

Management discussion and analysis

ECONOMIC ENVIRONMENT

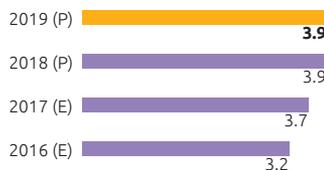
Global economy

The financial year 2017-18 has been favourable for the global economy with broad-based and synchronised growth across most countries. While the developed economies of the USA and Europe witnessed further consolidation, pushing the global GDP growth rate to 3.7%, the emerging economies exhibited resilience, benefitting from global trade and the rebound in commodity prices. China remained buoyant despite tightening of liquidity and slowdown in the booming property as well as financial markets. Global inflation stayed within control and at relatively modest levels, though some key central

banks, including the US Fed, tightened policy rates to sustain robustness in investments and induce industrial activity and international trade.

Although the world economy saw good growth, political discourse leaned towards trade protectionism. There has been rising speculation around rebalancing of trade surpluses, specifically by the USA – the economy that has gained the most from globalisation. Significant announcements were made by major world economies in the last quarter of FY 2017-18, increasing trade barriers to protect their domestic industries.

Global growth (GDP) trend (%)



Source: International Monetary Fund (IMF)
E: Estimate | P: Projection

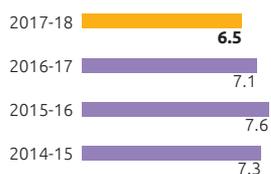
Although the world economy saw a period of good growth, political discourse clearly leaned towards trade protectionism. There was rising speculation around rebalancing of trade surpluses, specifically by the USA – the economy that has gained the most from globalisation.

Indian economy

FY 2017-18 has been a watershed year in the domestic economy with the Government of India effecting a unified tax regime, Goods and Service Tax (GST), from July 2017. The implementation of GST will create a single marketplace, enabling supply chain efficiencies over the long-term. However, the first year of its implementation, as anticipated, witnessed disruptions in supply chain, working capital constraints and greater compliance responsibility, especially for small and medium enterprises. Consumer sentiments were subdued for most of the financial year. While the economy witnessed a revival in activity in the second half, the overall annual growth stood at 6.5% for FY 2017-18, lower than 7.1% for FY 2016-17.

The manufacturing sector's performance, suffering from the GST-induced de-stocking, was volatile. Capital investment remained weak owing to modest capacity utilisation hindering the confidence to sanction fresh outlays. An increase in the stressed assets of the banking sector further impacted the industrial sector with cost of credit going up significantly. Rise in crude oil prices and shortfall in Government revenues led to widening fiscal deficit with the Central Government missing the deficit target for FY 2017-18. Although all these pressures worsened the macroeconomic conditions, there were some noteworthy positives which offer hope for revival in economic growth. The Government

India growth (GDP) trend (%)



Source: Central Statistics Office (CSO)

firmly pushed ahead its reform agenda with substantial movement on GST, the Indian Bankruptcy Code and implementation of Real Estate Regulations (RERA), among others.

Taking note of these developments, Moody's raised India's rating from the lowest investment grade of Baa3 to Baa2 and changed the outlook from stable to positive in November 2017. This was India's first rating upgrade in 14 years.

Outlook

The financial year 2018-19 could well be the period that witnesses a strong and sustained economic upsurge. Improvement in growth conditions in the second half of FY 2017-18 indicates normalisation of the supply chain, which was disrupted on account of demonetisation and GST implementation. The massive bank recapitalisation programme coupled with the progress seen on resolving

the initial set of insolvency cases is expected to augment the banking sector's capability to lend credit to the industry. This will boost the capex revival cycle in the industry as well.

Early indications of a normal monsoon for three years in a row are likely to aid not only the agriculture sector but also the rural economy. The Union Budget for FY 2018-19 has substantially increased the minimum support prices for farm procurement. Additionally, the farm loan waivers rolled out in various states and the Central Government's push towards rural infrastructure spends are expected to significantly improve rural consumption. At the same time, the Centre's efforts to streamline GST rates and minimise the compliance burden are likely to facilitate recovery, specifically for small and medium enterprises.

However, rising prices of commodities, especially crude oil, could potentially act as a deterrent, raising inflation levels. This could increase the cost of credit, impacting the anticipated revival of consumption. Moreover, concerns around job creation, income growth and setbacks that could be faced by nascent growth drivers, stand to hurt the overall business confidence.

On the international front, rise in the crude oil prices will augur well for the economies in the Middle East and thereby, on the Company's operations in the region, particularly given the slowdown experienced during the last few years. Political stability in some of the Company's key markets such as Sri Lanka, Ethiopia and Egypt will also have a positive bearing. Meanwhile, trade frictions are beginning to materialise, with the USA and China locked in a retaliatory trade war. India, being an integral part of the global trade network, will have to remain wary of the ramifications.



Ease of doing business

India shot up 30 places to enter in the top 100 of the 'Ease of Doing Business' rankings index released by World Bank.

Attracting global investors

Not only did the country witness sustained investments from portfolio investors in debt and equity markets, it also ranked among the top 10 destinations for long-term investments with FDI inflows of almost \$45 billion in 2017. The continuous inflows helped the Indian Rupee post an appreciating trend for most of FY 2017-18, reaching a high of ₹ 63.24 per \$ in January 2018 before closing FY 2017-18 at nearly ₹ 65 per dollar.

Industry Insight

DECORATIVE PAINT INDUSTRY

Major segments in decorative paint industry include exterior wall paints, interior wall paints, wood finishes and enamel and ancillary products such as primers, putties, etc. Decorative paints account for around 75% of the overall paint market in India. The per capita paint consumption in India – a little over 2.5 kgs to 3.5 kgs – is still very low as compared to the developed western nations. The unorganised sector controls around 35% of the paint market, with the organised sector accounting for the balance.

Industry trends

In Q1 FY 2017-18, the paint industry experienced de-stocking following the GST rollout. In the succeeding three quarters, the industry gradually returned to normalcy. While the long-held correlation between growth in industry and in GDP lost ground in the recent three to four years, the industry continues to be in a reasonable growth phase. The housing construction sector has suffered due to multiple reasons, namely, lack of investor interest after stagnating real estate prices;

reduced availability of river sand, generic rise in ready reckoner rates across major markets; and diminished cash component subsequent to GST and demonetisation. On the positive side, substantial benefits under the economic housing scheme have pushed several large developers towards construction of lower value units. This is a healthy sign since the excess demand in the budget housing sector from the days of construction boom, can be corrected. It is likely to revive the troubled real estate sector in medium to long run.

