

PIDILITE LANKA (PRIVATE) LIMITED

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 MARCH 2023**



KPMG
(Chartered Accountants)
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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF PIDILITE LANKA (PRIVATE) LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Pidilite Lanka (Private) Limited (“the Company”), which comprise the statement of financial position as at 31 March 2023, and the statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Board of Directors (“The Board”) is responsible for other information. These financial statements do not comprise other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Responsibilities of the Board and Those Charged with Governance for the Financial Statements

The Board is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the financial statements, the Board is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located at Sri Lanka Accounting and Auditing Standards website at: <http://slaasc.com/auditing/auditorsresponsibility.php>. This description forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

A handwritten signature in blue ink, consisting of a vertical line on the left and a horizontal line extending to the right with a small loop at the end.

CHARTERED ACCOUNTANTS

Colombo, Sri Lanka

03 May 2023

PIDILITE LANKA (PRIVATE) LIMITED
STATEMENT OF FINANCIAL POSITION

As at 31 March,

	Note	2023 Rs.	2022 Rs.
Assets			
Non-current assets			
Property, plant and equipment	2	377,183,808	420,570,245
Right-of-use assets	3	52,600,031	46,662,595
Intangible assets	4	299,852,782	310,667,763
Investments	5	4,000,000	4,000,000
Total non-current assets		733,636,621	781,900,603
Current assets			
Inventories	6	609,847,439	448,380,406
Trade receivables	7	253,676,028	444,300,004
Other receivables	8	105,113,680	38,434,175
Amount due from related parties	9	4,129,445	4,816,828
Cash and cash equivalents	10	64,353,929	3,495,550
Total current assets		1,037,120,521	939,426,963
Total assets		1,770,757,142	1,721,327,566
Equity and liabilities			
Equity			
Stated capital	11	875,318,163	875,318,163
Retained earnings		399,492,522	(20,100,098)
Total equity		1,274,810,685	855,218,065
Non-current liabilities			
Interest bearing loans and borrowings	12	-	71,375,000
Retirement benefit obligations	13	10,430,007	11,283,438
Lease liability	14	36,803,129	38,358,384
Deferred tax liability	21.2	55,162,925	6,875,727
Total non-current liabilities		102,396,061	127,892,549
Current liabilities			
Interest bearing loans and borrowings	12	-	52,055,556
Lease liability	14	4,233,087	1,262,137
Trade and other payables	15	72,186,882	29,569,193
Income tax payable		84,331,273	-
Statutory payables	16	1,705,602	1,258,610
Amount due to related parties	17	147,057,790	530,500,984
Accrued expenses		84,035,762	81,996,729
Bank overdraft	10	-	41,573,743
Total current liabilities		393,550,396	738,216,952
Total liabilities		495,946,457	866,109,501
Total equity and liabilities		1,770,757,142	1,721,327,566

The financial statements are to be read in conjunction with the related notes, which form an integral part of these financial statements of the Company.

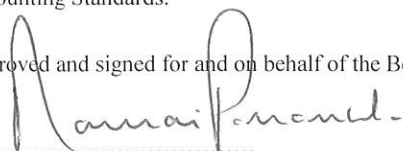
I certify that these financial statements are prepared in compliance with the requirements of the Companies Act No. 07 of 2007.



Head of Finance

The Board of Directors is responsible for the preparation and presentation of these financial statements in accordance with Sri Lanka Accounting Standards.

Approved and signed for and on behalf of the Board:



Director



Director

03 May 2023
Colombo

PIDILITE LANKA (PRIVATE) LIMITED
STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March,

	Note	2023 Rs.	2022 Rs.
Revenue	18	2,587,044,150	1,603,901,848
Cost of sales		(1,511,072,406)	(1,096,064,025)
Gross profit		1,075,971,744	507,837,823
Other income		87,949	1,038,093
Distribution expenses		(116,401,643)	(60,815,037)
Administrative expenses		(306,675,964)	(224,581,291)
Results from operating activities	19	652,982,086	223,479,587
Finance costs	20	(102,761,825)	(189,382,967)
Profit before tax expense		550,220,261	34,096,620
Tax expense	21	(132,021,222)	(13,710,822)
Profit for the year		418,199,039	20,385,798
Deferred tax on actuarial loss		(597,249)	(438,543)
Actuarial gain/ (loss) from defined benefit plans		1,990,830	2,192,717
Total comprehensive income for the year		419,592,620	22,139,972

The financial statements are to be read in conjunction with the related notes, which form an integral part of these financial statements of the Company.

PIDILITE LANKA (PRIVATE) LIMITED
STATEMENT OF CHANGES IN EQUITY

As at 31 March,

	Stated capital Rs.	Retained earnings Rs.	Total Rs.
Balance as at 31 March 2021	875,318,163	(42,240,068)	833,078,095
Profit for the year	-	20,385,798	20,385,798
Other comprehensive income, net of tax	-	1,754,172	1,754,172
Balance as at 31 March 2022	875,318,163	(20,100,098)	855,218,065
Profit for the year	-	418,199,039	418,199,039
Other comprehensive income, net of tax	-	1,393,581	1,393,581
Balance as at 31 March 2023	875,318,163	399,492,522	1,274,810,685

The financial statements are to be read in conjunction with the related notes, which form an integral part of these financial statements of the Company.

