DISCUSSION AND ANALYSIS

GLOBAL ECONOMIC LANDSCAPE

FY 2019-20 was a year of synchronised slowdown in both the advanced as well as developing economies across the world. The escalation of the tariff war between the US and China for major part of the year led to significant pressure on global trade. The US economy grew at a relatively strong rate of 2.3%. The Chinese growth engine too slowed down with exports under pressure. However, due to its Government supported infrastructure investment drive, the economy recorded a moderate growth rate and stood at 6.1%. At the same time, the Eurozone continued to witness staggered growth with pressures from the Brexit uncertainty as well as political uncertainty in some of its member states.

The trade truce or partial deal between the US and China in the second half of the year brought along expectations of a revival in global trade and overall economic growth. However, the rapid spread of the COVID-19 pandemic across the world and the ensuing lockdown in several countries brought unprecedented testing times for the entire global economy as the financial year ended.

INDIAN ECONOMIC LANDSCAPE

The Indian economy continued with its slow growth trend, with quarterly growth rates trending downwards through the year. The decline was led by a slowdown in the key construction sector, a restricted real estate space and persistent downturn in the automotive sector. The fourth quarter witnessed a growth rate of 3% - the lowest in almost a decade. It aptly highlighted the concern of deceleration in the domestic economy even before the impact of COVID-19 shock.

The reasons for this consistent downward growth trajectory are multi-fold. The large-scale defaults and governance issues in few large non-banking financial institutions resulted in liquidity squeeze in the corporate debt markets. This not only hurt some of the larger corporates, but also severely impacted the mid and small-size companies as the lending channels practically froze. At the same time, the vagaries of the monsoon – extended monsoon in some regions and deficit rainfall in others – also adversely impacted the rural sector. The easy monetary policy regime implemented by the Reserve Bank of India as well as measures taken by the Central Government like sharp reduction in corporate tax rates have not helped the economy get back to its growth trajectory.

On a relative basis, the Indian currency was stable for most part of the year. It faced significant downward pressure in the last quarter on bouts of increased volatility across global financial markets with the rising uncertainty around COVID-19. Similarly, crude oil prices also exhibited stability for most part of the year before seeing a sharp fall to historic lows in the last couple of months of FY 2019-20.

OUTLOOK

FY 2020-21 has started off on an unprecedented note with complete lockdown implemented in India as well as lockdowns / business restrictions of varying extent across the larger part of the world, due to the COVID-19 pandemic. Hence, the overall outlook for the year looks grim. Governments across the world as well as all Central Banks have moved in a synchronised manner to provide large economic relief packages and flood the financial markets with abundant liquidity as a measure to support the economy. However, the progress that we would exhibit in controlling the spread of the pandemic would largely determine the rate of recovery for the economy. This would have a direct impact on the demand conditions for all sectors of the economy. Inflation is expected to stay low with demand conditions being unsupportive; this is expected to provide a much-needed comfort to consumers and manufacturers alike. Paint being a discretionary spend item, there is a likelihood of customers putting their paint requirements on hold for some time, impacting renovation demand.

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MANAGEMENT DISCUSSION AND ANALYSIS

PAINT INDUSTRY

The domestic paint industry consisting of the decorative and industrial paint segment is estimated at ₹50,000 Crores. The decorative paint segment comprising categories such as exterior wall paints, interior wall paints, wood finishes, enamels, undercoats such as primers, putties, etc. constitutes more than 75% of the paint market. On the other hand, the industrial paint segment comprising automotive coatings, marine coatings, packaging coatings, powder coatings, protective coatings, floor coatings and other general industrial coatings make up for the balance 25% of the paint market. Small unorganised paint manufacturers primarily catering to the lower end of the price points still maintain a sizeable 30-35% share in the overall paint industry.

Industrial trends
The overall demand conditions for the paint industry remained challenging during the course of FY 2019-20 due to the tough operating environment experienced by a large part of the domestic economy. The shorter festival season, compared to that in the previous financial year, as well as the extended monsoon season across many parts of the country further impacted the paint demand in the economy. In addition, the liquidity crunch affecting the non-banking financial sector and the resulting tight borrowing conditions for the real estate and infrastructure developers meant further pressure on the domestic decorative and industrial paint demand. The consistent downward demand conditions in the key automobile sector also exerted pressure on the automotive coating players in the industry through the year. Moreover, the government implemented an abrupt shutdown on the entire supply chain in the last fortnight of the financial year to contain the spread of the pandemic. The year, thus, ended at a significantly lower growth rate for the paint industry as compared to the previous year. In such a difficult business environment, the soft raw material prices played a saving grace, helping the paint industry to not only maintain its operating margins, but also support the weak demand with some price reductions for customers in the market.

Outlook
The demand outlook would depend to a large extent on the way normalcy is restored in the economy. In general, paint demand mirrors the overall GDP growth in the economy. Hence, as soon as the overall demand in the economy improves, the demand conditions for the paint industry would also witness improvement. For larger sections of the economy to return to pre-COVID normalcy and for consumers to venture out once again for their home painting needs, we need a cure for the virus. The paint industry would also have to wait for the return of the migrant workforce to support the demand-generating sectors such as real estate and infrastructure development. The government’s push on infrastructure development will be critical to spur the demand from these segments. At the same time, given the overall uncertainty in business conditions, raw material prices as well as exchange rates are expected to exhibit increased volatility. They would need to be critically monitored to cushion the impact on profitability.

KITCHEN SOLUTIONS

Industry overview
The modular kitchen solutions market comprises hardware, cabinets, accessories and appliance products. The overall market in India is estimated to be worth more than ₹15,000 Crores and is a fragmented market with many unorganised players. The hardware and appliances categories have many local as well as multinational players. Within the industry, the market for full modular solutions, which combines both product and installation as a service, is gradually growing strong. A large part of the market for full modular kitchen solutions is served by local Interior designers/carpenters who work independently or along with architect designers to provide a range of designs.

Industry trends
The year started well for the industry. However, by the second quarter, the industry started witnessing a degrowth due to the overall slowdown in the economy. The real estate segment faced further stress due to the crisis in the non-banking financial sector. The industry was expected to do well in the fourth quarter of the financial year with the overall liquidity improving in the markets. However, the sudden outbreak of the COVID-19 pandemic resulted in a washout for a large part of March 2020.

The industry has been witnessing a shift towards branded modular kitchen solutions from local carpenters and interior designers. Top-end designs, warranty support and finished quality of branded modular kitchens are appealing to customers. Thus, though the metros have already seen the move towards modular kitchens, there is increasing competition with aggressive expansions by online players. Over the last two years, the trend for branded modular kitchens has caught up rapidly in Tier II and Tier III cities as well.

