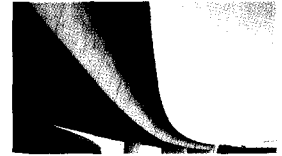


Ships



Bridges

THE COLOUR THAT TOUCHES EVERYTHING AROUND YOU

NEROLAC PAINTS



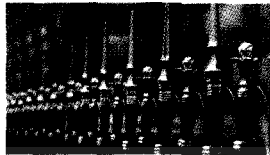
Exterior Walls



Idols



Jewellery



Railings



Automobiles

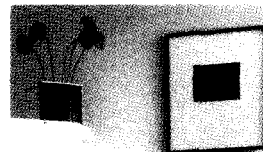


Furniture

84TH
ANNUAL
REPORT
2003-2004

THE COLOUR THAT TOUCHES YOUR LIFE

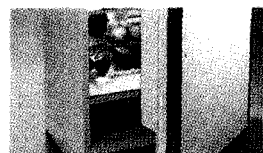
NEROLAC PAINTS



Interior Walls



Metallic Accessories



White Goods



And smiles too...

GOODLASS NEROLAC PAINTS LTD.

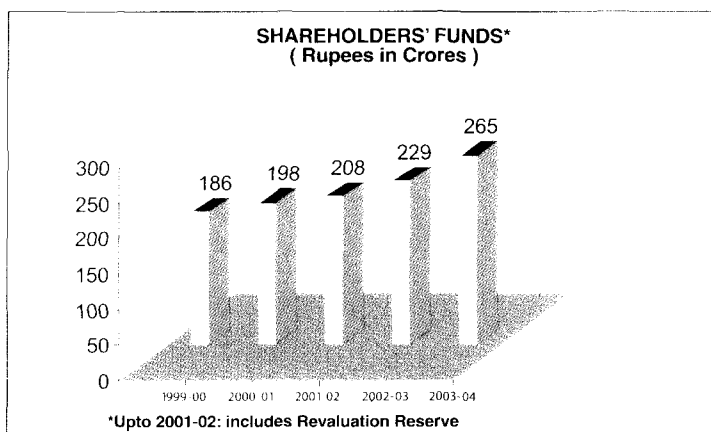
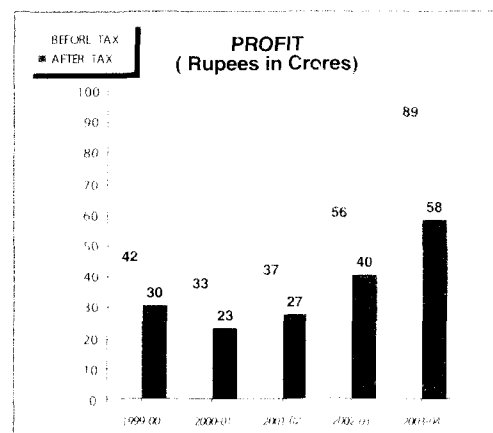
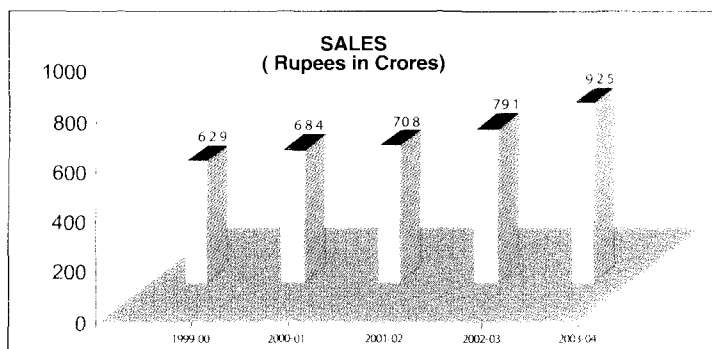
THE YEAR AT A GLANCE