Rising labour costs are pushing painting contractors to adopt mechanised painting – a trend that is estimated to gain momentum in the coming years.

Home owners are rapidly warming up to the 'Digital First' economy. With higher spends on home décor, the search for a 'professional integrator' is expanding. As a result, interior designers and aggregator services for painting contractors are growing.

Hyper-segmentation is another trend dominating the paint industry.

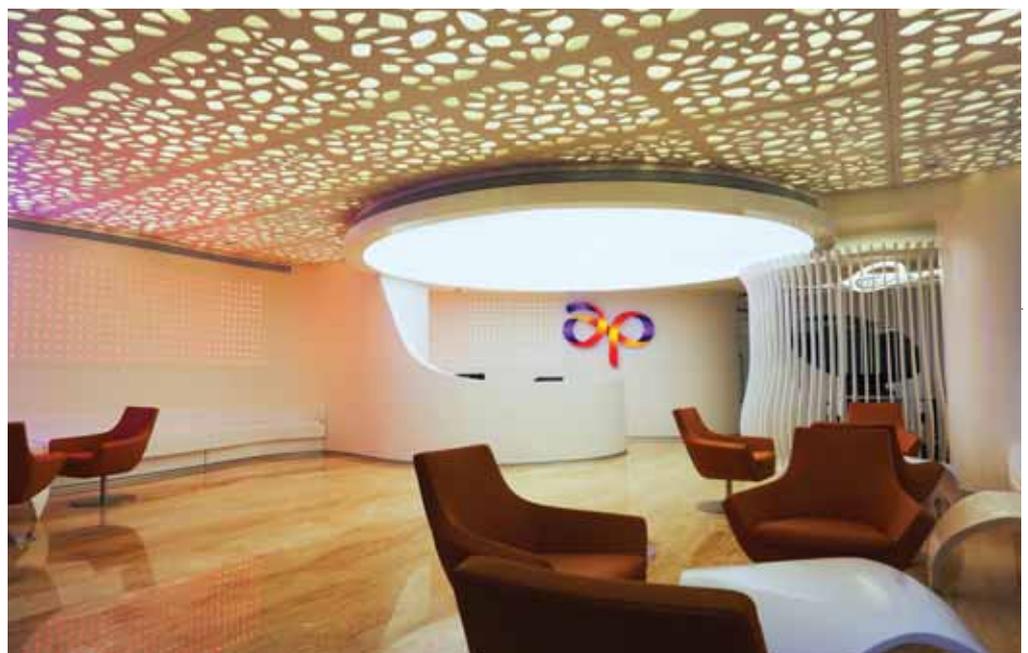
Consumers are seeking personalised home décor solutions; thus, all established paint players are launching multiple variants of new as well as existing products. With changing consumer behaviour, progressive retailers too are evolving to cater to the unique needs of the new-age consumers. Consequently, collaborative work between manufacturers and retailers are transforming the retailing formats in the industry.

Outlook

While the outlook remains positive for the paints industry for FY 2018-19, concerns on the cost of raw materials would remain, if crude oil prices continue to soar. Raw material prices in the paint industry have already moved up over the last three quarters, leading to a series of price hikes in the sector. Any potentially adverse market conditions could further affect the industry. The political climate, with assembly elections pending across several states as well as at the Centre, is also likely to have an impact on the industry.

Hyper-segmentation

Hyper-segmentation is another trend dominating the paint industry. Consumers are seeking personalised home décor solutions; thus, all established paint players are launching multiple variants of new as well as existing products.



INDUSTRIAL COATINGS INDUSTRY

The main segments of the industrial paint industry include automotive coatings, marine coatings, packaging coatings, powder coatings, protective coatings and other general industrial coatings. The industrial paints segment is more technology intensive than the decorative segment.

Industry trends

The Automotive Coatings market is primarily driven by auto and two-wheeler build markets, which grew at 5.5% and 16.1% respectively. While the auto builds for Japanese Original Equipment Manufacturers (OEMs) grew by 6.2%, the auto builds for non-Japanese OEMs grew by 5%, over last year.

Non-Automotive Industrial Coatings market grew at a low single-digit rate during the year under review. Delays in finalisation of contracts post-GST,

slowdown in manufacturing and exports, and lack of new construction in oil and gas, and wind power segments slowed the overall market growth. Overall, project order book continued to remain sluggish. Demonetisation effect was seen in OEMs, particularly in northern India, with a sharp decline in manufacturing activity. Liquidity issues and delayed allocation of projects by Government agencies impacted road construction projects, thus affecting the demand for the road marking coatings.

Outlook

There has been slight revival in investment activity. Global demand has been improving, which should boost exports as well as fresh investments. The Government's focus on infrastructure development is likely to spur demand for industrial coatings. However, while the economic activity is showing signs of improvement, rising raw material and packing material prices could pose as challenges.

HOME IMPROVEMENT INDUSTRY KITCHEN SOLUTIONS

The kitchen industry comprises components (hardware, shutters/ cabinets, accessories and appliances) and kitchen solutions. Asian Paints, through its Sleek brand, is present in both these categories.

The kitchen hardware market in India is estimated to be in the range of ₹ 5,000 to ₹ 6,000 Crores and the organised sector commands only ~40% share. The appliances market is estimated to be in the range of ₹ 1,000 Crores, served primarily by organised players. The accessories market is highly fragmented and dominated by unorganised players. The organised kitchen solutions market is in the range of ₹ 700 to ₹ 800 Crores and is largely dominated by Indian brands, with some presence of multinational companies in top cities.

Industry trends

A majority of kitchen installations in India continue to be undertaken by local carpenters, either directly or through architects. However, consumers' desire for better-quality designs and seamless installations is gradually driving a transition towards complete solution providers like Sleek.

Until now, the industry had focused on differentiating itself as an error-free service offering vis-à-vis traditional carpenters and service providers. With consumers wishing to own 'beautiful kitchens', the design element has garnered spotlight and is likely to be a key differentiator going forward.

Outlook

The kitchen industry is fragmented, not only in the overall segment but also within product categories. The presence of a large number of unorganised players presents an opportunity for organised players. New product offerings and operational excellence are expected to be the key success factors for the industry in the coming years.





Swachh Bharat initiative are key drivers for the industry. The real estate sector is also picking up, with some of the major cities registering an increase in activity.

All these factors will provide a sustainable platform for the industry to grow on in the next couple of years.

The home improvement segment, a promising business for the Company, offers ample opportunities to draw from the well-established brand and network of the Company, with the implementation of GST expected to formalise the demand. Besides, growing aspirations of consumers to experience branded products enables the Company to remain confident about growth prospects for this business over the long-term.

