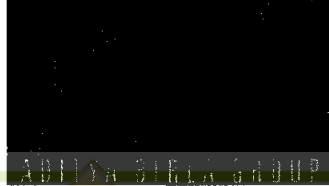


INDIAN RAYON



ADITYA BIRLA GROUP

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**INDIAN RAYON AND INDUSTRIES LIMITED
ANNUAL REPORT 1998-99**

IN AN ERA OF BLACK AND WHITE, ONE MAN DARED TO DREAM IN COLOUR.



Re Very early in his career, long before the word globalization came into our everyday lexicon, he had foreseen the winds of change and staked the future of his business on a competitive, free market driven economic order. At a time when India's economy was glued with bureaucracy and taped with controls, his was a rather lone voice. But it was a voice that not only spoke, but also acted - decisively and with conviction.

For him, though globalization meant more than just geographic reach. He believed that a business could be global even whilst being based in India. Therefore, back in home territory, he drove single - mindedly to put together the building blocks to make his Indian businesses a global force.

It is this vision which, we believe, will prove to be one of his enduring legacies to Indian business. It is a vision which prompts the Indian entrepreneur to take a longer stride; it is a vision which makes the Indian entrepreneur dare - and maybe even dream; it is a vision that makes all of us proud to be a part of the new India in the making. Today let us pay homage to Shri Aditya Vikram Birla.



ADITYA BIRLA GROUP

ADITYA VIKRAM BIRLA, NOVEMBER 14, 1943 ~ OCTOBER 1, 1995

Letter from the Chairman to Shareholders

Dear fellow shareholders,

INDIAN RAYON – IN FOCUS

Strategic Thrust

For Indian Rayon, FY 1999 was a historic, albeit challenging, year. The Company restructured its business mix significantly. The cement business was demerged to Grasim Industries Limited ("Grasim") under a scheme that entitles shareholders of the Company to 3 shares of Grasim for every 10 shares held in Indian Rayon.

During the year, in line with the Aditya Birla Group's strategy to enhance shareholder value, Indian Rayon took the following key steps:

Future Growth

- Indian Rayon commissioned a new coastal carbon black plant at Chennai in Southern India. The new plant complements its existing presence in Northern India and enables the Company strategic access to export markets.
- The Company commissioned new continuous spinning machines to produce higher quality Viscose Filament Yarn (VFY) for, both, domestic and export markets.
- Indian Rayon initiated the marketing of higher value-added insulator products.

Stemming value erosion

- The Company temporarily suspended the loss making Sea Water Magnesia plant and is evaluating various options for this business going forward.

Operating Performance

Operationally, FY 1999 was a challenging year. Increased price competition on account of the currency melt down in South East Asia forced the company to reduce prices across all business segments. The VFY business suffered on account of a down turn in the textiles business and increased price competition from substitute yarns. The carbon black business was affected due to a poor pick-up in the infrastructure sector with realisations declining on the back of increased volumes from the new plant. Despite harsh economic conditions, the insulator business experienced improved price realisations and volume. Keeping this difficult environment in mind, the Company performed satisfactorily especially when compared to its peers. Losses at the Sea Water Magnesia Plant had a material impact on the Company's operating performance for the year.

Outlook

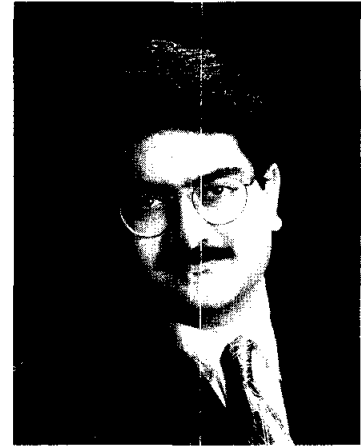
Going forward, Indian Rayon will focus on three businesses: VFY, Carbon Black and Insulators.

Viscose Filament Yarn

The outlook is not very encouraging in the short-term. However, the Company's aggressive thrust on quality conscious and less price sensitive export markets, combined with stringent cost controls, should enable the Company to outperform its peers. The business trend is likely to improve given the positive trend in the prices of polyester filament yarn, a substitute for VFY.

Carbon Black

The outlook for the Carbon Black business is positive. The new coastal plant at Chennai, combined with a competitive cost structure, will allow the Company to tap export opportunities that emerge as a



"Going forward, Indian Rayon will focus on three businesses: Viscose Filament Yarn, Carbon Black and Insulators."