Consumers are becoming increasingly design centric and hence, newer and premium designs are becoming the trend. Along with the movement to premium designs, consumers’ preference for premium/branded hardware/appliances is also increasing. A shift is also seen in the industry with a large number of real estate companies in metros and Tier I cities offering modular kitchens as standard amenities in recent times.

Outlook
The industry is highly fragmented within the overall segment as well as within the various product categories. However, only a handful of players have meaningful presence in the full modular solutions segment. Currently, online players are also predominantly catering to the larger cities. This leaves space for an industry player to establish a brand at the national level with differentiated offerings and superior service over a longer period, with consistent focus. Over the short term, the industry outlook would be strongly correlated with the overall economic conditions and specifically with the emerging business conditions for the real estate space.
MANAGEMENT DISCUSSION AND ANALYSIS

BATH FITTINGS & SANITARYWARE

Industry overview
The bathroom segment consists mainly of sanitaryware, Chrome-plated (CP) fittings, pipes and tiles. The Company operates in the CP fittings and sanitaryware market. The CP Fittings and Sanitaryware business too has a large number of unorganised players. About 60% of the market is serviced by the organised setups.

Industry trends
CP Fittings have evolved with design, aesthetics and higher order functionalities, taking prominence over the basic utility of the faucets. Increasing disposable incomes and pride in home ownership have helped this shift. The market is dependent largely on growth in the real estate industry and construction for new housing. In the sanitaryware market too, there is a shift from the unorganised players towards the more organised players. The share of luxury and premium segments is increasing due to the increase in disposable incomes and elegant finishes and options.

Outlook
While there are immediate concerns in the real estate industry, the overall long-term outlook remains strong. The government has shared a vision of creating a US$ 5 Trillion economy and construction will be an integral part of this vision, including the Awas Yojnas. Continued focus on improving cleanliness through the Swachh Bharat initiative is also expected to drive growth in the segment in the coming years. The overall focus on wellness, health and hygiene with consumers across is expected to help the industry.

60% Market is serviced by the organised setups

PERFORMANCE REVIEW
During FY 2019-20, revenue from operations on standalone basis increased to ₹17,194.1 Crores as against ₹16,391.8 Crores in the previous year – a growth of 4.9%. The Profit After Tax (PAT) for the year was ₹2,654.0 Crores against ₹2,132.2 Crores in the previous year – a growth of 24.5%. Despite the economic slowdown, the Decorative business has done extremely well among the organised players. While the Company has been able to maintain its operating profitability by efficiently reducing formulation costs and continued focus on cost control measures, it was also supported by the softening raw material prices. The top line growth was at 9.5% in value terms and there was a strong double digit growth in volume terms till the end of third quarter. The growth was impacted in particular by the abrupt seizure in business during the last fortnight of the year. This has resulted in revenue growth declining from the high growth trend witnessed for the first nine months of the financial year to the 4.9% growth registered for the full year. However, in volume terms, the Company was still able to close the financial year with a healthy double digit growth.

The Bath business had a tough year and we saw all the major companies in the sector decline. However, the sanitary market did reasonably well and our foray in the same yielded good results. Overall, the Company still grew by double digits for the year, excluding the last fortnight during which business was shut.

Sleek International Private Limited (Sleek), the Company’s subsidiary, had a moderately good year until the business got impacted in the last fortnight of the year. Though it was still able to end the year with low double-digit sales growth, the loss was significantly higher than the previous year. The Company has carried out an assessment of the fair value of investment made in Sleek, taking into account the recent business performance, prevailing business conditions and the revised expectations of the future financial performance. Based on these factors and as a matter of prudence, the Company has made a provision for diminution in the value of investment made in Sleek to the tune of ₹20.7 Crores in the year ended 31st March 2020. The same is disclosed under ‘Exceptional Items’ in the Statement of Profit and Loss.

The international operations performed well during the year notwithstanding some loss in business in the last fortnight of March 2020. The Joint Venture (JV) entity in the automotive industrial coatings segment was impacted through the year due to the downturn in the automotive sector, while the second JV entity in the non-automotive industrial coatings segment performed reasonably well amidst a tough environment.

On a consolidated basis, the Company, its subsidiaries and JV companies achieved revenue of ₹20,211.3 Crores against ₹19,248.4 Crores in the previous year – a growth of 5.0%. Net profit after non-controlling interest for the group for the year was ₹2,705.2 Crores as compared to ₹2,155.9 Crores in the previous year – a growth of 25.5%.
MANAGEMENT DISCUSSION AND ANALYSIS

Business segment review

DECORATIVE PAINTS BUSINESS IN INDIA

In an overall tough operating environment, the Company would be one of the fastest-growing companies in the sector and delivered good growth across product segments and geographies. The growth in volumes would be much higher than the value growth, given the Company’s increased focus on the upgradation emissions, waterproofing and putty segment where the gains were significant. The growth has been driven not only by the mainstream product categories but also in the newer product categories of waterproofing, adhesives and tools.

Product segments

The Company continued to work on providing a holistic product range to its consumers, servicing their requirements with best-in-class products at varied price points. This has helped the Company sustain good growth in the mainline interior and exterior emulsion products, even with an overall challenging business environment. The growth was led at the economy range of interior and exterior emulsion products with the launch of Tractor Sparc and Ace Sparc. They offered good value proposition even at a lower price point, helping the Company to not only gain share from local brands but also enhance the upgradation of consumers from distempers. At the top-end inspirational offering, the designer collections by Sabyasachi and Good Earth under the Nilaya wallpaper range continue to gain momentum, especially through the Colour Ideas and AP Home stores.

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Leveraging its retail distribution strength and brand equity with the applicators and consumers alike, the Company has strongly forayed in the painting accessories segment with its TruCare range of application tools in both mechanised and non-mechanised categories including sanding papers. Even the adhesive product category range has been further expanded with a stationary range of products with very innovative packaging.

Consumer services

Asian Paints continued to pursue its vision of building itself into the most inspirational home décor brand by partnering with its consumers in making their dream homes through a multitude of services and platforms.

The Paint Total service, through its unique service proposition, has gained wide acceptance in the market, finding favour within the network as well as among consumers. It has also enabled the Company to promote new and niche products and correct painting practices. The Company’s digital property – beautifulhomes.com – continues to provide cutting-edge inspiration to millions of consumers focusing on generating original content and ideas for home décor. Further, to cater to consumers’ home décor needs, the Company has expanded its fulfilment propositions – AP Homes Stores and the Beautiful Homes Service.

The footprint of AP Homes, the multi-category décor stores, has now expanded to 10 stores. All stores are using advanced digital technology to provide consultation to consumers and have rapidly enhanced their fulfilment capability through the Paint Total service and the décor execution service offered at these stores. The Company has also expanded its Beautiful Homes Service proposition to eight cities in India, offering complete delivery of home décor to consumers – right through consultation, design to execution – in a completely professional and seamless manner.

