YOUR WINDOW...

asian paints
(India) Limited

ANNUAL REPORT 2001-2002

Contents

Five Year
review

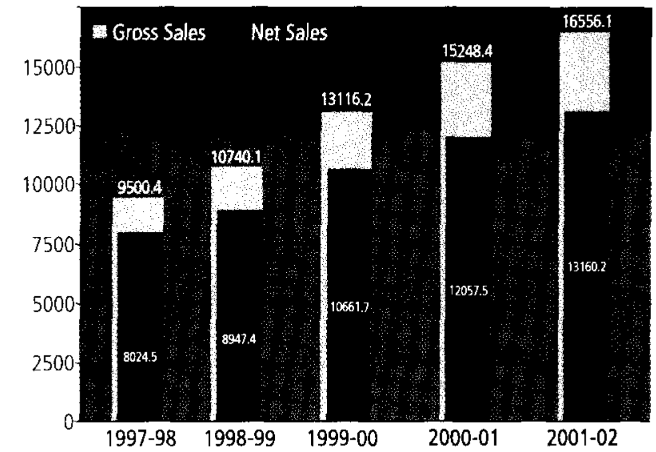
(Rs. in millions except for per share data, number of employees and ratios)

RESULTS FOR THE ACCOUNTING YEAR	2001-2002	2000-2001	1999-2000	1998-1999	1997-1998
REVENUE ACCOUNT					
Gross Sales	16,556.1	15,248.4	13,116.2	10,740.1	9,500.4
Net Sales	13,160.2	12,057.5	10,661.7	8,947.4	8,024.5
Growth Rates (%)	9.15	13.09	19.16	11.50	8.85
Materials Consumed	7,486.6	6,957.9	6,328.8	5,487.6	4,876.4
% to Net Sales	56.89	57.71	59.36	61.33	60.77
Overheads	3,451.3	3,096.2	2,556.5	2,220.3	1,947.6
% to Net Sales	26.23	25.68	23.98	24.82	24.27
Operating Profit	2,377.7	2,095.9	1,912.2	1,388.3	1,305.8
Interest	145.8	221.2	202.9	223.3	195.9
Depreciation	417.8	315.8	278.4	226.9	169.9
Profit Before Tax	1,814.1	1,558.9	1,430.9	1,008.8	1,005.0
% to Net Sales	13.78	12.93	13.42	11.27	12.52
Profit After Tax	1,153.3	1,063.9	973.4	768.8	675.0
Return on average net worth (%)	28.07	27.68	29.41	27.21	27.73
CAPITAL ACCOUNT					
Share Capital	641.9	641.9	401.2	401.2	401.2
Reserves and Surplus	3,463.7	3,470.1	3,172.9	2,643.9	2,203.8
Loan Funds	1,107.7	2,268.2	1,744.4	2,168.6	1,928.5
Fixed Assets	3,843.5	3,763.6	3,293.4	3,011.1	2,314.6
Investments	633.4	440.7	405.4	497.8	460.7
Net Current Assets	1,296.7	2,134.9	1,560.5	1,704.7	1,757.0
Debt-Equity Ratio	0.23:1*	0.55:1	0.49:1	0.70:1	0.74:1
Market Capitalisation	21,056.2	15,802.6	17,049.4	10,149.4	12,516.3
PER SHARE DATA					
Cash Earnings Per Share (Rs.)	24.48	21.50 #	31.20	24.82	21.06
Earnings Per Share (Rs.)	17.81	16.57 #	24.26	19.16	16.83
Dividend (%)	90	70 #	100	80	75
Book Value (Rs.)	63.96	64.06 #	89.09	75.90	64.94
OTHER INFORMATION					
Number of Employees	3,258	3,197	2,984	2,869	2,806

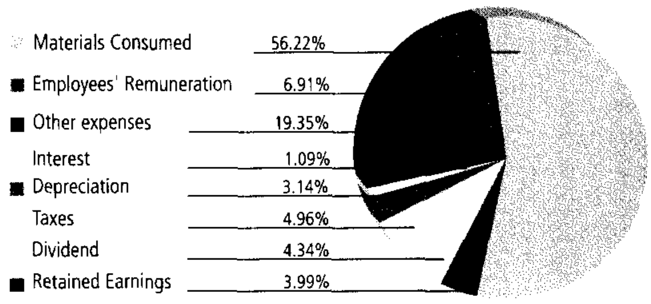
On increased capital
* With deferred tax

