Business Line New Delhi P-2

SRF bets big on chemicals

INTERVIEW

Vishwanath Kulkarni
New Delhi, April 18

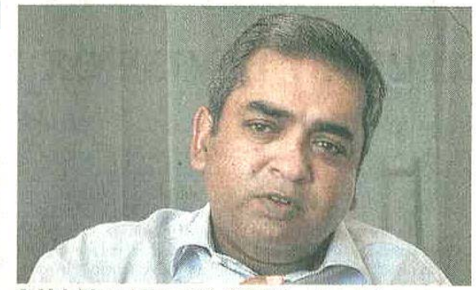
SRF Ltd, a leading producer of industrial intermediates known for its tyre cords, refrigerants and engineering plastics, is in the midst of a transition. Hurt by sluggish sales in its main business – the technical textiles, SRF is betting big on chemicals, mainly the speciality chemical segment to drive its growth. "We would like to be known as a chemicals company in three years from now," says Ashish Bharat Ram, Managing Director in an interaction with *Business Line*. Excerpts:

How has the current economic situation impacted your business?

The current economic cycle is bit of a dampener and is likely to continue for a year or so. Right now, the general demand is weak. The interest rates are expected to come down and if that happens, you'll see a pick up in investment cycle. For SRF, this is a year of heavy investments. Our hope is that by the time next year comes around and things start looking up we will have fresh capacity in place. We are committing more capital to the speciality chemicals, as we don't see a slowdown from the customers end in this segment.

So, how much are you investing and in what areas?

In 2012-13, we invested around Rs 800 crore both in global and Indian operations. This fiscal, we will be investing Rs 600 crore. Of this Rs 1,400 crore, we would have invested Rs 800 crore in expanding our chemicals business, and the rest in packaging films. Our packaging film units in Thailand and South Africa will be operational this year. In my view, 2013-14 will be a tough year because of poor demand.



Ashish Bharat Ram, MD, SRF Ltd. — Ramesh Sharma

How are you funding these investments?

Most of it is through internal accruals and there is some element of debt. Our balance sheet is underleveraged at present. We have fair amount of cash on the books. As the year goes by, we will look at raising funds.

How have you managed the downturn? Is there anything that you have done differently this time?

Don't respond in a reactive manner is one of the lessons we learnt from the slowdown in 2007-08. And now, fundamentally we have not done anything different. We are careful about our costs and there's little bit of tightening in working capital cycle. However, our investment cycle carries on as we maintain a good balance sheet, our biggest strength. **What is prompting you to focus more on chemicals business?**

In the speciality chemical segment, we manufacture intermediates that are used by agro-chemical and pharmaceutical companies. The speciality chemicals business has a current top-line of Rs 300 crore and is growing rapidly. We should get this business to Rs 1,000 crore in three years' time. We are creating a niche intellectual property oriented business, wherein the entire R&D, the manufacturing process and the product is owned by us. We also do contract manufacturing of the chemical intermediates for the global majors.

Being a large manufacturer of hydrochlorofluorocarbons (HCFC-22), how are you gearing up for the phase-out?

HCFCs will be phased out as per Montreal Protocol which will start from 2015. We will take that as it comes. For us, HCFC – which is used in domestic air-conditioning, is no more a growth product, but still a cash cow. We are exploring options how to use HCFC in different forms, partly as a feed stock for some of the speciality chemicals. There will not be an immediate impact as the phase-out would happen over eight to nine years. There is another refrigerant R125, which is replacing HCFC. We probably see the demand for R125 going up from 2015. We could look at getting into R125 by converting our existing HFC-134a facility in Bhiwadi.

How is the transition from the tyre-cord or the technical textiles business?

I don't want to use the word transition as one would get the feeling that we are exiting the business. SRF has been known as a technical textiles company. I would visualise that we would be known as chemical company in three years from now. The technical textiles business has not grown in the same way as the chemical business. Textile is the foundation business and I would have been happier with higher returns. But, it is chemicals which is giving us an opportunity for higher returns. Within technical textiles, our investment in tyre cord has come down and we are looking at newer areas – the laminated and coated fabrics, which are used applications in tarpaulins, awnings, soft tops for jeeps, tensile structure.

How is the tyre cord business doing?

Last year the business was flat and we expect the same this year. Truck movements are down and the biased tyres segment where the nylon cords are used is more or less flat. Partly because of the mining ban, the biased tyre demand is flat and the removal of ban may kick start the growth process. The polyester cord, used in radial tyres, has seen a slow growth due to slowdown in automobile segment and has been generating losses for the past two years. Unless demand picks up we don't see any change there. The tyre cord business accounts for 50 per cent of our revenue and could come down to 30 per cent in three years.