– Kumar Mangalam Birla,
Chairman,
The Aditya Birla Group.

result of a recovery in the Asian economies. Domestically, the Company is strategically advantaged on account of the location of its plants – one in the north and the other in the south. This provides the Company with a strategic co-ordination and locational strength that is expected to bear significant financial advantage through better logistics and customer service.

Insulators

The Insulators business poses an exciting potential for the Company. As one of the lowest cost producers globally, the Company is geared to leverage off market opportunities that get unleashed on account of an accelerating domestic power industry. On the export front, we are cautiously optimistic on account of the recent entry by China in some of our markets.

With a renewed focus on improving our position in our three core businesses, we are geared towards increasing shareholder value. The cost base for all these businesses is lowest in India, product quality is amongst the highest and we continue to sharpen our attention on high levels of customer service. In the long run, this provides us with a distinct edge in the global marketplace.

We intend to re-look at the Company's financial structure in FY 2000 to align it with the restructured business focus initiated during FY 1999.

THE ADITYA BIRLA GROUP – IN PERSPECTIVE

Turning to the challenges for the Group as a whole, the coming millennium brings with it unprecedented change. A more liberal economic environment has dramatically altered the scenario. The forces of liberalisation and consequent competition will only accelerate in future, more so with India being a member state of the WTO. It will also mean that there will be a shift of focus from suppliers to consumers. Such a scenario has resulted in a different set of expectations. Strategies, hitherto thought of as exemplary, may or may not work going forward. We recognise that for sustained growth and maintaining excellence, different strategies may be required.

"We are adopting an ethos that focuses on value added growth and not just growth for the sake of asset growth"

As we are not insulated from such forces of change, we are embracing fundamental changes within the Group to prepare ourselves for the coming millennium. We are embracing an ethos that focuses on value-added growth and not just growth for the sake of asset growth. To attain this objective, we have redefined our business approach. We have taken a number of measures that are broadly categorised along three dimensions, namely, strategic thrust, structural initiatives and systems adoption.

Strategic Thrust

The two elements of our strategic thrust are fundamental value creation and sharper business focus.

- Fundamental value creation

During the last year, we embarked upon an *in-depth review of our portfolio of businesses* and we are close to concluding our analysis. Our intent is to move out of businesses that do not create value, restructure existing businesses for enhanced focus so as to realise better synergies, and build businesses with value creation potential. Towards this end, we have temporarily shut down the Sea Water Magnesia plant of Indian Rayon and have closed one of the Caustic Soda plants of Grasim.

- Sharper business focus

We are in the process of restructuring all our businesses towards enhanced focus, better synergies and improved operational efficiencies.

We will not, in future, diversify into unrelated areas in our Companies. This is in line with the ethos of value added growth that we spoke of earlier. Each Company will focus on its core businesses. If growth opportunities are not found in such businesses, we will use cash generated from such businesses in a manner that increases shareholder value. This would include aggressive pay out policies and/or buyback programmes.

In addition to not having any unrelated diversification in future, we are firm that we will not invest in companies that do not further the core businesses of the investor company. To this extent, we are actively exploring possibilities to unwind investments already made by operating companies in unrelated ventures. The unwinding process, however, is arduous on account of tax and fiscal ramifications. Despite being successful in unwinding investments made by the Group's operating companies in the financial services business, tax and fiscal constraints may slow the progress on this front.

Structural Initiatives

It is essential that we align the energies of the Group with the expectations of our shareholders, and to this end, our focus is on re-energising the organisation and internalising the concept of value creation. We will be benchmarking ourselves against global best practices with the ability to monitor results on an ongoing basis.

We feel that large organisations such as ours need to be "nimble-footed" to compete in the marketplace. Towards this end, we are aggressively pushing programmes to attract and retain fresh talent and nurture existing intellectual capital across the organisation. Among these are the Group Management Trainee Scheme which enlists MBAs, Engineers and Chartered Accountants from premier institutions, secondments abroad, international recruitment and management succession plans.

Additionally, we have recruited some of the best professionals in industry to head senior positions within the Group. More than 50 professionals, including two Directors, have joined our Group in the last two years. They have helped to strengthen our intellectual capital base.

Systems Adoption

Our business approach focuses on institutionalising formal processes and procedures for realising better value for our shareholders.

This will complete the virtuous circle that we have adopted to create value for our shareholders.

These changes, in our view, will enable us to step proactively into the next millennium taking the challenges head on and seizing emerging opportunities towards achieving our Group vision – *To be a premium conglomerate with clear business focus at each corporate level.*

Thank you.

