

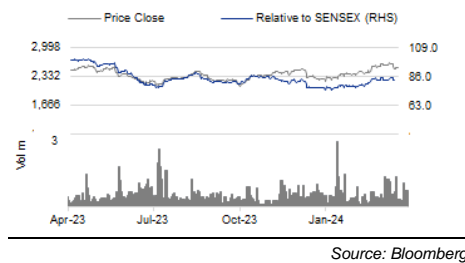
India

REDUCE (no change)

Consensus ratings*: Buy 25 Hold 4 Sell 5

Current price:	Rs2,529
Target price:	Rs1,540
Previous target:	Rs1,540
Up/downside:	-39.1%
InCred Research / Consensus:	-38.1%
Reuters:	SRFL.NS
Bloomberg:	SRF IN
Market cap:	US\$8,981m Rs749,673m
Average daily turnover:	US\$14.3m Rs1190.5m
Current shares o/s:	296.4m
Free float:	49.7%

*Source: Bloomberg



Price performance	1M	3M	12M
Absolute (%)	2.8	10.5	2.3
Relative (%)	2.4	7.9	(16.5)

Major shareholders	% held
Promoter & Promoter Group	50.3
Kotak Mahindra AMC	4.0
Life Insurance Corporation Of India	3.1

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

SRF Limited

Earnings expectations are highly optimistic

- Chemical exports of SRF are concentrated across 4-5 agrochemical intermediates & refrigerants, contributing ~50% to overall chemical sales.
- Top-down (based on capital employed) as well as bottom-up (molecule-wise) analysis shows consensus EPS is higher by 20% for FY25F & 30% for FY26F.
- Despite repeated disappointments, the stock doesn't fall at all, but this phenomenon cannot continue in perpetuity. Retain REDUCE rating on SRF.

A deep dive into SRF product portfolio shows lack of new winners

SRF's meteoric EPS growth in FY22 and FY23 was driven by 1) post-Covid supply chain crisis and hence, overstocking-led demand, and 2) anti-dumping duty by the US on Chinese refrigerant imports which led to a 400% rise in the prices of HFC-125, and R-134A prices also doubled. A deep dive into molecules apart from refrigerants indicates SRF's revenue is highly dependent on 1) 3-difluoromethyl 1-methyl-1H-pyrazole-4-carboxylic acid, 2) topramezone, 3) 3-pyridine carboxylic acid 2- [(2-methoxy ethoxy), and 4) 1-(5-acetyl- [1,4,5] oxadiazepano-4-yl)-ethanone. These four molecules account for 35% of the overall exports. 3-difluoromethyl 1-methyl-1H-pyrazole-4-carboxylic acid is used to make fluxapyroxad whose sales are tapering off. More over please see our earlier report: [IN: Chemicals - Overall - CRISPR reduces terminal value of agchems](#), which indicates the folly of giving any terminal value of traditional fungicides and Insecticides. The new molecules have some potential A) 5-(1- methyl thio) ethyl)2-(trifluoromethyl) pyridine B) 1-(3,6-dibromo pyridin-2-yl)-2-(3,5-difluoro acetic acid, C) 2, 6-dichloro benzene-1-sulfonyl chloride, D) 2,2,2-trifluoro ethyl amine, and E) 2 5-dihydroxy-1 4-dithiane. Through these molecules, SRF is trying to break into the pharma portfolio of Bayer & Gilead Life Sciences.

R-134A and R-410A face multiple new headwinds in the US

Honeywell new refrigerant HFO-1234yf can directly replace R-134A, Prices are half of R-134A, and its GWP is 4 against 1,300 for R-134A. As per a new directive of EPA (Environmental Protection Agency of the US), R-134A is not used in new vehicles and also there is a huge cut in the overall HFC consumption (in terms of GWP, which has been reduced by 33% YoY for CY24F). The replacement of R-134A is already there and as per Honeywell, R-134A users can straightaway replace it in their air-conditioners or ACs without any changes in the equipment. Thus, we believe that commodity grade R-134A prices will fall steeply. R-125 price has already fallen by 50% with 50% more fall on cards

Stock too expensive; consensus EPS estimates to disappoint

We firmly believe that investors are the best judge of P/E (as per their own risk parameters and cost of capital), but please remember that SRF never traded this costly in its life span. The expectation of capital efficiency in the chemical business is purely based on FY22 and FY23, which was clearly a one-off. Revenue/capital employed in chemicals will fall below 60% (last 15 years' average 65%) in the coming quarters and ROCE at around 14-15%. Retain our REDUCE rating on SRF. Upside risk: A surprise rise in refrigerant gas prices.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	124,337	148,703	128,748	148,253	162,221
Operating EBITDA (Rsm)	31,759	35,292	24,076	27,663	30,267
Net Profit (Rsm)	18,889	21,623	12,962	15,106	16,546
Core EPS (Rs)	63.7	73.0	43.7	51.0	55.8
Core EPS Growth	57.6%	14.5%	(40.1%)	16.5%	9.5%
FD Core P/E (x)	39.68	34.67	57.83	49.62	45.31
DPS (Rs)	5.6	6.4	6.4	6.4	6.4
Dividend Yield	0.22%	0.25%	0.25%	0.25%	0.25%
EV/EBITDA (x)	24.47	22.16	32.02	27.62	24.91
P/FCFE (x)	112.69	124.90	81.19	71.03	54.59
Net Gearing	32.3%	31.4%	18.7%	11.4%	3.0%
P/BV (x)	8.75	7.26	6.56	5.89	5.28
ROE	24.5%	22.9%	11.9%	12.5%	12.3%
% Change In Core EPS Estimates			(0.30%)	(0.18%)	(0.10%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

