25TH
Annual Report
2005-2006

Finolex
Industries Limited

FIVE YEAR FINANCIAL HIGHLIGHTS

(Rs. in millions)

	2005/06	2004/05	2003/04	2002/03	2001/02 (8months)
PROFIT AND LOSS ACCOUNT DATA					
GROSS REVENUE	9071.279	10012.602	8652.398	7557.185	4446.992
Materials and manufacturing cost (including excise duty)	6919.006	7282.728	5873.975	4962.181	2834.712
Personnel expenses	212.405	231.873	218.387	238.245	119.925
Administration and selling expenses	566.499	584.189	591.024	556.194	334.923
Finance charges	254.183	122.808	134.944	163.746	143.264
Depreciation	468.207	443.572	429.337	421.711	276.061
Profit before tax	650.979	1347.432	1404.731	1215.108	738.107
Taxation	227.893	388.262	503.111	411.219	145.698
Profit after tax	423.086	959.170	901.620	803.889	592.409
Dividend (including tax on dividend if applicable)	424.300	424.300	419.722	285.530	258.437
BALANCE SHEET DATA					
Share capital	1239.890	1239.847	1239.808	1265.082	1291.837
Reserves and surplus	3797.097	3814.646	3406.286	2992.257	2529.305
Net worth	5036.987	5054.493	4646.094	4257.339	3821.142
Deferred tax (net)	1066.509	1062.966	1064.979	1032.701	853.332
Long term Loans	1800.220	1462.504	706.820	975.000	950.000
Short term Loans	3462.605	4110.557	2474.819	2741.483	1668.114
Total liabilities	11366.321	11690.520	8892.712	9006.523	7292.588
Gross block	10500.963	8902.703	8658.694	8503.569	8389.258
Net block (including CWIP)	6056.923	5430.179	5085.176	5212.856	5474.048
Investments	3673.297	4131.900	2724.455	2444.670	1043.762
Net current assets	1636.101	2128.441	1083.081	1348.997	774.778
Total assets	11366.321	11690.520	8892.712	9006.523	7292.588
KEY RATIOS					
Return on net worth (%)	8.40	18.98	19.41	18.88	15.50
Earnings per share (Rs.)	3.41	7.73	7.25	6.25	4.29
Long term debt to equity	0.36	0.29	0.15	0.23	0.25
Dividend payout (%)	100.29	44.24	46.55	35.52	43.62
Interest coverage	3.56	11.97	11.41	8.42	6.15
Book value per share (Rs.)	40.61	40.76	37.46	33.64	29.57

Notes :

1. Key ratios in respect of the accounting year 2001/2002 have been annualised, wherever required.
2. Earning per share is calculated on the share capital as on the date of Balance Sheet except for the years 2000-2001 to 2003-2004 , which is calculated after considering weighted average effect of the changes in the share capital due to fresh issue and/or buy-back of shares during the year.

Chairman's Message

Dear member,

It gives me a great pleasure in presenting to you the performance of your Company for the financial year ended 31st March, 2006.

You will be happy to note that with your active support, your Company has completed 25 years since its incorporation. I am sure that many of you who have tracked the progress of your Company would definitely feel a great sense of exuberance and pride looking at the progress made by your Company with planning and vision. Today, your Company's products reach millions of consumers spread across the country and as a result, FINOLEX has become a household name in the country.

Your Company is exploring opportunities with newer business initiatives such as breakwater, captive power plant, SEZ etc.

I am sure, the buoyant economy and the newer initiatives will bring growth in returns to you in the years to come.

P.P.CHHABRIA
Chairman

Board of Directors

Mr. P.P. Chhabria
Non-executive Chairman

Mr. K.N. Atmaramani
Independent Director

Mr. M.G. Bhide
Independent Director

Mr. S.N. Inamdar
Independent Director

Dr. N.A. Kalyani
Independent Director

Mr. S.S. Marathe
Independent Director

Mr. K.P. Chhabria
Managing Director

Mr. Prakash P. Chhabria
Deputy Managing Director

Mr. J.S. Arora
Director (Operations)

Mr. S.S. Dhanorkar
Asst. Managing Director & Chief Operating Officer

Mr. P. Subramaniam
Asst. Managing Director & Chief Financial Officer

Company Secretary

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

Bankers

Bank of India
Bank of Baroda
Bank of Maharashtra
Corporation Bank
ICICI Bank Limited
Citibank N.A.
The Bank of Nova Scotia
BNP Paribas

Auditors

B.K. Khare & Co.
Chartered Accountants

Solicitors & Advocates

Crawford Bayley & Co.

