

Pidilite Industries Limited

37th Annual Report
2005-06



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Dr. Fixit



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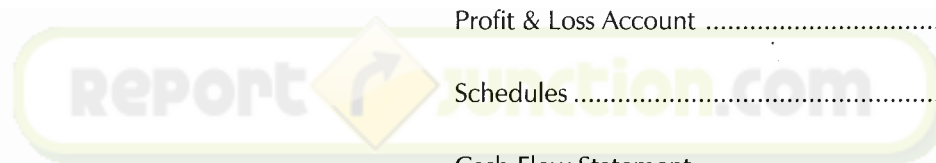


PIDILITE LAKH DUKHON KI EK DAWA

To expand its user base and increase the consumption of its products, the Company developed and released infomercials for some of its popular products. *Pidilite – Lakh Dukhon Ki Ek Dawa* ('Pidilite has a cure for a hundred thousand ills') highlights the multiple applications of various Pidilite products. The Company plans to continue with infomercials on several more products this year.

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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	Director
R M Gandhi	Director
N J Jhaveri	Director
Bansi S Mehta	Director
Ranjan Kapur	Director
Yash Mahajan	Director
A B Parekh	Whole-Time Director
A N Parekh	Whole-Time Director
Amit Roy	Whole-Time Director

Sr. Vice President & Company Secretary

P C Patel

Corporate Office

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

Solicitors & Advocates

Wadia Chandy & Co

Registered Office

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

Auditors

Haribhakti & Co

Registrar & Transfer Agent

TSR Darashaw Limited
(Formerly Tata Share Registry Limited)
Army & Navy Building
148, Mahatma Gandhi Road
Fort, Mumbai 400 001

Bankers

Indian Overseas Bank
Corporation Bank
ICICI Bank

Management Discussion & Analysis

Pidilite Industries Limited achieved 17.4% growth in gross sales in 2005-06. The Company achieved 23.6% growth in profit before tax, 26.1% growth in profit after tax (before deferred tax and prior year tax write back) and 18.4% growth in profit after tax (after deferred tax and prior year tax write back).

Performance by Industry Segment

Branded Consumer and Bazaar Products contributed to 75% of the total sales of the Company and grew by 21.4% during the year.



Some of the new Pidilite products launched in 2005-06

Business Segments %

	Business Segments %				
	2001-02	2002-03	2003-04	2004-05	2005-06
Speciality Industrial Chemicals	Others	1	1		
	Industrial Adhesives	8	8	8	8
	Organic Pigments & Preparations	9	9	8	7
	Industrial Resins	11	10	10	11
	Art Materials & Others	12	13	13	14
Consumer & Bazaar Products	Construction/Paint Chemicals	12	13	13	14
	Adhesives & Sealants	54	54	56	54

Dampfree (an injection grout for rising dampness) and other products.

M-Seal Wet Set, an M-Seal variant that cures on wet surfaces, and Motomax, a premium range of car care products, were also introduced. The Company's Hobby and Art Materials range continued to grow with the launch of Fevicyl Ceramic Colours, Fevicyl Fabric Pens, Fevicyl Creative Packs and Fevicyl Suncatcher Kits.

Sales of Branded Adhesives and Sealants grew by 19.3% and contributed 55% to the total sales of the Company. Construction and Paint Chemicals grew by 29%, and Art Materials and other products grew by 21.8%. Exports of Consumer and Bazaar Products grew by 40.8% during the year.

Speciality Industrial Chemicals contributed 25% to the total sales of the Company and grew by 6.8%. The low growth in this segment was mainly due to a 12.6% decline in exports. The Company plans to improve the growth rate of exports of its Speciality Industrial Chemicals.

New Products

Several varieties of speciality industrial colorants and industrial adhesives were launched during the year.

