

Third Quarter Financial Statements And Dividend Announcement

The Board of Directors of Meghmani Organics Limited (“MOL” or the “Company” or “the Issuer”) wishes to make the following announcement of the un-audited results for the Third Quarter ended on December 31, 2005 as follows:-

PART I – INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2, & Q3) HALF YEAR AND FULL YEAR RESULTS

1(a)(i) An income statement (for the Group) together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group			Group		
	3 months ended		%	9 months ended		%
	31 /12/2005	31/12/2004	Increase (Decrease)	31 /12/2005	31/12/2004	Increase (Decrease)
	Rs' '000	Rs' '000		Rs' '000	Rs' '000	
Revenue	862,384	736,622	17.1	2,791,879	2,337,947	19.4
Cost of sales	(646,254)	(587,177)	10.1	(2,112,061)	(1,806,419)	16.9
Gross Profit	216,130	149,445	44.6	679,818	531,528	27.9
Other operating income	13,268	16,243	(18.3)	45,245	48,264	(6.3)
Distribution expenses	(82,973)	(53,779)	54.3	(240,596)	(166,639)	44.4
Administrative expenses	(52,038)	(30,710)	69.4	(112,801)	(92,682)	21.7
Other operating expenses	(4,871)	(1,448)	n.m	(9,942)	7,870	n.m
Profit from operations	89,516	79,751	12.2	361,724	328,341	10.2
Finance cost	(18,822)	(11,556)	62.9	(45,820)	(38,451)	19.2
Income from investments	30	1,383	n.m.	181	2,514	n.m.
Profit before tax	70,724	69,578	1.6	316,085	292,404	8.1
Income tax	10,960	(17,585)	n.m.	(51,470)	(88,887)	(42.1)
Profit after income tax	81,684	51,993	57.1	264,615	203,517	30.0

1(a)(ii) The net profit attributable to the shareholders includes the following charges/ (credits):

	Group			Group		
	3 months ended		%	9 months ended		%
	31 /12/2005	31/12/2004	Increase (Decrease)	31/12/2005	31/12/2004	Increase (Decrease)
	Rs' '000	Rs' '000		Rs' '000	Rs' '000	
Bad trade written off / (recovered)	574	(1,364)	n.m	590	(3,389)	n.m.
Foreign currency exchange adjustment loss (gain)	4247	2,479	71.3	9,275	(5,463)	n.m.
Research and development expenditure	2403	2,789	(13.8)	8,855	7,339	20.7
Loss / (Profit) on sales of property, plant and equipment	51	107	n.m	51	578	n.m.
Loss / (Profit) on sales of investments	-	27	n.m.	27	37	(27.0)

Note: n.m. means not meaningful.

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1(b)(i) A balance sheet of the Company and Group, together with a comparative statement as at the end of the immediately preceding financial year.

	Group		Company	
	As at 31.12.2005 Rs '000	As at 31.03.2005 Rs '000	As at 31.12.2005 Rs '000	As at 31.03.2005 Rs '000
ASSETS				
Current assets				
Cash & bank balances	111,117	54,870	100,779	53,923
Trade receivables	1,553,223	1,308,152	1,683,395	1,366,186
Other receivables and prepayments	265,594	265,113	264,497	262,441
Inventories	853,222	551,985	765,635	502,558
Income tax recoverable	15,101	2,784	15,101	3,371
Total current assets	2,798,257	2,182,904	2,829,407	2,188,479
Non – current assets				
Property, plant and equipments	1,175,776	1,024,756	1,174,861	1,024,756
Interests in subsidiaries	-	-	373	373
Available for sale investments	5,465	4,549	5,465	4,549
Total non – current assets	1,181,241	1,029,305	1,180,699	1,029,678
Total assets	3,979,498	3,212,209	4,010,106	3,218,157
LIABILITIES AND EQUITY				
Current liabilities				
Bank borrowings	1,073,932	387,626	1,073,360	387,626
Trade payables	405,831	377,169	398,260	374,123
Other payables	43,943	73,813	43,943	73,813
Total current liabilities	1,523,706	838,608	1,515,563	835,562
Non – current liabilities				
Bank borrowings	0	111,189	0	111,189
Deferred tax liabilities	86,565	91,927	86,565	91,927
Total non – current liabilities	86,565	203,116	86,565	203,116
Capital & reserves				
Issued capital	200,630	200,630	200,630	200,630
Share premium	663,259	663,259	663,259	663,259
General reserve	404,130	404,130	404,130	404,130
Capital redemption reserve	18,433	18,433	18,433	18,433
Dividend reserve	0	68,055	0	68,055
Currency translation reserve	1,484	(698)	0	-
Accumulated profits	1,081,291	816,676	1,121,526	824,972
Total equity	2,369,227	2,170,485	2,407,978	2,179,479
Total liabilities and equity	3,979,498	3,212,209	4,010,106	3,218,157

