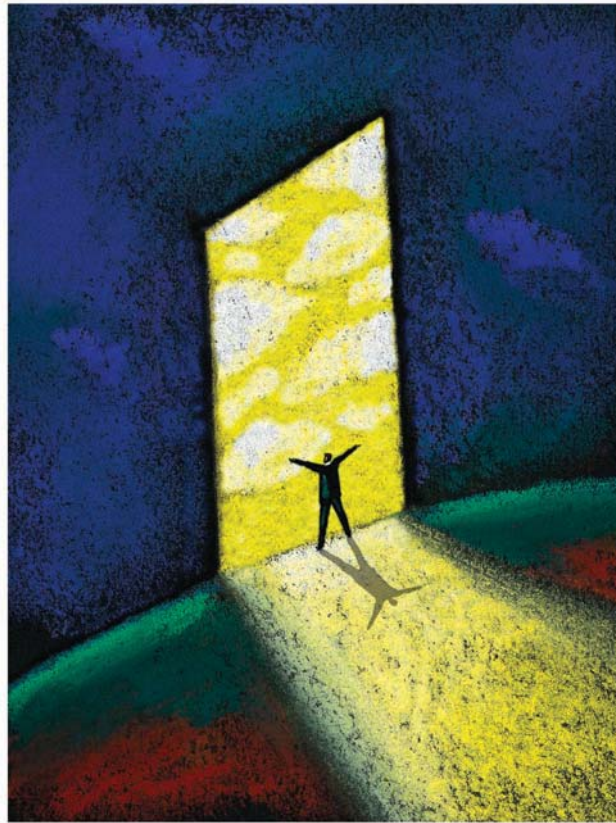


LAST MAN  
STANDING



FIRST MAN  
FORWARD



ANNUAL REPORT  
2011-2012

ADITYA BIRLA NUVO LIMITED



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



Dear Shareholder,

Almost four years after the greatest financial and economic upheaval since the Great Depression, the global economy is regaining a measure of stability and confidence. But the risks to growth remain. The situation looks unsteady once again, with the problems in the Euro Zone. The IMF projects that the global economic growth will decline from 4% in 2011 to 3.5% in 2012, before picking up to 4% in 2013. The Euro zone shows signs of slipping into a recession again, though that is expected to be offset by around 2% growth in the US and 6% in the emerging and developing economies. The economies of Africa, particularly sub-Saharan Africa, are demonstrating structural improvement. Japan is on the road to normalcy after the twin disasters of the tsunami and the Fukushima nuclear reactor accident. The global supply chains, disrupted by the disasters in Japan and the floods in Thailand, have been restored. The financial condition of the large global corporations is extremely strong, and their cash holdings at an all-time high.

The worst-case scenarios for the global economy have not come to pass. That, in no small measure, is due to the unprecedented stimulus provided by governments and central banks. Europe has also reached a degree of consensus on fiscal reforms. The ECB has also put in place firewalls to ward off a widespread economic contagion.

Clearly, the road ahead is not yet smooth. The bond, inter-bank and sovereign debt markets in Europe remain jittery. The process of financial deleveraging still has a long way



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to go. Oil prices remain stubbornly high. Unemployment is proving extremely sticky and concerns about inequality are growing. A major worry is the political gridlock in many major countries, that makes it difficult to strike the right trade-offs between growth and fiscal and monetary restraint.

The Indian economy was quick off the mark in recovering after the 2008 shocks. But the growth momentum has slowed considerably over the past year. GDP growth in the third quarter of FY 2011-12 was 6.1%, down from 8.3% in the corresponding quarter of FY 2010-11. Some of the key indicators are bearish. Gross fixed capital formation has contracted in recent months. Growth in industrial production in the April 2011-February 2012 period slid to 3.5%, compared to 8.1% during the same period last year. Inflation, particularly in food items, remains high. There have been major slippages on the fiscal side. The current account deficit, in the April-December 2011 period widened to 4.0% of GDP, a clear warning sign. On a trade-weighted basis the Rupee depreciated around 8% in the past year. Given the slippage in growth, RBI's decision to ease monetary policy was timely. Even so monetary policy will not be effective unless it is supported by fiscal restraint. India's economy is poised delicately. Recent policies have not taken the economy forward.

This testing macro-economic environment had a bearing on some of the businesses of your Company too. However, driven by strong performance in other businesses, your Company has posted sound earnings.

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### **Growing with agility**

Most of our businesses have done well. I am pleased to record that our **Financial Services** business continues to bolster its position as a significant Non-bank Financial Services player. Its market share across almost all verticals has been steadily spiking. Today, it is managing assets of USD 17.5 billion and ranks among the top 5 fund managers in India, excluding banks and LIC and is also the 5<sup>th</sup> largest

private player in the Life Insurance sector. In the asset management sector, it is the 4<sup>th</sup> largest player in the country. Having turned profitable, the Life Insurance business has begun paying dividend.

