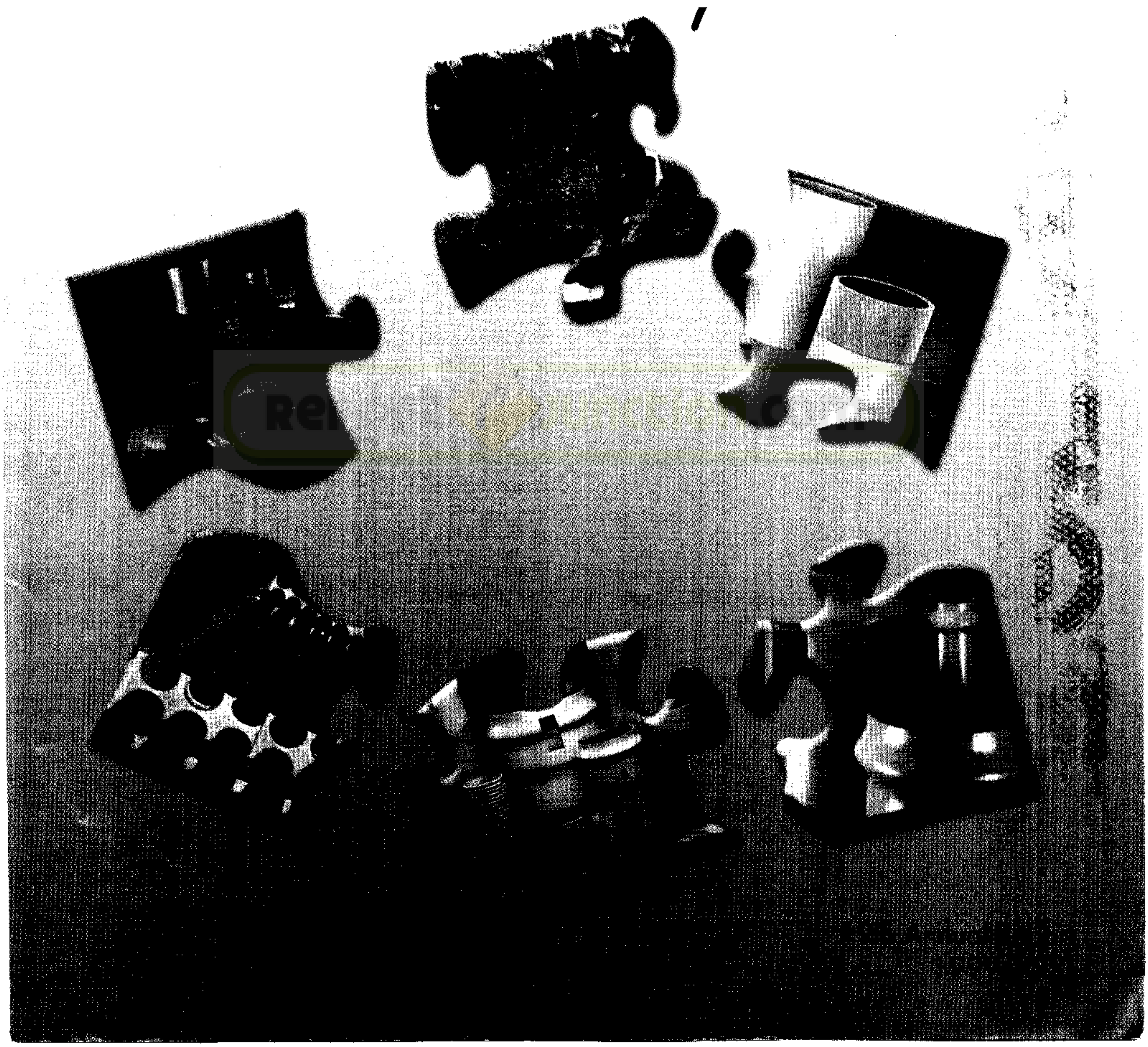
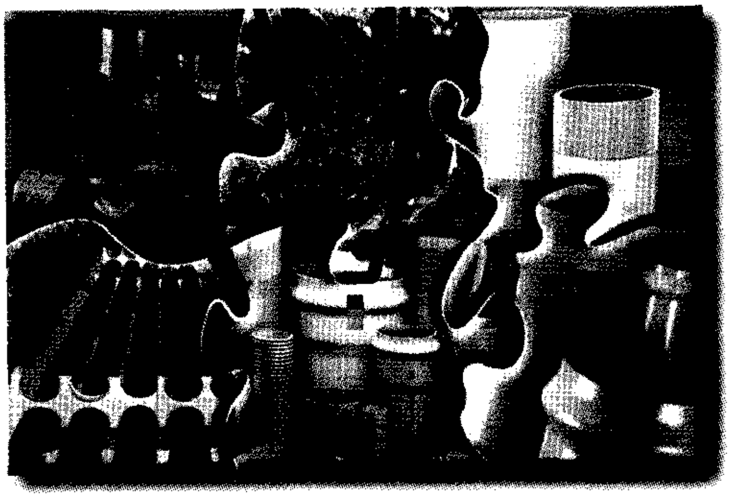