1(b)(ii) Aggregate amount of Group's borrowings and debt securities.

Amount repayable in one year or less, or on demand

As at December 31, 2005		As at March 31, 2005	
Secured	Unsecured	Secured	Unsecured
Rs '000	Rs '000	Rs '000	Rs '000
860,498	213,434	382,491	5,135

Amount repayable after one year

As at December 31, 2005		As at March 31, 2005	
Secured	Unsecured	Secured	Unsecured
Rs '000	Rs '000	Rs '000	Rs '000
-	-	111,189	-

The details of bank borrowing from various banks and securities are shown below:

Bank borrowing from a consortium banks (SBI, Corporation Bank and ICICI Bank)

As at December 31, 2005 bank borrowing amounting to **Rs. 687,745,000** (March 31, 2005: Rs. 232,980,000) are secured by:

- first ranking pari passu charge in favour of a consortium of banks by way of hypothecation on the Company's trade receivables and inventories ; and
- first ranking pari passu charge in favour of a consortium of banks by way of hypothecation and/or legal mortgage over certain of Group's present and future properties, plant and equipment.

Bank borrowing from other banks

Bank A (ICICI Bank Limited – Working Capital)

As at December 31, 2005 bank borrowing amounting to **Rs. 171,850,000** (March 31, 2005: Rs. 259,527,000) are secured by :

- first ranking pari passu charge by way of hypothecation on the Company's current assets; and
- first ranking pari passu charge by way of hypothecation and/or legal mortgage over certain of Group's present and future properties, plant and equipment.

Bank B (HDFC Bank Limited – FCNRB Credit)

As at December 31, 2005, bank borrowings amounting to **Rs 63,434,000** are unsecured.

(HDFC Bank Limited –Short term Loan)

As at December 31, 2005, short term loan amounting to **Rs 150,000,000** are unsecured.

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Bank C (HSBC Bank Limited – Buyers Credit)

As at December 31, 2005, bank borrowings amounting to **Rs. Nil** (March 31, 2005 Rs. 5,135,000) are unsecured.

As at December 31, 2005 motor vehicle loans amounting to **Rs 903,000** (March 31, 2005 Rs 1,173,000) are secured by hypothecation of the respective motor vehicles purchased.

As at December 31, 2005 the Company has unutilized bank credit facilities amounting to **Rs. 199,500,000** (March 31, 2005: Rs. 189,000,000).

