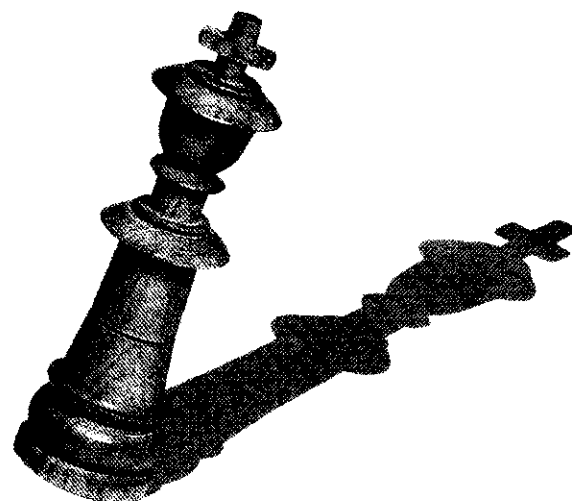


A N N U A L R E P O R T





All the right moves

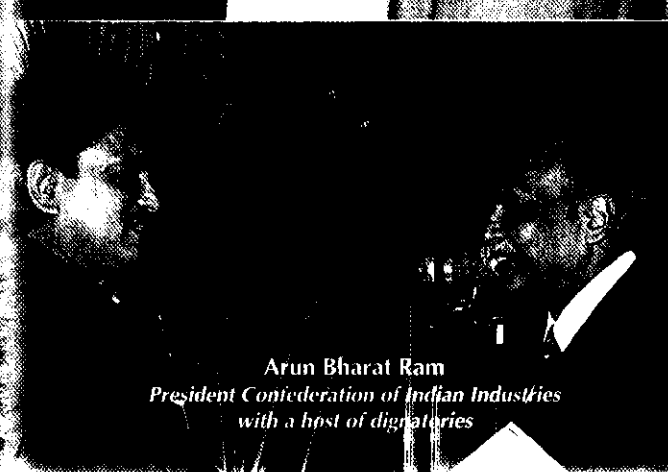
Long term strategy governs the way we play chess. And the way we conduct our business too. Where every move is carefully analysed before it is taken while staying away from the predictable.

The philosophy has dictated most of the events at SRF. From the acquisition of core business assets to divesting of non-core businesses. From optimising production processes to embarking on a drive to globalise, we have always made the right move.

We believe that business is less about being in the right place at the right time. And more about the right move at the right time.

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Arun Bharat Ram
Vice Chairman & Senior Managing Director

Arun Bharat Ram
President Confederation of Indian Industries
with a host of dignitaries

Vice Chairman's message

Dear Fellow Shareowners,

It gives me great pleasure to present before you the results for the year 1999-00.

The year gone by has been one of significant achievements and a remarkable turnaround in the financial health of the company. The net profit for the year has grown by 98% over last year to Rs. 26.8 crores. Your company maintained its leadership position in its core businesses in the areas of nylon tyre cord and refrigerant gases. The company continued the tradition built up over the last several years of setting challenging targets and achieving them. We have come out stronger than ever from the travails that have beset Indian industry, post liberalisation.

You will be glad to know that our subsidiary SRF Overseas Limited, which is our first manufacturing venture abroad, reported a profit of Rs. 5.28 crores in 1999-00 its fourth year of operation. The unit has carved a niche as a high quality, low cost, process and team-based organisation. It has achieved success in a very tough competitive environment.

After a long struggle, compensation under the Montreal Protocol has been finalised for gradual phase-out of Chlorofluorocarbons (CFCs). Your company would receive a total of US \$ 34.48 million over the next ten years as per the schedule given in the chapter on Business Overview in this report. Your company played a key role in working together with the Ministry of Environment and Forest for obtaining this compensation.

As part of its strategy to focus on its core businesses, your company divested the Bearings business and acquired Dupont's tyre cord manufacturing facility in Gummidipoondi, Tamil Nadu (now Tyre cord Fabrics Limited), which we plan to merge with SRF in the course of 2000-01. This acquisition makes SRF the seventh largest manufacturer of nylon tyre cord fabric in the world. This also enables us to cater to the Nylon-66 tyre cord market.

