



CHARTING GLOBAL GROWTH

ADITYA BIRLA NUVO



ADITYA BIRLA GROUP

ADITYA BIRLA NUVO LIMITED

ANNUAL REPORT 2006-2007



Mr. G. D. Birla and Mr. Aditya Birla, our founding fathers.
We live by their values.
Integrity, Commitment, Passion, Seamlessness and Speed

THE CHAIRMAN'S LETTER TO SHAREHOLDERS



India stands in the midst of an epochal transformation. Today, we are the fourth largest economy in the world in terms of purchasing power parity, the third largest in Asia, and the second largest among the emerging nations. Growing at a clip of over 9% annually, India is one of the few markets that has enormous potential for growth and earnings in practically all sectors. There is no let up from the Government on the reform process which has spurred the economy. These developments at the macro level will have a positive impact on your Company.

Your Company's performance has been good. Its net consolidated revenue at Rs.8,258 crores, up by 65%, with a net profit of Rs.281.2 crores, reflecting a sharp growth of 38%, is indeed noteworthy.

To sustain our leadership position in both the value businesses such as Carbon Black, Rayon, Textiles, Insulators and Fertiliser and the growth businesses, viz. Garments, Telecom, ITES and Financial Services, significant strategic steps have been taken. Let me add that the Carbon Black, Rayon and Fertiliser businesses account for a significant portion of your Company's standalone earnings, almost in equal proportion.

Let me first focus on the value businesses.

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Rayon Division

Despite the challenging business environment in the Rayon sector where growth is stagnant, your Company's Rayon Division has turned in a smart performance. Its net revenues are higher by 15 percent, over that of the previous year on the back of cost optimization and efficiency improvements.

Its emphasis will continue to be on escalating the share of value-added yarns. An additional thrust is on technological upgradation for upping the quality of its yarn, which is a challenge our teams have to grapple with.

Carbon Black

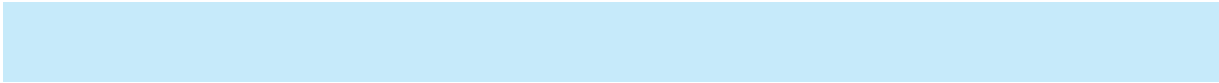
The global automotive market has seldom looked so enticing. It is true of India too. Capitalising on this, your Company's Carbon Black Division continues to show a robust performance. The 60,000 tpa Brownfield expansion is on track, and should go on stream by the end of June 2007. A 120,000 tpa Greenfield project in Western India is on your Company's radar as well. Currently we are in the process of acquiring the land for the same. I believe, this business is slated to grow at a much faster clip, led by the transport sector.

Textiles

Linen and Worsted Yarn continue to be the key drivers of the Textile Division's improved performance. To sustain our leadership position in the Linen segment, the Division has embarked upon a capacity expansion and a much wider customer reach through exclusive linen retail outlets. In the Worsted segment, your Company is increasingly focussing on value-added products. In line with our strategy to exit from synthetic spinning, your Company has begun scaling down its operations in this segment.

Fertiliser

Enhanced operational efficiencies, backed by the increasing demand for urea fertilizers, have fuelled the Fertiliser Division's revenues and earning. The share of value-added products is steadily increasing with its neem-coated urea 'Krishidev', gaining greater popularity with the farmers both because of its higher efficacy and environment-friendliness. As a further step in this direction, your Company has developed zincated, sulphonated and boronated urea. Your Company is dialoguing with the Government to fix a fair price for these value-added products to make them economically feasible.



Your Company has begun the debottlenecking process at the plant to raise the urea capacity. It is also exploring the possibility of an additional Greenfield/Brownfield expansion. The outlook for this business is promising.

Insulators

In the Insulator business, capacity expansion, focus on value-added products, yield and process betterment are measures taken to bolster performance. As the power sector is on a roll with huge investments lined up in the transmission and distribution segment, the outlook for this business is positive.

Growth Business

Garments

In the Garments segment, the Division has put in a remarkable performance. It has evolved a distinctive strategic brand architecture which has notched up its brand equity manifold. We look upon this business with a great degree optimism as the market for ready-made garments is growing at a phenomenal pace. Strengthening its innovative lifestyle brands through a constant enrichment of the product mix, expanding its retail reach and giving its customers a distinctively international shopping ambience will see the Division maintain its edge on-goingly.

