

**MANAGEMENT DISCUSSION & ANALYSIS REPORT**

**ECONOMIC ENVIRONMENT**

The financial year 2016-17 has been a year marked with both excitement and challenges for the global as well as the Indian economy. Some of the events that took place during the course of this year could very well turn out to be the defining moments for the world economy at large. The sheer scale and swiftness with which the Indian Government demonetised almost 86% of the currency notes in circulation in November 2016 is one such event. Coming at a time when the Indian economy was just beginning to look up on the back of positive sentiments from private consumption and normal monsoon, the cash shortage and payment disruptions caused by demonetisation, strained the consumption and business activity for a major part of the second half of the year. Consequently, GDP growth for the year is expected to be almost 1% lower at 6.7% than that in the previous year. Capital investments still remain stagnant with an overhang of spare capacity in many industries and corporate balance sheets still remain stretched hindering their ability to invest on any future uptick in demand. Merchandise exports continued to contract, partly as a result of the lower commodity prices as well as due to the weak global demand.

**ENVIRONMENT HEALTH AND SAFETY**

Environment, Health and Safety (EHS) is one of the primary focus areas for your Company. Your Company is committed to consider compliance to statutory EHS requirements as the minimum performance standard and go beyond and adopt stricter standards wherever appropriate.

Your Company is sensitive about the health and safety of its employees.

**Opportunities & Threats**

The Indian market continues to hold a lot of potential for growth in the longer term. Some of the initiatives being undertaken at various levels by the Government like agenda on improving the ease of doing business, financial inclusion agenda through the Jan Dhan program, Direct Benefit Transfer program, transparent auction of the national assets, etc. are expected to go a long way in building a sustainable growth trajectory in the economy. This should provide a lot of growth opportunities in the domestic paint industry for both, decorative(s) as well as industrial products. This would also fuel demand for offerings in the Home Improvement segment in line with the rising income levels and rising aspirations of the consumers. Your Company would continue to invest in its capabilities to adequately address these long term opportunities and would take all efforts to deliver strong and consistent performance in the years to come.

**Outlook**

On the domestic front, the financial year 2017-18 has started on a positive note with the progress seen on implementation of the GST regime from the second quarter of the year. While over the long-term it is expected to give a strong fillip to the economic activity with rationalisation of the market place and also boost competitiveness of the industry, it is bound to have disruptions in the short term.

The impact of demonetisation felt over the last two quarters of the previous financial year is expected to fade out and the last few quarters and coupled with any adverse demand conditions, this could lead to a squeeze on the margins of the industry.

**Risks & Concerns**

Though India rides on some inherent strength, following risk factors exist which the auto component manufacturers may have to counter with:

- A global and/or economic slowdown can derail the prospects of the Industry.
- Volatility in the prices of material and other inputs could erode the industry's cost competitiveness.
- Intense competition from counterparts may add further pressure on margin of manufacturers.

The focus on diversifying the sourcing of various raw materials continues. This has led to introduction of newer raw materials as well as newer suppliers thereby reducing the supply risk. At the same time, it provides an opportunity to bring efficiencies in sourcing and reduce the material cost.

**Financial Performance**

Over the past few years, the Indian paint market has substantially grown and caught the attention of many international players. The country continues to enjoy a healthy growth rate compared to other economies, backed by the increasing level of disposable income, and demand from infrastructure, industrial and automotive sectors. On the back of such advocacy, it is anticipated that the sector will post a Compound Annual Growth Rate (CAGR) of around 15% during FY 2014 to FY 2017,

The Indian economy grew at 7.2 percent in 2016-17 due to improvement in the performance of both services as well as manufacturing sectors. The Indian rupee depreciated significantly during the year from around ` 62 to a US Dollar to as low as ` 69 to a US Dollar, limiting the gains on lower crude prices for the Government. Currency depreciation in India however was not in isolation and was seen across economies due to strengthening of the US Dollar. The Sensex closed at a level of 29620.50 at the end of March 2017, from the 25341.86 mark at the start of April 2016.

**Internal Control System**

The Company has proper and adequate system of internal controls, which provide reasonable assurance regarding all financial and operating functions and compliance with statutory provisions.

The Company has an internal audit section besides an external firm which is carrying out internal audits. The internal auditor's reports are regularly reviewed by Senior Management and Audit Committee of the Board for its implementation and effectiveness.

The Company endeavors to constantly upgrade internal controls and periodic evaluation of the same is being undertaken.

**Cautionary Statement**

Management Discussion and Analysis Report may be Forward Looking Statement. Actual result may differ materially from those expressed or implied depending upon global and Indian regulations, tax regimes, and economic developments within India and overseas.

\*\*\*\*\*