Rs. in Crores, except per share data

| | March 31, 2004 | March 31, 2003 | Growth % |
|---------------------------------|----------------|----------------|----------|
| Sales | 925 | 791 | 17 |
| PBDIT | 112 | 82 | 37 |
| PBDIT as percentage of Sales | 12 % | 10 % | |
| PAT | 58 | 40 | 45 |
| PAT as percentage of Sales | 6 % | 5 % | |
| PAT as percentage of Net Worth | 22 % | 17 % | |
| Capital Investment | 21 | 19 | 11 |
| Dividend per share (Rs.) | 12.50 | 9.00 | 39 |
| Dividend Amount (Including Tax) | 22 | 16 | 38 |
| Earnings Per Share (Rs.) | 37.87 | 26.03 | 45 |
| At the end of the year | | | |
| Total assets | 335 | 299 | 12 |
| Fixed Assets (Net) | 109 | 91 | 19 |
| Working capital | 84 | 98 | (14) |
| Debt | 70 | 71 | 0 |
| Net worth | 265 | 229 | 16 |
| Equity | 15 | 15 | 0 |
| Market Capitalisation | 678 | 227 | 199 |

PBDIT: Profit Before Depreciation, Interest and Taxes

PAT: Profit After Tax





GOODLASS **NEROLAC** PAINTS LIMITED

EIGHTY- FOURTH ANNUAL REPORT 2003-2004

DIRECTORS

DR. J. J. IRANI, (*Chairman*)
D. M. KOTHARI, (*Vice Chairman*)
S. KOBAYASHI
Y. KAWAMORI
K. C. MEHRA
H. M. BHARUKA, (*Managing Director*)
S. M. DATTA
Y. TAJIRI
V. K. KHURANA, (*Director-Industrial Marketing*)

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

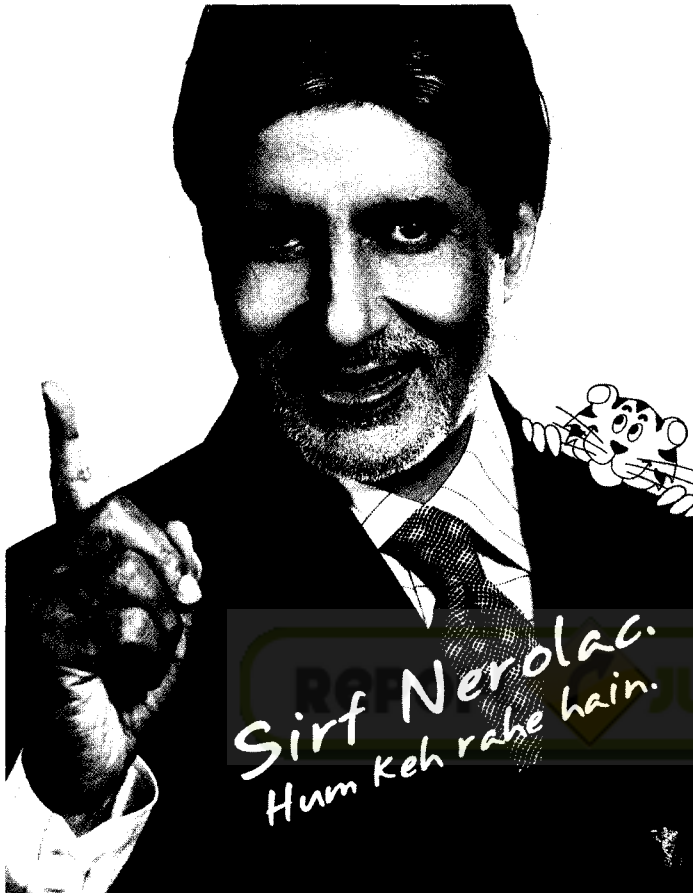
- B1, B2, JAINPUR INDUSTRIAL ESTATE,
KANPUR DEHAT, KANPUR, U.P.
- F/2, MIDC, LOTE PARSHURAM, TALUKA KHED,
DISTRICT RATNAGIRI, MAHARASHTRA.
- BIBI TALAV, VATVA, AHMEDABAD.
- 142, TIRUPORUR ROAD, PERUNGUDI, CHENNAI.

