



Asian Paints Limited
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APL/SEC/19/2021-22/61

8th December, 2021

InGovern Research Services Pvt. Ltd ("InGovern")
A1-51, S. V. Road,
Mumbai 400068
Maharashtra

Kind Attention: Mr. Shriram Subramanian, Managing Director - InGovern

Sub: InGovern' s Report in relation to Asian Paints Limited (November, 2021)

Sir,

This is with reference to the captioned subject and your report dated 24th November, 2021 titled 'Asian Paints Limited – Saving the Company from Promoter Shareholders' (Report).

In summary, your Report:

- a. alleges that the transactions entered between Asian Paints Limited ('the Company') with some of its related parties (entities directly and/or indirectly controlled by members of the promoter(s)/promoter(s) group), and particularly the transactions undertaken with one of the Company's related parties, namely, Paladin Paints & Chemicals Private Limited (Paladin) are prejudicial to the interest of the Company and its shareholders.
- b. holds the Board accountable for failing to mitigate alleged conflict of interests.
- c. calls the disclosures made by the Company on related party transactions, inadequate; and
- d. finally calls for the Securities and Exchange Board of India (SEBI) to investigate this matter.

This Report published by InGovern, a corporate governance advisory firm, appears to be based on incorrect facts and premise based on hearsay rather than any serious investigation. We believe the following narrative will help build a clear and distinct picture of the robust and rigorous process followed by the Company while dealing with related parties. We specifically, refute all the allegations made by InGovern in this Report relating to the Company and its practices with all the emphasis at our command.

A. Understanding related party transactions at Asian Paints:

- i. The related party transactions, under Indian laws and regulations are legal and valid and can often bring distinctive benefits to the Company such as better certainty of supplies, better understanding of costs of supplies, prevention of cartelization of a few big suppliers, benefits of innovation and experimentation without the risk of losing intellectual property rights etc. It is common business practice to enter into transactions with related parties in India including dealings between international parent companies and their Indian subsidiaries. It is, therefore, unfair to approach such transactions with a negative bias, ignoring and overlooking the benefits that can and do accrue from such transactions to the Company.
- ii. The Company has been entering into transactions with entities directly and/or indirectly controlled by members of the promoter(s)/promoter(s) group, for its business purposes for more than three decades.
- iii. These transactions primarily include transactions relating to purchase of raw materials, packing materials, intermediaries, and such other transactions permissible and provided for under the provisions of Companies Act, 2013, SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and the Income Tax laws.
- iv. The related parties, which the Company contracts with:
 - a. primarily supply their products to the Company,
 - b. bring in advanced and innovative technology for the benefit of the Company,
 - c. customize their products to suit the Company's specific requirements,
 - d. help in enhancing the Company's purchase cycles and assure just in time supply with resultant benefits – notably on working capital,

all of which benefits the Company and gives competitive and cost advantage in the market, without compromising on the quality/service levels and based on sound commercial judgement.

Further, the value of transactions with all the related parties put together, has been around 4.5% to 6% of the purchases done by the Company in the last ten years clearly implying that over 90%+ purchase transactions are with independent unrelated parties.

We also invite your attention to the fact that while comparing the related party transactions with the total purchases made by the Company, InGovern has erred by considering only raw material purchases, whereas the related party transactions include both raw material and packing material purchases. If we consider the total purchases by the Company (raw material and packing materials), the total related party purchases would be 5.5% of the total purchases as against 6.6% reported for the FY 2019 - 20 (likewise for the other financial years mentioned in the report).

- v. By virtue of this association, the Company is able to develop and deal with multiple vendors (both unrelated parties and related parties) and as per the Company's internal guidelines, for each product requirement at least 4 – 5 vendors (approx.) are dealt with to ensure (a) healthy competition and (b) avoid concentration risks or over dependence on a single source or a few vendors.

- vi. To ensure transparency and arm's length pricing for such supplies by related parties, the Company seeks multiple quotes from related parties and unrelated parties of equal standing and appoints a related party only if such party offers competitive terms, including pricing, as compared to unrelated parties. Along with pricing, manufacturing capabilities to effectively serve Company's requirements and quality parameters are primary factors taken into consideration. In rare cases of new product development and low volume purchases in absence of competitive quotes from unrelated parties, the process of price discovery is adopted typically based on cost plus model.

- vii. As a part of the Company's annual planning process, before the beginning of a financial year, details of all transactions proposed to be executed with related parties, including, estimated amount of transactions to be executed, manner of determination of pricing and commercial terms, etc. are presented to the Audit Committee for its consideration and approval. During the year, further approval is sought for any new transaction/modification to the previously approved limits/terms of contracts with the related parties. This is followed by a quarterly review of the related party transactions by the Audit Committee of the Board of Directors of the Company.

