

GRASIM INDUSTRIES LIMITED

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Adviser

Mr. D. P. Mandelia

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 Division, Nagda
 Mr. S. K. Saboo – Group Executive President
 Mr. O. P. Rungta – Sr. Executive President
 Mr. Thomas Varghese – Executive President (Mktg.)
 Mr. P. P. Agarwal – Jt. Executive President (F&C)
 Mr. D. N. Makharia – Jt. Executive President (Commercial)
Pulp & Grasilene Divisions, Harihar
 Mr. S. S. Maru – Sr. Executive President
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 Mr. Vijay Kaul – Sr. Executive President

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Cement Divisions

Mr. Saurabh Misra – Business Head
 Mr. O. P. Puranmalka – Sr. President (Chief of Marketing)
 Mr. S. K. Maheshwari – Sr. Executive President (Chief of Manufacturing)
Vikram Cement, Jawad and Aditya Cement, Shambhupura
 Mr. K. C. Jhanwar – Executive President
 Mr. M. K. Parasrampurua – Jt. Executive President (F&C)
 Mr. S. Kumar – Jt. Executive President (Technical)
 Mr. M. C. Agarwal – Jt. Executive President (Technical)
 Mr. R. A. Somani – Jt. Executive President (Technical)

Grasim Cement, Raipur

Mr. L. N. Rawat – Sr. Executive President

Rajashree Cement, Malkhed

Mr. D. P. Somani – Executive President
 Mr. D. D. Atal – Jt. Executive President (Technical)

Cement South – Reddipalayam

Mr. K. C. Birla – Jt. President
Birla White, Kharia Khangar
 Mr. S. N. Jajoo – Executive President
 Mr. D. M. Mehta – Jt. Executive President (Technical)

Vikram Ispat

Mr. Ratan K. Shah – President

Chemical Division

Mr. G. K. Tulsian – Executive President
 Mr. Sunil Kulwal – Executive President

Textile Divisions

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

Auditors

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

Solicitors

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

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



CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Fellow Shareholders,

The year 2001-2002 will be remembered for long, not necessarily for all the right reasons. It has been a year of aberrations. With the attack on the World Trade Centre in September, dark clouds encircled the global economy. Given the preponderance of the U.S, worldwide business faced great uncertainty. The sudden drop in consumer confidence was no surprise. Stock markets nose-dived as well. No longer insular, corporates in India too felt the tremors of these seismic events. Your Company is no exception.

In the face of these setbacks your Company has displayed a remarkable resilience and notched up an impressive performance. While revenues at Rs.4386.7 crores are marginally lower by 2 per cent, gross profit is up by 11 per cent from Rs.672.7 crores to Rs.746.5 crores. Net profit after current tax has risen by 18 per cent from Rs.370.8 crores to Rs.438.3 crores and after factoring in of the total taxes and exceptional items, it stood at Rs.303.0 crores, as against Rs.347.6 crores.

The year has witnessed a string of restructuring initiatives, such as the closure of the Mavoor Plants, the disposal of the Gwalior Unit and the divestment of shares of Birla Technologies Limited, which have impacted the bottom-line. Importantly, these costs incurred on a one-time basis, will yield recurring savings year after year and bolster your Company's profitability in the long-term, apart from enhancing its competitiveness.

I am sure I have your understanding and support on these issues.

To keep stoking growth in revenues and shore profits, we have taken a slew of radical yet focused initiatives while leveraging our distinct strategic architecture. Let me now dwell upon our business sectors and share with you our plans for taking these ahead despite the challenging times.

"Your Company has displayed a remarkable resilience and notched up an impressive performance."

"Our thrust is on increasing capital and manpower productivity, expanding volumes, and vigorous cost reduction per tonne of cement."

"Going forward, cement will continue to be the key growth driver, admirably complemented by the robust cash flows from the Viscose Staple Fibre business."

Cement

To sustain your Company's leadership position, our thrust is on increasing capital and manpower productivity, expanding volumes, and vigorous cost reduction per tonne of cement.