The segment's potential has fuelled entry of internet-based start-ups that propose to provide holistic assistance with home interiors, including kitchens. While this has intensified competition, executional expertise will be vital for any entrant.

BATH FITTINGS

The bathroom segment consists mainly of sanitaryware, chrome-plated (CP) fittings and tiles. The Company operates in the CP fittings market, estimated to be in the range of ~₹ 8,000 Crores, nearly 60% of which is estimated to be serviced by organised players. The industry has several domestic and international brands, and hence, there is healthy competition. The organised share is expected to increase further with evolving consumption behaviour.

Industry trends

Growing incomes and aspirations have led to consumers upscaling expenditure on bathrooms. This is expected to increase the share of luxury and premium segments in the total fittings market. Correspondingly, demand for branded fittings is also catching up in smaller towns and cities.

Products based on water-saving technologies have been gaining prominence with the increase in environmental awareness. The role of plumbers as influencers is on the rise in the industry.

Outlook

Apart from the surge in aspirational spending in this category, the Government's drive towards improved infrastructure, affordable housing and



REVIEW OF THE BUSINESS

Decorative paints business in India

The decorative paints segment forms the largest business unit of Asian Paints in India. The Company has a strong presence throughout the country, with products catering to varied price points and requirements, consisting primarily of four segments – interior walls, exterior walls, wood finishes and metal finishes. The business has also introduced new categories such as waterproofing, wallpapers, painting tools and implements, and adhesives.



Operating environment

The GST rollout resulted in severe de-stocking by the entire channel and frequent changes in GST rates and regulations pushed the dealer network to adopt a cautious approach, especially in working capital investment. Early Diwali hampered potential recovery in Q3. The combined effect of demonetisation, GST and RERA in few states adversely impacted fund availability and circulation in the real estate sector. While developers doubled down on completing ongoing projects, credit cycles expanded in the entire value chain.

Despite these macroeconomic adversities, the Company managed to end FY 2017-18 on a positive note with a good double-digit growth. The Company capitalised on opportunities in the growing markets of eastern and northern India, whereas the adverse market conditions in South impacted the growth.

Business performance

Core interior emulsions registered good growth in FY 2017-18, supported by new launches in the Royale range as well as new sheen variants across all emulsion paints. Premium interior and exterior paints registered good growth aided by strong advertising support and applicator connect efforts.

The Company has gained market share in the crowded luxury wood finishes segment, with the top-end Polyurethane (PU)/Polyester range now well-established in all key wood finishes markets.

In the large institutional projects segment, the Company registered record growth, enhancing market share in all key segments of builders, cooperative housing societies, hotels and PSUs. A lot of work was taken up with structural consultant firms to include the Company's products in their specifications.

The Company grew in the waterproofing and adhesives segments in a big way in FY 2017-18. It registered good growth in painting tools and implements. TruCare has become the only national brand for rollers.

Product launches

The Company continued to make big strides in new categories, not

only gaining market share against established players but also laying the foundation for sustained growth in the next decade.

The Company's research and technology division undertook breakthrough innovation projects to launch best-in-class products at the top end of both interiors and exterior emulsions. The Company focused on establishing itself as a brand in health and hygiene coatings with the launch of Royale HealthShield (anti-bacterial interior paint), Royale Atmos (odour absorbing interior paint) and Ultima Puranature (anti-pollution and anti-radiation exterior paint).



Asian Paints consolidated its position as a leading 'wood décor' company by installing new wood palette tinting machines that can tint a large number of colours in PU products.

In a short span of four years, the Company has established SmartCare as a prominent brand that provides assured waterproofing solutions for all household needs. A newly launched range enabled the Company to offer affordable waterproofing solutions for interior and exterior surfaces. Sustained retail focus on applicators resulted in exponential growth in the category. Several new products were launched in the high-performance preventive waterproofing segment.

During FY 2017-18, efforts were made to customise brushes to suit market preferences. Partial indigenisation and packaging innovation helped shore up margins on non-mechanised

tools. The Company launched a series of mechanised tools such as power sanders, sprayers, putty mixers and water jets; stabilised a reliable servicing and warranty programme and undertook training of thousands of applicators to increase their productivity using the mechanised tools. The efforts resulted in near-doubling of sale of mechanised tools in the financial year.

The Company entered the adhesives segment in FY 2016-17, mainly to exploit the network synergy and gain access to thousands of hardware and décor stores. In FY 2017-18, the Company expanded its reach into hundreds of new stores with its PVA (polyvinyl acetate) range.

Marketing and branding

The Company has followed a tiered network strategy to engage with its vast dealer network and to upgrade the capabilities of dealers in customer engagement at their stores.

AP Homes

At the top end, the Company opened two more AP Homes stores in Delhi and Kochi. An AP Homes store is a multi-category décor store offering décor inspiration, engaging in-store experience, personalisation consultations and holistic décor execution across multiple categories such as paints, waterproofing, wall paper, kitchens, bath and light fittings, and soft furnishing, among others. The response to the stores has been encouraging in terms of footfall, customer feedback and sales.

Colourideas

The next tier, the Colourideas stores, continued to provide a differentiated customer experience in the form of an end-to-end solution, from colour personalisation to painting execution. Colourideas stores have expanded footprint to nearly hundreds of towns.

4,000

Asian Paints fortified its Colour World dealer network by adding close to 4,000 new dealers during FY 2017-18.



AP Homes store at Kochi, Kerala

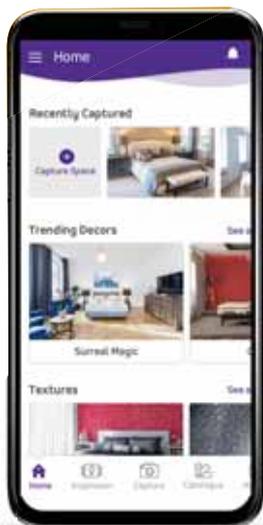
World of décor

The Company pursued building capabilities in the world of décor with the ambition of being the most inspiring and accessible décor brand in the coming years. In the 'digital-first' era, the Company has started its décor foray with the launch of décor website 'beautifulhomes.com', a destination to curated décor inspiration. The Company has also leveraged the digital medium for marketing brands and propositions.

The 'Décor For You' consultation service, Décor Solutions Execution Service, AP Homes décor stores and Beautiful Homes Shop Décor online channel complete the range of décor fulfilment avenues for visitors of beautifulhomes.com and asianpaints.com websites. The Company has entered the world of ecommerce by promoting its D-Cal range on popular ecommerce sites.

