

asian

Asian Paints Limited
Annual Report 2005-2006





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BOARD OF DIRECTORS



ASHWIN CHOKSI

Chairman



ASHWIN DANI

Vice Chairman &
Managing Director



ABHAY VAKIL

Managing Director



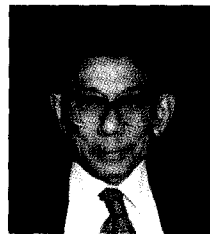
Mahendra Choksi



Amar Vakil



Hasit Dani



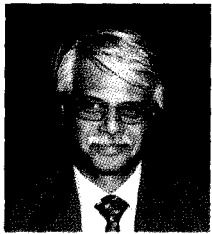
Dipankar Basu



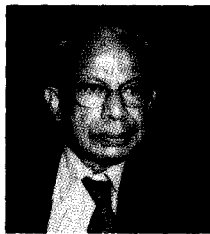
Ms. Tarjani Vakil



Mahendra Shah



Deepak Satwalekar



R A Shah



Dr. S Sivaram

Jayesh Merchant

Company Secretary

Shah & Co. Chartered
Accountants

Auditors

CHAIRMAN'S LETTER

Dear Shareholders,

The Indian economy is surging ahead. And the good thing about this resurgence is that it is being led almost entirely by consumption, which means that this growth is here to stay. Such an environment is conducive to business as a whole. It's not surprising then that the manufacturing sector is trotting along at a healthy growth rate of 8%. The exuberance sweeping across the country has enabled us to sell over 300 million litres of paint in this year, helping our Indian paint business register the fastest sales growth in the last decade at 19.3%. Thanks to this, the group has crossed the Rs. 3,000 crore turnover mark - a significant milestone for the Company.

Backed by strong domestic demand and a growing economy, group sales grew by 17.4% to Rs. 30,210 million and profit after tax grew by 21.9% to Rs. 2,121 million. On the sales front, once again your Company has witnessed a steady performance by all its three business units i.e. decorative, industrial and international business.

The Decorative business unit - the largest in our business performed well enabling us reach the milestone of grossing the highest paint sales growth in the last decade. While the business unit has expanded its range for the economy segment, it further strengthened its position in the emulsion segment in both exterior and interior emulsions. This business unit continues with its strategy of pricing aggression to drive volume growth, gain market share and maintain operating margins. Our endeavour to continuously provide the best to our consumers has translated into a concurrent effort to step up the pace of our marketing initiatives. In many areas, we are seen as pioneers bringing about desired changes in our industry and bringing in new trends. Asian Paints Home Solutions, for instance, is now in ten cities



across the country and has set an industry benchmark in giving customers a delightful painting experience. Royale Play - our special effect finish - has provided our consumers with an innovative range of finishes for their homes. All these initiatives have ensured that we continue to strengthen our leadership position in the market and in the consumers' mind.

The Industrial business in India has for the third consecutive year grown in excess of 20%. The growing infrastructure sector and new capacities being set up in the country augur well for industrial coatings and we expect this strong performance to continue for this business unit. To cater to this strong growth, we have set up two new manufacturing facilities; one has been recently commissioned for powder coatings at Baddi, Himachal Pradesh, and the second will be commissioned in 2006-07 in Taloja, Maharashtra, which will be exclusively for industrial coatings. With the commissioning of these two plants, we will not only be able to cater to the strong growth but also expect profitability of the business to improve.

For the International business unit, sales registered satisfactory growth while margins were under pressure affecting the profitability. The two main regions which impacted its performance are the South Asia and South East Asia region. The other three operating regions - South Pacific, Middle East and the Caribbean region have performed well in terms of sales as well as profits. Our strategy for the International business is being reviewed constantly in order to maximise value. We will evaluate the international business on an ongoing basis.

Overall input prices still remain a cause for concern. While for the decorative business, the increase in crude prices have been offset by the decline in other raw material prices; for the industrial and international businesses, rising input prices have impacted the margins.

Looking ahead, the Decorative business in India looks well on track to exploit the consumption story which has become the key driver of the Indian economy. We expect the Industrial business to continue on its growth trajectory. With manufacturing facilities now in place for industrial coatings, it is expected that profitability of the business will improve. In last few years for the domestic business, we have built sufficient scale and equipped ourselves to meet any challenge posed to us by competition and are also geared to meet the changing needs of our consumers. The focus for International business would be to drive profitable growth. Material prices are expected to be buoyant in this year and efforts will continue to reduce the impact on margins through product price increases to the extent possible and cost optimisation in all areas.