PIDILITE LANKA (PRIVATE) LIMITED
STATEMENT OF CASH FLOWS

For the year ended 31 March,

	2023	2022
	<u>Rs.</u>	<u>Rs.</u>
Cash flows from operating activities		
Profit before tax expense	550,220,261	34,096,620
<i>Adjustments for:</i>		
Depreciation for property, plant and equipment	44,215,937	44,478,365
Amortization for intangible assets	10,814,982	7,880,122
Amortization for right-of-use asset	7,508,349	7,152,438
Provision for retirement benefit obligations	1,137,399	2,500,288
Provision for damaged, expired good and slow moving stocks	11,429,460	8,001,701
Provision for doubtful debts	506,848	(2,174,055)
Interest expense	15,377,768	30,363,883
Inventory write-off	-	7,684,790
Bad debt write-off	-	1,541,076
ESC write-off	-	4,204,813
Operating profit before working capital changes	<u>641,211,004</u>	<u>145,730,041</u>
Changes in :		
Inventories	(161,467,032)	(193,155,394)
Trade receivables	190,623,974	(130,487,759)
Other receivables	(66,679,505)	5,917,913
Amount due from related parties	687,382	4,590,170
Trade and other payables	42,617,689	(52,636,113)
Statutory payables	446,992	(590,333)
Amount due to related parties	(383,443,193)	408,387,203
Accrued expenses	2,039,033	38,625,896
Net cash flows from operations after working capital changes	<u>266,036,345</u>	<u>226,381,624</u>
Lease rentals paid during the year	(17,421,293)	(10,399,424)
Interest paid	(21,922,875)	(25,387,841)
Net cash flows generated from operating activities	<u>226,692,177</u>	<u>190,594,358</u>
Cash flows from investing activities		
Purchases of property, plant and equipment	(829,500)	(3,922,699)
Purchase of intangible assets	-	(19,547,885)
Net cash used in investing activities	<u>(829,500)</u>	<u>(23,470,584)</u>
Cash flows from financing activities		
Proceeds from loans and borrowings	-	100,000,000
Loan repayment	(123,430,556)	(263,166,667)
Net cash used in financing activities	<u>(123,430,556)</u>	<u>(163,166,667)</u>
Net decrease in cash and cash equivalents	102,432,121	3,957,107
Cash and cash equivalents at the beginning of the year	<u>(38,078,192)</u>	<u>(42,035,299)</u>
Cash and cash equivalents at the end of the year	<u><u>64,353,929</u></u>	<u><u>(38,078,192)</u></u>

The financial statements are to be read in conjunction with the related notes, which form an integral part of these financial statements of the Company.

PIDILITE LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023,

1. ACCOUNTING POLICIES

1.1 REPORTING ENTITY

Pidilite Lanka (Private) Limited ("the Company") is a private limited liability Company incorporated in Sri Lanka under the provisions of the Companies Act No 07 of 2007. The registered office and the place of business of the Company is located at No.63/1, Dharmapala Mawatha, Colombo 07.

Principal activities and nature of operations

Principle activity of the company is the sale of manufactured and imported adhesive products to the local market.

Parent Entity

Parent Company of Pidilite Lanka (Private) Limited is Pidilite International PTE Limited and ultimate parent of the Company is Pidilite Industries Limited, India.

1.2 BASIS OF PREPARATION

(a.) Statement of compliance

The financial statements of the Company which comprise statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs) laid down by The Institute of Chartered Accountants of Sri Lanka.

(b.) Basis of measurement

The financial statements have been prepared on a historical cost basis. No adjustments have been made for inflationary factors in the financial statements.

(c.) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates. Financial statements are presented in Sri Lankan Rupees, which is the Company's functional currency. There was no change in the Company's presentation and functional currency during the year under review.

(d.) Presentation of Financial Statements

The assets and liabilities of the Company presented in its statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the financial statements. Financial assets and financial liabilities are offset, and the net amount reported in the financial statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the financial statement of comprehensive income unless required or permitted by an Accounting standards or interpretations, and as specifically disclosed in the accounting policies of the Company.

PIDILITE LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023,

1.2 BASIS OF PREPARATION (CONTINUED)

(e.) Materiality and aggregation

Each material class of similar items are presented separately in the financial statement. Items which dissimilar in nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard-LKAS 1 - "Presentation of Financial Statements.

(f.) Offsetting of income and expenses

Income and expenses are not offset unless required or permitted by accounting standards.

(g.) Offsetting of assets and liabilities

Assets and liabilities are offset and the net amount reported in the statement of financial position only where there is a legal right to set off the recognized amounts and it intends either to settled on a net basis or to realize the asset and settle the liability simultaneously.

(h.) Use of judgments and estimates

The preparation of the financial statements in conformity with Sri Lanka Accounting Standards (SLFRS/LKAS) requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual amount may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described below:

(i.) Assumptions and estimation uncertainties

i) Going Concern

The management has made as assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

ii) Useful life of property, plant and equipment

The Company reviews the residual values, useful life and method of depreciation for property, plant and equipment at each reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence subject to uncertainty.

iii) Commitment and contingencies

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events on present obligations where the transfer of economic benefit is not probable or can't be reliably measured.

Summary of legal cases if any against the Company have been disclosed in the Notes to the Financial Statements.

PIDILITE LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023,

1.3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a.) Changes in accounting policies

The company has adopted SLFRS 16 - Leases 1 April 2019. Due to the transition methods chosen by the Company in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

(b.) Property, plant and equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used during more than one period.

i) Recognition

Property, plant and equipment are recognized if it is probable that future economic benefits associated with the assets will flow to the Company and cost of the asset can be reliably measured.

ii) Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Management. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of computer equipment.

iii) Cost Model

The Company applies cost model to property, plant and equipment except for freehold land and records at cost of purchase or construction together with any directly attributable expenses thereon less accumulated depreciation and any accumulated impairment losses.

iv) Subsequent Cost

The subsequent cost of replacing a component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Company and its cost can be reliably measured.

The carrying amount of those parts that are replaced is derecognized. The costs of day-to-day servicing of property, plant and equipment are charged to the statement of comprehensive income as incurred. Costs incurred in using or redeploying an item are not included under carrying amount of an item.

v) Derecognition

The carrying amount of an item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in the statement of comprehensive

PIDILITE LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023,

1.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b.) Property, plant and equipment (Continued)

income when the item is derecognized. Then replacement costs are recognized in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognized. Major inspection costs are capitalized. At each such capitalization, the remaining carrying amount of the previous cost of inspections is derecognized.

vi) Depreciation

The Company provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates on a straight-line basis over the periods appropriate to the estimated useful lives based on the pattern in which the asset's future economic benefits are expected to be consumed by the Company of the different types of assets, except for which are disclosed separately. Depreciation is determined separately for each significant component of an item of property, plant and equipment. The Management reviews the assets residual value, useful life and depreciation method at each reporting date. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held-for-sale or the date that the asset is derecognized. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated.

