



INFORMATION TECHNOLOGY TO TRANSFORM OUR BUSINESS.
GREEN INITIATIVES TO TRANSFORM THE LIVING ENVIRONMENT.

A decorative horizontal line with a wavy, purple and pink gradient on the left side, leading into a thin purple line that runs across the page.

KANSAI NEROLAC PAINTS LIMITED

92ND ANNUAL REPORT 2012

Growth as a word has been inseparable from the Kansai Nerolac story ever since its inception. While year on year the Company has been experiencing solid growth with respect to the Industry, what have kept changing all these years are the drivers of growth. What has been different about the Growth achieved by Kansai Nerolac Paints Ltd. (KNPL) in Financial Year 2011-12 is that it has been multi-dimensional and that it has been driven by pillars very unique to Kansai Nerolac.

With an objective of transforming the living environment, KNPL introduced better Products for all segments, better Processes in all spheres and optimized the consumption of resources at all levels. This was done by implementing world-class IT systems to increase efficiency in every domain. This year KNPL became the first Company in the country to track and measure its Environment, Health and Safety parameters through SAP module EHS. In the domain of Production, introducing IT modules like MII, WMS and ASRS etc. have ensured efficient planning, production, stocking and a Zero-Discharge manufacturing system. In the domain of Purchase, introduction of Vendor Portal has given boost to the speed of operations and has substantially reduced the use of paper during the Company's dealing with vendors. Use of IT tools like APO in planning has augmented the efficiency of Company's Supply Chain thereby reducing the wastage of material and resources and all this shows just the tip of the iceberg.

So, while the Company's Resolve to transform Living Environment and Belief in Modern Technology clearly proved to be the two unique assets that it possessed, did it all end at just the Top-line and the Bottom-line? Is that the only dimension to the Company's growth? Not really, by inaugurating the new Hosur factory and by opening new depots, the Company reached out new Geographies. Introduction of New, Affordable & Eco-Friendly Emulsions helped the Company reach out to the masses. By directly engaging lakhs of young followers on the Internet, the Company reached out to the youth. Implementation of CRM and SRM ensured that the Company reached out to its own Employees. So, in a lot of ways the growth that the Company has experienced this year is beyond numbers. It is a growth that has truly transformed business; it is a growth that has truly transformed the living environment and it is a growth that has been driven by Information Technology.

DIRECTORS

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

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

CONTENTS

Notice	3-4
Directors' Report including Management Discussion and Analysis	5-28
Report on Corporate Governance	29-41
Auditors' Report	42-45
Balance Sheet	46
Statement of Profit and Loss	47
Statement of Cash Flows	48-49
Notes to the Financial Statements	50-75

Notice

NOTICE is hereby given that the Ninety-second Annual General Meeting of the Shareholders of KANSAI NEROLAC PAINTS LIMITED will be held at the M. C. Ghia Hall, Bhogilal Hargovindas Building, 2nd Floor, 18/20, Kaikhushru Dubash Marg, Behind Prince of Wales Museum, Kala Ghoda, Mumbai - 400 001 on Tuesday, 19th June, 2012 at 3.30 p.m. (S.T.) to transact the following business:

1. To receive, consider and adopt the Balance Sheet as at 31st March, 2012 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 Dr. J.J. Irani, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. D.M. Kothari, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Mr. H. Nishibayashi, who was appointed as a Director of the Company, under Article 114 of the Articles of Association of the Company to fill in the casual vacancy created by the resignation of Mr. Y. Tajiri and who holds office upto the date of this Annual General Meeting by reason of Section 262 of the Companies Act, 1956, but being eligible, offers himself for re-appointment and in respect of whom the Company has received a notice in writing from some Shareholders proposing his candidature for the office of Director.
6. 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.

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. The instrument appointing a proxy, in order to be effective, must be duly filled, stamped and signed and must reach the Company at its registered office not less than forty-eight hours before the commencement of the meeting.
2. An Explanatory Statement pursuant to Section 173 of the Companies Act, 1956, relating to Item No. 5 is annexed hereto.

Annexure to Notice

Explanatory Statement under Section 173 of the Companies Act, 1956

Item No. 5

Mr. H. Nishibayashi was appointed as a Director of the Company on 30th July, 2010, by the Board of Directors in the casual vacancy caused by the resignation of Mr. Y. Tajiri. Pursuant to Section 262 of the Companies Act, 1956, ("the Act") read with Article 114 of the Articles of Association of the Company, Mr. Nishibayashi holds office only upto the forthcoming Annual General Meeting because Mr. Tajiri in whose place he was appointed would have held the office upto the date of the forthcoming Annual General Meeting, had he not resigned.

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

Mr. Nishibayashi, aged 48 years, is an expert in the field of Automotive Coatings Business Marketing. The services of Mr. Nishibayashi have been and will be very useful to the Company. The Directors, therefore, recommend that he be appointed as a Director of the Company.

Mr. Nishibayashi is interested in the Resolution at Item No. 5 of the accompanying Notice since it relates to his own appointment.

None of the other Directors is in anyway concerned or interested in the Resolution.

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

Name of Director seeking appointment/ re-appointment	Shares held as on 31.3.2012 (Own or held by/ for other persons on beneficial basis)
(1) Dr. J.J. Irani	Nil
(2) Mr. D.M. Kothari	3084
(3) Mr. H. Nishibayashi	Nil*

* Mr. H. Nishibayashi is a Nominee of Kansai Paint Co. Ltd., Japan, the promoter Company. He does not hold any share in his 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: 2nd May, 2012

Directors' Report

Dear Members,

Your Directors are pleased to present the 92nd Annual Report and the Audited Accounts for the year ended 31st March, 2012.

1. Financial Highlights

	1st April, 2011 to 31st March, 2012	1st April 2010 to 31st March, 2011
	₹ in Million	₹ in Million
Sales & Operating Revenue.....	30198.84	24957.01
Net Sales/Income from operations (Net of excise and discounts).....	26005.72	21412.39
Other Income.....	242.66	225.44
Profit before Interest, Depreciation, Tax and Appropriation.....	3615.67	3132.56
Interest.....	0.86	1.35
Depreciation.....	563.53	493.55
Profit Before Exceptional Item.....	3051.28	2637.66
Exceptional Item.....	—	253.67
Profit Before Tax.....	3051.28	2891.33
Tax.....	892.43	831.48
Profit After Tax.....	2158.85	2059.85
Balance brought forward from previous year.....	4959.59	3732.07
Balance available for appropriations.....	7118.44	5791.92
Appropriations:		
Proposed Dividend.....	592.81	538.92
Tax on proposed dividend.....	96.17	87.43
General Reserve.....	215.89	205.98
Balance retained in Profit and Loss Account.....	6213.57	4959.59
	7118.44	5791.92

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, 2012 as against ₹ 10.00 per equity share (100%) 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 made its beginning as Gahagan Paints and Varnishes Co. Ltd. in the year 1920. Having completed over 92 years of strong foundation, the Company has been known as one of the strong players in the paint Industry with high reputation for quality, innovation and brand identity.

KNPL's vision has been to leverage global technology and serve the customers with superior coatings systems and world class solutions. The vision is articulated through the focus of the organization to reach out to the consumers through its employees working from sales locations and factories across the country. The Company has its manufacturing facilities 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 geographical set up of the plants has been advantageous in providing high service levels and supply chain efficiency, thus leading to customer satisfaction.

Kansai Nerolac has always aimed to work in congruence to the customer needs. KNPL has been coming out with new range of products in order to meet customer demands in the Automotive, Auto Refinish and Performance Coatings segments of the markets. New developments include 9th Generation Super High Throw Power CED with shorter deposition time to facilitate higher productivity, Transit protection film rap guard, Coatings for Car interiors in the Automotive segment, new range of Eco Hybrid - Premium PU refinish system for Auto refinish segment and Moisture cured epoxies, Poly-siloxane coating, Poly-urea and poly-asphartic coatings for the Performance Coatings Liquid segment. The full system supply capability in tandem with the products introduced has been instrumental in sustaining the leadership for the industrial business segment.

The Company has pioneered the launch of eco friendly, zero VOC, low VOC, lead free (no lead added) range of products for the Decorative business. It has continued the focus on core brands with introduction of products like Lotus Touch and Little Master series of emulsions.

The key to business is based on finding sustainable solutions which support long term growth. Extensive benchmarking study of practices across sectors has been carried out. The feasible salient ones have been incorporated in the Mission Document too. This document features the vision, elements of organizational strategy and milestones for every function and serves as a guide for all internal stakeholders.

KNPL has set very high standards for research & development through constant innovation, value engineering and technological interventions wherein quality is of prime importance.

Supply chain efficiency has helped in reaching out to the customers. New depots have been opened to reach the customer markets and improve service levels.

It has many firsts to the credit for the way business is conducted in the competitive environment of Decorative as well as Industrial segment. Huge investments have been made in the supply chain domain for capacity augmentation, increasing the customer reach, operational efficiency, high service levels and inventory control. Technology has been leveraged to automate the warehousing facility at Jainpur besides streamlining warehouse facilities at Bawal and Lote by using WMS (Warehouse Management System)/ 9 from SAP in conjunction with bar coding.

Considering the industry demands and customer requirements, expansions have taken place for Decorative and Automotive sections at Jainpur and Bawal. Work is on to commission the new facilities at the latest state of the art plant at Hosur.

Huge investments in IT interventions are indicative of the organization's focus on effective and speedier transactions. KNPL has rolled out CRM (Customer Relationship Management) and BCM (Business Communication Manager) to ensure better visibility of the customer. KNPL has also rolled out the EHS Suite (Environment, Health and Safety) of Products from SAP at its plants and HO. These projects have fostered streamlined transactions, better informed and faster decisions.

The organization has been felicitated with several awards in all functional areas of Products, Services and Governance which indicate that KNPL has been appreciated by the entire value chain.



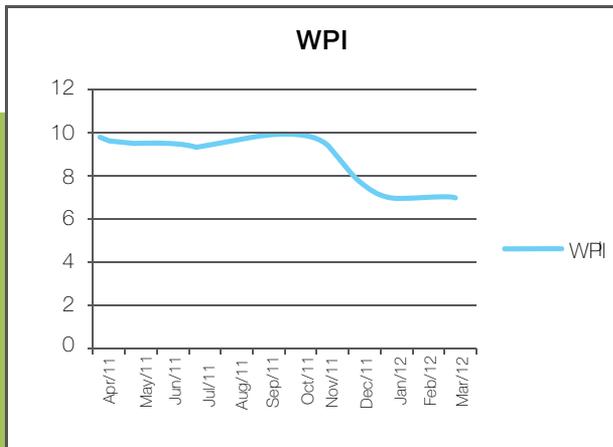
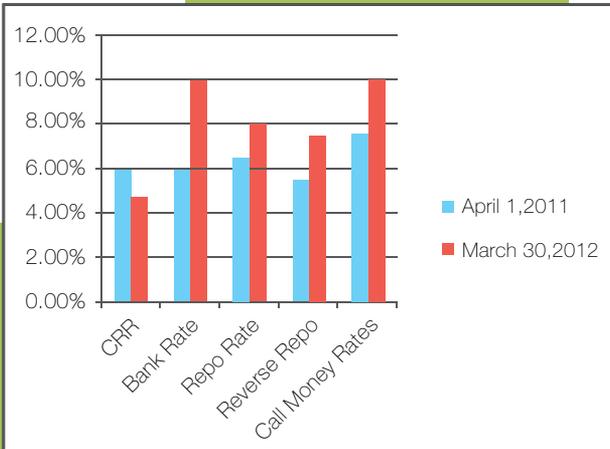
B. Industry Progress

The financial year 2011-12 has been challenging. Economic pressures have dominated with high interest rates, inflation, political imbroglio and uncertainty in the global scenario. The Company has taken this operating environment as a challenge and focused on sustainable growth. While practising caution, it has leveraged its capacity enhancements, operational controls, product innovations, customer reach and infrastructural support. Risk mitigation plans have also been in place.

As a result, Kansai Nerolac has been able to consolidate its leadership in the Automotive and Performance Coating powder business and focus on the Decorative business through the unique healthy home products proposition.

The market for the paints segment is expected to grow at 12-13% for the next five years i.e. at 1.5 to 2 times the real GDP. This indicates that there is growth opportunity for Kansai Nerolac and the Company is well equipped for the financial year 2012-13.

The industry size for paints is estimated at ₹ 29100 crores wherein the organized sector accounts for 65% while the remaining is with the unorganized sector comprising of around two thousand small scale paint units. The decorative paints segment accounts for ₹ 22500 crores while industrial accounts for ₹ 6600 crores of the total paint market.



C. Marketing Initiatives – Outlook

KNPL has touched the homes of Indian consumers by providing 'Healthy Home Paints'. Huge investments have been made for product campaigns and advertisements to communicate about the environment friendly, low VOC and lead free products through the brand ambassador, Shah Rukh Khan. The Company has come forward with a number of innovations that follow the tagline of 'Paint the Change'.

There has been a constant attempt to create awareness amongst masses about 'Painting a Greener Tomorrow'. KNPL has aired campaigns of Impressions Eco Clean on all leading channels and reinstated the importance and benefits of environment friendly paints. Brand equity for the product has further strengthened as it has won the Product Of The Year 2012 Award in the paints category for the third consecutive year.