- 1(c) A cash flow statement of the Group, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Particulars	Group		Group	
	3 months ended		9 months ended	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
	Rs '000	Rs '000	Rs '000	Rs '000
Cash flows from operating activities				
Profit from operation	89,516	79,751	361,724	328,341
Adjustment for :				
Depreciation of property, plant and equipment	30,412	30,220	89,281	84,575
Profit/ Loss on disposal of property, plant and equipment	51	107	51	578
Operating cash flows before movements in working capital	119,979	110,078	451,056	413,494
Trade receivables	41,999	170,143	(245,071)	(18,659)
Other receivables and prepayments	59,845	(21,572)	(481)	(32,977)
Inventories	(142,182)	(72,522)	(301,237)	(160,293)
Trade payables	(111,904)	(60,756)	28,662	41,464
Bills payables	77,035	(57,324)	127,926	(141,824)
Other payables	(4,284)	(31,287)	(29,870)	18,418
Cash generated from operations	40,488	36,760	30,985	119,623
Income taxes paid	(20,734)	(42,221)	(69,093)	(80,932)
Interest and finance charges paid	(18,822)	(11,556)	(45,820)	(38,451)
Net cash from operating activities	932	(17,017)	(83,928)	240
Cash flows from investing activities:				
Purchase of property, plant & equipments	(48,101)	(18,596)	(240,611)	(98,092)
Purchase of investments available for sale	(516)	129,166	(916)	(121,714)
Proceeds on disposal of property, plant & equipments	260	1,926	260	3,016
Investment income received`	30	1,383	181	2,514
Net cash used in investing activities	(48,327)	113,879	(241,086)	(214,276)
Cash flows from financing activities:				
Dividend and Dividend tax paid	-	-	(68,055)	(44,925)
Proceeds from bank borrowings, net of repayments	104,027	(91,778)	447,191	(251,915)
Proceeds from initial public offering	-	-	-	34,700
Share premium (Net of issue expenses)	-	(1,784)	-	433,869
Net cash (used in)from financing activities	104,027	(93,562)	379,136	171,729
Net effect of exchange rate change in consolidation	784	-	2,125	-
Net (decrease) increase in cash and cash equivalents	57,416	3,300	56,247	(42,307)
Cash and cash equivalents at beginning of period	53,701	71,647	54,870	117,254
Cash and cash equivalents at end of period	111,117	74,947	111,117	74,947

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- 1 (d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalization issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Group :- Quarter to Quarter

Rs '000

	Issued capital	Share premium	General reserve	Capital redemption reserve	Dividend reserve	Currency translation reserve	Accumulated Profits	Total
Balance as at September 30, 2004	200,630	665,043	364,130	18,433	-	-	782,538	2,030,774
Addition during the year	-	(1,784)	-	-	-	-	-	(1,784)
Net profit for the period	-	-	-	-	-	-	51,993	51,993
Dividend paid	-	-	-	-	-	-	-	-
Balance as at December 31, 2004	200,630	663,259	364,130	18,433	-	-	834,531	2,080,983
Balance as at September 30,2005	200,630	663,259	404,130	18,433	-	667	999,607	2,286,726
Dividend paid	-	-	-	-	-	-	-	-
Currency translation reserve	-	-	-	-	-	817	-	817
Net profit for the period	-	-	-	-	-	-	81,684	81,684
Balance as at December 31, 2005	200,630	663,259	404,130	18,433	-	1,484	1,081,291	2,369,227

Company

Rs '000

	Issued capital	Share premium	General reserve	Capital redemption reserve	Dividend reserve	Accumulated Profits	Total
Balance as at September 30,2004	200,630	665,043	364,130	18,433	-	782,538	2,030,774
Addition during the year	-	(1,784)	-	-	-	-	(1,784)
Net profit for the period	-	-	-	-	-	51,993	51,993
Dividend paid	-	-	-	-	-	-	-
Balance as at December 31, 2004	200,630	663,259	364,130	18,433	-	834,531	2,080,983
Balance as at September 30,2005	200,630	663,259	404,130	18,433	-	1,004,770	2,291,222
Dividend paid	-	-	-	-	-	-	-
Net profit for the period	-	-	-	-	-	116,756	116,756
Balance as at December 31, 2005	200,630	663,259	404,130	18,433	-	1,121,526	2,407,978

- 1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities , issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

There is no change in the Company's share capital during the reporting period since the end of the previous reported period.

2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.

These figures have not been audited.

3. Where the figures have been audited or reviewed , the auditors' report (including any qualifications or emphasis of a matter).

Not applicable

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual Financial Statements have been applied.

The Group's financial statements have been prepared from those accounting records maintained under General Accepted Accounting Practices in India ("Indian GAAP") and adjusted to comply, in all material respects, with the requirements of the International Financial Reporting Standards ("IFRS").