Companies within the Company use the same depreciation rates and policies.

	Years
Office equipment	4
Furniture and fittings	4
Computer equipment	4
Factory Machinery	10
Factory Equipment	5
Building	48
Laboratory Equipment	5
Tools and Dies	4

vii) Useful life time of property, plant, and equipment

The Company reviews the residual values, useful lives and method of deprecation of property, plant and equipment at reach reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

(c.) Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others or for administrative purposes.

PIDILITE LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023,

1.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c.) Intangible assets (Continued)

i) Recognition

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the assets can be measured reliably. An intangible asset is initially measured at cost.

ii) Subsequent expenditure

Expenditure incurred on software is capitalized only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

iii) Amortization

Intangible assets that have finite useful lifetime are measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful life time of Commercial and Technical Know-how and Software is ten years. Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

iv) Impairment

Intangible assets that have indefinite useful lifetime should be test for impairment by comparing its recoverable amount with its carrying amount annually, and whenever there is an indication that the intangible asset may be impaired.

v) Derecognition

An intangible asset shall be derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognized in comprehensive income when the asset is derecognized.

(d.) Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the price at which stocks can be sold in the normal course of business. The cost of inventories is based on the weighted average cost principle.

The calculation of provision for inventory is done as follows.

	Percentage
Goods lying for more than 180 days	25%
Goods lying for more than 360 days	50%
Goods lying for more than 540 days	75%
Goods lying for more than 730 days	100%

PIDILITE LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023,

1.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e.) Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand and cash at bank.

Statement of Cash flows has been prepared using the indirect method.

(f.) Trade and other receivables

The Company measures loss allowances at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company considers a financial asset to be in default when:

- The debtor is unlikely to pay its credit obligation to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- The financial asset is more than 360 days past due.

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment grade".

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e, the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

EC Ls are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is "credit impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset occurred.

Evidence that a financial asset is credit-impaired includes the following observable data;

- Significant financial difficulty of the borrower;
- A breach of contract;
- It is probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security because of financial difficulties.

PIDILITE LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023,

1.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f.) Trade and other receivables (Continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowance for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery.

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- Default or delinquency by a debtor;
- Indication that a debtor or issuer would enter bankruptcy;
- Adverse changes in the payment status or borrowers or issuers;
- The disappearance of an active market for a security because of financial difficulties; or
- Observable data indicating that there was a measurable decrease in the expected cash flows from financial assets.

For an investment in an equity instrument, objective evidence of impairment included a significant or prolonged decline in its fair value below its cost.

Financial assets measured at amortised cost

The Company considered evidence of impairment for these assets at an individual asset level. All assets were individually assessed for impairment. An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in comprehensive income and reflected in an allowance account. When the Company considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through comprehensive income.

(g.) Leases

The Company has applied SLFRS 16 using the modified retrospective approach (option B), under which no cumulative effect of initial recognition is recognized in retained earnings at 1 April 2019 and therefore the comparative information has not been restated and continues to be reported under LKAS 17 and IFRIC 4. The details of accounting policies under LKAS 17 and IFRIC 4 are disclosed separately.

PIDILITE LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023,

1.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g.) Leases (Continued)

Policy applicable from 1 April 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in SLFRS 16.

i) As a lessee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

Lease payments for leases of low-value assets and variable lease payments not included in the measurement of lease liability are classified as cash flows from operating activities.

PIDILITE LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023,

1.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g.) Leases (Continued)

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in statement of comprehensive Income if the carrying amount of the right; of use asset has been reduced to zero.

Policy applicable before 1 April 2019

For contracts entered into before 1 April 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfillment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
 - i. the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
 - ii. the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
 - iii. facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

i) As a lessee

In the comparative period, as a lessee the Company classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognized in the Company's statement of financial position. Payments made under operating leases were recognized in statement of comprehensive Income on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

(h.) Related party transactions

Disclosure has been made in respect of transactions in which one party has the ability to control or exercise significant influence over financial and operating policies/decisions of the other, irrespective of whether a price is charged or not.

PIDILITE LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023,

1.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h.) Related party transactions (Continued)

i) Transactions with related parties

Transfer prices between group/related entities are set on an arms-length basis in a manner similar to transactions with third parties. The Company carries out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard 24. The Pricing applicable to such transactions is based on the assessment of the risk and pricing model of the Company and is comparable with what is applied to transactions between the Company and its unrelated Customers.

ii) Transactions with key management personnel

According to Sri Lanka Accounting Standard 24 "Related Party Disclosures", Key management personnel, are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Board of Directors (including executive and non-executive Directors), personnel hold designation of General Manager and above positions and their immediate family member have been classified as Key Management Personnel of the Company. The immediate family member is defined as spouse or dependent. Dependent is defined as anyone who depends on the respective Director for more than 50% of his/her financial needs.

(i.) Liabilities and provisions

Liabilities are recognized in the statement of financial position when there is a present obligation as a result of past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits. Obligations payable on demand or within one year of the reporting date are treated as current liabilities in the statement of financial position. Liabilities payable after one year from the reporting date are treated as non-current liabilities in the statement of financial position.

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

j) Financial instruments

i) Recognition and initial measurement

The Company initially recognizes all financial assets and liabilities on becoming party to the contractual provisions of the instruments. However, for financial assets/liabilities held at fair value through comprehensive income, any changes in fair value from the trade date to settlement date is accounted in the statement of comprehensive income, while for available-for-sale financial assets any changes in fair value from the trade date to settlement date is accounted in the statement of other comprehensive income. A financial asset or a financial liability is measured initially at fair value plus, for an item not at fair value through comprehensive income, transaction costs that are directly attributable to its acquisition or issue all financial assets and liabilities are initially recognized, except for regular way purchase, on the trade date and any regular way transactions are recognized on the settlement date which was established by the regulator or the market conventions.

