MIRAE ASSET Sharekhan

SRF Ltd

Inline performance; chemical and packaging shine while technical textiles lags

Specaility Chem	Sharekhan code: SRF	
Reco/View: Buy ⇔	CMP: Rs. 3,150	Price Target: Rs. 3,540 ↑

↑ Upgrade ⇔ Maintain ↓ Downgrade

Summary

- Company reported a revenue of Rs. 3,819 crore, up 10.2% y-o-y. It was led by the chemical segment with revenue of Rs. 1,839 crore, an increase of 24.1% y-o-y while technical textiles revenue of 467 crore declined 11.2% y-o-y.
- Operating profit of Rs. 830 crore, up 37.5% y-o-y was robust led by margin increase in the chemical and packaging film segment.
- The company has maintained its 20% revenue growth guidance for the chemical business. Specialty chemicals is expected to do well with traction in newly launched products and launch of AIs. In fluorochemicals, there is going to be good demand and pricing environment for ref gas.
- We maintain a Buy on SRF with a PT of Rs. 3,540, assigning a 37x multiple on its FY27 EPS. The stock is currently trading at 45x/33x its FY26/27 EPS.

SRF Limited's (SRF) reported revenue of Rs. 3,819 crore (up 10.2% y-o-y) was led by the strong growth in the chemical business (up 24% y-o-y). There was good growth in exports in fluorochemicals and traction in recently launched specialty chemicals as well. Segment-wise revenue is as follows: Chemicals – Rs. 1,839 crore (up 24% y-o-y), Packaging films – Rs. 1,418 crore (up 6% y-o-y), Technical textiles – Rs. 467 crore (down 11% y-o-y). In packaging films, the aluminum foil business delivered its best ever quarterly sales, driven by higher volumes and supportive trade measures on the notified antidumping duty. Weak domestic demand of nylon tyre cord fabric and pricing pressure in belting fabrics due to Chinese competition impacted the Technical textiles performance. Operating margin of 21.7% (up 431 bps y-o-y) was higher than estimates with good EBIT margin in chemicals of 27.3% (up 667 bps y-o-y) and Packaging films of 9.9% (up 339 bps y-o-y), while Technical textiles margins of 8.1% declined (down 482 bps y-o-y). Higher demand and volumes of BOPP in the domestic market helped the margins. The Board approved an interim dividend of Rs. 4 per share with a total outflow of approximately Rs. 119 crore.

Key positives

- Chemical business revenue rose 24% y-o-y and margins for packaging business increased 339 bps y-o-y.

Key negatives

- Technical textiles had a weak quarter.

Management Commentary

- For specialty chemicals, the revenue mix is roughly 60% export/40% domestic, though the domestic portion is still driven by global majors. Company is witnessing a gradual recovery in the agrochemical market post inventory rationalization in the last two years. There is still some overhang but the worst is behind. The company launched a new pharma intermediate and registered an AI product which is expected to scale up in FY26.
- In fluorochemicals, the domestic demand was slow with lower RAC production but it was compensated by exports. For PTFE business, management expects to reach 75-80% capacity utilization by FY26 exit. SRF has 60-70% market share in the domestic HFC market. For HFCs including R32, the company maintains approximately a 60% domestic/40% export split.
- BOPP segment volumes and margins were higher because of demand supply dynamics. A fire incident has impacted one its competitors.
- Management expects FY26 capital expenditure of Rs. 2,400-2,500 crores. Specific capex announcements included Rs. 250 crore for a new agrochemical intermediate facility at Dahej and Rs. 490 crore for a BOPP film facility in Indore.

Our Call

Valuation – Maintain Buy on SRF with a revised PT of Rs. 3,540: SRF's chemical business is on a strong growth trajectory with both specialty chemicals and fluorochemicals segment to contribute to growth. The segment is expected to grow at a 20% CAGR over next few years. Investment in the right areas of specialty chemicals and good stable demand and pricing for Ref gas in fluorochemicals will drive a 51% PAT CAGR over FY2025-FY2027. At CMP, the stock trades at a valuation of 45x/33x its FY26/27 EPS. We maintain our Buy rating on SRF with a revised price target (PT) of Rs. 3,540, assigning a 37x multiple on its FY27 EPS.

