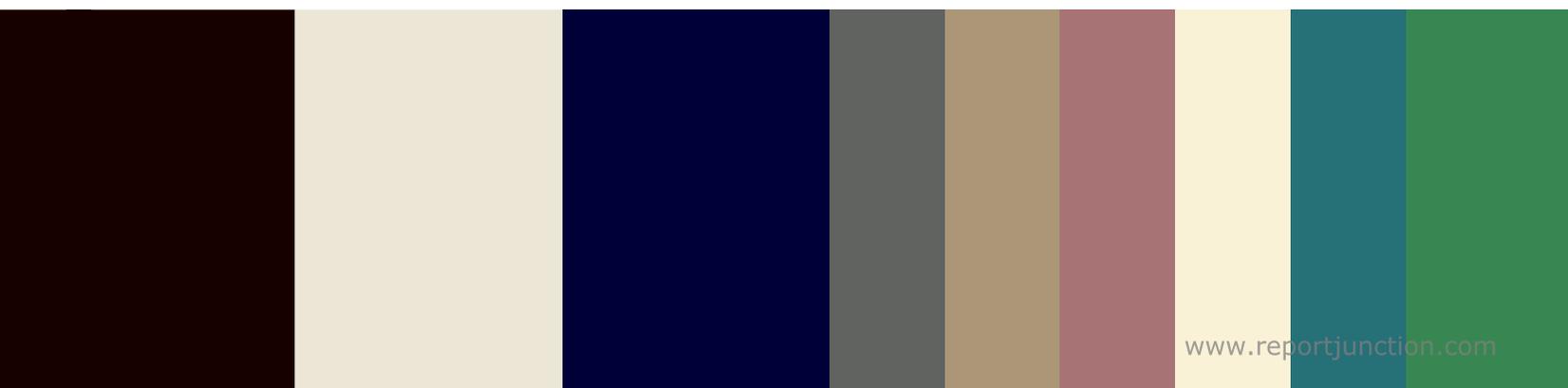




**asianpaints**

Asian Paints Limited | Annual Report 2008-2009



Board of Directors

Ashwin Choksi  
*Chairman*

Ashwin Dani  
*Vice Chairman*

Abhay Vakil

P. M. Murty  
*Managing Director & CEO*

Mahendra Choksi

Amar Vakil

Hasit Dani

Ms. Tarjani Vakil  
*Chairperson of Audit Committee*

Dipankar Basu

Mahendra Shah

Deepak Satwalekar

R. A. Shah

Dr. S. Sivaram

Audit Committee

Ms. Tarjani Vakil  
*Chairperson*

Mahendra Shah

Dipankar Basu

Remuneration Committee

Dipankar Basu  
*Chairman*

Ms. Tarjani Vakil

Deepak Satwalekar

Shareholders / Investors  
Grievance Committee

Mahendra Shah  
*Chairman*

Abhay Vakil

P. M. Murty

Mahendra Choksi

Hasit Dani

Share Transfer Committee

Abhay Vakil  
*Chairman*

Ashwin Choksi

Ashwin Dani

Jayesh Merchant

Company Secretary

Jayesh Merchant

Auditors

Shah & Co., Chartered Accountants

B S R & Associates, Chartered Accountants

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## Chairman's Letter



Ashwin Choksi  
Chairman

Dear Shareholders,

These are extraordinary times that we are living in! All major economies of the world are under severe stress because of the collapse of their economic growth. The dramatic scale and speed of the global "financial tsunami" has far exceeded anybody's imagination. The policy response across countries to stall the downward spiral has been unprecedented. How the economies would react to these stimuli and when they would stabilize is anybody's guess.

A similar theme has been underway in India, emphasizing the fact that we are well and truly "coupled" with the global environment. There has been a demand slowdown impacting both, exports as well as domestic consumption. Services sector, especially IT, has been severely impacted due to the protectionist policies now being resorted to in developed world. The domestic credit market has also seen a relative freeze, raising the funding cost for corporates. The Government of India's stimulus packages, to spur economic activity, has led to widening of fiscal and trade deficits. All this has meant that the surging Indian economy has seen a relative slowdown in 2008-09 and in all probability will grow at around 6.5% compared to 9% in 2007-08.

