



ICI India Limited

Annual Report 2005-06

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Co. Sec. Mitti - colour of the year

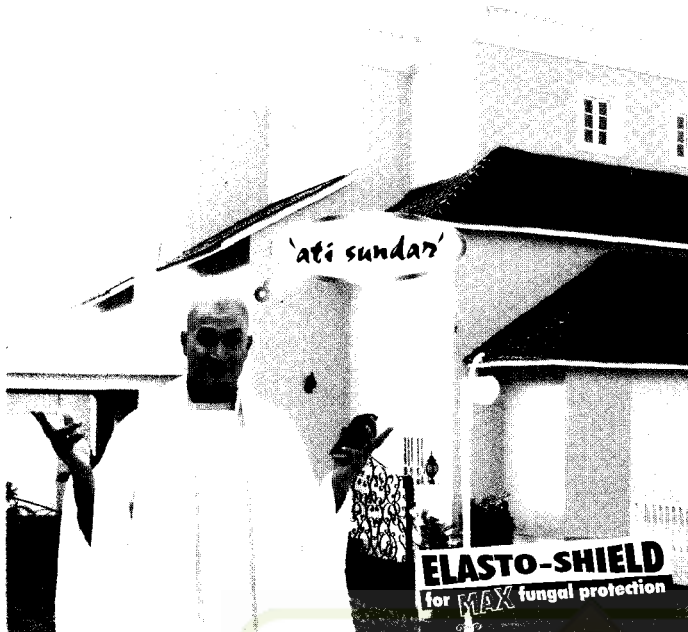




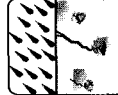
Superbrand

**NO FUNGUS NO BLACK SPOTS
OUTSIDE AND INSIDE**

Only Dulux WeatherShield MAX is made with elasto-shield technology. Its special formulation gives an elastic film that keeps rainwater from seeping into the walls. Giving your home maximum beauty and maximum protection from black spots and fungus, both outside and inside.



Other Exterior Emulsions



Rainwater enters cracks. Fungus attacks damp walls outside and even inside.

WeatherShield MAX Protection



More Fungal Protection Outside. Elastic Film Covers Hairline Cracks. Resists Dampness.

*Compared to ordinary exterior emulsions in Kerala monsoon conditions.