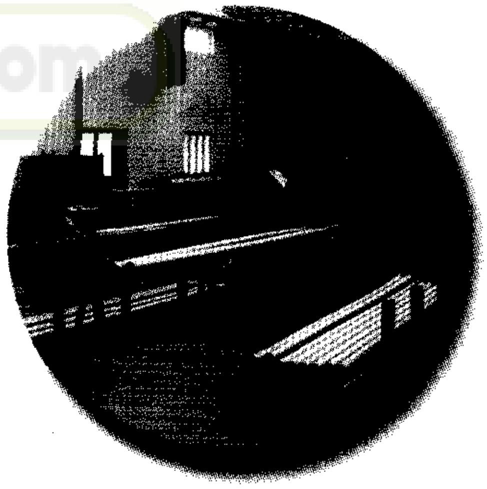
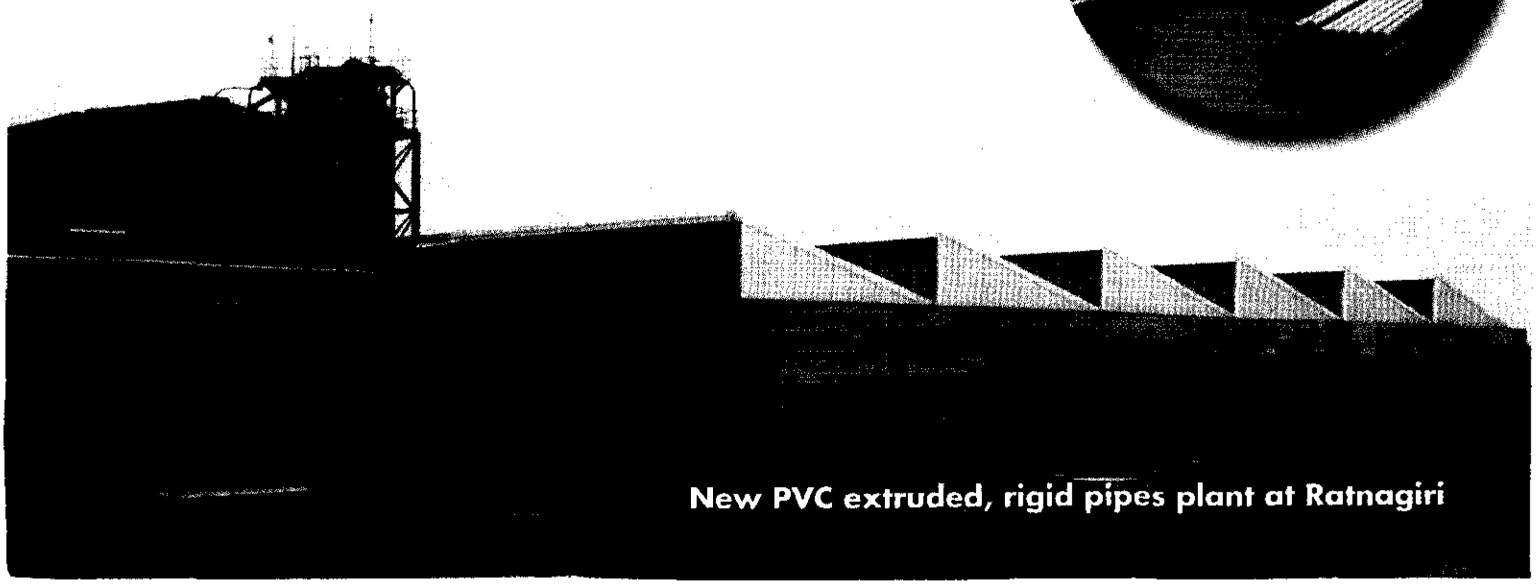
Finolex
Industries Limited





