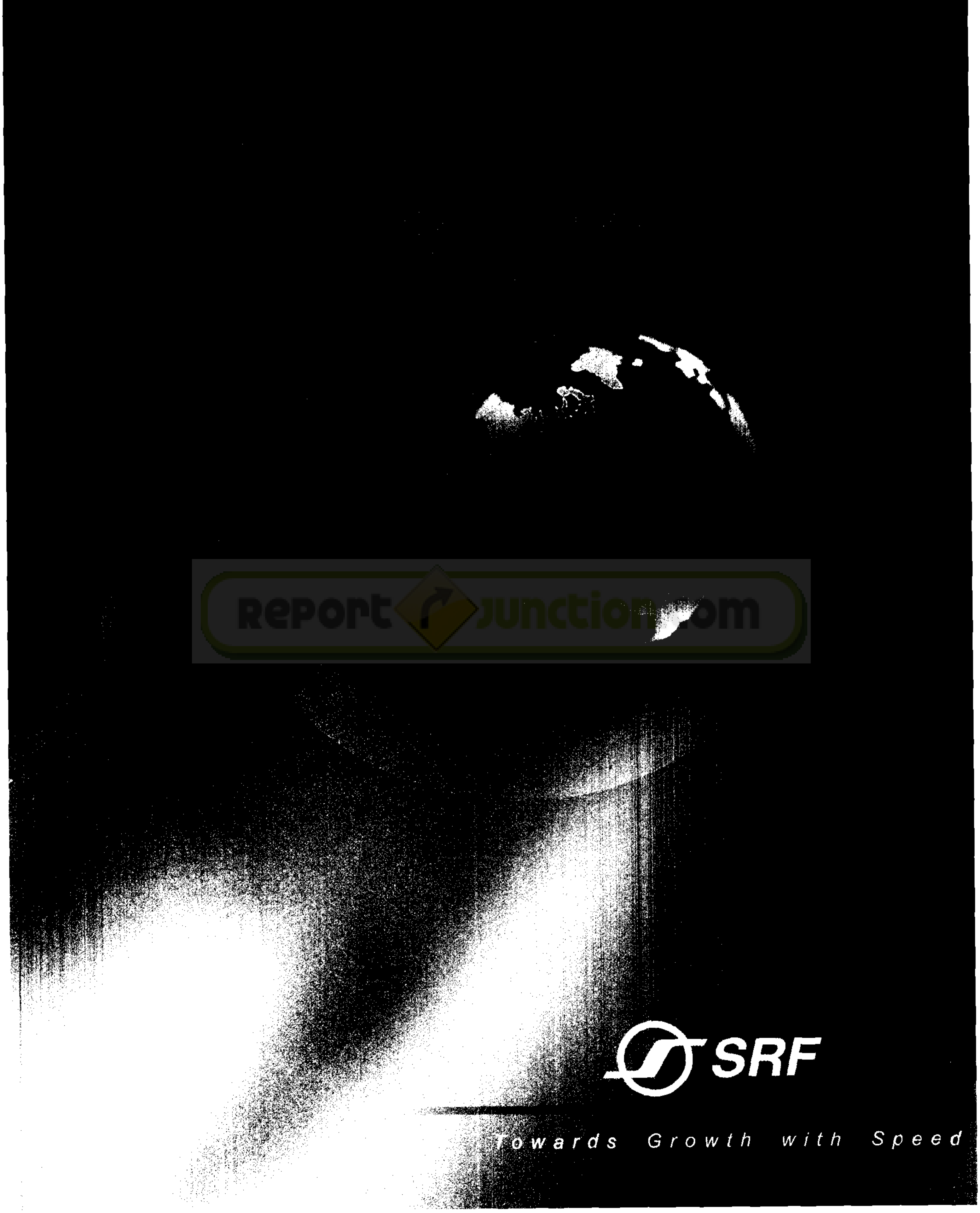
ANNUAL REPORT 2000 - 2001



SRF

Towards Growth with Speed

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