Five Year
review

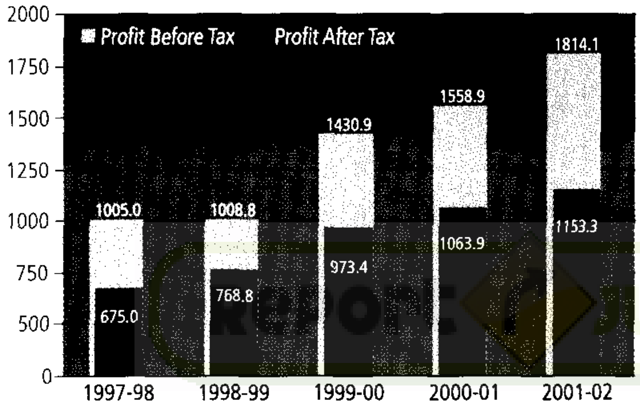
Growth in Sales (Rs. in millions)



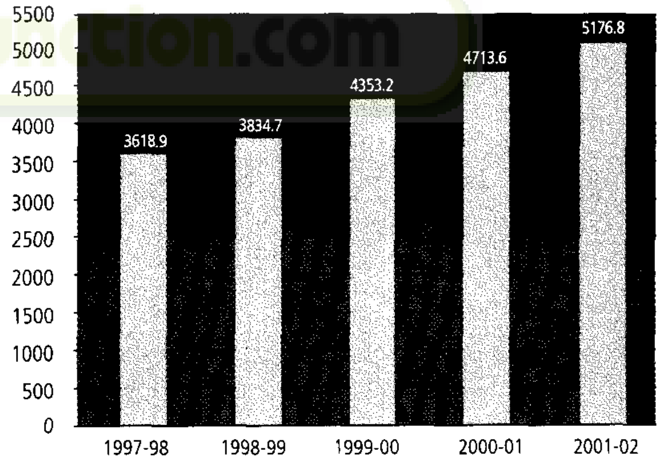
Distribution of Income in 2001-02



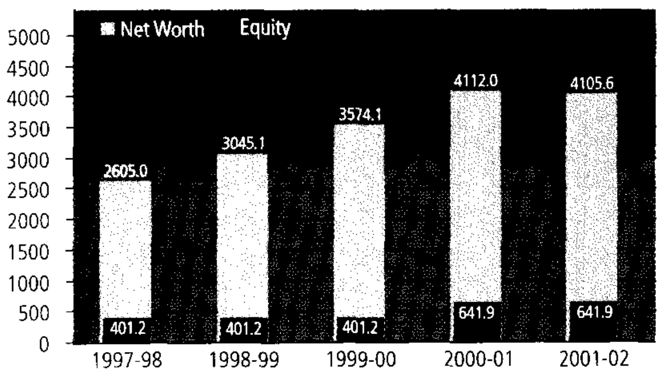
Growth in Profits (Rs. in millions)



Revenue to Exchequer (Rs. in millions)



Growth in Shareholders' Funds (Rs. in millions)



Highlights

Paints sales grew by 9.98 per cent, versus market growth of around 7 per cent.

Profit before tax up by 16.4 per cent — from Rs. 1,559 million (US $ 31.9 million*) in 2000-01 to Rs. 1,814 million (US $ 37.2 million*) in 2001-02.

Profit after tax rises by 8.4 per cent — from Rs. 1,064 million (US $ 21.8 million*) in 2000-01 to Rs. 1,153 million (US $ 23.6 million*) in 2001-02.

Net working capital turnover improves from 4.9 in 2000-01 to 7.6 in 2001-02.

Total asset turnover ratio (Net Sales as a proportion of total assets) increases from 1.9 in 2000-01 to 2.3 in 2001-02.

Free cash flow increases from Rs. 14.93 million in 2000-01 to Rs. 1763.50 million in 2001-02.

Return on capital employed increases from 27.9 per cent in 2000-01 to 33.6 per cent in 2001-02.

First acquisition in India with the takeover of the powder coatings business of Hawcoplast Chemicals Limited.

Joint venture in Bangladesh is in the process of setting up manufacturing facility. The unit will become operational in 2002-03.

Production capacity of Patancheru and Ankleshwar plants increases from 50,000 MT to 80,000 MT each.

* 1 $ US = INR 48.81 as on 31st March, 2002.

letter

DEAR SHAREHOLDER

2001-02 has been a difficult year for India. It began with the after-shocks of the terrible Gujarat earthquake, was punctuated by the effects of 11 September, the terrorist attack on our Parliament on 13 December, the Gujarat riots, and ended with tensions on the Indo-Pak border.

