

22nd Annual Report 2002-2003



Finolex
Industries Limited



Finolex has the widest range of PVC pipes for all applications. If all the Pipes sold by Finolex during 2002-03 were to be laid end-to-end, they would encircle the earth!

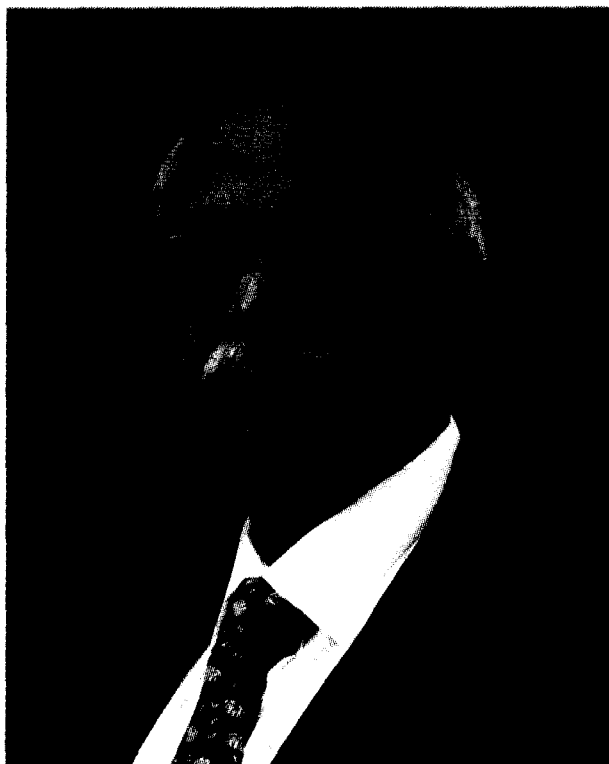


"Look who is sharing my burden of carrying water to the remotest corners of India!"

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CHAIRMAN'S MESSAGE



Dear Stakeholders,

Another year of outstanding performance is behind us. I am happy to note that for the year ended 31st March, 2003 your Company has earned the highest ever profit before tax of Rs. 121.5 crores. This is commendable when seen against the background of highly uncertain times - a failed monsoon, a struggling economy and the prospect of a war in the Middle East looming over us for a considerable period of time through the year. Your Company managed to overcome these uncertainties and exhibit a stellar performance.

As we look at the year ahead, the uncertainties are even more pronounced. Your Company is bracing itself for the challenging times ahead. When the entire world is undergoing a difficult phase, there is likely to be some negative effect on each one of us. However, the long-term prospects for your Company's business are very good. I am sure that with its' insistence on high quality standards, strong brand image, excellent marketing skills and strong relationship with its customers, your Company would face the challenges effectively. We have already initiated a series of measures to strengthen the marketing setup.

As a responsible corporate citizen your Company continues to carry out various community service activities as a part of its commitment to the society. Your Company's strong commitment to environmental protection, by applying the most rigorous standards of environmental safety, has resulted in it being awarded the coveted ISO 14001:1996 certification for its PVC Resin and PVC Pipes plants at Ratnagiri.

I believe that every downturn of business cycle brings with it host of opportunities. This is the time to prepare for the great future ahead, to

be ready to take advantage of the upswing, to build capacities at lowest possible cost. At Finolex we are looking at the future with a lot of optimism and we will be ready to make the best of opportunities, which the future will throw open before us.

P. P. Chhabria
Chairman

BOARD OF DIRECTORS



Front row from left to right : Dr. N. A. Kalyani, Mr. P. P. Chhabria, Mr. K. P. Chhabria, Mr. Prakash Chhabria

Middle row : Mr. K. N. Atmaramani, Mr. S. S. Marathe, Mr. M. G. Bhide, Mr. S. N. Inamdar

Rear row : Mr. P. Subramaniam, Mr. J. S. Arora, Mr. S. S. Dhanorkar

Mr. P.P. Chhabria (Chairman)

Mr. P. P. Chhabria, an eminent industrialist, is the Promoter and Chairman of Finolex Group of Companies. Under his able leadership, Finolex group has grown from a small private limited company to a multi product industrial house. During his five decades of dedicated service to the industry, Mr. Chhabria has received many accolades and awards. He takes keen interest in and devotes his quality time for philanthropic activities in the field of education and health care.

