



NEROLAC

Colours that Care

100th Annual Report 2020

KANSAI NEROLAC PAINTS LIMITED

The last 100 years have witnessed a century of change. We at Kansai Nerolac, have actively partnered with our customers to embrace change wholeheartedly. Drawing from our ethos of care, we've constantly kept innovating with the aid of superior technology and services. By connecting people, by protecting and maintaining the mighty bridges and dams, adding sheen and beauty to India's first modern day car, the iconic Maruti 800; ushering in an era of healthy home paints with low VOC and no heavy metals, bringing beauty and durability to not just walls but also vehicles, home appliances, furniture and more; we have made sure to be present in consumer lives in more ways than one.

As we look to the future, we want to take this ethos of care forward by “**sparkling positive change among customers**”, keeping the need for 'Wellbeing' and 'Holistic Care' as our guiding light. Our brand purpose and corporate values enable us to stay responsible for the safe keep of our surroundings and create a culture that celebrates vitality, freedom and harmony.

All of this, delivered through our 'Unique-to-Category' products, innovations and services. It's not just about Colour. It's about Care

NEROLAC

Colours that Care

Corporate Information

BOARD OF DIRECTORS as on 31st March, 2020

Mr. Pradip Panalal Shah
Chairman
(Independent Director)

Mr. Harishchandra Meghraj Bharuka
Vice Chairman and Managing Director

Mr. Noel Naval Tata
Non-Executive Director
(Independent Director)

Mr. Hidenori Furukawa
Non-Executive Director

Mr. Anuj Jain
Whole-time Director

Mr. Hitoshi Nishibayashi
Non-Executive Director

Mr. Hideshi Hasebe
Non-Executive Director

Ms. Sonia Singh
Non-Executive Director
(Independent Director)

COMPANY SECRETARY
G.T. GOVINDARAJAN

BANKERS

UNION BANK OF INDIA
STANDARD CHARTERED BANK
HDFC BANK LTD.
BNP PARIBAS

STATUTORY AUDITORS
S R B C & CO LLP, MUMBAI

SOLICITORS
KANGA & CO., MUMBAI

REGISTERED OFFICE
NEROLAC HOUSE,
Ganpatrao Kadam Marg,
Lower Parel, Mumbai-400 013, Maharashtra.
Tel: +91-22-24934001
Fax: +91-22-24936296
Website: www.nerolac.com
Investors Relations e-mail ID: investor@nerolac.com
Corporate Identity Number (CIN):
L24202MH1920PLC000825

About the Report

Kansai Nerolac Paints Limited (hereafter referred to as 'KNPL' or the 'Company') is pleased to present its 100th Annual Report for the Financial Year 2019-20 (1st April, 2019 to 31st March, 2020, or the 'reporting period'). Starting this year, the Company has transitioned towards publishing Integrated Report <IR> in line with framework developed by the International Integrated Reporting Council (IIRC).

<IR> is fast emerging as a globally accepted corporate reporting platform and practice. It takes a broader approach of reporting by covering information beyond financial capital to five other capitals – manufactured, intellectual, human, social and relationship and natural capital. It demonstrates the interlinkage of these capitals and how a company uses them to maximise value creation for itself and all the stakeholders while managing trade-offs, risks and material issues.

This report intends to serve as a concise and all-inclusive communication about the Company's value creation process using both financial and non-financial resources. It provides insights into the Company's business model, strategies, material issues emanating from stakeholder engagements and its response to it, governance, performance (financial and non-financial) and prospects, in the context of its external environment. Both qualitative and quantitative data have been used to enable stakeholders better understand the Company's business and evaluate its performance for making informed investment decision.

Reporting Principle

The financial information presented in this report complies with the financial and statutory data requirements of the Companies Act, 2013 (including the rules made thereunder), the Indian Accounting Standards and the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

The non-financial information in this report is disclosed in accordance with Global Reporting Initiative (GRI) Standards: Core option. It is based on calculation methodologies conforming to globally accepted standards and is presented in a manner that it is succinct and comparable to enhance the report's value for all stakeholders. The assumptions, exclusions and restatements have been included wherever applicable.

Scope and Boundary

The information provided in this report pertains to the company and its subsidiaries.

