



A n n u a l R e p o r t | 2003 - 2004

Report  Junction.com



Grasim Industries Limited

IN HOMAGE TO A LEGEND



“Time and again, the supremacy of the human element cannot be over emphasized. The success or failure of an organisation depends on people, on human beings, on their talent, on their initiative, on their ability to lead, and coordinate with others, to work as a team.

It also depends on the ability of the organisation, to motivate them to greater heights”.

We carry forth his vision of people power.



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
 Mr. Cyril Shroff
 Mr. S. G. Subrahmanyam
 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 and 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,
 Staple Fibre Division, Nagda
 Mr. S. S. Maru Sr. Executive President, Pulp and
 Grasilene Divisions, Harihar
 Mr. Vijay Kaul Sr. Executive President,
 Birla Cellulosic Division, Kharach
 Mr. S. V. Kulkarni 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,
 Rajashree Cement
 Mr. R. M. Gupta Sr. Executive President, Grasim Cement
 Mr. D. P. Somani 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. H. N. Singh Executive 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. S. Krishnamoorthy Chief Operating Officer

Contents	
Chairman's Letter	2
Financial Highlights	7
Management Discussion and Analysis	8
Report on Corporate Governance	18
Social Report	25
Environment Report	27
Shareholder Information	29
Directors' Report	37
Auditors' Report	44
Balance Sheet	48
Profit and Loss Account	49
Schedules	50
Cash Flow Statement	75
Statement Relating to Subsidiary Companies	76
Auditors' Report on Consolidated Financial Statement	77
Consolidated Balance Sheet	78
Consolidated Profit and Loss Account	79
Schedules forming part of Consolidated Financial Statements ...	80
Consolidated Cash Flow Statement	92
Subsidiary Companies' Reports & Accounts	
Shree Digvijay Cement Company Limited	93
Sun God Trading and Investments Limited	107
Samruddhi Swastik Trading and Investments Limited ...	109
REGISTERED OFFICE: Birlagram, Nagda 456 331 (M.P.)	



THE CHAIRMAN'S LETTER TO SHAREHOLDERS



Dear Fellow Shareholders,

With the economy having gained its sheen, and having surged at 8 per cent during the year, backed by a good monsoon, and a resurgence on all fronts, consumer sentiments naturally revived. These developments at the macro level had a salutary effect on your Company's operations. All the sectors that your Company operates in gained in revenues and earnings. Your Company's results have been indeed path-breaking.

Gross revenues at Rs.6130 crores have risen by 13 per cent vis-à-vis Rs.5413 crores attained in the previous year. Profit before tax and exceptional items at Rs.1048 crores over Rs.713 crores of the previous year has soared by 47 per cent.

Significant progress has been made with regard to Ultra Tech Cemco Limited, which as you may be aware, is the demerged cement entity of Larsen & Toubro Ltd.

The Divestment of your Company's stake in Indo-Gulf, has been a value-creating move that unlocked capital.



Asset sweating, maximizing operational efficiencies, innovative management of finances and a tight rein on costs wherever possible, continue to be the hallmark of your Company. To amplify its bottom-line, your Company has been increasingly moving towards value-added products that provide innovative customer offerings.

I would now like to brief you on our business sectors and the growth trajectories that we have blue-printed.

Viscose Staple Fibre (VSF)

“Asset sweating, maximizing operational efficiencies and a tight rein on costs wherever possible, continue to be the hallmark of your Company. To amplify the bottom-line, your Company has been increasingly moving towards value-added products that provide innovative customer offerings.”

Your Company continues to be a pre-eminent global player in the VSF sector, with a global market share in excess of 14 percent.

To penetrate into newer market segments, and to grow further, the Division has ventured into production of High Performance viscose fibres aptly named Viscose Plus, High Wet Modulus Fibres (Modal) and new generation Solvent Spun Fibres. The market has welcomed these novel introductions. Hitherto all of the Division’s offerings have been marketed under the “Birla Viscose” umbrella. To contemporarise the look of the brand and the image it evokes as “a natural fibre”, we have evolved a distinctive logo and are in the process of weaving all VSF products under the “Birla Cellulosic” mother brand.

Cement

In Cement, the Division’s thrust is on amplifying its markets through enhanced volumes resulting from de-bottlenecking. An enriched product-mix with a greater share of blended cements, a focus on RMC (Ready Mix Concrete), which we view as the business of the future, and exemplary client service, I believe, will provide greater momentum to the business.