Supply chain capability

This year, the Mysuru and Visakhapatnam plants, which were commissioned in FY 2018-19, went into scale-up mode. Both plants have achieved rapid scale-up and design rates that have been achieved in record time. The Company continues to leverage innovative technology in various areas of operations. By creating a digital twin model of the factories, data from shop floor systems are being powerfully analyzed using industrial Internet of Things (IoT) and predictive analytics to improve overall equipment effectiveness and manufacturing efficiencies. The Company has also implemented state-of-the-art automatic truck-loading systems in the two new plants at Mysuru and Visakhapatnam. Advanced machine learning algorithms are being used to constantly improve the overall demand forecast and achieve better customer service levels at optimum cost.

INTERNATIONAL OPERATIONS

Outside India, Asian Paints has operations in 14 countries across four regions of the world – South Asia and Indonesia, the Middle East, South Pacific and Africa. The Company’s products and services are sold under seven corporate brands, namely Asian Paints, SCIB Paints, Apco Coatings, Asian Paints Berger, Taubmans, Causeway Paints and Kadisco Asian Paints. The Group continues to focus on increasing its presence in high-growth emerging markets, especially Africa and Asia.

Operating scenario

The international operations of the Group are used to thriving in a highly volatile environment. In that sense, FY 2019-20 has been no different – whether it be an attempted coup in Ethiopia or an acute lack of US Dollars, Easter bomb blasts in Sri Lanka followed by ethnic tension, unseasonal rains and some confusion over the new VAT law in Bangladesh, major economic slowdown in Oman, Bahrain and Fiji or a de-growing paint market in Indonesia compounded by heavy rains and frequent flooding in Q4 in Jakarta – it was business as usual for our international operations. The sales value grew by 5% and profit from continuing operations also grew well, aided in part by a benign inflation environment as well as the Company’s strong focus on formulation and sourcing improvement efforts. The year, however, ended on a sombre note with the latter half of March 2020 affected by the COVID-19 spread and resulting lockdowns. Most of the subsidiaries did much lower sales than planned in this period, which in normal times is a very high sales period. This put a slight dampener on the overall performance of the international operations of the Group for the year.
MANAGEMENT DISCUSSION AND ANALYSIS

Business performance
The international operations performed much better in comparison to the previous year and this has been with large focus on the core strengths of product propositions and market activations. The focus has been on moving away from the herd to being seen as a distinct leader in innovation across markets. In Egypt, with an aim to rejuvenate our key product portfolio, we developed and launched the new ‘Hero’ range of putty and economy emulsions. The impact of this on growth in the latter half of the year has been encouraging. In other markets, several new products were launched in both the premium and value segments, which filled key gaps in the market. In Bangladesh, for instance, the ‘Uchshob’ emulsion launched late last year as an upgrade to distemper, has been well received. In Nepal, a campaign focusing on applying ‘Damproof’, a waterproofing application on the exposed or ‘dead wall’ of houses, was very successful. All these launches were accompanied across markets by several on-ground demand-generation activities that helped increase product awareness. In the Middle East especially, demand-generation activities were a key focus area to offset the general slowdown and add to the top line. The Company also entered into the specification business in the Middle East, thus procuring large project sales contracts. In Ethiopia, the Company decided to take the ‘foreign exchange crisis’ bull by the horns—focusing on making two products that have more than 95% of their raw materials sourced locally, thus reducing dependence on US dollars. In Sri Lanka, a complete change in products and selling based on a core USP approach has started, while a detailed consumer study was also completed to help sharpen focus on consumer proposition, combining the strengths of both the units in Sri Lanka.

At the same time, collaboration between units was a central theme that was heavily promoted. The cross-pollination of ideas and quick dissemination of best practices helped us achieve good results, leading to FY 2019-20, and will only accelerate going into the next pollination of ideas and quick dissemination of best central theme that was heavily promoted. The cross-

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financial year.

Take a look at our business performance in various countries:

Africa: In Egypt, after several years of high inflation, this year saw a moderate inflation and currency appreciation versus US dollar, as the economy stabilised. Our unit did good work on cost and working capital controls. Sales growth, however, continued to be low. To kick-start growth, we launched a revamped ‘Hero’ range of products in the latter half of the year and the early impact of this has been positive. We expect these products to be a sound base for growth in the near future, as we continue to revamp our key product range. In Ethiopia, the economy continues to be hindered by the lack of US dollars. We were, however, able to arrange a steady supply, more than the previous year, leading to increased production and hence significant top-line and bottom-line growth.

Middle East: The performance in Middle East was a mixed bag. While Oman and Bahrain economies slowed down significantly, United Arab Emirates (UAE) did well. Our units in Oman and Bahrain saw a performance dip, with sales and profit lower than in the previous year, while the UAE unit’s growth was very good across all major segments of retail, projects, industrial and exports with increased profit. During the year, we also strengthened and improved our operations in Qatar, which had been affected after the Gulf Cooperation Council (GCC) embargo on the country. The Company expects better performance in the coming years, especially with the heightened economic activity leading up to the FIFA World Cup in Qatar in 2022.

Asia (South Asia and Indonesia): Although there are signs of slowdown in the Nepal economy, our Nepal unit did very well with double-digit sales and profit growth. The Bangladesh economy continues to grow well, though introduction of VAT during the year led to some uncertainty. Our subsidiary grew in single-digit faced with stiff competition and tough credit conditions. It continues to focus on innovative product introductions to assist in scaling up its presence in the local market. In Sri Lanka, the economy saw several disruptions due to the Easter bomb blasts and their aftermath, as well as presidential elections. In these tough conditions, our units saw single-digit sales growth and minor profit growth. The Company is working towards better collaboration and integration between our two units to help us improve performance in the coming years. In Indonesia, the overall economy grew by around 5%, but the paint market de-grew during the year. Our unit grew well, gaining market share from other players. However, the unit is still sub-scale and some years away from breaking even. Despite the current losses, we remain positive on the potential of this unit.

South Pacific: Economic conditions in Fiji and other South Pacific islands were poor, with negligible GDP growth. The businesses in the region saw sales and profit de-growth in these conditions. In one of the islands, Tonga, we have decided to shift to servicing the demand from Fiji, rather than continue local operations, and are in the process of giving effect to this change, which will lead to optimisation of operations.

