

Buoyant Demand

March Q beat expectations

4Q cons. profit is Rs718m, up 55% and 7% ahead of our estimates. For full year, this implies profit of Rs2.8bn, a growth of 32%. Group EBIT in 4Q grew 34%. This was 3% ahead of our expectations, led primarily by the domestic business.

Benefiting from very strong demand

We have been positively surprised by domestic paint sales growth of 29% in 4Q. Clearly underlying consumer demand is very strong. For the full year, domestic paint sales are up 22%, of which we estimate volume growth is 16%. International paint volume growth is stronger at 22%; however this is significantly lower margin.

Margins holding up despite input cost inflation

Group EBITDA margin grew 20bp in 4Q and was flat for the full year. Retail price hikes were in line with input cost hikes. Mgmt expects this strategy to continue. We highlight that over the last 10 years, A Paints' EBITDA per ton of paint sold has been flat in the domestic biz and hence volume is the key variable to track.

Does it get any better?

FY07 volume growth has been the strongest in the last seven years. High base coupled with rising interest rates is posing issues of sustainability of the strong growth trend. At the analyst meet, mgmt stated that demand, at least in FY08, is likely to be fairly insensitive to rising interest rates. We have built in 15% domestic volume growth in FY08E and FY09E.

We remain Neutral

We believe Asian Paints is a very high quality play on India's growing consumption. However, at P/E of 22x FY08E, valuation upside appears limited.

Estimates (Mar)

| (Rs) | 2005A | 2006A | 2007E | 2008E | 2009E |
|----------------------------|-------|-------|-------|-------|-------|
| Net Income (Adjusted - mn) | 1,741 | 2,122 | 2,778 | 3,457 | 4,044 |
| EPS | 18.20 | 22.23 | 28.96 | 36.05 | 42.17 |
| EPS Change (YoY) | 20.7% | 22.2% | 30.3% | 24.5% | 17.0% |
| Dividend / Share | 9.50 | 12.50 | 15.03 | 18.54 | 21.73 |
| Free Cash Flow / Share | 4.91 | 14.91 | 9.19 | 30.31 | 35.23 |

Valuation (Mar)

| | 2005A | 2006A | 2007E | 2008E | 2009E |
|-----------------------|--------|--------|--------|--------|--------|
| P/E | 42.98x | 35.19x | 27.01x | 21.70x | 18.55x |
| Dividend Yield | 1.21% | 1.60% | 1.92% | 2.37% | 2.78% |
| EV / EBITDA* | 22.84x | 19.54x | 16.45x | 13.53x | 11.73x |
| Free Cash Flow Yield* | 0.627% | 1.91% | 1.17% | 3.87% | 4.50% |

* For full definitions of *iQmethod*SM measures, see page 6.



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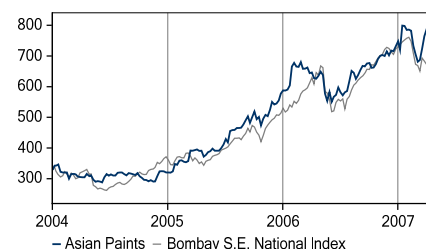
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Stock Data

| | |
|-----------------------------|-------------------|
| Price | Rs782.35 |
| Investment Opinion | C-2-7 |
| Volatility Risk | HIGH |
| 52-Week Range | Rs501.10-Rs835.00 |
| Mrkt Val / Shares Out (mn) | US\$1,833 / 95.9 |
| Average Daily Volume | 16,838 |
| ML Symbol / Exchange | XAPNF / BSE |
| Bloomberg / Reuters | APNT IN / ASPN.BO |
| ROE (2007E) | 39.5% |
| Net Dbt to Eqty (Mar-2006A) | 26.6% |
| Est. 5-Yr EPS / DPS Growth | 20.0% / 20.0% |
| Free Float | 53.0% |



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Refer to important disclosures on page 7 to 8. Analyst Certification on page 5.