20 mn+

The website, asianpaints.com, the most popular destination for consumers renovating their homes, attracts more than 20 million unique visitors every year.



Home Solutions variants

(waterproofing solutions, wood solutions and ProSolutions) have done well by providing value-adding solutions to customers.

Paint Total, a dealer-run painting service, expanded significantly during FY 2017-18 with admirable customer advocacy, measured by the Net Promoter Score.

A large number of Ezycolor stores offer 'kiosk-based' product and colour

consultation to lakhs of consumers. Some of these stores are enrolled into the Paint Total network.

Nilaya and Royale Play collections are décor fashion collections from the Company's stable. The Company launched the second signature Indian collection of wallpapers designed by celebrity designer Sabyasachi Mukherjee. This, along with other Indian designs launched by the Company, received exceptional response by architects and interior designers.



To foster its décor credentials, the Company continues to undertake colour and décor research that culminates into the launch of annual colour and décor trends under the 'ColourNext' channel. In its 15th year, ColourNext is the only credible Indian trend forecast and is well-accepted by the community of designers. The four trends and the Colour of 2018 (Passion Flower) were launched at India Design Week in February 2018.

Apart from conventional advertising, the Company pursued 'public inspirations' – beautifying several public facades in an interesting thematic manner. The Company consolidated its brand positioning as the brand that is synonymous with happy emotions through its 'Har Ghar Kuch Kehta Hai' campaigns on digital and TV media. Despite significant rise in advertising spends by competitors, the Company managed to get a good 'share of voice' across a range of media at efficient costs.

Supply Chain

The Company is currently working on two greenfield paint manufacturing facilities at Mysuru and Visakhapatnam (Vizag). The maximum capacity at Mysuru will be 6,00,000 KL per annum. It will be installed in a phased manner. The maximum capacity at Vizag will reach 5,00,000 KL per annum (also to be installed in phases). The Company will invest ~₹2,300 Crores at Mysuru and ~₹1,785 Crores at Vizag, to reach these capacities.

Both the projects are on track to achieve the capacity of 3,00,000 KL per annum each, in the first phase, which will be commissioned in FY 2018-19.

The Company is also in the process of seeking statutory approvals for expanding the paint production capacity from 1,30,000 KL per annum to 3,00,000 KL per annum and augmenting the resin and emulsion capacity from 32,000 MT per annum to 85,000 MT per annum at Ankleshwar. This also includes phasing out the production of phthalic anhydride and its allied products. The operations of the phthalic plant were stopped in FY 2017-18.

In FY 2017-18, all the artwork for the Company's packing material was modified in line with the new packaging commodity rules. The same was implemented across all the manufacturing plants and external processing centres.



International operations

Asian Paints operates in 16 countries across four regions of the world – Asia, Middle East, South Pacific and Africa – through the seven corporate brands, namely Asian Paints, Berger International, SCIB Paints, Apco Coatings, Causeway, Taubmans and Kadisco.

The Company remains focused on establishing its presence in high-growth emerging markets, especially Africa and Asia. The Company exited from its Caribbean operations, in Jamaica, Barbados and Trinidad & Tobago, in July 2017.

Operating environment

The financial year 2017-18 has been difficult for the international business due to turbulent economic and political conditions worldwide. Most currencies across the countries where the Company's units are located also weakened versus the USA Dollar and the Indian Rupee, exacerbating the profitability situation in rupee terms.

Africa

In Egypt, hyperinflation cooled down after the central bank-led devaluation of the currency. The GDP growth is improving, and conditions are stabilising. In Ethiopia, the currency was devalued by 15% in October 2017, and inflation was at 13% towards year end. Foreign exchange availability remains scarce and the country has declared a six-month political emergency starting February 2018. The performance of both these units negatively affected the Company's international business.

Middle East

The trade and diplomatic embargoes imposed on Qatar in June 2017 by Saudi Arabia, UAE, Bahrain and Egypt have impacted movement of goods and people within the region. It also affected the Company's export sales to Qatar from UAE. UAE introduced

VAT for the first time in January 2018, with Bahrain to follow suit in FY 2018-19. Increasing oil prices and growing infrastructure spending by governments signal better times ahead after the recent slowdown.

Asia

Sri Lanka's crucial agricultural sector was badly hit in 2017 by heavy flooding as well as the worst drought in four decades, severely affecting GDP growth. In Nepal, GDP growth had looked up in FY 2016-17, but one-third of the country was affected by severe floods in August 2017, leading to a fall in GDP growth in FY 2017-18. In Bangladesh, the economy performed well despite the Rohingya crisis. The South-Asian units registered a strong performance led by Nepal and Bangladesh. In Singapore, the economy grew by 3.6% in 2017, an improvement from 2.4% in 2016. However, the construction and shipping sector remained weak. Indonesia's economic

growth trajectory was on a gradually accelerating path. Growth should kick into a higher gear in 2018, boosted by infrastructure projects, the election cycle and rising commodities prices.

South Pacific

In Fiji, the GDP growth improved to 4% supported by fiscal stimulus, public investment, higher visitor arrivals, and continuing reconstruction after Cyclone Winston in 2016. Most of the countries where the Company's units are located are going through troubled times, but things are likely to have bottomed out in most places and economic growth and stability are expected to improve.

Green shoots

Growth was led by the Company's units in Nepal, Bangladesh and Oman.

Business performance

FY 2017-18 was characterised by sluggish sales and high raw material inflation in most markets, not all of which was passed on as higher prices to consumers, leading to erosion in profitability. To counter this, most units ensured stringent cost controls that helped to moderately alleviate the situation.



Indonesia Plant Inauguration



Causeway Paints, Sri Lanka



During FY 2017-18, the Company exited from its operations in the Caribbean. Disposal of the three units was completed on 24th July, 2017 and the proceeds were fully used to repay its borrowings.

Leading in Sri Lanka

Asian Paints has emerged as the market leader in Sri Lanka.

The acquisition of Causeway Paints Lanka (Pvt.) Ltd. in Sri Lanka was completed effective April, 2017 and with this acquisition, Asian Paints now has the leading market share in the Sri Lankan paint market. The Company is working on strategies to align both its Sri Lankan operations to ensure maximum value to the Company.

The Company commenced work on setting up a new plant in Bangladesh with finalisation of land acquisition. In Indonesia, the factory in West Java with a paint capacity of 5,000 KL per annum was inaugurated in September 2017. The unit grew well during FY 2017-18 and performed as per plans.

