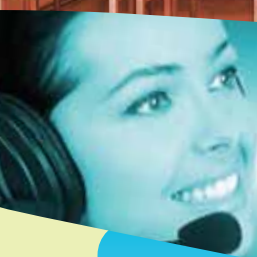
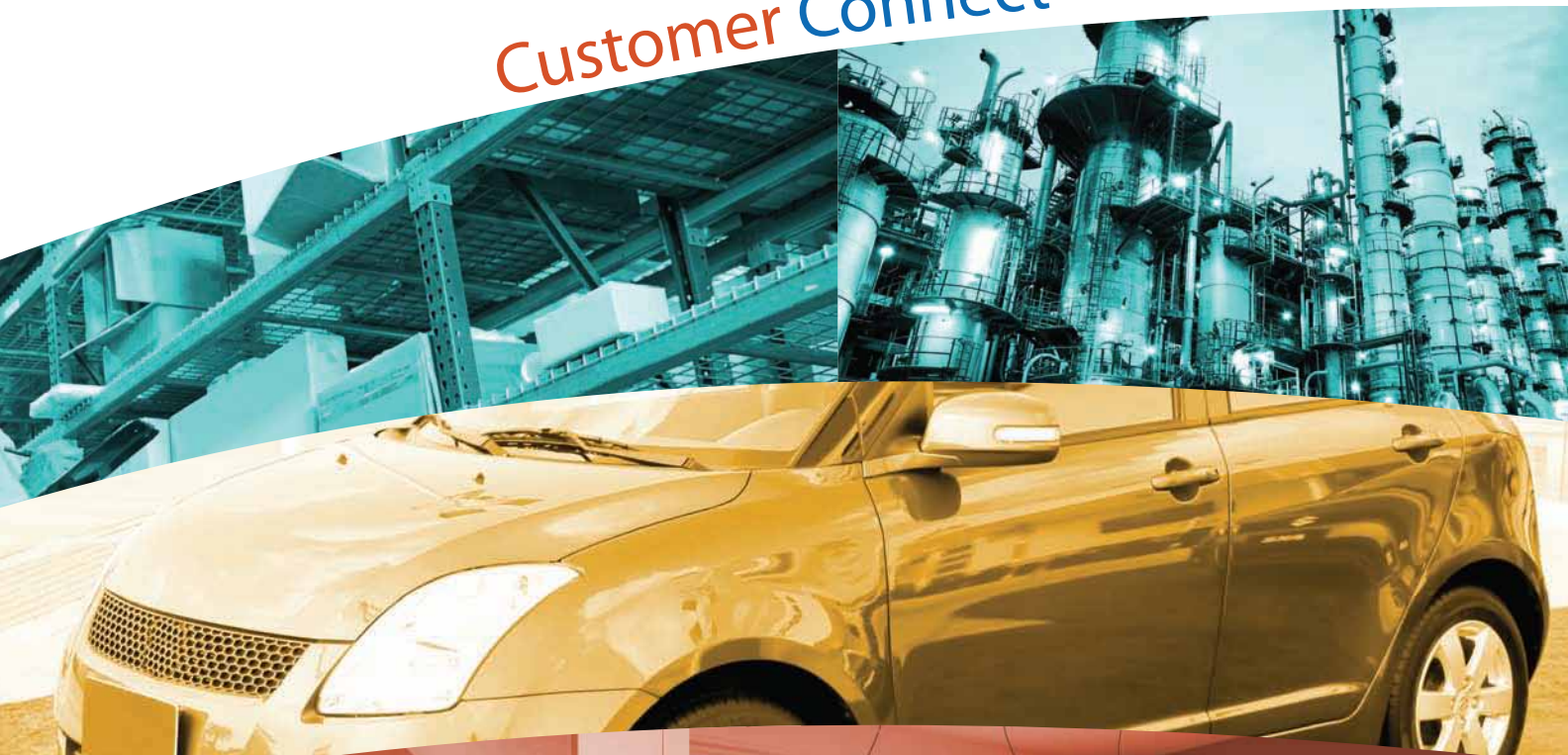




**KANSAI
NEROLAC**
PAINTS LIMITED

93RD ANNUAL REPORT 2013

Customer Connect



24 Hr
Call Centre



CRM





CUSTOMER CONNECT

Since its inception, Kansai Nerolac Paints Ltd (KNPL) has always been a customer centric organisation. From providing vibrant colours for beautification to being a trusted business partner who provides products of unsurpassed quality adding value to its customers the commitment has remained consistent. KNPL has always considered the customer at the heart and core of its operations. KNPL believes that the success and growth, that it has achieved over the years has been possible only because of the customer connect.

Over the years with advancements in technology new frontiers have been opened. KNPL has believed in leveraging this technology to find new ways of satisfying the customer needs captured through the "voice of the customer" to develop new and innovative products for its customers. It was through feedback of our valuable customers that KNPL could pioneer award winning low-VOC, lead free paints or energy saving solutions for its customers.

The advancements in Information Technology along with the Internet and Mobile have opened new avenues to deepen this connect with customers and consumers. Keeping with the times marketing has moved to newer platforms from the traditional print and television communication.

KNPL has been at the forefront in leveraging the power of Information Technology as a tool to deepen the impact towards its customer. Over the years technologies like ERP, Analytics, Business Communication Manager, CRM, Supply Chain optimization, Warehouse management amongst many such technologies have helped KNPL become more efficient and effective, all for the delight of our customers.

Through the active use of Facebook, Twitter and Pinterest, KNP has found new ways of having dialogues with its customers and consumers at large. Active use of CRM has helped provide a 360 degree view of the customer within the organization besides helping the organization find new channels to offer service to the customer. The call center operations using the Business Communication Manager has helped the customer have a greater access to the organization beyond the salesperson.

Hence, the theme for this year's annual report "Customer Connect".



DIRECTORS

Dr J. J. IRANI (CHAIRMAN)
D. M. KOTHARI (VICE CHAIRMAN)
H. M. BHARUKA (MANAGING DIRECTOR)
H. ISHINO
P. P. SHAH
N. N. TATA
P. D. CHAUDHARI (WHOLETIME DIRECTOR)
Y. TAKAHASHI
H. NISHIBAYASHI
M. TANAKA

COMPANY SECRETARY

G. T. GOVINDARAJAN

BANKERS

- UNION BANK OF INDIA
- STANDARD CHARTERED BANK
- HDFC BANK LTD.
- BNP PARIBAS

AUDITORS

B S R & CO., MUMBAI

SOLICITORS

KANGA & CO., MUMBAI

REGISTERED OFFICE

NEROLAC HOUSE, GANPATRAO KADAM MARG,
LOWER PAREL, MUMBAI-400 013



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NOTICE

NOTICE is hereby given that the Ninety-third Annual General Meeting of the Shareholders of KANSAI NEROLAC PAINTS LIMITED will be held at the Walchand Hirachand Hall, 4th Floor, Indian Merchants' Chamber, IMC Building, IMC Marg, Churchgate, Mumbai 400 020 on Tuesday, 18th June, 2013, at 3.30 p.m. (S.T.) to transact the following business:

Ordinary Business:

1. To receive, consider and adopt the Balance Sheet as at 31st March, 2013 and the Profit and Loss Account for the year ended on that date and the Reports of the Directors and the Auditors thereon.
2. To declare a dividend.
3. To appoint a Director in place of Mr. P. P. Shah, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. N. N. Tata, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Mr. Y. Takahashi, who retires by rotation and being eligible, offers himself for re-appointment.
6. To appoint a Director in place of Mr. Masaru Tanaka, who was appointed as an Additional Director of the Company pursuant to Article 113 of the Articles of Association of the Company and who holds office upto the date of this Annual General Meeting by reason of Section 260 of the Companies Act, 1956, but being eligible, offers himself for re-appointment and in respect of whom the Company has received notices in writing from some Shareholders proposing his candidature for the office of Director.
7. To appoint Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company, and to authorise the Audit Committee to fix their remuneration.

Special Business:

8. To consider and, if thought fit, to pass, with or without modifications, the following Resolution as an Ordinary Resolution:

"RESOLVED that subject to the provisions of Sections 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956, read with Schedule XIII to the said Act, the consent of the Company be and is hereby accorded to the appointment of Mr. H.M. Bharuka as the Managing Director of the Company for a period of five years commencing from 1st April, 2013 and ending on 31st March, 2018 (both days inclusive) on the remuneration and perquisites as set out in the draft Agreement to be entered into between the Company and Mr. Bharuka placed before this meeting and initialled by the Chairman for the purpose of identification.

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

9. To consider and, if thought fit, to pass, with or without modifications, the following Resolution as an Ordinary Resolution:

"RESOLVED that subject to the provisions of Sections 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956, read with Schedule XIII to the said Act, the consent of the Company be and is hereby accorded to the appointment of Mr. P. D. Chaudhari as a Whole-time Director of the Company for a period of five years commencing from 1st April, 2013 and ending on 31st March, 2018 (both days inclusive) on the remuneration and perquisites as set out in the draft Agreement to be entered into between the Company and Mr. Chaudhari placed before this meeting and initialled by the Chairman for the purpose of identification.

RESOLVED FURTHER that the Directors of the Company be and are hereby authorised to enter



into an Agreement on behalf of the Company with Mr. Chaudhari, in terms of the aforesaid draft Agreement."

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

"RESOLVED that pursuant to the provisions of Section 309(4) and other applicable provisions, if any, of the Companies Act, 1956, consent be and is hereby accorded to the payment of commission to the Non-Executive Directors of the Company, being Directors other than the Managing Director and Wholetime Director(s), not exceeding in the aggregate one percent per annum, or such other limit as may be prescribed under the Companies Act, 1956, of the net profits of the Company computed in the manner laid down in Section 198 of the Companies Act, 1956, for each of the five financial years of the Company commencing from 1st April, 2013, the quantum, proportion and manner of such payment and

distribution to be as the Board of Directors may from time to time determine."

For and on behalf of the Board

Registered Office:
"Nerolac House",
Ganpatrao Kadam Marg,
Lower Parel,
Mumbai - 400 013.

J.J. IRANI
Chairman

Dated: 4th May, 2013

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ONE OR MORE PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER.
2. An Explanatory Statement pursuant to Section 173 of the Companies Act, 1956, relating to Items No. 6, 8, 9 and 10 is annexed hereto.



Annexure to Notice

Explanatory statement under Section 173 of the Companies Act, 1956

Item No. 6

Mr. Masaru Tanaka was appointed as an Additional Director of the Company on 4th May, 2013. Pursuant to Section 260 of the Companies Act, 1956, (the "Act") read with Article 113 of the Articles of Association of the Company, Mr. Tanaka holds office only upto the date of the forthcoming Annual General Meeting.

Notices in writing have been received from some Shareholders of the Company, pursuant to Section 257 of the Act, signifying their intention to propose Mr. Tanaka as a candidate for the office of Director. As required by Section 257 of the Act, the Shareholders giving notice have deposited a sum of ₹ 500 with the Company which shall be refunded if Mr. Tanaka is elected as a Director.

Mr. Tanaka, aged 56 years – is the Managing Executive Officer of Kansai Paint Co. Ltd., Japan. Mr. Tanaka graduated from the Department of Applied Chemistry, Department of Engineering, Doshisha University, Japan. The services of Mr. Tanaka will be very useful to the Company. The Directors, therefore, recommend that he be appointed as a Director of the Company.

Mr. Tanaka is interested in the resolution at Item No. 6 of the accompanying Notice since it relates to his own appointment. Mr. H. Ishino, Mr. Y. Takahashi and Mr. H. Nishibayashi are nominees of Kansai Paint Co. Ltd., Japan and accordingly, may be deemed to be concerned or interested in the Resolution. None of the other Directors is in anyway concerned or interested in the Resolution.

Item No. 8

At the 88th Annual General Meeting of the Company held on 24th June, 2008, the Shareholders had approved the appointment of Mr. H. M. Bharuka as the Managing Director of the Company for a period of five years commencing from 1st April, 2008 and ending on 31st March, 2013 (both days inclusive).

The Board of Directors of the Company has, on 22nd March, 2013, re-appointed Mr. Bharuka as the Managing Director of the Company for a period of five years commencing

from 1st April, 2013 and ending on 31st March, 2018 (both days inclusive) on the revised remuneration and perquisites to be paid or granted to him as set out in the draft Agreement between the Company and Mr. Bharuka referred to in the Resolution at Item No. 8 of the Notice. The Board of Directors has considered it necessary to revise the terms of remuneration and perquisites payable to Mr. Bharuka from 1st April, 2013, in view of the commendable performance of the Company during the tenure of Mr. Bharuka as the Managing Director of the Company.

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

The re-appointment of Mr. Bharuka as the Managing Director of the Company on the remuneration and perquisites as set out in the aforesaid draft Agreement is however subject to the approval of the Shareholders in general meeting pursuant to Sections 198, 269 and 309 of the Companies Act, 1956. Hence the Resolution at Item No. 8 of the Notice.

Mr. Bharuka, aged 52, B.Com., A.I.C.W.A., with a varied experience of around 33 years, joined the Company on 1st October, 1985. Mr. Bharuka was appointed on the Board of Directors on 1st April, 1999, and was Deputy Managing Director, prior to his appointment as the Managing Director from April 1, 2001. He is now being re-appointed as the Managing Director for a period of five years commencing from 1st April, 2013 upto 31st March, 2018 (both days inclusive).

The material terms of the draft Agreement referred to in the Resolution at Item No. 8 are as follows:

1. The re-appointment of Mr. Bharuka as the Managing Director of the Company shall be for a period of five years commencing from 1st April, 2013, and ending on 31st March, 2018 (both days inclusive), subject to the same being previously determined as provided for in the Agreement.
2. Mr. Bharuka's position and designation shall be Managing Director.



3. Mr. Bharuka shall have the day-to-day management of the Company, subject to the superintendence, control and direction of the Board of Directors.
4. Mr. Bharuka shall devote his whole time, attention and abilities during business hours to the business of the Company and use his best endeavours to promote the interest and welfare of the Company and conform to and comply with the directions and regulations of the Company and all such orders and directions as may from time to time be given by the Board of Directors of the Company.
5. Mr. Bharuka shall not have the powers to make calls on shares and to issue debentures.
6. Mr. Bharuka shall have the following powers, subject to the prior sanction of, and such restriction imposed by the Board:
 - (a) To invest the funds of the Company in Government Securities, Municipal bonds and bonds issued by statutory corporations and public authorities, whether Indian or foreign, debentures, preference shares and equity shares of any private, public and/or Government Companies registered in India or elsewhere; call deposits or fixed deposits with companies, banks and other institutions;
 - (b) To borrow money otherwise than on debentures for the purpose of the business of the Company;
 - (c) To accept call deposits and/or fixed deposits;
 - (d) To sell any of the assets or investments of the Company;
 - (e) To purchase assets for the Company;
 - (f) To appoint or engage staff and terminate their employment.
7. Remuneration: Mr. Bharuka shall be entitled to the following emoluments, benefits, perquisites, subject to the limits laid down under Sections 198, 309 and Schedule XIII to the Companies Act, 1956:
 - (a) Salary: ₹ 6,50,000 per month. Increments, subject to the limit laid down under Sections 198, 309 and Schedule XIII to the Companies Act, 1956, will be decided upon from time to time by the Board each year and will be merit based and take into account the Company's performance.
 - (b) Commission: Subject to the overall ceiling in Section 198 and Section 309 of the Companies

Act, 1956, Mr. Bharuka will be paid remuneration by way of commission based on net profits of the Company for each financial year as the Board may in its absolute discretion determine, depending on performance.

- (c) House Rent Allowance: 40% of annual salary. In case Company accommodation is provided, no House Rent Allowance will be paid.
- (d) Leave Travel Allowance: 10% of annual salary.
- (e) Other Perquisites and Allowances:
 - (i) Mr. Bharuka shall be entitled to perquisites and allowances like bonus, reimbursement of expenses or allowances for utilities such as gas, electricity, water, soft furnishing, hard furnishings and repairs and such other perquisites and allowances in accordance with the rules of the Company, applicable from time to time, or as may be agreed to by the Board of Directors, the value of which shall not in the aggregate exceed 75% of the annual salary.
 - (ii) For the purposes of calculating the above ceiling, perquisites and allowances shall be evaluated as per Income-tax Rules, wherever applicable. In the absence of any such rules, perquisites and allowances shall be evaluated at actual cost.
 - (iii) Company's contribution to Provident Fund shall be at 12% of Salary (including Commission). Company's contribution to Superannuation Fund shall be at 15% of Salary.

Company's contribution to Provident Fund and Superannuation Fund as aforesaid, gratuity payable as per the rules of the Company, encashment of leave during the term of employment in accordance with the rules of the Company and/or at the end of the tenure, reimbursement of expenses incurred for travelling, boarding and lodging including for the spouse during business trips, provision for use of the Company's car for official duties and for personal purpose, provision of telephone at residence (including payment for local calls and long distance official calls), payment of club membership fees for the Company's business, reimbursement of medical expenses, reimbursement of telephone, internet



and petrol expenses, shall not be included in the computation of limits for the remuneration or perquisites aforesaid.

Minimum Remuneration:

In the event of loss or inadequacy of profits during any financial year, in the aforesaid period, the Company will pay remuneration by way of salary, perquisites and allowances (including Leave Travel Allowance and House Rent Allowance, where applicable) as specified above, not exceeding the limits specified in Section II of Part II of Schedule XIII to the Companies Act, 1956, subject to requisite approvals being obtained.

8. Mr. Bharuka shall not be paid any sitting fees for attending the meetings of the Board of Directors or committees thereof.
9. Mr. Bharuka shall be entitled to reimbursement of all actual expenses, including on entertainment and travelling, incurred in the course of Company's business.
10. Mr. Bharuka will be granted Privilege leave, Sick leave and Casual leave in accordance with the rules and regulations of the Company.
11. Mr. Bharuka shall not for the period of 5 (five) years from the date of re-appointment, whether the employment runs through the full period of five years from the date of re-appointment or is terminated by the Company or Mr. Bharuka anytime during the term of this Agreement for whatever reason, directly or indirectly engage himself in any business or activity substantially similar to or competing with the business or activity of the Company or do any deed, matter or thing so as to solicit the custom of the clients of the Company or offer to provide any services to such clients otherwise than through the Company. It shall however be permissible for Mr. Bharuka, with the previous written sanction of the Board to hold any directorship/s or share/s of any other company or companies and the holding of such permitted directorships or shares shall not be deemed a contravention of this clause.
12. Mr. Bharuka shall not, so long as he functions as the Managing Director of the Company, become interested or otherwise concerned directly or through his wife and/or minor children in any selling agency of the Company in future without the prior approval of the Central Government.

13. Mr. Bharuka shall not during the term of this Agreement and for all times thereafter, divulge or disclose any information or knowledge obtained by him during his employment as to the business or affairs of the Company or any trade secrets or secret processes of the Company.
14. Mr. Bharuka's employment shall be determined forthwith if he commits a breach of any of the aforesaid terms, disqualifies himself to act as a Director for any reason except inadvertent breach of Section 283 of the Companies Act, 1956, or becomes insolvent, makes any composition or arrangement with his creditors or ceases to be Director of the Company.
15. In the event there is no breach of the terms of the Agreement by Mr. Bharuka, but the Company exercises its discretion to terminate his services during the term of this Agreement, without assigning any reason therefor, then and in that event, Mr. Bharuka shall be paid a compensation, in accordance with Section 318 of the Companies Act, of a sum which shall not exceed the remuneration which he would have earned if he had been in office for the unexpired residue of his term or for three years, whichever is shorter, calculated on the basis of the average remuneration actually earned by him during a period of three years immediately preceding the date on which he ceased to hold the office or where he held the office for a lesser period than three years, during such period.

During the tenure of Mr. Bharuka with the Company, the Company has achieved substantial growth in turnover and profitability. Your Directors consider the aforesaid remuneration to be commensurate with the duties and responsibilities of Mr. Bharuka as the Managing Director of the Company.

The draft Agreement between the Company and Mr. Bharuka referred to in the Resolution will be open for inspection by the Shareholders at the Registered Office of the Company between 11.00 a.m. and 1.00 p.m. on any working day except Saturday.

The above Explanatory Statement concerning the re-appointment of Mr. Bharuka as the Managing Director may be treated as an abstract of the terms of the draft Agreement and the memorandum of concern or interest under Section 302 of the Companies Act, 1956.

The Board commends the Resolution for acceptance by the Shareholders.



Mr. Bharuka is interested in the Resolution since it relates to his own appointment. None of the other Directors of the Company is in anyway concerned or interested in the Resolution.

Item No. 9

At the 88th Annual General Meeting of the Company held on 24th June, 2008, the Shareholders had approved the appointment of Mr. P. D. Chaudhari as a Wholtime Director of the Company for a period of five years commencing from 1st May, 2008 and ending on 31st March, 2013 (both days inclusive).

The Board of Directors of the Company has, on 22nd March, 2013, re-appointed Mr. Chaudhari as a Wholtime Director of the Company for a period of five years commencing from 1st April, 2013 and ending on 31st March, 2018 (both days inclusive) on the revised remuneration and perquisites to be paid or granted to him as set out in the draft Agreement between the Company and Mr. Chaudhari referred to in the Resolution at Item No. 9 of the Notice. The Board of Directors has considered it necessary to revise the terms of remuneration and perquisites payable to Mr. Chaudhari from 1st April, 2013, in view of the commendable performance of Mr. Chaudhari during his tenure as a Wholtime Director of the Company.

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

The re-appointment of Mr. Chaudhari as a Wholtime Director of the Company on the remuneration and perquisites as set out in the aforesaid draft Agreement is however subject to the approval of the Shareholders in general meeting pursuant to Sections 198, 269 and 309 of the Companies Act, 1956. Hence the Resolution at Item No. 9 of the Notice.

Mr. Chaudhari, aged 44, B.E. (Production), MMS, joined the Company on 14th June, 1993 and was Director – Supply Chain, prior to his appointment on the Board as a Wholtime Director since 1st May, 2008.

The material terms of the draft Agreement referred to in the Resolution at Item No. 9 are as follows:

1. The re-appointment of Mr. Chaudhari as a Wholtime Director of the Company shall be for the period commencing from 1st April, 2013 and ending on 31st March, 2018 (both days inclusive), subject to the same being previously determined as provided for in the Agreement.
2. Mr. Chaudhari shall be primarily responsible for and be in charge of Supply Chain and Auto Marketing functions of the Company and shall exercise such powers and perform such duties as may be entrusted to him by the Managing Director and/or the Board of Directors of the Company.
3. Mr. Chaudhari shall report to the Managing Director and shall be responsible for his actions to the Board as well as to the Managing Director. Management of the whole or substantially the whole of the affairs of the Company will not vest in Mr. Chaudhari.
4. Mr. Chaudhari shall devote his whole time, attention and abilities during business hours to the business of the Company and use his best endeavors to promote the interest and welfare of the Company.
5. Remuneration: Mr. Chaudhari shall be entitled to the following emoluments, benefits, perquisites, subject to the limits laid down under Sections 198, 309 and Schedule XIII to the Companies Act, 1956:
 - (a) Salary: ₹ 2,60,000 per month. Increments, subject to the limit laid down under Sections 198, 309 and Schedule XIII to the Companies Act, 1956, will be decided upon from time to time by the Board each year and will be merit based and take into account the Company's performance.
 - (b) Commission: Subject to the overall ceiling in Section 198 and Section 309 of the Companies Act, 1956, Mr. Chaudhari will be paid remuneration by way of commission based on net profits of the Company for each financial year as the Board may in its absolute discretion determine, depending on performance.
 - (c) House Rent Allowance: 40% of annual salary. In case Company accommodation is provided, no House Rent Allowance will be paid.
 - (d) Leave Travel Allowance: 10% of annual salary.



(e) Other Perquisites and Allowances:

- (i) Mr. Chaudhari shall be entitled to perquisites and allowances like bonus, reimbursement of expenses or allowances for utilities such as gas, electricity, water, soft furnishing, hard furnishings and repairs and such other perquisites and allowances in accordance with the rules of the Company, applicable from time to time, or as may be agreed to by the Board of Directors, the value of which shall not in the aggregate exceed 75% of the annual salary.
- (ii) For the purposes of calculating the above ceiling, perquisites and allowances shall be evaluated as per Income-tax Rules, wherever applicable. In the absence of any such rules, perquisites and allowances shall be evaluated at actual cost.
- (iii) Company's contribution to Provident Fund shall be at 12% of Salary (including Commission). Company's contribution to Superannuation Fund shall be at 15% of Salary.

Company's contribution to Provident Fund and Superannuation Fund as aforesaid, gratuity payable as per the rules of the Company, encashment of leave during the term of employment in accordance with the rules of the Company and/or at the end of the tenure, reimbursement of expenses incurred for travelling, boarding and lodging including for the spouse during business trips, provision for use of the Company's car for official duties and for personal purpose, provision of telephone at residence (including payment for local calls and long distance official calls), payment of club membership fees for the Company's business, reimbursement of medical expenses, reimbursement of telephone, internet and petrol expenses, shall not be included in the computation of limits for the remuneration or perquisites aforesaid.

Minimum Remuneration:

In the event of loss or inadequacy of profits during any financial year, in the aforesaid period, the Company will pay remuneration by way of salary, perquisites and allowances (including Leave Travel Allowance and House Rent Allowance,

where applicable) as specified above, not exceeding the limits specified in Section II of Part II of Schedule XIII to the Companies Act, 1956, subject to requisite approvals being obtained.

6. Mr. Chaudhari shall not be paid any sitting fees for attending the meetings of the Board of Directors or Committees thereof.
7. Mr. Chaudhari shall be entitled to reimbursement of all actual expenses, including on entertainment and travelling, incurred in the course of the Company's business.
8. Mr. Chaudhari will be granted Privilege leave, Sick leave and Casual leave in accordance with the rules and regulations of the Company.
9. Mr. Chaudhari shall not for the period of 5 (five) years from the date of re-appointment, whether the employment runs through the full period of five years from the date of re-appointment or is terminated by the Company or Mr. Chaudhari anytime during the term of this Agreement for whatever reason, directly or indirectly engage himself in any business or activity substantially similar to or competing with the business or activity of the Company or do any deed, matter or thing so as to solicit the custom of the clients of the Company or offer to provide any services to such clients otherwise than through the Company.
10. Mr. Chaudhari shall not, so long as he functions as the Wholtime Director of the Company, become interested or otherwise concerned directly or through his wife and/or minor children in any selling agency of the Company in future without the prior approval of the Central Government.
11. Mr. Chaudhari shall not during the term of this Agreement and for all times thereafter, divulge or disclose any information or knowledge obtained by him during his employment as to the business or affairs of the Company or any trade secrets or secret processes of the Company.
12. Mr. Chaudhari's employment shall be determined forthwith if he commits a breach of any of the aforesaid terms, disqualifies himself to act as a Director for any reason except inadvertent breach of Section 283 of the Companies Act, 1956, or becomes insolvent, makes any composition or arrangement with his creditors or ceases to be Director of the Company.



13. In the event there is no breach of the terms of the Agreement by Mr. Chaudhari, but the Company exercises its discretion to terminate his services during the term of this Agreement, without assigning any reason therefor, then and in that event, Mr. Chaudhari shall be paid a compensation, in accordance with Section 318 of the Companies Act, of a sum which shall not exceed the remuneration which he would have earned if he had been in office for the unexpired residue of his term or for three years, whichever is shorter, calculated on the basis of the average remuneration actually earned by him during a period of three years immediately preceding the date on which he ceased to hold the office or where he held the office for a lesser period than three years, during such period.

Your Directors consider the aforesaid remuneration to be commensurate with the duties and responsibilities of Mr. Chaudhari as a Wholtime Director of the Company.

The draft Agreement between the Company and Mr. Chaudhari referred to in the Resolution will be open for inspection by the Shareholders at the Registered Office of the Company between 11.00 a.m. and 1.00 p.m. on any working day except Saturday.

The above Explanatory Statement concerning the appointment of Mr. Chaudhari as a Wholtime Director may be treated as an abstract of the terms of the draft Agreement and the memorandum of concern or interest under Section 302 of the Companies Act, 1956.

The Board commends the Resolution for acceptance by the Shareholders.

Mr. Chaudhari is interested in the Resolution since it relates to his own appointment. None of the other Directors of the Company is in any way concerned or interested in the Resolution.

Item No. 10

At the Eighty-Eighth Annual General Meeting held on 24th June, 2008, the Shareholders had passed a Special Resolution under Section 309(4) of the Companies Act, 1956, (the "Act") authorising the payment of commission to the Non-Executive Directors of the Company being Directors other than the Managing Director and Wholtime Director(s), not exceeding in the aggregate one percent per annum of the net profits of the Company computed in the manner laid down in Section 198 of the Act, for each

of the five financial years of the Company commencing from 1st April, 2008 subject to such limits as the Board of Directors may from time to time determine. The period of five years expired on 31st March, 2013.

It is considered appropriate to continue the payment of commission not exceeding one percent per annum, or such limit as may be prescribed under the Act, of the net profits of the Company, to the Non-Executive Directors for a further period of five financial years commencing from 1st April, 2013 with authority to the Board of Directors to determine the quantum, proportion and manner of such payment from time to time.

