

Management Discussion and Analysis



ECONOMIC ENVIRONMENT

Global economy

FY2017-18 was characterised by broad-based and synchronised growth across all major economies. On the contrary, FY2018-19 saw a range-bound global economic growth, largely supported by the continued strong momentum in the US economy. The growth trend, coupled with tight labour market participation, pushed the US Fed to increase its policy rates four times during the year, each time by 25 bps. At the same time, growth in the Eurozone slowed down due to the high deficit concerns in Italy and political uncertainties around Brexit.

The cyclical global growth phase appears to be slowing down and this could potentially impact the export sectors in the economy. Moreover, the consequences of the ongoing US-China trade talks as well as the final outcome of the now-delayed Brexit will have ramifications on supply chain networks and financial markets across the globe. As always, a lot would also hinge on the crude price stability as well as stable foreign exchange markets to support the global growth.

etc. continued to struggle throughout the year. Crude prices saw a significant uptrend in the first half of the year, rising by more than 40% before retracing back during the second half. However, overall inflation in the economy remained contained on the back of low food prices resulting from higher agriculture output and low global food prices.

Consumer sentiments remained suppressed for most part of the year with urban consumers feeling the overhang of inadequate job/income growth and high oil prices. At the same time, persistent deflation in food prices and lack of Minimum Support Price (MSP) realisations adversely impacted rural demand. In addition, credit growth was severely affected in the second half of the financial year with the non-banking financial sector under stress from defaults by a few large players in the sector.

The Indian currency saw a significant depreciation, falling to lows of 74.3 per USD mark mid-year before recovering. The last month of FY2018-19 saw the Rupee recover sharply to 68-69 per USD range on the

back of renewed portfolio inflows as well as revised views on a likely long pause from the US Fed on its interest rates.

Outlook

FY2019-20 is likely to start on an uncertain note due to the after effects of the general elections in the country. Varying early indications of the monsoon season might only add to this uncertainty as the rural economy still depends to a great extent on rains, especially given the low reservoir levels across the country. Recent round of policy rate cuts announced by the Reserve Bank of India are expected to alleviate the tight credit conditions that have persisted since the second half of FY2018-19 and thus provide a boost to the industrial sector. The construction segment is expected to stay depressed with the money markets being tight and it is expected that the premium to luxury segments will see lower growth.

India

On the domestic front, the full-year GDP growth rate is pegged at 7% for FY2018-19. This was due to the waning effects of the demonetisation exercise and the disruption in supply chains following the implementation of the Goods and Services Tax (GST). However, the growth trends continued to remain choppy throughout the year. Industrial activity across sectors showed only a marginal improvement as labour-intensive sectors such as textiles, gems and jewellery, leather,



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

INDUSTRY REVIEW

Paint Industry

Industry overview

The domestic paint industry is estimated to be a ₹ 50,000 Crores industry with the decorative paint category constituting almost 75% of this market. The decorative paint market includes multiple categories depending on the nature of the surface like exterior wall paints, interior wall paints, wood finishes, enamels as well as ancillary products like primers, putties, etc. The industrial paint category constitutes the balance 25% of the paint market and includes a broad array of segments like automotive coatings, marine coatings, packaging coatings, powder coatings, protective coatings and other general industrial coatings. The domestic paint industry still continues to have a sizeable 30-35% share of unorganised players which primarily cater to the low end of the product basket. The paint industry continues to see the emergence of

small to medium level new paint players who continue to put pressure at the low-end emulsions.

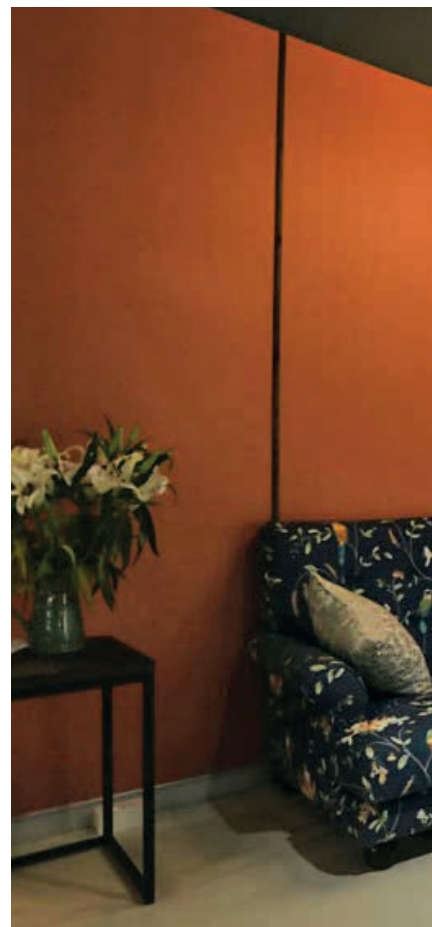
Industry trends

Over the second half of the previous financial year, the paint industry had gradually returned to normalcy from the de-stocking effects of the GST roll-out. However, the first half of FY2018-19 was impacted by supply chain disturbances due to the GST rate reduction from 28% to 18% leading to a bit of de-stocking in the distribution channel. The longer festival season ensured that there was good growth in the paint industry in the Sept-Oct period. The paint industry experienced significant raw material price inflation during the year with rising crude prices and depreciating currency and this led to a few rounds of price increases by the industry players to shore up margins.