The Company believes that it is important to reach out to the influencers as well. It has collaborated with the architects & interior decorators for initiatives like 'Earth Matters' seminars across locations. A series of Nerolac Premium Painters Club (NPP) and Rishta Rangan Ka (RRK) programs were launched for the painters and contractors.

One of the major highlights for the year has been the launch of economical range of new products like 'Little Master' and 'Lotus Touch'. KNPL has again been the first in introducing the 'Impressions Water base Enamel' – the Hi Gloss water base enamel which is economical and technically aimed to replace the traditional solvent range of paints.

The Company is now connected to 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.



KNPL also participated at Acetech 2012, one of the largest architecture, building and construction expositions in the country. Impressions Eco Clean was the unanimous choice of the Jury as the Design wall during the event because of its innovativeness, functionality and ecological compatibility.

During the year, focus has been on new dealer openings, placement of computerized color dispensing machines, reaching out to new sites, contractors and establishing corporate tie ups. Series of campaigns through 'The Health of India', 'Display Ka Don' for interiors and exterior range of paints, 'Green turn', 'Two to Tango' on Facebook have taken place.

It has also rolled out the BCM initiative which will help in reaching out to the customers through the call centers and ensure high visibility and service levels.

Kansai Nerolac has also participated in exhibitions in the Automotive and Performance Coatings Liquid and Powder business segments.

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. It has set up 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.

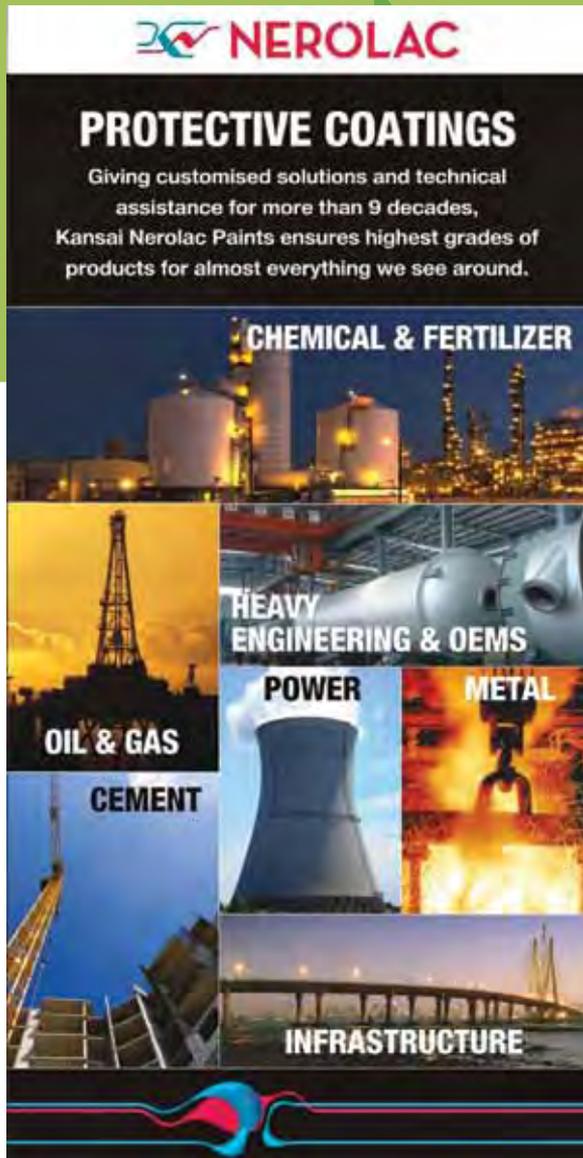


This year, the Company has focused on the augmentation of auto refinish business by working on comparative market study, understanding needs of customers, product innovations and brand visibility. This will be useful in getting approvals and increasing business potential.

The industrial marketing team has participated in a series of color & rap guard presentations, seminars, vendor meets and customer satisfaction surveys. This has given brand visibility to the Company and further strengthened the Company's presence in the industry.

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 are developed to cater to them. Some of the high value niche products launched in the Performance coatings are Poly Urea, Polysiloxane and moisture cured Urethane. Under Powder coatings, a range of specialized low baked powder for construction equipments as well as abrasion resistant powder for automotive segment have been introduced.

The Company is standing by the business forte of full system supply capability in the industrial segment. As a consequence, KNPL has been awarded a number of CED, Top Coats and Pre treatment business. The customers have acknowledged the organizational competence through vendor awards for quality and on time delivery.



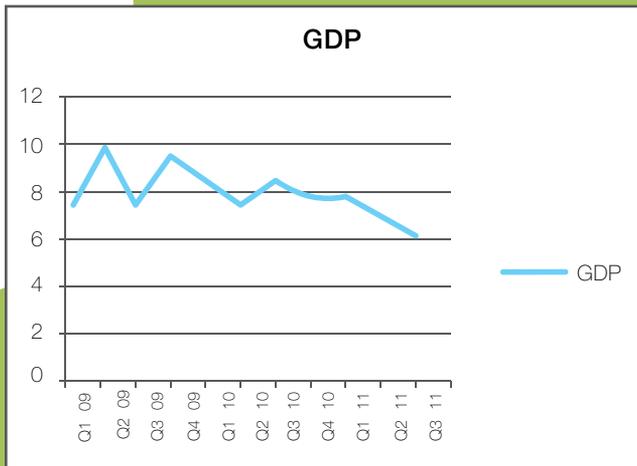
D. Opportunities and Threats

Global economic conditions still seem uncertain and signals of fluctuations continue to come up intermittently. KNPL is ready to meet the challenges through certain strategic charters. It has robust systems and processes that enable the Company to operate with discipline and collaborate with all stakeholders.

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

Recognizing the long term growth potential of the industry due to a series of long term favorable economic and demographic criteria the Company has continued to make strategic investments which will help preserve its leadership as well as ensure that its customers are served with the highest of standard. 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 are some of the long term strategic investments.

Regulation of environmental laws is a threat wherein KNPL is prepared to face with lead free, low VOC paints. Cost pressures will remain in the business. The market volatility, inflation, rising crude oil and other raw material prices, interest rates, political interruptions, natural disasters are key threats for which the Company has to be alert. Global market players from the paints segment have to be evaluated and competitive analysis have been done. Focus of the organization is to meet these challenges through regulated cost reduction and cash management and work towards top line and bottom line growth without any compromises in the quality.



KNPL is prepared to meet the challenges and sustain the leadership in the industrial and work towards creating leadership in the decorative business. Improved IT interventions through upgraded SAP systems have been introduced for better controls. Dash boards have been created for the business verticals. System generated reports, based on a number of parameters are prepared to focus attention in the critical areas of business. This has lead to operational efficiency and higher speed of response in the fast changing environment.

Steps are taken for improved interactions with customers and suppliers. At some instances, alternate vendors have been evaluated for cost efficiency. The Company is geared to meet all challenges through defined, high value propositions.

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

Risk Management is a fundamental way of life for KNPL. Risk profiling has been put in place for all the functions and well integrated in the business cycle. For every department, the areas and probability of the effects are identified, formalized and documented in the detailed Enterprise Risk Management (ERM) framework. The Risk Committee periodically meets to monitor the framework, finds ways of mitigating the risks and tracks the action points.

The economic pressures are likely to remain and the markets may be volatile. One of the most important risk factors is sustainability of the business and changing customer choices. 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.

The rising crude oil prices and other raw material costs, increase in labor cost, power shortage, transportation, demand generation, environmental hazards 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.



G. Research and Development

KNPL has made huge investments in Research & Development and always aimed at being one of the firsts in introducing new environment friendly products. Breakthrough technology and high quality across product segments have been the forte of the function. Despite the cost pressures, the department has been working on standardization of raw materials, process optimizations and continuous support to the esteemed customers.

Major achievements have been the Product of the Year Award for low VOC Impressions Eco Clean, launch of Economy range of decorative interior emulsion, High gloss water base enamels and CED Line commissioning at new OEM customers and commissioning of water based primers for Industrial purposes.

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

KNPL has made huge investments in IT initiatives which have served as game changers for the way business is conducted. During the year CRM and BCM have been rolled out across the organization. Another milestone has been the implementation of Environment, Health and Safety (EHS) modules. Greenhouse Gas (GHG) Accounting and Water and Carbon footprint for KNPL has been mapped into the system.

The roll out of modules like FSCM (Financial Supply Chain Management), GRC (Governance, Risk and Control), MII (Manufacturing Intelligence and Integration) stands completed.



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 set up wherein a number of initiatives have been taken to develop the employees and make them future ready to take higher responsibilities. Skill Development programs has been the focus for the manufacturing locations. 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 entire recruitment and performance management system. It has also IT enabled its training programs through which employees can upgrade their skills through various on-line programs.



KNPL believes that it is important to listen to the employees and understand the aspirations and concerns and give their feedbacks. This has been done through HR Connects, Post Employment feedbacks and Personal Aspirations dialogue processes. Employee Satisfaction Surveys are conducted to understand the pulse of the Company.

Industrial relations are cordial across all plants.

Employee strength is 2336 as on 31st March, 2012.



J. Awards & Recognition

KNPL has been awarded a series of awards and recognition in various fields. The Awards given by the External Agencies are:

- Nerolac Impressions Eco Clean as the 'Product of the year 2012' in the paints category
- SAP Ace Award 2011 for best run business in Consumer and Trade Industry
- Level 4 out of 5 in the Karmayog ratings for the Corporate Social Responsibility initiatives
- Amerit certificate at the ICE (In-House Communication Excellence) Awards 2011, an initiative of Shailaja Nair Foundation. KNPL stood among the top 40 out of the 497 companies.

The Awards by Customers are:

- Mahindra and Mahindra Sustainability Award for outstanding contribution
- Best Vendor Award from Tata Motors
- Best vendor performance award in Kaizen category for 2010-11 by Maruti Suzuki India Ltd.



K. Community Development

KNPL has been associated with Corporate Social Responsibility activities across all locations. The Mission and philosophy of this function is "To contribute positively to the development of the society, by acting as a good neighbor, 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 work done by the Company in the area of Corporate Social Responsibility (CSR) has been separately published as the CSR Report.



L. Environmental and Industrial Safety

The Company is ISO 14000 & OHSAS 180001 certified and the plants are certified by the British Safety Council. A lot of emphasis is on waste management, pollution control, resource optimization and carbon emission.

KNPL initiated the study for development of Carbon and water footprint across the organization i.e. Manufacturing facilities, corporate office and depots for capturing the green house gas emission.

KNPL is one of the few companies in the country to implement the ERP from SAP for Environment, Health and Safety which has three modules of employee well being, product safety and environment compliance.

The work done in the areas of Environment, Health and Safety space is presented in the EHS report published by the Company.



M. Supply Chain

The Company has made strategic investments in commissioning a world class manufacturing set up at Hosur, Tamil Nadu. New capacity expansions have been done for Decorative and automotive sections at Jainpur and Bawal. Manufacturing excellence continues to be focus area for the plants wherein Total Productive Maintenance (TPM) initiatives and Kaizens are suggested at all levels.

Efficient and world class warehousing facility through Automated Storage and Retrieval System (ASRS) is implemented at Jainpur plant. This is helpful for automatic storage and retrieval of finished goods. Warehouse Management System (WMS) is working well. MII has been rolled out at its new automated plants.

N. Internal Control Systems and their adequacy

KNPL has maintained strong internal control measures to ensure that all transactions are under the purview of Corporate Governance. Systems are designed to provide assurance that transactions are executed as authorized.

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

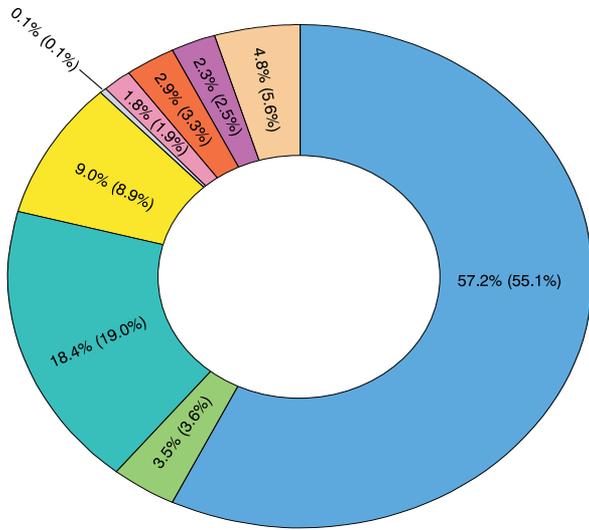
The business processes and systems are audited by the Internal Auditor, Aneja Associates as per the Internal Audit Plan in addition to the statutory audits. Compliance towards J-Sox audits has also been initiated and the Company is IFRS ready. The recommendations arising out of the various audits are taken on board at the Audit Committee meetings of the Board and are tracked and reported for implementation. 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. There are written down policies, procedures and segregation of duties through well defined Key result areas.

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



2011-12

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

Previous year 2010-11 percentage figures are stated in brackets.

* Dividend includes Tax on proposed dividend.

P. Financials

Sales & operating revenue for the year aggregated to ₹ 30198.84 million reflecting a growth of 21% over the previous year.