Work on consolidating all the operating subsidiaries under a single overseas holding company was initiated in FY 2015-16. Phase I of this exercise was completed in FY 2016-17 with the transfer of all units to Berger International Pvt. Ltd. (BIPL). Phase II of merging Asian Paints International Limited, Mauritius, with the parent company, Asian Paints Limited, was effected on 15th January, 2018. Further, the name of BIPL was changed to Asian Paints International Private Ltd. (APIPL) effective 13th November, 2017.

Overall, on a comparable basis, the Company has performed better in terms of sales but adversely in terms of profits when compared to FY 2016-17 (excluding foreign exchange impact). However, the Company is confident of a recovery in FY 2018-19 and is optimistic about the growth potential of the markets in which the Company operates.

Home improvement business in india

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

Business performance

During FY 2017-18, the kitchen components segment grew well on the back of high growth in hardware and accessories and expansion of network. This was despite a slow start to FY 2017-18 due to the disturbance caused by the GST rollout. Sales in the appliances segment were affected due to issues around product complaints and servicing.



KITCHEN BUSINESS

The Company forayed into the kitchen business by acquiring 51% stake in Sleek International Pvt. Ltd. (Sleek) in FY 2013-14. During FY 2017-18, the Company proceeded to acquire the remaining 49% stake in Sleek from the previous promoters for a consideration of ₹ 50 Crores.

Sleek enjoys the exclusivity of being the only player in the Kitchen space that is a part of both 'kitchen components' and 'full kitchen solutions'. It operates through a network of distributors, dealers and retail stores, under a co-branding arrangement with the parent company, viz. – Sleek by Asian Paints.

In the full kitchens segment, the Company is present in retail stores as well as in sales to projects and institutions. The projects business saw a steep rise, highlighting the traction among builders to work with Sleek by Asian Paints. In retail kitchen sales, performance in the first half of FY 2017-18 was sluggish, impacted by the introduction of GST and a consequent lull in retail sales. However, orders picked up in the latter half and the performance in the second half of the year has been good.

During FY 2017-18, the Company closed some of its retail stores with a view to rationalise the footprint as well as the operating costs.

The Company implemented a 'Design to Manufacture' (D2M) software in FY 2015-16. This software is expected to reduce closure timelines and errors and scale up dispatch of 'factory pre-drilled kitchens'. Adhering to kitchen installation timelines with the least amount of error was an area of focus during FY 2017-18 considering the complexities involved, and the Company expects to increase output through the D2M model.

Product launches

The wardrobe range launched in FY 2015-16 was enhanced to introduce a new range of 'Yuva' wardrobes at attractive price points. This offering received a positive response from the network of dealers, with several of the stores upgrading their display units to include wardrobes.

Future-focused

Aided by smart technologies, the aesthetically crafted modular kitchens are at the heart of a rapidly booming home renovation market. The Company also expects wardrobes to substantially complement kitchen sales.

130+

The Company operates 130+ kitchen stores owned and operated by dealers in major towns across India, perhaps the largest network currently in India for any single player in the modular kitchen space.

BATH BUSINESS

The Company envisions a new world of contemporary bathroom fittings and accessories. Continuous research of new products has secured its capacity to remain attuned to the changing aesthetical and functional demands of the market.

Business performance

The business grew well during FY 2017-18 but almost all the growth was attributable to the second half as H1 was severely affected by the GST rollout.

1,000

In the Company's bath business, the focus remained on expanding the network, which has grown to over 1,000 dealers across the country.

Inflation in prices of key commodities such as brass affected margins in the first nine months of FY 2017-18. The Company opted for a price increase in January 2018 to offset the rise, and hence foresees improved margins for FY 2018-19. The Company is also taking other measures to improve margins through various manufacturing and sourcing initiatives. However, the commodity price situation remains volatile, and the Company continues to closely monitor it. The Company keeps

a strong focus on driving improvements in logistics, after-sales service and timely service to the dealer network.

Product launches

Several new products were launched during FY 2017-18 such as the Amplus 'half turn' range for areas with weak water pressure. This product was well-received in the market. The focus has been on building the Royale brand in the luxury space and the BathSense brand in the premium space. Brand Ess Ess continues in the economy segment and completes the full range of offering to consumers. A new television commercial for Royale bathrooms was launched in certain markets, and the feedback from dealers and the network has been encouraging. Sanitaryware, launched under the BathSense brand in certain markets in the North, plays an important part in the Company's strategy of providing 'complete bathroom solutions'.

Future-focused

The sanitaryware industry in India is experiencing high growth due to a shift in preferences. Customers increasingly prefer designs that combine contemporary trends with environment-friendly solutions. The Company is highly dedicated to developing original product lines aimed at satisfying the needs of the urban and demanding clientele.



Industrial business in India

Asian Paints operates in the industrial coatings segment through two 50:50 JVs with PPG Industries Inc. of USA. The Indian industrial sector, manufacturing and capital-intensive sectors in particular, was impacted by the rollout of GST and lingering effect of demonetisation in FY 2017-18.

AUTOMOTIVE, INDUSTRIAL, REFINISH, PACKAGING AND MARINE COATINGS

PPG-AP, the first 50:50 joint venture of the Company with PPG Industries Inc., USA, for manufacturing automotive, OEM, refinish, marine, packaging and certain industrial coatings, is the second largest supplier in India. The segment has performed well in FY 2017-18.

Operating environment

The coatings market has seen M&As and higher investments in terms of manufacturing capacities and R&D expansions. The business growth is primarily driven by the auto and two-wheeler markets which grew at 5.5% and 16.1% respectively.

Business performance

Despite increased competition, the Company has registered key wins that led to an increase in share of business with the Company's customers, resulting in top-line growth for automotive and general industrial segments. The wins also included new trending colours and new product additions on the back of technology innovations. PPG-AP continues to be recognised and treated as the preferred partner by key customers.

The Company has witnessed accelerated growth in the marine and packaging business as well. The refinish business growth was impacted by lower demand (partly due to demonetisation and GST impact).

The business is witnessing a sharp increase in raw material prices from the fourth quarter of FY 2017-18, which is being attempted to be offset by other initiatives including price increase.

New capacity

The Company has commissioned an Industrial Coating cell at its manufacturing facility at Sriperumbudur, Tamil Nadu.

On the capacity front, the setting up of a resin plant at Dahej is progressing as per timelines.

Future-focused

PPG-AP continues to focus on its R&D facilities to innovate, leverage technological support from PPG Industries Inc., USA & Asian Paints and provide value proposition to the Company's customers. PPG-AP continues to build on its core values, which includes focus on customer connect, people development, and EHS (Environment, Health & Safety).