The Group has adopted the same accounting policies and methods of computation in the financial statements for the current reporting period compared with the audited financial statements for the year ended 31 March 2005.

5. If there are any changes in the accounting policies and methods of computation , including any required by an accounting standard , what has changed , as well as the reasons for and the effect of the change.

Not Applicable

6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year , after deducting and provision for preference dividends.

There is no dilution as no share options were granted during the financial period.

	Group		Company	
	9 months ended		9 months ended	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Earnings per Ordinary shares				
(a) Based on weighted average number of ordinary shares in issue (Rs)	1.32	1.08	1.48	1.08
Earning per SDS (Rs)	0.66	0.54	0.74	0.54
(b) On a fully diluted basis (detailing any adjustments made to the earnings) (Rs)	1.32	1.08	1.48	1.08
Earning per SDS (Rs.)	0.66	0.54	0.74	0.54
Weighted average number of ordinary shares (Nos.)	200,630,000	188,176,027	200,630,000	188,176,027

7. Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the :-
 (a) current financial period reported on; and
 (b) immediately preceding financial year.

	Group		Company	
	As at	As at	As at	As at
	31.12.2005	31.03.2005	31.12.2005	31.03.2005
Net assets value per ordinary share based on issued share capital at the end of the year reported in Rs.	11.81	10.81	12.00	10.86

- 8 A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following :-
 (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on , including (where applicable) seasonal or cyclical factors and
 (b) any material factors that affected the cash flow , working capital , assets or liabilities of the group during the current financial period reported on.

Review of Results

The principal activities of the Group are manufacture and sale of Pigments, Agrochemicals and trading of dyes, dyes intermediates and Agrochemicals technical and intermediates products which are not manufactured by the Group.

Review of results for the third quarter ended on December 31, 2005 (“Q3 FY2006”)**Revenue**

Group revenue for Q3 FY2006 rose by 17.1% to Rs 862.38 million, from Rs 736.82 million in Q3 FY2005.

Breakdown of Revenue by Product

(Rs. in Millions)

Products	Q3 FY2006	Q3 FY2005	Increase/ Decrease	%
Pigments	332.37	333.63	(1.26)	(0.4)
Agrochemicals	475.85	353.24	122.61	34.7
Trading	10.00	49.75	(39.75)	(79.9)
Sales by subsidiary	44.16	-	44.16	n.m.
Total	862.38	736.62	125.76	17.1

Breakdown of Revenue activity wise :-

(Rs. in Millions)

Activity	Q3 FY2006	Q3 FY2005	Increase/ Decrease	%
Domestic Sales	196.43	178.22	18.21	10.2
Exports Sales	665.95	558.40	107.55	19.3
Total	862.38	736.62	125.76	17.1

Breakdown of Domestic Sales by Product

(Rs. in Millions)

Domestic Sales	Q3 FY2006	Q3 FY2005	Increase/ Decrease	%
Pigments	40.55	52.20	(11.65)	(22.3)
Agrochemicals	155.88	126.02	29.86	23.7
Total	196.43	178.22	18.21	10.2

Breakdown of Exports Sales by Product

(Rs. in Millions)

Export Sales	Q3 FY2006	Q3 FY2005	Increase/ Decrease	%
Pigments	291.82	281.43	10.39	3.7
Agrochemicals	319.97	227.22	92.75	40.8
Trading	10.00	49.75	(39.75)	(79.9)
Sales by subsidiary	44.16	-	44.16	n.m.
Total	665.95	558.40	107.55	19.3

Reasons for Increase / Decrease of Sales

- (a) Export sales of Pigment Division shows marginal increase of 3.7%.
- (b) Export sales of Agrochemicals Division increased significantly by 40.8%. This was due to higher quantity sales of Acephate Technical in USA, Cypermethrin Technical in Australia, Brazil, Hong Kong, Peru, Thailand, Uruguay, Vietnam, CMAC in Hong Kong and Permethrin in USA, UK, Taiwan, Pakistan, Bangladesh, Vietnam, Philippines and Hong Kong.
- (c) Domestic Sales of Pigment Division reduced by 22.3%. This is the resultant of slump in demand for Copper Phthalocynine Crude Blue.
- (d) Domestic sales of Agrochemical Division increased by 23.7%. As informed at the last quarter disclosure, the delay in domestic season in many states like Gujarat, Madhya Pradesh and Andhra Pradesh resulted increase in sales.

