

management discussion & analysis

From all indications, the Indian Economy did fairly well during 2004-05. While agriculture declined marginally by 2%, industry and services grew at an estimated 7.1% and 8.9% respectively. Accordingly, India is expected to have had a 6.9% real GDP growth in 2004-05. This is well below the 8.0% recorded in the previous year, largely due to the poor performance of the agricultural sector. Even so, India was among the fastest growing large economies in the world. Impressive as the growth may be, in comparison to many other countries, the economy continues to perform below its potential due to the halting pace of reforms and slow progress on infrastructure development. A good example is the introduction of Value Added Tax (VAT); talked about for many years, it was finally introduced in only some states and that too, with inadequate preparation. However, even if the economy performs below potential, sustained growth will lead to greater business confidence.

2004-05 was different from the recent past, in that inflation and shortage of materials were significant. Crude oil was the main cause. Prices of crude oil were extremely volatile during the year. Fuelled by the price of crude and its derivatives, prices of many raw materials and packing materials used by your Company witnessed an unanticipated and large surge. Given these circumstances, Asian Paints had a fairly good year. Net sales and operating income of the Company have grown satisfactorily. We were able to maintain excellent control on costs and have succeeded in growing post-tax profit of the standalone entity by 17.4%.

We give below a snapshot of the salient features of the Company's performance during 2004-05 as a stand alone entity as well as the consolidated group.

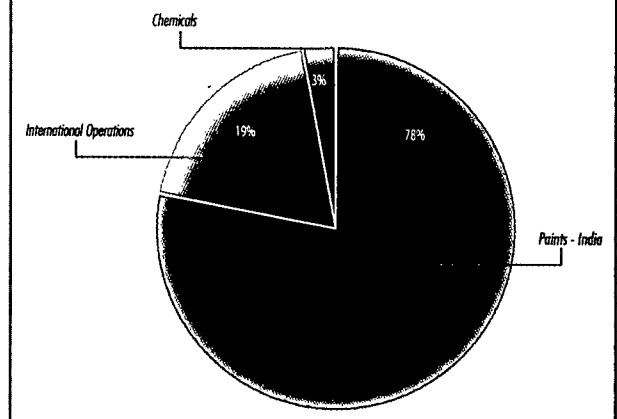
ASIAN PAINTS (INDIA) LIMITED: STAND ALONE

- Net Sales and Operating Income have increased by 14.4% from Rs. 16,966 million in 2003-04 to Rs. 19,415 million in 2004-05.
- Revenue (net of discounts and excise) from the paint segment has grown by 14.2% from Rs. 16,435 million in 2003-04 to Rs. 18,765 million in 2004-05.
- Profit Before Tax and Extraordinary item has increased by 15.6% from Rs. 2,379 million in 2003-04 to Rs. 2,750 million in 2004-05.
- Profit After Tax (PAT) has increased by 17.4% from Rs. 1,478 million in 2003-04 to Rs. 1,735 million in 2004-05.
- Return on Capital Employed was 37.7% in 2003-04 and has increased to 41.5% in 2004-05.
- Return on Net Worth was 29.3% in 2003-04 and has increased to 31.4% in 2004-05.
- Basic and diluted Earnings Per Share (EPS) have increased from Rs. 16.12 in 2003-04 to Rs. 18.53 in 2004-05.

ASIAN PAINTS (INDIA) LIMITED GROUP : CONSOLIDATED (AP GROUP)

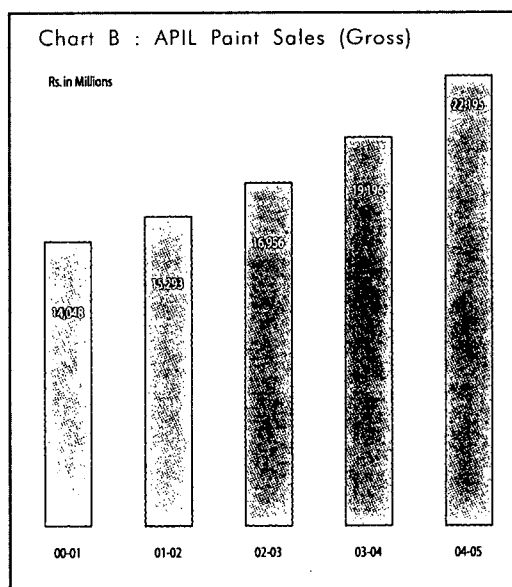
- Net Sales and Operating Income for the group has increased by 15.4% from Rs. 22,179 million in 2003-04 to Rs. 25,605 million in 2004-05.
- Profit Before Tax and amortization of goodwill for the group has increased by 18.5% from Rs. 2,494 million in 2003-04 to Rs. 2,955 million in 2004-05.
- Profit attributable to shareholders (after tax and minority interest) has increased by 20.2% from Rs. 1,449 million in 2003-04 to Rs. 1,741 million in 2004-05.
- Return on Capital Employed was 31.4% in 2003-04 and has increased to 34.6% in 2004-05.
- Return on Net Worth was 28.8% in 2003-04 and has increased to 31.7% in 2004-05.
- Basic and diluted Earnings Per Share (EPS) have increased from Rs. 15.11 in 2003-04 to Rs. 18.15 in 2004-05.