Visit us at www.nerolac.com

CONTENTS

| | Page Nos. |
|---|-----------|
| Key Highlights of the Year | 3-4 |
| Notice | 5-10 |
| Directors' Report including Management Discussion and Analysis | 11-27 |
| Report on Corporate Governance | 28-39 |
| Auditors' Report | 40-43 |
| Balance Sheet | 44 |
| Profit and Loss Account | 45 |
| Schedules forming part of Accounts | 46-68 |
| Cash Flow Statement | 69 |
| Summarised Balance Sheet and Profit and Loss Account of 15 years | 70-71 |

Key Highlights of the Year



Brand Ambassador

Over the past couple of years; Goodlass Nerolac Paints Ltd. (GNP) had chosen the celebrity endorsement route to deepen the relationship of its brands with consumers. The likes of Smriti Irani, Sakshi Talwar, Mohanlal amongst others have graced recent marketing campaigns. The campaigns, which were well received by the Indian consumer have largely been product focused. To take this to the next level, GNP decided to focus on "Brand Nerolac", which has achieved a solid reputation of meeting various coating needs of the consumers over the last eight decades. To project this uniqueness through the Celebrity endorsement route, GNP chose Mr. Amitabh Bachchan as its Corporate Brand Ambassador.

Project Activa (APO)

Paint Industry is a supply chain intensive industry, similar to FMCG. Forecasting, Planning, Scheduling and Distribution play a vital role in providing effective customer service as well as towards operating efficiencies. The rapidly changing environment demands quick response. With this view in mind, GNP had put in place a strong transaction and analytical backbone in the form of ERP and Datawarehousing in 2000. To take this to the next level, GNP has successfully rolled out all modules of the Supply Chain Suite, Advanced Planner and Optimizer (APO) from SAP across all locations. The tool is expected to meet the challenges of operating an efficient supply chain.

Capacity Expansion

To keep pace with the rapidly growing Indian economy and in order to fuel the Company's own growth plans, GNP has embarked upon capacity augmentation. During the year, capacity was enhanced by 24% at the Jainpur unit by the setting up of a facility for water based paints. Work is well under way at the Company's green field project at Bawal, Haryana, which is being set up with a planned capacity of 20,000 MT per annum in the 1st Phase, to cater to the requirements of industrial coatings, powders and pre-treatment chemicals initially. The state-of-the-art plant at Bawal will be the largest plant of GNP. The unit will conform to the Quality Standard QS 9000 and the Environment Management Standard IS 14001.



The Company's unit at Jainpur

Leadership Development

Business Analyst Team (BAT) has been instituted as a cross functional team that can think and come up with fresh inputs on issues concerning the organisation and develop a plan, which then gets deliberated and adopted by the Management Committee. This provides a good scope for Business Managers to get trained and hone their capabilities.

In order to broad base leadership and ensure that talent is available to carry forward the growth plan of the Company, GNP has also created a pool of talent called Creative Analyst Team (CAT). The team members are given various initiatives, which are critical to the Company and require cross-functional view.

Technical Awards

In order to give a boost to young scientists working in the Company, GNP launched a Technical Awards Programme. The programme focuses on rewarding innovation and unique development activities in the year. Shortlisted participants were given an opportunity to present the paper to the Management Committee.

GOODLASS NEROLAC PAINTS LIMITED

NOTICE

NOTICE is hereby given that the Eighty-fourth 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 Thursday, 15th July, 2004, 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, 2004 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. S. M. Datta, 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.
7. To consider and, if thought fit, to pass, with or without modification, the following Resolution as an Ordinary Resolution:

"RESOLVED that subject to the provisions of Sections 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956, read with Schedule XIII to the said Act, the consent of the Company be and is hereby accorded to the appointment of Mr. H. M. Bharuka as the Managing Director of the Company for a period of five years commencing from 1st April, 2004, and ending on 31st March, 2009 (both days inclusive) on the remuneration and perquisites as set out in the draft Agreement to be entered into between the Company and Mr. H. M. Bharuka placed before this meeting and initialled by the Chairman for the purpose of identification.

