ANNUAL REPORT 1998 - 1999

SRF

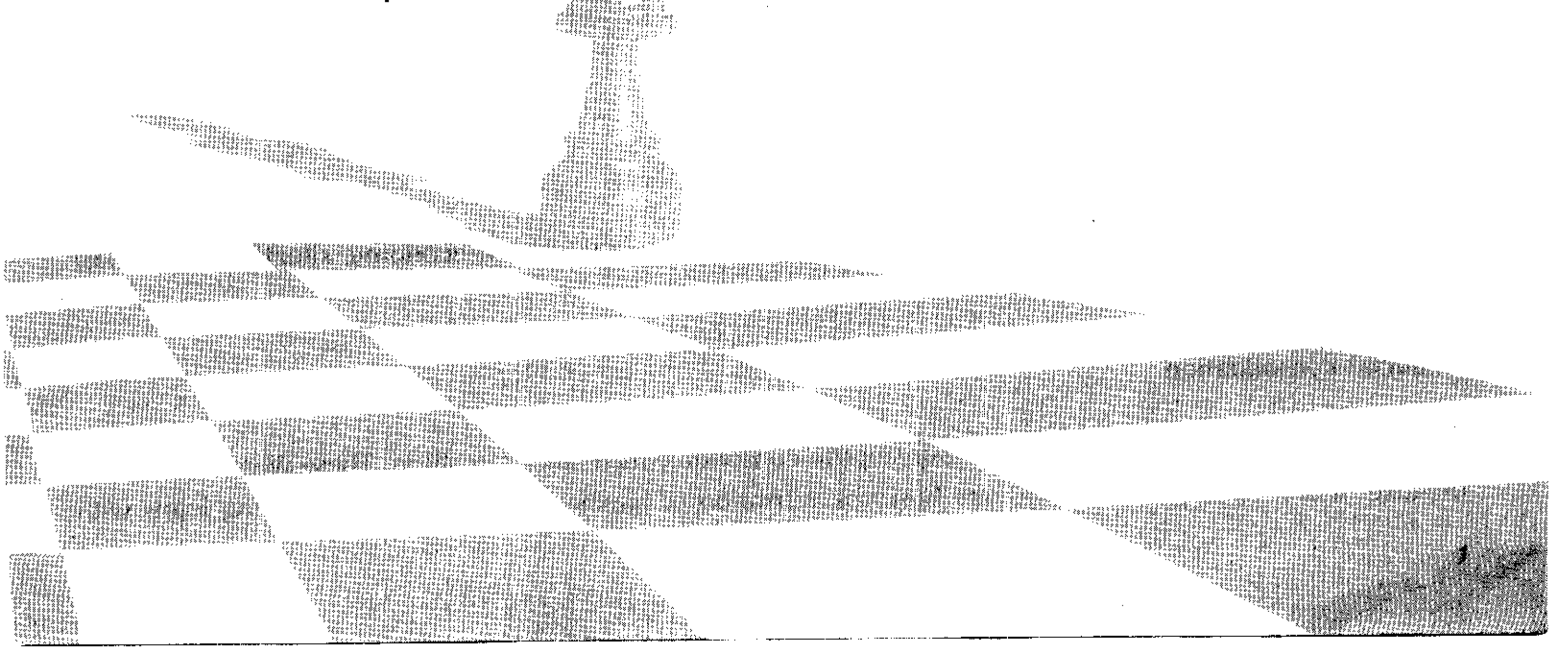
ALL THE RIGHT MOVES

Management Review

LAST year, we began sharing with our stakeholders a review of SRF's performance. We shared our achievements, corporate priorities and the activities of our various units. We also set the agenda for the year ahead.

In a bid to create more transparency, we continue with our effort to publish a formal management review of SRF.

The new millennium is round the corner and we hope to forge better relationship with our stakeholders. To them we owe details of our performance and a look into the future.



Economic Environment

SOUTH-EAST Asia was in recession in 1998-99. Most countries of the region witnessed stagnant or negative growth rate.

