

Management Discussion and Analysis

A) Introduction to KNPL

Kansai Nerolac Paints Ltd (KNPL) was established in 1920. It is a subsidiary of Kansai Paints Japan. KNPL operates in India and also has operations in Nepal & Sri Lanka through Joint Ventures with Kansai Nepal & Capital Holdings Maharaja Group respectively. KNPL has presence in multiple market segments of the paint market viz. Decorative, Automotive, Auto Refinish, Wood Coatings, General Industrial, Coil Coating, Floor Coating, Performance Coatings and Powder Coatings.

In the Decorative Paint Market, Nerolac is positioned as an environmentally conscious brand which is synonymous with Health. The tag line of the company Healthy Home Paints emphasizes the focus of the company on environment consciousness.

KNPL is one the most preferred vendors for Industrial paints in the country. Over the years the company has worked tirelessly to create value for its customers and is acknowledged as the market leader in Industrial coatings. Many of the leading players in the Automobile industry trust Nerolac to service their paint requirements. This leadership has been made possible through a combination of customer insights, customised R&D, quality, service, value engineering and delivery. KNPL has 4 factories located at Jainpur (UP), Lote (Maharashtra), Bawal (Haryana) and Hosur (Tamil Nadu). In addition, a new state of the art facility has been commissioned at Saykha (Gujarat) to cater mainly to automobile customers. These factories provide customers with an unmatched range and flexibility to cater to their requirements in the shortest possible time.

As announced earlier the company is setting up a Decorative Plant at Amritsar and work is progressing satisfactorily at the site. Another Greenfield plant at Vishakhapatnam which has been announced is being planned, and work for which will start shortly.

The company currently has a state of the art R&D facility in Mumbai. A new cutting edge Research & Development centre at Vashi will shortly commence operations in FY 18-19. Customer satisfaction is the central goal around which KNPL functions. The requirements of customers are paramount and are constantly evolving. KNP uses its Research and Development to develop unique customised solutions for its customers. KNPL has continuously focussed on introducing new technology for the customer every year. Notable introductions this year were products such as Anti-Graffiti coatings, Rebar Coating for Concrete and Super Durable Powder.

In a market which is growing and a strong foundation, KNPL is now looking towards unleashing the next era of growth for the company.

Company continued its growth momentum in Nepal with high double digit volume and value growth. Company successfully completed brand migration from 'Nerolac' to 'KNP'. The company name was also changed to KNP Japan Private Limited.

Company entered Sri Lankan paint market by way of a joint venture with Capital Holdings Maharaja, which is one of the biggest conglomerates in Sri Lanka. Company successfully started a Greenfield plant and launched entire range of Decorative Paints (Water-based & Solvent-based). Sri Lankan paint market size is estimated to be at approximately Rs. 2,500 Crores.

KNPL launched Nerolac Colour Guides - Interior and Exterior, during the year, to showcase latest colour trends in the home decor space. These colour guides were the outcome of a five months long research whereby KNP employees travelled the length and the breadth of the country to map the changing lifestyle of modern Indian to understand choices. Colour Guides were launched at the Economic Times Architecture and Design Summit 2017 and at the A&D Summit at Mumbai and Kolkata.

On the digital Marketing front, KNPL leveraged the partnerships with IPL teams to generate traction and also ran various campaigns during the year. A live chat with players of IPL franchises Sun Risers Hyderabad and Gujarat Lions was conducted and these chats were broadcasted using Facebook live. In addition, interactive GIF Image contests as well as Boomerang video contests were also conducted.

Celebrities and opinion leaders on twitter spoke about Nerolac's prowess in providing coating solutions for a wide range of products including automobiles, bikes and home appliances. With the likes of Boman Irani, Soha Ali Khan, Ranvijay & Ranveer Brar coming on board, the campaign received wide coverage and engagement on the platform.

Another first for KNPL, was the association with India's first web series for family viewing - The Aam Aadmi Family – Season 2 from The Viral Fever (TVF). The series has a total of 7 episodes where Nerolac based content integration has been done in 4 episodes.