PVC, Pipes & Fittings Plants

Ranpar - Pawas Road,
Ratnagiri 415 616,
Maharashtra, India
Tel: 02352-238027-31
Fax:02352-238045
E-mail:ssmath@finolexind.com

Registered Office and Pipes & Fittings Plant

D1/10, M.I.D.C., Chinchwad,
Pune 411 019, Maharashtra, India.
Tel: 020-27408200
Fax:020-27477217
E-mail:aa@finolexind.com

Management Discussion and Analysis

Introduction

The year under review has been one of the mixed fortunes for your Company. On the positive side, the expansion of PVC Resin manufacturing capacity has been completed during the year and your Company is set to take advantage of the surge in demand of PVC Resin.

On the negative side the profit for the year has been lower as compared to the previous year due to various reasons explained below.

Financial Review

The year did not start on a very positive note for your Company. The net profits for the first two quarters were severely impacted by the steep increase in the prices of Company's raw materials. In addition the international prices of PVC Resin declined sharply resulting in reduced margins. There was considerable fall in production of PVC Resin during the first quarter because of an unexpected extension of the annual maintenance shutdown. The third and fourth quarters were however, better from the demand and margin perspective. Overall volumes as well as margins for the year under review for the PVC Resin business have been lower as compared to the previous year.

The volumes and margins for the PVC Pipes business have improved during the year under review and this bodes well for the long-term prospects of the Company.

Indian Economy And Effect On The Company

India's GDP growth for the financial year 2005-06 is expected to be higher at 8.1 per cent as against 7.5 per cent during the previous year 2004-05. The major driver of higher growth this year is revival in agriculture. The industrial sector too has been on a high. Industrial growth is driven by robust performances from manufacturing and construction sectors.

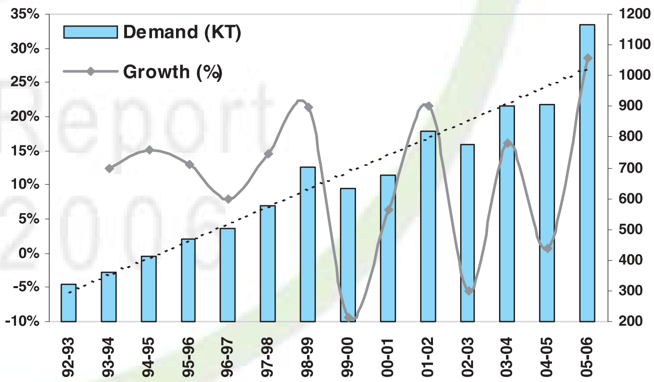
The Union Budget 2006-07 has laid an emphasis on accelerating irrigation and agriculture. Initiatives have been targeted at improving rural infrastructure through various Programs. The continued increase in farm credit with interest rate on short-term credit fixed at 7% as well as efforts to improve microfinance will boost rural incomes and facilitate the trickle down process. These measures will have positive impact on the PVC pipes as well as PVC esin business of your company in the future.

Industry Outlook

Pvc Resin Business

The PVC Resin manufacturing capacity in India has grown during the year under review to 942,000 TPA. This includes the capacity expansion completed by your Company. The year under review witnessed one of the highest growth in demand in recent years. The domestic demand grew by an impressive 29% during the year under review. In terms of quantity the demand stands at approximately 1,166,000 TPA. This indicates that despite the capacity expansion the domestic supply still fell short of domestic demand. The gap was met by imports. With the expected demand growth over the next 2 to 3 years, India will remain a net importer of PVC Resin. The boom in the construction industry is resulting in strong growth in one of the main applications of PVC Resin i.e. PVC Pipes. The other applications of PVC Resin like cables, packaging films, etc. are also growing at a healthy rate.

	Demand (KT)	Growth (%)
92-93	320	
93-94	360	12%
94-95	414	15%
95-96	467	13%
96-97	504	8%
97-98	578	15%
98-99	701	21%
99-00	634	-10%
00-01	675	6%
01-02	820	22%
02-03	775	-6%
03-04	900	16%
04-05	907	1%
05-06	1166	29%



PVC Pipes Business

The PVC pipes industry in India is divided between organized sector and unorganized sector. Your company, India's largest manufacturer of PVC Pipes, enjoys around 20% share of the organized market. It continues to be the market leader in the Industry.

