

asian paints

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COLOUR  
Latest Colour Trends

Asian Paints Limited | Annual Report 2006-2007

## BOARD OF DIRECTORS

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Ashwin Dani

*Vice Chairman & Managing Director*

Abhay Vakil

*Managing Director*

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Amar Vakil

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Deepak Satwalekar

R. A. Shah

Dr. S. Sivaram

Jayesh Merchant

*Chief Financial Officer & Company Secretary*

Shah & Co., Chartered Accountants

*Auditors*

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Dear Shareholders,

Incredible is a word that I seldom use, but it best describes the transformation story that is presently unfolding in our economy. The consistently high GDP growth seen in recent years is only one aspect of this transformation. What is truly amazing is the surge of confidence and optimism enveloping large sections of our society. Suddenly, wealth and the ways to spend it are simultaneously expanding. We are beginning to harvest the gains of policies that set free the productive abilities of our collective populace.

These are fascinating times. In the history of an organization such a phase in the environment comes but once in a while. Good companies anticipate these big changes and prepare themselves to catch the tide as it comes. This trait, deeply ingrained in the way we work is what has helped Asian Paints stay ahead over the years. The results for the current year, growth in group sales of 21.5% and in net profit of 32.5% testify to the continued success of our strategy.

In Decoratives, our growth has been excellent across all segments and geographies. Arming ourselves with adequate productive capacity in advance, securing ties with the trade through consistent and transparent policies, responding to the changing buying habits of consumers and building on our insights into large users have helped us better the industry growth. As the market expands, we will see the full benefits of our organization building efforts.

Our industrial business too saw a growth of over 20%. I have in the past referred to the large spending on infrastructure and industrial activity in the country and the resultant growth in the need for quality industrial coatings. We stay focused on capturing this opportunity.

Our international units have, on the whole, shown improved results with good growth in the topline. The performance has been particularly good in the Middle East region. The group's stakes in the subsidiary in Myanmar and in the associate company in the Philippines were divested during the year as part of the ongoing efforts to prune underperforming investments.

To capitalize on the opportunities that are opening up in the domestic market, we are investing in new marketing initiatives, building fresh capacities, adding to our IT capability and expanding Research and Development. A new R & D centre is being built at Turbhe in Navi Mumbai to accelerate development of products and technologies that our customers will need tomorrow.



## Chairman's Letter

A large economic transformation of the kind that we are seeing today is not one smooth and continuous surge forward. Bottle-necks, imbalances and hiccups will inevitably dot the journey. Resources needed to fuel growth often have long gestation periods and availability does not keep pace with demand. The war for talent that we are witnessing today is a case in point. Many of the ills that have long afflicted our education system have resulted in a dearth of employable talent amidst a sea of unemployment. The shortage of critical talent will get worse before the balance is restored.

Asian Paints has traditionally been fortunate in this area. The company's culture fosters dignity and respect for people while recognizing individual differences in performance and contribution at work. Our attention is currently focused on strategies that would help retain talent in an era of high attrition.

I conclude by thanking my colleagues on the board for their support and guidance. I thank you for your continued support.

With regards,  
Yours sincerely,

Ashwin Choksi

Ashwin Choksi

## COLOUR NEXT 2007

Homes today are becoming the new indulgence, a reflection of style and status in society.

Within a home, colours are the first thing people notice; colours make a room bland or stunning. It is indisputably the simplest yet most effective way to create a mood or setting.

In today's fast paced, "instant" information age, home décor trends are changing almost as fast as the fashion industry. They are reaching the mass market in record time, with consumers opting for change constantly and frequently.

To tap the changing lifestyles, which lead to changes in people's décor and colour preferences in homes, we initiated COLOUR NEXT, our annual forecasting initiative. COLOUR NEXT is one of its kind research initiative taken up to understand the changing trends in home décor

and bring out colours that will rule home interiors in the year that follows. It's a comprehensive all India research undertaken across fields like design, architecture, fashion, media and retail.

COLOUR NEXT 2007 features 6 décor themes that would be predominant this year. Each of the six themes inspired by fashion, nature, art, culture or travel help create a distinct look. So whether you are planning a whole new look or simply enhancing an existing scheme with a fresh splash of colour, COLOUR NEXT 2007 provides you the latest inspirations for this year.

The 6 décor themes that are going to be predominant are Glamour, Natural, Relaxed, Fusion, Heritage and Playful. These themes showcase 21 forecast colours which are the trend colours for the year.