Sponge Iron

The fortunes of the Sponge Iron business are inextricably linked with those of the steel sector. During the year, the steel sector was on an upswing, and continues to be on a high. Hence, the outlook for your Company's Sponge Iron business remains bright.

Outlook

I believe that VSF and Cement will continue to spur growth.

I expect enhanced performance from the Sponge Iron and Chemical businesses as well.

Given your Company's strong fundamentals and its business focus, I am sure, your Company is poised for a significant growth ahead.

"I believe that VSF and Cement will continue to spur growth.

I expect enhanced performance from the Sponge Iron and Chemical businesses as well."

Behind your Company's considerable achievements, lies the intellectual and emotional commitment that our people bring to their work. Besides operational efficiency and project management skills, honed under the most demanding and competitive conditions, it is the spirit of entrepreneurship and the way all of our employees bond cohesively with the organization. I wish to record my genuine appreciation of their contribution.

The Aditya Birla Group in Perspective

Let me now take you through some of the key events of the last year:

- One, we completed the restructuring of the non-ferrous metals business. Consequently, Hindalco has become a non-ferrous metals powerhouse with at least global visibility.
- Two, consistent with our objective of becoming a world-class, globally competitive, integrated copper player, we forayed into Australia with the acquisition of two copper mines – the Nifty Mines (2002-03) and Mount Gordon in the last year.

- Three, we entered the land of the dragon, i.e., we ventured into China, with the acquisition of Liaoning Carbon Black. This 12,000 tonne Carbon Black plant will enhance our global presence in this business. We are now the fourth largest Carbon Black player globally.
- And finally, coming to market capitalization: The market capitalization of the listed Group companies in India increased 97.4% over the past year, far outpacing the rise of 62.7% in the BSE Sensex, over the same period. This measure reflects more than just numbers; it provides a sense of our standing in terms of governance, and the faith investors repose in us, and a recognition – at long last - of our efforts at value creation.

“All these years, our team across the Group, has stretched incessantly to make the Aditya Birla Group a great place to work in. In one sentence, we have sharply focused on creating a meritocracy. For us, this meant putting in place systems to induct the right talent, for spotting and tracking nascent talent, for creating leaders with a cocktail of skills, who have exposure to different functions, businesses and countries.”

The year that has just gone by has been I believe, a watershed year for our Group. Because, in this year, we have seen the last of the major restructuring initiatives that we needed to undertake. We have emerged stronger, fitter and a leader in many ways. And, now, we are at an inflection point. We stand at the threshold of a new phase in the life of our organisation. I do believe that the rest of the decade – from here on - will be marked by a distinctly different theme. The earlier accent - on restructuring and consolidation – will give way to a phase of growth, not just incremental and normal growth, but accelerated growth. So, the dominant theme, from here on, will be aggressive growth.

Focus On People

All these years, our team across the Group, has stretched incessantly to make the Aditya Birla Group a great place to work in. In one sentence, we have sharply focused on creating a meritocracy. For us, this meant putting in place systems to induct the right talent, for spotting and tracking nascent talent, for creating leaders with a cocktail of skills, who have exposure to different functions, businesses and countries.

Working with Hay Consultants, we have carried out an extensive job analysis and evaluation exercise. More than 4500 jobs have been evaluated and competencies mapped. Succession plans are in place too. By and large, our objective is to make sure that the leadership-pipeline is always full of talented individuals who are raring to shoulder responsibilities that our various businesses offer.

To foster a learning culture, at Gyanodaya, the Aditya Birla Institute of Management Learning, which is now looked upon as a benchmark for training, more than 2130 executives were trained in 86 diverse programmes for honing their competencies, both for their current and future roles. A virtual campus has been launched through an e-learning portal. Over 3884 unique users, from top-down and

“Today, our Group is anchored by an extraordinary force of 72,000 employees. More than 70 percent of these are under the age of 40 and over 12,000 of our people are drawn from 20 foreign nationalities. Even as the focus on managerial capability is becoming much sharper, we are building capabilities not for an Indian manager who works internationally, but for a global manager, who happens to be an Indian.”

bottom-up have enrolled in these self-learning projects. More than 25,725 man-hours of learning have been logged. