

PIDILITE INDUSTRIES LIMITED

35th ANNUAL REPORT

2003-2004



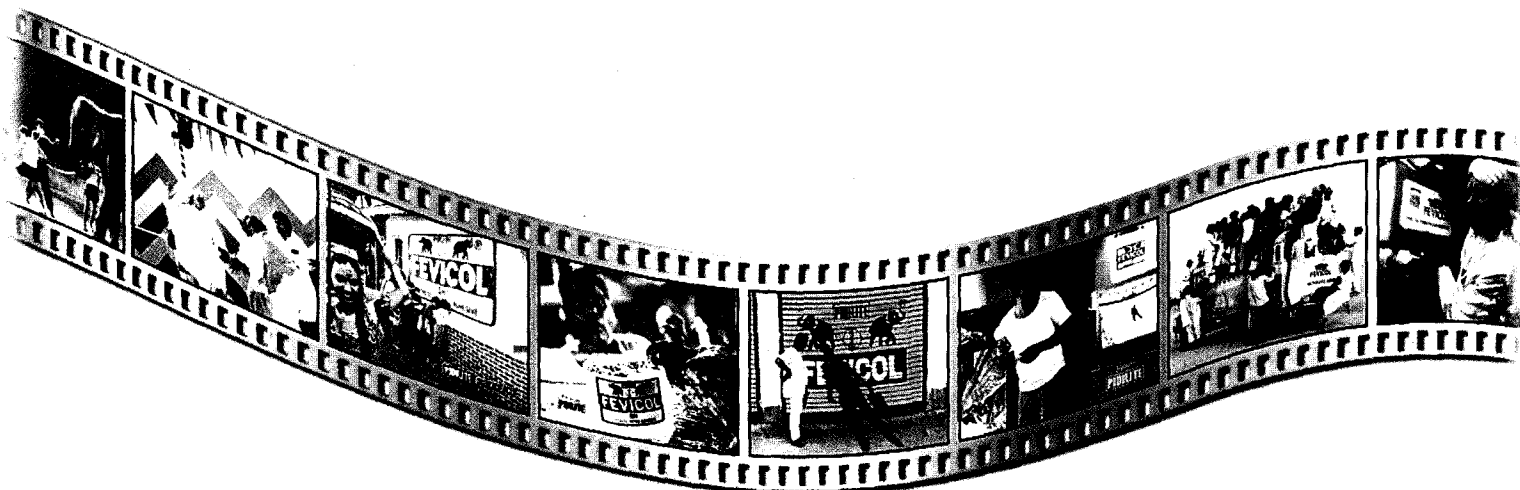
"PRETENDER" : THE LATEST TV SERIES



Report  junction.com

Once again, at the Prestigious ABBY awards, our Fevicol advertising won the Gold for Best Continuing Campaign.

Mr. M.B. Parekh, Managing Director of Pidilite, and Mr. Piyush Pandey, Executive Chairman and National Creative Director of Ogilvy & Mather, jointly received the ABBY Gold award from Bollywood superstar Mr. Sanjay Dutt.



COMPANY INFORMATION

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

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
HDFC Bank

Corporate Office

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

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

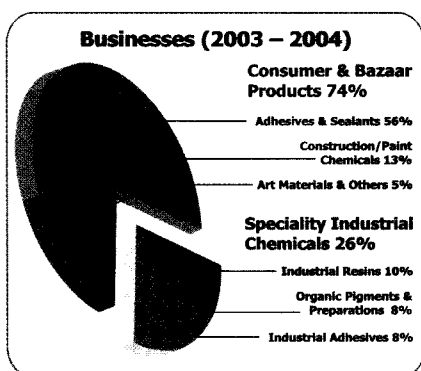
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Pidilite has achieved 14.1% growth in gross sales and 3.5% growth in net profit for the year 2003-04. A significant increase in raw material prices affected the margins for most part of the year.

Segment-wise Performance

Branded consumer and bazaar products contributed 74% to the total sales of the Company and the sales value of these products grew by 16.2% during the year. Adhesives and sealants, which contributed 56% to the total sales of the Company, grew by over 16.8% during the year under review. Speciality industrial chemicals contributed 26% to the total sales of the Company and grew by 11.5% during the year.



New Products

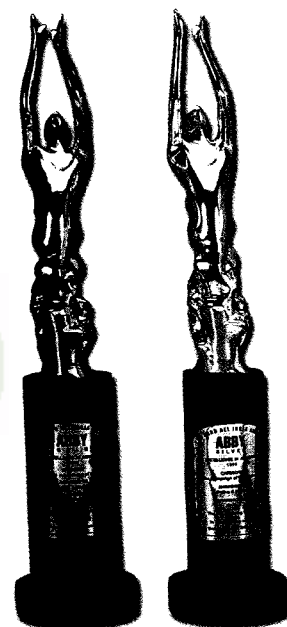
Several new products were launched under the "Fevicol" and "Dr. Fixit" brands during the year under review.