Chart A : Share of Group Sales



PAINTS

The Company's paints business in India consists of Decorative and Industrial Coatings. In 2004-05, these accounted for 78% of the group sales. We estimate that the local market for all paints including cement paints and other powder products manufactured by all companies big and small would have been around Rs. 82 billion in 2004-05. Chart B shows APIL paint sales over the last five years. Growth of the decorative paints segment has been lower than the growth of the Industrial segment. The growth in Industrial products is led by the growth in the Automotive Original Equipment sector and in powder coatings.



DECORATIVE PAINTS

Decorative paints accounts for over 75% of the overall paint market in India. In this segment, your Company has been a leader for almost four decades. Decorative paints include Interior and Exterior Wall finishes, Enamels, Wood Finishes and ancillary products such as Primers, Putty etc. Decorative paint sale in India accounts for about 70% of the entire group's sales in 2004-05. Early estimates place the overall Decorative paints market growth including the small and medium scale segment in India at about 11-12% in volume and marginally higher in value. Market conditions were, on the whole, good. There was robust demand in most parts of the country, especially during the season period around the festival 'Diwali'. The off-take during the fourth quarter was affected due to the announcement of the introduction of VAT from 1st April, 2005. As the rules were unclear regarding credit for tax on goods purchased prior to 1st April and there was to be a drop in effective tax in many parts of the country, dealers reduced their off-take resulting in higher inventory as on 31st March, 2005. The reduction in tax rate was as high as 5.9% in Karnataka, 4.75% in Kerala and 3.3% in Maharashtra. The slowdown in the last quarter would have impacted all trade oriented sellers. However, the introduction of VAT is expected to be beneficial in the long run for the economy and your Company expects that once all states implement the new system, which is clear and uniform and the trade gets used to VAT, the benefits will flow in.

After a sluggish start to the year, we had an excellent season period from August to November. This also coincided with the period of shortages which was exacerbated by the transporters' strike at the end of August. Your Company was able to cope with the situation, thanks to its very capable and flexible Supply Chain. As stated in the Annual Report for 2003-04, we had resolved to be aggressive so as not to concede space to competition and to ensure that we got good growth in the large and important segments of Distemper and Enamels. Thus, the price increases that became necessary due to inflation were postponed to post Diwali and effected from the 1st of December, 2004. Due to these factors, growth during 2004-05 was volatile quarter on quarter.

Your Company is the leader in Interior wall finishes and has an entire range of products for this segment. During 2004-05, we extended Utsav Acrylic Distemper throughout the country as the economy Distemper, aggressively pushed Tractor Emulsion to upgrade the market, introduced extremely attractive dark shades in the high priced emulsion product range and stepped up marketing activities. As a result, we had a robust growth in the Distemper segment after a gap of some years and excellent growth in the emulsion category as a whole.

While we will continue to face competition from lower priced products from large companies and from a large number of regional players in the Distemper category which we dominate, we believe that the strategy shift undertaken is in the right direction.

The fastest growing segment in Decorative products is undoubtedly Exterior Wall Finishes. Your Company has been the principal driver of the growth in this segment ever since it launched its two winning products, Apex and Ace. Apart from products of very good quality, aggressive marketing activity to improve consumer awareness for usage of quality emulsion paints on the exterior surfaces has yielded excellent results. Your Company has continued to expand its portfolio of Exterior products. Apex Ultima, a premium product was launched with a novel warranty scheme in Kerala. This product along with warranty is being extended to the rest of the country. Ace Supreme, a high-end version of Ace, has been introduced very recently in select markets. Exterior Wall finishes performed exceedingly well during the year. With a full range of these products, we were able to improve upon our already strong position in the market.

The enamel segment is by far the largest segment, which has been growing slower than Decorative paints as a whole for some years now. This is because it is being replaced by other materials on hoardings, signboards and the like. Aggressive marketing and pricing policies coupled with extension of Utsav Enamel, an economy product, enabled us to grow well in the category.

Your Company's Colour World initiative has enabled us to bring to the consumer a very large range of shades in several products. Penetration has increased significantly with the addition of 1200 Colour Worlds during 2004-05. We today have close to 5500 Colour Worlds across the country and Colour World dealers account for over two-thirds of the Company's total Decorative sales. The company has successfully secured economies of scale not only in the cost of equipment but also in maintenance charges so that dealers find it more and more attractive to install Colour World in their shops. The availability of a range of products from distempers to high price emulsions in a very large number of shades, including new uniquely formulated dark shades, at 5500 installations across the country has given us great strength.

Asian Paints Home Solutions is a unique and complete paint solution for customers. It has been extended to Ahmedabad and Pune during the course of 2004-05. The effort here is to provide service to individual household consumers and the company takes particular care to provide high quality of service. Service is measured objectively by a professional agency and we track customer satisfaction every month. We believe that this service adds to the strength of the Asian Paints brand.

Due to the sharp rise in the price of crude and its derivatives, prices of many raw materials and packing materials witnessed an upward swing. Apart from petroleum derivatives, the prices of titanium dioxide also went up due to the gap between the supply and demand widening due to robust growth in many world markets. Inflation was accompanied by shortages in several materials. This was particularly acute during the September – November period, which also impacted service levels to a small extent.

