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ANNUAL REPORT 2007-08

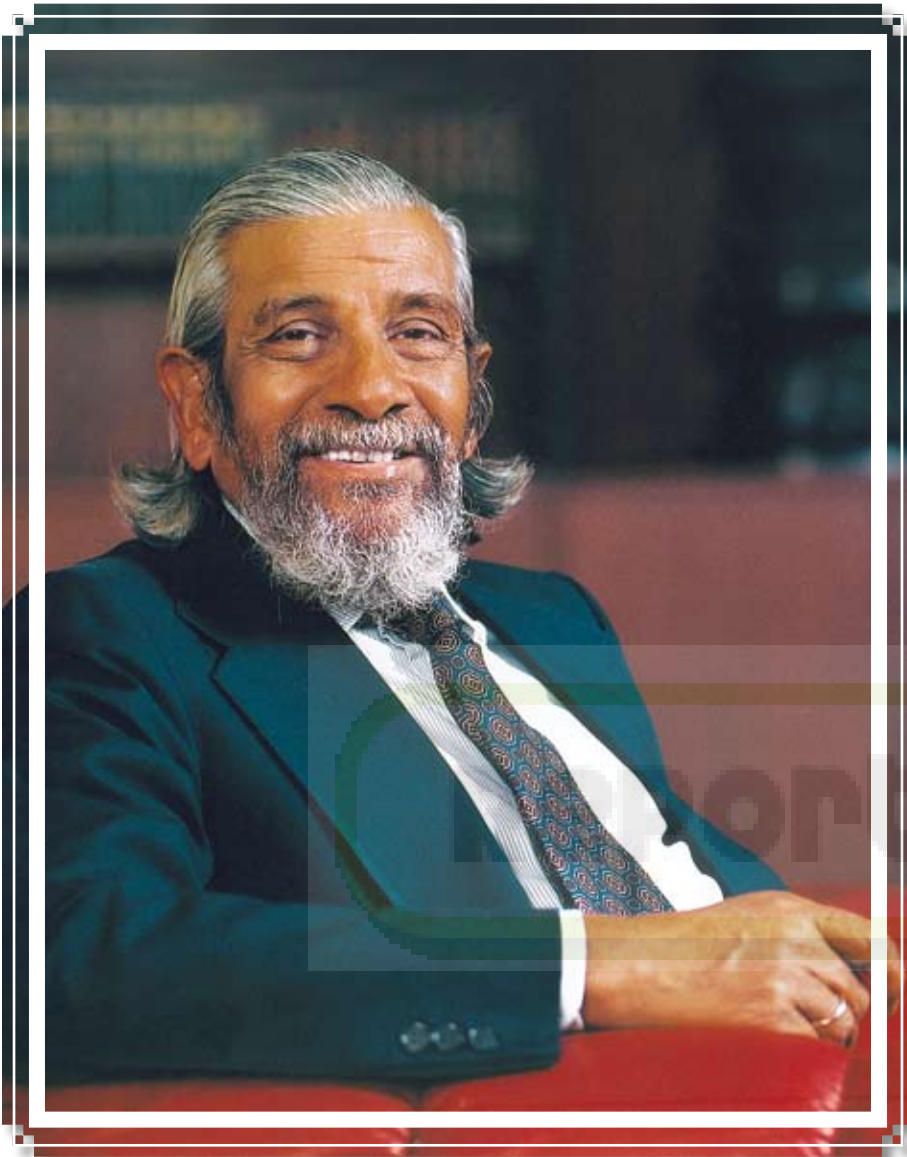


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Care for the Environment





❧ Dr. Bharat Ram ❧
1914 - 2007

We pay homage to SRF's Founder and Chairman Emeritus Dr. Bharat Ram, who left us for heavenly abode on 10 July 2007. But his dream lives on in our hearts and minds.

From SRF Family





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“Education is simply the soul of a society as it passes from one generation to another.”

G K Chesterson

MESSAGE FROM THE CHAIRMAN

Dear Shareholders,

I am happy to share with you the performance and prospects of our Company. Let me begin by informing you that the Company has recently signed a definitive agreement for the acquisition of Thai Baroda Industries Limited (TBIL), a Thailand-based tyre cord Company. The acquisition is a strategic step taken by our Company to build better synergies for our growth leading to value-creation for our stakeholders. Besides, this acquisition will enable SRF to emerge as the third largest tyre cord fabric manufacturer in Asia and the fifth largest in the world.

The acquisition is indeed a major step in our efforts to become a global Company. In today's environment, we will have to be looking at creating capacities across the globe both organically and inorganically.