The aggregate cement capacity today is 11.4 Million MT per annum. Through improving throughput, we expect to raise it by another 1.8 Million MT during the year, taking our total capacities to 13.2 Million M.T.

The commissioning of two power plants at Aditya Cement in Rajasthan and Grasim Cement in Tamilnadu, will lower power costs considerably, giving us an edge.

As you are well aware, we have acquired 12.89% equity in Larsen and Toubro. This initiative represents a strategic investment by us, in what I believe, is India's premier infrastructure company.

Viscose Staple Fibre

In Viscose Staple Fibre (VSF) we have outpaced competition not only in India but in the Asian region too, commanding as we do nearly 25% of the global pie. To retain our hold and grow further, given the changing market dynamics, we are exploring the possibility of foraying into selective cellulose fibres like Highwet Modular Fibres and Lyocal.

Simultaneously your Company's focus on enlarging VSF usage, given its inherent strengths, and expanding the markets will continue.

Textiles

To turn around the textile business in the foreseeable future and to stem recurring losses, we have divested our textile unit at Gwalior to Meledeon Exports Ltd, as a going concern, as the unit made losses continuously. Our premier brands "Grasim and Graviera" are now being manufactured at a single location in Bhiwani. Besides bringing in better synergies, fixed costs and the value of current assets have been significantly pared. This is the first major step to reverse the downturn of the fabric business.

Sponge-iron

Capacity utilisation of the Sponge Iron Plant at 559,567 tonnes was lower by 16 per cent year on year, mainly on account of the disruption in the supply of natural gas, which is a concern area. However, given the increase in global scrap price and signs of revival in the steel industry, the outlook appears stable.

Outlook

I believe, going forward, cement will continue to be the key growth driver, admirably complemented by the robust cash flows from the Viscose Staple Fibre business. Together

these account for more than 80 per cent of your Company's revenues and 90 per cent of operating profit. I am also confident that both these businesses will continue to score very well in the future too on growth and earnings.

Further, positives will flow in the foreseeable future from a continual stress on operational excellence, cost optimization, effective financial management and the benefits that stem from the restructuring of business processes. The Government's renewed focus on infrastructure development and the upswing in the housing sector bode well for your Company's cement business. Grasim then is well set for yet another era of growth. Our overall outlook for your Company continues to be bright.

At the end of the day, despite the strong economic undercurrents, your Company has managed to maintain profits, by and large outperforming their competitors in most of the sectors in which they operate. This is a matter of satisfaction for all of us. To my mind, more than anything else, it is the culture of meritocracy that we espouse, it is the ebullience, the perseverance and the commitment of practically all of your Company's employees that has made your Company what it is today. I wish to record my sincere appreciation of their contribution.

They know fully well that creating and enhancing shareholder value is at the core of your Company's agenda.

The Aditya Birla Group – In Perspective

That said, I would like to dwell on the proactive measures taken on various counts to keep our Group attuned to the shifting realities of today's hyper-competitive landscape, and importantly to make sure that we continue to remain successful.

Over the last four years, we have embarked on a continual process of renewal with a single-minded strategic focus on creation of customer and shareholder value.

Being among the top three players, in the sectors in which we operate or exiting; offering superior value addition to our customers, being continually focused on targeted, cost-effective commercial innovations that drive us unflinchingly towards global benchmarks in every operation of ours and building upon the Aditya Birla brand form the contours of our strategic structure.

Our strategic architecture

Value creation is the raison d'être underpinning all of our businesses.

Growth in our key businesses has been pegged on consolidation, acquisition and mergers. In so far as it relates to acquisitions, we are very clear that we will bid at values and prices that make sense for us, depending on what value we see in the asset and at what price we think we will create value for our shareholders.

"We have embarked on a continual process of renewal with a single-minded strategic focus on creation of customer and shareholder value."

At Hindalco, the Rs. 1,800 crores brownfield expansion is well on track. The 9th Potline in the smelter has been commissioned. The phased implementation of the expansion programme will make much headway during this financial year and should be completed by the year 2003-2004.

