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GOODLASS MEROLAC PAINTS LTD.
85TH ANNUAL REPORT 2004-2005

Transforming for the future.

In our continuous efforts to achieve complete customer satisfaction, we at Goodlass Nerolac Paints Ltd. have undergone a complete transformation. New systems and processes in place, a performance driven attitude and a commitment to quality and superior technology has reflected in the company's results.

All our departments have benefited from this change. From Research & Development to Value Engineering and Customer Value Management to Internal IT, which ensures optimal use of resources.

It is thus fulfilling our vision to provide our customers with superior products and services that consistently meet their needs.

Report

85th Annual Report

2004 - 2005

DIRECTORS: DR. J. J. IRANI (Chairman)
D. M. KOTHARI (Vice Chairman)
Y. KAWAMORI
K. C. MEHRA
H. M. BHARUKA (Managing Director)
S. M. DATTA
Y. TAJIRI
V. K. KHURANA (Director – Industrial Marketing)
H. ISHINO

COMPANY SECRETARY: G. T. GOVINDARAJAN

BANKERS: UNION BANK OF INDIA
STANDARD CHARTERED BANK
BANK OF TOKYO - MITSUBISHI LTD.
HDFC BANK LTD.
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:

- B1, B2, JAINPUR INDUSTRIAL ESTATE, KANPUR DEHAT, KANPUR, U.P.
- F/2, MIDC, LOTE PARSHURAM, TALUKA KHED,
DISTRICT RATNAGIRI, MAHARASHTRA.
- BIBI TALAV, VATVA, AHMEDABAD, GUJARAT.
- 142, TIRUPORUR ROAD, PERUNGUDI, CHENNAI, TAMIL NADU.
- 36, SECTOR-7, HSIDC IGS, BAWAL, DISTRICT REWARI, HARYANA.

GOODLASS NEROLAC PAINTS LTD.



Project Disha:

Project Disha was undertaken to develop a strategy which would enable the Company carve out a niche for itself in the growing decorative market.

Project Disha has led to the launch of several key initiatives that address markets, products and key business processes. These are sure to pay dividends in the years to come.

Manufacturing Excellence programs:

The journey towards manufacturing excellence started in Aug '03, with the Lote plant and then went on to cover Jainpur and Chennai as well. The project was launched to improve manufacturing standards across GNP.

TPM (Total Productive Maintenance) and Six – Sigma framework are being used to institutionalise a new method of working. This would bring about Manufacturing Excellence.

As a part of TPM, we have launched "Kaizen" (Continual Improvement Scheme). The scheme has resulted in active participation from all the employees and about 6000 new ideas were implemented. Following this, OEE (Overall Equipment Effectiveness) was introduced to measure Asset Utilisation. This was followed by systematic planned maintenance activities that led to reduction in breakdowns by 25% and improvement of OEE by 33% in two plants. Initiatives like 5 S and Root Cause Identification are also helping in improving asset utilisation.



Capacity Expansion:

Our new Greenfield plant (capacity 20400 MT) has been setup at Bawal, district Rewari of Haryana. Situated on the NH-8 highway, at a distance of just 70 km from Rajiv Chowk, Gurgaon, it's an ideal location for our customers. They are sure to benefit not only from the proximity of the plant but also the VAT regime. The plant has been commissioned and the production, initiated.



Bawal Factory (Haryana)



GOODLASS NEROLAC PAINTS LIMITED

NOTICE

NOTICE is hereby given that the Eighty-fifth Annual General Meeting of the Shareholders of GOODLASS NEROLAC PAINTS LIMITED will be held at the Walchand Hirachand Hall, 4th Floor, Indian Merchants' Chamber, LNM-IMC Building, IMC Marg, Churchgate, Mumbai 400 020 on Thursday, 28th July, 2005, 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, 2005 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 Dr. J. J. Irani, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. Y. Kawamori, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Mr. Y. Tajiri, who retires by rotation and being eligible, offers himself for re-appointment.
6. 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

J. J. IRANI
Chairman

Dated : 2nd May, 2005

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.

DIRECTORS' REPORT

To

The Members,

We have the pleasure in presenting the Eighty Fifth Annual Report and the Audited Accounts for the year ended 31st March, 2005.

