



ANNUAL REPORT
2015-16

GRASIM INDUSTRIES LIMITED



BIG ON GROWTH
BASED ON STRONG FUNDAMENTALS



Mr. Aditya Vikram Birla

(14.11.1943 - 01.10.1995)

We live by his values.

Integrity, Commitment, Passion, Seamlessness and Speed.





THE CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholders,

Global Economy

The global scenario continues to be trapped in a low growth trajectory, despite the steep drop in crude oil and commodity prices. Furthermore, a barrage of monetary stimulus has driven down interest rates close to zero in many of the advanced economies. With the monetary stimulus option by and large exhausted, governments are more likely to turn to fiscal and structural measures to revive growth.

The IMF projects global growth to inch up from 3.1% in 2015 to 3.2% in 2016, and increasing to 3.5% in 2017. Growth in the advanced economies is projected at 1.9% in 2016, with US growth pegged at 2.4%, Europe at 1.5% and Japan at 0.5%. Growth in the emerging markets in 2016, overall, is projected at 4.1%, much of it coming from China, India and

the ASEAN region. Growth in Latin America is expected to be only 0.5%, on account of a 3.8% decline in growth in Brazil. No sustained upside is seen in oil and commodity prices in 2016.

The path ahead for the global economy remains challenging, with greater uncertainties thrown in. Concerns persist about the slowdown in China and its ability to shift smoothly from export-led to domestic-led growth. Fiscal pressures will accentuate in the oil producing countries, including the rich Middle-East countries. Financial markets remain nervous and exchange rate volatility has been pronounced. This is reinforced by the impending reversal of the interest rate cycle in the US.

Indian Economy

Against the backdrop of a muted global economy, India's economy is an outperformer. For 2016-17, GDP growth is projected at 7.5%. This would make it the fastest growing among the large economies. This is particularly creditable in the context of two successive unfavourable monsoons and a decline in exports. Recent data indicate a 5.7% year-on-year growth in eight of the key core sector industries, against 2.3% growth registered last year.

Inflationary pressures have been contained. The rise in the consumer price index averaged 4.9% in 2015-16, down from 5.9% in the previous year. The wholesale price index declined 2.5% on an averaged basis, compared to a rise of 2.0% in the previous year. In 2015-16, merchandise exports and imports each fell over 15% over 2014-15. The trade deficit in 2015-16 was US\$ 118.5 billion, a decline of 14% over the previous year. The current account deficit

narrowed sharply from US\$ 26.1 billion to US\$ 22.0 billion, representing 1.4% of GDP. India's foreign exchange reserves, as at March-end 2016 were US\$ 360.2 billion. The government is also committed to meeting the current year's fiscal target of 3.5% of GDP. Overall, the economic fundamentals are sound.

There have also been positive moves on the policy front, in areas related to ease of doing business, promoting start-ups, rationalising the tax structure and administration, and opening up more areas for foreign investment through the automatic route. The government is substantially stepping up infrastructure spending.

Having said that, some issues come to the fore. For instance, capital investment will take time to revive, given stretched corporate balance sheets, low capacity utilization, (at only 72.5% in the organized industrial sector), and competition from imports. Slow global output and trade growth will continue to impact exports. There is also the overhang of non-performing assets in the banking sector. Much more also needs to be done to "monsoon-proof" the Indian economy.

The growth in the manufacturing sector has been subdued, including a decline in the output of capital goods. UltraTech too has faced headwinds. Construction activity including the housing sector has been running in slow gear. Regardless, VSF and the Chemicals sector have posted impressive results.

Your Company recorded consolidated revenues of US\$ 5.6 billion (₹ 36,637 crore) and EBITDA of US\$ 1.1 billion (₹ 7,025 crore), a rise of 24%.

Strategic initiatives

To ensure growth in both revenue and earnings, a slew of strategic initiatives were launched during the year.

Aditya Birla Chemicals (India) Limited (ABCIL)

To strengthen your Company's existing portfolio of viscose staple fibre, caustic soda and allied chemicals, Aditya Birla Chemicals (India) Limited (ABCIL), a leading Chlor Alkali Company, was merged into Grasim. Consequently, the Company's installed capacity of caustic soda has risen from 453K TPA to 804K TPA. Importantly, the merger has resulted in the geographical diversification of the Chlor Alkali business of the Company. It also enables the business to capitalize growth opportunities, backed by Grasim's inherent strengths. Grasim is the leading manufacturer of caustic soda in India – an input in the manufacturing of viscose staple fibre, which is a major business of your Company.

Composite Scheme of Arrangement

The Boards of Directors of your Company, Aditya Birla Nuvo Limited (ABNL) and Aditya Birla Financial Services Limited approved the merger of ABNL into your Company and the subsequent demerger & listing of its financial services business through a composite scheme of arrangement.