During Diwali, an Innovation in branding was successfully run wherein one luggage conveyor belt at Mumbai domestic airport was brought to life with 250 different colours from Nerolac shade gallery.

Architects and designers are one of the key influencers for KNPL especially in cities. Nerolac Breathing City – a first of its kind national competition was held for architects and designers, in which they had to express colors of their city through a design intervention.

KNPL undertook a collaborative initiative with Neemrana group to paint 850+ structures including homes, school and other public facilities at Sarhetta village (Alwar, Rajasthan). This led to a lot of interest amongst local population and helped showcase the transformation paints can bring to lives and spaces through colours and cleaning. The initiative received wide publicity with news channels covering the village transformation and dubbing it as the 'Rangeela Gaon', social media views have crossed 4 Mn.

During the year, KNPL partnered with National Development Skill Corporation with an intention to arrive at a skill development and certification for skills up-gradation in the painting sector based on the concept 'Recognition of Prior Learning' ("RPL") under the Pradhan Mantri Kaushal Vikas Yojana ("PMKVY").

A Livelihood Enhancement Project was conducted in a remote set of villages of Mala & Sirasu in Paurhi Garhwal Mountains. As part of this project, Master painter trainers conducted a full day workshop to provide first-hand experience on various aspects of painting products & processes for the young men from these villages.

Industrial

KNPL has strengthened its leadership in industrial coatings despite a challenging business environment, especially in the first half. KNPL has been able to not just maintain its leadership but has also seen an increase in its market share.

Technology has always been the cornerstone of KNPL solution to customers and KNPL has continued to focus on technology providing High Quality, Cost Effective and Sustainable Solutions to its automotive customers.

KNPL has continued its emphasis on innovation which benefits the Auto industry. New products such as common painting system for multi metal surface, high performance primer and superior clear coat were developed this year. Company periodically presents latest technological advancements in paints and paint processes, current and upcoming colour trends to its customers. Audience comprises of senior management of customer from various departments like Styling and Designing, Paint shop, Supply chain amongst others.

This year too business acquisition remained a focus area this year, with the Company bagging repeat business from its esteemed clients, as well as winning new business from clients. Best supplier awards received from our esteemed customers reflect the company's strong commitment towards providing best of services.

KNPL had pioneered the practice of providing Technical service on Customer Production lines to deliver maximum value to its customers. Technical service team members are appointed across India on customer lines to ensure the best service in Industry. The Company provides its Industrial customers with Value Additions and Value Engineering ideas aimed at quality improvement and cost reduction. This year KNPL also provided valuable trainings to its customers.

In Performance coatings, along with traditional segments like Oil & Gas, Power, Infra, Metals and Chemical Plants, KNPL increased focus on segments like Floor, Railway and Coil coating building on the work done in the previous year. This has helped KNPL to increase its presence in these new segments.

The Company works closely with Industry organizations like NACE (National Association of Corrosion Engineers) and SSPC (Society for Surface Protective Coatings). The Company was well represented at NACE, SSPC and CII events which ensured visibility and connect with key industry stakeholders. In General Industrial coatings, KNPL has maintained its leading position in the OEM business catering to segments like Fans, Drum & Barrels, Construction Equip, Helmet, LPG cylinders by introducing new products. Products like anti-graffiti coating for electrical appliances, High performance mono-coat painting system for pre-engineered building segment and metallic shades for exterior painting of rail coaches were some of the new products introduced.

KNPL has strengthened its leadership in Powder Coating in segments like Auto Ancillaries, Furniture, White Goods by leveraging its collaboration with Protech, Canada. New products such as Rebar coating for concrete and Reinforcing Rebar for structural stability along with super durable powder as per AMA 2014 were introduced during the year.

In Auto refinishes the company has grown at a much rate than the market. The company provides a complete range of products in this segment. The year saw the introduction of Nova Plus, an alkyd ranges of shades for the Auto Refinish Channel. During the year KNPL has focused on strengthening its distribution network coupled with focus on garages and applicator training.