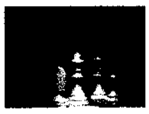
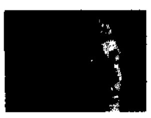
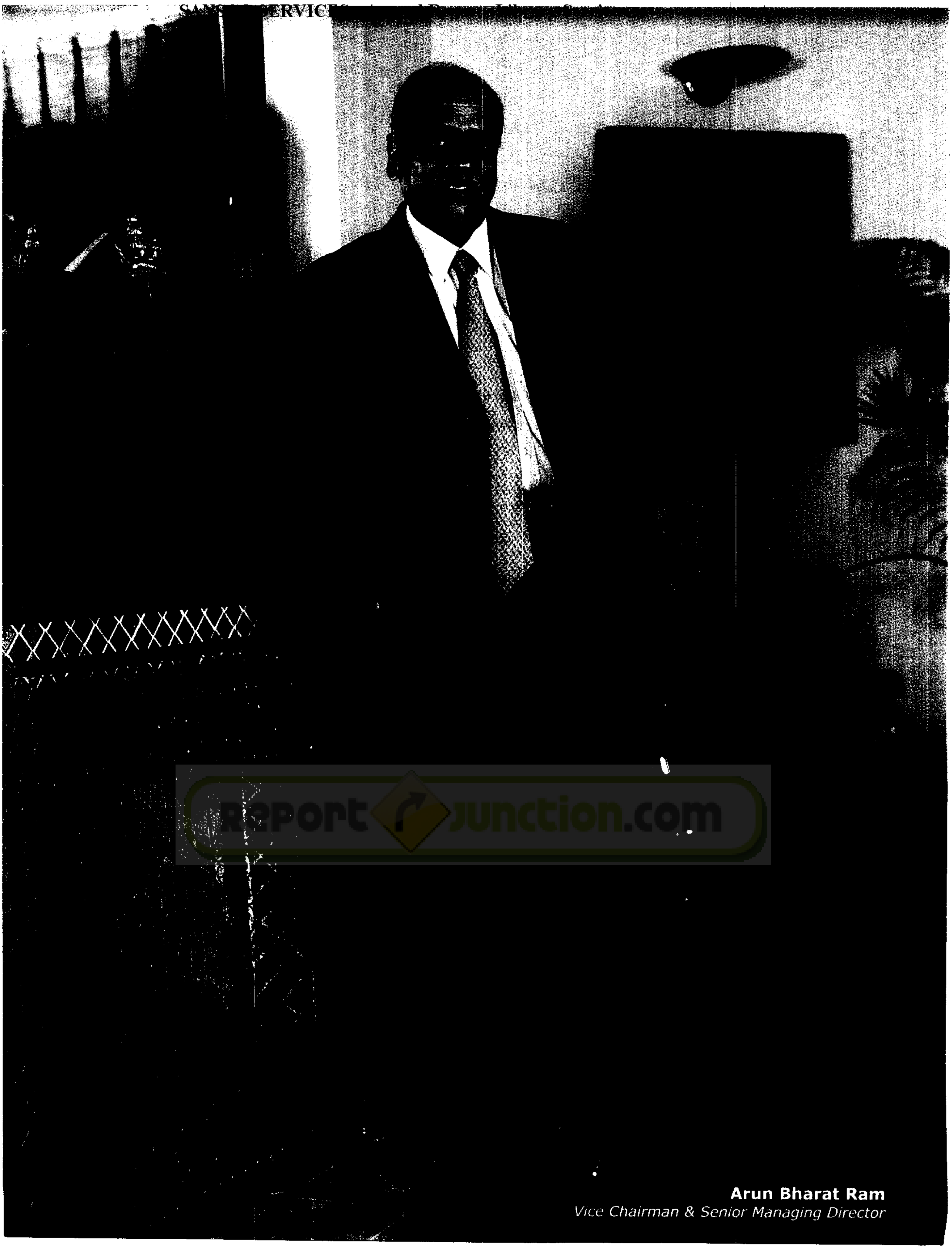
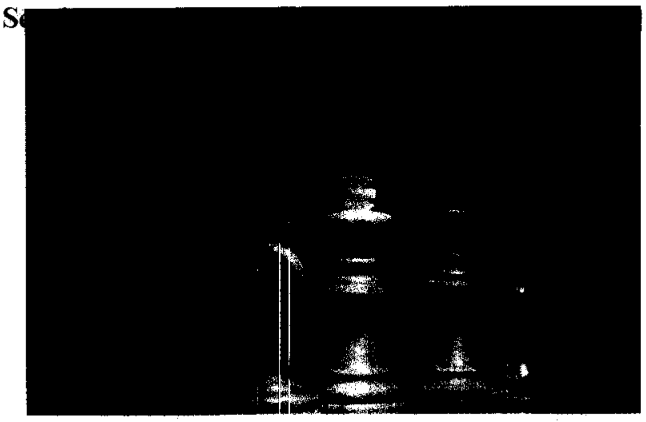