## GOLD is the hottest colour of 2007

Rooted deeply in our traditions, be it celebrations or festivities, GOLD has always been considered shubh (auspicious). Today however, it has shed its traditional past only to shimmer with sophistication. This year GOLD can be as bold as you would want it to be. It will be used all over the home: be it accessories, upholstery, furniture, walls & even ceilings.



## Six emerging themes for 2007



### Glamorous

Shine | Shimmer | Sophistication

Inspiration: Indulgence is acceptable, have it - flaunt it.

We are weaving boldness into our lives but subtly, glamour into our homes but stylishly. It doesn't hit your eye but you can't miss it too. Uber luxury would be prominent and gold, metallic finishes, rich colours and hues would form the 'evening wear' for homes.

Silver Blush

Royale Gold

Purple Prose

Raven Song



### Playful

Unexpected | Vivid contrast | Experiment

Inspiration: To loosen up and enjoy.

The home is a space to vent one's creative energy and personal style. The look is an energetic youthful space with vibrant colours.

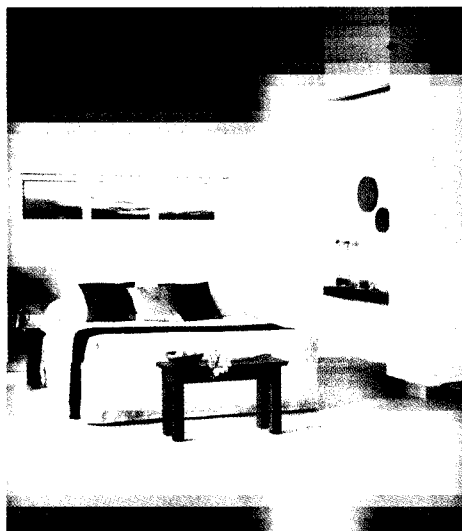
There's a glimpse of wit and humour, fun and funk in these colours and elements of décor.

Camp Fire

Lemon Soufflé

Desert Glow

Deep Pink



### Natural

Vibrant | Cheerful | Balance

Inspiration: Reaction against man-made.

Nature is back, it is sombre yet spontaneous. The happy vibrant side of nature would be seen in home décor.

Bright colours of fruits and flowers on walls will accentuate the warm woody tones of soft linen, jute and other natural materials in homes.

Spinach Soul

Berry Brunch

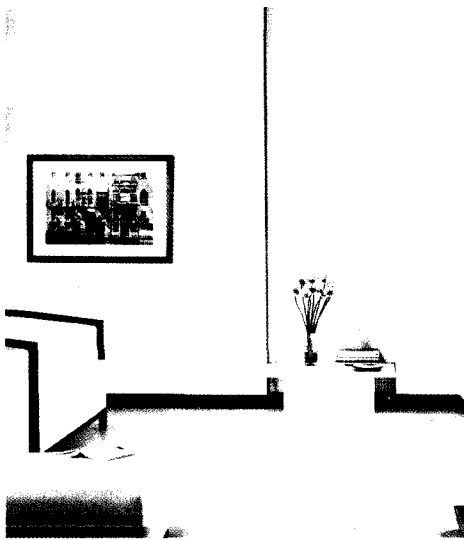
Orange Appeal



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COLOUR NEXT

Latest Colour Trends



## Relaxed

Unfettered | Serene | Retreat

Inspiration: Need to relax and unwind.

Inspiration comes in the quiet moments spent contemplating; when we calm our minds we connect with our thoughts.

Layers and layers of whites in ceramics and fabrics, soft pastels in the home tranquillises the mind craving serenity.

Italian Olive

Moonlit Silver

Inner Peace



## Fusion

Eclectic | Global influence | Bohemian

Inspiration: To re-live the memories of global travel.

Indians travelling across the globe are bringing back experiences into their homes. The home is a melting pot of travel and décor, a fusion of global inspirations.

Imperial Blue

Kayak

Code Red



## Heritage

Ethnic | Cultural | Craft

Inspiration: Pride in India and its rich heritage.

The home is an expression of one's cultural identity. Very true to the Indian past yet contemporarised to suit modern day sensibilities. Old is the latest new.

Zardosi, jari work, old carved wooden chests, ayurvedic cosmetics of the past - all are back with a vengeance.