Other key initiatives of FY 2019-20
As informed last year, the Company had launched a project to implement SAP ERP in all the international units and bring the units on a unified technology infrastructure as done in India. This was a large and complex project involving one unit going live on the new system each month. The project went off smoothly and on schedule, and almost all our units have migrated to the new system. We now have a strong and robust IT backbone across IBU, with high visibility and analytical capabilities, that can help us leverage the strengths of Asian Paint’s existing IT developments as well as build a robust MIS specific to us to enhance our data-driven decision-making capabilities. This is expected to help the units greatly in the years ahead as they scale up to the next level of size and complexity.

The Company continued to focus on building capacity across units to support our growth ambitions. The expansion project of the existing plant in Indonesia progressed on schedule. Work also commenced on our second plant in Bangladesh. Capacity expansion was completed in Sri Lanka, Nepal and the UAE. The Company has also completed a blueprint for our future expansion in Nepal.

During FY 2019-20, we divested our subsidiary in Singapore for a value of ₹20.6 Crores, in line with our long-term plans to focus on growth markets. This led to a one-time loss on disposal of ₹2.2 Crores.

Outlook
The outlook in the near term looks bleak due to the spread of COVID-19 affecting our operations across units. However, as we focus on the medium to long term, we are optimistic that our units now have the intrinsic strength to scale up and withstand any condition and emerge stronger to launch into a new trajectory in the coming years.

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 MANAGEMENT DISCUSSION AND ANALYSIS

HOME IMPROVEMENT BUSINESS IN INDIA

The Company operates in the Kitchen and Bath business through the home improvement division and helps its customers create kitchen and bathroom spaces of their choice for their dream homes. The Home Improvement division of the Company complements its vision of being a complete décor solutions provider.

Kitchen business

The Company forayed into the Kitchen business by acquiring 51% stake in Sleek in FY 2013-14. During FY 2017-18, the Company acquired the remaining 49% stake in Sleek from the previous promoters to make it a wholly owned subsidiary.

‘Sleek by Asian Paints’ is present in both the ‘Kitchen Components’ as well as the ‘Full Modular Solutions’ segments. Within the Kitchen Components business, the Company has its own range of hardware, accessories and appliances sold through a B2B channel. The Company also undertakes the Full Modular Solutions business through a strong network of franchisee-owned stores across the country. The Company has a strong presence in South, West and North of India with aggressive growth plans for the East market.

Business performance

During FY 2019-20, the Full Kitchen Solutions business grew well as the Company expanded its network of stores, which helped this segment register strong double-digit growth. Sleek has more than 185 stores across the country offering modular kitchen design and installation services. The network that we have built in this business line is unparalleled in the country today. Over the last two years, we have also started pushing wardrobes as another product category through this network. This year, the Company also launched a luxury collection of kitchens with premium finishes. Ours is one of the most comprehensive collection of premium kitchens by any company in India. Sleek also operates in the Full Modular Solutions business through a dedicated project vertical. Over the last year, the Company expanded its presence in this channel to the southern India market apart from having a strong presence in Mumbai, Delhi and Pune. While the response in newer markets has been encouraging, the overall real estate sector witnessed a slowdown from the second quarter of the financial year specifically due to liquidity issues in the market. The slowdown was more evident in the metro cities of Mumbai and Delhi, which are also the largest real estate markets.

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Turning to the performance of the Full Modular Solutions business, the segment is growing well. The Company has expanded its network footprint as well as the range of products it offers. It has also expanded its reach, but also by widening its product portfolio. However, the progress has been slower than expected and the current business environment with increased uncertainty around consumer confidence, given the lacklustre overall economic growth and the downturn in the real estate construction sector, coupled with the restrictions imposed due to the pandemic, would make a strong recovery difficult. The Company has, hence, as a matter of prudence, made a provision for diminution in the value of its investment in Sleek to the tune of ₹29.7 Crores. This provision has been made on the Company’s assessment of the recent performance of the business, prevailing business conditions and the revised expectations of the future performance given the expected business outlook.

Bath business

Asian Paints forayed into the Bath business by acquiring the front-end business of Ess Ess in FY 2014-15. Over the years, the Company has expanded its network footprint as well as the range of products it offers. It has also expanded its presence in the sanitaryware range over the last two years. The Company is focusing on creating a new world of bath products and services, where the consumer can actively seek solutions and customised offerings.

Business performance

The business grew well in spite of the headwinds faced during the year. The real estate sector was affected from the second quarter, leading to a slowdown in the market. The sudden outbreak of the COVID-19 pandemic also affected the fourth quarter. Despite the challenges, the Company successfully added new channel partners in the year and made significant progress in the Sanitaryware business. Within the CP fittings market, new dealers performed well, placing strong belief in future growth. The Company continuously emphasises focus on Research and Development (R&D) of products as evolving consumer preferences. New product launches in CP fittings have seen a significant uptake and have established themselves in quick time. The Projects vertical was expanded and a significant number of institutional partnerships were established during the year. In areas of operations, productivity improvement at the manufacturing plant in Baddi was a hallmark for...
MANAGEMENT DISCUSSION AND ANALYSIS

the year. The improvements were enabled on the back of automation in various stages of the production and assembly process. These have enabled consistent quality output and also reduced dependency on imports.

INDUSTRIAL BUSINESS IN INDIA

Asian Paints operates in the industrial coatings segment through two 50:50 JVs with PPG Industries Inc. USA – PPG Asian Paints Pvt Ltd. (PPG-AP) and Asian Paints PPG Pvt Ltd. (AP-PPG). Of the total industrial paint demand, about two-thirds come from the automotive sector.

Automotive, industrial, refinish, packaging and marine coatings

PPG-AP is the first 50:50 JV of the Company with PPG Industries Inc., USA. It manufactures automotive Original Equipment Manufacturer (OEM), refinish, marine, packaging and certain industrial coatings and is the second largest supplier in India.

Operating environment

General slowdown in the economy, lower spending, BS-VI compliance and COVID-19 have impacted the builds. Business de-growth in the financial year is primarily driven by the auto and two-wheeler markets, which de-grew by 15% and 14%, respectively. The subdued demand environment in the entire automotive industry for almost the past year and a half has exerted increased pressure on all companies in the automotive coatings segment.

Business performance

PPG-AP has registered de-growth in sales given the headwinds in the automotive sector. However, the profitability improved due to material deflation, price increases (though with a time lag effect) and new business wins. The Company has witnessed growth in the Packaging business. The Automotive and Industrial businesses de-grew as they were impacted by lower demand.

PPG-AP has commissioned a resin manufacturing facility at Dahej, Gujarat. PPG-AP continues to focus on its R&D facilities to innovate, leverage technological support from both its partners, PPG Industries Inc., USA and Asian Paints, and provide value proposition to the Company’s customers. PPG-AP continues to build on its core values, which include focus on customer connect, people development and Environment, Health and Safety (EHS).