NON-AUTO INDUSTRIAL COATINGS

AP-PPG serves the non-auto industrial coatings market of the country and is the Company's second 50:50 joint venture with PPG Industries Inc., USA. The JV services customers in the sectors of infrastructure, oil and gas, power plants and white goods, among others. It caters to protective coatings, floor coatings, road marking paints and powder coatings segments.

Business performance

AP-PPG's strategy to focus on expansion of channel business with introduction of industrial tinting system, high-end protective coatings and powder coatings through customer acquisition and enhancement of product portfolio

resulted in substantial growth in these market segments. Introduction of innovative products and systems helped the Company garner good share of business in the infrastructure segment. Slower recovery in manufacturing growth impacted demand from OEMs, while the road markings segment witnessed delay in finalisation of contracts.

In the second half of FY 2017-18, material cost inflation due to increase in prices of key raw materials posed a fresh challenge. Overheads management, technical service and technology support were major points of focus during FY 2017-18.

Overall, AP-PPG registered good growth in terms of revenues and posted profits in a challenging year.

PHTHALIC AND PENTA

The Company's two chemical businesses, phthalic anhydride, manufactured at Ankleshwar, Gujarat and pentaerythritol, manufactured at Cuddalore, Tamil Nadu, were set up as backward integration initiatives in the 80s, primarily to cater to the in-house demand for these chemicals. More than 50% of the output is consumed internally. The contribution of the segment to the Company's turnover has been steadily decreasing.

Business performance

Phthalic plant operations were closed effective 31st July, 2017 to augment the manufacturing capacity of paints, synthetic resins and emulsions. The site will be used for expansion of the adjacent paint plant. Prices of pentaerythritol remained firm throughout FY 2017-18. The plant increased its export of Di-Penta production and earned valuable foreign exchange. The Company plans to increase Penta capacity by removing bottlenecks.

HUMAN RESOURCES

The emphasis on employees learning within the Company as well as adapting to its changing external environment promotes a workplace where diverse set of talents can connect, contribute and thrive in partnership with business leaders.

Highlights of FY 2017-18

To attract talent that will bring in diverse perspectives, the Company started the process of structured interviewing, keeping its competencies in mind. This has helped build a talent pipeline that can be fostered along its values.

External initiatives

The Company's campus branding was reinforced with Canvas, its case study competition, along with a supply chain simulation, live case studies and academic sessions conducted by Asian Paints employees, which helped forge connections with management students across the country.

Internal policies

The leadership competency framework for the organisation has been fully integrated with various HR processes. A functional competency framework for all the different functions in the

Company has been developed; it is now being used to create learning academies and drive excellence in each function.

360° approach

The 360° feedback framework has been rolled out; it is now an integral part of the development process.

To enable people to take up the higher responsibilities, the transition programmes have been made more relevant and robust. Learning needs have been addressed during FY 2017-18 through new programmes in the areas of strategy, execution and critical thinking.

To provide a truly holistic platform for people, job rotations have been strategically increased and all movement and development decisions have been institutionalised. In FY 2017-18, more than 10 operators underwent the Company's Vertical Growth Plan to be promoted to officers, reinforcing its emphasis on nurturing potential across cadres and functions. With the automation of the Company's flexible plants currently in the process, its focus remains on capability development in employees to maximise productivity and expand their skillset.

Technological innovations

In its endeavour to use technology for transformation, the Company introduced a chat bot called 'Jarvis' to address employee queries related to policies and created a user-friendly portal for employee recognition. Rigorous processes have been implemented and a feedback loop has been created by reaching out to individual employees to institutionalise the Company's intention of generating a Signature Employee Experience across all touchpoints of an employee's journey. Automation in the HR sphere as well as in production is well underway in plants, with the implementation of its leave management system. Its portal, Voice of Employee, was introduced with the intent of capturing suggestions and feedback.

Nurturing ideas

To foster and promote a culture of innovation, the Company launched and implemented 'Start-up Inside'. Ideas from employees were invited and various inputs were taken to prepare a business case for them. A multi-step rigorous evaluation was undertaken to identify the business idea that would be taken forward.

'MD Awards' were announced for six employees to recognise individuals who have made a lasting impact on the organisation. With such initiatives, the Company is creating an organisation which is agile, recognises contribution and encourages diverse thinking.

Community engagement

As a part of the CSR commitment of the organisation, employees volunteered to work with various NGOs across India. They were engaged in a plethora of activities, ranging from reading sessions and science fairs for children and Excel lessons for youth, to personality development sessions and volunteering in old-age homes. This has created a meaningful engagement for employees who want avenues to give back to society.



ENVIRONMENT

Environment, Health and Safety (EHS) is one of the primary focus areas for Asian Paints. The Company considers compliance to statutory EHS requirements as the minimum performance standard and is committed to go beyond and adopt stricter standards wherever appropriate. All the Company's paint manufacturing facilities are certified to the ISO 14001 environmental certification.

Highlights of FY 2017-18

The Company released its third Sustainability Report in FY 2016-17, wherein disclosures on environmental performance for the year were detailed. The same report will be published for FY 2017-18, with emphasis on Environmental and Social areas of importance.

In FY 2017-18, the six decorative paint factories have continued to act upon the following areas of environmental sustainability:

- * Improving water-replenishment by investing in community rain water harvesting structures
- * Reducing non-process water consumption and maximising rainwater consumption
- * Reducing trade-effluent generation
- * Reducing hazardous waste generation
- * Reducing electricity consumption
- * Increasing the contribution of renewable sources in electricity usage

The Company focuses on investing in creation of rainwater harvesting structures in nearby communities. The objective is to enable communities conserve water, ensuring availability during the water-scarce summer months. The Company has been able

to replenish rainwater around factory locations far more than its freshwater use in factories.

The Company has identified renewable energy generation as one of the focus areas and investments are being made in this area. ~2MW of Rooftop Solar Power and ~6.3MW of Windmills were commissioned in FY 2017-18.



~2MW of Rooftop Solar Power and ~6.3MW of Windmills in FY 2017-18

This, along with all previous investments, helped the Company consume renewable electricity of ~35% of the total electricity requirement at the six paint manufacturing locations. The Company has continued to use biogas at one manufacturing facility to reduce the dependence on fossil fuel (diesel).