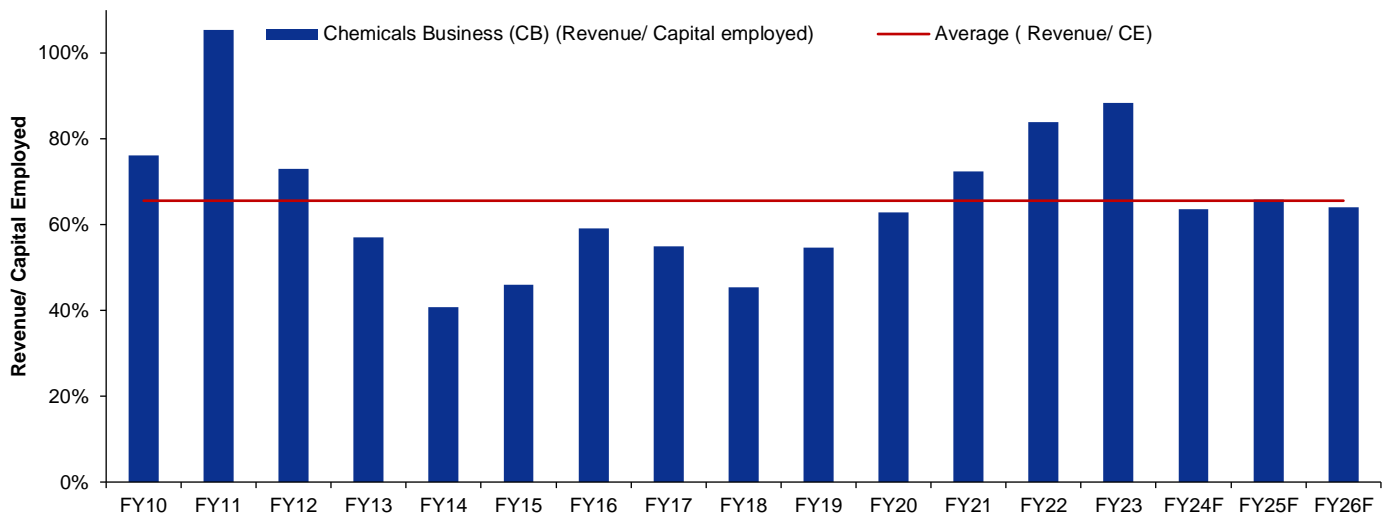
Earnings expectations are highly optimistic

There are a couple of ways to look at the chemicals segment earnings of SRF: 1) Based on capital employed in the segment, historical revenue in this segment has been ~65% of the capital employed. 2) Bottoms-up analysis based on different chemicals. We have done both and it shows most nonsensical earnings expectation across all chemical stocks. After declining by 40% in FY24, EPS is likely to grow at a 13% CAGR over the next couple of years.

Based on capital employed, the chemical segment's revenue to grow at a 10% CAGR over the next couple of years

Historically, the chemical segment's revenue has remained at ~65% of capital employed ➤

Figure 1: Historically, revenue in the chemical sector has remained around 65% of the capital employed; assuming a capex of Rs20bn per year, we expect the chemical segment's revenue to grow at 20% CAGR



Significant departure in FY22 and FY23 was driven by refrigerants ➤

Figure 2: Refrigerant gas started its upward journey driven by post-Covid supply chain crisis and anti-dumping duty on Chinese exports by the US

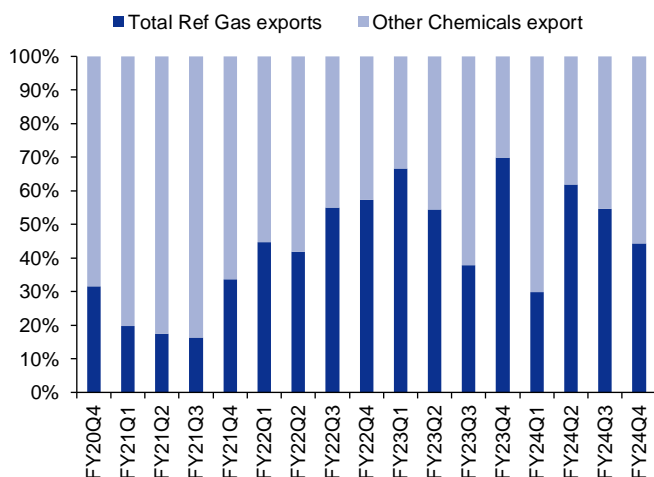
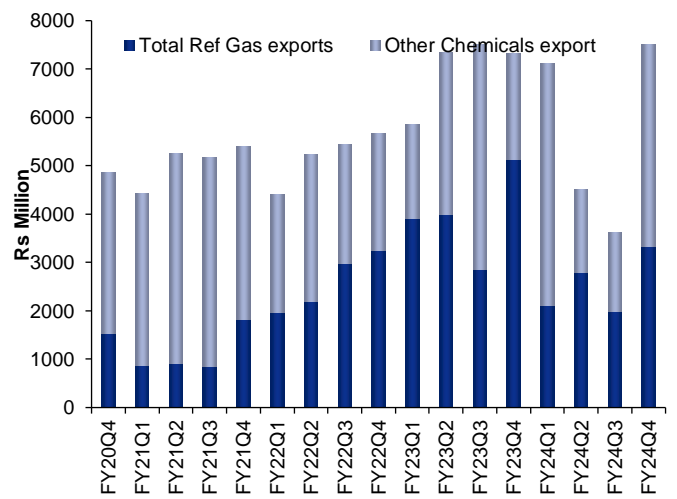