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 JV caters to protective coatings, floor coatings, road marking paints and powder coatings segments, servicing customers in the infrastructure, oil and gas, power plants and white goods sectors, among others.

Operating environment

The industrial coatings market faced a challenging business environment with the overall investments in the manufacturing sector in the economy witnessing continued slowdown for the year, not helped by the tight liquidity conditions for the small to mid-size companies. Strong competitive pressure amidst this challenging environment was a key feature for the industry all through the year.

Business performance

Overall, the Industrial business witnessed slow growth and we did well in a tough market. Against this backdrop, AP-PPG continued to focus on geographical network expansion and enhanced product propositions for its customers. This helped the Company register decent growth in a tough market. Favourable raw material prices and continued control on cost optimisation further supported in delivering a significant improvement in profitability as compared to the previous financial year. During the year, the Company has also taken steps in upgrading the manufacturing facilities to enhance its capabilities to service its customers with better product quality and delivery.
BUSINESS CONTINUITY DURING THE COVID-19 LOCKDOWN

Operations in India
All the operations were disrupted since mid-March 2020 and the Company saw partial resumption since early May 2020. The Company has now been able to open all manufacturing plants after taking requisite government permissions. The permissions are for running the plants across all the businesses (Decorative / Home Improvement / Industrial Operations) to a limited capacity or even to full capacity in some geographies. The Company has also opened most of its warehouses across the country so that most of the markets can be catered to. Business is picking up in most smaller towns, and cities slowly and some of the earlier incomplete painting jobs are showing some movement. However, in the metros and Tier 1 cities, the business is slow and, in some cases, yet to pick up due to the higher number of red zones, restrictions on movement, lack of availability of labour and strict norms followed by housing societies. However, it is expected that the demand will pick up once the lockdown restrictions are relaxed.

Facilities that have opened across the Company have been sanitised so that our people are safe and secure. All safety protocols of temperature sensing, wearing of safety gears (masks, goggles and face shields), social distancing, sanitizing and washing hands are being adhered to stringently. The Company has taken all the necessary steps to adhere to the guidelines for social distancing provided by the Ministry of Home Affairs, along with the various directives issued by relevant state governments and local authorities. The Company has put in place safety measures keeping in mind the safety, health and well-being of the employees and other stakeholders at all the locations where it operates.

International operations
Business operations in the various international markets where the Company operates have been impacted to varying extent based on the spread of the pandemic and the restrictions on business activities placed by the respective government authorities in these countries. At this point in time, the duration for which these restrictions will remain in place is uncertain and resumption of fully-fledged operations will depend on directives issued by the respective government authorities.

Employee safety
Amidst the crisis, the safety of our employees has been our topmost priority and the Company has taken several measures to ensure their well-being. Most of the employees in our offices have been working from home in accordance with the guidelines issued by the central, state and municipal authorities. An exclusive helpline for employees is operational and the Company has been providing help to employees as and when needed for various purposes. The safety of employees who are now required to step out for work is being ensured and they have been mandated to use protective gear and take all the necessary safety precautions. All the employees have been kept engaged through a set of training programmes through remote mechanisms and managers have been in touch with all the employees. At the top management level, there has been regular communication to all the employees so that everyone stays engaged and connected. All employees have been instructed to download the Aarogya Setu app launched by the Ministry of Home Affairs, along with the various directives issued by relevant state governments and local authorities. The Company has put in place safety measures keeping in mind the safety, health and well-being of the employees and other stakeholders at all the locations where it operates.

Support to the government and society in tackling the COVID-19 pandemic
The Company has been working with and supporting the government in its efforts to combat the COVID-19 pandemic. In its efforts to aid the community at large, the Company committed ₹15 Crores towards COVID-19 pandemic relief in March 2020. The contributions are largely towards central as well as other emergency relief state funds set up to combat the pandemic. The Company is also working with several NGOs to provide food, masks and sanitizers.

Support to various stakeholders
The Company has been working with its retailers and has helped them restart their businesses by sanitizing their shops and offering medical insurance schemes for their workers.

The Company has also launched a ‘Safe Painting’ campaign for ensuring the safety of painters and offering assurance to customers for a safe painting experience at home. The campaign assures customers that the painters are safe to enter their homes and provide a great painting experience. This whole area of ‘Safe Painting’ gets further strengthened with the introduction of the hand sanitizers and surface disinfectants, and instills confidence among customers.

Given the impending monsoon season, the Company has launched a new campaign to look at ‘Terrace Waterproofing’ in a big way. Since this is an exterior painting job, customers are not thrown off completely and are aligned to the campaign well. This has not just created great brand saliency, but also given lots of leads for our Waterproofing business.

Financial resources, profitability and liquidity position
The Company is in a comfortable liquidity position to meet its commitments. It has also implemented stringent cost control measures across the organisation to conserve cash to address any evolving situation resuling from the pandemic. The Company does not foresee any challenge in realising/recovering its assets. It is also in constant touch with its key vendors and is working with them to mutually partner each other to propel the business forward.

As a responsible and caring brand, Asian Paints has been proactive in supporting various government initiatives and helping communities around us. The Company has been working in the health and hygiene space for some time now and had earlier introduced Royale Health Shield, a revolutionary product that helps consumers maintain good standards of hygiene and bacterial protection for their homes. The Company has now launched Viroprotek range of hand sanitizers and surface disinfectants to support the government in its efforts to tackle the spread of the pandemic and address the huge need of hand and surface sanitization products in these testing times. The product is being manufactured at the Company’s existing plant at Ankleshwar, Gujarat, after obtaining all the necessary statutory approvals and permissions. The Company is taking steps to set up additional capacity for these products at the plant at Rohtak, Haryana, which is expected to be operational by end of June. Viroprotek range of hand and surface sanitizers meet the highest quality standards and are available in various pack sizes, addressing the growing concerns surrounding health and hygiene.
HUMAN RESOURCES

Internal policies

The organisation continued its endeavour of attracting best-in-class talent through multiple talent engagement initiatives for both campus as well as lateral talent pool. The culture of competency-based structured interviewing was further strengthened this year and has helped in building a talent pipeline that can be fostered along its values. Development of talent through learning journeys anchored around the competency frameworks and organisational values continues. The leadership competency framework for the organisation has been fully integrated with various HR processes such as 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. Programmes and conversations around safety, health, etc. were conducted for Swara, the internal network of women within the organisation. A detailed study on the challenges of women in sales was taken up, which is now being worked on to create a more inclusive workplace. An organisation-wide employee engagement survey was also conducted in FY 2019-20 in partnership with a renowned people consulting firm. The survey was anchored around several drivers such as leadership, enabling infrastructure, diversity and inclusion, collaboration, rewards and recognition, etc., which will provide a holistic view into employee perceptions in different pockets of the organisation and feed as an input to strengthening internal policies.