Enhancing the smelter capacity at Hirakud and merging Annapurna Foils with Indal are calculated steps taken to entrench our Group's stronghold in the aluminium sector.

In the copper business of Indo Gulf while we have grown the smelter capacity from 100,000 TPA to 150,000 TPA at Birla Copper, with a view to attain a global scale, a further expansion is on the anvil.

To achieve a fair balance in terms of portfolio at Indian Rayon, in the recent past we have forayed into the ready-to-wear apparel segment and the insurance sector. This year we have ventured into the software sector, given its growth potential. The acquisition of PSI Data Systems from Groupe Bull S.A. of France, is a step in this direction.

To ensure Indian Rayon's competitiveness in good times and tough times as well, we had to recourse to rightsizing of its textile operations. The VRS floated at Jayashree Textiles was responded to positively by 370 employees.

In the telcom sector, the three-way joint venture between AT&T, Tata Cellular and our Group, newly christened "Idea Cellular Limited" is progressing very well. Currently, the fastest growing cellular venture has registered a growth of 135 percent this year, outpacing the industry average of 80 percent, and commanding a teledensity in excess of 30 percent in the country.

Birla Sun Life, our insurance venture, is gaining ground. As you may be aware in this sector we have to factor a gestation period of atleast five years before returns accrue.

Regrettably up until now we have not been able to exit from petroleum refinery given the complexities of this J.V.

Structural Processes / People Processes

CVA (Cash Value Added) is indeed well entrenched as our measurement metric across the Group. We are now in the third planning cycle of the CVA. Over the last three years we have successfully met with its objective - essentially the streamlining and refinement of management decision making processes which necessitate understanding business variables in depth and quantifying their effect on value creation.

As a proactive response to today's competitive global landscape and changing times, we are continuously ensuring that our Group remains customercentric, nimble footed, performance-driven and accountable on all fronts. To do so, we spawn a culture of creativity and continuous innovation that can best the competition.

"CVA (Cash Value Added) is indeed well entrenched as our measurement metric across the Group."

We are endeavouring to foster an environment in which our people are enthused to work with an entrepreneurial spirit, creating that enabling ambience where passion becomes embedded in the genetic coding.

Unleashing people potential in a balanced manner through a razor sharp focus on competence enhancement and learning is happening at Gyanodaya, the Aditya Birla Institute of Management Learning. Our aim here is also to convert our people into global managers, to create entrepreneurs out of them, to encourage them to think out-of-the-box. I believe it is only new ideas and new thoughts that prevent obsolescence, create value for shareholders and enable the Group to achieve ongoing profitable growth.

Yours sincerely,



KUMAR MANGALAM BIRLA

31st May, 2002



FINANCIAL HIGHLIGHTS

Year —>	Unit	2001-02	2000-01	1999-00	1998-99#	1997-98	1996-97	1995-96	1994-95	1993-94	1992-93
Production											
Viscose Staple Fibre	Tonnes	176462	218847	188002	164355	174281	155385	162470	143421	158674	143202
Grey Cement	Mn Tonnes	9.53	9.10	8.40	5.82	4.71	4.10	3.27	2.55	2.32	1.92
White Cement	Tonnes	267915	251594	240492	131979	—	—	—	—	—	—
Turnover											
Viscose Staple Fibre	Tonnes	175902	197825	186885	159526	166402	147162	157123	140366	148827	134621
Grey Cement	Mn Tonnes	9.56	9.14	8.39	5.87	4.68	4.10	3.10	2.52	2.28	1.91
White Cement	Tonnes	266105	251291	240014	133660	—	—	—	—	—	—