The Dr. Fixit range of construction chemicals was expanded with Krystalline (a capillary waterproofing system for concrete),

New Retail Outlets

The Company set up India's first Craft and Hobby store at Inorbit Mall, Malad, Mumbai. The store, Hobby Ideas, sells a variety of hobby and craft products and books sourced from around the world. The store has received encouraging response, and the Company plans to open more such stores.

Hobby Ideas store at Inorbit Mall, Malad



Mergers and Acquisitions

The Company's wholly-owned Singapore-based subsidiary, Pidilite International Pte Ltd, acquired a controlling stake in Bamco Ltd, Thailand, to strengthen our construction chemicals business in South East Asia. Bamco is a manufacturer of speciality bitumen-based waterproofing products and has, so far, marketed its products in Thailand, Indonesia, Malaysia and Singapore.

Pidilite Middle East Ltd, our wholly-owned offshore subsidiary in the Jebel Ali Free Zone in Dubai, acquired a 49% stake in Jupiter Chemicals LLC. Jupiter Chemicals manufactures reflective coatings, tile adhesives and plasters, and will help grow the Company's business in the high potential Middle East market.

In India, the Company acquired the Tristar Colman / Fine Art brands, business and certain assets. Fine Art is a market leader in brushes for drawing and painting while Tristar Colman is a well-known brand of canvas and student art colours. The acquisition strengthens the Company's art materials portfolio and will help increase sales in the school and artist segments.

International Business and Exports

Exports of Consumer and Bazaar Products grew by 40.8%, to Rs 3185 lac. Exports of Speciality Chemicals declined by 12.6% to Rs 3439 lac. In order to achieve sustained growth in international business, the Company is expanding its distribution network in various countries and also deploying additional manpower. In addition to its overseas acquisition of Bamco in Thailand and Jupiter Chemicals LLC in Dubai,

the Company has established two direct subsidiaries: one in the UAE (Pidilite Middle East Ltd) and one in Brazil (Pidilite Do Brasil Desenvolvimento De Negocios Ltda). Pidilite International Pte Ltd has established two step-down subsidiaries: one in Indonesia (PT Pidilite Indonesia) and the other in Bangladesh (Pidilite Speciality Chemicals Bangladesh Pvt Ltd).

Advertising and Customer Relations

The Company continues to receive recognition for its advertisements created by Ogilvy & Mather (O&M). Fevicol was awarded an ABBY Gold this year for "Radio: Consumer Durables", and 4 ABBY Silvers, for "Integrated Campaign of the Year", "Campaign: Homes / Décor / Leisure", "Outdoor:

Consumer Durables" and "Film (Single ad) – Homes / Décor / Leisure". The Company's TV and radio ad campaign for its Dr. Fixit range of waterproofing products has received good response.

Among various initiatives taken towards strengthening relations with its customers, the Company's Fevicol Division has been inviting dealers and end-users to the corporate office for a full-day familiarisation programme called "Amantran".



The Company's advertising won several awards

Pidilite conducted India's first Creative Craft Contest to promote craft in schools. Approximately 2.5 lac students participated in the contest spread across 600 schools in



A growing range of construction chemical products

12 towns. The Company plans to significantly expand its Creative Craft initiative this year.



School children participating in the Fevicol MR Creative Craft Contest

The Company also developed a Pidilite Van with attractive graphics, equipped with an audiovisual system to promote various products. The Company expects to deploy such vans in rural areas in different parts of the country to increase awareness of our products.



Our eye-catching Pidilite van

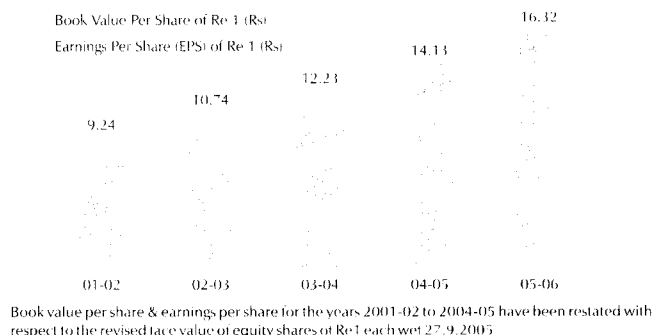
Shareholder Value

The Company's net worth has grown from Rs 23313 lac in 2001-02 to Rs 41186 lac at the end of 2005-06, giving a Compounded Annual Growth Rate (CAGR) of 15.3%.

