

CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Members of Asian Paints Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying Consolidated Financial Statements of Asian Paints Limited (hereinafter referred to as "the Parent") and its subsidiaries (the Parent and its subsidiaries together referred to as "the Group") which includes the Group's share of profit in its associates, which comprise the Consolidated Balance Sheet as at 31st March, 2019, the Consolidated Statement of Profit and Loss (including Other Comprehensive Income), the Consolidated Cash Flow Statement and the Consolidated Statement of Changes in Equity, for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion and to the best of our information and according to the explanations given to us and based on the consideration of reports of other auditors on separate financial statements of the subsidiaries and associates referred to below in the Other Matter section below, the aforesaid Consolidated Financial Statements give the information required by the Companies Act, 2013 ("the Act") in the manner so required and give a true and fair view in conformity with the Indian Accounting Standards prescribed under section 133 of the Act read with the Companies (Indian Accounting Standards) Rules, 2015, as amended ('Ind AS') and other accounting principles generally accepted in India, of the consolidated state of affairs of the Group and its associates as at 31st March, 2019, and their consolidated profit, their consolidated

total comprehensive income, their consolidated cash flows and their consolidated changes in equity for the year ended on that date.

Basis for Opinion

We conducted our audit of the Consolidated Financial Statements in accordance with the Standards on Auditing specified under section 143(10) of the Act (SAs). Our responsibilities under those Standards are further described in the Auditor's Responsibility for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India (ICAI) together with the ethical requirements that are relevant to our audit of the Consolidated Financial Statements under the provisions of the Act and the rules made thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ICAI's Code of Ethics. We believe that the audit evidence obtained by us is sufficient and appropriate to provide a basis for our audit opinion on the Consolidated Financial Statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Consolidated Financial Statements of the current period. These matters were addressed in the context of our audit of the Consolidated Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

The Key Audit Matter	How was the matter addressed in our audit
<p>Revenue recognition – the Parent (Refer note 1.4(f) and 22 of the Consolidated Financial Statements)</p> <p>Revenue is one of the key profit drivers and is therefore susceptible to misstatement. Cut-off is the key assertion insofar as revenue recognition is concerned, since an inappropriate cut-off can result in material misstatement of results for the year.</p>	<p>Our audit procedures with regard to revenue recognition included testing controls, automated and manual, around dispatches / deliveries, inventory reconciliations and circularization of receivable balances, substantive testing for cut-offs and analytical review procedures.</p>
<p>Discounts and incentives – the Parent (Refer note 1.4(f) and 22 of the Consolidated Financial Statements)</p> <p>Discounts and incentives to dealers / customers are administered through various schemes including incentives. These are material items of business cost. The calculation of the amount of expense to be recognized is both voluminous, complex and involves significant judgement. The liability recognized for such discounts and incentives as at 31st March 2019 is ₹ 475.11 crores. There is a risk that such liabilities for discounts and incentives may be inaccurately recognised.</p>	<p>Our audit procedures included assessment of the design and implementation of controls, in addition to testing the effectiveness of key controls in respect of recognition of the liabilities for such discounts and incentives. We have considered each significant type of discount recognized and assessed the appropriateness of the judgement applied while recognizing the liability including the methodology and inputs used in calculating the amount and in some cases, re-performed the calculation. Our audit procedures also included verification of appropriate authorization, analytical review including comparison of budgeted amount and actual charge for the year and review of historical trends in respect of these liabilities.</p>

