

*paani foh berang hai,  
par manzil par kya rang dikhata hai.*



Paani ko apni manzil tak pahunchaye

**Finolex**  
Industries Limited

# Team Finolex



## *Chairman's Message*



*Dear shareholders,*

*This is my first address to you as Chairman and I am honoured to assume this position.*

*I shall begin by thanking Mr.P.P.Chhabria, Ex-Chairman and Mr.K.P.Chhabria, Ex-Executive Vice Chairman and Chairman Emeritus for their incredible leadership and guidance since the inception of your Company.*

*The Government of India's continued focus on agriculture and irrigation with greater allocation of planned funds augurs well for the Company. Your Company is geared up to meet the growing demand and has commissioned the new pipes plant at Masar in Gujarat.*

*Today, more than ever before, the business environment is undergoing rapid change, volatility and uncertainty have become a norm. I am confident that your Company's commitment to quality and its strong brand equity will help it to retain its numero uno position in the PVC pipe industry.*

*The Board joins me in expressing our deep appreciation to the employees, management team for their hard-work and valued contribution during 2012-2013. I look forward to my team reaching newer heights of accomplishments.*

*I am confident that with your continued support your Company shall carry on marching forward in the coming years.*

*With warm regards,*

**Prakash P. Chhabria**  
Executive Chairman

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Chairman Emeritus  
**Mr. Kishan P. Chhabria**  
(effective 11th August, 2012)

## BOARD OF DIRECTORS

**Mr. Pralhad P. Chhabria**  
Non-executive Chairman  
(Upto 11th August, 2012)

**Mr. Kishan P. Chhabria**  
Executive Vice Chairman  
(Upto 11th August, 2012)

**Mr. Prakash P. Chhabria**  
Executive Chairman  
(effective 11th August, 2012)

**Mr. Sanjay K. Asher**  
Independent Director

**Mr. Kanaiyalal N. Atmaramani**  
Independent Director

**Mr. Dara N. Damania**  
Independent Director

**Mr. Saurabh S. Dhanorkar**  
Managing Director  
(Effective 11th August, 2012)

**Mr. Shrikrishna N. Inamdar**  
Independent Director

**Mr. Prabhakar D. Karandikar**  
Independent Director

**Mr. Sanjay S. Math**  
Director (Operations)

**Dr. Sunil U. Pathak**  
Independent Director

**Mr. Panyam Subramaniam**  
Asst. Managing Director &  
Chief Financial Officer

**Company Secretary**  
Mr. Anil B. Atre

**Bankers**  
Bank of India  
ICICI Bank Limited  
Bank of Baroda  
Citibank N.A.  
Bank of Maharashtra  
Corporation Bank

**Auditors**  
M/s. P. G. Bhagwat  
Chartered Accountants, Pune

**Solicitors & Advocates**  
Crawford Bayley & Co., Mumbai

**Investor Relations Centre**  
D1/10, MIDC  
Chinchwad  
Pune 411 019.  
Maharashtra  
India  
Tel.No.020-27408200/27408570/571  
E-mail:investors@finolexind.com

**Registered Office**  
Gat No.399, Village Urse  
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District Pune 410 506.  
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# Management discussion and analysis

## Introduction

Your Company has continued on the growth path during the year under review, both in terms of production and sales of pipes and fittings.

## Financial review

Your Company has achieved an all time high profitability during the year under review. EBITDA margins have shown a jump from about 12% to 14% while net profit before tax for the year has almost doubled from ₹97 crore to ₹190 crore. The turnover has only marginally increased from ₹2,100 crore to ₹2,145 crore since the captive consumption of PVC resin i.e. internal transfer from the PVC division to the PVC pipes division is netted from the turnover.

## Outlook for the Company

### PVC pipes and fittings division:

Your Company is India's largest manufacturer of PVC pipes and fittings. Your Company has achieved 27% growth in the sale of pipes and fittings during the year under review. This was possible because of the very strong affiliation to brand "Finolex" instilled by your Company in the hearts of lacs of consumers spread across the length and breadth of India. Finolex pipes and fittings are available in every state of the country and are sold through a network of dealers, sub-dealers and retailers. The name Finolex stands for the highest quality of pipes and fittings. Your Company is the only PVC pipe manufacturer with its own PVC resin plant which gives it complete control on the quality of pipes.

Your Company has always been deeply involved in the rural markets of India. With the rural economy poised for a substantial growth, your Company is ideally positioned to reap the benefits. Government of India has declared rural water management as its focus area. It has set a target of bringing 650 lacs hectares of land under irrigation by 2020. The Twelfth Five Year Plan envisages investment in excess of ₹5,00,000 crore for the irrigation sector. Further, an amount of ₹2,30,000 crore has been set aside for water management. This will give further boost to the PVC pipes and fittings demand.

Over the years, your Company's sales in the northern region have been growing by leaps and bounds, so much so that your Company felt the need to establish a new plant to cater to the ever growing demand from this region. Your Company selected Vadodara in Gujarat as the ideal location to set up a green field PVC pipes plant. The state-of-the-art plant at Masar in Vadodara has been commissioned during the year under review with an initial capacity of 30,000 tons per annum (tpa). Your Company plans to scale this up to 50,000 tpa during 2013-14. During 2012-13, your Company's aggregate capacity of PVC pipes and fittings has crossed 2,00,000 tpa. Your Company is already looking at further expansion / debottlenecking of the PVC pipes and fittings division.