A new range of adhesives and sealants for "Do-it-Yourself" (DIY) use for the export market was launched during the year.

The "Fevicryl Hobby Ideas" range continued to grow with the introduction of new products like "Silk Colours" and "Mould and Paint Kits".

Advertising

The company continues to win recognition for its advertising, created by Ogilvy & Mather. At the prestigious ABBY 2004 Awards, Fevicol won the Special Gold for the Best Continuing Campaign. The Fevicol "Pretender" TV Commercial won an ABBY Silver in the Homes/Decor/Leisure category.



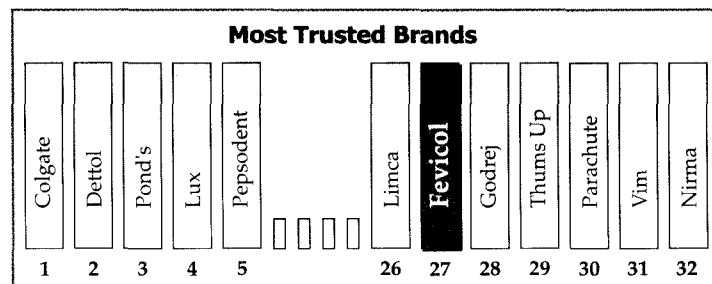
The Company's advertising won several awards



Several new products were launched this year

Brand Ranking

The Company's brand building efforts have continued to yield good results, with "Fevicol" being placed amongst the most



The Economic Times: 17th December 2003

trusted brands in the country. In the survey report for the "Most Trusted Brands" that was published in Brand Equity section of The Economic Times dated 17th December 2003, the "Fevicol" brand was rated 27th in the country, ahead of several well-known brands.

International Business

The Company's exports grew by 22.7% from Rs. 3476 lac to Rs. 4267 lac for the period under review.

Several initiatives have been taken in the last few years to increase the exports of consumer and bazaar products. New products have been introduced especially for exports and entry has been made into new markets.

As a result of these initiatives, exports



L. Balaji breaks his bat as he tries to hit a Shoaib Akhtar ball.

Fevicol Nahi Lagayo, To Kaam Nahi Hoyo!'

Indian Express: 25th March 2004

of consumer & bazaar products grew by 108% to Rs. 1389 lac during the year.



Some of the DIY products developed specifically for exports

Sales Promotion

Our magazines, books and CDs on art and craft are universally popular with craftsmen and household consumers. Under the "Fevicryl Hobby Ideas" brand, several new publications – "The Art of Making Designer Candles", "Fevicryl Book of

Designs" and "New Feviart Wedding Special" – were launched to promote Fevicryl hobby products.

The Fevicol Furniture Book was first printed 14 years ago. In this period, its appeal has grown steadily, and the 19th volume in the series was printed during the year under review.

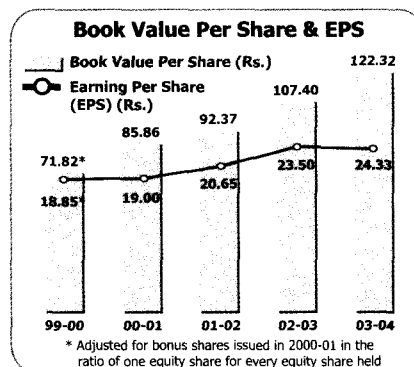
Building Blocks, a new quarterly magazine from our Construction Chemicals Division, targeted at architects, interior designers and contractors, was launched during the year under review.



Our magazines, books and CDs are universally popular

Shareholder Value

The Net Worth of the Company has grown from Rs. 18128 lac in 1999-2000 to Rs. 30873 lac at the end of 2003-2004, giving a CAGR of 14.2%.



Based on the criterion

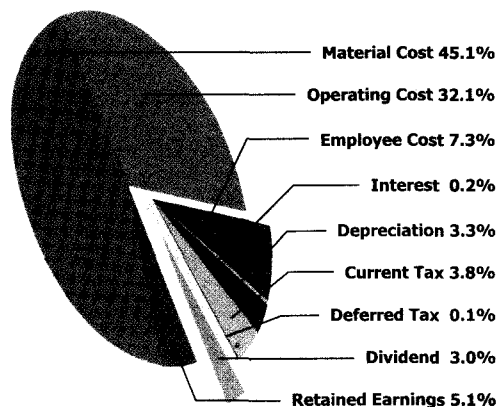
of market capitalisation, the Company was ranked 169th amongst India's top 500 listed companies, including those in the private and public sectors (ET 500, published by The Economic Times in May, 2004).