The Company's management believes that robust growth is of prime importance and while we possess strength in most segments of the market, our strategies need to be continuously fine-tuned so that we remain agile and focused.

SUPPLY CHAIN

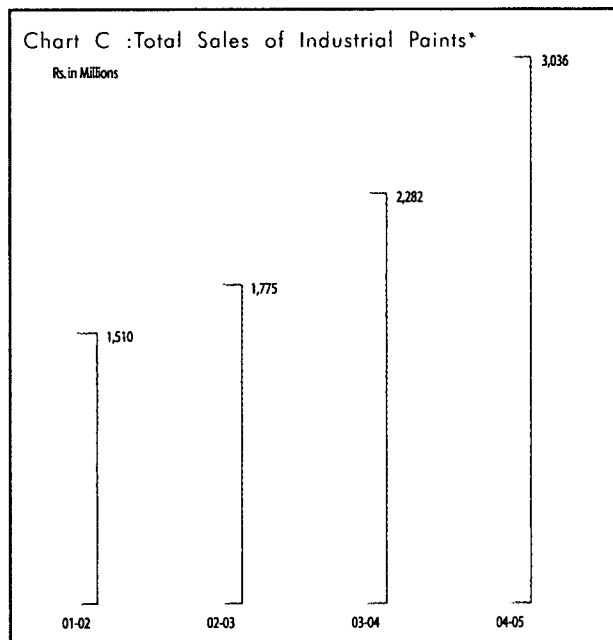
Your Company has been justifiably proud of its supply chain which uses contemporary technologies to integrate its plants, contract manufacturers, regional distribution centres and branches. This supply chain was severely tested during the year that went by when there was a transport strike and shortage of materials just as the season was getting underway. The integrated supply chain responded effectively and with supply chain management tools providing the ability to make rapid changes, service levels could be maintained.

As reported last year, your Company undertook setting up of a new plant at Sriperumbudur, near Chennai. Construction began in March 2004 and was completed in record time with production commencing in January 2005. This first phase has a capacity of 30,000 KL per annum. This will be expanded in phases to 100,000 KL per annum. The facilities at the Sriperumbudur Plant are contemporary by world standards and will enable extremely rapid ramp up of capacity. The "right first time" capability that was aimed for in the plant has been fully secured. This plant will manufacture only emulsion paints and is expected to help us continue to grow rapidly in this segment.

Our supply chain has focused on several areas. By sweating existing assets, we have succeeded in postponing capital expenditure for several years. During the year, we have received permission to raise production at Kasna to 80,000 KL per annum. Thus, with only modest capital expenditure we now have inhouse production capacity of 270,000 KL per annum plus the new capacity at Sriperumbudur.

INDUSTRIAL COATINGS

Industrial Coatings are classified into automotive and non-automotive industrial paints. This market is catered to by three entities: the parent Company Asian Paints (India) Limited (APIL), its subsidiary company Asian Paints Industrial Coatings Limited (APICL) and the joint venture Asian PPG Industries Ltd. Together, these contribute to around 8% of the group's sales in 2004-05. While Asian PPG Industries Ltd., caters to the automotive coating segments, the wholly owned subsidiary APICL services the powder coatings segment. APIL services the remaining non-auto industrial coating segments viz., protective coatings, road markings, floor coatings and general industrial liquid paints.



*includes 100% sales of Asian PPG Industries Ltd.

With the automobile industry continuing on its growth trajectory, white good manufacturers registering good growth and the focus on enhancing the road network in the country, the Company's overall performance in industrial coatings has been commendable. The group's total sales of industrial coatings in India grew by 35%. Given below is the detailed performance of industrial coatings for 2004-05.

INDUSTRIAL COATINGS – APIL

The industrial coatings market where APIL operates is estimated to have grown by around 15% during the year. APIL industrial coatings has registered a value growth of 48%, due to strong growth in the protective coatings and road marking segments, which have grown by 50% and 60%, respectively. While we are the second largest player in protective coatings in the country, we have also emerged as the second largest player in road marking paint in just a few years of entering this segment.

Another segment in which we plan to grow aggressively during the next year is the floor coatings segment. We have, during the year, through in-house R&D, been successful in commercialising a number of products which constitute the bulk of the range presently in use for the Indian floor coating market.

Given the extremely good sales growth witnessed by the Company in the last few years and continued buoyancy expected in the industrial coatings segment, your Company has decided to invest in a greenfield manufacturing facility at Taloja, Maharashtra dedicated exclusively for Industrial Coatings. The plant will be set up in two phases to have a final capacity of 30,000 KL per annum.

ASIAN PAINTS INDUSTRIAL COATINGS LIMITED (APICL)
APICL, the Company's wholly owned subsidiary which services the requirements of powder coating customers in the country registered an impressive net sales growth of 23%.