The organisation must aim at creating value for shareowner. This is dependent on the success of the organisation as a whole, which in turn is dependent on its people. For this, all employees should work in alignment with the company's goals and focus on creating long term value. This focus and alignment comes from feeling of ownership, a sense of belonging and awareness that each employee's contribution plays a critical role in the organisation's success. With a view to enhance this and share the future success of the company, your company allotted shares to its people under Employees Stock Purchase Scheme (ESPS).

SRF has been a leader in pushing toward professionalisation of management. This process is largely complete and all day-to-day operations of the company are handled by a highly competent team of professionals.

As part of our drive towards transparency, you will note that this Annual Report contains additional information that will make it possible for you to better understand the company's businesses and performance. We have included in this report a section on basic information about our two major businesses viz. nylon tyre cord fabric and refrigerant gases. We have also provided a ten-year performance analysis for the convenience of investors.

Besides this, there is a Management Review as well as general shareowner information. I hope you will find these changes beneficial.

The performance that the company has shown has not come overnight. This is the result of a strategy carefully drawn up as far back as 1993. This required commitment of a high order and a willingness to change, to bring about a transformation. SRF has over the years systematically worked on the strategy which involved identification and consolidation of core businesses, divestment from non-core businesses, financial consolidation and capability enhancement of people and processes through Total Quality Management (TQM) based approach. The hard work that has gone into implementation of the action plan has started to yield results. This is only the beginning. The future should see us not only maintaining our performance, but also reaching greater heights.

We have achieved global standards in quality, cost, service and scale of operations. We aim to continue building our capabilities and competitiveness so that sustained growth in sales and profits can be delivered to our shareowner; job satisfaction, personal development and monetary benefits to our people.

In response to the challenges of global competition, your company has transformed its basic character so that it could take its rightful place as a global player in chosen areas of business. We do not underestimate the difficulties that lie ahead. Equally, there are exciting growth opportunities for a player with consistently improving capability and competitiveness. We have laid a strong foundation of capability and competitiveness, which we will strengthen year after year. Growth opportunities will be pursued from this platform.

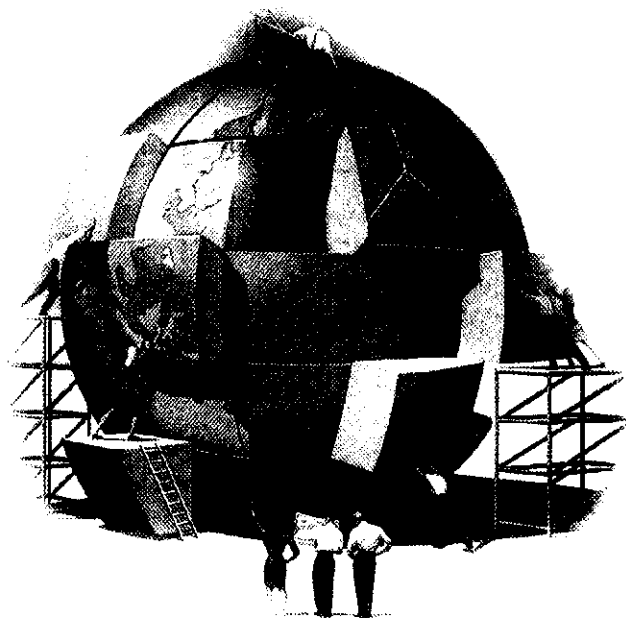
With best wishes,

Arun

Vice Chairman & Sr. Managi



Management Review



Ravi K. Sinha
Chief Executive Officer & Group Head

Backdrop

SRF was among the first companies in India to respond to the challenges of liberalisation by drawing up an action plan for the future as far back as early nineties. It articulated a clear **mission**, and a **strategic direction** for the post liberalisation era.

Mission

- Good returns to shareholders and other financial stakeholders.
- Enhance continuously the total quality of life of its employees and help them realise their potential
- Customer satisfaction of a high level and a standard higher than that of the competition
- Contribute to the development of the society and the nation

Guiding Management Philosophy - TQM

SRF's purpose, as laid down in the mission statement, is to achieve win-win solutions for all stakeholders.