Despite the tectonic shifts in the environment, with volatile capital markets and regulatory changes, **Aditya Birla Financial Services** posted revenue of USD 1.3 billion (₹ 6,550 Crore) and a 27% bottom-line growth. This is laudable. Currently, the Financial Services business is the largest contributor to your Company's profits.

I believe that this sector is bound to grow as we go forward, since much of its potential is still unlocked. Backed by its strong customer base, nation-wide distribution footprint and brand salience, Aditya Birla Financial Services is all set to create a new record.

Regrettably, the **Telecom** sector is going through a phase of uncertain regulatory environment. The proposed policy changes towards spectrum auctioning, pricing and re-farming by the regulator, bode ill for the sector.

The significant strides made by **Idea Cellular**, the telecom arm of your Company, become all the more creditable when set against the unprecedented stress and uncertainty running through the sector. Idea posted an impressive performance, recording a growth rate that is nearly twice that of the industry. Idea is now among the select club of mobile operators globally with 113 million subscribers. It is the 8<sup>th</sup> largest operator in the world carrying 1.4 billion minutes of voice calls every day.

With the launch of 3G services this year, Idea has scaled up from being in the pure voice business to high speed wireless broadband services as well. I believe Idea will be a major contributor in bridging India's digital divide. Its 3G reach has been extended to more than 3,000 towns and 10,000 villages. The Idea brand 3G smart phones launched this year have met with an encouraging response.

I am confident, that Idea will emerge stronger, consolidate its position in the voice market and participate aggressively in the evolving wireless broadband business.

That said, the changes in regulation proposed would hurt the industry irretrievably. It remains to be seen what shape regulation will actually take. Regulatory and policy change are causing havoc in the sector.

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*Your Company has a healthy Balance Sheet. This will provide leverage to capture opportunities across its businesses. In my view, Aditya Birla Nuvo is geared to get bigger.*

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Let me now highlight the achievements of **Madura Fashion & Lifestyle**. Once again the business outperformed the market, logging a revenue growth of 24%. Its revenue at USD 450 million (about ₹ 2,250 Crore) and ROACE at 21% is a commendable feat. The business recorded its highest ever EBIDTA. Madura Fashion & Lifestyle has laid a solid foundation for sustainable growth. Its retail footprint extends to 1,129 stores spanning 1.6 million square feet.

The proposed acquisition of a controlling stake in the **Pantaloons format of the Future Group**, is in line with our strategic intent to fortify our leadership position in this segment. It will enable your Company to create the largest integrated branded fashion player in the country. This acquisition will catapult Madura Fashion & Lifestyle to a leading position in all the segments through an extension into kids wear and women wear.

In the **IT-ITeS** business, **Aditya Birla Minacs** listed revenue of over USD 415 million (over ₹ 2,075 Crore) - a growth of 23% - one of the highest organic growth rate achieved in this segment. Aditya Birla Minacs added 16 new clients. It attained total contract value sales of over USD 730 million. The business is generating steady cash profit to fund its growth requirements.

In the **Agri Business**, Indo Gulf has moved up the value chain from urea to providing total agri inputs solutions. It now offers the farmers a full range of products and services that cater to their entire cycle from sowing to harvesting. This year the business has grown impressively with revenue of about USD 425 million (₹ 2,100 Crore), buoyed by its trading in imported fertilisers. Urea production at 1.16 million metric tons has been the highest so far. While we have envisaged a Brownfield expansion of our urea capacity, unless there is greater policy clarity on both the availability of natural gas and its pricing, we cannot move further.

In the **Carbon Black** and **Insulators** businesses, sales volume and capacity utilisation remained under pressure due to large scale dumping from China. The Industry Associations for these businesses have approached the Government of India for the levy of appropriate duties. This is extremely essential in order to restore a level playing field.

The **Textiles** business posted its highest ever earnings and crossed the ₹ 1,000 Crore revenue mark. To capitalise

on the increasing popularity of linen, 17 exclusive stores of 'Linen Club' have been added, taking the total to 57 stores. Going forward, we are exploring capacity expansion in the 'Linen Yarn' and the Linen Fabric segments.

In the **Rayon** business, your Company enjoys the rare distinction of being the largest Indian exporter of viscose filament yarn (VFY) for the seventh consecutive year. Our VFY expansion is on track. We expect its commissioning by the end of FY 2012-13 and the 45,625 tons caustic soda plant expansion by 2013-14.