External initiatives

The Company’s campus branding was further scaled up with the purpose of deepening the engagement with the brightest minds through CANVAS, which is among the most prestigious case competitions in the premier B-Schools. This year also saw launch of the Supply Chain case series, which gained significant traction in the target campuses. The Company’s career pages on social media platforms also saw several campaigns being run to engage and communicate with the external talent pool.

Leadership blueprint

To enable people to take up higher responsibilities, the transition programmes have been made more relevant and robust. Learning needs have been addressed during FY 2019-20 through new programmes in the areas of innovation, strategy, Artificial Intelligence (AI), workplace partnerships, leadership development, execution excellence, etc. Several learning journeys and innovative formats conducted in partnership with institutes and external agencies supported the employees in enhancing their business acumen, perspective and holistic leadership. In addition to internal learning formats of e-modules, stories and coaching, our partnerships with external content providers for world-class content also continued to strengthen the learning catalogue in the organisation.

The Connect Programme focused on building people management capability among managers in manufacturing plants. The programme was anchored on key attributes to foster workplace relationships. The employee relationship health of every plant is being measured through a scorecard, which was designed and deployed this year. Taken forward the legacy of bringing innovative engagements at B-Schools, we embarked on the journey of using Virtual Reality (VR) technology for providing an immersive experience to the students in our interactions.

The Company acknowledges the need for employees to stay physically and mentally healthy and stays committed to creating fulfilling lives for them. Towards building a culture of personal care and responsibility, various health challenges, financial awareness sessions and safety campaigns were taken up.

One Link philosophy of team management ‘One Link’, a team comprising most of the General Managers and Vice Presidents of the Company led by the Chief Operating Officer, was created as a forum for developing the next leadership at the Company level. There have been active engagements across the teams and almost 18-20 days of productive time was spent focusing on expanding the potential and giving strong exposure to the leadership team. The forum combines a methodology of working through Futuristic but relevant projects to involve, galvanise and develop the top management teams. We chose four transformation projects related to unexplored areas. The overall programme has been appreciated by people and has been a great success.

Technological innovations

Keeping in mind the changing learner preferences, a new learning platform was launched in the organisation. This platform, designed around the concepts of personalised, blended and peer learning, has expanded the reach of learning content through mobile accessibility as well. This year, we also looked at enhancing candidate experience and optimising recruitment processes through the launch of an applicant tracking system. The Company’s endeavour behind launching this system has been to deliver signature experience to candidates and new employees.

Taking forward the legacy of bringing innovative engagements at B-Schools, we embarked on the journey of using Virtual Reality (VR) technology for providing an immersive experience to the students in our interactions.

Sustainability is a key parameter that is woven into the design philosophy of all our manufacturing units. It also continues to be a key focus area in terms of our day-to-day operations as a strong commitment towards minimising our environmental impact and also towards nurturing biodiversity.

We have been releasing our Annual Sustainability Report for the past five years, and continuing the practice, the sixth edition will be released in FY 2020-21. The report will focus on our efforts in the areas of product stewardship, environment, health and safety, and community.

The Company’s two new factories in Mysuru and Visakhapatnam began operations and have achieved the designated environment and sustainability targets. With this, all our eight decorative paint factories have continued their journey towards achieving environment sustainability by:

- Undertaking water replenishment projects in the community surrounding our factories
- Reducing non-process water consumption by focusing on reduction in freshwater usage as well as collection of rainwater to use in the manufacturing process after purification
- Reducing energy consumption in operations, while improving efficiency and quality in production
- Increasing the contribution of renewable sources thus demonstrating the commitment of sourcing clean energy
- Minimising solid and liquid waste in our processes

The Mysuru plant received the Platinum rating under the Indian Green Building Council (IGBC) Green Factory Buildings Rating System, which is recognised as a global standard in the green building parlance.
MANAGEMENT DISCUSSION AND ANALYSIS

Health and safety
The Company is committed to the safety of its people and assets and towards the protection of the environment through a variety of initiatives in areas of sustainability. Towards this, Asian Paints follows industry-accredited best practices in health, safety and environment related aspects to constantly set higher benchmarks and strives to exceed the same.

During the year, six decorative manufacturing plants in India and the Research and Technology facility at Turbhe, Mumbai were certified for ISO-45001 standard, an international standard for occupational health and safety. The Company’s decorative manufacturing plants in India follow the Asian Paints Safety System, which is based on British Safety Council specifications. During FY 2019-20, our Srirumubudur plant has not only successfully completed audit by British Safety Council but also achieved the highest 5-star rating. The Rohtak plant, which had successfully accomplished the 5-star audit in FY 2018-19, has received the prestigious Sword of Honor award in FY 2019-20. During the year, the Kasna plant received the 18th ‘Green Tech Safety’ Award – 2019 in the Chemical sector and the Rohtak plant received ‘Excellence in Safety’ Award by Manufacturing Today.

The Company is implementing a robust safety culture improvement programme in the manufacturing plants with the aim of reaching the highest regenerative maturity stage. Towards this, the Company has tied up with reputed agencies for regular assessment and has launched preventive actions. The Company has thoroughly investigated the incident and set up corrective and contractors have been kept contemporary and delightful.

Biodiversity: Over the past few years, the Company has worked towards improving different aspects of biodiversity starting with the Srirumubudur factory, which was acknowledged by the CII-CESD in FY 2018-19. Similar interventions were undertaken in our Mysuru and Visakhapatnam plants with a focus on nurturing a green belt, afforestation of existing land and encouraging biodiversity. Over 80,000 native trees have been planted in all three manufacturing locations combined. These green landscapes are now well developed and thriving, thus supporting numerous species of flora and fauna.

Plastic waste management: The Company has effectively responded to the changing regulations around plastic waste management. Our initiatives towards fulfilling our Extended Producer’s Responsibility has resulted in the collection and recycle of more than 1,800 tonnes of post-consumer flexible plastic across 12 states of India.

80,000 native trees have been planted in all three manufacturing locations combined.

Strategic Review

INFORMATION TECHNOLOGY (IT)
Asian Paints has always been on the forefront in terms of leveraging technology for the business. This year too, the Company has continued to invest in digital technologies such as AI, ML, Robotic Process Automation (RPA), security systems and advanced analytics. They have been used to create immersive customer experiences, improve the operational productivity and aid in better decision making.

Reimagining customer experiences using the power of digital
With the organisation making rapid strides in the Home Décor business and in the midst of scaling the Home Improvement business (bath, wardrobe and kitchens), technology investments to create strategic differentiators, especially in the area of customer experiences, have been initiated. One of the key areas of focus has been home visualisation in the digital space. While the Company has done pioneering work in the space of 2D visualisation, this year, significant advancements have been made in the 3D visualisation space, which allows customers to visualise their dream homes.