Profit for the year was driven by growth in decorative sales.

Raw material cost was driven by high crude oil prices during the year. The average crude oil price which was 87 USD last year increased to 114 USD in the current year. Prices of other key raw materials rose sharply during the year. Indian currency depreciated sharply against USD and Japanese yen. Both the above reasons resulted in high inflation of 17% during year.

Overheads were kept under control during the year.

Depreciation is higher due to capitalisation of emulsion paint plant and ASRS at Jainpur and expansion at Bawal plant. Current year's depreciation is at ₹ 563.53 million as compared to ₹ 493.55 million of the previous year.

Interest was lower at ₹ 0.86 million as compared to ₹ 1.35 million of the previous year due to effective cash management.

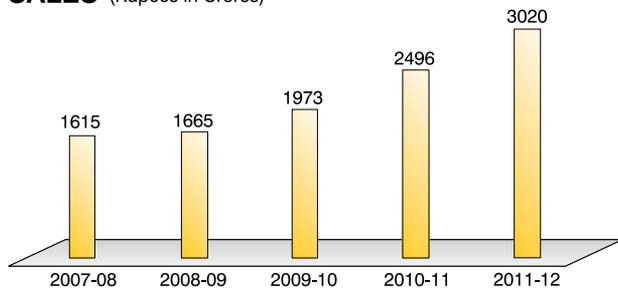
Other income was higher at ₹ 242.66 million (2010-11 : ₹ 225.44 million).

Profit Before Tax (PBT) is higher at ₹ 3051.28 million as compared to ₹ 2891.33 million of the previous year reflecting a growth of 5.5%. PBT growth excluding profit on sale of investments in Nipa Chemicals Ltd. in the previous year works out to 15.7%.

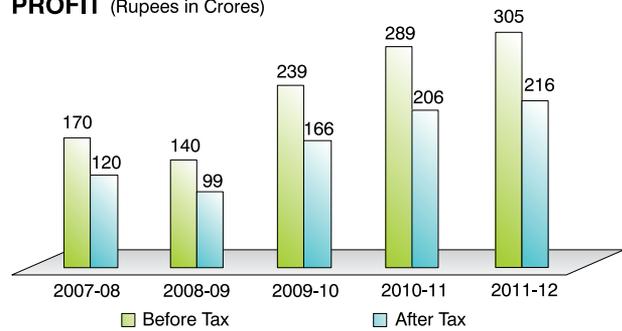
Cautionary Statement:

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

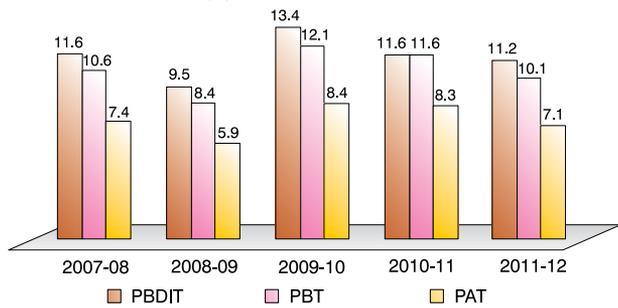
SALES (Rupees in Crores)



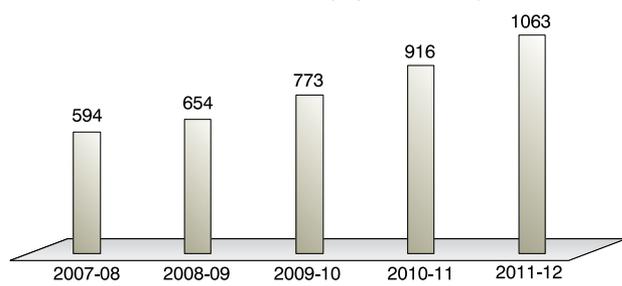
PROFIT (Rupees in Crores)



PROFITABILITY (%)

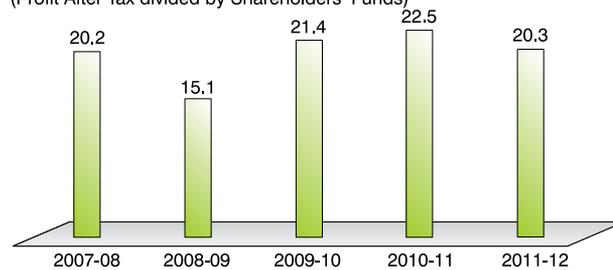


SHAREHOLDERS' FUNDS (Rupees in Crores)

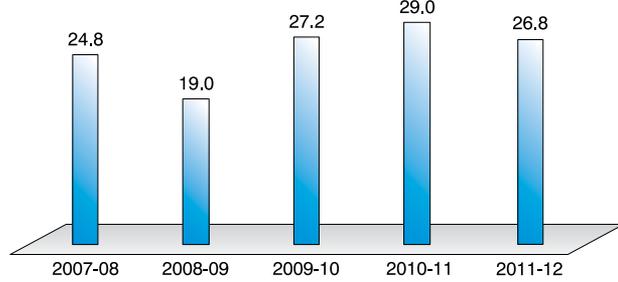


RETURN ON NET WORTH (%)

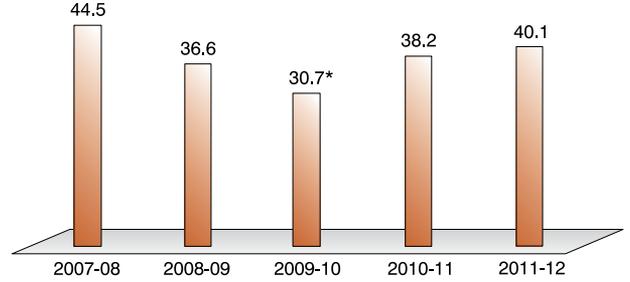
(Profit After Tax divided by Shareholders' Funds)



RETURN ON CAPITAL EMPLOYED (%)

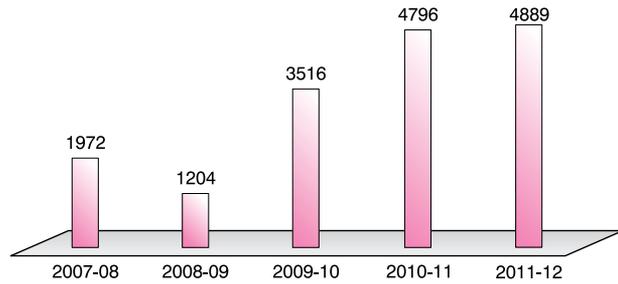


EARNINGS PER SHARE (EPS) (Rupees)

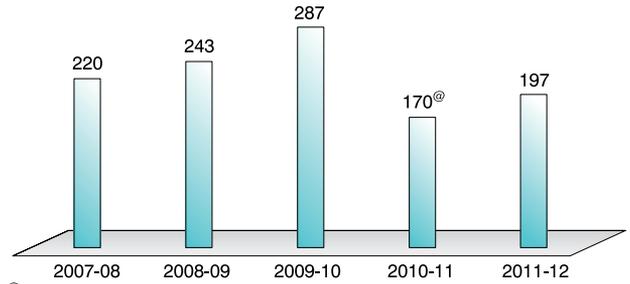


* EPS of 2009-10 has been recalculated consequent to the Bonus Issue in 2010-11.

MARKET CAPITALISATION (Rupees in Crores)

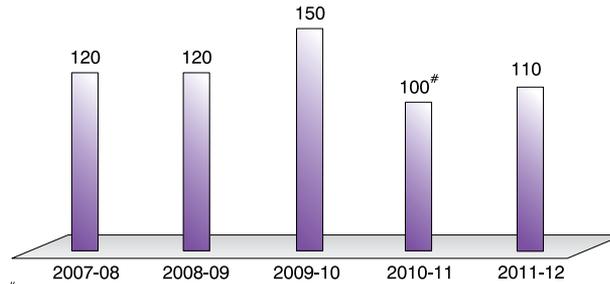


BOOK VALUE PER SHARE (Rupees)



® 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 ₹ 0.13 million that had not been claimed by the shareholders for the year ended 31st March, 2004, 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, 2012, dividend amounting to ₹ 5.46 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 Agreement with Oshima Kogyo Co. Ltd., Japan, for manufacturing heat resistance coatings and with PPG International Performance Coatings & Finishes, USA (formerly Ameron International Performance Coatings and Finishes) for High Performance Coatings. The Directors record their appreciation for the co-operation from these collaborators.

6. Auditors' Report

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

7. 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 2010-11. The due date for filing the Cost Audit Report with the Ministry of Corporate Affairs was 27th September, 2011. The Cost Audit Report was filed with Ministry of Corporate Affairs on 27th September, 2011.

8. Directors

In accordance with the Articles of Association of the Company, Dr. J.J. Irani and Mr. D.M. Kothari retire by rotation and being eligible, offer themselves for re-appointment.

Mr. H. Nishibayashi, a nominee of Kansai Paint Co. Ltd., Japan, was appointed as a Director on the Board in casual vacancy caused by the resignation of Mr. Y. Tajiri with effect from 30th July, 2010. Pursuant to Section 262 read with section 256 of the Companies Act, 1956, Mr. Nishibayashi holds office till the ensuing Annual General Meeting but being eligible, offers himself for re-appointment and the Company has received notice 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.

9. 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.

10. General Shareholder Information

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

11. 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.

12. 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 the 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 care of 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.

13. 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.

14. 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.

15. 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, 2nd May, 2012

ANNEXURE TO DIRECTORS' REPORT
FORM A
(1) Disclosure of Particulars with respect of Conservation of Energy

A. POWER AND FUEL CONSUMPTION	<u>2011-12</u>	<u>2010-11</u>
(1) ELECTRICITY		
(a) Purchased		
Units ('000KWH)	27767	24393
Total Amount (₹ in Million)	158.64	133.51
Rate/Unit (₹)	5.71	5.47
(b) Own Generation		
Through Diesel Generator		
Units ('000KWH)	3955	6112
Units per litre of Diesel oil	3.48	3.43
Cost/Unit (₹)(of diesel oil only)	11.20	10.56
(2) LIGHT DIESEL OIL AND HIGH SPEED DIESEL		
Quantity (KL)	3155	2361
Total Amount (₹ in Million)	131.78	93.19
Average Rate (₹)	41.77	39.47
(3) STEAM		
Quantity (MT)	10624	10657
Total Amount (₹ in Million)	19.96	20.26
Average Rate (₹)	1.88	1.90
(4) HEAT		
Quantity (KCH)	6091	822
Total Amount (₹ in Million)	15.78	3.02
Average Rate (₹)	2.61	3.67

B. CONSUMPTION PER UNIT OF PRODUCTION

	ELECTRICITY (KWH/TONNE)		LIGHT DIESEL OIL HIGH SPEED DIESEL (LT/TONNE)		STEAM (KG/TONNE)		HEAT (KCH/TONNE)	
	<u>2011-12</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2010-11</u>
Paints	126	130	13	10	42	45	24	3

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

2. Benefits derived as a result of R & D:
The following new products have been developed and commercialized:
- Impressions Water based High Gloss Enamel
 - Impressions IDEAZ designer finishes
 - Nerolac Excel Exterior Metallic finishes
 - Paints for jewellery and appliances
 - Rust encapsulating paints
 - High solid primer for automobile
 - Coating for interior plastic components of automobiles
3. Further Plan of action:
Development of following:
- Super durable high end exterior emulsion paint
 - Super durable high end interior emulsion paint
 - Water based primer for industrial application
 - Use of pre-dispersed pigment paste to improve efficiency
 - Clear coat with better finish and mar resistance
4. Expenditure on R & D:

	(₹ in Million)	
	2011-12	2010-11
(a) Capital	11.08	3.70
(b) Recurring	148.51	115.10
(c) Total	159.59	118.80
(d) Total R & D Expenditure as percentage of total turnover	0.53	0.48

II. A. TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

Kansai Paint Co. Ltd., Japan.

- High throw power electro deposition paints
- 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 21.1, 24.4 and earnings in foreign exchange are given in Note 18.2 in Notes to the Financial Statements.

For and on behalf of the Board

J. J. IRANI
Chairman

Mumbai, 2nd May, 2012

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 Board as on 31st March, 2012 is ten Directors. The Board comprises Executive and Non-Executive Directors. The Managing Director and a Whole-time Director are the two Executive Directors. There are eight Non-Executive Directors, of which five 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, 2012, i.e. on 28th April, 2011, 29th July, 2011, 21st October, 2011, 30th January, 2012.

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	Non-Executive and Independent Director	4	Yes
Mr. H. Ishino	Non-Executive Director	1*	Yes
Mr. P.P. Shah	Non-Executive and Independent Director	4	Yes
Mr. N.N. Tata	Non-Executive and Independent Director	3	Yes
Mr. P.D. Chaudhari	Whole-time Director	4	Yes
Mr. Y. Takahashi	Non-Executive Director	1	No
Mr. H. Nishibayashi	Non-Executive Director	1	No

* Mr. H. Ishino also participated at the Board Meeting held on 29th July, 2011, by teleconference, but the same has not been counted for attendance at the Meeting.

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 2011-12.

