

**Price:** 2,929

**Recommendation:** Buy

**Industry:** Specialty Chemicals

**Sector:** Commodities

**Report Date:** 13-Mar-2025

SRF Limited is a dynamic company focused on growth and diversification, as highlighted in its recent conference call. The company reported a 14% year-on-year increase in Q3 FY25 gross operating revenue, driven by its Chemicals business. SRF is expanding its Specialty Chemicals portfolio and enhancing its packaging films business. With strategic investments and a focus on operational efficiencies, SRF is well-positioned for sustained growth and improved market presence.

Sales		Profit & Loss		Profitability Matrix	
Current Year	13949 Cr	Operating Profit(Year)	2457 Cr	Operating Profit Margin	17.6 %
Previous Year	14870 Cr	Operating Profit(Quarter)	620 Cr	EBITDA Margin	19.08 %
Current Quarter	3491 Cr	PAT (Year)	1332 Cr	Net Profit Margin	10.1 %
Previous Quarter	3424 Cr	PAT (Quarter)	271 Cr	EPS	38.7
Revenue (QYoY)	3053 Cr				
Valuation Matrix		Growth(YoY)		Growth(QoQ)	
Trailing P/E	75.7	Sales Growth	4.51 %	Sales Growth	1.96 %
PEG Ratio	4.82	PAT Growth	-38.28 %	Sales Growth QYoY	14.35 %
EV/EBITDA	35.6	EPS Growth	-14.19 %	PAT Growth	34.83 %
P/B	7.24	Dividend Yield	0.24	PAT Growth QYoY	7.11 %
Capital Allocation		Holdings		Leverage	
RoE	12.2 %	Promoter	50.3 %	Debt/Equity	0.44
RoA	6.80 %	FII	18.4 %	Debt	5246 Cr
RoCE	12.7 %	DII	17.8 %	Market Cap	86823 Cr
RoIC	10.0 %	Public	13.6 %	Enterprise value	91915 Cr
		No of Shares	29.6 Cr	Cash Equivalents	155 Cr

source : Company filings

## Company's Overview Based on Recent Concall and Performance:

SRF Limited's recent conference call highlighted several strategic initiatives and business strategies aimed at driving growth and diversification. The company has reported a robust performance in Q3 FY25, with a 14% year-on-year growth in gross operating revenue, primarily driven by the Chemicals business. The Specialty Chemicals segment showed strong performance, supported by positive traction in newly launched products and a gradual pickup in demand for key agro intermediates. The company is optimistic about the future, expecting to ramp up sales for some of its newly registered active ingredients during FY26 as customer demand increases. The Fluorochemical business also saw strong domestic demand for refrigerants, particularly for room air conditioners, with expectations of improved performance in Q4 due to stronger volumes and better realizations.

In terms of new initiatives, SRF is focusing on expanding its Specialty Chemicals portfolio, with several new active ingredients (AIs) expected to contribute positively in the coming quarters. The company has completed registrations for some of these AIs, and as customer traction builds, revenue contributions are anticipated to increase. Additionally, SRF is working on enhancing its packaging films business, with aluminum foil capacity utilization expected to improve as products gain approvals in Europe and the US. The company is also addressing pricing pressures in its existing specialty chemical portfolio through technological interventions and cost-cutting measures, aiming to mitigate negative impacts and improve margins.

Looking ahead, SRF is poised for future growth and scaling, with plans to invest INR 1,500-2,000 crore in FY26 for current and future projects. The company anticipates better capacity utilization in its Specialty Chemicals segment, driven by the AI block and other strategic investments. The management is confident about achieving full utilization of its R32 capacity by FY26, contingent on market conditions and pricing dynamics. The company is also optimistic about the potential for increased exports of PTFE, as international market approvals are secured, and expects better utilization rates by FY26.

From a positive perspective, SRF's strategic focus on expanding its Specialty Chemicals and Fluorochemical businesses, coupled with its robust financial performance, positions the company well for sustained growth. The company's proactive approach to addressing pricing pressures and enhancing operational efficiencies is commendable. However, an "even better if" view suggests that SRF could further strengthen its market position by accelerating the commercialization of its new AIs and enhancing its global footprint in the packaging films segment. Additionally, maintaining a balanced approach to domestic and export markets, particularly in the face of geopolitical uncertainties and fluctuating interest rates, will be crucial for long-term success.