The market capitalisation of the Company on March 31, 2006, was Rs 2651.46 crore. Those shareholders who participated in the maiden IPO of the Company in October 1993, received

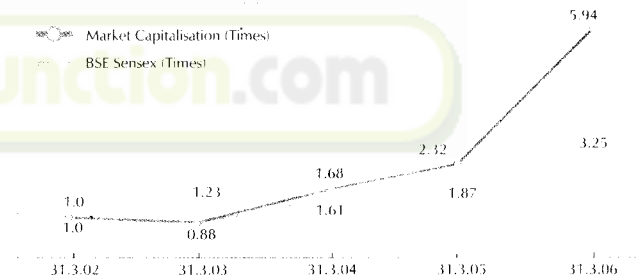
100 shares of Rs 10 each and retained Bonus Shares, have multiplied their initial investment of Rs 11,000 to Rs 4,20,200* in March 2006, giving a CAGR of 39.3% by way of capital appreciation.

Book Value Per Share & EPS



Growth in Market Capitalisation of Company and BSE Sensex since 31.3.2002

Base Value: 31.3.2002 = 1



Market price per share at BSE on the year end data for the years 2001-02 to 2004-05 have been adjusted with respect to the revised face value of equity share of Re 1 each w.e.f. 27.09.2005

Other Matters

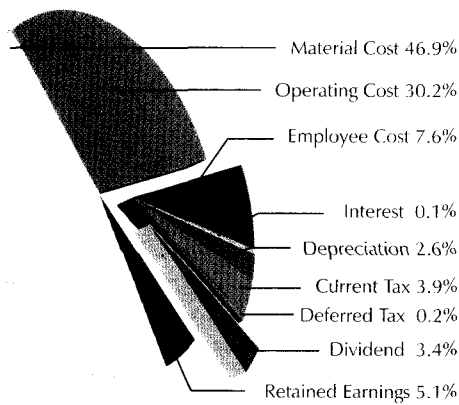
The following matters are elaborated upon in the Directors' Report:

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

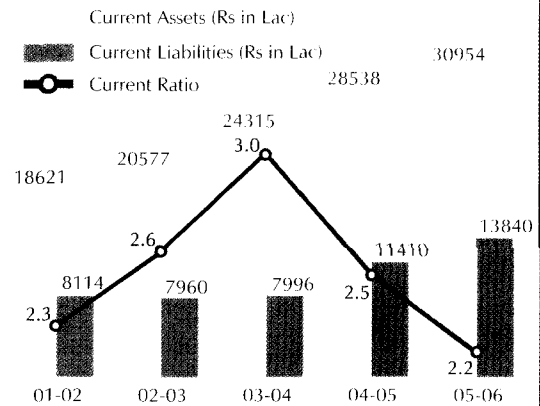
* Based on market value of Rs 105.05 per share of Re 1 each

Financial Charts

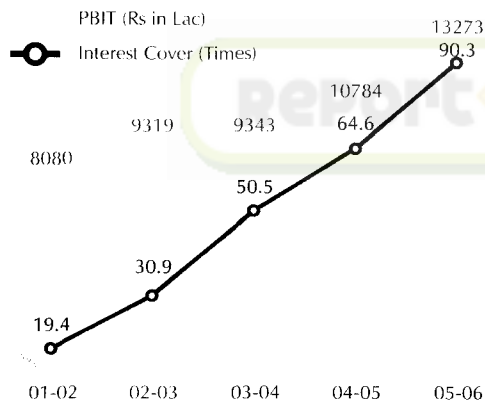
Distribution of Revenue (2005-06)