The global financial turmoil has had an adverse impact even in other markets where the group operates in, especially in the Gulf region. It has also resulted in extreme volatility in exchange rates as well as commodity and chemical prices. Crude oil prices spiraled to dizzy height and then crashed with the same ferocity, key raw materials like pigments and monomers saw major increase in prices. Rupee exhibited extreme volatility and traded between high of Rs. 39 to the US\$ and low of Rs. 52 to the US\$ during the year. These extreme conditions necessitated drastic reactions. In the domestic market, paint prices had to be increased six times and then reduced thrice, which has been unprecedented.

In these difficult times, your Company has done well to grow its consolidated sales by 24% in value terms to Rs. 5463 crores in FY 2008-09. After a very buoyant first half, demand conditions were sluggish in the third quarter of FY 2008-09. But the speed with which we were able to recover in the fourth quarter has only strengthened my confidence in our ability to take things in our stride. We consciously pursued a strategy of growth with

reduced margins in domestic paints business. Consequently, the consolidated PAT after minority interest for the full year reduced by 2.8% to Rs. 398 crores.

Over the years, we have successfully undertaken several initiatives in line with our basic strategy of adopting a more consumer centric approach for meeting the customers' ever changing expectations. We have been building on the strong existing dealer network to provide a more appropriate shopping ambience and expertise in colour and decor marketing to the consumers. A prime example of this approach is our "Colour with Asian Paints", the international award winning and unique Asian Paints Signature Store in Bandra (West), Mumbai, which I would urge each one of you to visit and get inspired by.

In my letter to you as early as in June 1999, I had mentioned that "Companies with good board governance practices are regarded as companies with shareholder value focus where long term values are not sacrificed at the altar of short term returns". The truth of this statement was brought home rudely when gigantic corporations crumbled and investors lost their confidence in them due to their disregard for good corporate governance practices and lack of openness, integrity and accountability. This has not only vindicated our long standing belief in fostering the principles of trust and transparency within the organization, but has made our resolve to pursue this path even stronger.

Looking ahead, the world economy is expected to witness contraction in 2009. Given the inter-link with global markets, growth in India would depend on how the global scenario unfolds. The decisive mandate in the national general elections would help in allaying the fears of political instability and would boost the sentiments in the domestic economy. The GDP growth forecast for India is being placed between 5-6%. Paint demand would depend on the overall economic situation, which is currently reasonably buoyant in Tier II and Tier III towns. Growth would be a challenge in the industrial and automotive paints segment while the chemical business would continue to be managed for value. In the International markets, the strategy would be to review the portfolio and grow the top line with focus on profitability and credit risk. Middle East and South Asia regions are expected to drive growth performance.

An organization's future is as certain as its ability to mould itself to the changing environment. A disposition to change thus signals a potential to grow. Hence, in this dynamically changing environment, the Board of your Company took a momentous decision of appointing Mr. P. M. Murty, an Asian Paints veteran of 38 years, as the Managing Director & CEO with effect from 1st April, 2009. It is a change that represents the ongoing process of corporate transformation in response to the contextual realities. It is also a change that ensures continuity and further enhances the symbiotic relationship between the entrepreneurs and the professionals towards delivering stakeholder value with highest levels of corporate governance.

I am confident that your Company, under the able leadership of Mr. P. M. Murty, will convert adversities into opportunities and continue its forward surge. This confidence also arises from the knowledge that your Company has an immensely talented pool of people at all levels who have withstood the challenges of the ever changing environment and have contributed consistently to the remarkable growth of your Company.

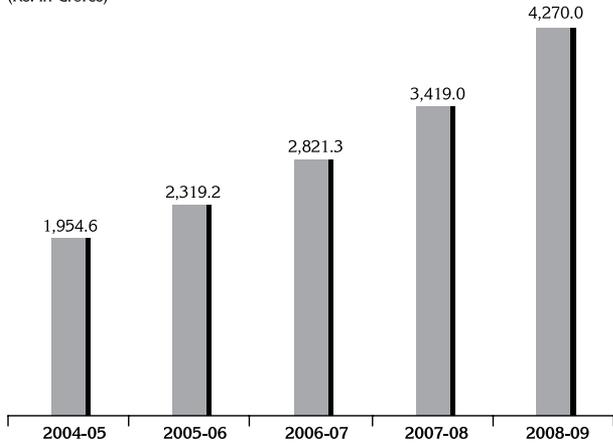
Last but not the least, I along with my colleagues, thank you for your continued support and confidence shown during all these years, which have been a source of great inspiration to us.