I am confident that these measures will propel us to greater heights. Your Company has completed sixty years since its incorporation. We have travelled quite a distance in these years – from being minnows to a position of dominance not only in India but in many other countries. Your Company will always strive to identify with our customer's needs and shall forever be a company that empowers employees. We will for all time remain committed to growth, good governance and consistently enhancing shareholder value.

I thank you for your continued support over all these years which has helped the Company reach a strong position in the industry.

With regards,

Yours sincerely,

Ashwin Choksi

Ashwin Choksi

Report **HIGHLIGHTS** Junction.com

The Board of Directors has recommended a dividend of 100% for the year 2005-06 with a payout ratio of 58.6%. In addition, on the occasion of the 60th year of incorporation of the Company, the Board of Directors has recommended a one-time special dividend of 25%

Net Sales and operating income grew by 18.7% from Rs 19,546 million (US \$ 438 million*) in 2004-05 to Rs 23,192 million (US \$ 520 million) in 2005-06

Paints Volume sales crossed 300,000 MT/KL in 2005-06

Net Profit before Extraordinary Item increased by 24% from Rs 1,777 million (US \$ 40 million) in 2004-05 to Rs 2,204 million (US \$ 49 million) in 2005-06

Return on Average Networth is 31.3% for 2005-06 as against 31.4% for the year 2004-05

GROUP

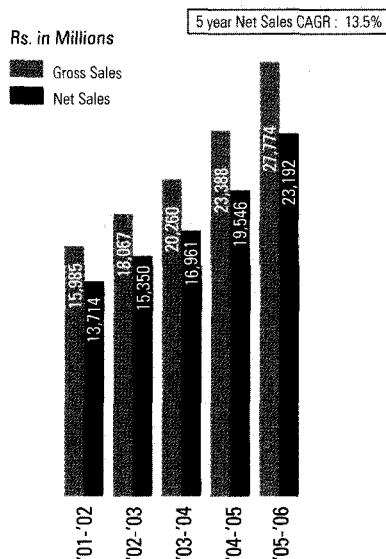
Net Sales and operating income of the group grew by 17.4% from Rs 25,739 million (US \$ 577 million*) in 2004-05 to Rs 30,210 million (US \$ 677 million) in 2005-06

Net Profit to shareholders after minority share grew by 21.9% from Rs 1,741 million (US \$ 39 million) in 2004-05 to Rs 2,121 million (US \$ 48 million) in 2005-06

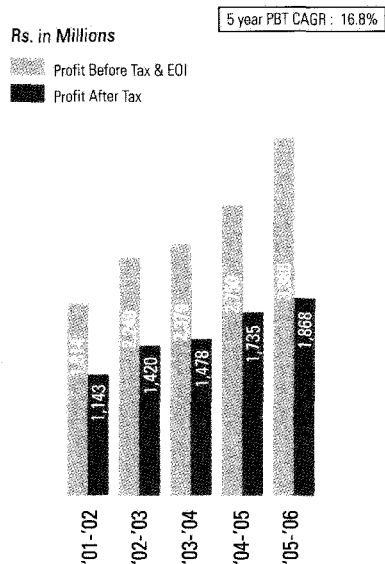
Return on Average Networth has increased from 31.7% in 2004-05 to 35.0% in 2005-06

* 1 US \$ = Rs 44.62 as on March 31, 2006

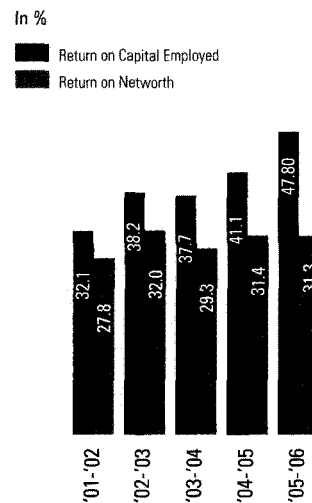
GROSS SALES & NET SALES



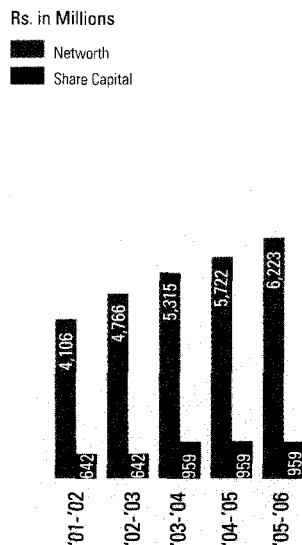
PROFIT BEFORE TAX & PROFIT AFTER TAX



RETURN ON CAPITAL EMPLOYED & RETURN ON NETWORTH



NETWORTH & SHARE CAPITAL



REVENUE TO EXCHEQUER