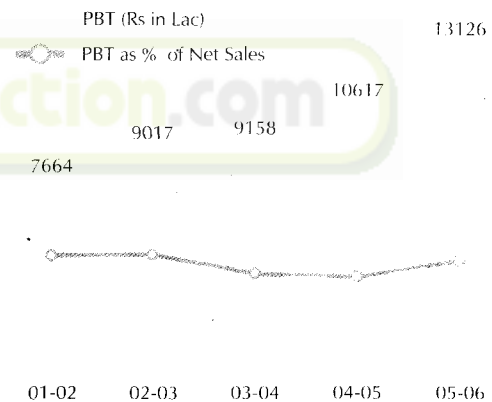
Current Ratio



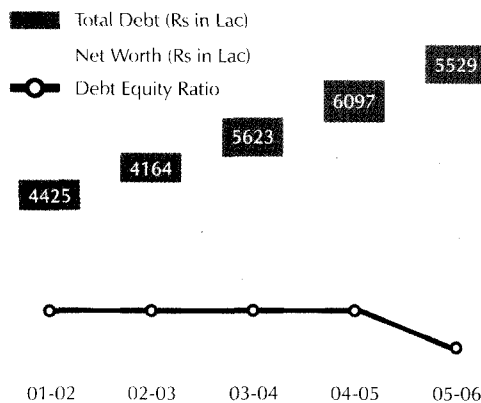
PBIT & Interest Cover



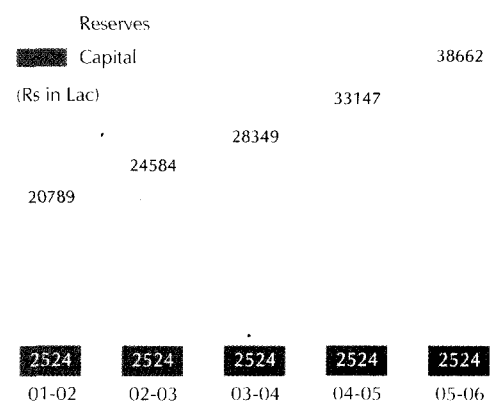
PBT & PBT as % of Net Sales



Debt Equity Ratio



Value Addition to Business through Reserves



Economic Value Added (EVA)

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 @ 7.5%) + 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 term securities issued by the Government of India).

Economic Value Added Analysis

Item	2001-02	2002-03	2003-04	2004-05	2005-06
1. Risk Free Return on Long Term GOI Securities	9.0%	6.3%	5.2%	6.7%	7.5%
2. Cost of Equity	15.8%	12.3%	11.2%	12.7%	13.5%
3. Cost of Debt (Post Tax)	7.1%	5.9%	5.3%	6.2%	7.0%
4. Effective Weighted Average Cost of Capital	14.4%	11.4%	10.3%	11.7%	12.6%
Economic Value Added (Rupees in Lac)					
5. Average Debt	4456	4295	4894	5860	5813
6. Average Equity (Shareholder Funds)	22492	25210	28990	33272	38429
7. Average Capital Employed (Debt + Equity)	26948	29505	33884	39132	44242
8. Profit After Tax (as per P&L account)	5401	5931	6140	7658	9068
9. Interest (as per P&L account, net of Income Tax)	268	191	118	106	97
10. Net Operating Profit After Tax (NOPAT)	5669	6122	6258	7764	9165
11. Weighted Average Cost of Capital (4 x 7)	3881	3364	3490	4578	5574
12. Economic Value Added (10 - 11)	1788	2758	2768	3186	3591
13. EVA as a % of Average Capital Employed (12+7)	6.64%	9.35%	8.17%	8.14%	8.12%

Notes:

1. Deferred Tax Reserve for the years 2001-02 & 2002-03 has been reclassified in 2003-04 as Deferred Tax Liability (net).
2. Figures for the year 2002-03 have been regrouped in 2003-04 wherever necessary.
3. Profit After Tax includes Prior Year's Tax Provision written back.
4. Effects have been given in Financial Charts, 10 Years Financial Performance and EVA for Note Nos. 1, 2 & 3 above.
5. Figures in Financial Charts, 10 Years Financial Performance and EVA are as per the Annual Report of respective years, except where stated otherwise.