The Key Audit Matter	How was the matter addressed in our audit
<p>Capital work-in-progress/Property Plant and Equipment (PPE) – the Parent – (Refer note 1.4 (c), 1.4 (d) and Note 2, Note 3 of the Consolidated Financial Statements)</p> <p>The Parent had embarked on the project of setting up manufacturing plants in Mysuru and Vizag. Value of Mysuru and Vizag plants capitalized during the year is ₹ 1,220 crores and ₹ 1,125 crores respectively. The projects need to be capitalized and depreciated once the assets are ready for use as intended by the management of the Parent. Inappropriate timing of capitalization of the project and/or inappropriate classification of categories of items of PPE could result in material misstatement of Capital work-in-progress/PPE with a consequent impact on depreciation charge and results for the year.</p>	<p>Our audit procedures included testing the design, implementation and operating effectiveness of controls in respect of review of capital work in progress, particularly in respect of timing of the capitalization and recording of additions to items of various categories of PPE with source documentation, substantive testing of appropriateness of the cut-off date considered for project capitalization.</p> <p>We tested the source documentation to determine whether the expenditure is of capital nature and has been appropriately approved and segregated into appropriate categories. We reviewed operating expenses to determine appropriateness of accounting. Further, through sites visits, we physically verified existence of capital work in progress/PPE.</p>
<p>System Upgradation - the Parent</p> <p>The Parent used SAP ECC 6.0 which was upgraded to SAP S/4 HANA in November 2018. Migration to S/4 HANA is a major upgrade to the existing core enterprise application system resulting into a significant change to the financial accounting configuration which is the core for financial reporting including preparation of Consolidated Financial Statements.</p> <p>Risks identified as emanating from the aforesaid change were (i) Inappropriate changes made to the application systems or programs that contain relevant automated controls (i.e., configurable settings, automated algorithms, automated calculations, and automated data extraction) and/or report logic and (ii) Systems not adequately configured or updated to restrict system access to authorized users.</p>	<p>Our audit procedures included obtaining detailed project plan and SAP Governance framework for transition to new SAP landscape. We involved Information Technology (IT) Specialists as part of the audit team to perform audit procedures in respect of this upgradation.</p> <p>Audit procedures performed by the IT Specialists involved, obtaining User Acceptance Testing ('UAT') sign-off to ensure that the implemented system was configured in line with business requirements, performing test of General IT Controls and user access controls in respect of SAP S/4 HANA IT environment and testing the operating effectiveness of the data migration process. The audit procedures also involved testing of critical transactions, segregation of duties (SOD) rules to ensure system access was restricted to authorized users and testing of interface controls between new SAP environment and other auxiliary systems.</p>
<p>Impairment of goodwill in Consolidated Financial Statements (Refer note 1.4 (e) and Note 3A of the Consolidated Financial Statements)</p> <p>The Consolidated Financial Statements reflect goodwill on acquisition / consolidation of ₹ 321.30 crores, including ₹ 35.36 crores towards acquisition of bath fitting business recognized in the standalone financial statements of the Parent, while the balance emanates from the subsidiaries. Goodwill is required to be tested annually for impairment. To this end, the Parent and the relevant subsidiary have estimated the recoverable amount of the Cash Generating Unit (CGU) to which the goodwill is allocable based on Value in Use (ViU) calculations. Determination of ViU involves significant estimates, assumptions and judgements as regards determination of method to be used for ViU calculation, reasonableness of assumptions involved in developing projections of financial performance etc., and is therefore susceptible to material misstatement due to error or fraud. The key assumptions applied in the impairment reviews are described in note 3A of the Consolidated Financial Statements.</p>	<p>Our audit procedures to the extent the goodwill is recognised in the standalone financial statements of the Parent included, reviewing the approach adopted for testing impairment including the method used for determination of ViU, testing the design, implementation and operating effectiveness of controls over the process of impairment assessment and performing substantive testing in respect of financial projections for their accuracy, reviewing the assumptions used for reasonableness and involving fair value specialists. We challenged the assumptions made by the management of the Parent in relation to the ViU computation. We also reviewed the sensitivity analysis performed by the management of the Parent on the key assumptions.</p> <p>To the extent, goodwill relates to the subsidiaries, component auditor has reviewed the ViU calculations for compliance with generally accepted methodologies, assess management's estimates of key inputs (discount rates, growth rates and profit margins) based on historical performance, their knowledge of the CGU operations and environment and general economic forecasts, and performed sensitivity analyses to assess the impact of reasonably possible changes in estimates on the recoverable amount of the CGU. We have reviewed the working papers of the component auditors and sought information and explanations from the component auditors, as considered, necessary.</p>

Information Other than the Financial Statements and Auditor's Report Thereon

The Parent's Board of Directors is responsible for the other information. The other information comprises Board's Report, Report on Corporate governance and Business Responsibility report but does not include the Consolidated Financial Statements, Standalone Financial Statements and our auditor's report thereon.

