

Management discussion and analysis



Macro-economic Landscape

The year 2021 saw consumer demand recover as the global economy rebounded after the pandemic shock of 2020. Strong vaccination drive across all major economies and the progressive revival of global supply chains led to synchronised global recovery at a significant pace. After contracting by 3.3% in 2020, global GDP growth is expected to have grown by 5.8% in 2021. The strong economic growth led by resurgence in goods consumption across categories, especially in the developed markets, coupled with the supply chain bottlenecks, has led to significant spike in inflation. While the initial pick-up in inflation was led by demand recovery on the previous year's low base, persistent disruptions in the global supply chain network have caused inflationary pressures to be more broad-based and persistent, running at multi-decade highs in almost all the major economies. Almost all the central banks are now taking policy measures to taper down the extraordinary liquidity that was pumped in to support the economy during the pandemic and tightening the monetary policy to rein in their runaway inflation.

In tandem with the global recovery, the Indian economy too recovered from the pandemic-induced shocks of 2020 and witnessed sequential improvement as 2021 progressed. The second advance estimates of the Ministry of Statistics and Program Implementation has put the GDP growth for FY 2021-22 at 8.9% compared to the 7.3% contraction in FY 2020-21. A rapid roll-out of the vaccination drive and supportive fiscal and monetary policies backed this economic recovery. Export-focused sectors have gained from the strong improvement in global trade as well as government initiatives that have pitched India as an attractive investment destination to global corporations who have been looking to de-risk their supply chains as part of their China Plus One strategy. However, an upswing in inflation across commodities and products has resulted in rising import bills and a depreciating rupee, which have compromised many of the import-dependent sectors.

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Outlook

Over the last two years, economies have become more adept at dealing with the pandemic and its fall-out and have put much-needed attention to improving the health infrastructure. The roll-out of vaccination across the length and breadth of India, and reduced hospitalisation and fatality, have enabled the administration to focus on the reopening of the economy, creating employment and supporting livelihoods. However, as seen during the resurgence of COVID cases in early 2022, with the emergence of the Omicron variant, risks to the growth momentum remain pronounced. In addition, recent geopolitical events have added further fuel to the already steep inflationary trends. Policymakers in India, as in the rest of the world, will have to do a tough balancing act in trying to manage the downside risks to the economy, which is still recovering, while dealing with the inflationary pressures by moving away from the accommodative monetary stance of the last couple of years. Businesses too will need to play this balancing act, addressing supply chain disruptions and inflationary concerns through innovative approaches and at the same time, entrenching the demand recovery.



Management discussion and analysis (continued)

BUSINESS SEGMENT REVIEW

DECORATIVE BUSINESS IN INDIA

FY 2021-22 started with the onset of the second wave of the pandemic, which derailed the sequential recovery of the previous quarters when demand across urban and rural markets seemed to be returning from the COVID lows. Drawing from the learnings of the previous year, we focused on servicing the network as much as possible, following all safety protocols and prioritising the safety of our employees and supply chain network partners. Business made quick recovery following the second wave on the back of our constant efforts to raise the customer value proposition across product categories and price points. Overall, we delivered an exceptional performance, registering a volume growth of 31% and an equally strong value growth of 36%, further reinforcing our market leadership.



Asian Paints Safe Painting service

Strategic gains

The strategic pillars of growth were led by upgradation strategies and deeper penetration into smaller cities, setting up mechanisms to reach alternate channels and increasing the depth in the distribution through targeted openings. These strategies were strongly complemented by leveraging the brand strength and looking at product innovation to grow the premium and luxury product mix, specially across T1 and T2 cities. Smartcare Waterproofing was a strong solution-oriented strategy which helped galvanise the overall growth of the business.

