

May 9, 2024

Q4FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	REDUCE		REDUCE	
Target Price	2,123		2,222	
Sales (Rs. m)	1,43,371	1,61,142	1,46,056	1,61,441
% Chng.	(1.8)	(0.2)		
EBITDA (Rs. m)	30,999	35,721	30,363	35,405
% Chng.	2.1	0.9		
EPS (Rs.)	55.9	65.1	51.5	60.6
% Chng.	8.7	7.4		

Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	1,48,703	1,31,385	1,43,371	1,61,142
EBITDA (Rs. m)	35,292	25,841	30,999	35,721
Margin (%)	23.7	19.7	21.6	22.2
PAT (Rs. m)	21,623	13,357	16,583	19,292
EPS (Rs.)	72.9	45.1	55.9	65.1
Gr. (%)	14.5	(38.2)	24.2	16.3
DPS (Rs.)	8.8	5.4	6.7	7.8
Yield (%)	0.4	0.2	0.3	0.3
RoE (%)	22.9	12.3	13.6	14.0
RoCE (%)	22.1	12.3	13.1	13.7
EV/Sales (x)	4.8	5.5	5.0	4.5
EV/EBITDA (x)	20.2	27.9	23.3	20.3
PE (x)	31.4	50.8	41.0	35.2
P/BV (x)	6.6	5.9	5.3	4.6

Key Data

SRFL.BO | SRF IN

52-W High / Low	Rs.2,697 / Rs.2,040
Sensex / Nifty	72,404 / 21,958
Market Cap	Rs.679bn/ \$ 8,133m
Shares Outstanding	296m
3M Avg. Daily Value	Rs.1294.48m

Shareholding Pattern (%)

Promoter's	50.30
Foreign	19.08
Domestic Institution	15.97
Public & Others	14.64
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(11.6)	(2.0)	(11.4)
Relative	(8.8)	(12.2)	(24.5)

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Chinese competition remains a significant hurdle

Quick Pointers:

- In FY25, capex of Rs8-9bn is expected, currently sanctioned capex is between Rs10-12bn
- Margin pressure to continue throughout FY25 for Packaging Film Business

Chemical Segment continued to show weakness with decline of 14% in revenue YoY during the quarter. The Speciality Chemical business faced obstacles stemming from inventory realization by key customers, while the Fluorochemicals business encountered pricing pressure and lower volume due to Chinese dumping. Furthermore, oversupply in the BOPET and BOPP film segments continued to strain profitability in the Packaging business, despite a modest 3% YoY revenue growth. Conversely, the Textile business showcased resilience with a healthy 9% revenue increase YoY. This growth was primarily fuelled by volume expansion in the Nylon Tyre Cord Fabrics and Polyester Industrial Yarn segments. While the company appears strong in terms of product launches and growth, it is trading at 35x FY26 EPS and 19x FY26 EV/EBITDA. Due to continued concerns on agrochemical demand and competition from China to persist in the near-term, we maintain our REDUCE rating on the stock with SOTP based target price of Rs2,123.