The main demand for pipes emanates from the agricultural sector which takes up approximately 70% of output, while the rest comes from the construction and other industries. Demand from the construction sector comprising of sanitation and plumbing systems is building up rapidly. The boom in construction is giving an impetus to the demand for PVC pipes.

The Union Budget 2006-07 has given a renewed thrust on rural sector by allocating 186.96 billion rupees for rural infrastructure projects in 2006/07 and raising corpus for rural infrastructure development fund to 100 billion rupees from 73 billion. Additionally, 6 Lakh hectares of irrigation potential is expected to be created this year.

The Bharat Nirman Program, which aims at bringing basic amenities to rural India is a key focus. Rs 18,696 crore has been provided for this program, which represents a hike of 54%. The program aims to bring an additional 10 million hectares under assured irrigation, construct 6 million additional houses for the poor and provide drinking water to 74000 uncovered habitations. Additionally, the World Bank has approved two credits for a total of US$200 million for the National Agricultural Innovation Project.

The continued increase in farm credit as well as efforts to improve microfinance will boost rural incomes and will have positive impact on the demand for PVC pipes.

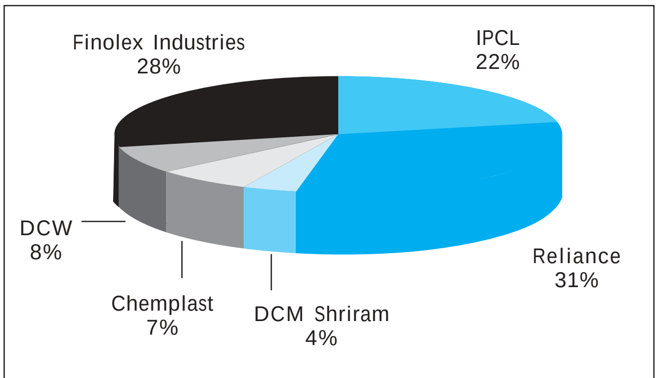
Your company's strong and widely spread distribution network and appropriate marketing policies have resulted in impressive growth in PVC pipes sale.

Impact Of Globalisation

The Government of India has continued its objective of reducing import tariff to bring Indian economy in line with economies of other Asian countries. In fact, in the case of PVC Resin and other Polymers the import duty has been brought down to 5% in March 2006 which is probably the lowest in Asia. The import duty on raw materials i.e. Vinyl Chloride Monomer [VCM] and Ethylene Di-Chloride [EDC] has been brought down to 2% whereas the import duty on another raw material Ethylene has been retained at 5%. The net duty protection is, therefore, lowest in Asia. Though this may have some impact on the margins, your Company is confident of standing up to the competition, domestic as well as overseas. On the brighter side the reduction in import duty is expected to give a boost to the demand for downstream products, which will make your Company's position stronger.

PVC Expansion Project

The ongoing project of expansion of your company's PVC resin capacity was completed during the year under review. The impact of the additional capacity on your company's topline will be seen during 2006-07. Subsequent to the expansion, your company's market share in the domestic market is expected to grow to 28%.



Risks And Concerns

Your Company has a clearly documented Risk Management Policy. The Management Team of the Company regularly identifies, reviews and assesses such risks and decides appropriate guidelines for mitigating the same.

The main raw material for PVC Resin is Ethylene Di-Chloride (EDC) apart from Ethylene and VCM. Your company is wholly dependent on imported EDC for the manufacture of PVC Resin. The main risk your company faces is uncertainty in the movement of international prices for raw material. As these raw materials are not traded in the futures market, there is no opportunity to hedge this risk. Thus your company is exposed to variations/ fluctuations in the underlying factors such as foreign exchange and interest rates. The company actively manages these risks by making use of hedge / derivative products from time to time.

During the course of its business, the Company generates surplus cash. The Company has active treasury operations to manage such surpluses. The management has laid down detailed guidelines for investment of such surpluses and a Senior Team monitors the same regularly.

Your Company accords highest priority for safety in all its operations. The Company's manufacturing facilities and processes are inspected regularly by outside Agency. Especially, a Safety Audit is carried out at regular intervals at the PVC Resin plant in Ratnagiri and there are adequately planned preventive measures to ensure that highest standards of safety are always maintained. To enhance safety awareness amongst the employees, various safety competitions like safety posters, essays, quiz and slogan are organized. This involves not only the employees but also their families.

The Company has taken adequate insurance policies to cover not only its Plant and Machinery and other assets but also third Party liabilities. The Management periodically reviews the adequacy of the insurance cover.

