GRASIM INDUSTRIES LIMITED

BOARD OF DIRECTORS

MR. KUMAR MANGALAM BIRLA - Chairman

MRS. RAJASHREE BIRLA

MR. M.L. APTE

MR. M.C. BAGRODIA

MR. B.V. BHARGAVA

MR. R.C. BHARGAVA

MR. J.N. GODBOLE

MR. Y.P. GUPTA

MR. CYRIL SHROFF

MR. S.G. SUBRAHMANYAN

Adviser
Mr. D.P. Mandelia

Manager
Mr. Shailendra K. Jain

Chief Financial Officer
Mr. D. D. Rathi - Group Executive President & CFO

Company Secretary
Mr. Ashok Malu

Fibre & Pulp Divisions
Mr. Shailendra K. Jain- President & Business Head

Staple Fibre & Engineering Divisions, Nagda

Dr. Lalit Gupta - Sr. Executive President

Staple Fibre Division, Nagda

Mr. S.K. Saboo -Group Executive President

Mr. P.P. Agarwal - Jt. Executive President (F&C)

Mr. D.N. Makharia - Jt. Executive President (Commercial)

Mr. Thomas Varghese - Head Marketing (VSF)

Pulp & Grasilene Divisions, Harihar

Mr. O.P. Rungta - Sr. Executive President

Mr. S.S. Maru - Executive President

Birla Cellulosic Division, Birladham, Kharach

Mr. Vijay Kaul - Sr. Executive President

Cement Divisions
Mr. Saurabh Misra - Business Head
Mr. C.P. Jajoo - Sr. Executive President (Chief of Manufacturing)
Mr. O.P. Puranmalka - Sr. President (Chief of Marketing)

Vikram Cement, Jawad and Aditya Cement, Shambhupura

Mr. K.C. Jhanwar - Executive President
Mr. M.K. Parasrampuria - Jt. Executive President (F &C)

Grasim Cement, Raipur

Mr. G.K. Maheshwari - Jt. Executive President

Rajashree Cement, Malkhed

Mr. Dwaraka Prasad Somani - Executive President
Mr. T.R. Venugopal Rao - Jt. President (Technical)

Cement South - Reddipalayam

Mr. K.C. Birla - Jt. President

Birla White, Kharia Khangar

Mr. S.N. Jajoo - Executive President

Vikram Ispat
Mr. Ratan K. Shah - President

Chemical Division
Mr. S.K. Maheshwari - Executive President
Mr. G.K. Tulsian - Executive President

Textile Divisions
Mr. Vikram D.Rao - Group Executive President (Textiles)
Mr. R.M. Gupta - Sr. Executive President (Textile Operation)
Mr. S. Krishnamoorthy - Jt. Executive President (Marketing)
Mr. J.C. Soni - Executive President (Bhiwani Textiles)

Corporate Affairs
Mr. B.N. Puranmalka - Adviser
Mr. P. Ramakrishnan - Executive President

Auditors
M/s. G.P. Kapadia & Co., Mumbai
M/s. Lodha & Co., New Delhi

Solicitors
M/s. Mulla & Mulla & Craigie Blunt & Caroe, Mumbai

Contents

REGISTERED OFFICE: Birlagram 456331, Nagda (M.P.)

The Chairman's Letter to Shareholders

Dear fellow shareholders,

GRASIM – In Focus

For all of us at Grasim, the year has been truly rewarding, both strategically and operationally. Strategically, major benefits continue to flow from the consolidation of the cement business.

On the operational front, Grasim's performance has been exemplary. Your Company's key businesses – Viscose Staple Fibre and Cement have posted a splendid performance, which was well supplemented by the Chemicals and Sponge Iron sectors.

Despite an extremely challenging business environment, with economic and industrial activity mired in a meltdown, your Company's gross revenues at Rs.5,690 Crores, reflect a growth of 12 per cent year on year, while operating profits have risen by an impressive 21 per cent from Rs.756 Crores to Rs.912 Crores.

Better economies of scale, higher cement prices and improved internal efficiencies have led to a surge in pre-tax profits before extraordinary items by 60 per cent to Rs.421 Crores. Net profits at Rs.378 Crores reflect a 62 per cent increase over that of the preceding year, which stood at Rs.233 Crores.