The automotive coatings market is primarily dependent on the auto

and two-wheeler industry builds and the significant slowdown faced by the auto-industry impacted the demand conditions for automotive coatings products.

Non-automotive industrial coatings market grew at a high single-digit rate during the year under review. While the organised sector was a clear beneficiary of the GST implementation creating level playing field across market segments, demand for industrial coatings remained sluggish due to low manufacturing growth and slowdown in infrastructure and power segments. Overhang of bad debts, rising policy uncertainties ahead of the general elections and lack of progress in



unclogging the pipeline of stalled projects brought down the growth in the industry.

Outlook

The demand outlook would depend on the outcome around the election results, monsoon progress which is crucial for supporting the rural demand and recovery in the construction and automobile sector. The shorter Diwali period will have implications with much lesser households getting repainted this year. Government's focus on infrastructure development would support the industrial coatings demand. The volatility affecting critical raw materials including crude oil as well as volatility on the exchange rates will need to be critically monitored to cushion the impact on profitability.

Kitchen solutions

Industry overview

The kitchen market in India is estimated to be worth more than ₹ 15,000 Crores consisting of the main product categories of hardware, cabinet/shutters, appliances and accessories. Only around 7-8% of this market is controlled by the organised players offering modular solutions, while the rest of the market is with the local unorganised players and local designers/carpenters. Within the overall kitchen market, the hardware category has an estimated market of ₹ 6,000 Crores, the wooden cabinets/shutters market is estimated at ₹ 5,000-6,000 Crores and appliances and accessories have an estimated market of ₹ 1,000 Crores.

Industry trends

In India, a large majority of kitchen installations are undertaken by local carpenters directly or through architects. However, today, consumers are increasingly viewing modular kitchens as aesthetically appealing and space saving. They are ready to pay premium prices for superior



quality finishes, top-end designs, latest technology such as soft-closing mechanism, seamless installations and warranty support. The industry is expanding rapidly with global players like IKEA setting base in metros and established organised brands like Sleek increasing presence across Tier II and Tier III cities. Online players are

also investing aggressively, leading to a strong shift of consumers from unorganised to organised players.

Outlook

The kitchen industry is highly fragmented, but offers immense potential for organised players in the long run. As a result, various players from big box retailers to home interiors to online players are setting models for selling modular kitchens. As new players are entering the market, it is not only intensifying competition, but is also leading to expansion of the organised market. In such a scenario, differentiated offerings and delivery of operational expertise and value to the consumers would determine the success or failure of players in the kitchen industry.

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solutions

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Bath fittings

Industry overview

The bathroom segment in India consists mainly of sanitaryware, Chrome-plated (CP) fittings and tiles. The Company operates in the CP fittings market, which is estimated to be ~₹ 8,000 Crores, nearly 60% of which is estimated to be serviced by organised players. The industry is marked by several domestic and international brands, thus giving rise to healthy competition. With consumers' increasing preference for trusted quality and higher levels of performance requirements, the market share of organised players is expected to increase further.

Industry trends

The overall demand is directly proportional with the growth in housing and new construction. There is significant replacement and renovation demand as well, which continues to grow at a healthy rate, irrespective of swings in new housing demand. Growing incomes and aspirations have led to consumers upscaling expenditure on bathrooms. This is expected to increase the share of luxury and premium segments in the total fittings market. Correspondingly, demand for branded fittings is also catching up in smaller towns and cities.

Outlook

Apart from the surge in aspirational spending in the bath fittings segment, the government's drive towards improved infrastructure, affordable housing and the Swachh Bharat initiative are expected to be key drivers which will provide a sustainable growth platform for the industry.



Performance review

During FY2018-19, revenue from operations on standalone basis increased to ₹ 16,391.78 Crores as against ₹ 14,153.71 Crores in the previous year – a growth of 15.8%. The Profit after Tax for the current year is ₹ 2134.76 Crores against ₹ 1894.80 Crores in the previous year – growth of 12.7%. On a consolidated basis, the Company, its subsidiaries and joint venture companies, achieved revenue of ₹ 19,349.84 Crores as against ₹ 16,843.76 Crores – a growth of 14.9%. Net profit after non-controlling interest for the group for the current year is ₹ 2159.49 Crores as against ₹ 2038.93 Crores in the previous year – growth of 5.9%.

