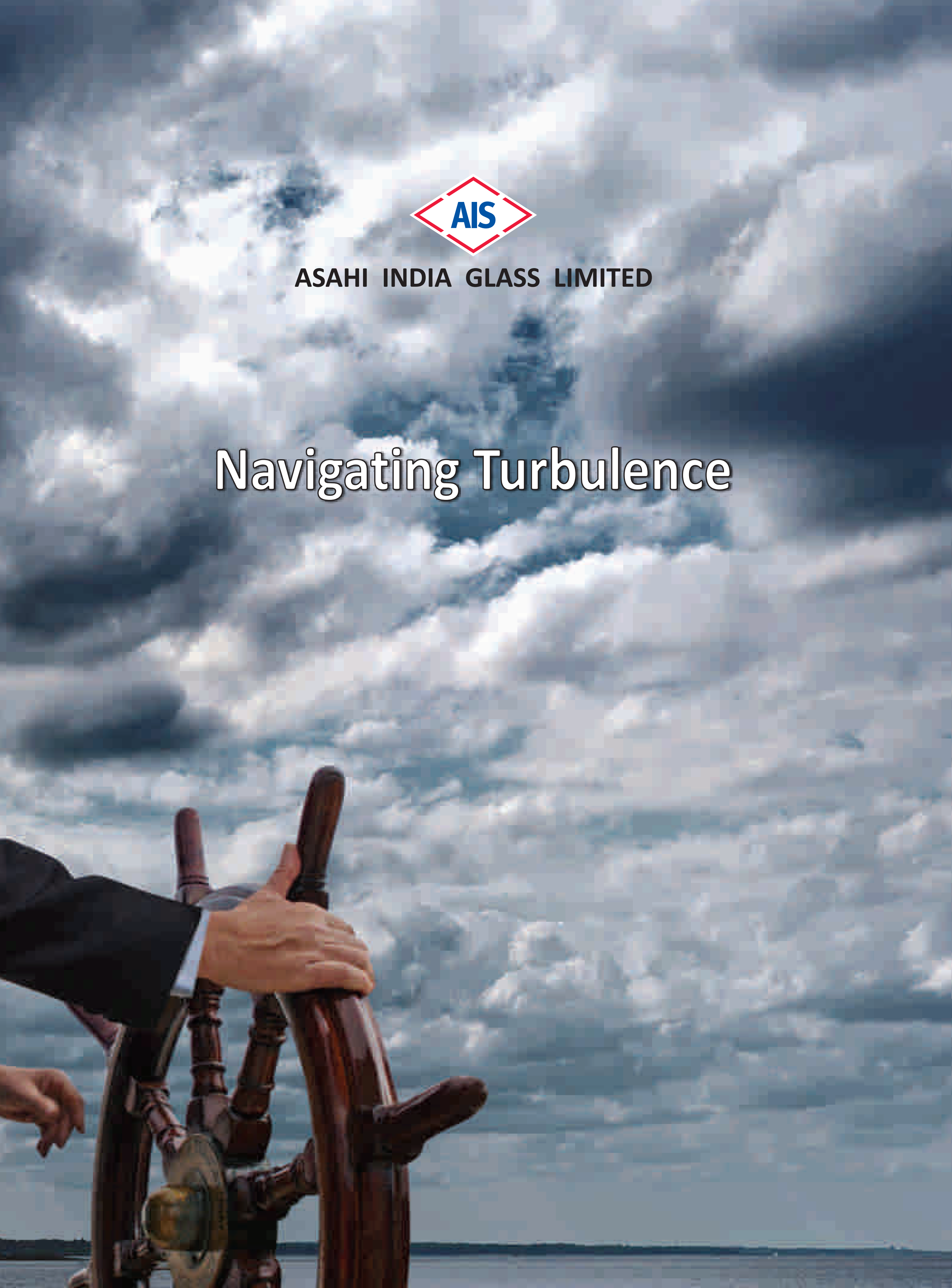
ASAHI INDIA GLASS LIMITED

Navigating Turbulence



27TH ANNUAL REPORT 2011-12

Forward-looking Statement

This Annual Report contains forward-looking statements, which may be identified by their use of words like 'plans', 'expects', 'will', 'anticipates', 'believes', 'intends', 'projects', 'estimates' or other words of similar meaning. All statements that address expectations or projections about the future, including but not limited to statements about the Company's strategy for growth, product development, market position, expenditures and financial results, are forward-looking statements.