Gross profit

The gross profit increased by 44.6% to Rs 216.13 million in Q3 FY2006, from Rs 149.44 million in the corresponding period of previous financial year. Whereas the gross profit margin increased to 25.1% in Q3 FY2006, compared to 20.3% in Q3 FY2005. This is attributed to control in Manufacturing and Employees emolument expenses and better productivity. The Company was able to pass increase in raw material cost to an extent.

Breakdown of Gross Profit by Division

(Rs. in Millions)

Division	Q3 FY2006	GP Margin (%)	Q3 FY2005	GP Margin (%)	Increase/ Decrease	%
Pigments	97.78	29.4	70.12	21.0	27.66	39.4
Agrochemicals	143.84	30.2	78.41	22.2	65.43	83.4
Trading	0.17	1.7	0.91	1.8	(0.74)	(81.3)
Subsidiary Co.	(25.66)	(58.1)	-	-	(25.66)	n.m
Total	216.13	25.1	149.44	20.3	66.69	44.6

GP margin of Pigments

The gross profit margin of Pigment division increased by 8.4% from 21.0% in Q3 FY2005 to 29.4% in Q3 FY2006. This was due to better sales price realisation for CPC Blue, Alpha Blue, Beta Blue and introduction of more profitable products like 17DA, Blue 60 and PG 36. The reduction in raw material cost of Copper Phthalocynine Blue because of introduction of advance technology also contributed positively.

GP margin of Agrochemicals

The gross profit margin of Agrochemicals division increased by 8.0% i.e. from 22.2% in Q3 FY2005 to 30.2% in Q3 FY2006. This was due to better sales price realisation and better cost control.

The loss of Subsidiary is due to exchange rate difference and elimination of unearned profit.

Review of results for the nine months ended on December 31, 2005**Revenue**

Group revenue for nine months period ended on December 31, 2005 rose by 19.4% to Rs 2791.88 million, from Rs 2337.95 million up to December 31, 2004.

Breakdown of Revenue by Product

(Rs. in Millions)

Products	9 Months FY2006	9 Months FY2005	Increase/ Decrease	%
Pigments	1043.00	1006.14	36.86	3.7
Agrochemicals	1576.45	1227.88	348.57	28.4
Trading	35.91	103.93	(68.02)	(65.4)
Sales by subsidiary	136.52	-	136.52	n.m.
Total	2791.88	2337.95	453.93	19.4

Breakdown of Revenue activity wise :-

(Rs. in Millions)

Activity	9 Months FY2006	9 Months FY2005	Increase/ Decrease	%
Domestic Sales	811.98	784.85	27.13	3.5
Exports Sales	1979.90	1553.10	426.80	27.5
Total	2791.88	2337.95	453.93	19.4

Breakdown of Domestic Sales by Product

(Rs. in Millions)

Domestic Sales	9 Months FY2006	9 Months FY2005	Increase/ Decrease	%
Pigments	190.81	154.11	36.70	23.8
Agrochemicals	621.17	630.74	(9.57)	(1.5)
Total	811.98	784.85	27.13	3.5

Breakdown of Exports Sales by Product

(Rs. in Millions)

Export Sales	9 Months FY2006	9 Months FY2005	Increase/ Decrease	%
Pigments	852.20	852.03	0.17	0.0
Agrochemicals	955.28	597.14	358.14	60.0
Trading	35.91	103.93	(68.02)	(65.4)
Sales by subsidiary	136.51	-	136.51	n.m.
Total	1979.90	1553.10	426.80	27.5

Reasons for Increase / Decrease of Sales

- (a) Export sales of Pigment Division remained almost same.