	Standalone		Consolidated	
Ratios	FY2018-19	FY2017-18	FY2018-19	FY2017-18
Debtors Turnover Ratio	13.76	13.27	10.60	10.58
Inventory Turnover Ratio (on Cost of Goods Sold)	3.95	3.65	3.91	3.67
Interest Coverage Ratio [^]	107	137	66	88
Current Ratio	1.63	1.62	1.52	1.55
Debt Equity Ratio	0.002	0.002	0.07	0.06
Operating Margin Ratio	21.9%	22.6%	19.4%	20.3%
Net Profit Margin	13.0%	13.4%	11.4%	12.0%
Return on Net Worth (RONW)*	25.6%	25.4%	24.1%	25.5%

[^] Change in Interest coverage ratio is due to the impact of higher interest cost resulting from increased borrowings in international operations.

* RONW for standalone: As compared to FY2017-18, FY2018-19 RONW is higher by 0.56%, mainly due to 12.66% growth in PAT against the 12.04% growth in average Network.

* RONW for consolidated: As compared to FY2017-18, FY2018-19 RONW is lower by 5.40%, mainly due to the higher dividend amount paid in FY2017-18 (which included payment of special dividend of Rs. 2 per share) as compared to the dividend amount paid in FY2018-19 which resulted in higher increase in the Net Worth for FY2018-19.

BUSINESS REVIEW

Decorative paints business in India

Business overview

Asian Paints has emerged as one of the most preferred paint brands in India. With state-of-the-art manufacturing plants, extensive distribution and cutting-edge marketing initiatives, the Company is catering to a wide cross-section of customers with a comprehensive product basket across varied price points. Its products are categorised under four segments – interior wall, exterior wall, wood finish and metal finish. In order to fuel the paint category, the Company has introduced segments like waterproofing to offer solutions to customers and partnered with painting contractors to bring in mechanisation in the paint market by introduction of tools. The Company has leveraged its distribution strength by introducing adhesives for decorative purposes.

Business progress

Despite the challenging operating environment, Asian Paints was one of the fastest growing companies and registered good growth across geographies. Its sales revenue has grown in healthy double digits in FY2018-19.

The Company's Retail Channel business has seen good growth across all regions. However, the floods in Kerala had some impact on the overall growth in southern markets. All the key network tiers have grown in double digits, leading to a balanced holistic growth. The Company continued its expansion of dealers in the ever-expanding metro suburbs and smaller cities and towns across the Tier II/III/IV geographies. Strong focussed work on engagement with painters and contractors, multi-layered dealer network engagement and targeted marketing activations have been the hallmark of this year's growth story.

The Projects Business registered spectacular growth with handsome



market share gains. The Company continued its foray with builders, hotels and institutions and was also able to get some good projects in the waterproofing area. The Services vertical has become a pillar of growth in specific product and customer segments. Through this vertical, Asian Paints continues to partner with the customers and is able to reach out to influencers like painters, architects and interior designers.



Product segments

Asian Paints continues to expand the market and work on increasing the per capita consumption of paint. The work on upgradation was taken up strongly and lots of marketing initiatives and communication programmes were taken to fuel this. This has resulted in propelling the growth of the distempers and the economy emulsions in FY2018-19 and gaining market share in these segments.

At the luxury end in emulsion paints, the Company has continued its steady march and consolidated its market share further. Royale Health Shield, a unique anti-bacterial world-class product, led the growth in interior luxury category. In the luxury end of wood finishes, the Company has increased its market share. In the Exteriors category, Ultima has done quite well and the Company was able to launch various variants to offer new propositions to customers. Through its range of Polyurethane

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

(PU) and Polyester products, in collaboration with Renner, Italy, the Company has now established itself as the best-in-class in the luxury wood finishes segment.

The Company continued to excite the customer at the top end offering inspirational and exciting décor stories in its range of Nilaya Wall Papers, Royale Play textures and Allura range of exterior textures. The Company offers signature experiences to customers through its wide ranges available through its Colour Idea network across 300 towns in the country.



New products

The Company continues to excite the customers with a slew of innovative and path breaking new products and a good sizeable growth of the Company comes from the contribution of new products. Anti-rust metal coatings, Shyne variants in emulsions, hyper stain resistant coatings in exteriors and 'health and hygiene' coatings in interiors are some of the breakthrough innovations

launched by the Company during the year. The Company has also focussed on a range of 'problem solutions' such as products for cracks, surface levelling and water resistance. The Company truly believes in offering the best value for the consumer's money and accordingly orients its efforts in research to bring out new cost-effective solutions.

Home décor business

Asian Paints continued its foray in the home décor business to truly realise its vision of being the most inspirational home décor brand by partnering consumers in making their dream homes. A new Design and Décor vertical is now on a mission to establish the Company's décor expertise and drive its point of view of 'Décor with a purpose –

Decorate for Happiness – across all the consumer touchpoints of the Company.

The digital properties of the Company namely, 'beautifulhomes.com' and 'asianpaints.com', have grown to be the most sought-after digital décor destinations. The Company launched a consumer app that has seen significant success within its first year itself.

