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GREEN INITIATIVES TO TRANSFORM THE LIVING ENVIRONMENT.



KANSAI NEROLAC PAINTS LIMITED

92ND ANNUAL REPORT 2012

Growth as a word has been inseparable from the Kansai Nerolac story ever since its inception. While year on year the Company has been experiencing solid growth with respect to the Industry, what have kept changing all these years are the drivers of growth. What has been different about the Growth achieved by Kansai Nerolac Paints Ltd. (KNPL) in Financial Year 2011-12 is that it has been multi-dimensional and that it has been driven by pillars very unique to Kansai Nerolac.

With an objective of transforming the living environment, KNPL introduced better Products for all segments, better Processes in all spheres and optimized the consumption of resources at all levels. This was done by implementing world-class IT systems to increase efficiency in every domain. This year KNPL became the first Company in the country to track and measure its Environment, Health and Safety parameters through SAP module EHS. In the domain of Production, introducing IT modules like MII, WMS and ASRS etc. have ensured efficient planning, production, stocking and a Zero-Discharge manufacturing system. In the domain of Purchase, introduction of Vendor Portal has given boost to the speed of operations and has substantially reduced the use of paper during the Company's dealing with vendors. Use of IT tools like APO in planning has augmented the efficiency of Company's Supply Chain thereby reducing the wastage of material and resources and all this shows just the tip of the iceberg.

So, while the Company's Resolve to transform Living Environment and Belief in Modern Technology clearly proved to be the two unique assets that it possessed, did it all end at just the Top-line and the Bottom-line? Is that the only dimension to the Company's growth? Not really, by inaugurating the new Hosur factory and by opening new depots, the Company reached out new Geographies. Introduction of New, Affordable & Eco-Friendly Emulsions helped the Company reach out to the masses. By directly engaging lakhs of young followers on the Internet, the Company reached out to the youth. Implementation of CRM and SRM ensured that the Company reached out to its own Employees. So, in a lot of ways the growth that the Company has experienced this year is beyond numbers. It is a growth that has truly transformed business; it is a growth that has truly transformed the living environment and it is a growth that has been driven by Information Technology.

**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
- 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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# Notice

NOTICE is hereby given that the Ninety-second 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 Tuesday, 19th June, 2012 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, 2012 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. D.M. Kothari, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Mr. H. Nishibayashi, 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. Y. Tajiri 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.
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. An Explanatory Statement pursuant to Section 173 of the Companies Act, 1956, relating to Item No. 5 is annexed hereto.

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## Annexure to Notice

### **Explanatory Statement under Section 173 of the Companies Act, 1956**

#### Item No. 5

Mr. H. Nishibayashi was appointed as a Director of the Company on 30th July, 2010, by the Board of Directors in the casual vacancy caused by the resignation of Mr. Y. Tajiri. Pursuant to Section 262 of the Companies Act, 1956, ("the Act") read with Article 114 of the Articles of Association of the Company, Mr. Nishibayashi holds office only upto the forthcoming Annual General Meeting because Mr. Tajiri 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. Nishibayashi as a candidate for the office of Director. As required by the said Section 257, the Shareholders giving notice have deposited a sum of ₹ 500 with the Company which shall be refunded if Mr. Nishibayashi is elected as a Director.

Mr. Nishibayashi, aged 48 years, is an expert in the field of Automotive Coatings Business Marketing. The services of Mr. Nishibayashi 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. Nishibayashi is interested in the Resolution at Item No. 5 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:**

Name of Director seeking appointment/ re-appointment	Shares held as on 31.3.2012 (Own or held by/ for other persons on beneficial basis)
(1) Dr. J.J. Irani	Nil
(2) Mr. D.M. Kothari	3084
(3) Mr. H. Nishibayashi	Nil*

\* Mr. H. Nishibayashi 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: 2nd May, 2012

# Directors' Report

Dear Members,

Your Directors are pleased to present the 92nd Annual Report and the Audited Accounts for the year ended 31st March, 2012.

## 1. Financial Highlights

	1st April, 2011 to 31st March, 2012	1st April 2010 to 31st March, 2011
	₹ in Million	₹ in Million
Sales & Operating Revenue.....	30198.84	24957.01
Net Sales/Income from operations (Net of excise and discounts) .....	26005.72	21412.39
Other Income .....	242.66	225.44
Profit before Interest, Depreciation, Tax and Appropriation.....	3615.67	3132.56
Interest.....	0.86	1.35
Depreciation.....	563.53	493.55
Profit Before Exceptional Item .....	3051.28	2637.66
Exceptional Item .....	—	253.67
Profit Before Tax.....	3051.28	2891.33
Tax.....	892.43	831.48
Profit After Tax.....	2158.85	2059.85
Balance brought forward from previous year .....	4959. 59	3732.07
Balance available for appropriations .....	7118.44	5791.92
<b>Appropriations:</b>		
Proposed Dividend.....	592.81	538.92
Tax on proposed dividend .....	96.17	87.43
General Reserve .....	215.89	205.98
Balance retained in Profit and Loss Account.....	6213.57	4959.59
	7118.44	5791.92

## 2. Dividend

The Directors recommend for consideration of the Members a dividend of ₹ 11.00 (110%) per equity share of the nominal value of ₹ 10 each for the year ended 31st March, 2012 as against ₹ 10.00 per equity share (100%) paid last year.