Our opinion on the Consolidated Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Consolidated Financial Statements, our responsibility is to read the other information, compare with the financial statement of the subsidiaries and associates audited by the other auditors, to the extent it relates to these entities and, in doing so, place reliance on the work of the other auditors and consider whether the other information is materially inconsistent with the Consolidated Financial Statements or our knowledge obtained during the course of our audit or otherwise appears to be materially misstated. Other information so far as it relates to the subsidiaries and associates, is traced from their financial statements audited by the other auditors.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Management's Responsibility for the Consolidated Financial Statements

The Parent's Board of Directors is responsible for the matters stated in section 134(5) of the Act with respect to the preparation of these Consolidated Financial Statements that give a true and fair view of the consolidated financial position, consolidated financial performance including other comprehensive income, consolidated cash flows and consolidated changes in equity of the Group including its associates in accordance with Ind AS and other accounting principles generally accepted in India. The respective Board of Directors of the companies included in the Group and of its associates are responsible for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Group and its associates for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the Consolidated Financial Statements that give a true and fair view and are free from material misstatement, whether

due to fraud or error, which have been used for the purpose of preparation of the Consolidated Financial Statements by the Directors of the Parent, as aforesaid.

In preparing the Consolidated Financial Statements, the respective Board of Directors of the companies included in the Group and of its associates are responsible for assessing the ability of the Group and of its associates to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management either intends to liquidate or to cease operations, or has no realistic alternative but to do so.

The respective Board of Directors of the companies included in the Group and of its associates are also responsible for overseeing the financial reporting process of the Group and of its associates.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal financial control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Act, we are also responsible for expressing our opinion on whether the Parent has adequate internal financial controls system in place and the operating effectiveness of such controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group and its associates to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and its associate to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and its associates to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the audit of the financial statements of such entities or business activities included in the Consolidated Financial Statements of which we are the independent auditors. For the other entities or business activities included in the Consolidated Financial Statements, which have been audited by other auditors, such other auditors remain responsible for the direction, supervision and performance of the audits carried out by them. We remain solely responsible for our audit opinion.

Materiality is the magnitude of misstatements in the Consolidated Financial Statements that, individually or in aggregate, makes it probable that the economic decisions of a reasonably knowledgeable user of the Consolidated Financial Statements may be influenced. We consider quantitative materiality and qualitative factors in (i) planning the scope of our audit work and in evaluating the results of our work; and (ii) to evaluate the effect of any identified misstatements in the Consolidated Financial Statements.

We communicate with those charged with governance of the Parent and such other entities included in the Consolidated Financial Statements of which we are the independent auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Consolidated Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matters

We did not audit the financial statements/consolidated financial information of 21 subsidiaries, whose financial statements/consolidated financial information reflect total assets of ₹ 2,859.29 crores as at 31st March, 2019, total revenues of ₹ 2,357.79 crores and net cash outflows amounting to ₹ 59.23 crores for the year ended on that date, as considered in the Consolidated Financial Statements. The Consolidated Financial Statements also include the Group's share of net profit of ₹ 40.82 crores for the year ended 31st March, 2019, as considered in the Consolidated Financial Statements, in respect of 3 associates, whose Consolidated Financial Statements have not been audited by us. These financial statements/Consolidated Financial Statements/consolidated financial information have been audited by other auditors whose reports have been furnished to us by the Management and our opinion on the Consolidated Financial Statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries and associate, and our report in terms of sub-section (3) of Section 143 of the Act, in so far as it relates to the aforesaid subsidiaries and associate is based solely on the reports of the other auditors. Our opinion on the Consolidated Financial Statements above, and our report on Other Legal and Regulatory Requirements below, is not modified in respect of the above matter with respect to our reliance on the work done and the reports of the other auditors.

Report on Other Legal and Regulatory Requirements

As required by Section 143(3) of the Act, based on our audit and on the consideration of the reports of other auditors on separate financial statements of subsidiary and associate companies incorporated in India, referred in the Other Matters paragraph above we report, to the extent applicable, that:

- (a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit of the aforesaid Consolidated Financial Statements.
- (b) In our opinion, proper books of account as required by law relating to preparation of the aforesaid Consolidated Financial Statements have been kept so far as it appears

from our examination of those books and the reports of the other auditors.

