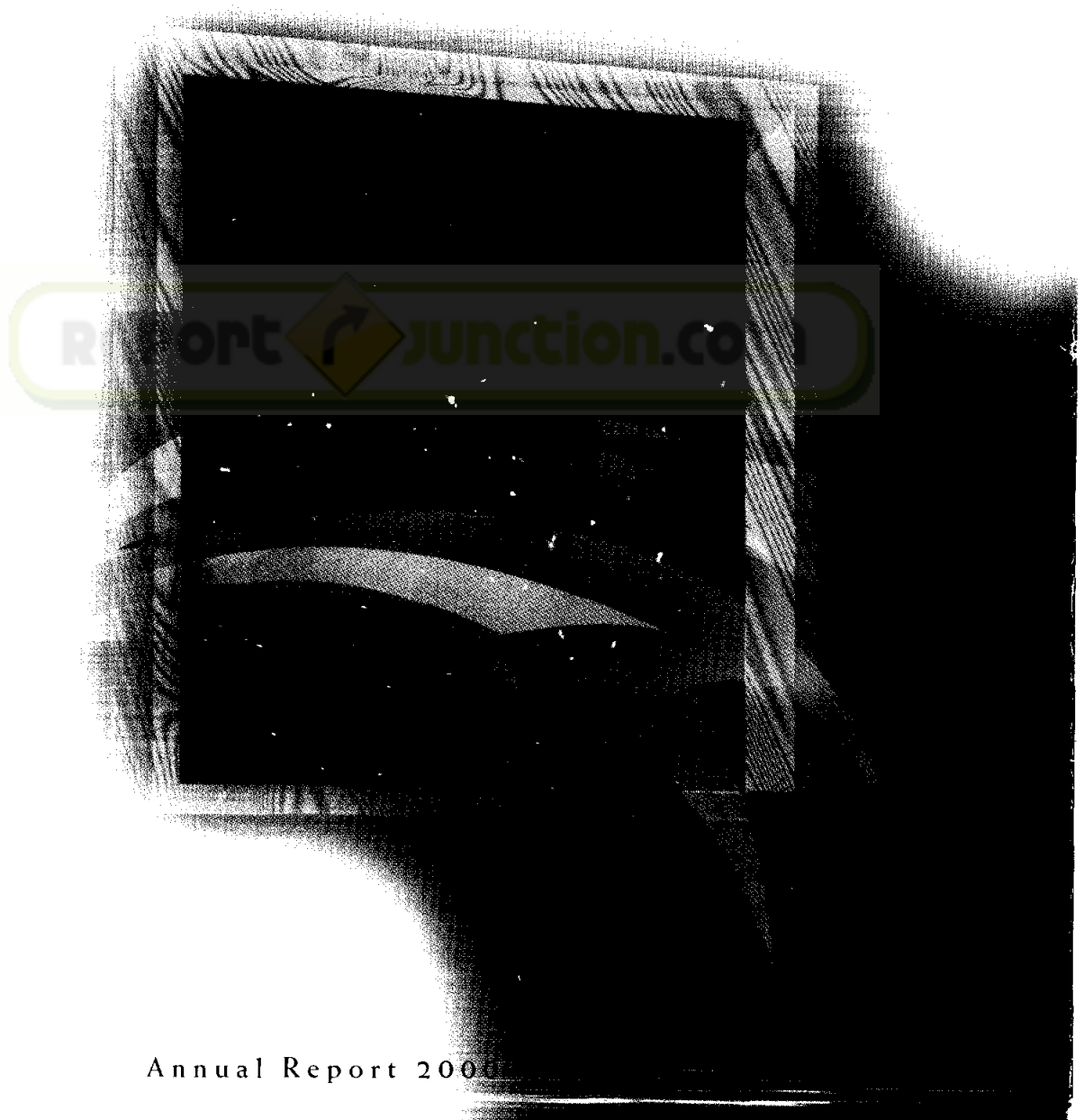




asian paints
(India) Limited



Dear Shareholder,

The times we are passing through are among the most turbulent in memory. And, confusing and contrary messages rock us. The nation is at peace and engaged in ruthless 'low intensity' conflicts in several areas. The economic reform process that began with courage and conviction in the minds of a few is petering out due to the pusillanimity of the many. We have an overflowing granary and stagnant rural incomes. The vaunted industrial growth of a few months ago has run out of steam. We believe that the many tribulations that afflict the country are merely those that affect a nation at this point in its growth trajectory. The period that we are going through, indeed, provides ample opportunity for Companies with vision and the will to weave a coherent strategy; and the leadership to articulate that vision.

We recognise that changing times call for a continual examination of paradigms. The mental maps that we have been brought up with need to be updated along with the changing business environment. Standards have to be coldly evaluated. The benchmark for satisfactory performance has to be the best in the world.

Two years ago I referred to our process of renewal, of corporate transformation and the "Reorganisation for Accelerating Leadership". In this period, we have come a long way. The effort at upgrading the widely used coatings for the exterior walls and the rural markets is well underway leading to a significant expansion of the market. ColourWorlds now account for over half our sales and are altering the manner in which our products are distributed and sold. The first steps have been taken to actively involve the householder in the painting process. This will further add to the strength of the Asian Paints brand. Costs have been significantly cut and the process continues. The major task begun two years ago was to shrink the Balance Sheet. This necessarily takes time to show results. With approvals from the environmental authorities, we can now raise production from the existing plants and thus postpone investment in new capacity. From this year, we will be able to get the projected benefits in the Supply Chain and increase further the Current Assets Turnover.

The bar will be raised continually; the paradigms of today will be tested for their validity tomorrow; as the industry leader we take seriously our obligation to provide superior products and services to the customer. In doing so, we shall not lose sight of the seven steps to success, our key business principles that I referred to in my last letter to you. The cover depicts the artist's rendition of this theme of coping with changing paradigms.