Kansai Nerolac Paints Limited • Annual Report 2011-2012

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. S. M. Datta	13	3	5
Mr. H. Ishino	Nil	Nil	Nil
Mr. P. P. Shah	12	Nil	6
Mr. N. N. Tata	8	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, 2012. 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 during the year ended 31st March, 2012, i.e. on 28th April, 2011, 29th July, 2011, 21st October, 2011 and 30th January, 2012.

Name of the Director	Number of Audit Committee Meetings attended during the year ended 31st March, 2012
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 2nd May, 2012 at which meeting the Audited Annual Accounts for the year ended 31st March, 2012, 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 decides 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 one meeting. Dr. J. J. Irani and Mr. D. M. Kothari attended the meeting.

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 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 therefor, then and in the event, the Whole-time Director shall be paid a compensation of a sum equivalent to monthly average of the total annual remuneration actually earned by the Whole-time Director in the year immediately preceding the year in which such termination takes place multiplied by number of months comprised in the remainder of the term of his Agreement as has remained unexpired.
- 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) for the year ended 31st March, 2012 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	6.12	2.58
Company's contribution to Provident Fund and Superannuation Fund (on Salary)	1.65	0.70
HRA, LTA and other perquisites	7.65	3.22*
	15.42	6.50
<u>Variable Component</u>		
Commission	17.55	4.32
Company's contribution to Provident Fund (on Commission)	2.11	0.52
	19.66	4.84
Total	35.08	11.34

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, 2011.

* Includes LTA of ₹ 0.26 million due but not claimed during the year.

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, 2012 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	0.01	1.80	1.89
Mr. D. M. Kothari	0.04	0.04	0.01	2.40	2.49
Mr. S. M. Datta	0.04	—	—	1.20	1.24
Mr. P. P. Shah	0.04	0.04	—	1.50	1.58
Mr. N. N. Tata	0.03	—	—	1.20	1.23

@ Commission paid during the year 2011 – 12 was for the year ended 31st March, 2011.

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

Name of the Director	Shares held as on 31.3.2012 (Own or held by/for other persons on a beneficial basis)
Dr. J. J. Irani #	Nil
Mr. D. M. Kothari #	3084
Mr. S. M. Datta	Nil
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 49 IV (G) (i) of the Listing Agreement entered into with the BSE and the NSE.

Dr. J. J. Irani

Dr. Jamshed J. Irani obtained a B.Sc. from Science College, Nagpur with a Gold Medal in Geology and a M.Sc. (Geology) from the Nagpur University, both with a first class first, M. Met and Ph. D from the University of Sheffield, U.K., with a Gold Medal for the Ph.D. thesis. Dr. Irani, honoured with a Padma Bhushan by the Government of India in 2007, is a recipient of numerous awards from reputed institutions in India and abroad for his outstanding contributions made to the metallurgical profession and industry, for forecasting harmonious employee-management relations in industry and for entrepreneurial success and corporate leadership.

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

Electrosteel Castings Limited, Repro India Limited, Housing Development Finance Corporation Limited.

Dr. Irani does not hold any shares in the Company.

Mr. D. M. Kothari

Mr. D.M. Kothari is a qualified Chartered Accountant by profession and is an authority on the Indian Paints Industry.

Mr. Kothari had been in the whole-time employment of the Company for a period of 29 years, till his retirement on 30th April, 1990. During his employment with the Company, Mr. Kothari had an extremely successful tenure as the Managing Director of the Company for a period of 15 years, from 1st April, 1975 to 30th April, 1990, that witnessed the spectacular growth in turnover of the Company by over ten times from about Rs. 14 crores in 1975 to Rs. 147 crores in 1990. During his tenure as the Managing Director, the Company entered into technical and financial collaboration with Kansai Paint Co. Ltd., Japan, which laid the foundation for the Company to be the undisputed leader in the industrial paints business and paved the way for the Company to attaining greater heights. Subsequent to his retirement as the Managing Director, Mr. Kothari was appointed as a Non-Executive Director designated as the Vice- Chairman of the Company from 1st May, 1990, which position he continues to hold on the Board of Directors of the Company.

Mr. Kothari has also been the President/member of several leading trade Associations such as the Indian Paint Association, The Chemicals & Allied Products Export Promotion Council (CAPEXIL), The Indian Chemical Manufacturers Association (ICMA), The Bombay Chamber of Commerce and Industry (BCCI) and The Federation of Indian Export Organisation (FIEO).

Mr. Kothari holds 3084 equity shares in the Company.

Mr. H. Nishibayashi

Mr. H. Nishibayashi is a Non-Executive Director on the Board of the Company. He is a graduate from Osaka University of Foreign Studies and has expertise in the field of Automotive Coatings Business Marketing.

Mr. Nishibayashi has had a varied experience working abroad in a number of countries. He joined Kansai Paint Co. Ltd., Japan in April 1987 and is General Manager at their International Business Division.

Mr. Nishibayashi is a Nominee Director of Kansai Paint Co. Ltd., Japan , the Company's holding Company.

Mr. Nishibayashi does not hold any shares in the Company in his personal capacity.

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	2	2
Non-receipt of Share Certificates	1	1
SEBI / Stock Exchange Letter / ROC	1	1
Miscellaneous	2	2
Total	6	6

- (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
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.
89th AGM	29th June, 2009, at 3.30 p.m.	M. C. Ghia Hall, Kala Ghoda, Mumbai - 400 001.

- (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.

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, or 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 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 of 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 2nd May, 2012 to approve the Audited Annual Accounts for the year ended 31st March, 2012.

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 in 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 separate 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, 19th June, 2012 at 3.30 p.m. at M. C. Ghia Hall, Bhogilal Hargovindas Buiding, 2nd floor, 18/20, Kaikhushru Dubash Marg, Behind Prince of Wales Museum, Kala Ghoda, Mumbai - 400 001.

- (ii) Financial Calendar:

	: April-March
– Financial reporting for the quarter ending 30th June, 2012	: End July, 2012
– Financial reporting for the quarter ending 30th September, 2012	: End October, 2012
– Financial reporting for the quarter ending 31st December, 2012	: End January, 2013
– Financial reporting for the year ending 31st March, 2013	: End April, 2013
– Annual General Meeting for the year ending 31st March, 2013	: End June, 2013

- (iii) Dates of Book Closure:

Tuesday, June 12, 2012 to Monday, June 18, 2012 (both days inclusive) for the purpose of the Annual General Meeting and Dividend.

- (iv) Dividend Payment Date:

On or after 23rd June, 2012. Dividend, when declared, will be payable on or after 23rd June, 2012 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 11th June, 2012 and to the Beneficiary holders as per the beneficiary list as on 11th June, 2012 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

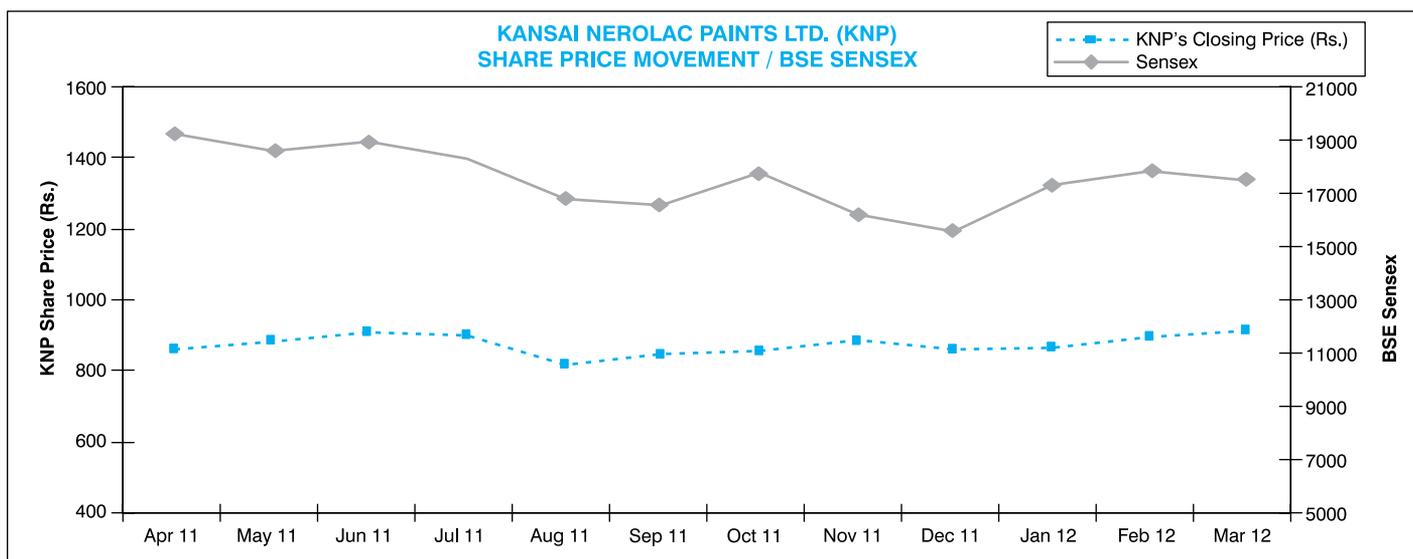
Demat – ISIN Number for NSDL & CDSL : INE531A01016

(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, 2012 is furnished below:		
Month	High (Rs.)	Low (Rs.)
April 2011	905.00	825.00
May 2011	894.90	826.00
June 2011	937.70	800.00
July 2011	948.95	848.15
August 2011	905.00	790.05
September 2011	859.00	800.55
October 2011	876.95	825.05
November 2011	884.90	827.00
December 2011	889.90	831.60
January 2012	889.95	801.00
February 2012	905.00	861.05
March 2012	915.05	880.10

(viii) Stock Performance

Month	KNP's Closing Price on BSE (Rs.)	Sensex
April 2011	851.80	19135.96
May 2011	876.35	18503.28
June 2011	901.35	18845.87
July 2011	892.20	18197.20
August 2011	811.90	16676.75
September 2011	838.75	16453.76
October 2011	849.00	17705.01
November 2011	879.75	16123.46
December 2011	853.95	15454.92
January 2012	856.20	17193.55
February 2012	889.80	17752.68
March 2012	907.15	17404.20



Kansai Nerolac Paints Limited • Annual Report 2011-2012

(ix) Registrar and Transfer Agents:

Sharepro Services (India) Pvt. Ltd.

Office:

Samhita Complex, Plot No. 13AB, 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 • Fax No.: 22825484
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, 2012:

No. of Equity Shares held	No. of Folios	% to number of Folios	No. of Shares	% to number of Shares
Upto 500	7477	80.00	760790	1.41
501 to 1000	769	8.23	582726	1.08
1001 to 2000	564	6.03	824554	1.53
2001 to 3000	192	2.05	475740	0.88
3001 to 4000	138	1.48	478686	0.89
4001 to 5000	53	0.57	241398	0.45
5001 to 10000	82	0.88	551882	1.02
10001 and above	71	0.76	49976196	92.74
Grand Total	9346	100.00	53891972	100.00

Geographical Distribution of Shareholders as on 31st March, 2012

Location	No. of Folios	% to number of folios	No. of Shares	% to number of Shares
OUTSIDE INDIA	1	0.01	3,73,29,760	69.27
Foreign Collaborator (Kansai Paint Co. Ltd., Japan)				
FIIIs, NRIs, OCBs	206	2.20	36,16,667	6.71
IN INDIA				
Mumbai	4067	43.52	95,83,204	17.79
Ahmedabad	511	5.47	1,67,587	0.31
Delhi	437	4.69	14,70,754	2.73
Chennai	346	3.70	89,141	0.17
Kolkata	412	4.41	4,17,481	0.77
Pune	392	4.19	2,05,732	0.38
Bengaluru	369	3.95	1,71,961	0.32
Surat	133	1.42	41,023	0.08
Hyderabad	150	1.60	67,130	0.12
Baroda	130	1.39	40,284	0.07
Others	2192	23.45	6,91,248	1.28
TOTAL	9346	100.00	5,38,91,972	100.00

Categories of Shareholders as on 31st March, 2012

	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	1,97,741	0.37
b.	Banks, Financial Institutions, Insurance Companies (Central/State Govt. Institutions/Non-Government Institutions)	23,12,840	4.29
C.	Foreign Institutional Investors (FIIs)	35,40,761	6.57
	Sub-Total	60,51,342	11.23
4.	Others		
	Private Corporate Bodies	58,80,088	10.91
	Indian Public	45,48,926	8.44
	NRIs/OCBs	75,906	0.14
	Any Other (Trusts)	5,950	0.01
	Sub-Total	1,05,10,870	19.50
	Grand Total	5,38,91,972	100.00

(xii) Dematerialisation of Shareholding:

98.54% of the paid-up share capital had been dematerialised, as at 31st March, 2012.

(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

Fax No.: 22825484

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, 2004 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 is following the prescribed procedure for opening the 'Unclaimed Suspense Account' in respect of the unclaimed physical share certificates. Three reminders were sent to the concerned shareholders on 28th November, 2011, 25th January, 2012 and 19th March, 2012. Based on the responses received from the shareholders, finally 35,693 shares pertaining to 189 shareholders as on 31st March, 2012 have been identified for credit to the unclaimed suspense account being opened by the Company as a Demat Account in HDFC Bank. The Board of the Company has approved opening of the Demat Account at its meeting held on 2nd May, 2012. The disclosure of details of the unclaimed suspense account in terms of Clause 5A-II(h) of the Listing Agreement will accordingly commence with effect from Annual Report for the FY 2012-13 onwards.

