



# SRF Limited

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For immediate release

**SRF Q1FY2005 EPS at Rs. 1.87, Cash EPS at Rs.4.00**

**Revenues at Rs. 2,222 million, PAT at Rs. 121 million**

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**New Delhi, July 21, 2004:** SRF Limited, a leading Indian player with global positions in Tyre Cord Fabric, Refrigerant Gases and Industrial Fabrics, today announced its financial performance for Q1FY2005.

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Commenting on the financial performance, **Mr. Arun Bharat Ram, Chairman and Managing Director, SRF Limited**, said:

*"We achieved encouraging operating results in the first quarter of the current fiscal year. Our financial performance could not completely capture business progress due to irrational pricing pressures by Chinese players in the Tyre Cord business and the accounting impact of sharp rupee depreciation during the quarter.*

*We continue to invest and undertake initiatives that make us bigger, stronger and more efficient in our focused segments. The market dynamics remain attractive and we are monitoring trends and opportunities and implementing plans that benefit our business. Overall, I believe we have made a good start and I am positive about the outlook for the entire year."*

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## **FINANCIAL OVERVIEW:**

### **Q1 FY2005 (April – June 2004) v/s. Q1 FY2004 (April – June 2003)**

#### **Performance**

- Net revenues increase by 5.4% to Rs 2,222 million from Rs 2,108 million
- PBIDT lower at Rs 351 million from Rs 419 million
- Interest cost and financial charges lower by 38.4% to Rs. 44 million from Rs 71 million
- PAT at Rs 121 million compared to Rs 137 million
- Cash profit from operating activities of Rs 258 million compared with Rs 332 million
- EPS at Rs 1.87 compared with Rs 2.12
- Cash EPS at Rs 4.00 compared with Rs 5.14

#### **Status**

- Shareholders networth at Rs 3,920 million as on 30 June 2004, compared with Rs 3,443 million as on 30 June 2003 and Rs 3,799 million as on 31 March 2004
- Book value per share of Rs 60.75 as on 30 June 2004
- Total debt of Rs 2,594 million as on 30 June 2004, resulting in a debt to equity ratio of 0.70.

#### **Key impact factors**

- Encouraging operating progress reflected in healthy operating and revenue performance of most businesses
  - Tyre Cord Fabric business was particularly affected by irrational pricing pressures by Chinese manufactures at one end and increase in raw material cost on the other side
  - Depreciation of rupee led to an adverse foreign exchange charge of Rs 83 million during the quarter, primarily based on revaluation of forex liabilities. In the corresponding quarter of last year, there was a credit accrual of Rs 16 million on this account
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## **BUSINESS OVERVIEW**

### **Tyre Cord Fabric\***

*\*Comprises Nylon Tyre Cord Fabric and Industrial Yarns*

#### **Financial performance**

Revenues from the Tyre Cord Fabrics stood at Rs. 1,248 million compared with Rs. 1,313 million. The PBIT from this business declined to Rs 72 million from Rs 164 million, primarily due to irrational pricing pressures by Chinese manufacturers that continued during the quarter and the increase in raw material costs. The Company believes that it is one of the most efficient producers of Tyre Cord in the world, and for that reason it has been able to sustain its operations in an adverse operating scenario. Recent policy initiatives on this account have been taken forward by the Government of India, which should help in creating a more level and fair playing field for domestic and international players in this business segment.

#### **Market overview**

The Company primarily manufactures Nylon 6 Tyre Cord Fabric which is used to manufacture all categories of bias tyres. The demand outlook continues to remain strong, largely driven by growth in India, China and SE Asia. The bus and truck tyres segment accounts for 70% of total tyre cord consumption. A possible threat to NTCF business comes from radialisation of this segment. Currently, radialisation level in bus and truck tyres is still at a nascent stage at only 2% in India. The demand outlook for nylon tyres continues to be very strong and such tyres are likely to maintain high level of market dominance over the foreseeable future.

