

Management Discussion & Analysis



Macro-economic landscape

The year 2022 proved to be a tumultuous period for the global economy. Since the beginning of the year, there were a lot of growing voices about the deteriorating situation in Ukraine, but the beginning of the conflict took all by surprise. While the loss of human life and the sufferings it induced is undeniably unfathomable, its impact on the overall global economy was also profound.

The surge in inflation witnessed across commodities in the aftermath of the conflict, added to the already elevated inflationary concerns across economies grappling with the fractured supply chain networks resulting from the COVID fallout. This led to unprecedented, synchronised increases in policy rates across all major economies which not just resulted in monetary policy tightening across the emerging economies but also led to significant forex reserve challenges in many economies, ultimately impacting the business conditions across many markets.

The Indian economy, too, encountered headwinds during the year. Following the sharp rebound in domestic economic activity during the previous financial year, FY 2022-23 was a year of normalisation with demand in many sectors gradually moderated, yet remaining robust. Global risk aversion on the back of the rapid rate increases by the developed economy meant persistent pressure on the exchange rate, adversely impacting import-dependent businesses such as ours. Simultaneously, the Reserve Bank of India tightened the monetary policy to counteract the sticky inflation in the economy. Consequently, the Indian economic growth was expected to be lower - at about 6.8% to 7% mark for FY 2022-23, as compared to 9% registered for the previous fiscal year. However, in a year which saw growth decelerating across the world with recessionary expectations building up, the Indian economy still exhibited resilience, underpinned by robust domestic consumption demand and well supported by the Government's push on infrastructure build-up in various parts of the economy.

OUTLOOK

The year 2023 has continued to see bouts of uncertainty that have tested the growth conditions across the world. Headline inflation continues to remain elevated, exceeding the comfort zone of the monetary authorities and it would result in continued uncertainties in the financial markets and a carry-on impact on the economic conditions. These interdependencies were clearly at play during the recent upheaval in the banking sector in the US and Europe. While the turmoil appears to be contained for now, risk indicators continue to remain a matter of concern.

Multi-lateral agencies have already cautioned about the slowdown in global growth with geopolitical tensions adding another layer of ambiguity to the existing uncertainties. Amidst these uncertainties, the Indian economy is expected to be an oasis of stability, offering continued growth momentum. While this momentum may not be entirely impervious to global developments, domestic anchors are firmly in place to propel the economy forward. Businesses, across geographies, would need to be vigilant and exhibit flexibility, working with dynamic operating models to adapt to the evolving conditions while simultaneously building resiliency in their business models to ensure sustained performance.



Business Segment Review

DECORATIVE BUSINESS IN INDIA

FY 2022-23 started with very positive consumer sentiments for the decorative business. Quarter 1 this year was in all comparisons the first normal quarter after almost two years as the environment headed to normalisation post the pandemic in the context of the major COVID waves behind us.

We were well-prepared for the surge in demand with our distribution infrastructure and supply chain ready to address this demand most efficiently. We deployed all enablers in servicing the consumers with the best-in-class products and collaborated very closely with our influencers. However, the season demand which is typically centred in the third quarter of the financial year, was impacted by an early Diwali and extended monsoons throughout large parts of the country. A comforting factor has been the good comeback in overall demand conditions as we ended the financial year, with demand in both – the urban as well as the rural markets, picking up.

Overall, for the year, we maintained the exceptional momentum of the last few years and delivered a robust volume growth of 14% and a value growth of 20%, strongly reinforcing our leadership position.

