

Interest income of the Company came down significantly during the year mainly due to reduction in the interest on Income Tax refunds received during the year to Rs 89 million against Rs 222 million in the previous year.

No public deposits were accepted by our Company during the year. Unclaimed dividends amounting to Rs 4 million were remitted into the Investor Education and Protection Fund of the Central Government as required under section 205C of the Companies Act, 1956.

Significant developments

Amalgamation

The amalgamation of M/s Akzo Nobel Car Refinishes India (Private) Limited, Akzo Nobel Chemicals (India) Limited and Akzo Nobel Coatings India (Private) Limited after all necessary approvals and sanction by the jurisdictional High Courts was completed on 18 May 2012. As per the scheme of amalgamation, the Accounts covered in this report include the results of the amalgamating companies with effect from 1 April 2011 being the 'Appointed Date' for the amalgamation.

In terms of the scheme of amalgamation, equity shares of the Company to be issued to the shareholders of the amalgamating companies will rank pari passu with the existing shares of the Company including for the purpose of determining entitlement to the Dividend for the year 2011-12. Post this issue, promoter holding in the Company will go up to 68.9%. As a result of the amalgamation and share issue as aforesaid, the capital structure of the Company has changed/will change as follows:

	Pre-amalgamation	Post-amalgamation
	Rs million	Rs million
Authorised capital	416.9	1,266.9
Paid-up capital	368.4	479.6

The Board is delighted to welcome the new shareholders to the Akzo Nobel India fold and look forward to their support to the Company in its endeavours to enhance shareholder value.

Arising from the amalgamation, the Company will be reporting its financials under two business segments, viz. Coatings and Others (mainly Chemicals).

Share buyback

A share buyback programme through Tender Offer process was initiated by the Board on 21 May 2012, subject to necessary regulatory and other approvals. Under this programme, a maximum of 1.3 million shares will be bought back by the Company at a price of Rs 920 per share from the non promoter shareholders. The total cost of this buyback assuming full acceptance will be Rs 1,196 million plus incidental costs. The buyback is expected to be completed by end July 2012.

Management discussion and analysis

Coatings

Coatings segment recorded a turnover of Rs 20,297 million, which is not comparable with the previous year's Rs 11,733 million, on account of amalgamation. Segment profit was Rs 1,403 million vs previous year's Rs 1,209 million, reflecting the continuing investment in penetrating new markets, strengthening the brands and capability building to support future growth and cost pressures.

Decorative Paints

The topline growth in the business was in line with industry growth. Some of the initiatives which supported the growth are:

- Launch of global innovations in the super-premium segment such as Dulux Guardian with anti-bacterial properties
- Launch of Dulux WeatherShield Max with SunReflect (promise of keeping homes cooler by up to 5 degrees)
- Launch of best-in-class offers such as Dulux Promise and ICI Magik in the lower price tier, which has helped establish due connect with the distribution channel

- Launch of the global 'Let's colour' campaign on Dulux mother-brand in the second half of 2011 with strong media spends and on-ground activation.

The year also saw innovative ad campaigns to improve the preference for the Company's brands. The media strategy focused on improving media efficiencies, innovative extensions of the campaign, with focus on regional media, advertising around festivals and airing smaller edits, but with greater frequency to maximise impact.

The above initiatives have helped in reinforcing the image of Dulux as an 'Innovator'.

Our Company has continued to judiciously invest in enhancing its capacity at different sites. Hyderabad Works expansion saw a 30% rise in overall waterborne paints capacity, with best-in-class energy efficiency and zero effluent technology. The plant is automated end-to-end with high productivity and consistent product quality.

A new Greenfield site at Gwalior, Madhya Pradesh, has been acquired and work has commenced to establish an integrated Coatings facility.

As a measure to ensure seamless access to the global R&D of AkzoNobel in development of new products, knowhow and technologies to the business, **a framework of royalty** has been approved by the Board during the year. The arrangement entails a royalty charge of approx 1% of sales for the first two years, going up to approx 2% thereafter. The Board believes that the benefits flowing from the arrangement will pay for themselves over a period.

Automotive and Aerospace Coatings (A&AC)

A&AC business continued the growth momentum and recorded impressive growth during the year. Strong focus on demand generation, value-added services and product upgradation resulted in the growth ahead of market, though the industry witnessed a slowdown in the demand in the later part of the year. Initiatives such as Great Finishers Club and end-user retention programmes were sustained during the year.