### PVC resin division:

The domestic demand for PVC resin has grown by almost 12% in the country whereas the

installed capacity has remained stagnant during the year under review. India is a net importer of PVC resin and the demand supply gap has crossed one million tpa. The per capita consumption of PVC resin in India is hardly 2 kg as compared to 10 kg in China and 12 kg in USA. It is expected that the PVC demand in India will continue to grow for years to come.

Your Company produces Emulsion PVC resin which is a special grade used in various applications like artificial leather cloth, footwear, flooring, etc. The value addition on this application is much higher than Suspension PVC resin. Your Company has recently completed an expansion of the Emulsion PVC resin capacity from 11,000 tpa to 22,000 tpa. There is already a demand supply gap prevalent in the Indian market for Emulsion PVC. Your Company should be able to place the additional capacity in the market without difficulty.

### **Captive power plant division:**

Your Company has been consistently working towards achieving higher productivity and better operating efficiencies. In order to ensure continuous high quality power, your Company decided to set up a 43 MW power plant at Ratnagiri. The plant is designed to also take care of the future power requirements of your Company. With the coal prices coming down from its peak two years ago, the power plant is generating substantial savings for your Company as compared to the cost of purchase of power from the grid. The uninterrupted supply of quality power has also benefited the production of PVC and PVC pipes in Ratnagiri.

### **Global scenario**

The global demand of PVC stands at around 37.5 million tpa. The growth rate for 2012-13 has been around 2%. As against this, the Indian market for PVC resin has grown by almost 12% during 2012-13. The demand supply gap which currently stands at around 1 million tpa is expected to grow over the years. Globally, the application of PVC in pipes and fittings accounts for almost 43% of the total consumption. In India, the application of PVC in pipes and fittings is almost 70% of the total consumption. Your Company's leadership position in this segment offers it a distinct advantage.

### **Risks and concerns**

Your Company has a well documented risk management policy. This policy is reviewed by the management periodically and appropriately modified wherever necessary. One of the risks which is inherent to the nature of your Company's business is the volatility of the foreign exchange rates and raw material prices caused by major global developments.

The prices of crude oil and its derivatives also have an impact on the prices of your Company's products. Your Company continues to import its main raw materials viz. EDC, ethylene, VCM and coal.

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 by the Finance Committee of the Board and these are reviewed regularly.

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. Safety audit is carried out regularly and preventive measures are taken to ensure high standards of safety. Your Company

has completed 22.45 million man-hours without any reportable accident at its PVC resin plant at Ratnagiri.

Adequate insurance cover for all the plants as well as for third party liabilities have been taken.

### 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 forming part of 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 proportionate to 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, 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 1107.

### 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-second annual report together with the audited accounts for the year ended 31st March, 2013.

### Financial results

		(₹ in lakhs)
	2012-2013	2011-2012
Profit before depreciation & finance charges	29,602.17	24,721.56
Less:		
Finance charges	5,144.89	7,496.07
Profit before depreciation and taxation	24,457.28	17,225.49
Deductions for:		
i) Depreciation	5,441.64	7,551.28
ii) Provision for taxation	5,401.95	2,159.08
Profit after depreciation and taxation	13,613.69	7,515.14
Add:		
Surplus of profit and loss account of earlier year	8,156.05	8,192.54
Appropriations:		
(i) General reserve	4,000.00	2,000.00
(ii) Contingency reserve	1,215.00	1,215.00
(iii) Proposed dividend (including prior year adjustments)	6,825.25	3,732.68
(iv) Tax on dividend	1,107.40	603.94
Balance carried over to the balance sheet	9,837.09	8,156.05

### Operations

The operational performance is summarised below:

Income	2,17,819.15	2,13,023.52
Profit before tax	19,015.64	9,674.21
Profit after tax	13,613.69	7,515.13

#### PVC resin

Production	- in (MTs)	2,51,000	2,66,982
Sale	- in (MTs)	1,16,217	1,61,986
(excluding interdivisional):	- in ₹ lakhs	71,760.36	95,945.96

#### PVC pipes and fittings

Production	- in (MTs)	1,77,037	1,49,654
Sale	- in (MTs)	1,74,987	1,50,730
	- in ₹ lakhs	1,37,788.75	1,08,798.2

#### Power

Production	- in (MW)	2,82,654	2,68,318
Sale (Excluding interdivisional)	- in (MW)	1,19,344	1,23,396
	- in ₹ lakhs	4,933.04	5,233.38

### Dividend

Your directors have recommended dividend on equity shares @ 55% (Rupees Five and paise fifty per equity share) for the financial year ended 31st March, 2013. The proposed dividend (including corporate dividend tax) will absorb ₹7932.65 lakhs.

### Finance

The interest and finance charges for the year were ₹5144.89 lakhs as against ₹7496.07 lakhs for the previous year.

### Corporate governance

Pursuant to clause 49 of the listing agreements entered into with the stock exchanges by your Company, 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.

### PVC pipes manufacturing plant in the State of Gujarat

Your Company's third PVC pipes manufacturing plant is fully established at Masar, Dist.Vadodara, Gujarat and has commenced commercial production effective from 27th March, 2013 with 30,000 tpa as its installed capacity. The commercial production for second phase having installed capacity of 20,000 tpa will commence in the financial year 2013-2014.

### PVC pipes & fittings

During the year, your Company has sold 1,74,984 Metric Tons of PVC 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 a 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 information and documents made available to them, 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, 2013 and of the profit of the Company for the year ended on that date;