Figure 3: Other chemical compounds as well as refrigerant gas exports are witnessing a slowdown



Refrigerants' export growth was mainly driven by prices ➤

Figure 4: The tonnage exports didn't see any significant increase

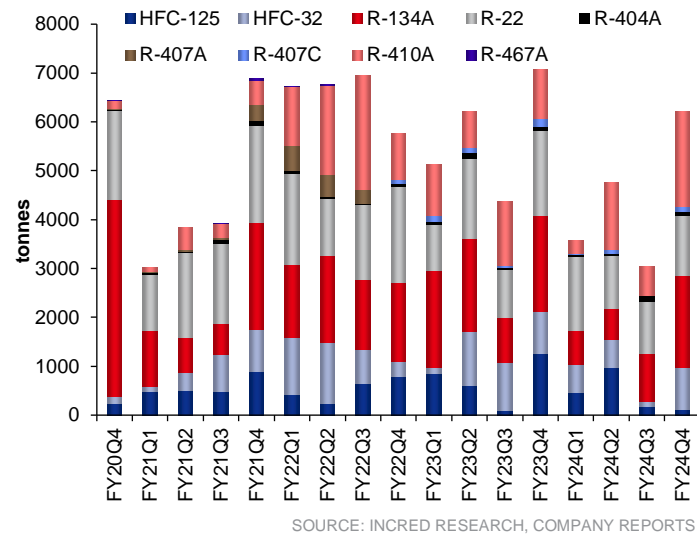
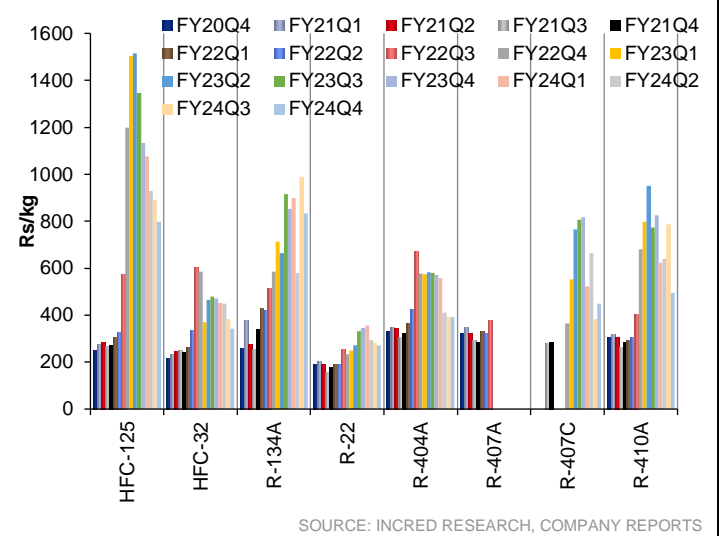


Figure 5: The value increase in refrigerants was driven by prices, which are falling



Top compounds contributing to export revenue are the same for the past several years

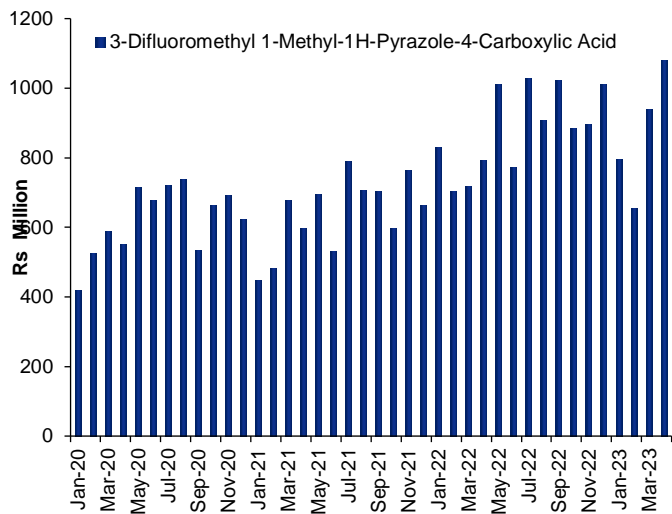
Top compounds contributing to export revenue are the same for the past several quarters are the same - 1) 3-difluoromethyl 1-methyl-1H-pyrazole-4-carboxylic acid, 2) topramezone, 3) 3-pyridine carboxylic acid 2- [(2-methoxy ethoxy), 4) 1-(5-acetyl- [1,4,5] oxadiazepano-4-yl)-ethanone, 4) R-22, 5) R-134A, 6) R-125, 7) R-32, 8)R-410A, 9)R-404A, and 10) R-407C

