Finolex
Cables Limited
AN IS/ISO 9002 COMPANY

NETWORKING THE INFORMATION AGE

32ND ANNUAL REPORT 1999-2000

India is riding the crest of the Communications and Information Technology revolution and Finolex has been quick to recognise and seize the tremendous new opportunities that have opened up on the IT horizon.

We take pride in contributing significantly to this revolution by conceptualizing, designing and manufacturing products like CATV Coaxial cables, Jelly Filled Telephone cables, LAN Cat5 and Enhanced Cat5 cables. Finolex also has an exclusive arrangement with Leviton, USA, for the supply of Copper / Fiber Structured cabling components. Marketed under the brand name OptiNet, we offer complete networking solutions, from design to installation. Additionally, we certify the network, and offer a 15-year performance warranty.

As the tidal wave of progress sweeps across the country, Finolex renews its pledge of 'getting people together' by manufacturing innovative, world-class products that will erase boundaries, shrink distances and make the world a smaller place.

We Also Make Cables for Every Other Part of Your Life

While Finolex moves with the times in the development of products for the information revolution, we continue to excel with our other products – retaining leadership status and increasing market share. We are the market leader in electric wires and the largest manufacturer of winding wires.

We successfully target every niche of the cable market, manufacturing world-class auto cables, heavy duty battery cables, single / multi-core flexible cables and power / control cables.

Our products also include PVC foam, rigid and roofing sheets which have gained wide acceptance across user segments.

On the brink of a watershed era in India's market forward in technology, our focus for the new millennium is crystal clear. More products. Continuous innovation. And higher customer satisfaction.

Chairman Speaks

Finolex has had yet another record year of growth in revenues and net profit. Each of our product lines namely Telecommunication, Light Duty and Speciality Cables have contributed to these gains. We have also gained substantial mileage in export of these products.

Over the years we have consistently developed and introduced new products and services to add value, improve quality, reduce cost and compress the response time to our customers. Among these were Complete Local Area Network (LAN) solutions with connectors and components; thin walled winding wires for submersible pumps and 105°C automobile wires, to name a few. To keep pace with the growth in the cable business, Finolex is leveraging its technical capabilities and combining its visionary leadership with expansion plans to deliver total cable solutions.

We are at the threshold of the "Information Age" and to keep abreast with the ever changing needs of a global economy, India is adapting itself to meet these challenges and opportunities for growth. Earlier, telecommunication served as the growth engine to shrink distances and reduce physical boundaries whilst today, convergence in technology brings voice, data and video on demand into one network. Cellular telephony and wireless communication have become the order of the day requiring customised networking designs. Finolex is capitalising on this opportunity by providing a wide range of products like Telephone, LAN, Co-axial drop and CATV trunk cables.

The Company's manufacturing facility at Verna, Goa went on stream and commenced commercial production in mid-December, 1999. Locational advantages coupled with sales tax exemption and income tax benefits will provide the Company a competitive edge in its product lines. With potential for high growth in the cable market, further capacity expansion has been planned for Light Duty and CATV trunk cables for which adjacent land has been purchased. Civil works have commenced, vendor identification completed and orders for procurement of critical Plant and Equipment have been placed. Contribution from this expansion is expected in year 2001 and will help maintain leadership in the market, expand distribution capabilities, increase market penetration and drive down unit costs.

The strategic acquisition of the shareholding of Essex Group Inc. in Finolex Essex Industries Limited, the joint venture for production of continuous cast copper rods at Usgaon, Goa, will enable availability of critical raw material on-tap leading to substantial rationalisation in inventory holdings. With this acquisition, turnover in the current fiscal is expected to cross the Rs. 1100 crore mark. Besides, the other equally important raw material PVC, is already being sourced from within the group enabling assured supply and timely and committed delivery. The above steps will make the Company better prepared to meet the challenges of WTO regulations when enforced in 2003.