'AP Homes' Stores continue to be the Company's flagship décor delivery channel offering complete Décor Solutions under one roof. They are multi-category décor stores offering décor inspiration, engaging in-store experience, personalisation consultations and holistic décor execution across multiple categories such as paints, water proofing, wall paper, kitchens, bath, wooden flooring, light fittings and soft



Inside shots of AP Homes





The Company continues to partner with the customer to help them make their dream homes.

furnishing, among others. The stores have huge technology and digital interfaces offering customers a world-class consumer journey and a cutting-edge Phygital (Physical + Digital) experience. The stores also offer cutting-edge services as Design Solutions which is a one-stop design apply and supply solution so as to delight the consumers. The footprint of AP Homes has now been expanded to five fully operational stores and many more are in the pipeline.

The Company continues to partner with the customer to help them make their dream homes. It continues to handhold the customer through a large number of colour consultations and also apply and supply services like the AP Home Solutions and Paint Total which are now available across a large number of cities.

International operations



Asian Paints has been partnering customer aspirations and transforming their living spaces in 15 countries across four regions of the world – Asia, Middle East, South Pacific and Africa. The Company succeeds in its endeavour to meet customer needs through eight corporate brands, namely Asian Paints, Berger, SCIB, Apco, Asian Paints Berger, Taubmans, Causeway and Kadisco.

The Company continues to focus on establishing its presence in high- growth emerging markets, especially Africa and Asia. It divested its operations in the Caribbean region (in Jamaica, Barbados and Trinidad and Tobago) in July 2017.

Operating scenario

The FY2018-19 has been challenging for the Company's international business due to continuing subdued economic conditions in most of the markets where it operates. At the start of the year, the Company expected a modest recovery from the FY2017-18 levels. However, the overall market conditions remained challenging across most geographies. Further, the overall gross margins dipped due to raw material inflation. Together, the slow market conditions and margin pressures resulted in a dip in the bottom line performance compared to the previous year.

In FY2018-19, as the US Fed raised interest rates by 1%, emerging market currencies depreciated rapidly against the Dollar, leading to increasing inflation. The worst affected was the Sri Lankan Rupee, which depreciated by 13%; other currencies hit were the Indonesian Rupia by 4%, the Nepalese Rupee by 6%, Singapore Dollar by 4% and the Fijian Dollar by 5%. Further, oil prices were extremely volatile in FY2018-19, starting the year

at US\$ 65 per barrel, rising to US\$ 75 in October 2018 and then falling to US\$ 42 in December 2018 before rising again to US\$ 60 in March 2019. Going forward, factors such as US sanctions on Iran, slowing world growth, etc. are likely to keep prices volatile.

Business progress

Overall, on a comparable basis, international business has performed better in terms of sales but adversely in terms of profits when compared to FY2017-18. The performance in FY2017-18 was further bolstered by the profit on sale of the Caribbean operations.

The Company expects only a moderate recovery in FY2019-20 as conditions are unlikely to rapidly change in most of the markets but is optimistic about the medium-term growth potential of most of the markets in which it operates.

Africa

The currencies of Egypt and Ethiopia, which had seen devaluation in recent years, remained stable against the US Dollar in FY2018-19. However, inflation remained high in the range of 20% in Egypt and 13% in Ethiopia. Due to this, in Egypt, paint demand was weak while cost pressures were high. In Ethiopia, the foreign exchange availability remained scarce. Our unit was hence constrained to produce under its normal capacity due to lack of foreign exchange to source the requisite imported raw materials. As a result, both these operations witnessed a degrowth in sales and profits in the year, dragging down the overall performance of the Company's international business.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)



Rebranding in the Middle East Region

Middle East

Retail conditions remained poor across the region and housing/construction remained dull. The UAE introduced VAT for the first time in January 2018 further aggravating the poor conditions. Bahrain followed suit by introducing VAT in January 2019. The Company undertook a rebranding exercise in the year in the region, wherein the Berger brand used in these retail markets was replaced with a cobranded logo, Asian Paints – Berger. Several marketing activities around this were initiated, and this is expected to continue into FY2019-20.

Asia

Sri Lanka suffered from rapid currency depreciation, lacklustre consumer demand and extremely volatile political conditions, coupled with a slowdown in government spending. Nepal also witnessed a slowdown in construction activity. In Bangladesh, while the overall economy continued to do well, the paint sector witnessed a decline – affected probably by political conditions/elections and unseasonal rains. However, Bangladesh remains an area of great potential in terms of economic growth and is likely to witness better performance in the paint sector going forward. Indonesia continued to do well, with the

economy growing at 5%. In Singapore, retail conditions were good, while paint sales to projects and industrial business continued to be weak.

For Asian Paints, the Nepal unit performed well in FY2018-19 with growth in sales and profits. The Company's Indonesia unit grew very well in terms of top-line, as per expectations. However, since the unit is a greenfield venture in only its third full year of operations, it is currently sub-scale and is incurring a loss. We are however optimistic about the potential for this unit. Our units in Sri Lanka and Bangladesh under-performed this year

The Company undertook a rebranding exercise in the year in the Middle East region, wherein the Berger brand used in these retail markets was replaced with a cobranded logo, Asian Paints – Berger.



in terms of both top- and bottom-lines, due to the challenging conditions. We are hopeful of a moderate recovery in performance in the coming year.

