

Directors' Report

To the Shareholders

Your Directors are pleased to present the 104th Annual Report on the business and operations of the Company and the audited statement of accounts for the year ended 31st March, 2006.

Financial results

(Rs. in lacs)

Description	2005-06	2004-05
Net Sales	24830	21792
PBIDT	1081	792
Profit before tax	500	307
Provision for taxation		
Current Tax	151	73
Deferred Tax	(14)	36
Fringe Benefit Tax	22	-
Profit after tax	341	198
Add: Amount brought forward from last year's account	<u>88</u>	<u>72</u>
Profit available for appropriation	429	270
Less: Proposed Dividend	132	95
Tax on proposed dividend	18	12
Amount transferred to General Reserve	<u>100</u>	<u>75</u>
Balance carried to Balance Sheet	<u>179</u>	<u>88</u>

Dividend

The Directors are pleased to recommend payment of dividend at the rate of Rs. 3.50 per equity share amounting to Rs.132.50 lacs as compared to Rs. 2.50 per equity share declared last year.

Review of operations

The Company's performance in the year under review has been quite satisfactory. Sales have increased from Rs. 218 crores in 2004-05 to Rs. 248 crores, an increase of about 14%. The growth in sales has come from both the decorative and industrial segments with the industrial segment performing particularly well. However there has been severe volatility in raw material prices.

The Company has laid special emphasis on sale of high value products and on improving operational efficiencies. In view of the steps taken by the Company, in spite of increase in raw material prices, the PBIDT has increased by 36% from Rs. 7.92 crores to Rs. 10.81 crores.

The Company's borrowing costs have gone up due to hardening of interest rates, particularly on foreign currency loans and also higher utilization of working capital funds for financing increased volume of sales. The overall finance costs have increased from Rs. 1.78 crores to Rs. 2.92 crores.

With the improvement in the operating margins the profit before tax has increased by 63% from Rs. 3.07 crores to Rs. 5.00 crores

In view of increased demand from both the housing as well as the industrial sectors, the Company is poised for significant growth in the coming years.

Technical collaboration with KCI

The Company has signed a technical collaboration agreement for coil coatings with Kunsul Chemical Ind. Co. Ltd., Korea. KCI is one of the largest paint manufacturing companies of Korea and is a leader in PCM coatings.

With the signing of this agreement Shalimar is making an entry into the fast growing coil coating market.

Sadolin marketing arrangement

The Company has entered into a marketing agreement with Akzo Noble, the largest paint company of the world, for introducing in India the Sadolin range of wood coatings.

Tinting Systems

The Company has increased the spread of Color Space, its color tinting systems. A large number of Colorspace systems have been installed at dealer outlets in various locations all across the country. The Company has also added new shades and the customers now have a wide spectrum of shades to choose from.

ISO Certifications

The Company's Howrah unit is accredited with ISO 9001:2000 certification while its Nasik unit continues to enjoy ISO 9002 accreditation.

Directors

Mr. Amiya Goptu, Chairman of the Company passed away on 18th January, 2006. Mr. Goptu was the Director of the Company since March 1987 and Chairman of the Company since June 1997. The Board places on record its appreciation for the

distinguished services rendered by him during his tenure and deeply mourn his sudden demise.

In accordance with Article 118 of the Articles of Association, Mr. Girish Jhunjhnuwala and Mr. Rajiv Garg retire by rotation and being eligible, offer themselves for re-appointment.

Brief resume of Mr. Girish Jhunjhnuwala and Mr. Rajiv Garg is given in Point No. 10 of the Report on Corporate Governance attached to this report.

Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Directors confirm that:

- i) In the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- ii) The accounting policies have been selected and applied consistently and the judgements and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that year;
- iii) Proper and sufficient care has been taken 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;
- iv) The accounts have been prepared on a going concern basis.

Conservation of energy and technical absorption

Information pursuant to clause (e) of sub-section (1) of Section 217 of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 regarding conservation of energy and technical absorption is given in the statement annexed (Annexure I) hereto forming part of the Report.

Foreign exchange earnings and outgo

Foreign exchange earnings and outgo are outlined in Note nos. 9 and 10 of Schedule 19 to the Accounts.

Particulars of employees

During the year under review there was no employee drawing remuneration exceeding the limits specified under Section 217(2A) of the Companies Act 1956 read with the Companies (Particulars of Employees) Rules 1975 as amended.

Public Deposits

The Company has not accepted/renewed any fixed deposits from public during the year under review.

Auditors

M/s. Chaturvedi and Partners, the Auditors of the Company, retire at the forthcoming Annual General Meeting, and being eligible, offer themselves for re-appointment.

Auditors remarks

In paragraph 4(vi) of the report of the Auditors, they have referred to certain notes on Accounts which are self-explanatory.

