

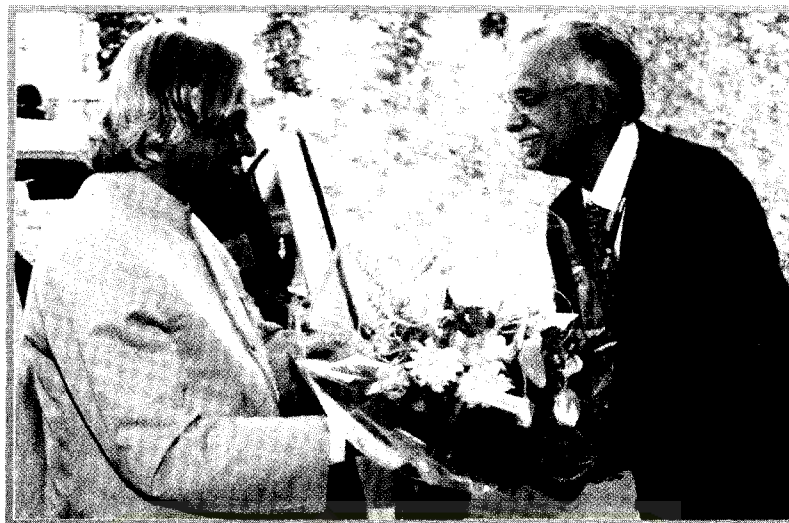


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23rd
Annual
Report
2003-04

Minolex
Industries Limited

www.reportjunction.com



Dr. A. P. J. Abdul Kalam, Hon'ble President of India
being welcomed by
Shri. P. P. Chhabria, Chairman, at IIT, Pune

Chairman's Message



Your Company has completed another excellent year. This year has been a landmark year in the sense that not only have we achieved a historical high in Net Profit but have also crossed a significant milestone of Rs.10 billion in Gross Income.

We have been setting higher and higher goals for ourselves and there is definitely a sense of fulfilment as we achieve each of the targets. Of course we will not rest on our laurels. We are confident of crossing newer milestones in our quest for excellence.

We are proud of the fact that all through this journey of growth we have never compromised on our basic principles: Highest standards of Quality and Service. Today the name Finolex stands for the Best in every one of its product range. Our products command a premium in the market.

We have also consistently strived to create value for our stakeholders. I am happy to note that the recent Business Today – Stern Steward survey of Indian Companies places your Company amongst the Best Wealth Creating Companies.

Your company continues its efforts to increase operational efficiencies, to expand its market reach, to further strengthen its Brand equity. We are capitalizing on our unique position being the only Indian company to be in both PVC Resin and PVC Pipes business. We have not only been retaining our Numero Uno position in the PVC Pipes business for years but also growing steadily. The planned expansion of PVC resin capacity will give us further strength. All this success is because of the hardwork of every member of the Finolex Family at all levels.

We are confident that the strong growth expected in the Indian economy will reflect even stronger in your Company's business.

P.P. CHHABRA

Chairman

CONTENTS

Board of Directors	3
Management Discussion and Analysis	4
Directors' Report	12
Corporate Governance Report	21
Auditors' Report	28
Balance Sheet	34
Profit and Loss Account	35
Cash Flow Statement	36
Schedules forming part of accounts	38
Notice of the Annual General Meeting	64

BOARD OF DIRECTORS

Mr. P. P. Chhabria

Chairman

Mr. K. N. Atmaramani

Mr. M. G. Bhide

Mr. S. N. Inamdar

Dr. N. A. Kalyani

Mr. S. S. Marathe

Mr. K. P. Chhabria

Managing Director

Mr. Prakash P. Chhabria

Deputy Managing Director

Mr. J. S. Arora

Wholtime Director

Mr. S. S. Dhanorkar

Wholtime Director

Mr. P. Subramaniam

Wholtime Director

Secretary

Mr. Anil 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

ICICI Bank Ltd.

Auditors

B. K. Khare & Company

Chartered Accountants

**Solicitors &
Advocates**

Crawford Bayley &

Company

**Registered
Office**

D1/10, M.I.D.C.,

Chinchwad

Pune 411 019,

India.

Management Discussion And Analysis

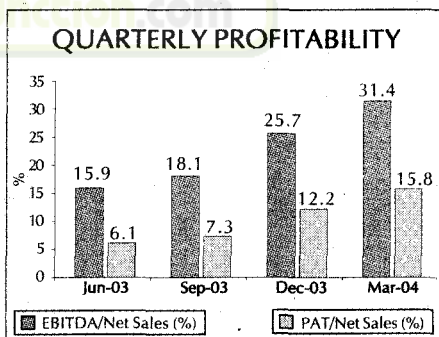
Introduction

The year under review has been yet another good year for your Company. The gross income and profitability have both shown a robust growth. In fact your Company has crossed a milestone of achieving Rs.10 billion in gross income.