South Pacific

In Fiji and other South Pacific islands, the GDP growth is estimated to be around 3%. Government spending has reduced compared to earlier years. The Company's units in these markets have therefore performed lower than the previous year in sales and profits. In FY2018-19, the Company initiated a brand rejuvenation of its Apco brand to make it more contemporary.

Other initiatives taken

In Nepal, Indonesia, Ethiopia and Causeway Paints at Sri Lanka, the Company completed several production capacity expansion projects (within existing premises) to ensure that the units have sufficient capability to meet the next few years demand.

Further, to strengthen the software backbone of its international units and align the ERP/MIS capabilities with its India operations, the Company launched a project to implement SAP ERP in all units, which is likely to be completed by end of FY2019-20. Two units went live successfully in FY2018-19.

Home Improvement business in India

Asian Paints' home improvement division is spread over the kitchen and the bath business. Through this venture, the Company's focus has been to help its customers create kitchen and bathroom spaces of their choice for their dream homes. The home improvement division complements the Company's vision of being a complete décor solutions provider.

Kitchen business

Asian Paints forayed into the kitchen business by acquiring 51% stake in Sleek International Pvt. Ltd. (Sleek) in FY2013-14. During FY2017-18, the Company acquired the remaining 49% stake in Sleek from the previous promoters to make it a 100% subsidiary.

'Sleek by Asian Paints' is the brand through which Sleek operates. Sleek operates in two main categories, namely kitchen components and full kitchen solutions. Sleek Kitchen Components is the B2B-/ distributor-/ dealer-driven wholesale channel through which the Company sells its range of hardware, accessories and appliances for retail markets. Sleek Full Kitchen Solutions is the B2C modular kitchen business operated through a mix of Company-owned stores as well as franchisees across India.

Business progress

After 4 years of moderate growth, Sleek recorded extremely good growth in FY2018-19. The modular kitchen business through the franchise channel has been the success story for the year, with aggressive expansion and onboarding of new dealers. Sleek now has more than 150 such franchisee outlets across the country.

Sleek operates in two main categories, namely kitchen components and full kitchen solutions.



Wardrobes is the other modular category that is being pursued by Sleek. This year, the category witnessed a strong growth although on a very low base. Sleek launched various wardrobe accessories to complete the range. The Company launched a Store Smart range of accessories consisting of midway accessories and organisers to declutter the kitchen. These products give a premium look to kitchens and can be retrofitted in existing kitchens as well. The Company also inaugurated its flagship retail store in Pune in September 2018 at a very prominent location. The store has generated a strong buzz in the market and has helped generate a high number of leads.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Bath business

Asian Paints forayed into the bath business by acquiring the front-end business of Ess Ess in FY2014-15. Over the years, the Company has worked on improving the scale of the business by expanding the geographical spread of its network as well as by expanding its product portfolio. The Company envisions a new world of bath products and solutions, where the consumer can actively look at solutions and customised offerings. Continuous research on new products has secured its capacity to remain attuned to the changing aesthetical and functional demands of the market.

Business performance

The business grew well during FY2018-19 with sales rising steadily during the year. The Company added more than 650 new dealers, including more than 50 showrooms, thereby further expanding the network throughout the country. Focussed approach on project sales was successful in reaching out to builders, institutions, Government establishments, including MES and Railways.

New products namely, BathSense Fittings and Sanitaryware and new collections in the Royale range were positively accepted in the market and have contributed to the overall sales. Brand building exercises, including TV commercials left a successful impression, aiding sales at the top end and will be continued in the coming years. The product-feature based approach of positioning brand 'Bathsense' has been received quite well in the market.

The Company envisions a new world of bath products and solutions, where the consumer can actively look at solutions and customised offerings.





Upcoming Resin manufacturing facility of PPG-AP at Dahej.

Industrial business in India

Asian Paints operates in the industrial coatings segment through two 50:50 Joint Ventures with PPG Industries Inc. USA. Of the total industrial paint demand, about two-thirds come from the automotive sector.

Automotive, industrial, refinish, packaging and marine coatings

PPG-AP, the first 50:50 JV of the Company with PPG Industries Inc., USA, for manufacturing automotive OEM, refinish, marine, packaging and certain industrial coatings, is the second largest supplier in India. The segment has exhibited moderate growth in FY2018-19.

Operating environment

The coatings market has continued to see investments and capability building in terms of manufacturing capacities, preparation for BS-VI compliance, R&D expansions and mobility. Business growth is primarily driven by the auto and two-wheeler markets, which grew at a low rate of 0.1% and 5.8%, respectively,

during the year. Moreover, post October 2018, the builds in auto and two-wheeler markets have slowed down significantly, thereby putting increased pressure on all companies in the automotive coatings segment.

Business performance

PPG-AP has registered moderate growth in sales. However, the profitability has been unfavourably impacted by material inflation and volatile currency. The Company has been able to secure certain price increases though with a time lag effect and succeeded in new business wins. The Company has witnessed good growth in the industrial, packaging and marine businesses, while growth in the automotive and refinish segments has been moderate, impacted by lower demand.