"Your Company's key businesses – Viscose Staple Fibre and Cement have posted a splendid performance, which was well supplemented by the Chemicals and Sponge Iron sectors."

Outlook

It is my firm belief that given Grasim's expanded capacities and leadership status in its key business segments, the outlook is bright. Cost optimation measures, strategic planning, effective financial management and consolidation in the cement sector assure Grasim's secure future.

Viscose Staple Fibre

The outlook for the Viscose Staple Fibre (VSF) industry remains positive and is predicated on the likely strong growth in exports of VSF based yarn fabrics, ready-mades and garments. A perceptible shift towards using VSF rich blends in India should amplify its demand as well. As your Company is the market leader, it will gain significantly from the forecast favourable industry outlook.

To remain a leading edge company in this sector, a well-crafted strategy has been put in place. It entails an enlargement of the VSF market, promotion of deemed exports and upscaling operating efficiencies. Improving process efficiencies, and consumption norms, and reducing costs to the extent possible from already stretched levels will ensure our cost competitiveness. Through these measures we will achieve superior asset utilisation and enhanced margins, going forward.

Cement

Consolidation moves set afoot by your Company, in the recent past, have elevated Grasim's stature as a cement powerhouse. Such a position of strength equips us to grow significantly in this core sector.

Our intent is to sustain our leadership position and to further raise our profitability. To attain this goal, we plan to work towards enhancing capital and manpower productivity, besides an unrelenting focus on customer service.

To sweat our existing assets, de-bottlenecking of existing capacities, and a renewed product mix has been planned. This will enable your Company to achieve an additional capacity of 3.3 Mn TPA over the next 18 months.

Replacement of our diesel based captive power plants with thermal power plants, process optimisation, and initiating a new IT network that links manufacturing units and others in the value chain – are measures taken to entrench our position firmly.

Textiles

In the textiles sector, your Company has suffered a setback. A worsening market environment in the suitings sector, plagued both by over-capacity and intense price-competition, has slowed this sector.

To turnaround the business in the first phase, your Company has kickstarted several proactive initiatives. A cohesive, well-orchestrated, customer-focused manufacturing and marketing strategy has been blueprinted. As you are aware, we have already contemporised the Grasim brand, pegging it on the new superior quality range launched and novel fashion connotations.

The distribution and retail network has been given a shot in the arm. The 'Grasim' and 'Graviera' brands have become more visible today than ever before supported by aggressive marketing. Apart from these endeavours, we have recoursed to relentless cost cutting.

Sponge Iron

The outlook for this business is stable. The macro indicators confirm a sustained recovery in the global steel sector, which coupled with the benefits that will flow from an impending pickup in the domestic economy, augur well for sponge iron manufacturers. Grasim, being the lone producer of gas-based sponge iron for merchant sale, will be a key gainer. One concern though is the availability and pricing of Natural Gas which may affect our profitability.

To continue to grow in revenues and earnings over the long haul, we will cash on our inherent strategic advantages and rigorous cost containment efforts. These will be augmented further by our plant's technical superiority and product flexibility. Alongside our energies will be concentrated on process upgradation and internal efficiencies.

We will remain focused on maximisation of cash flows. No fresh capital will be infused in this business.

Summary

Your Company's major businesses have demonstrated significant improvements, resulting in an exemplary financial performance for the year under review. The forecast positive outlook for the key businesses, coupled with the inherent strengths of Grasim and well-crafted strategies for each of these sectors, gives us the confidence of achieving reasonable growth levels in the years to come.

At this juncture, I would like to take the opportunity to record my sincere appreciation of the employees and management team at Grasim. It is only through their dedication and commitment that we have been able to deliver superior results during the year. Their partnering with us will surely aid us in delivering value for shareholders year after year.

"It is my firm belief that given Grasim's expanded capacities and leadership status in its key business segments, the outlook is bright. Cost optimation measures, strategic planning, effective financial management and consolidation in the cement sector assure Grasim's secure future."

THE ADITYA BIRLA GROUP – In Perspective

That said, let me focus on the proactive steps taken by us at the Group level, to attune to the unrelenting pace of change that confronts Corporates today, and more importantly to ensure the Group's sustainable success. This is integral to fulfilling our avowed goal of relentlessly pursuing the creation of value for our shareholders, customers, employees and society at large. To do so, in the recent past, we have hinged on three focal points. Firstly; a distinctive strategic architecture, secondly; novel structural processes and thirdly; adopting systems which ensure that we remain a cutting-edge premium business conglomerate.