Key Risks

- Slower offtake from user industries and concerns about correction in product prices can affect revenue growth.
- Dumping by Chinese players in the market and putting pressure on pricing

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25	FY26E	FY27E
Revenue	14,870	13,139	14,693	17,071	19,890
OPM (%)	23.7	19.7	18.5	21.8	23.7
Adjusted PAT	2,162	1,336	1,251	2,075	2,835
% y-o-y growth	14.5	(38.2)	(6.4)	65.9	36.7
Adjusted EPS (Rs.)	72.9	45.1	42.2	70.0	95.6
P/E (x)	43.2	69.9	74.7	45.0	32.9
P/BV (x)	9.0	8.1	7.4	6.4	5.4
EV/EBITDA (x)	27.3	37.5	35.9	26.4	20.8
RoCE (%)	22.1	12.3	11.6	16.1	18.7
RoE (%)	22.9	12.3	10.4	15.2	17.7

Source: Company; Mirae Asset Sharekhan estimates

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		⇔	
RQ		⇔	
RV		⇔	

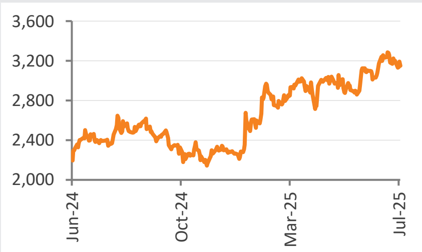
Company details

Market cap:	Rs. 93,386 cr
52-week high/low:	Rs. 3,319 / 2,128
NSE volume: (No of shares)	6.7 lakh
BSE code:	503806
NSE code:	SRF
Free float: (No of shares)	14.74 cr

Shareholding (%)

Promoters	50
FII	18
DII	19
Others	13

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	3.2	3.7	24.9	33.4
Relative to Sensex	3.0	0.7	17.3	31.2

Source: Mirae Asset Sharekhan Research, Bloomberg

Results (Consolidated) Rs cr

Particulars	Q1FY26	Q1FY25	Y-o-Y (%)	Q4FY25	Q-o-Q (%)
Revenue	**3,819**	**3,464**	**10.2**	**4,313**	**(11.5)**
Total Expenditure	2,989	2,861	4.5	3,356	(10.9)
Operating profit	**830**	**603**	**37.5**	**957**	**(13.3)**
Other Income	29	25	15.3	34	(15.6)
Depreciation	203	188	8.0	195	4.1
Interest	80	97	(17.2)	89	(10.6)
PBT	576	344	67.4	707	(18.6)
Tax	144	92	56.4	181	(20.8)
Reported PAT	**432**	**252**	**71.4**	**526**	**(17.8)**
Reported EPS (Rs.)	14.6	8.5	71.4	17.7	(17.8)
Margin (%)			**YoY (BPS)**		**QoQ (BPS)**
OPM	21.7	17.4	431	22.2	(47)
NPM	11.3	7.3	404	12.2	(87)
Tax rate	24.9	26.7	(175)	25.6	(71)

Source: Company; Mirae Asset Sharekhan Research

Segmental performance (Consolidated) Rs cr

Particulars	Q1FY26	Q1FY25	Y-o-Y (%)	Q4FY25	Q-o-Q (%)
Segmental revenue					
Technical Textiles	467	525	(11.2)	458	1.8
Chemical	1,839	1,482	24.1	2,355	(21.9)
Packaging Film	1,418	1,336	6.1	1,412	0.4
Others	95	126	(24.8)	87	8.6
Segmental EBIT					
Technical Textiles	38	68	(44.4)	40	(6)
Chemical	503	306	64.1	748	(33)
Packaging Film	140	87	61.6	105	34
Others	13	24	(43.0)	12	8.3
EBIT Margin (%)					
Technical Textiles	8.1	12.9	(482)	8.7	(68)
Chemical	27.3	20.7	667	31.8	(443)
Packaging Film	9.9	6.5	339	7.4	248
Others	14.1	18.7	(453)	14.2	(3)

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector View – Structural growth drivers to propel sustained growth for the specialty chemical sector

We remain bullish on the medium to long-term growth prospects of the specialty chemicals sector, given a massive revenue opportunity from the perspective of import substitution, a potential rise in exports given China Plus One strategy followed by global customers and favorable government policies. We believe that conducive government policies, product innovation, massive export opportunities, and low input prices would help the sector report a high double-digit earnings growth trajectory on a sustained basis in the next 2-3 years over a depressed base.