Profit & Loss Account											
Gross Sales	Rs. Crs.	5070	5582	4982	4325	4023	3602	3199	2399	2202	1746
Net Sales	Rs. Crs.	4372	4822	4273	3757	3500	3089	2742	2061	1865	1440
Other Income	Rs. Crs.	129	108	88	110	124	135	211	113	116	62
Operating Profit (PBIDT)	Rs. Crs.	937	911	756	678	698	706	773	558	433	280
Interest	Rs. Crs.	190	239	256	292	256	259	230	142	118	60
Gross Profit (PBDT)	Rs. Crs.	747	673	500	386	443	447	543	416	316	220
Depreciation	Rs. Crs.	252	252	237	210	167	148	124	75	66	66
Profit before Tax & Exceptional Items	Rs. Crs.	495	421	263	176	276	300	420	341	250	154
Current Tax	Rs. Crs.	57	50	12	8	45	41	88	32	22	16
Deferred Tax	Rs. Crs.	52	—	—	—	—	—	—	—	—	—
Net Profit after Tax (before Exceptional Items)	Rs. Crs.	387	371	251	168	231	259	332	309	228	138
Exceptional Items	Rs. Crs.	-84	7	-18	-4	—	16	—	—	—	—
Net Profit after Exceptional Items & Total Taxes	Rs. Crs.	303	378	233	164	231	275	332	309	228	138
Equity Shares Dividend (including CTD)	Rs. Crs.	83	81	72	63	54	52	45	41	32	25

Balance Sheet											
Net Fixed Assets*	Rs. Crs.	3263	3303	3401	3354	2633	2473	2222	1866	1438	991
Investments	Rs. Crs.	1416	682	683	680	717	507	619	899	490	237
Net Current Assets	Rs. Crs.	733	991	967	1002	1092	1250	1012	634	529	774
		5412	4976	5052	5037	4442	4230	3853	3400	2457	2001
Share Capital	Rs. Crs.	92	92	92	92	72	72	72	72	67	67
Reserve & Surplus*	Rs. Crs.	2615	2984	2685	2524	2243	2068	1845	1558	991	795
Deferred Tax Balance	Rs. Crs.	641	—	—	—	—	—	—	—	—	—
Loan Fund	Rs. Crs.	2065	1900	2275	2421	2127	2090	1936	1769	1398	1139
Net Worth*		3347	3075	2777	2616	2316	2140	1917	1630	1059	863
		5412	4976	5052	5037	4442	4230	3853	3400	2457	2001
*Excluding Revaluation Reserve	Rs. Crs.	7	18	20	22	25	28	31	34	37	41

Ratios & Statistics											
PBIDT Margin	(%)	21.43	18.90	17.70	18.06	19.96	22.86	28.19	27.06	23.24	19.44
Interest Cover (PBIDT-Tax/Interest)	(x)	4.63	3.61	2.91	2.29	2.56	2.57	2.98	3.70	3.50	4.40
ROACE (PBIT/Avg.CE) @	(%)	12.88	13.47	10.53	10.14	13.06	15.04	19.19	18.65	19.26	14.65
RONW (PAT/NW) @	(%)	12.78	12.30	8.64	6.63	10.36	12.76	18.71	22.95	23.72	20.40
Debt Equity Ratio	(x)	0.62	0.62	0.82	0.93	0.92	0.98	1.01	1.09	1.32	1.32
Dividend per Share	Rs./ Sh.	9.00	8.00	7.00	6.75	6.75	6.50	6.25	5.75	4.75	4.00
Earning per Share @	Rs./ Sh.	42	40	27	20	32	36	46	43	34	20
Cash Earning per Share @	Rs./ Sh.	75	68	53	45	55	56	63	53	44	30
Book Value per Share	Rs./ Sh.	365	335	303	285	320	296	265	225	157	128
No. of Equity Shareholders	No.	263549	279207	298232	199083	206851	213619	219859	229892	231243	240566
No. of Employees	No.	16912	21473	23345	24407	23157	23397	22144	21582	22533	21998

In FY 1998-99 Company acquired the Cement business of Indian Rayon and Industries Ltd. pursuant to a scheme of arrangement.