The Company documents the grounds on which the contract is awarded to a related party, and such other justifications as relevant, are submitted to the Audit committee along with the proposal for approval of related party transaction.

- viii. The Audit Committee comprises majority of Independent Directors in accordance with the requirements of the law. It is noteworthy to mention that the Promoter Director who was a member of the Audit Committee, did not participate in the discussions concerning transactions with any related party as mandated under Law. Hence, the question of Directors having a conflict of interest does not arise.
- ix. We hope the aforementioned narrative helps you, and through you, your readers, to understand the robust process followed by the Company when dealing with related parties. We would like to reiterate that all related party transactions have been entered into after analyzing the benefits accruing to the Company from such transactions and after duly complying with the applicable legal provisions.
- x. In conclusion, all the transactions involving related parties are undertaken for discernable benefits to the Company and in strict compliance with the provisions of law and necessary disclosures have been made in accordance with the applicable disclosure norms from time to time including but not limited to the disclosures in the Annual Report on related party transactions.

B. Specifically responding to certain observations in the Report on transactions with one specific related party, Paladin, and claims on inadequate disclosures by the Company:

- i. Quoting the Report: “Paladin formed 7 percent of the value of goods purchased from promoter-controlled entities”; the Company would like to inform you that the said statement is factually incorrect. Out of Rs.553.88 crores of total purchases from related parties (entities directly and/or indirectly controlled by members of the promoter(s)/promoter(s) group) during the FY 2019 – 20, total purchases by Asian Paints Limited from Paladin amounted to only Rs.1.3 crores, that is 0. 2% and not 7% as reported.
- ii. We invite your attention to Indian Accounting Standards 24 on Related Party Disclosures (Ind AS 24), which states that items of a similar nature need to be disclosed at aggregate value, as opposed to the statements made in the Report at page no. 6. Further, the Company has voluntarily disclosed in both Standalone and Consolidated Financial Statements, the transactions with each of the related parties where the transaction value is more than 10% of the total transactions of the same nature with related parties during the year (Refer pg. 298 – 300 of the Annual Report for FY 2019-20 – Consolidated Financial Statements). Similar details are also provided for Standalone Financials Statements (Refer pg. 224 – 226 of the Annual Report for FY 2019-20).

You may note that these transactions, which have been voluntarily disclosed, cover 85% of the transactions during that period with related parties (entities directly and/or indirectly controlled by members of the promoter(s)/promoter(s) group). Hence, the transactions with the entities which are not specifically disclosed (and not required to under law or applicable accounting standards), are infinitesimal in quantitative terms, which includes the transactions with Paladin. The Company believes that any further disclosures beyond what is stated above would put the Company at a competitive disadvantage.

iii. Accordingly, we would bring to your attention that the Company has always made adequate disclosure of related party transactions in the manner as required under law and from governance perspective. There is no basis for suggesting that the Company is not being transparent with its shareholders and/or has inadequately disclosed its dealings with related parties.

C. We also invite your attention to the clarification dated 24th October, 2021 filed by the Company with Stock Exchanges about a disclosure received from a certain individual (not associated with the Company either as an employee or a business associate and identity withheld to protect the complainant) which explains certain queries raised in respect of transactions with Paladin. We trust the foregoing clarification adequately addresses some of your queries mentioned in the Report.

D. The remarks made by InGovern in the Report asking the promoter directors to immediately resign, Audit Committee to enhance disclosure practices, allegations on inadequate disclosures and inaction by the Board, etc. are uncalled for and based on incorrect assumptions. Admittedly, the Report itself makes it clear that InGovern does not have adequate facts or data of the practices followed by the Audit Committee/Board of the Company for approval of related party transactions.

We trust that you realize, incorrect and unverified statements made in the Report, are detrimental to the Company's reputation.

Please note that Asian Paints is committed to the highest standards of corporate governance and setting industry-leading benchmark. Our goal has always been to promote and protect the long-term interest of all stakeholders, and to that end, our philosophy of Corporate Governance is built on a foundation of ethical and transparent business operations and is designed to inspire trust among all stakeholders, strengthen the Board and management accountability.



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We would request you to please take our response on record and issue an addendum to the Report, including our reply and correcting the facts.

Thank you,

For **ASIAN PAINTS LIMITED**

R J JEYAMURUGAN
CFO & COMPANY SECRETARY

CC:

The Securities and Exchange Board of India
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Mumbai - 400051, Maharashtra

BSE Limited
Corporate Relationship Department
Phiroze Jeejeebhoy Towers
25th Floor, Dalal Street
Fort, Mumbai – 400 001
Scrip Code: 500820

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