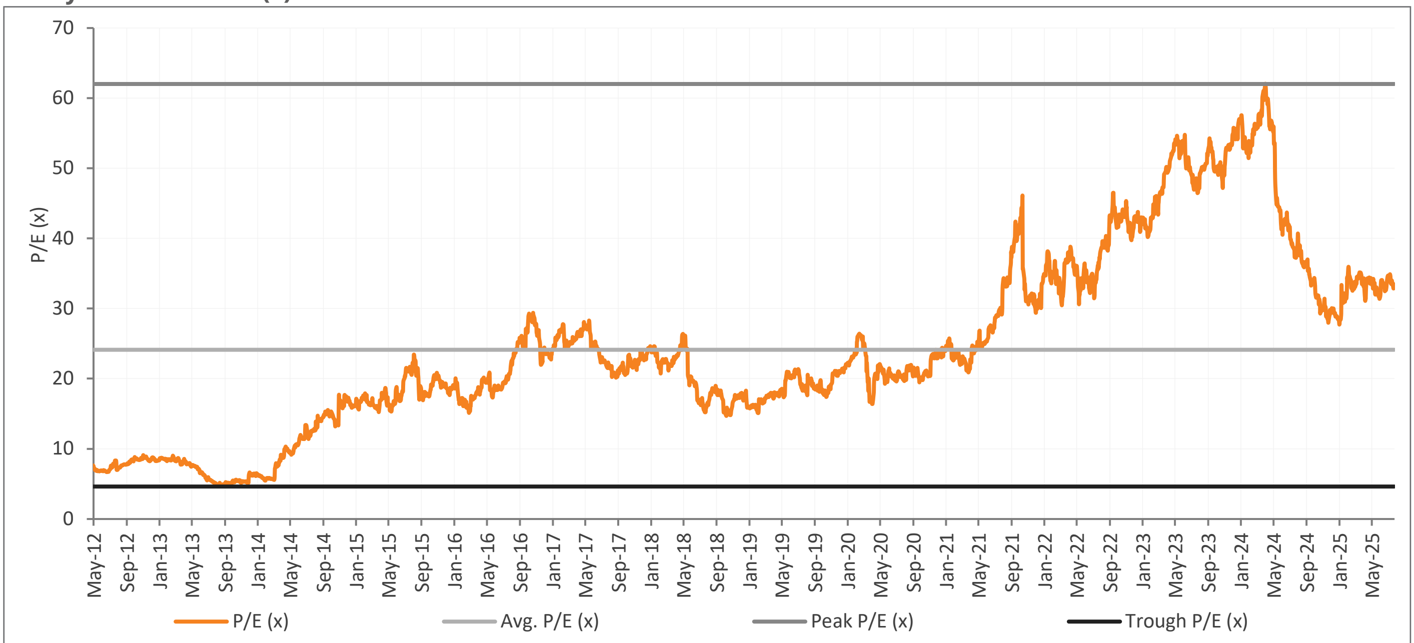
■ Company Outlook – Turnaround in the chemical business to drive growth

SRF's chemical business was sluggish for the past few quarters but things have improved now. The spec chem business has good outlook from the new launched products of the company. Moreover, the management sees strong demand for HFCs in domestic market and Middle East with improving pricing. High capital intensity toward specialty chemicals makes us confident about the long-term revenue/earnings growth of SRF. Company is expected to report a 32%/51% CAGR of EBITDA/PAT over FY25-27.

■ Valuation – Maintain Buy on SRF with a revised PT of Rs. 3,540

SRF's chemical business is on a strong growth trajectory with both specialty chemicals and fluorochemicals segment to contribute to growth. The segment is expected to grow at a 20% CAGR over next few years. Investment in the right areas of specialty chemicals and good stable demand and pricing for Ref gas in fluorochemicals will drive a 51% PAT CAGR over FY2025-FY2027. At CMP, the stock trades at a valuation of 45x/33x its FY26/27 EPS. We maintain our Buy rating on SRF with a revised price target (PT) of Rs. 3,540, assigning a 37x multiple on its FY27 EPS.

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

About company

Established in 1970, the company is a chemical-based multi-business entity engaged in the manufacturing of industrial and specialty intermediates. The company's diversified business portfolio covers technical textiles, chemicals (fluorochemicals and specialty chemicals), and packaging films. The company has 13 manufacturing plants in India, one in Thailand, one in South Africa, and one in Hungary. The company exports to more than 100 countries.

Investment theme

Favourable growth prospects in the chemical segment, led by both speciality chemicals and fluorochemicals. The spec chem business has good outlook from the new launched products of the company. Moreover, the management sees strong demand for HFCs in domestic market and Middle East with improving pricing. High capital intensity toward specialty chemicals makes us confident about the long-term revenue/earnings growth of SRF. Moreover, the structural growth opportunity for the Indian specialty chemicals sector, given favourable dynamics (China Plus One strategy by global companies) to support premium valuation for quality players like SRF.

Key Risks

- Slowdown in demand offtake from user industries and concerns over product price correction can impact revenue growth.
- Dumping by Chinese players in the market and putting pressure on pricing

Additional Data

Key management personnel

Name	Designation
Ashish Bharat Ram	Chairman & Managing Director
Kartik Bharat Ram	Joint Managing Director
Prashant Yadav	President and CEO, Fluorochemicals Business & Technical Textiles
Anurag Jain	President and CEO, Specialty Chemicals Business & Chemicals Technology Group
Prashant Mehra	President & CEO, Packaging Films Business, Coated & Laminated Fabrics Business
Rahul Jain	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Kotak Mahindra Asset Management Co	4.71
2	Amansa Holdings Pvt Ltd	3.16
3	Life Insurance Corp of India	3.07
4	Vanguard Group Inc/The	2.06
5	Norges Bank	2.04
6	GOVERNMENT PENSION FUND - GLOBAL	1.81
7	Blackrock Inc	1.59
8	GOVERNMENT OF SINGAPORE	1.43
9	HDFC Asset Management Co Ltd	0.77
10	FundRock Management Co SA	0.76

Source: Bloomberg

Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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