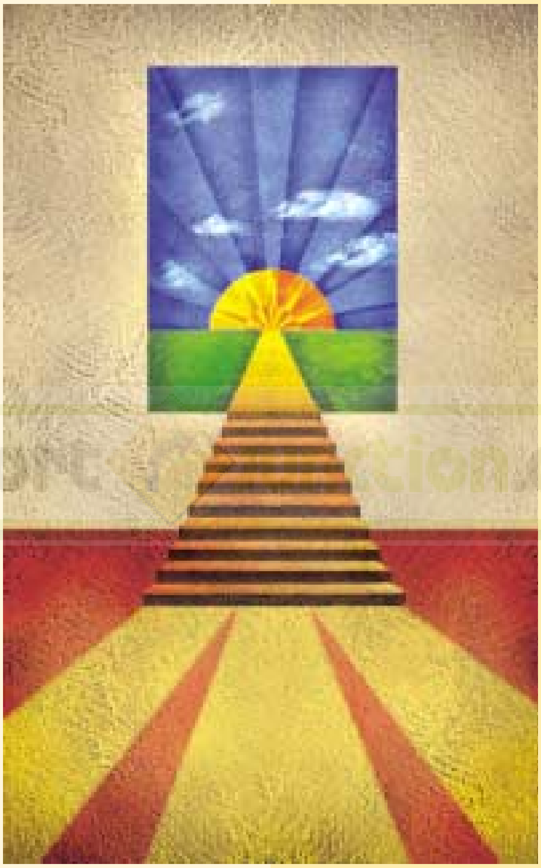
ANNUAL REPORT 2002-2003



GRASIM

ADITYA BIRLA GROUP

Grasim Industries Limited

IN HOMAGE TO A LEGEND

"My vocation, is to strive continuously, to reach excellence in all spheres of management, by weaving the threads of enterprise, knowledge, experience, ideas and tasks into a fabric that can be called "management". My job is to motivate, to bring together and fuse human talent, so that they act in harmony and in unison as one team, directed towards a single purpose, a single goal.

In our Group, our first and foremost objective is to satisfy our larger family, our family comprising of our shareholders, our customers and our employees.

Towards this objective, our credo is, 'strive for excellence and perfection in all spheres of management, through continuous improvement.'

For our shareholder, it is our job, and our commitment to create wealth for him, and to amply reward the faith that he has reposed in us.

For our customers, we believe, that, 'the customer is always right'. Our motto is to give him total satisfaction, in terms of quality and service.

For our colleagues and employees, our motto is 'your growth is our concern'."

We follow in his footsteps.

ADITYA BIRLA GROUP

ADITYA VIKRAM BIRLA
November 14, 1943 - October 1, 1995

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. Y. P. Gupta (upto 13.06.03)

Mr. Cyril Shroff

Mr. S. G. Subrahmanyan

Mr. Shailendra K. Jain – Whole-time Director

Adviser
Mr. D. P. Mandelia

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

Company Secretary
Mr. Ashok Malu

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

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

EXECUTIVES

Staple Fibre & Pulp Divisions
Mr. Shailendra K. Jain – President & Business Head
Mr. S. K. Saboo – Group Executive President
Mr. O. P. Rungta – Sr. Executive President, SFD, Nagda
Mr. S. S. Maru – Sr. Executive President, Pulp and Grasilene Divisions, Harihar
Mr. Vijay Kaul – Sr. Executive President, Birla Cellulosic Division, Kharach
Mr. Thomas Varghese – Executive President (Mktg.)

Cement Divisions
Mr. Saurabh Misra – Business Head
Mr. O. P. Puranmalka– Group Executive President & Chief Marketing Officer
Mr. S. K. Maheshwari – Sr. Executive President & Chief Manufacturing Officer
Mr. L. N. Rawat – Sr. Executive President, Grasim Cement
Mr. D. P. Somani – Executive President, Rajashree Cement
Mr. K. C. Jhanwar – Executive President, Vikram Cement & Aditya Cement
Mr. S. N. Jajoo – Executive President, Birla White Cement
Mr. K. C. Birla – Jt. President, Cement Division (South)

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
Mr. S. Krishnamoorthy – Executive President (Mktg.)
Mr. J. C. Soni – Executive President (Bhiwani Textiles)

Contents

REGISTERED OFFICE: Birlagram, Nagda 456 331 (M.P.)