Marooned Brown

Glowing Rust

Peacock Blue-N

Indian Copper

## DIRECTORS' REPORT AND MANAGEMENT DISCUSSION & ANALYSIS

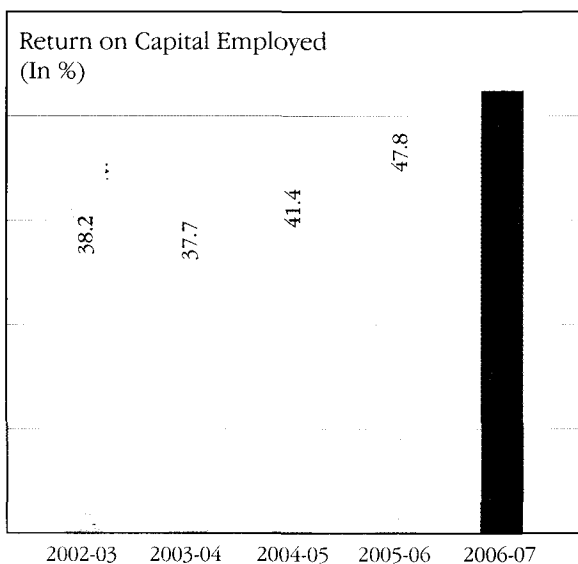
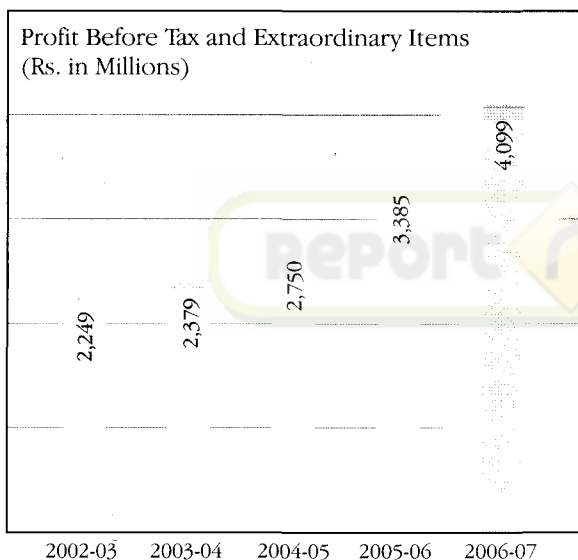
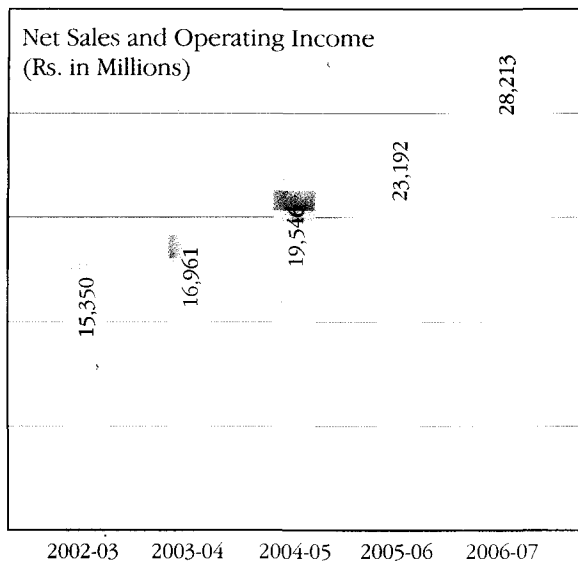
Dear Members,

Your Directors have the pleasure in presenting the 61st Annual Report of your Company and the Audited Accounts for the financial year ended 31st March, 2007.

### FINANCIAL RESULTS

(Rs. in Millions)