Financial Review

The first quarter of the financial year saw a set back for the PVC Resin Division when feedstock prices reached a peak due to the Iraq War while the prices of finished product [PVC Resin] crashed almost at the same time due to the outbreak of SARS. This aberration resulted in a tight squeeze on the Company's margins. During the second quarter the situation improved and the company posted better results. The PVC demand worldwide continued to show a strong growth and this resulted in increasing prices during the third quarter. This increase in the international prices of PVC Resin was reflected in the domestic prices which resulted in a sharp increase in the profitability during the third quarter. The buoyancy in the international prices of PVC Resin continued into the fourth quarter. At the same time the prices of the main raw material Ethylene Di-Chloride [EDC] remained steady. This enabled the Company to post record profits during the fourth quarter.

What is pertinent to note that though the quarter on quarter profits may vary with the prevailing conditions, still your Company has been successful to bring out a consistent growth in its operations year on year. The Net Profit for the year saw an increase of 12% over previous year and the Gross Income saw an increase of over 16% compared to the previous year.



Economic Value Added

The focus of your Company's management is always on creating value for all its stakeholders over the years. This is reflected in the Economic Value Added (EVA) calculation, which shows that the Company has consistently increased the economic value of the business. The management's incessant deep-seated commitment to increase value for its shareholders has catapulted your Company

in the ranks of "the Best Wealth Creating Companies of the country" – according to a recent survey by Business Today-Stern Stewart. (Source: Business Today dated April 11, 2004).

EVA is an estimator for a company's true economic value creation. Positive EVA indicates value creation by a company while negative EVA indicates the amount of value destroyed by a company.

(Rs. in million)

EVA Analysis	31.03.2004	31.03.2003
Earnings before Interest and Tax (EBIT)	1539.675	1378.854
Less: Tax on EBIT	519.245	290.594
NOPAT (a)	1020.430	1088.260
Shareholders' Funds	4646.094	4257.339
Add: Long Term Debt	723.993	1215.249
Total Capital Employed	5370.087	5472.588
Weighted Average Cost of Capital (%)	7.95	9.54
Capital Charges (b)	426.922	522.085
EVA (a-b)	593.508	566.175

Economic Value Added is a registered trademark of Stern Stewart & Co.

Notes:

1. The cost of equity is calculated by using the following formula: Return on risk-free investment + expected risk premium on equity investment adjusted for the beta variant for Finolex Industries Ltd.
2. 10-year G-Sec yield taken as the risk-free rate of investment.
3. Taxes on EBIT calculated as the Effective Tax rate (excluding deferred taxes).

Indian Economy and effect on the Company

The Indian economy has shown a strong real GDP growth of 8.1% in FY 2004 backed by a growth of 16% in agriculture. The macro variables are looking more positive than ever before; forex reserves have crossed the USD 100 billion mark; interest rates are stable after having come down sharply over the past few years; a mildly appreciating rupee combined with a benign inflation rate are adding to the strength of the Indian economy.

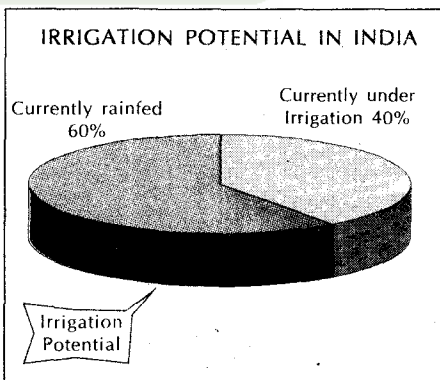
23rd Annual Report 2003-2004

This augurs well for your Company's business – both PVC Resin and PVC Pipes as historically, Polymer demand growth has closely followed the GDP growth.

The Company has witnessed strong growth rates for both of its products in FY 2004 and these positive factors are expected to continue over the next two to three years. The positive demographic change, which is rapidly adding to the middle class population, is expected to add to the long-term growth. With more people coming into the 18-40 years band the income distribution is expected to get favourable in the years to come. Urbanization of the economy will also open new avenues for business. The Housing Sector is already witnessing a boom. Housing Finance Companies have reported a sharp increase in number of applications received for financial assistance. Recently, some private sector companies have announced setting up of townships across India spreading over thousands of acres of land. These developments will boost the demand for PVC Pipes used in construction and sewerage, which in turn will enhance the demand for PVC Resin in the country.

Irrigation Potential

Irrigation is one of the main Growth drivers for your Company's business. The demand from this sector is continuing to show healthy growth. It has been realized by the policy makers of our country that for the Indian economy to sustain a high-growth phase, it is necessary to reduce the dependence on monsoon. Considering the uneven distribution of rainfall in the country the Government has accorded high priority to watershed development; a number of initiatives for increasing the area of land under irrigation have been started in this regard. It is estimated that out of the net 142.6 million hectares of cultivated area, only 57 million hectares [40%] is irrigated. The remainder 85.6 million hectares is rainfed.