We offer a wide range of PVC pipes for use in agriculture, telecom, housing, etc.





New PVC extruded, rigid pipes plant at Ratnagiri

BOARD OF DIRECTORS

Mr. P.P. Chhabria
Chairman

Mr. M.G. Bhide

Dr. Vasant Gowariker

Mr. S.N. Inamdar

Dr. N.A. Kalyani

Mr. S.S. Marathe

Mr. G.R. Pai

Mr. K.P. Chhabria
Managing Director

Mr. Prakash P. Chhabria
Deputy Managing Director

Mr. J.S. Arora
Wholetime Director

Mr. S.S. Dhanorkar
Wholetime Director

Mr. P.B. Parasnis
Vice President (Finance) &
Company Secretary

Bankers

Bank of India
Bank of Baroda
Bank of Nova Scotia
Bank of Maharashtra
Citibank N.A.
Corporation Bank
IndusInd Bank Ltd.
State Bank of India

Auditors

B.K. Khare & Company
Chartered Accountants

Solicitors & Advocates

Crawford Bayley & Company

Registered Office

D1/10, M.I.D.C., Chinchwad,
Pune - 411 019.

Directors' Report

To the Members

Your Directors have pleasure in presenting their Nineteenth Annual Report and Audited Accounts of your Company for the year ended 31st July, 2000.

Financial Results

(Rs. in million)

	1999-2000	1998-1999
Profit before Depreciation & Finance Charges	**1469.904**	1451.835
Finance Charges	**449.294**	511.915
Profit before Depreciation	**1020.610**	939.920
Deductions for		
(i) Depreciation	**397.268**	397.595
(ii) Provision for Taxation	**60.903**	62.262
Profit after Depreciation and Taxation	**562.439**	480.063
Add		
Surplus/(Deficit) of Profit and Loss Account of earlier year	**135.182**	(108.443)
Transfer from Debenture Redemption Reserve Account	**578.835**	—
Appropriations		
(i) General Reserve	**650.000**	30.000
(ii) Dividend	**223.083**	185.980
(iii) Corporate Dividend Tax	**24.539**	20.458
(iv) Balance carried over to Balance Sheet	**378.834**	135.182

Operations

Reporting year

The operational performance is summarised below :

	1999-2000	1998-1999	% Comparison
Income (Rs. million)	**7,926.383**	6,476.578	22.39
Profit before tax (Rs. million)	**623.342**	542.325	14.94
Cash earnings (Rs. million)	**959.707**	877.658	9.35
PVC			
Production (MTs)	**132,834**	126.558	4.96
Sale (MTs)	**123,668**	128.805	(3.99)
Sale (Rs. million)	**5,701.420**	4.377.580	30.24
PVC Pipes and Fittings			
Production (MTs)	**24,508**	28,404	(13.72)
Sale (MTs)	**24,355**	28,352	(14.10)
Sale (Rs. million)	**1,536.647**	1,517.532	1.26

The year under review, in the overall context, was another good year in succession for the Company. The profit before tax and cash earnings for the year went up in comparison with the previous year. The higher sales realisations for PVC and pipes are reflected in the higher income over the previous year. The Company was able to increase the domestic selling price of PVC in line with the increase in international price to quite an extent. However, beyond a certain limit this price increase started affecting the demand as the down stream products were not able to push through the price increase in the market. The PVC demand was further affected due to lower consumption by the Pipe Industry for various reasons. The combined effect of these factors was negative growth of about 10% in quantitative terms in the PVC consumption in the country. The Company was able to adjust its policies in time to suit the varying market requirements and thus could contain the negative impact on sales quantity to about 4% over previous year.

For the Pipe industry, the year proved to be atypical year for various factors such as :

(i) There was a slow down in the government's spending on development schemes prior to the central and state elections as per the directives of the Election Commission.

(ii) There was a paucity of funds with some state governments.

(iii) The central government had initiated a process to bring about uniformity in sales tax rate all over the country. At the meeting of the Finance Ministers of all the states, the minimum sales tax rate had been initially fixed at 12% which meant increase in sales tax levy in many states. The representation by the industry resulted in lowering down the said minimum sales tax rate to 8% after a time lag of about two months. The uncertainties were thus prevailing for quite some time and the off take of pipes was low during this period.

