

## 'We have a healthy cash flow from carbon credits'

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SRF Ltd, the flagship company of the Arun Bharat Ram group, is among the pioneers in the country to cash in on the carbon credits business to part-finance its expansion and sustainable development activity. The multi-product, multi-location company saw a fall in profits and revenues in fiscal 2007-08. The company has announced substantial expansion activities for the next two years. Talking to *Business Line*, the Chief Financial Officer of the company, Mr Rajendra Prasad, outlines the company's future strategy. Excerpts:

**2007-08 saw a dip in your profits and revenues. Can shareholders expect something better this fiscal?**

2008-09 will be a very challenging and exciting year for the company. We have announced capital expenditure plans of about Rs 550 crore during the past few quarters and many of these projects will begin to bear fruit in the coming year. We have already commissioned a major part of our wind power project, and the balance is expected to be completed in a few more weeks.

Together, the layout in this environmentally-friendly sector is about Rs 90 crore. We would be able to generate about 4.5 MW of power from these projects. We will give this power to the State grid and in exchange draw power at the plant location. This will lead to an annual financial saving of around Rs 12-15 crore.

We plan to commission the new Rs 160-crore polyester film facility around September 2009. We will also set up a new 27,000-tonne line for the manufacture of PET films in PFB, another 14,400-tonne plant for producing polyester industrial yarn (PIY) used in radial tyres, conveyer belts and coated fabrics to name some of them.

**Your company is planning to set up another plant in Gujarat. What is the progress?**

We have been allotted over 1,300 acres of land by the Gujarat Government.

As of now, the final formalities to take possession of the land are underway. We have also placed the orders for machinery around three months back.

**How are you funding your expansion plans? What is your debt-equity**



*Inorganic growth is part and parcel of commercial activity, survival and growth. We should not shy away from such opportunities. - Mr Rajendra Prasad.*

**ratio?**

Right now our debt equity ratio is less than 0.5:1, which clearly reflects that our balance sheet has additional capacity to borrow. It is generally considered an ideal and conservative debt to equity ratio. We would target to achieve and maintain the same over a longer period.

Hence, we would be increasing our borrowing to part-fund the projects and meet the balance requirements from our annual cash flows. We also have a very healthy cash flow out of the carbon credits available to us.

**What do you mean by healthy cash flows out of carbon credit?**

Selling 3.8 million carbon credit units when the going price is anywhere between ₹12-15 per unit, in rupee terms it translates to so-

mewhere between Rs 300 crore and Rs 400 crore.

We had decided to set up a plant to reduce carbon emissions as far back as 2004.

The United Nations Framework Convention on Climate Change (UNFCCC) approved our project to generate 3.8 million carbon emission reductions (CERs) per annum for a period of 10 years.

After the commissioning of this plant in 2005, we have been incinerating green house gas co-produced at one of our refrigerant gases plants, on account of which SRF receives CERs, which is popularly called carbon credits.

The CERs issued to SRF are bought by global buyers. We have been in the forefront in the field of clean development mechanism (CDM) and

enjoy a reputable position.

While the price of CERs in the global market fluctuates from time to time and is dependent on many factors besides demand and supply, recent trades indicate a range of ₹12-15 per CER.

Depending on the price of CER you wish to consider, the annual cash flow from transfer of CERs is substantial and helps the company not only in accelerating the growth initiatives but also to fund sustainability projects.

**What could be your new growth areas and are you looking at inorganic growth opportunities?**

We are looking for new areas in our own businesses. The chances of success are higher in areas one is familiar with and has expertise in. Thrust will be given to enhancing our global reputation, standing and footprint.

Inorganic growth is part and parcel of commercial activity, survival and growth in today's time and age. We should not shy away from such opportunities, especially for a company in our strong financial position.

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