Our efforts to continue innovating and providing newer offerings to consumers paid rich dividends. With the high-intensity launch of Royale Glitz in the ultra-luxury space during the year, we took our luxury segment offerings to newer heights. Royale Glitz is a high-end interior emulsion paint that provides unrivalled sheen and has exceptional stain removal and anti-burnishing properties. In the exterior product segment, we introduced the all-new Ultima Allura range of premium exterior textured

We saw traction building up in the e-commerce marketplace, with a significantly higher number of consumers reaching out for our Do it Yourself (DIY) range of products.

finishes that are much sought after by architects and interior designers. Innovation in the complex category of waterproofing led to the launch of the revolutionary Smartcare Hydroloc, an unmatched offering in this space. This is a one-component, ready-to-use, penetrative-cum-film-forming interior waterproofing solution that provides best-in-class solutions to problems like dampness and efflorescence.

The waterproofing and adhesives product categories, two of our recent category expansions, continued to grow significantly ahead of the overall portfolio growth. Our emphasis on product innovation and solution-focused approach to meet varied customer requirements through an evolving product plus service combination, has allowed us to make significant inroads in these large categories.

Initiatives undertaken last year in the digital and e-commerce space to address the challenges posed by the pandemic, were further bolstered by a series of enhancements to ensure that our stakeholders can engage with us much more easily. These digital initiatives have ensured that our dealers, contractors, influencers as well as consumers are able to access our products and services in a seamless manner.

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Consumer services

During the year, we continued to work diligently on promoting our décor propositions through a comprehensive omnichannel approach and a gamut of initiatives to emerge as the most preferred partner in the Home Décor space. Our 'Beautiful Homes with Asian Paints' digital magazine is now India's largest digital design content platform with a 1.5+ million strong community of followers and subscribers. The magazine is a veritable library of information and inspiration ideas for creating that perfect home, drawing on visits to real homes across the country and interviews with some of the country's best design talent.

Realising that the most difficult part of creating a home is still the making of it, we had launched the Beautiful Homes Service some time back. The interior design and makeover service in India is still a largely unorganised space, with only a few organised companies entering the space in recent years. These players, however, deliver customers run-of-the-mill designs and similar looking homes, and that's where our Beautiful Homes Service comes in. The key proposition of this service is personalised design and professional execution. We ensure that we respect customers' individuality and make designs that suit their needs. We work with a team of experienced interior designers and dedicated project managers. Apart from design, we have a strong technology backbone behind the service which ensures that projects are managed smoothly, and customers are kept informed at each stage of the project.

Our Beautiful Homes Service is now available in 11 cities across India, handholding customers through the entire homemaking journey – right from consultation, personalised designs to professional execution, making their dream homes a reality.

70,000+

Customers across 600+ towns used the Safe Painting Service in FY 2021-22

29

Beautiful Homes stores across India

Our Safe Painting Service continues to be the ultimate benchmark for a professional painting experience and provides consumers peace of mind by following safety protocols at each step of the painting process. The service is now well spread across T1, T2, T3 cities, reaching a multitude of customers. We see consumer expectations rapidly evolving in this space, with more and more consumers looking at a complete painting solution, from consultation to final delivery of finish, through professional service providers. Keeping this in mind, we launched a range of additional services during FY 2021-22 to address the demands of different consumers:

- Wood Solutions Service: End-to-end solution for all wood coatings
- Quick Make-over Service: Service to deliver quick make-over to homes
- Designer Wall Service: Offering to revamp living spaces with designer collections
- Safe Painting Service Pro: Service for architects and interior designer professionals
- Trusted Contractor Service: Providing reliable, trained, and trusted applicators

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Supply chain

FY 2021-22 posed newer challenges on the already fractured value chains from the pandemic, with the freight markets across the globe disrupted and manufacturing activity impacted due to shortage of materials and manpower. Unlike the first wave in 2020, economic activity across the world continued, with localised and limited lockdowns during the second and third waves. However, in the connected world with extended supply chains cutting across geographies, this led to increased uncertainty, information asymmetry and additional strain on the value chains with intermittent start-stops impacting reliability of operations.