The Chairman's Letter To Shareholders

Dear Fellow Shareholders,

In a year characterised by a dim economic environment, overshadowed by geo-political issues and a significant lowering of consumer spends, your Company has managed to keep its earnings very buoyant. Revenues at Rs.4,626.30 crores up by 5% over Rs.4,386.60 crores attained in the previous year, and Profit Before Tax and exceptional items at Rs.719.10 crores as compared to Rs.494.80 crores has soared by over 45%. For this stellar performance, your Company deserves plaudits. This surge in revenues and earnings has been propelled by, and to a large extent, is the culmination of proactive business and financial restructuring in the recent years.

To consolidate the operations of Grasim, a slew of initiatives have been taken in the recent past. We have been keeping you abreast of these. Among them feature the closure of the Pulp and Fibre plants at Mavoor, the sale of the loss-making fabric operations at Gwalior, the divestment of its software business and shaving off its trading activities. Innovative financial management has contributed in a great measure too. It should therefore come as no surprise that over the past four years, Grasim has become much leaner and stronger – with the debt/equity ratio improving from 0.93 to 0.58, interest charges falling from Rs 292 crores to Rs 168 crores, profit before tax & exceptional items rising from Rs 176 crores to over Rs 719 crores, and workforce rationalisation taking the manpower strength from 24,400 to 16,600.

To augment growth in revenues and earnings, we have taken several steps. Let me now focus on our business sectors and apprise you of our plans for them, going forward. Of course, at each of our business sectors, sweating of assets, strengthening of operating efficiencies and lopping up of costs is a given.

Viscose Staple Fibre (VSF)

In VSF, our leadership position remains unassailable. Regardless, to continue to enlarge our territorial space and ensure growth, we are venturing into niche cellulosic fibres like High

Wet Modulus (HWM) Fibres and speciality fibres such as spun dyed, micro and macro denier, on the wings of our R&D capabilities. Our endeavours to develop novel applications of VSF leveraging its "Birla Viscose" brand is a proactive growth-oriented measure as well. To push these forward aggressively, a state-of-the-art VSF Research and Application Development Centre is to be set up at Birla Cellulosic (Kharach). It will be up and running by early 2005.

"In VSF, our leadership position remains unassailable. Regardless, to continue to enlarge our territorial space and ensure growth, we are venturing into niche cellulosic fibres like High Wet Modulus (HWM) Fibres and speciality fibres such as spun dyed, micro and macro denier, on the wings of our R&D capabilities. Our endeavours to develop novel applications of VSF leveraging its "Birla Viscose" brand is a proactive growth-oriented measure as well."

Cement

In cement, our thrust is on optimising returns through expansion of volumes, enriched product mix and further strengthing of market presence. Relentless focus on cost reduction will continue. The setting up of a thermal power plant at Reddipalayam, and increasingly veering towards alternate fuels are integrate to this strategy.

Sponge Iron

The upturn of the steel sector has augured well for the Sponge Iron business. As the global scrap price is expected to stabilize and the steel industry stands on the threshold of a remarkable revival, the outlook for this sector remains positive in the near future.

Outlook

In my view, cement will continue to be the growth propellant, and the Viscose Staple Fibre business will sustain its pre-eminent status as the cash generator. Collectively, they contribute to over 80% of your Company's revenues and operating profits. I have no doubt that these businesses will stay at the forefront of your Company's sustainable success.

Grasim, then, is well poised to attain ongoing prosperity, and the overall outlook for your Company, remains bright.