Clearly, 2007-08 remained a challenging year for the industry in general and SRF in particular. The Indian economy for the first time in three years experienced a slowdown during 2007-08. Only few manufacturing sectors recorded a growth above nine per cent which was less than the 12 per cent in 2006-07. Agricultural growth came down to 2.6 per cent in 2007-08 from 3.8 per cent in 2006-07 and inflation remained above four per cent during the year.

The challenges got accentuated with a sharp increase in power and fuel rates. Globally, while the raw materials costs increased in line with commodity prices, the prices of most of our key products remained low. The prolonged phase of rupee appreciation made a substantial dent in our earnings. In short, there was severe pressure on margin. Besides, it may be noted that the previous year 2006-07 was an exceptional year because it included higher sales of accumulated Carbon Emission Reductions (CERs). This also reflected in the Company's lower profitability during 2007-08.

As such, the key financial figures of our performance showed a decline. Our net sales from operations decreased by 10.4 per cent — from Rs 1,802 crore in 2006-07 to Rs 1,615 crore in 2007-08. Profit After Tax (PAT) decreased by 51.9 per cent from Rs 289 crore in 2006-07 to Rs 139 crore in 2007-08. Despite a drop in profitability, the Company paid a dividend at the rate of 50 per cent amounting to Rs 5 per share.

But what is more heartening is to know that the entire SRF family pulled together and not only survived the onslaught of a tough market scenario but also made creditable progress through internal efficiencies. Even in the face of such a fiercely competitive scenario, the Company retained its market leadership for most of its products in the domestic market. Most importantly the thrust on improving the cost structures of our plants continued during the year.

Let me provide you a glimpse of our performance that gives us confidence to chart our course in future.

SRF's market share for tyre cord fabrics improved from 36 per cent in 2006-07 to 40 per cent in 2007-08 on record net sales. In belting fabrics, the Company moved up the value chain recording 28 per cent of sales from value-added products. Continuing with its commitment to phase out CFCs, the Company realigned its product-mix and maximised the production of the new generation refrigerant gas HFC 134a, which has been indigenously developed by SRF with IICT supporting us in the initial phases. This enabled the Company to retain its market leadership for refrigerant gases with 40 per cent share in the domestic market. And finally, having established its turnaround, SRF's Packaging Film Business (PFB) re-oriented its strategy towards growth recording 12.3 per cent increase in revenue during the year. PFB further reinforced its significant presence in the exports market as well.

It is in challenging times like these when our capability and character are challenged in full measure. I firmly believe that a commendable performance like this has been possible only through complete cooperation and enthusiasm of my colleagues at all levels in the organisation.

But the task ahead is clearly cut out and we are getting ready to take off towards a new horizon.





We are in the midst of implementing several projects that on commissioning will yield substantial benefits to the Company. I will only mention a few key ones here. To start with, the work on setting up a state-of-the-art polyester yarn plant is underway. The project being set up with world-renowned technology from Toray Industries, Japan will be commissioned by early 2009. The first of its type in India, the polyester plant that essentially cater to the requirements for radial tyres will position SRF strongly as a one-stop-shop for all kinds of fabrics for tyre manufacturers. The polyester plant will also provide backward integration with the Company's belting fabrics and coated fabrics businesses.

We have successfully set up a wind power facility, which would partly cater to the power requirement of its Chennai-based units under our Technical Textiles Business. The wind power mill will insulate the Company against global movement in fuel prices and also bring down the cost structure significantly. It is however important to note that the viability of this project is closely linked to it being a CDM project.

Looking at the prevailing buoyancy in the markets for our Packaging Films, we have decided to install a second metalliser and a second line for PET films that will raise our capacity to more than double in the next two years.

The prospects of our flagship product NTCF will continue to be good in India for at least a decade in view of slow progress of radialisation. We are actively exploring possibilities of diversifying our product portfolio under coated fabrics.

It gives me immense pleasure to inform you that leveraging SRF's expertise in fluorine chemistry, our scientists in R&D have made substantial progress in developing new molecules under our fluorospecialties business. Going forward this business segment will help us staying at the edge of the technological curve.

I firmly believe that in an organisation, we all have to work towards a common purpose. We continue to strive to ensure that all the different functions work in an integrated manner to achieve organisational success. At SRF, TQM remains a strategic tool of management for creating a conducive environment for improving the cost efficiency, quality and productivity across the businesses and functions. The TQM movement is well-established in SRF. It is heartening to know that the best practices of TQM already in place in our Technical Textile Business are now being adopted by other businesses as well.