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

Some of the initiatives taken in the area of health and safety are listed below:

- * Executed the 'Kavasam' initiative at the Sriperumbudur Plant to excel in safety systems implementation
- * Started a safety culture building initiative at Ankleshwar plant in 2014; extended it to Patancheru Plant in 2016; within two years of implementation, both the plants moved to the next maturity level in the culture assessment — the Company is extending this initiative to other four plants in FY 2018-19
- * Released engineering standards to prevent dust explosion was released in FY 2016-17. The implementation is being taken up in a phased manner
- * Implemented various administration controls and engineering controls, to reduce risks due to man-machine interactions
- * Advanced a health-focused initiative across all its manufacturing units and offices in decorative business — this involved upgradation of Occupational Health Centres, conducting health check-ups and implementing various wellness programmes, for which the Company partnered with various professional agencies
- * Ran safety programmes under Suraksha Sarvopari and Safety Stalwart in transshipment locations and sales warehouses respectively — the programmes focused on safety audits, safety campaigns, electrical safety, mock drills and incident management; each unit was graded monthly whereby the winning unit was awarded with a trophy
- * Partnered with Nicer Globe to monitor the location and speed of vehicles, to reduce the risks during transportation of hazardous chemicals
- * Received the Sword of Honour from the British Safety Council, for its Khandala plant — this award is presented to a select few companies globally based on British Council's Five Star Audit

INFORMATION TECHNOLOGY

Asian Paints continues to invest in Information Technology (IT) to enhance customer experiences, improve productivity and bolster agility by refining operational efficiency through automation and better data-driven insights.

IT is today embedded into virtually all operating processes of the Company's business, enabling it to successfully implement a wide variety of strategic and tactical initiatives.

Highlights of FY 2017-18

The shift of all IT platforms for the Company to the new GST regime for all its businesses in India was completed on time and without any disruption to operations.

On the customer-facing side, newer competencies were developed in terms of a new marketing automation platform that allows for more contextualised end-to-end campaign management. Significant capabilities were added towards managing loyalty for the Company's partner ecosystem,

especially for its contractors and applicators across the businesses in India and abroad. The Company has also invested in a cloud-based CRM for its B2B business, which will help in delivering better customer service. For the international businesses, the Company has begun upgrading and re-implementing the CRM systems so that they are at par with the latest technology in user experience and functionalities.

Industry 4.0-based technologies are being deployed in the two new paint facilities commissioned by the Company. It covers the entire gamut of factory operations from inbound logistics, paint processing, warehousing and outbound logistics. The foundational blocks for an intelligent factory are being put in place to help run the factory of the future.

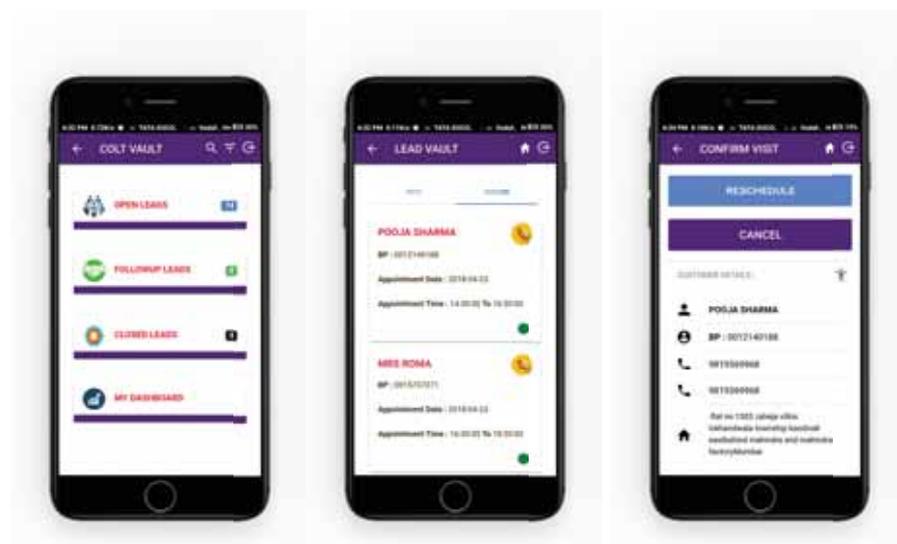
The Company believes in conducting early pilots on emerging IT trends to leverage the first mover advantage. A conversational bot named Jarvis was launched to provide employees with better experience in resolving their queries.

New-age technologies

Augmented Reality (AR)/Virtual Reality (VR) as a technology has moved into productive usage wherein the Company has deployed a VR-based training module to equip its teams to manage customer complaints. Prototypes for 3D visualisations using AR have also been tested.

Creating differentiated experiences

The Company has strengthened its home visualisation capabilities by supplementing them with machine learning. It will be a key element in the Company's ambition to become a leading décor player.



Augmenting IT security

With an increase in the overall threat to information assets across the world, the Company has placed an even greater emphasis on IT security in FY 2017-18. To this end, the Company:

- * Deployed multiple tools and technologies to improve the security of information in storage, access, processing and transmission
- * Implemented a 24x7 Securities Operations Centre to add more muscle to the Company's proactive approach to security
- * Recorded no instance of downtime due to a security lapse throughout FY 2017-18
- * Successfully carried out IT Disaster Recovery drill to ensure that key systems are resilient to disruptions

RESEARCH AND DEVELOPMENT

Asian Paints, in its endeavour to be a world-class R&D organisation, aligns the needs of the consumers with that of its own, across existing and future businesses. The thrust on experimenting with new ideas and building rapid prototypes is the backbone of the Company's journey of innovation. It is a matter of immense satisfaction that a substantial part of the growth during FY 2017-18 came from the Company's innovations.

These research initiatives have helped Asian Paints launch several pioneering products with distinctive value proposition for end-consumers. Technical engagement with top institutes both in India and abroad has also expanded.

Highlights of FY 2017-18

- * The Company's focus on launching differentiated and unique products was extended through the launch of 'Royale Health Shield', which offers a combined value of health and aesthetics



- * The Company launched a revolutionary new crystalline waterproofing product offering 15 years of warranty for basements, and many other innovative products are in the pipeline. The Company has progressed on using tools to generate new ideas and converting some of them into products



- * The product 'Royale Atmos' received the FICCI 2017 Sustainability Award for the best green product in the petrochemical segment. This is the third consecutive year the Company's product received FICCI Sustainability Award
- * One of the Company's scientists received the OP Narula Young Scientist Award in 2017 for his outstanding contribution to technological applications of oils for paints and allied products
- * The Technology Council, constituted in 2014-15, continues to provide expert insights that help the Company thrive through innovations, collaborations, talent scouting and meeting global benchmarks

- * A consulting project has been initiated in the field of emulsion polymers and a couple of other research projects were initiated with top research institutes
- * To promote outside-in innovation, multiple projects were initiated during FY 2017-18 with raw materials suppliers for value engineering, quality improvement and meeting sustainability goals
- * A Company employee is pursuing a PhD degree with IIT-Kharagpur in the field of coatings
- * The Company has also continued its association with Emulsion Consortium-Polymer Material, University of Basque, Spain. The Company has agreed on a post-doctoral research project with the University, wherein the research work will be performed by a Company employee at the University

Sustainable operations

The Company's products have received FICCI Sustainability Award three years in a row.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company implemented suitable controls to ensure its operational, compliance and reporting objectives are achieved.