The digital experiences delivered through the mobile apps, websites and portals for customers, dealers, suppliers and contractors have been kept contemporary and delightful.
Strengthening and securing the IT digital core

The Company has carried out the migration of the decommissioned Microsoft ERP to a single global instance of SAP S/4HANA for its international units in Sri Lanka, Bangladesh, Indonesia, Egypt, Ethiopia, the UAE and Oman. Except for the units in Fiji and SP Islands, the Company runs its global business operations on a single digital core. Information security and data privacy continue to remain the Company’s focus. The Company continues to make the necessary investments to secure its systems and information assets.

Driving efficiencies through RPA

The Company has successfully implemented RPA to automate its existing business processes and new processes/opportunities to further drive efficiencies, increase throughput and scale operations during high volumes of transactions. RPA will remain a focus area for the Company for FY 2020-21.

Using the power of data analytics

The Company has been on the path of becoming an Insight Driven organisation through Data Intelligence and has undertaken efforts to skill the workforce in this area. This year many POCs undertaken in the previous year using AI/ML have been put into productive use. Some of the areas wherein benefits of advanced analytics has been seen is in the area of Forecasting, Manufacturing IoT and Sales. The investments in AI/ML would continue in the space of Forecasting, Manufacturing IoT and Sales.

In the area of AI/ML, the investments included efforts to skill the workforce in this area. This year, the Company has undertaken efforts to skill the workforce in this area. This year, many POCs undertaken in the previous year using AI/ML have been put into productive use. Some of the areas wherein benefits of advanced analytics has been seen is in the area of Forecasting, Manufacturing IoT and Sales. The investments in AI/ML would continue in the space of Forecasting, Manufacturing IoT and Sales.

RESEARCH AND DEVELOPMENT

Asian Paints’ Research & Technology is a purpose-driven team bringing about consistent breakthroughs in product innovation besides strongly partnering with all other internal stakeholders to create value for the overall organisation. As creators, their resolve is to constantly empower Asian Paints through the power of science. It continues to maintain a strong focus on Intellectual Property (IP) and has filed a total of 54 patents, 14 of which have been in the current financial year. A total of 12 publications from the Company’s researchers have featured in national/international journals of repute.

The entire programme of ‘Breakthrough Innovation’ has created a huge ripple and transformation not only at the Research & Technology function but also across the organisation. In its fifth avatar, the breakthrough innovation project ‘Misaal’ last year created some path-breaking products and chemistries. These included two products – Hyperuron and Ultron – with a unique cost-effective polyeurea chemistry, a first time in the French polish category for wood; entry into admixtures with very different chemistries and disruption in the adhesive white glue category with a combination of unique product and packaging innovation.

We continue to make investments in modern instrumentation pertaining to analysis and characterisation of raw materials and finished products, enabling innovation of unique solutions for consumers and development of cutting-edge technologies. In true recognition of the innovative work in our Research & Technology Centre, the National Research Development Corporation, Government of India, New Delhi has bestowed the prestigious National Innovation Award 2019 for the patented technology titled ‘Hydroxy functional acrylic co-polymer from derivatised castor oil for coating applications’ for designing high-performance sustainable coatings.

Asian Paints has always been at the forefront when it comes to providing learning and development opportunities for its employees. At the Research & Technology Centre, a dedicated training academy has been established by the name ‘Sikshalaya’ with a focus on upgrading the technical skills of employees and expanding the in-house expertise to many more individuals. This year, a new state-of-the-art infrastructure has been created that provides the latest learning technology tools and aims to enhance employees’ learning experience. This year, the academy has hosted 13 workshops in different areas of science and technology for employees to upgrade their technical skills. Three of these workshops were specifically designed and delivered for Asian Paints by renowned academic experts from India and abroad. The workshops hosted by Sikshalaya were of 1-3 days’ duration and covered diverse technical domains such as instrumental science, latest trends and technologies in coatings, formulation science and data analytics.

A state-of-the-art Waterproofing, Hygiene & Application Experiential Zone has been set up at the Research & Technology facility in Navi Mumbai. The experiential zone has different interactive displays of various waterproofing system solutions as well as adhesive products range offered by the Company and also exhibits miniature models of laboratory test equipment available at the Research & Technology facility. A section for mechanised tools highlights our emphasis on offering faster and smoother finishes to customers. This zone is created and dedicated especially to the architects, applicators, waterproofing contractors and engineers to give them a guided walkthrough of the products and solutions offered by Asian Paints. Moreover, the testing equipment displays help them understand and appreciate the rigorous testing regime followed by Asian Paints while developing products and solutions.

New products

Enhancing its footprint in the waterproofing segment, Asian Paints launched a first-of-its-kind SmartCare Ultron, which by itself sets a platinum standard benchmark in waterproofing liquid applied membrane category. The innovative product developed in house provides performance properties of high-end polyurea technology with ease of application as well as lasting durability and waterproofing performance warranty for 20 years. Woodtech GloMax Ultra Polish offers best-in-class gloss and grain filling in the polish category at a price point 40% cheaper than its biggest competitor. Provisional specifications patent have been filed for the composition of resin and the final product.

Apostic Spray Paint is a glossy enamel paint offered in an aerosol spray pack for the first time by Asian Paints. The product offers high gloss, excellent adhesion and durability. The unique fragrance of this product helps in masking the strong solvent odour, which is typically present in this category of products. Aerosols are portable and handy, and offer an affordable option for anybody to undertake spray application whenever and wherever required, be it fresh painting, touch-up or artistic applications.

Tractor Sparc economy emulsion provides value for money, especially when compared to distemper along with a smooth finish on walls. Ace Sparc is a water- and acrylic-based external emulsion, which is designed for moderately humid climatic conditions. Ace Sparc’s weather guard properties resist chalking, cracking and weathering as compared to cement paints.

The Company forayed into the admixture category for cement concrete with the launch of its innovative product line. Asian Paints MaximoPlast PX range of admixtures are compliant to BIS 59103 and ASTM C 494 standards and also differentiate themselves from market offering with respect to reduction in drying shrinkage cracks and water permeability in concrete, thereby enhancing the durability of the building structure.

The Company has successfully implemented RPA to automate its existing business processes and new processes/opportunities to further drive efficiencies, increase throughput and scale operations during high volumes of transactions. RPA will remain a focus area for the Company for FY 2020-21.

Using the power of data analytics

The Company has been on the path of becoming an Insight Driven organisation through Data Intelligence and has undertaken efforts to skill the workforce in this area. This year many POCs undertaken in the previous year using AI/ML have been put into productive use. Some of the areas wherein benefits of advanced analytics has been seen is in the area of Forecasting, Manufacturing IoT and Sales.