Warm regards,

*Ashwin Choksi*  
Ashwin Choksi

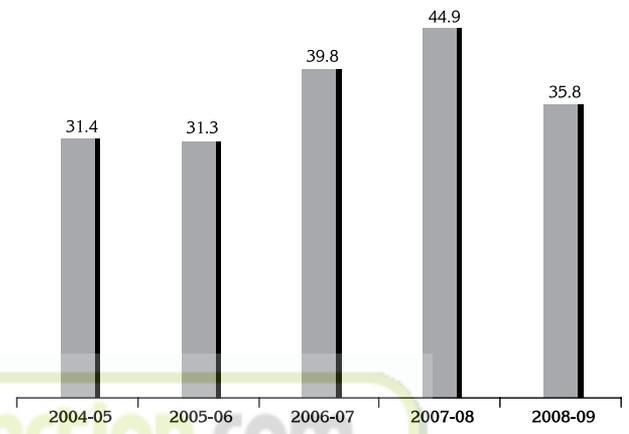
**Net Sales and Operating income**

(Rs. in Crores)



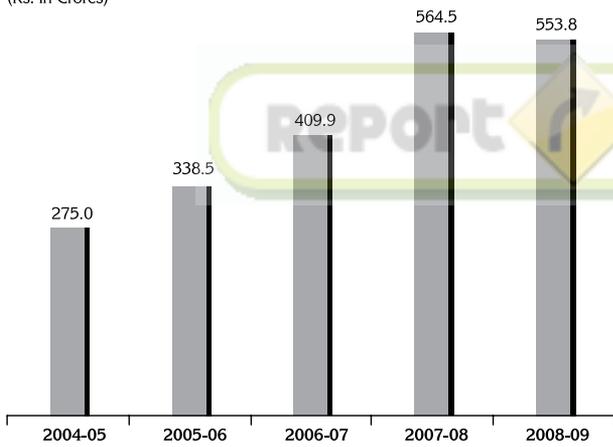
**Return on Network**

(In %)



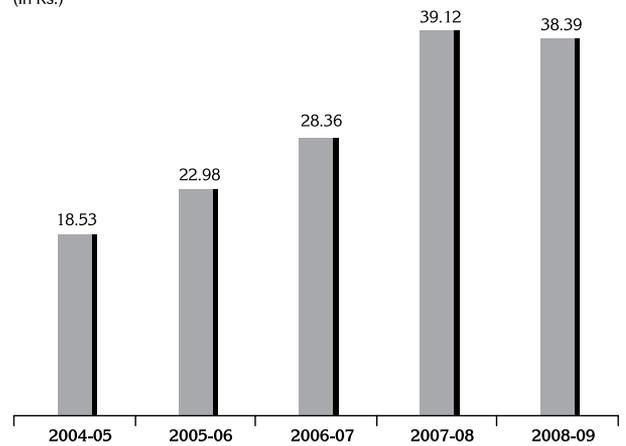
**Profit before Tax and exceptional item**

(Rs. in Crores)



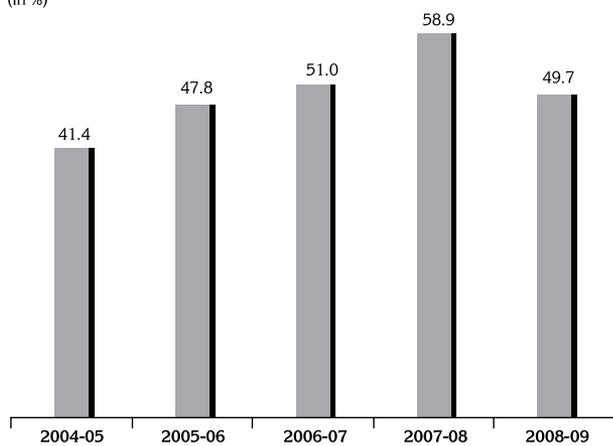
**Earnings Per Share before exceptional item**

(In Rs.)



