

30th Annual Report | 2010-11



Finolex
Industries Limited

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Chairman's Message



Dear Stakeholders,

The year gone by has been one of stable growth and consolidation.

India is emerging as one of the fastest growing economies of the world, besides China, with all time high GDP growth rate close to 9%. Your Company has registered significant growth on all fronts of its products in terms in volume and value during the year. However, the profit margin of the Company has been under pressure due to increase in raw material prices.

The Company's Power Plant has been able to achieve full capacity and is expected to maintain the same going forward.

The Government of India's commitment to rural development, additional investments in agriculture to increase the supply side to bring down inflation augers well for your Company. The Company's products are largely sold in the rural markets. The initiatives taken by the Government are expected to keep the demand buoyant.

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. 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. Cherian Varghese

Additional Director

(Resigned effective 23rd October, 2010)

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

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 N.V.

Auditors

B.K. Khare & Co.,

Chartered Accountants

Solicitors & Advocates

Crawford Bayley & Co., Mumbai

Investor Relations Centre

P-14, Rajiv Gandhi Infotech Park,

MIDC, Phase-1, Hinjewadi,

Pune 411 057,

Maharashtra, India.

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Management Discussion and Analysis

Introduction

The year under review has been one of consolidation and productivity improvement for your Company.

Financial Review

The Company's two divisions viz. PVC Resin and PVC Pipes & Fittings have shown improved production and sales growth in volume and in terms of value during the year under review. The profit margins have been under pressure as compared to the previous year due to increase in raw material prices.

Global Economy and its Effect on the Company

Just when the global economy was showing signs of consolidation, the political crisis in the Middle East has once again led to uncertainty. The crude oil prices have moved up from US\$ 80 to US\$ 120 per barrel in a short span of 4 months. The commodity prices are once again volatile due to uncertain global developments though the demand supply scenario has shown improvement during the year as compared to past year. Uncertain times still continue with some more economies in Europe showing financial crisis which requires to be resolved.

A very high inflation rate, supply constraints, and governance issues have significantly affected the Indian economic situation during the year under review. However, the economy has shown resilience in spite of all these impediments, by showing good GDP growth of over 8.5%. The rural economy is also growing at a good pace which has given an impetus to Pipes demand of your Company.

Industry Outlook

PVC Resin Business

The domestic demand for PVC Resin grew by 7% during the year under review. The demand-supply gap is being filled in by imports. The total imports were around 700,000 MT during the year under review. It is expected that this trend will continue over the years to come.

The raw material prices have increased significantly during the year which were not commensurate with the increase in finished goods prices thereby affecting the profit margins of the Company.

PVC Pipes Business

The demand for PVC Pipes continued to show strong growth for the third year in succession. The growth in demand during the year under review for your Company's products was over 20%. The bulk of the PVC Pipes demand comes from rural areas for Agriculture and Irrigation sectors. Due to the large network of dealers spread across pan India, your Company has been able to reach even the remotest villages where the demand for PVC Pipes exists. Due to the improvement in the real estate sector during the year, your Company was able to post growth in the sale of Plumbing and sanitation Pipes which was entirely due to the highest quality of the product and the strong brand equity of your Company.

It is expected that the Government will continue its thrust on agriculture and rural sectors which will enhance further demand for Pipes. Your Company has initiated steps to augment its production capacity at the existing locations by debottlenecking to the extent of additional 20,000 MTs and also by putting up a new Pipes Plant in the state of Gujarat of 50,000 MTs capacity. With this increased capacity your Company will cross the major milestone of 2,00,000 MT capacity per annum.

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. With increasing globalisation the companies in India have to deal with developments taking place around the globe. The volatile movements in exchange rates are caused by major geo-political developments besides mere economic and financial issues. There is

also, of late, an increasing protectionism trends by developed economies through exchange rates management. These factors are beyond the control of your Company. The recent Middle East crisis has resulted in hardening of crude oil prices and its derivatives. Your Company continues to import its main raw materials, viz., EDC, Ethylene, VCM and Coal. Based on the operations of the Company new risks, if any, are identified and appropriate steps are taken to mitigate them. The Company is also exposed to foreign exchange risks and interest rate risks, the same are managed and mitigated by your Company by using hedging products..

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 regularly at the PVC resin plant at Ratnagiri and preventive measures are taken to ensure high standards of safety. Your Company has completed 16.28 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 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 four independent, non-executive directors, inter alia, 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 programs especially with a view to aid leadership development. The employee strength of your Company is currently 1045.

Cautionary statement

Estimates and expectations stated in this Management Discussion and Analysis may be a "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, 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 thirtieth annual report and audited accounts for the year ended 31st March, 2011.

