



Finolex

# Finolex Industries Limited

31st Annual Report 2011-12

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## *Chairman's Message*



*Your Company has achieved modest growth in terms of production and sales in the year gone by.*

*Indian economy has been able to show a growth of about 6.90% during the year under challenging global and domestic environment. The Company has been able to sustain the margins despite the economic uncertainties.*

*The Government of India's continued focus on agriculture and irrigation with greater allocation of Plan funds augurs well for your Company. Your Company's products are sold across the length and breadth of India through the Company's wide dealer network.*

*Your Company is taking steps to increase the capacity of PVC Pipes and fittings to cater to the ever-increasing demand.*

*Your Company's new project being set up for manufacture of PVC pipes and fittings at village Masar in the State of Gujarat is expected to be commissioned during the current financial year 2012-2013.*

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

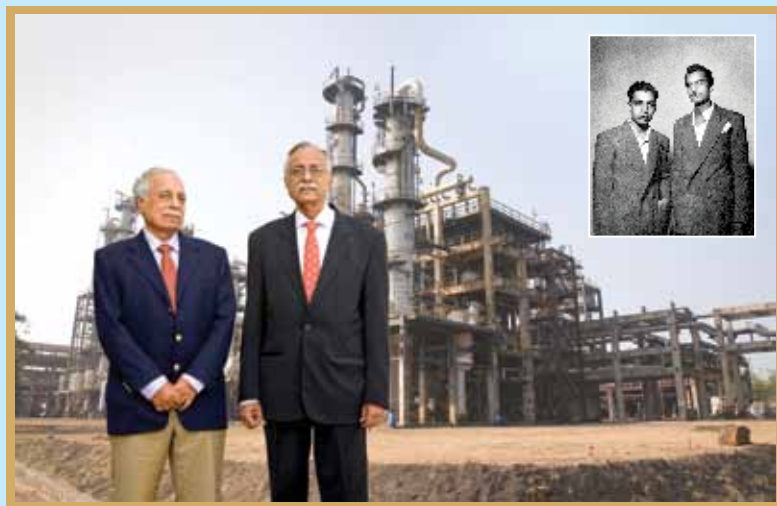
*As you are aware, I have been Chairman of the Company since inception. I have decided to retire from the Board of the Company. Similarly, Mr. K. P. Chhabria, Executive Vice Chairman has also decided to retire from the Board of the Company. Both of us will retire effective 11th August, 2012. The Board has appointed Mr. K. P. Chhabria as Chairman Emeritus effective 11th August, 2012.*

*Mr. Prakash P. Chhabria will take over as Executive Chairman of the Company effective 11th August, 2012.*

*Mr. K. P. Chhabria and myself wish the Company all the success.*

*With warm regards,*

*P. P. Chhabria*  
*Chairman*



Mr. P. P. Chhabria, Chairman(R) and Mr. K. P. Chhabria, Executive Vice Chairman(L) outside PVC manufacturing plant at Ratnagiri, (Inset) Chhabria brothers in 1958.

## A tribute to the retiring promoters

Mr. P. P. Chhabria and Mr. K. P. Chhabria, founder promoters of your Company and doyens of Poly Vinyl Chloride (PVC) pipes and resin industry of India, are retiring on August 11, 2012.

Mr. P. P. Chhabria, Chairman and Mr. K. P. Chhabria, Executive Vice Chairman promoted your Company in the year 1981 for the manufacture of PVC pipes. In 1992, as a step towards backward integration, they set up a petrochemical plant for manufacture of PVC resin in Ratnagiri, Maharashtra. Within a span of 30 years they took your Company to the pinnacle of PVC pipes and resin industry by becoming India's largest PVC pipes manufacturer and second largest PVC resin manufacturer.

This achievement was the result of their vision, tremendous perseverance, hard work and commitment to quality in everything the Company did. Continuous improvement was their motto. Just like water they made ways to carve success even in turbulent times and forged ahead on the path of their choice to change the face of Indian agriculture. Yes, it is indeed a fact that Finolex pipes have played an instrumental role in the green revolution of India.

They have been conferred with many honours, awards and accolades in their individual capacity at national and international levels for their contributions to business and industry:

- Life time achievement award for both of them from The Chemicals and Petrochemicals Manufacturers' Association (CPMA) an apex forum of Producers representing Chemical and Petrochemicals Industry in India, for their yeoman service spanning over several decades towards growth of the Vinyl Industry.
- An "Award of Honour" to Mr. P. P. Chhabria from The Prime Minister of Israel Mr. Ehud Olmert at a grand ceremony in Jerusalem during the Prime Minister's Conference for Export and International Cooperation, in 2008.
- Mr. K. P. Chhabria has also been bestowed with the "Best Industrialist of the year" award by The Foundation of Indian Industries and Economics.