Yours sincerely,


Kumar Mangalam Birla

"We will be benchmarking ourselves against global best practices with the ability to monitor results on an ongoing basis in the pursuit of value creation."

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Growth at a Glance

Year		1999	1998	1997	1996	1995	1990
Net Worth*	Rs. in Crores	1413.28	1577.51	1401.91	1219.99	1057.76	159.98
Turnover	Rs. in Crores	1461.12	1817.02	1641.14	1402.42	1078.11	405.00
Gross Profit	Rs. in Crores	206.11	318.86	318.75	274.55	203.32	47.45
Net Profit (After Tax)	Rs. in Crores	106.04	212.51	214.77	184.75	132.64	19.79
Market Capitalisation of Equity Shares	Rs. in Crores	877.28	1208.60	1317.91	2091.27	2023.40	290.01
Earning Per Share	Rs.	15.71	31.49**	47.74	41.10**	34.44**	7.78
Equity Dividend	%	40.0@	50.0	67.5	62.5	57.5	30.0
Debt Equity Ratio		0.38:1	0.55:1	0.69:1	0.62:1	0.52:1	1.66:1
Current Ratio		3.42:1	2.42:1	2.98:1	2.79:1	2.72:1	1.74:1
Excise Duty	Rs. in Crores	162.09	232.29	228.58	194.54	149.71	48.19
No. of Employees		11619	13897	13487	13616	13498	11214
No. of Shareholders		155558	160539	167908	174676	175426	146451

* Net of Revaluation Reserve

** On average number of outstanding Equity Shares

@ Proposed

INDIAN RAYON AND INDUSTRIES LIMITED

DIRECTORS

Shri Kumar Mangalam Birla, Chairman
Smt. Rajashree Birla
Shri H. J. Vaidya
Shri D. S. Dahanukar
Shri B. L. Shah
Shri Ashwini Kumar Kanoria
Shri P. Murari
Shri B. R. Gupta

MANAGER

Shri G. L. Moondra

SECRETARY

Shri Ashok Malu

AUDITORS

Lodha & Co., Mumbai
K. S. Aiyer & Co., Mumbai
Khimji Kunverji & Co., Mumbai

BRANCH AUDITORS

S. R. Batliboi & Co., Calcutta

SOLICITORS

Mulla & Mulla and Craigie, Blunt & Caroe, Mumbai

BANKERS

State Bank of India
United Bank of India
Corporation Bank
UCO Bank
Canara Bank
Punjab National Bank
Bank of America NT & SA
HDFC Bank Ltd.
Citibank N.A.
ANZ Grindlays Bank p.l.c.
American Express Bank Limited
Central Bank of India
Standard Chartered Bank
Hongkong and Shanghai Banking Corporation Ltd.
State Bank of Hyderabad
Allahabad Bank
State Bank of Saurashtra

REGISTERED OFFICE

Veraval - 362 266 (Gujarat)

EXECUTIVES

RAYON DIVISION

Shri C. P. Mathur	Sr. President
Shri V. G. Somani	Jt. President
Shri S. S. Gupta	Jt. President (Admn. & Mktg.)
Shri P. V. Gala	Sr. Vice-President (Yarn Mktg.)
Shri B. C. Upreti	Sr. Vice-President (Prodn.)
Shri S. K. Nanda	Sr. Vice-President (Caustic)

HI-TECH CARBON

Shri Anil Kumar	Sr. Exe. President (Chennai Unit)
Shri D. C. Goel	Sr. Exe. President (Renukoot Unit)
Shri S. S. Rathi	Sr. Jt. President (Renukoot Unit)
Shri S. Balchandani	Sr. Vice-President (Project)

JAYA SHREE INSULATORS

Shri Ravi Kastia	Sr. President
Shri L. N. Rowat	President (Rishra Unit)
Shri B. K. Sethi	Jt. President (Halol Unit)
Shri R. K. Ladia	Sr. Vice-President (Halol Unit)

TEXTILES

Shri S. B. Agarwal	Advisor
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Jaya Shree Textiles

Shri G. L. Moondra	Sr. President
Shri A. N. Choudhari	President (Flax Mills)
Shri P. C. Jain	President (Rishra Cotton Mills)
Shri Arupam Agarwal	Sr. Vice-President (Rishra Cotton Mills)

Rajashree Syntex

Shri K. K. Batra	President
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BIRLA PERICLASE

Shri B. N. Puranmalka	Advisor
Shri D. R. Dhariwal	Sr. Jt. President
Shri K. B. R. Murthy	Jt. President (Fin. & Comm.)