Financial Results

	2010-2011	(Rs. in lakhs) 2009-2010
Profit before depreciation & finance charges	24904.45	28224.73
Less :		
Finance charges	5966.28	4660.66
Profit before depreciation and taxation	18938.17	23564.07
Deductions for:		
i) Depreciation	7442.91	6167.41
ii) Provision for taxation	3878.16	4164.28
Profit after depreciation and taxation	7617.10	13232.38
Add :		
Surplus of profit and loss account of earlier year	8429.44	3551.06
Appropriations:		
(i) General reserve	2000.00	2000.00
(ii) Debenture redemption reserve	1500.00	2000.00
(iii) Proposed dividend	3721.00	3721.00
(iv) Tax on dividend	633.00	633.00
Balance carried over to the balance sheet	8192.54	8429.44

Operations

The operational performance is summarised below:

	2010-2011	2009-2010
Income	222101.07	161194.15
Profit before tax	11495.26	17396.66
Profit after tax	7617.10	13232.38

PVC Resin

Production	- in (MTs)	270124	249867
Sale			
(excluding interdivisional) :	- in (MTs)	171460	138819
	- in Rs. lakhs	89074.07	64547.06

PVC Pipes and Fittings

Production	- in (MTs)	140056	114520
Sale	- in (MTs)	138322	112789
	- in Rs. lakhs	90563.83	72004.20

Power

Production	- in (MW)	258182	Nil
Sale (including interdivisional)	- in (MW)	244614	Nil
	- in Rs. lakhs	11475.64	Nil

Dividend

Your directors have recommended dividend on equity shares @ 30% (Rupees 3.00 per equity share) for the financial year ended 31st March, 2011. The proposed dividend (including corporate dividend tax) will absorb Rs.4354 lakhs.

Finance

The interest and finance charges for the year were Rs. 5966.28 lakhs as against Rs. 4660.66 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.

Establishment of PVC pipes & fittings manufacturing plant in the State of Gujarat

At the Vibrant Gujarat Summit, 2011 held in Ahmedabad on 13th January, 2011, your Company has entered into a Memorandum Of Understanding with the Government of Gujarat for establishing a Rigid PVC Pipes & fittings manufacturing plant at Village Masar, District Vadodara, State of Gujarat with 50000 M.T. capacity per annum. The projected capital outlay for the same is Rs.100 crore. Your Company expects to commence commercial production before end of financial year 2011-12. After commissioning of the project, considering ever increasing demand for PVC pipes, your Company would explore the possibility of capacity expansion of the Masar plant in future.

PVC Pipes & Fittings

During the year, your Company has sold 138322 Metric Tons of PVC Pipes and Fittings.

Management Discussion and Analysis

Management Discussion and Analysis of financial condition of the Company and results of operations have been reviewed by the Audit Committee and the same is forming a part of this Annual Report.

Lifetime achievement Awards to Shri. P. P. Chhabria, Chairman and Shri. K. P. Chhabria, Executive Vice Chairman

The Chemicals and Petrochemicals Manufacturers' Association (CPMA) an apex Forum of Producers representing Chemical and Petrochemicals Industry in India has conferred Lifetime Achievement Awards on Shri. P. P. Chhabria, Chairman and Shri. K. P. Chhabria, Executive Vice Chairman for their yeoman service spanning over several decades towards growth of the Vinyl Industry.

Risk Management Framework Review

Your Company has put in place a well designed Risk Management Policy. To further strengthen the same a professional firm was appointed by the Company to evaluate the current risk management practices of the Company. The firm has identified areas of concern and risks. Your Company will work on improvement areas for mitigation of risks to achieve improved monitoring and governance.

Fixed Deposits

Your 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, 2011 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. Reappointment of Mr. P. Subramaniam

The Board of Directors has reappointed Mr. P. Subramaniam as wholetime director designated as Asst. Managing Director and CFO for a period of two years effective 5th June, 2011, subject to approval of the members of the Company. The Directors recommend his reappointment.

ii. Resignation of Mr. M. G. Bhide

Mr. M. G. Bhide, an independent non-executive director has resigned as a director of the Company effective 15th June, 2010. The Directors place on record their sincere appreciation of the services rendered by Mr. M. G. Bhide during his tenure as a director of the Company.

iii. Resignation of Mr. K. Cherian Varghese

Mr. K. Cherian Varghese, was co-opted as additional director on 18th August, 2010 by the Board. He has resigned as a director of the Company effective 23rd October, 2010. The Directors place on record their sincere appreciation of the services rendered by Mr. K. Cherian Varghese during his tenure as a director of the Company.

iv. Retirement of directors

Mr. S. S. Dhanorkar, Mr. P. Subramaniam and Dr. Vijay P. Bhatkar retire by rotation at the thirtieth 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 your Company at the conclusion of the thirtieth annual general meeting and are eligible for reappointment.

Appointment of Cost Auditors

The Government of India, Ministry of Corporate Affairs, Cost Audit Branch vide its order No.52/112/CAB-2010 dated 16th December, 2010 had directed your Company to appoint Cost Auditor for Chemicals for the financial year 2010-2011 and for every financial year thereafter continuously.