Under their dynamic leadership your Company was presented with various awards and accolades. Outstanding among them are:

- Safety Awards by National Safety Council, Maharashtra Chapter.
- MCCIA - Dr. R. J. Rathi award for excellence in environmental pollution control.
- Greentech Foundation's Environment Excellence 'Gold Award'.
- State Level Award for Excellence in Energy Conservation and Management by the Maharashtra Energy Development Agency (MEDA).
- National Energy Conservation Award by the Ministry of Power, Government of India.

Mr. P. P. Chhabria and Mr. K. P. Chhabria have been actively pursuing number of philanthropic activities. They have set up the Hope Foundation of Pune in the year 1979 (year of the child). Your Company actively supports the Foundation's activities in the field of education and medical assistance. The Foundation has been instrumental in the setting up of Finolex Academy of Management Technology (FAMT) at Ratnagiri and the International Institute of Information Technology (I<sup>2</sup>IT) at Pune. I<sup>2</sup>IT was dedicated to the nation at the hands of Shri A. P. J. Abdul Kalam the then Honourable President of India on 28th May, 2003.

The Board expressed its deep gratitude to both of them for the outstanding services rendered by them not only to your Company, but also to industry and to the nation, over a period of many decades.

Board also acknowledged their service to community on a wide range of social issues with special emphasis on social welfare, education and healthcare.

Let us all wish both of them a long and healthy life.

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## BOARD OF DIRECTORS

**Mr. P. P. Chhabria**

Non-executive Chairman

**Mr. K. N. Atmaramani**

Independent Director

**Mr. D. N. Damania**

Independent Director  
(Effective 29.07.2011)

**Mr. S. N. Inamdar**

Independent Director

**Dr. Vijay P. Bhatkar**

Independent Director  
(Resigned effective 03.06.2011)

**Dr. Sunil U. Pathak**

Independent Director

**Mr. P. D. Karandikar**

Independent Director

**Mr. Sanjay Asher**

Independent Director  
(Effective 04.02.2012)

**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. S. S. Math**

Director (Operations)  
(Effective 04.02.2012)

**Company Secretary**

Mr. Anil B. 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 I, Hinjewadi  
Pune 411 057  
Maharashtra  
India  
Tel.No.020-27408200  
E-mail: investors@finolexind.com

**Registered Office**

Gat No.399, Urse, Taluka Maval,  
District Pune 410 506,  
Maharashtra India  
Tel:02114-237251  
Fax:02114-237252  
E-mail:investors@finolexind.com

## Management Discussion and Analysis

### Introduction

The year under review has seen modest growth in production and sales of your Company's products.

### Financial Review

Despite increase in raw material prices including that of coal and the finance cost, the Company could maintain the net profit at almost the same level as in the previous year.

### Indian Economy and Effect on the Company

The global economic environment which has been tumultuous throughout last year turned sharply adverse towards end of 2011 owing to political and economic uncertainties in the Euro zone. With international rating agencies raising doubts about the outlook on the US economy, the possibility of a global recession became more pronounced.

Comparatively the Indian economy has shown a growth of around 6.9 % in 2011-12 as compared to 8.4 % in the previous year. Agricultural growth remains a priority for the Indian Government in order to achieve "inclusive growth". Though the share of agriculture in India's GDP is slowly declining, the importance of the sector to the economy continues to be very high because of its share in employment and its impact on the macro economic environment. The policy makers are still concerned that even today the agricultural growth is affected by the vagaries of nature. The Union Budget for 2012-13 has sharply increased allocation for agriculture and irrigation. The target for agricultural credit has been raised by ₹ 100,000 crore to ₹ 575,000 crore in 2012-13. Irrigation and Water Resource Finance Company is being operationalized to mobilize large resources to fund irrigation projects.

All the above factors bode well for your Company's business.

### Industry Outlook

#### PVC Resin Business

The domestic demand for PVC Resin grew by 3% during the year under review. The demand-supply gap continues to be filled in by imports. The total imports were around 800,000 MTs during the year under review. It is expected that this trend will continue over the years to come.

#### PVC Pipes Business

The demand for PVC Pipes continued to show strong growth during the year under review. PVC Pipes are mainly used in rural areas for Agriculture and Irrigation sectors. The pan India network of dealers has enabled your company to reach even the remotest villages of India. The brand equity of your Company along with high quality of plumbing and sanitation pipes has posted growth in this sector.