All the Directors of the Company other than the Managing Director and Wholtime Director(s) of the Company may be regarded as interested in the Special Resolution.

Disclosure in terms of Clause 49 (IV)(E)(v) of the Listing Agreement with the BSE and the NSE:

Name of the Director seeking appointment/ re-appointment	Shares held as on 31.3.2013 (Own or held by/ for other persons on beneficial basis)
(1) Mr. P. P. Shah	Nil
(2) Mr. N.N. Tata	Nil
(3) Mr. Y. Takahashi	Nil*
(4) Mr. M. Tanaka	Nil*

* Mr. Y. Takahashi and Mr. M. Tanaka are Nominees of Kansai Paint Co. Ltd., Japan. They do not hold any Share in their personal capacity.

For and on behalf of the Board

Registered Office:
"Nerolac House",
Ganpatrao Kadam Marg,
Lower Parel,
Mumbai - 400 013.

J.J. IRANI
Chairman

Dated: 4th May, 2013



DIRECTORS' REPORT

Dear Members,

Your Directors are pleased to present the 93rd Annual Report and the Audited Accounts for the year ended 31st March, 2013.

1. Financial Highlights

	1st April, 2012 to 31st March, 2013	1st April, 2011 to 31st March, 2012
	₹ in Million	₹ in Million
Sales & Operating Revenue.....	33756.49	30198.84
Net Sales/Income from operations (Net of excise and discounts)	28566.19	26005.72
Other Income.....	163.17	242.66
Profit before Interest, Depreciation, Tax and Appropriation.....	3524.15	3615.67
Interest.....	0.16	0.86
Depreciation.....	471.07	563.53
Profit Before Exceptional Item.....	3052.92	3051.28
Exceptional Item (Reversal of excess depreciation in respect of earlier years)	1149.25	—
Profit Before Tax	4202.17	3051.28
Tax.....	1280.35	892.43
Profit After Tax	2921.82	2158.85
Balance brought forward from previous year.....	6213.57	4959.59
Balance available for appropriations.....	9135.39	7118.44
Appropriations:		
Proposed Dividend.....	592.81	592.81
Tax on proposed dividend.....	100.75	96.17
General Reserve	292.18	215.89
Balance retained in Profit and Loss Account.....	8149.65	6213.57
	9135.39	7118.44

2. Dividend

The Directors recommend for consideration of the Members a dividend of ₹ 11.00 (110%) per equity share of the nominal value of ₹ 10 each for the year ended 31st March, 2013 as against ₹ 11.00 per equity share (110%) paid last year.



3

MANAGEMENT DISCUSSION AND ANALYSIS

(A) INTRODUCTION TO KANSAI NEROLAC PAINTS LTD.

Kansai Nerolac Paints Ltd. (KNPL), a subsidiary of Kansai Paint, Japan, is one of India's leading paint companies.



KNPL had its beginning as Gahagan Paints and Varnishes Co. Ltd. in the year 1920. Over the 93 years of its existence the Company has built a strong brand and has gained a reputation for high quality, innovation and differentiated product offerings. KNPL's vision has been to leverage global technology and serve the customers with superior coatings systems and world class solutions.

The Company has 5 manufacturing facilities situated at Lote in Maharashtra, Bawal at Haryana, Jainpur in UP, Chennai and the latest state-of-the-art plant at Hosur in Tamil Nadu. The strategic geographical set up of the plants has been advantageous in providing high service levels and supply chain efficiency, thus leading to customer satisfaction.

KNPL as a Company is committed to the purpose of touching and improving the lives of consumers. It does so by expanding its reach and providing consumers with greater product choices to meet evolving customer demands.

The Company's strategic investments are in line with its purpose-inspired growth strategy to drive long-term value for customers and all stakeholders. The Company also regularly benchmarks itself across sectors and identifies numerous strategic initiatives that it should undertake. These initiatives form part of the Company's Mission document.



The Company is a leader in the Industrial paint market. The full system supply capability in tandem with the technological advanced products introduced over the years has been instrumental in sustaining the leadership for the industrial business segment. KNPL has always launched a slew of products for customer across various market segments which are innovative and technologically superior.

The Company has always viewed IT as strategic and capable of creating competitive differentiation. Over the years it has successfully implemented a variety of IT solutions in various operational areas.

The organization has been felicitated with several awards in all functional areas of Products, Services and Governance.

(B) INDUSTRY PROGRESS

The financial year 2012-13 has been challenging. For a greater part of the year the industry witnessed high interest rates and significant inflation in addition to uncertainty in the global scenario.

The Company has taken this operating environment as a challenge and focused on sustainable growth. While practicing caution, it has leveraged its capacity enhancements, operational controls, product innovations, customer reach and infrastructural support.

As a result, Kansai Nerolac has been able to consolidate its leadership in the industrial, automotive and powder coating business and focus on the decorative business through the unique healthy home products proposition.

As on March 2013, the industry size for paints is estimated at around ₹ 28,500 crores. The organized sector accounts for 79%. The Decorative paints segment accounts for around ₹ 20,000 crores while industrial accounts for ₹ 8,500 crores of the total paint market.

In the long term the paints industry is expected to grow at 12-13% which is roughly 1.5 to 2 times the GDP.

(C) MARKETING INITIATIVES – OUTLOOK

KNPL has continued its efforts to touch the homes of Indian consumers by providing 'Healthy Home Paints'. The Company has reached out to consumers through its brand ambassador Shah Rukh Khan. The Company's media message has been a reflection of its Healthy Home Paints theme and has included the promotion of environment friendly, low VOC and lead free products.



A series of campaigns have been initiated to showcase the wide range of products for the consumers. One of them has been "NO VOC NO GADBAD" campaign, launched to create awareness amongst masses about



'Painting a Greener Tomorrow'. KNPL has aired campaigns of Impressions Eco Clean on all leading channels. Several activities were carried out on World Environment Day on different media platforms so as to leverage our "Healthy Home and Eco Friendly" positioning.



During the year the Company launched a unique initiative 'Paint the Change'. Paint the change is the Company's endeavour to create a platform to empower consumers to make the change around them, thereby helping them to invest in a greener future. Consumers can contact their nearest collection centers volunteered by the Company's dealers who would collect unused paint from them or drop the unused paint at Company depots or showrooms.

After extensive research on the existing models a new version of NEROLAC COLOR STYLERS- NCS (Version 4) was launched this year. The key features of this version includes Touch Screen interface, discussion counter, Vastu book and all shades ranging from Plain finishes to Metallics, Disney and Ideaz with its USP.



Nerolac Impression Shoppe Bandra.

The Company believes that it is important to reach out to the influencers as well. It has collaborated with the architects & interior decorators with initiatives like Rangashala – a new initiative to help painters learn and grow with Nerolac.

Nerolac's endeavour to engage with the Generation Next audiences by leveraging the online space has entered a new phase with its Social Media Campaigns – Kuch Change Karein, Chalo Tune Badlein – Personalise the Nerolac Jingle and "We love all our fans" activity. The Company is now enhancing its relationship with the consumers through social networking tools like Facebook and has achieved a huge fan base in the paint industry. It is serving as a good platform for communicating all campaigns and events and getting consumer insights. Having received a great response from consumers on Nerolac's Facebook page, Nerolac has gone ahead and established an Official YouTube Channel of Nerolac Paints, India.





Kansai Nerolac is the Market Leader in the automotive coating segment in India with a dominant market share. It has built a strong credibility by creating customer service objectives with the OEMs and monitoring the progress together. These aspects have helped to attain business of the existing customers and get access to new auto European manufacturers and others. Multiple OEM lines have been awarded to the Company for future business prospect.



KNPL has grown and maintained its position in Industrial Coatings segment with a wide range of products in the Automotive, Powder, General Industrial and High performance Coatings space. The Company believes that customer relationship, profitability and operational

efficiency are vital for business and continued growth. This goes hand in hand with the right mix of products, high quality and on time delivery. KNPL in partnership with Kansai, Japan has been able to leverage the competitive advantage to ensure a strong market presence. The industrial marketing team has participated in a series of color & product presentations, seminars, vendor meets, customer satisfaction surveys and exhibitions. This has given brand visibility to the Company and further strengthened the Company's presence in the industry.

This year, the Company has focused on the augmentation of auto refinish business by working on comparative market study, understanding needs of customers, product innovations and brand visibility. The Company introduced Retan PG ECO Hybrid Refinishing System in body shops in India which is Japan's leading Auto refinishing system.

There has been similar focus on Performance Coatings business division of powders and liquids. Several marketing initiatives have been taken forward to sustain leadership status for Powder coatings. The customer requirements are well analyzed and the products developed to cater to them.

(D) OPPORTUNITIES AND THREATS

Opportunities and threats have a significant effect on the business as the global economic conditions still seem uncertain. KNPL is well equipped to meet the challenges through certain strategic investments.

The most important aspect for the business is to meet the demands of the Industrial and Decorative customers. The Company has a clearly outlined strategy to understand changing customer requirements with the right mix of high quality products, pricing, on time delivery and high service levels.



OPPORTUNITIES

Environment Friendly Paints:

Awareness about the environment friendly paints which are lead free and have low VOC is increasing among the masses. KNPL being a pioneer in this has initiated many steps to garner market share on this front. KNPL is prepared to face regulation of environmental laws with lead free, low VOC paints.

Housing Loan Interest:

The year saw subdued activity in the housing infrastructure segment. During the last quarter of the year there was a reduction in interest rate by the central bank. This could signal a change in the fortunes in the housing sector and could lead to better demand in the future.

THREATS

Raw Material & Crude Oil:

Petroleum based raw material and crude oil is the backbone of the business. The prices of raw material continuously rose for a greater part of the year. Crude oil prices also showed an uptrend. Continued increase in raw material prices could create pressure on bottom-line.

Inflation:

There is lot of uncertainty about inflation. This has impacted consumer sentiment.

Currency Depreciation:

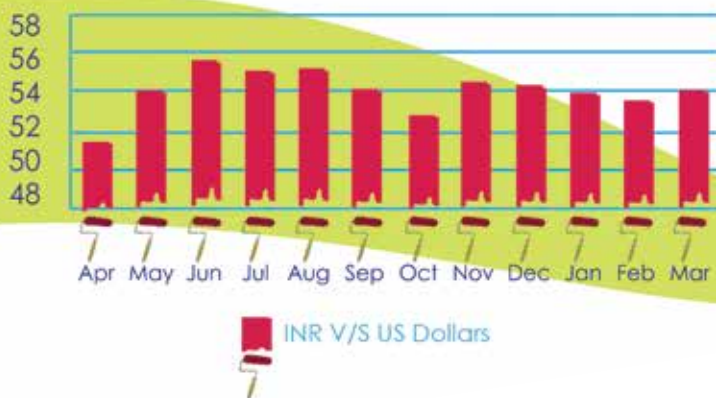
During the whole year exchange rate was unfavourable and the Rupee touched its lowest ever value. If the rupee further continues its downfall, costs of imported spares, technology royalties, raw materials and capital goods can significantly shoot up, impacting the Company's bottom line. The Company is meeting these threats through a series of internal programs aimed at reducing the impact.

Changing Customer preference:

One of the most important risk factors is changing customer choices and sustainability of the business. The Company is prepared to handle it through environment friendly products, world class technological innovations, speed of response and operational excellence which are important attributes for risk handling.

In spite of all the threats, KNPL has continued to make strategic investments in manufacturing capacity expansions, reduction in carbon emissions, energy and water conservation, manage sustainability through environment friendly products, efficient supply chain, strong people processes and best in class IT systems which will help preserve its leadership as well as ensure that its customers are served with the highest of standard by recognizing the long term growth potential of the industry due to a series of long term favourable economic and demographic criteria.

Currency Depreciation trend 2012-2013

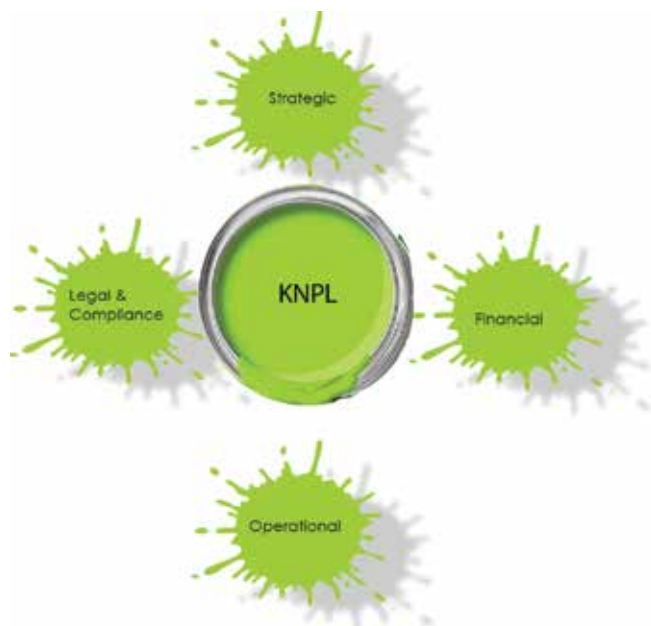


(E) SEGMENT WISE PERFORMANCE

The Company has only one segment of activity named paints, in accordance with the definition of Segment as per the Accounting Standard 17 issued by the Institute of Chartered Accountants of India. The performance of the Company is discussed separately in this Report.

(F) RISKS AND CONCERNS

A disciplined approach to risk is important in an organization which is catering to both industrial and decorative customers. In order to handle the risks in business, the Company has in place a comprehensive risk management framework. The risk management framework operates at the business and functional levels and is designed to identify, evaluate and mitigate risks within each of the following categories:



Strategic

Strategic risk relates to the Company's future business plans and strategies, including the risks associated with the markets and industries in which the Company operates, demand for the products and services, competitive threats, technology and product innovation.

Operational

Operational risk relates to the rising crude oil prices and other raw material costs, increase in labour cost, power shortage and power costs, transportation, demand generation, environmental hazards which may hamper the business cycle. Therefore, the Company is ready with action plans to allay the risks. Efficient manufacturing, strong supply chain, high quality raw materials, timely reach to the customers, working capital management, productivity enhancement, right inventory levels, talent retention, adherence to standard operating procedures are the cutting edge to overcome the risks and face the competitive environment.

Financial

Financial risk relates to the Company's ability to meet financial obligations and mitigate credit risk, volatility in foreign currency exchange rates and interest rates and commodity prices. We face credit risk in our businesses, but proper planning has helped KNPL to maintain its position in the market.

Legal And Compliance

Legal and compliance risks includes government and regulatory actions which will impose additional cost or cause change to the business models or practices. It also includes the environmental regulations. KNPL is equipped with the new environment friendly products which will reduce the risk arising through these regulations.

(G) RESEARCH AND DEVELOPMENT

KNPL has always aimed at being an innovator in introducing new products and new environment friendly products. To facilitate this, the Company has a state-of-the-art laboratory which can simulate actual user conditions.





Minimum Film Forming Temperature



Atomic Absorption Spectrophotometer



Laser Particle size Analyser

KNPL constantly works towards providing constant services to the customers for running the line trouble – free and educating customers with latest trends and breakthrough technologies available in the world. To support this, several paint technologists with formulation and product application expertise are involved in periodic training and development of tailor made products at collaborator facilities.

Despite the cost pressures, the department has been working on standardization of raw materials, process optimizations and continuous support to the esteemed customers.

During the year the R&D function has been able to come up with a slew of innovative products some of which are mentioned in the earlier sections. In Automotive, new developments include High Performance Clear Coat, High Solid Common Base Coat for 4 wheeler bodies and bumper along with Metal Grip Primer. In the Performance coatings market it has introduced Can coatings and Neroklad floor coatings. In decorative coatings the Company has continued the focus on core brands with introduction of products like Impressions Ideaz – Special effect designer series paint that creates a variety of designs on interior walls as well as Impressions Water Based Pearl Luster Finish.

R & D experts have participated in several technology seminars to understand the requirements of OEM customers and keep them abreast with the latest KNPL products. Here, the Company has leveraged the partnership of Kansai Paint, Japan so that niche products are constantly introduced to cater to the customer needs.

(H) INFORMATION TECHNOLOGY

IT investments and initiatives have played a pivotal role in bringing business value to KNPL. During the year greater emphasis was given to bring greater maturity in the usage and adoption of new IT technologies introduced in the previous years in the areas of Customer Relationship Management (CRM), Business Communication Manager (BCM), Business Intelligence and Business Objects (BI-BO), Advanced Planner and Optimizer (APO) amongst others.

The CRM initiative which was rolled out in the last year is being taken to the next level in terms making the front line sales force equipped with key information which will ensure higher visibility and focus on servicing the customer. The Call center initiative is being leveraged upon to stay connected with our customers. New functionalities were rolled out in APO (Advanced Planner and Optimizer) for solving supply chain process challenges resulting in business benefits like cost optimization, reduction in planning time, improved optimization of production plan.

Solution Manager was implemented to gain technical excellence in various IT processes. This will also act as an interface in aligning KNPL with global best practices. It will also enable KNPL to take advantage of innovations in IT. In continuation of last year, various actionable dashboards were implemented covering all business domains, with the objective of providing faster and result oriented actionable MIS.



(I) PEOPLE

KNPL believes that the key enabler for the Company's growth is its People – the most important asset. Key Result Areas (KRAs) are set for all employees wherein there is clarity on the goals to ensure right directions for the priorities and responsibilities. A strong Talent Management process is in place wherein a number of initiatives have been taken to develop employees and make them future ready to take on higher responsibilities. Under the gamut of Operator development, plant operators have been groomed to take on supervisor roles in the factories.



The Company has also IT enabled its training. Online testing module and several operational procedures including the confirmations of employees, performance management is in place. This has helped build greater level of transparency.



KNPL believes in the significance of communication and hence listen to the employees' aspirations, expectations and concerns and allows them to give their feedbacks. This has been done through HR Connects, Personal Aspirations dialogue processes amongst many. Employee Satisfaction Surveys are conducted to understand the pulse of the Company. In taking pride about our openness and transparency KNPL has also established structures for corporate governance through the Whistle Blower Policy.

KNPL invests in Training and believes that the real crux of training lies in the way the inputs are applied at workplace. Training is provided in the form of Structured Training inputs through Skill Development Pillar, Management Development Programs (MDPs), Competency Based Training Programs and Self Directed learning through Group Discussions and Online Testing.

Industrial relations are cordial across all plants. Employee strength is 2456 as on 31st March, 2013.

(J) AWARDS & RECOGNITION

AWARDS BY EXTERNAL AGENCIES:

- Green Believer Plant Award for KNPL – Bawal plant by Frost & Sullivan for FY 2011.
- "The Best innovative idea" award for barrel cleaning machine at the Manufacturing Innovation Conclave – 2012, organized by Industry 2.0 magazine.
- A "Certificate of Merit" for achieving Zero Accident Frequency Rate to KNPL – Lote Plant by National Safety Council – Maharashtra Chapter.
- A merit certificate at the ICE (In-House Communication Excellence) Awards 2012, an initiative of Shailaja Nair Foundation.



- "Best HR team" Award (in the western region) at the Human Capital Awards 2012 organized by Indira Group, Pune, in association with the Centre for Change Management, Mumbai.
- KNPL was awarded for the Best business HR case study by Hindustan Times Shine HR Summit 2012.



AWARDS BY CUSTOMERS:

- Green Vendor Developer Program Award from Hero Motocorp Ltd., for outstanding contribution.
- Award for Capacity Enhancement from the Maruti Suzuki India Ltd. for KNPL contributions.
- Toyota Boshoko Automotive Limited presented "Appreciation Award" for outstanding support in terms of shorter lead time for development and supplies.



(K) COMMUNITY DEVELOPMENT

KNPL believes that business and society are interdependent. This belief drives the Company's commitment to partnership to create mutual benefit or shared progress. Social responsibility is a value that is honoured in all areas of operations. As an organization, KNPL cares for its people and involves them in the ambit of social responsibility by internalizing Corporate Social Responsibility (CSR) in its values and day to day operations.

The Mission and philosophy of this function is "To contribute positively to the development of the society, by acting as a good neighbour, considerate of others, playing the role of a good corporate citizen with passion and compassion." Hence the CSR activities undertaken by the organization essentially focus on four core areas of Environment, Health, Education and Community Development. The focus of the Company is to contribute to various institutions and initiatives around the manufacturing locations to provide social services to the needy.





(L) ENVIRONMENTAL AND INDUSTRIAL SAFETY

The Company has continuously advanced on the path of attaining sustainability, irrespective of market conditions and business growth. KNPL has given equal emphasis on all three parameters of sustainability i.e. Economic, Environment and Social. At the same time, health and safety of employees are significant aspect of KNPL's business. From the last financial year, KNPL has started disclosing its sustainability performance through the "Sustainability report".

The Company is ISO 14001 & OHSAS 18001 certified and the plants are certified by the British Safety Council. The Company has paid lot of emphasis on waste water treatment at its manufacturing sites and major plants are well equipped with "Zero liquid discharge units". The other environment sustainability initiatives of the Company include rain water harvesting, solid fuel boilers (rice husk), moving towards renewable sources of energy and waste reduction.

KNPL has been accounting its "Carbon footprints" on yearly basis and the emission trend has decreased year after year. This has been possible because of our commitment towards establishment of eco - friendly manufacturing system.

On frequent basis information/CARE bulletins are published on various topics like Health protection, Environment conservation, Safety, Carbon foot printing, Green building, Rainwater harvesting and Energy conservation etc. to create awareness among employees.

KNPL has focused on developing eco - friendly paints and the range of "Healthy home" paints is the example of its initiative. KNPL is committed to make continuous improvement in its business for achieving Sustainability.



(M) SUPPLY CHAIN

The Company is likely to commence phase 2 operations in quarter 1 of 2013-14 at its new world class manufacturing unit in Hosur, Tamilnadu. Transition from Manufacturing Excellence to Business Excellence has started. Office TPM initiatives and Kaizens are extended to all functions for continuous improvement.



Automated Storage and Retrieval System (ASRS) is implemented at Bawal plant for efficient raw material handling. There has been an expansion at the Bawal Paint capacity.

(N) INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

KNPL has robust Internal Controls and Risk Management systems for achieving operational efficiency, optimal utilization of resources and compliance with local applicable laws to commensurate with its size and operations.

KNPL has leveraged the IT interface in the form of Governance, Risk and Control (GRC) SAP module. Authorization to IT systems is based on risk analysis and mitigation within the framework provided by the GRC system.

A system is in place for managing risk, assessing controls in operational areas, collating documented process, policies, evidences and proofs to identify control weaknesses and initiate actions to mitigate them. The Board regularly monitors the exposure and state of preparedness in key business processes.

The organization is appropriately staffed with qualified and experienced personnel for implementing and monitoring the internal control environment. The business processes and systems are audited by the Internal Auditor, Aneja Associates as per the Internal Audit Plan in addition to the statutory audits. The Company is IFRS ready.

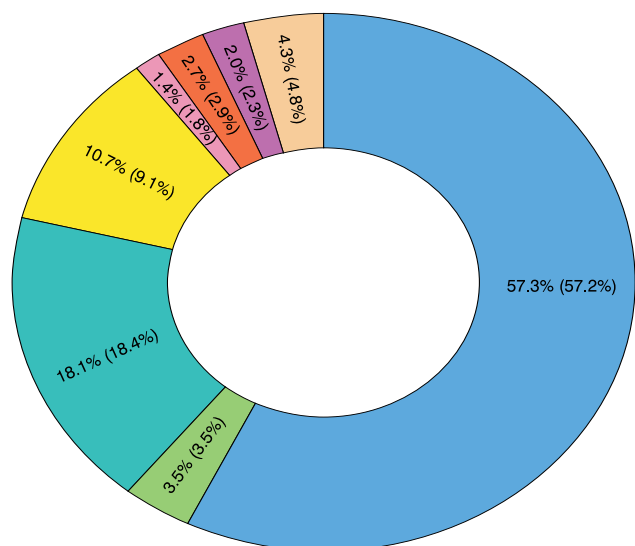
These initiatives have strengthened the Governance system with automated controls. To ensure proper adherence to the laid down policies and procedures, Code of Conduct has been communicated to all employees across the Company.

(O) AFFIRMATIVE ACTION

The Company has adopted a Code of Conduct for affirmative action for the purpose of providing employment opportunities for the socially disadvantaged.



DISTRIBUTION OF INCOME



2012-13

- Materials
- Manpower Cost
- Operating and Other Expenses & Rebates, Discounts, Allowances
- Excise Duty
- Depreciation
- Corporate Tax
- Dividend
- Retained Earnings*

* Before exceptional item (net of tax).

Previous year 2011-12 percentage figures are stated in brackets.

(P) FINANCIALS

Sales & operating revenue for the year aggregated to ₹ 33756 Million reflecting a growth of 11.8% over the previous year.

During the year, rupee depreciated further against USD resulting in higher cost of imports. Moreover there was also lot of volatility during the year.

Overheads were kept under control during the year.

During the year, the Company changed the method of depreciation from Written Down Value (WDV) method to Straight Line Method (SLM). Due to this, depreciation for the year is lower at ₹ 471 Million as compared to ₹ 564 Million which was calculated on WDV method. Had the Company continued with WDV method in the current year, depreciation would have been at ₹ 695 Million.

Due to the change in the method of depreciation, as per Indian GAAP the effect has to be given on retrospectively resulting in write back of ₹ 1149 Million. (Refer Note 1(B)(I)(c) to the Financial Statements).

Interest cost was negligible due to effective cash management.

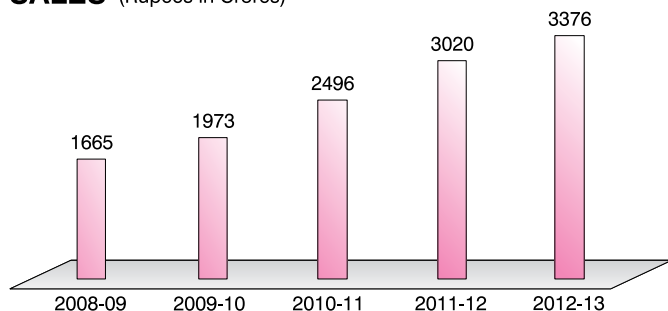
Other income was lower at ₹ 163 Million as compared to ₹ 243 Million of previous year due to utilization of surplus funds in the financing of capital expenditure mainly at Hosur Project.

Profit Before Tax (PBT) before write back of depreciation is more or less at same level at ₹ 3053 Million as compared to ₹ 3051 Million of the previous year. PBT including write back is at ₹ 4202 Million.

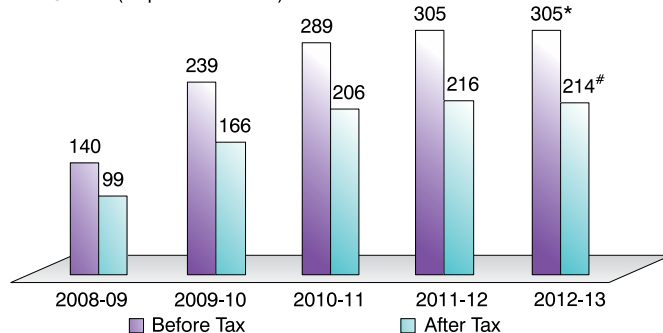
Cautionary Statement

Statements in this Management Discussion and Analysis Report describing the Company's objectives, estimates and expectations may be "forwarding looking statements" within the meaning of applicable laws and regulations. Actual results might differ materially from those either expressed or implied.

SALES (Rupees in Crores)



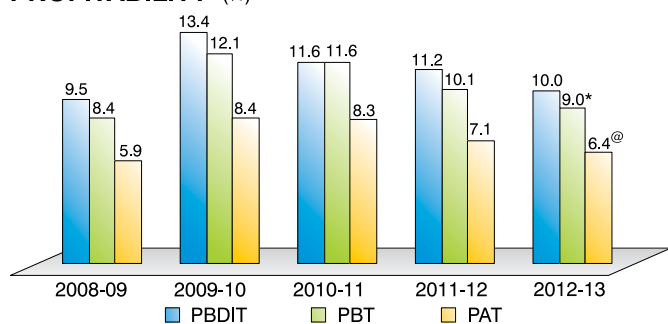
PROFIT (Rupees in Crores)



* Profit before exceptional item.

Profit before exceptional item (net of tax).

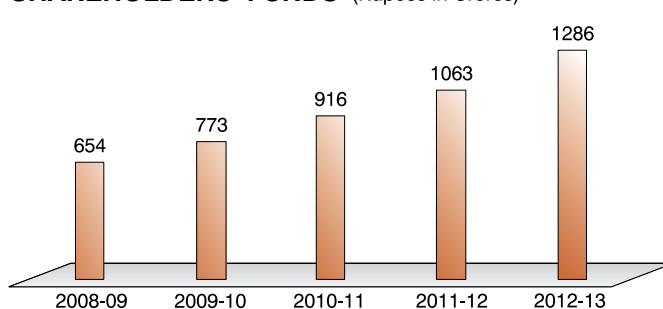
PROFITABILITY (%)



* Before exceptional item.