Forward-looking statements are based on certain assumptions and expectations of future events. The Company cannot guarantee that these assumptions and expectations are accurate or will be realized. The Company's actual results, performances or achievements could thus differ materially from those projected in any such forward-looking statements. The Company assumes no responsibility to publicly amend, modify or revise any forward-looking statements, on the basis of any subsequent developments, information or events. The Company has sourced the industry information from the publicly available sources and has not verified those information independently.

Navigating Turbulence

Financial year 2011-12, witnessed a marked slowdown in the economic growth - slowest growth rate in the past 9 years - and it was felt that India is inching slowly towards "stagflation". Industrial growth was negligible. Inflation, interest rates were high while Rupee weakened consistently. Spiraling input prices together with wage increase are making manufactured goods costlier. Moderating consumption is making it difficult for businesses to pass on the impact of price rise to end consumers. Increasing cost of borrowing is leading to deferral of big ticket government and private investments. These facts make a grim closure to FY 11-12 and turbulent times in the Indian economy.

Contents

VISION

SEE MORE

This byline captures AIS's culture:
It describes AIS's products and services which delight customers by helping them see more in comfort, safety and security.
It expresses AIS's corporate culture of merit and transparency.
It defines the qualities of AIS's people to want to see, learn and do more, in depth and in detail.

To transcend the ordinary.

MISSION

"JIKKO" - Execution for Excellence

With major investments in place, the time is now to reap the benefits by execution for excellence.

GUIDING PRINCIPLES

All actions of AIS are driven by the following guiding principles:

Creation of value for Shareholders

Customer Satisfaction

Respect for Environment

Use of Facts

Continuous Improvement

Strengthening of Systems

Updgradation of Human Potential through education and training

Social Consciousness

Chairman's Message

**"We did reasonably well in maintaining our market-share and achieving marginal volume growth in FY 11-12.
On a consolidated basis, our revenues increased by 7.9% to reach ₹1680 crores during the year."**

Dear Shareholders,

It gives me great pleasure to address my annual communication to you and this happily synchronizes with the Silver Jubilee year of our operations. It has been a wonderful journey for which you, as shareholders, have shared our joy and at times some pains. But I wish to assure you that for next 25 years, this Company shall continue to grow in stature and profitability and bring you greater joy.

While the world witnessed a natural catastrophe in Japan, economies of the world witnessed "turbulence" – return of GDP growth in the US could yield a little on containing growing unemployment, the cheer brought out by the Royal Wedding in the UK was drowned into the stigma of sovereign debt crisis in the Eurozone, a year that begun with India winning Cricket World Cup after 28 years, ended with the slowest GDP growth rate of the last 9 years. FY 11-12 brought about a "turbulence" and obviously the year ended on a pessimistic note.

Last year saw economies across the world passing through this turbulent phase. The turbulence is far widespread than the sovereign debt crisis in Eurozone. World GDP growth rate declined from 5.3% in 2010 to 3.9% in 2011. More so, growth rate dipped to 1.6% in 2011 from 3.2% in 2010 for advanced economies and 6.2% in 2011 from 7.5% in 2010 for emerging economies. Global commodity prices remained significantly high. While advanced economies were tackling issues like higher unemployment, emerging economies were busy tackling higher inflation, shrinking exports and reverse flow of foreign capital amidst global uncertainties.

Indian economy managed to grow by 6.5% in FY 11-12. The growth could have been much better, but for three critical factors - alarmingly high commodity prices leading to unmanageable inflationary pressures, a series of interest rates hikes by RBI and sharp depreciation of the Indian Rupee vis-à-vis the US Dollar. On the policy front, the complexities of coalition politics notwithstanding, government's lack of resolve to contain fiscal deficit and press ahead with next phase of badly needed reforms is creating an impression of policy paralysis and tarnishing India's image as a global-favourite investment destination. Evidently, this was reflected in downgrading of country's economic prospects by various global rating agencies. The India growth story is under the shadow of turbulence.

With prevailing uncertainties and increased cost of retail borrowing, growth in overall retail demand and especially for high cost items like automobile and housing products were bound to slow down. Not surprising then, the growth in automobile sector came down to 2.8% in FY 11-12 from 24.5% in the previous year. The construction sector grew by just 5.3% in the year as compared to 8% growth recorded in the previous year. With earnings decelerating and expenditures accelerating, corporate investments and profits touched a new low in FY 11-12.

At AIS, our growth is primarily driven by growth of automotive and construction sectors. Both these sectors depend a lot on borrowings and bore the brunt of higher interest rates leading to slowdown in growth of demand. On a consolidated basis, our net revenues grew by 7.9% to reach ₹1680 crores during the year. The gains made on revenue front, however, were set-off by unprecedented increase in input cost owing to the rising prices and depreciating Rupee. The net impact of these two factors resulted in EBIDTA contraction from ₹272 crores in FY 10-11 to ₹204 crores in FY 11-12. Loss stood at ₹65 crores compared to profit of ₹17 crores in the previous year.