Approach to materiality

The report covers key material issues which have been identified basis various stakeholder engagements, their impact on value-creation process and the Company's approach to address them with a measurable target. This facilitates stakeholders in making informed decisions with regards to their engagement with the Company.

Contents

Corporate Overview

4-69



- 4-7 Message from Vice Chairman and Managing Director
- 8 Key Highlights
- 9 Performance Highlights
- 10-11 Corporate Profile
- 12-13 Our Product Portfolio
- 14-15 100-Year Journey
- 16 Our Operational Footprint
- 17-19 Our Strategy and Future Orientation
- 20-21 Our Value Creation Model
- 22-23 Staying Engaged with the Stakeholders
- 24-26 Materiality Assessment
- 27 Opportunities and Threats
- 28 Risk and Concerns
- 29 Sustainability Focus
- 30-69 Nurturing Our Capital

Statutory Reports

70-171



- 70-84 Notice
- 85-141 Board's Report including Management Discussion and Analysis
- 142-160 Report on Corporate Governance
- 161-171 Business Responsibility Report

Financial Statements

172-281



- 172-179 Auditors' Report on Standalone Financial Statements
- 180 Standalone Balance Sheet
- 181 Standalone Statement of Profit and Loss
- 182 Standalone Statement of Changes in Equity
- 183-184 Standalone Statement of Cash Flows
- 185-221 Notes to the Standalone Financial Statements
- 222 Salient Features of the Subsidiaries in Form AOC-1
- 223-229 Auditors' Report on Consolidated Financial Statements
- 230 Consolidated Balance Sheet
- 231 Consolidated Statement of Profit and Loss
- 232 Consolidated Statement of Changes in Equity
- 233-234 Consolidated Statement of Cash Flows
- 235-280 Notes to the Consolidated Financial Statements
- 281 Summarised Standalone Statement of Profit and Loss of 15 Years



For more details, please visit:
www.nerolac.com

Message from Vice Chairman and Managing Director



“

We have defined our Purpose as ‘Creating environments for a healthy and beautiful future’, defined our Brand Promise as ‘Renew Life’ and defined our Brand expression as ‘Colours that Care’

Dear Shareholders,

It gives me immense pleasure to present to you our 1st Integrated Report as per the guiding principles of International Integrated Reporting Council.

We are at the brink of a historic moment; Kansai Nerolac Paints Ltd. (KNPL) completes 100 Years on the 2nd of September 2020. This report outlines the performance of the company in this 100th year and showcases Kansai Nerolac Paints Ltd's. journey and its efforts over the decades towards the transformation and creation of value towards a growing expanse of customers and the Indian paint Industry as a whole.

100 years of transforming lives

The Company has grown a great deal over the decades evolving a holistic, technology, service and a knowledge driven approach to develop and pioneer a variety of coating solutions for Indian consumers to touch every day lives from homes, automobiles, white goods and infrastructure projects. In more recent times we pioneered the concept of Healthy Home paints by bringing in Heavy Metal free and Low VOC paints.

At this historic juncture of our 100th year of existence, we want to take forward this ethos of care to the next level. We want to do so by sparking a positive change among customers and keeping their need for ‘Wellbeing’ and ‘Holistic Care’ as our guiding light.

Keeping these guiding principles in mind, we have defined our Purpose as ‘Creating environments for a healthy and beautiful future’, defined our Brand Promise as ‘Renew Life’ and defined our Brand Expression as ‘Colours that Care.’

This Annual Report enumerates the strategic orientation of the Company and its alignment with its business philosophy and policies. It also enumerates the performance across our product offerings and functions, in the backdrop of the prevailing economic and business environment.

Business Overview

The macro environment during the year was one of uncertainty and volatility. Prolonged monsoons, floods in many key states, and changed policy in Kashmir where the company is the market leader impacted Decorative paints demand. The unprecedented slowdown in Automotive coupled with the credit crisis impacted demand for Automotive Paints. The slowdown extended to other Original Equipment Manufacturers (OEM) industries impacting demand there as well. As we came to the end of the financial year the world and then India was hit by the Covid-19 pandemic, bringing businesses to a standstill, across industries and markets.

Throughout the year, prices of various raw materials were stable and showed a slow declining trend, however volatility in the exchange rate created a challenge.