Consolidation in the cable industry and the increasing application of information technology have led to radical restructuring of business models. As we enter the knowledge-based "e-economy" we need to test our business activities and acumen against these demands. In anticipation of these trends and opportunities, we have undertaken and successfully completed a corporate restructuring exercise and implemented an Enterprise Resources Planning Software Package (SAP) linking the network of branches and depots with the head office and manufacturing units. In the next stage, we plan to bring in our country-wide strong distributor and supplier network on-line, by installing "MySAP.Com", following which we will be ready to log into an e-commerce platform.

Your Company's commitment to corporate governance is as strong as always. Last year we had measured ourselves vis-a-vis the code published by the CII. This year, we have benchmarked ourselves against the new SEBI code as well. A separate section on corporate governance is featured elsewhere in the annual report.

We are proud of our achievements to-date and the people who have stood behind us in our success, brightening our future prospects. We hold in high esteem the reputation we have forged with customers, vendors, investors and the public. Demand for our products and services remain strong and the market remains robust. We have all the critical success factors in place to meet these challenges - a seasoned and committed management team, advanced technology, abundant capacity and a solid and growing customer base. **We have the skills and the people to be the best one-stop shop for all our customer needs.**

Our strategies and priorities are thus clear. We will continue to build on this excellence to make Finolex remain the fast-track entrepreneurial Company for the benefit of its customers and stakeholders.

P. P. CHHABRIA

Board of Directors

P.P. Chhabria	Chairman
B.J. Rathi	
B.G. Deshmukh	
Atul C. Choksey	
Sanjay K. Asher	
P.G. Pawar	
N.A. Kalyani	
H.S. Vachha	Nominee of I.C.I.C.I. Ltd.
D.K. Chhabria	Managing Director (w.e.f. 1.7.2000)
V.K. Chhabria	Joint Deputy Managing Director
T.M. Arsiwalla	Director – Finance
R.G. D'Silva	Company Secretary
Bankers	Central Bank of India ANZ Grindlays Bank Bank of Baroda Bank of India Banque Nationale de Paris Citibank N.A. Corporation Bank HDFC Bank Ltd. State Bank of India The Bank of Nova Scotia The Saraswat Co-operative Bank Ltd.
Auditors	B.K. Khare & Company Chartered Accountants
Solicitors	Crawford Bayley & Co.
Regd. Office	26/27, Mumbai-Pune Road, Pimpri, Pune 411 018

Directors' Report

To the Members,

Your Directors have pleasure in presenting their Thirtysecond Annual Report and Audited Accounts for the year ended 31st March, 2000.

FINANCIAL RESULTS

(Rs. in Million)

	2000	1999
Turnover (inclusive of excise)	**5760.46**	4655.56
Profit before Interest, Depreciation and Tax	**1247.80**	1104.14
Less : Interest	**151.70**	156.35
Less : Depreciation	**149.60**	87.61
Profit before Tax*	**946.50***	860.18
Less : Provision for Taxation	**240.00**	240.00
Profit after Tax	**706.50**	620.18
Surplus brought forward and other adjustments	**20.46**	17.58
	726.96	637.76

* after adjustment of loss of Sheets Division Rs. 44.04 mn.

Appropriations		
Debenture Redemption Reserve	**31.20**	31.20
Proposed Dividend	**257.53**	126.37
Tax on proposed dividend	**28.33**	13.90
General Reserve	**400.00**	460.00
Surplus carried to Balance Sheet	**9.90**	6.29
	726.96	637.76

OPERATIONS

During the year under review in terms of volume, sale of Jelly Filled Telephone Cables (JFTC) as well as Light Duty Electrical Cables recorded a growth of approximately 25%. Translated into value terms, sale of JFTC recorded a growth of over 20% whilst sale of Light Duty Electrical Cables also recorded a double digit growth of nearly 13%. Among the newer products, Radio Frequency Cables (Co-axial) registered reasonable growth both in volume and value terms.

The fall of 15% in other operating income was mainly due to reduction in interest income on deferred receivables from the Department of Telecom Services (DTS). However, other income increased by nearly 20% over the previous year.