#### **Market position**

SRF is the 7th largest manufacture of Tyre Cord in the world and it continued to maintain its status. It also continued to retain its leadership position in the domestic market with about 38% market share. The Company enjoys stable customer relationships with all leading tyre manufacturers in the country, based on the quality of its products and its commitment to customers. Imports have the second largest market share in the domestic market. The Company has been able to maintain its market share despite irrational competitive pressures from Chinese suppliers.

#### **Expansion plans**

The Company is focusing on balancing its NTCF operations across the manufacturing chain to capture increased value through out the production process. Towards this end, SRF is expanding its yarn production capacity in the Tyre Cord Fabric business at its Gwalior plant at a cost of Rs 1.07 billion. SRF is also undertaking dipping de-

bottlenecking initiatives at its facility in Manali. The total investments currently planned in the Tyre Cord business until the next financial year is Rs 1.2 billion. The expansions / de-bottlenecking initiatives are expected to be completed in Q1 FY2006 and should start contributing to the Company's operations in Q2 FY2006.

These expansions are being implemented at relatively low capital costs leading to better payback on additional investments in this business.

### **Outlook**

The demand outlook for the Tyre Cord Fabric remains encouraging, although pricing pressures due to Chinese competition and higher input costs continue to be the key challenges. Through operating efficiency implementation programmes, and enabled by Government policies that promote a fair playing field for local and international players in this segment, the Company should be able to improve the quality of its operating and financial performance of this business going forward in the current year.

### **Chemicals Business\***

*\*Comprises Refrigerant Gases and Chloromethanes*

### **Financial performance**

Revenues from the chemicals business increased by 6.2% to Rs 606 million from Rs 570 million. The PBIT was higher by 20.4% to Rs 205 million from Rs 170 million. The direct capital employed in this business is at Rs. 1,044 million indicating a PBIT return ratio of 78% (Rs 205 million X 4) on an annualized basis.

### **Market overview**

The market outlook for the Company's refrigerant gases and chloromethanes continues to be robust. This is driven by greater demand in the refrigerant gases business from the air-conditioning and refrigeration segments and in chloromethanes from the pharma and the agrochemicals sectors.

The Company has already focused on developing environment friendly substitutes which should allow SRF to have continued business visibility over a longer-term period.

### **Market position**

In the refrigerant gases business the Company continues to maintain local leadership with a 40% market share, supplying its products to leading global and domestic air-conditioning and refrigerant product companies operating in India. Internationally,

the Company is exporting its refrigerant gases to over 55 countries including US, France, Singapore and Thailand.

In the chloromethanes business, the Company is a preferred supplier to leading pharma and speciality companies in the country. In this business the Company has created a sharp competitive edge for itself through high level of production efficiencies, managing plant investments at lower levels and operating with lower manpower and overhead costs.

### **Expansion plans**

The Company has developed the capabilities to manufacture new generation refrigerant gases - R 32 / R 134a and investing around Rs 400 million to set up the manufacturing facility.

The Company has also initiated its entry to manufacture pharma chemicals and intermediates for the pharma sectors. The products identified by the Company are related to its existing strength in halogenation. The Company has invested Rs 230 million in this business and its multi-purpose plant is capable of producing broad range of pharma chemicals. The Company has started seeding the marketplace with 4 products and a few more products are already in the pipeline. Given the Company's skills in fluorine chemistry and its expertise to handle critical products, SRF is confident of encouraging growth of this business in the longer term. Currently, the business is in an establishment phase and therefore the contribution to operations is limited.

### **Outlook**

The chemicals business is likely to deliver continued growth in the current year, and will gain further momentum once its new environment friendly products are introduced in the market next year.

### **Industrial Fabrics\***

*\*Comprises Belting and Coated Fabrics*

### **Financial performance**

The industrial fabrics business delivered a revenue increase of 41.3% to Rs 316 million compared with revenue of Rs 224 million in the corresponding quarter last year. The increase in revenue has primarily been driven by higher production and sales volumes. The PBIT performance of this business was also substantially better with a PBIT increase of 142.5% to Rs 31 million compared with Rs 13 million.

## **Market overview and position**

The belting fabrics requirement is primarily for conveyer belting applications for industrial usage in sectors such as coal, steel, cement, agriculture, etc.

