

Finolex
Industries Limited

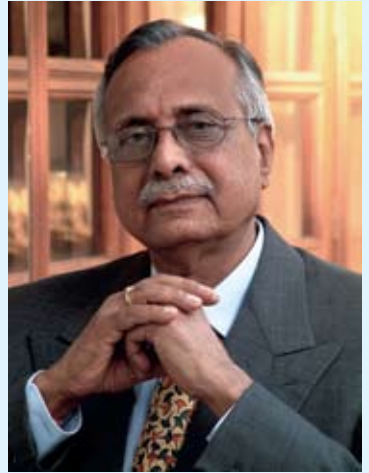


29th Annual Report 2009-10

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Chairman's Message



Dear Stakeholders,

The year gone by has been one of consolidation and recoupment.

There has been a good growth in all sectors of the economy during the year in India as compared to the other countries of the world. Your Company has registered significant growth on all fronts. The PVC Pipes and Fittings division has performed well both in terms of volume and value addition. The Company has reported healthy operational profit for the year. The foreign exchange rates and commodity prices have been range bound during the year and less volatile.

The Government of India has projected GDP growth rate of 8% plus for the year 2010-11. The agricultural sector is also expected to show a good improvement. Your Company's products are largely sold in the rural market. The government has taken initiative in announcing progressive schemes for development and the demand is expected to be buoyant.

The power plant has been commissioned and is expected to be fully operational during 2010-11.

I am confident that with your support the 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

(Resigned effective 25th April, 2010)

Mr. M. G. Bhide

Independent Director

(Resigned effective 15th June, 2010)

Mr. S. N. Inamdar

Independent Director

Dr. Vijay P. Bhatkar

Independent Director

Dr. Sunil U. Pathak

Independent Director

Mr. P. D. Karandikar

Independent Director

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)

(Resigned effective 1st January, 2010)

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

The Royal Bank of Scotland

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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District Pune 410 506.

Maharashtra, India.

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Management Discussion and Analysis

Introduction

The year under review has seen your Company registering significant growth on all fronts.

Financial Review

The Company has two divisions, i.e., Poly Vinyl Chloride [PVC] and PVC Pipes & Fittings. The operating profit for both the divisions has been sharply higher as compared to the previous year.

Global Economy and Effect on the Company

The extreme volatility experienced in the global markets during 2008-09 moderated to some extent during the year under review. However, uncertainty still looms large on the global business horizon. The developed economies of USA and Europe have pumped in trillions of dollars to stabilize their economies. The long term effects of these measures are yet to be seen. Volatility in commodity prices and foreign exchange rates is the order of the day. Though there are emerging signs of recovery, these are still not strong enough to instil confidence in the system as a whole. The economic crisis has hit countries like Greece and Iceland very badly and there is speculation about some other countries also facing similar crises.

A delayed and sub-normal monsoon added to the overall uncertainty prevailing in the Indian economy at the beginning of the year under review. Despite this the Indian economy posted a remarkable recovery. The GDP growth tentatively assessed at over 6% is one of the highest in the world. The rural economy in India is fast growing giving an impetus to the demand for various products. Your Company's products, i.e., PVC Pipes & Fittings are mainly sold in the rural markets. This segment has seen volume growth of more than 20% during the year under review.

Industry Outlook

PVC Resin Business

The domestic demand for PVC Resin grew by almost 25% during the year under review. This is on the background of a net shortage which had been prevailing in the Indian market for the past few years. The total imports of PVC Resin into India grew to almost 800,000 MT, and it is expected that this shortage will only grow in the years to come.

The International prices of PVC Resin increased from around USD 800/MT at the beginning of the year under review to over USD 1,000/MT by the end of the year. Despite a corresponding increase in the raw material prices, your Company was able to improve its margins because of its ability to pass on the cost increases to the market fairly quickly.

PVC Pipes Business

The demand for PVC Pipes has been very strong during the year under review. The bulk of your Company's PVC Pipes production is sold in the rural markets for Agriculture and Irrigation. Given your Company's vast network spread across the length and breadth of the country, your Company has been able to reach even the remotest villages where the demand for PVC Pipes exists. Despite the slow-down in the Building Construction Industry, your Company was able to post a strong growth of almost 35% in the sale of Plumbing and Sanitation Pipes. This is entirely due to the strong brand equity enjoyed by your Company.

Your Company has successfully completed the expansion of PVC Pipes manufacturing capacity from 100,000 MT p.a. to 140,000 MT p.a. The full capacity will be available during 2010-11. Considering the strong demand for its products, your Company is now contemplating further increase in PVC Pipes capacity at a new location.

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 taken to mitigate the same. Company is further working on strengthening the Risk Management Policy. Your Company continues to import its main raw materials, viz., EDC, Ethylene and VCM. None of these raw materials are 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/derivatives 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 at Ratnagiri and preventive measures are taken to ensure high standards of safety. Your Company has completed 12.6 million man-hours without any reportable accident at its PVC resin plant at Ratnagiri.

Your Company has taken adequate insurance cover for all 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 Report in the Annual Report and also through other means to keep the stakeholders informed about the business performance.

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 programs 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 1029.

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-ninth annual report and audited accounts for the year ended 31st March, 2010.

