We always find a better way

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For SRF, the chemicals business is keeping growth momentum steady

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Shares of SRF Ltd surged 13% on Tuesday after the company impressed with a better-than-expected June quarter performance.

Revenue growth, though, slowed to 9% year-on-year in the quarter, tracking the deceleration in its technical textiles business. But better profitability at its packing-films business saw operating profits rise to a decent 13%. Profit after tax was up 41%.

Revenues and operating profits at the technical textiles division dropped, reflecting the slowdown in the automobile industry. Operating profit at the chemicals division, which has been a growth driver, was flat due to a manufacturing plant closure.

However, the packing-films business saw 50% jump in operating profit, which benefited from higher sales of value-added products. Both gross and operating profit margins expanded, driving net earnings.

Further, the outlook for two key business segments, packing films and technical textiles, is clouded by overcapacity and demand slowdown. Capacity additions in the packing-films business can disturb the demand-supply equilibrium in the short term, warned SRF. Prospects for technical textiles have been constrained by the economic slowdown and low demand from the automobile industry.

Still, overpowering these concerns are opportunities in the chemicals business. The fluorochemicals segment is seeing steady growth. The company developed a new refrigerant, which it plans to sell under its brand. It launched sales of branded Floron refrigerant products in South Africa in addition to Thailand and India, SRF said in a presentation to investors.

A slowdown in global agrochem notwithstanding, the company is seeing good demand for its flagship products

The outlook for specialty chemicals is encouraging. A slowdown in global agrochemicals notwithstanding, the company is seeing good demand for its flagship products. It launched two intermediaries in the agro segment and two molecules in the pharma segment.

Similar to fluorochemicals, focus here, too, is on market expansion through product launches.

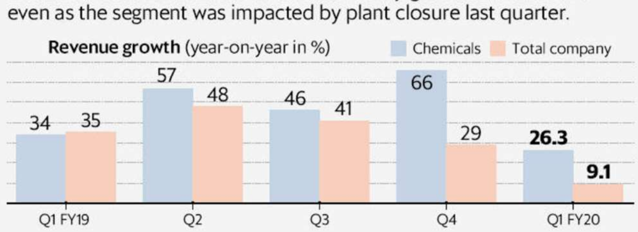
Pharma is also seeing good growth. Changing weather patterns and resultant slowdown in some regions are headwinds for the agrochemicals business, though.

SRF and other Indian companies are benefiting from the ongoing diversification by global firms, which is resulting in slack in procurement from China. Indian companies, including SRF, are making timely investments to capture this demand. Chemical manufacturers, such as PI Industries Ltd, maintained its double-digit growth forecast for FY20 despite subdued demand trends in the domestic market.

Meanwhile, Tuesday's gains in the SRF stock come on top of the 43% increase over the past year. The stock now trades at 19 times FY20 and 15 times FY21 earnings per share estimates. Still, this is not particularly inexpensive.

In the driver's seat

The chemicals business has remained the key growth driver for SRF even as the segment was impacted by plant closure last quarter.



Source: Company

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