10 Years Financial Performance

Rupees in Lac

Highlights
1996-97 1997-98 1998-99 1999-00 2000-01 2001-02 2002-03 2003-04 2004-05 2005-06 CAGR %
Operating Results

Sales and Other Income	32944	36566	40178	47063	52690	57718	66784	76474	89975	106172	13.89
Manufacturing and Other Expenses	28386	30844	33152	38375 [@]	43731	47741	55212	64581 [§]	76492 [§]	90151 [§]	13.70
Operating Profit	4558	5722	7026	8688	8959	9977	11572	11893	13483	16021	14.99
Interest	1616	1021	744	512	697	416	302	185	167	147	-23.38
Depreciation	720	860	959	1162	1651	1897	2253	2550	2699	2748	16.05
Profit before Tax	2222	3841	5323	7014	6611	7664	9017	9158	10617	13126	21.82
Current Tax	567	1113	1590	2257	1815	1650	2950	2940	3451	4090	24.55
Deferred Tax	-	-	-	-	-	802	136	78	(130)	170	-
Profit after Tax for the Year	1655	2728	3733	4757	4796	5212	5931	6140	7296	8866	20.50
Add: Prior Year's Tax Provision written back	-	-	-	-	-	189	-	-	362	202	-
Profit after Tax	1655	2728	3733	4757	4796	5401	5931	6140	7658	9068	20.80
Dividend on Equity Shares	539*	673*	951*	1134*	1252*	1767	2136*	2278*	2883*	3598*	23.48
Retained Earning	1116	2055	2782	3623	3544	3634	3795	3862	4775	5470	19.32
Financial Position											
Capital	1224	1224	1224	1262	2524	2524	2524	2524	2524	2524	8.37
Reserves (Less Revaluation Reserve & Misc. Expenditure)	7328	9447	12263	16866	19148	20789 [†]	24584 [†]	28349	33147	38662	20.30
Net Worth	8552	10671	13487	18128	21672	23313	27108	30873	35671	41186	19.08
Borrowings	8638	8190	5383	7897	4486	4425	4164 [†]	5623	6097	5529	-4.84
Deferred Tax Liability (Net)	-	-	-	-	-	2795 [†]	2931 [†]	3009	2879	3049	-
Funds Employed	17190	18861	18870	26025	26158	30533	34203	39505	44647	49764	12.54
Fixed Assets[#]											
Gross Block	11677 [‡]	12911 [‡]	14599	20222	22549	27719	31324 [†]	35408	42030	48109	17.04
Depreciation	2663 [‡]	3509 [‡]	4456	5767	7366	9203	11217	13722	16354	19045	24.43
Net Block	9014	9402	10143	14455	15183	18516	20107 [†]	21686	25676	29064	13.89
Investments	1293	1402	1881	2293	1594	1510	1479	1500	1843	3586	12.00
Net Current Assets	6883	8057	6846	9277	9381	10507	12617 [†]	16319	17128	17114	10.65
Total Assets	17190	18861	18870	26025	26158	30533	34203	39505	44647	49764	12.54

[@] Includes VRS Payment of Rs 132 lac[§] Includes VRS Payment of Rs 24 lac^{*} Includes Tax on Dividend[‡] Figures have been regrouped in 1998-99[†] Figures have been reclassified/regrouped in 2003-04[#] Excluding Revalued Assets & Depreciation thereon