### **Outlook**

Your Company has a healthy balance sheet. This will provide leverage to capture opportunities across its businesses. In my view, Aditya Birla Nuvo is geared to get bigger.

### **To our teams**

I thank of all our teams for their solid performance, undiluted commitment and laser sharp focus on delivering results.

### **The Aditya Birla Group in perspective**

Despite a choppy global economy, our Group turned in a solid performance in FY 2011-12, anchored by our 133,000 strong workforce comprising 42 nationalities spanning 36 countries. Our consolidated revenues were a little over USD 40 billion, reflecting a 14% growth.

It is my abiding belief that our people are the single most important enablers from every perspective. It is with a sense of deep pride that I share with you the fact that our continuous investment in the people area has paid rich dividends. Our Group has been ranked fourth in the Global Top Companies for Leaders and first in Asia Pacific in the 'Top Companies for Leaders 2011' study conducted by Aon Hewitt, Fortune and the RBL Group. 470 companies worldwide participated in this study. This recognition is personally heartening for me, given that we have competed against the best of breed global companies.

I personally am convinced that we are now forging ahead on the people front. Our dedicated efforts in enhancing the quality of life of our employees and their families, continues unabated.

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Our Talent Management and Leadership Development processes have been further enhanced, to meet our very specific talent requirements, with many more employees being included. To mention a few, launched:

- a Global Manufacturing Leadership Program to induct lateral recruits and fortify our technical talent in our Units.
- a Continuing Education Policy to support managers in acquiring higher specialist education for skills upgradation while they continue to be in their jobs.
- "Cutting Edge", the accelerated P&L Leadership development Program, to enable function leaders to transition to P&L roles.
- And over 30,000 touch points to our learners through multiple learning formats. With these the number of people being targeted for honing competencies and developing skills has risen many times over. This is in sync with our "World of Opportunities" proposition. The customisation of these learning programmes is far sharper this year on.

### **Beyond Business**

Given that our employees have a desire to contribute to the larger community, including those of their colleagues who need support, we are setting up a new trust called the "World Of Opportunities Foundation", through which our employees can contribute to supporting the higher education of children in need.

### **Last Man Standing-First Man Forward**

And finally let me add that over the years, we have through determined and deliberate effort come to be in this position of being the 'Last Man Standing', almost across each of our businesses. And when we do face a downturn today, from our position of strength, the message I want to convey is that, the last man standing has the best chance at being the first man forward. The first man forward to consolidate market positions, to show superior performance in each industry and get a few steps ahead of competition.

Yours sincerely,



Kumar Mangalam Birla





## A premium conglomerate with leadership position across its businesses

A USD 40 billion corporation, the Aditya Birla Group is in the League of Fortune 500. It is anchored by an extraordinary force of over 133,000 employees, belonging to 42 nationalities. The Aditya Birla Group has been ranked 4<sup>th</sup> in the world and 1<sup>st</sup> in Asia Pacific in the "Top Companies for Leaders" study 2011, conducted by Aon Hewitt, Fortune Magazine and RBL (a strategic HR and leadership Advisory firm). Aditya Birla Nuvo is proud to be a part of this Group.

A decade ago, Aditya Birla Nuvo's well thought out strategy of investing into the service sector businesses by utilising the cash flows generated by its manufacturing businesses went into execution - transforming Aditya Birla Nuvo from a manufacturing company to a premium conglomerate with a leadership position across its businesses.

In the course of this journey, the consolidated revenue of Aditya Birla Nuvo has risen 14 times to ₹ 21,840 Crore (USD 4.5 billion) and market capitalisation 25 times to ₹ 10,723 Crore (Over USD 2 billion).

Anchored by a committed team of about 65,000 employees, today, Aditya Birla Nuvo touches the lives of 120 million Indians.

Aditya Birla Nuvo is a leading player in India across its Financial Services, Telecom, Fashion & Lifestyle, IT-ITeS and Manufacturing businesses. These businesses are competitively well placed and are contributing to the profitable growth of the Company.

Aditya Birla Nuvo is well positioned to capitalise on growth opportunities available across the wide spectrum of the Indian economy.



# Financial Services



## One of the largest non-bank financial services player

Aditya Birla Financial Services ranks among the top 5 fund managers in India, excluding banks and LIC. With a large presence across the life insurance, asset management, NBFC, private equity, broking, wealth management and general insurance advisory businesses, it serves the end-to-end financial services needs of its retail and corporate customers.

- Funds under management of ₹ 86,750 Crore (USD 17.5 billion)
- Revenue of ₹ 6,550 Crore (USD 1.3 billion)
- Trusted by about 5.5 million customers
- A nationwide presence through more than 1,775 points of presence
- Supported by about 200,000 agents / channel partners.