

Management Discussion and Analysis

Indian Economy

India is the fastest-growing G20 economy with expected growth of around 7.4% in FY18 against 7% in FY17. The acceleration of structural reforms, the move towards a rule-based policy framework and low commodity prices have provided a strong growth impetus. Recent deregulation measures and efforts to improve the ease of doing business have boosted foreign investment.

A comprehensive tax reform would promote inclusive growth. The much awaited Goods and Services Tax (GST) is on the verge of implementation. The effective implementation of GST would support competitiveness, investment and economic growth. GST will reduce the cascading effect of tax; it will boost India's competitiveness, investment and job creation. GST reform is designed to be initially revenue-neutral. The Government's plans to reduce the corporate income tax rate and broaden the tax base will serve the same objectives.

Moreover, as a consequence of the Centre's major economic reform 'demonetisation' and on the back of moderating inflation, market interest rates and yields on g-secs are expected to be lower in FY18 as compared to FY17. Coupled with the expectation of a good monsoon and high farm output may provide a boost to the Indian economy.⁹

Industry Structure and Developments

PVC Resin

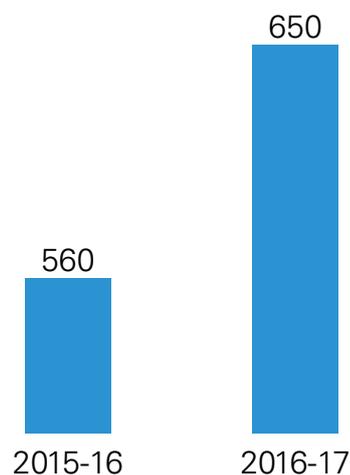
Polyvinyl chloride (PVC) is the third largest plastic in production and consumption globally. A key feature of PVC is that it can be combined with additives and fabricated into wide variety of forms. These include pipes

and fittings, profiles and tubes, windows and doors, sidings, insulation for wires and cables, films and sheets, flooring, toys and other moulded products.

In India, the PVC market is expected to witness a double digit growth rate in the coming years. Some of the major drivers contributing to this growth include high growth in the agricultural sector, building and construction sector, automobile industry and medical devices.¹⁰

Due to better supply conditions, the prices of EDC and ethylene, the inputs for PVC, were lower in FY17 as compared to FY16. In comparison, the higher price of PVC during the year resulted in better PVC/ EDC spread as shown below resulting in better performance of the segment.

PVC/EDC Spread (US\$/MT)¹¹



PVC Pipes and Fittings

The major end-users for PVC pipes and fittings in India are the agricultural sector for irrigation and non-agricultural sector

for housing, commercial buildings and infrastructure projects. Demand from these sectors has been growing at a double digit rate, now with the added thrust and focus by the Government, the demand is likely to be more robust in the coming years.

Opportunities

Agriculture Sector

Agriculture plays a vital role in India's economy. Agriculture is the principle means of earning a livelihood for the majority of the rural population in India.

More than 50% of cultivated land in India is still dependent on monsoons. Hence, there is immense potential to improve the irrigation coverage.

Realising the need, the Government of India has already spelt out many initiatives to enhance the irrigation coverage and the productivity and profitability of the agricultural sector:¹²

- The Government has emphasised on bringing in additional land under irrigation.
- This year, ₹ 1,87,223 Cr has been allocated towards rural, agriculture & allied sectors under Union Budget, which constitutes to an increase of 20% over the previous year's allocation. MGNREGA allocation has also increased to its highest level at ₹ 48,000 Cr this year. The Long Term Irrigation Fund (LTIF) set up in NABARD under Pradhan Mantri Krishi Sinchai Yojana, for financing and fast tracking the implementation of incomplete major and medium irrigation projects has been allocated an additional corpus of ₹ 20,000 Cr, thus doubling the corpus to ₹ 40,000 Cr. Also, a new micro irrigation fund with a corpus of ₹ 5,000 Cr has been announced.

- Pradhan Mantri Krishi Sinchai Yojana would allow maximising the reach of irrigation across the country, thus enhancing the ambit of area covered under the irrigation projects.
- With over 3 Cr Kisan credit cards to be converted into RuPay cards in the next few months, the farmers may benefit immensely by virtue of trading their produce directly, without accessing bank credit.
- The coverage provided under the Fasal Bima Yojna Scheme has increased to 40% in the current year, projected to reach 50% in 2018-19 to protect farmers from any accidental damage.
- Also, the sixty days' interest waiver which is provided to the farmers on farm loans taken from cooperative banks would ensure that they have more cash at their disposal for purchases. Moreover, our Government is committed to doubling the farmers' income in the next five years.