@ Before Exceptional Items

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

For Grasim it has been an eventful year. The Company's two key businesses – Cement and Viscose Staple Fibre have performed well. The performance of the Chemicals, Sponge Iron and Textile businesses has been constrained due to the economic slowdown. Overall the results have been satisfactory.

Revenues declined marginally on lower VSF and Sponge Iron volumes. Improved profitability of the Cement business and reduced finance costs offset the impact. Gross profits improved by 11% and pre-tax profits by 18% in FY02. Profit after current and deferred taxes before exceptional charges due to business restructuring have grown 14% to Rs.386.8 crores in FY02.

In the context of the prevailing difficult environment, the Company's performance is indeed commendable. The year was sluggish on several counts. GDP grew by 5.7% only because of the recovery in the agriculture sector, which benefited from a well-precipitated monsoon. The industrial sector suffered the most with growth rates nearly halving to a decade low level of 2.7% taking a serious toll on consumer sentiment. The deepening of recession in the US following the 9/11 attacks added further pressure. Reflecting weak sentiment and the resultant reduction in consumer spending, demand contracted across the sectors, both in India and abroad.

AN EVENTFUL YEAR, STRATEGICALLY

It was an eventful year strategically. The Company closed the loss making Pulp and Fibre Plants at Mavoor (Kerala) and sold its loss-making fabric unit at Gwalior (Madhya Pradesh). The stake in its software subsidiary was divested as well. Apart from these restructuring moves, the Company strengthened its cement operations by commissioning a grinding plant at Bhatinda (Punjab) and made strategic investments in Larsen & Toubro Limited.

Mavoor Plant Closure

The Company has been pursuing for closure of its Pulp and Fibre plants at Mavoor with the Government, primarily due to non-availability of raw materials, the resultant poor quality of fibre and overall unviable operations. The plant operations were suspended from May 1999. Subsequently, the Company reached a settlement with its Labour Unions for the closure of Mavoor from 1st July 2001.

The Company incurred a sum of Rs.55.3 crores towards employee retrenchment compensation and provided an additional Rs.19.0 crores towards the shortfall in realisation from fixed assets retired from active use. Following the closure, the Company's workforce stands reduced by 2300, which accounts for 11% of its aggregate workforce. An annual savings of Rs.27.0 crores towards employee costs and fixed overheads will accrue in future.

Textile Unit at Gwalior Divested

The Textile business of the Company consisted of fabrics unit at Gwalior (Madhya Pradesh), a composite unit at Bhiwani (Haryana) and a spinning unit at Malanpur (Madhya Pradesh). The textile business has been under pressure due to adverse market conditions and rising cost of operations in recent years. Given that the domestic textile industry is not showing definite signs of recovery, the Company decided to restructure operations to prevent value erosion in future.

As part of a carefully chosen strategy, the Company decided to sell its textiles manufacturing units / undertakings at Gwalior and centralise fabric operations at Bhiwani. The operation at Gwalior been the biggest drag and accounted for operating losses of Rs.27.3 crores against operating profit of Rs. 6.7 crores at other textile units. A turnaround in the unit's operations appeared unlikely due to in-efficient operations, higher overheads and growing costs. The Company thus decided to sell the fabrics unit at Gwalior as a going concern.

The Company reached an agreement with Melodeon Exports Limited for the sale of the textile manufacturing units at Gwalior for a consideration of Rs.1.0 lac. The Company also agreed to pay Rs.15.0 crores to the Buyer for taking over the liabilities relating to employees. The Company has incurred Rs.31.9 crores as an exit cost, which is charged to revenue account as an exceptional cost in FY02.

With brands remaining under its fold and the high cost operation sold-off, the Company hopes to improve its position and overall profitability of the business.