We have a proven track record in successfully managing different businesses, and we will continue to remain a conglomerate at the Group level. The pre-condition for this is, of course, that each of our businesses allows us dominance in that sector. Additionally, the returns on financial resources and management time invested in each of them must be commensurate with our expectations.

Over the last two years, I have apprised you of the developments on the business front. My intent is to share the progress attained and the ways we have adopted to keep stoking growth.

3 90222276— Ceps 2\ D:\Sales\JOE REGO\GRASIM-2001\Main 2001\Grasim Ind Main 2001.P65 —SBC/5-5/-skg-7-5(Pg48-55)\AMD\8-5 (NEW SETT. 56-58)-skg-8-5/SBS(12-5)\sbs(14-5)/NSS/14/5/kvf/16-5/NSS/18/5/Sagam/19-5(21-30)/kvf/21-5/NSS/23/5/NSS/24/5/NSS/25/5

Strategic Architecture

It is my firm belief that value-creation must course through all of our businesses.

"I firmly believe that our people provide us with the cutting edge. They are the backbone of our organisation. They breathe life into the business, endowing it with both character and staying power. Therefore harnessing people power, breeding thought-leaders and creating platforms from which every individual can contribute are priorities, in continuum."

Growth in our key businesses has been characterised by consolidation, acquisitions and restructuring. Consolidation of the cement business, through the merger of Indian Rayon's Cement Division with Grasim, has yielded dividends for both of our Companies' shareholders, apart from admirably elevating Grasim's stature in the industry. The amalgamation of Dharani Cements with Grasim and the intent to acquire cement companies that strengthen our national footprint are steps that enable us further cement our position. Similarly the acquisition of Indal by Hindalco fortifies our standing in the aluminium sector manifold. Consequent to this linkage, synergies accrue through integration of logistics, product rationalisation and marketing strategies, not to underscore the enhanced customer reach it offers. In turn, this has led to significant value generation.

Hindalco's brownfield expansion at Renukoot is yet another part of a well-conceived growth strategy.

The acquisition of global rights for world-class brands such as Louis Philllipe, Allen Solly (barring North America), Peter England (with the except of the UK and Ireland) marks a turning point. It at once catapults Indian Rayon's potential to become a global player in the men's wear industry. Incidentally, the branded apparels segment has been and continues to be the major growth driver at Indian Rayon.

To accord the desired focus to the software sector, we have hived-off Grasim's Software Division, Birla Consultancy Software Services, into a separate wholly owned subsidiary of Grasim. This move also allows Grasim to stay focused on its two key businesses – Viscose Staple Fibre and Cement.

In the Telecom sector, teaming up with Tata Telecommunications, has been a forward-looking initiative. The acquisition of RPG and Vodafone's stake in Madhya Pradesh by this joint venture, has enlarged our geographic reach. Today we command 30 per cent of the teledensity in the country.

Our foray into the Life Insurance sector in partnership with Sun Life of Canada is a measure to step up our interests in futuristic knowledge-oriented growth businesses, which have the potential to grow in revenues and earnings.

Divesting those of the businesses that destroy shareholder value is a natural corollary. Scaling down of our spinning operations, a partial closure of the Caustic Soda unit at Nagda, the closure of the Pulp and Fibre business at Mavoor, which were rendered unviable due to the non-availability of the raw materials, and the divestment of the Files business to Raymonds, indicate our firm resolve to pare off those businesses which are not value adding.

Novel Structural Processes

With Cash Value Added (CVA) as our measurement metric, we have been able to streamline and refine management decision making processes so that these are totally aligned to shareholder value. This has been accomplished under the umbrella of "Project Together", a Group-wide initiative to drum up support across all levels.

CVA serves as the sinew of our Organisation. Its roll out has been eminently successful. The Group's commendable results are partly due the spin-off from CVA.

Our antenna is tuned in to the external world. We have been constantly sharpening our wherewithal to channel and drive the forces of change. To do so we are moulding ourselves into a quick response, market-driven people who are constantly innovating and designing product delivery systems as customer solutions.