Other Matters

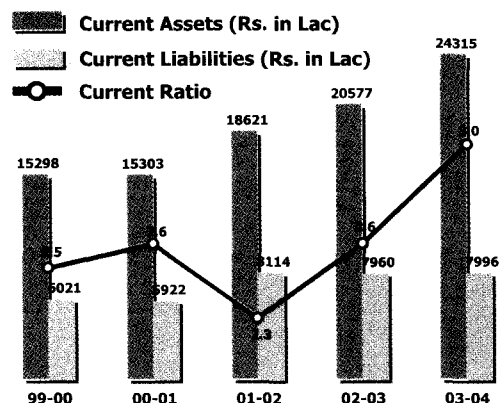
The following matters are elaborated in the Directors' Report:

- Financial Performance
- Industry Structure and Development
- Outlook on Opportunities, Threats, Risks and Concerns
- Risk and Internal Adequacy
- Human Resources

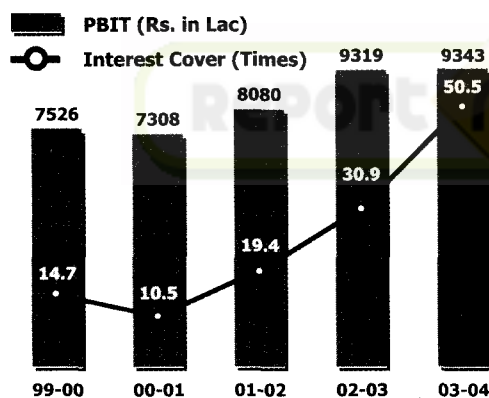
Distribution of Revenue



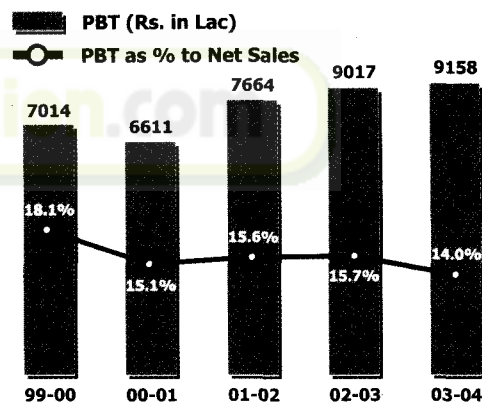
Current Ratio



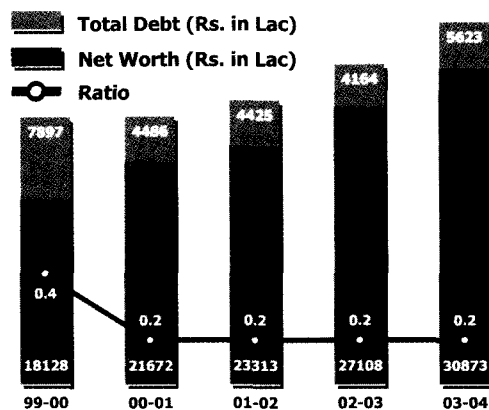
PBIT & Interest Cover



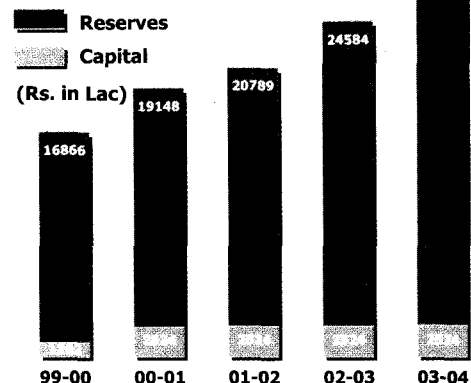
PBT & PBT as % to Net Sales



Debt Equity Ratio



Value Addition to Business Through Reserves



Rupees in Lac

Highlights	1999-00	2000-01	2001-02	2002-03	2003-04	CAGR %
Sales and Other Income	47063	52690	57718	66784	76474	12.90
Manufacturing and Other Expenses	38375 [@]	43731	47741	55212	64581 ^{\$}	13.90
Operating Profit	8688	8959	9977	11572	11893	8.17
Interest	512	697	416	302	185	-22.47
Depreciation	1162	1651	1897	2253	2550	21.71
Profit before Tax	7014	6611	7664	9017	9158	6.90
Current Tax	2257	1815	1650	2950	2940	6.83
Deferred Tax	—	—	802	136	78	—
Profit after Tax	4757	4796	5212 [#]	5931	6140	6.59
Dividend on Equity Shares	1134 [*]	1252 [*]	1767	2136 [*]	2278 [*]	19.05
Retained Earning	3623	3544	3445	3795	3862	1.61
Capital	1262	2524	2524	2524	2524	18.92
Reserves (Less Revaluation Reserve & Misc. Expenditure)	16866	19148	20789	24584	28349	13.86
Net Worth	18128	21672	23313	27108	30873	14.24
Borrowings	7897	4486	4425	4164	5623	-8.14
Deferred Tax Liability (Net)	—	—	2795	2931	3009	—
Funds Employed	26025	26158	30533	34203	39505	11.00
Fixed Assets (Excluding Revalued Assets & Depreciation thereon)						
Gross Block	20222	22549	27719	31324	35408	15.03
Depreciation	5767	7366	9203	11217	13722	24.20
Net Block	14455	15183	18516	20107	21686	10.67
Investments	2293	1594	1510	1479	1500	-10.07
Net Current Assets	9277	9381	10507	12617	16319	15.17
Total Assets	26025	26158	30533	34203	39505	11.00