During the year, we made significant efforts to reach out to new consumers on a massive scale. Putting the consumer at the core of our strategy, we ensured the availability of products across towns and channels, giving a spurt to the demand for premium products across the barriers of rural and urban. We brought delight to consumers with a range of new product launches and offerings. For the discerning customer, we launched the Royale Glitz Ultra Matt which provides a luxurious dead matt look. The entire Royale Glitz range now also talks about a crack-free performance in interiors for the very first time in the industry. We continued to see the tremendous response to our pathbreaking innovative



Putting the consumer at the core of our strategy, we ensured the availability of products across towns and channels, giving spurt to the demand of premium products across the barriers of rural and urban.

product - SmartCare Hydroloc, in the waterproofing segment. And we further added to the repertoire with the successful introduction of SmartCare Hydroloc Xtreme which takes performance to the next level. At the entry-level exterior emulsions space, we launched Ace Power+ which offers unprecedented shade retention properties leading to consumer joy for many years. We also launched a PU-based wood finishes product – Purafin, at an extremely attractive price point. This will present an opportunity for consumers to upgrade to a PU-based finish for wood surfaces at a very reasonable price.

We were able to create a new paradigm of influencer relationships. The impetus was on physical reach-outs with our product stories given the last two years of the pandemic. Strategically, we went to T3 and T4 towns to partner with new painters and contractors. Product propositions bringing delight to customers was the core message aptly delivered through these reach-outs and this led to significant penetration of our premium and luxury ranges of products.

For the last two decades, every year, we collaborate with experts from a range of creative disciplines - architecture, art, interiors, fashion, sociology, media and FMCG, to put together ColourNext, a comprehensive forecast of design directions in colours, materials, textures and finishes that are relevant to the world. ColourNext 2023 forecast captures the spirit of 2023 about building a better future, embracing our past and present and creating with joy, hope and intention. The colour of the year 'Silver Escapade' encapsulates the optimism with which we are going forward. The sentiment is reflected in the four forecast design directions for 2023 - Gothlicious, Shroom, Edge of the Forest and Sleep Sense, the stories addressing sociocultural topics ranging from how we express ourselves to a newfound urgency for wellness and forming deeper connections with others and the world around us.

Even in the Projects and Large Business Users market segment, we made impressive inroads especially with gains coming from the Builders, Industries and

Government spending categories. The growth has been led by the acceptance of Asian Paints as a trustworthy brand not just in the Paints category but in allied categories of Waterproofing and Construction chemicals as well, with large gains coming in the Admixtures, Repair and Flooring categories. Innovation through offering an end-to-end service model for large project customers is a clear differentiator for us in the market.

Décor and consumer services

Asian Paints is committed to becoming the largest integrated home décor brand in India. We intend to achieve this by building an enviable digital presence through the website and social media, creating unmatched consumer access through the stores and creating an unparalleled span of décor products & services across categories.

At the heart of the digital experience for décor are inspirational content, engagement and good design curation to build a new-age home décor brand that is tasteful, approachable and trustworthy. The digital décor

engine, www.beautifulhomes.com, underwent a refresh to become India's leading destination for home décor enthusiasts and design professionals for home décor inspiration, design services and products. The brand continued to build and nurture the largest active community of décor enthusiasts and design professionals through relevant content, community interaction and displays at exhibitions and events.

Our network of **Beautiful Homes Stores**, now spread across 31 cities, continued to expand further providing the best-in-class consumer experience through expert consultation, 3D visualisation, endless customisation and true one-stop shop for décor, enabled by cutting-edge technology and the best physical store elements. A new addition to the décor retailing portfolio was the



At the heart of the digital experience for décor is inspirational content, engagement and good design curation to build a new-age home décor brand that is tasteful, approachable and trustworthy.



Asian Paints Beautiful Homes

Management Discussion & Analysis

franchise-owned stores of White Teak, to rapidly expand the reach of the premium lights offering.