PIDILITE LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023,

ii) Financial liabilities

The Company initially recognizes all financial liabilities on the date that they are originated and classifies its financial liabilities as measured at amortized cost.

iii) Financial liabilities at amortized cost

Financial instruments issued by the Company that are not designated at fair value through comprehensive income, are classified as liabilities under 'bank loan' and 'convertible loan' as appropriate, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial recognition, such financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in 'interest expenses' in the statement of comprehensive income. The details of the Companies financial liabilities at amortized cost is disclosed.

(k.) Investment in associate company

In determining the accounting treatment on equity accounted investees, the Company evaluates the significance influence associated with the investment and if there is a significance influence the equity method of accounting is adopted and if the Company has the evidence of there is no significance influence it is treated as an investment under SLFRS 9 and the fair value accounting is used.

Based on the agreement between the Company and its associate company, there is no significance influence to the Company over its investee and the equity method of accounting is not adopted.

(l.) Employee benefits

i) Defined benefit plans

The Company's obligation in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is measured annually using the actuarial valuation method. The present value of the defined benefit obligation is determined by discounting the estimated future benefit that employees have earned in return for their services in the current and prior period. Gains and losses arising from changes in the assumptions, current service cost and interest are recognized in the statement of comprehensive income in the period in which they arise. The retirement benefit obligation is not externally funded.

ii) Defined contribution plans

Obligations to defined contribution plans are recognized as an expense in the statement of comprehensive income and retained earnings as incurred. ~~The Company contributes 12% and 3% of gross emoluments of employees as Provident Fund and Trust Fund contribution respectively.~~

(m.) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade and other payables are stated at cost.

PIDILITE LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023,

1.3 SIGNIFICANT ACCOUNTING POLICIES

(n.) Revenue

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognizes revenue when it transfers control over a good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of Product	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under SLFRS 15
Local Trading and Products	Customers obtain control of products when the goods are delivered to and have been accepted at their premises. Invoices are generated at that point in time.	Revenue is recognized when the goods are loaded to lorries and the delivery order is raised.
Export of products	Export sales are recognized on the date of bill of lading signifying transfer of risks and rewards of ownership to the buyer as per International Commercial Term (INCOTERM).	Export sales are recognized on the date when shipped on board signifying transfer of risks and rewards of ownership to the buyer as per International Commercial Term (INCOTERM) and initially recorded at the relevant exchange rates prevailing on the date of the transaction.

Under SLFRS 15, revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. "Therefore, for those contracts for which the Company was unable to make a reasonable estimate of returns, revenue is recognized sooner under SLFRS 15 than under LKAS 18.

Other income

Other income is recognized on an accrual basis

(o.) Expenses

All expenditure incurred in the operations of the business and in maintaining the capital assets in a state of efficiency have been charged to revenue in arriving at the comprehensive income for the year.

Lease payments associated to the underlying asset is low value, short term contract or no contract are recognized as an expense under the operating lease expenses on either a straight-line basis or another systematic basis over the lease term. Interest cost of the right to use asset is recognized as a finance cost while depreciation of right to use assets is recognized in the depreciation of property, plant and equipment and right-of-use assets.

PIDILITE LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023,

1.3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p.) Taxation

i) Income taxation

Income tax expense comprises of current and deferred tax. The income tax expense is recognized in comprehensive income except to the extent that it relates to the items recognized directly in other comprehensive income or statement of changes in equity, in which case it is recognized accordingly.

ii) Current taxation

Provision for current taxation is based on the profit of the year adjusted to arrive at the taxable profit in accordance with the Inland Revenue Act No.24 of 2017 and amendments there to.

iii) Deferred taxation

Deferred taxation has been provided for under the liability method on temporary differences as at the reporting date between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes. Deferred tax assets are recognized for all temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that future taxable profit will be available to recover the deferred tax assets.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantially enacted by the reporting date.

(q.) Events occurring after the reporting date

All material post reporting date events have been considered and where appropriate adjustments or disclosures have been made in respective notes to the financial statements.

(r.) Commitments and contingencies

Contingencies are possible assets or obligations that arise from a past event and would be confirmed only on the occurrence or non-occurrence of uncertain future events, which are beyond the Company's control. Commitments and contingent liabilities are disclosed in Notes 24 and 25 respectively to the financial statements.

(s.) Comparative information

The comparative information is re-classified wherever necessary to conform with the current year's presentation in order to provide a better presentation.

PIDILITE LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2023,

1.4 EFFECTIVE OF ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted. However, the Company has not early adopted the new and amended standards in preparing these consolidated financial statements.

1.4.1 Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to LKAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases and decommissioning liabilities. The amendments apply for annual reporting periods beginning on or after 1 January 2023. For leases and decommissioning liabilities, the associated deferred tax asset and liabilities will need to be recognized from the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

1.4.2 Other standards

The following new and amended standards are not expected to have a significant impact on the financial statements.

- Classification of Liabilities as Current or Non-current (Amendments to LKAS 1).
- Disclosure of Accounting Policies (Amendments to LKAS 1 and SLFRS Practice Statement 2).
- Definition of Accounting Estimates (Amendments to LAKS 8).