Your Company's concentrated efforts at higher capacity utilisation coupled with a tight rein on costs have resulted in an overall improvement in the efficiency of operations which will need to be sustained to maintain and accelerate the pace of growth. However, lower average realisations meant that the full increase in the cost of inputs primarily raw materials, could not be passed on to customers thereby impacting the bottom line. Profit before Tax for the year (after accounting for operating losses of the Sheets Division Rs. 44.04 mn) was higher at Rs. 946.50 mn against Rs. 860.18 mn in the previous year. The claim of higher depreciation as a result of the newly set up Goa Unit has enabled the provision for taxation to be at the same level as that in the previous year.

Earnings per share (post bonus, post buy-back) were Rs. 20.58 as compared to Rs. 34.35 (pre-bonus, pre buy-back) in the previous year. On the other hand, book value per share stood at Rs. 159/- (post buy-back) at the end of the year compared to Rs. 315/- at the end of the previous year (pre bonus, pre buy-back).

Production of JFTC during the year (including that in the last quarter from the newly set up Goa Unit) went up from 39.00 LCKM to 49.92 LCKM and that of LDC from 341.91 TCKM to 426.50 TCKM. JFTC volumes got a boost as a result of higher allocation from the DTS and major break-through in exports, whilst the increase in production of LDC was primarily as a result of optimum utilisation of capacity and distribution network. The recently introduced Radio Frequency Cables (Co-axial) and LAN Cables have gained greater brand awareness and acceptability in the market place. Enhanced CAT5 (the only Indian manufacture to be awarded the UL certification), CAT6 cables and a wide range of components for structured cabling systems are now available to further the "system sales" concept.

Despite opening of the tender for the current fiscal in March 2000, the DTS has yet to place firm orders for deliveries during the year. Your Company continues to be a significant player in the JFT segment of the communication cables market and increased sales to private network operators and exports will enable it to further optimise capacity utilisation in the coming years.

Production of power cables declined during the year as a result of paucity of orders especially from new projects.

EXPORTS

As earlier reported, sustained efforts in exploiting the potential of the export market resulted in your Company bagging a sizeable order for export of Foam Skin Telephone Cables. During the year under review, your Company's exports increased from Rs. 62.51 mn to Rs. 108.08 mn leaving a comfortable order book position. The international markets continue to be competitive affecting price realisation for Company's exports. However, the Company's assurance of consistent quality and timely delivery, coupled with aggressive marketing in existing and newer markets is expected to result in substantial increase in exports in the current year.

CURRENT YEAR PROSPECTS & FUTURE OUTLOOK

In keeping with market needs your Company has focussed on a portfolio of products to serve the Information Age.

There is a convergence of technology taking place, bringing Voice, Data, Video, etc. all into one network and with the high growth of Internet your Company looking to the future is focusing on products which will help carry and distribute the above information which reaches the user through computers. To service this segment, your Company has tied up marketing arrangement with Leviton, USA to offer LAN cables along with their connectors to provide "total networking solution" for local area network.

With the increased usage of internet, technologies have emerged offering internet access through television in the homes. This requires high speed transmission through cable TV network and focusing on this market, your Company has increased the capacity at Urse for manufacture of Drop cables. The Company is in the process of implementing an expansion at Goa for manufacture of trunk CATV Cables (Co-axial) alongwith other products.

For the voice network, your Company has invested in a new Plant at Goa for manufacture of upto 30 LCKM of Jelly Filled Telephone cables. This plant is also equipped to manufacture Foam Skin Telephone Cables to cater to the growing domestic private network operator demand and export market.

Your Company continues to maintain its strategy of having a diversified product portfolio by making additional investments for creating capacities for Light Duty Cables with special emphasis on auto and electrical wires alongwith Trunk CATV (Co-axial) cables at the newly constructed Goa plant and thereby gradually reducing its dependence on Government orders.

In line with the increase in production capacities your Company has also expanded its sales network by setting up branch offices and depots at Calcutta, Coimbatore and Jodhpur. All branches and depots across the country have been linked to Headquarters through dedicated lease circuit lines to provide on-line information to the customers. The implementation of the ERP Software ('SAP') connecting all four manufacturing units of your Company alongwith the branches was a landmark event in its quest to provide better and efficient services.