3-difluoromethyl 1-methyl-1H-pyrazole-4-carboxylic acid: Exports at Rs11bn ➤

1. Major buyers of this compound are Bayer, Syngenta and BASF.
2. The compound is used as an intermediate in the manufacture of insecticides (recent patent application) and fungicides by Syngenta. It is an intermediate of the fungicide **fluxapyroxad**.
3. Fluxapyroxad is a broad-spectrum, pyrazole carboxamide fungicide registered for uses on a wide range of crops (cereal grains, legume vegetables, oil seed crops, peanuts, pome fruit, stone fruit, root and tuber vegetables, fruiting vegetables, and cotton).
4. The raw materials used to make it are ethyl ester of difluoro acetoacetic acid, acetic anhydride, sodium hydroxide, triethyl orthoformate and methyl hydrazine.

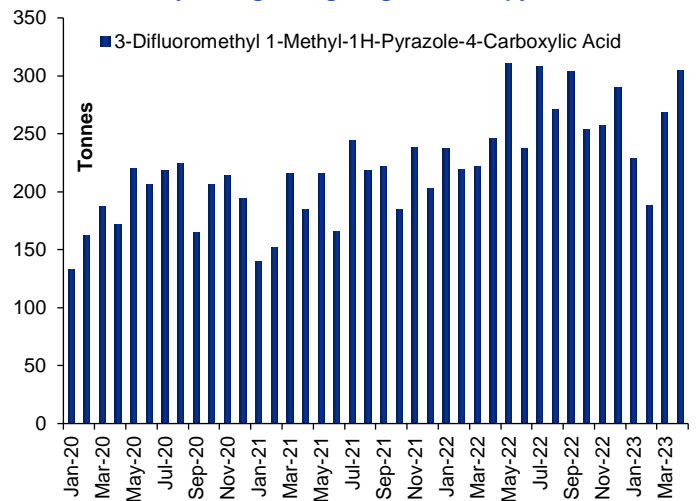
The sales of this molecule has not increased in any significant manner over the last few quarters.

Figure 6: It's a true CDMO commodity as value sales...



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: ...are driven only by volume; Syngenta is the sole buyer for the relatively slow growing fungicide fluxapyroxad



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Topramezone: Yearly revenue at ~Rs4.5bn ➤

1. The buyers of this compound are BASF and Shanghai Milky Way Chemicals. The compound is used in herbicides and to control harmful arthropods or harmful nematodes containing zoantamines. Topramezone is an aromatic ketone post-emergence herbicide used to control broadleaf and grass weeds in maize (corn) fields. Topramezone is available in commercial herbicide formulations under the brand name Tyner (BASF).
2. The raw materials used in its manufacture are 2,3-dimethylbenzaldehyde oxime; 2,6-dinitrotoluene; 1-methyl-5-hydroxypyrazole in the presence of a catalyst.

HFC -134A (hydro fluoro carbon- 1 1 1 2 tetrafluoro ethane): Exports in FY24 at ~Rs3.6bn ➤

Some major buyers of this refrigerant are A-Gas, Autozone and Aspen Refrigerant. HFC-134a is a colourless gas with a faint ethereal odour that may go unnoticed by most individuals. It is used in refrigeration and air-conditioning systems, as a blowing agent for polyurethane foams, and as a propellant for medical aerosols.

The refrigerant is a potent greenhouse gas with a high GWP (Global Warming Potential > 150). R134a has a relevant direct global warming effect stemming from its absorption power of long-wave radiations, that depend on its GWP and on the fraction of refrigerant charge released into the atmosphere. As part of AIM Act, EPA has now banned the use of 134a in aerosol products from 1/1/2025 and slowly phasing out the other products as well. As most of the buyers are from the Middle East, it will take some time for the decline to happen, but it is advisable to decrease the reliance on HFCs (134-a specifically, as it is on the higher side of GWPs) as HFOs are less harmful to the environment than HFCs.

The revenue generated by the compound is US\$142m. The raw materials used in its manufacture are trichloroethylene, 1-chloro-1,1,1-trifluoro ethane and hydrogen fluoride.

Hydro fluoro carbon - 410A (HFC-410A OR R410A): Exports in FY24 at ~Rs 2.7bn ➤

The major buyers of this compound are Altair Partners LP and Aspen Refrigerant. It is a blend of difluoromethane, known as HFC-32, and pentafluoro ethane, known as HFC-125. It is most used in air-conditioning systems, heat pumps, and refrigeration units. It can provide efficient cooling in both residential and commercial applications. R-410A has higher efficiency than R-22.