Mr. K. N. Atmaramani (Independent Director)

Mr. K. N. Atmaramani is non-executive Chairman of HDFC Securities Limited a specialized E-broking company. Mr. K. N. Atmaramani held various high ranking positions in Mutual Funds. He was associated with Unit Trust of India in various capacities for a period of seventeen years including that of Executive Trustee.

Mr. M. G. Bhide (Independent Director)

Mr. M. G. Bhide, an astute banker, is a prominent personality in the banking sector. Former CMD of Bank of India, Mr. Bhide, has served India's leading banks at senior most levels. He is on the Boards of various public sector and private sector companies and member of various committees in the field of Banking, Finance, Mutual Funds, Credit Ratings etc. Currently he is the Chairman of NIBM, Pune.

Mr. S. N. Inamdar (Independent Director)

Mr. S. N. Inamdar, a gold medalist at graduate and post-graduate levels, is an eminent Advocate of repute, practising on Appellate side in Mumbai High Court for last 33 years. Mr. Inamdar, a specialist in tax and Company Laws, is Advisor to various groups of industries. He is director on the Boards of many private and public companies.

Dr. N. A. Kalyani (Independent Director)

Dr. N. A. Kalyani, recipient of 'Padmashri', is a renowned industrialist and progressive agriculturalist. He is Founder of the Kalyani Group of companies. He has served/is serving with distinction on Boards of several central and state government institutions such as MSEB, RBI, SICOM, IFCI, ICICI, FICCI, CII, MCCI&A, etc., and also on the boards of many prestigious public and private companies.

Mr. S. S. Marathe (Independent Director)

Mr. S. S. Marathe, a graduate of London School of Economics and Political Science has been economic adviser to Government of India. He is a member of various national and international committees and has represented India as a leader/member of large number of delegations. He has a very wide and varied experience in finance, industry, banking and other related fields. He is a Director on the Boards of various public and private companies.

Mr. K. P. Chhabria (Managing Director)

Mr. K. P. Chhabria is a technocrat and is a well known industrialist having over 34 years of industrial experience. He is one of the promoters of the Finolex group. Under his able leadership, the group has grown from a small sized private limited company to a multi product industrial house. His keen interest in continuous improvement in the quality of the product and technological upgradation of the facilities has resulted in the group having state-of-the-art manufacturing capabilities for all the products.

Mr. Prakash P. Chhabria (Dy. Managing Director)

Mr. Prakash P. Chhabria is B.Sc. in International Business from University of Evansville, USA and has also completed Advanced Management Programme from Wharton Business School. Mr. Prakash P. Chhabria, a well known industrialist, is Chairman of Environmental Subcommittee of Maharashtra Chamber of Commerce, Industry and Agriculture.

Mr. J. S. Arora (Director Operations)

Mr. J. S. Arora is B.E. Chemical, with specialization in petroleum and petrochemicals. He has working experience of 36 years in the field of fertilizers and petrochemicals with different Petrochemical companies. He is in the employment of the Company since 1994.

Mr. S. S. Dhanorkar (Director Commercial)

Mr. S. S. Dhanorkar, FCA, having 25 years of experience in the fields of accounts, finance and marketing is responsible for all commercial activities including PVC marketing and imports. Earlier, he was head of finance. He shares his valued experience by presenting the papers in various international conferences. He is in the employment of the Company since 1983.

Mr. P. Subramaniam (Director Finance)

Mr. P. Subramaniam M.Com., MBA (Finance) from University of Michigan, U.S.A., has 28 years of experience in the fields of corporate finance, treasury, taxation etc. and is in the employment of the Company since 1994. He is also director of other group companies.

SECRETARY

Mr. Anil B. Atre
Company Secretary &
General Manager (Admn.)

BANKERS

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

AUDITORS

B.K.Khare & Company
Chartered Accountants

**SOLICITORS
& ADVOCATES**

Crawford Bayley & Company

**REGISTERED
OFFICE**

D1/10, MIDC, Chinchwad
Pune 411 019,
India.

MANAGEMENT DISCUSSION AND ANALYSIS

Your Company has performed remarkably well during the year under review. The Profit before tax for the year has been the highest so far in the history of the Company. The performance could have been even better, but towards the end of 2002-03 the entire world was whirled into anxiety and uncertainty, largely stemming from the Gulf War II. It was hardly possible for a company like yours, which deals in global commodities like PVC resin to remain totally unscathed from the turmoil unleashed by this war. The international prices of your Company's main raw materials have been very volatile during the last quarter of the financial year. Closer to home, the rain gods played truant,

dampening the aspirations of the vast farming community and, inevitably, blowing the whistle of caution for businesses such as that of your Company whose fortunes are closely linked with a satisfactory monsoon. The perceptions on both these factors are elaborated in the discussion that follows.