The effect of all the above factors resulted in reduction in demand for pipes. This reflected in lower sale of pipes by the Company. The Company had to adjust its production of pipes to cater to the market conditions.

The profitability of the first half could not be sustained in the second half of the year specially on account of very high feed stock prices. The Company then thought it prudent not to pass on the increased costs to the customers beyond a certain level, in the long term interest of business. In spite of the above constraints, the Company could manage to improve upon its profitability for the year over the previous year.

Current year

The Company has recorded a turnover of Rs.1174.8 million in the months of August and September, 2000 as against Rs.1168.1 million for the corresponding period of the previous year. The sales tax on pipes in Maharashtra State has now been further brought down to 5.4% during mid September 2000. The rainfall has been good for the country for the 13th consecutive year. The current year for the Company is likely to be good.

PVC Division

The year witnessed a marginal increase in the production of PVC at the Company's plant at Ratnagiri. The Company's efforts towards optimal utilisation of plant capacity and overall reduction in expenditure continued during the year. The feedstock prices which had peaked during the second half of the year under review have shown declining trends during the past two months. The PVC market is gradually returning to its normalcy. The downstream applications like pipes and fittings, packaging material, electrical cables, footwear, etc. are signalling growth in consumption. New application of PVC namely, PVC sheets and roofs, is finding growing acceptance in the market and has opened up another avenue for consumption. The 2000-2001 Union Budget has brought down excise duty on PVC by 8% which augurs well for increase in its usage. The PVC industry is expected to show positive growth during the current year.

The demand-supply position for PVC in India is currently well balanced. International market for PVC continues to be buoyant with demand in USA and Europe remaining very strong. As very little new capacity is being added internationally, the current prices are expected to hold. Since the long term prospects appear to be bright, the Company is working on expanding the PVC capacity.

To meet this objective, the Company has recently commissioned an additional EDC cracker which is expected to add about 10% to the production capacity. Another equivalent production increase is being considered by importing and converting VCM to PVC. VCM import appears to be a promising route since VCM is now plentifully available internationally. The incremental capital outlay on EDC cracker has been, and on VCM conversion facility is expected to be, modest and is estimated to bring down the per ton fixed cost.

Your Directors are pleased to inform that on 16th September, 2000, the Company was honoured with the prestigious 'Safety Award' by National Safety Council, Maharashtra Chapter for achieving lowest accident frequency rate under Chemicals & Fertilizers Industry Group, during 1999. There was no loss time accident in the year 1999 and also in the past five years. The Company has also achieved eight million man hours of working without any reportable accident since May, 1995. These are commendable achievements. This has been possible with continuous imparting of training to, and vigilance of, the Company's safety staff as well as good safety awareness and proactive approach to prevent accident by all the employees.

The Company has kept on hold its proposed captive *co-generation power project* for various reasons including due to ambiguity in government policies and frequent changes therein.

The Bharat Petroleum Corporation Limited's use of the LPG import, storage and evacuation facilities set up by the Company is progressing normally. The Company is looking at other similar opportunities for further utilisation of its Open Sea Cryogenic Jetty on commercial basis.

Pipe Division

Your Directors are pleased to report that the Company has fully commissioned its new PVC extruded, rigid pipes plant at Ratnagiri. The plant capacity is 10,000 MTs per annum. Thus your Company has now two PVC pipes plants, one at Chinchwad, Pune and the newly set up plant at Ratnagiri next to the PVC plant.

As the members are aware, the Company is the largest PVC pipe manufacturer in India and continues to maintain its leadership. The Company is the first one to be awarded the IS/ISO 9002 certification, which has been reconfirmed for another term of three years. The Company offers probably the widest range of PVC pipes and fittings in India covering diverse applications in agriculture, housing, telecommunication, industry, etc. The range includes agricultural pipes and fittings, plumbing pipes, casing pipes for bore wells, SWR pipes and fittings and telephone ducting. Your Company has been in the forefront in bringing new technologies in PVC pipes to the Indian market. Your Company was the first to introduce in the Indian market the revolutionary concept of 'Ringfit Pipes' wherein a unique elastomeric sealing ring is used for jointing pipes. Due to easy and convenient handling, Ringfit Pipes are already replacing some of the traditional piping material. Ringfit Pipes have now been well accepted in the public and private sectors.