As a Company, we are proud of our contributions to society and this legacy reposes great responsibility on us to carry on with the good work in community services. I am particularly happy to share with you that SRF is one of the companies in the private sector to have created opportunities for employability, entrepreneurship and education of SC/ST candidates as per its commitment to the CII Code of Conduct of Affirmative Actions.

Continuing with our Natural Resources Management project under our Sustainable Development Programme, we have identified 17 extremely arid villages in the vicinity of our plant in Alwar district for focused intervention in the areas of: Afforestation, Soil & Water Conservation and Water Harvesting.

Four of our schools, namely The Shri Ram Schools (two in Gurgaon and one in Delhi) and SRF Vidyalaya (located near our plant in Manali, Tamil Nadu) continue to enjoy a good reputation for the quality of education they provide. Continuing with our commitment to provide quality education to the students from both the privileged as well as unprivileged class under the SRF Foundation, we have obtained approval for adopting a government primary school near our plant in Bhiwadi. SRF Foundation also launched a teacher's development programme for the pre-primary segment, entitled 'Enhancing Early Education Programme' during the year.

I am confident that SRF is well-positioned to reach new heights in the days to come.

I would now like to conclude by expressing my gratitude to you and all other stakeholders including my colleagues in SRF for their continued support and encouragement.

With kind regards,

Yours sincerely,

Arun Bharat Ram
Chairman

COMPANY INFORMATION

Board of Directors

Mr. Arun Bharat Ram, Chairman
Mr. Ashish Bharat Ram, Managing Director
Mr. Kartikeya Bharat Ram, Deputy Managing Director
Mr. S P Agarwala
Mr. K Ravichandra, Director (Safety & Environment)
Mr. M V Subbiah
Mr. Satish K Kaura
Mr. Vinayak Chatterjee
Mr. Subodh Bhargava
Mr. Piyush G Mankad

Auditors

M/s. Thakur, Vaidyanath Aiyar & Company, New Delhi

Company Secretary

Mr. Anoop K Joshi

Bankers

• ICICI Bank Limited • State Bank of India • State Bank of Patiala
• Standard Chartered Bank • Citibank N A

Registered Office

C-8, Commercial Complex, Safdarjung Development Area, New Delhi – 110 016

Corporate Office

Block-C, Sector-45, Gurgaon (Haryana) – 122 003

Technical Textiles Business

| | |
|--------|---|
| Plants | • Manali Industrial Area, Manali, Chennai (Tamil Nadu) – 600 068 |
| | • Industrial Area, Malanpur, Dist. - Bhind (MP) – 477 116 |
| | • Plot No 1, SIPCOT Industrial Area Complex, Gummidipoondi Dist. - Thiruvallur (Tamil Nadu) – 601 201 |
| | • Viralimalai, Dist. - Pudukottai (Tamil Nadu) – 621 316 |

Chemicals Business

| | |
|-------|---|
| Plant | • Village & PO - Jhiwana, Tehsil - Tijara Dist. - Alwar (Rajasthan) 301 018 |
|-------|---|

Packaging Films Business

| | |
|--------|--|
| Plants | • SEZ Indore, Sector-3, Pithampur, Dist. Dhar (MP) |
| | • Plot No 12, Rampura, Ramnagar Road, Kashipur Dist. - Udham Singh Nagar (Uttarakhand) |



DIRECTORS' REPORT

Your Directors are pleased to present the 37th Annual Report for the year ended 31 March 2008.

Financial Results

| | 2007-08 | 2006-07 |
|--|---------|---------|
| Net Sales | 1615.3 | 1802.5 |
| Profit Before Interest, Depreciation and Tax (PBITD) | 333.9 | 555.4 |
| Less: Interest & Finance Charges (Net) | 34.7 | 35.5 |
| Profit Before Depreciation and Tax (PBDT) | 299.2 | 519.9 |
| Less: Depreciation | 96.8 | 76.8 |
| Profit Before Tax (PBT) | 202.4 | 443.1 |
| Less: Provision for Taxation including Deferred Tax Charge | 63.7 | 154.0 |
| Profit After Taxation (PAT) | 138.7 | 289.1 |
| Add: Profit Brought Forward | 358.2 | 146.0 |
| Surplus available for Appropriation | 496.9 | 435.1 |

Appropriation

| | 2007-08 | 2006-07 |
|---------------------------------------|---------|---------|
| Interim Dividend on Equity Shares | 20.37 | 27.15 |
| Final Dividend on Equity Shares | 13.58 | 13.58 |
| Corporate Tax on Dividend | 5.77 | 6.12 |
| Amount transferred to General Reserve | 15.00 | 30.00 |
| Profit carried to Balance Sheet | 442.20 | 358.25 |
| Total | 496.9 | 435.1 |

Equity Dividend

The Board of Directors of the Company has recommended a final dividend of 20 per cent on the paid up share capital of the Company as on 31 March 2008.