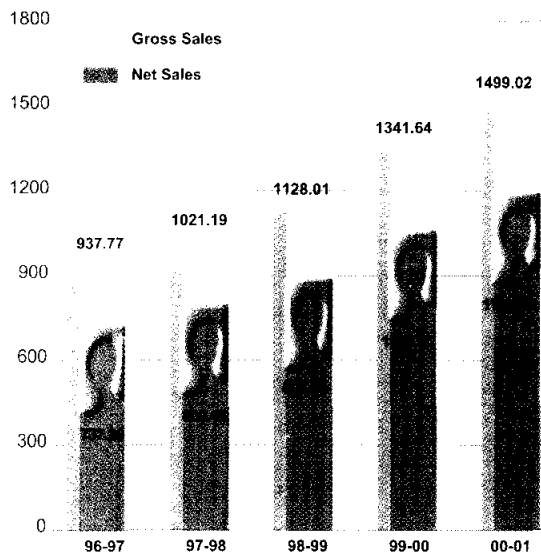
With regards,

Yours Sincerely

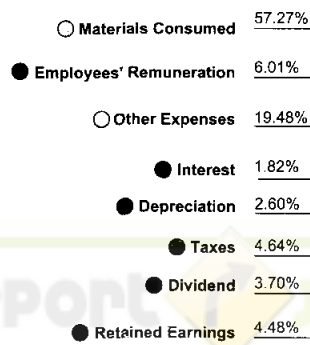
Ashwin Choksi

Mumbai : 6th June, 2001

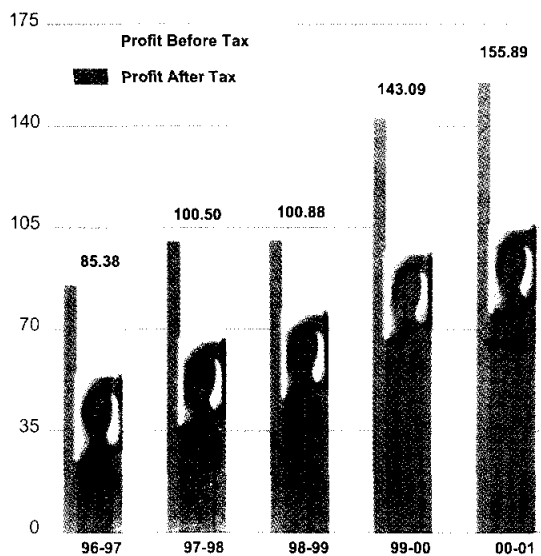
GROWTH IN SALES (Rs. in crores)



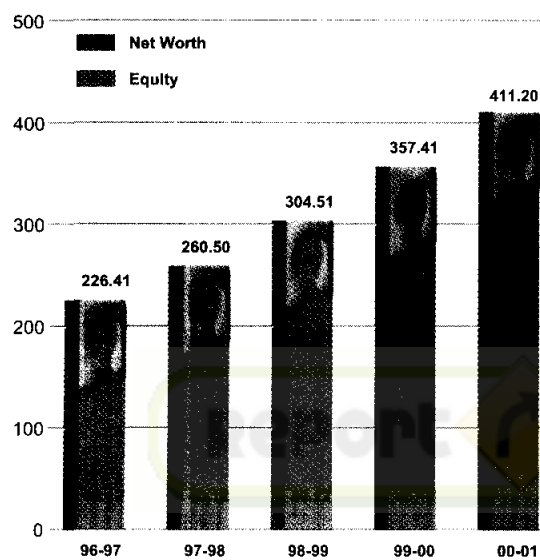
DISTRIBUTION OF INCOME



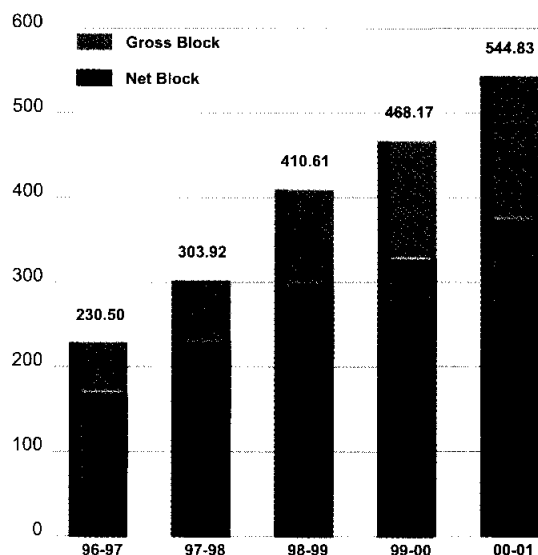
GROWTH IN PROFITS (Rs. in crores)



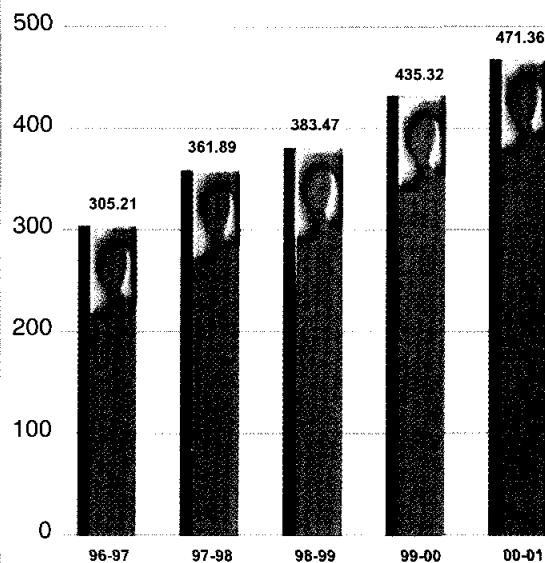
GROWTH IN SHAREHOLDERS' FUNDS (Rs. in crores)