	APL			AP Group Consolidated		
	2006-07	2005-06	Growth %	2006-07	2005-06	Growth %
<b>GROSS SALES</b>	<b>33,607</b>	27,774	21.0	<b>42,599</b>	35,100	21.4
Operating Profit	<b>4,622</b>	3,878	19.2	<b>5,153</b>	4,237	21.6
Less: Interest	<b>69</b>	38		<b>189</b>	114	
Less: Depreciation/Amortisation/Impairment	<b>454</b>	455		<b>611</b>	606	
Add: Profit/(Loss) from Associate Company	<b>-</b>	-		<b>(4)</b>	(9)	
Profit before EOI, Goodwill Amortisation and Tax	<b>4,099</b>	3,385	21.1	<b>4,349</b>	3,507	24.0
Less: Extraordinary item (EOI)	<b>-</b>	336		<b>78</b>	-	
Less: Goodwill impairment	<b>-</b>	-		<b>-</b>	76	
Profit Before Tax	<b>4,099</b>	3,049	34.5	<b>4,271</b>	3,431	24.5
Less: Provision for Current, fringe benefit and deferred Tax	<b>1,400</b>	1,171		<b>1,467</b>	1,323	
Profit After Tax	<b>2,699</b>	1,878	43.7	<b>2,804</b>	2,109	33.0
Add/(Less): Prior period items	<b>21</b>	(10)		<b>26</b>	(10)	
Net profit after prior period items	<b>2,720</b>	1,868	45.7	<b>2,831</b>	2,098	34.9
Less: Minority Interest	<b>-</b>	-		<b>21</b>	(23)	
Net Profit attributable to shareholders of the Company	<b>2,720</b>	1,868	45.7	<b>2,810</b>	2,121	32.5
Add: Balance brought forward from the previous year	<b>1,100</b>	1,000		<b>1,100</b>	1,000	
<b>DISPOSABLE PROFIT</b>	<b>3,820</b>	2,868		<b>3,910</b>	3,121	
That the Directors recommend for appropriation as under:						
Dividend – 1st Interim	<b>528</b>	432		<b>528</b>	432	
– 2nd Interim	<b>623</b>	-		<b>623</b>	-	
– Final	<b>96</b>	528		<b>96</b>	528	
– One time special	<b>-</b>	240		<b>-</b>	240	
Tax on Dividend	<b>178</b>	168		<b>181</b>	171	
Transfer to General Reserve	<b>896</b>	401		<b>983</b>	651	
Balance carried forward to Balance Sheet	<b>1,500</b>	1,100		<b>1,500</b>	1,100	



## RESULTS OF OPERATIONS

Total revenue for the standalone entity increased to Rs. 28,213 million from Rs. 23,192 million in the previous year – a growth of 21.7%. The operating profit increased by 19.2%, from Rs. 3,878 million to Rs. 4,622 million. The profit after tax and extraordinary item increased to Rs. 2,720 million from Rs. 1,868 million, representing a growth of 45.7%.

The consolidated sales and operating income increased to Rs. 36,700 million from Rs. 30,210 million – a growth of 21.5%. Net profit after minority interest for the group increased to Rs. 2,810 million from Rs. 2,121 million, representing a growth of 32.5%.

The analysis on the performance of your Company is discussed in the section on Management Discussion and Analysis.

## CONSOLIDATED ACCOUNTS

Under Section 212(8) of the Companies Act, 1956, the Ministry of Company Affairs (MCA) has vide an approval letter dated 31st January, 2007, granted exemption from attaching the financial statements of the subsidiary companies of your Company, in India and abroad, both direct and indirect, to the Balance Sheet of your Company for the financial year 2006-2007. A statement of summarised financials of all subsidiaries of your Company, pursuant to the approval granted by MCA forms part of this report. Any further information in respect of the Annual Report and the financial statements of the subsidiary companies of your Company will be made available to the members on request. In accordance with the Accounting Standard (AS 21) issued by the Institute of Chartered Accountants of India, Consolidated Financial Statements presented by your Company include the financial information of all its subsidiaries.

## DIVIDEND

During the financial year 2006-2007, your Company declared and paid interim dividend of Rs. 5.50 per equity share (55%) in the month of November, 2006 and second interim dividend of Rs. 6.50 per equity share (65%) in the month of March, 2007. In addition, your Directors also recommend payment of Re. 1/- per equity share (10%) as the final dividend for the financial year ended 31st March, 2007. The total dividend (including the first interim dividend, the second interim dividend and the final dividend) for the financial year 2006-2007 comes to Rs. 13/- per equity share (130%) as against Rs. 12.50 (125%) per equity share paid for the previous year, which included a dividend of 25% as a one-time special dividend on the occasion of the 60th year since the incorporation of your Company.



## TRANSFER TO RESERVES

Your Company proposes to transfer Rs. 895.79 million to the general reserve. An amount of Rs. 1,500 million is proposed to be retained in the profit and loss account.

## MANAGEMENT DISCUSSIONS AND ANALYSIS

The Indian economy continued to grow strongly in the year 2006-2007, driven by booming investment and consumption. Over the past four years, the economy has clocked up an average annual growth of more than 8%, compared to around 6% in the 1980s and 1990s and 3.5% during the three decades before 1980. The government's advance GDP estimates for 2006-07 pegs growth at 9.2% driven by a 11.2% growth in services, 10% in industries and 2.7% in agriculture.

While there are concerns with regard to overheating of the economy, infrastructural bottlenecks, wage inflation and political scenario, your Company believes that the growth rates would continue to be buoyant in the medium term.