With this the total dividend for the year works out to 50 per cent on the paid up share capital with a total sum of Rs 39.72 crore (including tax on dividend amounting to Rs 5.77 crore). Payment of final dividend is subject to the approval of the shareholders in the Annual General Meeting.

Operations Review

Net sales of the Company decreased by 10.38 per cent from Rs 1,802 crore in 2006-07 to Rs 1,615 crore in 2007-08. Profit Before Interest, Depreciation and Tax (PBITD), including 'other income' decreased from Rs 555 crore in 2006-07 to Rs 334 crore in 2007-08.

Profit Before Tax (PBT) decreased by 54 per cent from Rs 443 crore in 2006-07 to Rs 202 crore in 2007-08. After accounting for the provision on taxation of Rs 63 crore, which includes both fringe benefit tax and deferred tax liability, Profit After Tax (PAT) decreased by 52 per cent from Rs 289 crore in 2006-07 to Rs 139 crore in 2007-08.

Business-wise Review

A detailed business-wise review is being given in the Management Discussion and Analysis section of the annual report.

Subsidiary Companies

SRF Overseas Limited (SRFO)

SRFO, a wholly-owned subsidiary operating out of Dubai, is an arm of the Technical Textiles Business (TTB) targeted at the markets of Middle East, Europe and Africa. Turnover of the Company increased from AED 112.94 million in 2006-07 to AED 120.65 million in 2007-08. The Company earned a net profit of AED 0.88 million in 2007-08 as compared to the profit of AED 1.70 million in 2006-07.

There is no permanent diminution in the value of investment by SRF in SRFO considering that net present value of future cash flows of SRFO is more than carrying amount of assets as per audited results as on 31 March 2008.

SRF Americas, Inc. (SRFA)

SRFA, a wholly-owned subsidiary, which has ceased operations in 2005-06 has been dissolved during the year and investment in the Company written off in accordance with RBI regulations.

Other Subsidiaries

SRF Transnational Holdings Limited made a profit of Rs 27.34 lakhs during the year 2007-08. This profit was mainly on account of interest income.

SRF Properties Limited earned a net profit of Rs 5.31 lakhs during the year 2007-08.

SRF Infrastructure Limited has become a wholly-owned subsidiary of the Company during the year. There are no operations in the Company.

SRF Fluor Private Limited has been incorporated in Mauritius to act as an intermediate holding Company for the purpose of making investments in overseas companies. The Company has reported a loss of USD 0.07 million during the year 2007-08.

The Central Government vide its letter No. 47/188/2007-CL-III dated 24 April 2008 has under Section 212(8) of the Companies Act, 1956, exempted SRF from attaching a copy of balance sheet, profit and loss account, auditor's report and directors' report of its subsidiary companies and other documents required to be attached under Section 212(1) of the Act to the balance sheet of the Company.

Directors

Mr. S P Agarwala and Mr Vinayak Chatterjee are retiring by rotation at the ensuing Annual General Meeting and are being eligible for re-appointment. Brief resumes of the Directors offering themselves for re-appointment are furnished in the explanatory statement to the notice of the ensuing Annual General Meeting.

Directors' Responsibility Statement

Pursuant to the requirements of Section 217(2AA) of the Companies Act, 1956, it is hereby confirmed:

- That in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures
- That the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for the period under review



Cost Audit

Mr. Prakash Kumar Varma, Cost Accountant, has been re-appointed to conduct cost audit of the accounts maintained by the Company in respect of its nylon products for the financial year 2008-09.

Internal Control System

The Company's internal control system includes audit and verification of compliance to defined policies and procedures by Internal Audit Function. The internal auditors independently evaluate the adequacy of internal controls and audit the sample of the transactions in value terms. Independence of the audit is ensured by the direct reporting of internal audit function to the Audit Committee of the Board.

Management Discussion and Analysis

A detailed section of the Management Discussion and Analysis forms part of the Annual Report.

Fixed Deposits

Your Company discontinued accepting/renewing fixed deposits w.e.f. 14 August 2004. There have been no defaults in repayment of fixed deposits during the year. Deposits (including interest) worth Rs 10.75 lakh due for repayment on or before 31 March 2008 remained unclaimed by 65 depositors.

Personnel

As required by the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees), Rules, 1975, as amended, the names and other particulars of employees are separately enclosed.