Management discussion and analysis (continued)



At Asian Paints, we leveraged our highly integrated and digitised supply chain network of multiple manufacturing sites, vast and well spread-out supply points and work culture of collaborative working with business partners (dealers, contractors, suppliers and other service providers) to capitalise on the significant paint demand hike post the first wave. On the one hand, the supplier and Asian Paints ecosystems merged together, collaborating to overcome value chain disruptions through tripartite contracts, proactive and transparent information exchange. On the other hand, the Asian Paints Supply Chain team and the Sales & Marketing team came together as ONE team to dynamically optimise available resources to service the paint demand in the context of disrupted material supply, manpower constraints due to COVID infections, and local authorities restrictions preventing operations. Scenario-based planning, inventory optimisation and staging across the chain, deployment of differentiated distribution strategies, new models for demand estimation along with frequent reviews and dynamic procurement strategies not only ensured we serviced the paint demand, but also achieved highest ever Order Fill Rates.

Unflinching focus on product quality, safety and health of employees and customers, dynamically changing availability of materials, a never-seen-before inflationary scenario and many other challenging requirements were commendably handled by the R&T, Supply Chain and Marketing teams – working in collaboration, displaying agility in de-risking and enabling alternate sourcing to keep the value chain well-oiled for meeting customer demand. Several initiatives utilising artificial intelligence, machine learning and other cutting-edge technologies in the realm of planning systems and manufacturing, ensured cost optimisation, competitive advantage and flexibility in servicing customer demand, furthering the supply chain resilience.

An ahead-of-the-industry growth, especially over the last two years, has meant that we have been able to enhance our capacity utilisation levels across our manufacturing plants, including at Mysuru and Visakhapatnam, which were the latest to be commissioned with an installed capacity of 300,000 KL per annum, each. During the year, we initiated brownfield capacity expansion projects at our manufacturing plants in Ankleshwar, Kasna and Khandala. These capacity expansions are with an eye towards enhancing our ability to cater to the demand in the domestic market over the next few years.

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 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

FY 2021-22 continued to be impacted by uncertainties caused by the COVID-19 pandemic, impacting markets to a varied extent. Lockdowns in many markets continued to impact economic activity and consumer sentiment. At the same time, the constrained operating environment led to unique and innovative ways of doing business while ensuring strict adherence to safety protocols. Availability of vaccines, especially in the second half of the year, along with aggressive steps by governments to promote vaccination, helped mitigate the adverse impact of the pandemic. As the year went by, it led to reopening of more sections of the economies we operate in.



Ultima Protek Shyne launch in Bangladesh



In-store merchandising in Indonesia

Our international operations saw record inflationary pressure during the year, and coupled with the COVID-19 challenges, this dented both our top line as well as the bottom line. Supply chain disruptions, led by the lack of adequate shipping containers, added to the operating challenges. We went ahead with the implementation of a series of price increases across all markets despite not being in the leadership position in many of them. This was done to mitigate the impact of rising input prices. Across markets, our strategy was to push in favour of premium and luxury products to augment the top line and minimise the impact on margins. With cost optimisation initiatives and aggressive working capital management, we were able to minimise the impact of increasing costs and contain losses.

Sri Lanka saw consistent shortage of US dollars through the year, which severely limited the availability of key imported raw materials and impacted our business operations. The situation worsened, leading to an unprecedented depreciation of the Sri Lankan currency towards the end of FY 2021-22. Egypt's currency also got devalued in March 2022, creating a short-term panic among stakeholders, including the local banking industry. Ethiopia's currency has consistently depreciated every month due to the overall uncertainty in the political and economic environment and concerns over the availability of US dollars.

Business performance

Across the international markets, our concerted move to capture new network counters, enrol competition contractors and improve consumer mind share has been our biggest growth driver. Growth in premium-luxury products played a pivotal role and enabled deeper shop-shares in existing critical and competitive retailers.

During last year, we continued our focus on product value propositions and worked on launching/revamping products across markets, ensuring better quality and comprehensive offering to consumers.