SRF is the 4th largest independent converter within this sector globally. SRF is a domestic leader in belting fabrics with around 67% market share. Most of the international belt manufacturers in US and Europe are increasingly looking at Asian manufacturers for their belting fabric requirements. India is becoming a manufacturing centre for belting fabrics, and international belt majors are showing high level of interest to contract with SRF as a long-term source for their raw material requirements. This provides an added opportunity to efficient producers like SRF to expand their operations in this area. The Company has a very well regarded customer base, both, domestically and internationally, and is engaged with companies such as Phoenix, Goodyear, Sempertrans.

## **Expansion plans**

SRF currently has capacity of 4,800 TPA. The Phase I of its expansion is currently under implementation at a cost of Rs 170 million. This will add additional 2,500 TPA capacity, making SRF a top four player within the sector internationally. The expansion is expected to be completed by Q4 FY2005 and should contribute to performance Q1 FY2006 onwards.

Post completion of Phase I of expansion, The Company also has plans to implement Phase II of expansion in belting fabrics business, which will add another 2,500 TPA capacity. The expansion would make SRF one of the top 3 players in this sector globally.

## **Outlook**

SRF already has a well-established position within this sector and is seeking to enhance its operations given the market opportunities available to the Company. The Company's belting fabrics business has shown rapid growth over the last few years. Being a highly efficient player in this sector, the outlook for SRF's belting fabric business remains encouraging.

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## OUTLOOK OVERVIEW FOR FY2005

The Company's performance in FY2005 is expected to be stable with a positive growth bias. The improvement in performance is expected to result from better operating results across all its business. The key challenges are in the form of irrational pricing by Chinese players and the increase in raw material costs in the Tyre Cord Fabric business. However, this business should get some relief as the Government implements initiatives that promote a level playing field for domestic and international players in this segment.

All the Company's expansion plans are under rapid implementation and are progressing on schedule. The total investment for all the plans is approximately Rs 4.0 billion. The Company had operating annual cash flows of about Rs 1.41 billion in FY 2004 and its current debt is at Rs. 2.59 billion. Given the Company's strong financial position, and the likely growth going forward, the Company is comfortably placed to fund its plans through a combination of internal accruals, operating cash flows and additional debt. The outlook for the next year (FY2006) is expected to show considerable improvement once the expansions are commissioned and they start contributing to the Company's operations.

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**Attached: Results table**

### **About SRF Limited**

SRF is the Indian market leader in Industrial Synthetic Fabrics and Refrigerant Gases. It is the 7th largest producer of Nylon Tyre Cord Fabrics, and the 5th largest producer of Belting Fabrics in the world. In Refrigerant Gases, it provides world-class products to its customers in 55 countries, including US. The Group has 6 manufacturing plants in India and abroad, with overseas operations at Dubai.

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*Note:*

*Statements in this release relating to future status, events, or circumstances, including but not limited to statements about plans and objectives are forward-looking statements based on estimates and the anticipated effects of future events on current and developing circumstances. Such statements are subject to numerous risks and uncertainties and are not necessarily predictive of future results. Actual results may differ materially from those anticipated in the forward-looking statements. SRF cannot be held responsible in any way for such statements and undertakes no obligation to publicly update these forward-looking statements to reflect subsequent events or circumstances.*