Arun Bharat Ram
Vice Chairman & Senior Managing Director



Vice Chairman's Message

This is only the beginning. The future should see us not only maintaining our performance, but also reaching greater heights.

Dear Shareowner,

The year ended March 2001 was a very challenging one, not only for the industry but also for the entire country. In the past one year, our country has faced the wrath of severe natural calamities and the after effects of a post liberalization economy.

However, you will be happy to know that despite all the hardships the country and the industry has faced, your Company has improved its performance significantly in the year 2000-2001. The net profit of the Company has grown by over 33% over the last year to Rs. 40.19 crores. We have further strengthened our position as a leader in the core business areas of Nylon Tyrecord Fabric and Refrigerant Gases. Our debts have reduced to Rs 400.22 crores, despite large investments in capital expenditure and our operating subsidiaries. The interest cost has come down from Rs. 94.73 crores last year, to Rs 69.27 crores and the asset-liability mismatch of the last few years has been completely dealt with.

SRF Overseas Ltd., our wholly owned subsidiary operating out of Dubai made net profit for the second year in succession despite a sluggish international business environment.

Tyrecord Fabric Ltd.(TFL),which is a part of Industrial Synthetics Business and erstwhile Dupont Fibers Ltd., is now embarking on aggressive cost reduction measures and institutionalisation of Daily Management systems under TQM to establish a cost competitive structure. The doubling of TFL capacity which was undertaken during the year 2000-2001 has since been completed and commissioned.

Last year we had announced the end of our long struggle for compensation from the Multilateral Fund of Montreal Protocol for the gradual phase-out of ChloroFluoroCarbons (CFCs). Your company is to receive a total of $ 34.48 million (estimated at Rs 160 crores) over the next ten years. I am happy to inform you that we have already received $9.67 million (Rs 44.52 crores) and the remainder is to be received by the year 2010. This amount has gone into the capital reserve and is not considered in the financial results.

Performance Strategy

Once again, your company has proved its efficacy of a carefully drawn up strategy that was initiated in the year 1993. We have 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 process through Total Quality Management (TQM) based approach. The implementation of this strategy required commitment of the highest order and a willingness to change. It was indeed the systematic approach and the hard work of the organization that finally brought about the turnaround. This is only the beginning. The future should see the company move to the phase of

Finally, every segment of society needs to think about the nation as a community as a whole; not selfishly about themselves. The approach that the country is someone else's business, needs to be banished.

'Growth with Speed', taking advantage of the capability building measures undertaken over the last few years.

SRF has been a leader in pushing towards 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.

We have also initiated a concerted drive towards maintaining transparency in providing the quantity and quality of information to our shareholders and investors. You will note from this Annual Report that we continue to give additional information that will make it possible for you to understand the company's businesses and performance even better than before. We will continue to strive towards transparency in sharing all information about the company with its shareholders and investors.

National Environment

While we continue to make substantial progress in our businesses, it is important to understand the national environment in which we exist. The country did make some progress in the last 50 years, but can we honestly say that we could not have done better? We still have millions of poverty-stricken, illiterate citizens with little hope for them. If we had let the creative genius of the Indian entrepreneur and the scientists flourish in a conducive environment we may have been truly a super economic power today. It is likely that we would also have had a smaller, responsive government and bureaucracy. What a powerful economic nation we could have been today if the creativity of the young IT dynamos of Silicon Valley, the scientists of NASA, the doctors in most hospitals in the West, had been allowed to bloom and flourish on our own soil!