The financial crisis in Japan and Russia showed no signs of relief and the fear of a crisis loomed everywhere.

The South-East Asian crisis resulted in huge capacity surpluses and India became a favoured dumping ground. It aggravated the problem and the Indian industry faced an unprecedented challenge.

Foreign Direct Investment and Foreign Institutional Investment nose-dived from $4,175 million in 1997-98 to $810 million in 1998-99 — a decline of more than 80%. The GDP growth rate for the year was 4.5% as against 5% in 1997-98.

The equity market remained dull. The Rupee remained stable as compared with other currencies.

Corporate Priorities for 1998-99

IN the context of internal and external conditions, certain issues were selected for high priority focus before the start of the year. These were:

- Financial consolidation
- Cost and working capital reduction
- Divestment of non-core businesses
- Improvement in the performance of the Chloromethanes division.

The basic competitive strategy was : Match Quality, Beat Cost i.e. match international quality standards and become the lowest cost producer worldwide.

Achievements in 1998-99

SRF is among those companies that have emerged stronger from the tough economic situations of the last two years.

Financial consolidation

In the last financial year, SRF had taken four steps to consolidate its financial position. These were: divestment of stake in SRF Finance and vision care business; refixation of payment schedule of outstanding loans with

ICICI; raising foreign currency loans; and concluding the rights issue. As a consequence, SRF reaped rich dividends in 1998-99 with reduction in interest cost by Rs. 24 crores (18.5%).

Cost inflation and reduced selling prices eroded the profit margins and the only remedial measure was rigorous cost reduction. All businesses of the company took stringent measures to cut costs. The cost reduction and other profit improvement programs led to a saving of Rs 13.9 crore. The number of officers came down by 25% as a result of attrition and an Early Retirement Scheme.

To augment cash flows, the company had launched an intensive working capital reduction program in 1997-98, which had succeeded in bringing down working capital substantially. In 98-99 it was brought down further by 16%. This was made possible by implementing a management system called Policy Management. People at all levels identified the causes behind high working capital requirement, and changed many business processes at a fundamental level. These improvements have strengthened the capabilities of the company and have changed the attitude of people ensuring the sustainability of the improvements made.

Divestment of non-core businesses

In the past several years, SRF has pursued the strategy of divesting non-core businesses and consolidating the core businesses. In line with the strategy, SRF closed its International Trading Division.

The Vision Care business was divested and two separate joint venture companies were formed. We shall complete residual closure activities during the current year.

Review of Businesses

SRF remained market leader of its core businesses and recorded a healthy operating performance. We maintained market share in our core businesses of industrial yarn and fabrics (including nylon tyre cord fabric) and refrigerant gases.

Industrial Yarn, Fabrics, and Engineering Plastics

The financial year pushed the transport sector to the brink. Production and sales of medium and heavy commercial vehicles registered a negative growth of 26% and 19% respectively.

Bus & Truck (B&T) tyre production for the year 98-99 dropped by 2.2% over the previous year. Overall Nylon Tyre Cord Fabric (NTCF) consumption in 98-99 came down by 0.7% over the year 97-98.

Major initiatives were taken for improving service levels to customers. These include online information on receivable, invoices, and deliveries. Additional benefits of these are shorter cycle time and lower inventories.

Joint teams from SRF and customers were formed for problem solving at customers' plants. The company is focussing on providing many other value added services to its customers.

On the export front, approvals were obtained from prominent international players.

In the domestic market, approvals for dipped fabric were obtained from Goodyear and Apollo Tyres. The Malanpur Plant was awarded ISO 14000 (environment management) certification recently.

Fishnet twine conversion capacity was enhanced by 30%. SRF maintained market leadership in fishnet twine, cycle tyre cord fabric, belting fabric and coated fabric. SRF faces intense price competition in its exports of coated fabrics to U.S.A. This is a key thrust area of growth and we are committed to grow in the U.S market not withstanding the price competition.