SRF has chosen Total Quality Management (TQM) as the management way in order to achieve this. TQM for us is a management approach that profoundly integrates principles, methods, systems and tools, and transforms the way we think and do things, as well as the way we manage. Our improvements have thus been at a fundamental level covering all areas, and satisfying all stakeholders, which is the true meaning of a win-win approach.

The TQM journey in SRF is characterised by two key methods of management - Daily Management & Policy Management. While Daily Management improves the daily and routine processes such that they become highly capable and satisfy customer requirements, Policy Management provides a method for making quantum improvements or breakthroughs. SRF has, in the past two years, successfully used both these approaches to improve organisation-wide results including improvements in product quality and delivery, lower inventories and receivables, better safety, and reduction in costs.

Guiding Principles

Following the TQM approach, SRF has laid down key management principles which it strives to follow in its approach to work and in its dealing with people. These principles are therefore classified into work related and people related.

Key Work Related Principles

- Quality first, not short term profit
- Act on causes, not symptoms

- Market in, not product out
- Prioritisation
- Next process is the customer
- Standardisation
- Working with facts and data
- Process orientation

Key People Related Principles

- Respect for people
- Trustworthiness
- Joy in work
- Being supportive
- Teamwork
- Development of subordinates

Strategic Direction

Focus on products where developing countries have an advantage

SRF decided to focus on products where the developing countries have an advantage. For this purpose, SRF commissioned a reputed international consultant for identifying areas of core businesses. The company chose industrial yarn and fabrics, and fluorochemicals, as its core businesses. SRF is today, the domestic market leader in these businesses and is progressing towards achieving global leadership.

Corporate Priorities for 1999-00

In line with the company's strategy and competitive environment, corporate priorities decided for the year were:

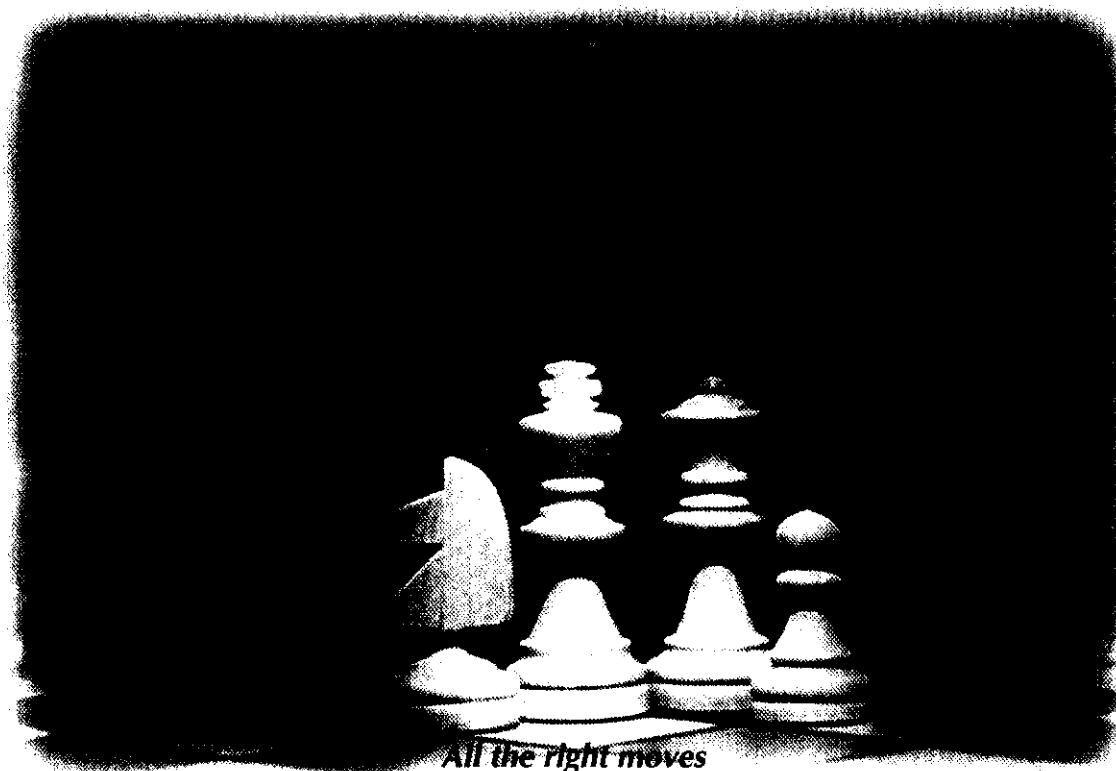
- Building capability of people and processes through DM-98 and System 2000
- Enhancing cost competitiveness
- Financial consolidation
- Divestment of non core businesses
- Growth through de-bottlenecking and acquisitions

Building Capability of People & Processes

In 1993, the company adopted Total Quality Management (TQM) approach to attain world class operational capabilities. All our plants are well maintained with levels of 5S that are at par with the best in the world. 5S is a TQM tool that aims at improving operational efficiencies and work culture through better housekeeping.