Infusion of fresh blood and grooming talent at all levels aids us in attaining the objective. Increasingly professionals of a high caliber have been and continue to be recruited whenever the required competence is not found internally. Alongside we have been moving talent effortlessly across the Group. The senior positions that fell vacant consequent to the retirement policy, have been largely filled in through the internal recruitment of talented, competent professionals. The transition has been flawless.

I firmly believe that our people provide us with the cutting edge. They are the backbone of our organisation. They breathe life into the business, endowing it with both character and staying power. Therefore harnessing people power, breeding thought-leaders and creating platforms from which every individual can contribute are priorities, in continuum.

Our endeavours to be a fluid, flexible and seamless Group backed by our strong values, and a robust performance ethic are ongoing.

Institutionalising Systems

Towards creating value, we have embedded systems and processes firmly. The Aditya Birla Information Highway, rechristened as "Aditya Disha" ensures that learning and knowledge sharing is genetically hardwired into our Group. Leveraging the immense networking opportunities it offers, Aditya Disha, our intranet knowledge portal, assists employees at all levels to work faster and smarter. In doing so, it accords us a competitive lever.

Gyanodaya, the Institute of Management Learning, is today a world-class training and learning Centre, one in which we take great pride. Since its inception more than 65 management programmes have been conducted by top-notch professionals over 250 days, attended by 1,050 managers. These are of immense value, honing as they do people skillsets required in today's competitive era. More importantly these programmes foster our intellectual capital, so fundamental to our remaining on top of the League in the sectors in which we operate.

All of our initiatives are strung together by one abiding dictum which is – to factor the aspirations of our shareholders, and to ensure that Total Shareholder Returns (TSRs) grow significantly year after year.

"All of our initiatives are strung together by one abiding dictum which is – to factor the aspirations of our shareholders, and to ensure that Total Shareholder Returns (TSRs) grow significantly year after year."

Yours sincerely,

KUMAR MANGALAM BIRLA

Mumbai,
30th April, 2001

Management's Discussion and Analysis

OVERVIEW

For ***Grasim*** it was an excellent year. Despite a tough business environment, your Company's key businesses - Viscose Staple Fibre (VSF) and Cement-put in an impressive performance. This was augmented by the Chemicals and Sponge Iron divisions. The year started on a positive note with expectations of recovery in consumer demand and heightened industrial activity. An erratic monsoon and droughts in parts of the country, resulting in sagging consumer confidence, poor demand and sluggish industrial activity belied all hopes. The sharp rise in global crude oil prices and the resultant increased energy costs added further pressure on the economy. Against this backdrop and given the intrinsic linkages between the economy and the Company's core businesses, your Company's performance is commendable.

Aggregate revenues grew by 13% year-on-year (YoY) on the back of better performance of all of its businesses, with the exception of the Textiles sector. Improved efficiencies, economies of scale and higher cement prices, aided overall profitability. Operating profits grew by 21% from Rs. 756.3 Crores last year to Rs. 911.5 Crores in FY 2001. Profit before extra-ordinary items and taxes attained a robust growth of over 60% from Rs.263.2 Crores to Rs.420.8 Crores. After adjusting for employee separation costs and profits from the sale of the software division, pre-tax profits soared by 74% YoY to Rs.427.9 Crores while net profits jumped 62% YoY to Rs.377.9 Crores during the year.

The Cement business witnessed a sharp turnaround in operations, margins and profitability during the second half, while VSF remained a stable contributor during the year. The performance of the Sponge Iron and Chemical businesses was embellished on the back of better asset utilisation, improved prices and reduced costs. The textile business was the sole exception. Poor demand, falling fabric prices and rising input costs, put pressure on its margins.

VALUE ENHANCING STRATEGIC MOVES

During the year restructuring efforts continued. The commissioning of the new cement plant in Tamil Nadu, the merger of Dharani Cements Limited, the decision relating to the transfer of the fibre and pulp plants situated at Mavoor, and the corporatisation of the software division, were amongst the value enhancing moves made by your Company.

"Grasim South" - Fully Operational Now

The new 0.9 Mn TPA cement plant in Tamil Nadu commenced trial operations in March 2000. Commercial production started in April 2000, and operations were stabilised successfully during the first quarter of the current financial year. This state-of-the-art Plant, the only one of its kind in Asia, is equipped with automated robot laboratory systems to ensure consistency of quality. Leveraging the superior quality of cement produced at this plant and an already established strong brand image backed by an aggressive marketing strategy, your Company further entrenched its presence in the Southern markets. The new plant, being closer to the Southern markets, entails lower transportation costs – which is a significant component in the overall cost structure.