The proposed restructuring will create one of India's largest, well-diversified companies with a healthy mix of businesses with steady cash flows and long-term growth opportunities. With diverse businesses spanning manufacturing and services, the combined company provides a play on India's growth story. The demerger and listing of the financial services business will unlock value for shareholders.

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Cement Business continues to march on growth path

UltraTech Cement Ltd. (UltraTech), the subsidiary of your Company entered into a definitive agreement with Jaypee Group for the acquisition of Cement plants with an aggregate capacity of 21.2 Mn. TPA at an enterprise value of ₹ 16,189 crore.

The proposed transaction is essentially a geographic market expansion, which will lead to your Company's entry into growing markets of India. These include the Satna cluster in Uttar Pradesh (East) and Madhya Pradesh (East), Himachal Pradesh, Uttarakhand and coastal Andhra Pradesh. The operations will be strengthened by the consequent technological upgradation and enhancement in capacity utilization on a year-on-year basis. It will lead to creating synergies in manufacturing, distribution and logistics. As a result, advantages such as economies of scale and creation of

efficiencies by reducing lead-time to markets will be attained. Alongside, it will enhance competitiveness, benefiting consumers and in turn creating value for shareholders by acquiring ready-to-use assets.

The transaction is subject to the approval of shareholders and creditors, high courts and all other regulatory approvals as may be required. We expect it to be consummated within the next 12 months. Your Company's cement capacity then will stand augmented to 91.1 Mn. TPA including its overseas operations.

It is with great pride, I record that UltraTech is the largest cement player in India and the 5th largest on the world stage.

Pulp & Fibre Business

Let me now move on to the Pulp & Fibre business' record this year. The business achieved revenues of US\$ 1.2 billion (₹ 7,656 crore) up by 15% with an EBIDTA of US\$ 167 million (₹ 1,093 crore).

The 120K TPA greenfield plant at Vilayat has been fully ramped up. Consequently, sales volumes have risen by 16% from 403K TPA to 467K TPA. Yet another success story is that of the LIVA brand. The response to LIVA has been extremely encouraging.

Chemical Business

The merger of ABCIL into Grasim has been a value accretive move. Revenue doubled to US\$ 525 million (₹ 3,436 crore), while EBIDTA soared by 156% to US\$ 114 million (₹ 747 crore), buoyed by higher volumes and favourable markets.

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Going forward, our growth plans include a 30% capacity expansion to scale up to 1048K TPA through brownfield expansion at your Company's Vilayat plant and partly through the debottlenecking process. Additionally, the thrust will be on veering our product portfolio towards value-added products, which deliver greater returns.

Cement

Your Company's cement business continues to move forward. The year witnessed your Company's cement capacity rising up to 67.70 Mn. TPA, with the commissioning of new assets. In response to the growing demand for building material, your Company has commissioned cement grinding units at Jhajjar in Haryana and Dankuni in West Bengal. A cement bulk terminal went on stream at Pune in Maharashtra.

Furthermore, with the addition of 26 MW waste heat recovery systems during the year, the total waste heat recovery capacity is now 59 MW. Besides this, your Company has a 717 MW thermal power capacity, both of which cater to more than 88% of its total power requirement.

In Chemicals, the thrust will be on veering our product portfolio towards value-added products, which deliver greater returns.

Outlook

India is moving on to a higher growth trajectory and to that extent, all of your Company's businesses: VSF, chemicals and cement are all poised for a further pick-up in growth in FY 2016-17. Your Company has robust plans to proactively ride this next phase of growth in India.

A big thank-you to all of our employees

We have achieved good results. This has been largely due to deft cost management, a concerted move towards on-streaming of new capacities, focus on efficiency improvement, productivity and customer-centricity. Our employees have unflinchingly rallied around us. And for this, I would say a big "thank you" to all of them.

The Aditya Birla Group: In perspective

At the Group level, we have done well both in terms of revenue and earnings. As a matter of fact, the EBIDTA attained has been the highest ever.

Having worked extensively on the people front for over a decade, I am happy to state that our leadership processes are now mature. At the management level, we have built quality bench strength.

The Chairman's Series launched last year for senior leaders in the areas of business strategy, finance and personal leadership saw 150 of our senior most leaders recourse to these learning interventions.

To create a leadership pipeline to the Business Head roles within the next couple of years, we have created the Aditya Birla Fellows programme. The managers who have won this recognition are put in charge of critical Group-wide projects under my personal oversight. Up until now, we have named 14 managers who have tremendous potential to rise to the stature of Business Heads, going forward.