GLOBAL EXPORTS & MARKETING

Shri S. R. Dutt	President
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CORPORATE FINANCE DIVISION

Shri Adesh Gupta	President & CFO
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CORPORATE CELL

Dr. Prcgnya Ram	President (Corporate Communications)
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Management Discussion and Analysis-FY 1999

OVERVIEW

For Indian Rayon and Industries Limited ("Indian Rayon"), FY 1999 was an eventful year. In line with the Aditya Birla Group's strategy to sharpen business focus, Indian Rayon announced a major restructuring by demerging its cement business to Grasim Industries Limited ("Grasim"). Further, the Company commissioned a new carbon black plant at Chennai and temporarily suspended its Sea Water Magnesia (SWM) operations to enhance shareholder value.

The restructuring will release considerable financial value for Indian Rayon's shareholders and heralds the following significant changes

- A company with management focused on building a leading position in each of its three core businesses – Viscose Filament Yarn (VFY), Carbon Black and Insulators, both in India and internationally.
- A Company with a more efficient capital structure, carrying minimal debt with further planned debt reductions.

Operationally, FY 1999 was a challenging year for the Company's three core businesses. The Company outperformed its domestic peers on all key parameters, namely, capacity utilisation, cost efficiencies and net realisations. Indian Rayon maintained its market leadership in *all* of these sectors.

Operating profits declined for FY 1999 to Rs. 322.7 Crores from Rs. 427.6 Crores for FY 1998. This decline in operating profit was the combined result of the

- transfer by Indian Rayon of its cement business to Grasim, as a result of which earnings for 7 months from this business have not been reported as earnings for Indian Rayon. However, earnings from this business will continue to accrue to Indian Rayon's shareholders through their participation as shareholders of Grasim.
- losses from the SWM business which dragged operating profit down by Rs. 20.9 Crores. The SWM operations have been temporarily suspended to curtail the operating losses arising on account of adverse market conditions. This will stem value destruction in future.

But for the above, operating profit for FY 1999 would have been maintained at FY 1998 levels.

Earnings per share (EPS) fell from Rs. 31.5 to Rs.15.7. However, set against this decline, Rs. 5.4 will accrue to shareholders of Indian Rayon as a result of their participation in Grasim's EPS. Additionally, the suspension of the SWM business will address the drag on EPS of Rs. 3.1 in respect of operating cash losses in future.

SEGMENTAL REVIEW AND ANALYSIS

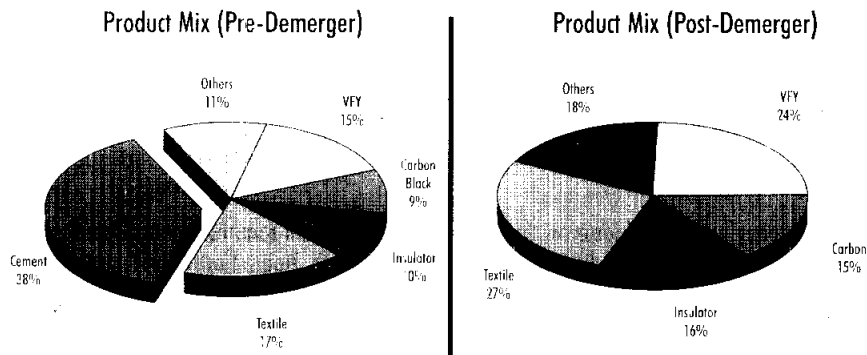
The Company plans to deliver shareholder value through focusing on three core businesses – VFY, Carbon Black and Insulators. An overview of the Company's product segments for FY 1999 is set out below.

VISCOSE FILAMENT YARN DIVISION

Review of operations

The Viscose Filament Yarn (VFY) industry was beset by problems that originate in the polyester industry. Polyester prices during the year declined to very low levels that, in turn, had a negative impact on VFY prices especially in the last quarter of the year. Sales volumes declined since consumers tended to substitute VFY with low-priced polyester. The Company's strategy was two-fold in this difficult scenario:-

Business Product Mix Pre- and Post- Demerger



- The Company aggressively developed quality - conscious export markets
 - The Company maintained its focus on stringent cost control and operating efficiencies
- The division's operations during FY 1999 must be reviewed against such a background.

Sales Realisations

Overall sales realisations declined by 2.5% from Rs. 210.0 per Kg to Rs. 204.8 per Kg. The decline was primarily on account of the downturn afflicting the polyester industry and lower demand especially during the last quarter. This decline was mitigated by an increase in export realisations, which was the result of the Company's strategic thrust in the premium quality-conscious segment.