@ Includes VRS Payment of Rs. 132 lac \$ Includes VRS Payment of Rs. 24 lac

Excluding prior year Tax provision written back Rs. 189 lac * Includes Tax on Dividend

5 YEARS' FINANCIAL PERFORMANCE

Rupees in Lac

Highlights	1999-00	2000-01	2001-02	2002-03	2003-04
Sources					
Internal Generation	5919	6447	8100	8320	8768
Increase in Capital and Reserve (Net) on Amalgamation	1226	-	-	-	-
Increase in Loans	2514	-	-	-	1459
Decrease in Investment	-	699	69	30	-
Total	9659	7146	8169	8350	10227
Applications					
Repayment of Loans	-	3411	85	185	-
Capital Expenditure (Net)	5682 [@]	2379	5230 ^{\$}	3844 [*]	4130
Investments	412	-	-	-	21
Dividend	1135	1252	1767	2136	2278
Increase in Working Capital	2430	104	1087	2185	3701
Increase in Miscellaneous Expenditure	-	-	-	-	97
Total	9659	7146	8169	8350	10227
Financial Ratios					
Return on Average Net Worth % (RONW) (PAT divided by Average Net Worth)	30.1	24.1	23.2	23.5	21.2
Return on Average Capital Employed % (ROCE) (PBIT divided by Average Funds Employed*)	33.5	28.0	30.0	31.6	27.6
Long Term Debt / Cash Flow	0.4	0.1	0.1	0.3	0.2
Gross Gearing % (Debt as a percentage of Debt plus Equity)	30.3	17.1	16.0	13.3	15.4
Current Ratio (Current Assets divided by Current Liabilities)	2.5	2.6	2.3	2.6	3.0
Assets Turnover (times) (Gross Sales divided by Total Assets)	1.8	2.0	1.9	1.9	1.9

[@] Includes Cost of Brands Acquired Rs. 3656 lac^{\$} Includes Cost of Brand Acquired Rs. 873 lac[#] Includes Cost of Brands Acquired Rs. 908 lac^{*} Excluding Deferred Tax Liability (Net)

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 equivalent to yield on long term Government of India (GOI) securities (taken @ 5.2%) + market risk premium (assumed @ 7.5%) x beta variant for the Company (taken at 0.8) where the beta is a relative measure of risk associated with the Company's shares 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 3% above the risk free return on long dated securities issued by the Government of India).

Economic Value Added Analysis					
Item	1999-00	2000-01	2001-02	2002-03	2003-04
1. Risk Free Return on Long Dated GOI Securities	11.0%	10.3%	9.0%	6.3%	5.2%
2. Cost of Equity	18.5%	17.3%	15.8%	12.3%	11.2%
3. Cost of Debt (Post Tax)	8.0%	7.4%	7.1%	5.9%	5.3%
4. Effective Weighted Average Cost of Capital	15.4%	15.0%	14.4%	11.4%	10.3%
5. Average Debt	6640	6192	4456	4295	4894
6. Average Equity (Shareholder Funds)	15808	19900	22492	25210	28990
7. Average Capital Employed (Debt + Equity)	22448	26092	26948	29505	33884
8. Profit After Tax (as per P&L account)	4757	4796	5212	5931	6140
9. Interest (as per P&L account, net of Income Tax)	315	421	268	191	118
10. Net Operating Profit After Tax (NOPAT)	5072	5217	5480	6122	6258
11. Weighted Average Cost of Capital (4 x 7)	3457	3914	3881	3364	3490
12. Economic Value Added (10 - 11)	1615	1303	1599	2758	2768
13. EVA as a % of Average Capital Employed (12 ÷ 7)	7.19%	4.99%	5.93%	9.35%	8.17%

Notes:

1. Deferred Tax Reserve of earlier years have been reclassified as Deferred Tax Liability (Net).

2. Figures for the year 2002-03 have been regrouped wherever necessary.

3. Effects have been given in Financial Charts, 5 years' Financial Performance, Funds Flow, Ratios and EVA for Note Nos. 1 & 2 above.