Performance Coatings (incorporating Marine, Protective, Powder, Coil and Packaging Coatings)

Our Marine Coatings business comprises coatings for deep sea and inland marine vessels at new construction, or for maintenance that protect against corrosion and abrasion and provide resistance to organic fouling. The business registered robust performance in the deep segment and the coastal and Navy but is faced with a shrinking demand in new-build construction due to the global economic situation resulting in postponement of deliveries of new build ships and vessels. Notable users of the business' products include the Indian Coast Guard vessels.

Our Protective Coatings business offers corrosion and fire protection solutions across a range of industries like oil and gas, infrastructure projects such as airports and stadia, power generation, mining and minerals and original equipment manufacturers, to name a few. The business showed consistent growth in revenue during the year. Notable projects which have used the business' products include the grandstand at the Buddh International Circuit at India's first Formula1 Grand Prix race.

Coil Coatings sales were depressed during the year mainly due to capacity constraints. The business continued pursuing its growth plans, through development of high gloss superior mar-resistant Top Coats for appliances and addition of new capacity of 8 million litres per annum of Coil Coating added at the Bangalore site during the year.

Powder Coating is an environment friendly "Green technology" catering to customers across industries like Automotive, Architectural, Domestic appliances, etc. During the year, top line growth in the business was in line with industry, driven by conversion of liquid coatings customers to powder coatings, leveraging its eco-friendly nature, simplicity of application and cost benefits. Some of the products achieved Platinum Lead certification from SMaRT for sustainable materials rating. The business also launched a new product Mixolite, a rapid service model to cater to the trade coater market.

Chemicals

Chemicals segment recorded a turnover of Rs 873 million, which is not comparable with the previous year's Rs 188 million, on account of amalgamation. Segment profit was Rs 122 million vs previous year's Rs 37 million.

Functional Chemicals Business reported strong growth, backed by a turnaround in the manufacturing sector in the early part of the year, with significant presence in Petrochemical, Pharmaceutical and rubber applications. As part of ongoing efforts, a few new products were introduced; the business is also working with its key customers for introducing new technology for 'Continuous Initiator Dosing' for PVC.

Surface Chemistry Business recorded robust growth during the year, on the back of strong demand in Personal Care segment. The business has also invested in a new lab to support the Asphalt business to co-develop technical solutions to meet customer requirements.

Going forward, our Company will continue to closely monitor the global trends in the availability and price movements of all key inputs and shall strive to safeguard the supply lines of critical materials like titanium dioxide, pigments, solvents, thinners, peroxides, chlorides, etc. Cost reduction and value enhancement projects are also being pursued to counter inflation/ensure supply security. However, sharp depreciation in rupee against US dollar could negate the effects of some of the above actions and put further pressure on margins. The Company follows a Risk Management policy under which all material foreign currency exposures are hedged through forward covers, to protect against unexpected swings in exchange rates.

Taking a holistic view of cost management, our Company has embarked on 'Project Dynamo' to review the cost structure across the organisation and identify action plans to reap the benefits of cost and revenue synergies arising from the amalgamation.

Notwithstanding the constraints, our Company will stay focused on growing ahead of the market, with particular emphasis on delighting its consumers, through superior technical inputs and solutions and continuous efforts to expand footprint in the relevant markets.

Responsible care

Our Company continued to drive its Health, Safety, Environment & Security objectives by taking on challenging targets for reduction in energy and water consumption, waste and VOC. Our Company continued to drive its safety initiatives like behaviour based safety and driving safety. Commissioning of the expansion of Hyderabad factory has helped in reducing primary freight CO2 emissions through reduction of the transportation distance to service the south India market.

In line with global norms and regulatory requirements, the Company continues to upgrade its standards of compliance of all applicable ('HSE&S') norms while maintaining operational integrity.

Conservation of energy, research, development and innovation

Our Company continues to use its research and development base to bring consumers new products with improved performance features and products for special applications. Particulars in respect of conservation of energy, technology absorption and foreign exchange earnings and outgo, pursuant to Section 217(1)(e) of the Companies Act, 1956, are given in **Annexure I** to this report.

Corporate Social Responsibility

During the year, the Company encouraged several CSR initiatives directly and in partnership with NGOs with main focus on health, hygiene & education for underprivileged segments and creating livelihood opportunities for below poverty line (BPL) category and has been able to bring about a positive change in many challenging situations. An Aagharwadi project was taken up with the objective to provide help and work with BPL farmers to develop their land to ensure steady and sustainable income. By implementing "Model Farm", which consisted of an inter-crop of fruit-bearing trees and vegetables which will provide immediate returns as well as long-term benefits, combined with water harvesting tank, their efforts resulted in conversion of arid lands to lush farms. This project