APICL has a technology collaboration with Canada based Protech Chemicals Ltd., one of the top ten powder coating companies in the world. The process of technology absorption is well underway and several products based on Protech technology have been developed at APICL. Trials for commercialisation of these products have commenced. Simultaneously, in-house R&D efforts at APICL have continued and efforts to enter into specific large OE accounts have borne fruit. The combination of inputs from Protech and in-house R&D efforts will enable APICL to provide customers with state of the art technology products for existing and new applications.

With the demand for Powder Coatings expected to grow at a healthy pace, the Company has decided to build a second manufacturing facility for Powder Coatings at Baddi in Himachal Pradesh. The new facility will have a capacity of 6500 MT and will be set up in two phases. The first phase is expected to be commissioned in the last quarter of financial year 2005-06.

ASIAN PPG INDUSTRIES LIMITED

Asian PPG Industries Limited, the 50:50 joint venture between Asian Paints and PPG Industries, saw yet another year of vigorous growth. The venture benefitted from the excellent performance of the automobile industry during the year. Besides the impact of increased volumes resulting from the growth of the automobile industry, Asian PPG Industries Ltd., was also able to increase its share of the market by offering new and improved products and by providing enhanced value to its customers. Net sales of Asian PPG Industries Ltd., increased by 30% from Rs. 1,570 million in 2003-04 to Rs. 2,038 million in 2004-05.

A part of the increase in turnover has come from the improved performance of Asian PPG's refinish business. Aspa, the alkyd refinish product and Bilux, its second tier PU refinish system have performed very well. The Company was able to improve market share in both the auto OE and the auto refinish segments.

The year saw a sharp rise in prices of raw materials resulting from the twin impact of rising crude prices and increase in world-wide demand. Simultaneously, continuing efforts by customers to cut costs limited the scope for improved price realisation. This posed a serious challenge to the ability of coating suppliers to sustain margins and manage earnings growth. Asian PPG has performed creditably in this area through aggressive cost management, introducing technically advanced products and by improving the product mix.

OTHERS

APIL also has chemicals businesses consisting of phthalic anhydride and pentaerythritol. These two chemicals manufactured at Ankleshwar in Gujarat and Cuddalore in Tamil Nadu respectively were set up as backward integration initiatives in the 90s and are not seen as growth drivers for the Company. Today, approximately half of APIL's chemical production is consumed in-house while the remaining is sold in the open market.

The chemicals business fared well during the year registering growth of 18% in external sales from Rs. 637 million in 2003-04 to Rs. 753 million in 2004-05. The profitability of the chemicals business also improved significantly by 145%, mainly driven by higher price realisation in the phthalic anhydride business.

The entire chemical business is not seen as core to the company's growth and its percentage contribution to the overall sales of the group is on the decline. We will continue to manage this business for value.

INTERNATIONAL BUSINESS UNIT

During the year under review, the focus of the International Business Unit has been on increasing the top line and strengthening its presence in various markets through initiatives such as installation of dealer tinting systems, launch of new products, market research to enable fine tuning of marketing strategies, advertising and promotional activities and improved service levels.

An initiative to implement Microsoft Navision, an Enterprise Resource Planning (ERP) software has been undertaken across all its overseas subsidiaries. In November 2004, the software was implemented at the subsidiary in Bahrain and subsequently in four other subsidiaries. The solution is expected to provide consistent, timely and accurate information that would facilitate better and faster decision making as well as improve controls. The implementation of the software at the other overseas subsidiaries will be completed in the next financial year.

During the year, the company divested its 84.2% stake in its subsidiary, Berger Paints (Malta) Limited. The Company decided to exit operations from the country as there was no strategic fit. Subsequent to this divestment, a licensing arrangement has been entered into with the Company. Berger International Limited, in which your company has a controlling stake, has entered into technical support arrangements with Dutch Boy Philippines Inc, an associate company and Berger Paints (Pakistan) Limited. The latter is not a subsidiary. These agreements are fee based. Your Company has also divested its 89.6% stake in its Mauritius based subsidiary, Asian Paints (Mauritius) Limited to local shareholders. The company decided to exit Mauritius as the paint market has not been growing for the past few years and the subsidiary has been making losses for several years.

FINANCIAL PERFORMANCE - INTERNATIONAL BUSINESS

During the year under review, the volume of paint sold has increased by 16.5% to 65.3 million liters and the revenue from paint sales has increased by 12.3% to Rs. 4,648 million. Adjusted for the exchange rate impact, the value growth would have been 15.6%. The revenue of Berger International Limited has increased by 10.9% from Rs. 2,926 million in 2003-04 to Rs. 3,244 million in 2004-05. SCIB Chemical S.A.E., Egypt has reported a profit for the first time after its acquisition in 2002. SCIB Chemical's revenue has grown by 51% percent from Rs. 320 million in 2003-04 to Rs. 484 million in 2004-05.

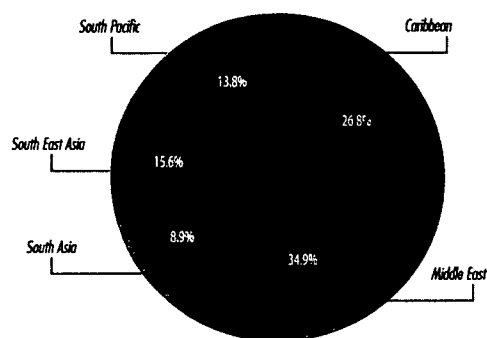
Material prices have risen sharply but the impact of higher material prices has been partly neutralised by improved efficiencies in both product mix and control of overheads. The strategy has been to gain market share and minimise upward revision in selling prices. Group policies in respect of general provisioning for stock and debtors have been implemented in stages over the last two financial years. Interest

cost is lower due to a combination of finer rates and swapping of high cost borrowings with cheaper alternatives.