PPG-AP has commissioned an automotive dispense cell at its manufacturing facility at Sriperumbudur, Tamil Nadu. Setting up of the resin plant at Dahej, Gujarat, is progressing as per timelines.

Non-auto industrial coatings

AP-PPG serves the non-auto industrial coatings market of India and is the Company's second 50:50 JV with PPG Industries Inc., USA. The joint venture caters to protective coatings, floor coatings, road marking paints and powder coatings segments servicing customers in the infrastructure, oil

and gas, power plants, white goods sectors, among others.

Operating environment

The industrial coatings market continued to face challenges posed by low growth in the manufacturing sector in the country and slowdown in spends on infrastructure and power sector. Tight liquidity conditions, especially among the small to mid size manufacturers also led to subdued demand environment.

Business performance

AP-PPG's strategy to focus on geographical expansion and enhancement of product portfolio through customer acquisition and product launches resulted in substantial growth in Protective Coatings and Powder Coatings market segments. Introduction of innovative products and systems helped the Company garner good share of business in the infrastructure segment.

Through the year, material cost inflation due to increase in prices of key raw materials especially crude oil and its derivatives impacted margins. A series of price increases and overheads control helped the Company to offset the impact of input cost inflation. Overall, AP-PPG registered good growth in terms of revenues and posted profits, though lower, in a challenging year.



Bogibeel bridge over brahmaputra river in assam coated with AP-PPG Coatings, EPC contractor HCC

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

HUMAN RESOURCES

Asian Paints considers human resources to be its most valuable asset. The Company credits its growth and success to the dedication, loyalty and hard work of its skilled employees, at all levels. To continuously drive employee motivation, the Company offers a work environment that promotes creativity, teamwork, meritocracy, ambition and learning.

The Company encourages learning on the job and facilitates various training programmes for its employees. It develops talent through learning journeys anchored around the competency framework. The leadership competency framework for the organisation has been fully integrated with various HR processes like recruitment and people review process. Functional competency frameworks for different functions in the Company have been developed and are now being used to create learning curriculum/academies and drive excellence in each

function. The Company also interfaced with external thought leaders and organisations in a sustained manner through initiatives such as Xchange, which allowed for cross-pollination of ideas across different organisations on different domains.

Nurturing ideas

The Company had implemented 'Start-up Inside', an initiative to foster and promote a culture of innovation. Business cases were prepared based on the concepts and various inputs received from employees. A multi-step rigorous evaluation was undertaken to identify the business idea that would be taken forward and two concepts were further pilot-tested on the parameters of feasibility and business value.

This year, a new category of Team Awards was introduced under the 'MD & CEO Awards'. Five individuals

This year, a new category of Team Awards was introduced under the 'MD & CEO Awards'

and one team who have made a lasting impact on the organisation through their contribution were recognised. With such initiatives, the Company is creating an agile organisation that recognises contribution and encourages innovative thinking.



ENVIRONMENT, HEALTH AND SAFETY



Environment

Asian Paints released its fourth Sustainability Report for FY2017-18, in which disclosures on environmental performance for the year were detailed. The Sustainability Report will be published for FY2018-19 as well, with emphasis on product stewardship, environment, health and safety, and community.

In FY2018-19, Asian Paints' six decorative paint factories have continued to act upon the following areas of environmental sustainability:

- Improving water replenishment by investing in community rainwater harvesting structures
- Reducing non-process water consumption by focussing on collection of rainwater to use in process after purification
- Reducing electricity consumption
- Increasing the contribution of renewable sources in electricity usage

- Reducing trade-effluent generation
- Reducing hazardous waste generation

The two new factories at Mysuru and Visakhapatnam (Vizag) have been designed and commissioned as Green Factories adhering to the certification standards of Indian Green Building Certification (IGBC). These two factories have implemented the learnings and best practices from all other factories. The factories will report on the above metrics of environmental sustainability going forward into the next year.

Asian Paints focussed on investing in constructing rainwater harvesting structures in the communities surrounding its manufacturing facilities. The objective is to enable communities to conserve water, ensuring availability during the water-scarce summer months. The Company has been able to replenish 544 million litres of rainwater near factory locations, whereas the freshwater consumption in factories was around 555 million litres.

During the past year, the Company has prioritised reduction in electricity consumption in manufacturing, significantly reducing costs as well as carbon footprint during the manufacturing stage. The Company has identified renewable energy generation as one of the focus areas and investments are being made in this area. In FY2018-19, ~3MW of rooftop solar power and ~6.3MW of wind power was commissioned. This, along with all previous investments, helped the Company source ~51% of its total electricity requirement at its eight paint manufacturing locations through renewable energy means.

Over the past 2 years, the Company has contributed towards improving different aspects of biodiversity at the Sriperumbudur factory. The CII acknowledged this effort through the CII-CESD Commendation Award in the Biodiversity Domain Excellence category.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)



Mysuru Plant, Karnataka

Health and safety

To provide its employees with a safe working environment, Asian Paints endeavours to follow industry-accredited best practices in health and safety management across its operations. The Company is committed to the safety of its workers, to protect the environment and to maintain the integrity of its assets. The Company's goal is to enhance safety in its field units and prevent accidents.