RESOLVED FURTHER that the Directors of the Company be and are hereby authorised to enter into an Agreement on behalf of the Company with Mr. H. M. Bharuka, in terms of the aforesaid draft Agreement."

8. To consider and, if thought fit, to pass, with or without modification, the following Resolution as a Special Resolution:

"RESOLVED THAT

- (a) Pursuant to Article 178 of the Articles of Association of the Company and subject to such consents and approvals as may be required and subject to compliance of the relevant guidelines issued by the Securities and Exchange Board of India and the regulations made by the Reserve Bank of India, where applicable, and the conditions and modifications, if any, as may be prescribed and agreed to by the Board of Directors of the Company, a sum of Rs. 10,20,30,660 of the amount standing to the credit of the Share Premium Account be and is hereby capitalised and transferred from the said Account to Share Capital and be applied for allotment of New Equity Shares of Rs. 10 each as Bonus Shares to the persons ('Equity Shareholders') who, on a date to be hereafter fixed by the Directors, ('the Record Date'), shall be the holders of the existing Shares of Rs. 10 each of the Company, whose names appear in the Register of Members of the Company, in payment in full of 1,02,03,066 New Equity Shares of Rs. 10 each and that such New Equity Shares out of the Company's unissued Equity Shares, credited as fully paid, be accordingly allotted as Bonus Shares to the Equity Shareholders respectively as aforesaid in the proportion of two New Equity Shares for every three existing Equity Shares held by the Equity Shareholders respectively on the Record Date, upon the footing that they become entitled thereto for all purposes as capital and not as income;

Goodlass Nerolac Paints Limited • Annual Report 2003-2004

- (b) the said New Equity Shares of Rs. 10 each, when issued and allotted, shall be subject to the Memorandum and Articles of Association of the Company and shall rank pari passu in all respects with and carry the same rights as the existing Equity Shares of the Company save and except that they shall not rank for Dividend declared or to be declared for or in respect of any financial year prior to the financial year in which the New Equity Shares are allotted;
- (c) in making the allotment of the New Equity Shares as aforesaid, the Board of Directors shall not issue fractional shares if the same shall arise out of such allotment but the New Equity Shares, represented by the total number of such fractional shares shall be allotted to such person or persons as may be appointed in this behalf by the Board of Directors, upon trust to sell the same as soon as practicable and after payment of all expenses of sale and distribute the net proceeds thereof to the Equity Shareholders in the proportion to their fractional entitlements thereto;
- (d) the Shareholders to whom the aforesaid New Equity Shares are allotted as bonus shares by virtue of this resolution and/or who are paid in cash in accordance with para (c) above, shall accept the same in full and final satisfaction of their respective rights and interests in the said capitalised sum of Rs. 10,20,30,660;
- (e) no Letter of Allotment shall be issued, but the Share Certificates in respect of shares held in physical form shall be issued within three months from the date of allotment thereof and in the case of shares held in dematerialized form, the intimation of allotment of Bonus Shares shall be sent within three months from the date of allotment thereof;
- (f) for the purpose of giving effect to this Resolution, and for the removal of any difficulties, the Board of Directors of the Company be and is hereby authorised to (i) do all acts, deeds and things and to give such directions as may be necessary or desirable and to settle any question or difficulty whatsoever that may arise with regard to the issue, allotment and distribution of the said New Equity Shares and (ii) accept on behalf of the Company alterations or modifications if any, relating to the issue of the New Equity Shares that may be required by other authorities as the Board in its discretion thinks fit and proper”.