- Sequential recovery seen in Chemical Business:** Consolidated revenue came at Rs35.5bn (-5.5%/16.9% YoY/QoQ, PLe: Rs 33bn), improved QoQ majorly due to improvement in Chemicals Segment (-14%/30% YoY/QoQ) and Packaging Films Segment (3%/8% YoY/QoQ). However, Technical Textiles Segment witnessed growth of 9%/2% YoY/QoQ. For FY24, Revenue stood at Rs131bn, -11.6% YoY.
- Margin pressure persists in Chemical and Textile Segment:** Gross Margin stood at 48.6%, down from 50% in Q4FY24 and almost flat QoQ. EBITDA stood at Rs6.9bn (-25% YoY, 23% QoQ). EBITDAM stood at 19.5% in Q4FY24 vs 24.7% in Q4FY23 and 18.5% in Q3FY24. EBIT in Chemicals segment was up 55% QoQ but, down by 33% YoY. Technical Textile Segment saw a 44% increase in EBIT YoY with EBIT stable margin at 15%. EBIT Margin improved for Chemical Business by 430 bps to 27.4% whereas for Packing Film Segment it decreased by 130 bps to 2,8% QoQ.
- Key Concall takeaways: (1)** EBITDA margin is expected to be around 24-26% in FY25 **(2)** In FY25, capex of Rs8-9bn is expected, currently sanctioned capex is between Rs10-12bn, Maintenance Capex for the business in FY25 is expected to be Rs0.5-1bn **Chemicals Business: (3)** Chemical Business is expected to grow at 20% **(4)** R-32 price saw steep rise in prices in China, optimal capacity utilization of the company's plant is expected by the end of the year **(5)** In FY24, Specialty Chemical margin was flat to slightly positive than FY23 **(6)** Ref gas utilization for FY24:85-90%, excluding the new 15,000 mtpa capacity **(7)** Share of active ingredient is 9-10%, by the end of FY25, 5-6 AI are expected to come through **Packaging Film Business: (8)** Competition from China impacted both price and volume, margin pressure to continue throughout FY25 **(9)** Slow start for Aluminum Foil plant, there was a technical challenge which was solved in April **Technical Textile Business: (10)** Belting Fabric (BF) and Polyester Industrial Yarn (PIY) expected to be future growth drivers.

Exhibit 1: Valuation – SOTP based TP at Rs 2,123; Maintain Reduce

	EBITDA (Rs mn) FY26E	Target EV/EBITDA multiple	Total Enterprise Value (Rs mn)
Specialty Chemicals	27,050	21.0	5,68,060
Packaging Films Business	7,290	9.0	65,612
Technical Textiles Business	3,445	11.0	37,896
Total Enterprise Value	37,786		6,71,568
less : Net Debt			43,257
Total			6,28,311
No of shares			296
TP			2,123

Source: PL

Exhibit 2: Q4FY24 Result Overview – Consolidated (Rs mn)

Y/e March	Q4FY24	Q4FY23	YoY gr. (%)	Q4FY24E	% Var.	Q3FY24	QoQ gr. (%)	FY24E	FY23	YoY gr. (%)
Net Sales	35,697	37,781	(5.5)	32,902	8.5	30,530	16.9	1,31,385	1,48,703	(11.6)
Gross Profit	17,362	18,897	(8.1)	16,143	7.6	14,984	15.9	64,297	74,767	(14.0)
Margin (%)	48.6	50.0		49.1		49.1		48.9	50.3	
EBITDA	6,958	9,316	(25.3)	6,263	11.1	5,658	23.0	25,841	35,292	(26.8)
Margin (%)	19.5	24.7		19.0		18.5		19.7	23.7	
Other Income	234	223	4.7	153	52.9	188	24.7	830	749	10.8
Depreciation	1,859	1,546	20.2	1,690	10.0	1,689	10.1	6,726	5,753	16.9
EBIT	5,099	7,770	(34.4)	4,573	11.5	3,969	28.5	19,115	29,539	(35.3)
Interest	900	659	36.6	608	47.9	674	33.6	3,023	2,048	47.6
PBT before exceptional items	4,433	7,334	(39.6)	4,118	7.7	3,483	27.3	16,922	28,240	(40.1)
Total Tax	211	1,709	(87.7)	686	(69.2)	949	(77.8)	3,565	6,617	(46.1)
ETR (%)	4.8	23.3		16.7	(71.4)	27.2	(82.5)	21.1	23.4	(10.1)
Adj. PAT	4,222	5,625	(24.9)	3,432	23.0	2,534	66.6	13,357	21,623	(38.2)
Exceptional Items	0	0		0		0		0	0	
PAT	4,222	5,625	(24.9)	3,432	23.0	2,534	66.6	13,357	21,623	(38.2)