All the decorative manufacturing plants follow the Asian Paints Safety Manual, which is based on British Safety Council Specifications for Five Star Safety Audit. During the year FY2018-19, the Rohtak plant has successfully completed Five Star Safety Audit of the British Safety Council.

The Company has drawn a holistic agenda in the area of Occupational Health and Wellness. Action plans are finalised and implemented in the areas of occupational health, wellness and mental health at manufacturing plants. All the Occupational Health Centres (OHCs) at the manufacturing locations are as per the defined standards.

Gamification was done to promote the culture of healthy eating, physical exercise and monitoring of critical health parameters. The Company recognises the importance of mental wellness and has tied up with reputed agencies to improve awareness and connects employees with professional counselors in case of need.

The Company participates in reputed best practice sharing competitions organised by CII, FICCI, etc. to understand the perspective of other industry players. 'Kavasam', the safety implementation model at Sriperumbudur, was recognised with the National Level Safety Best Practice award by CII in May 2018.

Commissioning of two manufacturing facilities

Asian Paints has successfully commissioned 2 paint manufacturing facilities at Mysuru, Karnataka in September 2018 and Visakhapatnam, Andhra Pradesh in January 2019. In the first phase of its operations, both these plants have an installed capacity of 3,00,000 KL/ annum.

Both these plants are fully automated with world-class automation systems in all their operations. Newer technology has been tested and successfully implemented in the packing floor and their finished goods warehouses as well.

In April 2019, a fire broke out at the Company's paint manufacturing facility in Visakhapatnam, Andhra Pradesh, which was brought under control on the same day. The plant resumed paint manufacturing operations in few days of the incident. This incident did not have any impact on the business operations of the Company.



INFORMATION TECHNOLOGY (IT)

Asian Paints continues to invest in Information Technology (IT) to redefine customer experiences, and improve productivity through automation and better data-driven insights.

Highlights of FY2018-19

The core ERP system of Asian Paints was upgraded to the SAP S/4HANA version in a seamless manner. Simultaneously, the Company has also initiated the migration of the ERP for all its international units, from the decentralised Microsoft ERP to a single instance of SAP S/4HANA. Units in Bahrain and Nepal are already operational on the single ERP instance. This has enabled a pan-Company scalable digital core for all business processes.

Cutting-edge IT platforms based on Industry 4.0 principles have been implemented in the two new paint facilities that were commissioned at Mysuru and Vizag. Real-time integration from shop floor operations into ERP and manufacturing execution systems provide a seamless visibility to all operations and surface shop floor exceptions in an intelligent fashion. IoT and other sensor-based technologies have been extensively leveraged in these plants.

In today's era, data continues to be the source of competitive advantage. Asian Paints made early strides in the space of advanced analytics. This year too, the focus on advanced analytics continued, wherein advanced techniques such as machine learning have been deployed in multiple areas

– key ones being demand forecasting, sales order recommendation and manufacturing insights.

The Company believes that it can be a strategic differentiator in the Home Décor business by creating seamless and delightful customer experiences. It has embarked on a multi-year journey towards creating a digital framework for delivering seamless, contextual and consistent experiences across all customer touchpoints. Home visualisation has been a key focus area for the Company and the past year has seen several experiments in the 2D and 3D visualisation space. The visualisation has significantly improved the customer experience in the digital web frontends such as website, mobile app and dealer stores.



Visakhapatnam plant, Andhra Pradesh

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

RESEARCH AND DEVELOPMENT

Asian Paints' Research & Technology Function is led by the vision to create innovative solutions for a sustainable future. These solutions are in the area of both new products and application. The purpose of Asian Paints' Research & Technology Function is to understand customers like no one else can, to visualise present, future and unstated needs, provide pioneering & sustainable solutions and create exceptional value for all stakeholders.



Highlights of FY2018-19



Our new product, Royale Health Shield has been designed to address the safety and health issues of consumer. The product is conforming to the stringent anti-asthma requirements of American Asthma Foundation (AAF).



Apcolite Rust Shield has been introduced to the market to address the challenge of corrosion in household metallic structures. It can be applied over moderately rusted surfaces. The unique polymer technology and formulation science helps the product to hold onto the rust and protect the overall structure for longer period.



Nilaya Naturals, scheduled to be launched in FY2019-20 is a natural paint with 95% plus organic ingredients.



Extending the durability of paint is always a focus area for the Company. Ultima Protek Lamino comes with longer service life and unmatched performance properties. It has positive impact in lifecycle assessment of paints.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Asian Paints has implemented adequate internal controls and risk management processes that are commensurate with the nature of business, and size and complexity of its operations. Appropriate internal control policies and procedures have been set up to provide reasonable assurance on:

- Effectiveness and efficiency of its operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

The compliance with these policies and procedures is ingrained into the management review process. Moreover, the Company regularly reviews them to ensure both

relevance and comprehensiveness. Deviations from the laid-down processes are being addressed through systemic identification of causals. Various data analytics reports run as a part of routine monitoring activities by all functions, which also assist in identifying exceptions.

