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PIDILITE INDUSTRIES LIMITED

32ND ANNUAL REPORT

2000-2001

Pidilite

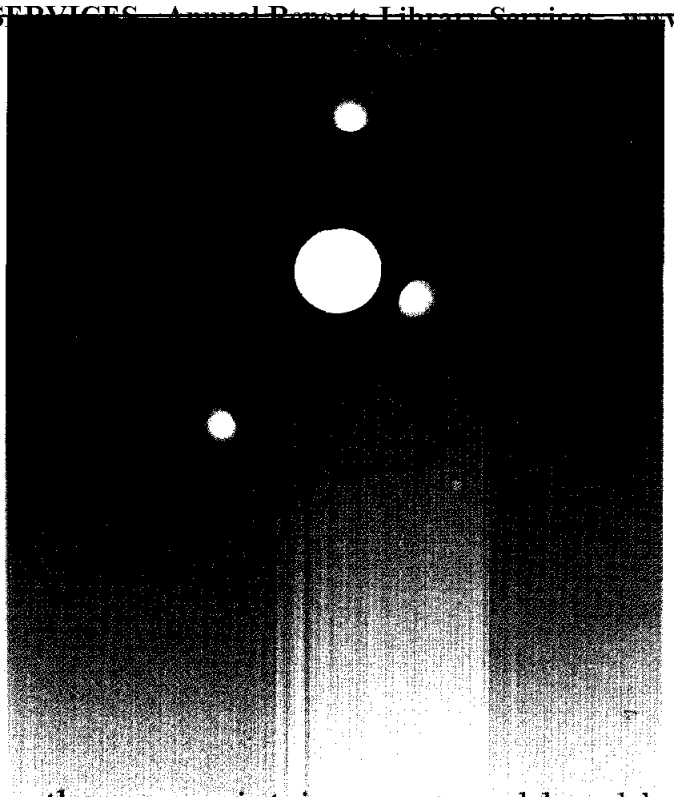
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Building bonds



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Just like the sun maintains an eternal bond between the planets with its gravitational force, we seek to build strong bonds with all stakeholders through dedicated teamwork, innovative strategies and commitment to excellence.

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This philosophy is expressed beautifully with this simple yet dynamic design for our new corporate logo. The golden circle represents the sun, and the blue brush stroke suggests the surface of the earth.

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COMPANY INFORMATION

Pidilite

Board of Directors

B.K. Parekh
(Chairman)
S.K. Parekh
(Vice Chairman)
M.B. Parekh
(Managing Director)
N.K. Parekh
(Joint Managing Director)
H.K. Parekh
M.A. Pai
R.M. Gandhi
N.J. Jhaveri
Bansi S. Mehta
Ranjan Kapur
Yash Mahajan
A.B. Parekh
(Whole Time Director)
Santosh Kumar
(Whole Time Director)
S. T. Dave
(Whole Time Director)

Sr. Vice President & Secretary

P.C. Patel

Solicitors & Advocates

Wadia Ghandy & Co.

Auditors

Haribhakti & Co.

Bankers

Indian Overseas Bank
Corporation Bank
Bank of Baroda

Corporate Office

Ramkrishna Mandir Road
Off Mathuradas Vasanji Road
Andheri (E), Mumbai 400 059

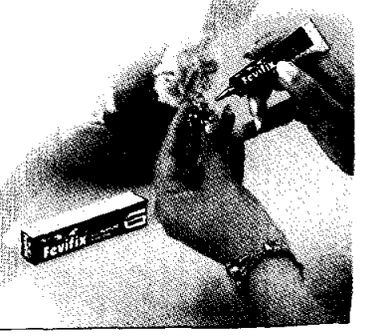
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Registered Office

7th Floor, Regent Chambers
Jamnalal Bajaj Marg
208, Nariman Point
Mumbai 400 021

Registrar & Transfer Agent

Tata Share Registry Limited
Army & Navy Building
148, Mahatma Gandhi Road
Fort, Mumbai 400 001