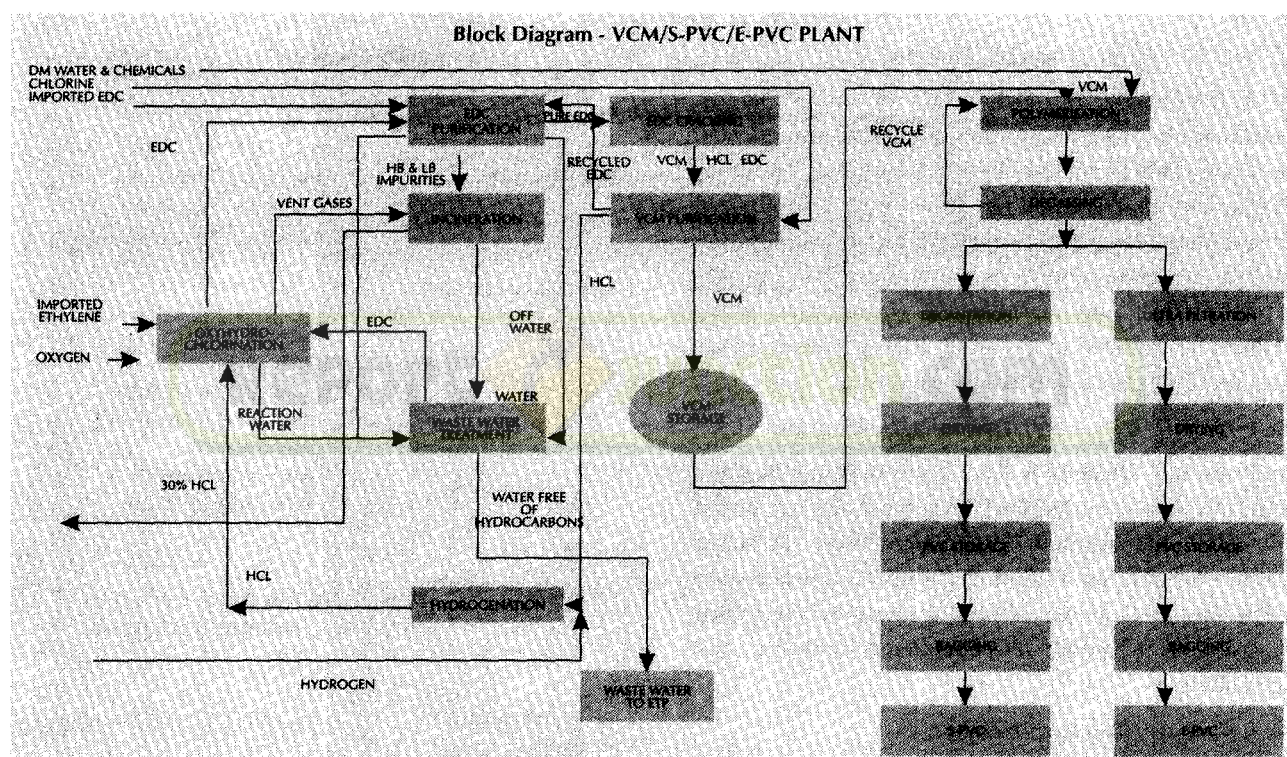
BUSINESS OF THE COMPANY

Your Company is mainly engaged in the business of manufacturing and marketing PVC Resin and PVC pipes and fittings.

PVC Resin Division :

Process

The following chart explains in brief the process of manufacturing PVC resin.



Industry

India has six manufacturers of PVC, sharing a total manufacturing capacity of about 788,000 MT per annum. Your Company has a share of approximately 16 per cent of the domestic market. More than half of the PVC consumed in India is used to make PVC pipes and fittings. The movement in demand for PVC pipes and fittings thus drives the growth in demand for PVC.

Information and Credit Rating Agency (ICRA) has recently published a research report on Indian Polymer Industry. As per this report the demand for PVC is expected to grow at the rate of around 7-8 per cent per annum in the medium term, with the annual demand growth rate being impacted significantly by agricultural income (since the largest application, namely, pipes and fittings depends on agricultural income). Pipes & fittings and calendared sheets are expected to be the high growth markets.