The organisation continuously assesses effectiveness of its internal controls across multiple functions and locations through extensive internal audit exercises that deploy an amalgam of modern and traditional audit tools. The internal audit programme is reviewed by the Audit Committee to ensure comprehensive coverage of the areas. Proactive steps are taken

to ensure compliance with various upcoming regulations through deployment of cross-functional teams. The Company uses robust IT tools for minimising errors and lapses, identifying exceptional trends through data analysis and tracking crucial compliances. The Company also encourages the employees to adopt fair, compliant and ethical practices. It continues to stay committed to the areas of control and compliance, to ensure the highest standards of governance.



Artist Nespoon's work at the Lodhi Art District for the St+art Delhi Festival 2019; an initiative by St+art India Foundation proudly supported by Asian Paints.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

ENTERPRISE RISK MANAGEMENT

Asian Paints recognises that every business is prone to internal and external risks, including risks around compliance, operational, strategic and many others. Many of these risks are inherent in the enterprise structure of any organisation and may interfere with an organisation's operations and objectives. The Company takes responsibility to proactively identify and address risks and opportunities to protect and create value for its stakeholders.

The Company is committed to managing the enterprise using a risk-based approach to appropriately manage the broad spectrum of risks facing this complex organisation and to ensure achievement of its strategic, operational, reporting and compliance objectives.

Some of the crucial risks impacting the Company's overall governance are detailed below:

Safety risk

Considering the nature of the industry, Asian Paints manufacturing facilities are prone to safety risks. Therefore, the Company continuously strives to promote sound safety practices through:

- Implementation of behaviour-based safety at its manufacturing facilities
- Adoption of a Safety Management System (SMS) based on leading safety standards
- Regular audits to assess on-ground implementation of various processes prescribed by the SMS

Each plant has an emergency response plan, which is periodically tested through mock drills drawn up to meet



any eventuality. Critical safety incidents are also reviewed by the senior leadership team for root-cause analysis and to prevent subsequent recurrence.

Statutory compliance risk

The Company has a well-structured, documented and demonstrable compliance framework that helps the management monitor and report compliance risk and exposure to the Board. The Board periodically reviews compliance reports of all laws applicable to the Company, as well as steps taken by the Company to rectify instances of non-compliances.

With a view to devise a system to monitor and ensure compliance with all the applicable laws, compliances

are classified and monitored under the following broad heads:

- Corporate Laws
- Tax Laws
- Labour Laws
- Environment, Health and Safety Laws

Various cross-functional teams work together to ensure compliance in the above areas and to keep up with the rapid pace of regulatory changes.

Sustainability risk

Asian Paints has articulated a vision for its key sustainability/environmental themes. These themes include reduction of power consumption, emphasis on renewable energy and

hazardous waste reduction, among others. Substantial progress has been made in all the identified themes in the past five years. Since water is the key component for water-based paints, water security poses a significant risk. Reduction in freshwater consumed in manufacturing, water harvesting and recharge, development of alternate supply sources of water and usage of treated water from common effluent/ sewage treatment plants are the areas where substantial amount of work has been done. The Company has also been consistently working towards making its products green and environment friendly.

Ethical behaviour

The Company places due emphasis on deployment of ethical and fair business practices while running its operations. Ethical behaviour is promoted in the organisation through periodic communication and by making all employees aware of its code of conduct. The Company also has a whistle-blower policy to ensure suspected or actual violations to the code are reported, investigated and acted upon.

Information security risk

Various IT applications used by the Company are exposed to the internet. Also, with the new and emerging cyber-attacks and hacking threats, the information security risk has increased. The Company manages the risk by identifying possible threats/events that may compromise the confidentiality, integrity and availability of information and pro-actively mitigating them. Substantial investments have been made in advanced IT tools to enhance the information security capabilities. The Company has also adopted a

five-element framework based on data lifecycle. A complete range of initiatives have been undertaken/identified in all the elements of this framework.

Currency risk

Asian Paints operates in many countries. The Company also has significant dealings in foreign currency, including import of raw materials and capital goods. Hence, an adverse and unforeseen fluctuation can impact its margins and profitability. The Company tries to balance its risk exposure by closely monitoring it and taking currency hedges whenever required. However, there is a limitation on the extent of risk mitigation, especially in case of extremely adverse currency fluctuations.

Human capital risk

Human capital risk is a critical risk for any business. It has elements of attraction, retention and engagement of talent; employee relations at plants/offices; etc. These areas are being continuously worked upon through various initiatives and processes. The Company believes proper management of human capital is key to achieve the strategic and operational goals of an organisation.

Customer risk

The Company has a rigorous complaint management process in place, which enables swift and prompt corrective actions to mitigate the risk of losing connection with customers. Further, the Company implements several programmes to cement relationships with customers and influencers through a variety of platforms, including digital.