GROWTH IN FIXED ASSETS (Rs. in crores)



REVENUE TO EXCHEQUER (Rs. in crores)




asian paints
 (India) Limited

BOARD OF DIRECTORS

ASHWIN C. CHOKSI
 ASHWIN S. DANI
 ABHAY A. VAKIL
 K. RAJAGOPALACHARI
 MAHENDRA C. CHOKSI
 MANUBHAI G. PATEL
 AMAR A. VAKIL
 TARJANI VAKIL
 INA A. DANI
 DIPANKAR BASU
 DEEPAK M. SATWALEKAR
 R.A. SHAH
 DR. S. SIVARAM
 MAHENDRA M. SHAH

Chairman
Vice Chairman & Managing Director
Managing Director
Additional Director (w.e.f. 7th April, 2001)
Additional Director (w.e.f. 7th April, 2001)
Additional Director (w.e.f. 6th June, 2001)

COMPANY SECRETARY

M.L. BANSAL

AUDITORS

SHAH & CO.,
 CHARTERED ACCOUNTANTS

SOLICITORS

CRAWFORD BAYLEY & CO.

BANKERS

STATE BANK OF INDIA

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58	ASIAN PAINTS (TONGA) LTD.
63	ASIAN PAINTS (S.I.) LTD.
69	ASIAN PAINTS (VANUATU) LTD.
76	ASIAN PAINTS (QUEENSLAND) PTY. LTD.
82	ASIAN PAINTS (MAURITIUS) LTD.
87	ASIAN PAINTS (MIDDLE EAST) LLC.
93	ASIAN PAINTS (NEPAL) PRIVATE LTD.
100	ASIAN PAINTS (LANKA) LTD. (formerly Delmege Forsyth & Co. (Paints) Ltd.)
111	DELMEGE PAINTS DISTRIBUTORS (PRIVATE) LTD.
117	ASIAN PAINTS (INTERNATIONAL) LTD.
124	ASIAN PAINTS (SOUTH PACIFIC) HOLDINGS LTD.

FIVE YEAR REVIEW

(Rs. in lacs except for per share data, number of employees and ratios)

RESULTS FOR THE ACCOUNTING YEAR	2000-01	1999-00	1998-99	1997-98	1996-97
Revenue Account					
Gross Sales	149,902	134,164	112,801	102,119	93,777
Net Sales	119,654	106,617	89,474	80,245	73,720
Growth Rate (%)	12.23	19.16	11.50	8.85	4.63
Materials Consumed	69,579	63,288 *	54,876	48,764	45,847
% to Net Sales	58.15	59.36	61.33	60.77	62.19
Overheads	30,963	25,565	22,203	19,476	16,711**
% to Net Sales	25.88	23.98	24.82	24.27	22.67
Operating Profit (PBIDT & Extra-ordinary item)	20,959	19,122	13,883	13,058	12,409
Interest	2,212	2,029	2,233	1,959	2,168
Depreciation	3,158	2,784	2,269	1,699	1,211
Profit Before Extra-ordinary item and Tax	15,589	14,309	9,381	9,400	9,030
Profit After Extra-ordinary item but Before Tax	15,589	14,309	10,088	10,050	8,538
% to Net Sales	13.03	13.42	11.27	12.52	11.58
Profit After Extra-ordinary item and Tax	10,639	9,734	7,688	6,750	5,538
Return on average net worth (%)	27.68	29.41	27.21	27.73	25.73
Capital Account					
Share Capital	6,419	4,012	4,012	4,012	4,012
Reserves and Surplus	34,701	31,729	26,439	22,038	18,629
Loan Funds	22,682	17,444	21,686	19,285	14,168
Fixed Assets	37,636	32,934	30,111	23,146	17,107
Investments	4,407	4,054	4,978	4,607	2,855
Net Current Assets	21,349	15,605	17,047	17,570	16,817
Debt - Equity Ratio	0.55:1	0.49:1	0.70:1	0.74:1	0.63:1
Market Capitalisation	1,58,026	1,70,494	1,01,494	1,25,163	1,12,125
Per Share Data					
Cash Earnings Per Share (Rs.)	21.50 #	31.20	24.82	21.06	16.82
Earnings Per Share (Rs.)	16.57 #	24.26	19.16	16.83	13.80
Dividend (%)	70 #	100	80	75	75
Book Value (Rs.)	64.06 #	89.09	75.90	64.94	56.44
Other Information					
Number of Employees	3,197	2,984	2,869	2,806	2,632