The economic-scenario also leaves much to be desired. GDP growth in 2001-02 will, at best, be 5.4 per cent substantially less than the 7 per cent plus growth that we had achieved in the mid-1990s, and need to accomplish on a sustained basis to eliminate poverty. From the point of view of the paints business, the most worrying aspect has been the low rate of growth of industrial and manufacturing output. During April 2001-February 2002, the index of industrial production grew by a mere 2.6 per cent — the lowest since 1991-92.

I am happy to say that, despite such difficult macro-economic circumstances, your company has delivered good results for yet another year.

- Net sales increased by 9.1 per cent to Rs. 13,160 million. The Compound Annual Growth Rate (CAGR) for the six years between1996-97 and 2001-02 has been 11 per cent.

- Profit before depreciation, interest and tax (PBDIT) increased by 13.5 per cent to Rs. 2,378 million, translating to a six-year CAGR of 14.9 per cent.

- Even after providing for deferred tax liability, profit after tax (PAT) increased by 8.4 per cent to Rs. 1,153 million. The six-year CAGR has been 13.7 per cent.

- Average net worth has increased by 7.11 per cent to Rs. 4,063 million after providing for accumulated deferred tax liability as on 1 April 2001. The six-year CAGR of net worth has been 12.1 per cent.

- Return on capital employed (ROCE) has increased from 27.9 per cent in 2000-01 to 33.6 per cent in 2001-02. This is well above your company's weighted average cost of capital and, as a consequence, your company has generated higher Economic Value Added (EVA) for its shareholders.

"We have launched the Asian Paints Helpline in several cities. Accessible through telephones and the internet, the Helpline deals with queries of existing and potential customers and provides information and solutions to them. This initiative has been a success."

Further details regarding your company's performance are given in the chapter on 'Management Discussion and Analysis' and in the Directors' Report. Here, I wish to share with you thoughts on future growth areas of the paint industry, on Asian Paints' customer-centric approach to business, and some core values.

Today, decorative paints account for the bulk of the Indian paints market in terms of volume as well as value. Thanks to a slew of beneficial fiscal policies to encourage housing, we see this market expanding in the future. Your company is the leader in this segment, and will continue playing a role in expanding this market and increasing market share. Equally, as the economy grows, there will be rapid growth in the demand for industrial paints, driven primarily by the automotive sector. Companies belonging to the Asian Paints group are positioning themselves to take advantage of this opportunity as well.

More than ever before, we live in a world of change. In this world, consumer preferences are becoming paramount, and no company can afford to ignore the desire of buyers. In our business, people are demanding choices between different types of paints as well as between myriad hues and shades.

Asian Paints understood this sea change in consumer behaviour well in advance. Today, your company provides choices to customers which are in line with global trends. We have consciously adopted a 'customer-centric' approach to marketing, and I would like to mention a few new initiatives in this area.

We have installed around 2,500 computerised dealer tinting systems under the "Colour World" programme. These systems enable the company to provide a wide choice of shades to customers. Further, we have installed state-of-the-art spectro-photometer based machines in a couple of leading paint shops. These enable customers to create any shade they desire. We hope to offer this facility in other major paint shops in the country.

We have launched the "Asian Paints Helpline" in several cities. Accessible through telephones and the internet, the Helpline deals with queries of existing and potential customers and provides information and solutions to them. This initiative has been a success.

Your company is now experimenting with an even more wide spectrum customer-centric initiative. This is our Asian Paints Home Solutions, a one-stop-shop providing integrated painting solutions to the customer — which has been launched in Mumbai, Hyderabad, Kolkata, Bangalore, Delhi and Chennai. We believe that, when this project takes off, it will create an entirely new approach to marketing and distribution of decorative paints.

Market research has consistently indicated a very high brand recall for Asian Paints. To leverage this and, thereby get even closer to our consumers, your company has decided to create a new brand architecture that will bring the 'Asian Paints' brand to the centre-stage. In the course of 2002-03, you will see a new branding strategy unfold involving a more contemporary visual identity and packaging design. It will also help your company to concentrate its advertising spend on a focused brand identity, which should bring Asian Paints even closer to the consumer.

Being in continuous sync with customers requires an IT-driven, e-enabled company. Asian Paints has successfully used IT to streamline its supply chain and improve operational efficiencies and has integrated this with its Enterprise Resource Planning (ERP) solution. With the supply chain and ERP solution being backed by an extensive communications platform, we are on our way to becoming a completely e-enabled enterprise. In the future, your company will launch fully integrated consumer and dealer portals to extend the benefits of IT from production and distribution to the market.