9. To consider and, if thought fit, to pass, with or without modification, the following Resolution as a Special Resolution:

“ RESOLVED that Clause (3) of Article 117 of the Articles of Association of the Company be deleted and substituted by the following:

- ‘(3) The fee payable to a director for attending a meeting of the Board or Committee thereof shall be such sum as may from time to time be determined by the Board of Directors within the limit prescribed under the Companies Act, 1956.’

RESOLVED FURTHER that the revision in the fee payable to the Directors, as aforesaid, be effective from 1st April, 2004.”

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

For and on behalf of the Board

J. J. IRANI
Chairman

Dated : 30th April, 2004

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 Items No. 7, 8 and 9 is annexed hereto.

ANNEXURE TO NOTICE**Explanatory Statement under Section 173 of the Companies Act, 1956****Item No. 7**

As Shareholders are aware, the Board of Directors appointed Mr. H. M. Bharuka as the Managing Director of the Company for a period of five years commencing from 1st April, 2001 and ending on 31st March, 2006 (both days inclusive). The appointment was subject to the approval of the Shareholders in general meeting. The approval of the Shareholders was obtained to the aforesaid appointment at the 81st Annual General Meeting of the Company held on 17th August, 2001.

At the meeting of the Board of Directors of the Company held on 30th April, 2004, Mr. Bharuka was reappointed as the Managing Director of the Company for a period of five years commencing from 1st April, 2004 and ending on 31st March, 2009 (both days inclusive) on the revised remuneration and perquisites to be paid or granted to him as set out in the draft Agreement between the Company and Mr. Bharuka referred to in the Resolution at Item No. 7 of the Notice. The Board of Directors has considered it necessary to revise the terms of remuneration and perquisites payable to Mr. Bharuka from 1st April, 2004, in view of the commendable performance of the Company during the tenure of Mr. Bharuka as the Managing Director of the Company.

The re-appointment of Mr. Bharuka as the Managing Director of the Company and the remuneration and perquisites proposed to be paid or granted to him as set out in the aforesaid draft Agreement are in conformity with the provisions and requirements of Schedule XIII to the Companies Act, 1956. Accordingly, no approval of the Central Government is required to be obtained to the re-appointment of Mr. Bharuka as Managing Director of the Company or the proposed remuneration.

The re-appointment of Mr. Bharuka as the Managing Director of the Company on the remuneration and perquisites as set out in the aforesaid draft Agreement is however subject to the approval of the Shareholders in general meeting pursuant to Sections 198, 269 and 309 of the Companies Act, 1956. Hence the Resolution at Item No. 7 of the Notice.

Mr. Bharuka, aged 44, B.Com., A.I.C.W.A, with a varied experience of around 24 years, joined the Company on 1st October, 1985. Mr. Bharuka was appointed on the Board of Directors on 1st April, 1999, and was Deputy Managing Director, prior to his appointment as the Managing Director for a period of five years commencing from 1st April, 2001 upto and including 31st March, 2006. He is now being reappointed as the Managing Director for a period of five years commencing from 1st April, 2004 upto 31st March, 2009 (both days inclusive).

The material terms of the draft Agreement referred to in the Resolution at Item No. 7 are as follows:

1. The re-appointment of Mr. H. M. Bharuka as the Managing Director of the Company shall be for a period of five years commencing from 1st April, 2004, and ending on 31st March, 2009 (both days inclusive), subject to the same being previously determined as provided for in the Agreement.
2. Mr. Bharuka's position and designation shall be Managing Director.
3. Mr. Bharuka shall have the day-to-day management of the Company, subject to the superintendence, control and direction of the Board of Directors.
4. Mr. Bharuka shall devote his whole time, attention and abilities during business hours to the business of the Company and use his best endeavours to promote the interest and welfare of the Company and conform to and comply with the directions and regulations of the Company and all such orders and directions as may from time to time be given by the Board of Directors of the Company.
5. Mr. Bharuka shall be a member of all Committees appointed by the Board consisting of some of the members of the Board.
6. Mr. Bharuka shall not have the powers to make calls on shares and to issue debentures.
7. Mr. Bharuka shall have the following powers, subject to the prior sanction of, and such restriction imposed by the Board:
 - (a) To invest the funds of the Company in Government Securities, Municipal bonds and bonds issued by statutory corporations and public authorities, whether Indian or foreign; debentures, preference shares and