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- (b) Export sales of Agrochemicals Division increased significantly by 60.0% due to higher sales of Acephate Technical in USA, Chlorpyrifos Technical in Belgium, Brazil, Paraguay, USA and Thailand and Permethrin in USA, UK, Taiwan, Pakistan, Bangladesh, Vietnam, Philippines and Hong Kong and Alpha Cypermethrin in USA, China, Australia, Lebanon, Vietnam, Indonesia, Paraguay, Peru, Syria and Hong Kong. Acceptability of formulation product in overseas market also contributed.
- (c) Domestic Sales of Pigment Division increased, in spite of slump in reporting quarter, due to a higher quantity of sales of Copper Phthalocyanine Crude and Alpha Blue.
- (d) Domestic sales of Agrochemical Division decreased marginally.

Gross profit

The gross profit increased by 27.9% to Rs 679.81 million in 9 Months FY2006, compared to Rs 531.53 million in 9 Months FY2005. The gross profit margin increased by 24.3% in 9 Months FY2006, compared to 22.7% in 9 Months FY2005. This is due to better price realisation and effective control of manufacturing expenses and employee emoluments.

Breakdown of Gross Profit by Division

(Rs. in Millions)

Division	9 Months FY2006	GP Margin (%)	9 Months FY2005	GP Margin (%)	Increase/ Decrease	%
Pigments	272.06	26.1	218.94	21.8	53.12	24.3
Agrochemicals	417.37	26.5	309.61	25.2	107.76	34.8
Trading	2.54	7.1	2.98	2.9	(0.44)	14.8
Subsidiary Co.	(12.16)	(8.9)	-	-	(12.16)	n.m.
Total	679.81	24.3	531.53	22.7	148.28	27.9

GP margin of Pigments

The gross profit margin of Pigment division increased by 4.3% i.e. from 21.8% in 9 Months FY 2005 to 26.1% in 9 Months FY2006. This was due to better sales price realisation.

GP margin of Agrochemicals

The gross profit margin of Agrochemicals division increased by 1.3% i.e. from 25.2% in 9 Months FY2005 to 26.5% in 9 Months FY2006. This was due to better sales price realisation and reduction in raw material consumption due to better yield.

The loss of Subsidiary is due to exchange rate difference and elimination of unearned profit.

Other operating income : - (Quarter to Quarter)

Other operating income, which consists mainly of export benefits such as duty entitlement passbook benefit (DEPB), Duty Draw Back, etc, fell by 18.3% despite an increase in export turnover. As per the government policy export oriented units are not eligible for such benefits. The groups Agrochemical plant at Ankleshwar and Pigment plant at Panoli are 100% EOU and not eligible for export benefit.

Distribution , Administrative and Other Operating Expenses :- (Quarter to Quarter)

Distribution expenses

Distribution expenses of Q3 FY2006 increased by 54.3% to Rs. 82.97 million from Q3 FY2005. The main drivers of increases in expenses were freight (marine), clearing, forwarding and packing material cost.

Administrative expenses

Administrative expenses of Q3 FY2006 increased by 69.4% to Rs. 52.03 million, from Q3 FY2005. This was mainly due to payment of performance bonus Rs. 12 million to working directors and contribution of Rs. 6 million given to Sanand Eco Project Ltd. towards common effluent treatment plant for Agro chemicals division.

Other Operating Expenses

Other operating expenses of Q3 FY2006 increased by 236.4% to Rs. 4.87 million, from Q3 FY2005 due to unpredicted movements in the exchange rate of Indian Rupee against US dollar as well US Dollar against Euro.

Finance costs

Finance costs during Q3 FY2006 increased by 62.9% to Rs. 18.82 million. The impact of finance cost is due to higher utilisation of working capital on account of higher operating activity and investment in fixed assets.

Taxation

Income tax decreased in Q3 FY2006 because of: (i) Increase in exempted profits of approved Export Oriented Unit (EOU) at Panoli (ii) effect of conversion of Agro Chemicals Unit at Ankleshwar as an EOU in last quarter of FY 2005; and (iii) reduction of deferred tax expenses on account of reduction in depreciation rate for Income tax purpose.