We continued to augment our décor offerings for our décor conscious customers expanding into newer décor categories and increasing the width of our offering. Our offerings now include products in furniture, furnishing, lights, rugs, modular kitchens, bath solutions, wooden flooring & tiles, home automation and UPVC windows. We continued to expand our offering in furnishings fabrics and came out with award-winning collection which helped us become one of the leading players in the Indian furnishing fabric industry. We also launched an exciting range in bedding and rugs to further deepen our home décor offerings and leverage our design expertise across categories. In the new businesses of Lights through the White Teak brand, we added a host of new offerings providing unmatched design and differentiation to the customers. We also launched customisation services to give unique and elevated experiences to the customers as per their imaginations. We forayed into the architectural lights category with the launch of an extensive range of architectural lights catering to the needs for both indoor and outdoor range. We continued our focus and drive on establishing the Weatherseal uPVC windows brand with more than 50 stores expansion with a pan-India footprint.

Beautiful Homes Service, the flagship interior design service, continued to grow in strength with a sharp focus on building a strong technological backbone and on-ground execution capability, to bring every "Dream Home" alive. The service continued to work on bringing

a sharp focus on a delightful consumer experience led by designing and execution excellence as its key differentiator.

Focusing on our core mantra of providing customers with a hassle-free and reliable painting solution, our Safe Painting Service and Trusted Contractor Service, gained further momentum with a presence in more than 600 towns, addressing lakhs of customers. We are committed to both, elevating our service levels as well as expand the reach of the service so that every Indian has access to a world-class painting service. Our newly launched Platinum tier of service also received a warm response from customers. The Trusted Contractor Service has also scaled up in an extremely strong manner across geographies and now provides a strong bridge with our trained contractors while providing consumers with budget-friendly options.

KITCHEN BUSINESS

Sleek International Pvt. Ltd. (Sleek), our 100% subsidiary, is present in both the Kitchen Components as well as the Full Modular Kitchen Solutions segments. Under the Kitchen Components segment, we sell our range of Kitchen Hardware, Kitchen Accessories and Kitchen Appliances through the B2B channel. Under the Full Modular Solutions segment, we undertake design-to-execution of full kitchens and wardrobes through a strong network of franchisee-owned Sleek showrooms across the country. Our luxury kitchen options range across technical, material and design superiority and enable the inclusion of a wide variety of options for all consumer groups. Beautiful Home Stores and Services have also begun to add to the business. We also have a dedicated projects channel to provide Full Modular Solutions for new constructions, especially residential housing.

Business performance

During FY 2022-23, Sleek clocked revenue growth of 6.3% to register sales of ₹ 425.5 Crores, driven by growth in the modular solutions segment led by the exclusive Sleek stores for Kitchen and Wardrobes. Beautiful Home stores added in contribution. Fitted furniture launched exclusively for Beautiful Home Services has seen initial launch success in the year. With over 270 stores, the reach is unparalleled in providing access and service excellence to our consumers. Luxury kitchens contributed to about one-third of the value sale strengthening Sleek's brand positioning as a premium player in the market. In the Wardrobes category, the launch of the premium collection under the label 'Crest' was received well. Walk-in wardrobes and new finishes and shutter options kept the offering contemporary and continue to sustain



the excitement. Metal carcass and waterproof options for kitchens are also under development enabling an enhanced offering for consumers. Expansion and gains in depth at Beautiful Homes Stores and with the Beautiful Home Services are expected to be drivers for the year ahead. We are also formidable players in the residential builder markets of Mumbai and Pune.

The Kitchen Components business grew at 9.5%. The segment saw price fluctuations in the year, especially with the contribution of imported components being high. We continued to expand our network and product offerings in the year. In the coming year, value engineering in components, the addition of new products and addition of new categories of furniture components will aid in range expansion. New products like sliding and profiles also have scope for further expansion in reach across the country. Apart from indigenisation, we are also developing special coatings that provide value-for-money offerings in components. The distribution structure and logistical tie-ups for kitchens, especially components have been revamped to lower costs. With an enhanced offering, greater reach and working with influencers the promise for the FY 2023-24 is strong and exciting.