Idea Cellular

Idea Cellular is gaining in stature. The Company has over 14 million subscribers. Its market share has risen to 8.6%. It enjoys a leadership position in most of the eight circles in which it operates, viz., Maharashtra, Gujarat, Andhra Pradesh, Kerala, Madhya Pradesh, Delhi, Uttar Pradesh (West) and Haryana. Three new circle operations were rolled out in Himachal Pradesh, Rajasthan and Uttar Pradesh (East). Thus expanding its network to eleven circles. A roll out of services in Mumbai and Bihar circles should happen in 2007. At the same time, Idea is working on a National long-distance roll-out. Idea is now a listed entity on the Stock Exchange.

Given the rapid pace of growth in the telecom sector, I believe, Idea Cellular can only go forward.

Life Insurance

Aggressively expanding its distribution network and launching unique products should enable the business move up. Your Company's thrust in the Life Insurance business will be to regain its market leadership. In this regard, its distribution network has been considerably beefed up. This additional

ramping up and higher marketing expenses on account of competitive pressures may delay the breakeven by another two years.

Financial Services

The business has been characterized by a raft of changes with many new entrants in the fray. The total asset under management of the Asset Management Company rose to Rs.20,849 crores. To sustain growth levels, the business is enhancing its distribution reach through a slew of innovative offerings. Birla Global Division has sustained its leadership position in the IPO Financing, extending finances of Rs.3,305 crores during the year.

IT/ITES Sector

In the BPO business the TransWorks/Minacs combine has catapulted your Company to a truly global corporation. The division envisions becoming a leading global premium BPO player and grow the Company aggressively. Our intent is also to build up the combined non-voice/ KPO business and have significant revenues and earnings flow from transaction and knowledge processing

“Today our Group is a US\$ 24 billion corporation with a market cap in excess of US\$ 23 billion, anchored by a committed 100,000 workforce belonging to 25 nationalities, representing 20 countries across 5 continents. We are all glued together by a common set of values – Integrity, Commitment, Passion, Seamlessness and Speed.”

assignments. It boasts of marquee clients, many of whom are Fortune 500 companies. Your Company is also exploring expansion opportunities in India, Philippines and other geographies. The ITES business is on a high-growth trajectory.

PSI Data Systems strategy of concentrating on core verticals, largely corporate banking, financial services and high technology, has begun to yield dividends. Your Company has ramped up its sales team, enlisted new clients and has put in place cost optimization measures. It is building up on scalability to support growth, strengthening delivery capabilities and offering a marked differentiation in service.

For our success, much credit must go to our people. The quality of our people, their intellectual and emotional commitment has been and continues to be unwavering. I deeply acknowledge their contribution in perpetuating such a meritocratic organization.

The Aditya Birla Group : In Perspective

In line with our vision to be a premium global conglomerate with a clear focus at each business level, I am pleased to inform you that our geographic reach has far expanded. This year has indeed been a landmark year consequent to major acquisitions. Today our Group is a US\$ 24 billion corporation with a market cap in excess of US\$ 23 billion, anchored by a committed 100,000 workforce belonging to 25 nationalities, representing 20 countries across 5 continents. We are all glued together by a common set of values – Integrity, Commitment, Passion, Seamlessness and Speed.

As a Group we are a meritocracy with a sharp focus on people processes. We try and make space for new ideas and encourage a spirit of experimentation. Champions of good ideas have every chance to try them out.

Our people systems and our Group's HR strategy continue to evolve as our Group increasingly globalises. In this regard, we are continuously innovating to support our business vision with world-class HR processes and strategies. The Group-wide implementation of Project Poornata – the People soft based HR-ERP Programme, in its first year of implementation is already reckoned as an enabler of strategic people decisions. These on-line people processes enhance transparency and productivity.

Talent management and strengthening of the talent pool in building leadership across the Group continues to be a focus area. On the professional front, our people systems are aligned to foster excellence, empower and enrich people, recognize creativity, innovation and reward performance. People with a track record, people with a passion to perform are steered on to a growth trajectory. Our endeavours to identify, develop and push high potential talent, which was an initiative begun two years ago, will soon be institutionalised. It might interest you to learn that more than 4000 of our high caliber management talent have been put through our Development Assessment Centres and their professional development plans charted out.

Our investments into employee development both through classroom teaching, e-learning, personal coaching by senior management and mentoring have been scaled up.

“To offer our people a share in the value created by the organisation, we announced the Employee Stock Option Plan which we expect to roll out in the next financial year. This would give them an increasing sense of ownership in our Group.”