**SRF LIMITED**  
**PROFIT AND LOSS STATEMENT FOR THE QUARTER ENDED 30 JUNE 2004**

Rs. million

| Particulars                        | Q1<br>FY 2005  | Q1<br>FY 2004  | Shift<br>%    |
|------------------------------------|----------------|----------------|---------------|
| Net Sales / Income from operations | 2,138.5        | 2,094.8        | 2.1           |
| Other Income                       | 83.4           | 13.3           | 527.1         |
| <b>Total Income</b>                | <b>2,221.9</b> | <b>2,108.1</b> | <b>5.4</b>    |
| Total Expenditure                  | 1,870.6        | 1,689.2        | 10.7          |
| a. (Increase) / Decrease in stock  | (0.1)          | (34.6)         | -             |
| b. Consumption of raw material     | 1,274.6        | 1,235.8        | 3.1           |
| c. Staff cost                      | 109.3          | 111.2          | (1.7)         |
| d. Power & Fuel                    | 204.8          | 193.6          | 5.8           |
| e. Other expenditure               | 282.0          | 183.2          | 53.9          |
| <b>PBIDT</b>                       | <b>351.3</b>   | <b>418.9</b>   | <b>(16.1)</b> |
| Interest and finance charges (net) | 43.9           | 71.3           | (38.4)        |
| <b>PBDT</b>                        | <b>307.4</b>   | <b>347.6</b>   | <b>(11.6)</b> |
| Depreciation                       | 118.5          | 121.8          | (2.7)         |
| <b>PBT</b>                         | <b>188.9</b>   | <b>225.8</b>   | <b>(16.3)</b> |
| Provision for tax - Current        | 49.5           | 15.7           | 215.3         |
| - Deferred tax                     | 18.8           | 73.3           | (74.4)        |
| <b>Net profit</b>                  | <b>120.6</b>   | <b>136.8</b>   | <b>(11.8)</b> |
| Basic and diluted EPS (Rs.)        | 1.87           | 2.12           |               |
| Basic and diluted cash EPS (Rs.)*  | 4.00           | 5.14           |               |

*\*Ex-depreciation and deferred tax provision*

**SRF LIMITED**  
**SEGMENT WISE REVENUE, RESULTS AND CAPITAL EMPLOYED**  
**FOR THE PERIOD ENDED 30 JUNE 2004**

Rs million

| Particulars   | Q1<br>FY 2005  | Q1<br>FY 2004  | Shift<br>%    |
|---|----------------|----------------|---------------|
| <b>Segment revenue</b>  |                |                |               |
| a. Tyre Cord Fabric   | 1,248.0        | 1,313.0        | (5.0)         |
| b. Chemicals Business   | 605.8          | 570.2          | 6.2           |
| c. Industrial Fabric Business   | 315.8          | 223.5          | 41.3          |
| d. Others   | 0              | 0.8            | -             |
| <b>Total segment revenue</b>  | <b>2,169.6</b> | <b>2,107.5</b> | <b>2.9</b>    |
| Less: Inter segment revenue   | 31.1           | 12.7           | 144.9         |
| <b>Net Sales / Income from operations</b>   | <b>2,138.5</b> | <b>2,094.8</b> | <b>2.1</b>    |
|   |                |                |               |
| <b>Segment results</b><br>(Profit / (loss) before interest and tax from each segment) |                |                |               |
| a. Tyre Cord Fabric   | 71.6           | 163.9          | (56.3)        |
| b. Chemicals Business   | 204.6          | 170.0          | 20.4          |
| c. Industrial Fabric Business   | 30.8           | 12.7           | 142.5         |
| d. Others   | -              | (16.9)         | -             |
| <b>Total segment results</b>  | <b>307.0</b>   | <b>329.7</b>   | <b>(6.9)</b>  |
| Less: Interest  | 43.9           | 71.3           | (38.4)        |
| Less: Other unallocable expenses net of income  | 74.2           | 32.6           | 127.6         |
| <b>Profit before tax</b>  | <b>188.9</b>   | <b>225.8</b>   | <b>(16.3)</b> |
|   |                |                |               |
| <b>Capital employed (segment assets less segment liabilities)</b>                     |                |                |               |
| a. Tyre Cord Fabric   | 3,416.5        | 3,861.4        | (11.5)        |
| b. Chemicals Business   | 1,044.3        | 921.3          | 13.4          |
| c. Industrial Fabric Business   | 588.8          | 400.8          | 46.9          |
| d. Others   | -              | 30.0           | -             |
| <b>Total capital employed in segments</b>   | <b>5,049.6</b> | <b>5,213.5</b> | <b>(3.1)</b>  |
| Add: unallocable assets less liabilities  | 2,379.0        | 1,683.0        | 41.4          |
| <b>Total capital employed in the company</b>  | <b>7,428.6</b> | <b>6,896.5</b> | <b>7.7</b>    |