The waterproofing category has provided a substantial impetus to our growth trajectory. Continuous new product launches and activations, and intensive contractor and retailer training, have enabled us to double our revenues from this category across most of the markets and ramp up our presence in a short duration. We are confident that the growth trajectory will continue, given the technological and marketing strengths we have developed in the past two years, drawing synergies from our well-established India market portfolio.

The Safe Painting Service, rolled out in FY 2020-21 across most of the geographies, gained major traction in FY 2021-22, which saw a close to 3x increase over the previous year. Décor and painting solutions offered under this umbrella have been well appreciated and have helped us create a strong differentiator vis-à-vis competition. Onboarding of retailers and contractors was done swiftly, helping us create an unprecedented service revolution in the international markets.

Asia (South Asia and Indonesia): Nepal, one of our larger international units, had a good year despite being affected by COVID lockdowns. This was on the back of some extremely good work on the premium & luxury emulsions and waterproofing & construction chemical fronts, led by new products and initiatives. In addition, Nepal took large strides in the CP fittings and Sanitaryware business by further growing the Asian Paints Bathsense brand and gaining share from long-established players. Bangladesh too did well on the topline front, scaling up the Safe Painting Service brand by working with large and medium-sized painting contractors.

Trials for water-based and solvent-based paint production were completed in Bangladesh at the new factory that is being set up with an initial capacity of 25,000 KL per annum.

Sri Lanka is facing one of its most challenging economic crises, with the country battling an extreme forex crunch, which has led to large-scale shortages of even the most essential products. This has put severe pressure on our business in the country, forcing us to take some unprecedented price increases to counter the impact of runaway inflation. Despite the challenges, our unit in

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Management discussion and analysis (continued)

Sri Lanka continued to work on its strategic focus areas, pushing its reach in the premium & luxury emulsions and the waterproofing & construction chemicals space and driving integration at the merged entity, Asian Paints Causeway.

The Indonesia paint market improved in the latter half of FY 2021-22, after recovering from the Delta variant-induced wave. Inflation was rampant throughout the year and the unit had to resort to multiple price increases to mitigate its impact. We have been able to effectively scale up business operations, gaining good presence in the 'Value for Money' market segment. We remain optimistic of the long-term potential of this huge, though fragmented market, and will continue to invest in further expanding our scale of operations, targeting a much wider consumer reach through deeper forays in the distribution network.

Africa: In Egypt, the overall top-line growth and profitability have been a challenge due to intense competitive pressures and the prevailing inflationary conditions. However, we have been able to expand our Safe Painting Service offering significantly in the Cairo region, providing good opportunity for delivering more innovative products to customers and enhancing the brand image. The institutional segment has been an area of focused effort and we have been able to take our engagement with major institutional customers to a higher level across paint, waterproofing & construction chemicals range. In Ethiopia, demand conditions continued to be under strain in the first half of the year due to the civil unrest. However, the situation improved towards the latter part and the market has since shown signs of returning to normalcy. This was reflected in our unit's progress as well. Foreign exchange unavailability, which has been a persistent challenge for the last few years, continues to put pressure on the operations. The currency also went through several rounds of devaluation during the year.

Middle East: The inflationary environment affected the overall business conditions and profitability adversely, especially in the institutional segment. Cashflow issues affected many of the institutional customers and created challenges in managing the working capital effectively. Business in waterproofing & construction chemicals saw



'Royale' Launch at Scib Paints, Egypt

good expansion, with a large number of products being launched in both retail as well and institutional segments. Further, investments have been made in engaging with contractors and consultants to create a long-term partnership.

South Pacific: The South Pacific operations were affected by a number of challenges during the year, beginning with COVID-induced lockdowns. Despite the challenges, our unit still managed to deliver growth for the year, boosted by government efforts to support the economy as well as the fledgling recovery in the key tourism sector.