Distribution , Administrative and Other Operating Expenses :- (Nine months to Nine months)

Distribution expenses

Distribution expenses of 9 Months FY2006 increased by Rs. 73.96 million i.e. 44.4%. The main drivers of increases in expenses were freight (marine), clearing, forwarding and packing material cost.

Administrative expenses

Administrative expenses of 9 Months FY2006 increased by Rs. 20.12 million i.e. 21.7%. This was mainly due to payment of performance bonus Rs. 12 million to working directors and contribution of Rs. 6 million given to Sanand Eco Project Ltd. towards common effluent treatment plant for Agro chemicals division.

Other Operating Expenses

Other operating expenses of 9 Months FY2006 were mainly affected due to unpredicted movements in the exchange rate of Indian Rupee against US dollar.

Finance costs

Finance costs during 9 Months FY2006 increased by Rs. 7.37 million i.e. 19.2%. The impact of finance cost is due to higher utilisation of working capital on account of higher operating activity.

Taxation

Income tax decreased by Rs. 37.42 million i.e. 42.1% to Rs.51.47 million in 9 Months FY2006 because of : (i) Increase in exempted profits of approved Export Oriented Unit (EOU) at Panoli (ii) effect of conversion of Agro Chemicals Unit at Ankleshwar as an EOU in last quarter of FY2005; (iii) reduction of Tax rate to 33.66% from 36.5925%; and (iv) also reduction of deferred tax expenses on account of reduction in depreciation rate for Income tax purpose.

Balance sheet

Trade receivables

Trade receivables increased by Rs. 245.07 million i.e. 18.7% to Rs.1553.22 million in 9 Months FY2006. This is the resultant of increase in revenue.

Inventories

Inventories during 9 Months FY 2006 increased by Rs. 301.24 million i.e.54.6% to Rs 853.22 million, mainly due to :

- (a) An increase in production capacity of our Pigments and Agrochemicals Divisions.
- (b) The shift in domestic season resulting higher inventory.
- (c) The slump in domestic market of Pigment.

Property, plant and equipment

Fixed assets during 9 Months FY 2006 increased by Rs 151.02 million, mainly due to expansion of CMAC plant at Agrochemical plant at Ankleshwar.

Investments

Investments increased in 9 Months FY 2006 by Rs 0.91 million. This is towards contribution for pollution treatment project at Panoli.

Share Capital

During the period the Company has not raised any additional capital.

[15]

On July 30, 2004, the Company offered 100,400,000 Singapore Depository Shares (“SDSs”), each representing one half of one ordinary share of Rs 1 each, comprising of 69,400,000 new SDS and 31,000,000 Vendor SDS at a price of S\$0.28 (equivalent to Rs 7.41) per SDS. On account of above, Issued and paid up share capital of the Company increased by 34,700,000 shares of Rs 1 each i.e. from 165,930,000 of Rs 1 each to 200,630,000 of Rs. 1 each.

The net proceeds after reducing SDS issue expenses received by the Company was Rs 468.6 million, of which Rs 34.7 million has been credited to the Share Capital account and the balance of Rs 433.9 million transferred to the share premium account.

Bank Borrowings

Bank borrowings (current and non-current) increased by Rs. 575.12 million i.e. 115.3% to Rs 1073.93 million due to:

- (a) Payment of term loan availed for installation of Hysol–P plant;
- (b) Capital expenditure for installation of CMAC plant; and
- (c) Increase in operations resulting higher inventory level and trade receivables.

Trade payables

Trade payables in 9 Months FY2005 increased by Rs. 28.66 million i.e. 7.5% to Rs 405.83 million, in line with the increase in operations.