1. Financial Highlights

	1st April, 2004 to 31st March, 2005	1st April, 2003 to 31st March, 2004
	<u>Rs. in lacs</u>	<u>Rs. in lacs</u>
Gross Sales	10,69,01.96	9,24,97.38
Net Sales/Income from Operations	8,79,49.15	7,60,45.98
(Net of excise and discounts)		
Other Income	22,19.64	9,79.04
Profit before Interest, Depreciation, Tax and Appropriation	1,58,72.64	1,12,12.28
Interest	76.81	1,31.97
Depreciation	20,70.03	22,04.17
Profit before Tax	1,37,25.80	88,76.14
Tax.....	45,30.00	30,80.00
Profit After Tax	91,95.80	57,96.14
Balance brought forward from previous year	26,27.31	19,89.36
Balance available for appropriation	<u>1,18,23.11</u>	<u>77,85.50</u>
 Appropriations:		
Proposed Dividend	29,33.38	19,13.08
Additional Income-tax on Distributed Profits	4,16.31	2,45.11
General Reserve.....	40,00.00	30,00.00
Balance retained in Profit and Loss Account.....	<u>44,73.42</u>	<u>26,27.31</u>
	<u>1,18,23.11</u>	<u>77,85.50</u>

2. Amalgamation of wholly owned subsidiary with the Company

Chemguard Coatings Ltd., an associate company engaged in the manufacture of high performance coatings, became a wholly owned subsidiary of the Company on 1st November, 2004. Effective the same date, the Board of Directors considered it appropriate to amalgamate the subsidiary with the Company as this would result in better internal economies such as reduction in administrative costs, exercise of effective control, synergistic operational advantages, better use of infrastructure facilities and increased productivity of the combined resources. The amalgamation has been approved by the Hon'ble High Court of Judicature at Madras. The approval of the Hon'ble High Court of Judicature at Bombay for the amalgamation is awaited.



The Directors recommend for consideration of the Members a dividend of Rs. 11.50 per equity share (115%) for the year ended 31st March 2005, on the enhanced share capital consequent to the issue of Bonus shares, as against Rs. 12.50 per equity share (125%) paid last year.

Management Discussion & Analysis

(A) Your Company

Goodlass Nerolac Paints Ltd. (GNP), headquartered in Mumbai was established in 1920. Over the years, the Company has enjoyed market leadership in Industrial Coatings with a clear dominance in the Automobile segment and a good standing in Architectural coatings business. On overall basis it enjoys number two position.

GNP is known for its innovative products, superior coating technology with a clear emphasis on high quality of service.

GNP has five manufacturing facilities spread across India. The Company services customers through 66 marketing offices in India.

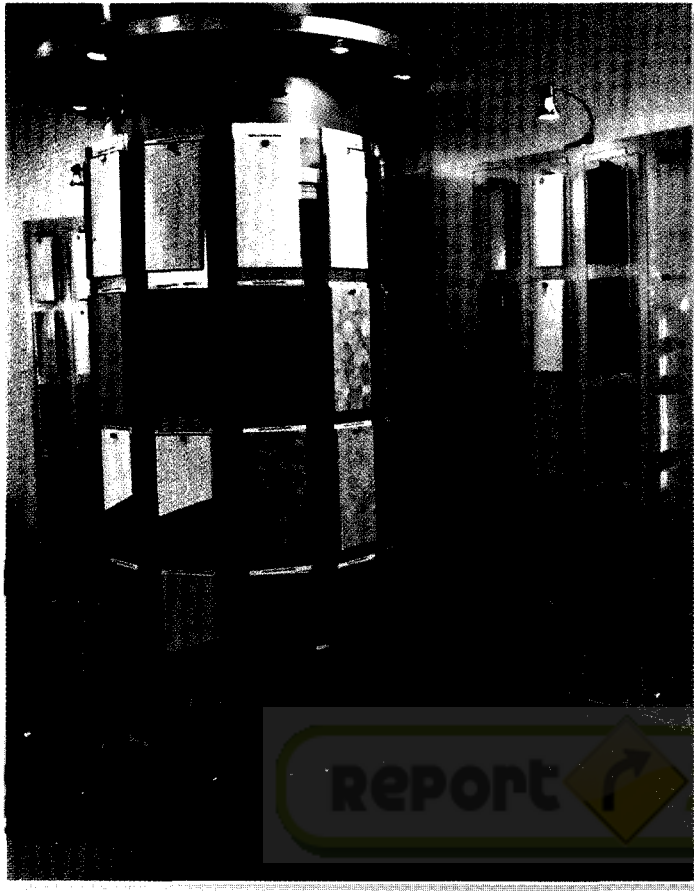
(B) Industry Structure and Developments – Outlook

The Indian economy is expected to have grown by 6.3% in 2004-05. This is despite a deficient monsoon, hardening of world oil prices and extensive damage caused by Tsunami.