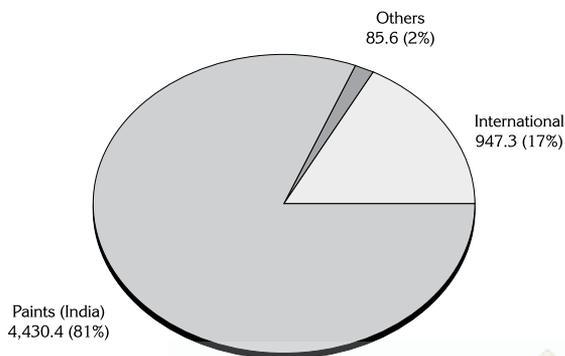
**Return on capital employed**

(In %)



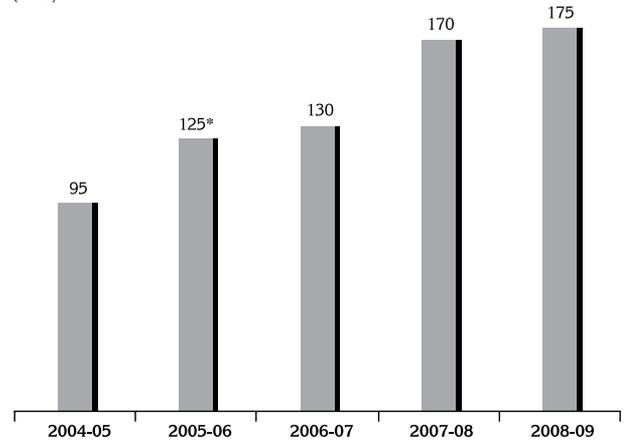
### APL Group Net Sales

(Rs. in Crores)



### Dividend

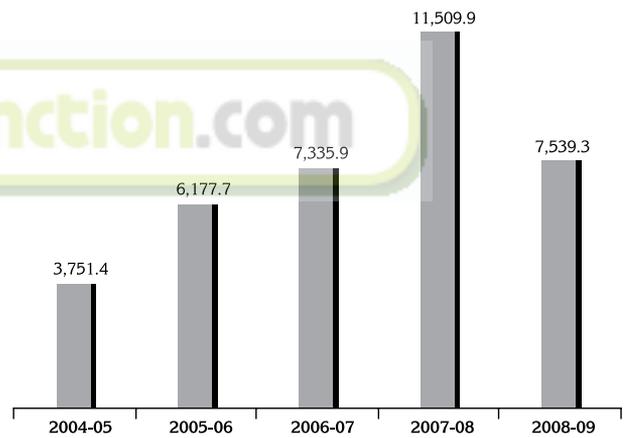
(In %.)



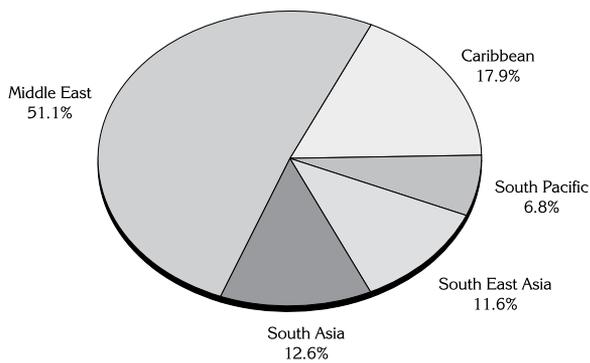
\* includes one time special dividend of 25%

### Market Capitalisation

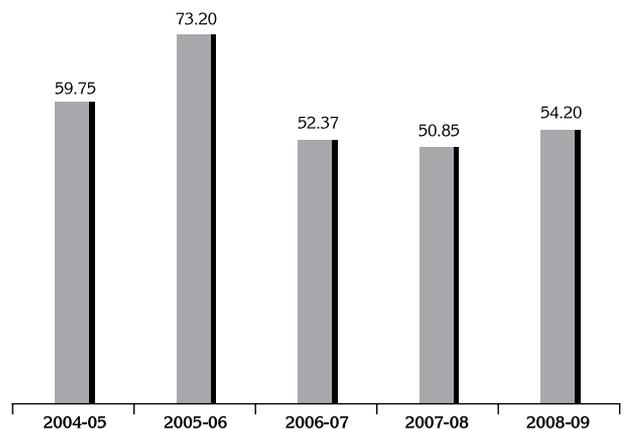
(Rs. in Crores)