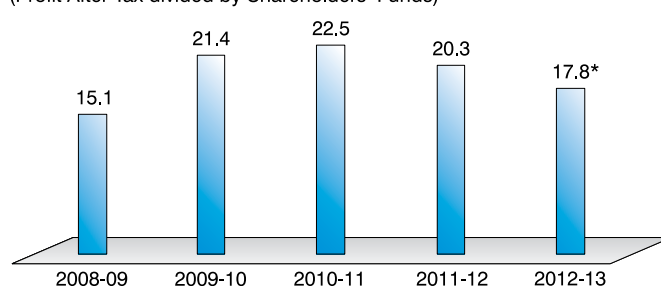
@ Before exceptional item (net of tax).

SHAREHOLDERS' FUNDS (Rupees in Crores)



RETURN ON NET WORTH (%)

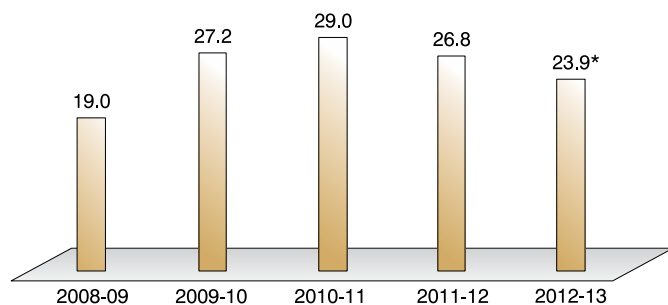
(Profit After Tax divided by Shareholders' Funds)



* Before exceptional item (net of tax).

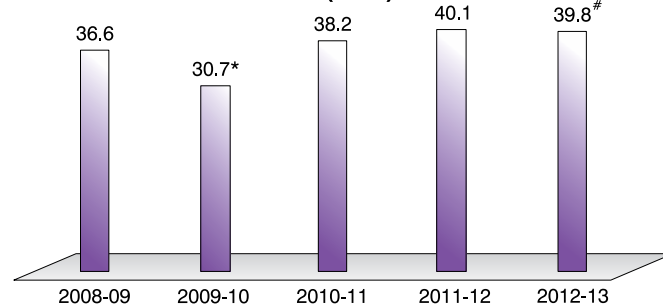


RETURN ON CAPITAL EMPLOYED (%)



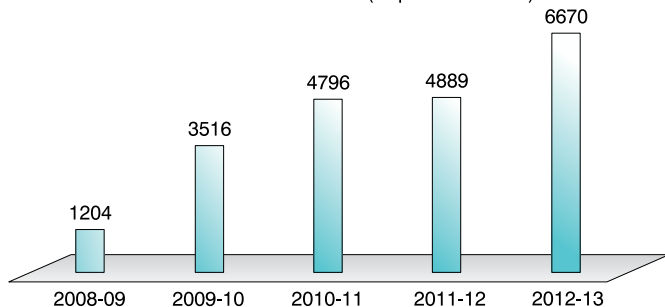
* Before exceptional item (net of tax).

EARNINGS PER SHARE (EPS) (Rupees)

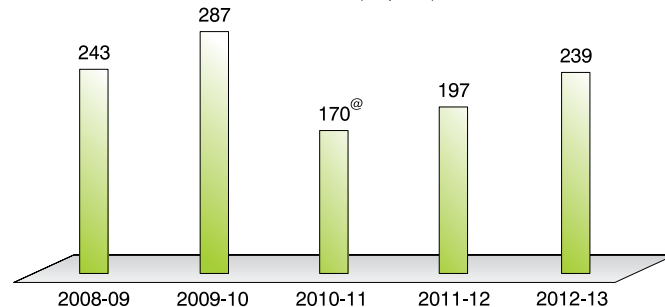


* EPS of 2009-10 has been recalculated consequent to the Bonus Issue in 2010-11.
Before exceptional item (net of tax).

MARKET CAPITALISATION (Rupees in Crores)

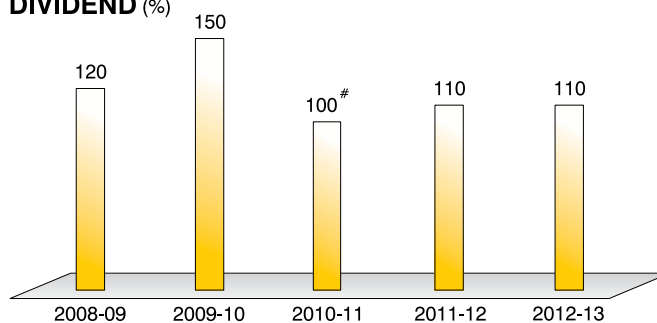


BOOK VALUE PER SHARE (Rupees)



@ After Bonus Issue of 1:1 in 2010-11.

DIVIDEND (%)



On enhanced capital after Bonus Issue of 1:1 in 2010-11



4. Unclaimed Dividend

During the year, dividend amounting to ₹ 0.19 Million that had not been claimed by the shareholders for the year ended 31st March, 2005, was transferred to the credit of Investor Education and Protection Fund as required under Section 205A read with Section 205C of the Companies Act, 1956. As on 31st March, 2013, dividend amounting to ₹ 4.46 Million has not been claimed by shareholders of the Company. Shareholders are required to lodge their claims with the Registrars, Sharepro Services (India) Pvt. Ltd., for unclaimed dividend.

5. Collaboration

The Directors record their appreciation for the contribution made and support provided by Kansai Paint Co. Ltd., Japan (Kansai). Kansai continues to provide support on process design, quality improvement, world class technology which has helped the Company in maintaining market leadership in the industrial business including automotive coatings, by servicing existing customers better and adding new lines. Kansai also provides technology for manufacture of architectural coatings.

The Company also has Technical Assistance Agreements with Oshima Kogyo Co. Ltd., Japan, for manufacturing heat resistance coatings and with Cashew Co. Ltd., Japan for coatings products MICRON and Thinner for MICRON. The Directors record their appreciation for the co-operation from these collaborators.

6. Subsidiary in Nepal

During the year, the Company acquired 8,84,000 equity shares constituting 68% of the paid up equity share capital of Nepal Shalimar Paints Pvt. Ltd., Nepal, now known as Kansai Paints Nepal Pvt. Ltd. amounting to ₹ 78.63 Million. The Company has also advanced loan to Kansai Paints Nepal Pvt. Ltd. amounting to ₹ 63.81 Million to fund its working capital requirement. Pursuant to provisions of section 4(1)(b)(ii) of the Companies Act, 1956, Kansai Paints Nepal Pvt. Ltd. has become the subsidiary of our Company. Pursuant to provisions of section 212 (8) read with Circular no. 2/2011 dated 8th February, 2011 of the Ministry of Corporate Affairs, the Board of Directors of the Company has passed the requisite resolution and consented for not attaching the balance sheet of the subsidiary with the Annual Report of the Company. However the Annual Accounts of the subsidiary and the related detailed information shall be available to the shareholders of our Company as well as the shareholders of the subsidiary seeking such information at any point of time. The annual accounts of the subsidiary company are available for inspection by any shareholder of our Company as well as of the subsidiary company at the registered office of the Company on any working day except Saturday during the business hours of the Company. The consolidated financial statements are presented in this Annual Report.

7. Auditors' Report

The Auditors' Report is clean and there are no qualifications in their Report.

8. Cost Audit Report

The Company had appointed N.I. Mehta and Co., Cost Accountants, to audit its cost accounting records relating to synthetic resins, paints and varnishes for the financial year 2011-12. The due date for filing the Cost Audit Report with the Ministry of Corporate Affairs was 31st January, 2013. The Cost Audit Report was filed with Ministry of Corporate Affairs on 4th January, 2013.



9. Directors

In accordance with the Articles of Association of the Company, Mr. P. P. Shah, Mr. N. N. Tata and Mr. Y. Takahashi retire by rotation and being eligible, offer themselves for re-appointment.

Mr. M. Tanaka, a nominee of Kansai Paint Co. Ltd., Japan, has been appointed as an Additional Director on the Board from 4th May, 2013. Pursuant to section 260 of the Companies Act, 1956, Mr. Tanaka holds office till the ensuing Annual General Meeting but being eligible, offers himself for re-appointment and the Company has received notices in writing from some Shareholders proposing his candidature for the office of Director of the Company.

None of the Directors of the Company is disqualified under Section 274(1)(g) of the Companies Act, 1956. As required by law, this position is also reflected in the Auditors' Report.

10. Corporate Governance

As required by the existing Clause 49 VII of the Listing Agreements entered into with the Stock Exchanges, a detailed report on Corporate Governance is given as a part of the Annual Report. The Company is in full compliance with the requirements and disclosures that have to be made in this regard. The Auditors' Certificate of the compliance with Corporate Governance requirements by the Company is attached to the Report on Corporate Governance.

The Company is in compliance with the Secretarial Standards issued by the Institute of Company Secretaries of India.

11. General Shareholder Information

General Shareholder Information is given in Item No. 9 of the Report on Corporate Governance forming part of the Annual Report.

12. Particulars regarding Employees

Particulars of Employees as required under Section 217(2A) of the Companies Act, 1956, and the Companies (Particulars of Employees) Rules, 1975, as amended by the Companies (Particulars of Employees) Amendment Rules, 2011, forms part of this Report. As per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Report and Accounts are being sent to the shareholders excluding the statement of particulars of employees under Section 217(2A) of the Companies Act, 1956. Any shareholder interested in obtaining a copy of the said statement may write to the Company Secretary at the Registered Office of the Company.

13. Directors' Responsibility Statement

As stipulated under the provisions contained in Section 217(2AA) of the Companies Act, 1956, the Directors hereby confirm as under:

- (i) that in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- (ii) that the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period;
- (iii) that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) that the Directors have prepared the annual accounts on a going concern basis.



In accordance with the Corporate Governance Voluntary Guidelines, 2009 issued by the Ministry of Corporate Affairs, Government of India, it is hereby confirmed that proper systems are in place to ensure compliance of all laws applicable to the Company.

14. Energy, Technology Absorption & Foreign Exchange

Statement giving the particulars relating to conservation of energy, technology absorption and foreign exchange earnings and outgo, as required under the Companies (Disclosures of particulars in report of the Board of Directors) Rules, 1988, is annexed.

15. Auditors

The Company Auditors, M/s B S R & Co., Chartered Accountants, retire at the conclusion of the forthcoming Annual General Meeting and are eligible for re-appointment.

16. Acknowledgements

Your Directors wish to express their grateful appreciation for the co-operation and support received from customers, parent company, collaborators, vendors, shareholders, financial institutions, banks, regulatory authorities and the society at large.

Deep appreciation is also recorded for the dedicated efforts and contribution of the employees at all levels, as without their focus, commitment and hard work, the Company's consistent growth would not have been possible, despite the challenging environment.

For and on behalf of the Board

J. J. Irani
Chairman

Mumbai, 4th May, 2013



ANNEXURE TO DIRECTORS' REPORT

FORM A

(1) Disclosure of Particulars with respect of Conservation of Energy

A. POWER AND FUEL CONSUMPTION	2012-2013	2011-2012
(1) ELECTRICITY		
(a) Purchased		
Units ('000 KWH)	28555	27767
Total Amount (₹ in Million)	198.19	158.64
Rate/Unit (₹)	6.94	5.71
(b) Own Generation		
Through Diesel Generator		
Units ('000 KWH)	6412	3955
Units per litre of Diesel oil	3.30	3.48
Cost/Unit (₹) (of diesel oil only)	13.68	11.20
(2) HIGH SPEED DIESEL		
Quantity (KL)	4231	3155
Total Amount (₹ in Million)	195.01	131.78
Average Rate (₹)	46.09	41.77
(3) STEAM		
Quantity (MT)	12510	10624
Total Amount (₹ in Million)	25.29	19.96
Average Rate (₹)	2.02	1.88
(4) HEAT		
Quantity (KCH)	4179	4454
Total Amount (₹ in Million)	19.93	16.31
Average Rate (₹)	4.77	3.66

B. CONSUMPTION PER UNIT OF PRODUCTION

	ELECTRICITY (KWH/TONNE)		HIGH SPEED DIESEL (LT/TONNE)		STEAM (KG/TONNE)		HEAT (KCH/TONNE)	
	2012-2013	2011-2012	2012-2013	2011-2012	2012-2013	2011-2012	2012-2013	2011-2012
Paints	134	126	16	13	48	42	16	18

FORM B

(2) Disclosure of Particulars with respect to Technology Absorption

I. RESEARCH AND DEVELOPMENT (R & D)

1. Specific areas in which R & D carried out by the Company:

- Development of new coatings/paints
- Quality upgradation of existing products
- Development of resins and polymers for paints
- Value engineering
- Process development
- Import substitution

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2. Benefits derived as a result of R & D:

The following new Products have been developed and commercialized:

- Water based lustre as Low VOC product
- Nerolac Paint stripper for faster and hassle free surface preparation
- New clear coat with better finish and mar resistance
- Primer for multi metal substrate.

3. Further Plan of action:

Development of following:

- High end exterior emulsion with superior durability
- Improvement in productivity and reduction in Batch Cycle Time

4. Expenditure on R&D

(₹ in Million)

	2012-2013	2011-2012
(a) Capital	0.11	11.08
(b) Recurring	163.63	148.51
(c) Total	163.74	159.59
(d) Total R & D Expenditure as percentage of total turnover	0.49	0.53

II. A. TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

1. Kansai Paint Co. Ltd., Japan

- To develop common base coat for metal and plastic for Automobiles.
- High Solid 3 Wet system (Primer-base coat – clear coat)

B. FOREIGN EXCHANGE EARNINGS AND OUTGO

Details of expenditure in foreign exchange are given in Notes 22.1, 25.4 and earnings in foreign exchange are given in Note 19.2 of Notes to the Financial Statements.

For and on behalf of the Board

J.J. IRANI
Chairman

Mumbai, 4th May, 2013

REPORT ON CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement, a report on Corporate Governance is given below:

1. Company's philosophy on Code of Governance

The Company believes in abiding by the Code of Governance so as to be a responsible corporate citizen and to serve the best interests of all the stakeholders, viz., the employees, shareholders, customers, vendors and the society at large. The Company seeks to achieve this goal by being transparent in its business dealings, by disclosure of all relevant information in an easily understood manner, and by being fair to all stakeholders, by ensuring that the Company's activities are managed by a professionally competent and independent Board of Directors.

2. Board of Directors

The strength of the Board as on 31st March, 2013 is nine Directors. The Board comprises of Executive and Non-Executive Directors. The Managing Director and a Whole-time Director are the two Executive Directors. There are seven Non-Executive Directors, of which four Directors, including the Chairman, are Independent Directors. The number of Independent Directors on the Board is in conformity with the requirement of Clause 49(I)(A) of the Listing Agreement. Three Non-Executive Directors namely, Mr. H. Ishino, Mr. Y. Takahashi and Mr. H. Nishibayashi are nominees of Kansai Paint Co. Ltd., Japan, Promoter Company.

Four Board Meetings were held during the year ended 31st March, 2013, i.e. on 2nd May, 2012, 30th July, 2012, 26th October, 2012, 22nd January, 2013.

Name of the Director	Category of Directorship	No. of Board Meetings Attended	Attendance at the last AGM
Dr. J. J. Irani	Chairman (Non-Executive and Independent Director)	4	Yes
Mr. D. M. Kothari	Vice Chairman (Non-Executive and Independent Director)	4	Yes
Mr. H. M. Bharuka	Managing Director	4	Yes
Mr. S. M. Datta (resigned with effect from 31st August, 2012)	Non-Executive and Independent Director	1	Yes
Mr. H. Ishino	Non-Executive Director	2	No
Mr. P. P. Shah	Non-Executive and Independent Director	4	Yes
Mr. N. N. Tata	Non-Executive and Independent Director	2	No
Mr. P. D. Chaudhari	Whole-time Director	4	Yes
Mr. Y. Takahashi	Non-Executive Director	1	Yes
Mr. H. Nishibayashi	Non-Executive Director	1	No

In terms of General Circular No. 28/2011 dated 20.05.2011 issued by the Ministry of Corporate Affairs, Government of India, every Director of the Company has personally attended at least one Board/Committee of Directors' Meeting in the financial year 2012-2013.

Certificates have also been obtained from the Independent Directors confirming their position as Independent Directors on the Board of the Company in accordance with the Voluntary Guidelines on Corporate Governance issued by the Ministry of Corporate Affairs, Government of India.

Number of Board of Directors or Board Committees other than Kansai Nerolac Paints Limited in which the Director is a Chairman/Member (excluding private companies, foreign companies and companies registered under Section 25 of the Companies Act, 1956) is as follows:

Name of the Director	No. of Directorships	No. of Audit Committees and Shareholders/Investors Grievance Committees* in which Chairman/Member	
		Chairman	Member
Dr. J. J. Irani	3	Nil	Nil
Mr. D. M. Kothari	Nil	Nil	Nil
Mr. H. M. Bharuka	Nil	Nil	Nil
Mr. H. Ishino	Nil	Nil	Nil
Mr. P. P. Shah	11	Nil	7
Mr. N. N. Tata	9	1	2
Mr. P. D. Chaudhari	Nil	Nil	Nil
Mr. Y. Takahashi	Nil	Nil	Nil
Mr. H. Nishibayashi	Nil	Nil	Nil

* As per Sub-clause (I)(C) of Clause 49 of the Listing Agreement.

The number of directorships and the positions held on Board Committees by the directors are in conformity with the limits on the number of directorships and Board Committee positions as laid down in the Companies Act and the Listing Agreement.

Orientation of newly elected directors and updation strategy

Newly elected directors are given a presentation on the functioning of the Company. Every quarter, reports of the various departments of the Company are circulated among all the directors. These reports give specific particulars of the respective departments. Apart from this, the directors are intimated of the changes as and when they happen. All the functional heads are present at the Audit Committee Meeting of the Company held every quarter. Presentations are also made to the Board of Directors by the functional heads. This ensures that the functional heads can apprise all the directors about the developments in their specific areas.

Access to information

The Vice Chairman of the Company, who is an independent director, has been provided an office at the Corporate Head Office of the Company. He has direct access to the officials of the Company, without the involvement of the CEO. Directors, including independent directors, visit the various manufacturing locations of the Company. They are not necessarily accompanied by the Managing Director. The purpose is to ensure that the independent directors have free and independent access to the Company's officials and records, so that they can form an independent opinion about the state of affairs of the Company.

Apart from this, reports of the audit carried out by the internal auditors and the statutory auditors are circulated to all the directors. Independent audits are also carried out by the parent company, Kansai Paint's auditors.

Monthly Performance Report is also forwarded to the Chairman updating him with the performance on various parameters.

It is ensured that the Board receives qualitative and quantitative information in line with the best management practices adopted.

Code of Conduct for Board of Directors and Senior Management

The Company has adopted a Code of Conduct for Board of Directors and Senior Management (the Code). The Code has been communicated to the Directors and the members of Senior Management. The Code has also been posted on the Company's website www.nerolac.com. All Board members and senior management have confirmed compliance with the Code for the year ended 31st March, 2013. The Annual Report contains a declaration to this effect signed by the Managing Director who is the Chief Executive Officer.

3. Audit Committee

The Audit Committee of the Company has such powers as are detailed under Section 292 A of the Companies Act, 1956, and also Clause 49 of the Listing Agreement.

The responsibilities of the Audit Committee include, inter-alia, overseeing the financial reporting process to ensure proper disclosure of financial statements, recommending appointment/removal of external auditors and fixing their remuneration, reviewing the quarterly and annual financial statements before submission to the Board, reviewing the adequacy of the internal audit function including the structure and staffing of the internal audit department, ensuring compliance of internal control systems, reviewing findings of internal investigations, discussing the nature and scope of audit with statutory auditors, reviewing the Company's financial and risk management policies and looking into reasons of substantial defaults, if any, of non-payment to stakeholders, reviewing the functioning of the Whistle Blower mechanism and a mandatory review of Management discussion and analysis of financial condition and results of operations, statement of significant related party transactions submitted by management, management letters/letters of internal control weaknesses issued by the statutory auditors, internal audit reports relating to internal control weaknesses, the appointment, removal and terms of remuneration of the internal auditor and the approval of appointment of CFO.

The members of the Audit Committee are Mr. Pradip P. Shah, Dr. J. J. Irani and Mr. D. M. Kothari.

All the members of the Audit Committee are Non-Executive and Independent Directors. All the members possess sound knowledge of accounts, audit, finance, etc.

Mr. Pradip P. Shah is the Chairman of the Audit Committee.

Mr. G. T. Govindarajan, Company Secretary acts as the Secretary to the Audit Committee.

There were four meetings of the Audit Committee held during the year ended 31st March, 2013, i.e. on 2nd May, 2012, 30th July, 2012, 26th October, 2012, and 22nd January, 2013.

Name of the Director	Number of Audit Committee Meetings attended during the year ended 31st March, 2013
Mr. P. P. Shah	4
Dr. J. J. Irani	4
Mr. D. M. Kothari	4

Besides this, another meeting of the Audit Committee was held on 4th May, 2013 at which meeting the Audited Annual Accounts for the year ended 31st March, 2013, were placed before the Committee for consideration.

The Internal Auditor and the representatives of the Statutory Auditors also attended the Audit Committee meetings, besides the executives invited by the Audit Committee to be present thereat.

4. Remuneration Committee

The Remuneration Committee determines the remuneration for the Whole-time Directors. The members of the Remuneration Committee are Dr. J. J. Irani and Mr. D. M. Kothari.

Both the members of the Remuneration Committee are Non-Executive Directors. Dr. J. J. Irani, an Independent Director, is the Chairman of the Remuneration Committee.

During the year, the Remuneration Committee held two meetings. Dr. J. J. Irani and Mr. D. M. Kothari attended the meetings.

Remuneration Policy and Remuneration to Directors:

Whole-time Directors:

- The remuneration paid to Whole-time Directors is subject to the limits laid down under Sections 198 and 309 and Schedule XIII to the Companies Act, 1956 and in accordance with the terms of appointment approved by the Shareholders of the Company. The remuneration of the Whole-time Directors is determined by the Remuneration Committee based on factors such as the Company's performance and the performance/track record of the Whole-time Directors. The remuneration consists of Salary, Commission, Company's contribution to Provident Fund and Superannuation Fund, House Rent Allowance (HRA), Leave Travel Allowance (LTA) and other perquisites and allowances in accordance with the rules of the Company, applicable from time to time.

- The Whole-time Directors are not paid any sitting fees for attending the meetings of the Board of Directors or Committees thereof.
- The Agreement with the Whole-time Director is for a period not exceeding five years at a time. In the event that there is no breach of the terms of the Agreement by the Whole-time Director, but the Company exercises the discretion to terminate his services during the term of his Agreement, without assigning any reason there for, then and in that event, the Whole-time Director shall be paid a compensation, in accordance with Section 318 of the Companies Act, of a sum which shall not exceed the remuneration which he would have earned if he had been in office for the unexpired residue of his term or for three years, whichever is shorter, calculated on the basis of the average remuneration actually earned by him during a period of three years immediately preceding the date on which he ceased to hold the office or where he held the office for a lesser period than three years, during such period.
- Presently, the Company does not have a scheme for grant of stock options either to the Whole-time Directors or employees.

The details of remuneration (including perquisites and allowances) paid during the year ended 31st March, 2013 are as follows:

(₹ in Million)

Break-up of Remuneration	Mr. H. M. Bharuka (Managing Director)	Mr. P. D. Chaudhari (Whole-time Director)
<u>Fixed Component</u>		
Salary	6.84	2.82
Company's contribution to Provident Fund and Superannuation Fund (on Salary)	1.85	0.76
HRA, LTA and other perquisites	8.55	3.53
	17.24	7.11
<u>Variable Component</u>		
Commission	18.36	4.77
Company's contribution to Provident Fund (on Commission)	2.20	0.57
	20.56	5.34
Total	37.80	12.45

Note:

Remuneration excludes provision for commission and related contribution to Provident Fund thereon for the current year but includes commission and such related contribution thereon for the previous year paid in the current year, where the Director was a Whole-time Director during the previous year ended 31st March, 2012.

Non-Executive Directors

The Non-Executive Directors are paid commission within the ceiling of 1% of net profits of the Company as specified in Section 309 (4) of the Companies Act in accordance with the approval granted by the Shareholders for payment of commission to the Non-Executive Directors. The commission payable to Non-Executive Directors is decided by the Board, based on a number of factors including number of Board and Committee meetings attended, individual contribution thereat etc.

The Non-Executive Directors are also paid sitting fees for attending the meetings of the Board or Committee thereof within the limits prescribed under the Companies Act as approved by the Shareholders of the Company.

The details of payments made to Non-Executive Directors during the year ended 31st March, 2013 are as under:
(₹ in Million)

Name of the Director	Sitting Fees			Commission@	Total
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting		
Dr. J. J. Irani	0.04	0.04	0.02	1.80	1.90
Mr. D. M. Kothari	0.04	0.04	0.02	2.40	2.50
Mr. S. M. Datta #	0.01	—	—	1.20	1.21
Mr. P. P. Shah	0.04	0.04	—	1.50	1.58
Mr. N. N. Tata	0.02	—	—	1.20	1.22

Mr. S. M. Datta resigned from the Board with effect from 31st August, 2012.

@ Commission paid during the year 2012-13 was for the year ended 31st March, 2012.

Disclosure of Shareholding of Non-Executive Directors as required under Clause 49 (IV)(E)(iv):

Name of the Director	Shares held as on 31.3.2013 (Own or held by/for other persons on a beneficial basis)
Dr. J. J. Irani	Nil
Mr. D. M. Kothari	1084
Mr. H. Ishino	Nil**
Mr. P. P. Shah #	Nil
Mr. N. N. Tata #	Nil
Mr. Y. Takahashi #	Nil**
Mr. H. Nishibayashi	Nil**

Director seeking re-appointment at this Annual General Meeting.

** Nominee of Kansai Paint Co. Ltd., Japan. No share held in personal capacity.

In terms of Clause 49(IV)(G)(ia) of the Listing Agreement, none of the Directors are related to each other.

Notes on Directors seeking appointment/re-appointment as required under Clause 49IV(G)(i) of the Listing Agreement entered into with the BSE and the NSE.

Mr. P. P. Shah

Mr. Pradip P. Shah is a qualified Cost Accountant and ranked first in India in the Chartered Accountancy examinations. Mr. Shah also holds an MBA from Harvard Business School.

He was the founder Managing Director of The Credit Rating Information Services of India Limited (CRISIL), India's first and largest credit rating agency. Prior to founding CRISIL, Mr. Shah assisted in founding Housing Development Finance Corporation (HDFC) in 1977. Mr. Shah also served as a consultant to USAID, the World Bank and the Asian Development Bank.

Mr. Shah started IndAsia, a corporate finance and private equity advisory business in April 1998. Prior to starting IndAsia, he helped establish the Indocean Fund in 1994.

Mr. Shah has written a number of articles and given talks in India and abroad on credit rating, housing finance, capital markets, venture capital and other subjects.

Mr. Shah is Chairman/member of the Board of Directors of the following Companies (excluding private companies, foreign companies and companies registered under Section 25 of the Companies Act, 1956):

Chairman of Grindwell Norton Limited, Shah Foods Limited, Sonata Software Limited and Wyeth Limited and member of Board of Directors of BASF India Limited, Godrej & Boyce Mfg. Co. Limited, KSB Pumps Limited, Mukand Limited, Panasonic Energy India Company Limited, Pfizer Limited and Tata Investment Corporation Limited.

Mr. Shah is a member of the following Board Committees (other than that of Kansai Nerolac Paints Limited) as required for the purposes of the Listing Agreement:

Audit Committee of BASF India Limited, Panasonic Energy India Co. Limited, Pfizer Limited, Sonata Software Limited and Tata Investment Corporation Limited.

Shareholders/Investors Grievance Committee of Panasonic Energy India Co. Limited and Pfizer Limited.

Mr. Shah does not hold any shares in the Company.

Mr. N. N. Tata

Mr. N. N. Tata is a Non-Executive Director on the Board of the Company. Mr. Tata is a graduate of Sussex University (UK) and INSEAD. He is the Managing Director of Tata International Limited and director of various Tata companies.

Mr. Tata is a member of the Board of Directors of the following Companies (excluding private companies, foreign companies and companies registered under Section 25 of the Companies Act, 1956):

Trent Limited, Landmark Limited, Titan Industries Limited, Voltas Limited, Tata Investment Corporation Limited, Trent Hypermarket Limited, Tata International Limited, Drive India Enterprise Solutions Limited and Bachi Shoes Limited.

Mr. Tata is the Chairman of the following Board Committees (other than Kansai Nerolac Paints Limited) as required for the purposes of the Listing Agreement:

Shareholders/Investors Grievance Committee of Voltas Limited.

Mr. Tata is a member of the following Board Committees (other than Kansai Nerolac Paints Limited) as required for the purposes of the Listing Agreement:

Audit Committee of Trent Limited and Trent Hypermarket Limited.

Mr. Tata does not hold any shares in the Company.

Mr. Y. Takahashi

Mr. Yoshikazu Takahashi is a Non-Executive Director on the Board of the Company.