BATH FITTINGS AND SANITARYWARE

Asian Paints entered the competitive Bath business by acquiring the front-end business of Ess Ess in FY 2014-15. Over the years, we have expanded our network as well as product range, particularly the sanitaryware and kitchen sinks' range to further leverage our network and presence in the Chrome-plated (CP) fittings market. We are committed to creating a new world of bath products and solutions, where the consumer can actively look at solutions and customised offerings to meet varied functional, design and décor needs.

Business performance

The business grew well during the year, leveraging the network and product expansion initiatives undertaken in the past to clock sales of ₹ 406 Crores at a growth of 15%. The agenda of premiumisation was taken ahead with the new-to-industry CANVAS range of products apart from Neo control thermostat, Neo range of Smart Water Closets and Pneumatic cisterns. Products under CANVAS come with one-of-its-kind Lotus 25 hydrophobic technology that provides a long-term warranty from scaling due to hard water on the CP fittings. The business also moved ahead with the launch of concept bathrooms under BESPOKE – which offers themes and designs for a full bathroom solution as a service to customers in select cities. This has helped us not only access consumers seeking design and décor options but also tie in with influencing retailers. We were also able to reach out to the Architect and designer fraternity with our offerings and have received appreciation for the products, services and after-sales service. Plumber training and knowledge building have been key touchpoint in the year with accreditation-led training. Enhancing access with influencers will continue to be the driver for FY 2023-24 as we seek to build our strength in the retail channel. The business continues to work on various product development initiatives for the future, further enhancing its capability to offer contemporary, innovative and differentiated solutions, catering to a wide spectrum of consumer preferences. The business continued to make a strong impact in the Projects segment during the year. We are now working with prominent builders and construction companies and also catering to government infrastructure orders at an enhanced scale. The network expansion drive also continued right through the year, with increased



Management Discussion & Analysis

representation in large cities as well as next-tier towns. Continuing with service excellence as focus, we ensured that technicians provided prompt and reliable post-sales support, strengthening our offering to consumers. We have placed significant focus on operational performance and thus concentrated on productivity enhancement through automation, mechanisation and training at our manufacturing plant in Baddi. The distribution structure has also been revamped to lower the costs of distribution. This helped the business reduce costs significantly and, along with the efficiencies of scale, enabled the business to ensure gross margins and also deliver overall profits for the year. Work on setting up a second manufacturing facility for both the Kitchen and Bath businesses is near complete and will be commissioned in FY 2023-24.

Supply chain

During the year, Supply Chain networks across the world continued to experience volatility and uncertainty. While on the one hand, most value chains recovered from the disruption created by the COVID-19 pandemic, on the other hand, uncertainty crept in on two counts – the armed conflict in Europe and China’s continued stance of zero tolerance towards COVID-19, with the relaxation of this stringent stance only towards the end of the year.

Uncertainties around these actions impacted the production of speciality chemicals, especially in Germany – a major manufacturing hub. This led to two contrarian scenarios - manufacturing cost escalation and at the same time softening of demand, especially with China still under stringent restrictions. After the initial spike in commodity prices, most raw material prices saw a softening trend, with most bottoming out in the third quarter. We actively collaborated with all key suppliers through strategic alignments undertaking multi-pronged actions to address the challenges and yet deliver the reliability of service in the market to exacting standards. These actions resulted in operating the manufacturing processes with the least hindrances and ensured a steady supply of products in the market.

From a demand servicing perspective, your company continued to deploy cutting-edge technologies that continuously optimise the supply chain parameters and servicing. As the Company scaled into adjacent products, a segmented supply chain has been created that is tuned to address the nuances of specific product streams. This year we delivered the highest-ever ‘Day Zero’ service levels in an ever-expanding distribution network covering dealers, distributors and direct-to-site deliveries. Emerging logistics ecosystems including multi-modal shipment routes were leveraged on identified lanes which not only optimised costs but were also carbon positive.

