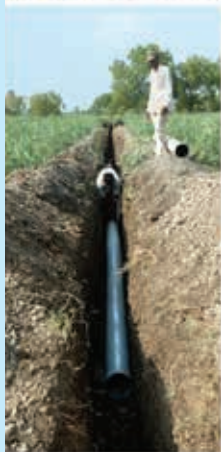
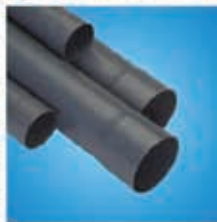




33rd
ANNUAL REPORT
2013-14

Finolex Industries Limited





**Paani ko apni
manzil tak pahunchaye**

Chairman's Message



Dear Shareholders,

Your Company continues to march forward on its projected growth path. We have seen a strong increase in both turnover and profitability. In fact, sales and profit are at an all-time high.

The steps taken by your Company to increase production capacities are paying rich dividends, and your Company is poised to take advantage of the increasing demand for its products in the coming years.

Your Company continues to maintain its number one position in the PVC pipes industry. We are undertaking various initiatives to further strengthen Brand Finolex. One of the Company's greatest strengths is its pan India network of distributors and retailers. We are taking further steps to aggressively grow in East India and North-East India. As a first step, your Company has established a large dedicated warehouse at Cuttack in the state of Odisha.

We have also increased our commitment to CSR activities. We have a social conscience, and will continue in our attempts to improve the standard of living for the under privileged in our vicinity. We hope to extend this aid in time throughout the country.

I am confident that your Company will continue to grow at a substantial rate in the coming years.

The Board joins me in expressing our deep appreciation to the employees and the management team for their hard-work and valued contribution during 2013-14.

With warm regards,

Prakash P. Chhabria
Executive Chairman

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Chairman Emeritus
Mr. Kishan P. Chhabria

BOARD OF DIRECTORS

Mr. Prakash P. Chhabria
Executive Chairman

Mr. Sanjay K. Asher
Independent Director

Mr. Kanaiyalai N. Atmaramani
Independent Director

Mr. Dara N. Damania
Independent Director

Mr. Saurabh S. Dhanorkar
Managing Director

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. S. Krishnamoorthy
General Manager
(Accounts & Finance)

Mr. Umesh M. Gosavi
Company Secretary

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

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CIN: L40108PN1981PLC024153
Website: www.finolex.com

Management discussion and analysis

Introduction

In the year under review, your Company has seen a continued growth in its performance. Your Company has 3 major areas of business - PVC pipes & fittings, PVC resin and Power.

Financial review

Your Company has further improved its profitability during the year under review. Profit before tax for the year has increased by 27% from ₹ 190 crore to ₹ 242 crore while net profit after tax increased by 25% from ₹ 136 crore to ₹ 170 crore. The turnover has increased by 13.45% from ₹ 2,145 crore to ₹ 2,453 crore.

Outlook for the Company

PVC pipes and fittings division:

Your Company, which was incorporated in 1981, continues to maintain its number one ranking across the PVC pipes and fittings industry in India.

Since the predominant material used to transport water during those early days was metal and concrete, the initial years of your Company were spent in developing and building the market for PVC pipes and fittings. Your Company was instrumental in convincing end users that PVC is a better material for water transportation, and superior to metal or concrete for the following reasons:

- a) PVC has better flow characteristics as compared to galvanized iron or cement pipes
- b) PVC is corrosion free
- c) PVC is easy to install
- d) Transportation of PVC is easier because of its low weight per metre.

Over the years, your Company has successfully established the concept of PVC pipes and fittings as the preferred material for water transportation and has also built and grown Brand 'Finolex' as the Number One brand name in the PVC pipes and fittings industry. The brand has been built, by your company, through a sustained focus on high quality products, and deep market penetration in rural areas. To achieve this, your Company undertakes various branding activities such as organizing farmer meets, plumber meets, participating in village fairs, participating in industrial and agricultural exhibitions etc. as well as TV advertisements. Your Company has always recognized the tremendous importance of PVC pipes in the life of a typical Indian farmer. In fact, it believes that the pipeline, which brings water to the fields, is in a true sense, the farmer's "lifeline". Your Company therefore believes in consistently providing consumers with high quality products that ensure trouble free service for decades.