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Pidilite

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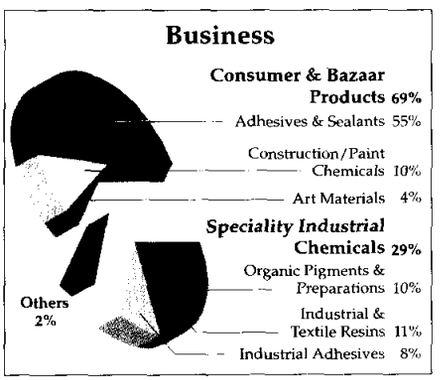
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Pidilite has achieved 12% growth in gross turnover for the year 2000-01. A significant increase in raw material prices affected the margins for most part of the year. These prices have started coming down and are likely to return to normal levels during the year 2001-02.

The Company is directing its efforts towards brand building, new product introductions, strengthening customer relations and developing international business.

Branded Consumer and Bazaar Products

The strategic direction of the Company is to be an important player in identified branded consumer and bazaar products. The share of this category in the Company's sales has increased from 52% in 1993-94 to 69% in 2000-01 and



the growth during 2000-2001 was 19%. We plan to improve sales



Our design magazines and books on art and craft are universally popular with craftsmen and household consumers.

growth and margins through an increased focus on branded consumer products.

Over the last couple of years, we have taken several initiatives to increase the exports of branded consumer and bazaar



Some of the products in the art materials range for exports

products. We have increased our coverage in neighbouring countries and have introduced several products in the adhesives and art materials segments for international markets.

Building Bonds

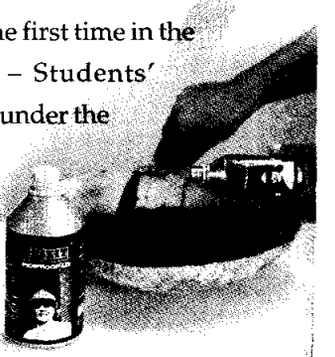
Since its inception, Pidilite has focussed on building strong bonds with stakeholders, i.e., employees, dealers, vendors, customers and shareholders. *"Building Bonds"* represents the essence of our corporate philosophy. A new corporate logo has been developed to reflect this philosophy.

Our "Fevicol" logo with "elephants" symbol has also been redesigned to give it a fresh and contemporary look. The new-look logo will be introduced during the current year.

FEVICOL®

New Products

During the year under review, several new products were in the process of development and will be launched in the current year. Two of these in the art materials range are innovative products that will be introduced for the first time in the Indian market – Students' Tempra Colours under the Acron brand, and stick-on colours



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which can give removable and reusable paintings under the Fevicryl brand. Prime Eezytear tape is another innovative product in the stationery range.

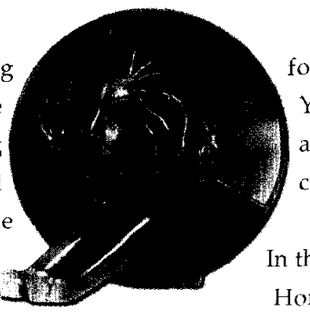
A range of products for waterproofing as well as for repair and maintenance of buildings is being introduced under Dr. Fixit brand Several new products are also being introduced in the Paint Chemicals range.



Over 50,000 religious cassettes & over 2 lac religious books were distributed to craftsmen. And the Fevicol Furniture Book has come out with 13 volumes in 11 years, with a print run of over 35 lac till date.

Advertising and Promotion

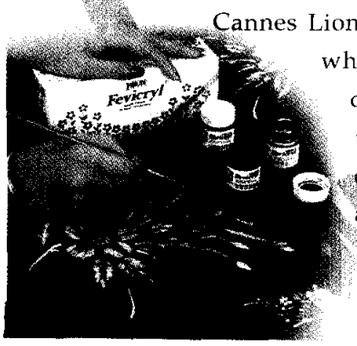
Our innovative advertising has always appealed to a wide audience spectrum and continues to get recognition. The Fevicol "Cliffhanger" TV Commercial, created by our agency Ogilvy & Mather, won the bronze at the Cannes Lions Awards, which are considered the Oscars of the advertising world. Fevicol advertising also made its mark in the Asia Pacific Advertising Awards, bagging the Gold for the Press Ad in the category of Household Maintainence and Pet Products and the Bronze for the Press Campaign of the Year in the same category.