All of the Asian Paints factories have adopted the TRACC Manufacturing Excellence programme which builds excellence on various pillars - Teamwork, Visual Management, 5S, Focused Improvement, Asset Care, Autonomous Maintenance, Quality and Safety, with strong bottom-up engagement of the entire teams. Your Company is focused on creating a sustained capability to manufacture products with the highest quality standards along with optimal resource utilisation and through the empowerment of teams on the shopfloor. Further, a curated “Manufacturing Excellence” programme was also launched for our contract manufacturing partners. Maturity on Manufacturing 4.0 for your factories continued to scale up further. Real value creation through data analytics by integrating IOT data with other contextual data led to the creation of higher-order predictive analytics models in manufacturing. These have not only optimised manufacturing costs but also enabled optimisation of resources ranging from raw materials to energy to manpower and unlocking of capacity through enhanced throughputs.

Relentless focus on the safety of our assets, employees and partners operating at our manufacturing sites has made us reach greater heights on our journey of behaviour-based safety. Ankleshwar plant has reached the Generative Stage in Behaviour Based Safety – the highest maturity level awarded by British Safety Council. Five of our other plants are at Proactive stage and two of our newer plants are already at Calculative stage. Further, three of your Company’s plants viz. Khandala, Kasna and Patancheru received the 'Sword of Honour' as recognition for reaching the pinnacle of health, safety and environment management.



Employee event at UAE

INTERNATIONAL OPERATIONS

Outside India, Asian Paints has operations in 14 countries across four regions of the world – Asia (South Asia and Indonesia), the Middle East, Africa and the South Pacific. Our products and services are sold under seven corporate brands, namely Asian Paints, SCIB Paints, Apco Coatings, Asian Paints Berger, Taubmans, Asian Paints Causeway and Kadisco Asian Paints. The Group continues to focus on increasing its presence in high-growth emerging markets, especially in Asia and Africa.

Operating environment

During FY 2022-23, the COVID-related restrictions were completely lifted across all economies that we operate in. This allowed for global travel to resume assisting in better collaboration across group entities. At the same time, businesses had to face multiple headwinds, the most significant being the continued inflationary environment which impacted not only the procurement of raw material and packing material but also all other operating costs. Interest rates increases to record highs in many of the economies that we operate in and the broad-range strength of the USD against all emerging economy currencies, especially in key markets of Egypt, Sri Lanka and Bangladesh, further impacted the business conditions.

Sri Lanka experienced its worst economic crisis with an acute shortage of essential goods, severe power cuts, high inflation, and political unrest. A series of fiscal and non-fiscal measures were undertaken by the Sri Lanka government to ensure confidence build-up and funding support from International Monetary Fund (IMF). During the year, the Egyptian Pound depreciated by close to 66% and even the Bangladesh Taka depreciated significantly in the first half and remained in a secular depreciating trend

through the remaining half. Although IMF announced bail-out packages for Sri Lanka, Bangladesh and Egypt, with strict conditions, these countries continued to face economic challenges. Ethiopia, which has been experiencing US dollar shortages for many years now, continued to reel under the same pressure and this impacted the scale of our operations significantly.

Business performance

With high inflation, US Dollar shortages and record interest rate hikes, a series of price increases were pushed through all markets to ensure margins are not significantly impacted. At the same time, working capital management and overhead cost optimisation initiatives were at the forefront of all our Units to tackle the difficult conditions.

Across markets, our strategy was to capture new network counters, enrol new contractors and improve consumer mind share. Growth in premium-luxury products played a pivotal role and enabled deeper shop-shares in existing critical and competitive retailers. We also continued our focus on product value propositions and worked on launching/revamping products across markets, ensuring better quality and comprehensive offerings to consumers. The waterproofing category continued to expand well, ramping up our presence in a short duration with a spurt of new product launches and activations and intensive contractor and retailer training, drawing lessons and synergy from your Company's well-established waterproofing portfolio in India. The Safe Painting Service, rolled out in FY 2020-21 across most of the geographies continued to do well. Décor and painting solutions offered under this umbrella have been well-appreciated, revolutionised customer experiences and have helped us create a strong differentiator vis-à-vis competition.

