SEEING OPPORTUNITIES IN CHALLENGES

ASAHI SONGWON COLORS LIMITED

ANNUAL REPORT 2012-13

Disclaimer

The disclosures of forward-looking information contained in this annual report are made to enable investors to comprehend the prospects and make informed investment decisions. This report and other statements – written or oral – may contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. Maximum effort has been made to identify such statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes' and words of similar substance in connection with any discussion of future performance. However, the entire realisation of these forward-looking statements cannot be guaranteed, although the assumptions have been prudent enough to rely upon. The achievement of results is subject to risks, uncertainties and unforeseen events. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. The management does not undertake any obligation to publicly update any forward-looking statement, whether as a result of new information, future event or otherwise.

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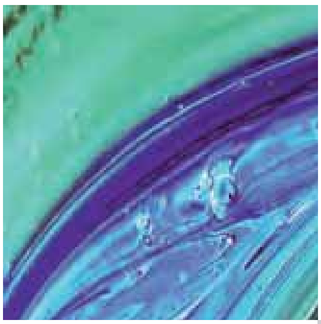
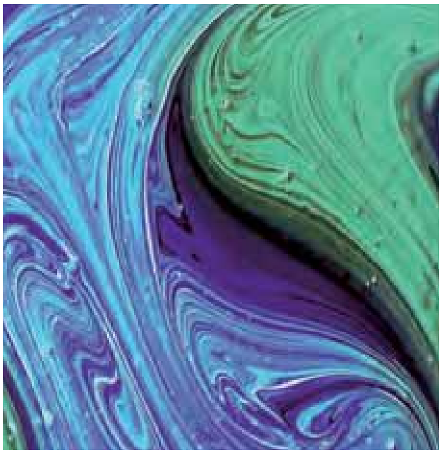


For all those shareholders who are likely to be disappointed by the Company's performance in 2012-13 – flat revenue growth and a 54% decline in profit after tax – we have a few assurances.

That the sector's fundamentals continue to remain strong, that the Company strengthened its business model during the year under review and that the performance decline is likely to be temporary.

So even as people may be apprehensive about probable challenges, we at Asahi Songwon would prefer to be driven by emerging opportunities instead.



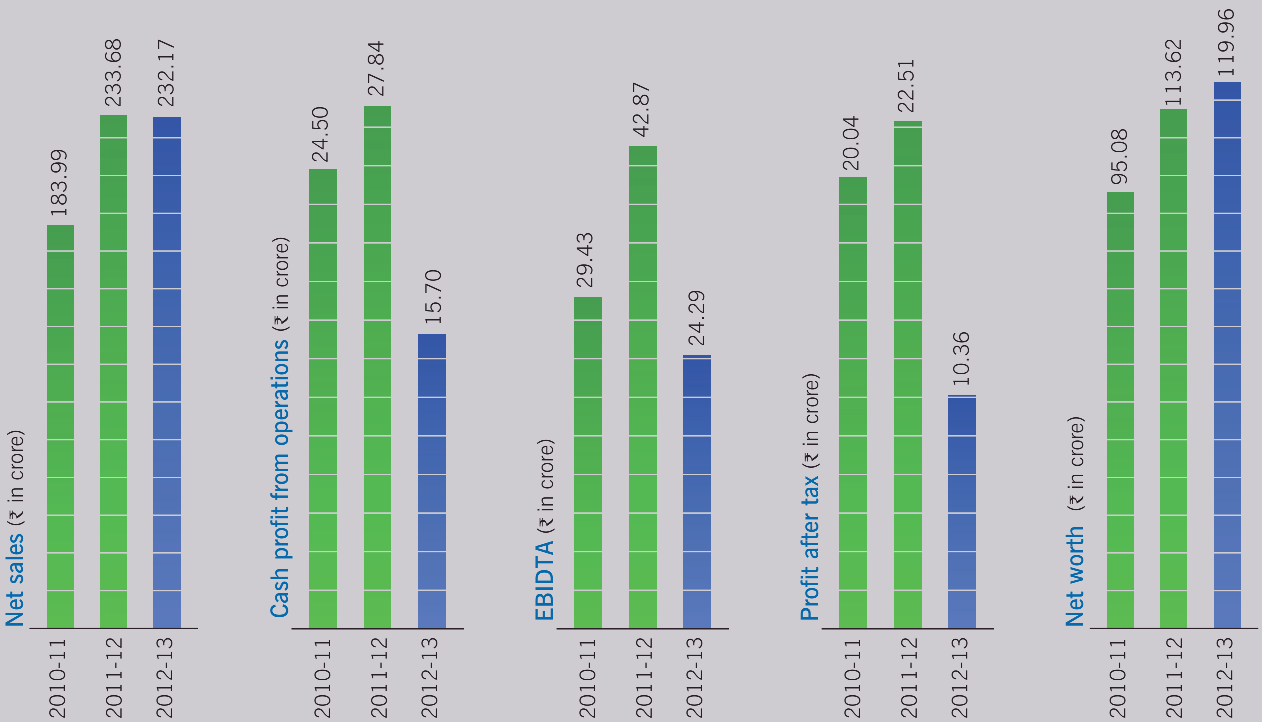
Whenever you see blue or green, think of us.