Despite intense competition, the engineering plastics division maintained its market share through innovative cost reduction and productivity improvement measures. Cost was brought down through indigenisation of machine parts, changing screw profile and making power consumption as good as the international benchmark. Productivity improvement measures included optimising human as well as machine output.

Processes improvements were implemented leading to quality enhancement and stability. SRF is working towards the achievement of 4 – Sigma levels for quality consistency, reduced variation and, therefore, better output.

Fluorochemicals

In Fluorochemicals, SRF continued to dominate the national market with nearly 40 % market share and obtained ISO 9002 certification in May, 1998.

Refrigerant gas exports rose by 62% in volume terms and doubled in turnover terms to Rs 60 crore. SRF achieved significant breakthroughs with respect to trading of HFC 134a (substitute for CFC -12). Capacity utilization for the Choloromethanes plant was 93% after capacity enhancement by 30% last year.

Polyester Films

The polyester films division demonstrated a remarkable reversal of trend by enhancing production by 48% and sales by 47% in 1998-99.

Though the market growth has been about 16% in the year, the over-capacity situation continues both locally and globally.

There was a price war in the first and second quarter of the financial year, which led to steep fall in the prices to uneconomic levels. However, prices turned better in the third quarter. In addition production was also improved and November 1998 onwards there has been record production. The plant has run non-stop since then providing stability to the business.

Transformation of People and Processes

SRF is laying stress on the building capability of its people and processes. To this end a major organisational initiative is implementation of Daily Management-98. This system of DM-98 will help improve stability, capability and productivity of manufacturing and non-manufacturing processes. We plan to institutionalise this system as a fundamental system.

Key components of DM-98 are 5-S (housekeeping), standardization, discipline to follow standards, system of control points and check points, training on problem-solving process and team working.

The DM-98 efforts have already begun to yield results in the form of improved maintenance of equipment, better process capabilities leading to fewer defectives, sharper customer focus and resolution of complaints, improved role clarity and clearer measures of accountability, kaizen activities, development of problem-solving skills, and most importantly, the involvement of everyone in this transformation.

Contribution to Society

SRF is fully alive to its responsibilities as a good corporate citizen. It makes its contribution to society through community development and environment initiatives around its manufacturing plant, and the ever-important school-related activities.

The Shri Ram School, Delhi and the SRF Vidyalaya, Chennai, teach students not just the three R's, "Reading, wRiting and aRithmetic" – the school imparts the right values in the students. The results of the first batch of Class X in Shri Ram School was very encouraging. All the students passed with first division with seven students scoring more than 90%.

SRF has contributed Rs. 9 Lacs towards the Kargil Relief Fund including contribution from employees. SRF has also been contributing towards various welfare programs i.e. providing drinking water facilities in backward areas, providing vocational training and creating self-employment opportunities, adult literacy programs, providing support to health clinics, and community centers.

Safety, Health and Environment

SRF has kept up its robust tradition of being proactive on issues pertaining to safety, health and environment.

By fostering high safety standards the company is able to safeguard people and public from unforeseen and uncalled for risks. Several safety training programs and contests were conducted for employees.

Total Safety Management 2000 programme was launched in Fluorochemicals Division, while our nylon tyre cord plant in Malanpur (M.P) won the prestigious ISO 14001 award.

The Fluorochemicals Division divided plants into areas, to facilitate people's participation. The top-to-bottom situation was overturned to become a bottom-to-top situation. That way, it was ensured that the technicians, who actually use their hands, have a louder say in their safety. We promoted Safe Work Procedures to reduce frequency and severity of injuries. The injuries (mostly minor) have been brought down to about three a month. The Overall Safety Index, which indicates the frequency and severity of injuries, and the resulting production loss, has improved. There has been no production loss whatsoever. More time is being spent on safety training now. The number of training man-hours per person per year has gone up from about 3 to 14.

Safety measures were strengthened in Head Office. An electrical safety audit was conducted in 1998 based on which extensive work was done in 1998-99. It meant redoing the entire wiring in accordance with the highest safety standards and replacing some of the combustible material with fire-retardant material. And all this without the loss of a single day's work.