PIDILITE LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31 March,

2 Property, plant and equipment

	Office Equipment <u>Rs.</u>	Furniture & Fittings <u>Rs.</u>	Factory Machinery <u>Rs.</u>	Factory Equipment <u>Rs.</u>	Building <u>Rs.</u>	Total <u>Rs.</u>
Cost						
Balance as at 1 April 2022	8,352,334	13,397,551	93,692,320	125,864,483	341,026,903	582,333,591
Additions during the year	279,500	-	-	-	550,000	829,500
Disposals during the year	-	-	-	-	-	-
Balance as at 31 March 2023	8,631,834	13,397,551	93,692,320	125,864,483	341,576,903	583,163,091
Accumulated depreciation						
Balance as at 1 April 2022	6,819,625	10,995,575	34,964,433	83,067,734	25,915,979	161,763,346
Charge for the year	787,368	1,704,160	9,964,140	24,624,589	7,135,680	44,215,937
Balance as at 31 March 2023	7,606,993	12,699,735	44,928,573	107,692,323	33,051,659	205,979,283
Carrying amount						
Balance as at 31 March 2023	<u>1,024,841</u>	<u>697,816</u>	<u>48,763,747</u>	<u>18,172,160</u>	<u>308,525,244</u>	<u>377,183,808</u>
Balance as at 31 March 2022	<u>1,532,709</u>	<u>2,401,976</u>	<u>58,727,887</u>	<u>42,796,749</u>	<u>315,110,924</u>	<u>420,570,245</u>

PIDILITE LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

<i>As at 31 March,</i>	2023	2022
	<u>Rs.</u>	<u>Rs.</u>
3 Right-of-use assets		
Cost		
As at 01 April	59,096,187	54,503,742
Recognized during the year	13,741,109	4,592,445
Disposal During the year	(2,126,334)	-
As at 31 March	<u>70,710,962</u>	<u>59,096,187</u>
Less: Accumulated amortization		
As at 01 April	12,433,592	5,281,154
Amortization charge on the right-of-use assets for the year	7,508,349	7,152,438
Derecognition of Amortization During the year	(1,831,010)	-
As at 31 March	<u>18,110,931</u>	<u>12,433,592</u>
Net book value as at 31 March	<u>52,600,031</u>	<u>46,662,595</u>

4 Intangible assets

	Computer Systems	Commercial and Technical Know- How	Trademark	Total
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
Cost				
Balance as at 01 April 2022	19,547,885	69,000,000	276,000,000	364,547,885
Additions during the year	-	-	-	-
Balance as at 31 March 2023	<u>19,547,885</u>	<u>69,000,000</u>	<u>276,000,000</u>	<u>364,547,885</u>
Accumulated amortization				
Balance as at 01 April 2022	974,716	43,705,405	9,200,000	53,880,121
Charge for the year (Note 4.1)	3,909,577	6,905,405	-	10,814,982
Balance as at 31 March 2023	<u>4,884,293</u>	<u>50,610,810</u>	<u>9,200,000</u>	<u>64,695,103</u>
Carrying amount				
As at 31 March 2023	<u>14,663,592</u>	<u>18,389,190</u>	<u>266,800,000</u>	<u>299,852,782</u>
As at 31 March 2022	18,573,169	25,294,595	266,800,000	310,667,764

4.1 The Company amortizes the intangible assets with definite useful lifetime over the periods of useful time. Accordingly, Technical Know-How over is amortized over the period of 10 years.

4.2 The Company tests the intangible assets that have indefinite useful lifetime for impairment by comparing its recoverable amount with its carrying amount annually. Accordingly, the trade mark is tested for the impairment.

PIDILITE LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

<i>As at 31 March,</i>	2023	2022
	<u>Rs.</u>	<u>Rs.</u>
5 Investments		
NINA Lanka Construction Technologies (Private) Limited (400,000 shares)	4,000,000	4,000,000
As at 31 March	<u>4,000,000</u>	<u>4,000,000</u>
6 Inventories		
Raw materials	155,494,607	76,053,821
Semi finished products	140,244,127	45,914,405
Finished goods	249,446,846	123,805,181
Goods in transit	59,048,018	210,408,055
Packing materials	48,991,546	23,952,214
Promotional materials	710,744	905,720
	<u>653,935,888</u>	<u>481,039,396</u>
(-) Provision for impairment on slow moving inventories	(44,088,449)	(32,658,989)
	<u>609,847,439</u>	<u>448,380,407</u>
7 Trade receivables		
Trade receivables (Note 7.1)	267,969,791	458,086,920
Provision for bad and doubtful debts (Note 7.2)	(14,293,763)	(13,786,916)
	<u>253,676,028</u>	<u>444,300,004</u>
7.1 Debtors more than 6 months old	6,966,997	11,348,928
Debtors less than 6 months old	261,002,794	446,737,992
	<u>267,969,791</u>	<u>458,086,920</u>
7.2 Impairment losses recognized in the year		
On receivables originated in the year	867,995	867,995
On receivables more than a year	13,425,768	12,918,921
	<u>14,293,763</u>	<u>13,786,916</u>
8 Other receivables		
Advances	78,912,802	3,671,245
Pre-payments	4,381,740	1,816,261
VAT receivables	14,181,938	29,688,189
Miscellaneous	7,637,200	5,357,007
	<u>105,113,680</u>	<u>40,532,702</u>
Less: Provision on miscellaneous receivables	-	2,098,527
	<u>105,113,680</u>	<u>38,434,175</u>
9 Amount due from related parties		
Macbertan (Private) Limited	2,714,368	2,651,749
NINA Lanka Construction Technologies (Private) Limited	1,415,077	2,165,079
	<u>4,129,445</u>	<u>4,816,828</u>

PIDILITE LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31 March,

	2023 Rs.	2022 Rs.
10 Cash and cash equivalents		
Cash at bank	63,741,121	3,204,111
Cash in hand	612,808	291,439
	<u>64,353,929</u>	<u>3,495,550</u>
Bank overdraft (10.1)	-	(41,573,743)
	<u>64,353,929</u>	<u>(38,078,192)</u>
10.1 Bank overdraft facility of Rs.343,000,000/- was obtained from Standard Chartered Bank PLC which carry interest rate of AWPLR -0.35% p.a, secured with a corporate guarantee from Pidilite Industries Limited for USD 4,395,000/- and mortgage bond over stocks and debtors for Rs.152,000,000/-, Rs.60,000,000/-, Rs.57,000,000/-, Rs. 149,000,000/- and Rs. 45,000,000/-.		
11 Stated capital		
6,892,269 Ordinary Shares	875,318,163	875,318,163
	<u>875,318,163</u>	<u>875,318,163</u>
12 Interest bearing loans and borrowings		
Balance at the beginning of the year	123,430,556	286,597,223
Loans obtained during the year	-	100,000,000
Repayments during the year	(123,430,556)	(263,166,667)
Balance at the end of the year	<u>-</u>	<u>123,430,556</u>
Due after one year	-	71,375,000
Due within one year	-	52,055,556