However, these difficult times did not derail our improvements which emanated from our long-term action plan that are under execution. In line with the same, we undertook two important re-organizations of our businesses - in architectural glass segment by the management merger of float and processing businesses, and creation of a separate Solar SBU to bring focus on the highly potential solar segment. We are confident that this restructuring shall bring synergies, channelize our inherent strengths and help us align ourselves for future opportunities and challenges.

However, the executive management has taken several steps to mitigate this unprecedented high costs, primarily energy costs, which gravely impacted our last year's profitability, through a series of operational improvements, productivity enhancement programs and lastly, price increases. At AIS, we have built a significantly strong business with enviable brand equity and are well positioned to make the most of unfolding opportunities.

Last year, Arvind Singh resigned from the Company and also as a Whole-time Director from the Board of Directors. Ever since joining the Company in 1992, Arvind has been actively involved in all the key initiatives taken by AIS and has been a part of AIS's growth story. I take this opportunity to place on record our sincere appreciation for his positive contributions during his tenure with AIS. The Company will benefit from his continuing association with AIS, though, as a non-executive director on the Board of Directors.

At AIS, our march forward has always been fuelled by the trust and confidence and long-term vision of our investors, lenders, customers and partners. I take this opportunity to thank all our valued stakeholders and look forward to their continued patronage as we move ahead.

With best regards,

B. M. Labroo
Chairman

Q & A with MD & CEO

1. **After consistent profitable performance of over 2 decades and after the recent recovery, AIS has posted a huge loss in FY 11-12 – only the second time in its history. Please elucidate?**

   FY 11-12 was our worst year. Over the past 25 years, we have always made stretched plans and have almost achieved them consistently. This year was an exception and we have missed our internal plans considerably. While much of it originated from the uncertain and challenging external environment, I must admit, we could have performed a lot better had we fully harnessed our internal capabilities. We had the capacities, capabilities and more so, a proven track record to meet our budgets, but unfortunately the performance was far from potential.

   After showing the world that we can grow at 9% for 5 years, and at 6% when there is a Great Global Recession, with a bounce back to 8.6% once the worst was over, India once again did what it does from time-to-time. Just when you think we are about to jump to the next level, regressive policies and actions draw us back. The advantages of an apt demography, a hardworking and frugal population, enterprising and innovative culture got fairly negated by competing and unproductive populism, searing graft & corruption and crippling indecision which has given a setback to “India Shining”. Economically, persistent and unproductive spending pushed up inflation and interest rates, slowing down demand, investments, capital flows and confidence. Psychologically, the rotten smell of corruption accompanied with paralysis of action demoralized a nation and made the world wonder if we are yet again our own worst enemy. As bad as it was, I strongly feel that the worst is now behind us. Global cues, domestic inflation, risk appetite, governance, interest rates are getting better. I am sure Rupee shall also strengthen this year as investors repose confidence in the underlying potential of India. This is a passing phase.

   In FY 11-12, external operating environment reflected the turbulence of the Indian economy. GDP growth slowed down to 6.5%, lowest in last 9 years. Amongst key constituents, manufacturing with a 2.8% growth grew the least. At 5.3%, construction's growth was also the least recorded in last 4 years. Real estate and automobile sectors are proxies of glass. Incidentally, growth in both these sectors is linked with affordable financing. With subsequent increase in interest rates which were already at a higher level, both the sectors witnessed significant slowdown in demand.

   The FY 11-12 threw challenges of unruly magnitudes to AIS. We responded with alacrity, albeit not to our capabilities, and closed the year with satisfactory growth of 8.4% in topline, reaching ₹1646 crores from ₹1518 crores in FY 10-11. Revenue of Auto Glass SBU grew by 10% to reach ₹927 crores while Float Glass SBU remained flat with revenue of ₹740 crores.

   Last year, the pressure on cost front made things even more difficult. Higher than expected input inflation during the year, has progressively squeezed our margins. Cost pressures emanated primarily from increasing cost of inputs including raw materials, power & fuel and sharp depreciation of Indian Rupee against US Dollar. Energy costs have almost doubled during last year. As a result, our expenditure grew much faster than our revenues. Total expenditure increased by 15.64% to reach ₹1744 crores for the year. With the increase in borrowing costs, our finance cost grew by 15.36% to reach ₹147 crores. All this resulted in a net loss of ₹59 crores.