Fungus protection
33%*
extra

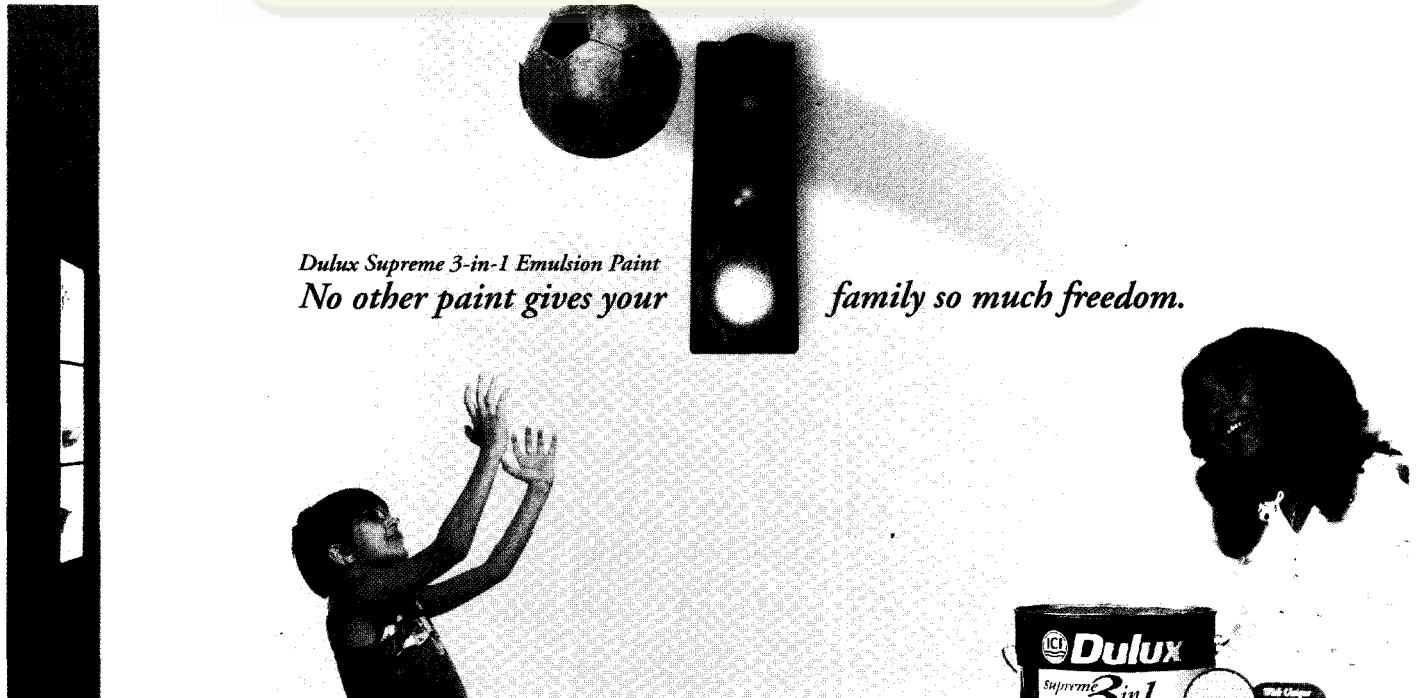


- ☑ Covers Cracks
- ☑ Resists Dampness
- ☑ Fights Fungus

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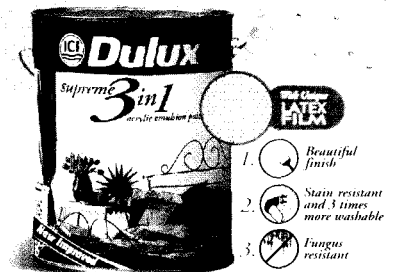
*Dulux Supreme 3-in-1 Emulsion Paint
No other paint gives your*

family so much freedom.



Every family needs to have fun. Which is why you need a special paint to keep your walls looking beautiful, year after year. Dulux Supreme 3-in-1 emulsion paint has a unique latex film which gives your walls an extraordinary finish and is stain-resistant. So be a smart mom and paint your walls with Dulux Supreme 3-in-1 emulsion paint and give your family the freedom to be themselves.

* 3 times more washable than ordinary emulsion. At no extra cost/sq.ft.





ICI India Limited

Annual Report 2005-06

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ICI India

Vision

- Our ambition is to be the industry leader in creating value for the customers and shareholders.
- We will be the most admired specialty products company in India.

Mission

- We will be the leader in India in chosen specialty products to delight our customers while creating superlative value for the shareholders.
- We will have an inspiring high performance culture underpinned by responsible care for all people and the environment.
- Innovation will be the key driver for our winning in the market place.

Values

We shall

- Show unrivalled understanding of customers and their markets.
- Seize opportunities rapidly, taking intelligent risks when required to bring measurably better products to the market.
- Meet demanding year on year growth targets above industry norms and constantly improve our operational performance.
- Hire, inspire and develop outstanding people by encouraging initiative, supporting new ideas and rewarding delivery.
- Never compromise our commitment to Security, Safety, Health and Environment.



ICI INDIA LIMITED
ANNUAL REPORT 2005-06

BOARD OF DIRECTORS

CHAIRMAN

Mr Aditya Narayan

MANAGING DIRECTOR

Mr Rajiv Jain

DIRECTORS

Mr M R Rajaram (Wholetime Director)

Mr David J Gee

Mr R Gopalakrishnan

Ms Renu S Karnad

Mr M V Subbiah

Mr David S Whitewood

(Alternate Director to Mr David J Gee)

CHIEF FINANCIAL OFFICER

Mr S Batra

SECRETARY

Mr R Guha

REGISTERED OFFICE

34, Chowringhee Road

Kolkata - 700071

Tel : 033-22267462

Fax: 033-22880804

CORPORATE OFFICE

10th Floor, DLF Plaza Tower

DLF Qutab Enclave, Phase-1

Gurgaon - 122002

Tel : 0124-2540400

Fax : 0124-2540849

WEBSITE

www.iciindia.com

KEY COMMITTEES OF THE BOARD

Audit Committee

Ms Renu S Karnad (Chairperson)

Mr David J Gee

Mr R Gopalakrishnan

Mr M V Subbiah

**Remuneration and
Nominations Committee**

Mr M V Subbiah (Chairman)

Mr David J Gee

Mr R Gopalakrishnan

Ms Renu S Karnad

Shareholders/Investors

Grievance Committee

Mr David J Gee (Chairman)

Mr Rajiv Jain

Mr M R Rajaram

AUDITORS

BSR & Associates

BANKERS

Central Bank of India

Citibank NA

Deutsche Bank AG

Hongkong & Shanghai Banking Corpn.