The governmental support to agricultural sector has been stepped up. Housing sector is also gaining increasing attention and importance. There exists a vast scope for substitution of existing GI, CI and cement pipes and in new usage, a preference is being given to PVC pipes. The Company is confident of the growth potential of the Pipe Industry and therefore intends to add 16,000 MTs of extrusion capacity to its new plant at Ratnagiri. With about 30,000 MTs of extrusion capacity already available at the Pune plant, the total pipe extrusion capacity of the Company will eventually go upto 56,000 MTs per annum.

The Company has developed new type of pipes called 'Sewer Pipes' for use in low pressure sewage application and trial runs are currently going on at the Ratnagiri plant. Thus your Company endeavours to remain ahead of the competition. The Company intends to make a foray into manufacturing of window profiles. The new products will help the Company in further improving value addition for its business.

Dividend

At their meeting held on 9th March, 2000, your Directors had approved payment of 'Interim Millennium Dividend' @ 15% (Rs.1.50 per equity share) which was 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 outgo on dividend account is Rs.223.083 million. The Company has paid dividend tax of 11% (Rs.24.539 million) on the dividend amount. The outgo of dividend and tax thereon have been appropriated out of the Company's profits for the year.

Finance

The exercise initiated by the Company to restructure its borrowings with an intention to lower the interest cost, paid rich dividend. The finance charges for the year were Rs.449.294 million as against Rs.511.915 million for the previous year, showing an effective reduction of 28% on year over year basis as a percentage of total income. The Company continues to strive to bring further reduction in the interest cost.

The Company fully redeemed its 1990 series Secured Redeemable Convertible Debentures, aggregating to Rs.1103.191 million, on their due date, namely 30th November, 1999.

Your Company has placed commercial papers which carry P1+ rating assigned by CRISIL. Your Company's medium term non-convertible debentures have been assigned AA- rating by CRISIL. The debentures are intended to be issued for replacing a part of the Company's existing borrowings.

Fixed Deposits

The Company did not accept any fixed deposits during the year under review. No deposits were outstanding as on 31st July, 2000.

Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

In terms of above Rules, your Directors are pleased to give the particulars as prescribed therein in the Annexure which forms a part of this Report.

Dematerialisation of Equity Shares

As per the directions issued by SEBI, the equity shares of your Company are required to be delivered on the stock exchange only in demat form with effect from 8th May, 2000. The Company has already signed agreements with the two existing depositories namely, Central Depository Services (India) Limited and National Securities Depository Limited (NSDL) for dematerialisation of its equity shares and has paid single time custody charges to NSDL for benefit of the Company's members.

Listing Agreement Compliance

Pursuant to the requirements of the Listing Agreement, it is stated that :

a) The Company's securities are listed at Pune Stock Exchange Limited; The Stock Exchange, Mumbai; National Stock Exchange of India Limited; The Delhi Stock Exchange Association Limited and Bangalore Stock Exchange Limited. The Company has paid annual listing fee to each of these stock exchanges. Their addresses have been given in the notes to the notice of the Nineteenth Annual General Meeting of the Company.

b) Y2K compliance : The System roll over to the year 2000 was glitch free.

Corporate Governance

Your Company knows the importance of good corporate governance which helps in building market confidence and improving investor protection. Adherence to the value system established through good corporate governance also inspires the trust and confidence in the Company of its customers, suppliers, lenders and the regulatory authorities. At the behest of the Securities Exchange Board of India (SEBI), the stock exchanges have brought in a new clause in the Listing Agreement introducing a comprehensive Code on Corporate Governance. The Code is required to be implemented by the Company latest by 31st March, 2002. The Company, however, will endeavour to voluntarily comply with the Code well in advance of the due date.

Industrial Relations

Industrial relations continued to be cordial during the year under review. Your Company recognises the importance of imparting training on a regular and continuous basis to its employees. It helps in bringing together all employees, cutting across the organisational hierarchy, at an informal platform and building confidence amongst them. It provides opportunities to all employees for self development and growth. Accordingly, your Company held on a regular basis training and development programmes for its employees at all levels. Employees are always encouraged to give their valuable suggestions for improvement in their respective work areas.

Directors

Dr. Vasant Gowariker and Mr. M.G. Bhide were appointed as Additional Directors on 21st August, 2000. They hold office upto the date of the ensuing Annual General Meeting of the Company. Notices have been received from members of the Company proposing Dr. Gowariker and Mr. Bhide as candidates for the office of Director of the Company. The Directors recommend their appointment.