Going by our own internal benchmarks, however, I would like to be honest in admitting that we could have performed a lot better, macroeconomic challenges notwithstanding. However, inflation and its resultant impact on production and consumption cycles remain a cause of constant concern for us. Despite every effort to improve our efficiencies and reduce costs, which we have done so successfully over the past two decades, there comes a point like last year, when the increase in cost is so vast that factors like scale, technology and efficiencies cannot offset the incremental costs and prices have to increase. Breakthroughs in cost reduction and improvement in operational efficiency with tighter cost controls are the key to offset inflation. However, effects of such developments are visible over a longer time period.

2. What were the operational highlights for AIS in FY 11-12?

Amidst the turbulent times last year, we continued with our focus on long-term operational improvements and capacity expansions. The improvement and cost reduction projects undertaken earlier kicked in last year to partially offset the inflationary pressures. Demand from the automotive segment was robust and we were able to meet the same with carefully timed capacity enhancements. We continued to secure new businesses from our existing customers in auto sector and increased our focus on alternate sourcing & localization.

In the architectural segment, we were successful in establishing our new range of reflective products for the projects segment. These products have been well appreciated for their superior quality, performance and aesthetics. These products have been indigenously developed by AIS. Rather than bringing the global products of AGC which are always available, we have done a unique thing in India, where we have tied-up with some of the leading R&D institutions of the world and conducted our own R&D to develop special products keeping in mind the customers' aspirations and requirements unique to India. We are on the verge of converting our Roorkee float operations to natural gas. Besides this, our retail initiative in the Architectural Glass segment – Glasxperts - is fast establishing its brand. I am sure our sustained focus on the Consumer Glass segment will reap rich dividends in the near future. Focus on Solar Glass is also a key development in the last year.

3. What are the current projects of AIS?

As AIS, we have always expanded very carefully and kept a balance in our twin objectives of securing customer supplies and optimizing capital resources. Last year, we expanded our tempered capacity by installing a state-of-the-art tempering furnace in Bawal. We also commissioned the second laminated line at our Taloja auto plant (near Mumbai).

This year, besides the routine capex of specialized toolings and pre-processes, work is underway for the 2 laminated furnaces in Bawal for passenger cars and trucks (big size) respectively. These capacities shall commission in the later part of FY 12-13 and shall ensure we are comfortably placed to meet all requirements of our customers.

4. How is AIS planning to manage its borrowings, interest costs and cash flow?

The total borrowing of AIS has increased marginally vis-à-vis last year - from ₹1534 crores to ₹1569 crores.

Out of this approx. ₹242 crores is unsecured promoters loan and ₹707 crores are long-term borrowings. I am concerned with the ₹620 crores short-term borrowings which are a result of combination of higher inventory and under recovery vis-à-vis our budget. This is a short-term phenomenon and shall be corrected in FY 12-13. We also realise that some amount of equity capital needs to be injected and we are studying the size and schedule of the same. I strongly believe that the other operational improvements followed by cost rationalization and finally measures undertaken shall improve our cash flows significantly in FY 12-13. I also take this opportunity to thank our lenders for their constant support in turbulent times.

5. What is the future outlook of AIS?

I believe the worst of macro is behind us. FY 12-13 should see a revival of rate sensitive industries like automotive and construction, which are the proxies for glass. Within the larger market, demand for value added and integrated products should grow twice the rate due to rising awareness of the advantages of using performance glass for energy savings, safety, noise mitigation, security and aesthetics. In terms of trends, glass is fast replacing other building materials in commercial and institutional buildings. Riding on the compelling advantages of aesthetic elegance, energy efficiency and reduced construction time, we will see more and more glass in such buildings. While I see this trend is intensifying in metropolitan cities over the coming years, it is equally encouraging to see the acceptance of glass rising in tier I and tier II cities. From just being a fast growing automobile market till recent years, India is making rapid strides towards fast emerging as a major automobile producer globally. With more and more automobile players setting up or increasing manufacturing capacities, the country will make passenger vehicles not only for sales in India but across the globe. With accelerated demand from automobile sector coinciding with increasing demand from real estate sector over medium to longer-term, Indian glass industry will usher into its golden phase going forward.

The consistent investments made in the past in scaling up our capacities keeps us in good stead to capitalize from the increasing demand of quality glass in the automotive as well as architectural glass segments. AIS's comprehensive range of products and services, pan India coverage through strategically located network of manufacturing and sub-assembly operations, coupled with long outstanding business relations and proven track record, ensures that we are strongly poised to benefit from the strong growth in the glass industry.

While we are ready to respond to acceleration in demand growth, we are also currently focused in further strengthening our organizational capabilities and efficiencies through stricter adherence to TQM principles.