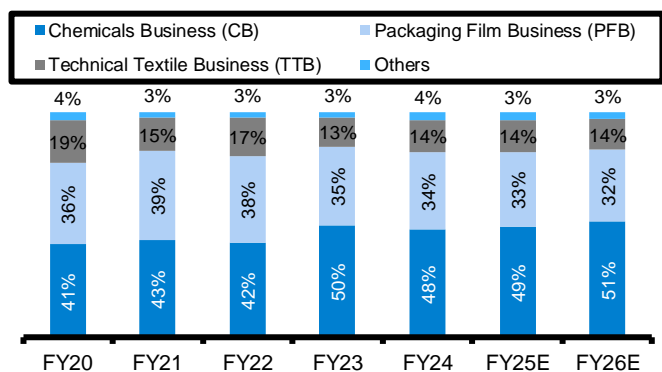
Source: Company, PL

Exhibit 3: Segmental Details (Rs mn)

	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Revenue from Operations	37,278	34,776	37,797	33,387	31,808	30,567	35,734
Chemicals Business (CB)	18,302	17,566	21,017	16,605	14,263	13,941	18,161
Packing Film Business (PFB)	13,310	12,027	11,531	10,948	11,215	10,907	11,824
Technical Textile Business (TTB)	4,662	4,259	4,307	4,647	5,062	4,584	4,689
Others	1,004	923	943	1,187	1,269	1,136	1,062
Less : Inter Segment Revenues	-	79	16	3	35	37	37
Total Segment Revenue	37,278	34,697	37,781	33,384	31,774	30,530	35,697
Add : Other Unallocable Income	-	-	-	-	-	-	-
Net Revenue from Operations	37,278	34,697	37,781	33,384	31,774	30,530	35,697
Change (YoY %)	31%	4%	6%	-14%	-15%	-12%	-6%
<i>Chemicals Business (CB)</i>	<i>62%</i>	<i>23%</i>	<i>34%</i>	<i>-4%</i>	<i>-22%</i>	<i>-21%</i>	<i>-14%</i>
<i>Packing Film Business (PFB)</i>	<i>24%</i>	<i>-6%</i>	<i>-17%</i>	<i>-27%</i>	<i>-16%</i>	<i>-9%</i>	<i>3%</i>
<i>Technical Textile Business (TTB)</i>	<i>-16%</i>	<i>-21%</i>	<i>-13%</i>	<i>-19%</i>	<i>9%</i>	<i>8%</i>	<i>9%</i>
<i>Others</i>	<i>16%</i>	<i>-14%</i>	<i>1%</i>	<i>12%</i>	<i>26%</i>	<i>23%</i>	<i>13%</i>
Change (QoQ %)	-4%	-7%	9%	-12%	-5%	-4%	17%
<i>Chemicals Business (CB)</i>	<i>6%</i>	<i>-4%</i>	<i>20%</i>	<i>-21%</i>	<i>-14%</i>	<i>-2%</i>	<i>30%</i>
<i>Packing Film Business (PFB)</i>	<i>-11%</i>	<i>-10%</i>	<i>-4%</i>	<i>-5%</i>	<i>2%</i>	<i>-3%</i>	<i>8%</i>
<i>Technical Textile Business (TTB)</i>	<i>-18%</i>	<i>-9%</i>	<i>1%</i>	<i>8%</i>	<i>9%</i>	<i>-9%</i>	<i>2%</i>
<i>Others</i>	<i>-5%</i>	<i>-8%</i>	<i>2%</i>	<i>26%</i>	<i>7%</i>	<i>-10%</i>	<i>-7%</i>
Revenue Mix (%)							
Chemicals Business (CB)	49%	51%	56%	50%	45%	46%	51%
Packing Film Business (PFB)	36%	35%	31%	33%	35%	36%	33%
Technical Textile Business (TTB)	13%	12%	11%	14%	16%	15%	13%
Others	3%	3%	2%	4%	4%	4%	3%
Profit/Loss Before Interest and Tax	6,892	7,259	8,399	5,952	5,331	4,567	6,161
Chemicals Business (CB)	5,173	5,639	7,393	4,601	3,478	3,219	4,977
Packing Film Business (PFB)	1,014	1,186	410	513	773	449	331
Technical Textile Business (TTB)	629	342	484	607	750	688	698
Others	76	91	113	232	331	212	156
Less: Other Un-allocable Expenditure	267	330	407	438	390	410	828
Unallocated Exp as % of Rev	0.7%	0.9%	1.1%	1.3%	1.2%	1.3%	2.3%
EBIT (incl Other Income)	6,626	6,929	7,993	5,514	4,941	4,157	5,333
Less: Other Income	327	100	223	118	291	188	234
EBIT	6,298	6,829	7,770	5,396	4,650	3,969	5,099
Less: Finance Costs	445	620	659	656	793	674	900
PBT	6,181	6,309	7,334	4,858	4,148	3,483	4,433