Emerging Challenges

IN 1998-99 there was recession, but things have eased a little now. Political instability has led to delays in economic reforms.

India's GDP growth in 1999-2000 has been forcasted to be around 5%.

We have been squeezed from both sides. While on the one hand, prices of imported nylon tyre cord fabric have declined, on the other the cost of raw material has gone up. In these circumstances, margins are expected to remain under pressure.

FIs and banks will continue to be cautious in lending and tight in recovery due to increased bankruptcies in recent times.

SRF is transforming itself to face these challenges by improving competitiveness through improved capability of its people and processes. It will be helped by relatively better economic conditions that have been projected for the next year globally, However, by making fundamental changes in the way it is managed, SRF is well prepared to thrive in an adverse climate too.

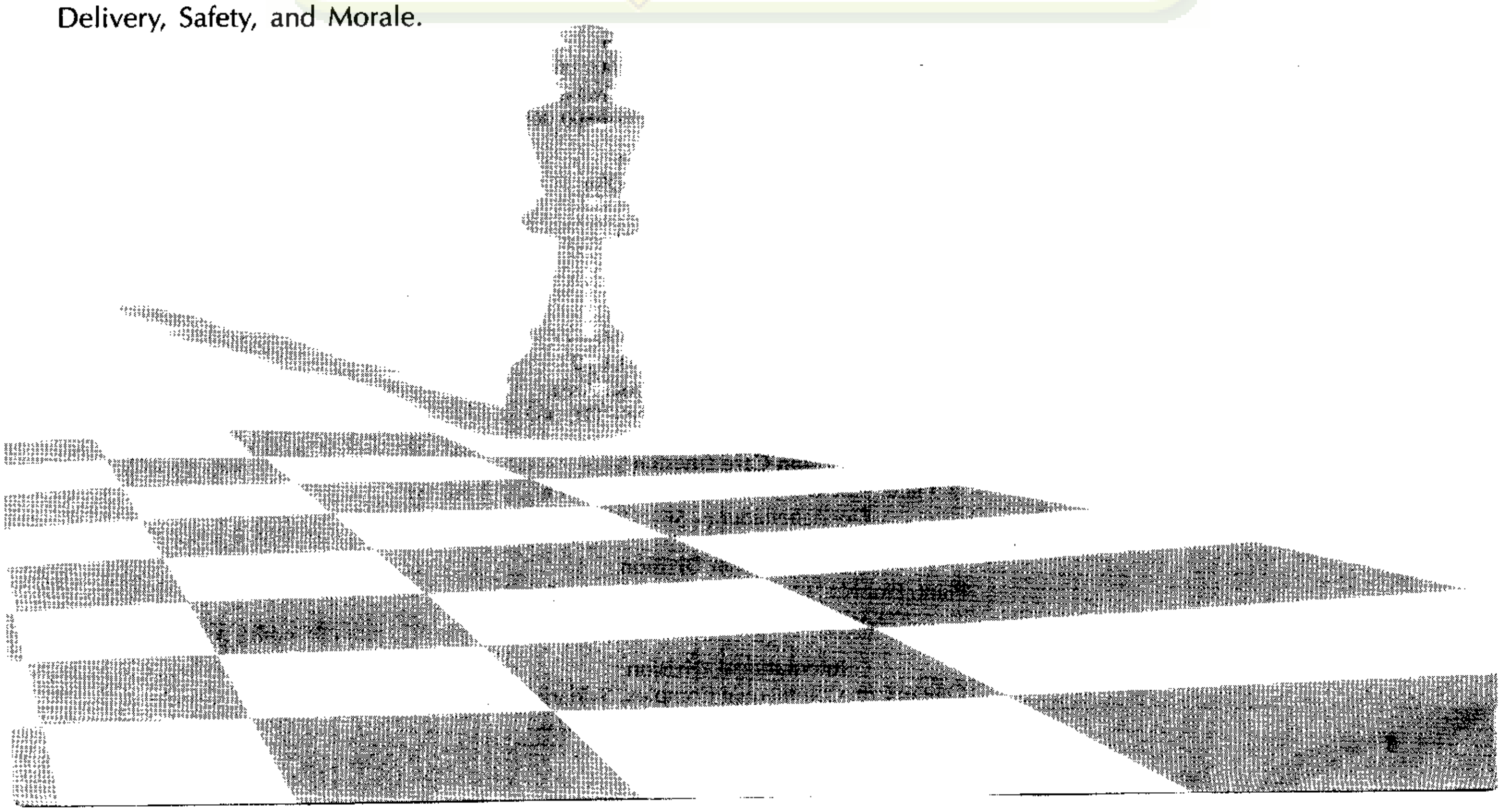
The company is also gearing itself to handle the Y2K problem and we would be fully Y2K compliant by September 1999.