Given the circumstances, your Company has done well to capitalise on the buoyant economic growth in the country and this is reflected in the financials during the year under review.

## I. PRODUCTS AND MARKET

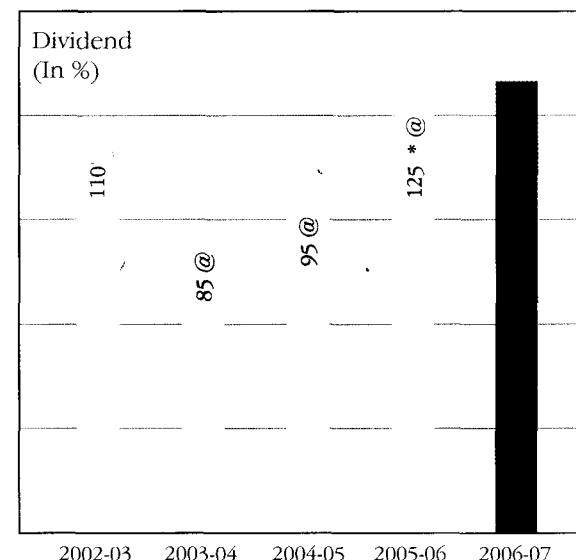
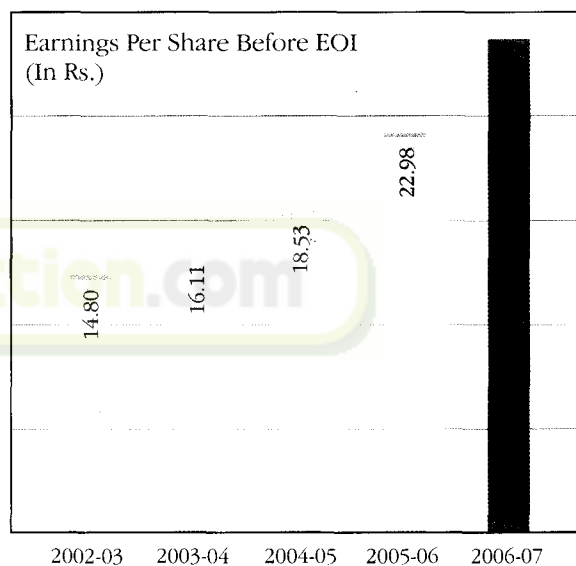
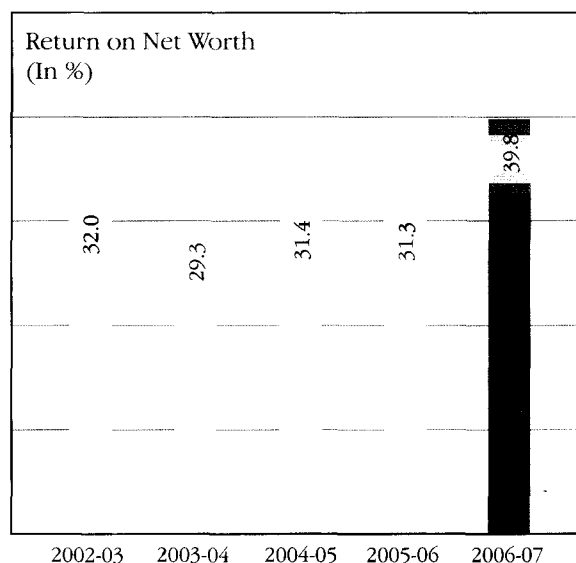
### Paints

Your Company's paints business in India consists of Decoratives and Industrial Coatings. Sales of Decorative paints constituted 80% of group sales. It is estimated that the market for all paints produced by all companies big and small would have been between Rs. 112 and 115 billion in 2006-2007. This would be a growth of about 18% over the previous year. The industry is estimated to have grown by about 16% in volume terms in 2006-2007.

### Decorative Paints

Your Company has been the leader in the Decorative Paints segment for about four decades now. Decorative paints account for over 75% of the overall paint market in India. This segment includes wall finishes for interior and exterior use, enamels, wood finishes and ancillary products such as primers, putties etc. The Decorative paints market as a whole is estimated to have grown by about 16% in volume terms equivalent to about 19% in turnover. Turnover increase outpaced volume growth due to price increases.