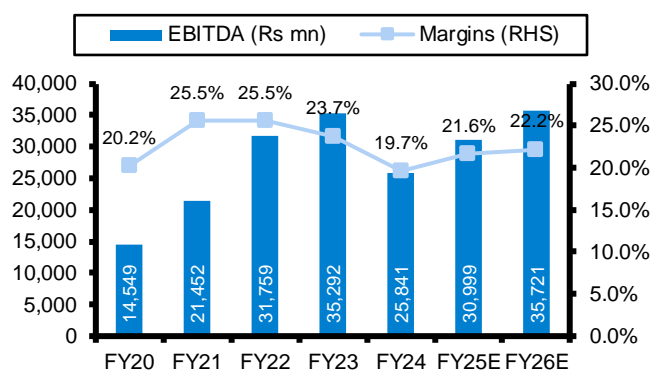
Source: Company, PL

Exhibit 4: Chemicals contribution to increase to 51%



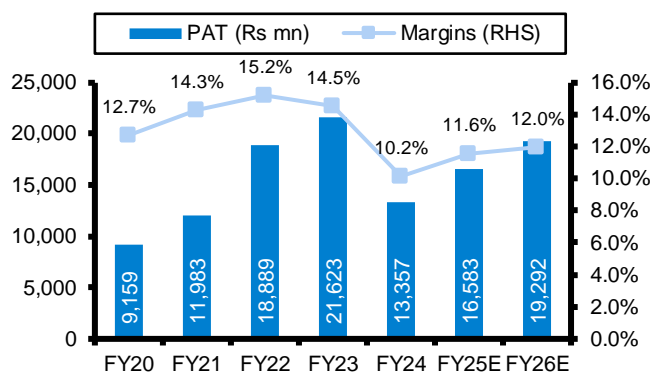
Source: Company, PL

Exhibit 5: EBITDA margin to improve with high value add mix



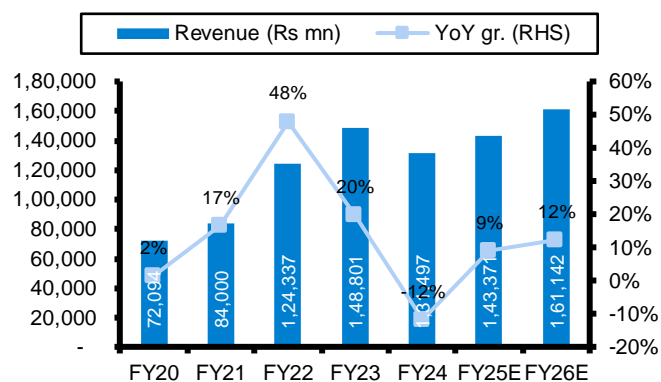
Source: Company, PL

Exhibit 6: PAT Margins to improve to ~12%

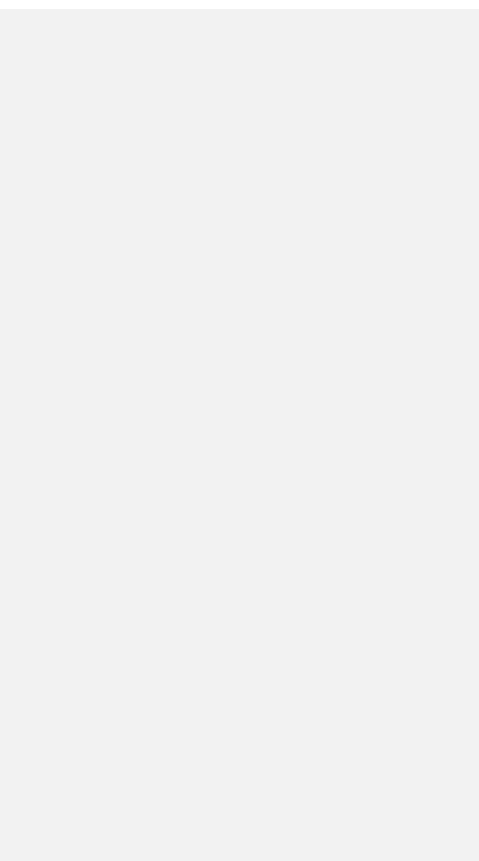


Source: Company, PL

Exhibit 7: Revenue to grow at 3% CAGR over FY23-FY26E



Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	1,48,703	1,31,385	1,43,371	1,61,142
YoY gr. (%)	19.6	(11.6)	9.1	12.4
Cost of Goods Sold	73,935	67,088	71,890	79,922
Gross Profit	74,767	64,297	71,481	81,220
Margin (%)	50.3	48.9	49.9	50.4
Employee Cost	8,138	9,350	8,602	9,669
Other Expenses	31,337	29,106	31,879	35,831
EBITDA	35,292	25,841	30,999	35,721
YoY gr. (%)	11.1	(26.8)	20.0	15.2
Margin (%)	23.7	19.7	21.6	22.2
Depreciation and Amortization	5,753	6,726	8,423	9,563
EBIT	29,539	19,115	22,576	26,158
Margin (%)	19.9	14.5	15.7	16.2
Net Interest	2,048	3,023	2,521	2,672
Other Income	749	830	955	955
Profit Before Tax	28,240	16,922	21,010	24,441
Margin (%)	19.0	12.9	14.7	15.2
Total Tax	6,617	3,565	4,426	5,149
Effective tax rate (%)	23.4	21.1	21.1	21.1
Profit after tax	21,623	13,357	16,583	19,292
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	21,623	13,357	16,583	19,292
YoY gr. (%)	14.5	(38.2)	24.2	16.3
Margin (%)	14.5	10.2	11.6	12.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	21,623	13,357	16,583	19,292
YoY gr. (%)	14.5	(38.2)	24.2	16.3
Margin (%)	14.5	10.2	11.6	12.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	21,623	13,357	16,583	19,292