Dharani Cements Amalgamated with Grasim

Your Company had acquired a 100% equity stake in Dharani Cements Limited during 1998-99. This acquisition has brought with it a 0.07 Mn TPA cement capacity and over 752 hectares of limestone mines. To derive maximum synergies and to facilitate manpower rationalisation, along with optimum utilisation of its grinding plant, your Company has merged Dharani Cements, its wholly owned subsidiary, with itself.

BCSS hived-off

Your Company has hived off its software division, known earlier as "Birla Consultancy and Software Services (BCSS)" into a subsidiary named, "Birla Technologies Limited".

BCSS was set up in 1992 to focus on the high growth information technology sector. The Division had developed expertise in the areas of IT consultancy, turnkey and migration solutions as well as other high growth IT areas. The Division has over 1850 man-years of experience and employs 320 professionals. It has business alliances with global majors like Microsoft, Oracle and IBM. To ensure sustainable long-term growth in the IT industry and to emerge as a strong organisation with best business practices, a focus was imperative. As this business accounted for only 0.3% of Grasim's revenues, it was unable to get the desired attention.

Given the IT sector's enormous growth potential as a knowledge-based service industry, Grasim decided to focus on it through its corporatisation. Your Company thus transferred the division to a subsidiary, pursuant to approval of the shareholders in their Extraordinary General Meeting held in January 2001. Grasim has received a consideration of Rs.29.4 Crores in the form of fully paid up equity shares, which has resulted in a one-time profit of Rs.18.4 Crores. This is reflected in the financials for the year under review. This move is part of the restructuring process, aimed at enhancing Grasim's shareholder value, also through a greater focus on its two major business segments, viz., VSF and Cement.

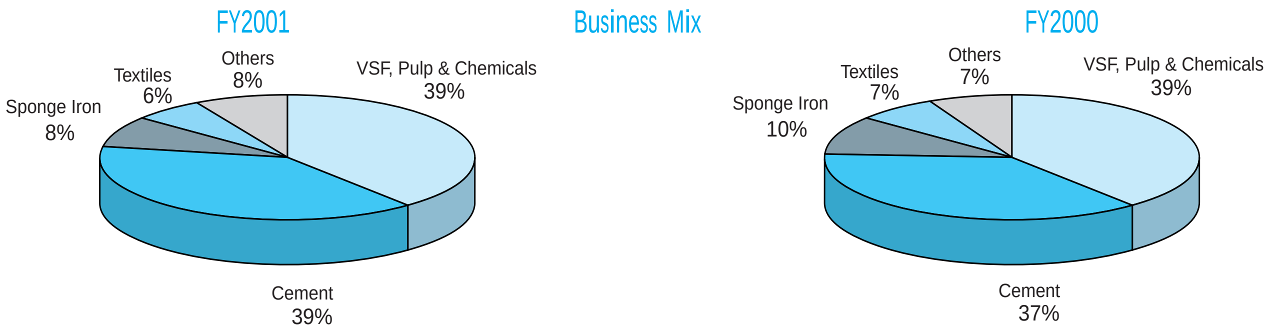
Transfer of Mavoor Assets

As you are aware, operations at your Company's Mavoor Plant in Kerala, have been suspended since May 1999. The non-availability of quality raw material, and the resultant poor quality of final products, severely affected realisations, rendering the operations unviable. Your Company therefore filed an application for permanent closure with the Kerala State Government. This was rejected by them. A subsequent review petition was also rejected. The matter, now referred to the Industrial Tribunal at Kozhikode, is pending.

Your Company also filed a Scheme of Arrangement under Section 391/394 of the Companies Act 1956 in the High Court of Madhya Pradesh in October 2000. Under the Scheme, Grasim will transfer/sell the pulp and fibre assets at Mavoor to another Company. The Scheme has since then been approved by shareholders and is pending consideration of the High Court of Madhya Pradesh. Your Company will implement the Scheme after obtaining the necessary Court approvals. Any possible loss arising out of such a sale/transfer under the Scheme will be of an extra-ordinary nature, and will not affect normal profits of the Company.