Mr. Takahashi is a graduate from Hitotsubashi University and has expertise in the field of Automotive Business Marketing, Dealer Development, Logistics, Corporate Strategy and Planning and General Administration.

Mr. Takahashi has had a varied experience working abroad in a number of countries. He joined Kansai Paint Co. Ltd., Japan at the Osaka Head Office in February 2009. Mr. Takahashi is Managing Executive Officer of Kansai Paint Co. Ltd., Japan.

Mr. Takahashi does not hold any shares in the Company.

Mr. M. Tanaka

Mr. Masaru Tanaka is a Non-Executive Director on the Board of the Company.

Mr. Tanaka graduated from the Faculty of Technology, Doshisha University, Japan and joined Kansai Paint Co. Ltd., Japan in April 1981.

Mr. Tanaka has expertise in the Technical field, in Automotive and Industrial Coatings.

Mr. Tanaka is the Managing Executive Officer of Kansai Paint Co. Ltd., Japan.

Mr. Tanaka does not hold any shares in the Company.

Mr. H. M. Bharuka

Mr. H. M. Bharuka is a qualified Cost Accountant with a varied experience of around 33 years in various facets of management and profound knowledge of the Paint Industry. The Company has shown remarkable performance during the tenure of Mr. Bharuka as Managing Director of the Company from 1st April, 2001.

Mr. Bharuka does not hold any shares in the Company.

Mr. P. D. Chaudhari

Mr. P. D. Chaudhari is a Whole-time Director of the Company with effect from 1st May, 2008. Mr. Chaudhari is in charge of Supply Chain and Auto Marketing functions of the Company. Mr. Chaudhari is BE (Production), MMS.

Mr. Chaudhari holds 20 shares in the Company.

5. Shareholders/Investors Grievance Committee

- (i) The Members of the Shareholders/Investors Grievance Committee are Mr. D. M. Kothari and Mr. H. M. Bharuka. Mr. D. M. Kothari, a non-executive independent director, is the Chairman of the Shareholders/Investors Grievance Committee.
- (ii) Mr. G. T. Govindarajan, Company Secretary, is the Compliance Officer.
- (iii) A summary of various complaints received and cleared by the Company during the year is given below:

Nature of Complaint	Received	Cleared
Non-receipt of Dividend Warrant	1	1
Non-receipt of Annual Report	2	2
SEBI/Stock Exchange Letter/ROC	Nil	Nil
Miscellaneous	Nil	Nil
Total	3	3

- (iv) Normally all complaints/queries are disposed off within one week of receipt of the complaint/query. The Company had no complaint pending at the close of the financial year.

6. General Body Meetings:

- (i) The last three Annual General Meetings (AGM) of the Company were held as under:

	Date and Time	Venue
92nd AGM	19th June, 2012, at 3.30 p.m.	M. C. Ghia Hall, Kala Ghoda, Mumbai - 400 001.
91st AGM	11th June, 2011, at 11 a.m.	M. C. Ghia Hall, Kala Ghoda, Mumbai - 400 001.
90th AGM	17th June, 2010, at 3.30 p.m.	Walchand Hirachand Hall, IMC, Mumbai - 400 020.

- (ii) No Special Resolution was passed in the previous 3 AGMs.
- (iii) No Resolution, requiring Postal Ballot as required by the Companies (passing of resolution by postal ballot) Rules, 2001 was passed last year.
- (iv) As there was no resolution passed through Postal Ballot, no Scrutinizer was required to be appointed.
- (v) No Special Resolution is proposed to be conducted through Postal Ballot.
- (vi) Since there is no Resolution proposed to be conducted through Postal Ballot, no procedure for postal ballot is formulated.

7. Disclosures:

- (i) Materially significant related party transactions that may have potential conflict with the interests of the Company at large: None.
- (ii) Non-compliance by the Company, penalties and strictures imposed on the Company by Stock Exchanges, SEBI or any statutory authority, on any matter related to capital markets, during the last three years: Nil.
- (iii) Whistle Blower Policy:

The internal auditors of the Company have been provided with a separate e-mail address. They are also stationed at the Head Office of the Company as the Company has provided the auditors with a separate office. Any employee of the organization can contact the auditor on the mail or personally. The Whistle Blower Policy has been posted on the Company's employee portal. The Company's portal provides a very effective means for the employees to communicate freely with the Managing Director. The Company's employees can also directly meet the Managing Director and express their grievances/concerns. There are safeguards to ensure that all employee concerns receive due consideration.

The Code of Conduct for the Board of Directors and Senior Management states that Directors and Senior Managers of the Company shall endeavour to promote ethical behaviour and to provide an opportunity to employees to report violation of laws, rules, regulations or codes of conduct and policy directives adopted

by the Company to the appropriate personnel without fear of retaliation of any kind for reports made by the employees in good faith.

No personnel has been denied access to the Audit Committee.

- (iv) Details of compliance with mandatory requirements and adoption of the non-mandatory requirements of this clause:

All the mandatory requirements have been complied with as stated in this report on Corporate Governance. The non-mandatory requirements as stipulated in Annexure ID of Clause 49 of the Listing Agreement on the Code of Corporate Governance have been adopted to the extent and in the manner as stated under the appropriate headings in the Report on Corporate Governance.

CEO/CFO Certification:

A certification from the CEO and CFO in terms of Clause 49(V) of the Listing Agreement was placed before the Board Meeting held on 4th May, 2013 to approve the Audited Annual Accounts for the year ended 31st March, 2013.

8. Means of Communication

- (i) Quarterly Results:

The quarterly results are published in accordance with the requirements of the Listing Agreement of the BSE and the NSE.

- (ii) Newspaper in which results are normally published:

The Economic Times and The Maharashtra Times. Results could also get published in any other reputed newspaper such as the Financial Express/Loksatta or the Business Standard/Sakal.

- (iii) Any website, where displayed:

www.nerolac.com

- (iv) Whether it also displays official news releases; and presentation made to institutional investors or to the analysts:

Relevant information is displayed on the website.

As the financial results of the Company are published in the Newspapers and press release issued in newspapers and also displayed on the Company's website, a separately half yearly declaration of financial performance is not sent to each household of shareholders.

9. General Shareholder Information

- (i) AGM: Date, Time and Venue:

Tuesday, 18th June, 2013 at 3.30 p.m. at Walchand Hirachand Hall, 4th Floor, Indian Merchants' Chamber, IMC Building, IMC Marg, Churchgate, Mumbai 400 020.

- | | |
|---|---------------------|
| (ii) Financial Calendar: | : April-March |
| – Financial reporting for the quarter ending 30th June, 2013 | : End July, 2013 |
| – Financial reporting for the quarter ending 30th September, 2013 | : End October, 2013 |
| – Financial reporting for the quarter ending 31st December, 2013 | : End January, 2014 |
| – Financial reporting for the year ending 31st March, 2014 | : End April, 2014 |
| – Annual General Meeting for the year ending 31st March, 2014 | : End June, 2014 |

- (iii) Dates of Book Closure:

Tuesday, June 11, 2013 to Monday, June 17, 2013 (both days inclusive) for the purpose of the Annual General Meeting and Dividend.

- (iv) Dividend Payment Date:

On or after 22nd June, 2013. Dividend, if declared, will be payable on or after 22nd June, 2013 to those members whose names are registered as such in the Register of Members of the Company after giving effect to valid share transfers in physical form lodged with the Company on or before 10th June, 2013 and to the Beneficiary holders as per the beneficiary list as on 10th June, 2013 provided by the NSDL and CDSL.

(v) Listing of Stock Exchanges:

The Company's Equity Shares are listed on the BSE and the NSE.

(vi) Stock Code:

Stock Exchange	Code
BSE	500165
NSE	KANSAINER

Demat – ISIN Number for NSDL & CDSL : INE531A01016

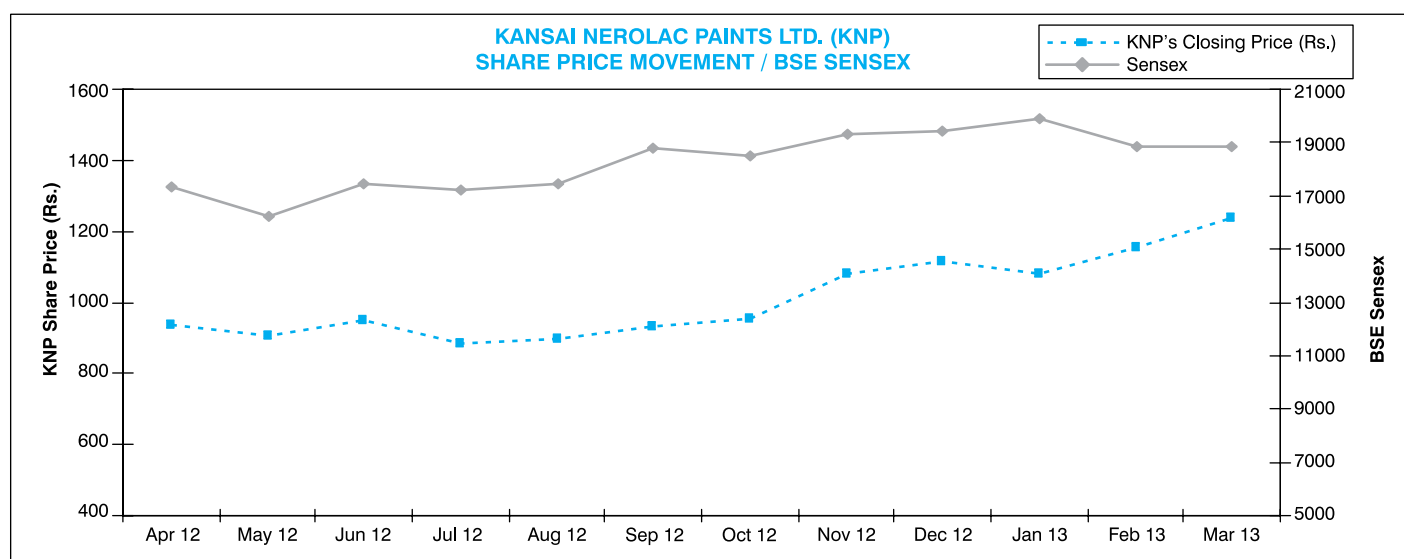
(vii) Market Price Data: High, Low during each month in last financial year and performance in comparison to broad based indices such as BSE Sensex, CRISIL index etc.

High/Low of market price of the Company's shares traded on the BSE during the year ended 31st March, 2013 is furnished below:

Month	High (Rs.)	Low (Rs.)
April 2012	970.00	897.00
May 2012	940.90	891.10
June 2012	964.90	865.00
July 2012	958.70	881.00
August 2012	924.00	865.90
September 2012	942.95	870.00
October 2012	988.00	917.95
November 2012	1114.00	930.00
December 2012	1139.90	1016.00
January 2013	1124.90	1011.00
February 2013	1220.00	1080.50
March 2013	1258.00	1100.00

(viii) Stock Performance

Month	KNP's Closing Price on BSE (Rs.)	Sensex
April 2012	936.10	17318.81
May 2012	907.15	16218.53
June 2012	948.70	17429.98
July 2012	886.40	17236.18
August 2012	896.75	17429.56
September 2012	932.70	18762.74
October 2012	955.40	18505.38
November 2012	1081.75	19339.90
December 2012	1117.45	19426.71
January 2013	1080.30	19894.98
February 2013	1154.85	18861.54
March 2013	1237.70	18835.77



(ix) Registrar and Transfer Agents:

Sharepro Services (India) Pvt. Ltd.

Office:

Samhita Warehousing Complex, Plot No. 13AB, 2nd floor, Saki Naka Telephone Exchange Lane,
Off Andheri-Kurla Road, Sakinaka, Mumbai – 400 072

Tel. No.: 67720300, 67720400 • Fax No.: 28591568

Investor Relation Centre:

912, Raheja Centre, Free Press Journal Road, Nariman Point, Mumbai – 400 021

Tel. No.: 22881568, 22881569

E-mail: sharepro@shareproservices.com

(x) Share Transfer System:

After consideration by the Shareholders/Investors Grievance Committee, the Share Transfers in physical form are registered and returned within a period of 15 days from the date of receipt, in case the documents are complete in all respects. The particulars of movement of shares in the dematerialized mode are also placed before the Shareholders/Investors Grievance Committee.

(xi) Distribution of Shareholding as on 31st March, 2013:

No. of Equity Shares held	No. of Folios	% to number of Folios	No. of Shares	% to number of Shares
Upto 500	7687	80.91	751126	1.39
501 to 1000	737	7.76	559030	1.04
1001 to 2000	537	5.65	783645	1.45
2001 to 3000	187	1.98	462415	0.87
3001 to 4000	140	1.47	487242	0.90
4001 to 5000	47	0.49	214442	0.40
5001 to 10000	82	0.86	562903	1.04
10001 and above	84	0.88	50071169	92.91
Grand Total	9501	100.00	53891972	100.00

Geographical Distribution of Shareholders as on 31st March, 2013

Location	No. of Folios	% to number of Folios	No. of Shares	% to number of Shares
OUTSIDE INDIA				
Foreign Collaborator (Kansai Paint Co. Ltd., Japan)	1	0.01	3,73,29,760	69.27
FII's, NRI's, OCB's	222	2.34	5054923	9.38
IN INDIA				
Mumbai	4091	43.06	8548939	15.86
Ahmedabad	493	5.19	165454	0.31
Delhi	463	4.87	1186348	2.20
Chennai	355	3.74	81494	0.15
Kolkata	397	4.18	273829	0.51
Pune	400	4.21	213469	0.40
Bengaluru	437	4.60	231497	0.43
Surat	144	1.51	43220	0.08
Hyderabad	165	1.74	72260	0.13
Baroda	135	1.42	39630	0.07
Others	2198	23.13	651149	1.21
TOTAL	9501	100.00	5,38,91,972	100.00

Categories of Shareholders as on 31st March, 2013

	Category	No. of Shares held	Percentage of Shareholding
A.	Promoters' Holding		
1.	Promoters		
	Indian Promoters	Nil	Nil
	Foreign Promoters (Kansai Paint Co. Ltd., Japan)	3,73,29,760	69.27
2.	Persons acting in concert	Nil	Nil
	Sub-Total	3,73,29,760	69.27
B.	Non-Promoters' Holding		
3.	Institutional Investors		
a.	Mutual Funds and UTI	11,27,444	2.09
b.	Banks, Financial Institutions, Insurance Companies (Central/State Govt. Institutions/Non-Government Institutions)	18,39,141	3.41
C.	Foreign Institutional Investors (FIIs)	49,93,487	9.27
	Sub-Total	79,60,072	14.77
4.	Others		
	Private Corporate Bodies	40,68,697	7.55
	Indian Public	44,32,669	8.23
	NRIs/OCBs	61,436	0.11
	Any Other (Trusts)	5950	0.01
	Unclaimed Suspense Account	33,388	0.06
	Sub-Total	86,02,140	15.96
	Grand Total	5,38,91,972	100.00

(xii) Dematerialisation of Shareholding:

98.73% of the paid-up share capital had been dematerialised, as at 31st March, 2013.

(xiii) Outstanding GDRs/ADRs/Warrants or any Convertible Instruments:

Not Issued.

(xiv) Plant Locations:

The Company's plants, which are operative, are located at:

1. Lote Parshuram, Ratnagiri, Maharashtra
2. Jainpur, Ramabai Nagar (Kanpur Dehat), U.P.
3. Perungudi, Chennai, Tamil Nadu
4. Bawal, Haryana
5. Hosur, Tamil Nadu

(xv) Address for correspondence:

Sharepro Services (India) Pvt. Ltd.
Office:
Samhita Warehousing Complex,
Plot No. 13AB, 2nd floor,
Off Andheri-Kurla Road,
Sakinaka, Andheri (East), Mumbai – 400 072
Tel. No.: 67720300, 67720400
Fax No.: 28591568

Investor Relation Centre:
912, Raheja Centre,
Free Press Journal Road,
Nariman Point,
Mumbai – 400 021
Tel. No.: 22881568, 22881569
E-mail: sharepro@shareproservices.com

Shareholders can also contact the Secretarial Department at the Registered Office of the Company at:

Nerolac House,
Ganpatrao Kadam Marg,
Lower Parel,
Mumbai – 400 013

Tel. No.: 24992796, 24992807

E-mail ID for Investor Grievances:

The Company has created an e-mail ID for redressal of Investor Complaints named investor@nerolac.com

(xvi) Other Information:

(1) Unclaimed Dividend:

Pursuant to Section 205 A of the Companies Act, 1956, all unclaimed dividend upto 56th Dividend for the year ended 31st March, 1994 have been transferred to the General Revenue Account of the Central Government. Shareholders who have not encashed the dividend warrants for the said period are requested to claim the amount from the Registrar of Companies, Maharashtra, Mumbai, by submitting an application in Form No. II to the aforesaid authority.

Pursuant to Section 205 A read with 205 C of the Companies Act, 1956, unclaimed dividends for the year ended 31st March, 1995 to 31st March, 2005 have been transferred to the Investor Education and Protection Fund.

Shareholders are requested to encash their dividend warrants immediately on receipt as dividends remaining unclaimed for seven years are to be transferred to the Investor Education and Protection Fund and the Shareholders will not be able to claim any unpaid dividend from the said Fund or from the Company thereafter.

(2) Disclosure of details of Unclaimed Shares (under Clause 5A of the Listing Agreement)

In terms of the amended Clause 5A of the Listing Agreement, the Company has followed the prescribed procedure for opening the 'Unclaimed Suspense Account' in respect of the unclaimed physical share certificates. A demat account was opened with HDFC Bank Ltd. and 33,388 shares pertaining to 181 shareholders as on 31st March, 2013 have been credited to the unclaimed suspense account opened by the Company.

For and on behalf of the Board

J.J. IRANI
Chairman

Mumbai, 4th May, 2013

DECLARATION

As provided under Clause 49 of the Listing Agreement with the Stock Exchanges, the Board Members and the Senior Management Personnel have confirmed compliance with the Code of Conduct for the Board of Directors and Senior Management for the year ended 31st March, 2013.

For Kansai Nerolac Paints Limited

H.M. Bharuka
Managing Director

Mumbai, 4th May, 2013

Certificate of Compliance with the Corporate Governance requirements under Clause 49 of the Listing Agreement

To the Members of Kansai Nerolac Paints Limited

We have examined the compliance of conditions of corporate governance by Kansai Nerolac Paints Limited ("the Company") for the year ended on 31 March 2013, as stipulated in Clause 49 of the Listing Agreements entered into by the Company with Stock Exchanges.

The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion, and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreements.

We state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For **B S R & Co.**
Chartered Accountants
Firm's Registration No: 101248W

Vijay Mathur
Partner
Membership No: 046476

Mumbai
4 May, 2013

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KANSAI NEROLAC PAINTS LIMITED

Report on the Financial Statements

1. We have audited the accompanying financial statements of Kansai Nerolac Paints Limited ('the Company'), which comprise the Balance Sheet as at 31 March 2013 and the Statement of Profit and Loss and the Cash Flow Statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

2. Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 ("the Act"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6. In our opinion and to the best of our information and according to the explanations given to us, the said financial statements give the information required by the Act, in the manner so required and give a true and fair view in conformity with accounting principles generally accepted in India:
 - (a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013;
 - (b) in the case of the Statement of Profit and Loss, of the profit of the Company for the year ended on that date; and
 - (c) in the case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

Report on Other Legal and Regulatory Requirements

7. As required by the Companies (Auditor's Report) Order, 2003 ("the Order") issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.
8. As required by Section 227(3) of the Act, we report that:
 - (a) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit;

KANSAI NEROLAC PAINTS LIMITED

INDEPENDENT AUDITORS' REPORT (continued)

- (b) in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
- (c) the Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement dealt with by this Report are in agreement with the books of account;
- (d) in our opinion, the Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Act; and
- (e) on the basis of written representations received from the directors as on 31 March 2013, and taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2013, from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act.

For **B S R & CO.**

Chartered Accountants

Firm's Registration No.: 101248W

Vijay Mathur

Partner

Membership No.: 046476

Mumbai
4 May, 2013

KANSAI NEROLAC PAINTS LIMITED

ANNEXURE TO AUDITORS' REPORT – 31 MARCH 2013

With reference to the Annexure referred to in our report of even date, we report that:

- i. (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
(b) According to the information and explanation given to us, the fixed assets are being physically verified by the management according to a phased programme designed to cover all the items over a period of three years, which, in our opinion, is reasonable having regard to the size of the Company and nature of its assets. Pursuant to this programme, some of the fixed assets have been physically verified by the management during the year, and no material discrepancies were noticed on such verification.
(c) Fixed assets disposed off during the year were not substantial, and do not affect the going concern assumption.
- ii. (a) The inventory, except stocks lying with third parties, has been physically verified by the management during the year. In our opinion, the frequency of such verification is reasonable. For stocks lying with third parties at the year-end, written confirmations have been obtained.
(b) The procedures for the physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
(c) The Company has maintained proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.
- iii. (a) The Company has granted loans to one body corporate covered in the register maintained under Section 301 of the Act. The maximum amount outstanding during the year was ₹ 63.81 million and the year-end balance of such loan was ₹ 63.81 million.
(b) In our opinion, the rate of interest and other terms and conditions on which loans have been granted to body corporate listed in the register maintained under Section 301 of the Act are not, prima facie, prejudicial to the interest of the company.
(c) In the case of loan granted to body corporate listed in the register maintained under Section 301, the borrower have been regular in repaying the principal amounts as stipulated and in the payment of interest.
(d) There is no over due amount of more than Rupees one lakh in respect of loan granted to body corporate listed in the register maintained under Section 301.
(e) The Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under Section 301 of the Act. Accordingly, paragraphs 4 (iii) (e), (f) and (g) of the Order are not applicable.
- iv. In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of inventories and fixed assets and with regard to the sale of goods and services. In our opinion and according to the information and explanations given to us, there is no continuing failure to correct major weaknesses in internal control system.
- v. (a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in Section 301 of the Act have been entered in the register required to be maintained under that section.
(b) In our opinion, and according to the information and explanations given to us, the transactions made in pursuance of contracts and arrangements referred to in (a) above and exceeding the value of ₹ 5 lakh with any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time, except for transactions which are for the Company's specialised requirements for which suitable alternative sources are not available to obtain comparable quotations. However, on the basis of information and explanations provided, the same appear reasonable.
- vi. The Company has not accepted any deposits from the public.
- vii. In our opinion, the Company has an internal audit system commensurate with the size and the nature of its business.
- viii. We have broadly reviewed the books of account maintained by the Company pursuant to the rules prescribed by the Central Government for maintenance of cost records under Section 209(1)(d) of the Act and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. However, we have not made a detailed examination of the records.
- ix. (a) According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted/accrued in the books of account in respect of undisputed statutory dues including Provident fund, Income-tax, Sales-tax/Value added tax, Wealth tax, Service tax, Customs duty,

KANSAI NEROLAC PAINTS LIMITED**ANNEXURE TO AUDITORS' REPORT – 31 MARCH 2013** (continued)

Employees' State Insurance, Excise duty and other material statutory dues have been generally regularly deposited during the year by the Company with the appropriate authorities. As explained to us, the Company did not have any dues on account of Investor Education and Protection Fund.

According to the information and explanations given to us, no undisputed amounts payable in respect of Provident fund, Income-tax, Sales-tax/Value added tax, Wealth tax, Service tax, Customs duty, Investor Education and Protection Fund, Employees' State Insurance, Excise duty and other material statutory dues were in arrears as at 31 March 2013 for a period of more than six months from the date they became payable.

- (b) According to the information and explanations given to us, there are no dues of Income tax, Sales tax, Wealth tax, Service tax, Customs duty and Excise duty which have not been deposited with the appropriate authorities on account of any dispute, except as stated below.

(₹ in million)

Name of the Statute/Nature of dues	Period to which the amount relates	Forum where dispute is pending		
		Commissioner	Appellate Authorities & Tribunal	Total Amount
Sales Tax	1980-81	0.03	—	0.03
	1991-92	0.13	—	0.13
	1995-96 to 2009-10	6.01	5.13	11.14
The Central Excise Act, 1944 Tax, Penalty and Interest	1990-91	0.81	—	0.81
	1993-94 to 2003-04	15.11	4.26	19.37

- x. The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses in the financial year and in the immediately preceding financial year.
- xi. In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to its bankers. The Company did not have any outstanding dues to any financial institution and debenture holders during the year.
- xii. The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- xiii. The Company is not a chit fund/nidhi/mutual benefit fund/society.
- xiv. The Company is not dealing or trading in shares, securities, debentures and other investments.
- xv. In our opinion and according to the information and explanations given to us, the terms and conditions on which the Company has given guarantees for loans taken by others from banks or financial institutions are not prejudicial to the interest of the Company.
- xvi. The Company did not have any term loans outstanding during the year.
- xvii. According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we are of the opinion that the funds raised on short-term basis have not been used for long-term investment.
- xviii. The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under Section 301 of the Act.
- xix. The Company did not have any outstanding debentures during the year.
- xx. The Company has not raised any money by public issues during the year.
- xxi. According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

For **B S R & CO.**

Chartered Accountants

Firm's Registration No.: 101248W

Vijay Mathur

Partner

Membership No.: 046476

Mumbai
4 May, 2013

KANSAI NEROLAC PAINTS LIMITED
BALANCE SHEET AS AT 31ST MARCH, 2013

₹ in Million

	Note	As at 31st March, 2013	As at 31st March, 2012
Equity and Liabilities			
Shareholders' Funds			
Share Capital	2	538.92	538.92
Reserves and Surplus	3	12320.88	10092.62
		12859.80	10631.54
Non-current Liabilities			
Long-term Borrowings	4	604.85	689.76
Deferred Tax Liabilities (Net)	5	430.63	—
Long-term Provisions	6	385.24	432.12
		1420.72	1121.88
Current Liabilities			
Trade Payables.....	7	3893.42	2682.55
Other Current Liabilities	8	1648.29	1813.54
Short-term Provisions	9	800.04	731.69
		6341.75	5227.78
Total		20622.27	16981.20
Assets			
Non-current Assets			
Fixed Assets	10		
Tangible Assets.....		7725.69	3930.55
Intangible Assets		19.04	32.68
Capital Work-in-Progress.....		1234.90	1614.87
		8979.63	5578.10
Non-current Investments.....	11	480.98	439.13
Deferred Tax Assets (Net)	5	—	102.21
Long-term Loans and Advances	13	442.35	435.73
		9902.96	6555.17
Current Assets			
Current Investments.....	12	125.04	1395.92
Inventories	14	5340.73	4537.10
Trade Receivables.....	15	4199.89	3588.34
Cash and Bank Balances.....	16	600.66	591.77
Short-term Loans and Advances	17	192.98	128.09
Other Current Assets	18	260.01	184.81
		10719.31	10426.03
Total		20622.27	16981.20

Significant Accounting Policies

1

The notes referred to above form an integral part of financial statements.

As per our attached report of even date

For B S R & Co.

Chartered Accountants

Firm's Registration No. 101248W

VIJAY MATHUR

Partner

Membership No. 046476

Mumbai: 4th May, 2013

G.T. GOVINDARAJAN

Company Secretary

P.D. PAI

CFO

For and on behalf of the Board of Directors

J.J. IRANI

Chairman

D.M. KOTHARI

Vice Chairman

H.M. BHARUKA

Managing Director

N.N. TATA

Director

P.P. SHAH

Director

P.D. CHAUDHARI

Wholtime Director

KANSAI NEROLAC PAINTS LIMITED
STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31ST MARCH, 2013

₹ in Million

	Note	Year Ended 31st March, 2013	Year Ended 31st March, 2012
Revenue from Operations			
Sale of Products (Gross).....	19	32033.18	28615.22
Less: Excise Duty.....		3638.09	2756.43
Sale of Products (Net).....		28395.09	25858.79
Other Operating Revenues.....	20	171.10	146.93
Total Operating Revenue.....		28566.19	26005.72
Other Income	21	163.17	242.66
Total Revenue		28729.36	26248.38
Expenses			
Cost of Materials Consumed.....	22	18985.74	16968.98
Purchases of Stock-in-Trade		1022.83	917.50
Changes in Inventories.....	23	(582.40)	(482.35)
Employee Benefits Expense	24	1181.43	1069.44
Finance Costs		0.16	0.86
Depreciation and Amortization Expense.....	10	471.07	563.53
Other Expenses	25	4597.61	4159.14
Total Expenses		25676.44	23197.10
Profit Before Exceptional Item and Tax		3052.92	3051.28
Reversal of excess depreciation in respect of earlier years (Refer Note 10).....		1149.25	—
Profit Before Tax		4202.17	3051.28
Tax Expense			
Current Tax.....		747.51	860.51
Deferred Tax.....		532.84	31.92
Total Income Tax ...		1280.35	892.43
Profit After Tax		2921.82	2158.85
Earnings per Equity Share before Exceptional Items (Net of Tax) (in ₹)			
Nominal value of share ₹ 10 each (Previous Year: ₹ 10 each)			
Basic and Diluted	28	39.80	40.06
Earnings per Equity Share after Exceptional Items (Net of Tax) (in ₹)			
Nominal value of share ₹ 10 each (Previous Year: ₹ 10 each)			
Basic and Diluted	28	54.22	40.06
Significant Accounting Policies	1		
The notes referred to above form an integral part of financial statements.			

