

Management Discussion & Analysis



In the following pages, the Management will provide its perspective on the operating and financial performance of the Company during FY 2021 - '22 and an outlook of the business performance in the coming years.

Businesses

SRF Limited is a chemical-based, multi-business conglomerate engaged in the manufacturing of industrial and specialty intermediates. The Company is widely recognised and well respected for its R&D capabilities globally, especially in the niche domain of chemicals. SRF Limited is a market leader in most of its business segments in India with a significant global presence. The Company has operations in four countries namely India, Thailand, South Africa, and Hungary. SRF has commercial interests in more than ninety countries and classifies its businesses as Technical Textiles Business (TTB), Chemicals Business (CB), Packaging Films Business (PFB), and Other Businesses.

Technical Textiles Business

FY 2021 - '22 started on a difficult note with lockdown restrictions due to the second wave of COVID-19. However, the Technical Textiles Business (TTB) continued to operate all its manufacturing plants with strict adherence to safety measures resulting in top-notch product quality.

In addition, the Business faced supply chain challenges, but no plants were shut down due to shortage.

Tyre Cord Fabrics (TCF)

Nylon Tyre Cord Fabric (NTCF) segment witnessed strong demand during the first six months of the year due to pent-up demand from replacement and OEM markets. However, in H2, the market witnessed steep decline because of low original equipment (OE) tyre sales and a subdued replacement market. This led to lower capacity utilisation of TCF in H2 FY 2021 - '22.

Belting Fabrics (BF)

Steel, cement, coal, and power generation industries are key end-user industries for the Belting Fabrics segment. Each of these industries experienced high growth in FY 2021 - '22. These market dynamics led to a significant increase in business volume. The belting fabrics segment also commercialised a few key high-end Value-Added Products (VAPs), which contributed to the Business delivering its best results in FY 2021 - '22. Furthermore, the BF segment completed its approved capacity expansion projects in FY 2021 - '22.

Polyester Industrial Yarn (PIY)

The Polyester Industrial Yarn (PIY) segment achieved increased volume in FY 2021 - '22. Despite an unfavourable product mix, the performance of the segment remained stable. PIY segment will further consolidate its position in FY 2022 - '23 and focus on profitable product sales mix.

Outlook

In FY 2022 - '23, all trends point to a positive outlook for the Indian economy, infrastructure development,

and agricultural growth. This is likely to have a positive affect on the performance of the Technical Textiles Business. We expect an improvement in demand & hence enhanced capacity utilisation.

Chemicals Business

The **Chemicals Business** comprises two different product segments, namely **Fluorochemicals** and **Specialty Chemicals**.

Fluorochemicals

Refrigerants & Propellants and Industrial Chemicals

FY 2021 - '22 has been a volatile year, with many uncertainties throughout the year. The year started on a positive outlook, which was soon hit by COVID-19 second wave, semiconductor chip shortage, supply chain issues, force majeure by suppliers, among others. This impacted the domestic refrigerant market negatively. However, the international markets remained strong throughout the year, and we were able to leverage on this opportunity, resulting in our exports sales going up significantly.

The industrial chemicals market witnessed growth due to an expansion in the pharma and agrochemicals

segments. SRF was able to maintain its share and launched one new product early in the year. Dymel®/ Propellants witnessed an increased market share along with entry in new geographies.

Both our sites had stable and safe operations throughout the year. Regardless of various negative external factors, the overall business performance has been stable and higher than last year.

Outlook

Despite disrupted recovery, higher inflation, rise in energy and raw material prices, supply chain bottlenecks, we anticipate an increase in demand on account of pent-up refrigerants requirement in the domestic market and in the industrial chemicals segment.

Exports are likely to remain stable. More specifically, in the United States, with our current reasonable business share and a positive market outlook, we expect to register healthy performance, going forward.

Overall, the Business is anticipated to improve its performance with the commissioning of new plants like CMS, PTFE, along with other cost improvement initiatives including supply chain stabilisation.