Source : www.indiabudget.nic.in

It is planned to bring further 20 million hectares under irrigation in the next 25 years. The demand for PVC Pipes is bound to grow at a healthy rate given this huge irrigation potential.

Recent Government Initiatives for Agriculture

Central Government has urged Public Sector Banks to offer loans for agricultural purposes at lower rates compared to the prevailing rates. In addition, steps have been initiated to bring technology in farm financing. Kisan Credit Cards, which are already gaining popularity will be extended to millions of more farmers. These cards will now be issued in magnetic card reader form and could also be used on ATM machines in future. A Farm Income Insurance Scheme has recently been introduced in 20 Districts on a pilot basis. This will reduce the vulnerability of the farmers to the vagaries of nature and bring some level of protection against crop failures. Once successful, this scheme is expected to be extended to many more Districts.

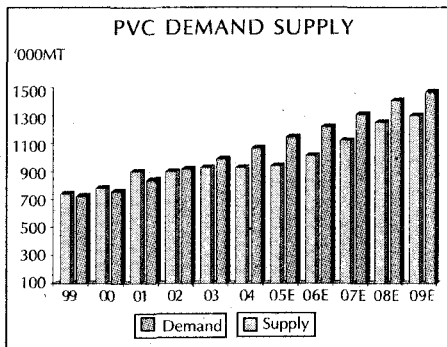
The schemes mentioned above will fulfil a most pressing need of the average farmer i.e. availability of adequate and timely finance for agricultural purpose. This is expected to give a boost to the agricultural income resulting in stronger demand for products like PVC Pipes.

Industry Outlook

PVC Resin Business

The Indian PVC manufacturing capacity is less than 0.8 million metric tons against the global capacity of about 32 million metric tons per annum. Even though the Indian demand has been growing at a double-digit rate for the past decade, the per capita consumption of PVC in India is still abysmally low at 0.9 kg against a World average of 4.5 kgs. Even other developing nations like China (4 kgs), Malaysia (6 kgs) have much higher per capita consumption (Source SRI). This underlines the tremendous potential for PVC consumption growth in India.

The global demand for PVC Resin is expected to increase at over 4% p.a. as compared to the increase in capacity by about 2.5% p.a. over the next 5 years. This is expected to tighten the supply/demand balance resulting in higher operating rates. According to a recent report published by SRI Consulting the Indian demand for PVC is expected to continue to grow at a double-digit rate over the next 5 years. Pipes and Fittings and Calendered sheets are expected to remain the high growth applications. Considering the growth in demand and installed capacity, it is expected that India will continue to be a net importer of PVC Resin in the near future.



23rd Annual Report 2003-2004

PVC Pipes Business

Industry: PVC Pipes is a highly fragmented industry with a large number of players in the small-scale and unorganized sector. Your Company, the largest Indian manufacturer of PVC Pipes is the market leader across the country.

As a result of good monsoon during 2003 and with the added impetus from various Government initiatives, the PVC Pipes Business is witnessing strong demand growth. The PVC Pipes Division of your Company has witnessed volume growth of 16% during the year under review. It is heartening to note that the growth has come not from any particular area but from various geographical areas of the country. The Company expects that healthy growth rates will be sustained over the next few years. Various initiatives from Central / State Governments have contributed to the overall demand for PVC Pipes. The most prominent amongst them are: -

Swajal Dhara scheme – This scheme encourages people's participation in the Rural Water Supply Projects. The local Panchayat / Village Body is expected to contribute at least 10% of the cost of the Water Supply Project and the balance is financed by the Central Government under Swajal Dhara scheme. Your Company has booked orders totalling to crores of rupees for supply of PVC Pipes to various such schemes spread across the country.

Andhra Pradesh Micro Irrigation Project - The Government of Andhra Pradesh has launched an ambitious Micro Irrigation Project estimated at Rs.1200 crores to bring modern irrigation techniques to the farmers of Andhra Pradesh. Your Company has tied up with some participants in this project for their PVC Pipes requirements. Similar Micro Irrigation Projects are being planned by the other State Governments including Gujarat, Rajasthan and Maharashtra. This will give a major boost for the demand for PVC Pipes in the country.

International Funding Agencies:

- a) *KFW German Developmental Funding Agency* – will be covering around 275 villages in Maharashtra under Rural Drinking Water Programme.
- b) *WORLD BANK* - has sanctioned USD 181 million to Government of Maharashtra for Drinking Water and Sanitation.

All these schemes are expected to add to the prevalent buoyant demand for PVC Pipes in the country.

Marketing strategy: The Company has an extensive coverage of dealership / sub-dealership network throughout the length and breadth of the country. The Company's foray into the North Indian market is yielding good results. The Company has increased the number of outlets in North India from less than 20 in FY 2001 to