CRISIL Ratings

Rating Rationale

October 20, 2023 | Mumbai

SRF Limited

Ratings Reaffirmed

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Rating Action

Total Bank Loan Facilities Rated	**Rs.1000 Crore**
Long Term Rating	**CRISIL AA+/Stable (Reaffirmed)**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

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Rs.600 Crore Commercial Paper	**CRISIL A1+ (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limitedâ€™s Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its â€˜CRISIL AA+/Stable/CRISIL A1+â€™ ratings on the bank facilities and debt instruments of SRF Limited (SRF).

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The ratings continue to reflect a strong business risk profile driven by market leadership, diversified revenue, high operating efficiency, and a healthy financial risk profile. These strengths are partially offset by high capex intensity with continuous enhancement in capacities in the specialty chemicals and packaging films segments.

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In fiscal 2024, operating income is expected to de-grow slightly by ~5-7% y-o-y due to moderation in packaging films business on account of oversupply of BOPET and BOPP films impacting prices. Further, fluorochemicals segment of chemicals business is expected to see some moderation in revenues on account of weak summer impacting domestic sales during Q1 of fiscal 2024 and dumping by China impacting export sales of refrigerant gases. However, revenues of specialty chemicals segment are expected to continue to grow for the current fiscal.

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During fiscal 2023, operating income increased by 19% to Rs. 14,843 crore driven by higher prices and increase in volume sales of key products. Operating profit before depreciation, interest, and tax (OPBDIT) increased to Rs 3,506 crore (operating margin of 23.6%), as against Rs 3,187 crore (25.6%) for the previous fiscal.

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The Chemicals Business (CB) segment, forming 50% of the total revenue in 2023, led the growth in FY23 with a 41% growth backed by sustained volumes. For three months ended June 2023, CB segment saw a slight decline in revenues and margins with operating income moderating by ~4% year-on-year to Rs 1,661 crore due to Fluorochemicals Business which witnessed weak domestic demand due to mild summer in India and moderation in exports due to dumping by China. However, performance of CB segment is expected to pick up in the remaining quarters of this fiscal backed by sustained performance of Specialty Chemicals business and expected improvement of Fluorochemicals Business.

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The Packaging Films Business (PFB) forming around 35% of the total revenue in FY23 posted an increase in operating income of 8% to Rs 5,183 crore. Operating margins for PFB segment were impacted during the fiscal and came down by 600-700 bps compared to last fiscal majorly due to decrease in prices on account of oversupply of BOPET and BOPP films. For three months ended June 2023, operating income in this segment moderated by 27% year-on-year to Rs 1,095 crore with margins sustaining at levels of Q4 fiscal 2023. Fiscal 2024 is expected to continue to see headwinds in the PFB segment due to oversupply alongwith higher energy prices in Europe posing a challenge for SRFâ€™s Hungarian facility. Manufacturing of aluminium foil is expected to start in Q3 fiscal 2024, however, overall contribution to revenues from aluminium foil segment is expected to remain low in fiscal 2024.

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The technical textiles business (TTB), forming 13% of revenue in fiscal 2023, posted a slight de-growth of 9% with operating income of Rs 1,894 crore due to moderation in raw material prices of Caprolactum. For three months ended June 2023, operating income saw a slowdown with a 19% moderation year-on-year at Rs 465 crore. Moving ahead, revenues and margins in the segment are expected to remain at fiscal 2023 levels.

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In fiscal 2023, the company completed capex of ~Rs 2,816 crores for capacity expansion and setting up new facilities in the CB and PFB segments. SRF has invested around Rs 1,770 crore p.a. on average on capex in the past 5 years and the company has further capex plan of Rs. 2,700-2,800 crore for fiscal 2024 which will be funded through a mix of internal accruals and debt. Majority of the planned capex will go into chemical business segment for further capacity and product portfolio expansion.

Analytical Approach

For arriving at its ratings, CRISIL has combined the business and financial risk profiles of SRF and all its subsidiaries, as all the entitiesÂ (together referred to herein as SRF)Â have theÂ same management and operate in similar businesses.

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Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Market leadership:** The company is the market leader in most of its business segments. Due to extensive experience in handling fluorine, it is the sole producer of some key refrigerants in India. In the specialty chemical segment, continuous investment in research and development (R&D), and improved manufacturing capability have made it a one-of-its-kind player, exporting products that find application in pharmaceutical and agro-based products. In the technical textile business (TTB), the company is the largest nylon tyre cord fabric manufacturer in India, and continued addition of new value-added products in the belting fabrics and polyester industrial yarn segment (part of the TTB) should further enhance the market position. The market position in the packaging films business (PFB) is supported by large capacity and high volume of value-added products. The healthy market position is likely to be sustained, given the leadership position, established track record, and large R&D capability leading to technical expertise.