As per our attached report of even date

For B S R & Co.

Chartered Accountants

Firm's Registration No. 101248W

VIJAY MATHUR

Partner

Membership No. 046476

Mumbai: 4th May, 2013

G.T. GOVINDARAJAN

Company Secretary

P.D. PAI

CFO

For and on behalf of the Board of Directors

J.J. IRANI

Chairman

D.M. KOTHARI

Vice Chairman

H.M. BHARUKA

Managing Director

N.N. TATA

Director

P.P. SHAH

Director

P.D. CHAUDHARI

Wholetime Director

KANSAI NEROLAC PAINTS LIMITED
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST MARCH, 2013

₹ in Million

	Year Ended 31st March, 2013	Year Ended 31st March, 2012
Cash Flow from Operating Activities		
Net Profit Before Tax	4202.17	3051.28
Adjustments for:		
Depreciation.....	471.07	563.53
Depreciation Write Back	(1149.25)	—
Foreign Exchange Loss/(Gain) Unrealised	(4.87)	3.38
Provision for Write Down in Value of Fixed Assets Written Back.....	(1.11)	(1.30)
Profit on Sale of Fixed Assets.....	(6.07)	(5.08)
Profit on Sale/Redemption of Investments.....	(71.49)	(98.35)
Interest Expenditure.....	0.16	0.86
Interest Income	(30.58)	(24.95)
Dividend Income	(41.91)	(104.42)
	(834.05)	333.67
Operating Profit Before Working Capital Changes	3368.12	3384.95
(Increase)/Decrease in Trade and Other Receivables.....	(776.80)	(1009.44)
(Increase)/Decrease in Inventories	(803.63)	(996.07)
(Increase)/Decrease in Trade Payables.....	1129.56	493.91
	(450.87)	(1511.60)
Cash Generated from Operations	2917.25	1873.35
Direct Taxes Paid (Net of Refunds)	(680.22)	(850.76)
Net Cash from Operating Activities	2237.03	1022.59
Cash Flow from Investing Activities		
Purchase of Fixed Assets (including Adjustments on Account of Capital Work-in-Progress and Capital Advances)	(2805.70)	(2239.31)
Sale of Fixed Assets.....	17.01	8.71
Purchase of Investments.....	(15607.02)	(21270.83)
Proceeds from Sale/Redemption of Investments	16907.54	23252.36
Interest Received	27.91	23.18
Dividend Received	41.91	104.42
Net Cash used in Investing Activities	(1418.35)	(121.47)
Cash Flow from Financing Activities		
Repayment of Borrowings	(55.84)	(79.23)
Interest paid	(0.16)	(0.86)
Loans and Advances to Subsidiary	(63.81)	—
Increase/(Decrease) in Unpaid Dividend	(1.00)	1.10
Dividend Paid	(592.81)	(538.92)
Additional Income-Tax on Distributed Profits.....	(96.17)	(87.43)
Net Cash used in Financing Activities	(809.79)	(705.34)
Net Increase/(Decrease) in Cash and Cash Equivalents	8.89	195.78

KANSAI NEROLAC PAINTS LIMITED
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST MARCH, 2013 (contd.)

₹ in Million

	Year Ended 31st March, 2013	Year Ended 31st March, 2012
Cash and Cash Equivalents at the beginning of the year, the components being:		
Cash on hand.....	0.78	0.78
Unpaid Dividend Accounts.....	5.46	4.36
Balances with Banks on Current, Margin and Fixed Deposit Accounts.....	585.53	390.85
	591.77	395.99
Cash and Cash Equivalents at the end of the year, the components being:		
Cash on hand.....	1.16	0.78
Unpaid Dividend Accounts.....	4.46	5.46
Balances with Banks on Current, Margin and Fixed Deposit Accounts.....	595.04	585.53
	600.66	591.77
Net Increase/(Decrease) as disclosed above.....	8.89	195.78

- Notes: 1. Figures in brackets are outflows/deductions.
 2. Previous year's figures have been regrouped and rearranged wherever necessary.

As per our attached report of even date

For B S R & Co.

Chartered Accountants

Firm's Registration No. 101248W

VIJAY MATHUR

Partner

Membership No. 046476

Mumbai: 4th May, 2013

G.T. GOVINDARAJAN

Company Secretary

P.D. PAI

CFO

For and on behalf of the Board of Directors

J.J. IRANI

Chairman

D.M. KOTHARI

Vice Chairman

H.M. BHARUKA

Managing Director

N.N. TATA

Director

P.P. SHAH

Director

P.D. CHAUDHARI

Wholetime Director

KANSAI NEROLAC PAINTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Preparation of Financial Statements

(A) Basis of Presenting Financial Statements

(I) Basis of Accounting

The financial statements are prepared under historical cost convention on an accrual basis and are in accordance with the requirements of the Companies Act, 1956, and comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the said Act.

(II) Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) in India requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent liabilities on the date of financial statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ from those estimates. Any revision to accounting estimates is recognised prospectively in current and future period.

(III) Classification of Assets and Liabilities

The Revised Schedule VI to the Companies Act, 1956 requires assets and liabilities to be classified as either Current or Non-current.

(a) An asset shall be classified as current when it satisfies any of the following criteria:

- (i) It is expected to be realized in, or is intended for sale or consumption in, the company's normal operating cycle;
- (ii) It is held primarily for the purpose of being traded;
- (iii) It is expected to be realized within twelve months after the reporting date; or
- (iv) It is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

(b) All assets other than current assets shall be classified as non-current.

(c) A liability shall be classified as current when it satisfies any of the following criteria:

- (i) It is expected to be settled in the company's normal operating cycle;
- (ii) It is held primarily for the purpose of being traded;
- (iii) It is due to be settled within twelve months after the reporting date; or
- (iv) The company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

(d) All liabilities other than current liabilities shall be classified as non-current.

(IV) Operating Cycle

An operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents.

(B) Summary of Significant Accounting Policies

(I) Fixed Assets

(a) Fixed assets are stated at their original cost of acquisition and installation, less accumulated depreciation, amortisation and impairment losses, if any. Cost comprises of the purchase price and any other directly attributable cost of bringing the asset to its working condition for its intended use.

(b) Borrowing costs that are directly attributable to the acquisition of qualifying assets are capitalised for the period until the asset is ready for its intended use. A qualifying asset is an asset that necessarily takes substantial period of time to get ready for its intended use. Other borrowing costs are recognised as an expense in the period in which they are incurred.

(c) Depreciation on fixed assets has been provided using straight line method, where hitherto Written Down Value method was adopted, in the manner and at the rates prescribed in Schedule XIV to the Companies Act, 1956. The rates of depreciation prescribed in Schedule XIV to the Companies Act, 1956 are considered as the minimum rates. If the management's estimate of the useful life of a fixed asset at the time of acquisition of the asset or of the remaining useful life on a subsequent review is shorter than that envisaged in the aforesaid schedule, depreciation is provided at the higher rate in line with the management's estimates of the useful life/remaining useful life. Pursuant to this policy, in respect of colour dispensers the rate of 20 per cent is applied, which management considers as being representative of the useful economic life of such assets. Assets costing less than ₹ 5,000 each are fully depreciated in the year of capitalisation.

Effective 1 April 2012, the Company has changed the method of providing depreciation from written down value to straight line method. In management's view this change results in more appropriate presentation and

KANSAI NEROLAC PAINTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Preparation of Financial Statements (contd.)

(B) Summary of Significant Accounting Policies (contd.)

(I) Fixed Assets (contd.)

gives a systematic basis of depreciation charge, representative of pattern of usage and economic benefits of the assets and provide greater consistency with the depreciation method used by other companies in the paint industry. Accordingly, excess depreciation charged for earlier years upto 31st March, 2012 aggregating ₹ 1149.25 million has been written back and recognized as an exceptional item in the Statement of Profit and Loss for the year ended 31st March, 2013. Had the Company continued to use the earlier method of depreciation:

₹ in Million

Particulars	Year ended 31st March, 2013
1. Depreciation charge for the year would have been higher by.....	224
2. Deferred tax expense would have been lower by	446
3. Net profit for the year would have been lower by.....	927

- (d) Leasehold land is amortised over the primary period of lease.
- (e) Purchase cost and user licence fees for major software are amortised over a period of three years.
- (f) Impairment loss is provided to the extent the carrying amount of assets exceed their recoverable amount. The carrying amount of assets are reviewed at each Balance Sheet date if there is any indication of impairment based on internal/external factors. Recoverable amount is the higher of an asset's net selling price and its value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties less the cost of disposal. If at the Balance Sheet date there is an indication that the previously assessed impairment loss no longer exist, the recoverable amount is reassessed and the asset is reflected at recoverable amount subject to maximum of depreciable historical cost.
- (g) Capital expenditure on Research and Development is treated in the same way as expenditure on fixed assets. Revenue expenditure on Research and Development is charged to the Statement of Profit and Loss in the year in which it is incurred.
- (h) Tangible fixed assets under construction are disclosed as capital work-in-progress.

(II) Investments

- (a) Investments that are readily realisable and intended to be held for not more than a year from the date of acquisition are classified as current investments.
- (b) Long term investments are stated at cost. A provision for diminution is made to recognise a decline, other than temporary, in the value of long term investments. The determination for diminution is done separately for each individual investment.
- (c) Current investments, consist of investments in mutual funds, are stated at lower of cost and fair value, where the net asset value declared by the respective funds is considered as fair value.
- (d) Profit or Loss on sale of investments is determined on the basis of weighted average carrying amount of investments disposed off.

(III) Inventories

- (a) Stores and spare parts are valued at cost less amounts written down.
- (b) Inventories other than stores and spare parts are valued at the lower of cost and net realisable value after making such provisions as required on account of damaged, unserviceable, inert and obsolete stocks. The comparison of the cost and net realisable value is made on item by item basis.
- (c) Cost of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.
- (d) Cost has been arrived at on the basis of weighted average method. In the case of manufactured inventories and work-in-progress, fixed production overhead are allocated on the basis of normal capacity of production facilities.
- (e) The net realisable value of finished goods and stock-in-trade is determined with reference to the selling prices of related finished goods. Raw materials and other supplies held for use in production of inventories

KANSAI NEROLAC PAINTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Preparation of Financial Statements (contd.)

(B) Summary of Significant Accounting Policies (contd.)

(III) Inventories (contd.)

are not written down below cost except in cases where material prices have declined and it is estimated that the cost of finished products will exceed their net realisable value. In such cases, the materials are valued at replacement cost.

(IV) Provisions and Contingent Liabilities

- (a) A provision is recognised when an enterprise has a present obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to their present values and are determined based on management estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current management estimates.
- (b) Contingent liabilities are disclosed in respect of possible obligations that have arisen from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of future events not wholly within the control of the Company.
- (c) When there is an obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

(V) Revenue Recognition

- (a) Sales are recognised in accordance with Accounting Standard 9 viz. when the seller has transferred to the buyer, the property in the goods, for a price, or significant risk and rewards of ownership have been transferred to the buyer.
- (b) Sales are inclusive of excise duty and are net of trade discount and product rebate.
- (c) Dividend income is accounted when the right to receive payment is established and known.
- (d) Interest income is recognised on the time proportion basis.
- (e) Revenue from services is recognized on rendering of services to the customers based on contractual arrangements. Revenue is recorded exclusive of Service Tax.

(VI) Employee Benefits

(a) Short Term Employee Benefits

Employee benefits payable wholly within twelve months of receiving employee services are classified as short-term employee benefits. These benefits includes salaries and wages, bonus, ex-gratia etc. These are recognised as an expense at an undiscounted amount in the Statement of Profit and Loss of the year in which the related service is rendered.

(b) Post-employment Benefits

(i) Provident and Family Pension Fund

The eligible employees of the Company are entitled to receive post employment benefits in respect of provident and family pension fund, in which both the employees and the Company make monthly contributions at a specified percentage of the employees' eligible salary (currently 12% of employees' eligible salary). The contributions are made to the provident fund managed by the trust set up by the Company or to the Regional Provident Fund Commissioner (RPFC) which are charged to the Statement of Profit and Loss as incurred. In respect of contribution to RPFC, the Company has no further obligations beyond making the contribution, and hence, such employee benefit plan is classified as Defined Contribution Plan. In respect of contribution to the trust set up by the Company, since the Company is obligated to meet interest shortfall, if any, with respect to covered employees, such employee benefit plan is classified as Defined Benefit Plan in accordance with the Guidance on implementing Accounting Standard (AS) 15 (Revised) on Employee Benefits.

(ii) Superannuation

The eligible employees of the Company are entitled to receive post employment benefits in respect of superannuation fund in which the Company makes annual contribution at a specified percentage of the employees' eligible salary (currently 15% of employees' eligible salary). The contributions are made to the Life Insurance Corporation of India (LIC). Superannuation is classified as Defined Contribution Plan as the Company has no further obligations beyond making the contribution. The Company's contribution is charged to the Statement of Profit and Loss as incurred.

KANSAI NEROLAC PAINTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Preparation of Financial Statements (contd.)

(B) Summary of Significant Accounting Policies (contd.)

(VI) Employee Benefits (contd.)

(iii) Gratuity

The Company has an obligation towards gratuity, a defined benefit retirement plan covering eligible employees. The plan provides a lump sum payment to vested employees at retirement, death while in employment or on termination of employment of an amount equivalent to 15 days salary payable for each completed year of service or part thereof in excess of six months. Vesting occurs upon completion of five years of service. The Company has obtained insurance policies with the Life Insurance Corporation of India (LIC) and makes an annual contribution to LIC for amounts notified by LIC. The Company accounts for gratuity benefits payable in future based on an independent external actuarial valuation carried out at the end of the year. Actuarial gains and losses are recognised in the Statement of Profit and Loss.

(c) Other Long-term Employee Benefits — Compensated Absences

The Company provides for encashment of leave or leave with pay subject to certain rules. The employees are entitled to accumulate leave subject to certain limits for future encashment/availment. The Company makes provision for compensated absences based on an independent external actuarial valuation carried out at the end of the year. Actuarial gains and losses are recognised in the Statement of Profit and Loss.

(VII) Foreign Currency Transactions

- (a) Transactions in foreign currencies are recorded at the exchange rate that approximates the actual rate at the date of the transaction. In respect of monetary assets and liabilities denominated in foreign currencies, exchange differences arising out of settlement are recognised in the Statement of Profit and Loss. Monetary assets and liabilities denominated in foreign currencies as at the Balance Sheet date are translated at the exchange rates on that date, the resultant exchange differences are recognised in the Statement of Profit and Loss.
- (b) Premiums or discounts arising at the inception of the forward foreign exchange contracts, other than contracts to hedge a firm commitment or a highly probable forecast transaction, are amortised and recognised in the Statement of Profit and Loss over the period of the contract. Such forward foreign exchange contract outstanding as at the Balance Sheet date are converted at the exchange rates prevailing on that date. Exchange differences are recognised in the Statement of Profit and Loss.

(VIII) Accounting for Derivatives

Forward contracts to which Accounting Standard (AS) 11 — 'The Effect of Change in Foreign Exchange Rates' is applicable, the accounting policy as stated in Note 1 (B) (VII)(b) is followed. In respect of other derivative contracts including forward foreign exchange contracts to which the aforesaid accounting standard is not applicable are marked to market at the rate on the Balance Sheet date. The resultant exchange differences are recognised in the Statement of Profit and Loss.

(IX) Taxation

Tax expense comprises current and deferred tax. Current tax is measured at the amount expected to be paid to the tax authorities in accordance with the Income-tax Act, 1961. Deferred tax reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rate and tax laws enacted or substantially enacted as at the Balance Sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is virtual certainty of realisation of such assets. Deferred tax assets are reviewed as at each Balance Sheet date and written down or written up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realised.

(X) Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased assets are classified as operating leases. Operating lease payments/receipts are recognised as an expense/income in the Statement of Profit and Loss on a straight-line basis over the lease term.

(XI) Cash and Cash Equivalent

Cash comprises cash on hand and demand deposits with banks. Cash equivalents are short term (with an original maturity of three months or less from the date of acquisition), highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

KANSAI NEROLAC PAINTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

₹ in Million

Note 2: Share Capital

	As at 31st March, 2013		As at 31st March, 2012	
1. Authorised Share Capital (₹ in Million)		600		600
Par Value per Share (₹)		10		10
Number of Equity Shares		<u>60,000,000</u>		<u>60,000,000</u>
2. Issued, Subscribed and Fully Paid-up (₹ in Million)		538.92		538.92
Par Value per Share (₹)		10		10
Number of Equity Shares		<u>53,891,972</u>		<u>53,891,972</u>
3. Details of Shareholders holding more than 5% of shares:				
	%	No. of Shares	%	No. of Shares
Holding Company:				
Kansai Paint Co., Ltd., Japan	69.27	37,329,760	69.27	37,329,760
Others:				
ICICI Prudential Life Insurance Company Ltd.	—	—	7.65	4,123,263
Aberdeen Asset Management Asia Ltd.	7.25	3,905,198	5.35	2,881,224
4. Aggregate number of bonus shares issued during the period of five years immediately preceding the reporting date by capitalisation of security premium reserve		26,945,986		26,945,986
5. The Company has issued one class of shares, i.e. equity shares, which enjoys similar rights in respect of voting, payment of dividend and repayment of capital. On winding up of the company, the holders of equity shares will be entitled to receive the residual assets of the company, remaining after distribution of all preferential amounts in proportion to the number of equity shares held.				
6. Reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period:				
Number of shares at the beginning of the year		53,891,972		53,891,972
Issued during the year		—		—
Number of shares at the end of the year		<u>53,891,972</u>		<u>53,891,972</u>

Note 3: Reserves and Surplus

	As at 31st March, 2013		As at 31st March, 2012	
a. Capital Reserve		3.04		3.04
b. Securities Premium Reserve		125.55		125.55
c. General Reserve*:				
Opening Balance	3750.46		3534.57	
Add: Transfer from Statement of Profit and Loss	292.18		215.89	
		<u>4042.64</u>		<u>3750.46</u>
* Created by transfers of profits as per Companies (Transfer of Profits to Reserves) Rules, 1975. To be utilized as per the provisions of the Companies Act, 1956				
d. Surplus (Profit and Loss balance):				
Opening Balance	6213.57		4959.59	
Add: Profit for the year	2921.82		2158.85	
Less: Proposed Dividend	592.81		592.81	
Less: Tax on Proposed Dividend	100.75		96.17	
Less: Transfer to General Reserve	292.18		215.89	
		<u>8149.65</u>		<u>6213.57</u>
		<u>12320.88</u>		<u>10092.62</u>

KANSAI NEROLAC PAINTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

₹ in Million

Note 4: Long-term Borrowings

Deferred Payment Liabilities

	As at 31st March, 2013	As at 31st March, 2012
a. Secured Sales Tax Deferral Loan..... (Secured by a charge on the fixed assets of the factory at Jainpur) Package Scheme of Incentive allowed the Company to accumulate the sales tax collected from its customers in respect of goods produced at Jainpur factory. Sales tax collected each year is repayable after five years from the year of collection. Outstanding amount is repayable in two annual instalments from the reporting date. Sales Tax Deferral Loan is interest-free. [Current maturity of Sales Tax Deferral Loan of ₹ 20.64 Million (2011-2012 ₹ 10.10 Million) is disclosed under 'Other Current Liabilities' — Refer Note - 8].	9.00	29.63
b. Unsecured Sales Tax Deferral Loan..... Package Scheme of Incentive allowed the Company to accumulate the sales tax collected from its customers in respect of goods produced at Lote factory. Sales tax collected each year is repayable in five equal yearly installments after ten years from the year of collection. Outstanding amount is repayable in eight annual installments from the reporting date. Sales Tax Deferral Loan is interest-free. [Current maturity of Sales Tax Deferral Loan of ₹ 64.28 Million (2011-2012 ₹ 45.75 Million) is disclosed under 'Other Current Liabilities' — Refer Note - 8].	595.85	660.13
	604.85	689.76

Note 5: Deferred Tax (Liabilities)/Assets

Items Covered Under Section 43B.....	87.97	113.13
Provision for Diminution in Value of Fixed Assets	1.91	2.27
Voluntary Retirement Compensation	1.78	2.21
Provision for Doubtful Debts.....	6.43	5.73
Excess of depreciation/amortisation on fixed assets under income tax law over depreciation/amortisation provided in accounts.....	(528.72)	(21.13)
Deferred Tax (Liabilities)/Asset (Net).....	(430.63)	102.21

Note 6: Long-term Provisions

Provision for Compensated Absences (Refer Note 31).....	33.18	35.14
Provision for Income Taxes (Net of Advances).....	147.75	138.01
Provision for Fringe Benefit Taxes (Net of Advances)	3.61	3.61
Provision for Indirect Taxes*:		
Opening Balance	255.36	255.36
Add: Provision during the year.....	2.24	—
Less: Utilization/reversal during the year	56.90	—
	200.70	255.36
	385.24	432.12

* With restructuring of the production facilities, the timing of the outflow of provision ₹ 200.70 Million (2011-2012 ₹ 255.36 Million) recognised in respect of matters relating to indirect taxes is dependent on the outcome of the settlement with the appropriate authorities.

KANSAI NEROLAC PAINTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

₹ in Million

Note 7: Trade Payables

	As at 31st March, 2013	As at 31st March, 2012
Trade Payables*	3893.42	2682.55
	<u>3893.42</u>	<u>2682.55</u>

* There are no amounts due to the suppliers covered under the Micro, Small and Medium Enterprises Development Act, 2006. This information takes into account only those suppliers who have responded to the enquiries made by the Company for this purpose.

Note 8: Other Current Liabilities

Current Maturities of Long-term Debt (Refer Note 4)	84.92	55.85
Unpaid Dividends*	4.46	5.46
Trade Deposits	299.99	252.74
Capital Creditors	196.45	353.99
Other Payables:		
– in the nature of accrual of expenses	862.60	859.82
– in the nature of statutory dues:		
Employee Related Statutory Obligations	1.95	4.00
Indirect Tax Liabilities	181.60	244.95
Tax Deducted at Source-Payable	16.32	36.73
	<u>199.87</u>	<u>285.68</u>
	<u>1648.29</u>	<u>1813.54</u>

* There is no amount due and outstanding to be credited to Investor Education and Protection Fund.

Note 9: Short-term Provisions

Provision for Compensated Absences (Refer Note 31)	13.36	14.22
Provision for Gratuity (Refer Note 31)	8.33	1.25
Provision for Income Taxes (Net of Advances)	67.29	9.74
Provision for Warranty*:		
Opening Balance	17.50	17.50
Add: Provision during the year	—	—
Less: Utilization during the year	—	—
	<u>17.50</u>	<u>17.50</u>
Proposed Dividend	592.81	592.81
Tax on Proposed Dividend	100.75	96.17
	<u>800.04</u>	<u>731.69</u>

* The Company was selling certain products with warranty of four to seven years. Accordingly, provision has been recognised on the basis of management's expectation of warranty claims on such products.

KANSAI NEROLAC PAINTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

₹ in Million

Note 10: Fixed Assets

Description	Gross Block				Accumulated Depreciation/ Amortisation				Net Block		
	As at 31st March, 2012	Additions	Deductions	As at 31st March, 2013	As at 31st March, 2012	Additions	Deductions	Adjustment#	As at 31st March, 2013	As at 31st March, 2013	As at 31st March, 2012
I. Tangible Assets:											
Freehold Land.....	90.91 (90.91)	— (1.54)	— (1.54)	90.91 (90.91)	— (—)	— (—)	— (—)	— (—)	— (—)	90.91 (90.91)	90.91 (90.91)
Leasehold Land	223.55 (223.55)	— (—)	— (—)	223.55 (223.55)	10.82 (8.55)	2.27 (2.27)	— (—)	— (—)	13.09 (10.82)	210.46 (212.73)	212.73 (215.00)
Buildings	2443.18 (1751.88)	1432.71 (693.68)	11.14 (2.38)	3864.75 (2443.18)	822.56 (712.22)	69.88 (110.34)	— (—)	383.10 (—)	509.34 (822.56)	3355.41 (1620.62)	1620.62 (1039.66)
Plant and Equipment.....	3551.63 (2730.06)	1483.82 (829.10)	6.19 (7.53)	5029.26 (3551.63)	1952.22 (1710.82)	220.55 (248.89)	7.50 (7.49)	553.04 (—)	1612.23 (1952.22)	3417.03 (1599.41)	1599.41 (1019.24)
Furniture and Fixtures.....	349.86 (312.04)	40.19 (39.05)	5.73 (1.23)	384.32 (349.86)	266.47 (239.06)	26.38 (29.04)	5.42 (1.63)	49.39 (—)	238.04 (266.47)	146.28 (83.39)	83.39 (72.98)
Vehicles	9.17 (7.92)	2.26 (2.25)	0.54 (1.00)	10.89 (9.17)	5.25 (5.53)	0.91 (0.68)	0.54 (0.96)	1.18 (—)	4.44 (5.25)	6.45 (3.92)	3.92 (2.39)
Office Equipment	69.63 (61.01)	11.50 (8.83)	0.37 (0.21)	80.76 (69.63)	45.35 (42.24)	3.17 (3.29)	0.19 (0.18)	12.62 (—)	35.71 (45.35)	45.05 (24.28)	24.28 (18.77)
Assets for Scientific Research*	162.84 (151.76)	0.11 (11.08)	— (—)	162.95 (162.84)	113.21 (105.73)	6.17 (7.48)	— (—)	39.52 (—)	79.86 (113.21)	83.09 (49.63)	49.63 (46.03)
Assets Given on Lease (Refer Note 10.3)	1518.91 (1364.50)	138.77 (154.41)	105.83 (—)	1551.85 (1518.91)	1266.25 (1124.64)	124.31 (141.61)	105.21 (—)	110.40 (—)	1174.95 (1266.25)	376.90 (252.66)	252.66 (239.86)
Total	8419.68 (6693.63)	3109.36 (1739.94)	129.80 (13.89)	11399.24 (8419.68)	4482.13 (3948.79)	453.64 (543.60)	118.86 (10.26)	1149.25 (—)	3667.66 (4482.13)	7731.58 (3937.55)	3937.55 (2744.84)
Less: Provision for Write Down in Value of Tangible Assets (Refer Note 10.2).....										5.89 (7.00)	7.00 (8.30)
Total Tangible Assets										7725.69	3930.55
II. Intangible Assets:											
Computer Software.....	66.22 (59.15)	3.79 (7.07)	— (—)	70.01 (66.22)	33.54 (13.61)	17.43 (19.93)	— (—)	— (—)	50.97 (33.54)	19.04 (32.68)	32.68 (45.54)
III. Capital Work-in-Progress										1234.90 (1614.87)	1614.87 (751.65)
Total Fixed Assets.....	8485.90 (6752.78)	3113.15 (1747.01)	129.80 (13.89)	11469.25 (8485.90)	4515.67 (3962.40)	471.07 (563.53)	118.86 (10.26)	1149.25 (—)	3718.63 (4515.67)	8979.63 (5578.10)	5578.10 (3533.73)

* Net block includes Buildings 4.12 Million (2011-2012 0.12 Million), Plant and Equipment 76.79 Million (2011-2012 48.90 Million) and Furniture and Fixtures 2.18 Million (2011-2012 0.61 Million)
Adjustment amount pertains to reversal of excess depreciation in respect of earlier years, due to change in accounting policy [Refer summary of Significant Accounting Policies Note 1 (B) (i) (c)]
Figures in the brackets are the corresponding figures in respect of the previous year.

₹ in Million

Note 10.1

Estimated amount of contracts remaining to be executed on capital account and not provided for (Net of advances).....

As at 31st March, 2013	As at 31st March, 2012
840.51	205.82

Note 10.2

The tangible assets at the Company's pigment manufacturing unit at Kavesar and paint manufacturing units at Lower Parel and at Vatwa, have been retired from active use. Accordingly, the fixed assets (other than land) at those manufacturing units had been written down to ₹ 2.22 Million on the basis of valuation reports [balance provision for write down in the value of fixed assets as at the end of the year ₹ 5.89 Million (2011-2012 ₹ 7.00 Million)]. During the year, an amount of ₹ 1.11 Million (2011-2012 ₹ 1.30 Million) has been written back consequent to charge on account of depreciation of an equal amount.

Note 10.3

The Company has given on lease, Colour Dispenser to its dealers. Particulars in respect of such leases are as follows:

- The gross carrying amount and the accumulated depreciation at the Balance Sheet date are ₹ 1551.85 Million (2011-2012 ₹ 1518.91 Million) and ₹ 1174.95 Million (2011-2012 ₹ 1266.25 Million) respectively.
 - Depreciation recognised in the Statement of Profit and Loss is ₹ 124.31 Million (2011-2012 ₹ 141.61 Million).
- The lease agreements are generally for a period of three years. However, the corresponding lease rentals may be receivable for a shorter period or may be waived off. The minimum aggregate lease payments to be received in future is considered as Nil. Accordingly, the disclosure of the present value of minimum lease payments receivable at the Balance Sheet date is not made.

