

# SHORT-TERM REPORT



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SRF

BUY

 SECTOR: DIVERSIFIED  
 BSE: 503806 | NSE: SRF |

CMP: 3800      TARGET: 4180      SL: 3420

## HIGHLIGHTS OF THE QUARTER

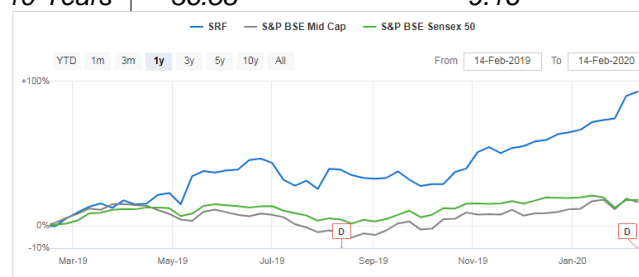
- SRF's fluorospecialty business saw a sharp upswing in Q3FY19, which is in line with the management's guidance of 40-50% growth for FY19 – a large part of which was to come in H2. In fact, a ramp up in fluoro-compound supply to Bayer as well as Syngenta, coupled with the new capacity expansion in November 2018, are driving the strong fluorospecialty growth in Q3. This could result in a rerating.
- SRF trades at 8.8x FY20 EV/EBITDA and 14x FY20 EPS, which is at a 38% discount to peers (Aarti, Atul and Vinati) due to the under-performance in its key fluorospecialty business. With the visible upswing (as per our channel checks) in the fluorospecialty, we believe in an imminent rerating for SRF soon. Hence, we continue with our SOTP valuation method and raise our target EV/EBITDA multiple for its specialty chemical business segment to 14x from 11x while maintaining our target multiple of 6x for packaging and technical textile businesses.
- Given the recovery in the fluoro-specialty business, stronger pricing scenario, and incremental sales from the newly commissioned agro facility, we estimate 44% sales growth with a margin expansion of 150bps yoy (to 18.1%) that results in 47% yoy growth in PAT. This is just in line with our FY19 EPS estimate of Rs 113, a yoy growth of 56%.
- The spike in fluorspar prices (67% yoy, 11% qoq) is just a negative for sentiment, and may not have any impact on the chemical segment's margins. This is because SRF adds significant value to fluorspar. For example, the unit price of fluorspar (input) is just c.Rs 25/kg, while the average price for fluorospecialty products is >Rs 1,200/kg and for refrigerant gases it is >Rs 250/kg. Also, refrigerant gas prices have risen qoq.

## Company Data

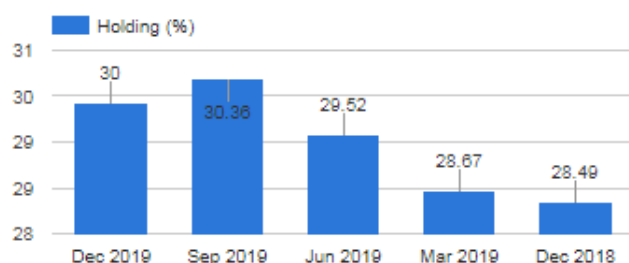
Market Cap:	24,120.11Cr
Revenue (TTM)	7,488.76 Cr
Earnings (TTM)	1,024.23 Cr
Promoter Ownership	52.32%
Liquidity	High
52 Week Range	2,163.00 - 4,230.00
Face Value	10.00
Shares Outstanding	5,75,40,500
Cash	299.37 Cr
Total Debt	3,730.19 Cr

## Stock Performance

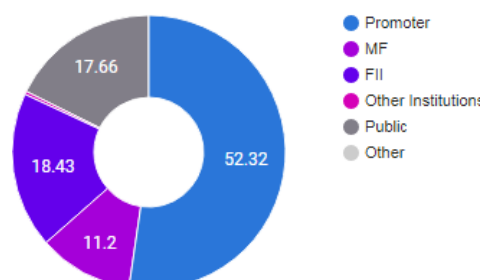
Time Period	SRF	S&P BSE Sensex 50	S&P BSE Mid Cap
1 month	18.39	-2.06	1.67
3 months	32.70	2.05	6.69
1 Year	86.67	13.16	11.02
3 Years	38.34	11.86	5.49
5 Years	34.85	--	7.83
10 Years	36.58	--	9.16



## Historical Institutional (FII + DII) holding in SRF



## Shareholding Summary Of SRF



**Exhibit 1: KEY RATIOS**

Growth (%)	Quarterly		Annual (TTM)		
	Particulars	QoQ	YoY	1-Year	3-Years
Revenue	6.48	2.31	9.29	15.16	13.87
Operating Profit	15.71	24.18	25.49	14.73	21.42
Net Profit	13.90	106.98	78.23	27.22	31.62
EPS	13.90	106.98	78.15	27.17	31.59
Book Value	--	--	15.71	14.29	15.15