Standard Chartered Bank

REGISTRAR AND SHARE

TRANSFER AGENT

C B Management Services (P) Limited

P-22, Bondel Road

Kolkata-700019

Tel : 033-22806692-94

Fax : 033-22870263

cbmsl1@cal2.vsnl.net.in



DIRECTORS' REPORT 2005-06

Your Directors have pleasure in presenting their report for the year ended 31 March 2006.

BUSINESS ENVIRONMENT

India's GDP grew 8.4% in 2005-06, better than the previous year's 7.5%, with manufacturing sector recording a growth of 9%. The foreign currency reserves continue to be healthy, keeping the exchange rate for the Indian Rupee against major currencies within a narrow range. Overall, the numbers reiterate the fact that the economy is moving along a sustainable growth path.

Going forward, the unabated rise in the oil prices beyond USD 70 per barrel threatens to affect the profitability of the corporates. The hardening interest rates, mirroring the global trend, as well as the Reserve Bank of India's efforts to regulate expansion of credit point to higher inflation. These factors could slow down industrial growth and housing activities.

FINANCE AND ACCOUNTS

Sales and profit from the continuing businesses recorded a strong growth of 20% and 35% respectively. The total income for the year was Rs 908 crores, a growth of 16% over the previous year. Profit before tax from operations at Rs. 96.5 cr grew 39% compared to the previous year reflecting the improved performance of the continuing businesses and the progress against the strategic milestones the company has set for itself.

The exceptional items during the year amounting to a net charge of Rs 11.0 cr (previous year Rs 13.7 cr) consist mainly of provisions / charge towards loss on sale of Rubber Chemicals business, impairment on Rubber Chemicals assets upto the date of divestment, past VRS etc, offset by gain from sale of a residential property in Kolkata.

Consequently, the Company achieved a Profit after tax of Rs 50.2 cr, as against the previous year's Rs 47.2 cr, which is not comparable as there was a tax provision write-back in the previous year.

Taking into account the robust performance during the year and in line with the prudent dividend distribution policy followed by your Company, the Board has recommended a dividend of Rs. 6.00 per share, (previous year Rs. 5.50 per share) which will be paid after the approval of the shareholders at the forthcoming Annual General Meeting.

The performance highlights of the Company for the year are summarized below:

	(Rs. Cr)	
	2005-06	
	2004-05	
Total income	907.8	782.4
Operating profit	121.9	93.0
Depreciation	(21.8)	(20.1)
Interest	(3.6)	(3.5)
Profit before tax from operations	96.5	69.4
Exceptional items	(11.0)	(13.7)
Profit before tax	85.5	55.7
Tax	(35.3)	(8.5)
Profit after tax	50.2	47.2

The appropriation of profit in 2005-06 are as follows:

	(Rs. Cr)
Transfer to General Reserve	28.0
Proposed Dividend	24.5
Tax on Dividend	3.4

The balance, together with the amount brought forward from the previous year, amounting to Rs. 220.4 cr is being carried to the Balance Sheet.

No fresh public deposits were accepted by the company during the year. Unclaimed deposits and dividends, amounting to Rs. 0.03 cr and Rs. 0.16 cr respectively, were remitted into the Investor Education and Protection Fund as required under section 205C of the Companies Act, 1956.

MANAGEMENT DISCUSSION & ANALYSIS

Paints

The Paints business delivered a significantly improved performance compared to the previous year. Sales rose by 21%, led by strong growth in both the Decorative and Refinish business segments.

In the **Decorative segment**, exteriors continued to be the fastest growing range and the business continued to expand its portfolio in this category. Weathershield Tex, a textured exterior paint was launched during the year and has been well received by institutional customers. WeatherShield Max and Tilesield, which were launched in the previous year have gained share and established a significant presence in the market.

In interior emulsions, the company has strengthened its portfolio by introducing an economy emulsion to participate in this fast growing category. Several dark shades were introduced across the entire range of interior emulsions to support an emerging trend. The business has also piloted a



painting service in Gurgaon, which is planned to be extended to other select centres in the future. The "Previews" colour visualisation service was extended to interiors of homes.