Divestment of Stake in Software subsidiary

In another important move, the Company divested its entire holding in its software subsidiary - Birla Technologies Limited. With a view to bring focus on key businesses and divest its smaller businesses, Company's software division was hived off last year into a subsidiary, named Birla Technologies Limited. The Company sold its entire stake in Birla Technologies to PSI Data Systems for a consideration of Rs.11.3 crores in FY02. This was against its capitalised value of Rs.29.4 crores and thus resulted in a non-cash loss of Rs.18.1 crores in FY02. The erosion in value of its software subsidiary needs to be viewed in the light of the deterioration in the industry environment and the sharp fall in sector valuations. As you are aware, the Company had booked a non-cash profit of Rs.18.4 crores last year thru the corporatisation. Hence even with the non-cash loss at present, the Company made a net gain of Rs. 0.3 crores from the divestment efforts, which is satisfactory.

Commissioning of Cement Grinding Unit in Punjab

As part of its effort to strengthen presence in the profitable markets/regions, the Company set up a new 1.0 million tonnes per annum (Mn TPA) grinding unit at Bhatinda, Punjab. The plant was completed within a record time and commissioned in December 2001.

Operations have been stabilized and the plant has contributed significantly towards strengthened market presence and volumes. Given the advantages of strategic location and superior technology, this environment friendly plant will boost the Company's presence in the lucrative markets of Punjab and Himachal Pradesh while also ensuring superior volumes and realisation.

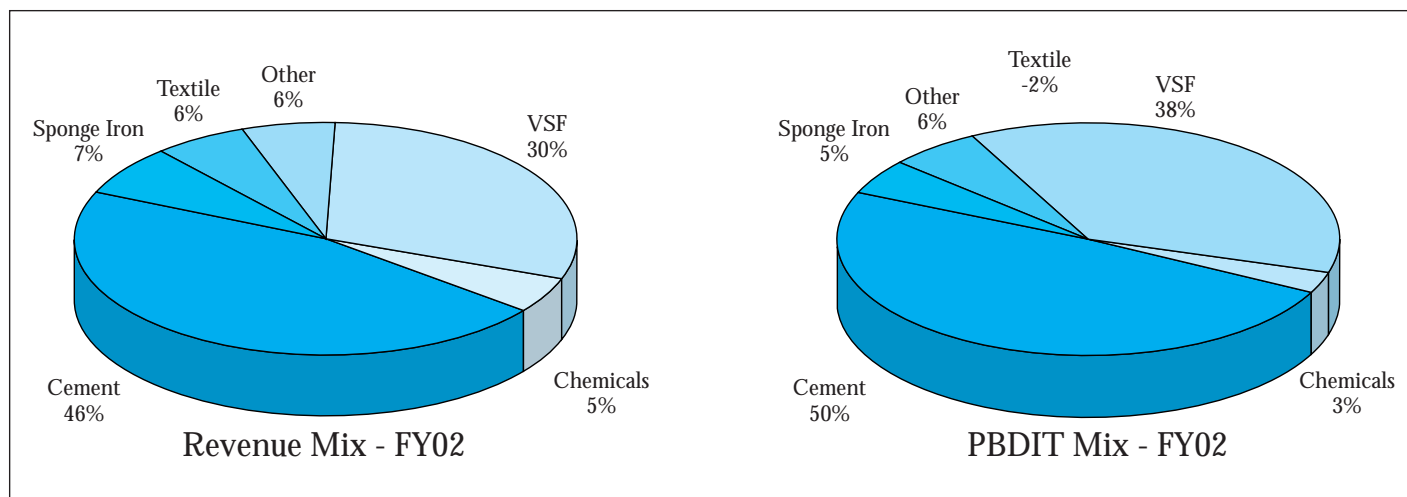
Strategic Investment in equity of Larsen & Toubro Limited

In another landmark initiative, the Company chose to acquire a 10.05% stake in Larsen & Toubro Limited, the largest cement producer and a premium infrastructure solutions provider in India. The Company acquired 2.5 crore shares from Reliance Industries Limited for a sum of Rs.766.5 crores, funded through internal sources.

Larsen & Toubro has a strong brand equity in Cement Industry and a 11% share of the domestic market. L&T also has enviable strengths in the Engineering & Construction sector. In fact, L&T is a premium infrastructure solutions provider in the country and thus is the best bet on infrastructure in India. The Company is exploring synergies that can stem from this relationship, for mutual benefit.

