

HIGH-SPEED INNOVATIONS.
HIGH-SPEED SUCCESS.



KANSAI NEROLAC PAINTS LIMITED

87TH ANNUAL REPORT 2006-07



At Kansai Nerolac, innovation is not just a word we use to describe our new products; its a way of life. We thrive on anticipating our customer's needs and offering products and services that are much ahead of their time.

In Industrial business we were the first to introduce the 'Three Wet Coat 1 Bake' system that saves on power and increases productivity for customers. In decorative business we introduced Beauty Flexi, which is a revolutionary paint that stretches to cover cracks in walls; a range of stunning metallic finishes and the dramatic range of Nerolac Impressions Disney, that brings famous Disney characters to life in homes across the country.

In fact, every department at Kansai Nerolac is driven by this spirit of innovation. It is the driving force behind our success and the reason we aim higher with each passing year.


87th Annual Report 2006-2007

✽ DIRECTORS:	DR. J.J. IRANI (Chairman) D.M. KOTHARI (Vice Chairman) Y. KAWAMORI H.M BHARUKA (Managing Director) S.M. DATTA Y. TAJIRI H. ISHINO P.P. SHAH
✽ COMPANY SECRETARY:	G.T. GOVINDARAJAN
✽ BANKERS:	UNION BANK OF INDIA STANDARD CHARTERED BANK BANK OF TOKYO-MITSUBISHI UFJ, 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:	<ul style="list-style-type: none"> ▪ B1, B2, JAINPUR INDUSTRIAL ESTATE, KANPUR DEHAT, KANPUR, UP. ▪ 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.



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KEY HIGHLIGHTS OF THE YEAR

Revolutionary 3 wet technology painting systems

The global environmental awareness is increasing. Companies are working on solutions like Robotic application, recycling of washing thinners etc. to reduce Volatile Organic Compound (VOC). There are similar concerns on how to reduce energy consumption and shorten process and space. The automobile manufacturers also expect additional benefits like increase in productivity. 3 wet coats painting system, which eliminates the primer oven by using primer and base coat suitable for wet on wet application, is therefore an environment friendly solvent based 3 wet coating product, which has low emission of CO₂. As 3 wet coats system allows elimination of primer oven, it reduces process time, requires less space, increases productivity and results in power savings without compromising on appearance and quality. The conventional system needs baking of primer and baking of metallic base coat and clear top independently. In 3 wet coat painting system, as the name suggests, all the three coats are applied wet on wet and finally baked together.

RBNQA Award

Applying for IMC Ramkrishna Bajaj National Quality Award was a journey of self-introspection. It has inculcated a strong and systematic teamwork in the organization, for achieving quality and excellence. Kansai Nerolac was awarded Commendation Certificate this year. The award was presented by Mr. Rahul Bajaj.



Manufacturing Excellence

Manufacturing Excellence initiative is stabilized at all plants and has become a way of Life. Having basic structure in place, the Supply Chain Mission is deployed across all functions of Manufacturing using X matrix methodology. Goals/ Objectives deployed through X matrix, are periodically reviewed for progress, using strong review system of Balanced Score Card and periodic audit system.

Under the umbrella of Total Productive Maintenance (TPM) and Six Sigma, various initiatives are being taken at plants to show visible improvements in the areas like Productivity, Quality, Cost, Delivery, Safety and Morale of people. The initiatives taken are under broad areas like:

a) **Asset Care:** Improvements through Equipment ownership, Higher Overall Equipment Effectiveness (Equipment Availability) and Better equipment conditions resulting in:

- Better Asset Utilization
- Spic and Span, Safe and Visual workplace

b) **Process Care:** Improvements through standardization & optimization of processes, reduction of Non Value Added processes resulting in improved efficiency. Process capability study and various Focused Improvement Projects (under Six Sigma), to identify and reduce process variability, are undertaken by various Cross Functional Teams. These projects have given both tangible and intangible benefits in the areas like:

- Productivity
- Consistency in Product & Process Quality
- Wastages

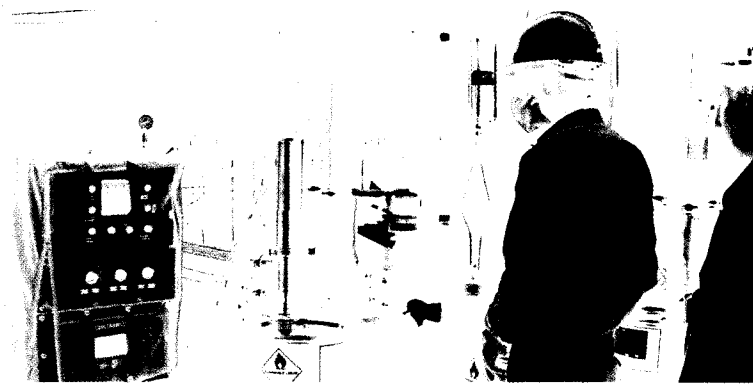
Delivery to our esteemed customers: Many initiatives are continuously being taken for better Energy Management, employing renewable sources.

c) **People Care:** The main aim under this area is to

move from traditional Function based approach to Process based approach to bring higher level of ownership at all levels. To take up current and future business challenges, consistent assessment and enhancement of Skill and Competency levels of Employees is being practised. A lot of focus is put by deploying structured processes of Induction, Skill Gap Analysis, Training, Assessment of Training Effectiveness etc.

To support Process and Quality improvement initiatives, key employees are continuously trained with Basic and Advanced Six Sigma tools. Under the area of People Care, it is imperative to ensure "Total Employee Involvement" in all the initiatives. Kaizen scheme is effectively used to engage people in small but continual improvements and to motivate them with Rewards and Recognitions. High morale of employees is also ensured with Safe and Better workplace. Various competitions are carried out for creating Competitiveness among employees. The efforts of such improvements are being appreciated by external bodies like CII – TPM Club India, RBNQA committee etc.

Having set the standards, the journey of Manufacturing Excellence is on to show further substantial and sustainable improvements to be a trend setter for the industry.



Impressions Experience Center

The three key barriers to consumer involvement with the category are:

- Unexciting Retail Experience
- Lack of knowledge of the category
- Lack of trust on the influencers

The Nerolac Experience Center has been created as a learning center to tackle all these three barriers. This will not only work as a Learning Center for the company before taking any such concept to the retail market but will also act as a place to showcase Nerolac's Competencies and bring in Large Architects, Builders & Contractors to showcase what Company has to offer and also offer them an avenue to gain knowledge.

The Experience Center has been divided into following sections:

Color and Design Wall

This section showcases more than 200 color combinations for the Interiors. It also showcases the designer finishes like Metallic and Disney Walls.

Color of the Season

This particular section showcases the color of the season to the consumers and will keep changing frequently.

Theme Rooms

One of the season colors will also be displayed through a theme bedroom, theme kitchen and theme living room display.

Nero Lab

This particular place will be an avenue for experimentation for the consumers as well as

influencers, where shades will be displayed along with panels and one can personally try out a color or a design. Here, more pre-painted panels with various designs will also be displayed.

Nero Theatre

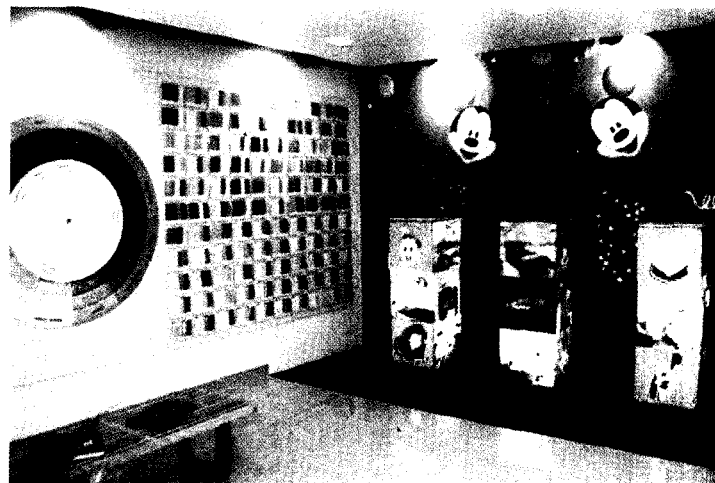
This particular section will be a library where consumers can just sit and go through various reference materials on Home decor.

