| | |
|---|---|
| **Published Date:** Dec 20, 2019 | **Publication:** Business Standard [New Delhi] |
| **Journalist:** Ram Prasad Sahu | **Page No:** 14 |
| **MAV/CCM:** 116,568/48.57 | **Circulation:** 27,248 |

# SRF: Growth to be driven by chemicals segment

## Technical textiles unit, however, could face some pressure

Compiled by BS Research Bureau

RAM PRASAD SAHU

SRF has been among the biggest gainers in the specialty chemicals space since mid-October, increasing investor wealth by 27 per cent. The Street believes that the company should be able achieve higher revenue growth and margins, in the aftermath of its refrigerant expansion, as well as the easing of regulatory overhang at its Dahej facility.

While the company operates in technical textiles, packaging films, and chemicals, growth is expected to be driven by the chemicals business. Within the segment, the management is confident of 40-50 per cent growth in specialty chemicals and 20 per cent in fluoro-chemicals in FY20, led by improved visibility from customers and capacity expansion in the refrigerants.

The doubling of refrigerant production capacities from 17 kilo tonnes per annum (ktpa) to 34 ktpa (excluding R-22 capacities of 12.5 ktpa), which was delayed by the closure order from the Gujarat Pollution Control Board (GPCB), has now been completed.

It has taken remedial steps to address concerns raised by the GPCB, especially on storage and disposal of hazardous chemicals. The Dahej plant accounts for over 80 per cent of its chemicals revenues. Among the positives is good demand for agri and pharma chemicals, especially from emerging markets (Brazil and Latin America). The agro intermediates facility, commissioned in October, is expected to ramp up and contribute further to profitability.

One of the triggers for the firm is expansion into downstream products. Analysts at IIFL say the trend towards expansion into downstream products, which tends to involve complex chemistry, leads to higher margins and holds promise.

A reason for the higher demand for product derivatives is the reduction of supply from China. This should help the company gain share in the global market.

SRF, however, faces some challenges in the technical textiles segment. The company has indicated that the slowdown in auto sales will continue to impact volumes as clients (tyre companies) reduce production.

Some segments in the packaging business, too, are expected to come under pressure on account of higher supply. In addition to this, current valuations — due to the sharp run-up in the stock price — limit further upsides. Investors can look at the stock on dips.