Equity Shares O/s (m)	296	296	296	296
EPS (Rs)	72.9	45.1	55.9	65.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	1,30,996	1,69,640	1,93,801	2,18,801
Tangibles	1,25,785	1,64,429	1,88,591	2,13,591
Intangibles	5,211	5,211	5,211	5,211
Acc: Dep / Amortization	30,498	37,224	45,647	55,210
Tangibles	29,306	36,032	44,456	54,019
Intangibles	1,191	1,191	1,191	1,191
Net fixed assets	1,00,498	1,32,416	1,48,154	1,63,591
Tangibles	96,479	1,28,397	1,44,135	1,59,572
Intangibles	4,019	4,019	4,019	4,019
Capital Work In Progress	24,055	8,053	8,892	8,892
Goodwill	-	-	-	-
Non-Current Investments	4,374	5,605	3,902	3,902
Net Deferred tax assets	(7,906)	(9,112)	(9,112)	(9,112)
Other Non-Current Assets	682	1,976	1,976	1,976
Current Assets				
Investments	4,901	4,056	4,056	4,056
Inventories	22,743	23,265	25,387	28,534
Trade receivables	17,856	19,428	21,201	23,828
Cash & Bank Balance	6,165	4,075	4,324	6,686
Other Current Assets	2,348	1,980	2,161	2,429
Total Assets	1,87,545	2,04,819	2,24,353	2,48,694
Equity				
Equity Share Capital	2,974	2,974	2,964	2,964
Other Equity	1,00,296	1,11,816	1,26,360	1,43,287
Total Network	1,03,271	1,14,790	1,29,324	1,46,252
Non-Current Liabilities				
Long Term borrowings	23,115	22,511	22,511	22,511
Provisions	608	714	714	714
Other non current liabilities	3,293	2,609	2,609	2,609
Current Liabilities				
ST Debt / Current of LT Debt	20,425	26,691	29,126	32,736
Trade payables	22,313	21,978	23,982	26,955
Other current liabilities	6,428	6,139	6,699	7,530
Total Equity & Liabilities	1,87,545	2,04,819	2,24,353	2,48,694