[I] People

At KNPL, people are an essential part of the organization. People provide the skills and competencies necessary to make organizational strategies work. With advancements in technology, the significance of people gets augmented multi-fold. Many efforts are taken to engage the energies and enthusiasm of KNPL employees in the most effective way. KNPL believes that success would not be possible without our talented, diverse and dedicated employees. The workforce is highly aligned to the Company's goals through various media like newsletters, MD's address, Works manager address etc. Interactive sessions like open house with top management are also conducted at Plants.

Employees are apprised of KNPL initiatives through internal monthly Impressions newsletter, Decorative Sales Annual Conferences and Industrial Zonal Meets. In-house Knowledge management portal is used to share and gain knowledge on key business elements. This is frequently referred by all the employees time to time. It plays a crucial role in facilitating horizontal deployment of best practices in organization. KNPL also has various other platforms for sharing knowledge. This includes Group Discussions, Book reviews and knowledge sharing sessions. The Organizational Business Plan is aligned with the Key Result Areas for each position. The performance review mechanism which is digitalized has ensured transparency, real time information and involvement of all employees towards achievement of the goals. The daily performance dashboard is available to all the employees and it enables every employee to remain focused on the priorities which contribute to the organization's goals. This digital framework links Company goals to an individual in a transparent manner. Development of employees is of utmost importance. New capability building programs have been launched for frontline sales staff in order to equip them with new sales techniques and drive the top-line of the Company. Assessment and Development centers are being conducted to objectively evaluate the managerial potential of select personnel. In order to drive corporate objectives with respect to HR processes & systems, departmental connect models were introduced where the endeavor was to connect with the employees and enhance engagement. KNPL also continued the rewards and recognition program with an employee recognition platform called GEMS. GEMS is a framework for employees to acknowledge support and help by colleagues in their day to day interaction. It is a company-wide rewards program that fosters an environment of appreciation. In-house training workshops on people management, excellence and KNPL competency framework were designed and conducted by HR. KNPL conducts annual Employee engagement survey to get insights into the organization as well as to gauge the pulse of employees on organizational initiatives which foster, connect and boost employee engagement and morale.

KNPL continues with its good practices of Corporate Governance through the Whistle Blower Policy, encouraging growth of individuals irrespective of gender, religion, caste or community as well as policy on "Appropriate Social Conduct at Workplace". All these policies add up to a congenial work environment to drive performance that is free from threat or fear. The above mentioned HR initiatives at KNPL attempt to support and uphold organization's goals by fostering an engaging work environment in a dynamic business scenario. The Company wishes to put on record its deep appreciation of the co-operation extended and efforts made by all employees. The employee strength of KNPL is 2861 on 31st March, 2018.

[K] Community Development

KNPL has been actively involved in promoting healthy life style of the underprivileged and for the upliftment of the society in general. The Company has a philosophy to contribute positively to the development of the society by acting as a good neighbor, considerate of others and by playing the role of good corporate citizen with passion and compassion. KNPL's vision is to strive to be a responsible corporate by proactively partnering in the environmental, social and economic

development of the community through the use of innovative technologies, products as well as activities beyond normal business. Several CSR initiatives were carried out during the year under various program heads, such as “Livelihood and Skill enhancement”, “Preventive Health care & Sanitation”, Promoting Education, “Rural/Community Development”, “Promoting Education” and “Protection of Heritage Monuments”. KNPL proactively convened training and capacity building initiatives to help unemployed youth, mainly from rural area, to generate livelihood and to make skilled personnel available in the society for the national development. KNPL also carried out various programs for the enrichment of the community, such as construction of toilets (with more focus on girls’ toilets in rural schools), Health Camps for the underprivileged, providing class rooms, science Labs, computers etc. to the school near our factories, construction of bus shelters, bore wells, plantation of trees and beautification projects to ensure environmental sustenance, various initiatives under “Swachh Bharat Abhiyan” near depots. Most of the CSR activities were conducted near Plant and depot locations. 24 KNPL is committed to contributing in as many ways as possible and will continue to contribute towards the economic, social, environmental and educational prosperity of our country.