The business launched Colour Futures 2006, a selection of colours predicted to be the preferred colours of the current year. This selection has been made with the assistance of a group of international colour experts and has been well received by architects and interior designers.

The outlook for 2006-07 appears positive. The government's thrust on infrastructure and continuance of the tax incentives on home loans will have a favourable impact on the paints industry. The exterior segment will continue to lead this growth and there will be demand for specialty premium products. The business, with its superior research and development capabilities is well poised to lead this growth. However increasing crude oil prices will impact input costs leading to pressure on margins. The recent hardening trend in interest rates in general and on home loans in particular, could impact the housing sector if continues for a longer time.

The **Refinish business** saw another year of good growth due to the excellent performance of the automobile industry. The 2K range of Polyurethane based automotive refinishes maintained its leadership position. The business introduced new products and focused on upgrading the dealerships of the motor manufacturers through training and technical support. In the conventional refinish segment, the business has leveraged its strong research and development base to introduce new products and colours.

The automobile sector is expected to grow rapidly due to reduction in excise duties on small cars and easy financing options, though hardening rates may have a dampening effect on demand.

Chemicals

Uniqema

The Uniqema business posted top line growth of 11% in 2005-06. Strong growth in Textile Auxiliaries was driven by good performance in the knitwear and corporate mills sector and export oriented companies. The Personal Care range achieved good growth with institutional customers, leading to an overall improvement in product mix. The Lubricant segment delivered yet another year of robust growth as a result of significantly higher off-take by leading customers. Innovation remained a key focus area to achieve growth and improve profitability.

The business has embarked on a project for expansion of capacity at its Thane plant, which is scheduled for commissioning during 2006-07. While the business is well positioned to pursue growth opportunities across all market segments, protecting profit margins will remain a challenge in view of the crude oil led rise in input costs and increasingly intense competition.

ICI PLC has in February 2006 announced its intention to evaluate the possibility of divesting its Uniqema Business world-wide. Considering its strong linkages with the International Business for its R & D and product development, the Uniqema India business has been included in the above evaluation. As and when a definitive proposal emerges, the same will be placed before the members for their approval.

National Starch & Chemical (NSC)

NSC business performed well with a growth of 18% in turnover over previous year. The key contributors to the growth were Adhesive, DNSC & Acheson products.

The operations of the Polymer plant commissioned in the previous year were stabilized during the year. The business crossed a milestone by winning the "2005 BeSSCo Leadership Award" of the ICI Group. The business will continue to focus on new business development and strengthen its infrastructure to support its growth plans.

Rubber Chemicals

In line with the strategic objectives of the Company, the Rubber Chemicals business was transferred to a joint venture in which the PMC Group of USA holds majority interest. On a pro rata basis, the business registered a sales growth of 15% upto the date of transfer.

The financial-effect of the divestment of the Rubber Chemicals business has been reflected as an Exceptional Item in the Profit & Loss Account.

RESPONSIBLE CARE - SECURITY, SAFETY, HEALTH, ENVIRONMENT AND CORPORATE SOCIAL RESPONSIBILITY

Your Company maintained its strong commitment to these areas across all its operations. Successful completion of the modifications to effluent treatment system helped in maintaining due compliance with pollution control norms at Thane post commissioning of NSC's new Polymer plant.

There were some incidents during the year involving trucks carrying the Company's products. While investigations and counseling and training of the transporters' staff are being conducted to prevent recurrence, actions are also on hand to further strengthen the safety standards in secondary distribution.

No occupational illness case was reported during the year.

CONSERVATION OF ENERGY, RESEARCH, DEVELOPMENT & INNOVATION

There has been a general improvement in energy consumption across businesses. Particulars in respect of Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo, pursuant to section 217(1)(e) of the Companies Act, 1956 are given in Annexure I to this report.



INFORMATION TECHNOLOGY

Your company continued its efforts to leverage IT for creating value and develop a platform for future growth. Most of the Paints business sites have been connected using the cost effective and efficient DIRECWAVE VSATs. Project Udaan, which involved implementing a web based Customer Relationship Management (CRM) solution for the Paints Institutional business went live during the year.

HR support software Peoplesoft HR was implemented, which will act as the strategic backbone for all HR activities in Paints India. In supply chain, the reverse auction process initiated last year for certain key purchases has been strengthened.