Management Discussion & Analysis



Spectra launch at Asian Paints Causeway, Lanka

Asia (South Asia and Indonesia): Nepal, one of our larger international units, had a strong first half but were later impacted by uncertainties around elections and lack of liquidity. Strong work in the Luxury category and working capital management led to overall good growth on key business indicators. Nepal continued to take large strides in the CP fittings and Sanitaryware business by further growing the Asian Paints Bathsense brand and gaining share from long-established players. Your Company commissioned its manufacturing facility in Nepal for these products in June 2022 improving its ability to service the local demand.

Bangladesh too did well on the top line front, scaling up the Safe Painting Service brand by working with large and medium-sized painting contractors as well as ramping up our presence in the Projects segment. The second manufacturing plant in the country with an initial capacity of 25,000 KL/annum was commissioned and scaled up during the year. Profitability remained a challenge through the year on the back of high inflation and interest costs.

Your Company took unprecedented measures to counter the impact of runaway inflation experienced in Sri Lanka as a result of the economic and political turmoil in the island country, taking steep price increases and sharply optimising overhead expenses to protect resources. Despite these external challenges, the unit continued to work on its strategic focus areas, pushing its reach in the premium and luxury emulsions and the waterproofing and construction chemicals space and delivered a much better than expected performance on profitability.

We continued to expand our product portfolio in the Indonesian market – a market which your Company entered about seven years back through a greenfield set-up. Presence in the ‘Value for Money’ segment remained our core focus area with a series of engagement activities

undertaken along with Contractors and other influencers. Your Company continues to evaluate all opportunities to optimise its presence in the large, though fragmented paint market in Indonesia.

Africa: In Egypt, US Dollar shortages impacted operations and a series of price increases were undertaken in line with competition enabling a lesser dent in margins. The institutional segment was an area of focused effort and we were able to take our engagement with major institutional customers to a higher level across the paint, waterproofing & construction chemicals range. We were also able to grow our Safe Painting Service offering, providing a good opportunity for delivering more innovative products to customers and enhancing the brand image. On the profitability front, there were continued challenges due to intense competitive pressures and inflationary conditions.

The Ethiopia market showed signs of recovery after the signing of the peace agreement amongst the warring factions in the civil unrest. While the local US Dollar shortage played a dampener in fulfilling overall market demand across segments, the business delivered respectable performance maintaining focus on the key strategic priorities set for the year.

Middle East: The Middle East region was untouched by the currency issues inflicting other markets and supported the overall international portfolio positively. While the inflation was high, the units in the Middle East were able to take adequate price increases protecting margins. Cash flow issues though, have been a cause of concern across various customer categories in the market which required focused efforts to handle the ensuing pressure. Business in waterproofing & construction chemicals continued to see good expansion, with a large number of products being launched in both retail as well as institutional segments. Further, investments have been made in engaging with contractors and consultants to create a long-term partnership. The Protective Coating and Project business segment also performed well in the UAE. The Oman unit grew steadily throughout the year with gains in the Premium-Luxury category. And while retail business was a bit slow in Bahrain, significant gains were made in the Projects segment in the country supporting performance.

South Pacific: Operations in South Pacific continued to be impacted by natural calamities. However, our unit continued to grow amidst the challenges and aided by recovery in the tourism sector. Continuous price increases were undertaken to take care of unprecedented inflation.

INDUSTRIAL BUSINESS IN INDIA

Asian Paints operates in the Industrial Coatings segment through two 50:50 JVs with PPG Industries Inc. USA – PPG Asian Paints Pvt. Ltd. (PPG-AP) and Asian Paints PPG Pvt. Ltd. (AP-PPG). Of the total industrial paint demand, about two-thirds come from the automotive sector.