* Material consumption to be read together with Note No. B-19 in Schedule 'M'.

** Includes Compensation under VRS Rs. 492 lacs.

On the increased capital after the Bonus issue in 2000-2001.



DIRECTORS' REPORT

Your Directors have pleasure in presenting the Fiftyfifth Annual Report of the Company and the audited accounts for the financial year ended 31st March, 2001.

1. 2000-2001 IN RETROSPECT

The country experienced economic slow down during the financial year 2001 and the GDP growth slipped to around 6% from the growth rate of 6.4% for the previous year. While the monsoon was considered as normal for the thirteenth successive year, the agricultural production suffered due to unfavourable distribution of rainfall over time and regions. The food grains production is estimated to have declined to 199 million tons from the record production of 209 million tons in 1999-2000. The entire industrial sector, save mining, suffered reversals as the following data indicates:

	Percentage Growth	
	F.Y. 2001	F.Y.2000
Food grains production	(4.7)	2.7
Manufacturing	5.3	7.0
Electricity generated	4.1	7.4
Capital goods	2.1	6.6

The sustained growth of service sector, better performance of mining industry and a growth of around 20% in exports prevented the otherwise likely steep decline in GDP growth.

The inflation based on wholesale price index was higher at 6.5% as compared to 3.5% in 1999-2000. The rupee depreciated by 6.9%.

A devastating earthquake struck large parts of Gujarat in January 2001. Many villages and towns in the district of Kutch, Saurashtra region and parts of north Gujarat suffered total or partial destruction. A few thousand lives were lost and some estimates place the value of properties destroyed at over Rs. 20,000 crores. These parts of Gujarat may take years to recover and attain normalcy. This tragic disaster has caused a severe setback to the economy of the State as the cost of relief and reconstruction is enormous.

In these adverse economic conditions, the paints market was subdued and the demand for paints is estimated to have grown at around 8% to 9%.

2. COMPANY PERFORMANCE

Financial Highlights

	(Rs. in Crores)	
	2000-2001	1999-2000
GROSS SALES	1499.02	1341.64
Profit Before Interest, Depreciation and Taxes	209.59	191.22
Less: Interest	22.12	20.29
Depreciation	31.58	27.84
PROFIT BEFORE TAX	155.89	143.09
Less: Provision for Taxation	49.50	45.75
PROFIT AFTER TAX	106.39	97.34
Add: Balance brought forward		
from the previous year	42.00	30.00
Prior year adjustments (Net)	(0.81)	0.09
DISPOSABLE PROFIT	147.58	127.43
That the Directors recommend for appropriation as under:		
Dividend - Interim I	19.26	16.05
Interim II	—	24.07
Final	25.67	—
Tax on Dividend	6.86	4.41
Transfer to Debenture Redemption Reserve	10.00	10.00
Transfer to General Reserve	33.79	30.90
Balance carried to Balance Sheet	52.00	42.00
TOTAL DISPOSAL	147.58	127.43

3. MANAGEMENT DISCUSSION AND ANALYSIS

A. Industry Structure and Development

The Company has been the leading manufacturer of paints in India for over three decades. Its vision is to be one of the top five decorative paints companies in the world. For this, the Company in India and its subsidiaries abroad remain focussed on decorative paints market. The Company has a Joint Venture with PPG Industries, Inc., of the USA, Asian PPG Industries Ltd., that deals with the Auto OE, Auto Refinish and the Industrial OE markets. The manufacture of Pentaerythritol and Phthalic Anhydride undertaken in the era of licenses and controls for ensuring uninterrupted supply for captive consumption will be managed for value.