"In my view, cement will continue to be the growth propellant, and the Viscose Staple Fibre business will sustain its pre-eminent status as the cash generator. Collectively, they contribute to over 80% of your Company's revenues and operating profits. I have no doubt that these businesses will stay at the forefront of your Company's sustainable success."

If our businesses are sustainable through constantly challenging times, it is because of our high-performing, motivated workforce. I wish to record my heartfelt appreciation of their contribution without which your Company would not have come this far. They are fully attuned to your Company's abiding commitment to create and enhance shareholder value.

The Aditya Birla Group – In Perspective

*If one were to encapsulate it in a single word - the dominant strategic theme over the past four years has been **consolidation.** This is in line with our vision of being a premium conglomerate, with a clear business focus at each business level, relentlessly pursuing value creation.*

I would like to take this opportunity to retrace the direction of our Group over the past four years. If one were to encapsulate it in a single word - the dominant strategic theme over the past four years has been **consolidation.** This is in line with our vision of being a premium conglomerate, with a clear business focus at each business level, relentlessly pursuing value creation. The logic underpinning consolidation is the push for market leadership, economies of scale, productivity gains and operational efficiencies, coalescing to create value-adding growth.

Let me recount some of the major steps that we have taken in our drive towards consolidation.

The acquisition of a 74.6% equity stake in Indal, from Alcan, at an investment of a little over Rs. 1000 crores, has been a milestone. Bringing Indal into the Group's fold has helped us position ourselves along every link in the value-addition chain of the business, from metal to downstream products, where the Hindalco-Indal combine now accounts for over 70% of the market share in India.

Moving on to the other metal in the Group's stable, it is commendable that Birla Copper has attained a leadership status, commanding a market share of over 45 percent - within a short span of 3 years from its first commissioning. The de-bottlenecking of the Copper Smelter at Dahej last year has resulted in enhancing the smelter capacity by 50%, to 150,000 TPA cost efficiently, last year, and the ramp-up achieved has truly set a new global benchmark.

Yet another landmark restructuring move has been the decision to consolidate the copper business of Indo-Gulf with Hindalco. Subsequently, Hindalco made a second open offer for the shares of Indal. Its stake in Indal has increased from 74.48% to 96%. All these moves take us ahead on the road towards unifying the Group's non-ferrous metals businesses, and transforming Hindalco into a globally competitive non-ferrous metals power house.

The acquisition of the Nifty mines in Australia from Straits (Nifty) Pty. Ltd., has elevated Birla Copper to an integrated Copper producer. Nifty currently has a production capacity of 27,500 tonnes per year of Copper Cathodes and a large undeveloped sulphide resource. The project has a total resource of 148 million tones of ore grading 1.3% of copper. We have rights to explore in the richly mineralized Paterson province. Additionally, we have acquired a 50% interest in the Maroochhydore exploration project.

Post-restructuring, Indo-Gulf has emerged fully focused on fertilizers, with a brand that commands a huge equity, strong cash flows and a leadership position in the fertilizer industry. It is well positioned to take advantage of the opportunities that arise from the disinvestment programme of the Government.

The decision to demerge the Insulator Division of Indian Rayon and transfer it to a separate 50:50 joint venture with NGK of Japan has been a crucial move. NGK is the undisputed world leader in the manufacturing and marketing of all types of Insulators for overhead transmission lines and sub station equipment. It controls 60% share of the world's Ultra High Voltage Insulator market. The partnership with NGK will help to build on and strengthen the leadership position we already enjoy in the domestic market, because of the access we will have to the latest in product and manufacturing technology. In addition, there will be opportunities for getting plugged in into a global marketing network. Through this route we will take the Insulator business to new heights.

In the Telecom business, we joined hands with the Tata Group. Beginning in 2 states, we have expanded to 7 states. Our subscriber base has reached 1.1 million. Our footprint covers 40 percent of the cellular market in India, with a 47 percent market share in the circles where we operate, and an 11 percent market share nationally.

