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Export recovery, higher chemical prices spur SRF

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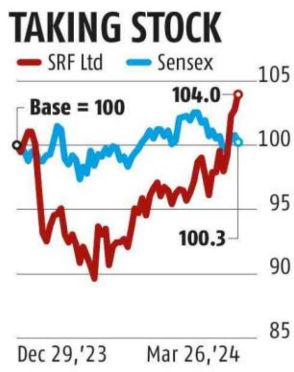
Shares of SRF, the country's largest specialty chemicals player, hit a 10-month high last week on expectations that recovery in exports, amid rising prices, could aid sales revival.

Given expectations of higher realisations across its main segments, some brokerages have upgraded the stock.

The company's gross export revenues were ₹469 crore in February, indicating a strong sequential increase.



Monthly average exports were higher by 43 per cent on a sequential basis on the back of a recovery in specialty chemicals supply and a seasonal uptick in refrigerant gas sales.

While specialty chemicals saw a monthly average export growth of 27 per cent on a sequential basis, refrigerant gases saw a growth of 63 per cent. Factoring in the visible recovery in both specialty chemicals and refrigerant gases (particularly in the US) as well as the ongoing capex execution, Surya Patra of PhillipCapital Research has upgraded the rating on the company to 'buy' from 'neutral'.

The brokerage has rolled forward its valuations to FY26, valuing the company at ₹2,700 per share. Rise in prices of major hydrofluorocarbon (HFC) refrigerants in China since the start of the year is another trigger.

The price of R32, for example, is up 45 per cent.

The increase seems consistent with the thesis that a production freeze in China in 2024 — mandated under the Montreal Protocol — will lead to firming up of HFC prices in the coming months and years.

Analysts led by Abhijit Akella of Kotak Research said, "Regulatory action by the US against such shipments may hasten the process of HFC price increases, which are anyway expected as the world supply-demand tightens. SRF, as the largest producer of HFCs in India by far, would be the key beneficiary."

During the December quarter, the fluorochemicals business witnessed sluggish demand and pressure on margins mainly due to lower volumes and realisations in key global markets.

The chemical segment's revenue fell by 2 per cent quarter-on-quarter (Q-o-Q) while segment margins declined 130 basis points (bps). This is given the headwinds for specialty chemical business due to continued inventory rationalisation and lower realisation for refrigerant gas in the seasonally-weak quarter.

Another positive for the company is that the prices of biaxially oriented polypropylene (BOPP) film are up 10 per cent month-on-month (M-o-M) and could reflect on its packaging films business. The segment had accounted for 36 per cent of its revenues in the December quarter.

The packaging business was hit the most in the December quarter as segment level profits slid 42 per cent on a sequential basis. The company had indicated that the business continued to face supply overhang which resulted in pressure on margins. The demand-supply imbalance and margin pressures would be key monitorables in the near and medium terms.

Sharekhan Research has maintained a 'buy' with an unchanged target price of ₹2,745.

SRF is a quality player and its investment in specialty chemicals provides strong long-term earnings growth prospects, says the brokerage. Valuation, too, seems reasonable at 24 times its FY26 earnings per share, it adds.