For and on behalf of the Board

J.J. IRANI
Chairman

Mumbai, 2nd May, 2012

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, 2012.

For Kansai Nerolac Paints Limited

H.M. Bharuka
Managing Director

Mumbai, 2nd May, 2012

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 2012, 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 **BSR & Co.**
Chartered Accountants
Firm's Registration No: 101248W

Vijay Mathur
Partner
Membership No: 046476

Mumbai
2 May, 2012

AUDITORS' REPORT TO THE MEMBERS OF KANSAI NEROLAC PAINTS LIMITED

We have audited the attached Balance Sheet of Kansai Nerolac Paints Limited ('the Company') as at 31 March 2012, the Statement of Profit and Loss and the Cash Flow Statement of the Company for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 Companies Act, 1956 ('the Act'), we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

Further to our comments in the Annexure referred to above, we report that:

- a) we have obtained all information and explanations which to the best of our knowledge and belief were necessary for the purposes of the audit;
- 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 the 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 dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Act;
- e) on the basis of written representations received from the directors of the Company as at 31 March 2012 and taken on record by the board of directors, we report that none of the directors is disqualified as on 31 March 2012 from being appointed as a director of the Company under clause (g) of sub-section (1) of Section 274 of the Act; and
- f) 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 the accounting principles generally accepted in India;
 - i. in case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2012;
 - ii. in case of the Statement of Profit and Loss, of the profit of the Company for the year ended on that date; and
 - iii. in case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

For **BSR & CO.**
Chartered Accountants
Firm's Registration No.: 101248W

Vijay Mathur
Partner
Membership No.: 046476

Mumbai
2 May 2012

KANSAI NEROLAC PAINTS LIMITED

ANNEXURE TO AUDITORS' REPORT – 31 MARCH 2012

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 has been physically verified by the management during the year. In our opinion, the frequency of such verification is reasonable.
(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. The Company has neither granted nor taken any loans, secured or unsecured, to or from companies, firms or other parties covered in the register maintained under Section 301 of the Act.
- 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.

KANSAI NEROLAC PAINTS LIMITED

ANNEXURE TO AUDITORS' REPORT – 31 MARCH 2012 (continued)

- 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, Wealth tax, Service tax, Customs duty, Investor Education and Protection Fund, Employees' State Insurance, Cess, Excise duty and other material statutory dues have been generally regularly deposited during the year by the Company with the appropriate authorities.

According to the information and explanations given to us, no undisputed amounts payable in respect of Provident fund, Income-tax, Sales-tax, Wealth tax, Service tax, Customs duty, Investor Education and Protection Fund, Employees' State Insurance, Cess, Excise duty and other material statutory dues were in arrears as at 31 March 2012 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, Excise duty and Cess 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 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 had 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.

KANSAI NEROLAC PAINTS LIMITED

ANNEXURE TO AUDITORS' REPORT – 31 MARCH 2012 (continued)

- 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
2 May 2012

KANSAI NEROLAC PAINTS LIMITED
BALANCE SHEET AS AT 31ST MARCH, 2012

₹ in Million

	Note	As at 31st March, 2012	As at 31st March, 2011
Equity and Liabilities			
Shareholders' Funds			
Share Capital	2	538.92	538.92
Reserves and Surplus	3	10092.62	8622.75
		10631.54	9161.67
Non-current Liabilities			
Long-term Borrowings	4	689.76	750.46
Long-term Provisions	5	432.12	428.42
		1121.88	1178.88
Current Liabilities			
Trade Payables.....	6	3542.37	3203.74
Other Current Liabilities	7	953.72	546.44
Short-term Provisions	8	731.69	662.66
		5227.78	4412.84
Total.....		16981.20	14753.39
Assets			
Non-current Assets			
Fixed Assets	9		
Tangible Assets.....		3930.55	2736.54
Intangible Assets		32.68	45.54
Capital Work-in-Progress.....		1614.87	751.65
		5578.10	3533.73
Non-current Investments.....	10	439.13	726.85
Deferred Tax Assets (Net)	11	102.21	134.13
Long-term Loans and Advances.....	12	437.24	534.62
		6556.68	4929.33
Current Assets			
Current Investments.....	10	1395.92	2991.38
Inventories	13	4537.10	3541.03
Trade Receivables.....	14	3588.34	2602.59
Cash and Bank Balances.....	15	591.77	395.99
Short-term Loans and Advances	16	127.46	122.01
Other Current Assets	17	183.93	171.06
		10424.52	9824.06
Total.....		16981.20	14753.39

As per our report attached
For B S R & Co.
Chartered Accountants
Firm's Registration No. 101248W

VIJAY MATHUR
Partner

G.T. GOVINDARAJAN
Company Secretary

P.D. PAI
CFO

Mumbai: 2nd May, 2012

For and on behalf of the Board of Directors

J.J. IRANI
Chairman
D.M. KOTHARI
Vice Chairman
H.M. BHARUKA
Managing Director
S.M. DATTA
Director
N.N. TATA
Director
P.P. SHAH
Director
P.D. CHAUDHARI
Wholetime Director

KANSAI NEROLAC PAINTS LIMITED
STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31ST MARCH, 2012

₹ in Million

	Note	Year Ended 31st March, 2012	Year Ended 31st March, 2011
Revenue from Operations			
Sale of Products.....	18	28615.22	23535.76
Less: Excise Duty.....		2756.43	2270.16
		25858.79	21265.60
Other Operating Revenues.....	19	146.93	146.79
		26005.72	21412.39
Other Income	20	242.66	225.44
Total Revenue		26248.38	21637.83
Expenses			
Cost of Materials Consumed.....	21	16968.98	14018.62
Purchases of Stock-in-Trade		917.50	626.18
Changes in Inventories.....	22	(482.35)	(627.46)
Employee Benefits Expense	23	1069.44	916.42
Finance Costs		0.86	1.35
Depreciation and Amortization Expense.....	9	563.53	493.55
Other Expenses	24	4159.14	3571.51
Total Expenses		23197.10	19000.17
Profit Before Exceptional Items and Tax		3051.28	2637.66
Profit on Sale of Long-term Trade Investment.....	32	—	253.67
Profit Before Tax		3051.28	2891.33
Tax Expense			
Current Tax.....		860.51	850.38
Deferred Tax.....		31.92	(18.90)
Total Income Tax...		892.43	831.48
Profit After Tax		2158.85	2059.85
Earnings per Equity Share (in ₹)			
Basic	27	40.06	38.22
Diluted		40.06	38.22

As per our report attached
For B S R & Co.
Chartered Accountants
Firm's Registration No. 101248W

VIJAY MATHUR
Partner

Membership No. 046476

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

S.M. DATTA

Director

N.N. TATA

Director

P.P. SHAH

Director

P.D. CHAUDHARI

Wholetime Director

Mumbai: 2nd May, 2012

KANSAI NEROLAC PAINTS LIMITED
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST MARCH, 2012

₹ in Million

	Year ended 31st March, 2012	Year ended 31st March, 2011
Cash Flow from Operating Activities		
Net Profit Before Tax	3051.28	2891.33
Adjustments for:		
Depreciation and Amortisation.....	563.53	493.55
Foreign Exchange Loss / (Gain) Unrealised	3.38	(8.86)
Provision for Tangible Assets Written Back	(1.30)	(1.64)
Profit on Sale of Fixed Assets	(5.08)	(0.38)
Profit on Sale / Redemption of Investments.....	(98.35)	(21.95)
Profit on Sale of Long-term Trade Investment.....	—	(253.67)
Finance Cost.....	0.86	1.35
Interest Income	(24.95)	(19.30)
Dividend Income	(104.42)	(164.04)
	333.67	25.06
Operating Profit Before Working Capital Changes	3384.95	2916.39
(Increase) / Decrease in Trade and Other Receivables.....	(1028.22)	(366.12)
(Increase) / Decrease in Inventories	(996.07)	(1066.58)
(Increase) / Decrease in Trade Payables.....	512.71	612.39
	(1511.58)	(820.31)
Cash Generated from Operations	1873.37	2096.08
Direct Taxes Paid (Net of Refunds)	(850.77)	(795.91)
	1022.60	1300.17
Cash Flow from Investing Activities		
Purchase of Fixed Assets (including Adjustments on Account of Capital Work-in-Progress and Capital Advances)	(2239.32)	(1267.60)
Proceeds from Sale of Fixed Assets	8.71	1.31
Purchase of Investments.....	(21270.83)	(28042.61)
Proceeds from Sale / Redemption of Investments	23252.36	28358.13
Proceeds from Sale of Long-term Trade Investment	—	257.25
Tax Expense on Investment	—	(49.97)
Interest Received	23.18	15.10
Dividend Received	104.42	164.04
	(121.48)	(564.35)
Cash Flow from Financing Activities		
Repayment of Borrowings	(79.23)	(54.20)
(Increase) / Decrease in Cash Credit from Banks.....	—	(220.98)
Finance Cost	(0.86)	(1.35)
Dividend Paid	(538.92)	(404.19)
Additional Income-Tax on Distributed Profits.....	(87.43)	(67.13)
	(706.44)	(747.85)
Net Increase / (Decrease) in Cash and Cash Equivalents ..	194.68	(12.03)

KANSAI NEROLAC PAINTS LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST MARCH, 2012 (contd.)

₹ in Million

	Year ended 31st March, 2012	Year ended 31st March, 2011
Cash and Cash Equivalents at the beginning of the year, the components being:		
Cash on hand.....	0.78	1.08
Balances with banks	390.85	402.58
	391.63	403.66
Cash and Cash Equivalents at the end of the year, the components being:		
Cash on hand.....	0.78	0.78
Balances with banks	585.53	390.85
	586.31	391.63
Net Increase / (Decrease) as disclosed above.....	194.68	(12.03)

Notes: 1. Figures in brackets are outflows / deductions.

2. Previous year's figures have been regrouped and rearranged wherever necessary.

As per our report attached

For B S R & Co.

Chartered Accountants

Firm's Registration No. 101248W

VIJAY MATHUR

Partner

Membership No. 046476

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

S.M. DATTA

Director

N.N. TATA

Director

P.P. SHAH

Director

P.D. CHAUDHARI

Wholetime Director

Mumbai: 2nd May, 2012

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.

(V) Previous Year Figures

The financial statements for the year ended 31st March, 2012 have been presented as per the Revised Schedule VI to the Companies Act, 1956. Accordingly, the previous year's figures have also been reclassified to conform to this year's classification.

(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.

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.)

- (c) Depreciation is provided on the written down value method 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 based on the management's estimates of the useful life / remaining useful life. Pursuant to this policy, in respect of colour dispensers the rate of depreciation applied is 45 per cent, 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.
- (d) Leasehold lands are 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.

(II) Investments

- (a) 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.
- (b) Current investments, consist of investments in mutual funds, are stated at lower of cost and fair value where net asset value declared by the respective funds is considered as fair value.
- (c) 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 has been arrived at on the basis of weighted average method.
- (d) 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.

(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.

KANSAI NEROLAC PAINTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Preparation of Financial Statements (contd.)

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

(IV) Provisions and Contingent Liabilities (contd.)

- (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 (AS) 9 — Revenue 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.

(VI) Employee Benefits

(a) Short Term Employee Benefits:

Short term employee benefits are recognised as an expense at the 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 THE FINANCIAL STATEMENTS

Note 1: Preparation of Financial Statements (contd.)

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

(VI) 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 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 Effects of Changes 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 losses are recognised in the Statement of Profit and Loss. Gains arising on the same are not recognised, until realised, on grounds of prudence.