PVC: Demand Projection (Source ICRA Ingres)

'000 tonnes

	2001-02	2003-06	GROWTH RATE 2003-06 (VMS 2001-02 %)
Pipes & Conduits	430	630	10.0
Wire/Cable	112	136	5.0
Profiles	30	36	5.0
Films/Calendered Sheets	160	200	6.0
Hoses & Tubes	15	18	5.0
Footwear	82	100	5.0
Others	21	25	5.0
Total	850	1145	7.7

The single largest application of PVC resin in India is Pipes and fittings. This market has been growing at a double digit rate for the past decade and this trend is expected to continue. New PVC applications such as large diameter pipes, sewerage applications and very high depth tube well applications may develop in the medium term, leading to increased demand for PVC. Further, since only 40 per cent of agricultural land under cultivation is irrigated, the demand from conventional irrigation pipes is also expected to increase. Oriented PVC pipes, a new development offering higher impact and burst resistance, may provide for a further rise in demand.

A detailed discussion about the PVC pipes market follows later in this report.

One more major application for PVC in India is wires and cables. PVC insulation and sheathing is used extensively in winding wires and three-core flat cables for agricultural equipment like submersible pumps etc. As more and more land area comes under irrigation, the requirement for pumps and consequently for wires and cables is on the increase. Housing is receiving priority of the Government resulting in increase in demand for wires.

Footwear is another sector that consumes PVC. Economical all-weather PVC footwear is a necessity for millions of people living in rural India. This segment is expected to grow at about 5% per annum over the next five years.

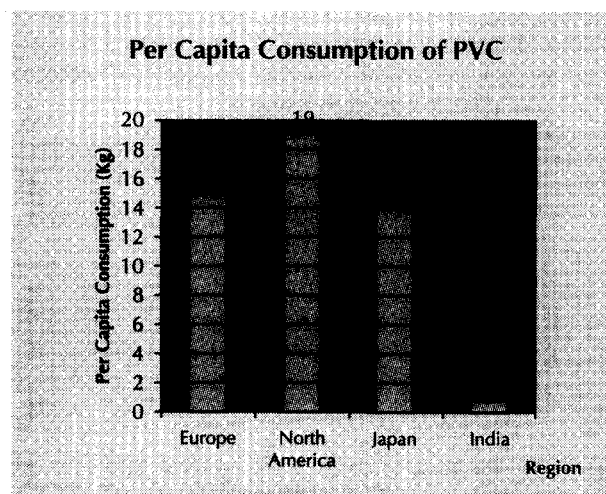
Extensive urbanisation, leading to changes in lifestyles including use of packaged food, an increase in consumer awareness for hygienic packaging and the government's insistence on food-safety for its people have pushed up the demand for PVC film.

Another increase in application for PVC is blister packaging for pharmaceutical industry. With more and more population coming within reach of medical facilities the demand for PVC from pharmaceutical industry is growing.

The usage of PVC Sheets, Foam Board Panels etc. in urban offices is on the increase. PVC Corrugated Roofing Sheets are gradually replacing the traditional roofing.

Per capita consumption of PVC

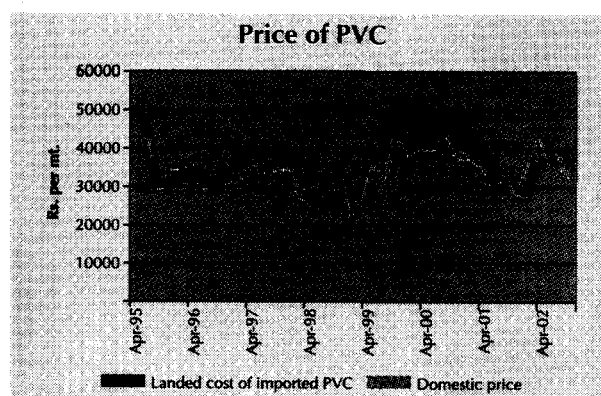
As in the case of most products, the per capita consumption of PVC is very low in India vis-à-vis the developed countries as shown in the chart below.



This represents a huge potential for growth in consumption of PVC in India.