Specialty Chemicals Business

In FY 2021 - '22, the Specialty Chemicals Business (SCB) maintained its growth momentum, despite being impacted by the 2nd wave of pandemic, which resulted in challenges such as availability of manpower and other resources. Nevertheless, both sites managed uninterrupted production. In the later part of the year, the Business encountered challenges, such as rising crude prices, logistics issues, and global shortage of some input material that increased the prices of key raw materials required in various processes.

The Business focussed on the customers' key products and their developmental project requirements, while ensuring the production capacities were optimally utilised during the year. This ensured continuity of customers' supply chain. The synergetic effort of all the teams ensured that even in challenging times, the Business maintained its growth trajectory and continued advancing on its key strategic priorities.

The agility demonstrated in supplying some critical and complex intermediates in challenging times was lauded by all our customers. Demonstration of operational excellence by both the sites also helped the Business successfully convert market opportunities into commercial propositions.

Furthermore, we continued our 'Innovation and Technology Leadership' journey by launching several new agrochemical and pharma intermediates. In addition, we also enhanced production capacities of several plants at both the sites, while reducing consumption norms of some raw materials, thereby offsetting the impact of higher raw material prices to some extent.

The Business continues to evaluate its capabilities vis-à-vis the market needs and takes measures to secure its ability to deliver complex specialty products to meet the customers' requirements. During the year, we enhanced our market positioning by commissioning three new dedicated plants.

During the year, SCB secured the Board's approval to build its fourth Multipurpose Plant and a new Pharma Intermediates facility, among other new upcoming facilities at Dahej, Gujarat. The Business continues to make investment towards safer, cleaner,



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and leaner operations, and further strengthen its sustainability initiatives.

Outlook

The Specialty Chemicals Business remains focussed on agrochemical and pharmaceutical segments, where it collaborates with major global innovators for process development, commercialisation, and production of complex, new-age molecules having downstream application in agrochemical and pharmaceutical segments.

With sustainability and environment at the heart of product development, the Business will continue in its endeavour to deliver better value to its customers. We remain committed to invest in emerging and futuristic technologies, while focussing on operational excellence to grow sustainably.

Chemicals Technology Group

The Chemicals Technology Group (CTG) has been instrumental in bringing path-breaking technologies for new products' development and introduction of new chemistries for the growth of the Fluorochemicals and Specialty Chemicals Businesses.

During the year, CTG continued to boost its capabilities and added new technologies, to support the Businesses. The centrepiece of the sustained growth momentum was technological advances and breakthroughs achieved by our team of researchers and scientists. Today, CTG has transformed into the innovation and technology leadership centre at SRF, developing a variety of new technologies and platforms to bolster SRF into next-level technology play.

For over two decades, CTG has enabled the Business growth in Fluorinated molecules and now it is increasingly engaged in the development of complex non-Fluorinated intermediates. It is crucial to keep on enhancing CTG's capabilities and support systems with rising complexity in developing products and reducing timelines for delivery to market. The R&D and scale-up facilities at Bhiwadi were augmented during the year and a new R&D facility has been commissioned at Bhiwadi to achieve this. In addition, the R&D has been integrated into one location at Bhiwadi, to further improve the collaborative efforts of researchers and scientists.



R&D worked on 57 molecules and many products were successfully taken up for process development. More than 20 molecules were taken up for the scale-up studies and 70% were commercially produced in multipurpose and dedicated plants.

The dedicated R&D facilities, developmental labs, and pilot plant facilities, having many scientists and engineers are working together to achieve the innovation and technology leadership at SRF. SRF continues to invest in R&D for creating propositions for the future and Capital and Revenue expenditures of ~₹ 110 crore was spent during FY 2021 - '22.

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In FY 2021 - '22, CTG filed fifty-two patents taking the total count to three hundred and sixty-one patents filed so far. Twenty-one patents were granted in FY 2021 - '22 taking the total count of patents granted to the Company to one hundred and fourteen.