Financial Results

		(Rs. in lakhs)
	2009-2010	2008-2009
Profit/(Loss) before depreciation & finance charges	28224.73	4615.85
Finance charges	4660.66	4682.66
Profit/(Loss) before depreciation	23564.07	(66.81)
Deductions for:		
i) Depreciation	6167.41	5832.25
ii) Provision for taxation	4164.28	(2109.64)
Profit/(Loss) after depreciation and taxation	13232.38	(3789.42)
Add:		
Surplus of profit and loss account of earlier year	3551.06	6292.48
Transfer from Debenture Redemption Reserve	Nil	2500.00
Appropriations:		
(i) General reserve	2000.00	Nil
(ii) Debenture redemption reserve	2000.00	Nil
(iii) Proposed dividend	3721.00	1241.00
(iv) Tax on dividend	633.00	211.00
(v) Balance carried over to the balance sheet	8429.44	3551.06

Operations

The operational performance is summarised below:

	2009-2010	2008-2009
Income	165047.00	173500.25
Profit/(Loss) before tax	17396.66	(5899.06)
Profit/(Loss) after tax	13232.38	(3789.42)

PVC Resin

Production	- in (MTs)	249867	247214
Sale (excluding interdivisional):			
	- in (MTs)	138819	191978
		64547.06	86202.36

PVC Pipes and Fittings

Production	- in (MTs)	114520	91191
Sale:	- in (MTs)	112789	94358
		72004.20	56651.18

Dividend

Your directors have recommended dividend on equity shares @ 30% (Rupees 3 per equity share) for the financial year ended 31st March, 2010. The proposed dividend (including corporate dividend tax) will absorb Rs. 4,354 lakhs.

Finance

The interest and finance charges for the year were Rs. 4,660.66 lakhs as against Rs. 4,682.66 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.

Employee Stock Option Scheme

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

Power Project

The Company's 43 MW power plant is operational. The Company has started to supply power to Maharashtra State Electricity Distribution Company Limited through its grid.

National Energy Conservation Award, 2009

Government of India, Ministry of Power, has conferred on PVC manufacturing plant, Ratnagiri, the National Energy Conservation Award, 2009 in petrochemical sector. The award recognizes the Company's efforts and the effective steps taken by it in substantial energy conservation by implementing various energy conservation schemes.

Certificate of Appreciation

Government of India, Ministry of Finance, Department of Revenue, Commissionerate of Customs, Pune has awarded a certificate in appreciation of the valuable contribution made by the Company relating to Import of Cargo through the Commissionerate of Customs, Pune during the year 2009-10.

Setting up Gas-based Power Plant at Chinchwad, Pune

The project is under detailed study for determination of long term certainty for supply of inputs. The viability and sustainability of the project would largely depend upon positive outcome of the study which in turn would decide the way forward.

Risk Management Framework Review

Your Company has put in place a well designed Risk Management Policy. The policy has adequately systematized risks identification, assessment, monitoring and controlling processes and the same are working fine.

Notwithstanding above, the Management desires to further strengthen the framework by improving present practices of risk assessment, monitoring and controlling by implementing latest techniques in monitoring and governance. With this end in mind, the Company has appointed a professional firm, to evaluate current risk management practices of the Company and suggest overall changes and improvements to achieve structured risk governance.

Alteration to Articles of Association

Your company proposes to alter Article No.121(3) to provide for maximum sum that may be paid to a member of the Board of Directors or a committee thereof for attending meetings and Article No.141 of the Articles of Association of the Company in respect of appointment of Chairman, Executive Chairman, Managing Director and the Executive Directors of the Company and powers and responsibilities to be vested in them. Consequently, Article No.121(1), 121(2), 131,142, 143, 148 and 159 are also proposed to be suitably amended. The item for approval of shareholders to the above referred amendments to Articles of Association is forming part of the notice. The directors recommend shareholders' approval for the same.

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, 2010 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 Conservation, Technology absorption and Foreign Exchange earnings and outgo

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. Resignation of Mr. J. S. Arora

Mr. J. S. Arora, Director – Operations, PVC manufacturing plant, Ratnagiri resigned as a Director of the Company effective 1st January, 2010. The Directors place on record their sincere appreciation of the services rendered by Mr. J. S. Arora during his tenure as a director of the Company.

ii. Resignation of Mr. Proshanto Banerjee

Mr. Proshanto Banerjee, non-executive independent director resigned as a Director of the Company effective 25th April, 2010. The Directors place on record their sincere appreciation of the services rendered by Mr. Proshanto Banerjee during his tenure as a director of the Company.

iii. Retirement of directors

Mr. S. N. Inamdar, Mr. K. N. Atmaramani and Mr. M. G. Bhide retire by rotation at the twenty-ninth 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-ninth annual general meeting and are eligible for reappointment.

Particulars of Employees

Information as per section 217(2A) of the Companies Act, 1956 (the “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 statement may write to the Company Secretary at the registered office of the Company.

Corporate social responsibility

During the year, your Company continued its endeavour in extending its support to the society in the areas of health, education, environment, sports and cultural activities with the help of a renowned charitable trust from Pune, viz., Mukul Madhav Foundation. Company concentrates in the above referred activities mainly in the Ranpar-Golap area in the District of Ratnagiri where Company’s PVC resin, PVC pipes and power plants are located.