Performance Overview

Amidst the challenges, your Company was able to play true to its strengths and deliver through FY 2019-20. The Company continued to bring new technology to the market thus adding value to its valuable customers which helped KNPL gain market share in Automotive, Performance Coatings and Powder Coatings and end the year with a positive volume and value growth in Decorative.

The Company's prudent strategy of adopting aggressive cost control, dynamic formulation management, product mix changes and overhead control measures, helped increase the Operating Profitability from 14.3% in 2018-19 to 15.8% and Operating Profit from ₹ 742 Crores in 2018-19 to ₹ 781.6 crores.

The Company was also able to improve its Operating cash flow from ₹ 110.4 crores in 2018-19 to ₹ 620.6 crores and free cash flow from ₹ (413.1) crores in the previous year to ₹ 403.6 crore.



315%

Dividend proposed by the Board for
FY 2019-20

In this challenging business environment, the Board has proposed a dividend of 315% against the 260% dividend declared in the previous year.

Expansion and Acquisition

Your Company's journey of nearly 100 years is mapped by many strategic initiatives and mileposts, helping us build and sustain our market leadership in the Indian Paint industry. From creation of a strong brand, expansion of distribution and manufacturing footprint, new products and categories, to new geographies and collaborations, we have judiciously scaled our capabilities and offerings to cater to the transforming demands and needs of our diverse and growing clientele.

During the year, the manufacturing capability was augmented with the commissioning of the new state-of-the-art digital factory in Goindwal, (Punjab) and the approvals for supply to major automobile OEMs from its Sayakha, Gujarat plant which was commissioned last year.

Since the past few years, we have taken a two-pronged approach for creating new avenues of growth by exploring new customer opportunities, and by expanding across the Indian subcontinent where we have a mandate to operate

In line with our strategy of entering allied market verticals, during the year, we entered into a strategic JV with Polygel to set up a new Company "Nerofix" for tapping the Adhesive market. This JV will also enable us to tap into the vast Business to Business (B2B) and Business to Consumer (B2C) adhesives market with, enhance our adhesive supply chain and 'go to market' capabilities. As you are aware, last

Message from Vice Chairman and Managing Director

year we had acquired Perma Constructions to give a boost to our construction chemicals business and during the year we launched a new range of construction chemicals product under the Nerolac Perma Brand. This is in line with our ambition to Leveraging our core competencies of technology and distribution for expansion into new allied markets and customer groups.

The Company continued its impressive penetration into Coil Coating, Pipe Coating and Rebar Coating. During the year, we created a dedicated manufacturing capability for Coil Coating at the Sayakha, Gujarat Plant.

As a strategic initiative to bring high-end Italian Wood Finishes to our growing portfolio of premium customers, we inked an agreement with Italy's 'Icro Coatings'. The Company identifies this as a key area of future growth and shall continue to invest in it. Work has also started for a dedicated manufacturing capability for wood finishes at its Jainpur facility.

Moving in line with the strategy of expanding our footprint in the Indian Subcontinent, KNPL further strengthened its position in the countries of our operation outside India. In Bangladesh, we launched the Nerolac range of Decorative paints through our subsidiary RAK Paints Ltd and received a great response from the market. In Sri Lanka, we changed our branding from Kansai to Kansai S-lon and revamped our distribution strategy. S-lon is a leading brand in the Hardware sector in Lanka of our partner in Sri Lanka the Capital Maharaja Organisation Ltd.. We took a major step to further boost our Nepal business by starting a project to upgrade the Birgunj Plant. The company sees its international operations as growth opportunities and is committed to invest in them.

Innovation

We launched multiple new products and upgraded customers across passenger vehicles, two wheelers, Auto ancillaries and tractors besides for various industries in

“

Powering this thrust will be our commitment to continuous adoption of the latest technologies at our plants, and in our systems and processes.

Performance coatings and powder coatings during the year which created huge value for our customers as well as helped our customers in energy consumption reduction. KNPL remains committed to provide upgrades and to be the first to upgrade customers to the latest technological products using the vast knowledge of various lines.

We also launched functional coatings for Decorative aimed at reducing indoor pollution of formaldehyde as well as aiding fast painting turnaround through quick drying and no odour formulations.

Powering this thrust will be our commitment to continuous adoption of the latest technologies at our plants, and in our systems and processes.

