

Recovery in sight for SRF's chemicals biz

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SRF Ltd is expected to endure short-term challenges, however, recovery is in sight from a long-term perspective. In a recent meeting with analysts, the specialty chemicals company's management indicated that the worst seems to be behind in terms of destocking globally in the agrochemical space. It expects customer demand to pick up in H2FY24 and has some active ingredients for agrochemicals in the pipeline.

In SRF's chemicals business, the specialty chemicals category includes manufacturing of agrochemical and pharmaceutical intermediates. SRF's spe-

cialty chemicals' growth is expected to be in single digit in FY24 and improve to 15-20% in FY25.

SRF's chemicals business contributed 47% of the company's consolidated revenues in H1FY24. The chemicals segment also comprises fluorochemicals, which includes manufacturing of refrigerants like hydrofluorocarbons (HFC) and hydrofluoroolefins (HFOs).

The management sees global HFC demand remaining stable over the next few years. Moreover, with China produc-

ing 15% less year-on-year in the September quarter, SRF is seeing signs of rising HFC prices in the past two months. This bodes well for the recovery in refrigerant prices which saw

weakness recently due to Chinese dumping. Plus, SRF plans to enter the HFO market as several patents expire in the next 2-3 years.

"SRF's focus on fluoropolymers space, HFOs and

new active ingredients (6-7 for agrochemical), ramp-up of pharma business and introduction of VAP (value added products) in packaging film would provide platform for sustaina-

ble strong growth over medium-to-long term," Sharekhan by BNP Paribas said in a report.

That said, the packaging film business (34% of H1FY24 revenue) is expected to face ongoing margin pressure due to weak demand and supply glut. Revival of this business could be a trigger for the stock, which has gained 5% in 2023 till now.

Moving forward, investors should track refrigerant pricing trends, demand in agrochemicals, and expansion of pharma business, believes Swarnendu Bhushan, an analyst at Prabhudas Lilladher.

The near-term pain appears to be largely factored in the stock price, and any signs of recovery would be a positive catalyst, he added.

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