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## SRF packs a punch, defies Street in June qtr

### Sticks to revenue growth guidance despite closure of Dahej plant

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The stock of SRF rose 16 per cent on Tuesday, riding on better-than-expected numbers in the June quarter (Q1). Given the plant closure at Dahej (Gujarat) for over a month in Q1, the Street had expected revenues and margins to take a hit.

The SRF stock had corrected 15 per cent since the start of July on concerns over revenue loss. However, SRF reported 9 per cent increase in revenue and 13 per cent rise in operating profit, compared to estimates of a 15 per cent and over 35 per cent fall, respectively.

Chemical business revenues rose 26 per cent, while operating profit (Ebit) was flat. The Dahej plant accounts for a majority of the chemical business revenues, given its margins are the highest across

all segments.

What the Street will take comfort from is that the firm indicated it would be able to meet customer orders and requirements on a full-year basis despite the 40-45 days of plant closure. It has also stuck to its revenue growth guidance of 40-50 per cent in the speciality chemical business, comprising agri-chemicals and pharmaceuticals.

The Street, however, is sceptical about the growth guidance, keeping in mind the challenges in the global agri-chemical segment.

Margin pressure in the chemicals business was offset by the good show in packaging films, the largest of all its segments. Analysts say an 11 per cent increase in revenues, led by volumes, and a possible price increase helped the segment report a near-50 per cent jump in operating profit.

The packaging films segment accounts for over 49 per cent of the consolidated operating profit. Analysts, however, believe that higher supplies could put pressure on pricing. The segment, in which profitability had expanded 500 basis points to 20.7 per cent, could see sequential pressure given the pricing headwinds.

Technical textiles, contributing a quarter to consolidated revenues, was under pressure too, with revenues down 11 per cent. The tyre cord fabric segment was hit by lower offtake by customers, says the company. Given the sharp fall in demand in the auto sector, the segment revenues for SRF will feel the heat in the coming quarters.

However, the company expects new launches, cost efficiencies, and higher capacities to help improve growth in the medium term.