KANSAI NEROLAC PAINTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

₹ in Million

Note 11: Non-current Investments

Non-current Investments (At cost, fully paid-up)

A. Trade (Unquoted) – Equity Shares:

Subsidiary Company

Kansai Paints Nepal Pvt. Ltd. 884000 Equity Shares of ₹ 100 each.....

78.63

—

B. Other than Trade (Unquoted unless otherwise stated):

(i) Shares, Debentures and Bonds

(a) Equity Shares:

National Thermal Power Corporation Limited (Quoted)

40524 Equity Shares of ₹ 10 each

(40524 Equity Shares of ₹ 10 each)

2.51

2.51

Equity Shares.....

81.14

2.51

(b) Debentures and Bonds:

1. India Infrastructure Finance Company Limited

1500, 6.85% Tax-Free Bonds of ₹ 100000 each

(1500, 6.85% Tax-Free Bonds of ₹ 100000 each).....

150.00

150.00

2. Indian Railways Finance Corporation

1000, 6.30% Tax-Free Bonds of ₹ 100000 each

(1000, 6.30% Tax-Free Bonds of ₹ 100000 each).....

100.00

100.00

3. Indian Railways Finance Corporation

1000, 6.32% Tax-Free Bonds of ₹ 100000 each

(1000, 6.32% Tax-Free Bonds of ₹ 100000 each).....

100.00

100.00

4. National Highway Authority of India

24724, 8.20% Tax-Free Bonds of ₹ 1000 each

(24724, 8.20% Tax-Free Bonds of ₹ 1000 each).....

24.72

24.72

5. Power Finance Corporation Ltd.

14239, 8.20% Tax-Free Bonds of ₹ 1000 each

(14239, 8.20% Tax-Free Bonds of ₹ 1000 each).....

14.24

14.24

6. Indian Railway Finance Corporation Ltd.

10875, 8.15% Tax-Free Bonds of ₹ 1000 each

(10875, 8.15% Tax-Free Bonds of ₹ 1000 each).....

10.88

10.88

Debentures and Bonds

399.84

399.84

(c) Mutual Funds

Growth Option:

1. ICICI Prudential MIP – Nil Units

[1451313 Units (and 426 fractions) of ₹ 10 each]

—

17.39

2. JM - Arbitrage Advantage Fund – Nil Units

[1826734 Units (and 256 fractions) of ₹ 10 each]

—

19.39

Mutual Fund (Growth Option).....

—

36.78

Total Non-current Investments (a+b+c)

480.98

439.13

Aggregate amount of quoted investments [Market value ₹ 5.74 Million (2011-2012 ₹ 6.59 Million)]

2.51

2.51

Aggregate amount of Unquoted Investments

478.47

436.62

480.98

439.13

KANSAI NEROLAC PAINTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

₹ in Million

Note 12: Current Investments

Current Investments (At lower of cost and market value)

Mutual Funds (Unquoted):

(a) Dividend Option:

	As at 31st March, 2013	As at 31st March, 2012
1. Axis Fixed Term Plan – Series 20 (3 Months) – Nil Units (10000597 Units of ₹ 10 each).....	—	100.00
2. Birla Sunlife Short Term Fixed Maturity Plan – Series 29 – Nil Units (50009830 Units of ₹ 10 each).....	—	50.01
3. IDFC Fixed Maturity Plan – Quarterly Series 69 – Nil Units (5000000 Units of ₹ 10 each).....	—	50.00
4. IDFC Fixed Maturity Plan – Quarterly Series 70 – Nil Units (10000000 Units of ₹ 10 each).....	—	100.00
5. JP Morgan India Fixed Maturity Plan – Series 7 – Nil Units (20000000 Units of ₹ 10 each).....	—	200.00
6. JP Morgan India Liquid Super Institutional – Nil Units [17993579 Units (and 338 fractions) of ₹ 10 each].....	—	180.08
Mutual Fund (Dividend Option)	—	680.09

(b) Growth Option:

1. JM Money Manager Fund Super Plan – Nil Units [6211127 Units (and 488 fractions) of ₹ 10 each]	—	94.73
2. JM Short Term Fund 1321924 Units (and 559 fractions) of ₹ 10 each (Nil Units).....	22.17	—
3. JP Morgan India Liquid Fund – Nil Units [7916573 Units (and 707 fractions) of ₹ 10 each]	—	110.00
4. Tata Liquidity Management Fund – Nil Units [146280 Units (and 511 fractions) of ₹ 1000 each]	—	211.01
5. Templeton India Low Duration Fund – 3261477 Units (and 361 fractions) of ₹ 10 each (Nil Units).....	41.42	—
6. Templeton India Ultra Short Term Bond Fund – 4022582 Units (and 843 fractions) of ₹ 10 each (Nil Units).....	61.45	—
7. BNP Paribas Fixed Term Fund – Series 20C – Nil Units (5000000 Units of ₹ 10 each).....	—	50.00
8. ICICI Prudential Fixed Maturity Plan – Series 55A – 15 Months – Plan A – Nil Units (10008639 Units of ₹ 10 each).....	—	100.09
9. Reliance Fixed Horizon Fund – XVII – Series 7 – Nil Units (15000000 Units of ₹ 10 each).....	—	150.00
Mutual Fund (Growth Option).....	125.04	715.83
Total Current Investments (a+b).....	125.04	1395.92

KANSAI NEROLAC PAINTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

₹ in Million

Note 13: Long-term Loans and Advances

Unsecured and Considered Good

To Parties Other Than Related Parties

	As at 31st March, 2013	As at 31st March, 2012
Capital Advances	94.56	179.58
Security Deposits	77.48	49.65
Income Tax Paid (Net of Provision)	206.27	206.27
Trade Advances.....	0.23	0.23

378.54 435.73

To Related Parties

Loans and Advances to Subsidiary	63.81	—
--	-------	---

442.35 435.73

Note 14: Inventories

Valued at the lower of cost and net realisable value

Raw Materials	1659.16	1551.55
Packing Materials	65.90	50.06
Work-in-Progress	434.93	286.00
Finished Goods	3045.17	2519.47
Stock-in-Trade	115.95	110.93
Stores and Spares	19.62	19.09
	5340.73	4537.10

Note 15: Trade Receivables

Overdue for a Period Exceeding Six Months:

Secured, Considered Good	18.49	2.14
Unsecured, Considered Good	11.70	6.64
Doubtful.....	18.49	16.82

48.68 25.60

Less: Provision for Doubtful Receivables	18.49	16.82
--	-------	-------

30.19 8.78

Other Receivables:

Secured, Considered Good	0.11	—
Unsecured, Considered Good	4169.59	3579.56
Doubtful.....	1.34	0.85

4171.04 3580.41

Less: Provision for Doubtful Receivables	1.34	0.85
--	------	------

4169.70 3579.56

Total..... 4199.89 3588.34

KANSAI NEROLAC PAINTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

₹ in Million

Note 16: Cash and Bank Balances

	As at 31st March, 2013	As at 31st March, 2012
Cash and Cash Equivalents:		
Cash on hand.....	1.16	0.78
Cheques on hand.....	278.11	216.77
Banks Balances with Current Account.....	316.93	368.76
	596.20	586.31
Other Bank Balances:		
Unpaid Dividend Accounts.....	4.46	5.46
	600.66	591.77

Note 17: Short-term Loans and Advances

Unsecured, Considered Good		
Trade Advances	119.55	96.17
Employee Advances	2.15	1.22
Prepaid Expenses.....	64.33	29.29
Other Advances	6.95	1.41
	192.98	128.09

Note 18: Other Current Assets

Unsecured, Considered Good		
Interest Accrued on Investments and Loans and Advances to Related Party	9.36	6.69
Balances with Indirect Tax Authorities.....	221.95	157.74
Security Deposits	28.70	20.38
	260.01	184.81

KANSAI NEROLAC PAINTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

	Year Ended 31st March, 2013	Year Ended 31st March, 2012
₹ in Million		
Note 19: Sale of Products		
Sales	33585.39	30051.91
Less: Rebates	1552.21	1436.69
	<u>32033.18</u>	<u>28615.22</u>
Note 19.1: Details of Sales		
Paints	32033.18	28615.22
Note 19.2: Earnings in Foreign Exchange		
FOB Value of Exports	5.94	11.05
Recovery of Freight and Other Charges on Exports	0.25	0.56
Note 20: Other Operating Revenues		
Sale of Scrap	86.10	79.39
Marketing Services Charges	16.01	38.84
Income from Processing Charges	1.17	16.22
Insurance Claims Received	8.23	8.16
Indirect Tax Settlement/Claims (Refer Note 6)....	57.41	1.95
Miscellaneous Income	2.18	2.37
	<u>171.10</u>	<u>146.93</u>
Note 21: Other Income		
Dividend Received From.....		
Current Investments	41.74	104.39
Long Term Investments	0.17	0.03
	<u>41.91</u>	104.42
Interest on Long Term Investments and Loans and Advances to related party	30.58	24.95
Profit on Sale of Investments (Net):		
Current Investments	0.97	18.46
Long Term Investments	70.52	79.89
	<u>71.49</u>	98.35
Profit on Sale of Fixed Assets (Net).....	6.07	5.08
Provision for Tangible Assets Written Back (Refer Note 10.2)	1.11	1.30
Foreign Exchange Gain (Net).....	—	8.56
Miscellaneous Income	12.01	—
	<u>163.17</u>	<u>242.66</u>
Note 22: Cost of Materials Consumed		
Raw Material Consumed		
Opening Stock	1551.55	1167.01
Add: Purchase	17152.25	15464.26
Less: Sales	47.59	5.20
Less: Closing Stock	1659.16	1551.55
	<u>16997.05</u>	15074.52
Packing Material Consumed		
Opening Stock	50.06	44.67
Add: Purchase	2004.53	1899.85
Less: Closing Stock	65.90	50.06
	<u>1988.69</u>	1894.46
	<u>18985.74*</u>	<u>16968.98*</u>

* Includes ₹ 23.26 Million (2011-2012 ₹ 24.38 Million) expenditure incurred on Research and Development.

KANSAI NEROLAC PAINTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

₹ in Million

Note 22.1: CIF Value of Import

	Year Ended 31st March, 2013	Year Ended 31st March, 2012
Raw Materials	4914.89	4757.56
Stores and Spares	11.94	9.82
Finished Products	249.59	285.97
Capital Goods	108.03	69.06

Note 22.2: Raw Material Consumed

	Quantity MT	₹ in Million	Quantity MT	₹ in Million
Pigments, Extenders and Resins	118592	8581.41	119935	7256.84
Organic Acids and Anhydrides	11851	1160.75	11274	904.62
Solvents, Oils and Fatty Acids	74284	6045.55	70215	5918.46
Others		1209.34		994.60
		<u>16997.05</u>		<u>15074.52</u>
of which:	%		%	
Imported	36	6159.66	33	4997.63
Indigenous	64	10837.39	67	10076.89
		<u>16997.05</u>		<u>15074.52</u>

Note 23: Changes in Inventories

Opening Stock				
Finished Goods	2519.47		2004.07	
Work-in-Progress	286.00		242.06	
Stock-in-Trade	110.93		63.76	
		2916.40		2309.89
Less: Closing Stock				
Finished Goods	3045.17		2519.47	
Work-in-Progress	434.93		286.00	
Stock-in-Trade	115.95		110.93	
		3596.05		2916.40
Add: Excise Duty Related to the Difference Between the Closing Stock and Opening Stock of Finished Goods		97.25		124.16
		<u>(582.40)</u>		<u>(482.35)</u>

Note 24: Employee Benefits Expense

Salaries and Wages	1045.86	958.82
Contribution to Provident and Other Funds (Refer Note 31)	75.79	58.72
Staff Welfare Expense	59.78	51.90
	<u>1181.43*</u>	<u>1069.44*</u>

* Includes ₹ 106.21 Million (2011-2012 ₹ 93.78 Million) expenditure incurred on Research and Development.

KANSAI NEROLAC PAINTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

	Year Ended 31st March, 2013	₹ in Million Year Ended 31st March, 2012
Note 25: Other Expenses		
Consumption of Stores and Spare Parts	170.24	152.36
Power and Fuel.....	454.78	347.85
Repairs to Buildings.....	2.17	10.62
Repairs to Machinery.....	59.52	56.32
Freight and Forwarding Charges	1208.97	1093.81
Advertisement and Sales Promotion	1022.78	1001.22
Rent.....	127.05	92.10
Rates and Taxes	18.83	18.47
Insurance	26.58	18.48
Cash Discount.....	664.93	629.38
Miscellaneous Expenses	841.76	738.53
	4597.61*	4159.14*

* Includes ₹ 27.74 Million (2011-2012 ₹ 22.87 Million) expenditure incurred on Research and Development.

Note 25.1: Stores and Spares Consumed

	%	₹ in Million	%	₹ in Million
Imported	8	13.81	7	11.21
Indigenous.....	92	156.43	93	141.15
		170.24		152.36

Note 25.2: Auditors' Remuneration

Auditors' Remuneration Excluding Service Tax
(Included in Miscellaneous Expenses in Note 25)

As Auditor

Statutory Audit.....	1.80	1.80
Report under Section 44AB of the Income-tax Act, 1961	0.35	0.35
Limited Review of Quarterly Results.....	1.20	1.20

In Other Capacity

Certification.....	1.13	0.70
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Reimbursements of Expenses

0.46	0.29
4.94	4.34

Note 25.3: Research and Development Expenses

Revenue expenditure on Research and
Development recognised in Statement of Profit
and Loss is [including depreciation ₹ 6.42 Million
(2011-2012 ₹ 7.48 Million)].....

163.63	148.51
---------------	---------------

Note 25.4: Expenditure in Foreign Currencies

Foreign Travel.....	0.85	0.58
Royalties (Net of Tax)	99.68	90.33
Professional and Technical Fees (Net of Tax)	17.52	13.45
Others (Net of Tax)	30.98	20.84
	149.03	125.20

KANSAI NEROLAC PAINTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

	₹ in Million	
	Year Ended 31st March, 2013	Year Ended 31st March, 2012
Note 25.5: Operating Lease Expenses		
Vehicles for use by employees are obtained on operating lease for a lease term of three to five years.		
Lease payments recognised in Statement of Profit and Loss.....	3.91	4.10
Future minimum aggregate lease payments under non-cancellable operating leases for each of the following periods:		
Not later than one year.....	4.72	2.88
Later than one year and not later than five years.....	10.85	4.97
Later than five years	—	—
Note 26: Contingent Liabilities		
Claims against the Company not acknowledged as debt:		
Notice from Haryana State Industrial and Infrastructure Development Corporation for enhanced costs for Bawal factory land	39.01	39.01
Corporate guarantee given to HDFC Bank for employees loan.....	11.16	—
	<u>50.17</u>	<u>39.01</u>
Note 27: Remittance in Foreign Currency		
Remittance in foreign currency on account of dividend to a non-resident shareholder:		
Final dividend on 37,329,760 equity shares for 2011-2012 (37,329,760 equity shares for 2010-2011)	410.63	373.30
Note 28: Earnings Per Equity Share		
Numerator: Profit before Exceptional Items (Net of Tax) (₹ in Million)	2144.90	2158.85
Numerator: Profit after Exceptional Items (₹ in Million)	2921.82	2158.85
Denominator: Weighted average number of Equity Shares.....	53891972	53891972
Basic and Diluted Earnings per Equity Share before Exceptional Items (Net of Tax) (₹)	40	40
Basic and Diluted Earnings per Equity Share after Exceptional Items (₹).....	54	40

Note 29: Derivative Instruments

- (A) There are no outstanding Forward Foreign Exchange Contracts entered into by the Company
- (B) The year-end foreign currency exposures that have not been hedged by a derivative instrument or otherwise are given below:

	Currency	Year Ended 31st March, 2013 in Million	Year Ended 31st March, 2012 in Million
Amounts Payable in Foreign Currency:			
	CHF	0.06	—
	Euro	0.34	—
	GBP	—	—
	JPY	192.01	166.65
	USD	11.10	8.31
	THB	0.02	0.01

KANSAI NEROLAC PAINTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Note 29: Derivatives Instruments (contd.)

(B) The year-end foreign currency exposures that have not been hedged by a derivative instrument or otherwise are given below (contd.)

	Currency	Year Ended 31st March, 2013 in Million	Year Ended 31st March, 2012 in Million
Advance Payment in Foreign Currency for Supplies:	CHF	0.57	0.01
	Euro	0.34	0.08
	JPY	97.99	44.14
	THB	0.05	—
	USD	1.91	0.97

Note 30: Related Party Disclosures

- (i) (a) Names of related parties and nature of relationship where control exists are as under:
- | | |
|--------------------|--|
| Holding Company | : Kansai Paint Co., Ltd., Japan |
| Subsidiary Company | : Kansai Paints Nepal Pvt. Ltd.
(w.e.f. 01.10.2012) |
- (b) Names of other related parties and nature of relationship where there are transactions with related parties:
- | | |
|-----------------------------|---|
| Fellow Subsidiary Companies | : Kansai Paint Philippines Inc.
Kansai Resin (Thailand) Co. Ltd.
Kansai Coatings Malaysia SDN. BHD. |
| Key Management Personnel | : Mr. H.M. Bharuka, Managing Director
Mr. P.D. Chaudhari, Wholetime Director |

(ii) Transactions with Related Parties:

	₹ in Million				
Nature of Transaction	Holding Company	Subsidiary	Fellow Subsidiary Companies	Key Management Personnel	Total
Royalty Paid					
– Kansai Paint Co., Ltd., Japan.....	103.30 (92.27)	N.A. (N.A.)	N.A. (N.A.)	N.A. (N.A.)	103.30 (92.27)
Dividend Paid					
– Kansai Paint Co., Ltd., Japan.....	410.63 (373.30)	N.A. (N.A.)	N.A. (N.A.)	N.A. (N.A.)	410.63 (373.30)
Technical Fees Including Reimbursement of Expenses					
– Kansai Paint Co., Ltd., Japan.....	46.53 (29.91)	N.A. (N.A.)	N.A. (N.A.)	N.A. (N.A.)	46.53 (29.91)
Sale of Goods					
– Kansai Paint Philippines Inc.....	N.A. (N.A.)	N.A. (N.A.)	5.60 (10.25)	N.A. (N.A.)	5.60 (10.25)
– Kansai Paints Nepal Pvt. Ltd.....	N.A. (N.A.)	7.00 (N.A.)	N.A. (N.A.)	N.A. (N.A.)	7.00 (N.A.)
Sale of Raw Materials					
– Kansai Paints Nepal Pvt. Ltd.....	N.A. (N.A.)	24.22 (N.A.)	N.A. (N.A.)	N.A. (N.A.)	24.22 (N.A.)
Sale of Advertising Material					
– Kansai Paints Nepal Pvt. Ltd.....	N.A. (N.A.)	0.08 (N.A.)	N.A. (N.A.)	N.A. (N.A.)	0.08 (N.A.)

KANSAI NEROLAC PAINTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

Note 30: Related Party Disclosures (contd.)

(ii) Transactions with Related Parties (contd.)

₹ in Million

Nature of Transaction	Holding Company	Subsidiary	Fellow Subsidiary Companies	Key Management Personnel	Total
Purchase of Goods					
– Kansai Resin (Thailand) Co. Ltd.	N.A. (N.A.)	N.A. (N.A.)	— (18.00)	N.A. (N.A.)	— (18.00)
Sale of Fixed Assets					
– Kansai Paints Nepal Pvt. Ltd.	N.A. (N.A.)	0.80 (N.A.)	N.A. (N.A.)	N.A. (N.A.)	0.80 (N.A.)
Interest Received					
– Kansai Paints Nepal Pvt. Ltd.	N.A. (N.A.)	1.31 (N.A.)	N.A. (N.A.)	N.A. (N.A.)	1.31 (N.A.)
Royalty Received					
– Kansai Paints Nepal Pvt. Ltd.	N.A. (N.A.)	0.94 (N.A.)	N.A. (N.A.)	N.A. (N.A.)	0.94 (N.A.)
Loan Given					
– Kansai Paints Nepal Pvt. Ltd.	N.A. (N.A.)	63.81 (N.A.)	N.A. (N.A.)	N.A. (N.A.)	63.81 (N.A.)
Reimbursement of Expenses Paid					
– Kansai Coatings Malaysia SDN. BHD.	N.A. (N.A.)	N.A. (N.A.)	0.72 (1.27)	N.A. (N.A.)	0.72 (1.27)
Reimbursement of Expenses Receivable					
– Kansai Paint Co. Ltd., Japan	15.86 (10.91)	N.A. (N.A.)	N.A. (N.A.)	N.A. (N.A.)	15.86 (10.91)
– Kansai Paints Nepal Pvt. Ltd.	N.A. (N.A.)	2.19 (N.A.)	N.A. (N.A.)	N.A. (N.A.)	2.19 (N.A.)
Remuneration*					
– Mr. H.M. Bharuka, Managing Director	N.A. (N.A.)	N.A. (N.A.)	N.A. (N.A.)	37.80 (35.08)	37.80 (35.08)
– Mr. P.D. Chaudhari, Wholetime Director.....	N.A. (N.A.)	N.A. (N.A.)	N.A. (N.A.)	12.68 (11.08)	12.68 (11.08)
(iii) Amounts Outstanding at the Year End:					
Receivable as at Year End					
– Kansai Paint Co., Ltd., Japan	15.86 (10.91)	N.A. (N.A.)	N.A. (N.A.)	N.A. (N.A.)	15.86 (10.91)
– Kansai Paint Philippines Inc.	N.A. (N.A.)	N.A. (N.A.)	— (2.92)	N.A. (N.A.)	— (2.92)
– Kansai Paints Nepal Pvt. Ltd.	N.A. (N.A.)	3.99 (N.A.)	N.A. (N.A.)	N.A. (N.A.)	3.99 (N.A.)

KANSAI NEROLAC PAINTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Note 30: Related Party Disclosures (contd.)

(iii) Amounts Outstanding at the Year End (contd.)

					₹ in Million
Nature of Transaction	Holding Company	Subsidiary	Fellow Subsidiary Companies	Key Management Personnel	Total
Receivable Towards Loan and Interest					
– Kansai Paints Nepal Pvt. Ltd.	N.A. (N.A.)	65.12 (N.A.)	N.A. (N.A.)	N.A. (N.A.)	65.12 (N.A.)
Payable as at Year End					
– Kansai Paint Co., Ltd., Japan.	12.49 (5.04)	N.A. (N.A.)	N.A. (N.A.)	N.A. (N.A.)	12.49 (5.04)
– Kansai Coatings Malaysia SDN. BHD.....	N.A. (N.A.)	N.A. (N.A.)	0.10 (0.27)	N.A. (N.A.)	0.10 (0.27)

Figures in the brackets are the corresponding figures in respect of the previous year.

* Excludes commission and related contribution to Provident Fund and Superannuation Fund thereon for the year but includes commission and such related contribution thereon for the previous year paid in the current year.

Note: No amounts pertaining to related parties have been provided for as doubtful debts. Also, no amounts have been written off or written back during the year.

Note 31: Employee Benefits

A. Defined Contribution Plan:

Contribution to defined contribution plan, recognised in the Statement of Profit and Loss under Company's Contribution to Provident Fund and Other Funds in Employee Benefits Expenses for the year are as under:

	As at 31st March, 2013	As at 31st March, 2012
	₹ in Million	₹ in Million
Employer's Contribution to Regional Provident Fund Commissioner.....	8.74	7.83
Employer's Contribution to Family Pension Fund	14.26	12.58
Employer's Contribution to Superannuation Fund	19.15	5.28

B. Defined Benefit Plan:

(a) Contribution to Provident Fund managed by the Trust set up by the Company:

The Company has contributed ₹ 14.79 Million (2011-2012 ₹ 13.53 Million) to the Provident Fund Trust. In view of the issue of final guidance note by the Actuarial Society of India for measurement of provident fund liabilities, the actuary has provided valuation and other related information for disclosure as required by Accounting Standard (AS) 15 (Revised) on Employee Benefits notified by the Companies (Accounting Standards) Rules, 2006 read with the guidance issued by the Accounting Standard Board of the Institute of Chartered Accountants of India.

(i) The details of fund and plan assets position are given below:

					₹ in Million
					As at 31st March
	2013	2012	2011	2010	2009
Plan Assets at the Year End, at Fair Value.....	374.99	361.35	331.30	300.89	294.04
Present Value of Benefit Obligation at the Year End	366.41	354.64	348.54	311.09	306.39
Asset Recognised in the Balance Sheet.....	Nil	Nil	Nil	Nil	Nil

KANSAI NEROLAC PAINTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

Note 31: Employee Benefits (contd.)

B. Defined Benefit Plan (contd.)

(a) Contribution to Provident Fund managed by the Trust set up by the Company (contd.)

(ii) The actuarial assumptions used in determining the present value of benefit obligation are as under:

	As at 31st March				
	2013	2012	2011	2010	2009
Discount Rate (%)	8.00	8.50	8.10	8.10	7.10
Guaranteed Interest Rate (%)	8.50	8.25	9.50	8.50	8.50
Expected Average Remaining Working Lives of Employees (Years).....	7.35	8.23	8.79	9.23	9.48

(iii) The major category of plan assets in which the funds are invested by the Provident Fund Trust are as under:

	% of Each to Total Plan Assets	
	As at 31st March, 2013	As at 31st March, 2012
Bonds & Securities of Central Government	12.90	13.09
Bonds & Securities of State Government	12.40	11.08
Bonds & Securities of Public Sector Undertakings.....	22.72	21.45
Special Deposits with Banks	50.88	53.52
Bonds of Financial Institutions.....	1.10	0.86

(b) Gratuity (Funded):

	₹ in Million	₹ in Million
i. Reconciliation of Opening and Closing Balances of Defined Benefit Obligation:		
Present Value of Defined Benefit Obligation as at the Beginning of the Year	119.41	107.46
Interest Cost.....	9.85	9.13
Current Service Cost	12.40	11.93
Benefits Paid	(21.21)	(14.25)
Net Actuarial (Gain)/Loss	0.75	5.14
Present Value of Defined Benefit Obligation as at the End of the Year	121.20	119.41
ii. Reconciliation of Fair Value of Plan Assets:		
Fair Value of Plan Assets as at the Beginning of the Year	118.16	119.19
Expected Return on Plan Assets	11.33	11.52
Net Actuarial Gain/(Loss)	2.36	1.55
Employer's Contribution	2.23	0.15
Benefits Paid	(21.21)	(14.25)
Fair Value of Plan Assets as at the End of the Year	112.87	118.16

KANSAI NEROLAC PAINTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

Note 31: Employee Benefits (contd.)

B. Defined Benefit Plan (contd.)

(b) Gratuity (Funded) (contd.)

ii. Reconciliation of Fair Value of Plan Assets (contd.)

	As at 31st March, 2013 ₹ in Million	As at 31st March, 2012 ₹ in Million
The Company expects to contribute ₹ Nil to its Defined Benefit Gratuity Plan during the annual period beginning after the Balance Sheet date.		
The major categories of Plan Assets as a percentage of the fair value of total Plan Assets are as follows:		
Funds maintained with Life Insurance Corporation of India.....	100%	100%
Note: The Company is unable to obtain the details of major category of Plan Assets from the insurance company (Life Insurance Corporation of India) and hence the disclosure thereof is not made.		
iii. Net Assets/(Liabilities) Recognised in the Balance Sheet:		
Present Value of Defined Benefit Obligation.....	(121.20)	(119.41)
Fair Value of Plan Assets	112.87	118.16
Net Asset/(Liability) Recognised in Balance Sheet.....	(8.33)	(1.25)
iv. Components of Employer's Expenses:		
Current Service Cost.....	12.40	11.93
Interest Cost	9.85	9.13
Expected Return on Plan Assets	(11.33)	(11.52)
Net Actuarial (Gain)/Loss	(1.61)	3.59
Total Expenses/(Income) recognised in the Statement of Profit and Loss in Employee Benefits Expense	9.31	13.13
v. Actuarial Assumptions:		
Mortality Table.....	LIC (1994-96)	
Discount Rate	8.25%	8.50%
Expected Rate of Return on Plan Assets	8.92%	9.85%
Salary Escalation	7.50%	8.00%
vi. a. The estimates of rate of escalation in salary considered in actuarial valuation takes into account inflation, seniority, promotion and other relevant factors including supply and demand in the employment market.		
b. The discounting rate is considered based on market yield on government bonds having currency and terms consistent with the currency and terms of the post-employment benefit obligations.		
c. Expected rate of return on assets is determined based on expectation of the average long term rate of return expected on investments of the fund during the estimated term of the obligations.		
vii. The above information is certified by the actuary.		

KANSAI NEROLAC PAINTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

Note 31: Employee Benefits (contd.)

B. Defined Benefit Plan (contd.)

(b) Gratuity (Funded) (contd.)

