

KANSAI NEROLAC PAINTS LIMITED

91ST ANNUAL REPORT 2011

Information Technology Enabled Business Transformation

It has always been the vision of Kansai Nerolac Paints Limited (KNPL) to leverage technology to create world class products and solution to ensure that our stakeholders get the best. One of the most important technologies that KNPL has leveraged in the last decade or so has been Information Technology. In the past decade, KNPL has successfully implemented products like ERP, Supply Chain Management (SCM), Data warehousing and a slew of portals around knowledge management, suppliers, sales force, Technical services and employees.

Investments in IT Solutions need involvement of business and senior management since they are transformational and involve change in mindset, culture and work styles. In the slow-down of calendar year 2009, KNPL saw an opportunity to engage the organization and in the process bring about far reaching cultural changes which would make KNPL future ready and capable of delivering high value to stake holders. With this in mind, KNPL took a very strategic decision of making investments in a range of next generation IT Business Solutions. KNPL felt that during the slow down there would be resource availability and management bandwidth to successfully nurture and implement these packages.

This initiative represented KNPL's most ambitious Business driven – IT Initiative in its history. What sets this initiative apart is its unique transformational capability. It involved the implementation of a parallel set of IT solutions in every possible operational area of the company, be it core day to day operations, supply chain management, Finance, Manufacturing, Sales and marketing, Technical, Governance, HR and of course IT.

With this implementation, the company is seeing transformation in the manner of functioning w.r.t product development, manufacturing, warehousing, field force functioning, marketing, customer handling, work processes, knowledge retention, business decision making, controls & governance and appraisals amongst others. This initiative has ensured that the benefits of Information Technology has now touched every facet of the organization and has enabled and enriched the work of every person within the organization, right down to the front line personnel in various functions.

These initiatives have strengthened operations and controls. However, the single biggest benefit has been that they have helped the company develop a range of system generated dashboards. These dashboards, which are sent to individual manager's mail boxes before the start of the day, have helped provide transparency and performance vis-a-vis defined benchmarks into all aspects of operational performance. They have also helped bring focus purely into decision-making and actions. Hence the theme for this year's annual report is, 'IT Enabled Business Transformation'.



DIRECTORS

Dr. J. J. IRANI (Chairman)
D. M. KOTHARI (Vice Chairman)
H. M. BHARUKA (Managing Director)
S. M. DATTA
H. ISHINO
P. P. SHAH
N. N. TATA
P. D. CHAUDHARI (Wholetime Director)
Y. TAKAHASHI
H. NISHIBAYASHI

COMPANY SECRETARY

G. T. GOVINDARAJAN

BANKERS

UNION BANK OF INDIA
STANDARD CHARTERED BANK
BANK OF TOKOYO - MITSUBISHI UFJ, LTD
HDFC BANK LTD.
BNP PARIBAS

AUDITORS

B S R & CO., MUMBAI

SOLICITORS

KANGA & CO., MUMBAI

REGISTERED OFFICE

NEROLAC HOUSE, GANPATRAO KADAM MARG,
LOWER PAREL, MUMBAI - 400 013



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Key Highlights of the year



• Golden Peacock Innovative Product/Service of the Year Award for Nerolac Impressions Ecoclean



• 5 Stars awarded to the Lote and Jainpur plants by the British Safety Council 5 Star Safety Audit



• Nerolac Excel Total with Heat Guard Technology as the 'Product of the year 2011' in the paints category



KANSAI NEROLAC PAINTS LIMITED

Notice

NOTICE is hereby given that the Ninety-first Annual General Meeting of the Shareholders of KANSAI NEROLAC PAINTS LIMITED will be held at the M. C. Ghia Hall, Bhogilal Hargovindas Building, 2nd Floor, 18/20, Kaikhushru Dubash Marg, Behind Prince of Wales Museum, Kala Ghoda, Mumbai - 400 001 on Saturday, 11th June, 2011 at 11 a.m. (S.T.) to transact the following business:

1. To receive, consider and adopt the Balance Sheet as at 31st March, 2011 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. H. Ishino, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. N.N. Tata, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Mr. P.D. Chaudhari, 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.