2004-05 saw industrial recovery gathering further momentum with manufacturing sector growing at 8.3% and the service sector growing at 8.0%.

In light of this the Paint Industry growth rate of 14% is encouraging and the size is estimated to be Rs. 7750 crores, as at end March 2005. The automobile industry and housing sector continued to do well, thus influencing the





paint demand. The organized sector of the Paint Industry is estimated to be around Rs. 5400 crores.

2004-2005 was another successful year for the Company with total sales registering a growth of 15%, which is in line with the industry growth. Despite intense competition in the industry, GNP has been able to sustain growth rates in terms of revenue and customer addition.

GNP has prepared a Mission 2010 document as stated in last year's Annual Report. We have listed initiatives benchmarking the best of companies and are confident that the steps taken to implement them will improve operations. We aspire to grow better than the market.

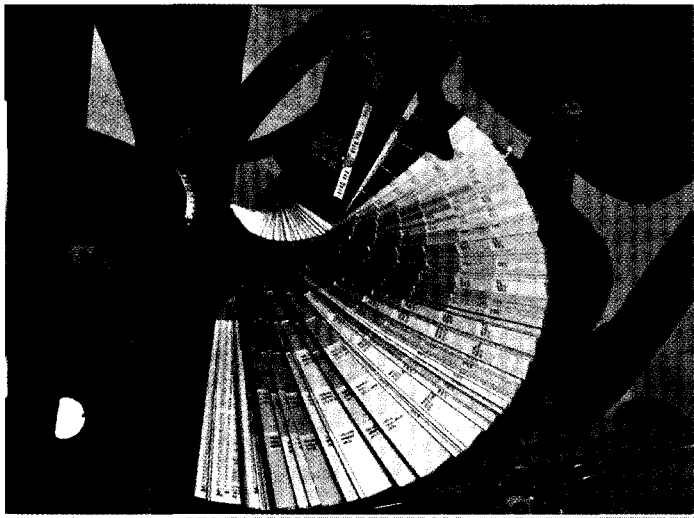
(C) Marketing & Sales/new products/initiatives

Architectural coating sales have shown a healthy increase in demand. The market continues to offer opportunities for growth.

With sustained investments in brand building and various promotional activities, the Company is poised to take advantage of a booming infrastructure and housing industry.

The Company has undertaken various initiatives like 'Project Disha' (strategy building exercise), besides new product launches.

The dealers have to face the challenge of satisfying very demanding customers who want the exact colours which meet their need. The Company continues to strengthen its offering through the Computerised Colour Dispenser (CCD) machines at dealer counters. CCD machines help the Company to offer variety of shades at the press of a button to consumers. The Company is also undertaking a series of initiatives to enable dealers to offer a complete painting solution to the end consumer.





Contractors play a significant role in painting business on big projects and it is important to build up relationship and loyalty for the brand in this class. Therefore, a contractor loyalty programme was launched, which was named — '*Nerolac Rishta*'.

This was the third consecutive year that the Company ran the consumer promotion scheme — '*Har Din Diwali*'. These schemes build up an emotional connect with consumers and strengthen the brand.

Shade cards act as useful brand communication tools at the buying stage at the dealers' shops. GNP changed the look of the entire range of shade cards. The aim was to bring a synergy in the entire range and make it much more consumer friendly and attractive.

The demand for industrial paints is derived from user industries such as automobiles, auto ancillaries, consumer durables and the level of industrialisation in the country.

The automobile sector continues to do well thus adding to the sales growth of industrial business. The Company continues to use technology to meet evolving customer needs. It has also endeavoured to expand its offering to cater to new opportunity areas.

A separate industrial marketing cell has been instituted, to give the required thrust on new product launches and to enhance the marketing activities in order to meet the industry challenges.

(D) Opportunities/Threats

The Indian economy continues to do well. Growth in sectors like services, automobiles, infrastructure and housing favourably impact paint business throwing up huge opportunities.

With opportunities come challenges like customer satisfaction and retention, protection of market share. The year has also seen an unprecedented