Automotive, industrial, refinish, packaging and marine coatings

PPG-AP, the 50:50 JV of the Company with PPG Industries Inc., USA, is one of the largest industrial coatings suppliers in India, manufacturing and trading in paints, coatings and adhesives and sealants for automotive Original Equipment Manufacturers (OEMs), industrial segments, automotive refinish segment, packaging and marine segments.

Operating environment

With the easing out of Semiconductor shortages, Automotive OEMs ramped up production and registered an increase in builds of over 25%. Even the two-wheeler industry registered a 10% growth in annual builds. The Electric vehicle space saw a lot of investment activity from the OEMs well-supported by the Production Linked Incentive (PLI) scheme for the Automobile and Auto Component Industry which came into effect at the beginning of the financial year.



Linde New Gasification Plant Project at Kattuppalli Chennai by Asian Paints PPG (Contractor - L&T Energy Hydrocarbon)

Business performance

PPG-AP registered double-digit growth in terms of revenue across segments along with good improvement in profitability. The first half of the year witnessed steep raw material inflation while the second half saw some of this pressure abetting. Currency depreciation further added pressure on the bottom line. Price increases across businesses supported the topline growth as well as improvement in margins. Innovation in formulation, sourcing efficiency and other cost optimisation efforts helped further in improving profitability. PPG-AP continued to focus on its R&D capabilities to innovate, leverage technological support from both its parents, PPG Industries Inc. USA and Asian Paints, and provide a differentiated value proposition to its customers.

Non-auto industrial coatings

AP-PPG, the second 50:50 JV of the Company with PPG Industries Inc. USA, serves the non-auto industrial coatings market of India operating in protective coatings, powder coatings, floor coatings and road markings segments, catering to customers in the infrastructure, oil, gas and chemical, power, construction and white goods sectors, among others.

Management Discussion & Analysis

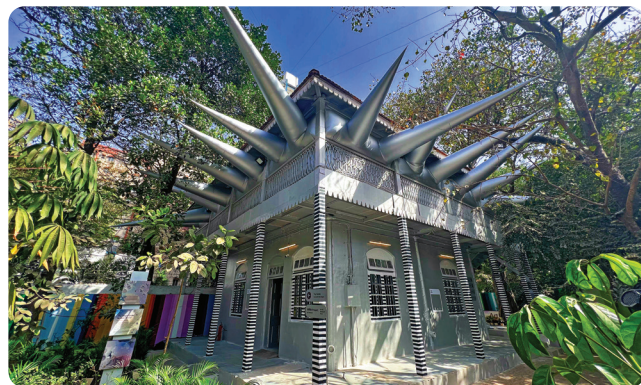
Operating environment

The government's thrust on capital expenditure particularly in infrastructure and renewable energy sectors led to strong growth in demand for Industrial Coatings. Production Linked Incentive (PLI) schemes and China plus one strategy opted by global manufacturers supported capital investments. Manufacturing activity, though, remained subdued throughout the year with inflationary pressures and resultant weak consumer sentiment, especially in the second half of the year.

Business performance

AP-PPG registered robust growth in revenue across market segments. The Company's expanded product portfolio, distribution reach and influencer engagement with support from the parents, propelled the growth trajectory. Introduction of high-end products, the proliferation of its unique asset protection management service offering - Metacare® - and entry into new segments like rebar coatings, and pipe coatings helped the Company to expand its customer base in the industrial liquid product category. In the Powder coatings, category the company undertook multiple initiatives to expand its offerings and offer competitively priced value propositions to make strong inroads at customer counters. The Company's strategy of offering better value to its customers by providing superior products and service through upgraded service standards and improved delivery capabilities helped the Company improve its position in the industry, gaining share across all business segments.

Steep inflation in raw material prices was seen in the first half of the year. Quick actions taken in the area of price increases, product mix enhancement and cost savings measures helped the Company to protect its margins. Overall, AP-PPG registered good growth in terms of revenue along with a significant rise in profits.