Instead we created a model where the State dominated, where controls and quota's became the order of the day. And Managers were stifled by a regime of regulation and suppression. Indian policy inhibited enterprise.

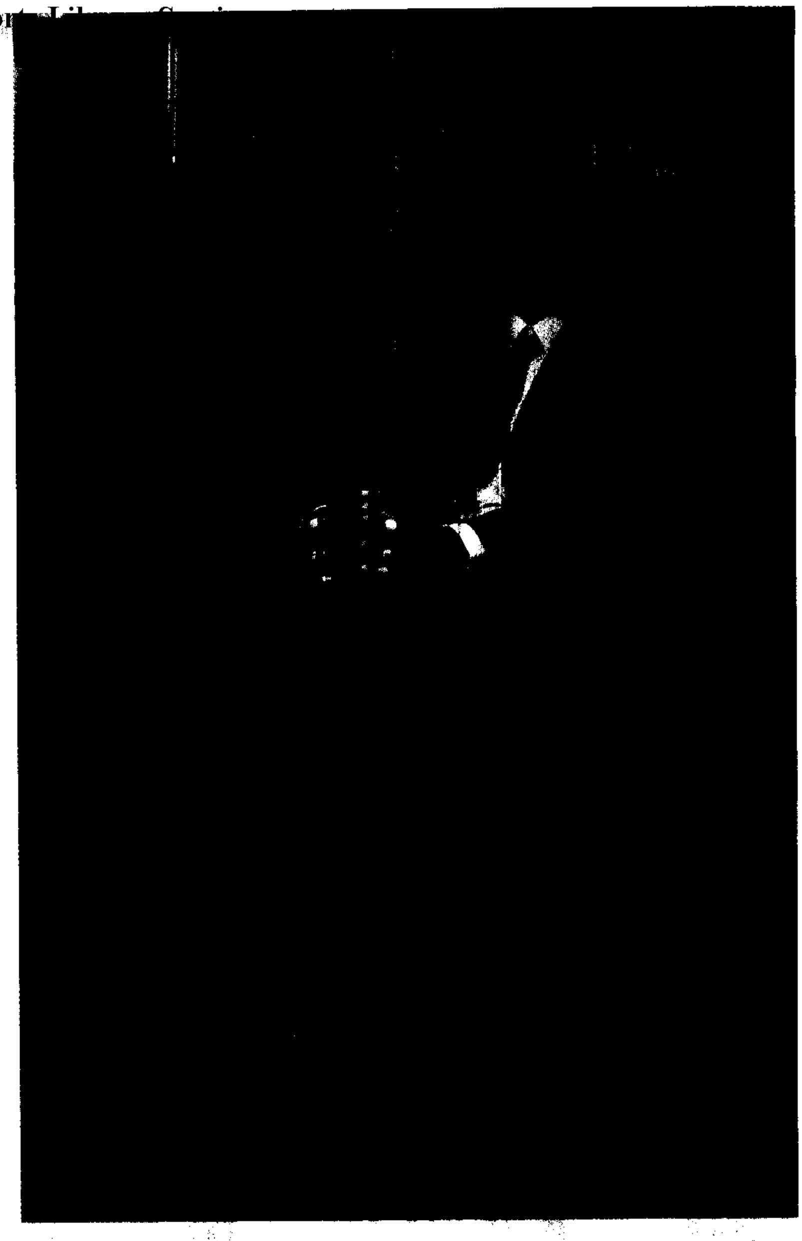
One major issue is the quality of governance. Grasping the problem, tackling it, solving it, not letting issues to linger on and become monsters. This is a malaise not onlt in the Government but in all walks of life. I call upon business leaders to think of the nation; to work for transparency; to invest in technology; to seriously adopt corporate governance. Happily there are now several business leaders who are role models; old as well as new entrepreneurs whom we had not heard of 10-15 years ago. We need to multiply these examples. Leadership of a different kind has to come from industry. And it is not one leader but hundreds who have to lead in their own way, in their own sphere.