10 May 2007

*iQprofile*SM Asian Paints Ltd.

| Key Income Statement Data (Mar) | 2005A | 2006A | 2007E | 2008E | 2009E |
|--|---------|---------|---------|---------|---------|
| (Rs Millions) | | | | | |
| Sales | 25,605 | 30,201 | 35,855 | 41,369 | 47,763 |
| Gross Profit | 3,351 | 3,917 | 4,653 | 5,658 | 6,526 |
| Sell General & Admin Expense | NA | NA | NA | NA | NA |
| Operating Profit | 2,661 | 3,235 | 4,039 | 5,041 | 5,905 |
| Net Interest & Other Income | 216 | 206 | 234 | 273 | 316 |
| Associates | NA | NA | NA | NA | NA |
| Pretax Income | 2,876 | 3,441 | 4,273 | 5,314 | 6,220 |
| Tax (expense) / Benefit | (1,061) | (1,323) | (1,419) | (1,764) | (2,065) |
| Net Income (Adjusted) | 1,741 | 2,122 | 2,778 | 3,457 | 4,044 |
| Average Fully Diluted Shares Outstanding | 96 | 96 | 96 | 96 | 96 |

Key Cash Flow Statement Data

| | | | | | |
|---|---------|---------|---------|---------|---------|
| Net Income (Reported) | 1,746 | 2,132 | 2,778 | 3,457 | 4,044 |
| Depreciation & Amortization | 691 | 682 | 613 | 617 | 621 |
| Change in Working Capital | (1,441) | (380) | (915) | (833) | (966) |
| Deferred Taxation Charge | NA | NA | NA | NA | NA |
| Other Adjustments, Net | 170 | (224) | 56 | 66 | 80 |
| Cash Flow from Operations | 1,166 | 2,210 | 2,532 | 3,307 | 3,779 |
| Capital Expenditure | (695) | (779) | (1,651) | (401) | (401) |
| (Acquisition) / Disposal of Investments | 8 | (25) | 0 | 0 | 0 |
| Other Cash Inflow / (Outflow) | NA | NA | NA | NA | NA |
| Cash Flow from Investing | (687) | (805) | (1,651) | (401) | (401) |
| Shares Issue / (Repurchase) | NA | NA | NA | NA | NA |
| Cost of Dividends Paid | (981) | (1,094) | (1,526) | (1,778) | (2,144) |
| Cash Flow from Financing | (279) | (876) | (1,526) | (1,778) | (2,144) |
| Free Cash Flow | 471 | 1,430 | 881 | 2,906 | 3,378 |
| Net Debt | 1,787 | 1,879 | 2,523 | 1,395 | 240 |
| Change in Net Debt | 502 | (311) | 645 | (1,128) | (1,235) |

Key Balance Sheet Data

| | | | | | |
|-------------------------------|--------|--------|--------|--------|--------|
| Property, Plant & Equipment | 4,870 | 4,967 | 6,004 | 5,788 | 5,568 |
| Other Non-Current Assets | 862 | 887 | 887 | 887 | 887 |
| Trade Receivables | 2,959 | 3,475 | 4,126 | 4,760 | 5,496 |
| Cash & Equivalents | 608 | 734 | 89 | 1,218 | 2,373 |
| Other Current Assets | 5,938 | 6,998 | 8,062 | 9,109 | 10,322 |
| Total Assets | 15,237 | 17,062 | 19,169 | 21,762 | 24,646 |
| Long-Term Debt | 2,395 | 2,613 | 2,613 | 2,613 | 2,613 |
| Other Non-Current Liabilities | 353 | 341 | 319 | 293 | 293 |
| Short-Term Debt | NA | NA | NA | NA | NA |
| Other Current Liabilities | 6,178 | 7,046 | 7,946 | 9,022 | 10,212 |
| Total Liabilities | 8,926 | 9,999 | 10,878 | 11,927 | 13,117 |
| Total Equity | 6,310 | 7,063 | 8,291 | 9,835 | 11,528 |
| Total Equity & Liabilities | 15,237 | 17,062 | 19,169 | 21,762 | 24,646 |

*iQmethod*SM - Bus Performance*

| | | | | | |
|----------------------------|-------|-------|-------|-------|-------|
| Return On Capital Employed | 21.8% | 22.9% | 27.6% | 30.3% | 31.2% |
| Return On Equity | 31.7% | 35.0% | 39.5% | 41.5% | 40.8% |
| Operating Margin | 10.4% | 10.7% | 11.3% | 12.2% | 12.4% |
| EBITDA Margin | 13.1% | 13.0% | 13.0% | 13.7% | 13.7% |

*iQmethod*SM - Quality of Earnings*

| | | | | | |
|--------------------------|-------|-------|-------|-------|-------|
| Cash Realization Ratio | 0.7x | 1.0x | 0.9x | 1.0x | 0.9x |
| Asset Replacement Ratio | 1.0x | 1.1x | 2.7x | 0.6x | 0.6x |
| Tax Rate (Reported) | 36.9% | 38.4% | 33.2% | 33.2% | 33.2% |
| Net Debt-to-Equity Ratio | 28.3% | 26.6% | 30.4% | 14.2% | 2.1% |
| Interest Cover | 24.6x | 28.3x | 34.8x | 43.4x | NM |