We have recently divested the Group's stake in MRPL to ONGC. This strategic decision of the Group was based on lack of leadership position in the sector, no presence in marketing of petroleum products, especially transportation fuels, and no significant synergies with our other businesses, apart from losses incurred due to regulatory changes. Although the sale of the Group companies' equity stakes in MRPL does have a one-time impact on their profits, the exit from MRPL indicates our firm resolve to rationalize the Group's portfolio of businesses with a view on the future. It also bears testimony of our commitment to a key group of stakeholders that is our lenders.

The Birla Sun Life joint venture, which started off 3 years ago, has developed a major presence in the insurance and mutual funds sectors. Birla Sun Life is perceived as a leading quality market player, recognized for its superior service levels and we consider this as a core business with immense growth potential in the years ahead.

"Our strategy dictates that we get out of businesses where we are bit players, and strengthen the businesses where we have clear competencies, so that we get to the top of the league, or consolidate our position there, as the case may be. This leads to a sharper and tighter business portfolio with our firepower getting better targeted."

From all of this, a clear trend emerges. Our strategy dictates that we get out of businesses where we are bit players, and strengthen the businesses where we have clear competencies, so that we get to the top of the league, or consolidate our position there, as the case may be. This leads to a sharper and tighter business portfolio with our firepower getting better targeted.

I do believe that our decision to consolidate – and the way we have gone about implementing that – has been sound. Firstly, we have operated our existing assets efficiently. Secondly, the assets we have built and acquired have been quality assets, complementing our existing strengths. Thirdly, the asset growth has been funded largely through internal accruals. As a result, every one of the companies in our Group has emerged with a stronger balance sheet. Fourthly, save for the IT and garments businesses, which are still at an incubation stage, the consolidation measures have started yielding the results that we had envisaged.

Performance Measures

Having said this, what has it meant in terms of performance? As you are aware, we adopted CVA -or Cash Value Added – as a performance metric 3 years ago, which is in consonance with our Group's focus on value addition. CVA, by itself, is a punishing measure in that it calls for superior returns on assets created and equity invested. Our Group CVA has been positive. Given the stringent performance standards set by the CVA metric, and that, in fact, not too many companies in India, actually have consistently delivered even a positive CVA, I believe that this is a commendable performance.

I must add that the market capitalization of the Group correlates very weakly with the sharp increase in value addition, as measured by CVA during the same period. This is indeed disappointing. Even as I do not think that we need to be drawn into the expectations game as fueled by analysts, over a period of time, we hope that the market valuations will reflect our underlying strengths and performance.

Focus on People

Having said that, I must add that the course of shrinking the business portfolio, while placing larger bets in a few industries, is a higher risk strategy, albeit with the promise of higher returns. Continuing to deliver superior performance whilst factoring in this potentially higher risk profile, takes us to what I believe is our most important asset, one that is not reflected in any of our balance sheets – our people. Over the last several years, our focus as regards people has been, in a nutshell, to build a meritocracy. We have taken several initiatives which I would classify under 3 broad heads – Learning and Relearning, Performance Management and Organizational Renewal.

Our Organizational Health Survey (OHS), which is a well-regarded mode globally of tracking employee satisfaction, has thrown up very encouraging results this year, based on the tracking of 8,670 managers across the Group.

Whilst commendable work has been done at Gyanodaya, our internationally acclaimed Centre of Management Learning, we are taking the process to an even higher plane.

We are pushing even harder on the people front, building on the significant progress we have made so far, and press on with the task of building a meritocracy – not just of brainpower, but also of entrepreneurial power, dedication power, vision power, go-getter power and ambition power.