In Uniqema, a simplified Product Matrix was implemented to improve forecast accuracy and the sales and operations planning process.

In NSC business, the ERP system implemented in January 2005 has stabilized. Suitable modules to generate automated sales order acknowledgements and strengthen customer responses have been synchronized with the ERP.

HUMAN RESOURCES

Cordial relations with the employees prevailed at all the Company locations during the year. The total number of employees as at 31 March 2006 was 1066. A statement containing the particulars of employees as required under section 217(2A) of the Companies Act, 1956 is attached as Annexure II.

INTERNAL CONTROL SYSTEMS

Your company has an effective Risk Management framework which helps the Board to monitor the exposures and state of compliance in the key business processes. It has well-established procedures for internal control across its various locations, commensurate with its size and operations. The organization is appropriately staffed with qualified and experienced personnel for implementing and monitoring the internal control environment. The internal audit function is adequately resourced and reports to the Audit Committee of the Board.

CORPORATE GOVERNANCE

Your Company has been in due compliance with the norms of Corporate Governance as outlined in clause 49 of the Listing Agreements with the stock exchanges. Annexure III to this report summarizes the details of such compliance.

DIRECTORS

Mr A Narayan and Mr M V Subbiah, Directors, retire by rotation at the forthcoming Annual General Meeting and are eligible for reappointment.

AUDITORS

M/s BSR & Associates retire as the Auditors of the Company at the conclusion of the forthcoming Annual General Meeting and being eligible have offered themselves for reappointment.

DIRECTORS' RESPONSIBILITY STATEMENT

Your Directors confirm that:

- a) in the preparation of the Annual Accounts, the applicable accounting standards have been followed;
- b) they have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of
 - the state of affairs of the Company as on 31 March 2006; and
 - the profit for the year ended on that date;
- c) they have taken proper and sufficient care 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; and
- d) they have prepared the annual accounts on a going concern basis.

Cautionary Statement

Some of the statements in this report, particularly those which relate to Management Discussion and Analysis and Annexure I, describing the Company's objectives and expectations expressed in good faith, may constitute "forward looking statements" within the meaning of applicable laws and regulations. Actual results might differ materially from those, in the event of changes in the assumptions / market conditions.

SUBSIDIARY COMPANY

The statement of particulars relating to the Company's subsidiary Quest International India Limited. ("QIIL") pursuant to Sec 212 of the Companies Act, 1956, is attached (page 8).

The Company has obtained the Central Government's approval for not publishing the full accounts of its subsidiary QIIL, as part of its Annual Report. A summary of the Balance Sheet as on 31 March 2006 of QIIL and its performance for the year ended on that date is given in page 60.

In terms of the joint venture agreement, Hindustan Lever Limited have exercised their PUT option on their 49% shareholding in QIIL. The valuation of these shares and the modalities of completing the transfer of the said shares are under discussion.



CONSOLIDATED RESULTS

As required under the Listing Agreement, audited consolidated financial results are provided in the Annual Report, which include the performance of QIIL, in which your Company holds majority shareholding. QIIL, in the current year, recorded over 8% growth in sales, while Profit before tax was slightly behind previous year, on account of steep increase in input costs. A summary of the consolidated financial performance of the Company and its subsidiary is given below:

	(Rs Cr)	
	2005-06	2004-05
Total Income	1027	892
Profit before Tax from Operations	105	79
Profit before Tax	94	64
Profit after Tax	53	55
Total assets employed	608	598
Total shareholder Funds	542	521

The current year's figures of income and profit are not comparable with those of the previous year on account of business divestments.

ACKNOWLEDGMENT

The Directors wish to convey their gratitude and appreciation to all the employees of the Company for their valuable contributions during the year. They also wish to place on record their appreciation to the Company's customers, shareholders, investors, bankers, agents, suppliers, distributors and other business associates for their cooperation and support.