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- **Diversified revenue and high operating efficiency:** SRF has a diversified revenue profile with presence across CB (50%), PFB (35%) and TTB (13%) segments in terms of revenue in fiscal 2023. The management has successfully diversified its geographical presence through investments in the PFB segment in South Africa, Thailand, and Hungary. The diversified revenue profile protects against downswing in any one business and keeps the operating margin steady. Furthermore, cost efficiency measures in the TTB and PFB segments, strong R&D capability in specialty chemicals, and market leadership in refrigerants have helped in keeping the margin higher than that of peers.

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- **Strong financial risk profile:** The financial risk profile remains strong backed by robust tangible networth leading to a comfortable gearing of 0.43 time as on March 31, 2023. Cash accrual was healthy at Rs 2,524 core in fiscal 2023, resulting in comfortable debt protection metrics, indicated by net cash accruals to adjusted debt at 0.58 times (0.53 times previous fiscal). The financial robustness is also explained by interest coverage ratio which stands at 17.5 times (27.8 times previous fiscal) and is expected to continue with net cash accruals estimated at around Rs 2,000 crore for fiscal 2024 which will be used to fund the capex requirements along with mix of some debt.

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Weakness:

- **High capex intensity:** The company is continuously incurring capex in specialty chemicals of the CB segment and is also expanding manufacturing facilities of other segments. Capex was around Rs 2816 crore in fiscal 2023. SRF has invested around Rs 1770 crore every year on capex building in the last 5 years and the company has further capex plan of Rs 2800-2900 crore for fiscal 2024 out of which majority will go into chemical business segment. However, profitability of a molecule in the CB segment depends on successful commercialization and acceptability, while cyclicality is inherent in the PFB and TTB segments. Therefore, the ability to maintain strong revenue growth and sustain the operating margin will remain a key monitorable.

Liquidity: Strong
The liquidity profile of the company continues to remain strong, with healthy cash accruals of Rs 2,524 crores along with cash and cash equivalents of Rs 608 crores as of March 2023 against term debt repayments of Rs 491 crore in fiscal 2024. Liquidity is further supported by unutilized bank lines with an average 48% fund-based utilisation in the last 6 months. Also, financial flexibility continues to remain robust as company has access to capital markets through CPs as well as NCDs. The combined capex for fiscals 2024 and 2025 is expected at Rs 5,000-5,500 crore and should be funded largely by internal accrual and some through debt.

Outlook: Stable
CRISIL Ratings believes SRF will continue to benefit from its market leadership and healthy operating efficiency, while the financial risk profile should remain comfortable due to adequate cash accrual, over the medium term.

Rating Sensitivity factors
UpwardÂ factors
- Sustenance of theÂ gross debt/EBITDA ratioÂ atÂ below 1.0 time
- Strong revenue growth, with sustained improvement inÂ theÂ operating margin,Â leading to higher cash accrual**Â**

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DownwardÂ factors
- A sustained increase in the gross debt/EBITDA ratioÂ toÂ more thanÂ 2Â times
- A sustained decline inÂ theÂ operating margin with stagnant revenue leading to lower cash accrual

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ESG analysis
ESG profile of SRF Supports its strong credit risk profile
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TheÂ chemical manufacturersÂ can haveÂ aÂ significantÂ impact on theÂ environment owing to high water consumption, waste generation and greenhouse gas (GHG) emissions.Â The sectorâ€™s social impact is characterized by health hazards, leading to higher focus on employee safety and well-being and the impact on local community, given the nature of its operations. SRF has continuously focused on mitigating its environmental and social risks.
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Key ESG highlights
- SRF has a total of 18.95 MW installed capacity of renewable energy, which includes an onsite 5 MW solar power plant and an offsite 13.95 MW wind power plant.
- SRF incorporates ESG aspects related to health and safety, human rights, labor laws, environment etc. within the supplier agreements and follows a code of conduct to assess the ESG performance of suppliers.
- SRF is committed towards fostering a diverse and inclusive workplace, free from any sort of harassment and/or discrimination based on gender identity, age, ethnicity, sexual orientation, disability, faith, or marital status.
- The governance structure is characterized by 60% of the board comprising independent directors, presence of an investor grievance redressal mechanism and extensive disclosures.

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There is a growing importance of ESG among investors and lenders. The commitment of SRF to the ESG principle will play a key role in enhancing stakeholder confidence given shareholding foreign portfolio investors and access to both domestic and foreign capital markets.

About the Company
SRF is a multi-business chemicals conglomerate engaged in the manufacturing of industrial and specialty intermediates. Incorporated in 1970, SRF started operations with a Nylon Tyre Cord plant in Manali, Tamilnadu. It is currently present in CB, PFB and TTB and Others business verticals with a revenue contribution of 50%, 35% and 13% and 2% respectively in fiscal 2023. Under the CB segment, the company manufactures fluoro-chemicals (including refrigerant gases, blends and chloromethanes) and specialty chemicals. In the PFB segment it manufactures biaxally oriented polypropylene (BOPP) and biaxally oriented polypropylene terephthalate (BOPET) used in flexible package covers and labels. In the TTB segment, it manufactures nylon cord fabrics, belting fabrics, and industrial yarn. SRF has 11 manufacturing units in India and one each in South Africa, Thailand, and Hungary. Its sales are spread across more than 90 countries, and it has a workforce of more than 7000 employees. Presently India accounts for 40% of revenues followed by USA (15%), Switzerland (6%), Belgium (6%), South Africa (4%), Thailand (4%), Germany (3%), and rest of the world (22%). The parent company Kama Holdings Ltd. holds 51% stake while the other 49% is held by the public.
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For the three months ended June 30, 2023, operating income and profit after tax (PAT) were Rs 3,338 crore and Rs 359 crore, respectively, against Rs 3,895 crore and Rs 608 crore, respectively, for the corresponding period of the previous fiscal.