With the exit of operations in Mauritius and Malta, the group now operates in five regions across the world i.e., South Pacific, South East Asia, South Asia, Middle East and the Caribbean.

Chart D shows the percentage sales contribution of each region to overall international operations for 2004-05.

Chart D: Regionwise share of International Business sales



CARIBBEAN REGION

The business unit has operations in Jamaica, Trinidad & Tobago and Barbados. During the year, the volume of paint sold in the region has increased by 5.7% to 8.5 million liters. The revenue from paint sales has increased by 1.3% to Rs. 1,342 million. The highlight of the year was the improved sales performance by Barbados and Trinidad & Tobago. Higher material cost and additional provisioning made by the subsidiary in Jamaica towards stock obsolescence has impacted profits of the region. During the year, dealer tinting systems were launched in all the three subsidiaries.

MIDDLE EAST REGION

The business unit has operations in Egypt, Bahrain, United Arab Emirates (UAE) and Oman. The volume of paint sold in the region has increased by 22.9% to 35.5 million liters. The revenue has increased by 24.9% to Rs. 1,565 million. The subsidiaries in Egypt, Bahrain and Oman have recorded impressive revenue and profit growth which helped the region

perform well. The subsidiary in Egypt has improved its presence in the retail segment by launching new products and has made profits for the first time since it was taken over in 2002. The subsidiary in Bahrain has taken steps to increase its presence in the Saudi Arabian market and augment its manufacturing capacity to meet increasing demand. The subsidiary in Oman has reported profits for the first time since its inception. The subsidiary in UAE has recorded good revenue growth due to increased sales to the domestic decorative projects segment and exports to the Commonwealth of Independent States (CIS) markets.

SOUTH ASIA REGION

The business unit, after the disposal of the subsidiary in Mauritius in March 2005, has operations in Nepal, Bangladesh and Sri Lanka. The volume of paint sold in the region (excluding India) increased by 24.8% to 5.7 million liters. The revenue from paint sales has increased by 24.8% to Rs. 400 million. The subsidiary in Nepal performed well registering impressive sales growth but profits were lower due to provisioning for stock and debtors. Losses for the year were lower in both Sri Lanka and Bangladesh. The subsidiary in Sri Lanka reported a loss due to higher interest cost and provisioning for doubtful debts.

SOUTH EAST ASIA REGION

The business unit operates in China, Malaysia, Myanmar, Singapore and Thailand. The business unit also has a sales office in Hong Kong. The volume of paint sold in the region increased by 10.9% to 10.8 million liters. The revenue from paint sales has increased by 8.6% to Rs. 699 million. The subsidiaries in Thailand and Singapore recorded satisfactory profit performance. The unit in Thailand recorded excellent sales growth. Malaysia and Myanmar units are a cause for concern.

SOUTH PACIFIC REGION

The business unit operates in Fiji, Tonga, Solomon Island, Vanuatu, Samoa and Australia. The volume of paint sold in the region decreased by 3.9% to 4.4 million liters. The revenue from paint sales has increased by 6.8% to Rs. 618 million. Barring Australia, all the subsidiaries in the region recorded improved sales and profit performance. Taubmans Paints (Fiji) Limited and Samoa Paints Limited, in their first full year of performance post acquisition by Asian Paints (India) Ltd., recorded improved performance.

OUTLOOK FOR INTERNATIONAL BUSINESS

While the business unit has performed well in terms of revenue growth, the sharp increase in raw material prices has impacted margins and profitability in the current year. Raw material prices are expected to be buoyant in the next year and efforts will continue to reduce the impact of increasing raw material prices through cost optimisation in all areas. The outlook for international operations for the next financial year, barring unforeseen developments, is positive.

SAFETY, HEALTH AND ENVIRONMENT

A. SAFETY AT APIL PAINT PLANTS

Your Company continues to invest in the area of safety. Due to this continued focus, Kasna plant which received the Five-Star rating by the British Safety Council last year was also awarded the "Sword of Honor" in this year. All the four paint plants in India have now been awarded with the "Sword of Honor" in their first attempt. The reduction in the time wasted due to accidents is given in the tables here in below :

Frequency Rate

Number of reportable lost time injury per million man-hours worked

Year	Co. level
2000	3.1
2001	4.4
2002	1.8
2003	1.4
2004	1.5

Severity Rate

Man-days lost due to reportable lost time injury per million man-hours worked

Year	Co. level
2000	93.6
2001	91.6
2002	57.0
2003	45.4
2004	46.7

The new paint plant at Sriperumbudur is equipped with state of the art safety and environment infrastructure. The plant is designed for 'zero-discharge' of industrial effluent. The plant has a state of the art effluent treatment system, a reverse osmosis plant and a multiple effect evaporator that allows the plant to recycle more than 99% of the effluent back into the process. Based on the British Safety Council guidelines, several safety features have been incorporated in the design of the plant.

