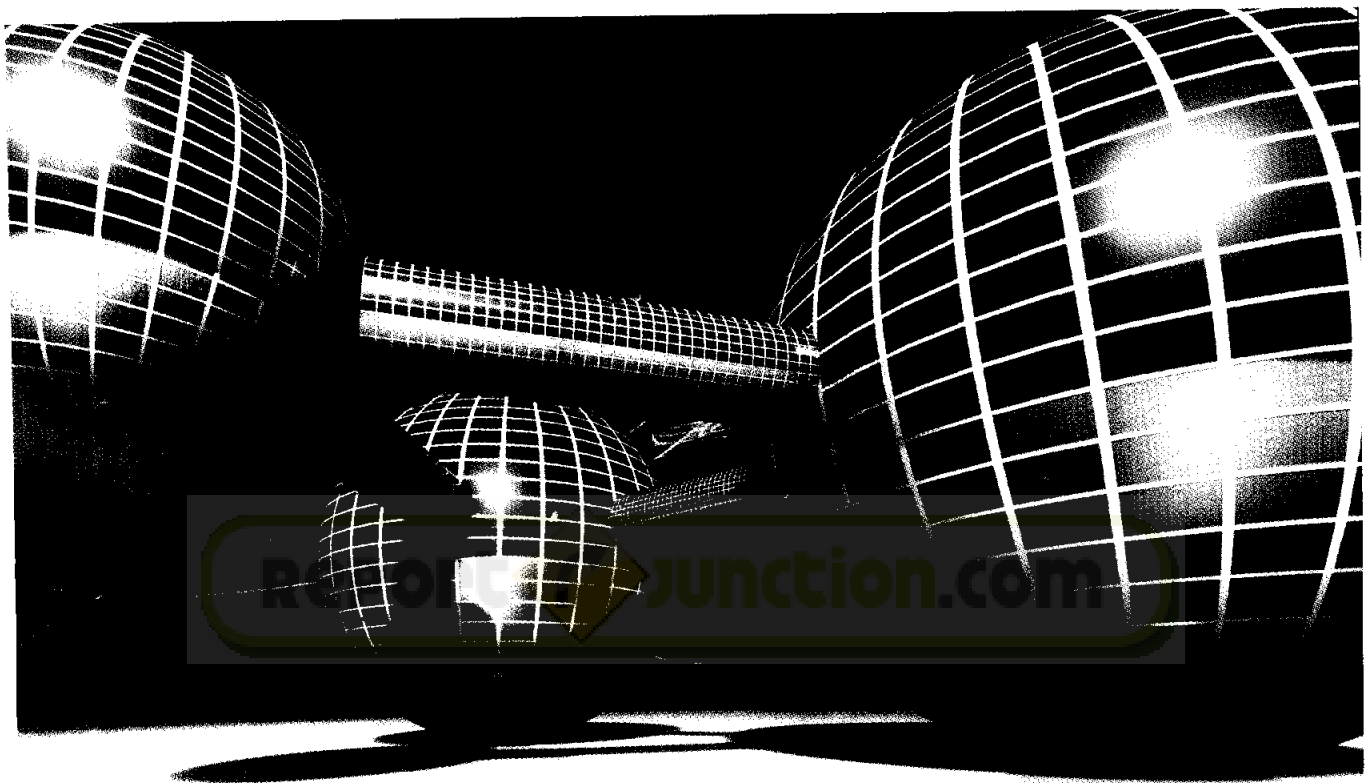
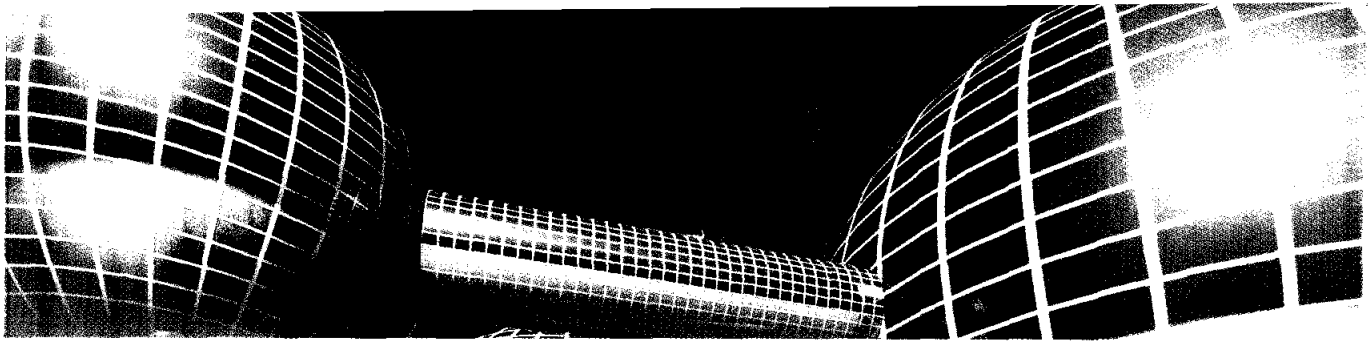