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Best regards,

Yours sincerely,

KUMAR MANGALAM BIRLA

Date: 19th May, 2003

FINANCIAL HIGHLIGHTS

Year ——>	Unit	2002-03	2001-02	2000-01	1999-00	1998-99#	1997-98	1996-97	1995-96	1994-95	1993-94
Production											
Viscose Staple Fibre	Tonnes	224610	176462	218847	188002	164355	174281	155385	162470	143421	158674
Grey Cement	Mn Tonnes	11.09	9.53	9.10	8.40	5.82	4.71	4.10	3.27	2.55	2.32
White Cement	Tonnes	310163	267915	251594	240492	131979	—	—	—	—	—
Turnover											
Viscose Staple Fibre	Tonnes	227900	181520	203854	192452	164130	171148	151838	161993	144820	157618
Grey Cement	Mn Tonnes	11.16	9.68	9.16	8.42	5.88	4.70	4.14	3.15	2.56	2.31
White Cement	Tonnes	305223	266105	251291	240014	133660	—	—	—	—	—
Profit & Loss Account											
Gross Sales	Rs. Crs.	5412	5070	5582	4982	4325	4023	3602	3199	2399	2202
Net Sales	Rs. Crs.	4609	4372	4822	4273	3757	3500	3089	2742	2061	1865
Other Income	Rs. Crs.	133	129	108	88	110	124	135	211	113	116
Operating Profit (PBIDT)	**Rs. Crs.**	**1141**	**937**	**911**	**756**	**678**	**698**	**706**	**773**	**558**	**433**
Interest	Rs. Crs.	168	190	239	256	292	256	259	230	142	118
Gross Profit (PBDT)	Rs. Crs.	973	747	673	500	386	443	447	543	416	316
Depreciation	Rs. Crs.	254	252	252	237	210	167	148	124	75	66
Profit before Tax & Exceptional Items	**Rs. Crs.**	**719**	**495**	**421**	**263**	**176**	**276**	**300**	**420**	**341**	**250**
Current Tax	Rs. Crs.	192	57	50	12	8	45	41	88	32	22
Deferred Tax	Rs. Crs.	–15	51	—	—	—	—	—	—	—	—
Net Profit after Tax (before Exceptional Items)	Rs. Crs.	542	387	371	251	168	231	259	332	309	228
Exceptional Items	Rs. Crs.	–174	–84	7	–18	–4	—	16	—	—	—
Net Profit after Exceptional Items & Total Taxes	Rs. Crs.	368	303	378	233	164	231	275	332	309	228
Equity Shares Dividend (including CTD)	Rs. Crs.	103	83	81	72	63	54	52	45	41	32
Balance Sheet											
Net Fixed Assets*	Rs. Crs.	3264	3263	3303	3401	3354	2633	2473	2222	1866	1438
Investments	Rs. Crs.	1796	1416	682	683	680	717	507	619	899	490
Net Current Assets	Rs. Crs.	613	733	991	967	1002	1092	1250	1012	634	529
		5673	5412	4976	5052	5037	4442	4230	3853	3400	2457
Share Capital	Rs. Crs.	92	92	92	92	92	72	72	72	72	67
Reserve & Surplus*	Rs. Crs.	2879	2615	2984	2685	2524	2243	2068	1845	1558	991
Deferred Tax Balance	Rs. Crs.	626	641	—	—	—	—	—	—	—	—
Loan Fund	Rs. Crs.	2076	2065	1900	2275	2421	2127	2090	1936	1769	1398
Net Worth*		3597	3347	3075	2777	2616	2316	2140	1917	1630	1059
		5673	5412	4976	5052	5037	4442	4230	3853	3400	2457
*Excluding Revaluation Reserve	Rs. Crs.	6	7	18	20	22	25	28	31	34	37
Ratios & Statistics											
PBIDT Margin	(%)	24.76	21.43	18.90	17.70	18.06	19.96	22.86	28.19	27.06	23.24
Interest Cover (PBIDT-Tax/Interest)	(x)	5.65	4.63	3.61	2.91	2.29	2.56	2.57	2.98	3.70	3.50
ROACE (PBIT/Avg.CE) @	(%)	16.18	12.88	13.47	10.53	10.14	13.06	15.04	19.19	18.65	19.26
RONW (PAT/NW) @	(%)	15.00	12.78	12.30	8.64	6.63	10.36	12.76	18.71	22.95	23.72
Debt Equity Ratio	(x)	0.58	0.62	0.62	0.82	0.93	0.92	0.98	1.01	1.09	1.32
Dividend per Share	Rs./ Sh.	10.00	9.00	8.00	7.00	6.75	6.75	6.50	6.25	5.75	4.75
Earning per Share @	Rs./ Sh.	59	42	40	27	20	32	36	46	43	34
Cash Earning per Share @	Rs./ Sh.	85	75	68	53	45	55	56	63	53	44
Book Value per Share	Rs./ Sh.	392	365	335	303	285	320	296	265	225	157
No. of Equity Shareholders	No.	242359	263549	279207	298232	199083	206851	213619	219859	229892	231243
No. of Employees	No.	16648	16912	21473	23345	24407	23157	23397	22144	21582	22533

