

Valuations weigh on SRF outlook, gains factored in

Regulatory changes may do little to help

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Mumbai, 3 October

Shares of India's largest listed specialty chemicals maker, SRF, have been trading at their lowest levels in six months. While there have been tailwinds, such as the anti-dumping duty (ADD) on imports of R-134a refrigerant, the lack of price differential between imports and exports has made the regulatory change inconsequential.

Further, the lack of a broad-based recovery in prices across speciality and commodity chemicals will weigh on the performance of the sector, as well as SRF. Brokerages, however, have a mixed view about the impact of the regulatory changes and outlook on the stock.

The immediate triggers for the stock are the ADD and September quarter earnings. Recently, the government applied ADD of \$4,500 on the import of R134a from China. While SRF is the only manufacturer of R134a, the difference between import and export realisations have come down, which would limit the gains from the duty.

The positive impact from incremental sales of the product, according to Prabhudas Lilladher Research, would be limited to 2 per cent of operating profit. In addition to this, Swarnendu Bhushan and Saurabh Ahire of the brokerage believe that the agro-chemical segment continues to face pricing pressure, even as volumes are picking up. More so, the commentary of global players suggests lack of revival in the coming months, they added.

Given that R32 refrigerant prices are expected to decline going ahead, the brokerage finds the valuations too rich to leave any significant upside for investors. It



Lagging behind



Sources: Bloomberg, BSE

has a 'hold' rating on the stock with a target price of ₹2,984 per share.

Emkay Research is also cautious on refrigerant gas players, including SRF, due to peaking of prices for Indian refrigerant gas players exporting (especially R32) to the US, due to tariff impact. They expect higher channel inventory (lower room air conditioner sales) and possible pressure from new capacity additions to lead to a correction in domestic prices.

The near to medium term upside for Indian refrigerant gas players is limited, with higher pricing factored into the current market price, Emkay's Meet Vora and Meet Gada said.

The company is confident of its position in the ref gas market given its strong brand and distribution network and backward integration advantage.

According to JM Financial Research, SRF will continue to benefit from the global ref gas demand-supply mismatch, particularly for HFC-32, where it has headroom to increase its sales volume. The brokerage has a 'buy' rating with a target price of ₹3,510 apiece.

The company's exports growth of 15 per cent on a sequential basis and 27 per cent year-on-year (Y-o-Y) — led by refrigerant gases and specialty chemicals — have remained strong compared to the industry performance for the September quarter.

However, it is in line with the estimated 24 per cent Y-o-Y growth in its chemicals business, says PhillipCapital Research.

A key worry for the Street is valuation. The stock trades at 23 times FY27 enterprise value to operating profit, implying a stretched valuation of 39 times FY27 price to earnings (P/E) for chemical business and over 20 times its FY27 P/E for other segments.

This is at 39 premium to its 10-year average valuation multiples, according to analysts led by Surya Patra of PhillipCapital India. The brokerage continues to remain concerned over China-led price pressure on agro-intermediates and has reiterated its 'neutral' rating with a sum of the parts valuation at ₹2,800 per share.