This brings me to some core values of Asian Paints. We will always strive to identify with our customers' needs, however heterogeneous these may be. We shall always be a company that empowers employees and rewards entrepreneurial action. We will always remain a transparent company, committed to growth, good governance, and generating consistently greater shareholder value. If you were to ask me what is the overarching maxim of Asian Paints, I would unhesitatingly answer, "Growth with humility".

We cherish your support and your faith in us.

With regards

Yours sincerely

Ashwin Choksi

Ashwin C. Choksi

Directors' report

Your Directors have pleasure in presenting the Fifty-sixth Annual Report of the Company and the audited accounts for the financial year ended 31 March 2002.

1 | 2001-2002 IN RETROSPECT

The pace of economic growth that was witnessed during the first half of the 1990s has slackened considerably in the latter half. The slow pace of second-generation reforms has hampered growth. Fiscal 2001-2002 witnessed global economic slowdown as well as a depressed domestic demand scenario. The index of industrial production grew by a mere 2.6 per cent during April-February 2002.

Events in the country such as the terrorist attack on Parliament, tensions on the Indo-Pak border and the disturbances in Gujarat eroded business confidence. The silver lining to an otherwise grim economic picture was the low level of inflation and softening of raw material input costs. In this economic scenario, the market or paints has been subdued and the demand is estimated to have grown by around seven per cent.

2 | COMPANY PERFORMANCE

FINANCIAL HIGHLIGHTS

(Rs. in millions)

	2001-2002	2000-2001
Gross Sales	16556.1	15248.0
Profit before Interest, Depreciation and Taxes	2377.7	2095.9
Less: Interest	145.8	221.2
Depreciation	417.8	315.8
Profit Before Tax	1814.1	1558.9
Less: Provision for Taxation	598.0	495.0
Provision for Deferred Tax	62.9	-
Profit After Tax	1153.2	1063.9
Add: Balance brought forward from the previous year	520.0	420.0
Prior year adjustments (Net)	(10.1)	(8.1)
DISPOSABLE PROFIT	1663.1	1475.8
That the Directors recommend for appropriation as under:		
Dividend - Interim	224.7	192.6
Final	353.0	256.7
Tax on Dividend	22.9	68.6
Transfer to Debenture Redemption Reserve	-	100.0
Transfer to General Reserve	442.5	337.9
Balance carried to Balance Sheet	620.0	520.0
TOTAL DISPOSAL	1663.1	1475.8

Net sales for the year under review has increased by 9.1 per cent. Profit before tax has increased by 16.4 per cent and the profit after tax has increased by 8.4 per cent. The following charges to the profit and loss account have impacted profit for the year :

- Additional depreciation has been provided on dealer tinting systems leased to the company's dealers based on technical evaluation of the life of these assets by a chartered engineer. The additional charge for the year is Rs. 58.8 million.
- Consequent to the implementation of ERP software, the method of valuation of inventories has been changed from first-in-first out (FIFO) to weighted average method. As a result, the profit for the year has gone up by Rs. 14.2 million.
- The Company has acquired the trademark 'HAWCOPLAST' from Hardcastle & Waud Manufacturing Co. Ltd. for a consideration of Rs.110 million.This trademark has been licensed by the company to Asian Paints Industrial Coatings Ltd. The cost of acquisition (including sales tax and stamp duty) of Rs.119.2 million is being amortised over a period of five years. The impact of this amortisation for the year is Rs. 9.86 million.
- Interest cost for the year is lower due to improved working capital efficiencies, lower capital expenditure and repayment of outstanding loans.
- The profit after tax is lower due to the provision made for deferred tax in accordance with the requirements of Accounting Standard 22 – Accounting for Taxes on Income.
- The performance of the chemicals division has been subdued largely due to lower realisation and also a shutdown at the phthalic plant for about a month for change of catalyst.

All applicable accounting standards, including Segment Reporting (AS 17), Related Party Transactions (AS 18), Leases (AS 19), Earnings Per Share (AS 20), Consolidated Financial Statements (AS 21) and Accounting for Taxes on Income (AS 22) which have become mandatory for accounting periods commencing on or after 1.4.2001, have been complied with.

The consolidated profit and loss account and balance sheet form a part of this annual report.