Nature of Borrowing	Maturity Date	Terms of repayment	Coupon/Interest Rate	2023 Rs.	2022 Rs.
Term Loan from banks (Facility 2)	26 Jan 2024	Full Capital Repayment	AWPLR-0.5%	-	100,000,000
Term Loan from banks (Facility 3)	31 Oct 2024	Full Capital Repayment	AWPLR-0.5%	-	17,875,000
Term Loan from banks (Facility 4) Saubagya	27 Jul 2022	Full Capital Repayment	4% Fixed	-	5,555,556
				<u>-</u>	<u>123,430,556</u>

	2023 Rs.	2022 Rs.
13 Retirement benefit obligations		
Balance as at 01 April	11,283,438	10,975,868
Current service cost	1,643,740	1,824,676
Interest for the year	1,451,865	729,541
Actuarial loss/ (gain) on retirement benefit plans	(1,990,830)	(2,192,718)
Payment during the year	(1,958,206)	(53,930)
Balance as at 31 March	<u>10,430,007</u>	<u>11,283,438</u>

22.1 Messer. Universal Actuaries carried out an actuarial valuation of the defined benefit plan gratuity on 18 April 2023. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows,

	2023	2022
Rate of discount	25.00%	14.97%
Rate of salary increment	10% 1st Yr, thereafter 9%	10% 1st Yr, thereafter 9%
Retirement age - Female (in years)	50	50
Retirement age - Male (in years)	55	55

In addition to the above, demographic assumptions such as mortality, withdrawal and disability, and retirement age were considered for the actuarial valuation. Indian Assured Lives Mortality 2012-14 was used to estimate the gratuity liability of the Company.

Average expected future working life in years is 3.26 (2022 - 3.72)

PIDILITE LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31 March,

13 Retirement Benefit obligations (Continued)

Sensitivity Analysis - Discount rate

Values appearing in the Financial Statements are sensitive to the changes of financial and non-financial assumptions used in the valuation of retirement benefit obligations. The sensitivity was carried for salary increment rate. Simulations made for retirement benefit obligations show that an increase or decrease by 1% of the rate of discount has the following effect on the retirement benefit obligations:

	2023		2022	
	-1%	1%	-1%	1%
Percentage change in discount rate				
Increase/ (Decrease) in retirement benefit obligations (Rs.)	177,664	(170,863)	295,497	(279,992)

Sensitivity Analysis-Salary increment rate

Values appearing in the Financial Statements are sensitive to the changes of financial and non-financial assumptions used in the valuation of retirement benefit obligations. The sensitivity was carried for salary increment rate. Simulations made for retirement benefit obligations show that an increase or decrease by 1% of the rate of salary increment has the following effect on the retirement benefit obligations:

	2023		2022	
	-1%	1%	-1%	1%
Percentage change in salary increment rate				
(Decrease)/ Increase in retirement benefit obligations (Rs.)	(196,737)	(193,199)	(297,089)	387,165

The Company has considered the impact on the defined benefit obligations due to changes in economic factors as a result of the prevailing macroeconomic conditions, with support of the independent actuarial expert. As per the guidelines issued by the Institute of Chartered Accountants of Sri Lanka, the discount rates have been adjusted to convert the coupon bearing yield to a zero coupon yield to match the characteristics of the gratuity payment liability and the resulting yield to maturity for the purpose of valuing Employee benefit obligations as per LKAS 19. Further, the salary increment rate of 10% is considered appropriate to be in line with the Company's targeted future Due to the discount rate and salary increment rate account the current market conditions and inflation rate. salary increments when taking into assumptions used, nature of non-financial assumptions and experience of the assumptions of the company, there is no significant impact to employment benefit liability as a result of prevailing macro-economic conditions.

PIDILITE LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

<i>As at 31 March,</i>	2023	2022
	<u>Rs.</u>	<u>Rs.</u>
14 Lease liability		
As at 01 April	39,620,521	40,451,459
Addition during the period	13,070,289	4,592,444
Disposal During the year	(295,324)	-
Interest for the year	6,062,023	4,976,041
Lease rentals paid during the period	(17,421,293)	(10,399,424)
As at 31 March	<u>41,036,216</u>	<u>39,620,521</u>
Payable within one year	4,233,087	1,262,137
Payable in more than one year	36,803,129	38,358,384
<u>Amount recognized in statement of profit or loss and other comprehensive income</u>		
Lease under SLFRS 16		
Interest on lease liabilities	6,062,023	4,976,041
<u>Amount recognized in statement of cash flows</u>		
Total cash outflows for leases	17,421,293	10,399,424
15 Trade and other payables		
Trade payables	45,668,627	12,993,497
Other Payable	26,518,255	16,575,696
	<u>72,186,882</u>	<u>29,569,193</u>
16 Statutory payables		
EPF/ETF payable	1,012,524	1,173,408
PAYE payable	693,078	30,227
Stamp duty payable	-	54,975
	<u>1,705,602</u>	<u>1,258,610</u>
17 Amount due to related parties		
Pidilite Industries Ltd	147,057,790	530,500,984
	<u>147,057,790</u>	<u>530,500,984</u>
	2023	2022
	<u>USD</u>	<u>USD</u>
Other receivables	-	(3,405)
Import creditors	387,956	1,415,253
Other payable	49,716	277,736
	<u>437,672</u>	<u>1,689,584</u>
	2023	2022
	<u>Rs.</u>	<u>Rs.</u>
18 Revenue		
Net sales	2,587,044,150	1,603,901,848
	<u>2,587,044,150</u>	<u>1,603,901,848</u>
19 Profit from operating activities		
The above is stated after charging all expenditure including the following:		
License fees	8,434,470	6,288,769
Depreciation	44,215,937	44,478,365
Amortization	18,323,331	17,652,511
Auditors' remuneration	1,493,579	775,000
Staff cost (Note 19.1)	149,976,980	125,524,666
19.1 Staff cost		
Staff salary	47,430,420	45,523,039
Bonus	8,481,873	12,006,926
Terminal benefits	13,205,583	10,533,906
Allowances and other benefits	80,859,104	57,460,795
	<u>149,976,980</u>	<u>125,524,666</u>