Operating Costs

Lower power costs - The Company's captive power availability improved on account of which power costs were meaningfully reduced. This mitigated the negative impact of increases in other inputs especially the higher cost resulting from a labour wage agreement formalised by the Company during FY 1999. The cost of power is expected to reduce further with the stabilisation of the power plant.

Sales Volumes

Sales volumes declined from 14,322 MT to 13,662 MT in FY 1999 - a decline of 4.7%. Availability of cheaper substitute products, especially polyester filament yarn, exacerbated the problems for the VFY industry. As a result Indian Rayon's domestic sales fell during the year under review.

On the export front, volumes grew during the year due to the Company's focus on less price-sensitive markets in the US and in Europe. VFY exports comprised over 16.3% of its total VFY sales volume. During FY 1999, the Company's share of India's total exports of VFY was over 46%.

In addition to developing less price-sensitive export markets, the Company actively promoted sales of coloured yarn. This helped the Company to maintain its position in the marketplace above its competitors. The Company has been improving sales penetration in existing and emerging markets.

Asset Utilisation

Production of VFY was up from 14,273 MT to 14,685 MT in FY 1999 and consequently capacity utilisation improved from 95.2% to 97.9%.

Outlook

The outlook for VFY in the short term is not very encouraging unless the price of polyester looks up. A recovery in Asian economies is likely to improve the prospects for the VFY business.

In view of the difficult conditions that the industry is experiencing, sales realisations and profitability may continue to be adversely affected in the short term. To meet these challenges, the Company is focusing on developing less price-sensitive export markets. Towards this end, the Company has recently set up eight continuous spinning machines. These machines will allow the Company to expand the range of deniers produced whilst simultaneously reducing process costs. Continuous spun yarn is more readily accepted in some of more quality-conscious export markets which the Company is aggressively targeting. The Company aims to consolidate its position further by intensifying its marketing efforts and reducing its costs base.

CARBON BLACK DIVISION

A reflection of the Company's continued focus on this business is its new plant commissioned in Chennai during FY 1999. The plant provides Indian Rayon with strategic co-ordination and locational strength. Domestically, the Company has access to different markets since the Chennai plant is in the South and the existing plant is at Renukoot in the North. This advantage is pertinent particularly in view of the proximity of the plant to key tyre manufacturers located in the South. Furthermore, since the feedstock for manufacturing carbon black is imported, the coastal location allows Indian Rayon to lower its freight costs significantly.

Review of Operations

The carbon black division reported good performance driven by improved cost savings and higher sales volumes. However, realisations were lower due to cheaper imports of carbon black from the crisis-hit South East Asian countries.

Sales Realisations

Realisations were lower by 5.1% from Rs.30,369 per MT to Rs.28,826 per MT in FY 1999 due to widespread currency devaluation in South East Asian countries and consequently lower import prices. As a result, the Company was forced to reduce its domestic prices. The price pressure was further exacerbated on account of the surplus capacity in its domestic markets.

Operating Costs

- Low cost base - The cost base remained one of the lowest amongst Indian producers. A major contributor to Indian Rayon's outstanding cost control is its high temperature technology. This results in a 100% level of energy conservation and zero pollution.
- Optimal use of steam by-product - A strategic strength of the Company's carbon black units is the captive generation for all its power needs from surplus steam and waste gases.
- The benefits of lower costs were not fully realised on account of stabilisation at the Chennai plant. Raw material consumption norms are likely to improve once the Chennai plant is stabilised. This is expected to materialise in the short-term.

Sales Volumes

The Company increased its market share to 28%. Sales grew at 45.4%, the highest ever achieved. The Company's capital expenditure strategy for carbon black has proved to be well-timed, enabling it to tap into a market growing at 8.6% annually. Sales volumes grew to 61,243 MT in FY 1999 compared to 42,118 in FY 1998 due to

- Better access to markets in South India through the strategically located Chennai plant
- Increased emphasis on customer service and direct sales with additional new sales offices opened and onsite service centres established at important locations.

Asset Utilisation

Production grew by 51.9% from 42,104 MT to 63,968 MT and the effective capacity utilisation increased from 70.2% in FY 1998 to 79.5% in FY 1999.

Outlook

Fundamentally, the outlook for carbon black appears positive with demand growth expected at 5%, the result of increased MNC entrants to the Indian automobile segment and consequent increase in demand for tyres. The domestic supply overhang is likely to be corrected. A recovery in the South East Asian economies should ease the pressure on domestic prices.