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Research & Technology Centre at Turbhe, Navi Mumbai
MANAGEMENT DISCUSSION AND ANALYSIS

ENTERPRISE RISK MANAGEMENT

The Company truly believes that business has and will always involve risks. These risks are constantly evolving and changing, in terms of their impact, the probability of occurrence and more importantly the velocity with which they can occur. The Company constantly scans the external environment to identify the emerging risks and also assesses them for their impact on the Company’s objectives. There are internal risks linked to operations, ethics, safety and the likes, which the Company continuously monitors.

The Company is committed to treat these risks and bring them to tolerable levels. In this process, the Company is ably guided by the Risk Management Committee of the Board, which reviews the enterprise-wide risk management efforts of the management. The Company evaluates risks that can impact its strategic, operational, compliance and reporting objectives.

Some of the key strategic and business risks the Company is actively managing are explained below:

Safety risk: The manufacturing operations of the Company require employees to interact with plant, machinery and material handling equipment, all of which carry an inherent risk of injury. The Company also handles certain hazardous chemicals while manufacturing paints at its factories. To address this risk, the Company has an overall safety policy that it adheres to in letter and spirit. Apart from various trainings and mock drills, the Company also carries out risk assessment by third parties to identify any potential threats and takes steps to mitigate the same. The opinion of experts in the field are taken before proceeding with the design of the plant. Over the past few years, the Company has reduced man-machine interface at the plants to ensure greater safety. Behaviour-based safety approach is implemented at the plants. All safety incidents, including unsafe acts, are reported and reviewed by the management.

Sustainability risk: The Company believes in reducing the environmental impact of its operations. Water conservation and replenishment, reduction in power consumption and hazardous waste generation, and using renewable energy sources have been the focus areas for the Company. Investments in wind and solar energy have been made to supplement the power requirement at the plants. Rainwater harvesting and recharge, reduction in freshwater consumption, and use of water from sewage treatment plants after suitable treatment are some of the notable steps taken by the Company. The Company invests in the well-being and socio-economic development of the communities around the plants. At Asian Paints, we believe that in the long run, products that are green and safe are the only ones that will give sustainable growth. The Company thus invests in such products for use by its customers.

Statutory compliance risk: In the past few years, the country has seen wide-ranging changes to various laws and regulations that the Company needs to adhere to. Many of these laws are new and have not been subjected to judicial scrutiny and interpretations. The Company takes steps to adhere to all laws in its true spirit. Teams within the Company monitor changes to laws and regulations and proactively take steps to change underlying processes to stay in compliance. Changes are updated in a software that is used to track and monitor compliances across the Company.

Information security risk: Threats of cyber-attacks and hacking are all well-known and are a very high risk to business operations of any company that uses IT. In addition to external threats, there are risks of information being leaked or changed by individuals within the Company. In addition to investments in tools to protect individual devices, and scan and protect itself from external threats, the Company also actively monitors security logs to detect any attempts to hack and take the necessary steps. Data, while in creation, storage, transit and retrieval, is adequately protected.

Customer-facing risks: The customer is always changing and so are their expectations and aspirations. The customer of today is well connected and aware of trends across the globe. Expectations today go far beyond the usual functional aspects of the product. The experience of dealing with the Company right through the process of beautifying homes is of paramount importance. Delivering joy at every stage is critical. Digital as a channel to interact with the customer has become more and more prevalent. This channel is open to all and there are entities in the overall décor space attempting to leverage this. The Company takes active steps to first understand and address all customer complaints. This ensures that there is a connect with the customers and the Company constantly puts the customer at the centre of its activities.

Human capital risk: Risk of maintaining employee relationships, retaining talent, and creating an engaged set of employees have become important in an environment where talent is becoming scarce. The Company takes active steps in constantly engaging with the employees to understand their aspirations, needs and any issues they may have. Policies, practices, compensation and developmental conversations are modified based on constant feedback from employees. The Company has an open-door policy where employees are free to reach out to any person in the Company for addressing any of their concerns.

Ethical behaviour: Fraud risks are inherent while dealing with people. The Company invests in good controls to minimise the risk of unethical behaviour by its employees or business partners. The Company’s code of conduct acts as a guiding principle for employees while they go about doing their work. Employees and business partners are encouraged to share any suspected frauds to the Company through its whistle-blower mechanism. Programmes are periodically held to increase awareness of the code of conduct.

Currency risk: A significant part of the raw materials and capital equipment are imported by the Company. In addition, the Company has operations in multiple countries. Any adverse movement in the local currency vis-à-vis the US Dollar can have an impact on the Company’s Financials. The Company takes steps to monitor the exchange rate and hedges some of the open risks.

Pandemic risk: The latter part of the year saw the risk of the pandemic affecting operations across the globe. The Company was not immune to the same. The Company had taken steps to find alternate sources of materials when there were supply chain disruptions in China to ensure that its operations could continue. Employee safety was ensured by following social distancing and usage of necessary sanitizers. The Company quickly enabled work from home for most of its employees. A help desk was set up to provide guidance, support and counselling to its employees. The Company supported the government’s initiative in ensuring the lockdown of its operations. However, necessary safety precautions were taken to ensure a safe shutdown of its manufacturing plants.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company’s internal control systems are commensurate with the nature of its business and the size and complexity of its operations. Appropriate internal control policies and procedures have been set up to provide reasonable assurance on the following objectives:

• Effectiveness and efficiency of its operations
• Reliability of financial reporting
• Compliance with applicable laws and regulations
• Prevention and detection of frauds and errors
• Safeguarding of assets

Compliance to these policies and procedures is an integral part of the management review process. Adequacy and effectiveness of these internal controls are routinely tested by internal auditors based on their risk-based audit plan. The audit plan covers the key process across the functions, including plants, depots and other establishments. Suggestions to further strengthen the processes or make them more effective are shared with the process owners and changes are made suitably.

The Company uses robust ERP and allied IT tools as an integral part of internal control system. It also uses data analytics tools to identify data exception and trends to minimising errors and lapses, and to track crucial compliances. Wherever possible, emphasis is placed on incorporation of automated controls within the process to minimise deviations and exceptions.

The risk-based internal audit plan is approved by the Audit Committee. Significant audit observations and follow-up actions thereon are reported to the Audit Committee. The Audit Committee periodically reviews the adequacy and effectiveness of the Company’s internal financial controls and the implementation of audit recommendations. The Company believes in conducting business in a fair, ethical and compliant manner. Towards this, periodic sessions and e-learning courses are rolled out to make the employees aware of the code of conduct and related policies of the Company, including the whistle-blowing policy and mechanism. The Company stays committed to maintain the highest standards of governance.