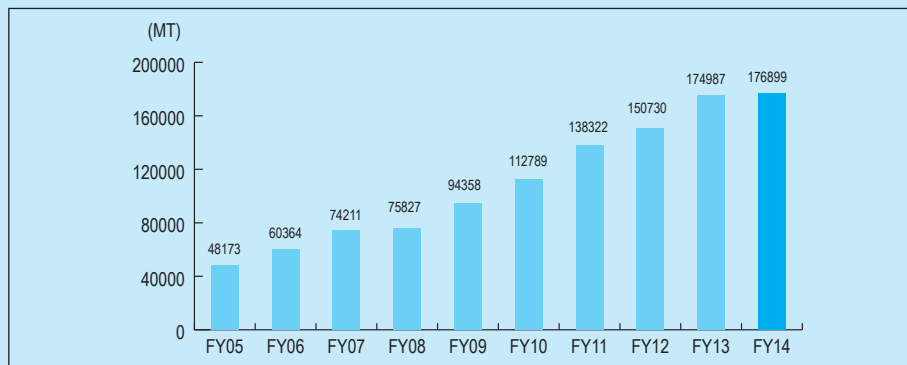
Finolex Farmers' workshop in progress



Finolex Plumbers workshop in progress

Your Company enjoys a high level of trust from its customers, spread across the length and breadth of India. Finolex products are sold through a network of more than 15,000 dealers, sub-dealers and retailers. Your Company continuously invests in the expansion of PVC pipes & fittings.

Sales volume of PVC Pipes and Fittings

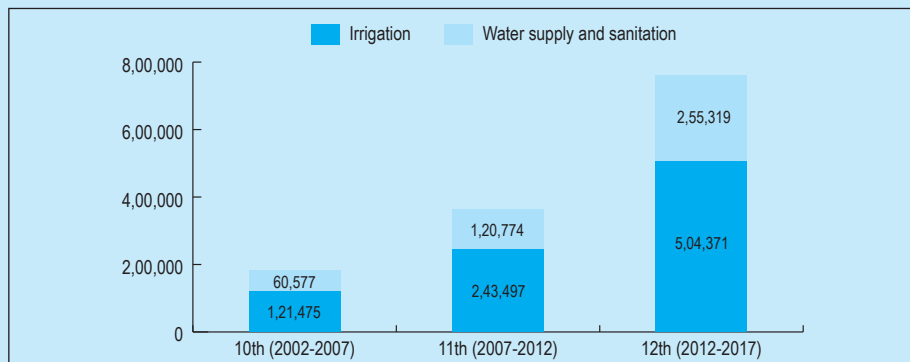


The sales volume growth of PVC pipes and fittings during the year under review was less than expected because of an extended monsoon. Whereas, in value, it was up by 13.45%. Agricultural pipes are by necessity laid underground and the activity of digging trenches slows down considerably during the monsoon. During the year under review, many parts of Western and Southern India witnessed heavy rains and hailstorms as late as February 2014. This had a dampening effect on the sales during the quarter January to March 2014, which is traditionally the peak season for your Company's products. Despite the slowdown in the last quarter of the year under review, your Company has seen an increase in demand towards the end of the rainy season and now expects a healthy growth in the sale of pipes and fittings over the forthcoming quarters.

As per NCAER estimates, the annual size of the rural market for agri inputs is in excess of ₹45,000 crore. PVC pipes and fittings are an important part of agri inputs. It is estimated that about 14% of rural income is spent on agri inputs.

As per the statistics, only about 43% of the land under cultivation in India has access to irrigation. This means that more than half of India's agriculture still depends on the monsoon. Successive governments have allocated large funds to increase the reach of irrigation.

Government spending in 5-Year plans



An increase in disposable income in rural India and a continued focus by the Government to increase irrigation coverage in the country augurs well for the demand of your Company's products. Your Company has experienced that the demand for PVC pipes and fittings is acyclical in nature. A good monsoon implies better purchasing power for the farmer, thereby resulting in a high demand for pipes. Similarly, a poor monsoon requires the farmer to source water from farther distances, thereby also increasing the demand for pipes.

Furthermore, the area under irrigation in India is abysmally low and the potential for irrigation is so large that your Company does not expect any structural drop in demand in the foreseeable future. Your Company has therefore seen a CAGR of more than 15% over the last ten years, and expects this trend to continue in the years to come.

In the non-agricultural sector, PVC pipes are seen to be fast replacing traditional plumbing material such as galvanized iron (GI). Accordingly, your Company has also been focusing on leveraging its distribution strength, by targeting the rising demand for pipes and fittings in the non-agricultural sector, in tier two and tier three cities.