Key Financial Indicators (CRISIL Ratings adjusted financials)

As on / for period ended March 31	Unit	2023	2022
Revenue	Rs crore	14,843	12,434
PAT	Rs crore	2,162	1,889
PAT margin	%	14.6	15.2
Adjusted debt/adjusted networth	Times	0.43	0.42
Interest coverage	Times	17.5	27.8

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure -Â Details of Instrument'Â in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities -Â including those that are yet to be placed -Â based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity Level	Rating assigned with outlook
NA	External Commercial Borrowings*	NA	NA	Nov-27	208.0	NA	CRISIL AA+/Stable
NA	External Commercial Borrowings#	NA	NA	Oct-23	249.0	NA	CRISIL AA+/Stable
NA	Foreign Currency Term Loan**	NA	NA	Mar-25	277.0	NA	CRISIL AA+/Stable
NA	Working Capital Facility	NA	NA	NA	50	NA	CRISIL A1+
NA	Proposed Term Loan	NA	NA	NA	216	NA	CRISIL AA+/Stable
NA	Commercial paper	NA	NA	7-365 days	600.0	Simple	CRISIL A1+

**Equivalent to USD 25 million*
#Equivalent to USD 30 million
***Equivalent to USD 33.39 million*

Annexure â€“ List of entities consolidated

Names of entities consolidated	Country of incorporation	Proportion of ownership	Extent of consolidation	Rationale for consolidation
SRF Holiday Home Limited	India	100%	Fully consolidated	Strong business and financial linkages
SRF Global BV	Netherlands	100%	Fully consolidated	Strong business and financial linkages

SRF Industries (Thailand) Limited	Thailand	100%	Fully consolidated	Strong business and financial linkages
SRF Industex Belting (Pty) Limited	South Africa	100%	Fully consolidated	Strong business and financial linkages
SRF Flexipak (South Africa) (Pty) Limited	South Africa	100%	Fully consolidated	Strong business and financial linkages
SRF Europe Kft	Hungary	100%	Fully consolidated	Strong business and financial linkages
SRF Altech Ltd.	India	100%	Fully consolidated	Strong business and financial linkages

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Annexure - Rating History for last 3 Years

Â	Current			2023 (History)		2022Â		2021Â		2020Â		Start of 2020
Instrument	**Type**	**Outstanding Amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Fund Based Facilities	LT/ST	1000.0	CRISIL AA+/Stable / CRISIL A1+	Â	--	24-11-22	CRISIL AA+/Stable / CRISIL A1+	03-09-21	CRISIL AA+/Stable / CRISIL A1+	09-09-20	CRISIL AA+/Stable / CRISIL A1+	CRISIL AA+/Stable
Â	Â	Â	--	Â	--	01-09-22	CRISIL AA+/Stable / CRISIL A1+	Â	--	21-04-20	CRISIL AA+/Stable / CRISIL A1+	--
Commercial Paper	ST	600.0	CRISIL A1+	Â	--	24-11-22	CRISIL A1+	03-09-21	CRISIL A1+	09-09-20	CRISIL A1+	CRISIL A1+
Â	Â	Â	--	Â	--	01-09-22	CRISIL A1+	Â	--	21-04-20	CRISIL A1+	--
Non Convertible Debentures	LT	Â	--	Â	--	24-11-22	Withdrawn	03-09-21	CRISIL AA+/Stable	09-09-20	CRISIL AA+/Stable	CRISIL AA+/Stable
Â	Â	Â	--	Â	--	01-09-22	CRISIL AA+/Stable	Â	--	21-04-20	CRISIL AA+/Stable	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
External Commercial Borrowings#	**249**	**The Hongkong and Shanghai Banking Corporation Limited**	**CRISIL AA+/Stable**
Proposed Term Loan	**216**	**Not Applicable**	**CRISIL AA+/Stable**
External Commercial Borrowings*	**208**	**State Bank of India**	**CRISIL AA+/Stable**
Working Capital Facility	**50**	**YES Bank Limited**	**CRISIL A1+**
Foreign Currency Term Loan**	**277**	**Kotak Mahindra Bank Limited**	**CRISIL AA+/Stable**

**Equivalent to USD 25 million*
#Equivalent to USD 30 million
***Equivalent to USD 33.39 million*

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

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