Packaging Films Business

FY 2021 - '22 has been a good year for the Packaging Films Business (PFB). Increased demand for food packaging accompanied by hard work and passion of the team and our 'Easy To Do Business With (ETDBW)' philosophy, helped the Business achieve its best-ever performance.

All plants maximised their production, kept costs under control and created their own benchmarks. We could achieve our highest ever output of almost 3,07,000 MT during the year while sustaining best-in-industry cost structures. While optimising our assets to the fullest, we continuously strive to maintain a safe and healthy environment at our plants. In our journey of enhancing our Value-Added Products (VAPs) portfolio,

we launched several new products and grew overall BOPET VAP sales significantly over the previous year. Our team worked relentlessly to start the new BOPP film plant at Thailand despite severe travel restrictions and limited availability of supplier personnel and field experts on-site due to COVID-19 pandemic. Work on the upcoming BOPP film line in India is also progressing well and timely vertical start-up of this line will be an important focus area for us in FY 2022 - '23.

Even during challenging circumstances, the Business is driven by its philosophy of ETDBW, which keeps us focussed on serving our customers every day. Sustainability initiatives continue to remain amongst the topmost priorities for the Business. Recognising our commitment and contribution towards various sustainability-related initiatives, we were recently recognised with the prestigious award for Quality & Sustainability by the International Academy for Quality, a well-reputed global forum for promoting quality & sustainability initiatives.

Outlook

In recent times, several new film lines have been announced in India and globally. In future, we might witness an oversupplied market resulting in pressure on profitability. In FY 2022 - '23, SRF's primary focus will be on running its plants optimally and keeping costs under control. Our manufacturing capability in VAPs has been enhanced by the recent addition of paper metallisation and Alox coating assets and we plan to leverage our capabilities fully to further enhance our VAP portfolio. Efforts will be directed towards the vertical start-up of the BOPP line in India, both in terms of production and sales. In addition, we will continue our work on various sustainability



initiatives driven by the '3R' approach - Reduce, Reuse and Recycle. During the year, we will also keep a close watch on the macro scenario and will remain flexible to adapt our strategy accordingly.

Other Businesses

Coated and Laminated Fabrics Businesses

Coated and Laminated Fabrics Businesses were negatively impacted in the first quarter due to the situation arising from the COVID-19 pandemic. Demand for Coated Fabrics recovered during the year as restrictions on events and outdoor activities eased. SRF continued its price and volume leadership in Laminated Fabrics (LF) Business by selling at full capacity and achieving its highest-ever sales during the year. However, margins remained under pressure in LF as increase in costs could not be passed on completely to the customer due to excess supply.

Outlook

In FY 2022 - '23, we expect the demand to pick up as all restrictions on outdoor events have been lifted. In addition, with an overall revival in economic activity, the Business is anticipating healthy performance. In both the Businesses, the focus will be on increasing sales and working on various cost reduction initiatives.

Human Resources

At SRF, we ensured that we made our people feel a strong sense of security and belongingness, concern for their well-being and above all, a sense of safety, especially in their toughest times. The year began with a devastating wave of the pandemic, and the entire country grappled with it. Our prime focus at this time was to provide 'whatever' was needed by our people. From proper treatment to financial and/or emotional support to medicines to medical equipment, whatever was needed, was provided to the best of our abilities.

In the backdrop of COVID-19, financial well-being also became an important component of employee happiness and therefore, the organisation made concerted efforts to relieve this financial strain by placing increased importance on compensation and benefits, not just limited to but focussing more on COVID-related benefits such as higher insurances, access to proper medical treatment, timely and free vaccination, amongst the many other areas covered.

HR at SRF has been working with agility to reshape and automate its processes, provide custom-made decisions aligning to individual needs. To understand these individual needs even better, we reached

out to Gallup and hope to soon roll out customised solutions in areas that matter most. One such solution was the automated induction plan which was rolled out last year.