Fevicol advertising won a Bronze at the prestigious Cannes Advertising Festival.

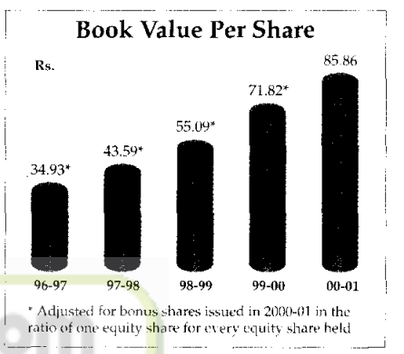
On the home front, in the ABBY awards at the Indian Advertising Festival, we won many honours too. In the category of Daily Household Products, we won the Gold for Press Advertising Campaign, the Gold for the Fevicol *"Shadow"* Television Commercial and the Gold for the Campaign of the Year, TV and Press. We also won the top honours for the Press Ad of the Year and the Silver for Campaign of the Year in TV and Press, across all product categories.

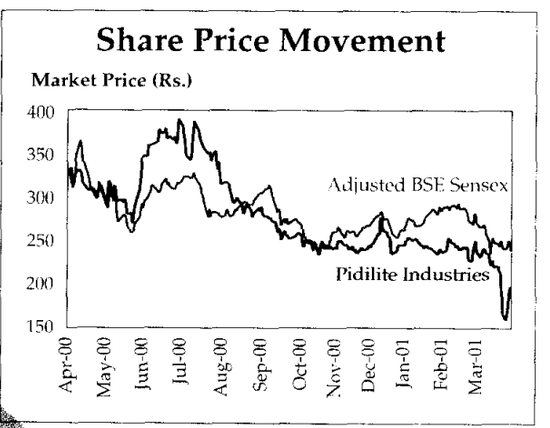
In the the Asian Awards, Hongkong, the Fevicol *"Train"* Ad was a finalist for the Best of Show award and won a Spike.



Shareholder Value

Pidilite announced a dividend of 45% for 2000-2001. This is higher than last year's total dividend of 80% on the pre-bonus share capital.





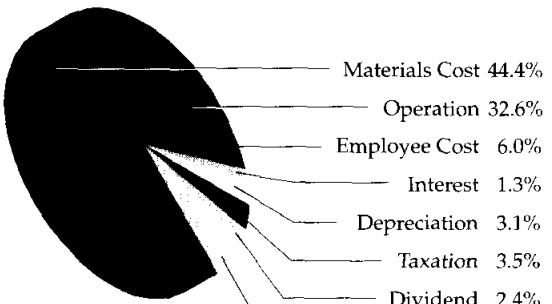
The turmoil in the stock markets affected the price of the Company's equity shares as well. Their value on the Bombay Stock Exchange fell from Rs. 320 (post bonus) to Rs. 197.80 in the financial year under review.

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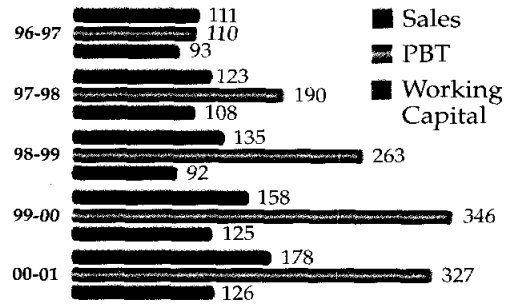
FINANCIAL CHARTS