Because Asahi Songwon Colors is more than just India's leading pigment manufacturer.

It is also one of the most competitive the world over. Having made extensive investments in capacity, knowledge, operating efficiency and environment compliances.

Resulting in enduring and growing relationships with some of the largest downstream users across 20 countries.

Key highlights, 2012-13



Background

The Company was incorporated in 1990 by Mrs. Paru M. Jaykrishna and is managed by Gokul Jaykrishna and Munjal Jaykrishna.

Offerings

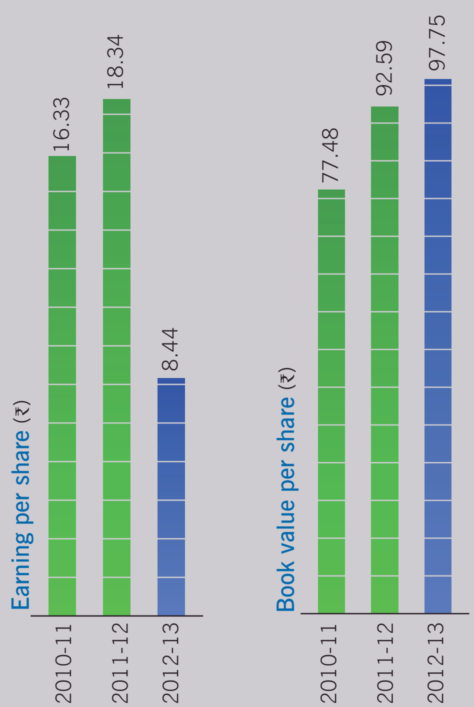
- The Company is engaged in the manufacture of Phthalocyanine pigments (Pigment Green 7, Beta Blue and CPC Blue Crude).
- The Company possessed a consolidated manufacturing capacity (12,840 TPA) as on 31st March, 2013.
- The Company has an installed capacity of 1,440 TPA of CPC Green and 11,400 TPA of CPC Blue pigments.

Clientele

The Company's clientele comprises global giants like DIC (Japan), Sun Chemicals (USA), Clariant Chemical India Ltd and BASF (Korea).

Awards and accolades

- The Company's plants are certified with ISO 9001:2008 and ISO 14001:2004, resulting in stringent health, safety and environmental compliances.
- Given an award for outstanding export performance for four years by GDMA.
- Given an award for 'Outstanding performance in the export of dye and dye intermediaries' by CHEMEXCIL for three years.
- Given an award for 'Excellent export performance' in the category of 'Export House' by FIEO in 2000-01.
- Given an award for 'Emerging SME across all sectors' in India by Dun and Bradstreet and Fullerton India in 2008; given an award for 'SMEs in the chemical and petrochemical sectors' by Dun and Bradstreet and Fullerton India in 2008.
- Conferred the 'International Trade award in the chemical category by DHL-CNBC TV 18 in 2009 and 2010-11.



₹72.28 crore
Market capitalisation as on 31st March 2013

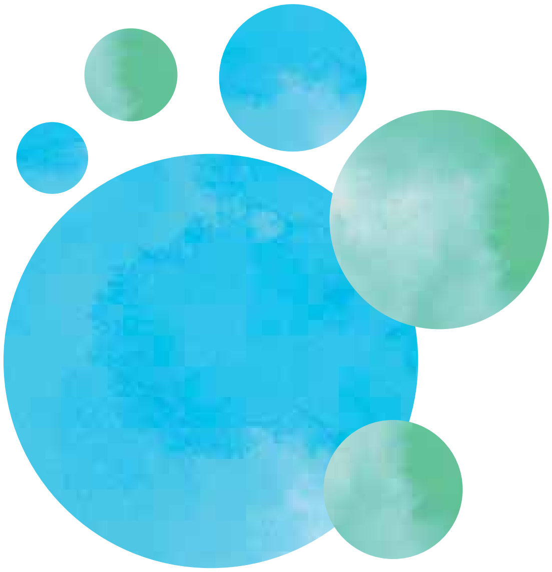
7%
Global market share as on 31st March 2013