Listing

Your Company is listed with The Bombay Stock Exchange Limited and The Calcutta Stock Exchange Association Limited and the Company has paid annual listing fees to the respective Stock Exchanges. As the trading in equity shares of the Company is permitted only in dematerialized form, the Company has made the requisite arrangements with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited to enable investors to hold shares in demat form.

Corporate Governance

The Company continues to comply with the requirements of the Listing Agreements with the Stock Exchanges where the Company's shares are listed. The report on Corporate Governance for the financial year ended 31st March, 2006, together with **Auditors'** Certificate on its compliance, pursuant to requirements of Clause 49 of the Listing Agreement with Stock Exchanges is annexed hereto as Annexure-II to this Report.

Acknowledgements

The Directors would like to place on record their grateful appreciation of the co-operation and assistance received from the financial institutions, banks, investors, valued customers, various government agencies and business associates during the year under review.

Industrial relations and personnel

Industrial relations remained cordial and satisfactory. Your Directors wish to place on record their deep sense of appreciation of the devoted services rendered by all officers, staff and workers of the Company.

For and on behalf of the Board

Mumbai

G.Jhunjhnuwala - Director
S.L.Agarwal – Managing Director

30th of June, 2006

Annexure I to Directors' Report

FORM 'A' – CONSERVATION OF ENERGY		Current Year	Previous Year
A. POWER AND FUEL CONSUMPTION		2005-2006	2004-2005
1. ELECTRICITY:			
a) Purchased			
Units	Nos.	36,97,097	Nos. 39,20,394
Total Amount	Rs.	1,58,83,479	Rs. 1,78,79,201
Rate/Unit	Rs.	4.30	Rs. 4.56
b) Own Generation			
i) Through Diesel Generator			
Units	Nos.	80,382	Nos. 79,720
Unit/Litre of Diesel Oil		2.73	2.79
Cost/Unit	Rs.	12.05	Rs. 9.68
ii) Through Steam Turbine /Generator			
Units	Unit/Litre of Fuel Oil/Gas,		Not Applicable
	Cost/Unit		
2. COAL			
Quantity/Total Cost/Average Rate			Not Applicable
3. FURNACE/LDO			
Quantity		378 KL	372 KL
Total amount	Rs.	65,04,633	Rs. 49,27,316
Average Rate/Ltr.	Rs.	17.20	Rs. 13.26
4. Others/Internal Generation			
Quantity			Not Applicable
Total Cost			
Average Rate			
B. CONSUMPTION PER UNIT OF PRODUCTION			
Products	Standard		
Paints, Varnishes & Enamels (KL)	No specific standard as the consumption per unit depends on the product mix	30,176KL	28,832 KL
Unit/KL			
Electricity		125.18	138.74
Furnace Oil		0.013	0.013
Coal (specify quality)		-	-
Others (specify)			Not Applicable

The variation in consumption of Power and Fuel was due to different product mix between current and previous year

For and on behalf of the Board

30th of June, 2006

G.Jhunjnuwala - Director
S.L.Agarwal – Managing Director

Form 'B'

RESEARCH & DEVELOPMENT (R&D), TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

1. Specific areas in which R&D was carried out by the Company

- a) Development of new products, upgradation and economisation.
- b) Reformulation of products to minimize effect of volatility of critical raw material prices.
- c) "Colorspace" tinting system expanded with introduction of new tinting bases.
- d) Development of special high performance coatings like super high build epoxy, phenolic modified epoxy, high solids PU, modified silicone HR, water based acrylic.
- e) New qualities of food lacquer, deep drawing lacquer, side stripe lacquer, pigmented & clear coatings for metal can industry as per latest requirement.
- f) Development of H.B. Bitublack for Ductile pipes
- g) Tailor made products for agricultural equipments, auto-ancillaries, fan, metal strip finish and general industries.

2. Benefits derived as a result of the above R&D:

- a) Significant expansion of market share.
- b) New entries in several industrial market segments.
- c) Reducing impact of general price hike of raw materials & ancillaries.

3. Future plan of action:

- a) New water-based eco-friendly paints.
- b) Polyester & Silicone Co-polymer Coatings.
- c) New generation Wood Finish & Timber treatments.
- d) New Technology in Can Coating, Coil Coating and Marine Paints.

4. Expenditure on R&D

	Rs. in lakhs
a) Capital	64.73
b) Recurring	70.16
c) Total	134.89
d) Total R&D expenditure as a percentage of total turnover	0.54%

5. Technology absorption, adaptation and innovation :

Technology for water reducible and solvent borne industrial paints, industrial paints for coil coatings, wood coating, coating on plastics absorbed and adapted and commercialization is in process.

For and on behalf of the Board

30th of June, 2006

G.Jhunjhnuwala - Director
S.L.Agarwal – Managing Director