Every segment of society needs to think about the nation, as a community, as a whole; not selfishly about themselves. The approach that the country is someone else's business, not mine needs to be banished.

Future Outlook & Plans

In response to challenges of 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.

Vice Chairman's Message



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.

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While we are building our capabilities and striving to be among the frontrunners in India and the world, we recognise that competition is also constantly improving itself. Therefore, we have to continue to look for better solutions for achieving a competitive edge.

I am confident that our company will become one of the best-managed and rewarding companies in the country and be a truly global force to reckon with.

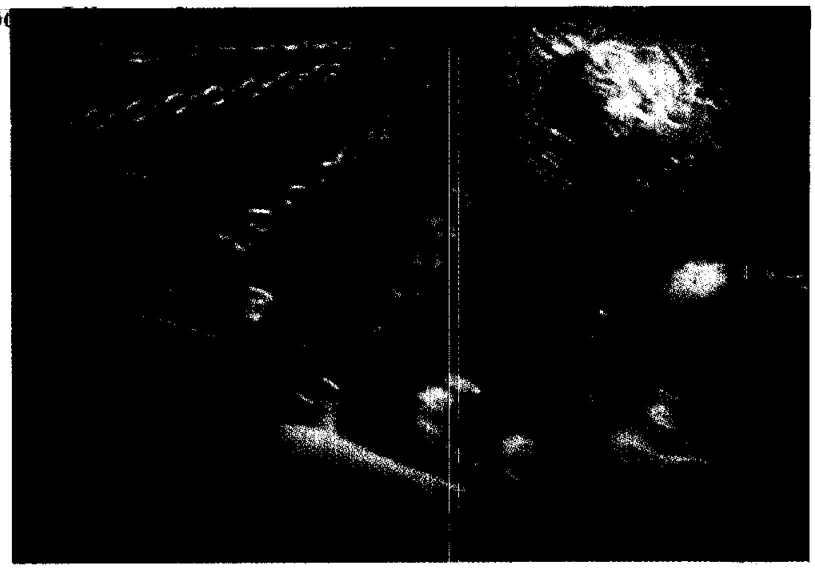
With best wishes,

Arun Bharat Ram
Vice Chairman & Senior Managing Director

SRF

An Interview with the CEO

Ravi K Sinha
Chief Executive Officer & Group Head



An Interview with the CEO

We are reconciled to a sluggish outlook for the foreseeable future. That will not stop us from consolidating capacities, and pushing ahead with programmes to improve competitiveness.

SRF has had a high interest burden, going back many years. Of late, the situation has improved. What is the outlook for your debt situation?

Debt is very much under control. From a big asset-liability mismatch in 1996-98, we have healthy Interest Cover ratios, and have funded large capital expenditure this year without any trouble. Our ratings with lenders and creditors have improved.

We have redeemed high cost Preference Capital in our overseas subsidiary, SRF Overseas Ltd.

For the coming year, our plan is to further reduce debt this year. Last year (FY 2000-01), we did not reduce much debt because we had a backlog of capital expenditure together with investment in the acquisition of Dupont Fibers Ltd. Incidentally, this acquisition is now complete. No doubt, I would like to see lower levels of debt, but even at current levels, it can no longer be said to be excessive. Nor is the interest cost an uncomfortable burden, given the existing level of Operating Profits.

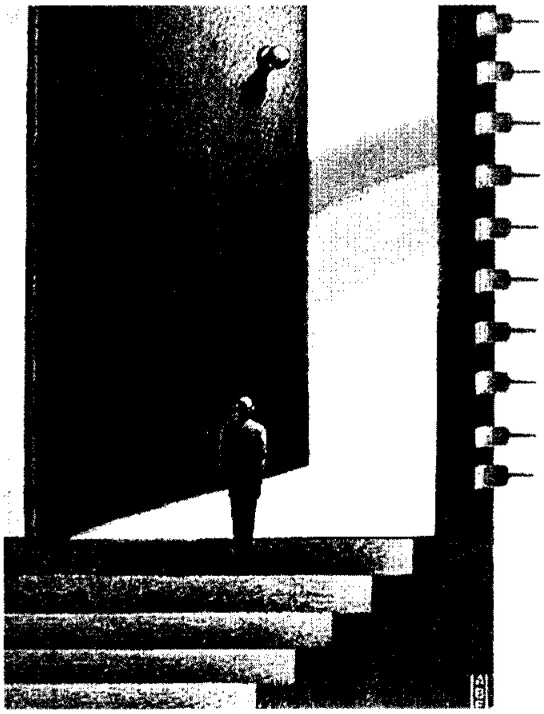
Profitability seems to be stagnant, even though the firm has added capacity in the last few years. Any comments?