Both development and diversity have been at the forefront when it comes to the strategic agenda for the HR function. Building and sustaining diversity by making fundamental cultural changes will remain at the core of the organisational agenda till we are able to achieve desired targets in this space. On the development front, building emotional intelligence through specially-crafted programs for different people in different career stations became a key success factor. Development through special flagship journeys also picked a lot of steam leading to both acceptance and recognition of these.

Industrial Environment

The organisation's overall employee relations remained positive throughout the year. This was a result of our consistent efforts towards keeping our employees engaged. Various initiatives were implemented at the plants that encouraged participation and collaboration. We maintained a pleasant and cordial working environment across all manufacturing locations and witnessed a high in productivity at most of our manufacturing locations.

The total number of permanent employees at SRF stands at **7,389** at the close of business on March 31, 2022. Of these, **6,674** are based at our Indian locations.

Information Technology

Information Technology supported the hybrid work environment with staff working from different locations, bridging the distances very effectively through collaboration solutions. As the working practices stabilised in the new normal, the IT focus shifted to strategic growth projects and core systems modernisation this year.

The ERP system which is the main system of records and transaction processing for the Company is undergoing a generational upgrade which will provide many new-age enhancements and business benefits. As part of this project, the underlying hardware capacity was enhanced, and the database versions of all mission-critical applications were migrated to the latest versions. This provides room for the growth aspirations of the Company on reliable platforms.

The annual planning and budgeting activity is now digitised across all business units giving SRF the benefit of electronically visualising multiple scenarios as the start of the year. The monthly supply chain planning in the Chemicals Business is now fully automated with production batch planning and sourcing being optimally determined considering the market demand and the production capacity constraints, leading to optimal supply chain inventory holding and on-time availability to customers.

There were some Fin-Tech solutions deployed this year in supplier bill discounting and financial consolidation. An automated solution was deployed whereby vendors



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can auction on a marketplace to bid for early payment of their invoices. The quarterly consolidation and preparation of financial books is a time-consuming exercise. This process was It-enabled on an application which facilitated automated consolidation while consolidating the budget variance explanations and notes to accounts from the finance teams.

In the current scenario, it is important to give our new recruits a streamlined and good experience. The entire recruitment process was digitised to improve the turnaround time while improving the repository of candidates. The employee on-boarding process was also automated to ensure a uniform experience for new joiners.

Information security continues to a major focus area considering the volatile global situation. Solutions were put in place to protect and recover the SRF IT assets from a ransomware attack while also limiting its ability to spread. Automated Vulnerability management solution was put in place to discover and plug security gaps across the enterprise.

SRF will continue to invest in essential Information Technologies to keep operations running optimally while giving businesses an edge to compete globally with innovative offerings.

Community Partnerships

Building on its long-term commitment to the sustainable and inclusive growth of the community, SRF Foundation, the Corporate Social Responsibility arm of SRF Limited, expanded its scope of work and

took concrete steps in compliance with Section 135 of the Companies Act 2013 during FY 2021 - '22.

The Foundation continued to focus on the identified areas of Education, Vocational Skills, Environment, Rural Development, Disaster Management, Promotion of Arts and Culture and affirmative action on sustainable basis. Furthermore, it strengthened its Public Private Community Partnership (PPCP) model to positively affect the lives of people.

FY 2021 - '22 witnessed the strengthening of the Foundation's Education Program. SRF Foundation turns Government schools into dynamic centres of education. These schools are transformed into "Model Schools" through physical infra and digital development as well as the academic and school leadership transformation. Today, we have reached 414 Government schools across 24 locations in 12 states directly and indirectly by collaborating with likeminded partners providing quality education to more than 1,52,529 students, and training 4,401 teachers and headmasters.