A slew of other initiatives have been set afoot to grow leaders from within. To do so, we have announced a hiring freeze at the middle and senior management levels for the next 3 years. It paves the way for accelerated talent growth.

In this context, I am happy to state that our accelerated leadership programme Cutting Edge, which prepares high potential leaders for P&L positions across our Group is gaining traction. It was launched last year. Up until now, 20 of the 35 graduates of this programme have already moved roles to take on higher responsibilities.

Furthermore, the 250+ youngsters who joined us over 6 years ago as Group Management Trainees, in our Leadership Associate Programmes (Lead) and Leadership Programme for Experienced youngsters (Leap), are shaping well. In the last 2 years, nearly a 100 from this slot have moved across functions and businesses. Additionally, we have 25 mid-career participants who have joined us in the Group Manufacturing Leadership Programme.

They too are making significant contributions in our manufacturing business units.

The first batch of 14 participants in “Spring Board”, (a programme designed specially for high calibre women) graduated commendably to higher roles. The second batch of 39 women leaders is making good progress on their way to greater responsibilities. As of now, we have nearly 5,000 women – 14 per cent in the managerial cadre.

In the last 3 years, we have had more than 1100 inter-business and over 1000 intra-business transfers of employees across levels.

At Gyanodaya, the Aditya Birla Global Centre for Leadership Learning, over 2000 managers enrolled for learning programmes. With a mix of academics and live case studies, these programmes enable our people to keep abreast of the developments in their area and stay contemporary. Side by side the Gyanodaya Virtual Campus hosts more than 500 e-learning modules in multiple languages. During the year, over 25,000 employees chose to access these programmes.

The Aditya Birla Group Leadership Programme aimed at securing young talent from the top tier Business Schools of India has become aspirational. I am happy to record that our Group's brand attractiveness has taken a quantum leap across 35 top B-Schools in India. Our Group features among the formidable Top-5 in the AC Nielsen – CRI Campus Recruitment India Index 2015.

In sum

All these moves are a testament to our commitment to accord a World of Opportunity for our people and they are leveraging it. Our people are fully aware of what business needs to succeed. They are committed to contribute their best to our value-based, performance driven, meritocratic culture. We are future ready.

Yours sincerely,



Kumar Mangalam Birla

Powered by visionary leadership and anchored by an extraordinary force of over 120,000 employees belonging to 42 nationalities across 36 countries, the US\$ 41 billion Aditya Birla Group is a Premium Global Corporation. Featuring in the League of Fortune 500, the Group is among the leading players across businesses, ranging from metals to mobile telephony, fashion to fertilisers and cement to supermarkets.

As India powers ahead as the world's fastest growing economy, opening up BIG opportunities, the Aditya Birla Group is poised for the next phase of GROWTH based on strong fundamentals.



BIG ON GROWTH

BASED ON STRONG FUNDAMENTALS

Grasim Industries Limited, the flagship company of the Aditya Birla Group, is a leading global player in Viscose Staple Fibre, the largest player in the Cement and Chlor Alkali Chemicals in India. With all-round growth in Volumes, Revenue and Margins, the Company has delivered a stellar performance across all its businesses.

Grasim is poised to further build on this momentum as it continues its assiduous focus on:

BUILDING

competencies and capabilities

CONSOLIDATING

leadership position

GROWING

businesses



BUILDING PEOPLE

Grasim has been consistently BUILDING every aspect of its businesses – VSF, Chemicals and Cement as it traverses the fast-paced growth path by BUILDING long-term value for all its stakeholders.

Grasim is BUILDING consistently its capabilities, and competencies along with BUILDING Capacities.



Expands its footprint with wider reach and presence



Deepens its customer connect



Forges cost-leadership with process and operational efficiencies



Leverages IT capabilities



Strengthens R&D and innovation base

At Grasim, it is the people who provide the key competitive advantage in an otherwise largely undifferentiated market. The Company prides itself in its talent development process comprising of cutting edge People practices, Technical Talent Development initiatives and Leadership Recruitment Programmes, all aimed at nurturing and BUILDING the PEOPLE advantage.

BUILDING THE PEOPLE ADVANTAGE

- Catch them young and develop them with structured process
- Build leadership talent with a dynamic talent pool for the future by identifying high potential future leaders
- Groom talent pool members with appropriate career development and top-of-the-line learning opportunities
- Develop business specific technical talent with specific expertise to deliver high quality product to customers

Grasim's specific initiatives like Focus-50 Programme and the Tech-X Programme are tailored to create deep technical knowledge and expertise. The Company's Leadership Hiring Programmes include Graduate Engineering Programme (GET) as well as the proposed Chemical Technology Leadership Programme.



EXPANDING TEAM SIMULTANEOUSLY WITH GROWING BUSINESSES

