

Finolex

Industries Limited

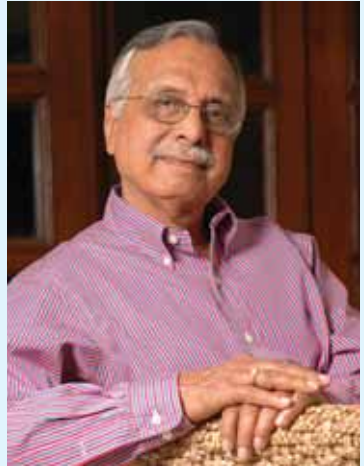


28th Annual Report 2008 - 2009

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Chairman's Message



Dear Stakeholders,

The year gone by has seen upheaval in the economic conditions world over leading to the financial crisis. Many financial institutions and global giants have gone out of business. In India also many growth sectors have been affected. However, Indian economy has comparatively fared better than most of the other economies of the world.

Your Company has registered significant growth in gross income. Both PVC Resin and PVC Pipes and Fittings divisions have performed better with strong demand from agricultural sector. The Company has reported higher operational profit as compared to the previous year. However, volatility in foreign exchange rates and commodity prices have had an impact on the Company's net profit.

Government of India has projected the GDP growth rate of 6% for 2009-2010. The rural economy in India is the least affected by recessionary trends. Your Company's products are largely sold in rural market. With a stable government in power and forward looking policy-pronouncements, the demand is expected to be buoyant.

The power plant expected to be commissioned during the current financial year and enhancement of pipes capacity to 1,40,000 MTs p.a. should contribute in improving the profitability of your Company.

I am confident that with your support your Company shall continue to march forward in the coming years.

P. P. Chhabria
Chairman

BOARD OF DIRECTORS

Mr. P. P. Chhabria

Non-executive Chairman

Mr. K. N. Atmaramani

Independent Director

Mr. Proshanto Banerjee

Independent Director

Mr. M. G. Bhide

Independent Director

Mr. S. N. Inamdar

Independent Director

Dr. Vijay P. Bhatkar

Independent Director

(effective 21st October, 2008)

Dr. Sunil U. Pathak

Independent Director

(effective 21st October, 2008)

Mr. P. D. Karandikar

Independent Director

(effective 27th June, 2009)

Mr. K. P. Chhabria

Executive Vice Chairman

Mr. Prakash P. Chhabria

Managing Director

Mr. S. S. Dhanorkar

Asst. Managing Director &

Chief Operating Officer

Mr. P. Subramaniam

Asst. Managing Director &

Chief Financial Officer

Mr. J. S. Arora

Director (Operations)

Company Secretary

Mr. Anil Atre

Bankers

Bank of India

ICICI Bank Limited

Bank of Baroda

Citibank N.A.

Bank of Maharashtra

The Bank of Nova Scotia

Corporation Bank

BNP Paribas

Auditors

B. K. Khare & Co.,
Chartered Accountants

Solicitors & Advocates

Crawford Bayley & Co., Mumbai

Investor Relations Centre

P-14, Rajiv Gandhi Infotech Park,

MIDC, Phase-I,

Hinjewadi, Pune 411 057

Maharashtra.

India.

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Fax No. 020 - 2293 2939

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Gat No.399, Urse,

Taluka Maval,

District Pune 410 506.

Maharashtra, India.

Tel. No. 02114-237251

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E-mail - investors@finolexind.com

Management Discussion and Analysis

Introduction

The year under review turned out to be a turbulent year for your Company. The volatility in the foreign exchange rates and commodities prices has taken a toll on the Company's profitability.

Financial Review

Both the divisions of the Company i.e. Poly Vinyl Chloride [PVC] resin and PVC pipes and fittings have shown volume growth. Both the divisions have reported a higher operating profit as compared to the previous year. However, the unprecedented volatility in the currency markets has resulted in wiping out the operating profits made by the Company during the year.