### 3. Management Discussion and Analysis



#### A. Introduction to Kansai Nerolac Paints Ltd.

Kansai Nerolac Paints Ltd. (KNPL), a subsidiary of Kansai Paint, Japan made its beginning as Gahagan Paints and Varnishes Co. Ltd. in the year 1920. Having completed over 92 years of strong foundation, the Company has been known as one of the strong players in the paint Industry with high reputation for quality, innovation and brand identity.

KNPL's vision has been to leverage global technology and serve the customers with superior coatings systems and world class solutions. The vision is articulated through the focus of the organization to reach out to the consumers through its employees working from sales locations and factories across the country. The Company has its manufacturing facilities at Lote in Maharashtra, Bawal at Haryana, Jainpur in UP, Chennai and the latest state of the art plant at Hosur in Tamil Nadu. The geographical set up of the plants has been advantageous in providing high service levels and supply chain efficiency, thus leading to customer satisfaction.

Kansai Nerolac has always aimed to work in congruence to the customer needs. KNPL has been coming out with new range of products in order to meet customer demands in the Automotive, Auto Refinish and Performance Coatings segments of the markets. New developments include 9th Generation Super High Throw Power CED with shorter deposition time to facilitate higher productivity, Transit protection film rap guard, Coatings for Car interiors in the Automotive segment, new range of Eco Hybrid - Premium PU refinish system for Auto refinish segment and Moisture cured epoxies, Poly-siloxane coating, Poly-urea and poly-asphartic coatings for the Performance Coatings Liquid segment. The full system supply capability in tandem with the products introduced has been instrumental in sustaining the leadership for the industrial business segment.

The Company has pioneered the launch of eco friendly, zero VOC, low VOC, lead free (no lead added) range of products for the Decorative business. It has continued the focus on core brands with introduction of products like Lotus Touch and Little Master series of emulsions.



The key to business is based on finding sustainable solutions which support long term growth. Extensive benchmarking study of practices across sectors has been carried out. The feasible salient ones have been incorporated in the Mission Document too. This document features the vision, elements of organizational strategy and milestones for every function and serves as a guide for all internal stakeholders.

KNPL has set very high standards for research & development through constant innovation, value engineering and technological interventions wherein quality is of prime importance.

Supply chain efficiency has helped in reaching out to the customers. New depots have been opened to reach the customer markets and improve service levels.

It has many firsts to the credit for the way business is conducted in the competitive environment of Decorative as well as Industrial segment. Huge investments have been made in the supply chain domain for capacity augmentation, increasing the customer reach, operational efficiency, high service levels and inventory control. Technology has been leveraged to automate the warehousing facility at Jainpur besides streamlining warehouse facilities at Bawal and Lote by using WMS (Warehouse Management System)/ 9 from SAP in conjunction with bar coding.

Considering the industry demands and customer requirements, expansions have taken place for Decorative and Automotive sections at Jainpur and Bawal. Work is on to commission the new facilities at the latest state of the art plant at Hosur.

Huge investments in IT interventions are indicative of the organization's focus on effective and speedier transactions. KNPL has rolled out CRM (Customer Relationship Management) and BCM (Business Communication Manager) to ensure better visibility of the customer. KNPL has also rolled out the EHS Suite (Environment, Health and Safety) of Products from SAP at its plants and HO. These projects have fostered streamlined transactions, better informed and faster decisions.

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



## B. Industry Progress

The financial year 2011-12 has been challenging. Economic pressures have dominated with high interest rates, inflation, political imbroglio and uncertainty in the global scenario. The Company has taken this operating environment as a challenge and focused on sustainable growth. While practising caution, it has leveraged its capacity enhancements, operational controls, product innovations, customer reach and infrastructural support. Risk mitigation plans have also been in place.

As a result, Kansai Nerolac has been able to consolidate its leadership in the Automotive and Performance Coating powder business and focus on the Decorative business through the unique healthy home products proposition.

The market for the paints segment is expected to grow at 12-13% for the next five years i.e. at 1.5 to 2 times the real GDP. This indicates that there is growth opportunity for Kansai Nerolac and the Company is well equipped for the financial year 2012-13.

The industry size for paints is estimated at ₹ 29100 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 ₹ 22500 crores while industrial accounts for ₹ 6600 crores of the total paint market.