3 | ASIAN PAINTS INDUSTRIAL COATINGS LIMITED

Asian Paints Industrial Coatings Limited (APICL) a wholly owned subsidiary of the Company, was incorporated on 1 October 2001 and acquired the powder coatings business of Hawcoplast Chemicals Ltd. The acquisition has been funded from equity of Rs. 80 million and a loan of Rs. 60 million, financed by Asian Paints (India) Ltd. The subsidiary commenced operations with effect from 1 November 2001. It sells its products under the HAWCOPLAST and APCOSHIELD brand names, which are owned by Asian Paints (India) Ltd., and licensed to APICL. The subsidiary has its manufacturing unit at Sarigam in Gujarat, which has a ISO 9002 certification. It is also entering into a processing agreement for manufacture of powder coatings at the Kasna plant of Asian Paints (India) Ltd.

Powder coatings find applications in the automotive as well as non-automotive segments like domestic appliances. For the five month period from 1 November, 2001 to 31 March 2002, APICL achieved a gross sale of Rs. 81.8 million and reported a loss of Rs. 9.3 million. The prospects for the ensuing year are considered promising.

4 | PENTASIA INVESTMENTS LIMITED

Pentasia Investments Limited recorded a profit of Rs.1.8 million as against Rs.1.6 million for the previous year. This profit was due to receipt of dividend during the year from your Company on 2,39,434 equity shares. These shares are being held by the nominee of Pentasia Investments Limited pursuant to the BIFR scheme. The investment company has repaid Rs.1.8 million to your Company towards repayment of outstanding loan.

5 | TECHNICAL INSTRUMENTS MANUFACTURERS (INDIA) LIMITED

Your Company has acquired 100% equity interest in Technical Instruments Manufacturers (India) Limited by investing Rs. 181.5 million as equity and Rs. 117.7 million towards taking over of liabilities. Technical Instruments Manufacturers (India) Ltd. owns the building which houses your Company's corporate office.

6 | JOINT VENTURE WITH PPG INDUSTRIES, INC.

The automotive market was subdued with no growth in the passenger car market and a decline in commercial vehicles. The two-wheeler segment has, however, grown during the period. Asian PPG Industries Ltd., the joint venture company has been able to significantly improve its position in the refinish segment and enhance its market share despite subdued market conditions. The good performance in refinishes together with cost control and improved working capital efficiency has enabled the company to maintain overall profitability.

7 | INTERNATIONAL OPERATIONS

All the subsidiaries together have reported a combined turnover of Rs. 703.8 million (US $ 14.7 million). The units at Fiji, Tonga, Solomon Island, Vanuatu and Nepal have performed well and paid dividends. The unit in Nepal has declared a bonus in the ratio of one share for every one share held. The unit in Australia has incurred a loss. However, there is a sharp reduction in losses for the current year as compared to the previous year and the outlook for the next year is considered bright.

Political instability and the resultant impact on the Sri Lankan economy affected the operations of the unit in Sri Lanka. The units at Mauritius and Oman completed the first full year of operations in 2001. Although these units have incurred losses, steps have been initiated to improve profitability and your Directors view the performance of these units in the year ahead with optimism.

During the year, your company has restructured share holding of various subsidiaries. All the equity shares held by Asian Paints (India) Limited in the subsidiaries at Fiji, Tonga, Solomon Island, Vanuatu, Australia and the Sultanate of Oman were transferred to a wholly owned subsidiary in Mauritius based on independent valuation carried out by a reputed firm of accountants. In consideration for the transfer, the wholly owned subsidiary has issued equity shares.

The shares held by the subsidiaries at Fiji, Tonga, Solomon Island and Vanuatu in the South Pacific units inter-se were also transferred to the wholly owned subsidiary based on independent valuation. In consideration for the transfer, the wholly owned subsidiary has issued five per cent redeemable preference shares to these units.

The plant being set up by the Company's subsidiary in Bangladesh is in an advanced stage of construction and is expected to go on stream in the first quarter of the next financial year.

In respect of the subsidiary in Nepal, your Company has applied for approval from the Department of Company Affairs, Ministry of Law, Justice & Company Affairs, Government of India, exempting compliance with the provisions of Section 212 (2) (c) of the Companies Act, 1956.

8 | CORPORATE GOVERNANCE

Necessary measures have been taken to comply with the requirements of the listing agreements with the stock exchanges where the Company's shares are listed. The Management Discussion and Analysis and the report on Corporate Governance is included as a part of the Directors' Report.

A certificate from the Auditors of the Company regarding compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement is attached to this report.