All plants of the company are ISO 9000 certified. Nylon tyre cord fabric plant at Malanpur in Madhya Pradesh and Fluorochemicals plant at Jhiwana in Rajasthan are ISO 14000 certified. ISO 14000 certification is awarded for environment management systems, which are aligned with the international standards.

Following projects are being implemented to enhance the capabilities of its people and processes.





SRF LIMITED

Management Review

Daily Management 98 (DM-98)-Daily management is a powerful system aimed at implementing TQM in day-to-day work with participation of all people and with all round results. To accomplish these results the company has, put in place a complete



N Ramanathan
President - TQM

system of managing both the manufacturing and non-manufacturing processes. At SRF, implementation of this approach has seen major reduction in waste, rework, scrap, and in improvement of many product features and characteristics for our customers. In the non-manufacturing and commercial areas, we have strengthened our management processes, leading to better daily controls and an ability to spot and solve small problems. Problem solving in teams, using a structured method, has taken root in the organisation, and the results achieved added significantly to the bottomline of the company.

System 2000 - This project aims at corporate-wide networking with IT-enabled work processes. Specifically, the company is now fully networked with V-Sat connectivity across all its factories, all city offices and branch offices. Instant Messaging Systems will be used to automate workflow and install Knowledge Management Systems. The company has initiated ERP implementation, under which Online Transaction Processing Systems have been installed. Finance module has been already implemented. Other modules are under implementation.

GCA 2000 - is aimed at optimising utilisation of Current Assets, through improved processes, production planning and inventory and credit management. It seeks to achieve faster turnaround of working capital, leading to improvements in capital productivity. Over the last couple of years, much of the improvements in capital productivity have come from better utilisation of Current Assets.

PRIDE - As the full form of the acronym suggests, 'Performance Review and Improvement through Development of Employees,' aims to enhance performance of the employees through development of their capabilities. It seeks to enhance competencies and performance by laying out clear role definitions, periodic development-oriented structured reviews, and linking training needs to role definitions and shortfalls in performance.

Enhancing Cost Competitiveness

In order to counter inflation and price reduction in an extremely competitive business environment, the mantra at SRF has been 'Match Quality, Beat



Cost'. It has undertaken various cost reduction measures which include improvement in work processes and efficiency of systems. A good indicator of this is the operating margin of a company, which SRF has managed to maintain at a level greater than 28% even in the worst of times. For the year 1999-00, it touched 30.8% which is among the best in the manufacturing sector. Working capital has reduced consistently over the last few years, coming down to Rs. 110 crores in March '00 from Rs. 186 crores in March '97. The average recurring savings on account of various

electricals (SRF Nippondenso Ltd), Finance (SRF Finance Ltd.), Ophthalmic Lenses (Vision Care Division), International Trading (SRF International) and Bearings (Shriram Bearings Ltd. & Shriram Needle Bearings Ltd.).

Growth through Acquisitions & De-bottlenecking

While divesting from its non-core businesses, the company has taken steps in strengthening its position in core businesses by acquiring the tyre cord fabric facilities of Ceat in 1996 and Dupont Fibres Ltd. in 2000. It has also set up a world class tyre cord fabric unit in Dubai (UAE) which has the facility to manufacture polyester, N6 & N66 tyre cord fabric.

The company has also grown through backward integration - setting up a chloromethanes plant in 1995 - and through capacity expansion through de-bottlenecking. It has enhanced its capacity of refrigerant gases to 40MT (R-22 equivalent). The chloromethanes plant capacity has been de-bottlenecked to 165% of the original design capacity and efforts are on to take this even further. Various de-bottlenecking initiatives are also planned at its Manali & Malanpur plants which will enhance its tyre cord fabric capacity. The company plans to double the capacity of its newly acquired plant from Dupont at Gummidipoondi.