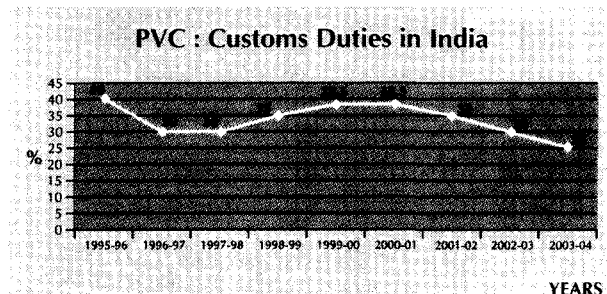
Price of PVC

With the opening up of the Indian economy, the domestic market prices of commodities like PVC resin are inevitably linked to the international prices. In the case of PVC, domestic supply was higher than the domestic demand from 1997 to 2001 and therefore, competition has been high. The PVC supplied by domestic manufacturers, thus, has been at a discount to landed cost of imported PVC. However, during 2002, the domestic demand for PVC outstripped the supply narrowing down the gap between domestic prices and landed prices of imported PVC. In fact, now the domestic prices are at times higher than the landed cost of imported PVC.



Customs duty

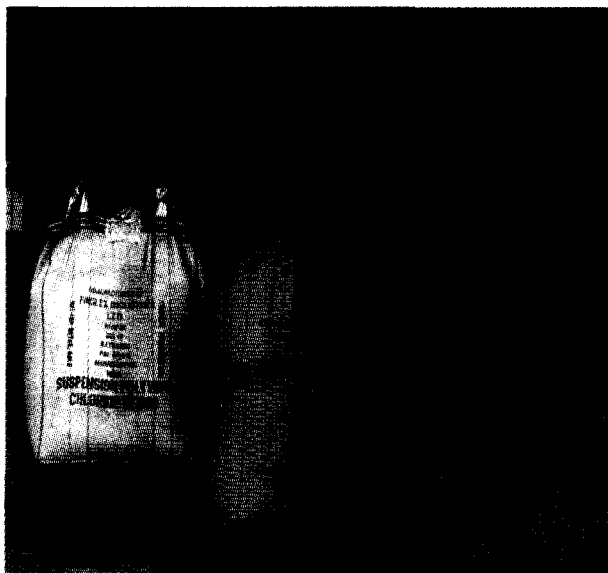
The customs duty on PVC resin is an important component of the landed cost. As per the commitments made to the WTO the Government of India plans to bring down the peak customs duty from 30 per cent to 20 per cent in a phased manner. The customs duty on PVC was recently brought down to 25 per cent and this may be brought down further to 20 per cent albeit in a phased manner.



However, the general decline in customs tariffs in an economy is followed by a higher depreciation of the currency (on account of increase in the level of imports). Although the customs tariffs on polymers are expected to reduce, the exchange rate depreciation of the Indian rupee till then is expected to neutralise the extent of the downward impact to the domestic manufacturers.

Strategy

A big strength of your Company is its captive consumption of PVC for the production of pipes and fittings and by the group companies for cables, sheets etc. As a conscious strategy, your Company had decided to increase its focus on captive consumption of PVC in the Pipes Division, where it is the industry leader. As a logical step in the implementation



of this strategy, the company has recently expanded production capacity of PVC Pipes and intends to add further capacity in the near future. The effort is to move to a situation where the captive consumption of PVC will be more than 50 per cent of the total production over the coming years. This is expected to give protection to your company from the vagaries of the market. It's a matter of pride for your company to be the only Indian PVC manufacturer to be integrated downstream, giving it a unique position of strength.

Business Outlook

The year under review saw a steep rise in the international prices of PVC resin as well as in the prices of Ethylene Dichloride (EDC) and Ethylene the two key raw materials for making PVC resin. The company was to a great extent, able to pass on the increased burden to the customers. However, this increase, coupled with a failed monsoon and the uncertainties arising out of the Iraq war has resulted in slowing down the demand for PVC resin in India towards the end of the year. Due to the close relationship between demand for pipes and demand for PVC resin, the latter may witness a lower demand in the short term, in tandem with the reduced demand for PVC pipes.

Consequent to the above factors, the growth in domestic demand for PVC resin during 2002-03 was very negligible. However, the total domestic demand of PVC continued to be higher than the supply and therefore there was no adverse impact on your company's sales of PVC resin. The raw material prices are however likely to be volatile for some time, as a consequence of the situation in the Middle-east. Further, the international prices of PVC will dictate the domestic pricing.

The medium term and long term outlook for PVC business is very good. On the bright side are the incentives in the housing and infrastructure sector that will see demand for PVC rising.