SEGMENTAL REVIEW AND ANALYSIS

Grasim's key businesses, viz., VSF and Cement together accounted for 78% of net revenues which compares well with their revenue share of 76% in 1999-2000. The Sponge Iron business accounted for 8% of the turnover.



VISCOSE STAPLE FIBRE (VSF)

	2000-2001	*1999-2000*	*%Change*
FIBRE			
Installed Capacity (TPA)*	220,775	220,775	-
Production (Tonnes)	218,847	188,002	16.4
Sales Volume (Tonnes)	203,854	192,452	5.9
Net Divisional Turnover (Rs. Crores)	1,469.9	1,290.9	13.9
VSF Realisation (Rs./Kg)	69.7	64.5	8.1
Divisional Margins (Before Employee Separation Costs) (%)**	28.9	31.4	-
PULP (CAPTIVE USE)			
Production (Tonnes)	69,729	73,283	(-) 4.8
Transfers to Fibre Division (Tonnes)	70,148	74,429	(-) 5.8
Net Transfer Value (Rs. Crores)	158.5	161.1	(-) 1.6

* *Excludes Mavoor Capacity of 26,000 TPA operations at which remain suspended from May 1999*

** *Operating margins calculated on the Divisional Net Turnover, excluding pulp, which is for captive consumption*

Review of Operations

The VSF business registered a commendable performance, with higher capacity utilisation, volumes and prices.

Water scarcity at Nagda

Viewed against the backdrop of the acute water shortage faced at Nagda, their performance becomes even more noteworthy. An erratic monsoon and the deficient rainfall led to reduced water availability from the Plant's captive reservoirs. A carefully drawn out strategy to reduce water consumption in the VSF process and improved efficiency helped tide the situation and minimise its impact. Simultaneously, your Company has built up sufficient inventories for its finished goods to fulfil the needs of its customers in an ongoing manner.

The operations of the VSF plant at Nagda are likely to shut down sometime during first week of May, 2001 till the onset of monsoon. The Plant is likely to remain closed till the onset of the monsoons. The operations of the chemical plant have also been curtailed by about 50%. Your Company does not envisage any significant impact in VSF arising out of such a shutdown. However, due to lower production at Nagda, the revenues and profitability of the Chemical business will be affected.

Sales volumes up 6 %, despite strategic reserves

VSF sales volumes have gone up by 6% from 192,452 tonnes in FY 2000 to 203,854 tonnes in FY 2001, despite building up of inventory reserves from the third quarter onwards. In fact, volume growth during the first eight months of FY 2001 was impressive at 13% YoY. It was largely driven by continued aggressive marketing efforts, improved demand conditions, emanating from better exports of VSF based yarn and textiles from India and a favourable change in blend ratios. Increased acceptance of Birla Cellulosic's fibre quality in international markets has been a growth driver as well.

Your Company focussed on greater field penetration through a segmented marketing approach. It spread its geographic reach in both the domestic and global markets. In doing so, volumes have improved. It also leveraged the superior quality of fibre produced at its Kharach Plant. The quality of its fibre, and exemplary follow-up technical services have been its key market enablers. Additionally your Company's innovative efforts to "consumerise the commodity" by covering the entire value-chain as well as simultaneously forming strategic alliances with several VSF based end product manufacturers, also contributed to the high volumes.

Realisation up 8 %

The average VSF realisation improved by 8% YoY from Rs.64 / Kg in FY 2000 to Rs.70 / Kg in FY 2001. Realisations were subdued during the first half of the year as your Company's focus was on volume enhancement. It gained momentum during the second half with the passing of increased costs arising out of the sharp rise in global pulp prices to the consumer. A favourable change in the product mix has also led to the increased average realisation.

Global pulp prices shot up from US$640 per tonne in March 2000 to a high of US$760 per tonne in September 2000 and averaged around US$720 for the full year. This reflected an increase of 25% YoY, which together with falling trend in the value of Indian Rupee against US$ has resulted in over 11% increase in VSF manufacturing costs. These costs could only be partly transferred to customers. Consequently, divisional margins declined from 31% to 29% in FY 2001. The impact would have been higher but for the improvement in volumes and overall efficiency at all plant locations.