8 2 N D A N N U A L R E P O R T 2 0 0 1 - 2 0 0 2



GOODLASS **NEROLAC** PAINTS LTD.



EMPOWERING NEROLAC PAINTS THROUGH THE EMPLOYEE PORTAL

The Employee Portal is an IT-enabled Business Solution centered around employees. It seeks to create a knowledge-based organisation aimed at empowering employees with up-to-date domain knowledge. This helps serve end customers better and enhances employee productivity through a series of employee centric work-flows.

GOODLASS NEROLAC PAINTS LTD.

GOODLASS **NEROLAC** PAINTS LIMITED

EIGHTY - SECOND ANNUAL REPORT 2001-2002

DIRECTORS:

DR. F. A. MEHTA, (Chairman)
 D. M. KOTHARI, (Vice Chairman)
 V. C. VAIDYA
 S. K. KOBAYASHI
 Y. KAWAMORI
 K. C. MEHRA
 H. M. BHARUKA, (Managing Director)
 P. S. KHANOLKAR, (Director — Industrial Marketing & Refinishing)
 S. M. DATTA
 S. ARAI
 K. MORIMOTO, (Deputy Managing Director)
 Y. TAJIRI

COMPANY SECRETARY:

G. T. GOVINDARAJAN

BANKERS:

UNION BANK OF INDIA
 STANDARD CHARTERED BANK
 THE BANK OF TOKYO - MITSUBISHI LTD.
 PUNJAB NATIONAL BANK
 BNP PARIBAS

AUDITORS:

A. F. FERGUSON & CO., MUMBAI

SOLICITORS:

KANGA & CO., MUMBAI

REGISTERED OFFICE:

'NEROLAC HOUSE'
 GANPATRAO KADAM MARG, LOWER PAREL,
 MUMBAI 400 013.

FACTORIES:

GANPATRAO KADAM MARG, LOWER PAREL,
 MUMBAI 400 013.
 KAVESAR, OFF GHODBUNDER ROAD, THANE 400 601.
 B1, B2, JAINPUR INDUSTRIAL ESTATE, KANPUR DEHAT,
 KANPUR, U.P.
 F/2, MIDC, LOTE PARSHURAM, TALUKA KHED,
 DISTRICT RATNAGIRI, MAHARASHTRA.

CONTENTS

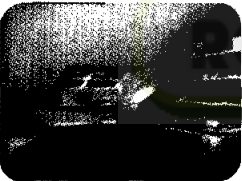
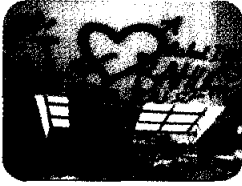
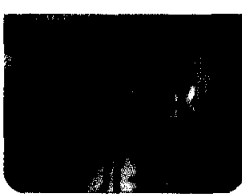
| | Page |
|---|--------|
| Notice | 1 |
| Directors' Report | 2-8 |
| Report on Corporate Governance | 9-19 |
| Summarised Balance Sheet and Profit and Loss Account of 20 years | 20-21 |
| Statement of utilisation of Gross Earnings and how funds were raised and utilised | 22 |
| Graphs | 23-26 |
| Auditors' Report | 27-29 |
| Balance Sheet | 30 |
| Profit and Loss Account | 31 |
| Schedules forming part of Accounts | 32-50 |
| Cash Flow Statement | 51 |
| Statement relating to subsidiary companies | 52 |
| Subsidiaries | |
| Saurashtra Paints Limited | 53-68 |
| GNP (Madras) Limited | 69-82 |
| Consolidated Financial Statements | 83-102 |

GOODLASS **NEROLAC** PAINTS LTD.