The Company has adequate policies and procedures in place for its current size as well as the future growing needs. These policies and procedures play a pivotal role in the deployment of the internal controls. They are regularly reviewed to ensure both relevance and comprehensiveness, and compliance is ingrained into the management review process.

Deviations are addressed through systemic identification of causals. Various data analytics reports, run as a part of routine monitoring activities by all functions, also assist in identification of exceptions. Corrective actions, if any, are taken promptly by the respective functions. As far as possible, emphasis is placed on automation of controls within the process to minimise deviations and exceptions. Investment

in advanced IT tools on an ongoing basis is one of the key means to achieve the automation.

Adequacy of controls of the key processes is also being reviewed by the Internal Audit team. Suggestions to further strengthen the process are shared with the process owners and changes are suitably made. Significant findings, along with management response and status of action plans, are also periodically shared with and reviewed by the Audit Committee. It ensures adequate internal financial controls exist in design and operation.

The Company believes that every employee has a role to play in fostering an environment in which emphasis on compliance with regulations and ethical behaviour is accorded due importance. Towards this, sessions are periodically held to increase employee awareness on the Company's code of conduct.

The Company has also invested in an IT tool that helps track crucial compliances as close as possible to the actual due date. Any deviations are highlighted for prompt corrective action. Functional owners take responsibility for introducing preventive steps. Proactive steps are taken to ensure compliance with the several upcoming regulations through deployment of cross-functional teams.

The Company continues to stay committed to working at the highest standards of governance.

Seamless transition

A well-planned and coordinated initiative was undertaken to design systems and set up process controls that ensured a smooth, efficient and effective transition to the GST regime.



ENTERPRISE RISK MANAGEMENT

The Asian Paints group recognises that risk is inherent in every business activity. Effectively managing these risks is key to achieving our strategic objectives and the long-term sustainable growth of the business. Identification, treatment and mitigation of risk is done by the Company through an institutionalised approach that often calls for extensive cross-functional involvement.

The key risk areas are periodically and systematically reviewed by Senior Management. The Risk Management Committee also reviews and provides inputs for the significant risks. Some of the significant risks have been entailed below:

Safety risk

Safety is an ever-evolving journey. Asian Paints strives to be at the forefront of this evolution. It follows a multi-pronged strategy, with additional emphasis on establishing a culture that promotes sound safety practices.

The Company implements Behaviour Based Safety (BBS) at its manufacturing facilities. Facilities that have already implemented BBS are, at present, focusing on enhancing the maturity stage of safety culture. Manufacturing facilities have adopted Safety Management System (SMS) based on the leading safety standards. Regular audits are conducted to assess the on-ground implementation of various processes prescribed by SMS.

Critical safety incidents are studied by the senior leadership. The manufacturing locations work to reduce Man Machine Interface (MMI), identified as the key cause for some of the safety incidents. Fire risk at warehouses is another critical safety theme. Various actions, including, but





not limited to, comprehensive safety audits, periodic checks of electrical fittings and regular reviews by the management are taken to address risks at all the warehouses.

Sustainability risk

The Company has set 2020 as the year before which it seeks to implement various environment-friendly practices for its manufacturing facilities. These include reduction of power consumption, emphasis on renewables as an energy source and effluent and hazardous waste reduction, among others. Since water is the key component for water-based paints, water security poses a key risk. Reduction in freshwater consumed in manufacturing, water harvesting and recharge, developing alternate supply sources of water and exploring the usage of treated water from common effluent/sewage treatment plants are the areas where substantial amount of work has been completed.

The Company has also laid down a roadmap towards making its products green and environment-friendly, forming the bedrock of the product development philosophy.

Major sustainability initiatives are captured in greater detail in the Sustainability Report published by the Company on a yearly basis.

Statutory compliance risk

The Company adheres to a diverse set of laws and regulations laid down by governments and regulatory bodies at the local, state and national levels. Failure to fulfil regulatory obligations might result in fines, penalties, damages and/or criminal actions.

The Company is committed to complying with all laws and regulations as applicable. It monitors and adapts to significant changes in the legal systems, regulatory controls, customs and practices. Given the rapid pace of regulatory changes, the Company proactively analyses the impact of imminent changes well in advance. Cross-functional teams are set up, where necessary, to ensure seamless transition, as was evidenced in the implementation of GST, lead-related regulation and recent changes in Legal Metrology regulation.

Information security and disaster recovery risk

New and emerging technologies bring unprecedented threats to internet-connected devices, while the rise in global hacking incidents indicate an increase in the motivation to launch cyber-attacks.

The Company has adopted a five-element framework based on the life-cycle of data, which includes 'Where is the data stored', 'How does it move', 'Who accesses it', 'How is it accessed' and 'How is it processed'. A large number of initiatives have been taken to address risks identified under each element. Substantial investments have been made in advanced IT tools to enhance the Information Security capabilities. The Company also has a clear roadmap for the areas to be worked upon in all the elements.

Disaster Recovery (DR) deserves significant attention considering the growing dependence on IT systems within the Company. Currently, backups are taken across the enterprise-wide applications. The Company has invested in establishing both Near DR and Far DR sites. Depending on the critical nature of the IT system, replications are regularly put in place in one or both of the DR setups. Drills are conducted across select IT systems to test their efficacy.

Ethical behaviour risk

The Company has published a code of conduct mandating the highest moral and ethical standards for its employees, which is also periodically communicated to other stakeholders. It has a whistle-blower policy to ensure suspected or actual violations to the code are reported, investigated and acted upon.



Currency risk

The Company operates in multiple geographies, many of which are crucial for the import of its raw materials. An adverse and unforeseen fluctuation can affect margins and profitability. The Company closely monitors the exposure while taking currency hedges when necessary. In select countries, availability of dollars poses a challenge at times. The Company then takes steps to reduce the impact on operations. However, depending on the severity of the situation, these steps may be inadequate to completely mitigate the effect of dollar availability.

Customer risk

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

Human capital risk

The Company finds it imperative to attract, retain and engage a talented pool of individuals at its plants and offices. The Company actively monitors its staff movement and works continuously to reduce shortages and inefficiencies.