### Percentage Sales contribution of each region to overall International operations



### Pay-out with Dividend tax in %



## DIRECTORS' REPORT AND MANAGEMENT DISCUSSION & ANALYSIS

Dear Members,

Your Directors have pleasure in presenting the 63rd Annual Report of your Company and the Audited Accounts for the financial year ended 31st March, 2009.

### FINANCIAL RESULTS

(Rs. in Crores)

	Asian Paints Limited			Asian Paints Limited Group Consolidated		
	2008-09	2007-08	Growth (%)	2008-09	2007-08	Growth (%)
Sales and Operating Income (Net)	4270	3419	24.9	5463	4407	24.0
Operating Profit	621	617	0.8	721	720	0.1
Less: Interest	10	8		26	21	
Less: Depreciation	57	44		74	59	
Profit before Tax and exceptional item	554	565	-1.9	620	640	-3.0
Less: Exceptional item	6			1	7	
Profit before Tax	548	565	-3.0	619	633	-2.2
Less: Provision for Current, fringe benefit and deferred Tax	184	188		197	203	
Profit After Tax	364	377	-3.3	422	430	-1.8
Add/(Less): Prior period items	(2)	(2)		(3)	(2)	
Net Profit after prior period items	362	375	-3.4	419	428	-2.0
Less: Minority interest				22	19	
Net Profit attributable to shareholders of the Company	362	375	-3.4	398	409	-2.8
Add: Balance brought forward from the previous year	200	150		200	150	
<b>DISPOSABLE PROFIT</b>	<b>562</b>	<b>525</b>		<b>598</b>	<b>559</b>	
That the Directors recommend for appropriation as under:						
Dividend – Interim	62	62		62	62	
– Final	106	101		106	101	
Tax on Dividend	28	28		29	28	
Transfer to General Reserve	136	134		171	168	
Balance carried forward to Balance Sheet	230	200		230	200	

Net sales and operating income for the standalone entity increased to Rs. 4,270 crores from Rs. 3,419 crores in the previous year – a growth of 24.9%. The operating profit (PBDIT) increased by 0.8%, from Rs. 617 crores to Rs. 621 crores. The profit after tax for the current year is Rs. 362 crores as against Rs. 375 crores in the previous year.

The consolidated sales and operating income net of discounts and excise duty increased to Rs. 5,463 crores from Rs. 4,407 crores – a growth of 24%. Net profit after minority interest for the group for the current year is Rs. 398 crores as against Rs. 409 crores in the previous year.

## NOTES ON FINANCIAL RESULTS

- Paint volume sales growth was good both in India and international operations.
- Significant increase in material costs led to increase in the selling prices in the first half of the year.
- Profit Before Tax was impacted by high material costs during the first half of the year. In the third quarter reduction in selling prices to stimulate demand and consumption of inventories carried at higher cost, impacted margins.
- An exceptional item of Rs. 5.9 crores has been provided in the current year, being provision for diminution in the value of long term investment in the subsidiary in Bangladesh, based on management's assessment of the fair value of its investment.
- The exceptional item in the previous year pertained to a loss on disposal of the subsidiary in Australia.

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

## CONSOLIDATED ACCOUNTS

Your Company has received a letter from the Ministry of Corporate Affairs (MCA) granting exemption under Section 212(8) of the Companies Act, 1956 from attaching the financial statements of the subsidiary companies in India and abroad, both direct and indirect, to the balance sheet of your Company for the financial year 2008-09. A statement of summarised financials of all subsidiaries of your Company, pursuant to the approval under Section 212(8) of the Companies Act, 1956, forms part of this report. Additional information in respect of the annual report and the financial statements of the subsidiary companies of your Company will be made available to 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 financial information of all its subsidiaries.