To promote digital inclusion, SRF Foundation is working on KidSmart Centres, World on Wheels & GetSmart Mobile Digital Labs, Common Services Lab, and Digital Smart TV Classroom Programs in the intervention locations. In addition, the SRF Foundation is committed to turning schools into centres of innovation through future skills programs such as Tinker Coding Program, Atal Community Innovation Centers, Coding for Girls, and ATAL Tinkering Labs.

SRF Foundation undertook several new initiatives to improve the employability of people around its plant locations by providing vocational skills in partnerships with Amway India and Schneider Electric. This initiative benefited 897 school dropout youth and women from the marginalised community in FY 2021- '22. The Foundation also supported a child nutrition program through its project, 'Power of 5'.

Through its Natural Resource Management (NRM) program, SRF Foundation continued to reach the economically weaker families near its manufacturing plant in Bhiwadi, Rajasthan to improve their livelihood by adopting the watershed-based livelihood and environment conservation approach. In FY 2021 - '22, the program benefited more than 12,320 people in 35 villages around SRF Bhiwadi plant in the Tijara block where rainfall is below normal, by maintaining 206 earthen dams and ensuring the proper usage of these dams.

SRF Foundation conducted vaccination drive for more than 15,000 people, installed oxygen plants, and provided 60 oxygen concentrators for the benefit of the marginalised community around SRF plant locations.

As part of disaster management, we performed flood relief work in Gwalior, Gummidipondi and Manali locations by distributing ration kits, blankets, and food to 3,376 people.

During the year, the Foundation was conferred the CSR Times Award (Gold category) for our Rural Education Program.

Internal Control System and Internal Audit

Being an enabling function, Internal Audit & Risk Management steers and coordinates the internal controls and risk management system. It provides standard operating procedures, methods, and tools, which forms the basis for enterprise risk management and internal control process.

The Internal Audit team develops a comprehensive annual internal audit plan employing systematic approach, which is risk-based audit area identification commensurate with the size and nature of business activities of the Company. In addition, the statutory auditor assesses the fundamental suitability of



internal audit for ensuring the effectiveness of internal financial controls as part of its audit of the annual financial statements. The Internal Audit plan is approved by the Audit Committee, which also reviews compliance to the said plan. The Company has a well-documented system of internal financial controls in place commensurate with its size, scale, and complexity of operations. These controls have been designed to provide reasonable assurance with respect to recording and providing reliable financial and operational information, complying with applicable laws, safeguarding assets, executing transactions with proper authorisation, and ensuring compliance with corporate policies. The controls based on the prevailing business conditions and processes have been tested by internal/reputed external auditors during the year and no reportable material weaknesses in the design or effectiveness were observed.

The Internal Audit team also monitors and evaluates the efficacy and adequacy of internal control systems in the Company, the ERP solutions, the accounting procedures, and policies at all locations. Based on the gaps reported in the internal audit report, process owners undertake corrective actions in their respective areas and thereby strengthen the controls. Any significant audit observations and corrective actions thereon are presented to the Audit Committee.

The Audit Committee reviews the reports submitted by the Internal Auditors (both internal and external) in each of its meetings. The Company also has a robust and comprehensive framework of Control Self-Assessment (CSA), which promotes

self-compliance monitoring mechanism in accordance with laid down policies and procedures, regulatory environment through IT-enabled platform such as CSA tool and Compliance Manager.