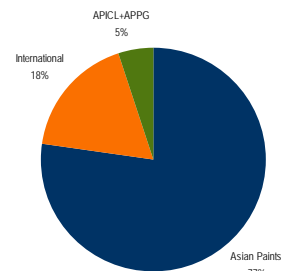
Key Metrics

* For full definitions of *iQmethod*SM measures, see page 6.

Company Description

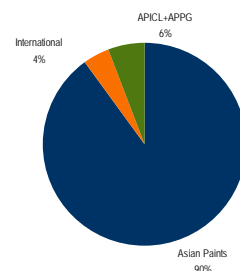
Asian Paints is India's largest paint company with a market share of 47%. It ranks among the top 10 decorative-coatings companies in the world. The company, along with its subsidiaries, has operations in 22 countries with 30 paint manufacturing facilities. Domestic operations account for a predominant share of group profits.

Chart 1: Asian Paints Revenue Breakdown



Source: Asian Paints, Merrill Lynch Estimates

Chart 2: Asian Paints EBIT Breakdown



Source: Asian Paints, Merrill Lynch Estimates

Stock Data

Price to Book Value

9.9x

Result Highlights

Table 1: Asian Paints Standalone Results

| Rs. Million | Q4 06 | Q4 07 | % chg | FY06 | FY07 | % chg |
|------------------------------|-------|-------|-------|--------|--------|-------|
| Net Sales | 5,645 | 7,270 | 29% | 23,349 | 28,213 | 21% |
| EBITDA | 812 | 1,065 | 31% | 3,519 | 4,218 | 20% |
| EBITDA margin | 14.4% | 14.6% | | 15.1% | 14.9% | |
| Depreciation | 120 | 118 | | 455 | 454 | |
| EBIT | 692 | 948 | 37% | 3,064 | 3,763 | 23% |
| EBIT margin | 12.3% | 13.0% | | 13.1% | 13.3% | |
| Interest | 7 | 15 | | 38 | 69 | |
| Other Income | 145 | 132 | | 359 | 405 | |
| Pretax profit | 830 | 1,065 | 28% | 3,385 | 4,099 | 21% |
| Total Tax | 294 | 374 | | 1,171 | 1,400 | |
| Tax rate | 35.4% | 35.1% | | 34.6% | 34.2% | |
| Net profit | 537 | 691 | 29% | 2,214 | 2,699 | 22% |
| Net margin | 9.5% | 9.5% | | 9.5% | 9.6% | |
| Prior period income / (exp) | 2 | 21 | | (10) | 21 | |
| Extraordinary income / (exp) | (336) | - | | (336) | - | |
| Adjusted profit | 203 | 712 | 251% | 1,868 | 2,720 | 46% |

Source: Asian Paints

Table 2: Asian Paints Standalone Segment Results

| Rs. Million | Q4 06 | Q4 07 | % chg | FY06 | FY07 | % chg |
|----------------------------|--------------|--------------|-------------|---------------|---------------|------------|
| Revenues | | | | | | |
| Paints | 5,504 | 7,017 | 27% | 22,558 | 27,452 | 22% |
| Others | 386 | 516 | 34% | 1,452 | 1,783 | 23% |
| Total | 5,890 | 7,533 | 28% | 24,011 | 29,234 | 22% |
| Less: Intersegment | 167 | 207 | 24% | 604 | 821 | 36% |
| Net sales | 5,724 | 7,326 | 28% | 23,406 | 28,413 | 21% |
| EBIT | | | | | | |
| Paints | 844 | 1,081 | 28% | 3,560 | 4,226 | 19% |
| Others | 27 | 71 | 167% | 120 | 246 | 106% |
| Total | 870 | 1,152 | 32% | 3,680 | 4,473 | 22% |
| Less interest | 7 | 15 | | 38 | 69 | |
| Less: unallocated expenses | 369 | 72 | | 593 | 305 | |
| PBT | 494 | 1,065 | 115% | 3,049 | 4,099 | 34% |
| EBIT margin | | | | | | |
| Paints | 15.3% | 15.4% | | 15.8% | 15.4% | |
| Others | 6.9% | 13.8% | | 8.2% | 13.8% | |
| Total | 14.8% | 15.3% | | 15.3% | 15.3% | |