Nero Magic

Nero Magic is the heart of the experience center where one can create a 3D layout of their house and change colors on the walls as well as other elements in the house and see which combination is looking best. The person can also do a real time walkthrough of their house.

Nero Corp

Nero Corp is a section that will be useful for someone interested to know the history of the organization and Company's industrial capabilities.



Impressions Metallic

Designer Finishes

Nerolac Impressions Metallic is the designer series in the Impressions range that gives metallic effect finish to the walls. It comes in five topcoat finishes: Red Pearl, Glitter Red, Blue Pearl, Bronze & Gold. Using specialized applicators, various special effects like dragging and ragging can be achieved.



Impressions Jama de –

Celebrity home makeover show

A fun based couple reality show, 'Nerolac Impressions Jama De' was all about renewing the look of your home and in a way your relationship with your spouse too, in just 36 hours. This was aired on Zee TV for 9 weeks over the weekend.

This celebrity home makeover show used TV celebrity couples and lots of drama, twists and turns and surprises to give its viewers interesting home painting/interior décor tips.

But the big thing – everything on this show was done in 36 hours, flat, with cameras rolling at all time. It brought alive all the action, the decision-making, the interior decorator interactions, sessions with the Nerolac representative who explained the different color offerings of the new Impressions range. This show was well received by the audience.



—~ KANSAI NEROLAC PAINTS LIMITED

NOTICE

NOTICE is hereby given that the Eighty-seventh Annual General Meeting of the Shareholders of KANSAI 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 Friday, 29th June, 2007 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, 2007 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 confirm the Interim Dividend of Rs.11.50 per equity share of Rs.10 each already paid for the year ended 31st March, 2007.
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 a Director in place of Mr. Pradip P. Shah, who was appointed as a Director of the Company, under Article 114 of the Articles of Association of the Company to fill in the casual vacancy created by the resignation of Mr. K.C. Mehra and who holds office upto the date of this Annual General Meeting by reason of Section 262 of the Companies Act, 1956, but being eligible, offers himself for re-appointment and in respect of whom the Company has received a notice in writing from some Shareholders proposing his candidature for the office of Director.
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

J. J. IRANI
 Chairman

Dated: 3rd May, 2007

NOTES :

1. 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.
2. An Explanatory Statement pursuant to Section 173 of the Companies Act, 1956, relating to Item No. 6 is annexed hereto.

ANNEXURE TO NOTICE**Explanatory statement under Section 173 of the Companies Act, 1956****Item No. 6**

Mr. Pradip P. Shah was appointed as a Director of the Company on 30th January, 2007, by the Board of Directors in the casual vacancy caused by the resignation of Mr. K. C. Mehra. Pursuant to Section 262 of the Companies Act, 1956, ("the Act") read with Article 114 of the Articles of Association of the Company, Mr. Shah holds office only upto the forthcoming Annual General Meeting because Mr. Mehra in whose place he was appointed would have held the office upto the date of the forthcoming Annual General Meeting, had he not resigned.

Notice in writing has been received from some Shareholders of the Company pursuant to Section 257 of the Act signifying their intention to propose Mr. Shah as a candidate for the office of Director. As required by the said Section 257, the Shareholders giving notice have deposited a sum of Rs. 500 with the Company which shall be refunded if Mr. Shah is elected as a Director.

Mr. Shah, aged 54, is a qualified Chartered Accountant and a Cost Accountant and holds an MBA from Harvard Business School. The services of Mr. Shah have been and will be very useful to the Company. The Directors, therefore, recommend that he be appointed as a Director of the Company.

Mr. Shah is interested in the Resolution at Item No. 6 of the accompanying Notice since it relates to his own appointment.

None of the other Directors is in anyway concerned or interested in the Resolution.

Disclosure in terms of Clause 49(IV)(E)(v) of the Listing Agreement with the BSE and the NSE:

None of the Directors seeking appointment/re-appointment at this Annual General Meeting have any shareholding (own or held by/for other persons on a beneficial basis), in the Company.

Mr. Y. Kawamori and Mr. Y. Tajiri are nominees of Kansai Paint Co. Ltd, Japan, the promoter Company. They do not hold any share in personal capacity.