"It is with a great sense of pride that I share with you the fact that our Group has been adjudged as the Best Employer in India in 2007 and amongst the top 20 Best Employers in Asia in the Hewitt-Economic Times and Wall Street Study of 2007. This is a singular achievement and a great honour given that the Study encompassed 230 companies in India and over 700 companies in Asia. This honour is also a reflection of the pride, the affection and attachment that colleagues all over have for our Group."

Given the intense war for talent, in addition to these HR systems, we have taken a slew of initiatives to strengthen our employer brand and to improve the quality of life of our employees. This, we hope, will help us keep the edge.

We have set up a taskforce to define the unique employment proposition that our Group can and does offer. Our intent is to ensure that these employee value propositions translate in the day-to-day experiences of our people and enhance their involvement with our Group.

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While we cherish this acknowledgement, we realise that we have to work harder in the people area and bring in an even sharper focus on employees and their engagement.

Best regards,

Yours sincerely,



Kumar Mangalam Birla

ADITYA BIRLA NUVO LIMITED

BOARD OF DIRECTORS

Mr. Kumar Mangalam Birla, Chairman
 Mrs. Rajashree Birla
 Mr. H. J. Vaidya
 Mr. B. L. Shah
 Mr. P. Murari
 Mr. B. R. Gupta
 Ms. Tarjani Vakil
 Mr. Vikram Rao, Whole Time Director
 Mr. S. C. Bhargava
 Mr. G. P. Gupta
 Mr. S. K. Mitra, Whole Time Director
 Mr. Rakesh Jain, Whole Time Director
 Mr. K. K. Maheshwari, Whole Time Director
 Mr. Adesh Gupta, Whole Time Director
 Dr. Bharat K. Singh, Managing Director

MANAGING DIRECTOR

Dr. Bharat K. Singh

WHOLE-TIME DIRECTOR & CFO

Mr. Adesh Gupta

COMPANY SECRETARY

Mr. Devendra Bhandari

AUDITORS

Khimji Kunverji & Co., Mumbai
 S. R. Batliboi & Co., Mumbai

OTHER BRANCH AUDITORS

K. S. Aiyar & Co., Mumbai
 Deloitte Haskins & Sells, Bangalore

SOLICITORS

Mulla & Mulla and Craigie,
 Blunt & Caroe, Mumbai

REGISTERED OFFICE

Indian Rayon Compound,
 Veraval 362266 (Gujarat)

EXECUTIVES DIVISION

RAYON DIVISION

Mr. K. K. Maheshwari Business Director
 Mr. V. G. Somani President

HI-TECH CARBON

Mr. Rakesh Jain Business Director
 Mr. S. S. Rathi Executive President

TEXTILES

Mr. Vikram Rao Business Director
 Mr. J. C. Soni President

MADURA GARMENTS

Mr. Vikram Rao Business Director
 Mr. Hemchandra Javeri Sr. Executive President
 Mr. Ashish Dixit President

INDO GULF FERTILISERS

Dr. Bharat K. Singh Business Director
 Mr. S. K. Jain Sr. President

FINANCIAL SERVICES DIVISION

Mr. S. K. Mitra Director (Financial Services)
 Mr. Sushil Agarwal President

PROMINENT SUBSIDIARIES/JOINT VENTURE COMPANIES

Birla Sun Life Insurance Co. Ltd.

Mr. Vikram Mehmi President & Chief Executive Officer

PSI Data Systems Ltd.

Mr. Dev Bhattacharya Group Executive President
 Mr. Sampath Iyengar Chief Executive Officer

Transworks Information Services Ltd.

Mr. Dev Bhattacharya Group Executive President

Minacs World Wide Inc.

Mr. Bruce Simmonds Chief Executive Officer

Madura Garments Exports Ltd.

Mr. Vikram Rao Director
 Mr. Partho Kar Chief Operating Officer

Aditya Birla Insulators Ltd.

Mr. Jayant Dua Managing Director

Idea Cellular Ltd.

Mr. Sanjeev Aga Managing Director

Birla Global Finance Co. Ltd.

Mr. S. K. Mitra Director (Financial Services)

Birla Sun Life Asset Management Co. Ltd.

Mr. Mukul Gupta Chief Executive Officer

Birla Sun Life Distribution Co. Ltd.

Mr. Ravi Sharma Chief Executive Officer

Birla Insurance Advisory Services Ltd.