## DIVIDEND

During the financial year 2008-09, your Company declared and paid an interim dividend of Rs. 6.50 per equity share in the month of November, 2008. In addition, your Directors recommend payment of Rs. 11/-

per equity share as the final dividend for the financial year ended 31st March, 2009. If approved, the total dividend (interim and final dividend) for the financial year 2008-09 will be Rs.17.50 per equity share; Rs.17/- per equity share was paid as dividend for the previous year.

## TRANSFER TO RESERVES

Your Company proposes to transfer Rs. 135.97 crores to the general reserve. An amount of Rs. 230 crores is proposed to be retained in the profit and loss account.

## MANAGEMENT DISCUSSION AND ANALYSIS

These have been unprecedented times for the global economy. The financial meltdown caused by several complex forces that created imbalances in fund flows, asset price bubbles; financial instruments that caused yet other problems has resulted in the most severe financial crisis since the Great Depression. While most developed economies are expected to be in recession in 2009, the vast majority of developing countries are experiencing a sharp reduction in growth from that seen in the period 2002-2007. Central Banks have aggressively cut interest rates to pump-prime economies and governments across the globe have announced large stimulus packages to revive the jammed financial systems. But the financial strains remain acute. A sustained economic recovery will be possible only when the abnormal risk aversion in the financial sector abates and credit begins to flow into the economies.

The impact of this contagion was felt in India as well. The Services sector, especially IT, is facing headwinds from low growth rates and the strong protectionist stance in developed world while export growth has turned negative since October, 2008. After seeing 7.5% plus growth consistently for the past five years, increasing distress from the global crisis along with deteriorating domestic situation has set the stage for a marked slowdown in growth this year. Job losses have been reported across sectors with export units, financial services, airlines and infrastructure taking a major hit. The GDP is estimated to have grown at 6.5% for the financial year 2008-09.

The first half of 2008-09 saw high inflation on the back of a rapid rise in crude prices and other base commodities. However, beginning September 2008, both inflation and growth came down. Inflation at the end of the year

was near 0.26% after touching 13.4% in July, 2008. A combination of falling commodity prices and domestic tax cuts (excise, customs and service tax) helped to hasten the decline. The rupee was also extremely volatile and saw heavy depreciation against major currencies, losing more than 20% against the US dollar, during the course of the year.

## I. Products and Market

### Paints

The year 2008-09 was a very difficult year for the paint industry. A combination of soaring raw material prices and a sharp fall in demand in the third quarter of the year affected the industry. The market for all paints produced by companies in India both big and small is estimated to have grown by about 17 to 18% by value over the previous year, but by less than 10% by volume. The growth for decorative paints would be above 20% by value and industrial paints substantially lower. The volume growth for the industry would be the lowest over the last five years at about 9%. The year was marked by exceptional growth in the first six months followed by a much slower growth in sales during the rest of the year. The third quarter volume growth was negative, but volumes recovered substantially in the fourth quarter. Given the circumstances, your Company has done very well in the year 2008-09.

### Decorative Paints

Your Company has been the leader in the Decorative paints segment for over four decades now and this year too, your Company believes it grew faster than its competitors in this segment. As the environment turned out to be far more difficult than anticipated, your Company's response was twofold; continue to invest in the business to build long term strengths and simultaneously, respond proactively to the rapidly changing environment to ensure that growth is strong in the near term.

Effective 1st April 2008, your Company's entire range of Decorative products was made free of lead and other heavy metals. This is a step in making your Company's products fully conform to contemporary standards.

Growth in turnover was ahead of volume on account of price increases as well as changes in the product mix. Emulsion paints for interiors have been growing much faster than distempers over the last decade. This

trend continued in the financial year 2008-09. Exterior emulsions too continue to grow much faster than the overall paint demand powered by the Company's leading brands Apex Ultima, Apex and Ace. In both these categories your Company introduced a range of new products which did very well. In Exteriors, the Duracast range of textured finishes, Ultima Metallics and Apex Tile Guard all had successful launches. In interiors, the Royale Play metallics and Stucco, the kids range of Chalkboard, Fluorescent and Glow and Royale Shyne had successful launches and are doing very well. During the later part of the year, your Company tied up with Dupont USA to co-brand the Royale range of Emulsions with Teflon, the product synonymous with toughness and durability.