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. The instrument appointing a proxy, in order to be effective, must be duly filled, stamped and signed and must reach the Company at its registered office not less than forty-eight hours before the commencement of the meeting.
2. Disclosure in terms of Clause 49(IV)(E)(v) of the Listing Agreement with the BSE and the NSE:

Name of Director seeking appointment / re-appointment	Shares held as on 31.3.2011 (Own or held by / for other persons on beneficial basis)
(1) Mr. H. Ishino	Nil*
(2) Mr. N.N.Tata	Nil
(3) Mr. P.D. Chaudhari	20

* Mr. H.Ishino is a Nominee of Kansai Paint Co. Ltd., Japan, the promoter Company. He does not hold any share in his personal capacity.

For and on behalf of the Board

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

J.J. IRANI
Chairman

Dated: 28th April, 2011



Directors' Report

Dear Members,

Your Directors' are pleased to present the 91st Annual Report and the Audited Accounts for the year ended 31st March, 2011.

1. Financial Highlights

	1st April, 2010 to 31st March, 2011	1st April 2009 to 31st March, 2010
	Rs. in lacs	Rs. in lacs
Gross Sales	**249319.23**	197170.53
Net Sales/Income from operations (Net of excise and discounts)	**213873.02**	170638.36
Other Income	**2346.09**	2038.21
Profit before Interest, Depreciation, Tax and Appropriation	**31396.34**	28406.91
Interest	**84.28**	119.99
Depreciation	**4935.48**	4425.98
Profit Before Exceptional Item	**26376.58**	23860.94
Profit on Sale of Associate Company	**2536.65**	—
Profit Before Tax	**28913.23**	23860.94
Tax	**8314.78**	7310.89
Profit After Tax	**20598.45**	16550.05
Balance brought forward from previous year	**37320.73**	27143.88
Balance available for appropriations	**57919.18**	43693.93
Appropriations:		
Proposed dividend	**5389.20**	4041.89
Tax on proposed dividend	**874.26**	671.31
General Reserve	**2059.85**	1660.00
Balance retained in Profit and Loss Account	**49595.87**	37320.73
	57919.18	43693.93

2. Dividend

The Directors recommend for consideration of the Members a dividend of Rs. 10 (100 %) per equity share of the nominal value of Rs. 10 each for the year ended 31st March, 2011 on the enhanced share capital after the Bonus Issue of 1:1 in June 2010 as against Rs. 15.00 per equity share (150%) paid last year.

3. Issue of Bonus Shares

During the year, the Company issued Bonus Shares in the proportion of one New Equity Share for every one Equity Share held. The approval of the Shareholders for the issue of Bonus Shares was obtained by means of postal ballot.



4. Management Discussion and Analysis







(A) About the Company

Kansai Nerolac Paints Ltd. (KNPL), a subsidiary of Kansai Paint, Japan was established in the year 1920. It is the second largest coating company in India and the market leader in Industrial Coatings. Having completed 90 years of existence, KNPL has established itself as a well known brand with a strong recall proposition.

KNPL has a pan-India presence and serves its customers through its 74 sales locations and 5 factories. The manufacturing operations extend across India and are located in Bawal in Haryana, Lote in Maharashtra, Jainpur in UP, Chennai and Hosur in Tamil Nadu. The proximity of the plants to the customers' base has offered logistic advantage and enabled high service levels.

For the Industrial Coatings, KNPL has a series of products in the Automotive, Powder and Liquids domain. A series of innovative product launches and service capabilities like Just In Time (JIT) have been some of the key enablers for sustaining the leadership. For the Decorative business, the organization is known for its innovative products and services and has many firsts to its credit like launch of low Volatile Organic Compound (VOC), low odour and lead free (no added lead) paints.