Overall, your Company is quite optimistic in respect of the tremendous growth potential of its product lines and has planned further investments at Goa of approx. Rs. 750.00 mn over the next eighteen months.

PROJECT

As scheduled, the Company's manufacturing facility at Verna, Goa went onstream and commenced commercial production in mid-December, 1999. The facility, initially for the manufacture of upto 30 LCKM Jelly Filled Telephone Cables and upto 100 TCKM of Light Duty and Radio Frequency cables was set up in a record time of nine months from the date of breaking ground in May, 1999. Efforts are now on to stabilise production at the earliest. The unit has been duly registered with the Department of Telecom Services to be in a position to cater to new orders in the current Financial Year.

The total capital outlay at Rs. 606.00 mn which was well within the estimated project cost of Rs. 750.00 mn has been wholly financed from internal accruals. In view of the sales tax exemption benefit, your Company shall be more competitive with the above products in the market.

BONUS ISSUE OF SHARES

Following approval of the shareholders at the Annual General Meeting in September, 1999, the Company issued bonus shares in proportion of one equity share for every equity share held, capitalising an aggregate sum of Rs. 180.53 mn from the amount standing to the credit of the share premium account as at 31st March, 1999. With this, the Company's paid-up equity share capital increased from Rs. 180.53 mn to Rs. 361.06 mn.

BUY BACK OF SHARES

In accordance with Members' approval, the Company offered to buy-back upto 10% of its post bonus share capital under the Open Market method through book building process at a maximum price of Rs. 275/- per share. The offer opened on February 15, 2000 and closed on February 29, 2000. Against its offer to buy-back upto 3,610,620 shares (10%), the Company received valid offers for 1,768,339 shares (4.90%). As per terms of the offer, your Board approved the acceptance of 1,768,339 shares at the maximum price of Rs. 275/- per share aggregating to Rs. 486.29 mn. An amount @ Rs. 265/- per share (being excess over the face value of Rs. 10/- share) aggregating to Rs. 468.61 mn with expenditure on the buy-back Rs. 5.21 mn together aggregating to Rs. 473.82 mn has been adjusted from the share premium account in the books of the Company. With this, the post bonus, post buy-back equity share capital stands at Rs. 343,378,690/- divided into 34,337,869 equity shares of Rs. 10/- each.

DIVIDEND

At their meeting on April 1, 2000 your Directors had approved the payment of a millennium interim dividend of Rs. 7.50 per equity share on the post bonus, post buy-back equity share capital which was duly distributed by the Company in May 2000. The Directors after due consideration recommend that no further dividend be paid for the year and that the interim dividend be treated as the final dividend for the year. The total outgo on the dividend account is Rs. 257.53 mn (previous year Rs. 7.00 per equity share on pre-bonus, pre buy-back equity share capital absorbing Rs. 126.37 mn).

Dividend tax @ 11% payable by the Company amounting to Rs. 28.33 mn (previous year Rs. 13.90 mn) has been appropriated out of the profits.

FINANCE

During the year, the Company duly paid the second instalment of Rs. 28.33 mn towards redemption of 'E' series Non-Convertible Debentures, whilst repayment of the 'F' and 'G' series Debentures would commence from the current fiscal. No additional long term funds were borrowed during the year, whilst a constant vigil over inventories and book debts enabled the Company to keep working capital borrowings to the barest minimum despite a 24% increase in turnover. At the end of the year under review, Company's outstandings against deferred sales of JFTCs to DTS were Rs. 1106.56 mn against Rs. 1363.66 mn as at the end of the previous year. Instalments due in terms of the relative contracts have been regularly received. As an alternative and more economical source of working capital, your Company continued to maintain a Commercial Paper Programme (CPP), the peak outstandings of which were Rs. 500.00 mn during the year under review. All Commercial Paper is being redeemed on due dates and Commercial Paper outstanding as at 31st March, 2000 was Rs. 500.00 mn (since repaid). To take benefit of the low interest rates prevailing for the instrument, Commercial Paper of Rs. 500.00 mn has again been issued in the current year.