9 | DIVIDEND

The Company declared an interim dividend of Rs. 3.50 per equity share in October 2001. Your Directors recommend the payment of a final dividend of Rs. 5.50 per equity share, subject to deduction of tax at source. The total dividend proposed for the year under review comes to Rs. 9 /- per equity share as against Rs. 7 /- per equity share declared during the previous year. The final dividend on equity shares, if approved, would amount to Rs. 353.0 million and will be paid to those members whose names appear on the Register of Members as on 26th July, 2002. The corporate dividend tax paid on the interim dividend is Rs. 22.9 million. As against a dividend payment of Rs. 449.3 million for the previous year, the total dividend, if approved, would absorb Rs. 577.7 million in the current year.

10 | SALES TAX DEFERMENT BENEFIT

The Company continues to avail sales tax benefit at Patancheru for the expanded capacity under Target 2000 scheme, for which eligibility certificate was granted for Rs. 407 million. A sum of Rs. 43.1 million has been availed during the year and with this, the total amount of deferment availed up to March 31 2002 is Rs.128.1 million.

The application for availing sales tax deferment benefit for the expanded capacity at Kasna has been approved and the eligibility certificate for Rs.254.3 million was received during the year. A sum of Rs.1.72 million has been availed during the year.

11 | FIXED DEPOSITS MATURED BUT NOT CLAIMED

Fixed deposits from public and shareholders stood at Rs. 20.2 million at the end of the year. Further, a sum of Rs. 2.9 million from 320 depositors pertained to deposits that had not been claimed or for which disposal instructions had not been received by the Company. Since close of the year, deposits amounting to Rs. 7 million relating to 72 depositors have been paid.

12 | INSURANCE

All the insurable interests of the Company including inventories, buildings, plant and machinery and liabilities under legislative enactments are adequately insured. Loss of profit risk for financial year 2001-2002 is self insured.

13 | ECOLOGY & SAFETY

Several measures have been implemented to ensure safety of employees and safe storage, handling and disposal of materials. Safety committees meet regularly to review safety measures. Steps have been taken to control pollution from effluents, dust and stack emissions. Samples are periodically drawn and reports are submitted to pollution control boards to ensure compliance with standards.

All the Company's plants have ISO 14001 certification. In addition, all the paint plants have ISO 9001 certification and the phthalic plant has ISO 9002 certification.

14 | CONSERVATION OF ENERGY AND TECHNOLOGY

Particulars in respect of conservation of energy and technology absorption by the Company as per Section 217(1)(e) of the Companies Act, 1956, are given as Annexures to this report in Form A and B respectively.

15 | FOREIGN EXCHANGE EARNINGS & OUTGO

Details of expenditure and earnings in foreign currencies are given at Notes B-14 and B-15 respectively of Schedule 'M' to the accounts.

16 | PERSONNEL

Industrial relations during the period were cordial and peaceful. A long term wage settlement has been concluded during the year at Mumbai Plant.

Information as per Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, forms part of this report.

17 | DELISTING OF EQUITY SHARES

The equity shares of your company are presently listed in the Stock Exchanges at Mumbai, Ludhiana, Kolkata, Ahmedabad, Chennai, Delhi, Hyderabad, Vadodara and the National Stock Exchange (NSE). The shares of your company are in compulsory dematerialised form.

It has been observed that the shares of the company are not being traded in material volumes regularly at Stock Exchanges other than Mumbai and the National Stock Exchange (NSE).

In view of the above it is proposed to delist the company's shares from all the above exchanges except Mumbai and the National Stock Exchange. Necessary resolution for the same is put before you for approval.

18 | DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the Companies Act, 1956 the Directors confirm that:

In the preparation of the annual accounts, applicable accounting standards have been followed along with proper explanations relating to material departures.

The accounting policies have been selected and applied consistently and the judgements and estimates made, are reasonable and prudent, so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period.

Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

The annual accounts have been prepared on a going concern basis.

19 | DIRECTORS

Smt. Ina A. Dani resigned from the Board with effect from 23 July 2001 due to other preoccupations. The Board places on record its appreciation of the valuable services rendered by Smt. Ina A. Dani during her tenure as Director.

Shri Hasit A. Dani was appointed as an additional director with effect from 23 July 2001 and was appointed as a director at the Annual General Meeting held on 28 August 2001.

Ms. Tarjani Vakil, Shri Dipankar Basu and Shri Deepak M. Satwalekar retire by rotation at the conclusion of this Annual General Meeting and being eligible, offer themselves for reappointment. Appropriate resolutions for their appointments are placed before you for approval.