Your Company believes that this strategy shields its sales from recessionary trends, in residential and commercial sectors in the metros. Your Company expects a steady growth in the non-agricultural sector of the market.

Within the domestic construction market, the tier II and tier III cities offer potential growth as they are less penetrated. Moreover, there is a rapid transition from traditional plumbing material like metal to PVC Pipes and fittings.

Your Company has set up ultramodern and highly efficient plants in three key locations: Pune and Ratnagiri in Maharashtra and Masar in Gujarat. Additionally, with its increased focus on the fittings business, your Company has set up a 1,30,000 sq. ft. state-of-the-art warehouse dedicated exclusively to fittings, at Chinchwad, Pune. Your Company is poised to achieve significantly higher volumes in fittings, by streamlining its distribution channels and by increasing its reach across India.

PVC pipes factory at Masar, Gujarat



PVC pipes and fittings are primarily sold in two market segments i.e. Agriculture and Construction, with your Company's focus being in the agriculture segment. Your Company is arguably the only PVC pipes manufacturer in the country which sells its products pan India, entirely against advance payments. Your Company continues to focus on increasing its reach across various states within India. With the intention of spreading operations to East India and North East India, your Company has recently also set up an ultramodern, fully equipped pipes and fittings warehouse at Cuttack in Odisha, and in the coming years, your Company expects to become a dominant player in the North East market of India. With the Masar facility in Gujarat being fully operational, your Company is now in a position to supply products to the North Indian market very efficiently. Your Company has continued to steadily grow in this market, and has increased its capacity at Masar from 30,000 MTs p.a. to 50,000 MTs p.a. during the year under review. The total capacity of PVC pipes now stands at 2,30,000 MTs p.a. Your Company has the necessary infrastructure to increase the capacity by another 1,00,000 MTs at a marginal incremental capex.

Your Company has also added a new category of pipes called Column pipes, to its portfolio. Column pipes are suitable for submersible pumps which are used to draw water from bore wells. The product has already been well received in the market and your Company is increasing the capacity to meet the growing demand.

PVC Resin division:

Your Company is the only PVC pipes manufacturer in India which is backward integrated in the production of PVC resin. Your Company's state-of-the-art PVC resin manufacturing facility was commissioned in 1994 in technical collaboration with Uhde GmbH of Germany and a licensed technology from Hoechst AG. The initial capacity of PVC resin was 1,30,000 MTs p.a. which was enhanced to 2,60,000 MTs p.a. in the year 2006, of which 2,50,000 MTs p.a. comprised of Suspension PVC and 10,000 MT p.a. of Emulsion PVC. The Emulsion PVC capacity was further increased to 22,000 MTs p.a. in FY 2013.

The backward integration of PVC resin gives your Company the unique advantage of a consistent quality of raw material at a lower cost, than the prevailing import parity of PVC resin.

Certain recent developments in the global petrochemical market are likely to benefit your Company, particularly in the PVC resin division.

In recent years, the natural gas industry in the United States has witnessed a revolution, with the development of shale gas extraction. The shale gas boom is likely to have an unprecedented effect on the US energy market and this in turn will have important implications on the prices of many downstream products like Ethylene. Market trends indicate that a huge capacity of Ethylene is likely to be added to the US market in the coming years, which in turn will help bring down raw material costs for your Company.

Another global development that your Company is likely to benefit from is the growth in the Ethylene Di-Chloride (EDC) capacity. It is expected that almost 2.8 million MTs of new EDC capacity will come up globally between 2013 and 2017. EDC being a globally traded material, this new capacity is expected to aid in lowering the price of EDC. Your Company is watching the developments with optimism.

Business outlook:

The domestic demand for PVC resin has grown by almost 3% during the year under review. However, the domestic production capacity has not seen a significant increase, due to which the gap between demand and supply has grown further during the year under review, to 1.05 million MTs p.a. During the year under review, your Company produced 2,38,659 MTs of Suspension Grade PVC resin. Captive consumption of PVC resin for making pipes during the year was 1,66,168 Mts. Your Company expects its captive consumption to continue to grow, making it increasingly less dependent on the market for PVC resin. This has resulted in your Company steadily moving away from a B2B business model of PVC resin to a B2C business of PVC pipes and fittings. Your Company believes that this transition will help achieve a better control on margins.