Towards the goal of building shareholder value and employee satisfaction, SRF's corporate priorities for 1999-2000 are:

- Building capability of people and processes through DM-98 and SYSTEM-2000 (information technology).
- Enhancing cost competitiveness with special focus on fixed cost.
- Further financial consolidation (improvement of Debt : Equity Ratio, Debt Service Coverage Ratio and Current Ratio).
- Divestment of Non core businesses.
- Growth through debottlenecking and acquisition.

CONCLUSION

We at SRF remain focused on building a growing, thriving business which can maximize shareholder value. We are committed to all our stakeholders and to achieve global standards in Quality, Cost, Delivery, Safety, and Morale.



Board of Directors
Dr. Bharat Ram, *Chairman*

Shri Arun Bharat Ram, *Vice Chairman & Sr. Managing Director*

Shri Vivek Bharat Ram, Shri Ravi K Sinha
Managing Directors

Dr. Vinay Bharat Ram, Shri Bhiku Ram Jain,
Lt. Gen. K.N. Dubey (Retd.), Shri C.K. Hazari,
Shri M.M. Rao, Shri Arvind N. Lalbhai, Shri J.B. Dadachanji,
Shri S.P. Agarwala, Shri K. Ravichandra (Safety & Environment),
Shri S.P. Nagarkatte (ICICI Nominee),
Shri V.R. Mehta (UTI Nominee)
Directors

Auditors
Thakur, Vaidyanath Aiyar & Co., New Delhi

Bankers
State Bank of India
State Bank of Bikaner & Jaipur
Indian Bank
State Bank of Patiala
State Bank of Mysore
State Bank of Hyderabad
State Bank of Travancore
The Hongkong & Shanghai Banking Corporation Ltd.
Citibank N.A.
Canara Bank
Karur Vysya Bank Ltd.
Punjab National Bank

Registered Office
Express Building, 9-10, Bahadur Shah Zafar Marg,
New Delhi - 110 002.

Industrial Synthetics Division
Plant: Manali Industrial Area, Chennai-600 068 and
Industrial Area Malanpur, Distt. Bhind, Gwalior, M.P.
Office: Manali Industrial Area, Chennai-600 068.

Industrial Fabrics Division
Plant: Viralimalai, Pudukottai Distt.
Tamilnadu-621 316
Office: 4, Promenade Road,
Tiruchirapalli-620 001.

Fluorochemicals Division
Plant: Jhiwana, Tehsil Tijara,
Distt. Alwar, Rajasthan - 301 019
Office: A-16, Qutab Institutional Area,
Aruna Asaf Ali Marg, New Delhi - 110 067

Vision Care Division
Plant: 48 L & M, KIADB Industrial Area,
Doddaballapura - 561 203

Polyester Film Division
Plant: Plot No. 12, Rampura, Ram Nagar Road
Kashipur, Distt. Nainital (U.P.)

International Division
Office: C-8, Commercial Complex, Safdarjung
Development Area, New Delhi-110 016.

DIRECTORS' REPORT

Your Directors are pleased to present the 28th Annual Report for the year ended 31st March, 1999.