Distribution of Revenue



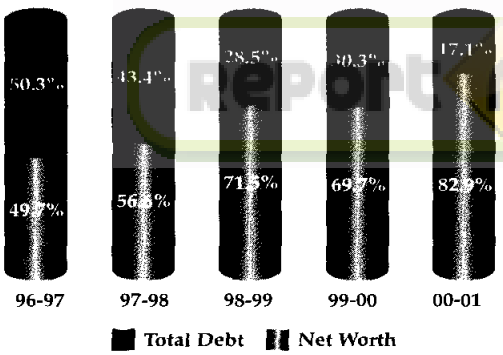
Operating Efficiency

Base Year 1995-96=100

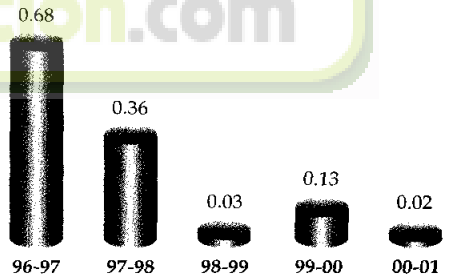


Greater operating efficiency. Higher sales index and PBT with low WC

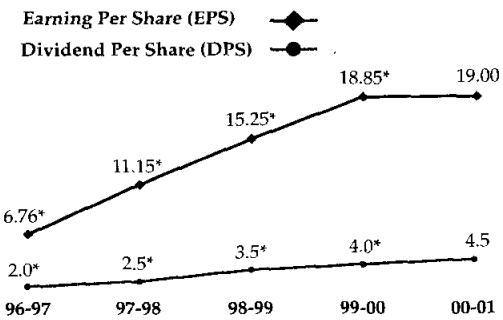
Total Debt to Net Worth Ratio



Debt Equity Ratio (Long Term Debt)

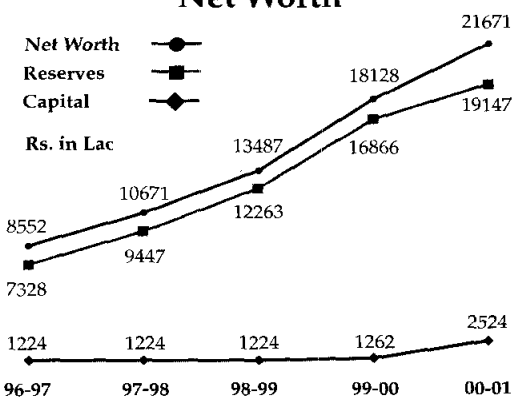


EPS/DPS (Rs.)



** Adjusted for bonus shares issued in 2000-01 in the ratio of one equity share for every equity share held*

Net Worth



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5 YEARS' FINANCIAL PERFORMANCE

Rupees in Lac

Highlights	1996-97	1997-98	1998-99	1999-00	2000-01	CAGR %
Operating Results						
Sales and Other Income	32944	36566	40178	47063	52690	12.46
Mfg. & Other Expenses	28386	30844	33152	38375@	43731	11.41
Operating Profit	4558	5722	7026	8688	8959	18.41
Interest	1616	1021	744	512	697	-18.96
Depreciation	720	860	959	1162	1651	23.06
Profit before Tax	2222	3841	5323	7014	6611	31.34
Taxation	567	1113	1590	2257	1815	33.76
Profit after Tax	1655	2728	3733	4757	4796	30.47
Dividend on Equity Shares*	539	673	951	1134	1252	23.45
Retained Earning	1116	2055	2782	3623	3544	33.49
Financial Position						
Capital	1224	1224	1224	1262	2524	19.83
Reserves (Less Revaluation Reserve & Misc. Expenditure)	7328	9447	12263	16866	19148	27.14
Net Worth	8552	10671	13487	18128	21672	26.17
Borrowings	8638	8190	5383	7897	4486	-15.11
Funds Employed	17190	18861	18870	26025	26158	11.07
Fixed Assets (Excluding Revalued Assets & Depreciation thereon)						
Gross Block	11677	12911	14599	20222	22549	17.88
Depreciation	2663	3509	4456	5767	7366	28.96
Net Block	9014	9402	10143	14455	15183	13.92
Investments	1293	1402	1881	2293	1594	5.37
Net Current Assets	6883	8057	6846	9277	9381	8.05
Total Assets	17190	18861	18870	26025	26158	11.07

@ Includes VRS Payment of Rs. 132 lac ** Includes Tax on Dividend*

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5 YEARS' FINANCIAL PERFORMANCE