Conservation of Energy, Technology Absorption, Foreign Exchange Earnings & Outgo

The details as required under the Companies (Disclosure of Particulars in Report of Board of Directors) Rules, 1988 are given as Annexure 2 to the Directors' report.

Acknowledgements

Your Directors acknowledge with gratitude the cooperation and assistance received from various agencies of the Central Government and the Governments of Madhya Pradesh, Rajasthan, Tamil Nadu and Uttarakhand, financial institutions and banks. Your Directors thank the shareholders and depositors for their continued support. Your Directors also place on record their appreciation of the contribution made by employees at all levels.

Date: 25 April 2008
Place: Gurgaon

For and on Behalf of the Board
Arun Bharat Ram
Chairman

(iii) That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities

(iv) That the Directors have prepared the annual accounts for the year ended 31 March 2008 on a 'going concern' basis

The Company is controlled by Arun Bharat Ram Group ('Promoter Group') being a group as defined under the Monopolies and Restrictive Trade Practices Act, 1969. The Promoter Group consists of various individuals and corporate bodies who are in a position to and who jointly exercise control over the Company. A list of these individuals and corporate entities is as follows:

a) Mr. Arun Bharat Ram; b) Mr. Ashish Bharat Ram; c) Mr. Kartikeya Bharat Ram; d) Mrs. Shiela Bharat Ram; e) Mrs. Manju Bharat Ram; f) Mrs. Vasvi Bharat Ram; g) Mrs. Radhika Bharat Ram; h) SRF Polymers Limited; i) SRF Polymers Investments Limited (formerly SRF International Limited); j) Skylark Investments & Trading Private Limited; k) Narmada Farms Private Limited; and l) Bhairav Farms Private Limited.

Buy-back of Shares

Board of Directors at its meeting held on 25 April 2008 had approved buy-back of equity shares at a price not exceeding Rs 160 per share absorbing an aggregate amount not exceeding Rs 70 crore.

Listing of Equity Shares

SRF's equity shares are listed at the Bombay Stock Exchange Limited and the National Stock Exchange of India Limited.

Corporate Governance

Certificate of the auditors of your Company regarding compliance of the conditions of corporate governance as stipulated in Clause 49 of the Listing Agreement with the stock exchanges is attached to the report as Annexure 1.

In compliance with the requirements of Clause 49(V), a certificate from Managing Director and the President & Chief Financial Officer was placed before the Board.

All Board members and Corporate Leadership Team (CLT) had affirmed compliance with the Code of Conduct for Board and Senior Management Personnel. A declaration to this effect duly signed by the Managing Director is enclosed as a part of the Corporate Governance Report. A copy of the Code is also placed at the website of the Company (www.srf.com)

Consolidated Financial Statement

In accordance with the Accounting Standard (AS-21) on consolidated financial statements, your Directors are pleased to attach the consolidated financial statements, which form part of the Annual Report and Accounts.

Accounts and Audit

The auditors, M/s. Thakur, Vaidyanath, Aiyar & Company retire at the conclusion of the 37th Annual General Meeting and have expressed their unwillingness to seek reappointment. The observations of the auditors are explained wherever necessary in appropriate notes to the accounts.

The Company has received a notice under Section 225 of the Companies Act, 1956 proposing that Deloitte Haskins & Sells, Chartered Accountants, New Delhi be appointed as the Auditors of the Company.



Annexure 1

Auditors' Certificate on Corporate Governance

To the Members of SRF LIMITED

We have examined the compliance of conditions of Corporate Governance by SRF Limited, for the year ended on 31 March 2008, as stipulated in Clause 49 of the Listing Agreement of the said Company with stock exchange(s).

The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us:

We certify that the Company has complied with the mandatory conditions of Corporate Governance as stipulated in the above-mentioned Listing Agreement.

We state that there are no investor grievance(s) pending for a period exceeding one month against the Company as per the records maintained by the Shareholders/Investors Grievance Committee.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For and on behalf of
THAKUR, VAIDYANATH AIYAR & CO.
Chartered Accountants
V. Rajaraman
Partner
M.No.2705

Place: New Delhi
Date: 25 April 2008

Annexure 2

Annexure to Directors' Report (Pursuant to Section 217(1)(e) of the Companies Act, 1956)

A Conservation of Energy – Measures taken:

1 Technical Textiles Business, Manali

- Saved 17,280 units/month by converting electrical heating of fuel (for the DG) to steam heating
- Saved 18,000 units/month by using the spray system cooled water for cooling dipping rollers instead of using cooling tower water
- Saved 2,304 units/month by installing solar powered street lights on a trial basis
- Reduced steam cost by Rs 121/MT by using groundnut shells as an alternate fuel for steam generation in addition to rice husk