- (c) The Consolidated Balance Sheet, the Consolidated Statement of Profit and Loss including other comprehensive income, the Consolidated Statement of Cash Flow and the Consolidated Statement of Changes in Equity dealt with by this Report are in agreement with the relevant books of account maintained for the purpose of preparation of the Consolidated Financial Statements.
- (d) In our opinion, the aforesaid Consolidated Financial Statements comply with the Ind AS specified under Section 133 of the Act.
- (e) On the basis of the written representations received from the directors of the Parent as on 31st March, 2019 taken on record by the Board of Directors of the Company and the reports of the statutory auditors of its subsidiary companies and associate companies incorporated in India, none of the directors of the Group companies and its associate companies incorporated in India is disqualified as on 31st March, 2019 from being appointed as a director in terms of Section 164 (2) of the Act.
- (f) With respect to the adequacy of the internal financial controls over financial reporting and the operating effectiveness of such controls, refer to our separate Report in "Annexure A", which is based on the auditors' reports of the Parent, subsidiary companies and associate companies incorporated in India. Our report expresses an unmodified

opinion on the adequacy and operating effectiveness of internal financial controls over financial reporting of those companies, for the reasons stated therein.

- (g) With respect to the other matters to be included in the Auditor's Report in accordance with the requirements of section 197(16) of the Act, as amended,
In our opinion and to the best of our information and according to the explanations given to us, the remuneration paid by the Parent to its directors during the year is in accordance with the provisions of section 197 of the Act.
- (h) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditor's) Rules, 2014, as amended in our opinion and to the best of our information and according to the explanations given to us:
 - i. The Consolidated Financial Statements disclose the impact of pending litigations on the consolidated financial position of the Group and its associates.
 - ii. The Group and its associates did not have any material foreseeable losses on long-term contracts including derivative contracts.
 - iii. There has been no delay in transferring amounts required to be transferred to the Investor Education and Protection Fund other than two instances of delays aggregating ₹ 3.52 lakhs on account of unclaimed and unpaid sale proceeds of fractional shares arising out of the issue of bonus shares in earlier years.

For **Deloitte Haskins & Sells LLP**
Chartered Accountants
Firm's Registration No: 117366W/W-100018

Shyamak R Tata
Partner
Membership No: 038320

Mumbai
9th May, 2019

ANNEXURE “A” TO THE INDEPENDENT AUDITOR’S REPORT

(Referred to in paragraph (f) under ‘Report on Other Legal and Regulatory Requirements’ section of our report of even date)

Report on the Internal Financial Controls Over Financial Reporting under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 (“the Act”)

In conjunction with our audit of the Consolidated Financial Statements of the Company as of and for the year ended 31st March, 2019, we have audited the internal financial controls over financial reporting of Asian Paints Limited (“the Company” or “the Parent”) and its subsidiary companies and its associate companies, which are incorporated in India, as of that date.

Management’s Responsibility for Internal Financial Controls

The respective Board of Directors of the Parent, its subsidiary companies and its associate companies, which are companies incorporated in India, are responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the respective companies considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by the Institute of Chartered Accountants of India (“ICAI”). These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to respective company’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

Auditor’s Responsibility

Our responsibility is to express an opinion on the internal financial controls over financial reporting of the Company, its subsidiary companies and its associate companies, which are companies incorporated in India, based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the “Guidance Note”) issued by the Institute of Chartered Accountants of India and the Standards on Auditing prescribed under Section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained and the audit evidence obtained by the other auditors of the subsidiary companies and associate companies, which are companies incorporated in India, in terms of their reports referred to in the Other Matters paragraph below, is sufficient and appropriate to provide a basis for our audit opinion on the internal financial controls system over financial reporting of the Company, its subsidiary companies, its associate companies, which are companies incorporated in India.

Meaning of Internal Financial Controls Over Financial Reporting

A company’s internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls Over Financial Reporting

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future

periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, to the best of our information and according to the explanations given to us and based on the consideration of other auditors referred to in the Other Matters paragraph below, the Parent, its subsidiary companies and associate companies, which are companies incorporated in India, have, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31st March, 2019,

based on the criteria for internal control over financial reporting established by the respective companies considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India.

Other Matters

Our aforesaid report under Section 143(3)(i) of the Act on the adequacy and operating effectiveness of the internal financial controls over financial reporting insofar as it relates to 5 subsidiary companies and 2 associate companies, which are companies incorporated in India, is based on the corresponding reports of the auditors of such companies incorporated in India.

For **Deloitte Haskins & Sells LLP**
Chartered Accountants
Firm's Registration No: 117366W/W-100018

Shyamak R Tata
Partner
Membership No: 038320

Mumbai
9th May, 2019