Your Company has increased its annual production capacity at the existing locations by debottlenecking to the extent of additional 20,000 MTs. The new Pipes Plant in the state of Gujarat of 50,000 MTs p.a., capacity is under construction and is expected to be operational during 2012-13.

#### 43 MW Captive Power Plant

Your Company's 43 MW Captive Power Plant generated 268318 MW of power during the year under review. High coal prices affected the profitability of the Power Plant.

### Risks and Concerns

Your Company has a well documented Risk Management Policy. This policy is reviewed by the Management periodically and is appropriately modified wherever necessary. The volatile

movements in exchange rates caused by major global developments undoubtedly have an impact on Indian companies. The recent hardening of crude oil prices and its derivatives is another cause for concern. 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 being exposed to foreign exchange risks and interest rate risks, the same are managed and mitigated by your Company by closely monitoring the currency markets and taking appropriate steps.

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 is proud to announce that it 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 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 1063.

### 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 the thirty-first annual report together with the audited accounts for the year ended 31st March, 2012.

### Financial Results

	<b>(Rs. in lakhs)</b>	
	<b>2011-2012</b>	<b>2010-2011</b>
Profit before depreciation & finance charges	<b>24721.56</b>	24904.45
Less:		
Finance charges	<b>7496.07</b>	5966.28
Profit before depreciation and taxation	<b>17225.49</b>	18938.17
Deductions for:		
i) Depreciation	<b>7551.28</b>	7442.91
ii) Provision for taxation	<b>2159.08</b>	3878.16
Profit after depreciation and taxation	<b>7515.13</b>	7617.10
Add:		
Surplus of Profit and Loss Account of earlier year	<b>8192.54</b>	8429.44
Appropriations:		
(i) General reserve	<b>2000.00</b>	2 000.00
(ii) Debenture redemption reserve	---	1500.00
(iii) Contingency Reserve	<b>1215.00</b>	---
(iv) Proposed dividend (including prior year adjustments)	<b>3732.68</b>	3721.00
(v) Tax on dividend	<b>603.94</b>	633.00
Balance carried over to the Balance Sheet	<b>8156.05</b>	8192.54

### Operations

The operational performance is summarised below:

Income	<b>213023.52</b>	200708.61
Profit before tax	<b>9674.21</b>	11495.26
Profit after tax	<b>7515.13</b>	7617.10

#### PVC Resin

Production	- in (MTs)	<b>266982</b>	270124
Sale	- in (MTs)	<b>161986</b>	171460
(excluding interdivisional):	- Rs. in lakhs	<b>95945.96</b>	94886.54

#### PVC Pipes and Fittings

Production	- in (MTs)	<b>149654</b>	140056
Sale	- in (MTs)	<b>150730</b>	138322
	- Rs. in lakhs	<b>108798.20</b>	91410.44

#### Power

Production	- in (MW)	<b>268318</b>	258182
Sale	- in (MW)	<b>123396</b>	244614
(excluding interdivisional)	- Rs. in lakhs	<b>5233.36</b>	11475.64

### Dividend

Your directors have recommended dividend on equity shares @ 30% (Rupees 3.00 per equity share) for the financial year ended 31st March, 2012. The proposed dividend (including corporate dividend tax) will absorb Rs.4326.80 lakhs.

### Finance

The interest and finance charges for the year were Rs.7496.07 lakhs as against Rs.5966.28 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 under review, your Company has not issued any stock options.

### Establishment of PVC Pipes and Fittings manufacturing plant in the State of Gujarat

Construction of your Company's PVC Pipes and Fittings manufacturing plant with 50,000 M.T. per annum capacity is in progress as scheduled and the plant is expected to be commissioned during the current financial year 2012-2013.

### State Level Award for Excellence in Energy Conservation and Management

Maharashtra Energy Development Agency, a Government of Maharashtra institute has conferred on PVC manufacturing plant, Ratnagiri the "State level Award for Excellence in energy conservation and management in the petro-chemical sector for the year 2008-2009". The award was declared and distributed in March, 2012.

### PVC Pipes & Fittings

During the year, your Company has sold 150730 Metric Tons of Pipes and Fittings.

### Management Discussion and Analysis

Pursuant to clause 49 of the listing agreements entered into with stock exchanges, Management Discussion and Analysis report of financial condition and results of operations has been reviewed by the Audit Committee and the same is forming part of this Annual Report.

### 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, your directors, on the basis of