Non agriculture Sector (Infrastructure and Housing)¹³

The Government is focusing on rural water and sanitation infrastructure, which will generate huge demand for PVC pipes. Sanitation coverage in rural India has gone up from 42% in October 2014 to 64% under the Swachh Bharat Mission (Gramin) and the pace is expected to continue. Villages with sanitation coverage are now being given priority for piped water supply. The development of 'Smart Cities' will be a further boost to PVC pipes demand in India due to the huge requirement of urban infrastructure in these cities.

With affordable housing assigned infrastructure status in FY18, demand for

the same from the middle-income group in India is expected to rise. The Government is taking active steps to bridge the gap in supply. Refinancing by National Housing Board will also provide boost to housing sector. It is the mission of our Government to provide housing for all by year 2022. Introduction of RERA also augurs well for the housing sector. All these initiatives will result in high demand for PVC pipes and fittings.

New Products

At FIL, we aim to embrace the full potential of our brand equity and strong dealer network, by introducing new products in the pipes and fittings segment. At the end of FY17, the total number of SKUs stand at more than 1,400.

Lubrizol tie-up

During the year, the Company tied-up with the American company Lubrizol Corporation, inventors and the largest manufacturers of the CPVC compound worldwide. The agreement is for supply of CPVC compound to us for the production and sale of Finolex FlowGuard Plus pipes and fittings in India, mainly catering to the building and construction industry.

The tie-up will strengthen the Company's track record of providing superior products for the domestic market. Builders have also started using common CPVC pipes for both hot water and cold water application, instead of separate pipes. All initiatives by the Government mentioned above to

promote housing sector will also create further demand for CPVC pipes and fittings.

Strategy

Expanding Footprint: The Company has more than 800 dealers and 18,000 retail outlets. Going forward, the Company plans to expand its distribution network in all geographies with higher focus in the northern and the eastern region.

Capacity Expansion: The Company is adding capacity for pipes and fittings every year and has reached 2,90,000 MT as of FY17. We remain on track with plans to increase capacity for pipes and fittings in the years to come to capture expected increase in demand.

Branding: While PVC pipes and fittings are of a commodity nature, branding still plays a very important role. With consistent supply of quality products over the years, the Finolex brand is well recognized and appreciated in the market. We strive to promote brand and quality consciousness amongst consumers to enable us to maintain the leadership position in market. In the previous year, ₹ 39 Cr, equivalent to more than 1% of sales was spent on advertisement, branding and sales promotion activities mainly in rural areas. Continuing with last year's initiative, in FY17, the Company conducted more than 300 training workshops, large meets including organised factory visits for dealers, retailers, farmers and plumbers.

Cash-n-Carry: We have been following Cash-n-Carry model for our sales. This approach has enabled us to keep the balance sheet light.

Financial Performance and Review

(₹ in Cr)

Particulars	Standalone		Consolidated	
	FY 2017	FY 2016	FY 2017	FY 2016
Revenue from Operations (incl. excise duty)	2,987.64	2,843.12	2,987.64	2,843.12
Profit Before Depreciation Interest & Tax (PBDIT)	563.02	404.44	563.02	404.44
Net Profit after tax	352.18	254.41	354.85	257.77
Net Fixed Assets (incl. CWIP)	876.88	856.26	876.88	856.26
Gross Debt	94.18	211.55	94.18	211.55
Current Investments	56.56	168.71	56.56	168.71
Net Debt	37.63	42.84	37.63	42.84
Gross Debt to Equity ratio	0.04	0.13	0.04	0.13

PBDIT increased by 39.21% on a y-o-y basis to ₹ 563.02 Cr from ₹ 404.44 Cr. A higher delta from the PVC resin segment led to higher operating margins. By end of FY17, entire long term debt was paid off and only short term debt remains in the books.