B. ENVIRONMENT INITIATIVES

Asian Paints has always taken a proactive stance on environmental management and the Company views conservation of resources as a driver of efficiency and productivity. The Company's four paint plants and the two chemical plants have the ISO 14001 certification for environment management standards. The Company follows a two-pronged approach:

- "Waste Minimisation" through waste reduction at source and recycle of waste.
- Resource Conservation.

The organization has been able to reduce waste generation by implementing pneumatic conveying systems for powder raw materials, employing superior cleaning systems and carrying out mass balance audits for waste minimization. With the help of rain water harvesting schemes implemented across all the plants and their colonies and the implementation of drip irrigation systems and ground water recharging schemes, the company has been able to reduce water consumption significantly. Energy audits have been done at all the plants to save energy. Implementation of waste recycle schemes have enabled all paint plants achieve 'zero industrial discharge' capability. All manufacturing streams now have closed loop recycle schemes in place to minimize waste generation.

HUMAN RESOURCES

To meet the challenges of a constantly evolving environment, we have restructured our training programmes.

Training activity is divided in three areas : the ones that support the initiatives of the business units, those that help develop leaders from within and others that help employees upgrade their skills or acquire new skills. Training man-days have increased to over five per executive. A large part of the training is aligned to support initiatives of the business units.

The International Business Unit [IBU] represents a group of individual units, some of which were set up as greenfield units by Asian Paints while some others were recently added through the acquisition process. The success of the group, where each unit has its own operating systems, processes and cultural identity, depends on introduction of

common systems, particularly the Performance Management system and a common value system. The Performance Management system was upgraded during the year and a variable pay plan introduced to bring in greater performance orientation. Defining organisational values ['Guiding Principles'] and reaching out to all key managers through several value workshops has been completed during the year which will strengthen the integration process.

CORPORATE SOCIAL RESPONSIBILITY

Asian Paints approaches Corporate Social Responsibility (CSR) from the perspective of being a responsible corporate citizen. There has been a continued effort to take up initiatives in various quarters and ensure sufficient resources for the sustenance and continuity of the same. The Company has identified projects across all its manufacturing locations in the country primarily in the areas of education, health care, and rain water harvesting.

In the area of education, the Company has been involved in supporting various schools around its plants including the setting up of the 'Gattu' school at Ankleshwar which provides education to around 2,500 students from various strata of society. In the area of health care, the Company continued operating mobile medicare units (MMU) around Patancheru (Andhra Pradesh) and Kasna (UP) plants collaborating with HelpAge India, an NGO. The Company also took the initiative of treating people with cataract and successfully got around 460 patients operated at recognised eye-hospitals.

Another part of the company's CSR initiative is the harvesting of rain water. In Mumbai, which faces a severe water shortage problem, our Bhandup plant pursued the objective of increasing awareness about rain water harvesting. Before taking the concept to the masses, we first implemented the rain water harvesting scheme in all our plants and their residential colonies. The Company organised seminars free of cost to bring about awareness and influence other organisations to adopt this concept. The Company has designed a rain water harvesting scheme for its corporate office in Mumbai, which will be a unique example of a commercial building implementing such a project. During the year, your Company contributed Rs. 3.5 million to the Prime Minister's and Chief Minister's Relief Fund to aid the victims of the Tsunami tragedy. Employees of the Company also contributed Rs. 1.2 million out of their salary towards this purpose.

Community initiatives have also been undertaken in different countries by the company's overseas subsidiaries. Contributions have been made by the group to the International Red Cross to help victims affected by the Tsunami tragedy. The subsidiaries in the Caribbean, especially Jamaica have supported various educational, cultural and sports activities for the development of youth. One major initiative run in Jamaica is the adoption of the Rivertown Meadows Early Childhood Education Centre which has around 120 students aged 3-6 years.

INFORMATION TECHNOLOGY

In the last few years, your Company has derived immense benefit from reduced working capital, increased transparency in transaction reporting and greater speed and efficiency in decision making from the revamp of the Information Technology solutions. The year under review has been a year of consolidation as also expanding the scope to better serve the needs of our growing international business. Focus has been on improving robustness and utilization whilst maximizing the benefit from information technology solutions.

In order to reflect the increase in our international presence as well as to provide an integrated view from the outside to the Asian Paints group, it was felt necessary to have a modern and contemporary web presence for corporate and customer information and transactions. A few months back, we unveiled the new web presence. In months to come, we will be rolling out new additions, such as a painting tool, web store and decor related information. As mentioned elsewhere in this report, a common ERP solution is being implemented at all our overseas units. This is being done so that our overseas units have the ability to speedily adapt to changes in the environment and deliver value to our customers.

Several improvements have been made in our backend infrastructure to improve our support for new applications and take advantage of the improved communication and telecom infrastructure to leverage information technology.

RESEARCH & DEVELOPMENT

Research and Development (R&D) plays an important role in developing new products and reducing cost by re-engineering formulations. R&D operates in tandem with the Company's long term strategy and demands of the market place. In the last few years, our R&D efforts have been focused on developing new exterior finishes, economy emulsions, distempers and wood finishes.