Risk Management

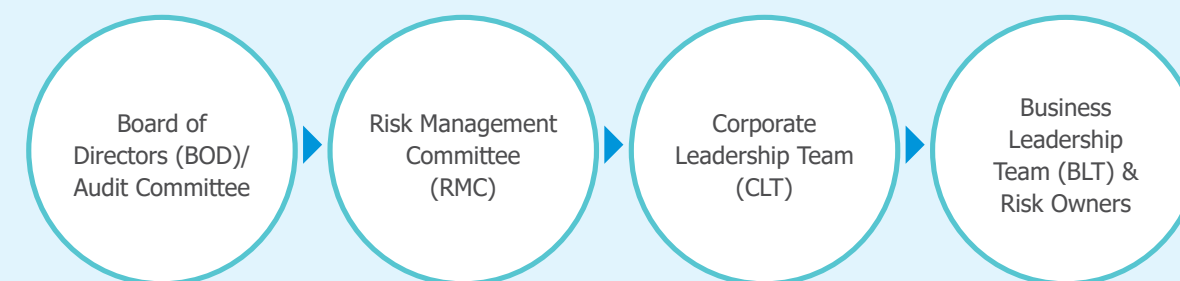
The Company has developed and implemented a Risk Management Framework, which is approved by the Board. Further, Board has constituted a Risk Management Committee (RMC) to oversee key risks and assist the Board in efficient management of risk management process.

The Risk Management Policy, inter alia, includes identification therein of elements of risk, including those, which in the opinion of the Board/RMC may threaten the existence of the Company or may have a significant material impact. Risk management process has been an integral part of the Company strategy and planning process. The Company has established a risk management framework to identify, assess and frame a response to threats that can affect its business objectives and stakeholders. Further, it is embedded across all the major functions and revolves around the goals and objectives of the organisation. The responsibility of tracking and monitoring the key risks of the business/function periodically and implementing suitable mitigation plans proactively is with the senior executives of various business/functional units.

Risk Management Process



Risk Governance Structure



The key roles and responsibilities regarding risk management in the Company are summarised as follows:

1. Board of Directors (BOD) & the Audit Committee:

- The Board of Directors holds the overall responsibility for an effective risk management system. The Audit Committee of the Board examines the appropriateness and effectiveness of the risk management system at least once a year and reports to the Board
- Review the risks that may threaten the existence of the Company
- Consider the recommendation of Risk Management Committee on Risk Management Plan / Policy

2. Risk Management Committee (RMC):

- Overview Company's risk management framework and its compliance
- Identifications of key risks which may significantly impact the performance of the Company
- Review of policy, key risks as identified by management, provide guidance to the management, and updates the Board & Audit Committee on the same

3. Corporate Leadership Team (CLT):

- Assist the Board/Audit Committee in evaluating the effectiveness of Risk Management System
- Develop risk management framework and policy
- Review key risks and mitigation action plan
- Review effectiveness of risk mitigation strategies, develop counter measure if any and update the same to RMC

4. Business Leadership Team (BLT) & Risk Owners:

- Identification, classification, and prioritisation of risks into high, medium, and low as per risk management framework
- Identify and implement risk mitigation measures
- Periodically review mitigation measures status, develop counter measures, if any
- Provide status update of key risks to CLT

Risk Classification

All the risks have been broadly classified into following categories:



Strategic Risk

Risk arising out of macro-economics and other external conditions which can significantly impact Company's strategic business decision, future aspiration, and financial performance



Financial & Reporting Risk

Financial reporting risk arises from the evolving accounting and financial reporting requirement, increasingly complex business model, etc.



Operational Risk

Risks of loss due to inadequate manufacturing process, insufficient resources, inadequate processes, safety or failure thereof, insufficient skill or people



IT and Cyber Risk

Potential loss due to non-availability of technical infrastructure or appropriate software technology, impact on data integrity, data theft or loss of Intellectual Property Right (IPR) due to compromised network security



Regulatory Risk

Risks arising out of regulatory non-compliances

During FY 2021 - '22, significant changes in the key financial ratios as per listing regulations were as follows:

Ratio	FY 2021 - '22	FY 2020 - '21	% Change	Remarks
Interest Coverage Ratio = (EBDIT - Current Tax) / Gross Interest and lease payments	19.04	12.02	58.41%	Higher operating margins and lower finance costs
Return on Net Worth = PAT / Net Worth	19.77%	14.70%	34.50%	Increase in PAT by 62.91% from ₹ 925.06 crore in FY21 to ₹ 1,507.01 crore in FY22