Goodlass Nerolac Paints Limited • Annual Report 2003-2004

equity shares of any private, public and/or Government Companies registered in India or elsewhere; call deposits or fixed deposits with companies, banks and other institutions;

- (b) To borrow money otherwise than on debentures for the purpose of the business of the Company;
 - (c) To accept call deposits and/or fixed deposits;
 - (d) To sell any of the assets or investments of the Company;
 - (e) To purchase assets for the Company;
 - (f) To appoint or engage staff and terminate their employment.
8. Remuneration : Mr. Bharuka shall be entitled to the following emoluments, benefits, perquisites, subject to the limits laid down under Sections 198, 309 and Schedule XIII to the Companies Act, 1956:
- (a) Salary: Rs. 1,80,000 per month, in the scale Rs. 1,50,000 per month - Rs. 2,50,000 per month. Increments will be decided upon from time to time by the Board each year and will be merit based and take into account the Company's performance.
 - (b) Commission: Upto 250% of the annual salary.
Subject to the overall ceiling in Section 198 and Section 309 of the Companies Act, 1956, Mr. Bharuka will be paid remuneration by way of commission based on net profits of the Company for each financial year as the Board may in its absolute discretion determine, depending on performance.
 - (c) House Rent Allowance: 40% of annual salary. In case Company accommodation is provided, no House Rent Allowance will be paid.
 - (d) Leave Travel Allowance: Upto 10% of annual salary.
 - (e) Other Perquisites and Allowances:
 - (i) Mr. Bharuka shall be entitled to perquisites and allowances like bonus, reimbursement of expenses or allowances for utilities such as gas, electricity, water, soft furnishing, hard furnishings and repairs, medical reimbursement or allowance, club fees, medical insurance and such other perquisites and allowances in accordance with the rules of the Company, applicable from time to time, or as may be agreed to by the Board of Directors, the value of which shall not in the aggregate exceed 75% of the annual salary.
 - (ii) For the purposes of calculating the above ceiling, perquisites and allowances shall be evaluated as per Income-tax Rules, wherever applicable. In the absence of any such rules, perquisites and allowances shall be evaluated at actual cost. Provision for use of the Company's car for official duties and telephone at residence (including payment for local calls and long distance official calls) shall not be included in the computation of perquisites for the purpose of calculating the said ceiling.
 - (iii) Company's contribution to Provident Fund shall be at 12% of Salary (including Commission). Company's contribution to Superannuation Fund shall be at 15% of Salary (including Commission). Company's contribution to Provident Fund and Superannuation Fund as aforesaid, gratuity payable as per the rules of the Company and encashment of leave at the end of the tenure shall not be included in the computation of limits for the remuneration or perquisites aforesaid.
- Minimum Remuneration:**
In the event of loss or inadequacy of profits during any financial year, in the aforesaid period, the Company will pay remuneration by way of salary, perquisites and allowances (including Leave Travel Allowance and House Rent Allowance, where applicable) as specified above, not exceeding the limits specified in Section II of Part II of Schedule XIII to the Companies Act, 1956.
- 9. Mr. Bharuka shall not be paid any sitting fees for attending the meetings of the Board of Directors or Committees thereof.
 - 10. Mr. Bharuka will be granted Privilege leave, Sick leave and Casual leave in accordance with the rules and regulations of the Company.
 - 11. In case of death of Mr. Bharuka during the course of his employment, the Company will pay to his legal personal representatives, the salary and other emoluments payable for the then current month.