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	28,240	16,922	21,010	24,441
Add. Depreciation	5,753	6,726	8,423	9,563
Add. Interest	2,048	3,023	2,521	2,672
Less Financial Other Income	749	830	955	955
Add. Other	(1,343)	(762)	(955)	(955)
Op. profit before WC changes	34,698	25,909	30,999	35,721
Net Changes-WC	(604)	(1,145)	(1,870)	(2,773)
Direct tax	(5,077)	(3,826)	(4,394)	(5,115)
Net cash from Op. activities	29,017	20,939	24,735	27,833
Capital expenditures	(28,243)	(22,017)	(25,000)	(25,000)
Interest / Dividend Income	273	265	955	955
Others	(1,644)	(521)	1,703	-
Net Cash from Inv. activities	(29,614)	(22,273)	(22,342)	(24,045)
Issue of share cap. / premium	-	-	(10)	-
Debt changes	6,599	5,404	2,435	3,610
Dividend paid	(2,133)	(2,137)	(1,990)	(2,315)
Interest paid	(1,945)	(3,612)	(2,521)	(2,672)
Others	(360)	(372)	(49)	(49)
Net cash from Fin. activities	2,161	(717)	(2,136)	(1,426)
Net change in cash	1,564	(2,052)	257	2,362
Free Cash Flow	635	(1,231)	(265)	2,833

Source: Company Data, PL Research

Key Financial Metrics

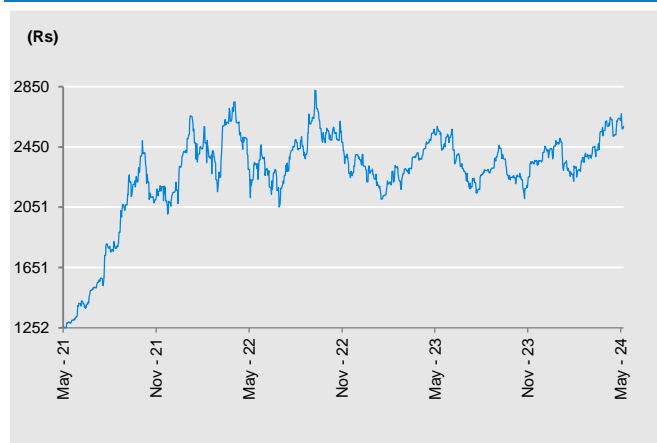
Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	72.9	45.1	55.9	65.1
CEPS	92.4	67.8	84.4	97.3
BVPS	348.4	387.3	436.3	493.4
FCF	2.1	(4.2)	(0.9)	9.6
DPS	8.8	5.4	6.7	7.8
Return Ratio(%)				
RoCE	22.1	12.3	13.1	13.7
ROIC	18.2	10.3	10.9	11.4
RoE	22.9	12.3	13.6	14.0
Balance Sheet				
Net Debt : Equity (x)	0.3	0.4	0.3	0.3
Net Working Capital (Days)	45	58	58	58
Valuation(x)				
PER	31.4	50.8	41.0	35.2
P/B	6.6	5.9	5.3	4.6
P/CEPS	24.8	33.8	27.2	23.5
EV/EBITDA	20.2	27.9	23.3	20.3
EV/Sales	4.8	5.5	5.0	4.5
Dividend Yield (%)	0.4	0.2	0.3	0.3