On behalf of the Board
Gurgaon
23 May 2006
A NARAYAN
Chairman

ANNEXURE I

DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO PURSUANT TO SECTION 217(1) (c) OF THE COMPANIES ACT, 1956

A. CONSERVATION OF ENERGY

1. Power & Fuel Consumption

		2005-06	2004-05
(a) Electricity			
(i) Purchased			
Unit	Mwh	16980	20002
Total amount	Rs Lacs	704	891
Rate	Rs / Kwh	4.14	4.44
(ii) Own Generation			
Units	Mwh	151	154
Units / KL of diesel oil	Kwh	7882	3650
Cost / unit	Rs / Kwh	8.68	7.05
(b) Coal			
Quantity	Tes	6759	9878
Total cost	Rs Lacs	203	242
Average rate	Rs / Te	3004	2448
(c) Fuel Oil			
Quantity	Kl	2650	2793
Total amount	Rs Lacs	528	439
Average rate	Rs / Kl	19915	15731

2. Consumption per unit of production

	Electricity (Kwh per Te/Kl)		Fuel Oil (Kl per Te/Kl)		Coal (Te per Te/Kl)	
	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05
Paints	108	115	0.01	0.01	-	-
Uniqema	144	152	0.04	0.04	-	-
National Starch	143	155	0.02	0.02	-	-
Rubber Chemicals	2392	2690	0.40	0.35	3.0	2.8
Catalysts	1526	1721	0.54	0.56	-	-

Variable Frequency Drive on ventilation system, cooling tower and new pumps are being installed in the capacity de-bottlenecking projects, which is under implementation, will further reduce power consumption.

**B. ABSORPTION OF TECHNOLOGY****1. Research & Development (R&D)****(a) Specific areas in which R&D is carried out by the Company**

During the year, R&D activities continued to concentrate on development of new products and applications, efficient use of resources and improved environment friendliness of the products.

Use of alternate cost effective raw materials to reduce over all costs and lead times for production is another key area of R&D focus.

(b) Benefits derived as a result of the above R&D

As a result of these initiatives, the businesses achieved sales growth ahead of the market. Major benefits derived from R & D initiatives are:

- Launch of new products and increase in overall sales;
- Increase in market reach and penetration; and
- Cost savings through substitution of raw materials.

(c) Future plan of action

R&D efforts of your Company will continue to focus on development of new products and applications, efficiency improvements and waste reduction, savings in energy consumption and introduction of environment friendly products.

(d) Expenditure on R&D

	(Rs lacs)	
	2005-06	2004-05
(i) Capital	9	11
(ii) Recurring	365	406
(iii) Total	374	417
(iv) Total R & D expenditure as a percentage of turnover	0.43%	0.55%

2. Technology Absorption, Adaptation and Innovation**(a) Efforts & Benefits**

- In Paints WeatherShield and TileShield ranges were expanded with several new offerings.

- In Uniqema more than 20 new products were developed and commercialized during the year for Textiles, Health & Personal Care, Crop Protection and Specialty Industrials market segments. New products accounted for 10% of the turnover.

(b) Particulars of technology imported in the last 5 years from the beginning of the financial year

Technology imported	Year of import	Has the technology been fully absorbed?	If not fully absorbed, reasons and future plan of action
Tinters Manufacture	2002	Yes	NA
Detergent for new trend fabrics like microfibres, Polyester Lycra etc.	2003	Yes	NA
Polymerization Technology	2005	No	Technology absorption is in progress

C. FOREIGN EXCHANGE EARNINGS AND OUTGO**(a) Total Foreign Exchange earned and used:**

	(Rs lacs)	
	2005-06	2004-05
Earned	22,77	31,11
Used	181,82	178,59

Forex earnings have come down with the divestment of Rubber Chemicals business.

(b) Future Plans

Use innovation and R&D strengths to reduce costs through import substitution/process improvements.

STATEMENT REGARDING SUBSIDIARY COMPANY PURSUANT TO SECTION 212(3) OF THE COMPANIES ACT, 1956

1. Name of the subsidiary company	Quest International India Limited
2. The financial year of the subsidiary ended on	31 March 2006
3. Holding company's interest	
Number of equity shares	14,40,001 of Rs 100 each
Percentage holding	50% and one share
4. The net aggregate amount of profits of the subsidiary company so far as it concerns the members of ICI India Limited	
a) Not dealt with in the accounts of ICI India Limited	
i) for the subsidiary's current financial year	Rs 387 lacs
ii) for the previous financial years since it became a subsidiary of ICI India Limited	Rs 1387 lacs
b) Dealt with in the accounts of ICI India Limited	
i) for the subsidiary's current financial year	Nil
ii) for the previous financial years since it became a subsidiary of ICI India Limited	Nil

A NARAYAN
Chairman

RAJIV JAIN
Managing Director

M R RAJARAM
Wholetime Director

R GUHA
Secretary

Gurgaon
23 May 2006