Transparency In Sharing Information

Transparency refers to sharing information and acting in an open manner. Processes and information are directly accessible to those concerned with them, and enough information is provided to understand and monitor them. Your Company believes in total transparency in sharing information about its business operations with all its stakeholders. Your Company strives to provide maximum possible information in this Report to keep the stakeholders updated about the business performance. As an open channel of communication between stakeholders and officials and to make a wide range of information accessible, your Company holds regular meetings with institutional investors.

Internal Control Systems

The Company has instituted adequate internal control procedure commensurate with the nature of its business and the size of its operations for the smooth conduct of its businesses.

Internal audit is conducted at regular intervals at both the plants and covers the key areas of operations. It is an independent objective and assurance function responsible for evaluating and improving the effectiveness of risk management control, and governance processes.

An Audit Committee consisting of five independent directors is in place. The Audit Committee monitors performance of Internal Audit on a periodic basis through review of the audit plans, audit findings & promptness of issue resolution through follow ups.

Human Resources

Your Company's industrial relations continued to be harmonious during the year under review. Your Company conducts regular in-house training programs for employees at all levels. Employees are also sent for selected external training programs especially with a view to aid leadership development.

The employee strength of your company is currently 911.

Cautionary Statement

Estimates and expectations stated in this Management Discussion and Analysis may be "forward-looking statement" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to your Company's operations include economic conditions affecting demand / supply and price conditions in the domestic and international markets, changes in the Government regulations, tax laws, other statutes and other incidental factors.

Directors' Report

To the Members

Your directors have pleasure in presenting their twenty fifth annual report and audited accounts for the year ended 31st March, 2006.

Financial Results

(Rs. in million)

	2005-2006	2004-2005
Profit before depreciation & finance charges	1373.369	1913.812
Finance charges	254.183	122.808
Profit before depreciation	1119.186	1791.004
Deductions for :		
(i) Depreciation	468.207	443.572
(ii) Provision for taxation	227.893	388.262
Profit after depreciation and taxation	423.086	959.170
Add :		
Surplus of profit and loss account of earlier year	540.580	455.710
Appropriations		
(i) General reserve	100.000	150.000
(ii) Debenture redemption reserve	50.000	300.000
(iii) Proposed dividend	372.100	372.100
(iv) Tax on dividend	52.200	52.200
(v) Balance carried over to balance sheet	389.366	540.580

Operations

The operational performance is summarized below:

	2005-2006	2004-2005
Income (Rs. million)	9071.279	10012.602
Profit before tax (Rs.million)	650.979	1347.432
Profit after tax (Rs.million)	423.086	959.170
Cash earnings (Rs. million)	894.836	1279.904
PVC Resin		
Production (MTs)	145064	146339
Sale (excluding interdivisional) :		
- in MTs	93813	106657
- in (Rs. million)	3756.978	5161.743
PVC Pipes and Fittings		
Production (MTs)	62433	47813
Sale (MTs)	60364	48173
Sale (Rs. million)	3177.453	2767.620

Dividend

Your directors have recommended dividend on equity shares at 15% (Rs. 1.50 per equity share) and an additional silver jubilee dividend of 15% (Rs.1.50 per share) aggregating to 30% (Rs. 3 per share) for the financial year ended 31st March, 2006. The proposed dividend (including corporate dividend tax) will absorb Rs. 424.300 million.

Finance

The interest and finance charges for the year were Rs. 254.183 million as against Rs. 122.808 million of the previous year. The increase is due to hardening of interest rates.

Corporate governance

Pursuant to clause 49 of the listing agreements with the stock exchanges, a separate section on corporate governance and a certificate obtained from the auditors of the Company regarding compliance with the conditions of corporate governance are forming part of this annual report.

Completion of PVC expansion project

PVC expansion project commenced commercial production of PVC resin effective 26th February, 2006. The commencement of commercial production was informed to the stock exchanges on 27th February, 2006.

Letter of intent between the Company and I.M.Skaugen ASA, Norway

The Company has signed a Letter of Intent (LOI) with I.M. Skaugen ASA, Norway (IMS) for carrying out a study for viability and cost effectiveness of the planned LNG Supply Chain intended to be set up in India. IMS is a Marine Transportation Service Company specializing in transporting petrochemical gases and LPG and the ship to ship transfer of crude oil. The study is expected to be completed before the end of Q1 2007.