Source: Asian Paints

Table 3: Consolidated Sales Breakup

| Rs. Million | Q4 06 | Q4 07 | % chg | FY 06 | FY 07 | % chg |
|-----------------|--------------|--------------|------------|---------------|---------------|------------|
| APL - Paints | 5,371 | 6,949 | 29% | 22,307 | 27,225 | 22% |
| APL - Chemicals | 211 | 297 | 41% | 813 | 927 | 14% |
| APPG* + APICL | 439 | 560 | 28% | 1,590 | 1,976 | 24% |
| International | 1,629 | 1,782 | 9% | 5,500 | 6,572 | 19% |
| Total | 7,650 | 9,589 | 25% | 30,210 | 36,700 | 21% |

* 50% of Asian PPG Industrial sales are included

Source: Asian Paints

Table 4: Asian Paints Consolidated Results

| Rs. Million | Q4 06 | Q4 07 | % chg | FY06 | FY07 | % chg |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Net Sales | 7,650 | 9,589 | 25% | 30,211 | 36,700 | 21% |
| - Asian Paints standalone | 5,645 | 7,270 | 29% | 23,349 | 28,213 | 21% |
| - Others | 2,005 | 2,319 | 16% | 6,862 | 8,487 | 24% |
| - Asian Paints standalone | 74% | 76% | | 77% | 77% | |
| - Others | 26% | 24% | | 23% | 23% | |
| EBITDA | 921 | 1,170 | 27% | 3,917 | 4,781 | 22% |
| EBITDA margin | 12.0% | 12.2% | 0% | 13.0% | 13.0% | |
| - Asian Paints standalone | 812 | 1,065 | 31% | 3,519 | 4,218 | |
| - Others | 109 | 105 | -4% | 398 | 563 | |
| - Asian Paints standalone | 88% | 91% | | 90% | 88% | |
| - Others | 12% | 9% | | 10% | 12% | |
| EBITDA margin | | | | | | |
| - Asian Paints standalone | 14.4% | 14.6% | 0% | 15.1% | 14.9% | 0% |
| - Others | 5.4% | 4.5% | | 5.8% | 6.6% | |
| Depreciation | 175 | 173 | -1% | 606 | 611 | |
| - Asian Paints standalone | 120 | 118 | | 455 | 454 | |
| - Others | 55 | 56 | | 151 | 157 | |
| EBIT | 746 | 997 | 34% | 3,311 | 4,169 | |
| EBIT margin | 9.8% | 10.4% | | 11.0% | 11.4% | |
| - Asian Paints standalone | 692 | 948 | 37% | 3,064 | 3,763 | |
| - Others | 54 | 49 | -9% | 247 | 406 | |
| - Asian Paints standalone | 93% | 95% | | 93% | 90% | |
| - Others | 7% | 5% | | 7% | 10% | |
| Interest | 23 | 43 | | 114 | 189 | |
| - Asian Paints standalone | 7 | 15 | | 38 | 69 | |
| - Others | 16 | 27 | | 76 | 120 | |
| Profit bef OI & tax | 723 | 954 | | 3,196 | 3,980 | |
| - Asian Paints standalone | 686 | 932 | | 3,026 | 3,695 | |
| - Others | 38 | 22 | | 171 | 286 | |
| Other Income | 117 | 136 | | 320 | 373 | |
| - Asian Paints standalone | | 132 | | 359 | 405 | |
| Profit from associates | (4) | 0 | | (9) | (4) | |
| Goodwill amortization | 29 | - | | 76 | - | |
| Pretax profit | 808 | 1,090 | 35% | 3,431 | 4,349 | 27% |
| PBT Margin | 10.6% | 11.4% | | 11.4% | 11.8% | |
| Total Tax | 353 | 399 | | 1,323 | 1,504 | |
| Tax rate | 43.7% | 36.6% | | 38.6% | 34.6% | |
| PAT | 455 | 691 | 52% | 2,109 | 2,845 | |
| Net margin | 5.9% | 7.2% | | 7.0% | 7.8% | |
| Minority Interest | (9) | (27) | | (23) | 21 | |
| Profit attr to shareholders | 464 | 718 | 55% | 2,132 | 2,825 | 32% |
| Prior period income / (exp) | 2 | 26 | | (10) | 26 | |
| Extraordinary items | | (78) | | | (41) | |
| Rep Profit attr to shareholders | 466 | 666 | 43% | 2,121 | 2,810 | 32% |