Rupees in Lac

Highlights	1996-97	1997-98	1998-99	1999-00	2000-01
Funds Flow					
Sources					
Internal Generation	2376	3589	4726	5919	6447
Increase in Capital & Reserve (Net) on Amalgamation	–	–	–	1226	–
Increase in Loans	–	–	–	2514	–
Decrease in Investment	–	–	–	–	699
Decrease in Working Capital	552	–	806	–	–
	2928	3589	5532	9659	7146
Applications					
Repayment of Loan	779	448	2414	–	3411
Capital Expenditure	1581	1234	1688	5682@	2379
Investments	29	110	479	412	–
Dividend	539	673	951	1135	1252
Increase in Working Capital	–	1124	–	2430	104
	2928	3589	5532	9659	7146
Ratios					
PAT to Net Sales %	6.2	9.3	11.3	12.3	10.9
Return on Average Net Worth % (RONW) (PAT divided by Average Net Worth)	20.7	28.4	30.9	30.1	24.1
Return on Average Capital Employed % (ROCE) (PBIT divided by Average Funds Employed)	22.6	27.0	32.2	33.5	28.0
Long Term Debt / Cash Flow	2.5	1.1	0.1	0.4	0.1
Interest Cover (times) (PBIT divided by Interest)	2.4	4.8	8.2	14.7	10.5
Dividend Cover (times) (PAT divided by Dividend)	3.1	4.1	3.9	4.2	3.8
Assets Turnover (times) (Gross Sales divided by Total Assets)	1.9	1.9	2.1	1.8	2.0
Gross Gearing % (Debt as a percentage of Debt plus Equity)	50.3	43.4	28.5	30.3	17.1

@ Includes Cost of Brands Acquired Rs. 3656 lac

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ECONOMIC VALUE ADDED (EVA)

What is EVA

EVA, or Economic Value Added, is one of the modern approaches used to identify the value created by the company for its shareholders. It represents the quantum of profits generated in excess of cost of the capital employed.

Shareholder value creation is better represented by EVA than by traditional profit figures.

Computation of EVA

EVA = Net operating profit after tax (NOPAT) – Weighted average cost of capital employed.

NOPAT = Net profit after tax + post tax interest cost at actuals.

Weighted average cost of capital employed = (Cost of equity x average shareholder funds) + (cost of debt x average debt).

Cost of equity = Risk free return on Government of India (GOI) securities + market risk premium (assumed @ 85% of risk free return on long dated GOI securities) x beta variant for the company (taken at 80% as against the stock market as a whole).

Cost of debt = Effective interest applicable to Pidilite based on an appropriate mix of short, medium and long term debt, net of taxes (taken at 2% above the risk free return on long dated securities issued by the Government of India).

Economic Value Added Analysis

Item	1996-97	1997-98	1998-99	1999-00	2000-01
Cost of Capital					
1. Risk Free Return on Long Dated GOI Securities	13.0%	12.0%	11.5%	11.0%	10.3%
2. Cost of Equity	21.8%	20.2%	19.3%	18.5%	17.3%
3. Cost of Debt (Post Tax)	8.6%	9.1%	8.8%	8.0%	7.4%
4. Effective Weighted Average Cost of Capital	14.8%	15.0%	15.4%	15.4%	15.0%
Economic Value Added *(Rupees in Lac)*					
5. Average Debt	9027	8414	7030	6640	6192
6. Average Equity (Shareholder Funds)	7979	9612	12079	15808	19900
7. Average Capital Employed (Debt + Equity)	17006	18026	19109	22448	26092
8. Profit After Tax (as per P&L account)	1655	2728	3733	4757	4796
9. Interest (as per P&L account, net of Income Tax)	921	664	484	315	421
10. Net Operating Profit After Tax (NOPAT)	2576	3392	4217	5072	5217
11. Weighted Average Cost of Capital (4 x 7)	2517	2704	2943	3457	3914
12. Economic Value Added (10 - 11)	59	688	1274	1615	1303
13. EVA as a % of Average Capital Employed (12 ÷ 7)	0.35%	3.82%	6.67%	7.19%	4.99%

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