Yes, despite investments in capacity, we have seen erosion in margins continuously over the last 4 years. Barring a brief period last year, product prices have been falling continuously. We have been able to stay in the black because of continuous cost reduction and low-cost capacity expansion. The full benefits of our many initiatives can be seen only when the product prices/ margins see a revival. I do not see that happening immediately.

We are reconciled to a sluggish outlook for the foreseeable future. That will not stop us from consolidating capacities, and pushing ahead with programmes to improve competitiveness. The survivors will only be those who keep improving their operating efficiencies. I must mention that with each successive drop in prices, SRF has emerged stronger, operationally and now even financially.

The South East Asian crisis caused a major supply overhang in our major product, Nylon Tyrecord Fabric (NTCF). This has caused product prices to touch historic lows. Along with that, the Government of India has been bringing down tariff barriers. In our specific case, there was an additional problem: the Government reduced Customs Duty on NTCF, but there was no corresponding reduction in the Customs Duty on our major input, Caprolactam. This created a strange situation where the Customs Duty on our input was higher than the duty on our finished product, NTCF.

However, this year (2001-02), duties on Caprolactam have been brought down to levels that are equal to duties on NTCF. This partially neutralises



PARTICULARS		Effective Duties Net of Modvat, %		
		1999-00	2000-01	2001-02
Finish Products	Nylon Tyre Cord Fabric	40.00	**25.06**	25.06
	Nylon Tyre Yarn	40.40	**28.63**	28.63
Raw Materials	Caprolactam	33.42	**33.42**	25.57
	Spin Finish Oil	44.93	**44.93**	41.26
	Nylon Chips	44.93	**44.93**	30.80
	VP Latex	46.50	**44.93**	41.26
	PVC Resin	45.37	**45.37**	41.26
	DOP	44.93	**44.93**	41.26

the anomali, but does not fully correct the situation. Duty on caprolactam should actually be lower than duty on NTCF.

In Fluorochemicals, the situation is steady. We do face tremendous competition from China in export markets, but we have been able to hold our own ground there.

Production cut-backs under the Montreal Protocol have started for ChloroFluoroCarbons (CFCs), but the spare capacity is being used for HydroChloroFluoroCarbons (HCFCs). Both sales and cashflows are stable.

What is the outlook for SRF's businesses for the next 2-3 years?

In Nylon Tyre Cord, I do not see much improvement in the business fundamentals. Local Indian tyre companies have lost pricing power for the finished product, and the (tyre) industry is facing sluggish demand growth and a supply overhang. Growth in the cargo transportation industry is not expected to pick up in the short run, unless the overall economy, particularly agriculture and manufacturing improve. In particular, the stagnation of the Commercial Vehicle industry will eventually cause stagnation of growth in its ancillaries.

However, if reforms for agriculture and manufacturing are implemented, I see a disproportionate improvement in cargo transportation. This sector is a high multiplier for the rest of the economy (given its high employment intensity), and will contribute to the revival of the economy.

Mostly, the industry services agriculture and manufacturing, and therefore, derives its demand from activity in these sectors.

In the Fluorochemicals business, outlook is steady. The production cut-backs in the CFC range will be made up by growth in HCFC demand, including exports as well as trading in substitutes. Finally, demand for cooling gases will depend on demand for refrigeration and airconditioning.

In Chloromethanes, we are suppliers to the Pharma industry, to the extent that we do not consume the product in-house. There will be steady volume growth here, although prices have been volatile in the past. We have gained market share steadily, and are the second-largest producer in India now.