There are six large companies and over a thousand small units, some of them in the tiny sector, that are players in the decorative paints market. Most decorative paints are sold through trade channels. Almost all the decorative paints sold in the country are applied by contractors and painters; the 'do it yourself' (DIY) market is extremely small. As there are a large number of

DIRECTORS' REPORT (Contd..)

manufacturers and several thousand retailers marketing decorative paints, reliable information on the size of this market is not available. We estimate that the market for decorative paints would have been around Rs.4600 crores in 2000-01. The total coatings market would probably have been around Rs.6100 crores. The average annual growth rate has been around 8-10%; the market grew at over 15% in the previous year, 1999-2000. Six major companies share approximately 55% of this market and the rest is shared by over a thousand other units.

The demand for paints is dependent on the general economic conditions such as good overall economic growth, agricultural growth, and performance of related industries like steel, cement and construction. In advanced economies, the growth of the coatings market mimics the GDP growth rate. In developing countries like India, increasing urbanisation and the increase of standard housing are major drivers of growth. Therefore, the growth of the coatings industry is 1.5-2.0 times the rate of growth of GDP. Nearly, 70% of paints are sold for repainting and the balance 30% goes for new construction. Therefore, the health of construction industry is important.

As the market develops, customers are demanding products superior to the traditional low cost coatings, branded products and greater choice. This has led to a huge increase in demand for economy finishes. At the same time, opportunities have increased for sophisticated and niche finishes comparable to the best available anywhere in the world. Within all categories, customers demand greater choice in shade and effect. The rapid increase in the market for good quality exterior finishes is a part of this overall trend.

B. Opportunities and Threats

The country's historical GDP growth trajectory of 3% per annum has clearly shifted to 6%. In all likelihood, the country will move to 7 or 8 per cent growth path in the near future. This should lead to further expansion of market for all consumer products. The standard of living of the rural population is gradually improving and the advertisements in the multiple television channels have increased the brand consciousness of this class of consumers. This has opened up opportunities for branded and moderately priced quality paints. At present, the per capita use of paints in India is less than a litre while in the developed countries the per capita use is estimated to be over 10 litres. Therefore, the growth opportunity for the paint industry is immense.

The competition in the paint industry has always been severe. The opening up of the economy, in our opinion, does not pose any serious threat to decorative paints trade.

C. Risks and Concerns

The risks associated with the paints industry are similar to those impacting other industries that are mature and well established. Political uncertainties, social unrest, natural disasters and transport strikes etc., disrupt the business and also adversely affect the demand.

The cost of retaining the customers is increasing day by day with increased expectations regarding the availability of choice and service. In the present competitive environment, the paint companies are spending large sums to install tinting systems at retail outlets so that the customer may be provided with the widest choice of shades. Increased demand for higher skills and knowledge is increasing employee related costs at an accelerated pace. The inexorable decline in the rupee and the recent increase in petroleum product prices have increased the cost of input materials, fuels and transportation. The advertising media, especially T.V channels are multiplying and the viewership is getting fragmented. This has substantially increased the cost of advertisement to reach the same viewership.

Environmental concerns are now very important and the paints industry has to address these and cope. Investments in pollution abatement are significant and especially so when facilities have to be expanded or newly established.