Installation 'Bungalow' by artist 'Steve Messam' for Asian Paints Art House (Mumbai Urban Art Festival)

Internal control systems and their adequacy

The Company has designed and implemented robust internal control systems in line with the nature, size, geographical spread and complexities of business operations. Internal control policies and procedures are designed to provide reasonable assurance towards the effectiveness and efficiency of its operations, reliability of financial reporting, compliance with applicable laws and regulations, prevention and detection of frauds & errors and Safeguarding of its assets.

The Company has a strong governance structure with related authorities and responsibilities assigned to the Committees of the Board, function heads and various process owners. The established policy framework is reviewed periodically to keep them contemporary and relevant to the changing business environment.

Detailed procedures, SOPs, work instructions and controls are well documented, digitised and embedded in business processes to ensure the mitigation of risks in operations, reporting and compliance. Such internal controls are regularly tested for adequacy of design and operating effectiveness. Compliance with policies and procedures is an integral part of the management review process. The Company's ERP, system infrastructure and checks are integral parts of the internal control system. The Company has been leveraging data analytics, predictive and visualisation tools to identify data exceptions and trends for minimising errors and avenues to improve the processes. Active efforts are invested to move from manual

detective control to automated preventive controls. The Company has a strong compliance management system to monitor the compliance status online and to update compliance requirements with the latest changes in statutes and business operations. The Company has laid out a process for business plan approval and periodic a review including review of business performance, capital and revenue expenditure and new business investments. The Company's shared service centre plays an active role in driving uniform policies and compliance by actively leveraging new technologies with efficiency and delight.

The Company's key functions and processes are certified with ISO 9001, ISO 14001, ISO 45001 and ISO 27001 focused towards control systems towards quality, environment, occupational health & safety and information security respectively. Regular communication and awareness towards the Code of Conduct, whistle blower process and various policies and procedures are done to ensure common understanding on these leveraging e-modules and online training sessions.

The Company has strong Internal Audit governance to assure the adequacy and effectiveness of internal controls. The Internal Audit Charter covering the role, responsibilities and authority of internal auditor was

updated during the year and is available on the Company's website. The risk-based internal audit plan covering key business processes and establishments is approved by the Audit Committee. This Committee periodically reviews the adequacy and effectiveness of the Company's internal financial controls and the implementation of audit recommendations.

ENTERPRISE RISK MANAGEMENT

Our business and operations are subject to risks and uncertainties that can have both short-term and long-term implications. The constantly evolving business environment, evolving customer preferences, and updated compliance landscape have led to significant changes in the risks faced by the Company across businesses. To address this, we have implemented an advanced enterprise risk management process to scan and monitor risk for its impacts and drive mitigation.

→ For more details on Enterprise Risk Management, please refer to the Risk Management section on page no. 54

KEY RATIOS

Ratios	Standalone		Consolidated	
	FY 2022-23	FY 2021-22	FY 2022-23	FY 2021-22
Debtors turnover ratio	9.4	10.6	8.1	9.0
Inventory turnover ratio (on cost of goods sold)	3.5	3.7	3.4	3.7
Interest coverage ratio	158	202.2	72.0	45.8
Current ratio	2.4	2.3	2.1	2.0
Debt equity ratio*	0.006	0.001	0.062	0.056
Operating margin ratio(%)	21.1%	20.0%	19.3%	17.8%
Net profit margin(%)	13.6%	12.4%	12.2%	10.6%
Return on Net Worth (%) (RONW)**	28.3%	24.6%	27.4%	23.2%

For Standalone

* Increase in borrowing (interest free loan from state governments) during the year has resulted into higher debt equity ratio.

**RONW has decreased in FY 2022-23 by 15% mainly on account of increase in retained earnings.

For Consolidated

^RONW has decreased in FY 2022-23 by 21% mainly on account of increase in retained earnings.

