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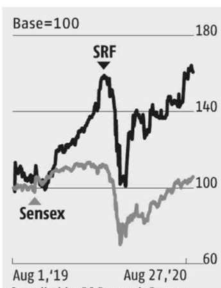
SRF bets on expansion to maintain growth trajectory

Specialty chemicals and packaging businesses to aid near-term growth



Compiled by BS Research Bureau

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After posting strong double-digit growth on the back of expansion over the past few years, SRF is looking at increasing capex to monetise multiple opportunities. The company's board will meet next week to look at fundraising options to finance new opportunities.

The firm has invested over ₹4,000 crore in the past three years and is expected to invest ₹2,000 crore over the next two years. Most of its recent investments have been in the chemical segment, which accounts for 40-50 per cent of the company's consolidated revenues and operating profit. The expansion helped it grow the segment's revenues and profit 20 per cent annually over the last six years.

Within the chemical business, while the specialty segment is the growth driver as global players look to diversify their supply base beyond China, analysts at Sharekhan expect the fluorochemical segment, too, to see some traction as demand from auto and consumer durables picks up in the second half of the financial year. Weak pricing and volume pressures for refrigerant gases dented the performance of the fluorochemical space in the June quarter (Q1).

Demand for the packaging business (44 per cent of revenues) continues to be strong, led by the food, home, and personal care (hygiene) segments. Going ahead, capacity addition at its plants in Thailand and Hungary is expected to aid growth. Segment profits grew by 50 per cent and margins saw a spike owing to favourable demand supply situation and higher share of value added products. With supplies resuming, margins are expected to moderate, though the company's profitability is expected to be better than peers because of higher value addition.

Brokerages expect the company's growth trajectory to be robust, led by expansions in the chemical and packaging businesses. Further, net debt to operating profit is expected to decline from the current levels of 2.5x as the company pays off debt from its cash flows. While the 59 per cent gains from April lows captures some of the positives, analysts believe there is still a 20 per cent upside from these levels.