2 Technical Textiles Business, Gwalior

- 2,496 kWh/day saved by:
Compressed air pressure reduction at 8.0 kg/sqcm for loom and instrument air;
Reduction in modulation band of air compressor;
Stopping one nitrogen plant.
- 1,068 kWh/day saved by:
Stoppage of one cooling tower by interconnecting the headers;
Installation of booster pump in DG cooling tower for pressurising the header;
Replacement of dyno drive with inverters.
- 2.26 KL/day of Furnace Oil saved by:
Increasing steam condensate recovery;
Excess steam of flash vessel used for tank form and DG area.
- 205 cubic metre/day of water saved by:
Recycling of vacuum pump's cooling water;
Recycling of low COD water.

3 Technical Textiles Business, Viralimalai

- Saved 2,000 units/month by introducing timer circuit in looms (PGW & Dornier) to switch off the main motor during gaiting
- Saved 4800 units/month by connecting lighting loads of plant-2 through clock switch and cutting off partial loads of lighting during day time
- Overall power factor of the incoming supply improved from 0.95 to 0.98
- Power consumption of twisting machine improved by improving the spindle utilization
- Saved 7500 units/month by installing VFD drives for additional dewebber of all processing machines

4 Chemical Business

- Optimisation of R-30 compressor system and stopping one 150 KW compressor
- Optimisation of cooling water system and stopping one 90 KW motor
- Commissioning of condensate recovery system for 100 TPD condensate
- Commissioning of automatic temperature control system for FSP cooling tower fan
- Optimisation of plant air requirement and stopping of 45 KW air compressor of HFC plant
- Redesigning of HCL condenser in CMS plant to achieve 102 TPD capacity as against 82 TPD with same energy consumption

5 Packaging Films Business, Indore

- 22 KW savings through installation of inverter in dryer area
- 30 KW savings through installation of inverter in TDO blowers
- Savings of 18 KW by automation of TDO ventilation system
- Savings of 5 KW by automation of canteen AHU



6 Packaging Films Business, Kashipur

- Savings of 8 KW by replacing dyno-drives with ac drive in secondary slitter and feed roll
- Trim cutter blower motor replaced with 4 KW motor in place of 11 KW motor
- Modified the AHU-2 chilled water coil (22 KW motor in place of 55 KW motor)
- Auto stopping system introduced in feeding root blower
- Re-use of Erema bath water in cooling tower. Saving of 40 cubic meter water per day
- Auto stopping of DM water pump system introduced
- Power factor increased to 0.99 from 0.97

| Power and Fuel Consumtpion | | 2007-08 | 2006-07 |
|---------------------------------|-----------|-----------|---------|
| 1 Electricity | | | |
| a) Purchased | | | |
| - Total Units (000 KWH) | 167873.40 | 106844.16 | |
| - Total Amount (Rs Lakhs) | 6416.07 | 4081.35 | |
| - Rate/Unit (Rs) | 3.82 | 3.82 | |
| b) Own Generation | | | |
| - Through Diesel (000 KWH) | 3921.98 | 11071.39 | |
| - Units per KL of Diesel Oil | 3489.97 | 3304.50 | |
| - Cost/Unit (Rs) | 8.41 | 9.08 | |
| - Through Furnace Oil (000 KWH) | 49058.18 | 96709.49 | |
| - Units per KL of Diesel Oil | 8180.57 | 8531.59 | |
| - Cost/Unit (Rs) | 4.75 | 4.59 | |
| - Through Coal | 29569.79 | 20239.63 | |
| - Units per MT of Coal | 746.95 | 665.32 | |
| - Cost/Unit (Rs) | 3.67 | 4.05 | |
| 2 Others | | | |
| a) Fuel (for oil boiler) | | | |
| - Quantity (K. Litres) | 9008.37 | 12546.24 | |
| - Total Cost (Rs Lakhs) | 1894.71 | 2209.78 | |
| - Rate/Unit of KL (Rs) | 21032.72 | 17613.11 | |
| b) LPG | | | |
| - Quantity (K Litres) | 2088.94 | 1984.60 | |
| - Total Cost (Rs in Lakhs) | 757.15 | 662.83 | |
| - Rate/MT (Rs) | 36245.76 | 33398.60 | |

| Consumption Per Unit of Production | | 2007-08 | 2006-07 |
|------------------------------------|---------|---------|---------|
| 1 Electricity (KWH/MT) | | | |
| - Yarn | 2287.85 | 2502.90 | |
| - Fabric | 2788.19 | 2782.34 | |
| - Fluorochemicals | 879.08 | 613.88 | |
| - Chloromethanes | 448.54 | 390.46 | |
| - Polyester Films | 1165.75 | 1178.99 | |
| 2 LPG (Kgs/MT) | | | |
| Fabric | 95.02 | 99.46 | |
| 3 Steam (MT) | | | |
| - Yarn | 3.05 | 3.44 | |
| - Fabric | 2.97 | 3.27 | |
| - Fluorochemicals | 1.35 | 0.83 | |
| - Chloromethanes | 1.61 | 1.55 | |

