

Steady chemicals and packaging films biz save SRF from covid hit

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Shares of SRF Ltd hit a new 52-week high on Tuesday; the stock is now up 20% so far this year. The company commissioned a new facility to produce specialty chemicals in Gujarat this week. This comes on the back of a packaging film plant addition in Europe and an approval to set up a chloromethanes plant in Gujarat.

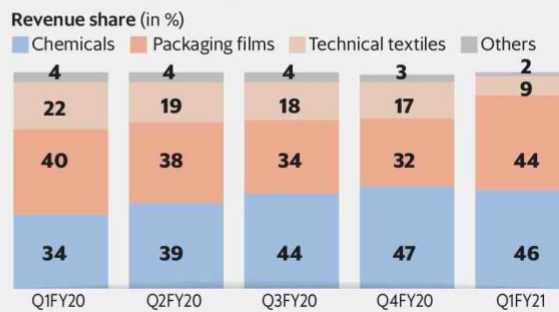
The company did fairly well in the June quarter, too. The covid-19 hit to the global economy notwithstanding, it managed to grow operating profit by 6.3%. Revenue dropped 12.4% from a year earlier. In fact, analysts have raised their earnings estimates after the chemicals division reported strong performance. Revenue from the division rose 16.9% last quarter.

“Management remains confident about growth in the chemicals business owing to strong visibility on specialty chemicals (~25% growth outlook maintained) despite challenges due to covid-19,” Edelweiss Securities Ltd analysts said in a note.

Packaging films, the other large business division, impressed with strong expansion

Capacity push

The contribution of chemicals and packaging films to overall revenue rose significantly as SRF added new capacities.



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sion in profit margins, riding on robust demand and higher sales of value-added products. “The packaging films business performed exceedingly well during the quarter with most of the plants performing optimally as this segment belongs to the

Fluorochemicals, tyre cord fabric units reported muted numbers, reflecting sluggish demand in the auto sector

essential goods value chain. Margins expanded due to the demand-supply gap, resulting in higher value realizations across all Indian and international operations,” SRF said in a statement.

Comparatively, the fluorochemicals and tyre cord fabric divisions reported subdued performance, reflecting sluggish demand from the automobile sector and room air condition-

ers (SRF supplies refrigerants).

Similarly, SRF warned the addition of new production lines in the packaging film industry could weigh on prices. Even then, the ramp-up of the recently commissioned facilities and firm demand for high-value packaging should aid volumes and earnings.

The benign outlook for the two large divisions—chemicals and packaging films business (accounting for 85% of revenue last quarter)—are aiding the stock. While the stock’s valuations at 18 times FY22 earnings estimates are not cheap, sustainability of growth momentum in specialty chemicals remains key. “Strong demand outlook in specialty chemicals amid covid-19 remains the core catalyst for the stock to perform,” added Emkay analysts.