The year marked another first for the Company. In May, it opened its Signature Store "Colour" at Bandra in Mumbai. A unique experience centre, it was opened to build confidence through education about colour and to de-mystify and remove the hassle from the decorating process. In essence its purpose was 'To provide inspiration to families while they are in the process of designing their dream home by fuelling their spirit of experimentation'. The store is the first of its kind in the world in the Paint category and the response from the end consumer has been phenomenal. Over 17,000 consumers have visited the store in the last ten months and the level of customer delight achieved has been exceptional. Regular weekend training programs have been run for consumers on Colour and Décor.

Your Company continued with its efforts in upgrading the shop ambience of its leading retailers and providing services to their customers and training to their shop personnel. These have been well appreciated by both your Company's retailers and end consumers. Your Company has also commenced introducing a new chain of 'Colour ideas' where retail outlets have been modified to offer a slice of the 'Signature Store' thereby providing the same inspiration to consumers in process of designing their homes. The first two stores have been inaugurated at Hyderabad and Chennai and have met with a very enthusiastic response from consumers. Your Company is now in the process of expanding this network of 'Colour Ideas' across the country.

The expansion of the ColourWorld network continues unabated and today your Company has more than 12,000 ColourWorlds offering a wide range of products

and shades to consumers even in many small towns across the length and breadth of India.

Your Company continued to invest in the area of colour with the launch of ColourNext 2009. Several Colour Guides and Décor booklets are available to consumers at retail outlets.

Prices of raw materials increased sharply in the first six months of the year. The impact of rising crude prices as well as the depreciating rupee affected price especially of solvent based products. As a result, your Company increased prices six times till 1st October, 2008. Due to good demand and increase in trade inventories, growth in the first half of the year 2008-09 was excellent. In the last five months of the year, raw material prices fell sharply due to the world wide slowdown. The third quarter was weak and there was poor purchasing by dealers as they responded to low demand and reduced inventory. Your Company responded by lowering prices in November, 2008, December, 2008 and February, 2009. This did affect short term profits due to the consumption of higher priced inventory carried by the Company but helped revive growth. This was reflected in the last quarter performance which was a welcome change after the poor showing in the third quarter. Growth in the paint sale in the fourth quarter was 27.63%. The volume growth achieved would have been considered good in a normal year. The excellent annual performance in the top-line has enabled your Company to do better on profits than would have been the case otherwise.

The capacity of the Sriperumbudur Plant has been raised to 100,000 KL per annum. The Distribution Centres at Kasna Plant and Ankleshwar Plant have been commissioned. With the completion of two additional centres at Sriperumbudur Plant and Patancheru Plant over the next fifteen months, your Company would have modernised its vast distribution system, making it possible to service its 25,000 strong distribution base more effectively with lower levels of inventory.

The work on the erection of the Company's Sixth Decorative Paint plant at Rohtak, Haryana is on schedule with its first phase of 150,000 KL per annum scheduled for commissioning in the first quarter of 2010-11.

Your Company is committed to continually improving its products, expanding its product range and offering its consumers a wide range of products and services at

every value proposition. Your Company believes that this along with continuous investment in marketing activities will enable your Company to expand its business and meet the challenge from the leading international paint companies who are now in India. Simultaneously, your Company is continually investing in building manufacturing and distribution resources which would help maintain and improve services to its customers.

## Industrial Coatings

### Automotive Coatings: Asian PPG Industries Limited

Your Company is engaged in manufacturing of Automotive, Original Equipment Manufacturers (OEM), Refinish and certain other Industrial Coatings through, Asian PPG Industries Limited (APPG), a 50:50 Joint Venture Company between your Company and PPG Industries Inc., USA which was formed in 1997.

During the financial year 2008-09, passenger car sales growth was flat in India. The domestic sales of vehicles fell drastically in the festive season from October to December 2008, due to slowdown in the domestic economic growth, high interest rates and tight liquidity situation. During the year under review, many automobile companies had started to cut production by shutting plants for a few days, in order to avoid inventory build-up. However, most OEMs posted fair growth in the last quarter of the year 2008-09. This growth was aided by the 4% CENVAT reduction in December, 2008 and another 2% in February, 2009, discounts, cheaper financing and higher disbursements by public sector banks.