(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, 2012		As at 31st March, 2011	
1. Authorised Share Capital (₹ in Million)		600		600
Par Value per Share (₹)		10		10
Number of Equity Shares		60,000,000		60,000,000
2. Issued, Subscribed and Fully Paid-up (₹ in Million)		538.92		538.92
Par Value per Share (₹)		10		10
Number of Equity Shares		53,891,972		53,891,972
3. Details of Shareholders holding more than 5% of shares:				
		No. of		No. of
	%	Shares	%	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	7.95	4,285,223
Aberdeen Asset Management Asia Ltd.	5.35	2,881,224	3.39	1,825,932
4. Aggregate number of bonus shares issued during the period of five years immediately preceding the reporting date		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.				
6. Reconciliation of the number of shares outstanding:				
Number of shares at the beginning of the year		53,891,972		26,945,986
Bonus Shares — Issued during the year		—		26,945,986
Number of shares at the end of the year		53,891,972		53,891,972

Note 3: Reserves and Surplus

	As at 31st March, 2012		As at 31st March, 2011	
a. Capital Reserve		3.04		3.04
b. Securities Premium Reserve				
Opening Balance		125.55		395.01
Less: Issue of Bonus Share		—		269.46
		125.55		125.55
c. General Reserve:*				
Opening Balance		3534.57		3328.59
Add: Transfer from Statement of Profit and Loss		215.89		205.98
		3750.46		3534.57
* Created by transfers of profits as per the Companies (Transfer of Profits to Reserves) Rules, 1975. To be utilized as per the provisions of the Companies Act, 1956				
d. Balance in Statement of Profit and Loss:				
Opening Balance		4959.59		3732.07
Add: Profit for the year		2158.85		2059.85
Less: Proposed Dividend		592.81		538.92
Less: Tax on Proposed Dividend		96.17		87.43
Less: Transfer to General Reserve		215.89		205.98
		6213.57		4959.59
		10092.62		8622.75

KANSAI NEROLAC PAINTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

₹ in Million

Note 4: Long-term Borrowings

Deferred Payment Liabilities

	As at 31st March, 2012	As at 31st March, 2011
a. Secured Sales Tax Deferral Loan..... (Secured by a charge on the fixed assets of the factory at Jainpur)	29.63	39.73
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 three annual installments from the reporting date. Sales Tax Deferral Loan is interest-free. Current maturity of Sales Tax Deferral Loan of ₹ 10.10 Million (2010-2011 ₹ 41.41 Million) is disclosed under 'Other Current Liabilities' - Refer Note - 7.		
b. Unsecured Sales Tax Deferral Loan.....	660.13	710.73
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 nine annual installments from the reporting date. Sales Tax Deferral Loan is interest-free. Current maturity of Sales Tax Deferral Loan of ₹ 45.75 Million (2010-2011 ₹ 32.97 Million) is disclosed under 'Other Current Liabilities' - Refer Note - 7.		
	689.76	750.46

Note 5: Long-term Provision

Provision for Compensated Absences (Refer Note 30).....	35.14	35.95
Provision for Income Taxes (Net of Advances).....	138.01	133.50
Provision for Fringe Benefit Taxes (Net of Advances)	3.61	3.61
Provision for Indirect Taxes *:		
Opening Balance	255.36	266.36
Add: Provision during the year	—	—
Less: Utilization during the year	—	11.00
	255.36	255.36
	432.12	428.42

* With restructuring of the production facilities, the timing of the outflow of provision ₹ 255.36 Million (2010-2011 ₹ 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 6: Trade Payables

	As at 31st March, 2012	As at 31st March, 2011
Trade Payables*#	3542.37	3203.74
	<u>3542.37</u>	<u>3203.74</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.

Trade payables are dues in respect of goods purchased or services received (including from employees, professionals and others under contract) in the normal course of business.

Note 7: Other Current Liabilities

Current Maturities of Long-term Debt (Refer Note 4)	55.85	74.38
Unpaid Dividends*	5.46	4.36
Employee Related Statutory Obligations	4.00	5.18
Indirect Tax Liabilities	244.95	150.49
Tax Deducted at Source Payable	36.73	16.56
Trade Deposits	252.74	207.88
Payables on Purchase of Fixed Assets	353.99	87.59
	<u>953.72</u>	<u>546.44</u>

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

Note 8: Short-term Provisions

Provision for Compensated Absences (Refer Note 30)	14.22	14.31
Provision for Gratuity (Refer Note 30)	1.25	—
Provision for Income Taxes (Net of Advances)	9.74	4.50
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	538.92
Tax on Proposed Dividend	96.17	87.43
	<u>731.69</u>	<u>662.66</u>

* The Company is selling certain products with a 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 9: Fixed Assets

Description	Gross Block				Accumulated Depreciation / Amortisation				Net Block	
	As at 31st March, 2011	Additions	Deductions	As at 31st March, 2012	As at 31st March, 2011	Additions	Deductions	As at 31st March, 2012	As at 31st March, 2012	As at 31st March, 2011
I. Tangible Assets:										
Freehold Land.....	90.91	1.54	1.54	90.91	—	—	—	—	90.91	90.91
Leasehold Land.....	223.55	—	—	223.55	8.55	2.27	—	10.82	212.73	215.00
Buildings.....	1751.88	693.68	2.38	2443.18	712.22	110.34	—	822.56	1620.62	1039.66
Plant and Equipment.....	2730.06	829.10	7.53	3551.63	1710.82	248.89	7.49	1952.22	1599.41	1019.24
Furniture and Fixtures.....	312.04	39.05	1.23	349.86	239.06	29.04	1.63	266.47	83.39	72.98
Vehicles.....	7.92	2.25	1.00	9.17	5.53	0.68	0.96	5.25	3.92	2.39
Office Equipment.....	61.01	8.83	0.21	69.63	42.24	3.29	0.18	45.35	24.28	18.77
Asset for Scientific Research*.....	151.76	11.08	—	162.84	105.73	7.48	—	113.21	49.63	46.03
Assets Given on Lease (Refer Note 9.3).....	1364.50	154.41	—	1518.91	1124.64	141.61	—	1266.25	252.66	239.86
Total.....	6693.63	1739.94	13.89	8419.68	3948.79	543.60	10.26	4482.13	3937.55	
Previous Year.....	6354.66	344.59	5.62	6693.63	3468.02	485.46	4.69	3948.79		2744.84
Less: Provision for Write Down in Value of Tangible Assets (Refer Note 9.2).....									7.00	8.30
Total Tangible Assets.....									3930.55	2736.54
II. Intangible Assets:										
Computer Software.....	59.15	7.07	—	66.22	13.61	19.93	—	33.54	32.68	
Previous Year.....	22.09	37.06	—	59.15	5.52	8.09	—	13.61		45.54
III. Capital Work-in-Progress.....									1614.87	751.65
Total Fixed Assets.....	6752.78	1747.01	13.89	8485.90	3962.40	563.53	10.26	4515.67	5578.10	
Previous Year.....	6376.75	381.65	5.62	6752.78	3473.54	493.55	4.69	3962.40		3533.73

* Net block includes Buildings ₹ 0.12 Million (2010-2011 ₹ 0.13 Million), Plant and Equipment ₹ 48.90 Million (2010-2011 ₹ 45.15 Million) and Furniture and Fixtures ₹ 0.61 Million (2010-2011 ₹ 0.74 Million)

₹ in Million

Note 9.1

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

As at 31st March, 2012	As at 31st March, 2011
205.82	804.30

Note 9.2

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 value of fixed assets as at the end of the year ₹ 7.00 Million (2010-2011 ₹ 8.30 Million)]. During the year, an amount of ₹ 1.30 Million (2010-2011 ₹ 1.64 Million) has been written back consequent to charge on account of depreciation of an equal amount.

Note 9.3

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 balance sheet date are ₹ 1518.91 Million (2010-2011 ₹ 1364.50 Million) and ₹ 1266.25 Million (2010-2011 ₹ 1124.64 Million) respectively.
 - (ii) Depreciation recognised in the Statement of Profit and Loss is ₹ 141.61 Million (2010-2011 ₹ 121.56 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 payment receivable at the balance sheet date is not made.

KANSAI NEROLAC PAINTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

₹ in Million

Note 10: Investments

Other than Trade (Unquoted unless otherwise stated):

Long Term Investments (At cost, fully paid-up)

Investments in Equity Instruments:

National Thermal Power Corporation Limited (Quoted)

40524 Equity Shares of ₹ 10 each.....

2.51

2.51

Total Investments in Equity Instruments (A)...

2.51*

2.51*

Investments in Bonds

India Infrastructure Finance Company Limited (Quoted)

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

150.00

150.00

Indian Railways Finance Corporation (Quoted)

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

100.00

100.00

Indian Railways Finance Corporation (Quoted)

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

100.00

100.00

Indian Railway Finance Corporation Ltd

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

10.88

—

National Highway Authority of India

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

24.72

—

Power Finance Corporation Ltd

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

14.24

—

Total Investments in Bonds (B)

399.84*

350.00*

Investments in Mutual Funds:

Dividend Option:

ICICI Prudential Equity & Derivatives Fund

None Units of ₹ 10 each.....

—

20.00

Total Mutual Fund (Dividend Option) (C) ...

—

20.00*

Growth Option:

Birla Sunlife Fixed Term Plan - Series CE

None Units of ₹ 10 each.....

—

50.00

Birla Fixed Term Plan - Series CI

None Units of ₹ 10 each.....

—

50.01

Birla Fixed Term Plan - Series CL

None Units of ₹ 10 each.....

—

10.00

BNP Paribas Fixed Term Fund - Series 20A

None Units of ₹ 10 each.....

—

10.00

BNP Paribas Fixed Term Fund - Series 20C

5000000 of ₹ 10 each.....

50.00

50.00*

KANSAI NEROLAC PAINTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

₹ in Million

Note 10: Investments (contd.)

Other than Trade (Unquoted unless otherwise stated) (contd.)

Long Term Investments (At cost, fully paid-up) (contd.)

Investments in Mutual Funds: (contd.)

Growth Option: (contd.)

DSP Blackrock Fixed Maturity Plan -13M - Series 2

None Units of ₹ 10 each — 20.00

DSP Blackrock Fixed Maturity Plan -12M - Series 9

None Units of ₹ 10 each — 50.00

DSP Blackrock Fixed Maturity Plan -12M - Series 10

None Units of ₹ 10 each — 50.02

DSP Blackrock Fixed Maturity Plan -12M - Series 12

None Units of ₹ 10 each — 10.00

Fidelity Fixed Maturity Plan - Series 3 - Plan F

None Units of ₹ 10 each — 50.01

Fidelity Fixed Maturity Plan - Series 4 - Plan F

None Units of ₹ 10 each — 60.00

HDFC Fixed Maturity Plan 370D Nov 10(1)

None Units of ₹ 10 each — 30.01

ICICI Prudential FMP - Series 55A - 15 Months - Plan A

10008639 Units of ₹ 10 each **100.09** 100.09*

ICICI Prudential Fixed Maturity Plan - Series 53A

None Units of ₹ 10 each — 30.00

ICICI Prudential MIP

1451313 Units (and 426 fractions) of ₹ 10 each..... **17.39*** 24.25*

IDFC Fixed Maturity Plan - Series 37

None Units of ₹ 10 each — 10.00

JM - Arbitrage Advantage Fund

1826734 Units (and 256 fractions) of ₹ 10 each..... **19.39*** 30.00*

JP Morgan India Fixed Maturity Plan - Series 1

None Units of ₹ 10 each — 100.00

JP Morgan India Fixed Maturity Plan - Series 1

None Units of ₹ 10 each — 50.00

Kotak Fixed Maturity Plan - Series 9

None Units of ₹ 10 each — 100.10

Kotak Fixed Maturity Plan - Series 30

None Units of ₹ 10 each — 50.01

Kotak Fixed Maturity Plan - Series 43

None Units of ₹ 10 each — 20.00

Reliance Fixed Horizon Fund - XVI - Series 1

None Units of ₹ 10 each — 20.00

KANSAI NEROLAC PAINTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

₹ in Million

Note 10: Investments (contd.)

Other than Trade (Unquoted unless otherwise stated) (contd.)

Long Term Investments (At cost, fully paid-up) (contd.)

Investments in Mutual Funds: (contd.)

Growth Option: (contd.)

Reliance Fixed Horizon Fund - XVII - Series 7

15000000 Units of ₹ 10 each

150.00

150.00*

Religare Fixed Maturity Plan Series IV - Plan F

None Units of ₹ 10 each

—

50.00

Tata Fixed Income Portfolio Fund Scheme B2

None Units of ₹ 10 each

—

151.04

UTI Fixed Income Interval Fund Annual Interval Plan IV

None Units of ₹ 10 each

—

50.01

Total Mutual Fund (Growth Option) (D)

336.87

1375.55

Total Investments in Mutual Funds (E = C + D)

336.87

1395.55

Total Long Term Investments (A + B + E)

739.22

1748.06

Current Investments (At lower of cost and market value)

Investments in Mutual Funds:

Dividend Option:

Axis Fixed Term Plan - Series 20 (3 Months)

10000597 Units of ₹ 10 each

100.00

—

Birla Sunlife Interval Income Fund - Series 1

None Units of ₹ 10 each

—

103.35

Birla Sunlife Short Term Fixed Maturity Plan - Series 5

None Units of ₹ 10 each

—

10.00

Birla Sunlife Short Term Fixed Maturity Plan - Series 29

5000983 Units of ₹ 10 each

50.01

—

BNP Paribas Fixed Term Fund - Series 21A

None Units of ₹ 10 each

—

100.00

DSP Blackrock Fixed Maturity Plan - Series 28

None Units of ₹ 10 each

—

20.00

DSP Blackrock Fixed Maturity Plan - Series 29

None Units of ₹ 10 each

—

100.00

DSP Blackrock Fixed Maturity Plan - Series 30

None Units of ₹ 10 each

—

50.00

DSP Blackrock Fixed Maturity Plan - Series 32

None Units of ₹ 10 each

—

50.01

KANSAI NEROLAC PAINTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

₹ in Million

Note 10: Investments (contd.)

Other than Trade (Unquoted unless otherwise stated) (contd.)

Current Investments (At lower of cost and market value) (contd.)

Investments in Mutual Funds: (contd.)

Dividend Option: (contd.)