Global Economy and Effect on the Company

2008-2009 was a landmark year in the global economy. Many developed economies like the United States of America, European Union, Japan have officially declared to be in recession. After touching an all-time high of USD 147 per barrel, crude oil prices crashed to as low as USD 40 per barrel. The foreign exchange rates also witnessed similar volatility. This has undoubtedly impacted corporates across the world. In India, the Indian Rupee depreciated from Rs.40 per USD in April 2008 to Rs.50 per USD in December 2008. Your Company imports almost entire requirement of raw materials. The sharp depreciation of the Indian Rupee caused large foreign exchange loss to the Company. In addition to this, some of the foreign exchange forward and option contracts and derivatives that the Company had entered into to reduce the risk or cost to the Company turned negative and caused further losses to the Company.

On a positive note, the Indian economy is fairing much better than most of the economies. Government of India has predicted a GDP growth of 6% for 2009-2010. The rural economy in India is the least affected by the recessionary trends. Your Company's products i.e. PVC pipes and fittings are largely sold in the rural markets and because of its strong brand equity the Company has witnessed strong volume growth of 25% during the year under review. The strong demand for PVC pipes has resulted in a similar demand for PVC resin which is the main raw material for manufacturing PVC pipes and fittings.

Industry Outlook

PVC Resin Business

The domestic demand for PVC resin in India is already much higher than the domestic production and consequently India continues to be a net importer of PVC resin to the

extent of almost 4,00,000 MT per annum. The sharp drop in crude oil prices during mid-2008 had an impact across the chain and the prices of PVC resin as well as raw materials namely Ethylene, Ethylene Di-chloride [EDC], Vinyl Chloride Monomer [VCM] came down significantly. On the brighter side, as a consequence of the prices of PVC resin coming down, the demand for downstream products got a boost. The net shortage of PVC resin in the domestic market is expected to continue in the years to come. As a result of the shortage, your Company has been able to command a premium on the international prices for most of the months of the year.

PVC Pipes Business

On the back of various Government initiatives to boost the rural economy, the demand for PVC pipes has remained buoyant. It is expected that the Government will continue to give priority to agriculture and rural upliftment programmes in the years to come. This will ensure that demand for PVC pipes will continue to remain strong. Your Company has initiated measures to increase its PVC pipes capacity from 1,00,000 MT p.a. to 1,40,000 MT p.a. It is expected that the additional capacity will be in place by the end of current financial year.

Risks and Concerns

Your Company has a well documented Risk Management Policy. This policy is reviewed periodically by the Management and appropriately modified wherever necessary. Based on the operations of the Company, new risks, if any, are identified and steps are taken to mitigate the same. Your Company continues to import its main raw materials viz. EDC, Ethylene and VCM. None of these raw materials is traded in futures market and there is no opportunity to hedge the price risk. The Company is also exposed to foreign exchange risks and interest rate risks on its imports. The Company makes use of hedge/derivative products to manage these risks.

The surplus cash generated during the course of business is invested with banks/mutual funds from time to time. The detailed guidelines for investment of such surplus have been laid down and these are reviewed regularly by the Management.

Your Company continues to accord highest priority for safety in all of its operations. All the manufacturing facilities and processes are subject to regular inspections. A Safety Audit is carried out meticulously at the PVC resin plant in Ratnagiri and preventive measures are taken to ensure high standards of safety. Your Company has recently achieved a highly commendable milestone of one million man-hours without any reportable accident at its PVC resin plant at Ratnagiri.

Your Company has taken adequate insurance cover for all of its plants as well as for third party liabilities.

Transparency in Sharing Information

Transparency refers to sharing information and acting in an open manner. Processes, instructions 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 the Management Discussion and Analysis in the Annual Report and also through other means to keep the stakeholders informed 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 in India and abroad.

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 all 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, non-executive directors is in place. The Audit Committee monitors performance of Internal Audit on a periodical basis through review of the audit plans, audit findings and 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 programmes for employees at all levels. Employees are also sent for selected external training programmes especially with a view to aid leadership development.

The employee strength of your Company is currently 1,025.

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 expected 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-eighth annual report and audited accounts for the year ended 31st March, 2009.