In May 2023, the EPA introduced a series of regulations to reduce the use of high-GWP refrigerants, including R-410A, in HVAC systems. The goal of these regulations is to reduce the total amount of HFCs released into the atmosphere, thus slowing the rate of global warming. Beginning in 2025, EPA has prohibited using R410 refrigerant in HVAC systems across the US. The compound has a high GWP (2088) and high atmospheric lifetime of nearly 30 years.

The revenue generated by this compound is US\$93m. It is better to decrease the reliance on HFCs and HCFCs in the future due to their high global warming potential and the possibility of future bans in other countries as well. The raw materials used in its manufacture are pentafluoro ethane and difluoromethane, and both these compounds are produced by SRF.

HFC-125 (1 1 1 2 2 – pentafluoro ethane): Exports in FY24 at Rs1.65bn ➤

The major buyers of this compound are Arkema Inc, Daikin and Honeywell International. HFC-125 is a colourless gas that is used as a refrigerant, fire extinguishing agent, plastic foam blowing agent, and a solvent in special applications. More than 99% of HFC-125 produced worldwide by the reporting companies is used as a blend component for commercial refrigeration and air-conditioning systems. It is not ozone depleting but due to its global warming potential (GWP) of 3,500 and atmospheric lifetime of 29 years, it is included in the list of controlled substances of the Montreal Protocol. It is already banned in some states of the US.

The revenue generated by this compound is US\$83m. The raw materials used for its manufacture are hydrogen fluoride and tetrachloroethene.

3-pyridine carboxylic acid 2- [(2-methoxy ethoxy): Exports at Rs1.6bn ➤

The major buyer of this compound is Syngenta, an agrochemical company with its focus on seeds and pesticides. It is used by Syngenta as an intermediate in making **pydiflumetofen**. Pydiflumetofen (Miravis) is a relatively new SDHI fungicide developed by Syngenta and registered by the EPA in 2018. Miravis can control leaf spots in peanuts, powdery mildew in pome and stone fruit. It is used for control of various fungal pathogens of vegetables, row crops, and turfgrass. It is harmful to some beneficial insects.

It is also abbreviated as 2-MECPA and is used as an intermediate in some fungicides. Fungicides derived from 2- MECPA belong to the class of SDHI (succinate dehydrogenase inhibitor) fungicides. They work by inhibiting an enzyme (succinate dehydrogenase) essential for fungal respiration, thereby stopping their growth.

It has been recently found that it is useful in the synthesis of compounds for treating pain, cancer, inflammation, neurodegenerative disease or typanosoma cruzi infection in a mammal. It has potential in the pharmaceutical industry with many recent patents, but pharmaceutical companies don't generally change vendors and hence, this may not be a possibility for SRF. But the cost leader strategy may work.

The revenue generated by this compound is US\$77m. The CAGR of the compound is 7% and it is expected to touch US\$108m in the markets that it is in. The raw materials used in its manufacture are nicotinic acid and monochloro acetic acid.

Monochloro difluoro methane (R-22): FY24 exports at Rs1.5bn ➤

The major buyers of this compound are Almul Him Cooling Company and Al Sweer Trading. It is a refrigerant, which is a chloro fluoro carbon (CFC), which has a high GWP and high ozone depletion potential. It is banned in the US. It is used in heat pumps and air-conditioners in both residential and industrial segments.

It is also called R-22 (Mafron). It is banned in a lot of countries. The phase-out of R-22 is mandated by the Montreal Protocol, an international treaty signed in 1987 to protect the ozone layer.

The revenue of this compound is US\$77mn. The phase-out is expected at a CAGR of -5.1% and hence, it is expected to fall to US\$59mn by 2028F. It is better to decrease the reliance on this compound in the long run as it is extremely harmful to the environment. The raw materials used in its manufacture are acetone, chlorine gas, hydrogen fluoride and lime slurry. The gross margin of the compound is 48%.

1-(5-acetyl- [1,4,5] oxadiazepano-4-yl)-ethanone: FY24 exports at Rs2.2bn ➤

Syngenta is the buyer of this compound. The compound is used by Syngenta to synthesize pinoxaden. Pinoxaden is a highly selective systemic herbicide used to control monocotyledonous grass weeds in crops such as wild oats, ryegrass and black grass in winter and spring wheat and winter and spring barley. Pinoxaden is a synthetic compound, belonging to the phenylpyrazolin group of chemicals. It is slightly toxic to rats.

The revenue generated by this compound is US\$57.8m. It is a research chemical as well. So, it is difficult to predict the CAGR. But considering that it is only used in pinoxaden by SRF, the revenue is expected to touch US\$84m. The raw materials used in its manufacture are acetyl chloride, ethylene diamine and glyoxylic acid.

HFC - 32 (difluoro methane): Exports in FY24 at ~Rs1bn ➤

The major buyers of this compound are Arkema Inc and A-Gas. HFC-32 is a colourless gas and is slightly soluble in water. It is also a refrigerant that is used for refrigeration and air-conditioning. Difluoromethane has a GWP of 675 (in a 100-year timeline window) but has a shorter life time of five years. It is used in air-conditioning and as a blowing agent. Due to its relatively lower GWP, it is not banned yet, but there is a possibility that it will be banned in the future due to many advancements in refrigerants with chances of a much lower GWP.