- viii. Net Assets/(Liabilities) recognised in the Balance Sheet as at respective year ends and experience adjustments:

Particulars	Gratuity (Funded) (₹ in Million)				
	As at 31st March				
	2013	2012	2011	2010	2009
1. Present Value of Defined Benefit Obligation.....	(121.20)	(119.41)	(107.46)	101.53	119.00
2. Fair Value of Plan Assets	112.87	118.16	119.19	126.75	119.60
3. Funded Status [Surplus/(Deficit)].....	(8.33)	(1.25)	11.73	25.22	0.60
4. Net Asset/(Liability).....	(8.33)	(1.25)	11.73	25.22	0.60
5. Experience Adjustment Arising on:					
a. Plan Liabilities [Loss/(Gain)].....	0.75	5.14	(3.11)	(28.67)	(5.70)
b. Plan Assets [Loss/(Gain)].....	(2.36)	(1.55)	8.96	(4.80)	(3.34)

(c) Compensated Absences:

The decrease in provision for compensated absences for the year is ₹ 2.82 Million (2011-2012 decrease ₹ 0.90 Million)

Note 32: Segment Reporting

As the Company's business activity falls within a single business segment viz. 'Paints' and the sales substantially being in the domestic market, the financial statement are reflective of the information required by Accounting Standard 17 "Segment Reporting", notified under Companies (Accounting Standard) Rules, 2006.

As per our attached report of even date

For B S R & Co.

Chartered Accountants

Firm's Registration No. 101248W

VIJAY MATHUR

Partner

Membership No. 046476

Mumbai: 4th May, 2013

G.T. GOVINDARAJAN

Company Secretary

P.D. PAI

CFO

For and on behalf of the Board of Directors

J.J. IRANI

Chairman

D.M. KOTHARI

Vice Chairman

H.M. BHARUKA

Managing Director

N.N. TATA

Director

P.P. SHAH

Director

P.D. CHAUDHARI

Wholetime Director

PARTICULARS OF THE SUBSIDIARY COMPANY, KANSAI PAINTS NEPAL PVT. LTD. FOR THE FINANCIAL YEAR ENDED 31ST MARCH, 2013

₹ in Million

	As at/For the Year ended 31st March, 2013
Capital	81.64
Reserves	15.59
Total Assets	369.06
Total Liabilities	271.83
Investments (except investment in subsidiary)	Nil
Turnover	112.15
Profit before Tax	16.69
Provision for Tax	2.33
Profit after Tax	14.36
Proposed Dividend	Nil
Reporting currency	NPR
Exchange rate as on closing day of financial year	1 NPR = 0.6280 INR

Notes:

1. Kansai Paints Nepal Pvt. Ltd. was not a subsidiary in the previous year.
2. The assets and liabilities are translated at the exchange rate prevailing at the balance sheet date, and the income and expense items are translated at the average rates of exchange for the year.

			For and on behalf of the Board of Directors
			J.J. IRANI <i>Chairman</i>
			D.M. KOTHARI <i>Vice Chairman</i>
			H.M. BHARUKA <i>Managing Director</i>
			N.N. TATA <i>Director</i>
	G.T. GOVINDARAJAN	P.D. PAI	P.P. SHAH <i>Director</i>
	<i>Company Secretary</i>	<i>CFO</i>	P.D. CHAUDHARI <i>Wholetime Director</i>

Mumbai: 4th May, 2013

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF
KANSAI NEROLAC PAINTS LIMITED**

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kansai Nerolac Paints Limited ('the Company') and its subsidiary Kansai Paints Nepal Private Limited, herein after referred to as the "Group", which comprise the consolidated Balance Sheet as at 31 March 2013 and the consolidated Statement of Profit and Loss and the consolidated Cash Flow Statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of these consolidated financial statements that give a true and fair view of the consolidated financial position, consolidated financial performance and consolidated cash flows of the Company in accordance with accounting principles generally accepted in India. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the consolidated financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and presentation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give a true and fair view in conformity with accounting principles generally accepted in India:

- (a) in the case of the consolidated Balance Sheet, of the state of affairs of the Group as at 31 March 2013;
- (b) in the case of the consolidated Statement of Profit and Loss, of the profit of the Group for the year ended on that date; and
- (c) in the case of the consolidated Cash Flow Statement, of the cash flows of the Group for the year ended on that date.

Other matter

We have not audited the financial statements of the subsidiary included in the consolidated financial statements, which constitute assets of ₹ 369.06 Million as at 31 March 2013, total revenue of ₹ 112.15 Million and net profit of ₹ 14.36 Million for the year then ended. These financial statements have been audited by other auditor whose report has been furnished to us for the purpose of the consolidation, and our opinion, in so far as it related to the amounts included in respect of the subsidiary, is based solely on reports of the other auditor.

For **B S R & CO.**
Chartered Accountants
Firm's Registration No.: 101248W

Vijay Mathur
Partner
Membership No.: 046476

Mumbai
4 May, 2013

KANSAI NEROLAC PAINTS LIMITED
CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH, 2013

₹ in Million

	Note	As at 31st March, 2013
Equity and Liabilities		
Shareholders' Funds		
Share Capital	2	538.92
Reserves and Surplus.....	3	12330.71
		12869.63
		31.11
Minority Interest		
Non-current Liabilities		
Long-term Borrowings.....	4	667.46
Deferred Tax Liabilities (Net)	5	432.71
Long-term Provisions	6	385.24
		1485.41
Current Liabilities		
Short-term Borrowings.....	7	80.84
Trade Payables.....	8	3925.97
Other Current Liabilities	9	1671.82
Short-term Provisions	10	800.92
		6479.55
Total		20865.70
Assets		
Non-current Assets		
Goodwill on Consolidation		22.67
Fixed Assets.....	11	
Tangible Assets		7820.92
Intangible Assets.....		19.87
Capital Work-in-Progress		1234.90
		9075.69
Non-current Investments.....	12	402.35
Long-term Loans and Advances	14	378.54
		9856.58
Current Assets		
Current Investments.....	13	125.04
Inventories.....	15	5483.18
Trade Receivables.....	16	4305.38
Cash and Bank Balances.....	17	614.42
Short-term Loans and Advances	18	198.78
Other Current Assets	19	259.65
		10986.45
Total		20865.70
Significant Accounting Policies		
The notes referred to above form an integral part of financial statements.	1	

As per our attached report of even date

For B S R & Co.

Chartered Accountants

Firm's Registration No. 101248W

VIJAY MATHUR

Partner

Membership No. 046476

Mumbai: 4th May, 2013

G.T. GOVINDARAJAN

Company Secretary

P.D. PAI

CFO

For and on behalf of the Board of Directors

J.J. IRANI

Chairman

D.M. KOTHARI

Vice Chairman

H.M. BHARUKA

Managing Director

N.N. TATA

Director

P.P. SHAH

Director

P.D. CHAUDHARI

Wholetime Director

KANSAI NEROLAC PAINTS LIMITED
CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31ST MARCH, 2013

₹ in Million

	Note	Year Ended 31st March, 2013
Revenue from Operations		
Sale of Products (Gross).....	20	32138.33
Less: Excise Duty.....		3638.09
Sale of Products (Net).....		28500.24
Other Operating Revenues.....	21	170.16
Total Operating Revenue.....		28670.40
Other Income	22	161.89
Total Revenue		28832.29
Expenses		
Cost of Materials Consumed.....	23	19072.32
Purchases of Stock-in-Trade		1022.83
Changes in Inventories.....	24	(613.91)
Employee Benefits Expense	25	1192.02
Finance Costs		6.80
Depreciation and Amortization Expense	11	473.53
Other Expenses	26	4620.31
Total Expenses		25773.90
Profit Before Exceptional Item and Tax		3058.39
Reversal of excess depreciation in respect of earlier years (Refer Note 11)...		1160.45
Profit Before Tax		4218.84
Tax Expense		
Current Tax.....		748.40
Deferred Tax.....		534.27
Total Income Tax ...		1282.67
Profit After Tax Before Minority Interest		2936.17
Less: Minority Interest		4.77
Profit After Tax		2931.40
Earnings per Equity Share before Exceptional Items (Net of Tax) (in ₹)		
Nominal value of share ₹ 10 each		
Basic and Diluted	28	40
Earnings per Equity Share after Exceptional Items (Net of Tax) (in ₹)		
Nominal value of share ₹ 10 each		
Basic and Diluted	28	54
Significant Accounting Policies	1	
The notes referred to above form an integral part of financial statements.		

As per our attached report of even date

For B S R & Co.

Chartered Accountants

Firm's Registration No. 101248W

VIJAY MATHUR

Partner

Membership No. 046476

Mumbai: 4th May, 2013

G.T. GOVINDARAJAN

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For and on behalf of the Board of Directors

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Managing Director

N.N. TATA

Director

P.P. SHAH

Director

P.D. CHAUDHARI

Wholetime Director

KANSAI NEROLAC PAINTS LIMITED**STATEMENT OF CONSOLIDATED CASH FLOWS FOR THE YEAR ENDED 31ST MARCH 2013**

₹ in Million

	Year Ended 31st March, 2013
Cash Flow from Operating Activities	
Net Profit Before Tax	4218.84
Adjustments for:	
Depreciation.....	473.53
Depreciation Write Back	(1160.45)
Foreign Exchange Loss/(Gain) Unrealised	(4.87)
Provision for Write Down in Value of Fixed Assets Written Back.....	(1.11)
Profit on Sale of Fixed Assets	(6.06)
Profit on Sale/Redemption of Investments.....	(71.49)
Interest Expenditure.....	6.80
Interest Income	(29.27)
Dividend Income	(41.91)
	<u>(834.83)</u>
Operating Profit Before Working Capital Changes	3384.01
(Increase)/Decrease in Trade and Other Receivables.....	(783.85)
(Increase)/Decrease in Inventories	(838.97)
(Increase)/Decrease in Trade Payables.....	1121.25
	<u>(501.57)</u>
Cash Generated from Operations	2882.44
Direct Taxes Paid (Net of Refunds)	(682.13)
Net Cash from Operating Activities	<u>2200.31</u>
Cash Flow from Investing Activities	
Purchase of Fixed Assets (including Adjustments on Account of Capital Work-in-Progress and Capital Advances).....	(2817.08)
Sale of Fixed Assets.....	23.86
Purchase of Investments.....	(15607.02)
Proceeds from Sale/Redemption of Investments	16907.54
Interest Received	27.91
Dividend Received	41.91
Net Cash used in Investing Activities	<u>(1422.88)</u>
Cash Flow from Financing Activities	
Repayment of Borrowings	(29.87)
(Decrease)/increase in Short Term Borrowings	(46.56)
Interest paid	(6.80)
Increase/(Decrease) in Unpaid Dividend	(1.00)
Dividend Paid	(592.81)
Additional Income-Tax on Distributed Profits.....	(96.17)
Net Cash used in Financing Activities	<u>(773.21)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	<u>4.22</u>

KANSAI NEROLAC PAINTS LIMITED
STATEMENT OF CONSOLIDATED CASH FLOWS FOR THE YEAR ENDED 31ST MARCH 2013 (contd.)

₹ in Million

	Year Ended 31st March, 2013
Cash and Cash Equivalents at the beginning of the year, the components being:	
Cash on hand.....	16.91
Unpaid Dividend Accounts.....	5.46
Balances with Banks on Current, Margin and Fixed Deposit Accounts	587.83
	610.20
Cash and Cash Equivalents at the end of the year, the components being:	
Cash on hand.....	13.61
Unpaid Dividend Accounts.....	4.46
Balances with Banks on Current, Margin and Fixed Deposit Accounts	596.35
	614.42
Net Increase/(Decrease) as disclosed above	4.22

Note: Figures in brackets are outflows/deductions.

As per our attached report of even date

For B S R & Co.

Chartered Accountants

Firm's Registration No. 101248W

VIJAY MATHUR

Partner

Membership No. 046476

Mumbai: 4th May, 2013

G.T. GOVINDARAJAN

Company Secretary

P.D. PAI

CFO

For and on behalf of the Board of Directors

J.J. IRANI

Chairman

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Managing Director

N.N. TATA

Director

P.P. SHAH

Director

P.D. CHAUDHARI

Wholetime Director

KANSAI NEROLAC PAINTS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 : Summary of Significant Accounting Policies

(A) Basis for Preparation of Consolidated Financial Statements

The Consolidated Financial Statements relate to Kansai Nerolac Paints Ltd ('the Company') and its subsidiary company, Kansai Paints Nepal Pvt Ltd. ('the Subsidiary'), a company incorporated in Nepal in which the Company has 68% equity holding, herein after referred to as the "Group". The Company acquired controlling stake in the subsidiary effective 1st October, 2012.

The financial statements of the subsidiary used in the consolidation are drawn upto the same reporting date as that of the Company i.e. for the period from 1st October, 2012 to 31st March, 2013.

The financial statements of the Company and the Subsidiary have been prepared under historical cost convention on an accrual basis and comply with Accounting Principles Generally Accepted in India.

Since the Company acquired controlling stake in the subsidiary during the year ended 31st March, 2013, these Consolidated Financial Statements do not present comparative numbers for previous year.

(B) Principles of Consolidation

The Consolidated Financial Statements have been prepared in accordance with Accounting Standard (AS) 21 "Consolidated Financial Statements" notified by the Companies (Accounting Standard) Rules, 2006.

The Consolidated Financial Statements have been prepared on the following basis:

- (a) The financial statements of the Company and its subsidiary have been combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses. Intra-group balances, intra-group transactions and unrealised profits or losses have been fully eliminated.
- (b) "Minority interest" represents the amount of equity attributable to minority shareholders at the date on which investment in the subsidiary is made and its share of movements in the equity since the date the parent subsidiary relationship comes into existence.
- (c) The Consolidated Financial Statements are prepared using uniform accounting policies for similar transactions and other events in similar circumstances.

(C) Use of Estimates

The preparation of Consolidated Financial Statements in conformity with Generally Accepted Accounting Principles (GAAP) in India requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent liabilities on the date of consolidated financial statements and the reported amount of revenue and expenses during the reporting period. Actual results could defer from those estimates. Any revision to accounting estimates is recognised prospectively in current and future period.

(D) Exchange Translation

The Subsidiary has been identified as non-integral operation. Accordingly, the summarised revenue and expense transactions of the Subsidiary at the period end reflected in the Statement of Profit and Loss have been translated into Indian Rupees at average monthly exchange rate. The assets and liabilities in the Balance Sheet have been translated into Indian Rupees at the closing exchange rate at the period end. The resultant exchange gain/loss has been disclosed at Translation Reserve under the Reserve and Surplus.

(E) Classification of Assets and Liabilities

The Revised Schedule VI to the Companies Act, 1956 requires assets and liabilities to be classified as either Current or Non-current.

- (a) An asset shall be classified as current when it satisfies any of the following criteria:
 - (i) It is expected to be realized in, or is intended for sale or consumption in, the company's normal operating cycle;
 - (ii) It is held primarily for the purpose of being traded;
 - (iii) It is expected to be realized within twelve months after the reporting date; or
 - (iv) It is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

KANSAI NEROLAC PAINTS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 : Summary of Significant Accounting Policies (contd.)

(E) Classification of Assets and Liabilities (contd.)

- (b) All assets other than current assets shall be classified as non-current.
- (c) A liability shall be classified as current when it satisfies any of the following criteria:
 - (i) It is expected to be settled in the company's normal operating cycle;
 - (ii) It is held primarily for the purpose of being traded;
 - (iii) It is due to be settled within twelve months after the reporting date; or
 - (iv) The company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.
- (d) All liabilities other than current liabilities shall be classified as non-current.

(F) Operating Cycle

An operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents.

(G) Fixed Assets

- (a) Fixed assets are stated at their original cost of acquisition and installation, less accumulated depreciation, amortisation and impairment losses, if any. Cost comprises of the purchase price and any other directly attributable cost of bringing the asset to its working condition for its intended use.
- (b) Borrowing costs that are directly attributable to the acquisition of qualifying assets are capitalised for the period until the asset is ready for its intended use. A qualifying asset is an asset that necessarily takes substantial period of time to get ready for its intended use. Other borrowing costs are recognised as an expense in the period in which they are incurred.
- (c) Depreciation on fixed assets has been provided using straight line method, where hitherto Written Down Value method was adopted, in the manner and at the rates prescribed in Schedule XIV to the Companies Act, 1956. The rates of depreciation prescribed in Schedule XIV to the Companies Act, 1956 are considered as the minimum rates. If the management's estimate of the useful life of a fixed asset at the time of acquisition of the asset or of the remaining useful life on a subsequent review is shorter than that envisaged in the aforesaid schedule, depreciation is provided at the higher rate in line with the management's estimates of the useful life/remaining useful life. Pursuant to this policy, in respect of colour dispensers the rate of 20 per cent is applied, which management considers as being representative of the useful economic life of such assets. Assets costing less than ₹ 5,000 each are fully depreciated in the year of capitalisation.

Effective 1st April, 2012, the Group has changed the method of providing depreciation from written down value to straight line method. In management's view this change results in more appropriate presentation and gives a systematic basis of depreciation charge, representative of pattern of usage and economic benefits of the assets and provide greater consistency with the depreciation method used by other companies in the paint industry. Accordingly, excess depreciation charged for earlier years upto 31st March, 2012 aggregating ₹ 1160.45 Million has been written back and recognized as an exceptional item in the Statement of Profit and Loss for the year ended 31st March, 2013. Had the Group continued to use the earlier method of depreciation:

₹ in Million

Particulars

Year ended 31st March, 2013

1. Depreciation charge for the year would have been higher by.....	226
2. Deferred tax expense would have been lower by	450
3. Net profit for the year would have been lower by.....	943

- (d) Leasehold land is amortised over the primary period of lease.
- (e) Purchase cost and user licence fees for major software are amortised over a period of three years.

KANSAI NEROLAC PAINTS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 : Summary of Significant Accounting Policies (contd.)

(G) Fixed Assets (contd.)

- (f) Impairment loss is provided to the extent the carrying amount of assets exceed their recoverable amount. The carrying amount of assets are reviewed at each Balance Sheet date if there is any indication of impairment based on internal/external factors. Recoverable amount is the higher of an asset's net selling price and its value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties less the cost of disposal. If at the Balance Sheet date there is an indication that the previously assessed impairment loss no longer exist, the recoverable amount is reassessed and the asset is reflected at recoverable amount subject to maximum of depreciable historical cost.
- (g) Capital expenditure on Research and Development is treated in the same way as expenditure on fixed assets. Revenue expenditure on Research and Development is charged to the Statement of Profit and Loss in the year in which it is incurred.
- (h) Tangible fixed assets under construction are disclosed as capital work-in-progress.

(H) Investments

- (a) Investments that are readily realisable and intended to be held for not more than a year from the date of acquisition are classified as current investments.
- (b) Long term investments are stated at cost. A provision for diminution is made to recognise a decline, other than temporary, in the value of long term investments. The determination for diminution is done separately for each individual investment.
- (c) Current investments, consist of investments in mutual funds, are stated at lower of cost and fair value, where the net asset value declared by the respective funds is considered as fair value.
- (d) Profit or Loss on sale of investments is determined on the basis of weighted average carrying amount of investments disposed off.

(I) Inventories

- (a) Stores and spare parts are valued at cost less amounts written down.
- (b) Inventories other than stores and spare parts are valued at the lower of cost and net realisable value after making such provisions as required on account of damaged, unserviceable, inert and obsolete stocks. The comparison of the cost and net realisable value is made on item by item basis.
- (c) Cost of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.
- (d) Cost has been arrived at on the basis of weighted average method. In the case of manufactured inventories and Work-in-Progress, fixed production overhead are allocated on the basis of normal capacity of production facilities.
- (e) The net realisable value of finished goods and stock-in-trade is determined with reference to the selling prices of related finished goods. Raw materials and other supplies held for use in production of inventories are not written down below cost except in cases where material prices have declined and it is estimated that the cost of finished products will exceed their net realisable value. In such cases, the materials are valued at replacement cost.

(J) Provisions and Contingent Liabilities

- (a) A provision is recognised when an enterprise has a present obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to their present values and are determined based on management estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current management estimates.
- (b) Contingent liabilities are disclosed in respect of possible obligations that have arisen from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of future events not wholly within the control of the group.

Note 1 : Summary of Significant Accounting Policies (contd.)**(J) Provisions and Contingent Liabilities (contd.)**

- (c) When there is an obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

(K) Revenue Recognition

- (a) Sales are recognised in accordance with Accounting Standard 9 viz. when the seller has transferred to the buyer, the property in the goods, for a price, or significant risk and rewards of ownership have been transferred to the buyer.
- (b) Sales are inclusive of excise duty and are net of trade discount and product rebate.
- (c) Dividend income is accounted when the right to receive payment is established and known.
- (d) Interest income is recognised on the time proportion basis.
- (e) Revenue from services is recognized on rendering of services to the customers based on contractual arrangements. Revenue is recorded exclusive of Service Tax.

(L) Employee Benefits**(a) Short Term Employee Benefits**

Employee benefits payable wholly within twelve months of receiving employee services are classified as short-term employee benefits. These benefits includes salaries and wages, bonus, ex-gratia etc. These are recognised as an expense at an undiscounted amount in the Statement of Profit and Loss of the year in which the related service is rendered.

(b) Post-employment Benefits**(i) Provident and Family Pension Fund**

The eligible employees of the Company are entitled to receive post employment benefits in respect of provident and family pension fund, in which both the employees and the Company make monthly contributions at a specified percentage of the employees' eligible salary (currently 12% of employees' eligible salary). The contributions are made to the provident fund managed by the trust set up by the Company or to the Regional Provident Fund Commissioner (RPFC) which are charged to the Statement of Profit and Loss as incurred. In respect of contribution to RPFC, the Company has no further obligations beyond making the contribution, and hence, such employee benefit plan is classified as Defined Contribution Plan. In respect of contribution to the trust set up by the Company, since the Company is obligated to meet interest shortfall, if any, with respect to covered employees, such employee benefit plan is classified as Defined Benefit Plan in accordance with the Guidance on implementing Accounting Standard (AS) 15 (Revised) on Employee Benefits.

(ii) Superannuation

The eligible employees of the Company are entitled to receive post employment benefits in respect of superannuation fund in which the Company makes annual contribution at a specified percentage of the employees' eligible salary (currently 15% of employees' eligible salary). The contributions are made to the Life Insurance Corporation of India (LIC). Superannuation is classified as Defined Contribution Plan as the Company has no further obligations beyond making the contribution. The Company's contribution is charged to the Statement of Profit and Loss as incurred.

(iii) Gratuity

The Company has an obligation towards gratuity, a defined benefit retirement plan covering eligible employees. The plan provides a lump sum payment to vested employees at retirement, death while in employment or on termination of employment of an amount equivalent to 15 days salary payable for each completed year of service or part thereof in excess of six months. Vesting occurs upon completion of five years of service. The Company has obtained insurance policies with the Life Insurance Corporation of India (LIC) and makes an annual contribution to LIC for amounts notified by LIC. The Company accounts for gratuity benefits payable in future based on an independent external actuarial valuation carried out at the end of the year. Actuarial gains and losses are recognised in the Statement of Profit and Loss.

KANSAI NEROLAC PAINTS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 : Summary of Significant Accounting Policies (contd.)

(L) Employee Benefits (contd.)

(c) Other Long-term Employee Benefits — Compensated Absences

The Company provides for encashment of leave or leave with pay subject to certain rules. The employees are entitled to accumulate leave subject to certain limits for future encashment/availment. The Company makes provision for compensated absences based on an independent external actuarial valuation carried out at the end of the year. Actuarial gains and losses are recognised in the Statement of Profit and Loss.

(M) Foreign Currency Transactions

- (a) Transactions in foreign currencies are recorded at the exchange rate that approximates the actual rate at the date of the transaction. In respect of monetary assets and liabilities denominated in foreign currencies, exchange differences arising out of settlement are recognised in the Statement of Profit and Loss. Monetary assets and liabilities denominated in foreign currencies as at the Balance Sheet date are translated at the exchange rates on that date, the resultant exchange differences are recognised in the Statement of Profit and Loss.
- (b) Premiums or discounts arising at the inception of the forward foreign exchange contracts, other than contracts to hedge a firm commitment or a highly probable forecast transaction, are amortised and recognised in the Statement of Profit and Loss over the period of the contract. Such forward foreign exchange contract outstanding as at the Balance Sheet date are converted at the exchange rates prevailing on that date. Exchange differences are recognised in the Statement of Profit and Loss.

(N) Accounting for Derivatives

Forward contracts to which Accounting Standard (AS) 11 – 'The Effect of Change in Foreign Exchange Rates' is applicable, the accounting policy as stated in Note 1 (M) (b) is followed. In respect of other derivative contracts including forward foreign exchange contracts to which the aforesaid accounting standard is not applicable are marked to market at the rate on the Balance Sheet date. The resultant exchange differences are recognised in the Statement of Profit and Loss.

(O) Taxation

Tax expense comprises current and deferred tax. Current tax is measured at the amount expected to be paid to the tax authorities in accordance with the Income-tax Act, 1961. Deferred tax reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rate and tax laws enacted or substantially enacted as at the Balance Sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is virtual certainty of realisation of such assets. Deferred tax assets are reviewed as at each Balance Sheet date and written down or written up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realised.

(P) Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased assets are classified as operating leases. Operating lease payments/receipts are recognised as an expense/income in the Statement of Profit and Loss on a straight-line basis over the lease term.

(Q) Cash and Cash Equivalent

Cash comprises cash on hand and demand deposits with banks. Cash equivalents are short term (with an original maturity of three months or less from the date of acquisition), highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

KANSAI NEROLAC PAINTS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

₹ in Million

Note 2: Share Capital

	As at 31st March, 2013
1. Authorised Share Capital (₹ in Million)	600
Par Value per Share (₹)	10
Number of Equity Shares	<u>60,000,000</u>
2. Issued, Subscribed and Fully Paid-up (₹ in Million)	538.92
Par Value per Share (₹)	10
Number of Equity Shares	<u>53,891,972</u>
3. Details of Shareholders holding more than 5% of shares:	
	% No. of Shares
Holding Company:	
Kansai Paint Co., Ltd., Japan	69.27 37,329,760
Others:	
Aberdeen Asset Management Asia Ltd.....	7.25 3,905,198
4. Aggregate number of bonus shares issued during the period of five years immediately preceding the reporting date by capitalisation of security premium reserve	26,945,986
5. The Company has issued one class of shares, i.e. equity shares, which enjoys similar rights in respect of voting, payment of dividend and repayment of capital. On winding up of the company, the holders of equity shares will be entitled to receive the residual assets of the company, remaining after distribution of all preferential amounts in proportion to the number of equity shares held.	
6. Reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period:	
Number of shares at the beginning of the year	53,891,972
Issued during the year	—
Number of shares at the end of the year	<u>53,891,972</u>

Note 3: Reserves and Surplus

	As at 31st March, 2013
a. Capital Reserve	3.04
b. Securities Premium Reserve	125.55
c. General Reserve*:	
Opening Balance.....	3750.46
Add: Transfer from Statement of Profit and Loss.....	292.18
	<u>4042.64</u>
* Created by transfers of profits as per Companies (Transfer of Profits to Reserves) Rules, 1975. To be utilized as per the provisions of the Companies Act, 1956	
d. Foreign Currency Translation Reserve	0.25
e. Surplus (Profit and Loss balance):	
Opening Balance.....	6213.57
Add: Profit for the year.....	2931.40
Less: Proposed Dividend	592.81
Less: Tax on Proposed Dividend	100.75
Less: Transfer to General Reserve	292.18
	<u>8159.23</u>
	<u>12330.71</u>

KANSAI NEROLAC PAINTS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

₹ in Million

Note 4: Long-term Borrowings

	As at 31st March, 2013
Deferred Payment Liabilities	
a. Secured Sales Tax Deferral Loan.....	9.00
(Secured by a charge on the fixed assets of the factory at Jainpur)	
Package Scheme of Incentive allowed the Company to accumulate the sales tax collected from its customers in respect of goods produced at Jainpur factory. Sales tax collected each year is repayable after five years from the year of collection. Outstanding amount is repayable in two annual instalments from the reporting date.	
Sales Tax Deferral Loan is interest-free. [Current maturity of Sales Tax Deferral Loan of ₹ 20.64 Million is disclosed under 'Other Current Liabilities' — Refer Note - 9].	
b. Unsecured Sales Tax Deferral Loan.....	595.85
Package Scheme of Incentive allowed the Company to accumulate the sales tax collected from its customers in respect of goods produced at Lote factory. Sales tax collected each year is repayable in five equal yearly instalments after ten years from the year of collection. Outstanding amount is repayable in eight annual instalments from the reporting.	
Sales Tax Deferral Loan is interest-free. [Current maturity of Sales Tax Deferral Loan of ₹ 64.28 Million is disclosed under 'Other Current Liabilities' — Refer Note - 9].	
c. Term Loan	31.40
Term loan from bank are repayable in 72 equal installments starting from financial year 2011-12. Term loan carries an interest of 11%. Term loan from bank is secured against Factory Land & Building at Birta and personal guarantee of Directors of the subsidiary. [Current maturity of Term loan ₹ 8.37 Million is disclosed under 'Other Current Liabilities' — Refer Note - 9].	
d. Auto Loan	1.07
Auto loan from bank are repayable in 48 to 60 equal installments starting from financial year 2008-2009. Auto loan carries an interest of 12% to 14.5%. Auto loan from bank is secured against vehicles. [Current maturity of Auto loan ₹ 0.71 Million is disclosed under 'Other Current Liabilities' — Refer Note - 9].	
e. Working Capital Loan.....	30.14
Working capital loan from other shareholders in the subsidiary are repayable in 60 equal instalments starting from financial year 2015-2016. Working capital loan carries an interest of 8 %.	
	667.46

Note 5: Deferred Tax (Liabilities)/Assets

Items Covered Under Section 43B.....	87.97
Provision for Diminution in Value of Fixed Assets	1.91
Voluntary Retirement Compensation	1.78
Provision for Doubtful Debts.....	6.43
Excess of depreciation/ amortisation on fixed assets under income tax law over depreciation/amortisation provided in accounts.....	(530.36)
Others	(0.44)
Deferred Tax (Liabilities)/Asset (Net).....	(432.71)

Note 6: Long-term Provisions

Provision for Compensated Absences (Refer Note 31).....	33.18
Provision for Income Taxes (Net of Advances).....	147.75
Provision for Fringe Benefit Taxes (Net of Advances)	3.61
Provision for Indirect Taxes*:	
Opening Balance	255.36
Add: Provision during the year	2.24
Less: Utilization during the year	56.90
	200.70
	385.24

* With restructuring of the production facilities, the timing of the outflow of provision ₹ 200.70 Million recognised in respect of matters relating to indirect taxes is dependent on the outcome of the settlement with the appropriate authorities.