Fidelity Fixed Maturity Plan - Series 5 - Plan B

None Units of ₹ 10 each — 51.59

Fidelity Fixed Maturity Plan - Series 5 - Plan D

None Units of ₹ 10 each — 10.00

ICICI Prudential Interval Fund V - Plan A

None Units of ₹ 10 each — 20.00

ICICI Prudential Interval Fund - Half Yearly Plan - 1

None Units of ₹ 10 each — 71.94

IDFC Fixed Maturity Plan - Half Yearly Series 12

None Units of ₹ 10 each — 101.51

IDFC Fixed Maturity Plan - Quaterly Series 69

5000000 Units of ₹ 10 each **50.00** —

IDFC Fixed Maturity Plan - Quaterly Series 70

10000000 Units of ₹ 10 each **100.00** —

JP Morgan India Fixed Maturity Plan - Series 1

None Units of ₹ 10 each — 50.00

JP Morgan India Fixed Maturity Plan - Series 7

20000000 Units of ₹ 10 each **200.00** —

JP Morgan India Liquid Super Institutional

17993579 (and 338 fractions) Units of ₹ 10 each..... **180.08** —

Reliance Quarterly Interval Fund - Series II

None Units of ₹ 10 each — 51.47

Reliance Quarterly Interval Fund - Series III

None Units of ₹ 10 each — 106.24

Religare Fixed Maturity Plan - Series V - Plan F

None Units of ₹ 10 each — 90.00

Religare Credit Opportunities Fund

None Units of ₹ 10 each — 100.02

Tata Fixed Maturity Plan - Series 30 - Scheme A

None Units of ₹ 10 each — 50.00

Tata Fixed Maturity Plan - Series 28 - Scheme B

None Units of ₹ 10 each — 20.00

Total Mutual Fund (Dividend Option) (F).....

680.09 1156.13

KANSAI NEROLAC PAINTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

₹ in Million

Note 10: Investments (contd.)

Other than Trade (Unquoted unless otherwise stated) (contd.)

Current Investments (At lower of cost and market value) (contd.)

Investments in Mutual Funds: (contd.)

Growth Option:

	As at 31st March, 2012	As at 31st March, 2011
Birla Sun Life Cash Plus None Units of ₹ 10 each.....	—	20.00
BNP Paribas Overnight Fund None Units of ₹ 10 each.....	—	10.00
BNP Paribas Money Plus Fund None Units of ₹ 10 each.....	—	50.45
DSP Blackrock Liquidity Fund None Units of ₹ 1000 each.....	—	10.00
DWS Ultra Short Term Fund None Units of ₹ 10 each.....	—	100.05
Fidelity Cash Fund None Units of ₹ 10 each.....	—	10.00
Fidelity Ultra Short Term Debt Fund None Units of ₹ 10 each.....	—	40.37
HDFC Cash Management Fund None Units of ₹ 10 each.....	—	10.00
ICICI Prudential Liquid Fund None Units of ₹ 10 each.....	—	20.00
JM Money Manager Fund Super Plan 6211127 Units (and 488 fractions) of ₹ 10 each.....	94.73	—
JP Morgan India Liquid Fund 7916573 Units (and 707 fractions) of ₹ 10 each.....	110.00	10.00
Kotak Quarterly Interval Plan - Series 6 None Units of ₹ 10 each.....	—	70.15
Kotak Quarterly Interval Plan - Series 7 None Units of ₹ 10 each.....	—	106.35
Reliance Liquid Fund - Cash Plan None Units of ₹ 10 each.....	—	10.00
Religare Liquid Fund None Units of ₹ 1000 each.....	—	10.00
Tata Liquid Fund None Units of ₹ 1000 each.....	—	10.00
Tata Liquidity Management Fund 146280 Units (and 511 fractions) of ₹ 1000 each.....	211.01	—
Templeton India TMA None Units of ₹ 1000 each.....	—	10.00

KANSAI NEROLAC PAINTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

₹ in Million

Note 10: Investments (contd.)

Other than Trade (Unquoted unless otherwise stated) (contd.)

Current Investments (At lower of cost and market value) (contd.)

Investments in Mutual Funds: (contd.)

Growth Option: (contd.)

UTI Fixed Income Interval Fund - Series II - Plan VI

None Units of ₹ 10 each.....

— 95.86

UTI Fixed Income Interval Fund - Series II - Plan VII

None Units of ₹ 10 each.....

— 104.53

UTI Fixed Income Interval Fund - Half Yearly Plan II

None Units of ₹ 10 each.....

— 106.28

UTI Liquid Cash Plan

None Units of ₹ 1000 each.....

— 10.00

Total Mutual Fund (Growth Option) (G)

415.74 814.04

Total Current Investments (F + G)

1095.83 1970.17

Total Investments.....

1835.05 3718.23

Aggregate amount of quoted investments [Market value ₹ 406.43 Million (2010-11 ₹ 258.39 Million) includes ₹ 399.84 Million (2010-11 ₹ 350 Million) where cost has been considered as market value]

402.35 352.51

Aggregate amount of unquoted investments.....

1432.70 3365.72

1835.05 3718.23

Non-current Investments - as defined in Revised Schedule VI (sum of *marked investments).....

439.13 726.85

Current Investments - as defined in Revised Schedule VI.....

1395.92 2991.38

1835.05 3718.23

KANSAI NEROLAC PAINTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

₹ in Million

Note 11: Deferred Tax Asset / (Liabilities)

	As at 31st March, 2012	As at 31st March, 2011
Items Covered Under Section 43B.....	113.13	114.16
Provision for Diminution in Value of Fixed Assets	2.27	2.76
Voluntary Retirement Compensation	2.21	4.32
Amalgamation Expenses	—	0.62
Provision for Doubtful Debts	5.73	2.05
Depreciation.....	(21.13)	10.22
Deferred Tax Asset (Net).....	<u>102.21</u>	<u>134.13</u>

Note 12: Long-term Loans and Advances

Capital Advances	179.58	284.10
Security Deposits	51.39	44.25
Income Tax Paid (Net of Provision)	206.27	206.27
	<u>437.24</u>	<u>534.62</u>

Note 13: Inventories

Raw Materials	1551.55	1167.01
Packing Materials.....	50.06	44.67
Work-in-Progress	286.00	242.06
Finished Goods.....	2519.47	2004.07
Stock-in-Trade	110.93	63.76
Stores and Spares	19.09	19.46
	<u>4537.10</u>	<u>3541.03</u>

Note 14: Trade Receivables

Overdue for a Period Exceeding Six Months:		
Secured, Considered Good	2.14	2.00
Unsecured, Considered Good	6.64	12.31
Doubtful.....	16.82	4.76
	<u>25.60</u>	<u>19.07</u>
Less: Provision for Doubtful Receivables.....	16.82	4.76
	<u>8.78</u>	<u>14.31</u>
Other Receivables:		
Secured, Considered Good	—	—
Unsecured, Considered Good	3579.56	2588.28
Doubtful.....	0.85	1.39
	<u>3580.41</u>	<u>2589.67</u>
Less: Provision for Doubtful Receivables.....	0.85	1.39
	<u>3579.56</u>	<u>2588.28</u>
Total.....	<u>3588.34</u>	<u>2602.59</u>

KANSAI NEROLAC PAINTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

₹ in Million

Note 15: Cash and Bank Balances

	<u>As at 31st March, 2012</u>	<u>As at 31st March, 2011</u>
Cash and Cash Equivalents:		
Balances with Banks.....	368.76	214.25
Cash on hand.....	0.78	0.78
Cheque on hand	216.77	176.60
	586.31	391.63
Other Bank Balances:		
Unpaid Dividend Accounts.....	5.46	4.36
	591.77	395.99

Note 16: Short-term Loans and Advances

Unsecured, Considered Good		
Trade Advances	94.62	67.48
Other Advances	32.84	54.53
	127.46	122.01

Note 17: Other Current Assets

Interest Accrued on Investments.....	6.69	4.92
Balances with Indirect Tax Authorities.....	157.74	160.19
Trade Deposits	19.50	5.95
	183.93	171.06

KANSAI NEROLAC PAINTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

₹ in Million

	Year Ended 31st March, 2012	Year Ended 31st March, 2011
Note 18: Sale of Products		
Sales	30051.91	24810.22
Less: Rebates	1436.69	1274.46
	28615.22	23535.76
Note 18.1: Details of Sales		
Paints	28615.22	23535.76
Note 18.2: Earnings in Foreign Exchange		
FOB Value of Exports	11.05	6.44
Recovery of Freight and Other Charges on Exports	0.56	0.30
Note 19: Other Operating Revenues		
Sale of Scrap	79.39	68.85
Marketing Services Charges	38.84	38.09
Income from Processing Charges	16.22	14.76
Insurance Claims Received	8.16	9.02
Indirect Tax Claims Received	1.95	14.52
Miscellaneous Income	2.37	1.55
	146.93	146.79
Note 20: Other Income		
Dividend Received	104.42	164.04
Interest on Investments	24.95	19.30
Profit on Sale of Investments (Net)	98.35	21.96
Profit on Sale of Fixed Assets (Net)	5.08	0.38
Provision for Tangible Assets Written Back (Refer Note 9.2)	1.30	1.64
Foreign Exchange Gain (Net)	8.56	18.12
	242.66	225.44
Note 21: Cost of Materials Consumed		
Raw Material Consumed		
Opening Stock	1167.01	806.71
Add: Purchase	15464.26	12707.45
Less: Sales	5.20	2.49
Less: Closing Stock	1551.55	1167.01
	15074.52	12344.66
Packing Material Consumed		
Opening Stock	44.67	40.39
Add: Purchase	1899.85	1678.24
Less: Closing Stock	50.06	44.67
	1894.46	1673.96
	16968.98*	14018.62*

* Includes ₹ 24.38 Million (2010-2011 ₹ 6.70 Million) expenditure incurred on Research and Development.

KANSAI NEROLAC PAINTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

₹ in Million

Note 21.1: CIF Value of Import

	Year Ended 31st March, 2012	Year Ended 31st March, 2011
Raw Materials	4757.56	3526.45
Components and Spare Parts	9.82	19.43
Finished Products	285.97	206.18
Capital Goods	69.06	13.09

	Quantity MT	₹ in Million	Quantity MT	₹ in Million
--	----------------	--------------	----------------	--------------

Note 21.2: Raw Material Consumed

Pigments, Extenders and Resins	125023	7256.84	107874	6155.97
Organic Acids and Anhydrides	11563	904.62	10118	708.68
Solvents, Oils and Fatty Acids.....	90465	5918.46	73354	4643.64
Others		994.60		836.37
		<u>15074.52</u>		<u>12344.66</u>

of which:	%		%	
Imported	33	4997.63	36	4393.26
Indigenous.....	67	10076.89	64	7951.40
		<u>15074.52</u>		<u>12344.66</u>

Note 22: Changes in Inventories

Opening Stock				
Finished Goods	2004.07		1360.29	
Work-in-Progress	242.06		202.18	
Stock-in-Trade.....	63.76		45.27	
		<u>2309.89</u>		1607.74
Less: Closing Stock				
Finished Goods.....	2519.47		2004.07	
Work-in-Progress	286.00		242.06	
Stock-in-Trade	110.93		63.76	
		<u>2916.40</u>		2309.89
Add: Excise Duty Related to the Difference Between the Closing Stock and Opening Stock of Finished Goods.....		124.16		74.69
		<u>(482.35)</u>		<u>(627.46)</u>

Note 23: Employee Benefits Expense

Salaries and Wages.....	958.82	820.12
Contribution to Provident and Other Funds	58.72	57.85
Staff Welfare Expense	51.90	38.45
	<u>1069.44*</u>	<u>916.42*</u>

* Includes ₹ 93.78 Million (2010-2011 ₹ 77.01 Million) expenditure incurred on Research and Development.

KANSAI NEROLAC PAINTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

₹ in Million

	Year Ended 31st March, 2012	Year Ended 31st March, 2011
Note 24: Other Expenses		
Consumption of Stores and Spare Parts	152.36	160.38
Power and Fuel.....	347.85	334.48
Repairs to Buildings.....	10.62	2.82
Repairs to Machinery.....	56.32	47.23
Freight and Forwarding Charges.....	1093.81	918.09
Advertisement and Sales Promotion.....	1001.22	821.12
Rent.....	92.10	76.91
Rates and Taxes	18.47	14.57
Insurance	18.48	18.55
Cash Discount.....	629.38	491.98
Miscellaneous Expenses	738.53	685.38
	4159.14*	3571.51*

* Includes ₹ 22.87 Million (2010-2011 ₹ 24.33 Million) expenditure incurred on Research and Development.