Setting up of Special Economic Zone (SEZ) at Chinchwad, Pune

The Company has been exploring various possibilities for putting to use the vacant land at Company's pipes plant at Chinchwad. It is felt that establishment of Special Economic Zone (SEZ)/Software Technology Park (STP)/other commercial activities, as a developer, would provide excellent returns on the long term basis.

Construction of breakwater near existing jetty at Ratnagiri

The Government of India, Ministry of Environment & Forests (IA-III Section) vide its letter No. F.No.11-61/ 2005-IA-III dated 31st March, 2006 has accorded environmental clearance under Coastal Regulation Zone Notification, 1991 to the Company for construction of breakwater near the existing Jetty at Ratnagiri. The construction of breakwater would make the port operational round the year resulting into saving in inventory cost of raw material stock which is incurred during the monsoon period.

Setting up of coal based captive power plant at Ratnagiri

To ensure continuous and steady supply of quality power and for ensuring optimum capacity utilization for PVC plant at Ratnagiri, the Company would be setting up a coal based captive power plant of 22 MW capacity at PVC plant, Ratnagiri. The work has already started and the power plant would be operational by September, 2007.

Fixed deposits

The Company has not accepted any fixed deposits during the year.

Employee stock option plan

The Company's employee stock option plan ("ESOP") came into effect from 1st April, 2006. While granting "In-principle" approval for listing of ESOP shares the National Stock Exchange of India Limited has directed the Company to make certain disclosures to the members in the ensuing general meeting. Accordingly, the resolutions for the same are proposed in the notice of the 25th annual general meeting to be held on 29th June, 2006.

Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies Act, 1956, the directors confirm that:

i) in the preparation of the annual accounts, the applicable accounting standards have been followed alongwith proper explanation relating to material departures;

ii) the directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at 31st March, 2006 and of the profit of the Company for the year ended on that date;

iii) the directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

iv) the directors have prepared the annual accounts on a going concern basis.

Energy, Technology and Foreign Exchange

Information on conservation of energy, technology absorption, foreign exchange earnings and outgo required to be given pursuant to Section 217(1)(e) of the Companies Act, 1956 read together with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 is annexed hereto and forms part of this report.

Directors

Dr. N.A. Kalyani, Mr. S.N. Inamdar and Mr. K.N. Atmaramani retire by rotation at the twenty fifth annual general meeting of the Company and being eligible, offer themselves for reappointment.

Auditors

M/s. B.K. Khare & Company, Chartered Accountants, retire as auditors of the Company at the conclusion of the twenty fifth annual general meeting and are eligible for reappointment.

Particulars of employees

Information as per Section 217(2A) of the Companies Act, 1956 (Act) read with the rules framed thereunder forms a part of this report. However as per the advice received by the Company pursuant to the provisions of Section 219(1)(b)(iv) of the Act, 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.

Corporate social responsibility

As a responsible corporate citizen your Company constantly supports in the areas of the education, health, culture and environment. The Company extends its support directly as well as through Hope Foundation, a Charitable Trust.

Your Company's efforts towards social welfare included assistance to villages around Ratnagiri for various social activities such as free Ayurvedic Health check up and medicines free of cost in association with "Ashtang Ayurvedic Shikshan Mandal", Pune for the villager patients in the vicinity of Golap, Phansop, Kolambe, Advare, Kasheli etc. A team of doctors examined the patients suffering from various diseases including eye check ups, and free medicines and eye-glasses were distributed to them.

Every year, your Company conducts a special seminar for the benefit of medical practitioners from the district of Ratnagiri on continuing medical education. During the year, such seminar was conducted where specialists from Pune delivered lectures on the latest trends in the field of medicine and diagnostic skills. The seminar was attended by good number of doctors from Ratnagiri area.

Your Company's continuous efforts towards maintaining clean and healthy environment included investment in eco-friendly technologies, planting of trees, conservation of energy, recycling of waste water, training to employees in preventive and precautionary measures to reduce environmental pollution.

Acknowledgements

Your directors take this opportunity to place on record their deep sense of gratitude to the banks, financial institutions, central and state government departments their local authorities especially at Ratnagiri, for their guidance and support. Your directors are also grateful to the customers, suppliers and business associates of the Company for their continued co-operation and support. Your directors express their deep sense of appreciation for the total commitment, dedication and hard work put in by every employee of the Company. Lastly, your directors are deeply grateful for the confidence and faith shown by the members of the Company in them.

For and on behalf of the Board of Directors

Pune
28th April, 2006

P.P. Chhabria
Chairman