Prices of raw materials increased sharply in the second and third quarter of 2006-2007. The major increases were in Xylene, Phthalic Anhydride, Acrylates and

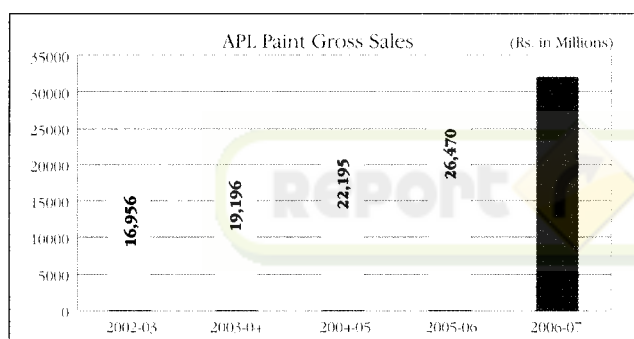


\* Includes one time special dividend of 25%.

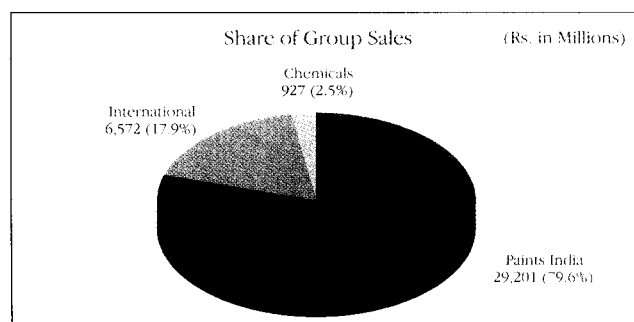
@ 2003-2004 onwards is on enhanced capital.

other petroleum based products and vegetable oils. Accordingly, your Company had to raise prices four times during the year. This raised the average selling prices by about 4.25%. Availability of materials was, on the whole, good throughout the year.

Market conditions were good in most parts of the country. Trade was impacted in Delhi due to the uncertainty prevailing on account of the Delhi Master Plan and the sealing drive. It was also impacted in parts of North Eastern India on account of disturbed conditions. Trade inventories in the Delhi area were at very low levels. The Diwali season was slightly disappointing in parts of Northern and Western India. However, robust growth after the Diwali season has provided buoyant conditions on the whole. VAT has been introduced in Tamil Nadu from January 1, 2007 and the amendment in Kerala ensures that a uniform VAT rate now prevails over the entire country except in U.P. where VAT is yet to be implemented.



Your Company has been strongly committed to growth and accordingly, continued its policy of moving purposefully on several fronts. Pricing was kept competitive. The sharp increase in material cost forced us to raise prices, as described earlier, in mid-June, on 1st September, on 1st October and in mid-January. The Company's strong product range was further augmented by the addition of Royale Play Metallics and Stucco, Luxury Ultra Gloss Enamel and other products. Your Company will continue to provide consumers with excellent



choice at every price point. The exterior range of products continues to grow strongly.

Your Company will continue to face competition from lower priced products from large companies and from a large number of regional players. However, considering the brand equity your Company enjoys, its dominant market share and the range of products that it can offer, your Company is confident of meeting these challenges effectively.

Your Company continues to aggressively increase ColourWorld installation, which would be about 8500 across the country. As reported last year, many of these are now being installed in small towns, enabling consumers there to have a choice of large range of shades in a wide product range.

Asian Paints Home Solutions (APHS) was extended to Jaipur and Vadodara taking the total number of centers where this service is offered to twelve. APHS adds to the strength of Asian Paints brand significantly by offering novelty finishes.

### Manufacturing capacity

As reported last year, the capacity of the Sriperumbudur plant was raised to 50,000 KL per annum early in 2006-2007. This capacity came in handy as emulsion paints' sales grew well. Your Company is adding a polymer plant at Sriperumbudur which is expected to be commissioned in the first quarter of 2007-2008.

The plant at Ankleshwar has received environmental and other clearances to produce up to 1,00,000 KL per annum. Some additional facilities, especially for storage and handling, need to be installed at Ankleshwar as well as Patancheru and Kasna plant so as to produce at the rated capacity on consistent basis.

### Industrial Coatings

Automotive Coatings:

### Asian PPG Industries Limited

Asian PPG Industries Limited (APPG), a 50:50 joint venture between your Company and PPG Industries Securities Inc., formed in 1997, services the Automotive OEM, Refinish and certain industrial coatings market in India. APPG is a supplier to almost every two wheeler maker in India and has a significant position in this market.

APPG has benefited from the buoyant economic growth in the country and the consequent robust performance of the automotive industry during the