	%	₹ in Million	%	₹ in Million
Note 24.1: Stores and Spares Consumed				
Imported.....	7	11.21	13	20.85
Indigenous.....	93	141.15	87	139.53
		152.36		160.38
Note 24.2: Auditors' Remuneration				
Auditors' Remuneration Excluding Service Tax (Included in Miscellaneous Expenses in Note 24)				
Audit Fee		1.80		1.53
Report under Section 44AB of the Income-tax Act, 1961		0.35		0.35
Company Law Matters.....		0.02		0.04
Other Services.....		1.88		1.31
		4.05		3.23
Note 24.3: Research and Development Expenses				
Revenue expenditure on Research and Development recognised in Statement of Profit and Loss is [including depreciation ₹ 7.48 Millions (2010-2011 ₹ 7.06 Millions)].....		148.51		115.10
Note 24.4: Expenditure in Foreign Currencies				
Foreign Travel.....		0.58		1.24
Royalties (Net of Tax)		90.33		88.10
Professional and Technical Fees (Net of Tax).....		13.45		28.45
Others (Net of Tax)		20.84		8.03
		125.20		125.82

KANSAI NEROLAC PAINTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

₹ in Million

	Year Ended 31st March, 2012	Year Ended 31st March, 2011
Note 24.5: 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.....	4.09	3.15
Future minimum aggregate lease payments under non-cancellable operating leases for each of the following periods:		
Not later than one year.....	2.76	3.18
Later than one year and not later than five years.....	4.95	3.71
Later than five years	—	—
Note 25: 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
Note 26: 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 2010-2011 (18,664,880 equity shares for 2009-2010)	373.30	279.98
Note 27: Earnings Per Equity Share		
Numerator: Profit After Tax (₹ in Million)	2158.85	2059.85
Denominator: Weighted Average Number of Equity Shares.....	53891972	53891972
Basic and Diluted Earnings per Equity Share ₹.....	40.06	38.22
Note 28: Derivatives Instruments		

(A) The following are the outstanding Forward Foreign Exchange Contracts entered into by the Company:

Currency	Amount in Foreign Currency	Buy / Sell	Cross Currency
As on 31st March, 2012:			
	Nil	—	—
As on 31st March, 2011:			
USD	2.54 Million	Buy	INR

These Forward Foreign Exchange Contracts are entered into for hedging purposes and not for speculation purposes.

(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, 2012 ₹ in Million	Year Ended 31st March, 2011 ₹ in Million
Amounts Payable in Foreign Currency:		
CHF	—	0.11
Euro	—	0.03
GBP	—	0.01
JPY	166.65	81.32
USD	8.31	4.49
THB	0.01	—

KANSAI NEROLAC PAINTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Note 28: 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, 2012 ₹ in Million	Year Ended 31st March, 2011 ₹ in Million
Advance Payment in Foreign Currency for Supplies:	CHF	0.01	0.19
	Euro	0.08	0.01
	JPY	44.14	29.58
	SGD	—	0.02
	USD	0.97	1.17

Note 29: Related Party Disclosures

- (i) (a) Names of related parties and nature of related party 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.
Sime Kansai Paints SDN. BHD.
- Associate - Company in which the Company has substantial interest (i.e. more than 20% in voting power) : Nipa Chemicals Limited (Upto 14th January, 2011)
- Key Management Personnel : Mr. H.M. Bharuka, Managing Director
Mr. P.D. Chaudhari, Wholetime Director

(ii) Transactions with Related Parties:

Nature of Transaction	₹ in Million				
	Holding Company	Fellow Subsidiary Companies	Associate	Key Management Personnel	Total
Royalty Paid					
– Kansai Paint Co., Ltd., Japan.....	92.27 (89.27)	N.A. (N.A.)	N.A. (N.A.)	N.A. (N.A.)	92.27 (89.27)
Dividend Paid					
– Kansai Paint Co., Ltd., Japan.....	373.30 (279.97)	N.A. (N.A.)	N.A. (N.A.)	N.A. (N.A.)	373.30 (279.97)
Bonus Shares Issued					
– Kansai Paint Co., Ltd., Japan.....	— (186.65)	N.A. (N.A.)	N.A. (N.A.)	— (0.02)	— (186.67)
Technical Fees Including Reimbursement of Expenses					
– Kansai Paint Co., Ltd., Japan.....	29.91 (33.13)	N.A. (N.A.)	N.A. (N.A.)	N.A. (N.A.)	29.91 (33.13)
Dividend Received					
– Nipa Chemicals Limited	N.A. (N.A.)	N.A. (N.A.)	— (9.92)	N.A. (N.A.)	— (9.92)
Sale of Goods					
– Kansai Paint Philippines Inc.....	N.A. (N.A.)	10.25 (6.44)	N.A. (N.A.)	N.A. (N.A.)	10.25 (6.44)
– Nipa Chemicals Limited	N.A. (N.A.)	N.A. (N.A.)	— (0.08)	N.A. (N.A.)	— (0.08)

KANSAI NEROLAC PAINTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

Note 29: Related Party Disclosures (contd.)

(ii) Transactions with Related Parties (contd.)

₹ in Million

Nature of Transaction	Holding Company	Fellow Associate Subsidiary Companies	Associate	Key Management Personnel	Total
Purchase of Goods					
– Kansai Resin (Thailand) Co. Ltd.	N.A. (N.A.)	18.00 (42.09)	N.A. (N.A.)	N.A. (N.A.)	18.00 (42.09)
– Sime Kansai Paints SDN. BHD.	N.A. (N.A.)	— (0.63)	N.A. (N.A.)	N.A. (N.A.)	— (0.63)
Purchase of Fixed Assets					
– Nipa Chemicals Limited	N.A. (N.A.)	N.A. (N.A.)	— (0.80)	N.A. (N.A.)	— (0.80)
Processing Charges Paid					
– Nipa Chemicals Limited	N.A. (N.A.)	N.A. (N.A.)	— (13.47)	N.A. (N.A.)	— (13.47)
Interest Received					
– Nipa Chemicals Limited	N.A. (N.A.)	N.A. (N.A.)	— (0.44)	N.A. (N.A.)	— (0.44)
Agency Commission Received					
– Nipa Chemicals Limited	N.A. (N.A.)	N.A. (N.A.)	— (24.22)	N.A. (N.A.)	— (24.22)
Processing Charges Received					
– Nipa Chemicals Limited	N.A. (N.A.)	N.A. (N.A.)	— (10.79)	N.A. (N.A.)	— (10.79)
Reimbursement of Expenses Paid					
– Kansai Coatings Malaysia SDN. BHD.....	N.A. (N.A.)	1.27 (0.67)	N.A. (N.A.)	N.A. (N.A.)	1.27 (0.67)
Reimbursement of Expenses Receivable					
– Kansai Paint Co. Ltd., Japan.	10.91 (—)	N.A. (N.A.)	N.A. (N.A.)	N.A. (N.A.)	10.91 (—)
Remuneration*					
– Mr. H.M. Bharuka, Managing Director	N.A. (N.A.)	N.A. (N.A.)	N.A. (N.A.)	35.08 (29.61)	35.08 (29.61)
– Mr. P.D. Chaudhari, Wholetime Director.....	N.A. (N.A.)	N.A. (N.A.)	N.A. (N.A.)	11.08 (9.71)	11.08 (9.71)
Corporate Guarantee Given					
– Nipa Chemicals Limited	N.A. (N.A.)	N.A. (N.A.)	— (11.00)	N.A. (N.A.)	— (11.00)
(iii) Amounts Outstanding at the Year End:					
Receivable as at Year End					
– Kansai Paint Co., Ltd., Japan	10.91 (—)	N.A. (N.A.)	N.A. (N.A.)	N.A. (N.A.)	10.91 (—)
– Kansai Paint Philippines Inc.....	N.A. (N.A.)	2.92 (—)	N.A. (N.A.)	N.A. (N.A.)	2.92 (—)
Payable as at Year End					
– Kansai Paint Co., Ltd., Japan	5.04 (10.00)	N.A. (N.A.)	N.A. (N.A.)	N.A. (N.A.)	5.04 (10.00)

KANSAI NEROLAC PAINTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Note 29: Related Party Disclosures (contd.)

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

Nature of Transaction	Holding Company	Fellow Associate Subsidiary Companies	Associate	Key Management Personnel	₹ in Million
					Total
– Kansai Resin (Thailand) Co. Ltd.....	N.A. (N.A.)	— (1.85)	N.A. (N.A.)	N.A. (N.A.)	— (1.85)
– Sime Kansai Paints SDN. BHD.....	N.A. (N.A.)	— (0.63)	N.A. (N.A.)	N.A. (N.A.)	— (0.63)
– Kansai Coatings Malaysia SDN. BHD.....	N.A. (N.A.)	0.27 (—)	N.A. (N.A.)	N.A. (N.A.)	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 30: 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 Expense for the year are as under:

	As at 31st March, 2012	As at 31st March, 2011
	₹ in Million	₹ in Million
Employer's Contribution to Regional Provident Fund Commissioner	7.83	6.98
Employer's Contribution to Family Pension Fund	12.58	12.03
Employer's Contribution to Superannuation Fund	5.28	7.36

B. Defined Benefit Plan:

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

The Company has contributed ₹ 13.53 Million (2010-2011: ₹ 11.52 Million) to the Provident Fund Trust. In view of the issue of final guidance note by the Actuarial Society of India during the year 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				
	2012	2011	2010	2009	2008
Plan Assets at the Year End, at Fair Value.....	361.35	331.30	300.89	294.04	295.51
Present Value of Benefit Obligation at the Year End	354.64	348.54	311.09	306.39	305.88
Asset Recognised in the Balance Sheet	Nil	Nil	Nil	Nil	Nil

KANSAI NEROLAC PAINTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

Note 30: 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				
	2012	2011	2010	2009	2008
Discount Rate (%)	8.50	8.10	8.10	7.10	8.10
Guaranteed Interest Rate (%)	8.25	9.50	8.50	8.50	8.50
Expected Average Remaining Working Lives of Employees (Years)	8.23	8.79	9.23	9.48	10.04

(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, 2012	As at 31st March, 2011
Bonds & Securities of Central Government	13.09	10.75
Bonds & Securities of State Government	11.08	10.26
Bonds & Securities of Public Sector Undertakings.....	21.45	19.63
Special Deposits with Banks	53.52	58.41
Bonds of Financial Institutions.....	0.86	0.95

(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	107.46	101.53
Interest Cost.....	9.13	8.63
Current Service Cost	11.93	10.59
Benefits Paid	(14.25)	(10.18)
Net Actuarial (Gain) / Loss	5.14	(3.11)
Present Value of Defined Benefit Obligation as at the End of the Year	119.41	107.46
ii. Reconciliation of Fair Value of Plan Assets:		
Fair value of Plan Assets as at the Beginning of the Year	119.19	126.75
Expected Return on Plan Assets	11.52	11.59
Net Actuarial Gain / (Loss)	1.55	(8.97)
Employer's Contribution	0.15	—
Benefits Paid	(14.25)	(10.18)
Fair Value of Plan Assets as at the End of the Year.....	118.16	119.19

KANSAI NEROLAC PAINTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Note 30: 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, 2012	As at 31st March, 2011
	₹ in Million	₹ in Million
<p>The Company expects to contribute ₹ Nil to its Defined Benefit Gratuity Plan during the annual period beginning after the Balance Sheet date.</p> <p>The major categories of Plan Assets as a percentage of the fair value of total Plan Assets are as follows:</p>		
Funds maintained with Life Insurance Corporation of India	100%	100%
<p>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.</p>		
iii. Net Assets / (Liabilities) Recognised in the Balance Sheet:		
Present Value of Defined Benefit Obligation	(119.41)	(107.46)
Fair Value of Plan Assets	118.16	119.19
Net Asset / (Liability) Recognised in Balance Sheet	(1.25)	11.73
iv. Components of Employer's Expenses:		
Current Service Cost	11.93	10.59
Interest Cost	9.13	8.63
Expected Return on Plan Assets	(11.52)	(11.59)
Net Actuarial (Gain) / Loss	3.59	5.86
Total Expenses / (Income) Recognised in the Statement of Profit and Loss in Employee Benefits Expense	13.13	13.49
Actual Return on Plan Assets	11.52	11.59
v. Actuarial Assumptions:		
Mortality Table	LIC (1994-96)	
Discount Rate	8.50%	8.50%
Expected Rate of Return on Plan Assets	9.85%	9.85%
Salary Escalation	8.00%	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 30: 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				
	2012	2011	2010	2009	2008
1. Present Value of Defined Benefit Obligation	(119.41)	(107.46)	101.53	119.00	129.19
2. Fair Value of Plan Assets	118.16	119.19	126.75	11.96	129.00
3. Funded Status [Surplus / (Deficit)]	(1.25)	11.73	25.22	0.60	(0.18)
4. Net Asset / (Liability)	(1.25)	11.73	25.22	0.60	(0.18)
5. Experience Adjustment Arising on:					
a. Plan Liabilities [Loss / (Gain)]	5.14	(3.11)	(28.67)	(5.70)	2.94
b. Plan Assets [Loss / (Gain)]	(1.55)	8.96	(4.80)	(3.34)	—

(c) Compensated Absences:

The increase in provision for compensated absences for the year is ₹ 0.90 million (2010-2011 ₹ 3.31 million).

Note 31: 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 statements are reflective of the information required by Accounting Standard 17 "Segment Reporting", notified under the Companies (Accounting Standards) Rules, 2006.

Note 32: Profit on Sale of long-term Investment

The Company had divested its entire stake in its erstwhile Associate Company, Nipa Chemicals Limited, for a consideration of ₹ 257.25 Million.

For B S R & Co. Chartered Accountants Firm's Registration No. 101248W	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>
	S.M. DATTA			<i>Director</i>
	N.N. TATA			<i>Director</i>
VIJAY MATHUR <i>Partner</i>	G.T. GOVINDARAJAN	P.D. PAI	P.P. SHAH	<i>Director</i>
Membership No. 046476	<i>Company Secretary</i>	<i>CFO</i>	P.D. CHAUDHARI	<i>Wholetime Director</i>

Mumbai: 2nd May, 2012

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