Sector Outlook

The outlook for the VSF industry remains positive and is predicted on the likely strong growth in exports of VSF based yarn, fabrics, ready mades and garments. The rising trend of VSF rich blends in the local market should augment this demand. In addition to the organic growth in demand, endeavours to enlarge the use of VSF in newer areas are on. This should boost demand in the long term and benefit Grasim, who is the market leader in India.

Your Company's ongoing efforts to leverage the superior quality of VSF in terms of its feel, comfort and hygiene in various blends and applications are yielding encouraging results and should spur the growth over the next few years.

Industry margins should bounce back from the softening of global pulp prices, improving demand situation and increasing price competitiveness of VSF against substitute materials.

Outlook for Grasim's VSF Business

Your Company is the market leader in this sector, enjoying over 90% share. It is also amongst the lowest cost producers in the world. Your Company's futures oriented growth strategy centres around on market enlargement, promotion of deemed exports and improvement in efficiencies.

As VSF consumption in traditional segments is stagnant, expanding its markets through increased use in multiple application areas is critical. Your Company is making concerted efforts to position VSF at the higher end of the fibre market as the "Fibre for Feel, Fashion and Comfort". Plans are on the anvil to form strategic partnerships with downstream product manufacturers, mainly trendsetters for new applications. Capitalising on its biodegradability, we will also push VSF as an eco-friendly fibre, an attribute that is increasingly reckoned as important in the domestic and export markets as well.

Over the last year, we have successfully positioned "Birla Viscose" as our distinctive VSF brand. Our intent is to posture "Birla Viscose" as a premium brand in the global VSF markets and create awareness for Birla Viscose in the entire value chain. Such a step will secure for us a continued dominance in the domestic market, and entrench VSF in the export markets.

Towards improving realisation, our focus will be on promoting speciality fibres such as spun dye, micro and macro deniers among others. Finally, we will tighten operational efficiencies and optimise costs even further from its current stretched levels. The pursuit of process innovations will be unrelenting, these have already resulted in increased production at existing locations. We will strive to achieve even better results in terms of volumes, costs and profitability in future.

CEMENT

	2000-2001	1999-2000	% Change
GREY CEMENT			
Installed Capacity (Mn TPA)@	9.86	8.20	23.3
Production (Mn Tonnes)	9.10	8.40	8.4
Sales Volumes (Mn Tonnes)	9.16	8.42	8.8
Net Turnover (Rs. Crores)*	1,719.3	1,461.3	17.7
Average Realisation (Rs. / Ton)	1,894	1,784	6.2
WHITE CEMENT			
Installed Capacity (TPA)	360,000	360,000	-
Production (Tonnes)	251,594	240,492	4.6
Sales Volumes (Tonnes)	251,292	240,014	4.7
Net Turnover (Rs. Crores)	133.1	120.8	10.2
Average Realisation (Rs. / Ton)	5268	5078	3.7
NET DIVISIONAL TURNOVER (Rs. Crores)*	1852.4	1582.1	17.1
DIVISIONAL MARGINS (%)	17.0	13.3	-

@ Average installed capacity for the year was 9.1 Mn TPA

* *Includes Rs.19.0 Crores (Previous year – Rs.10.5 Crores) for Ready Mix Concrete*

Review of Operations

The Grey Cement Division recorded an overall volume growth of 9% over the earlier year, supported by two factors. Firstly, the commissioning of the Company's new plant at Reddipalayam (which has yielded an additional market share in the lucrative markets of Tamil Nadu and Kerala) and secondly, a better market share in both the Western and Eastern regions. The Division also benefited from the relatively higher price table, prevailing through most of the year in South India. This was complemented by a recovery in prices in the rest of the country, during the last quarter. This performance is satisfactory considering that for the first time in a decade the country's aggregate consumption declined marginally. A slowdown in both the agricultural and industrial sectors was aggravated by an acute drought in several States. Together, these had a dampening effect on Housing, which remains the prime driver for the Cement industry.

Volumes up 9 %, ahead of industry

Despite the challenging environment that prevailed during the year, Grasim was able to report a 9% YoY growth in sales volumes and registered an encouraging capacity utilisation. Grey cement sales volumes rose from 8.42 million tonnes in FY 2000 to 9.16 million tonnes in FY 2001 attributable to successful penetration in to the new markets of the South and strengthening of its position in the existing markets.