SALES OFFICES AND FACTORIES



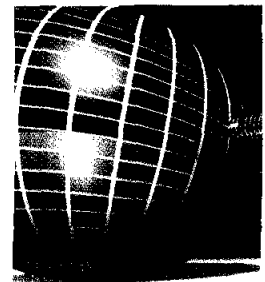
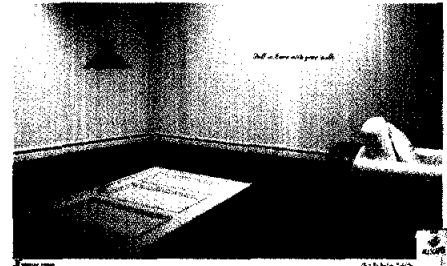
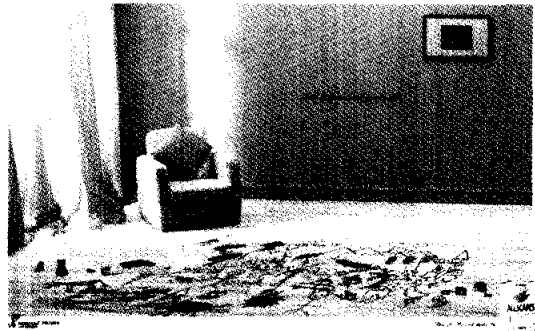
MARKETING AMMUNITION



▲ Nerolac ALLSCAPES
TV Commercial

▼ Press ads

This year we relaunched
Nerolac ALLSCAPES
as a 24 Carat Emulsion paint
for the interior segment.



COLORSCAPES MAGIC EYE

GNP has acquired GretagMacbeth's Spectrolino.

This precise colour measurement instrument helps control colour through all phases of production in the graphic arts and digital imaging industries. Colour and paper samples, transparencies, colour charts and monitors are all measured rapidly and accurately.

This Spectrophotometer has been placed at select outlets. The Spectrolino, connected to a computer, quickly and accurately identifies the colour shade of any object and converts that information into data.

This then is exported and processed to meet our specific requirements.



ReportJunction.com



GOODLASS NEROLAC PAINTS LIMITED

NOTICE

NOTICE is hereby given that the Eighty- second Annual General Meeting of the Shareholders of GOODLASS NEROLAC PAINTS LIMITED will be held at the Bombay House Auditorium, Bombay House, Homi Mody Street, Fort, Mumbai 400 001 on Friday, the 14th June, 2002, at 3.30 p.m. (S.T.) to transact the following business:

1. To receive, consider and adopt the Balance Sheet as at 31st March, 2002 and the Profit and Loss Account for the year ended on that date and the Reports of the Directors and the Auditors thereon.
2. To declare a dividend.
3. To appoint a Director in place of Mr. D. M. Kothari, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. K. C. Mehra, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Mr. P. S. Khanolkar, who retires by rotation and being eligible, offers himself for re-appointment.
6. To appoint a Director in place of Mr. S. M. Datta, who retires by rotation and being eligible, offers himself for re-appointment.
7. To appoint Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company, and to authorise the Audit Committee to fix their remuneration.

Registered Office:
"Nerolac House",
Ganpatrao Kadam Marg,
Lower Parel,
Mumbai 400 013.

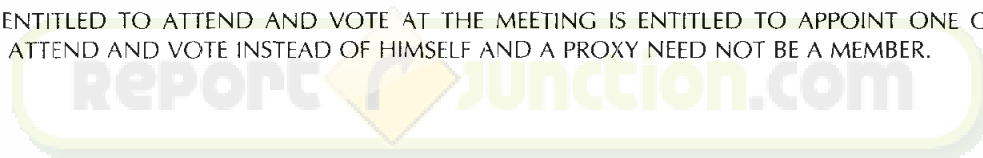
For and on behalf of the Board

F. A. MEHTA
Chairman

Dated : 30th April, 2002

NOTE :

A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ONE OR MORE PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER.



Goodlass Nerolac Paints Limited • Annual Report 2001-2002

DIRECTORS' REPORT

To

The Members,

Your Directors submit their Report and the Audited Accounts of the Company for the year ended 31st March, 2002.

FINANCIAL RESULTS

| | 1st April, 2001 to 31st March, 2002 | | 1st April, 2000 to 31st March, 2001 | |
|---|--|-------------|--|-------------|
| | Rs. in lacs | Rs. in lacs | Rs. in lacs | Rs. in lacs |
| Profit before Depreciation, Interest, Tax and Appropriation | | 65,75.67 | | 59,52.96 |
| Less : Depreciation | 24,67.23 | | 20,07.87 | |
| Interest | 3,72.93 | 28,40.16 | 6,37.25 | 26,45.12 |
| Profit before Tax | | 37,35.51 | | 33,07.84 |
| Less : Tax | | 10,00.00 | | 10,50.00 |
| Profit after Tax | | 27,35.51 | | 22,57.84 |
| Add : Balance brought forward from previous year | | 13,87.93 | | 12,26.36 |
| Balance available for appropriation | | 41,23.44 | | 34,84.20 |
| Appropriations: | | | | |
| Proposed Dividend (For current year, subject to deduction of tax) | 11,47.85 | | 9,94.80 | |
| Corporate Dividend Tax | — | | 1,01.47 | |
| General Reserve | 15,00.00 | 26,47.85 | 10,00.00 | 20,96.27 |
| Balance retained in Profit and Loss Account | | 14,75.59 | | 13,87.93 |
| | | 41,23.44 | | 34,84.20 |

DIVIDEND

The Directors recommend a dividend at 75% amounting to Rs. 1148 lacs on the paid-up Share Capital of Rs. 1530 lacs, (previous year : Dividend @ 65% amounting to Rs. 995 lacs, on the paid-up Share Capital of Rs. 1530 lacs).

MANAGEMENT DISCUSSION AND ANALYSIS

(a) Industry Structure and Developments

Your Company is one of the leading players in the Indian Paints Market. The Company is the market leader in industrial paints.

The Indian Paints Sector is estimated at about Rs. 5600 crores, of which the organized sector is estimated at about 70%. Over the years there has been a gradual shift from the unorganized sector to the organized sector.

There are seven large companies in the organized sector, which together account for about 65% of the total domestic sales.

The capacity utilization level in the paint industry is low at around 55 – 60%, as paint capacities are generally designed to meet the peak demand requirements during festive season. Besides capacity utilization is also affected by factors such as product mix variety, batch size, batch processing time and downtime between batches.

Growth in the early nineties was constrained by high excise duties. After the rationalisation of the excise duty structure in 1992 and consequent pick up in industrial growth, the paints segment began posting increasing growth. The organized sector has grown at a CAGR of about 10% over the last five years, though the growth for the financial year under consideration was estimated at about 5% on account of the deceleration in the rate of growth in the paint industry consequent to the recession in the economy as a whole.

The crucial demand drivers in the paint industry are factors such as a good agricultural and industrial growth, good overall economic growth, performance of the related industries like construction, automobiles, white goods, capital goods and heavy industries, increase in consumer income and consumer buying capacity and impetus given to the housing sector by improved availability of housing finance. With the globalisation of the Indian Economy, the Indian customers expect improved quality products at lower cost and also greater choice in shades. The companies in the paint sector have to concentrate on cost reduction and restructuring to match customer expectations and value enhancement. Capital investment in the paints industry would thus have to be geared towards improvement in operational and working capital parameters by efficient supply-chain management, greater marketing reach through brand building and installation of colour-tinting machines and attempts to increase consumer involvement in the paint-buying process through redesigning the dealer outlets, providing access to helplines, etc. Your Company is continuously focussed on these developments.

Your Company is committed to creating value addition to customers by way of continuous upgradation of technology resulting in reduction in paint consumption per vehicle, increasing the utility and life span of paints, reducing energy consumption and in manufacturing of environmental friendly paints. Latest technology, application knowledge, technical sales service and knowledge on Entire Paint System are key factors in Auto Paint market. With collaboration from world leaders across various continents and with wealth of experience over the years in running various auto lines, your Company is well equipped to maintain and consolidate its position of strength. Your Company is proud to be the first company to introduce latest environmental friendly Lead free Electrodeposition Paint in India.

(b) Opportunities and Threats

The household construction industry is expected to grow almost at 8% in the next five years considering the shortage of housing and the government's thrust on encouraging housing activity. This should favourably impact demand for decorative paints. In case of industrial paints, more than 50% of demand comes from automobile sector followed by 15 – 20% from consumer durables. With the entry of MNCs in both these sectors, the emphasis on paint quality has increased. This is considered to be a favourable factor for your Company. Besides, the industrial business will grow faster due to the lower base and fast growth in major user industries like consumer durables and automobiles. However, a slow down in the economy can lead to a poor offtake of these paints.

(c) Segment – wise or product – wise performance

The Company has one segment of activity namely paints, in line with the definition of "segment" as per Accounting Standard 17 issued by the Institute of Chartered Accountants of India. The performance of the Company is discussed separately in this Report.