**Exhibit 2: Quarterly Financials Snapshot (Standalone)**

Y/E March	FY19				FY20				FY19	FY20E	FY20	Var %
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
<b>Net Sales</b>	<b>16,762</b>	<b>17,550</b>	<b>18,088</b>	<b>20,142</b>	<b>17,633</b>	<b>17,378</b>	<b>18,505</b>	<b>23,076</b>	<b>72,542</b>	<b>76,591</b>	<b>20,637</b>	<b>-10</b>
YoY Change (%)	29.6	36.4	29.5	24.9	5.2	-1.0	2.3	14.6	29.8	5.6	5.1	
Total Expenditure	13,576	14,375	14,968	16,306	14,186	14,026	14,603	18,630	59,225	61,445	16,870	
<b>EBITDA</b>	<b>3,186</b>	<b>3,175</b>	<b>3,120</b>	<b>3,836</b>	<b>3,447</b>	<b>3,352</b>	<b>3,902</b>	<b>4,446</b>	<b>13,317</b>	<b>15,146</b>	<b>3,768</b>	<b>4</b>
Margins (%)	19.0	18.1	17.2	19.0	19.5	19.3	21.1	19.3	18.4	19.8	18.3	
Depreciation	879	877	909	964	925	929	1,019	1,030	3,629	3,902	1,010	
Interest	442	491	534	527	515	550	475	500	1,993	2,041	525	
Other Income	38	29	65	163	152	220	56	149	296	576	139	
<b>PBT before EO expense</b>	<b>1,904</b>	<b>1,836</b>	<b>1,741</b>	<b>2,509</b>	<b>2,159</b>	<b>2,093</b>	<b>2,463</b>	<b>3,065</b>	<b>7,990</b>	<b>9,779</b>	<b>2,371</b>	
Extra-Ord expense	103	-52	-105	-19	-289	42	-127	0	-73	-375	0	
<b>PBT</b>	<b>1,801</b>	<b>1,889</b>	<b>1,846</b>	<b>2,528</b>	<b>2,448</b>	<b>2,051</b>	<b>2,591</b>	<b>3,065</b>	<b>8,063</b>	<b>10,154</b>	<b>2,371</b>	
Tax	462	377	310	619	554	41	-864	771	1,768	502	569	
Rate (%)	24.3	20.5	17.8	24.7	25.7	2.0	-35.1	25.2	22.1	5.1	24.0	
<b>Reported PAT</b>	<b>1,338</b>	<b>1,512</b>	<b>1,536</b>	<b>1,909</b>	<b>1,894</b>	<b>2,009</b>	<b>3,455</b>	<b>2,294</b>	<b>6,295</b>	<b>9,652</b>	<b>1,802</b>	
<b>Adj PAT</b>	<b>1,441</b>	<b>1,460</b>	<b>1,431</b>	<b>1,890</b>	<b>1,605</b>	<b>2,051</b>	<b>3,327</b>	<b>2,294</b>	<b>6,222</b>	<b>9,277</b>	<b>1,802</b>	<b>85</b>
YoY Change (%)	56.0	53.1	29.9	60.9	11.3	40.5	132.5	21.4	49.8	49.1	15.9	
Margins (%)	8.6	8.3	7.9	9.4	9.1	11.8	18.0	9.9	8.6	12.1	8.7	

**Exhibit 3: Highlights Of Management Commentary**

Specialty Chemicals	Fluorochemicals	Packaging	Others
<ul style="list-style-type: none"> <li>Segment delivered a strong performance, backed by healthy demand in agrochemicals. Brazil and other LATAM markets did well.</li> <li>New products gained momentum and the newly commissioned facilities started contributing to the performance. Better absorption of fixed costs led to higher EBIT margins.</li> <li>The board approved a proposal to set up dedicated facilities to produce intermediates catering to the agro-chemicals segment at an aggregate cost INR2.38b for new products and ramping up existing products (2,150 MTPA). v Agro-chemicals sector witnessed healthy traction across key global markets, and pharma continued growing at a consistent pace.</li> </ul>	<ul style="list-style-type: none"> <li>The segment delivered a subdued performance owing to the slowdown in the auto sector and a drop in global prices of refrigerants on account of weak demand and the normalization of chloromethane product prices from peak.</li> <li>The company successfully commissioned brownfield HFC facilities at Dahej and Bhiwadi, the ramp up for which is on course.</li> <li>The board approved capex of INR655m for HFC as phase 1 of future incremental capacities. Ramping up of HFC plant will drive operating leverage last year.</li> </ul>	<ul style="list-style-type: none"> <li>Performance was healthy across units in 3QFY20 as demand for BOPET and BOPP films was steady.</li> <li>Margin expansion was on account of improved efficiencies, expanded product offerings and a higher contribution from value-added products.</li> <li>Three new BOPET lines were commissioned (two in Indonesia and one in India), which may impact industry margins in the coming quarters.</li> <li>Total BOPP capacity is 1.15 lakh MT, and the company will add another 45k MT (in Thailand by Sept'20)</li> </ul>	<ul style="list-style-type: none"> <li>The company declared an interim dividend, leading to cash outflow of INR485m.</li> <li>The effective tax rate is expected to be 26-28% from FY21.</li> <li>The company has already sanctioned capex of INR8-8.5b for FY21.</li> </ul>

### Exhibit 4: Recommendation Chart



#### Technical View:-

1. In daily chart, in medium term and in short term stock is in strong uptrend and trading at all time highs.
2. Stock is making higher highs and higher lows taking support of 20 EMA indicating continuation of uptrend.
3. RSI is above its signal line i.e. 65 level and ADX is showing a strong bullish signals indicating buyers have upper hand.