The revenue generated by this compound is US\$42m. The raw materials used in this refrigerant are dichloromethane, liquid hydrogen fluoride, with antimony pentafluoride as a catalyst.

Compounds with high potential for SRF

5-(1- methyl thio) ethyl)2-(trifluoromethyl) pyridine ➤

It is an intermediate in the synthesis of Sulfoxaflor, a novel pesticide of the sulfoximine group and the only sulfoximine class of pesticide that acts on the central nervous system. It is manufactured by Dow DuPont, which is now a part of Corteva Agrisciences. It is banned due to unreasonable adverse effects on the environment. It was reported to be toxic to bees. But there have been views recently that it is not toxic. So, there could be new developments regarding the compound. It is banned in the US and is in the process of being banned in many EU countries.

The compound is being sent to Corteva in samples. So, it is probably being used to improve on Sulfoxaflor. The possible raw materials used in its manufacture are 2-trifluoromethyl pyridine, 1- methylthioethane and strong base catalyst.

(4R)-2-oxo-1,3-oxazolidine-4-carboxylic acid ➤

The compound is being sold to Syngenta in a very small quantity. Syngenta received a patent in Dec 2023 for the preparation process of 4-substituted 2-oxazolidinones. Oxazolidinones are used in many antibiotics including Linezolid. It is probably being used to develop a new pesticide or fungicide by Syngenta as it is able to interact with biological systems. The specific use for which Syngenta is buying is not known yet. If the agrochemical succeeds, this could be a compound with a huge potential for SRF, as Syngenta already has a process patent. The possible raw materials used in its manufacture are d-serine, glyoxylic acid in the presence of a catalyst.

1-(3, 5-dichloro-4-fluoro-phenyl)-2,2,2-trifluoro ethanone ➤

The compound is being sold to Syngenta in very small quantity. Syngenta received a patent in Dec 2023 for the preparation process of 4-substituted 2-oxazolidinones. This compound is also used in the preparation process and is mentioned in the patent. Bayer also has a recent patent for its use as a pesticide for invertebrate pests. So, if Syngenta manages to develop the agrochemical, it could be a high potential compound. The possible raw materials used in its manufacture are 3,5-difluoroaniline, trifluoroacetyl chloride and fluorine in the presence of a catalyst.

1-(3,6-dibromo pyridin-2-yl)-2-(3,5-difluoro acetic acid) ➤

It is being sent to Gilead Life Sciences in a small quantity. It is used by Gilead Life Sciences for preparing the intermediates useful in therapeutic methods for treating a Retroviridae viral infection, including an infection caused by the HIV virus. The patent has been granted in 2019. Gilead Life Sciences could be looking for a new partnership (as the company has 11 HIV medications) and as there are many years for patent expiration, this could be beneficial for SRF. The possible raw materials used in its manufacture are 2,3,6-tribromopyridine, 2-amino pyridine, 3,5-dichloro acetic acid and bromine.

1-(3-chloropyridin-2-YL)-3-(trifluoromethyl)-1H-pyrazole-5-carboxylic acid ➤

Syngenta received a patent for this compound's use as insecticide in Jun 2023. It is used to control diamide-resistant insects and protect plant propagation material. As it is a recent patent, a new agrochemical can be introduced by Syngenta soon. It could be an improvement on Minecto Pro. The possible raw materials used in its manufacture are pyrazole-5-carboxylic acid, trifluoromethyl ester and 2-amino-3-chloropyridine.

2 – chloro-5-(trifluoromethyl)pyridine ➤

It is sent to Syngenta in a small quantity, but it has potential pharmaceutical and agricultural uses. It is an intermediate for many drugs, which are useful in the treatment or prevention of neurological, psychiatric, cardiovascular and cancer

disorders and diseases in which orexin and kappa-opioid receptors are involved or implicated. There have been many recent patent filings for the same. Big giants like AstraZeneca, Pfizer, Novartis and Janssen have patent filings for many possible intermediates with this compound. Syngenta held a patent for its preparation previously. The company could be using it to produce fungicides. The raw materials used in its manufacture are 3-nitropyridine, tetrachlorophenol, chlorine gas and ferric chloride catalyst.

2- (trifluoromethyl) pyridine -3-carboxylic acid >

It is sent to Syngenta in a small quantity. Currently, the major use of TFMP derivatives is in the protection of crops from pests. It is an intermediate in the manufacture of **cyclobutrifluram**, a new succinate dehydrogenase inhibitor (SDHI) fungicide, which is currently being registered by Syngenta for controlling fusarium crown rot (FCR) of wheat in China. The possible raw materials used in its manufacture are 2-bromo pyridine, trifluoroacetic anhydride and malonic acid.