Financial Results

		1998-99		(Rs.crores) 1997-98
Gross Sales		**689.63**		675.81
Profit Before Interest, Depreciation & Tax (PBIDT) (before foreign currency fluctuation)		**165.55**		165.23
Gain / (Loss) in foreign currency fluctuation		**(7.41)**		1.68
PBIDT (After foreign currency fluctuation)		**158.14**		166.91
Less: Interest	**106.45**		130.27	
Depreciation	**36.61**		32.87	
		143.06		163.14
Profit Before Tax (PBT)		**15.08**		3.77
Less: Provision for Taxation		**1.55**		0.46
Profit After Taxation (PAT)		**13.53**		3.31
Add: Transfer from Investment Allowance/ Debenture Redemption Reserves		**4.65**		2.85
Add: Profit Brought Forward		**8.49**		12.71
Surplus available for appropriation		**26.67**		18.87
Appropriation				
Dividend on Preference Share Capital		**0.15**		0.35
Corporate Tax on Dividend		**0.02**		0.03
Amount transferred to General Reserve		**15.00**		10.00
Profit carried to Balance Sheet		**11.50**		8.49
		26.67		18.87

OPERATIONS REVIEW

Gross sales were marginally higher at Rs. 689.63 Crores compared to Rs. 675.81 Crores in the previous year. **PBIDT at Rs.** 165.55 Crores (Before Foreign Currency Fluctuation) was nearly the same as Rs. 165.23 Crores in 1997-98.

Continued economic downturn adversely affected the performance of your Company. Cheaper imports from South East Asia resulted in a sharp decline in selling prices and consequently exerted severe pressure on margin. To counter this, the Company focussed on cost reduction and working capital management. The overall cost reduction resulted in substantial savings, which helped to partially neutralise the adverse impact of drop in selling prices.

To contain the threat from cheap imports, your Company has made an anti dumping application to increase the tariff.

All the divisions posted satisfactory results under adverse market condition.

In nylon tyre cord fabric, due to product superiority, your Company was able to maintain a capacity utilisation of 91%.

Fluorochemicals Division performed well by increasing capacity utilisation, despite depressed prices.

The Industrial Fabrics Division continued to maintain high domestic market leadership in belting, coated and cycle tyre cord fabric.

Despite tough competition, the Engineering Plastics Division maintained the market share by reducing cost and improving productivity.

Polyster Film Division witnessed erosion of margin due to steep drop in selling prices. However, this division turned in a good performance by increasing production and sales by 48% and 47% respectively.

Exports improved significantly by 35% from Rs. 59.07 crores to Rs. 79.43 crores.

Taking into consideration the cash flow requirements of the Company and the economic environment , your Directors have proposed dividend only for Convertible Cumulative Preference Shares at 9% pro-rata absorbing Rs. 15.20 Lacs.

FINANCIAL RESTRUCTURING

The Company completed the first phase of financial restructuring by revamping the loan portfolio and injecting equity funds. This exercise enabled the Company to reduce interest burden by Rs. 23.82 crores from Rs. 130.27 crores in 1997-98 to Rs. 106.45 crores in 1998-99.

SHARE CAPITAL

The Company successfully completed the rights issue during the year and raised Rs. 43.90 crores as part of financial restructuring.

The Company also converted 675675 Cumulative Convertible Preference Shares (CCPS) of Rs. 50 each to Equity shares of Rs. 10 each at a premium of Rs. 40 on Ist October '98.

RESEARCH & DEVELOPMENT

Your Company continued to support developing an eco-friendly substitute for CFC and has sponsored a research & development programme at the Indian Institute of Chemical Technology, Hyderabad. This development is complete and trial runs are to begin shortly.

The Company has developed a in-house waste product technology for converting Chloromethanes heavies into value-added product.

The R&D Centre at Chennai achieved significant breakthrough in developing new cost effective substitutes for imported process chemicals.

The information required under Section 217(1)(e) of the Companies Act, 1956 is attached.

VISION CARE

The Vision Care business has been restructured into two separate companies in technical and financial collaboration with Essilor of France and Sola of USA. SRF has a 10% stake in the manufacturing Company and 26% stake. In the marketing Company.