The year saw a sharp rise in price of raw materials due to the twin impact of rising crude oil prices and appreciation of the US Dollar vis-à-vis the Indian Rupee. Simultaneously, continuing efforts by customers to cut costs limited the scope for improving price realization. This posed a serious challenge to the ability of coating suppliers to sustain margins and manage earnings growth. Cost reduction, better cash management, quality improvement and reduction in development time for new products were the major points of focus for APPG during the year. These initiatives helped APPG arrest the slide in sales and profitability. Total sales fell to Rs. 420.94 crores from Rs. 436.16 crores in the previous year. The Profit After Tax declined to Rs. 15.78 crores for the year ended 31st March, 2009, from Rs. 32.94 crores for the previous year.

Faaber Paints Private Limited, a wholly owned subsidiary of APPG, reported Profit Before Tax of Rs. 0.28 crore this year as compared to Rs. 0.83 crore for the financial year ended 31st March, 2008. The sales remained flat at Rs. 11.05 crores (Rs. 10.98 crores in 2007-08) due to poor market conditions in the second half of the year 2008-09.

APPG's first manufacturing facility was commissioned in March 2008. The installed capacity is 3,200 KL per annum. Your Company is confident that this facility will help provide better service to its customers.

Notwithstanding the subdued market conditions and the intensified competition, your Company believes that the year ahead is a year of great opportunity for APPG. While there may be a temporary slowdown, APPG's strategy of offering better value to its customers by providing superior products and service through upgraded service standards and improved delivery capabilities will help grow APPG's share of the market and meet expectations of its stakeholders.

#### **Non-Auto Industrial Coatings**

Your Company operates in the non-auto industrial coatings segment through its Growth Business Unit and a wholly owned subsidiary, Asian Paints Industrial Coatings Limited.

Revenues from the segment of non-auto industrial liquid paints showed satisfactory growth in the first half of the year. There was a marked decline in demand in the second half, due to the overall depressed economic conditions and the difficult credit situation. Industrial projects, maintenance activities and production of engineering goods slowed down during this period. Your Company was able to record value growth in this segment last year inspite of the adverse economic situation.

Your Company exercised the required control over operating expenses and prudently managed working capital and material costs during the year, which saw periods of rapid inflation and deflation in prices.

The industrial liquid paints plant at Taloja received the ISO 9000 certification at the start of the year. This plant today has the capability to manufacture the entire range of products sold in this segment.

Growth in this segment is expected mainly in the second-half of the year 2009-10.

#### **Asian Paints Industrial Coatings Limited**

Asian Paints Industrial Coatings Limited (APICL), a wholly owned subsidiary of the Company, is engaged in the manufacture and sales of Powder Coatings.

After several years of high growth, there was a very marginal year-on-year growth in revenue last year. While the first half of the year saw double-digit growth in revenue, demand slowed down significantly in the third quarter. All major segments of OE manufacturers using Powder Coatings experienced a drastic drop in demand during this period. There has been some improvement in demand towards the end of the last quarter. However, at least in the first few months of the year 2009-10, it is not expected that sales of Powder Coatings will grow substantially. Some improvement in demand and sales is expected from the second quarter of the year 2009-10, while prospects for growth will be linked to the overall performance of the economy.

#### **Others**

Your Company's other business comprises of plants manufacturing Phthalic Anhydride and Pentaerythritol, located at Ankleshwar (Gujarat) and Cuddalore (Tamil Nadu), respectively. These products are used in the manufacture of alkyd resins as well as several products in other industries. Approximately 50% of the production in the case of both chemicals is used for captive consumption by other plants of your Company and the balance is sold to various customers.

The Phthalic Anhydride business experienced a slump in demand in the third quarter. The businesses of several customers were severely affected by the slow-down in domestic as well as export-led demand. The improvement in demand in the last quarter and careful management of inventories and costs ensured that the business remained profitable during the year 2008-09, though the profits were below expectations.

Demand for Pentaerythritol was up to expectations in the first half of the year. The product-mix produced mitigated the impact of the overall difficult period for business in the third and fourth quarters. Profits from the business were better than those in the previous year, while the growth in profits is attributable mainly to the performance in the earlier part of the year 2008-09.