Your Company continues to be rated P1+ the highest rating to be accorded by CRISIL in respect of its Commercial Paper, whilst the rating in respect of its proposed issue of Non-Convertible Debentures has been enhanced to AA+ with effect from December, 1999.

FIXED DEPOSITS

Your Company has been accepting deposits from public and shareholders. Total amount of such Fixed Deposits as on date is Rs. 34.38 mn. As on 31st March, 2000 there were 74 deposits amounting to Rs. 6,68,000/- lying unclaimed with the Company, of which 18 deposits amounting to Rs. 1,46,000/- have since been renewed/repaid.

INDUSTRIAL RELATIONS

Industrial relations continued to be cordial during the year under review. Your Company continued to emphasise and focus on training and development of its employees at all levels. Fully equipped Learning Centres have been set up at all operating units where faculty drawn inhouse as well as from without, conduct a wide range of development programmes. Company is encouraged by the positive response its programmes have received from its employees.

During the year, a fully computerised Human Resource Information Management System has been installed and is operating satisfactorily. This will provide timely and accurate information on employees, enabling appropriate response from Management to employee needs. A computerised time attendance system has also been introduced at Pimpri, to be later extended to the Urse and Goa units during the current fiscal. Participation by employees at all levels is continuously encouraged and due consideration given to their suggestions for improvement in their respective work areas and a reward system exists for accepted suggestions.

SOCIAL COMMITMENTS

Your Company's commitment to society continues to be substantial. Donations have been given to various Charitable Trusts, Research Institutions and Organisations working in the field of public health care, hospitals, child welfare, schools and the Army Central Welfare Fund. Continued support has been provided to Finolex Academy of Management and Technology at Ratnagiri which is progressing well.

With the dawn of the new millennium our country is all set to transform itself into a knowledge based society. Hope Foundation, sponsored by the Finolex Group which is active in the fields of Medical Relief and Education is the Chief Promoter of International Institute of Information Technology (I²IT) being set up at Hinjewadi near Pune to impart quality instruction in Advanced Software Development and Telecommunications. Your Company has been instrumental in supporting the laudable objectives of the Hope Foundation through substantial financial and administrative support. The Institute's broad charter includes to :

- carry out education and training in IT at a postgraduate level;
- be an on-campus nursery of software enterprises;
- actively pursue advanced research in IT, develop innovative products, technologies and services;
- create web-based education in advanced Information Technology; and
- establish a SAARC Centre for education and research in multilingual, multimedia Information Technology.

I²IT's mission is to be the world's esteemed centre of advanced education and research in Information Technology with focus on Innovation and Leadership Development.

JOINT VENTURE COMPANIES

The status of the Joint Venture companies promoted by your Company under its diversification programme is as follows:

FINOLEX TECHNOLOGIES LTD., (ERSTWHILE LUCENT TECHNOLOGIES FINOLEX LTD.)

During the year, the Joint Venture partner Lucent Technologies International Inc., USA decided to divest of their holding in the Joint Venture following a restructuring of their business entities in India. The share holding of Lucent Technologies International Inc. was thus taken over by an Associate Company of your Company. Consequent to the above, the Company's name has been changed to Finolex Technologies Ltd., and your Company retains its original holding in the Joint Venture.

During the extended financial year to September 30, 1999 (18 months) the Company recorded a turnover of Rs. 342.84 mn against Rs. 102.25 mn in the 12 months of the preceding financial year. In quantitative terms, the Company sold 3918 kms of Fibre Optic Cables during the extended financial year against 828.50 kms in the previous year.

FINOLEX ESSEX INDUSTRIES LTD. (GOA)

This Company, which had gone into commercial production from October 30, 1998, made up its first working results upto September 30, 1999 reporting a loss of Rs. 56.60 mn. During this period, the Company produced 25,367 MT and sold 19,059 MT of continuous cast copper rods (CCR). In the first six months of its current fiscal, the level of production and sales has been maintained at over 2000 MT per month and is now targeting at over 3000 MT per month for the remainder of the year.