HOME DÉCOR BUSINESS IN INDIA

Asian Paints is committed to inspiring and exciting Décor and partnering the customer in her making of her dream home. BeautifulHomes.com is the engine driving décor aspirations for our customers. On the retailing and décor product category front, BeautifulHomes stores provide 'Décor under one roof', offering one-of-its-kind immersive consumer experience and have received an excellent response. The footprint of this multi-category décor stores has now expanded to 29 stores across the country and would see further expansion in the coming years.

At the core of the BeautifulHomes stores is a strong phygital (physical + digital) model, with cutting-edge technology and physical experience woven together to provide a unique consumer experience. All the stores use advanced digital technology to provide expert guidance and world-class visualisation to consumers. In addition to paints, these stores offer our range of décor products across segments like furniture, furnishings, decorative lightings, customised tiles, kitchens, wardrobes, bath, and sanitaryware, which help consumers create their dream home. Last year, we had aligned with a fabric and furnishing brand and we retail the same through our BeautifulHomes Stores and a network of 600 retailers.

In a major fillip to our ambition of being the most inspirational Home Décor brand, we have recently acquired stake in two companies in the large Home Décor space – White Teak, an established player in the designer and decorative lighting products space, and Weatherseal, a leading brand in the growing uPVC windows and doors space. These forays will further propel our transition from 'share of surface' to 'share of space' and enable us to play a larger part in the customer life cycle of home makeover.

We also operate in the Kitchen and Bath business and help our customers create kitchen and bathroom spaces of their choice.

KITCHEN BUSINESS

We forayed into the Kitchen business by acquiring 51% stake in Sleek International Pvt. Ltd. (Sleek) in FY 2013-14 and further increased our stake to 100% in FY 2017-18.

'Sleek by Asian Paints' is present in both the Kitchen Components as well as the Full Modular Solutions segments. Under the Kitchen Components segment, we sell our own 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 through a strong network of franchisee owned showrooms across the country. We also have a dedicated projects channel to provide Full Modular Solutions for new constructions, especially residential housing.



Business performance

During FY 2021-22, Sleek clocked revenue growth of 54.8% despite disruptions in many parts of the country due to COVID-induced business restrictions, especially in the

first few months of the financial year. The growth was driven by strong performance across both the Kitchen Components and the Full Modular Solutions segments. We continued to expand our showroom network, on-boarding the right profile of concept-selling and service-oriented dealers. We now have more than 250 showrooms across the country offering the Full modular kitchen design and installation services. This is an unparalleled network in this line of business in the country, and it offers us a unique positioning from where to disrupt the market with solutions that cater to varied customer requirements in the space. Integration with the BeautifulHomes stores network as well as the BeautifulHomes Service solution, has also enabled us to scale up the offering. We have also taken new product initiatives in the Kitchen Components segment – introducing new profiles and sliding fittings, which have opened new avenues for us in the Kitchen Hardware category. This has helped us establish ourselves as a formidable player in a segment traditionally dominated by European brands. The luxury collection of kitchens with premium finishes, launched last year, also saw high demand during the year. This is one of the most comprehensive collections of luxury kitchens by any company in India.

During the year, the Projects channel of the business, offering Full Modular Solutions to residential housing projects, expanded well as the real estate sector picked up momentum after years of sluggish performance. We have built up a strong presence in the key residential project markets of Mumbai, Pune and Delhi, strongly associating with some prominent realty brands in these places. During the year, we also expanded our presence in this channel in some cities in the Southern part of the country, thereby widening our reach.

A strong collaborative approach with the established Projects network of the Decorative Business segment of the Company, helped us tap synergies and convert many large key project sites with a comprehensive solutions approach.

However, despite the scale up in market presence and operations, the steep rise in commodity prices remained a drag on profit objectives. Thus, while the business garnered efficiencies of scale, material inflation resulted in overall losses for the operations, although to a much-reduced extent compared to the previous year.

54.8%

Revenue growth for 'Sleek by Asian Paints' during FY 2021-22 despite disruptions caused by the pandemic



Management discussion and analysis (continued)



BATH FITTINGS AND SANITARYWARE

Asian Paints forayed into the 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 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 and décor needs.