PIDILITE LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March,

	2023 Rs.	2022 Rs.
20 Finance costs		
Bank overdraft interest	3,742,957	5,247,010
Interest on borrowings	12,117,895	16,275,150
Interest for corporate guarantee	6,334,959	3,865,681
Exchange loss and Other Bank Charges	74,503,991	159,019,084
Interest on Lease liability	6,062,023	4,976,042
	<u>102,761,825</u>	<u>189,382,967</u>
21 Tax expense		
Current period (Note 21.1)	84,331,273	-
Origination of temporary differences (Note 21.2)	47,689,949	(13,710,822)
	<u>132,021,222</u>	<u>(13,710,822)</u>

In terms of the Inland Revenue Act No. 24 of 2017 and subsequent amendments thereto, the Company is liable for taxation at the rate of 30% (18% - 6 months 2022) on its taxable profits.

21.1 Tax reconciliation statement

Profit before taxation	550,220,261	34,096,620
Less: Double deduction	(17,888,025)	-
Add: Disallowable expenses	89,119,474	114,291,841
	<u>621,451,710</u>	<u>148,388,461</u>
Less: Allowable expenses	(103,559,285)	(127,690,876)
Total assessable income	<u>517,892,425</u>	<u>20,697,585</u>
Less: Tax losses claimed during the year	(179,490,025)	(20,697,585)
Taxable income	<u>338,402,400</u>	<u>-</u>
Tax expense @ 18%	25,784,036	-
Tax expense @ 30%	58,547,237	-
Total tax expense	<u>84,331,273</u>	<u>-</u>

Accumulated tax loss

As at beginning of the year	184,808,823	205,366,998
Loss claimed during the year	(179,490,025)	(20,697,585)
Under provision adjustment from prior year	-	139,410
As at the year end	<u>5,318,798</u>	<u>184,808,823</u>

21.2 Deferred tax assets / (liability)

Balance at the beginning of the year	(6,875,727)	7,273,638
Recognised in profit or loss	(44,116,243)	(13,710,822)
Impact from change in the tax rate in profit or loss	(3,573,706)	-
Recognized in other comprehensive income	(597,249)	(438,543)
Balance at the end of the year	<u>(55,162,925)</u>	<u>(6,875,727)</u>

The deferred tax asset recognized on temporary differences are as follows:

	2023 Rs.	2022 Rs.
21.3 Deferred taxation		
Deferred tax assets	31,336,619	51,724,583
Deferred tax liabilities	(86,499,543)	(58,600,310)
Net deferred tax liabilities	<u>(55,162,925)</u>	<u>(6,875,727)</u>

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following :

As at 31 March,

	2023		2022	
	Temporary differences Rs.	Tax effect Rs.	Temporary differences Rs.	Tax effect Rs.
Property, plant and equipment	(73,117,338)	(21,935,202)	(89,692,974)	(17,705,393)
Intangible assets	(215,214,473)	(64,564,342)	(207,167,763)	(40,894,916)
Employee benefits	10,430,007	3,129,002	11,283,438	2,227,351
General provision for inventory	44,088,449	13,226,535	32,658,989	6,446,885
Provision for doubtful debts	14,293,763	4,288,129	13,786,916	2,721,537
Provision for market return	18,760,562	5,628,169	13,977,774	2,759,213
Lease liabilities	11,563,815	3,469,145	3,414,826	674,087
Provision for miscellaneous receivables	-	-	2,098,527	414,249
Accumulated tax loss	5,318,798	1,595,639	184,808,824	36,481,262
Deferred tax assets	<u>(183,876,416)</u>	<u>(55,162,925)</u>	<u>(34,831,442)</u>	<u>(6,875,727)</u>

The effective rate of 30% is applied by the Company for the tax effect computation.

PIDILITE LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31 March,

22 Related party transactions

22.1 Transactions with related parties

Related party	Nature of transaction	Transaction amount		Balance as at 31 March	
		2023 Rs.	2022 Rs.	2023 Rs.	2022 Rs.
Macbertan (Private) Limited	Opening balance	2,651,749	3,396,549	-	-
	Trade purchases	160,395	-	-	-
	Shared cost	-	-	-	-
	Other purchases	-	-	-	-
	Settlements	-	-	-	-
	Gratuity receivables	-	-	-	-
	Net Sales	-	28,000	-	-
	Other Debits	-	-	-	-
	Rent deposit	-	(772,800)	-	-
	Settlements	(97,777)	-	-	-
	Closing Balance	-	-	2,714,368	2,651,749
Pidilite Specialty Chemicals Bangladesh (Pvt) Ltd	Opening balance	-	-	-	-
	Trade purchases	8,856,884	-	-	-
	Settlements	(8,856,884)	-	-	-
	Trade Sales	-	-	-	-
	Settlements	-	-	-	-
	realized exchange loss	-	-	-	-
	Un-realized exchange loss	-	-	-	-
	Closing Balance	-	-	-	-
Pidilite Industries Limited	Opening balance	(530,500,984)	(122,113,780)	-	-
	Trade purchases	(331,835,599)	(270,652,754)	-	-
	Settlements	815,011,170	230,027,795	-	-
	Goods in Transit	(49,542,864)	(210,408,055)	-	-
	Interest for corporate guarantee	(6,334,959)	(3,568,287)	-	-
	SAP license fees	(4,840,281)	(23,880,133)	-	-
	Royalty Charges	(18,712,453)	(4,060,000)	-	-
	Technical Knowhow	(10,820,552)	(6,947,878)	-	-
	Other receivables (Debit Notes)	1,274,383	5,324,160	-	-
	Receivable Settlements	(831,500)	(109,986,717)	-	-
	Un-realized exchange loss	(9,924,150)	(9,159,851)	-	-
		Settlements of other receivables (Debit note settlements)	-	(5,075,483)	-
	Closing Balance	-	-	(147,057,790)	(530,500,983)
NINA Lanka construction technologies (Pvt) Ltd.	Opening balance	2,165,079	3,871,772	-	-
	Trade purchases	-	-	-	-
	Settlements	(750,000)	-	-	-
	Trade Sales	-	390,077	-	-
	Sales Settlement	-	(346,770)	-	-
	Other receivables	-	-	-	-
	Settlement of other receivables	-	(1,750,000)	-	-
		Un-realized exchange loss	-	-	-
	Closing Balance	-	-	1,415,079	2,165,079