What kind of acquisitions are you looking for? How do they fit into your business strategy?

We have been consolidating the NTCF industry in India. Our two acquisitions so far have given us market leadership in India. The situation has changed to such an extent that we do not see competition from India as very relevant in determining our future well-being.

Most competition is from the South East Asian countries. Trade in this product is regional, not global, i.e. imports take place within a region (Asia in this case). That is because the product is a high-performance, critical input into the end-product (tyres). Failure in this product can lead to tyre failure; hence, no tyre company would like to depend on a far-away supplier in a distant country, if it can help it. To that extent, relationships with

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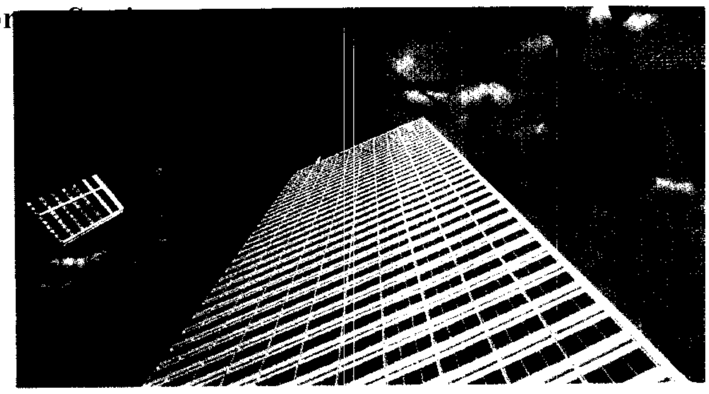

customers are close, and do not shift easily.

We therefore need to establish leadership in Asia, just like we have done in India. Presently the situation in Asia is not too good. The industry is fragmented, with no clear leader. Most NTCF producers in Asia, are financially under severe strain. Most of the largest ones are under receivership, or sick or undergoing financial restructuring. The industry is crying out for consolidation. All it needs is a strong player to do it.

We are arguably the only player in Asia with the operational capability, knowledge and presence in multiple markets and the Balance Sheet to do it.

SRF would like to go about it in just the same fashion as it has consolidated its position in India. We are arguably a key player in Asia with the operational capability, knowledge and presence in multiple markets and the Balance Sheet to do it. The industry is operating at nearly 80% capacity utilisation, and the demand-supply balance is tightening. We just have to wait for things to fall in place.

There are two broad strategies: one is to pick off smaller players at valuations that are viable even in distressed times, as and when they want to exit the business. Meanwhile, we wait it out, pay off debt and strengthen our Balance Sheet to ensure that there is no financial strain on us in absorbing these acquisitions. I would call this a passive strategy, which has the advantage of low risk.

The other, more aggressive strategy is to pursue industry consolidation by being aggressive on increasing market share, through alliances and acquisitions. This is a high-risk, high-return strategy, not really advisable. This strategy can only be viable if we find a financial investor who has the risk appetite (and the deep pockets) to see through the entire process of consolidating the Asian markets. We would then tie up the finance without endangering our Balance Sheet, and use our cashflows to offer him a standby exit option. What we bring to the table in such a relationship, would be the clout of our large capacities in India, our relationships with the tyre majors, and our ability to turn around struggling NTCF plants. The additional benefit to the combine would be the consolidation of the industry, and return to sensible investment behaviour by the industry as a whole.

Is your Balance Sheet clean-up over? What have been the significant changes you have brought about in the recent past?

Yes, we have been cleaning up the Balance Sheet for the last two years now. We implemented more stringent accounting norms, and provided for the resultant non-performing assets.

Our debt situation is comfortable now. The momentum (of debt reduction) already built-up will see us through now. No special effort is now required on that front.

Our Gross Current Assets are much more efficient now. Most Working Capital ratios compare favourably with those of similar industries.

Last year, we started focussing on Contingent Liabilities, with dramatic results, even if I say so myself. Net Exposure on account of guarantees on behalf of other companies has been brought down from Rs. 70.70 crores to Rs. 4.64 crores today. A demand for Rs. 23.73 crores for Stamp Duty has been set aside by the Appellate authorities and remanded back to the