B Technology Absoption

Research & Development

SRF's Chemicals R&D has set up pilot plant at a cost of Rs 11 crore. Development work on the pilot plant will begin shortly. The Company is actively working on some new fluorochemical molecules required by global pharma and agro giants for their new products to be introduced in the market. It has also set up a plant last year for production of a new fluorochemical compound for the agrochemical industry. The same is under commissioning at the moment. SRF's Chemicals R&D centre is actively developing many more compounds for the pharma and agro industry.

The Company's R&D centre for TTB, which was established with state-of-art facilities at Manali last year, is actively engaged in developing many new products using latest technologies like Nano, Plasma and Microwave. The unit has also entered into a number of collaborations with external academic and research institutes. Plans are on the anvil to expand its coverage for R&D from tyre cord fabrics to belting and coated fabric also during the current year.

| Expenditure on R&D | 2007-08 (Rs lakhs) | 2006-07 (Rs lakhs) |
|---|-----------------------|-----------------------|
| Capital | 2335.10 | 1752.62 |
| Recurring | 902.43 | 451.14 |
| Total | 3237.53 | 2203.76 |
| Total R&D Expenditure as per cent of Turnover | 2.00% | 1.22% |

C Foreign Exchange Earnings & Outgo

| Particulars | 2007-08 (Rs lakhs) | 2006-07 (Rs lakhs) |
|------------------------------|-----------------------|-----------------------|
| Foreign Exchange Earnings | 57805.92 | 79831.74 |
| Foreign Exchange Outgo | 41344.87 | 36377.96 |
| Net Foreign Exchange Earning | 16461.05 | 43453.79 |

Date: 25 April 2008
Place: Gurgaon

Arun Bharat Ram
Chairman



MANAGEMENT DISCUSSION AND ANALYSIS

The year 2007-08 has been an extremely challenging for the Company. The demand supply equations in its core businesses were unfavourable which in turn led to extreme margin pressure. Having said that, the Company took this as an opportunity to continue working towards improved cost structures and efficiencies. More specifically, the cost structure of Technical Textile Business plants improved significantly during the year. The 134a plant under Chemicals Business stabilised further and the Packaging Films Business, having established its turnaround, reoriented its strategies towards growth.

On the growth front, the Company obtained approval for several projects worth around Rs 550 crore during the year. These projects are expected to start yielding benefits within the next two years.

The highlights of SRF's financial performance in 2007-08 are:

- Net sales from operations decreased by 10.4 per cent from Rs 1,802 crore in 2006-07 to Rs 1,615 crore in 2007-08
- Profit Before Depreciation, Interest and Tax (PBDIT) decreased by 39.8 per cent from Rs 555 crore in 2006-07 to Rs 334 crore in 2007-08
- Profit After Tax (PAT) decreased by 51.9 per cent from Rs 289 crore in 2006-07 to Rs 139 crore in 2007-08
- Return On Capital Employed (ROCE) decreased from 35.8 per cent in 2006-07 to 15.9 per cent in 2007-08
- Earnings per share decreased by 53.4 per cent from Rs 43.8 in 2006-07 to Rs 20.4 in 2007-08

In what follows, we will discuss the performance of SRF's business, initiatives taken and overall financial performance during the year under review and its outlook for the future.

Businesses

SRF has a portfolio of established businesses in industrial intermediates. In the last few years, the Company has also developed new businesses in Packaging Films and Fluorospecialities as a part of its long-term strategy for growth. It classifies its main businesses as: Technical Textiles Business (TTB), Chemicals Business (CB) and Packaging Films Business (PFB).

Technical Textiles Business

Technical Textiles Business (TTB), which includes tyre reinforcements, belting fabrics and coated fabrics, continues to be SRF's largest business segment. Sales of the business grew by 4.48 per cent from Rs 870 crore in 2006-07 to Rs 909 crore in 2007-08. TTB contributes approximately 56 per cent to the total sales of the Company.

Tyre Cord Reinforcements

The main product of TTB is Nylon Tyre Cord Fabric (NTCF), which is used as a reinforcement material in bias tyres. With the buoyancy in infrastructure and road transportation, the demand situation continued to be favourable during the year under review.