Its manufacturing facility at Dubai SRF Overseas Ltd. (SRFO) enables it to cater to the nylon tyre cord fabric (NTCF) market in Middle East, Europe and Africa. About 22% of the tyre cord market in Iran is catered to by SRFO. It is also the major supplier of nylon tyre cord fabric to the African market. Michelin - one of the largest manufacturer of tyres in the world has rated SRFO as one of the best NTCF manufacturers in the world with a score of 91%.

Exports provided another opportunity for establishing SRF in the international market. Today, about 12% of



S G Y Narayanan

Sr. Vice President - Finance, Secretarial & Legal

cost cutting initiatives amounts to approximately Rs. 30 crores per annum.

Financial Consolidation

The company undertook major financial restructuring, the results of which are shown below:

Parameter	1996-97	1999-00
Total Debt (Rs. Crs.) as on 31st March	608	429
Avg. Interest Rate (%) for the year	19.3	16.2
Interest Burden (Rs. Crs.) as on 31st March	114	95
Debt: Equity as on 31st March	2.8:1	1.4:1
Level of ICDs (Rs. Crs.) as on 31st March	89	0

Divestment of Non Core Businesses

Having established a strategy of consolidation of its core businesses and divestment from non-core businesses, SRF has, consistently over the years, divested from its non-core businesses. e.g. Auto



Sushil Ramola

Vice President - Corp. Planning, System & HRD



SRF LIMITED

Management Review

its net sales are by way of exports. Including sales of SRF Overseas, about 25% of its sales is in international market.

Review of Businesses

Industrial Synthetics Division

The first half of the year 1999-2000 experienced sluggish market conditions with depressed prices



W M Desouza
President - Tyrecord Fabric (TCF)

continuing as a result of the fall out of South East Asian prices. The second half of the year, however, showed an improvement both in demand as well as firming up of prices as many of the South East Asian countries were coming out of the recessionary conditions.

The overall tyre production in the country registered 10% growth in tonnage terms. This resulted in domestic NTCF offtake growth by 6%, the rest being imports.

All plants worked near full capacity and the company improved its market share to 46% in nylon tyre cord fabric and 52% in fishnet twine. The company has been able to strengthen its position in the fishnet twine (FNT) segment by seizing the opportunities that arose due to the exit of competitors and by entering into new product segments such as monofilament yarn.

As a result of an initiative by the Association of Synthetic Fibre Industries (ASFI), anti dumping duties were levied by the Government to counter the dumping of low priced imports of tyre cord fabric into the country. However, the Union Budget 2000 had a negative impact on the domestic prices consequent to the reduction in customs duty on the final products of Nylon industrial yarn and tyre cord fabric by 15% points, whereas the duty on the main raw material,

Caprolactam remained unchanged. The impact of this is expected to be felt in the subsequent months. ASFI is pursuing the matter with the Government for redressing this anomaly.

Significant improvements in productivity were achieved through de-bottlenecking projects. The division continued the restructuring process in order to bring down the fixed expenses and enhance productivity.

Growth in the tyre cord segment is expected to be 4-5%. Operating capacities in the country are not sufficient to meet the entire demand. As a result, significant portion of the demand is met by imports. The company has been over the years progressively improving its competitiveness in terms of quality and service to meet competition from imports, particularly from the Asian countries.

Industrial Fabrics Division

Industrial Fabrics Division contributes about 8% of the company's net sales. The division maintained its domestic market leadership in cycle tyre cord, belting and coated fabrics. Markets were very competitive and margins were under pressure. Labour problem was faced for most part of the year, which was resolved due to firm, and principled stand of management. High levels of productivity were achieved with de-bottlenecking and energy conservation being accorded high priority. The division is systematically working on developing markets in Europe, South Asia & US for belting fabrics. Coated fabric exports to US improved in the second half of the year after suffering a setback during the first half due to adverse market conditions.



T Sanyal
Sr. Vice President - Industrial Fabrics

Engineering Plastics

In Engineering Plastics, SRF has a small but profitable business of manufacturing and marketing plastic chips made from nylon resins and