10.46%
EBIDTA margin in 2012-13

4.46%
Net profit margin in 2012-13

4.93x
Interest cover in 2012-13

10%
ROCE in 2012-13



Not a decline, but an improvement

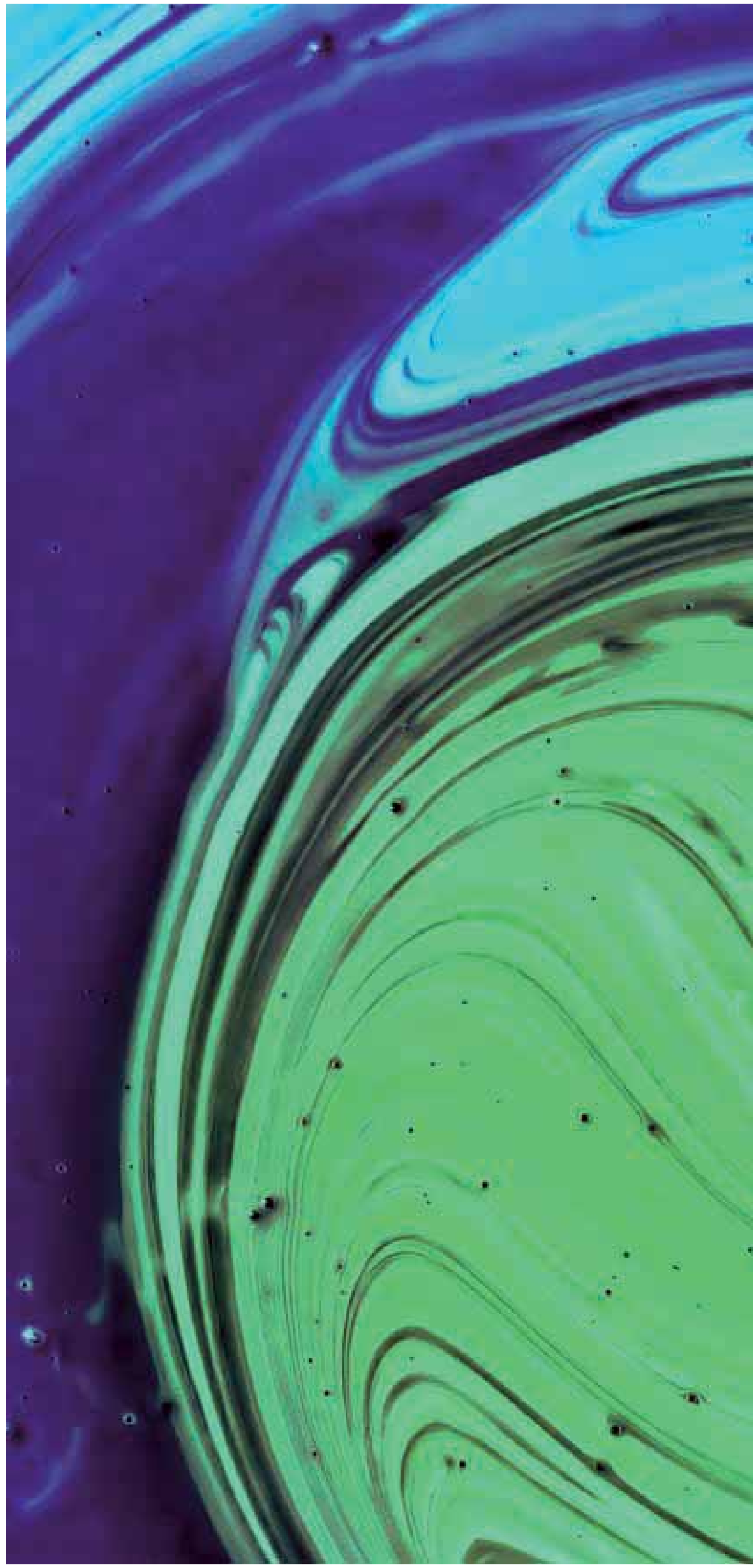
It would be simplistic to ascribe a 54% decline in Asahi Songwon's profit after tax in 2012-13 as a sign of weakening competitiveness.