Source: Asian Paints

Analyst Certification

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10 May 2007

iQmethodSM Measures Definitions

| Business Performance | Numerator | Denominator |
|-----------------------------|---|--|
| Return On Capital Employed | $\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$ | $\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$ |
| Return On Equity | Net Income | Shareholders' Equity |
| Operating Margin | Operating Profit | Sales |
| Earnings Growth | Expected 5-Year CAGR From Latest Actual | N/A |
| Free Cash Flow | Cash Flow From Operations – Total Capex | N/A |
| Quality of Earnings | | |
| Cash Realization Ratio | Cash Flow From Operations | Net Income |
| Asset Replacement Ratio | Capex | Depreciation |
| Tax Rate | Tax Charge | Pre-Tax Income |
| Net Debt-To-Equity Ratio | Net Debt = Total Debt, Less Cash & Equivalents | Total Equity |
| Interest Cover | EBIT | Interest Expense |
| Valuation Toolkit | | |
| Price / Earnings Ratio | Current Share Price | Diluted Earnings Per Share (Basis As Specified) |
| Price / Book Value | Current Share Price | Shareholders' Equity / Current Basic Shares |
| Dividend Yield | Annualised Declared Cash Dividend | Current Share Price |
| Free Cash Flow Yield | Cash Flow From Operations – Total Capex | Market Cap. = Current Share Price * Current Basic Shares |
| Enterprise Value / Sales | $\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales Other LT Liabilities}$ | |
| EV / EBITDA | Enterprise Value | Basic EBIT + Depreciation + Amortization |

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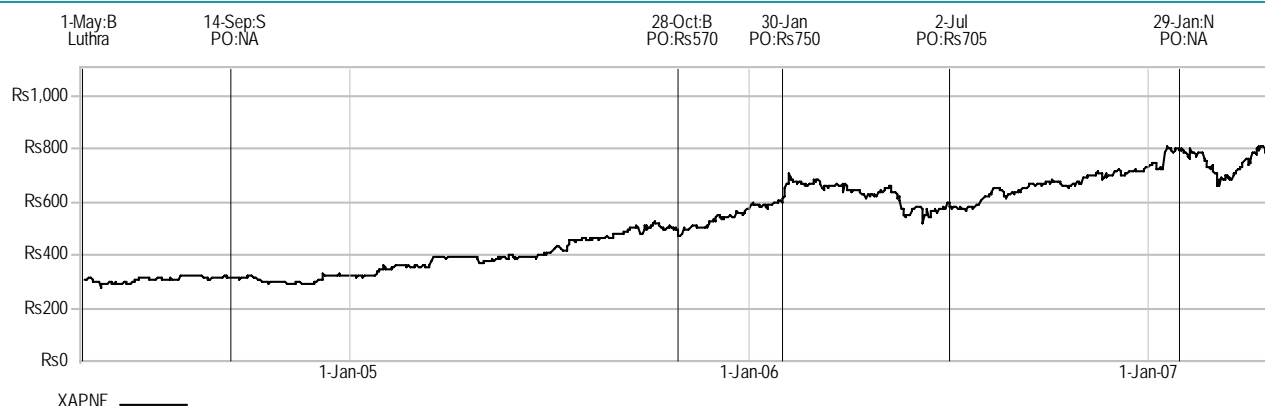
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10 May 2007

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XAPNF Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of April 30, 2007 or such later date as indicated.

Investment Rating Distribution: Building Group (as of 31 Mar 2007)

| Coverage Universe | Count | Percent | Inv. Banking Relationships* | Count | Percent |
|-------------------|-------|---------|-----------------------------|-------|---------|
| Buy | 47 | 47.96% | Buy | 10 | 22.73% |
| Neutral | 37 | 37.76% | Neutral | 7 | 20.59% |
| Sell | 14 | 14.29% | Sell | 1 | 9.09% |

Investment Rating Distribution: Global Group (as of 31 Mar 2007)

| Coverage Universe | Count | Percent | Inv. Banking Relationships* | Count | Percent |
|-------------------|-------|---------|-----------------------------|-------|---------|
| Buy | 1562 | 45.16% | Buy | 415 | 30.09% |
| Neutral | 1615 | 46.69% | Neutral | 446 | 30.65% |
| Sell | 282 | 8.15% | Sell | 49 | 19.76% |

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