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Mr. J.S. Arora, Mr. S.S. Dhanorkar and Mr. G.R. Pai retire by rotation at the Nineteenth Annual General Meeting of the Company. Mr. Arora and Mr. Dhanorkar offer themselves for reappointment.

Mr. G.R. Pai, though eligible, does not intend to seek reappointment. The Directors place on record their sincere appreciation of the services rendered by Mr. Pai during his tenure of office as Director of the Company.

Auditors

M/s. B.K. Khare & Company, Chartered Accountants, retire as Auditors of the Company at the conclusion of the Nineteenth Annual General Meeting and are eligible for reappointment.

Particulars of Employees

Information as per Section 217(2A) of the Companies Act, 1956 read with the Rules framed thereunder forms a part of this Report. However as per the advice received by the Company pursuant to the provision of Section 219(1)(b)(iv) of the Companies Act, 1956, the Report and Accounts are being sent to the shareholders of the Company excluding the statement of particulars of employees under Section 217(2A) of the Act. Any shareholder interested in obtaining a copy of the said statement may write to the Company Secretary at the Registered Office of the Company.

Social Activities

During the year, the Company organised a medical camp for eye testing, actively participated in polio eradication programme, held a primary teachers' conference for promoting English language and rendered assistance to a rural school for building extension, for the benefit of the villages near Pawas (Ratnagiri) where the PVC plant is situated.

Firefighting and safety staff of the Company ably assisted the local authorities of Ratnagiri in controlling two major fires which had broken out in the Ratnagiri city. The timely help provided by the Company was appreciated by the citizens.

The Company continued with its tree-plantation activity and planted additional 1500 trees within the precincts of the PVC plant and housing colonies. The total trees planted so far are **over 40,000**; thus contributing to maintenance of ecological balance and promoting environmental protection.

Appreciation

Your Directors place on record their gratitude to the financial institutions, banks, customers, suppliers and shareholders of the Company for their continued cooperation and valuable support. Your Directors also place on record their sincere appreciation of the valuable services rendered by the employees of the Company at all levels. Your Directors are thankful to the local authorities of Ratnagiri for their continued co-operation.

For and on behalf of the Board of Directors

Pune,
10th October, 2000

P.P. Chhabria
Chairman

Annexure to the Directors' Report

Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

A) Conservation of Energy

a) Energy conservation measures taken :

PVC Plant :

- Ethylene pumping system modified so as to pump out to lower inventory in storage tanks and save power required to vaporize ethylene.
- Installation of a drying column for imported EDC so as to save steam consumption.
- Replacement of solid blades with FRP hollow blades in VCM cooling towers to reduce power consumption.

PVC Pipes and Fittings Plants :

- Installed an automated power factor controlling unit to improve power factor and minimise maximum demand.
- Provision of dry run protection relay at crusher unit to conserve heavy duty motor energy.

b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy.

- Conversion of existing refrigeration unit in S-PVC plant from freon to ammonia.
- Provision of a gravity drain line for waste water to reduce pumping energy.

c) Impact of the measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods.

- Resulted in reduction in consumption of electrical energy and better control over product wastage. Impact has not been measured.

d) Total energy consumption and energy consumption per unit of production as per form A.

Form A

(PVC Plant)

A. Power and fuel consumption :

Sr. No.	Description	Units	1999-2000	1998-1999
1.	Electricity			
	Purchased Units	Million KWH	**108.411**	104.730
	Total amount	Rs. Million	**418.084**	400.714
	Average rate/unit	Rs./KWH	**3.86**	3.82
2.	(a) Furnace Oil (LLSHS)			
	Quantity	Metric Tons	**14276.827**	12541.713
	Total amount	Rs. Million	**132.826**	74.297
	Average rate	Rs./Ton	**9303.607**	5923.999
	(b) LDO/HSD/SKO			
	Quantity	Kilo Litres	**12399.488**	11991.682
	Total amount	Rs. Million	**144.132**	86.701
	Average rate	Rs./KL	**11624.021**	7230.134
	(c) LPG			
	Quantity	Metric Tons	**499.972**	451.458
	Total amount	Rs. Million	**7.661**	4.879
	Average rate	Rs./Ton	**15322.990**	10806.872

B. Consumption per metric ton production of PVC :

Sr. No.	Description	Units	1999-2000	1998-1999
1.	Electricity	KWH	**816.134**	827.524
2.	a) Furnace Oil (LSHS)	MT	**0.1075**	0.0991
	b) LDO/HSD/SKO	KL	**0.0933**	0.0948
	c) LPG	MT	**0.0038**	0.0036

Note : Figures of the previous year have been regrouped wherever necessary.