Financial Results

		(Rs. in lakhs)
	2008-2009	2007-2008
Profit/(Loss) before depreciation & finance charges	4615.85	18955.17
Finance charges	4682.66	3031.93
Profit/(Loss) before depreciation	(66.81)	15923.24
Deductions for:		
i) Depreciation	5832.25	5745.77
ii) Provision for taxation	(2109.64)	3058.92
Profit/(Loss) after depreciation and taxation	(3789.42)	7118.55
Add:		
Surplus of profit and loss account of earlier year	6292.48	5027.93
Transfer from Debenture Redemption Reserve	2500.00	NIL
Appropriations:		
(i) General reserve	Nil	1000.00
(ii) Debenture redemption reserve	Nil	500.00
(iii) Proposed dividend	1241.00	3721.00
(iv) Tax on dividend	211.00	633.00
(v) Balance carried over the balance sheet	3551.06	6292.48

Operations

The operational performance is summarised below:

		2008-2009	2007-2008
Income	(Rs.lakhs)	173500.25	167550.25
Profit/(Loss) before tax	(Rs.lakhs)	(5899.06)	10177.47
Profit/(Loss) after tax	(Rs.lakhs)	(3789.42)	7118.55

PVC Resin

Production	(MTs)	247214	212714
Sale (excluding interdivisional):			
- in MTs		191978	187780
- in (Rs.lakhs)		86202.36	85712.41

PVC Pipes and Fittings

Production	(MTs)	91191	77750
Sale	(MTs)	94358	75827
Sale	(Rs.lakhs)	56651.18	44459.51

Dividend

Your directors have recommended dividend on equity shares @ 10% (Rupee one per equity share) for the financial year ended 31st March, 2009 out of surplus in profit and loss account. The proposed dividend (including corporate dividend tax) will absorb Rs.1,452 lakhs.

Finance

The interest and finance charges for the year were Rs. 4,682.66 lakhs as against Rs. 3,031.93 lakhs for the previous year.

Corporate Governance

Pursuant to clause 49 of the listing agreements entered into 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.

Shifting of Registered Office

Pursuant to the resolution passed at the twenty-sixth annual general meeting held on 22nd June, 2007, effective 4th July, 2008, the registered office of the Company was shifted to Gat No.399, Urse, Taluka Maval, District Pune 410 506.

Employee Stock Option Scheme

During the year, the Company has not issued any stock options.

Power Project

During the year, power project at Ratnagiri made a significant progress. Company has received all the permissions/approvals. Power plant installation is targeted to be completed by end of November, 2009. Power plant shall be fully operational in the fourth quarter of 2009-2010.

Breakwater Project

In view of the business scenario, the Breakwater project is temporarily put on hold and is expected to be resumed in due course.

Award for Excellence in Energy Conservation and Management

Maharashtra Energy Development Agency, a Government of Maharashtra undertaking has conferred on PVC plant, Ratnagiri the second prize for excellence in energy conservation and management recognising the efforts taken by all concerned in practising energy efficiency and conservation measures.

Setting up Gas based Power Plant at Chinchwad, Pune

Your Company proposes to set up a 30 MW Gas based Power Plant at Chinchwad, Pune. The concept of power generation through Gas based Power Plant is comparatively a low cost project having a very short gestation period and an eco-friendly source of

energy. Besides this social and environmental aspect, it makes great business sense to take up this venture.

Alteration of Objects Clause

In view of the above proposal, your Company proposes to amend the existing Other Objects Clause III (C) (57) of the Memorandum of Association to enable it to manufacture, market and trade electric and other forms of energy in place of the existing clause which allows the Company to manufacture electric and other forms of energy for own consumption only.

The item for approval of the shareholders for the above referred alteration is forming part of the notice. The directors recommend obtaining shareholders' consent by postal ballot.

Fixed Deposits

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

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 along with 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 as at 31st March, 2009 and of the loss 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

i. Sad demise of Shri. S. S. Marathe

Shri. S. S. Marathe, the then non-executive independent director of the Company passed away on Sunday, 28th September, 2008. During the period of his long association of 19 years as an independent director, the Company has immensely benefited by his vast experience, his valuable advice and distinguished contributions from time to time in the growth of the Company. In the Board meeting held on