Financial Analysis

Group Key financial highlights	Rs. in millions			
	9 months ended 31.12.2005	9 months ended 31.12.2004	Variance	Variance (%)
<u>Profitability</u>				
Sales	2792	2338	454	19.4
Gross Profit	680	532	148	27.8%
Gross Profit Margin (%)	24.3%	22.8%	NA	NA
Profit before tax	316	292	24	8.2%
Profit before tax Margin (%)	11.3%	12.5%	NA	NA
Net profit	265	204	61	29.9%
Net profit Margin (%)	9.5%	8.7%	NA	NA
Earning per Share (EPS in Rs.)	1.32	1.08	0.24	22.2%
Annualised return on equity (ROE)	11.2%	9.8%	NA	NA
<u>Financial position</u>				
Net tangible assets	2,369	2,081	288	13.8%
Debt (short term +long term)	1,074	502	572	113.9%
Capital Gearing ratio	0.5	0.2	NA	NA
Net tangible assets per share	11.81	10.4	1.44	13.9%
Stock turnover (days)	111	86	25	29.1%
Trade debts turnover (days)	153	142	11	7.7%

Cash flow statement

During the quarter ended on December 31, 2005, the group generated positive cash flow of Rs 0.93 million from operating activities. However the group generated negative cash flow of Rs. 83.93 million for the 9 months ended on December 31, 2005. This is due to increase in trade receivables and inventory.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

Not applicable.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

Industry Prospects**Pigments**

The world demand for organic pigments is to increase 6.4% per year to US\$5.5 billion in 2005-06. The solid gains forecast for organic pigments are based primarily upon continuing expansion in their bedrock markets: printing ink and coatings, which together account for about 80% of demand. Pigment demand will benefit from rising global production levels and trends toward products that feature higher pigment loadings to create brighter colours.

The Ink, Paints and Plastics industries continue to witness steady growth in demand. India's ability to provide high quality manufacturing is also attracting a higher level of outsourcing from more companies from the developed countries. In addition, companies in the US, Europe, Central and South America, and Japan are also increasing their direct supplies of Pigments from India. The Indian ink industry is also expected to consume more Pigments.

Agrochemicals

The global agrochemical market experienced robust growth in 2004 for the first time since mid-1990s with sales up by 12.6% to US\$ 32,200 million. The most significant growth was seen in Latin America due to the spread of Asian Soybean rust. Sales in Asia benefited from the improved economic environment, while European sales were positive due to improved climatic conditions and EU enlargement. The Group expects that the growth in agrochemical sector is to continue.

To meet the growing demand, the group has installed additional production capacities of 1000 Mt to produce Cypermethric Acid Chloride at the Ankleshwar plant. Following the completion of trial production, commercial production has started from January 1, 2006. The full utilization of this plant will only be realised in the next financial year.

Sales of the Ankleshwar plant will enjoy tax benefits up to year of assessment beginning April 1, 2010.

Outlook for FY 2006

Raw Material Price

During the Q3 FY2006, the crude oil price remained stable resulting marginal increase in prices of raw materials that are derivatives of crude oil, such as Phathlic, Ortho Nitro Toluene and solvents. The price of copper touched all time high. In recent months, revelation come from prices of yellow phosphorous derivatives going down.

Nevertheless, should the trend of raw material prices remains same, our profitability is not likely to be affected in the fourth quarter of FY2006.

Market Price

The global market for pigment and agro products continued to show signs of recovery in the sales price of some products.

Profitability

The Group achieved higher revenue, gross profit margin and net profit margin in Q3 FY2006. The Group endeavours to improve management of raw materials and continue to negotiate with customers for better price realisation.

11. Dividend
- (a) Current Financial Period Reported on
Any dividend declared for the financial period reported on? **No**
 - (b) Corresponding Period of the Immediately Preceding Financial Year
Any dividend declared for the corresponding period of the immediately preceding financial year : **Nil**
 - (c) Date payable: **Not Applicable**
 - (d) Books closure date: **Not Applicable**
12. If no dividend has been declared/recommended, a statement to that effect.
No dividend has been declared / recommended for the period ended December 31, 2005.

BY ORDER OF THE BOARD
Kamlesh Dinkerray Mehta
Company Secretary
Date : 2.2.2006