Mr. Sushil Agarwal Chief Executive Officer

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FINANCIAL HIGHLIGHTS

	Units	2006-07	2005-06	2004-05	2003-04	2002-03	1997-98
PRODUCTION (Quantity)							
Viscose Filament Rayon Yarn	MT	17,669	17,233	16,420	16,060	15,873	14,273
Chlor-alkali (Caustic Soda)	MT	67,663	57,051	45,457	39,305	34,875	13,883
Spun Yarns	MT	17,720	19,190	15,445	14,421	13,781	15,721
Fabric	000 Mtr	5,088	4,646	3,751	2,734	3,627	5,232
Urea (Merged w.e.f. 1st Sep 05)	MT	1,028,064	575,646	-	-	-	-
Carbon Black	MT	182,668	175,080	164,025	118,707	112,563	42,104
Insulators (Demerged w.e.f. 1st Aug., 02)	MT	-	-	-	-	7,673	22,752
White Cement (Demerged w.e.f. 1st Sep., 98)	000 MT	-	-	-	-	-	199
Cement (Demerged w.e.f. 1st Sep., 98)	000 MT	-	-	-	-	-	3,075
SALES (Quantity)							
Viscose Filament Rayon Yarn	MT	17,039	17,380	16,445	15,694	15,422	14,322
Chlor-alkali (Caustic Soda)	MT	67,226	56,954	45,920	39,344	34,207	13,596
Spun Yarns	MT	18,357	18,866	15,686	14,594	13,882	15,190
Fabric	000 Mtr	4,645	4,418	3,593	2,798	3,614	5,027
Urea	MT	1,043,565	563,914	-	-	-	-
Carbon Black	MT	180,893	175,944	165,095	118,182	114,232	42,118
Insulators (Domestic sales since 03-04)	MT	7,776	16,245	9,219	6,813	7,596	23,088
White Cement	000 MT	-	-	-	-	-	202
Cement	000 MT	-	-	-	-	-	3,083
PROFIT & LOSS ACCOUNT							
GROSS SALES (excluding captive consumption)							Rs. in Crores
Garments		693.65	615.80	476.07	413.09	347.56	-
Viscose Filament Rayon Yarn		308.21	296.29	284.05	292.33	319.82	283.31
Chlor-alkali		138.57	113.67	92.15	63.92	54.00	8.75
Spun Yarns		513.57	421.74	379.11	356.93	307.43	226.25
Fabric		98.60	95.35	71.90	55.14	52.67	43.37
Carbon Black		817.66	619.18	500.95	378.48	370.75	126.48
Urea		756.74	366.47	-	-	-	-
Insulators		112.69	121.56	89.38	59.82	62.87	157.78
Financial Services (Merged w.e.f. 1st Sep 05)		27.65	31.64	-	-	-	-
White Cement		-	-	-	-	-	120.06
Cement		-	-	-	-	-	699.51
Others		110.55	104.69	94.43	97.91	78.25	149.03
Total Gross Sales		3,577.89	2,786.39	1,988.04	1,717.61	1,593.35	1,814.54
Excise duty		157.42	144.34	127.20	140.22	150.93	232.29
Net Sales		3,420.47	2,642.05	1,860.84	1,577.39	1,442.42	1,582.25
Operating Expenses		2,861.19	2,222.10	1,606.41	1,333.79	1,212.23	1,228.22
Operating Profit		559.28	419.95	254.43	243.60	230.19	354.03
Other Income		44.51	23.44	9.72	14.23	10.00	19.67
Interest Payment (Net)		171.16	55.79	18.73	14.82	21.72	54.97
Gross Profit		432.63	387.60	245.42	243.01	218.47	318.73
Depreciation /Amortisation		120.32	111.81	80.69	81.52	71.74	87.22
Profit before Exceptional Items and Tax		312.31	275.79	164.73	161.48	146.73	231.51
Exceptional Items Gain/ (Loss)		(1.23)	(4.04)	(7.65)	19.95	(7.18)	-
Profit after Exceptional Items		311.08	271.75	157.08	181.43	139.55	231.51
Provision for Current Tax		67.56	87.48	45.35	44.25	9.00	19.00
Provision for Deferred Tax		15.16	(6.91)	(1.99)	5.90	25.22	-
Fringe Benefit Tax		3.39	4.25	-	-	-	-
Net Profit		224.97	186.93	113.72	131.28	105.33	212.51
Equity Shares Dividend (incl. Dividend tax)		58.52	47.61	27.31	27.08	25.33	37.11
Retained Profit		166.45	139.32	86.41	104.20	80.00	175.40