2, 6-dichloro benzene-1-sulfonyl chloride >

It is sent to Seqens, an API company in France. The compound is useful in therapy, e.g. for the treatment of a condition or disorder associated with nicotinamide adenine dinucleotide phosphate oxidase 4 or 2 (Nox4 or Nox2) activity. A derivative of the compound shows a good proliferation inhibition effect on a plurality of tumour cell lines and suggests the potential of the compound as a broad-spectrum anti-tumour drug. It has uses as an anti-cancer agent. The raw materials used in its manufacture are 2,6- dichloro benzene and chloro sulphuric acid.

2,2,2-trifluoro ethyl amine >

It is sent to Bayer in a small quantity. It has many pharmaceutical uses. Bayer Pharma uses its derivative to effectively and selectively inhibit the Ras-Sos interaction without significantly targeting the EGFR receptor. It is therefore useful for the treatment or prophylaxis of diseases, of hyperproliferative disorders, such as cancer as a sole agent or in combination with other active ingredients. The company has a patent filed for it. The raw materials used in its manufacture are 1,1,1-trifluoro ethane, ammonia and hydrogen in the presence of a catalyst.

2 5-dihydroxy-1 4-dithiane >

It is sent to Gilead Life Sciences in a small quantity. It is used as an intermediate in the manufacture of anti-convulsants and useful in the treatment of pain. It has many other potential pharma and agricultural uses (phytostimulant, so has potential in herbicides). Gilead Life Sciences could be using it to develop antiviral drugs as the company specializes in that. The raw materials used in its manufacture are 1,4-butanedithiol, formaldehyde and aluminium chloride catalyst.

2-methoxy-3-(propylthio)-4-(trifluoromethyl) pyridine >

It is sent to Corteva Agrisciences in a small quantity. It helps in the manufacture of important intermediates in the preparation of pyroxsulam herbicide. Pyroxsulam is a new post-emergence herbicide developed for selective control of economically important annual grass and broadleaf weeds in winter and spring wheat. Corteva received regulatory approval for XtendiMax with VaporGrip technology for pre-harvest use on fallow ground in the fall of 2023. This new application allows growers to control winter weeds before the next season's crop. Corteva is also collaborating with Valent U.S.A. LLC to develop a new pre-mix herbicide containing pyroxsulam and saflufenacil. This combination product is expected to offer broader weed control and improved residual control. The possible raw materials used in its manufacture are propanethiol, trifluoromethyl benzene and 3-methoxy-2-bromopyridine.

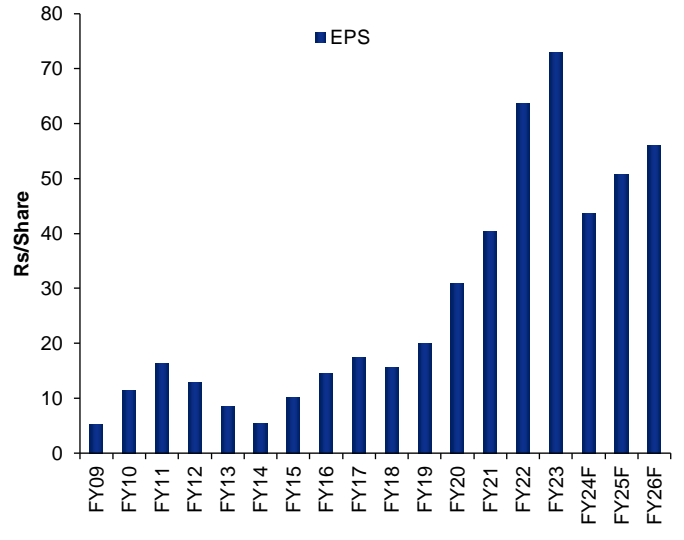
Earnings and valuations

We project an 13% EPS CAGR for the company over FY24F-26F. Our EPS estimates are way below consensus EPS estimates.

Figure 8: Consensus expects an earnings revival soon

12 Months Ending	FY 2023 Act	FY 2024 Est	FY 2025 Est	FY 2026 Est	FY 2027 Est
11 EPS, Adj+	72.950	45.647	64.614	85.044	96.018
12 EPS, GAAP	72.949	46.613	65.633	85.736	95.242
13 Revenue	148,703B	132,408B	154,564B	179,835B	204,448B
14 Gross Margin %	52.080	48.617	49.663	50.652	49.631
15 Operating Profit	29,539B	20,267B	27,354B	34,718B	39,460B
16 EBIT	29,539B	20,125B	27,321B	34,838B	39,460B
17 EBITDA	35,992B	27,094B	35,213B	44,072B	49,565B
18 Pre-Tax Profit	28,240B	18,287B	25,147B	32,882B	37,578B
19 Net Income, Adj+	21,623B	13,658B	19,267B	25,265B	28,498B
20 Net Income, GAAP	21,623B	13,658B	19,265B	24,982B	28,401B
21 Net Debt	33,710B	40,204B	42,558B	40,813B	40,151B
22 BPS	348.387	384.802	439.725	512.972	584.620
23 CPS	92.249	68.208	91.877	114.585	129.640
24 DPS	7.200	7.031	8.344	9.641	8.375
25 Return on Equity %	22.891	12.531	15.496	17.701	17.286
26 Return on Assets %	12.524	7.412	9.292	11.028	11.028
27 Depreciation	5,387B	6,727B	7,917B	8,955B	10,090B

