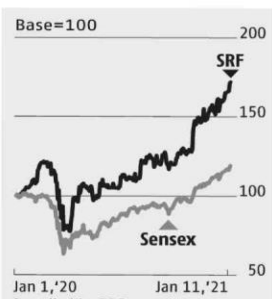
Published Date: Tuesday 12th January, 2021 | Publication: Business Standard [New Delhi]

Journalist: Yash Upadhyaya | Page No: 10

MAV/CCM: 109,992/45.83 | Circulation: 27,248

Investments in chemicals biz to boost SRF's earnings

Recovery in refrigerants adds to optimism



Compiled by BS Research Bureau

YASH UPADHYAYA

Expectations of strong earnings growth over the next two-three years, driven primarily by continuous capex in its chemicals business, recovery in the refrigerants space, and demand momentum in the packing and films segment have boosted the shares of specialty chemicals maker SRF.

On Monday, the SRF stock scaled a new high of ₹6,030 intra-day on the BSE Sensex before closing at ₹5,916.6.

The chemicals business accounts for over 40 per cent of its revenue and has been one of the key drivers of its growth in the past three years. The management sees significant growth opportunities in this segment aided by strong demand in the agrochemicals and active pharmaceutical ingredients (API) space and new product launches. The company is also looking to invest ₹750-1,100 crore over the next two-three years with a majority of the planned capex flowing to its fluorospecialities segment.

"Given the recently-announced step-up in capex, we believe it is possible that SRF's gross block in fluorospecialities doubles in the next 3-4 years, suggesting that the company's revenues from this business should also commensurately double in the next few years," said Abhijit Akela, research analyst at IIFL Securities.

SRF's refrigerants business was severely impacted in the first half of the current financial year as demand from the automobiles and white goods industries suffered, following the Covid-19 outbreak. Analysts are confident on the near-term outlook of this business as demand from autos and white goods has seen a considerable pickup and prices of refrigerant gases have started to rise.

Packaging films has witnessed healthy growth on the back of robust demand and higher sales of value-added products. Ramp up at its recently started BOPP and BOPET lines and new capacity additions, such as the one planned at Indore, are seen supporting growth.

In this backdrop, analysts at Sharekhan estimate SRF's net profit to grow at a compound annual growth rate of 23 per cent during FY21-FY23.

On the flip side, slower-than-anticipated pickup or underperformance in the specialty chemicals business, margin pressure in packaging and films business, and input cost volatility are the key risks cited by analysts.

Shares of the firm have gained 34 per cent in the last three months, compared with 20 per cent for the BSE Sensex. Given the sharp rally, a correction could offer a good entry point for long-term investors.