The organization, through the course of the last decade had benchmarked itself against the practices of several organizations and devised the Mission for all the business segments. A series of initiatives with long term strategic implications on the organization had been undertaken in all the functions.

KNPL has always propagated innovation, use of technology and value engineering. It has continuously demonstrated leadership traits and challenged the way business is done in the Decorative as well as Industrial segments.







Capacity enhancements, operational excellence, higher service delivery, reduced inventory has been the agenda for Supply chain function. In order to meet the industry requirements, capacity expansions took place at Jainpur and Hosur. KNPL got statutory clearances for expanding the plant capabilities and commissioning at Hosur. This will be helpful in catering to future customer demands.

Huge investments in IT interventions are indicative of the organization's focus on exploiting the power of Information Technology as a strategic differentiator. The initiatives undertaken will be the catalysts for transformation in the way transactions are done, data is analyzed, decisions are made and customer demands are fulfilled.

The organization has been awarded with several accolades in all functional areas of Products, Services and Governance which indicate that KNPL has been appreciated by the entire value chain.

(B) Industry Progress

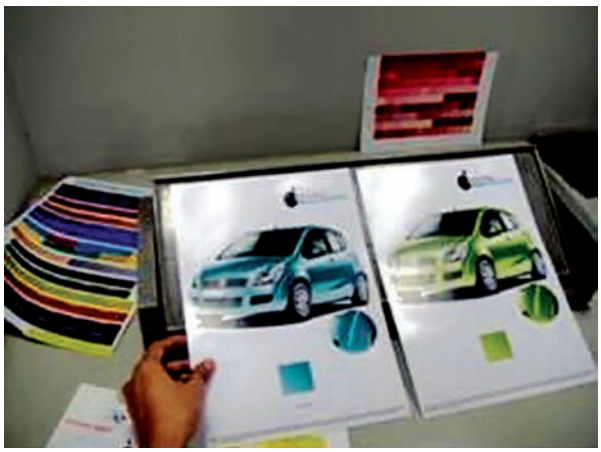
In the year 2010-11, the Indian economy has seen good growth. Demand across various key end user segments be it housing, automobiles, consumer durables has been robust. The paint industry as a whole is expected to have grown by 22% in 2010-11. During the year KNPL has grown by 26%. Growth across all segments has been encouraging.

Through the investments and implementation of various IT packages and other strategic interventions, the organization has leveraged its brand, product range, reach, delivery capabilities, infrastructural support and operational controls to achieve the desired growth momentum.





KANSAI NEROLAC
Auto Palette



As an outcome, KNPL has been able to focus on the decorative and non auto liquid business, while consolidating its leadership in the Automotive and powder coatings business.

The year also saw high inflation which put cost pressures on the Industry and the company. The company has through a series of internal measures of operational efficiencies tried to minimize the impact. In the Decorative business the company was able to pass on the cost increases to a certain extent. However, in the Industrial business, passing on the cost impact continues to be a challenge. This has had an impact on the bottom line growth for the company.

As far as the market for paints segment for India is concerned, the long term fundamentals are sound and the industry is expected to grow at about 12-13% annually over the next five years.

Despite the long term positive growth prospects in the Indian Economy, there have been signs of tightening interest rates, increasing inflation, political uncertainties and rising commodity and oil prices. These along with the instability in the policy making process, cost pressures and market uncertainties have made the business environment very challenging for the year and years ahead. While KNPL has taken various measures to meet the challenges, it maintains a cautious view about the near future both in terms of top-line and bottom-line growth.

The industry size for paints is estimated at Rs. 24,000 crores wherein the organized sector accounts for 65% while the remaining is with the unorganized sector comprising of around two thousand small scale paint units. The decorative paints segment accounts for Rs. 18000 crores while industrial accounts for Rs. 6000 crores of the total paint market.