Margins however continue to be negative mainly on account of excess capacity of CCR manufacture in the country resulting in price under-cutting. The fortunes of the Company have also been affected by the persistent anomaly in the customs duty structure for copper concentrate and CCR where despite numerous representations, the Union Government has not aligned the rate structure.

During the current year, the Company has taken several pragmatic steps towards improving performance which include sourcing of raw materials at competitive prices; a tighter control on inventory levels and more effective treasury management to contain the cost of financing. The Company is confident that the positive impact of these efforts would enable it to attain breakeven levels/turn profitable in the later half of the current financial year.

In May 2000, Essex Group Inc. the Joint Venture partner offered to sell its 50% holding in the Joint Venture to your Company which presently holds the other 50%. The consideration payable by your Company to SX Mauritius Holdings Inc. the registered holder for acquisition of their holding of 12,240,000 shares in the Company has been settled at US$ 1.00 mn. Thus your Company would hold 100% of the equity share capital in Finolex Essex Industries Ltd., making it a wholly owned subsidiary of your Company following which, it is proposed to amalgamate the Company with your Company. The amalgamation is expected to bring about several advantages, both to the unit and your Company in particular, in that with the recent setting up of the cable unit at Goa, the growth in the usage may itself provide breakeven volumes from captive consumption. The unit is also expected to benefit in lowering its administrative and financial costs on the back of your Company's standing in the market place.

SUBSIDIARIES

FINORAM SHEETS LIMITED (since amalgamated with the Company)

It will be recalled that your Company had acquired all of the 5,353,860 equity shares held by the erstwhile Joint Venture partner in Finoram Sheets Ltd., thereby making it a wholly owned subsidiary of your Company. At the Extraordinary General Meeting held on January 18, 1999, Members had also approved of the arrangement embodied in the Scheme of Amalgamation of Finoram Sheets Ltd., with the Company pursuant to which a Petition u/s 391 of the Companies Act, 1956 was presented and admitted in the High Court of Judicature at Bombay. On January 11, 2000, the Hon'ble High Court passed an Order sanctioning the Scheme, as a result of which the erstwhile wholly owned subsidiary has been amalgamated with the Company and has since become the Sheets Division of your Company.

Operations of this Division during the year under review reflects a turnover of Rs. 121.19 mn against Rs. 94.18 mn in the previous year. Following the amalgamation and a restructuring of the administrative set-up, it has been possible to contain certain costs resulting in a lower loss for the year at Rs. 44.04 mn against Rs. 95.54 mn in the previous year.

The Company received the Tariff Advisory Committee (TAC) approval for its Finroof range of sheets which now places it on par with other conventional materials. There appears to be a growing acceptance of the product in the market place and the Company is encouraged by several prestigious orders executed including from L&T, HLL, etc. and a trial order from the Railways.

Following amalgamation of Finoram Sheets Ltd. with your Company, the Accounts of your Company reflect the effect of amalgamation as well as operations during the current financial year.

CREOLE HOLDINGS COMPANY LTD. AND FINOLEX FINANCE LTD. are the other two wholly owned subsidiaries of your Company and carry on the business of non-banking financial institutions. Both companies hold certificates of registration granted by the Reserve Bank of India in this regard.

The statement pursuant to Section 212 of the Companies Act, 1956 together with the Annual Reports in respect of these companies is attached to the Accounts.

FINOLEX TELECOMMUNICATIONS LIMITED (Upto March 30, 2000)

In terms of the proposal placed before the Members at the last Annual General Meeting held on September 7, 1999, the Company's new manufacturing facility at Goa was to be leased/hired to Finolex Telecommunications Pvt. Ltd., on its becoming a wholly owned subsidiary of your Company. Accordingly, on September 15, 1999 your Company acquired the entire paid-up equity share capital consisting of 20 shares of Rs. 10/- each in Finolex Telecommunications Pvt. Ltd. as a result of which it became a wholly owned subsidiary of your Company. However, on a reconsideration of the matter including the fact that all statutory approvals for setting up and operation of the Goa Unit had been received in the name