(d) Outlook

The per capita consumption of paints in our country is about 0.5 kg. per annum as compared to 1.6 kgs. in China and 15-20 kgs. in the developed economies, indicating the potential for an increase in the demand for paints. The Indian Paints Industry is expected to grow at 7% CAGR for the next five years driven by increasing industrialisation.

The automobile sector has shown a revival in demand since the third quarter of the financial year 2001- 02 after a slump in this sector in the first half of the financial year. A sustained growth in the automobile and consumer goods sectors should boost growth in the paints industry. Good agricultural growth and in turn the increase in agricultural incomes should translate into higher spending. It should boost the consumer durables which in turn would increase demand for industrial paints. Increased disposable income should also result in spending on better housing and renovations, which would favourably impact the paints industry.

Your Company's management would endeavour to post a growth significantly better than the expected Industry growth rate as aforesaid.

Goodlass Nerolac Paints Limited • Annual Report 2001-2002**(e) Risks and Concerns**

Like any other industry, demand for Paints is affected by the downturn in the economy, natural disasters, manmade disasters like social unrest, transport strikes, etc.

The paint industry is raw material intensive both by value and the number of raw materials that are used to manufacture paints. A majority of raw materials are petroleum based and hence are linked to the volatile crude oil prices. Chemical and oil industry being globally linked, the availability of raw materials and their rising prices are a major concern for the industry. The number of shades is very large and sufficient stock of every shade has to be maintained at all levels of the distribution channels. The competitive nature of the industry requires that the paint industry spends huge amounts towards installing colour dispensing machines at dealer outlets in order to provide the customers with a wide choice of shades. The working capital requirements are high due to heavy inventory. Since the majority of raw materials for auto paints are imported, heavy stock- pile needs to be maintained. The demand for architectural paints is seasonal in nature. In the present competitive environment, brand differentiation is extremely important, which entails heavy advertising expenditure. The sluggishness of the economy and the depressed demand conditions in the end user industries results in increased credit periods to customers, resulting in blockage of working capital.

(f) Internal Control Systems

The Company has a full fledged internal audit department staffed with qualified and experienced people, who regularly conduct a review of the financial and operating controls at various locations of the Company, including risk management systems. External audit firms are also employed to conduct regular audit at various locations of the Company. Internal Control systems and their adequacy are also reviewed by the Audit Committee. At every Audit Committee meeting, a summary of internal audit reports, internal audit observations, together with the replies and action taken in this regard are placed before the Audit Committee and thoroughly discussed. At such meetings, besides the internal auditor, representatives of the Statutory Auditors also remain present. Actions taken on the basis of the recommendations of the Audit Committee are informed to the Audit Committee at the subsequent meeting. The Company has implemented the Enterprise Resource Planning (ERP) system which ensures speedy and timely access to business information, thereby enhancing the internal control mechanism.

(g) Financial performance with respect to operational performance

The Gross turnover of the Company increased from Rs. 683 crores to Rs. 703 crores reflecting a growth of 3% in the year 2001-02. In terms of volume, the growth in turnover was over 4%. Sales growth was adversely impacted by the depressed demand situation in the end user automobile industry more particularly during the first half of the financial year, though the situation improved during the second half of the financial year. Volume and value sales were also affected by price reduction and lower consumption of paint per vehicle due to improved technology.

Depreciation during the year increased by 23% to Rs. 24.67 crores on account of higher amount of capitalisation, and in particular of Colour Dispensers.

Overheads were kept under control. Several cost reduction measures were undertaken, translating into a reduction in operating expenses by Rs. 6 crores.

Good working capital management resulted in the reduction in interest cost from Rs. 6.37 crores in the previous year to Rs. 3.73 crores for the financial year under consideration.

Your Company could thus post an increase of 22% in net profit from Rs. 22.58 crores to Rs. 27.35 crores.

(h) Human Resources and Industrial Relations

The Company recognizes employee satisfaction and morale as a key for sustained growth. The Company has undertaken various initiatives to enhance employee satisfaction and morale. Interactive sessions named as "Samvaad" (Dialogue) for knowledge integration and morale building are regularly conducted. Corporate communications through employee news letter such as "Goody News" is given due importance to involve employee participation at all levels. The Company also recognizes training as an integral part of employee development and this involves all aspects of training viz, management training, functional training and behavioural training. The Company is also