FINANCIALS

ABRIDGED PROFIT AND LOSS STATEMENT

Rs. in Millions

	APIL			AP Group (Consolidated)		
	2004-05	2003-04	Growth	2004-05	2003-04	Growth
Net sales and operating income	19,415	16,966	14.4%	25,605	22,179	15.4%
Other income	316	217		324	264	
Total Income	19,731	17,183	14.8%	25,929	22,443	15.5%
Total Expenditure	16,477	14,271	15.5%	22,254	19,208	15.9%
Operating profit	3,254	2,912	11.7%	3,675	3,235	13.6%
Less : Interest	28	53	-47.7%	108	152	-28.9%
Less : Depreciation/Amortization/ Impairment	476	480		614	628	
Add : Profit/(Loss) from associate	-	-	-	2	39	
Profit before EOI, Goodwill Amortization and Tax	2,750	2,379	15.6%	2,955	2,494	18.5%
Less : Extraordinary Item	42	68	-	-	-	-
Less : Goodwill Amortization	-	-	-	77	78	-
Profit Before Tax	2,708	2,311	17.2%	2,878	2,416	19.2%
Less : Provision for Current & Deferred tax	970	836	-	1,061	941	-
Profit After Tax	1,738	1,476	17.8%	1,818	1,475	23.2%
Add/(Less) : Prior period items	(3)	2	-	(5)	2	-
Net Profit after prior period items	1,735	1,478	17.4%	1,813	1,477	22.7%
Less : Minority interest	-	-	-	72	28	-
Available to shareholders	1,735	1,478	17.4%	1,741	1,449	20.2%

Net Sales and Operating Income for APIL standalone has increased by 14.4% whereas that of the group has increased by 15.4%. The higher growth for the group reflects the good growth in industrial and international revenues. Profit after tax (PAT) has increased by 17.4% and 20.2% for the standalone entity and group respectively.

Raw material prices continued their upward trend in 2004-05, resulting in pressure on gross margins. Material consumption as a

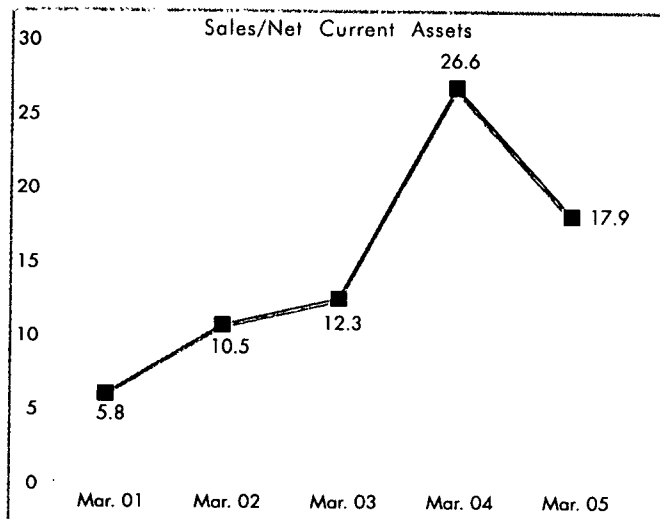
percentage to sales (standalone accounts) increased to 57.5% in 2004-05 against 55.6% in the previous year. However, the Company has minimized the impact of the same through prudent overheads management. As a result, Profit Before Tax and Extraordinary item as a percentage to sales is marginally higher at 14.2% in 2004-05 as against 14% in 2003-04.

Other income in the standalone accounts for year 2004-05 is higher than the previous year by Rs. 99 million mainly due to dividend received on trade investments and profit on disposal of certain vacant property.

The extraordinary item in the standalone accounts of 2004-05 is on account of the balance loss of Rs. 42 million recognized by the parent company arising on the sale of investments in its subsidiary – Asian Paints (Mauritius) Ltd. Out of the total loss of Rs. 110 million arising on sale, an amount of Rs. 68 million had already been recognized in 2003-04 as a provision for diminution in the value of investment.

Efficient working capital management has been a strength of the Company over the years. However, there has been an increase in levels of finished good and raw material inventory towards the year-end in 2004-05 due to VAT related uncertainties and also in anticipation of higher material prices.

The year-end net working capital trend (measured as "Sales/Net Current Assets") is as under :



Overall, the Company has improved its financial performance despite margin pressures and year-end VAT uncertainties. The ratios below summarize the financial performance for the year :

Key Financial Ratios

	APIL		AP Group (Consolidated)	
	2004-05	2003-04	2004-05	2003-04
PBDIT/Sales	16.8%	17.2%	14.4%	14.8%
PBT before EOI/Sales	14.2%	14.0%	11.2%	10.9%
PAT/Sales	8.9%	8.7%	6.8%	6.5%
Return on Average Capital Employed ¹	41.5%	37.7%	34.6%	31.4%
Return on Average Net Worth ¹	31.4%	29.3%	31.7%	28.8%
EPS (Rs.)	18.53	16.12	18.15	15.11
Debt : Equity	0.15:1	0.13:1	0.38:1	0.28:1
Interest Cover (PBIT/Interest)	101	46	28	17

¹ Capital Employed and Networth as at 31.03.2005 are after providing for impairment loss.