SRF Daily Closing One Year Price Chart



Name	Mar Cap (Rs. Cr.)	P/E	ROE	Sales(G) QoQ	Sales(G) QYoY	PAT(G) QoQ	PAT(G) QYoY
<b>SRF</b>	86822.83	75.74	12.22%	1.96%	14.36%	34.58%	6.96%
<b>Linde India</b>	51924.00	119.55	12.88%	-4.50%	-14.21%	9.20%	-2.70%
<b>Gujarat Fluoroch</b>	42268.11	92.70	7.69%	-3.37%	15.73%	4.13%	57.50%
<b>Godrej Industrie</b>	37716.23	48.79	0.65%	0.41%	34.39%	-34.57%	76.86%
<b>Deepak Nitrite</b>	26761.71	38.78	16.38%	-6.33%	-5.27%	-49.49%	-51.45%

Aspect	Commentary
<b>Revenue</b>	The company experienced a decline in annual revenue from 14870 Cr to 13949 Cr, indicating a need for strategic adjustments. However, quarterly revenue showed a slight increase from 3424 Cr to 3491 Cr, suggesting potential recovery or seasonal factors at play.
<b>Profit &amp; Loss</b>	Annual operating profit stood at 2457 Cr, with a quarterly figure of 620 Cr. The PAT for the year was 1332 Cr, while the quarter saw 271 Cr. These figures highlight a stable profit margin, though annual PAT reflects a need for cost management.
<b>Profitability Matrix</b>	Operating profit margin is 17.6%, with an EBITDA margin of 19.08% and a net profit margin of 10.1%. EPS is 38.7, indicating efficient cost management and profitability, though there's room for improvement in net margins.
<b>Valuation Matrix</b>	The trailing P/E ratio is 75.7, suggesting high market expectations. A PEG ratio of 4.82 indicates potential overvaluation. EV/EBITDA is 35.6, and P/B is 7.24, reflecting a premium valuation in the market.
<b>Growth (YoY)</b>	Sales growth is modest at 4.51%, while PAT growth is negative at -38.28%, indicating challenges in profitability. EPS growth is also negative at -14.19%, suggesting a need for strategic initiatives to boost earnings.
<b>Growth (QoQ)</b>	Quarterly sales growth is 1.96%, with a significant QYoY growth of 14.35%. PAT growth is strong at 34.83%, and QYoY PAT growth is 7.11%, indicating positive momentum and effective cost management in recent quarters.
<b>Capital Allocation</b>	RoE is 12.2%, RoA is 6.80%, RoCE is 12.7%, and RoIC is 10.0%. These figures suggest efficient capital allocation, though there's potential for improvement in asset utilization and return on invested capital.
<b>Holdings</b>	Promoter holding is 50.3%, with FII at 18.4%, DII at 17.8%, and public holding at 13.6%. This distribution indicates strong promoter confidence and significant institutional interest, providing stability to the shareholding structure.
<b>Leverage</b>	Debt/Equity ratio is 0.44, with total debt at 5246 Cr. Market cap is 86823 Cr, and enterprise value is 91915 Cr. Cash equivalents are 155 Cr, indicating manageable leverage and a strong market position, though liquidity could be enhanced.

**Analyst viewpoint:** SRF Limited is poised for impressive growth, driven by a strategic expansion in its Specialty Chemicals and Fluorochemical sectors. Recent data highlights significant QoQ growth with sales and PAT increases of 1.96% and 34.83% respectively, underscoring strong operational momentum. The company's robust capital allocation metrics, such as an ROE of 12.2%, indicate efficient use of resources which, coupled with a focused push into new active ingredients and successful international registrations, suggest promising market capture potential. Moreover, SRF's price chart, with a current valuation reflecting strong market confidence, underscores its resilient position amidst competitive peers such as Linde India and Gujarat Fluoroch. The strategic focus on improving operational efficiencies, such as the expansion of the packaging films business, will likely continue to bolster growth prospects in the mid-term.

However, it's important to note that the current trailing P/E ratio of 75.7 points to high market expectations, which may need tempered expectations if market dynamics shift. Despite this, SRF's continued investment into cutting-edge technological interventions aims to alleviate cost pressures and pricing challenges, which is commendable. The company's proactive approach in addressing these areas, especially amid potential geopolitical shifts and interest rate fluctuations, reinforces our confidence in recommending SRF as a buy. In conclusion, while there are minor areas for potential improvement, the company's strategic initiatives position it well for sustained short-to-mid-term growth and enhanced stakeholder value.

Please read detailed disclosure on next page.

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BUY	>=15%
SELL	<-10%
NEUTRAL	>-10% to 15%
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