b>
<b>Free Cashflow To Firm</b>	<b>6,339</b>	<b>1,451</b>	<b>17,140</b>	<b>15,754</b>	<b>18,506</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS



**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	7,761	11,065	17,057	27,495	40,686
Total Debtors	17,925	17,856	16,242	16,732	17,789
Inventories	21,385	22,743	20,688	21,312	22,658
Total Other Current Assets	5,473	8,957	4,995	5,051	5,161
<b>Total Current Assets</b>	<b>52,544</b>	<b>60,622</b>	<b>58,982</b>	<b>70,590</b>	<b>86,294</b>
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
<b>Total Non-current Assets</b>	<b>105,223</b>	<b>126,924</b>	<b>129,661</b>	<b>133,114</b>	<b>136,050</b>
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	20,296	20,908	22,229
Other Current Liabilities	5,579	6,428	2,818	2,825	2,832
<b>Total Current Liabilities</b>	<b>44,403</b>	<b>49,166</b>	<b>43,540</b>	<b>44,159</b>	<b>45,487</b>
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
<b>Total Non-current Liabilities</b>	<b>20,419</b>	<b>26,409</b>	<b>20,826</b>	<b>20,826</b>	<b>20,826</b>
Total Provisions	7,290	8,700	8,694	8,742	8,794
<b>Total Liabilities</b>	<b>72,113</b>	<b>84,275</b>	<b>73,060</b>	<b>73,727</b>	<b>75,107</b>
Shareholders Equity	85,654	103,271	115,583	129,977	147,236
Minority Interests					
<b>Total Equity</b>	<b>85,654</b>	<b>103,271</b>	<b>115,583</b>	<b>129,977</b>	<b>147,236</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	48.0%	19.6%	(9.0%)	3.0%	6.3%
Operating EBITDA Growth	48.0%	11.1%	(26.9%)	13.7%	14.8%
Operating EBITDA Margin	25.5%	23.7%	19.1%	21.0%	22.7%
Net Cash Per Share (Rs)	(93.23)	(109.57)	(70.52)	(35.30)	9.20
BVPS (Rs)	288.98	348.42	389.96	438.52	496.75
Gross Interest Cover	22.93	14.42	10.95	13.31	15.56
Effective Tax Rate	26.9%	23.4%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	8.8%	8.8%	13.4%	11.7%	9.9%
Accounts Receivables Days	45.02	43.91	46.01	43.19	42.53
Inventory Days	nm	nm	nm	nm	nm
Accounts Payables Days	nm	nm	nm	nm	nm
ROIC (%)	21.5%	20.0%	13.5%	14.9%	17.0%
ROCE (%)	22.7%	20.9%	12.7%	13.5%	14.4%
Return On Average Assets	14.0%	13.7%	8.5%	9.2%	9.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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