D. Segment Report

The revenue of the Company for the financial year 2001 is earned as follows:

Paints	93%
Chemicals	7%

The Company caters to the heavy duty coatings, powder coatings and some other non-decorative businesses. Manufacturing and sale of these paints involve sharing of common facilities across operations. Considering the nature of the products, production processes, regulatory environment and supply chain management and share of revenue in the total revenue at 3% being not very significant, this business line is not considered as a segment separate from the rest of the paints business.

69% of the production of Pentaerythritol and 32% of the production of Phthalic Anhydride are captively consumed in the manufacture of paints. The sales/

DIRECTORS' REPORT (Contd..)

transfer revenue earned is only 7% of the total sales revenue. However, these two chemicals together are considered as one segment on the basis of organisational structure.

The revenue and the profit before taxes of the segments are as follows:

Particulars	(Rs. In Crores)					
	Paints		Chemicals		Total	
	00-01	99-00	00-01	99-00	00-01	99-00
Sales net of discounts and excise	1108.43	986.46	47.87	40.78	1156.10	1027.24
Inter Division Transfers	—	—	40.44	38.93	40.44	38.93
Other Income	17.11	12.15	1.36	1.43	18.47	13.58
Total Revenue	<u>1125.54</u>	<u>998.61</u>	<u>49.47</u>	<u>81.14</u>	<u>1215.01</u>	<u>1079.75</u>
Profit Before Tax	<u>146.73</u>	<u>127.54</u>	<u>9.16</u>	<u>15.55</u>	<u>155.89</u>	<u>143.08</u>

E. Financial Performance**i) Domestic Sales**

The general slow down witnessed in the manufacturing sector was also witnessed in the performance of the paint industry. The demand for paints was subdued and is estimated to have grown at around 8-9% as against the appreciable growth rate of around 15% during the previous year.

The prospects for the Company's paints business were further adversely affected due to widespread drought in the western region of the country in which the Company enjoys a high market share. The sale of paints in the last quarter in the state of Gujarat was badly disrupted due to the earthquake. The paints business of the Company grew at around 12% during the financial year as against an appreciable growth of 19% during the previous year.

Phthalic Anhydride business grew by 14% partly due to higher price realisation and partly due to higher volume sales.

Pentaerythritol plant is operating at near capacity and any variation in its turnover happens largely due to the prices realised. Nearly 69% of its production has been captively consumed in the manufacture of paints and the Company's turnover is not materially influenced by this business.

ii) Exports

Export turnover was Rs. 11.74 crores as against Rs.13.48 crores during the previous year. Export of paints, resins and related materials was Rs. 8.47 crores as against Rs. 7.37 crores during the previous year.

Penta division with its exports of Rs. 3.27 crores continued to remain a net exporter. The international prices for Phthalic Anhydride being unremunerative, no export was undertaken by this division.

Particulars regarding export promotion are provided in the annexure.

iii) Raw Materials situation

The availability of all raw materials for the manufacture of paints was satisfactory throughout the year. The high level of crude oil price during the year resulted in steep increase in the prices of petroleum based raw materials like Mineral Turpentine, Xylene, Penta and Acrylic Monomers. The price of Titanium Dioxide Rutile also increased substantially and remained at high levels during April to December. However, the continued focus on cost reductions and the various sourcing initiatives helped to keep the inflation at a moderate level of about 5% over last year.

The average price of Orthoxylene, the sole input material in the manufacture of Phthalic Anhydride, was higher by 23% over the average price of the previous year.

iv) Packing Materials Situation

The availability of packing materials was satisfactory. While the price of Tinplate remained steady throughout the year, the prices of plastic materials increased due to the high level of Crude oil price. However, the cost reduction initiatives helped to keep the inflation under control.

v) Working Capital

The Company fully implemented i2 supply chain management software during the year. The raw material and finished goods inventories levels, as measured in number of days, declined during the year. The debtors, however, went up due to increase in sales in the last two months of the year. The creditors were lower than last year. The cost of funds during the financial year was marginally lower.

vi) Profits

The profit before taxes for the year at Rs. 155.89 crores has registered a growth of 9% over the corresponding profits for the previous year. The growth of profit before taxes for the previous year was 42%. The lower growth in profits for the year is largely due to the following factors:

- The depressed market conditions for paints with sales growth of 12% as against the appreciable growth of 19% in the previous year.