SEGMENTAL REVIEW AND ANALYSIS

The Company's key business viz., VSF and Cement together accounted for 81% of net revenues and 91% of operating profits in FY02. This compares well with a respective share of 77% and 91% in FY01.



VISCOSE STAPLE FIBRE (VSF)

	2001-02	2000-01	%Change
Installed Capacity (TPA)	220,775	220,775	—
Production (Tonnes)	176,462	218,847	(-) 19
Sales Volume (Tonnes)	181,520	203,854	(-) 11
Net Divisional Turnover (Rs. Crores)	1328.5	1,472.7	(-) 10
VSF Realisation (Rs./Kg)	68.5	69.7	(-) 2
Operating Margins (%)*	26.7	29.0	—

* Before Employee Separation Costs

Review of Operations

It was the challenging period for the VSF business, both in terms of operations and market conditions. While operations suffered on account of water shortage at Nagda, market conditions for most of the year were unfavourable due to the worldwide recession. The international trade in the textile sector was particularly affected. Simultaneously, the economic slow down on the home front also adversely impacted the Textile industry. Viewed against this backdrop, the VSF business performance is satisfactory.

Water Shortage led to Plant Closure, Situation Likely to Recur in FY03

In the previous year, Western Madhya Pradesh had received scanty rainfall. As a result, the Nagda plant had to be shut down for 54 days during the first quarter of FY02, with a corresponding production loss. Under difficult market conditions, production had to be regulated. On the whole, production had to be scaled down by 19%. This did not affect supplies to its customers as the Company had built up sufficient inventory in anticipation of the water shortage.

As the western parts of Madhya Pradesh have received less rainfall in last monsoon, it is faced with water shortage this year as well. Consequently, the Company is likely to shut down its Nagda operations sometime beginning of June 2002 till the onset of the monsoon. To meet customer requirements, sufficient inventories have already been built up. No significant impact on the profitability of the fibre business is expected.

The listlessness in the export/deemed export segments affected lower volumes, as they account for over 30% of aggregate sales volumes traditionally. The deepening of recessionary pressures in the global markets resulted in reduced demand for yarns, fabrics and made-ups from India. On top of this, the industry faced intense price competition from regional producers, who benefited from a sharp fall in the value of Euro and Indonesian Rupiah against the US\$. This increased their relative competitiveness in the market, which was restored with the strengthening of Euro and Indonesian Rupiah against US\$, during last quarter of FY02 helping offset volume impact only partially. VSF sales in the export/deemed-export markets declined by over 20% in FY02. Domestic volumes fell by 7% reflecting the apathy in the user segments and downturn in the textile industry. The aggregate VSF sales volumes are lower by 11% to 181,520 tonnes in FY02.

This fall masks the sequential improvement witnessed from the second quarter onwards. After a weak first quarter, VSF sales volumes have improved gradually over the quarters, both in the domestic and export/deemed-export markets. During the fourth quarter, the Company marketed 52657 tonnes of VSF, up by 9% over the fourth quarter of last year. This also compares favourably with a mere 39011 tonnes sold during first quarter of FY02.

The average realisation was down by 2% YoY to Rs 68.5/Kg in FY02, which is in line with the trend of falling prices of competing fibres. To a great extent this was offset by the reduction in pulp prices.

Operating margins suffered due to poor economies of scale and a sharp rise in caustic soda prices. The closure of pulp and fibre plants for 54 days dragged plant utilisation from 99% in FY01 to 80% in FY02, seriously impacting the per unit fixed costs and affecting margins significantly. Caustic soda prices shot up 20% reflecting global trends and skewed domestic supplies. With caustic soda being a key cost driver, the steep rise in its costs affected production costs significantly. Operating margins declined from 29.0% to 26.7% in FY02. The fall would have been greater but for enhanced efficiencies and reduced consumption norms at the plant.