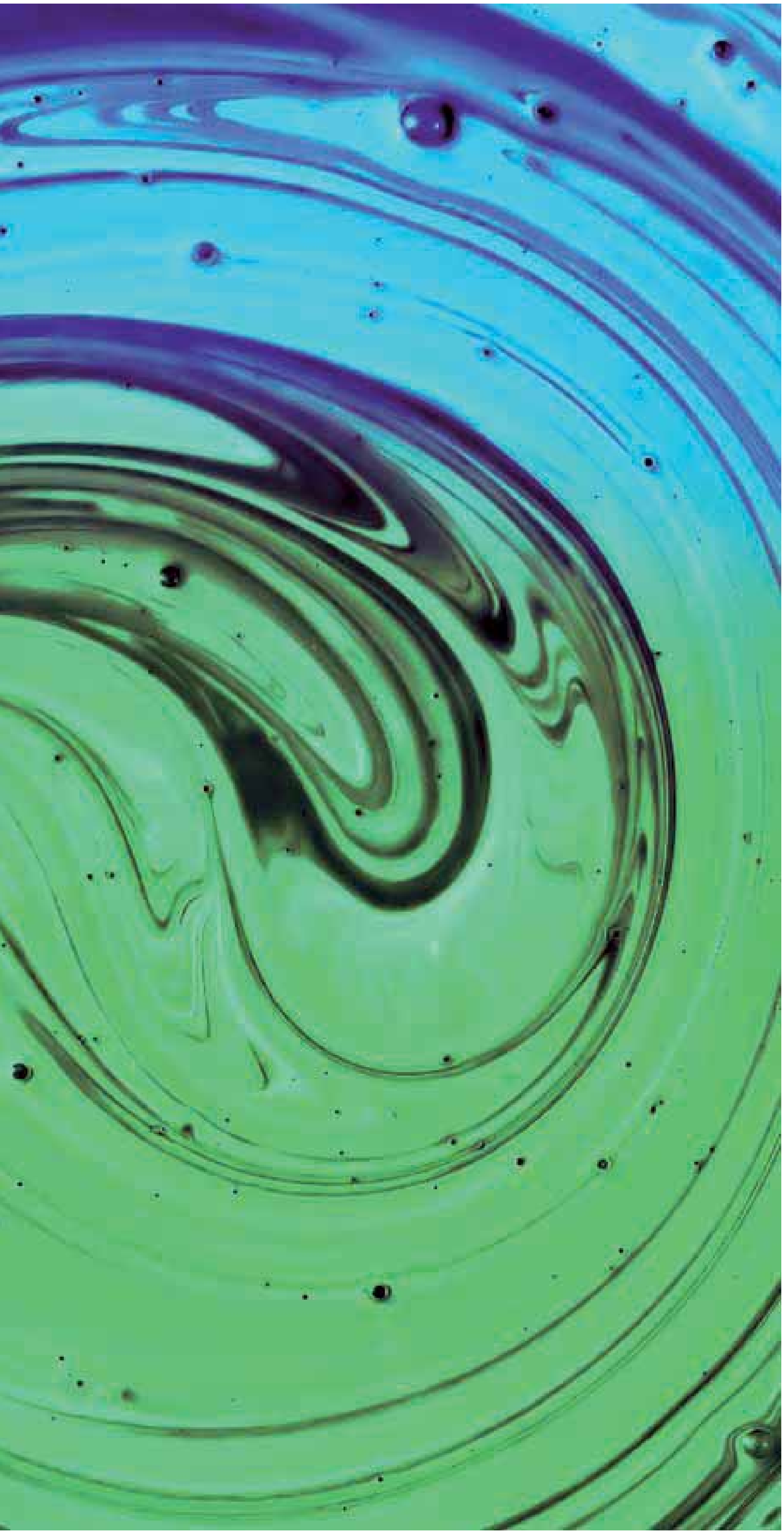
At the Company, we would see this as a temporary aberration in our otherwise-consistent growth journey.

There are some credible reasons behind our conviction that the core of the Company's competitive advantage continues to be robust.