DIRECTORS' REPORT (Contd..)

- b) A 15% increase in the transportation cost over the previous year's average cost.
- c) Due to the drop in demand after Diwali, that is from November/December, the scope available for sharp reduction in costs was limited; most promotional and other marketing expenditure is incurred in the run up to the season.
- d) A 10% drop in the gross margin for Phthalic Anhydride due to high cost of Orthoxylene and with no commensurate increase in the price of the finished product being feasible.

The growth in profit for the year is not strictly comparable with the growth for the previous year as the adoption of accounting standard AS2 in the previous year for the valuation of closing stock resulted in the additional profit of Rs. 11.40 crores. Adjusting this additional profit in the profits of the previous year, the growth rate in profits for the year works out to 18%. The growth in profits is in line with the growth in revenue for the year.

F. Outlook

There are as yet no clear signals of economic recovery in the first two months of the financial year 2002. Other major economies of the world have also slowed down and this may further affect the growth of the Indian economy. However, a benevolent monsoon can revive the confidence in the economy.

The opportunities available in the rural market is well recognised by the Company and the Company's products had their presence in this market for decades. 'Utsav' brand distemper, a moderately priced product, was launched in 1991 and the sale of this product has been growing at a good rate. 'Utsav' brand enamel was launched in the current year to provide a complete painting solution for rural customers at moderate prices.

The Company has launched a number of wood finishes in the recent years. This market is largely occupied by french polish and is in need of better products. The presence of other major companies in this segment is not significant. The growth of these wood finishes is promising.

The Company has installed around 2000 dealer tinting systems under the 'Colourworld' programmes. It is proposed to further install around 500 to 600 tinting systems in the financial year 2002. This will provide the required competitive edge to the Company for providing widest choice of shades to the ultimate customers.

These are some steps taken by the Company to expand the existing markets and create new markets.

The effect of the widespread drought and the earthquake in Gujarat will spill over to the first half of the financial year 2002. The decorative paints market is expected to grow at around 8% to 9% and the Company's paints business may grow between 3% to 4% above the market growth. Chemical business is expected to repeat its performance of the financial year 2001.

Paint industry has always fared better than the rest of the manufacturing sector and your Directors are optimistic about the future.

G. Internal Control Systems and their Adequacy

The Company constituted an EDP department as early as 1970 and gradually computerised the entire transactions management by 1980. The various computerised systems always had adequate checks and balances and improvements in controls were made year after year. Enterprise-wide Resource Planning (ERP) system has been implemented since December 2000. ERP ensures complete internal consistency of the data processed and speedy access to the latest business information.

The Company has an independent Internal Audit function staffed with qualified and experienced people. In addition, external audit firms are employed to conduct regular audits at our field units. A summary of audit observations and the 'action taken reports' are placed before the Audit Committee of the Board of Directors, at least three times in a year. The Audit Committee's suggestions and directions are minuted and actions taken accordingly. The Company has well defined procedures to execute financial transactions.

The Directors consider the existing internal controls as adequate.

H. Developments in Human Resources and Industrial Relations

The Company, with the assistance of outside consultants, undertook a survey of 'employee satisfaction at work place' and based on their findings, steps are being taken to enhance the employee satisfaction by providing suitable training to supervising employees. Other training inputs were provided to the employees such as problem solving techniques, mentoring and focus on key factors for enhanced performance.

Industrial relations during the year were cordial except for the industrial dispute resulting in the closure of Kasna plant in Uttar Pradesh for over four months. This dispute was amicably settled with a new agreement entered into with the workers. The implementation of