Figure 9: However, we don't believe in it



SOURCE: INCRED RESEARCH, COMPANY REPORTS

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Stock too costly based on our earnings estimates ➤

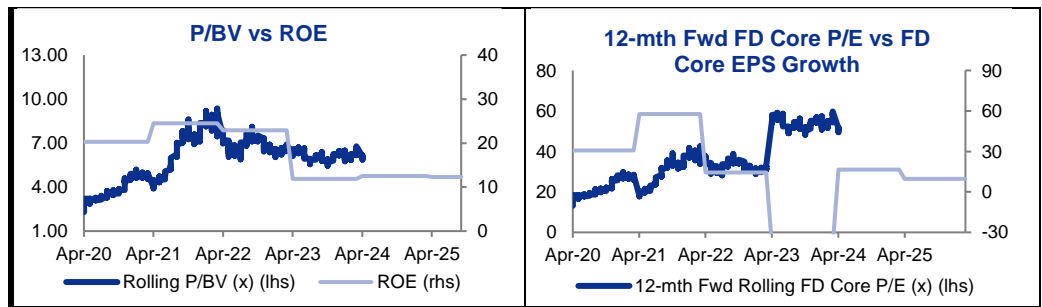
Figure 10: SRF trades at +3SD of the last 25 years' mean P/E; normally, making money from these levels is impossible



SOURCE: INCRED RESEARCH, COMPANY REPORTS

We acknowledge the contribution of Shakthi Sharvani Karanam (Intern) in the writing of this note.

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	124,337	148,703	128,748	148,253	162,221
Gross Profit	124,337	148,703	128,748	148,253	162,221
Operating EBITDA	31,759	35,292	24,076	27,663	30,267
Depreciation And Amortisation	(5,172)	(5,753)	(5,702)	(6,587)	(7,107)
Operating EBIT	26,587	29,539	18,374	21,075	23,159
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	17,290	20,116	22,200
Exceptional Items					
Pre-tax Profit	25,856	28,240	17,290	20,116	22,200
Taxation	(6,966)	(6,617)	(4,328)	(5,010)	(5,655)
Exceptional Income - post-tax					
Profit After Tax	18,889	21,623	12,962	15,106	16,546
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	18,889	21,623	12,962	15,106	16,546
Recurring Net Profit	18,889	21,623	12,962	15,106	16,546
Fully Diluted Recurring Net Profit	18,889	21,623	12,962	15,106	16,546

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	31,759	35,292	24,076	27,663	30,267
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(6,645)	(604)	2,880	(2,622)	(1,878)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(469)	(1,343)	1,554	8	9
Other Operating Cashflow	(6,445)	(7,357)	(6,189)	(7,797)	(8,613)
Net Interest (Paid)/Received	(1,159)	(2,048)	(1,834)	(1,708)	(1,708)
Tax Paid	4,016	5,077	4,328	5,010	5,655
Cashflow From Operations	21,057	29,017	24,815	20,554	23,730
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	5,500	6,946	10,123
Free Cashflow To Equity	6,652	6,002	9,233	10,554	13,730
Free Cashflow To Firm	6,339	1,451	16,649	12,262	15,439

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	16,565	23,511	33,635
Total Debtors	17,925	17,856	15,460	17,802	19,479
Inventories	21,385	22,743	19,691	22,674	24,810
Total Other Current Assets	5,473	8,957	4,922	5,152	5,320
Total Current Assets	52,544	60,622	56,638	69,139	83,244
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	19,319	22,245	24,341
Other Current Liabilities	5,579	6,428	2,818	2,825	2,832
Total Current Liabilities	44,403	49,166	42,562	45,496	47,599
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	72,082	75,064	77,219
Shareholders Equity	85,654	103,271	114,217	127,189	142,075
Minority Interests					
Total Equity	85,654	103,271	114,217	127,189	142,075

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	48.0%	19.6%	(13.4%)	15.1%	9.4%
Operating EBITDA Growth	48.0%	11.1%	(31.8%)	14.9%	9.4%
Operating EBITDA Margin	25.5%	23.7%	18.7%	18.7%	18.7%
Net Cash Per Share (Rs)	(93.23)	(109.57)	(72.18)	(48.74)	(14.59)
BVPS (Rs)	288.98	348.42	385.35	429.11	479.33
Gross Interest Cover	22.93	14.42	10.02	12.34	13.56
Effective Tax Rate	26.9%	23.4%	25.0%	24.9%	25.5%
Net Dividend Payout Ratio	8.8%	8.8%	14.7%	12.6%	11.5%
Accounts Receivables Days	45.02	43.91	47.23	40.95	41.94
Inventory Days	nm	nm	nm	nm	nm
Accounts Payables Days	nm	nm	nm	nm	nm
ROIC (%)	21.5%	20.0%	12.5%	13.7%	14.6%
ROCE (%)	22.7%	20.9%	11.7%	12.6%	12.8%
Return On Average Assets	14.0%	13.7%	7.9%	8.7%	8.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request.

The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.