Through increase of productivity in its plants and effective utilisation, SRF has succeeded in establishing a capacity of 48,000 MT/A of fabric. This positions SRF as the industry leader in the country, and the third largest integrated Nylon 6 tyre cord producer in the world and the sixth largest textile tyre cord producer in the globe.

With the above expansions, the Company has been able to increase its market share from 36 per cent in 2006-07 to 40 per cent in 2007-08. This has been made possible by the business achieving all-time record higher sales in MT

terms. Even though the margins suffered considerably during 2007-08 affecting bottom-line adversely, this has led to restructuring of the industry in India. Currently, there are only two players left in this business, with SRF very well-positioned. Having made its investments during the down cycle, it will reap financial benefits with the up-trend of the cycle, signs of which are now visible.

With its leadership position in Nylon tyre cord, SRF has initiated steps towards building India's first Polyester industrial yarn plant at Gummidipoondi near Chennai. This plant, in addition to its capability of manufacturing High Modulus Low Shrinkage (HMLS) Polyester yarn, will have the capability to manufacture an assortment of high tenacity and low shrinkage yarns for various end-use applications such as; belting, coated, single cord, etc. The Polyester yarn plant will enable SRF to offer tyre reinforcements for radial tyres as well as provide backward integration for its Belting and Coated fabrics businesses. The state-of-the-art plant is being set up with world-renowned technology from Toray Industries, Japan and is expected to commence commercial production by the end of FY 2008-09. This plant will position SRF strongly for the growing segment of Polyester tyre cord fabric used in radial tyres.

Globally, year 2007-08 has witnessed a tremendous increase in power and fuel rates. In order to bring down the impact under such adverse circumstances, the business has put up a wind power facility, which would partly cater to the power requirement of its Chennai-based units. The project has been commissioned towards the end of 2007-08 and the impact of the same would be felt in the coming year. This project has been set up as a CDM initiative and it is important to state that the viability of this is directly co-related to its ability to generate carbon credits under the Kyoto Protocol. This would help stem the escalating power costs which had become an area of concern. Based on the success of this project (which would be tested and established in the coming year), the business hopes to add to the capacity of power being generated by this route, thereby insulating itself against global movement in fuel prices and bringing down the cost structure significantly in future for all of our its south-based units.

Belting Fabrics

Belting Fabrics are used as reinforcement material for conveyor belts, and have been witnessing robust growth in demand. During the last five years, volume in this segment has increased at a Compounded Annual Growth Rate of over 18 per cent. SRF continues to be the market leader in India with a domestic market share of over 50 per cent, and a significant force globally as the third largest producer of belting fabrics in the world.

Given the particularly favourable outlook for the mining and infrastructure sectors, coupled with the increasing prices of commodities, whereby closed mines may start operations or new explorations become viable, SRF expects the buoyancy in demand to continue. The Company is a significant global player with 57 per cent of revenues from exports spread across approximately 30 countries, and is well-positioned to make further inroads into international markets in the future.

SRF has initiated steps for capacity expansion of 2,500 TPA by the end of FY 2008-09 in addition to the backward integration through the Polyester industrial yarn, as discussed under tyre cord reinforcement section. Given the expected growth of infrastructure sector, this bodes well for SRF's future.

The year 2007-08 also saw a focus on moving up the value chain with 28 per cent of total sales coming from new and value-added products. Ability to design higher margin products would help improve profitability on a sustainable basis.

Coated Fabrics

Coated Fabrics are used in a wide range of applications including protective dynamic tarpaulins, static covers, auto-canopies, signages and awnings. During 2007-08, the Company continued to enjoy a leadership position in the sub-segments in which it operates.

Recognising the opportunity in the era of the escalating power costs, it has introduced the concept of biogas balloons for the rural sector. Pilot installations are underway to pave the way for the beginning of an exponential growth in this segment.

The Company believes that there is a significant potential for this segment with higher economic growth and is currently engaged in evolving a business plan to build this up.

Outlook

Radialisation in the bus and truck segment, which accounts for over two-thirds of SRF's NTCF sales, has been at three to four per cent. Based on the current assessment of the progress of radialisation, SRF expects that demand for NTCF will continue to grow at least for the next decade. The Company is well-placed to benefit from this growth. Even so, to de-risk itself and take advantage of the potential, SRF has started exploring opportunities to enrich its Technical Textiles Business portfolio by setting up a facility to manufacture Polyester industrial yarn (for tyre and non-tyre applications). This will open up many new business segments apart from entry into radial tyre fabrics.