- The Company did not lose a single customer in 2012-13; 98% of the Company's revenues were derived from customers engaged with the Company for three years or more.
- The Company's terms of trade continued to stay protected; the receivables cycle was 76 days of turnover equivalent in 2012-13 (84 days in 2011-12).
- Interest outflow declined 10% to ₹3.84 crore in 2012-13.

So while most analysts would probably look at the Company's Profit and Loss account and pronounce a weakness in the Company's competitive position, the contrarian could look at some not-so-evident numbers and conclude that the core fundamentals improved in a challenging year.





Not an expense, but an opportunity

In the three years leading to 2012-13, Asahi Songwon invested a sizeable ₹13.93 crore in effluent and emission management infrastructure.

This investment comprised 23% of the Company's total gross block as on 31st March 2013.

The sizeable quantum was invested to send out a message to the Company's customers – large, global and respected – that Asahi Songwon possessed a long-term business commitment. The Company made this confidence-enhancing initiative with the objective that the Company's credentials would translate into large repeat orders of value-added products even as the market progressively displaced producers without similar fundamentals.

So while companies in most sectors would have seen this sizeable investment in supposedly non-productive assets as an expense, at Asahi Songwon we see this as an investment and an opportunity.

Our big

62.25%
2012-13

58.40%
2011-12

Raw material cost as a percentage of sales

60.79%
2010-11

8,423 TPA
2012-13

Production

8,670 TPA
2011-12

8,715 TPA
2010-11

The Gujarat advantage

Over the years, Gujarat has emerged as a preferred industrial destination due to sound infrastructure, abundant manpower, efficient connectivity and adequate raw materials.

Gujarat achieved an annual growth rate of ~ 10% p.a. in the past five years, contributing ~ 17% to the country's industrial production.

numbers

Capital expenditure

₹29.70 crore
2012-13

₹20.00 crore
2011-12

₹18.57 crore
2010-11

Industry revenue growth* vs. Asahi revenue growth

3.9% vs. (0.65%)
2012-13

4.2% vs. 27.01%
2011-12

4.5% vs. 45%
2010-11

(*Source: internal)

The state's chemical-petrochemical industry is among the fastest growing in the state's economy. Gujarat has emerged as the 'petro capital' of India, accounting for 62% of the country's petrochemicals production, 51% of the chemical production and 35% of the pharmaceutical production.

Asahi Songwon is in the right state and the right sector at the right time.

"The decline in our performance was the cost that the Company was required to pay to stay in business in an increasingly environment-sensitive world."

Mrs. Paru Jaykrishna, Chairperson and Managing Director, holds out the optimism that the downtrend in the Company's 2012-13 performance is expected to be fleeting

Mrs. Paru Jaykrishna, *Chairperson and Managing Director* (centre), with Mr. Gokul Jaykrishna, *Joint Managing Director* (left), and Mr. Munjal Jaykrishna, *Joint Managing Director* (right)

Q: How would you appraise the performance of the Company during the year under review?

A: The Company reported a significant 54% decline in its profit after tax during the year under review. In some ways, this was not entirely expected for reasons that one will explain. As we see it at our Company, the decline in our performance was the cost that the Company was required to pay to stay in business in an increasingly environment-sensitive world and now that this cost has indeed been paid, the Company is expected to do much better over the foreseeable future.

Q: What were the specific reasons for the decline in the Company's performance in 2012-13?

A: Over the 12 months leading towards the close of 2012-13, the Company invested ₹29.70 crore in capital expenditure, of which a sizeable ₹13.93 crore was deployed in environment treatment assets and infrastructure. The usual capex in capacity over the years had been productive, enabling the Company to generate an increase in throughput that translated into enhanced revenues and profits. However, the sizeable investment in environment-protecting assets did not generate any increase in revenues (though this is expected to generate repeat and growing business over the foreseeable future), which reduced the Company's cushion against probable cost increases or price declines. The result is that when raw material costs increased in 2012-13, the Company could not amortise its fixed costs across a larger production spread and the result was a relatively more severe impact on the bottomline.

Q: Shareholders are likely to ask whether this sizeable investment was at all necessary?

A: The latter investment was necessary from a number of perspectives: pollution control norms are tightening faster than ever with Gujarat, the state that accounts for nearly 65% of all of India's chemical businesses (where the Company's operations are located) leading the way. The Gujarat Pollution Control Board is a taskmaster regarding this point and the result is that over the last year, a number of operating industries have actually been shut down for reasons of environmental non-compliance.

Even as the Company had always been