KANSAI NEROLAC PAINTS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

₹ in Million

Note 7: Short-term Borrowings

	As at 31st March, 2013
Working Capital Loans from Banks	72.26
Loan from Other Parties	8.58
	<u>80.84</u>

Working capital loans from banks are secured by hypothecation of stock-in-trade. The interest rate for these loans ranges from 9% to 12%.

Note 8: Trade Payables

Trade Payables*	3925.97
	<u>3925.97</u>

* There are no amounts due to the suppliers covered under the Micro, Small and Medium Enterprises Development Act, 2006. This information takes into account only those suppliers who have responded to the enquiries made by the Company for this purpose.

Note 9: Other Current Liabilities

Current Maturities of Long-term Debt (Refer Note 4)	94.00
Unpaid Dividends*	4.46
Trade Deposits	299.99
Capital Creditors	196.45
Other Payables:	
– in the nature of accrual of expenses	871.47
– in the nature of statutory dues:	
Employee Related Statutory Obligations	4.49
Indirect Tax Liabilities	183.07
Tax Deducted at Source-Payable	17.89
	<u>205.45</u>
	<u>1671.82</u>

* There is no amount due and outstanding to be credited to Investor Education and Protection Fund

Note 10: Short-term Provisions

Provision for Compensated Absences (Refer Note 31)	13.36
Provision for Gratuity (Refer Note 31)	8.66
Provision for Income Taxes (Net of Advances)	67.84
Provision for Warranty*:	
Opening Balance	17.50
Add: Provision during the year	—
Less: Utilization during the year	—
	<u>17.50</u>
Proposed Dividend	592.81
Tax on Proposed Dividend	100.75
	<u>800.92</u>

* The Company was selling certain products with warranty of four to seven years. Accordingly, provision has been recognised on the basis of management's expectation of warranty claims on such products.

KANSAI NEROLAC PAINTS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

₹ in Million

Note 11: Fixed Assets

Description	Gross Block					Accumulated Depreciation/ Amortisation					Net Block	
	As at 31st March, 2012	Addition due to Acquisition**	Additions	Deduction	As at 31st March, 2013	As at 31st March, 2012	Addition due to Acquisition**	Additions	Deductions	Adjustment#	As at 31st March, 2013	As at 31st March, 2013
I. Tangible Assets:												
Freehold Land.....	90.91	2.32	—	—	93.23	—	—	—	—	—	—	93.23
Leasehold Land.....	223.55	—	—	—	223.55	10.82	—	2.27	—	—	13.09	210.46
Buildings.....	2443.18	55.94	1,434.08	11.14	3922.06	822.56	5.74	70.82	—	384.43	514.68	3407.38
Plant and Equipment.....	3551.63	35.58	1,485.73	6.19	5066.75	1,952.22	16.05	221.42	7.50	562.64	1619.55	3447.20
Furniture and Fixtures.....	349.86	1.99	40.71	5.73	386.83	266.47	1.28	26.52	5.42	49.86	238.99	147.84
Vehicles.....	9.17	9.30	2.56	0.54	20.49	5.25	5.07	1.36	0.54	0.86	10.28	10.21
Office Equipment.....	69.63	0.28	11.52	0.37	81.06	45.35	0.16	3.18	0.19	12.74	35.76	45.30
Assets for Scientific Research*.....	162.84	—	0.11	—	162.95	113.21	—	6.17	—	39.52	79.86	83.09
Colourant Machine.....	—	5.21	6.85	6.86	5.20	—	—	—	—	—	—	5.20
Assets given on lease (Refer Note 11.3).....	1518.91	—	138.77	105.83	1551.85	1,266.25	—	124.31	105.21	110.40	1174.95	376.90
Total.....	8419.68	110.62	3120.33	136.66	11513.97	4482.13	28.30	456.04	118.86	1160.45	3687.16	7826.81
Less: Provision for Write Down in Value of Tangible Assets (Refer Note 11.2).....												5.89
Total Tangible Assets.....												7820.92
II. Intangible Assets:												
Computer Software.....	66.22	0.48	4.20	—	70.90	33.54	—	17.49	—	—	51.03	19.87
III. Capital Work-in-Progress.....												1234.90
Total Fixed Assets.....	8485.90	111.10	3124.53	136.66	11584.87	4515.67	28.30	473.53	118.86	1160.45	3738.19	9075.69

* Net block includes Buildings 4.12 Million, Plant and Equipment 76.79 Million and Furniture and Fixtures 2.18 Million

** Gross block and accumulated depreciation of subsidiary as on 1st October, 2012, being effective date of acquisition

Adjustment amount pertains to reversal of excess depreciation in respect of earlier years, due to change in accounting policy [Refer summary of significant accounting policies note 1 (G) (c)]

₹ in Million

Note 11.1

Estimated amount of contracts remaining to be executed on capital account and not provided for (Net of advances).....

**As at
31st March, 2013**

840.51

Note 11.2

The tangible assets at the Company's pigment manufacturing unit at Kavesar and paint manufacturing units at Lower Parel and at Vatwa, have been retired from active use. Accordingly, the fixed assets (other than land) at those manufacturing units had been written down to ₹ 2.22 Million on the basis of valuation reports [balance provision for write down in the value of fixed assets as at the end of the year ₹ 5.89 Million]. During the year, an amount of ₹ 1.11 Million has been written back consequent to charge on account of depreciation of an equal amount.

Note 11.3

The Company has given on lease, Colour Dispenser to its dealers. Particulars in respect of such leases are as follows:

- (i) The gross carrying amount and the accumulated depreciation at the Consolidated Balance Sheet date are ₹ 1551.85 Million and ₹ 1174.95 Million respectively.
- (ii) Depreciation recognised in the Consolidated Statement of Profit and Loss is ₹ 124.31 Million.
- (b) The lease agreements are generally for a period of three years. However, the corresponding lease rentals may be receivable for a shorter period or may be waived off. The minimum aggregate lease payments to be received in future is considered as Nil. Accordingly, the disclosure of the present value of minimum lease payments receivable at the Balance Sheet date is not made.

KANSAI NEROLAC PAINTS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

₹ in Million

Note 12: Non-current Investments

Non-current Investments (At cost, fully paid-up)

Other than Trade (Unquoted unless otherwise stated):

(i) Shares, Debentures and Bonds

(a) Equity Shares:

National Thermal Power Corporation Limited (Quoted)

40524 Equity Shares of ₹ 10 each **2.51**

Equity Shares **2.51**

(b) Debentures and Bonds:

1. India Infrastructure Finance Company Limited
1500, 6.85% Tax-Free Bonds of ₹ 100000 each **150.00**

2. Indian Railways Finance Corporation
1000, 6.30% Tax-Free Bonds of ₹ 100000 each **100.00**

3. Indian Railways Finance Corporation
1000, 6.32% Tax-Free Bonds of ₹ 100000 each **100.00**

4. National Highway Authority of India
24724, 8.20% Tax-Free Bonds of ₹ 1000 each **24.72**

5. Power Finance Corporation Ltd.
14239, 8.20% Tax-Free Bonds of ₹ 1000 each **14.24**

6. Indian Railway Finance Corporation Ltd.
10875, 8.15% Tax-Free Bonds of ₹ 1000 each **10.88**

Debentures and Bonds **399.84**

Total Non-current Investments (a+b) **402.35**

Aggregate amount of quoted investments (Market value ₹ 5.74 Million) **2.51**

Aggregate amount of unquoted investments **399.84**

402.35

Note 13: Current Investments

Current Investments (At lower of cost and market value)

Mutual Funds (Unquoted)

Growth Option:

1. JM Short Term Fund
1321924 Units (and 559 fractions) of ₹ 10 each **22.17**

2. Templeton India Low Duration Fund –
3261477 Units (and 361 fractions) of ₹ 10 each **41.42**

3. Templeton India Ultra Short Term Bond Fund –
4022582 Units (and 843 fractions) of ₹ 10 each **61.45**

Mutual Fund (Growth Option) **125.04**

Total Current Investments **125.04**

KANSAI NEROLAC PAINTS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

₹ in Million

Note 14: Long-term Loans and Advances

Unsecured and Considered Good

	As at 31st March, 2013
Capital Advances	94.56
Security Deposits	77.48
Income Tax Paid (Net of Provision)	206.27
Trade Advances.....	0.23
	<u>378.54</u>

Note 15: Inventories

Valued at the lower of cost and net realisable value

Raw Materials	1719.11
Packing Materials	75.38
Work-in-Progress	437.29
Finished Goods	3115.60
Stock-in-Trade	115.95
Stores and Spares	19.85
	<u>5483.18</u>

Note 16: Trade Receivables

Overdue for a Period Exceeding Six Months:

Secured, Considered Good	18.49
Unsecured, Considered Good	28.96
Doubtful.....	22.23
	<u>69.68</u>
Less: Provision for Doubtful Receivables	22.23
	<u>47.45</u>

Other Receivables:

Secured, Considered Good	0.11
Unsecured, Considered Good	4257.82
Doubtful.....	1.34
	<u>4259.27</u>
Less: Provision for Doubtful Receivables	1.34
	<u>4257.93</u>

Total..... 4305.38

KANSAI NEROLAC PAINTS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

₹ in Million

Note 17: Cash and Bank Balances

Cash and Cash Equivalents:

	As at 31st March, 2013
Cash on hand.....	13.61
Cheques on hand.....	278.11
Banks Balances with Current Account.....	318.24
	609.96
Other Bank Balance:	
Unpaid Dividend Accounts.....	4.46
	614.42

Note 18: Short-term Loans and Advances

Unsecured, Considered Good

Trade Advances	122.01
Employee Advances.....	2.75
Prepaid Expenses.....	64.79
Other Advances	9.23
	198.78

Note 19: Other Current Assets

Unsecured, Considered Good

Interest Accrued on Investments.....	8.05
Balances with Indirect Tax Authorities.....	222.76
Security Deposits	28.84
	259.65

KANSAI NEROLAC PAINTS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

₹ in Million

Note 20: Sale of Products

Sales	33701.00
Less: Rebates	1562.67
	<u>32138.33</u>

Note 20.1: Details of Sales

Paints	32138.33
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Note 21: Other Operating Revenues

Sale of Scrap	86.10
Marketing Services Charges	16.01
Income from Processing Charges	1.17
Insurance Claims Received	8.24
Indirect Tax Settlement/Claims Received (Refer Note 6)	57.41
Miscellaneous Income	1.23
	<u>170.16</u>

Note 22: Other Income

Dividend Received From		
Current Investments	41.74	
Long Term Investments	0.17	
	<u>41.91</u>	
Interest on Long Term Investments		29.27
Profit on Sale of Investments (Net)		
Current Investments	0.97	
Long Term Investments	70.52	
	<u>71.49</u>	
Profit on Sale of Fixed Assets (Net)		6.06
Provision for Tangible Assets Written Back (Refer Note 11.2)		1.11
Foreign Exchange Gain (Net)		0.04
Miscellaneous Income		12.01
		<u>161.89</u>

Note 23: Cost of Materials Consumed

Raw Material Consumed		
Opening Stock	1608.48	
Add: Purchase	17238.19	
Less: Sales	56.86	
Less: Closing Stock	1719.11	
	<u>17070.70</u>	
Packing Material Consumed		
Opening Stock	59.11	
Add: Purchase	2017.89	
Less: Closing Stock	75.38	
	<u>2001.62</u>	
		<u>19072.32*</u>

* Includes ₹ 23.26 Million expenditure incurred on Research and Development.

KANSAI NEROLAC PAINTS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

₹ in Million

Note 24: Changes in Inventories

	Year Ended 31st March, 2013
Opening Stock	
Finished Goods	2557.54
Work-in-Progress	289.21
Stock-in-Trade	110.93
	<u>2957.68</u>
Closing Stock	
Finished Goods	3115.60
Work-in-Progress	437.29
Stock-in-Trade	115.95
	<u>3668.84</u>
Excise Duty Related to the Difference Between the Closing Stock and Opening Stock of Finished Goods	97.25
	<u>(613.91)</u>

Note 25: Employee Benefits Expense

Salaries and Wages	1055.91
Contribution to Provident and Other Funds (Refer Note 31)	75.88
Staff Welfare Expense	60.23
	<u>1192.02*</u>

* Includes ₹ 106.21 Million expenditure incurred on Research and Development.

₹ in Million

Note 26: Other Expenses

	Year Ended 31st March, 2013
Consumption of Stores and Spare Parts	170.88
Power and Fuel	455.63
Repairs to Buildings	2.43
Repairs to Machinery	60.95
Freight and Forwarding Charges	1210.46
Advertisement and Sales Promotion	1033.33
Rent	129.27
Rates and Taxes	18.97
Insurance	27.18
Cash Discount	664.93
Miscellaneous Expenses	846.28
	<u>4620.31*</u>

* Includes ₹ 27.74 Million expenditure incurred on Research and Development.

KANSAI NEROLAC PAINTS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

₹ in Million

Note 26.1: Auditors' Remuneration

Auditors' Remuneration Excluding Service Tax (Included in Miscellaneous Expenses in Note 26)

As Auditor

Statutory Audit	1.94
Report under Section 44AB of the Income-tax Act, 1961	0.35
Limited Review of Quarterly Results.....	1.20

In Other Capacity

Certification.....	1.13
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Reimbursements of Expenses	0.46
	5.08

Note 26.2: Research and Development Expenses

Revenue expenditure on Research and Development recognised in Consolidated Statement of Profit and Loss is (including depreciation ₹ 6.42 Million)	163.63
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Note 26.3: Operating Lease Expenses

Vehicles for use by employees are obtained on operating lease for a lease term of three to five years.

Lease payments recognised in Consolidated Statement of Profit and Loss.....	3.91
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Future minimum aggregate lease payments under non-cancellable operating leases for each of the following periods:

Not later than one year	4.72
Later than one year and not later than five years	10.85
Later than five years	—

Note 27: Contingent Liabilities

Claims against the Company not acknowledged as debt:

Notice from Haryana State Industrial and Infrastructure Development Corporation for enhanced costs for Bawal factory land.....	39.01
Corporate guarantee given to HDFC Bank for employees loan.....	11.16
	50.17

Note 28: Earnings Per Equity Share

Numerator: Profit before Exceptional Items (Net of Tax) (₹ in Million)	2147.46
Numerator: Profit After Tax (₹ in Million)	2931.40
Denominator: Weighted average number of Equity Shares	53891972
Basic and Diluted Earnings per Equity Share before Exceptional Items (Net of Tax) (₹).....	40
Basic and Diluted Earnings per Equity Share after Exceptional Items (₹).....	54

Note 29: Derivative Instruments

(A) There are no outstanding Forward Foreign Exchange Contracts entered into by the Company

(B) The year-end foreign currency exposures that have not been hedged by a derivative instrument or otherwise are given below:

	Currency	Year Ended 31st March, 2013 in Million
Amounts Payable in Foreign Currency:	CHF	0.06
	Euro	0.34
	GBP	—
	JPY	192.01
	USD	11.10
	THB	0.02

KANSAI NEROLAC PAINTS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 29: Derivatives Instruments (contd.)

(B) The year-end foreign currency exposures that have not been hedged by a derivative instrument or otherwise are given below (contd.)

	Currency	Year Ended 31st March, 2013 in Million
Advance Payment in Foreign Currency for Supplies:	CHF	0.57
	Euro	0.34
	JPY	97.99
	THB	0.05
	USD	1.91

Note 30: Related Party Disclosures

- (i) (a) Names of related parties and nature of relationship where control exists are as under:
Holding Company : Kansai Paint Co., Ltd., Japan
- (b) Names of other related parties and nature of relationship where there are transactions with related parties:
Fellow Subsidiary Companies : Kansai Paint Philippines Inc.
Kansai Resin (Thailand) Co. Ltd.
Kansai Coatings Malaysia SDN. BHD.
- Key Management Personnel : Mr. H. M. Bharuka, Managing Director
Mr. P. D. Chaudhari, Wholetime Director

(ii) Transactions with Related Parties:

	₹ in Million			
Nature of Transaction	Holding Company	Fellow Subsidiary Companies	Key Management Personnel	Total
Royalty Paid				
– Kansai Paint Co., Ltd., Japan.....	103.30	N.A.	N.A.	103.30
Dividend Paid				
– Kansai Paint Co., Ltd., Japan.....	410.63	N.A.	N.A.	410.63
Technical Fees Including Reimbursement of Expenses				
– Kansai Paint Co., Ltd., Japan.....	46.53	N.A.	N.A.	46.53
Sale of Goods				
– Kansai Paint Philippines Inc.....	N.A.	5.60	N.A.	5.60
Reimbursement of Expenses Paid				
– Kansai Coatings Malaysia SDN. BHD.....	N.A.	0.72	N.A.	0.72
Reimbursement of Expenses Receivable				
– Kansai Paint Co. Ltd., Japan	15.86	N.A.	N.A.	15.86

KANSAI NEROLAC PAINTS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 30: Related Party Disclosures (contd.)

(ii) Transactions with Related Parties (contd.)

				₹ in Million
Nature of Transaction	Holding Company	Fellow Subsidiary Companies	Key Management Personnel	Total
Remuneration*				
– Mr. H. M. Bharuka, Managing Director	N.A.	N.A.	37.80	37.80
– Mr. P. D. Chaudhari, Wholetime Director	N.A.	N.A.	12.68	12.68

(iii) Amounts Outstanding at the Year End:

Receivable as at Year End				
– Kansai Paint Co., Ltd., Japan	15.86	N.A.	N.A.	15.86
Payable as at Year End				
– Kansai Paint Co., Ltd., Japan.	12.49	N.A.	N.A.	12.49
– Kansai Coatings Malaysia SDN. BHD.....	N.A.	0.10	N.A.	0.10

* Excludes commission and related contribution to Provident Fund and Superannuation Fund thereon for the year but includes commission and such related contribution thereon for the previous year paid in the current year.

Note: No amounts pertaining to related parties have been provided for as doubtful debts. Also, no amounts have been written off or written back during the year.

Note 31: Employee Benefits

A. Defined Contribution Plan:

Contribution to defined contribution plan, recognised in the Consolidated Statement of Profit and Loss under Company's Contribution to Provident Fund and Other Funds in Employee Benefits Expenses for the year are as under:

	As at 31st March, 2013 ₹ in Million
Employer's Contribution to Regional Provident Fund Commissioner	8.78
Employer's Contribution to Family Pension Fund.....	14.26
Employer's Contribution to Superannuation Fund.....	19.15

B. Defined Benefit Plan:

(a) Contribution to Provident Fund managed by the Trust set up by the Company:

The Company has contributed ₹ 14.79 Million to the Provident Fund Trust. In view of the issue of final guidance note by the Actuarial Society of India for measurement of provident fund liabilities, the actuary has provided valuation and other related information for disclosure as required by Accounting Standard (AS) 15 (Revised) on Employee Benefits notified by the Companies (Accounting Standards) Rules, 2006 read with the Guidance issued by the Accounting Standard Board of the Institute of Chartered Accountants of India.

KANSAI NEROLAC PAINTS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 31: Employee Benefits (contd.)

B. Defined Benefit Plan (contd.)

(a) Contribution to Provident Fund managed by the Trust set up by the Company (contd.)

(i) The details of fund and plan assets position are given below:

	₹ in Million
	As at 31st March, 2013
Plan Assets at the Year End, at Fair Value.....	374.99
Present Value of Benefit Obligation at the Year End.....	366.41
Asset Recognised in the Consolidated Balance Sheet.....	Nil

(ii) The actuarial assumptions used in determining the present value of benefit obligation are as under:

	As at 31st March, 2013
Discount Rate (%)	8.00
Guaranteed Interest Rate (%)	8.50
Expected Average Remaining Working Lives of Employees (Years).....	7.35

(iii) The major category of plan assets in which the funds are invested by the Provident Fund Trust are as under:

	% of Each to Total Plan Assets
	As at 31st March, 2013
Bonds & Securities of Central Government.....	12.90
Bonds & Securities of State Government	12.40
Bonds & Securities of Public Sector Undertakings.....	22.72
Special Deposits with Banks	50.88
Bonds of Financial Institutions.....	1.10

(b) Gratuity (Funded):

i. Reconciliation of Opening and Closing Balances of Defined Benefit Obligation:

	As at 31st March, 2013 ₹ in Million
Present Value of Defined Benefit Obligation as at the Beginning of the Year....	119.67
Interest Cost.....	9.85
Current Service Cost	12.40
Benefits Paid	(21.21)
Net Actuarial (Surplus)/Deficit	0.75
Present Value of Defined Benefit Obligation as at the End of the Year	121.46

KANSAI NEROLAC PAINTS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 31: Employee Benefits (contd.)

B. Defined Benefit Plan (contd.)

(b) Gratuity (Funded) (contd.)

ii. Reconciliation of Fair Value of Plan Assets:

	As at 31st March, 2013 ₹ in Million
Fair Value of Plan Assets as at the Beginning of the Year.....	118.16
Expected Return on Plan Assets	11.33
Net Actuarial Gain/(Loss)	2.36
Employer's Contribution.....	2.23
Benefits Paid.....	(21.21)
Fair Value of Plan Assets as at the End of the Year.....	112.87

The Company expects to contribute ₹ Nil to its Defined Benefit Gratuity Plan during the annual period beginning after the Balance Sheet date.

The major categories of Plan Assets as a percentage of the fair value of total Plan Assets are as follows:

Funds maintained with Life Insurance Corporation of India	100%
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Note: The Company is unable to obtain the details of major category of Plan Assets from the insurance company (Life Insurance Corporation of India) and hence the disclosure thereof is not made.

iii. Net Assets/(Liabilities) Recognised in the Consolidated Balance Sheet:

Present Value of Defined Benefit Obligation.....	(121.46)
Fair Value of Plan Assets	112.87
Net Asset/(Liability) Recognised in Consolidated Balance Sheet	(8.59)

iv. Components of Employer's Expenses:

Current Service Cost.....	12.40
Interest Cost	9.85
Expected Return on Plan Assets	(11.33)
Net Actuarial (Gain)/Loss	(1.61)
Total Expenses/(Income) recognised in the Consolidated Statement of Profit and Loss in Employee Benefit Expense	9.31

v. Actuarial Assumptions:

Mortality Table.....	LIC (1994-96)
Discount Rate	8.25%
Expected Rate of Return on Plan Assets	8.92%
Salary Escalation.....	7.50%

KANSAI NEROLAC PAINTS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 31: Employee Benefits (contd.)

B. Defined Benefit Plan (contd.)

(b) Gratuity (Funded) (contd.)

- vi. a. The estimates of rate of escalation in salary considered in actuarial valuation take into account inflation, seniority, promotion and other relevant factors including supply and demand in the employment market.
- b. The discounting rate is considered based on market yield on government bonds having currency and terms consistent with the currency and terms of the post-employment benefit obligations.
- c. Expected rate of return on assets is determined based on expectation of the average long term rate of return expected on investments of the fund during the estimated term of the obligations.
- vii. The above information is certified by the actuary.
- viii. Net Assets/(Liabilities) recognised in the Consolidated Balance Sheet as at respective year ends and experience adjustments:

Particulars	Gratuity (Funded) (₹ in Million) As at 31st March, 2013
1. Present Value of Defined Benefit Obligation	(121.46)
2. Fair Value of Plan Assets	112.87
3. Funded Status [Surplus/(Deficit)]	(8.59)
4. Net Asset/(Liability)	(8.59)
5. Experience Adjustment Arising on:	
a. Plan Liabilities [Loss/(Gain)]	0.75
b. Plan Assets [Loss/(Gain)]	(2.36)

(c) Compensated Absences:

The decrease in provision for compensated absences for the year is ₹ 2.82 Million.

Note 32: Segment Reporting

As the Group's business activity falls within a single business segment viz. 'Paints' and the Asset and sales substantially being in the domestic market, the financial statement are reflective of the information required by Accounting Standard 17 "Segment Reporting", notified under Companies (Accounting Standard) Rules, 2006.

As per our attached report of even date

For B S R & Co.

Chartered Accountants

Firm's Registration No. 101248W

VIJAY MATHUR

Partner

Membership No. 046476

Mumbai: 4th May, 2013

G.T. GOVINDARAJAN

Company Secretary

P.D. PAI

CFO

For and on behalf of the Board of Directors

J.J. IRANI

Chairman

D.M. KOTHARI

Vice Chairman

H.M. BHARUKA

Managing Director

N.N. TATA

Director

P.P. SHAH

Director

P.D. CHAUDHARI

Wholtime Director

KANSAI NEROLAC PAINTS LIMITED
**SUMMARISED STATEMENT OF PROFIT AND LOSS
OF 15 YEARS**

₹ in Million

Year	Cost of Materials/ Products	Employee Benefits Expense	Other Expenses	Finance Costs	Depreciation and Amortization Expense	Tax Expense	Profit after Tax	Revenue from Operations and Other Income # (Net)	Dividend	Dividend per Share (₹)	Earnings per Share (₹)	Net Worth per Share (₹)
1998-1999	2652.80	342.53	1066.89	99.59	94.16	85.00	255.30	4596.27	99.48	6.50	16.68	109.29
1999-2000	3208.00	347.89	1167.51	80.92	121.36	123.00	299.84	5348.51	99.48	6.50	19.59	121.58
2000-2001	3428.07	404.97	1352.96	63.73	200.79	105.00	225.78	5781.28	99.48	6.50	14.75	129.10
2001-2002	3603.99	450.18	1269.61	37.29	246.72	100.00	273.55	5981.35	114.79	7.50	17.87	136.11
2002-2003	3887.77	577.09	1338.60	16.47	241.42	162.50	398.38	6622.23	137.74	9.00	26.03	149.34
2003-2004	4567.64	525.07	1488.56	13.20	220.42	308.00	579.61	7702.50	191.31	12.50	37.87	173.11
2004-2005	5315.46	493.05	1611.84	7.68	207.00	453.00	919.58	9007.62	293.34	11.50	36.05†	126.78†
2005-2006	6109.56	559.18	1855.64	7.80	317.76	610.07	1385.90	10845.91	510.15*	20.00 *	54.40	159.19
2006-2007	7783.29	595.69	2130.45	9.62	335.57	533.07	1076.59	12464.29	309.88	11.50	39.95	189.91@
2007-2008	8373.17	691.31	2267.52	14.06	396.01	506.00	1197.90	13445.96	323.35	12.00	44.46	220.33
2008-2009	8995.83	733.03	2441.96	18.38	376.05	416.00	985.89	13967.14	323.35	12.00	36.59	242.87
2009-2010	10718.22	750.49	2958.25	12.00	442.60	731.09	1655.01	17267.66	404.19	15.00	30.71^	286.80
2010-2011	14002.45	916.42	3563.40	8.43	493.55	831.48	2059.85	21875.58	538.92	10.00 **	38.22	170.00+
2011-2012	17404.13	1069.44	4159.14	0.86	563.53	892.43	2158.85	26248.38	592.81	11.00	40.06	197.28
2012-2013	19426.17	1181.43	4597.61	0.16	471.07	908.02 &	2144.90 &	28729.36	592.81	11.00	39.80 &	224.21 &

Net of Rebates & Excise Duty.

† Consequent to the Bonus Issue in 2004-2005.

* Includes Special Interim Dividend of ₹ 8.50 per share.

@ Calculated on number of shares post amalgamation of Polycot Powders Ltd. with the Company.

^ Re-calculated consequent to the Bonus Issue of 1:1 2010-2011.

** On enhanced Share capital consequent to the Bonus Issue in 2010-2011.

+ Consequent to the Bonus Issue in 2010-2011.

& Before Exceptional Items (Net of Tax).

Note: Upto 2001-2002 Net Worth per share includes Revaluation Reserve.



CRM

24 Hr
Call Centre

 **KANSAI NEROLAC PAINTS LIMITED**
A SUBSIDIARY OF KANSAI PAINT CO. LTD., JAPAN
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