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Net Revenue	33,384	31,774	30,530	35,697
YoY gr. (%)	(14.3)	(14.8)	(12.0)	(5.5)
Raw Material Expenses	17,005	16,201	15,547	18,335
Gross Profit	16,379	15,573	14,984	17,362
Margin (%)	49.1	49.0	49.1	48.6
EBITDA	6,962	6,262	5,658	6,958
YoY gr. (%)	(30.0)	(18.6)	(32.1)	(25.3)
Margin (%)	20.9	19.7	18.5	19.5
Depreciation / Depletion	1,566	1,612	1,689	1,859
EBIT	5,396	4,650	3,969	5,099
Margin (%)	16.2	14.6	13.0	14.3
Net Interest	656	793	674	900
Other Income	118	291	188	234
Profit before Tax	4,858	4,148	3,483	4,433
Margin (%)	14.6	13.1	11.4	12.4
Total Tax	1,265	1,140	949	211
Effective tax rate (%)	26.0	27.5	27.2	4.8
Profit after Tax	3,593	3,008	2,534	4,222
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,593	3,008	2,534	4,222
YoY gr. (%)	(40.9)	(37.5)	(50.4)	(24.9)
Margin (%)	10.8	9.5	8.3	11.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,593	3,008	2,534	4,222
YoY gr. (%)	(40.9)	(37.5)	(50.4)	(24.9)
Margin (%)	10.8	9.5	8.3	11.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,593	3,008	2,534	4,222
Avg. Shares O/s (m)	296	296	296	296
EPS (Rs)	12.1	10.2	8.6	14.3

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Apr-24	Reduce	2,222	2,614
2	31-Jan-24	Reduce	2,127	2,320
3	08-Jan-24	Hold	2,155	2,481
4	30-Oct-23	Hold	2,156	2,186
5	09-Oct-23	Hold	2,143	2,246
6	15-Sep-23	Hold	2,143	2,371

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Reduce	599	705
2	Ashok Leyland	BUY	210	176
3	Bajaj Auto	Sell	7,267	9,021
4	Bharat Forge	BUY	1,615	1,405
5	Bharat Petroleum Corporation	Sell	504	592
6	Bharti Airtel	Accumulate	1,269	1,204
7	CEAT	BUY	3,017	2,545
8	Clean Science and Technology	Hold	1,386	1,335
9	Deepak Nitrite	Reduce	1,985	2,208
10	Divgi Torqtransfer Systems	BUY	1,135	843
11	Eicher Motors	Accumulate	4,215	4,031
12	Endurance Technologies	Hold	1,980	1,900
13	Exide Industries	Accumulate	495	472
14	Fine Organic Industries	Hold	4,351	4,361
15	GAIL (India)	Sell	162	201
16	Gujarat Fluorochemicals	Reduce	3,120	3,638
17	Gujarat Gas	Hold	558	546
18	Gujarat State Petronet	BUY	400	294
19	Hero Motocorp	Accumulate	5,070	4,525
20	Hindustan Petroleum Corporation	Reduce	400	462
21	Indian Oil Corporation	Reduce	151	169
22	Indraprastha Gas	Sell	368	452
23	Jubilant Ingrevia	Hold	480	486
24	Laxmi Organic Industries	Sell	206	251
25	Mahanagar Gas	Sell	1,125	1,485
26	Mahindra & Mahindra	BUY	2,306	2,013
27	Mangalore Refinery & Petrochemicals	Sell	142	233
28	Maruti Suzuki	BUY	14,432	12,703
29	Navin Fluorine International	Accumulate	3,621	3,377

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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