B) Technology Absorption

Form B

Research & Development (R&D)

1. Specific areas in which R&D efforts have been put in by the Company are :

PVC Plant

- Concentration of low boiling compounds in low boil hydrocarbon waste so as to reduce loss of EDC.
- Use of hydrogen peroxide for destruction of chlorine in liquid chlorocarbon incinerator to reduce consumption of sodium hydroxide and sodium sulphide.
- Modification of vacuum column reboiler for improvement of EDC quality and increasing on stream time.
- Process modification in water demineralisation plant by increasing OBR cycle so as to reduce chemical consumption.
- Hydrogen dryer modification to increase dryness of hydrogen for further benefiting the operation in monomer plant.
- E-PVC reactor capacity augmentation by providing chilled water in reactor jacket.

PVC Pipes and Fittings Plants :

- Development of low pressure pipe at Ratnagiri plant for use in sewerage system.

2. Benefits derived as a result of the above R&D :
   - Better reaction efficiencies.
   - Improvement in on-stream time.
   - Saving in base material.
   - Envirpnmental protection and effluent quality improvement.
   - Better management of maintenance time and cost.
   - Sewer pipe is lighter in weight as compared to pressure pipe with equivalent wall thickness.Therefore convenient handling and economic pricing.
3. Future plan of action :
   - Trials of using nonyl phenol to reduce auto polymerisation in VCM recovery system.
   - Trials of new anti fouling agent for reducing reactor deposits.
4. Expenditure on R&D :

(a) Capital	)	The development work is carried by the concerned departments on an ongoing basis. The expenses and the cost of assets are grouped under the respective heads.
(b) Recurring	)	
(c) Total	)	
(d) Total R&D expenditure as a percentage of total turnover.	)	

Technology Absorption, Adaptation and Innovation

1. Efforts in brief made towards technology absorption, adaptation and innovation.
   - Efforts for improvement in productivity and reduction in raw material, power and steam consumption.
   - Efforts to reduce product wastage by continuous and uninterrupted production cycles.
   - Efforts to reduce downtime for maintenance and curtail maintenance cost.
2. Benefits as a result of the above efforts :
   - Better productivity.
   - Better control over wastage and maintenance cost.
3. Imported Technology :

(a) Technology imported	:	VCM & PVC technologies from Uhde GmbH, Germany.
(b) Year of import	:	1990
(c) Has technology been fully Absorbed	:	Absorbed

C) Foreign Exchange Earnings and Outgo

1. Activities relating to exports; Initiatives taken to increase exports; development of new export markets for products, and export plans :
   Due to better realisation in the domestic market and in order to meet the local demand, the Company did not pursue exports during the year under review.
2. (a) Total foreign exchange earned : Rs. nil
   (b) Total foreign exchange used : Rs.2896.790 million

Auditors' Report

To the Members of Finolex Industries Ltd.

We have audited the attached Balance Sheet of M/s. Finolex Industries Ltd. as at 31st July, 2000 and the Profit and Loss Account for the year ended on that date annexed thereto. We report as follows :

1. As required by the Manufacturing and Other *Companies (Auditors' Report) Order, 1988* issued by the Company Law Board in terms of Section 227(4A) of the Companies Act, 1956 we enclose in the Annexure a statement of the matters specified in the paragraphs 4 & 5 of the said Order.

2. Further to our comments in the Annexure referred to in Paragraph 1 above :

   a) We have obtained all the information and explanations which to the best of our knowledge and belief, were necessary for the purpose of our audit.

   b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of the books and proper returns adequate for the purpose of our audit have been received from the branches not visited by us.

   c) The Balance Sheet and Profit and Loss Account dealt with by the report are in agreement with the books of account.

   d) In our opinion, the Profit and Loss Account and Balance Sheet comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.

   e) In our opinion and to the best of our information and according to the explanations given to us, the said accounts, read together with the Company's Accounting Policies and the Notes thereto, give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view :

      i) in the case of Balance Sheet, of the state of affairs of the Company as on 31st July, 2000 and

      ii) in the case of Profit and Loss Account, of the Profit of the Company for the year ended on that date.

For **B.K. KHARE & COMPANY**
Chartered Accountants

Pune,
10th October, 2000

U.B. JOSHI
Partner