RISKS AND OUTLOOK

The overall outlook for 2005-06 is positive. The government's renewed thrust on infrastructure and the continuation of tax incentives on housing loans will continue to help the paint industry. If the monsoons are normal, we expect the rural economy to perform well. For the industrial coatings segment, increasing investments in the development of core infrastructure, increasing industrialization, and growing needs for consumer durables and automobiles augur well for the continued growth of this segment. However, the Company is confident that it will grow above industry average due to its forays in fast growing areas like powder coatings and road markings.

APIL continues to see three risks that can affect its performance. Firstly, if input costs continue to rise, pressure on operating margins will continue. Secondly, if India's GDP growth rate significantly slows down, the industry may not see adequate demand for coatings. Thirdly, if overseas economies in which we have a large presence do not perform well, the performance of the international business can be affected.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Your Company is committed to ensuring comprehensive internal

control across its operations to ensure that all assets are safeguarded and protected against loss from unauthorised use or disposition. Your Company has well defined independent procedures to execute financial transactions. Your Company's internal audit department continuously monitors the adequacy of internal control processes across the business units and ensures compliance with regulatory requirements as well as internal policies. The internal audit also ensures that internal controls and checks and balances in the system are adequate and up-to-date. Internal audits are undertaken on a continuous basis covering both domestic and international operations with specific focus on processes, risks and statutory compliances. A summary of audit observations and the 'action taken reports' are regularly placed before the Audit Committee.

CAUTIONARY STATEMENT

Statements in this Management Discussion and Analysis describing the Company's objectives, projections, estimates and expectation may be "forward looking statements" within the meaning of applicable laws and regulations. Actual results might differ materially from those either expressed or implied.

Five year review

(Rs. in millions except for per share data, number of employees and ratios)

Results for the Accounting Year	2004-2005	2003-2004	2002-2003	2001-2002	2000-2001
REVENUE ACCOUNT					
Gross Sales	23,388.4	20,259.5	18,066.6	15,984.5	14,695.1
Net Sales and Operating Income	19,415.1	16,966.5	15,302.5	13,613.5	12,333.5
Growth Rates (%)	14.43	10.87	12.41	10.38	13.18
Materials Consumed	11,154.0	9,441.5	8,023.5	7,173.6	6,611.6
% to Net Sales	57.45	55.65	52.43	52.70	53.61
Overheads	5,323.3	4,829.6	4,587.7	4,176.8	3,699.4
% to Net sales	27.42	28.47	29.98	30.68	29.99
Operating Profit	3,253.9	2,912.2	2,817.2	2,407.8	2,115.0
Interest Charges	27.5	52.7	83.5	145.8	221.2
Depreciation	476.1	480.1	485.2	447.9	334.9
Profit Before Tax and Extraordinary item	2,750.3	2,379.4	2,248.5	1,814.1	1,558.9
% to Net Sales	14.17	14.02	14.69	13.33	12.64
Extraordinary item	42.3	68.1	—	—	—
Profit Before Tax and after Extraordinary item	2,708.0	2,311.3	2,248.50	1,814.10	1,558.90
% to Net Sales	13.95	13.62	14.69	13.33	12.64
Profit After Tax	1,738.2	1,475.8	1,433.7	1,153.3	1,063.9
Prior period items	(3.3)	2.1	(13.6)	(10.2)	(8.1)
Profit After Tax and prior period items	1,734.8	1,477.9	1,420.1	1,143.1	1,055.8
Return on average net worth (RONW) (%) *	31.43	29.32	32.01	27.82	27.47
CAPITAL ACCOUNT					
Share Capital	959.2	959.2	641.9	641.9	641.9
Reserves and Surplus	4,763.0	4,356.2	4,124.3	3,463.7	3,470.1
Deferred Tax Liability (Net)	305.4	486.6	581.6	611.8	—
Loan Funds	838.8	704.7	1,036.2	1,107.7	2,268.2
Fixed Assets	3,195.1	3,444.3	3,662.4	3,895.0	3,804.6
Investments	2,584.3	2,424.9	1,476.9	633.4	440.7
Net Current Assets	1,087.0	637.5	1,244.58	1,296.7	2,134.9
Debt-Equity Ratio	0.15: 1	0.13: 1	0.22: 1	0.27: 1	0.55: 1
Market Capitalisation	37,514.2	29,135.6	21,187.8	21,056.2	15,802.6
PER SHARE DATA					
Earnings Per Share (Rs.)	18.5	# 16.1	# 14.8	17.8	16.5
Dividend (%)	95.0	\$ 85.0	110.0	90.0	70.0
Book Value (Rs.)	59.7	\$ 55.4	74.3	64.0	64.1
OTHER INFORMATION					
Number of Employees	3,627	3,430	3,400	3,258	3,197

* RONW is calculated after provision for impairment on fixed assets in 2004-2005

EPS is calculated after adjusting for Bonus issue and the reduction of capital on account of merger of Pentasia Investments Ltd. in accordance with Accounting Standard (AS 20) - Earnings per share

\$ On increased capital