Business performance

The business grew well during the year, leveraging the network and product expansion initiatives undertaken over the last couple of years. A range of new products including touch-free products in the CP fittings and sanitaryware space were launched during the year. Our agenda of premiumisation in the sanitaryware space was further pushed with introduction of high-end products and accessories. Concept products and fittings were launched under the CANVAS range – a unique range of products that provides the consumer the choice of coloured bath fittings and complements the sanitaryware of choice. Products under CANVAS come with one-of-its kind Lotus 25 hydrophobic technology that provides long-term warranty from scaling 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. 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 made a strong impact in the Projects segment during the year, leveraging the strengths of the Decorative Business Projects team. This has helped us make greater inroads in this category across a range of customers including prominent builders and construction companies while catering to government infrastructure orders at an enhanced scale.

The network expansion drive also continued right through the year, with increased representation in large cities as well as T2 and T3 towns. Continuing with the 'service excellence' theme, 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. This helped the business reduce costs significantly and, along with the efficiencies of scale, enabled the business to deliver profits for the year.

Work on setting up a second manufacturing facility for both the Kitchen and Bath businesses is ongoing and we expect to commission both these facilities in FY 2022-23. The facilities will provide strong support in enhancing the growth potential of both the businesses.

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

Operating environment

The automotive industry, the most significant driver of the automotive coatings industry, faced a challenging business environment given the high commodity inflation, supply disruptions and limited availability of semi-conductors. It still managed to register a 19% growth in terms of the automotive segment, coming back from



PPG-AP team with Mahindra XUV 700

the lows of the previous year. However, the two-wheeler industry, continued to reflect the adverse economic realities, and witnessed a de-growth of about 4%.



Value Pro from PPG-AP

Business performance

PPG-AP registered double digit growth in sales driven by the growth in volumes in most segments. Further, it was able to successfully garner price increases with its key automotive customers, though with a considerable lag, which supported the topline growth to an extent. The delay in closure of price increases, which was required to offset the impact of inflation, hurt business profitability. However, innovation in formulation, sourcing efficiency and other cost optimisation efforts helped minimise this adverse impact on profitability.

The company's Dahej Resin facility is fully operational and almost all the resins are now localised. PPG-AP continues to focus on its R&D facilities to innovate, leverage technological support from both its parents, PPG Industries Inc., USA and Asian Paints, and provide value proposition to its customers.

Non-auto industrial coatings

AP-PPG serves the non-auto industrial coatings market of India and is our second 50:50 JV with PPG Industries Inc., USA. The JV operates in protective coatings, powder coatings, floor coatings and road markings segments, servicing customers in infrastructure, oil and gas, power and white goods sectors, among others.



Operating environment

The industrial coatings market was affected by disruptions caused by restrictions during the first quarter of FY 2021-22. However, the impact of subdued manufacturing and private investment activity on demand for industrial coatings was offset by strong government spending in infrastructure and supported by the emerging demand from export-focused sectors. The industry experienced an unprecedented raw material cost inflation throughout the year as well as uncertainty in the supply of input materials given the steep rise in ocean freight and shipping delays.



Project - South West Gas Fields Development Project, Sonatrach Algeria by Larsen & Toubro

Business performance

Despite such a challenging environment, AP-PPG delivered record revenues during the year. Growth in the Protective Coatings segment was driven by new customer wins, strong execution of key projects and expansion of channel network. Focus on new customer acquisitions and product portfolio enhancements contributed to the strong growth in the Powder Coatings and Road Markings segments. The Floor Coatings business gained significantly from the collaboration with the Decorative Business Projects team, leveraging its vast customer reach to solidify its position in the segment.

Swift implementation of price increases to offset the raw material cost inflation, product mix improvement and cost optimisation measures helped the business protect its margins. Overall, AP-PPG registered good growth in terms of revenue along with significant rise in profits amid challenging business conditions.



INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company's internal control systems are commensurate with the nature of its business and the size and complexity of its operations. Appropriate internal control policies and procedures have been set up to provide reasonable assurance on the following objectives:

- Effectiveness and efficiency of its operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Prevention and detection of frauds and errors
- Safeguarding its assets

Some significant features of the internal control systems are:

- Documentation of major business processes and testing thereof including financial closing, automated controls and entity level controls. Compliance to these policies and procedures is an integral part of the management review process
- The Company uses robust ERP and allied IT tools as an integral part of the internal control system. The Company also uses data analytics tools to identify data exception and trends for minimising errors and lapses, and to track crucial compliances. Wherever possible, emphasis is placed on incorporation of automated controls within the process to minimise deviations and exceptions
- The Company develops detailed business plans for each segment. Year-on-year reviews, annual financial and operating plans and monthly monitoring are part of the established practices for all functions
- The Company has a strong compliance management system which runs on an online monitoring system
- The Company has a well-defined delegation of power with authority limits for approving expenditure which is reviewed and suitably amended periodically

- The Company has well-defined principles and procedures for evaluation of new business proposals/capital expenditure
- The Company has an effective whistle-blowing mechanism and conducts training/awareness sessions on policies and Code of Conduct compliance
- The Company has an Enterprise Risk Management programme through which functions address risks through an institutionalised approach aligned to our objectives

Adequacy and effectiveness of the internal controls are routinely tested by Internal Auditors based on their risk-based audit plan. The audit plan covers key processes across the functions including plants, depots and other establishments. Suggestions to further strengthen the processes or to make them more effective are shared with the process owners and changes are made suitably.

The risk based internal audit plan is approved by the Audit Committee. Significant audit observations and follow up actions thereon are reported to the Audit Committee. This committee periodically reviews the adequacy and effectiveness of the Company's internal financial controls and the implementation of audit recommendations. The Company believes in conducting business in a fair, ethical and compliant manner. Towards this, periodic sessions and e-learning courses are rolled out to make the employees aware of the Code of Conduct and related policies of the Company including the whistle blower policy and mechanisms. The Company stays committed to maintaining the highest standards of governance.

Enterprise Risk management

The Company's business is subject to risks and uncertainties that could have both short-term and long-term implications. In a rapidly changing business environment with dynamic customer requirements, business risks are constantly evolving. As a result, there are many emerging risks landscape across businesses. The Company constantly monitors external environment to identify potential emerging risks and their impact on its business.

For more details on Enterprise Risk Management, please refer to the Risk Management section on page 90.

Key ratios

Ratios	Standalone		Consolidated	
	FY 2021-22	FY 2020-21	FY 2021-22	FY 2020-21
Debtors turnover ratio	10.6	12.5	9.0	9.9
Inventory turnover ratio (on cost of goods sold)	3.7	3.4	3.7	3.4
Interest coverage ratio	202.2	185.3	45.8	47.7
Current ratio	2.3	2.2	2.0	2.0
Debt equity ratio [^]	0.001	0.002	0.056	0.028
Operating margin ratio (%) [#]	20.0%	26.2%	17.8%	23.8%
Net profit margin (%) [#]	12.4%	16.5%	10.6%	14.8%
Return on networth (%) (RONW) ^{**}	24.6%	28.3%	23.2%	27.4%

For Standalone:

*Increase in net worth has led to improved debt equity ratio.
 **RONW has decreased in FY 2021-22 by 13% mainly on account of increase in retained earnings.

For Consolidated:

[^]Higher borrowings in Foreign Subsidiaries to manage working capital needs has led to higher Debt Equity Ratio.
[#]Operating and Net Profit Margins have decreased on account of inflation.
^{**}RONW has decreased in FY 2021-22 by 15% mainly on account of increase in retained earnings.

Please refer to the narratives forming part of the six Capitals of Integrated Report for the material developments in respect of Human Resources and industrial relations.