Sustainability

Environment:

KNPL, has been actively working on the sustainability agenda for nearly a decade and has been voluntarily publishing the Sustainability report on the website since 2012. The company steadfastly focuses on water management where it has achieved zero liquid discharge at all its manufacturing plants, reduction in hazardous waste, reduction in carbon footprint, energy management where it focuses on renewable energy, health and safety and emission management. The sustainability disclosures comply with

the Global Reporting Initiatives (GRI) 4.0 Standards. All the plants are now ISO 45001 certified.

Community:

Our Sustainability focus also extends to the communities around which we work and the society at large. Our Corporate Social responsibility (CSR) activities during the year were, thus, carefully devised and consistent with the priority areas outlined by the Government of India. Besides utilising the full budget for Corporate Social Responsibility (CSR), we, at KNPL, pay great attention to ensuring the realisation of the outcome of our CSR programmes on the ground. Our efforts in CSR have been focussed around Health, Education, Environment and Community Development, and we work in close collaboration with local stakeholders, such as government agencies.

Governance:

KNPL continues to uphold the highest traditions of Corporate Governance. Strong Internal Audit focus with a focus on the Control Efficiency Index and Robust Control Index have helped the company improve from a design, policy, people and control perspective. Company tracks various compliance through the Legatrix online compliance monitoring system. The company has been using the online Enterprise Risk Management Framework to monitor various risk elements and prepare contingency plans to address evolving situations.

Digital

We have seen how digital innovation has become a key component in so many industries.

Leveraging digital technology and data driven decision making has become a big thrust area for the company. While we have implemented multiple successful POCs (Proof of concepts), we are now in process of re-thinking our entire processes and operations by embedding digital to

improve stakeholder experience and bring about significant operational efficiency.

People

We believe our People to be a major asset in KNPL's progressive odyssey and remain committed to nurturing their growth. KNPL continues to invest to improve the competency of its employees to add more value to its customers. For this KNPL had invested in a host of internal competency and skill programs to ensure that our people stay at the cutting edge. We have launched a Digital University and implemented multiple digital tools to help augment the capability and competency of the employees.

Way Forward

Going forward, we expect the market conditions to remain challenging. COVID-19 and the lockdown triggered on account of it is likely to have an impact on demand on all industries for some time to come. However, we remain motivated to build a sustainable future over the long term, through more proactive steps to enhance efficiencies and create a sustainable growth environment for one and all.

In Conclusion

On this note, I would like to thank all our stakeholders for their continuous support. We believe that engaged employees are our strength, and we value the passion and enthusiasm they bring to their work. KNPL is committed to building an organisation that is sensitive, vibrant and geared towards building a better tomorrow with the help of all the stakeholders.

H.M. Bharuka

Vice Chairman and Managing Director

Key Highlights



100-year Milestone

Kansai Nerolac Paints Ltd, entered the 100th year of existence, a glorious journey underpinned by industry leading endeavors and pioneering initiatives that have made a meaningful difference to all whose lives have been touched by it. The journey continues with a renewed commitment to make a positive impact and create better outcomes for all our stakeholders.



New Corporate Identity

Transformed the Corporate Identity to bring alive the brand ethos that forms the cornerstone of KNPL's growth and evolution from a humble paint company to a company that cares; Launched a new logo that reflects and symbolizes our new Brand expression 'Colours that Care', while also embodying the connect between Change and Care through the 'Swirl' design.



Launch of EVP

Launched Employee Value Proposition (EVP), which seeks to enhance organizational capabilities and empower continued growth and success by leveraging talent while providing employees with a differentiated experience.



Commenced Production at Goindwal

Expanded our manufacturing capabilities with the commencement of production of Decorative paints at our world-class plant located in Goindwal, Punjab.



Digital Thrust

Gave a major thrust to embed Digital in the organization. Implemented Machine Learning (ML) based intelligent solution for sales team along with a slew of other digital initiatives in the area of Robotic Process Automation (RPA), Chatbot, Internet of Things (IoT). Created a Digital Council to deepen our digital capabilities across the organization, in line with our digital strategy.



Collaboration with Icro Coatings

Signed an agreement with major Italian player Icro Coatings to enable us to offer the high-end Italian Wood finish to customers looking for superior style and quality.



Launch of Nerofix

Entered into a strategic Joint venture with Polygel Industries to set up a new Company "Nerofix" for tapping Adhesive market