 # 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 DISCUSSION AND ANALYSIS

OVERVIEW

It was another excellent year for Grasim. The Company reported impressive performance amidst a challenging economic and industrial environment. All our businesses have performed well, with productivity gains, growth in volumes and sustained margins notwithstanding rise in input costs. The Cement business was constrained on account of pricing pressure that prevailed throughout the year across regions. All the business units had shown smart productivity gains, which helped us to improve the margins against increase in input cost and substantial cost increase in power and fuel.

Overall revenues have grown by an impressive 5% to Rs.4,626.3 Crores while operating profits have soared from Rs.936.8 Crores to Rs.1,141.7 Crores, reflecting a growth of 22% year-on-year (YoY). Benefiting from lower interest charges and modest rise in depreciation, pre-tax profits (before exceptional items) have jumped 45% to Rs.719.1 Crores in 2002-03 (FY03). Net profit after tax and exceptional items is higher by 21% YoY at Rs.367.6 Crores in FY03.

Grasim's superior performance even in a weak operating environment is the reflection of the success of significant business and financial restructuring carried out by the Company during the last four years. The business restructuring efforts included the closure of the Fibre and Pulp plant at Movoor, sale of the unviable Textile units at Gwalior, divestment of stake in the software subsidiary and discontinued operations of the Trading division.

STRATEGIC MOVES

Divestment of stake in MRPL

The Company has sold 15,03,79,023 equity shares of Mangalore Refinery and Petrochemicals Ltd. (MRPL), being its entire holding in MRPL to Oil and Natural Gas Corporation Ltd for a total consideration of Rs.30.1 Crores against its investment value of Rs.238.7 Crores. The resultant loss of Rs.208.6 Crores was accounted for and shown as exceptional item.

Strategic Investment in equity of Larsen & Toubro Limited

As you are aware, the Company had acquired a 10.05% stake in Larsen & Toubro Ltd. (L&T) in FY02. During the year under review, the Company along with its wholly owned subsidiary Samruddhi Swastik Trading and Investments Limited (Samruddhi), augmented its holding to 14.53%. In line with regulatory requirements, on 14th October 2002, the Company made an Open Offer for acquisition of a further 20% stake in L&T at Rs.190/- per share. The wholly-owned subsidiary of the company then acquired an additional 0.83% stake in L&T through open market purchases, thus raising the aggregate holding of the Company and its subsidiary in L&T to 15.35% of the subscribed and paid up capital in L&T.

However, through its order dated 8th November 2002, the Securities and Exchange Board of India (SEBI) had advised the Company not to proceed with the Open Offer. While Securities Appellant Tribunal declined an interim relief, SEBI completed the investigations and cleared the Open Offer in February 2003. Consequently, the Open Offer for a 20% stake in L&T at Rs.190 per share opened on 7th May 2003 and will remain open till 5th June 2003.

Commissioning of Thermal Power Plant at Aditya Cement, Rajasthan

As part of a conscious strategy to further augment captive power capacity and reduce costs, the Company set up a Thermal Power Plant of 23MW at it's Aditya Cement Plant in Rajasthan. The captive power plant was commissioned in March 2003 and operations have stabilized since then.