22.2 Transactions with key management personnel

The key management personnel of the company are the Board of Directors of the company. The Company has not paid any compensation to Directors during the year .

PIDILITE LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

As at 31 March,

23 Litigations and claims

The Company does not have any other litigation and claim which require adjustments to or disclosure in the financial statements.

24 Capital commitments

The Company does not have any other significant capital commitment which require adjustments to or disclosure in the financial statements.

25 Contingent liabilities

The company's contingent liabilities as at the reporting date were as follow:

	2023	2022
	<u>Rs.</u>	<u>Rs.</u>
Acceptances	6,478,239	-
Ordinary letter of credit	103,050,020	37,270,517
	<u>109,528,259</u>	<u>37,270,517</u>

26 Events occurring after the reporting date

Subsequent to the reporting date, no circumstances have arisen other than below which would require adjustment to or disclosure in the financial statements;

The Board of Directors has approved in principle distributing 30% of the net profit to be paid over a period of six months, while complying with the provisions of the Companies Act No. 07 of 2007 including the solvency test and the Sri Lanka Accounting Standards.

27 Directors' responsibility

The directors are responsible for the preparation and presentation of these financial statements in accordance with Sri Lanka Accounting Standards.

28 Approval of financial statements

These financial statements will be approved by the Board of Directors and authorized for issue on 03 May 2023.

29 Financial risk management

Overview

The Company has exposure to the following risks from its use of financial instruments:

- (i) Credit risk
- (ii) Liquidity risk
- (iii) Market risk
- (iv) Currency risk
- (v) Interest risk
- (vi) Operational risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

As at 31 March,

29 Financial risk management (Continued)

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(iv) Interest rate risk

Interest rate risk exists in interest-bearing liabilities, due to the possibility of a change in the liabilities' value resulting from the variability of interest rates. Since interest rate risk management has become imperative, Pidilite Lanka (Private) Limited takes proactive measures to manage the exposure by forecasting the rate fluctuations.

As at 31 March 2023	Carrying amount	Maturity			
		Less than 12 months	1-2 years	2-5 years	More than 5 years
		Rs.	Rs.	Rs.	Rs.
Interest bearing liabilities- Variable rates					
Loan from bank	-	-	-	-	-
Bank overdraft	-	-	-	-	-
	-	-	-	-	-

As at 31 March 2022	Carrying amount	Maturity			
		Less than 12 months	1-2 years	2-5 years	More than 5 years
		Rs.	Rs.	Rs.	Rs.
Interest bearing liabilities- Variable rates					
Loan from bank	123,430,556	52,055,556	66,000,000	5,375,000	-
Bank overdraft	41,573,743	41,573,743	-	-	-
	165,004,298	93,629,299	66,000,000	5,375,000	-

Sensitivity analysis for variable rate instruments

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the profit before tax.

	Profit/ (loss)	
	2023	2022
	Rs.	Rs.
Variable rate instruments (1% decrease)	-	(1,650,043)
Variable rate instruments (1% increase)	-	1,650,043

As at 31 March,

29 Financial risk management (Continued)

(v) Currency risk

The Company is exposed to currency risk on payable to the related parties, foreign currency accounts and supplier payments that are denominated in a currency other than the respective functional currencies of the Company, primarily the US Dollars.

As at 31 March Currency	2023			2022		
	Amount	Rate	Value Rs.	Amount	Rate	Value Rs.
USD	244,941	336	82,303,226	1,175,032	315	370,134,943
EUR	10	367	3,667	10	358	3,576

The Forex crisis has impacted the overall economy of the country. Company identified the potential impact on its business and the industry it is operating. Appropriate control measures were taken to continuously monitor and curtail the costs, debtors, capital expenses and the expenses for marketing and promotions. Further, company has taken multiple pricing actions to curtail the impact of forex revaluation loss. Despite all these challenges the business was able to deliver the growth on its sales and EBITDA (excluding Forex revaluation loss). Company has delivered profits at bottom line during the year. Having considered the above, management is of the view that the company has adequate resources to continue in operational existence for the foreseeable future.

(vi) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market corporate behavior.

(vii) Capital management

Capital includes equity attributable to the equity holders of the parent. The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the period and the Company is not subject to externally imposed capital requirements.

The Company monitors capital using a gearing ratio, which is Interest - Bearing Loans and Borrowings divided by total Equity plus Interest - Bearing Loans and Borrowings.

	2023 Rs.	2022 Rs.
Interest - Bearing loans and borrowings	-	123,430,556
Equity	1,274,810,685	855,218,065
Equity & Interest - Bearing Loans and Borrowings	1,274,810,685	978,648,620
Gearing Ratio	0.00%	12.61%

30 Fair value disclosure

Fair value of financial assets and liabilities

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level I : Quoted market price (unadjusted) in an active market for an identical instrument.

Level II : Valuation techniques based on observable inputs, either directly – i.e. as prices or indirectly – I derived from prices. This category includes instruments valued using: quoted market prices in active market for similar instruments, quoted price for identical or similar instruments in market that are considered less than active; or other valuation techniques where all significant input are directly or indirectly observable from market data.

Level III : Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable input have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted price for similar instrument where significant unobservable adjustment or assumption are required to reflect differences between the instrument.