Segment-wise performance

PVC Resin

In FY17, the Company produced 2,51,710 MT of resin (FY16 - 2,46,902 MT). The capacity utilisation in FY17 was 93% v/s 91% in FY16. In FY17, the Company sold 87,236 MT of resin (FY16 - 1,06,771 MT) in the market and captively consumed 1,47,868 MT (FY17 – 1,41,407 MT). In terms of value, the revenue from the operations of the resin division was ₹ 1,756.67 Cr in FY17 against ₹ 1,628.68 Cr in FY16. The Company is on track to increase the captive consumption of PVC resin by increasing the PVC pipes and fittings capacity.

Margins improved in the PVC resin segment as spreads between EDC and PVC resin were better. This was due to increase in the price of PVC resin whereas the price of EDC was lower during FY17.

PVC Pipes and Fittings

The Company sold 2,09,419 MT of pipes and fittings in FY17 as against 2,08,764 MT in FY16. In terms of value, the sales of the pipes and fittings division was ₹ 2,216.87 Cr in FY17 against ₹ 2,030.51 Cr in FY16. Out of the total sales, approximately 70% was in the Agri sector and 30% was in the Non-Agri sector.

Power segment

The Company has set up a 43MW captive power plant at Ratnagiri in order to provide uninterrupted high quality power to its production facility. During FY17 the plant generated 211,502 MWh.

Finolex Plasson Industries Pvt. Ltd.

Finolex Plasson Industries Private Ltd. (FPIPL) is an associate company. FPIPL offers a wide range of products and solutions in the field of Precise Irrigation and Intensive Agriculture Cultivation. FPIPL's solutions include complete tailored Drip and Sprinkler Irrigation Systems and turnkey projects for all agriculture sectors such as Row Crops, Horticulture, Green Houses, Plantations, Orchards, Nurseries and more.

FPIPL's services include survey, planning and design facilities for drip, mini and micro sprinklers, foggers, misters, fertigation equipment, HDPE sprinkler pipes etc. for various field crops, horticulture crops, plantations, landscape, greenhouse and poly-house irrigation systems, etc.

The Company holds 46% stake in FPIPL while Finolex Group (excluding FIL) and Israel-based Plaschin Ltd. hold 20% and 34%, respectively. FPIPL is in the field of Micro Irrigation and has successfully executed irrigation systems in various parts of India.

Risks and Threats:

The 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. But for FIL, the foreign exchange exposures are naturally hedged by future earnings linked to foreign currency due to the import parity pricing of PVC resin. Since all our key raw materials including EDC, ethylene and VCM are a derivative of crude oil and these are imported, the volatility in global oil prices has a direct impact on our operations.

Based on the operations of the Company, new risks, if any, are identified, and appropriate steps are taken to mitigate them. The surplus cash generated during the course of business is sometimes invested with banks/ mutual funds. The detailed guidelines for investment of surplus amounts have been laid down and the Management reviews these regularly. The Company continues to accord the highest priority for safety in all 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 are met. The 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, and enough information is provided to understand and monitor them. The Company believes in total transparency in sharing information about its business operations with all its stakeholders. The Company strives to provide the maximum possible information in the Management Discussion and Analysis which is a part of the Annual Report.

Internal Control Systems

The Company has put in place adequate internal control procedures, proportionate to the nature of business and size of operations for the smooth conduct of business. Internal audits are conducted at regular intervals at all the plants and cover key areas of operations. These audits are independent, objective and responsible for evaluating and improving the effectiveness of risk management, control and governance processes. An Audit Committee, consisting of five independent non-executive directors, monitors the performance of the internal audits. This is conducted on a periodical basis through audit plans, audit findings and the promptness of issue resolution through follow-ups.

Internal Financial Control

The Companies Act, 2013 has made significant changes in financial reporting requirements to bring it in line with international practices. The key requirements are entity level controls, financial reporting

controls, operational controls and fraud prevention controls. The Company has in place all the required controls and the framework to identify key processes and evaluate efficiency of internal financial controls.

Human Resources

The Company continued to enjoy cordial and harmonious industrial relations. The human resources function reinforced our commitment towards well-being and development of employees through revamp and launch of several people processes such as performance and potential appraisals, talent management, learning and development initiatives for employees at every level and leadership development efforts.

Cautionary statement

In this Annual Report, we may have disclosed information to enable investors to comprehend our prospects and take informed

investment decisions. This report and other statements - written and oral - that we periodically make, may contain statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance. We cannot guarantee that these statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind. We undertake no obligation to publicly update any statements, whether as a result of new information, future events or otherwise except as may be required by law.