With the commissioning of its new cement plant in Tamil Nadu, your Company has successfully penetrated into the lucrative markets of Tamil Nadu and Kerala. This, together with a renewed focus on retail markets has enabled Grasim improve sales volumes in the Southern region by 35%. Equally impressive growth levels were attained in other regions. Sales in the East and West have risen by around 16% and 6% respectively. The overall sales volumes' growth at 9%, has helped increase our aggregate market share from 9% to 10% in FY 2001.

Realisation up 6 % YoY

The year under review also saw a demand-supply imbalance followed by a price correction. Your Company's brands – Birla Ready Mix, Birla White, Birla Super, Vikram and Rajashree, given their impeccable reputation for quality, command a premium price position in their respective market segments. Given the supply situation, these brands gained, and have reported a 6% YoY increase in the average cement realisation, at Rs.1,894 per tonne.

Greater exposure in the high realisation markets and deeper inroads into the lucrative southern regional markets and better logistics management were the key contributors.

Margins improved from 13 % to 17 %

As a consequence of the strong volume growth and better prices, operating margins improved from 13% in FY 2000 to 17% in FY 2001. Alongside prices and volumes, lower distribution and manufacturing costs have been the margin pushers. Through consolidation of capacities in the recent past coupled with the renewed focus on logistics management, your Company reduced its average lead distance to markets. In turn distribution costs were significantly scaled down. Through process optimisation and introduction of alternate fuels – the cost of production per tonne was maintained at the same level as the previous year. This was despite a dramatic increase in the cost of fuel and energy. Together these represent the main cost drivers.

Sector Outlook

We believe that the prospects for the cement sector will be improving in the short term and are confident on its long-term prospects. By the end of the decade, cement consumption is expected to double to 200 million tonnes, which bodes an enormous opportunity for growth.

Over the next 3 years, we envisage a pick up in housing demand, an improvement in the levels of infrastructure development activities as well as better corporate demand.

The demand from the housing sector is predicated on a normal monsoon, which would then improve the rural purchasing power. In the urban areas, the demand is dependent on the level of industrial activity.

The constant focus by the Government on the infrastructure sector should fuel the demand over the next few years. Once the flyovers, new express highways and the Golden Quadrilateral Highway Project – announced by the Government take off, it would positively spur growth of the cement sector to a new high.

In the short term, the imbalance between supply and demand is expected to become more adverse due to the addition of new capacities, particularly in the South and West. In addition, continuous process improvements by the cement industry and progressive conversion of the market to blended cements have increased the latent capacity of the existing cement producers. This would continue to put pressure on cement prices, which have lagged industry-specific inflation. Contextually then, an improvement in performance would be a function of improving capital productivity, higher capacity utilisation, expanding market share and lowering the cost of production.

Outlook for Grasim's Cement Business

To sustain its leadership position as one of the country's top three producers and to further strengthen profitability, your Company plans to focus on enhancing capital and manpower productivity, apart from raising the levels of customer service, as indicated.

- *Capital Productivity*: An additional 3.3 million tpa is expected to be produced from the existing installed capacity through de-bottlenecking and a modified product mix, in line with emerging customer needs. Such a move will reduce capital cost per tonne from the existing operations.

- *Energy Costs*: The Company's captive power, which is predominantly diesel based, is being replaced by thermal power plants. This is visualised to be the main source of energy at the manufacturing plants, though some States continue to look upon captive power as competition to their poor quality, high cost grid supplies and impose restrictions. In doing so they sub-optimise the potential. To improve cost effectiveness we plan to maximise use of alternate fuels.

- *Process Optimisation:* To further reduce the cost of production per tonne, significant capital investment is being planned to improve consumption norms and increase throughput.

- *Manpower Productivity:* A major exercise is being initiated to improve employee productivity through rationalisation, job rotation and multi-skilling.

- *Customer Service:* A programme to improve its standard of service to customers as well as offer a new range of products, anticipating emerging customer requirements has been launched. A new IT network has been initiated, linking manufacturing units, clearing and forwarding agents, depots and market offices.

The on going consolidation process in the industry is likely to open up several growth opportunities in the cement industry. We will remain nimble footed and continue to look for opportunities that add value. To capitalise on these opportunities and ensure a more profitable growth in future, we will leverage our strong market position and improved cash flows optimally.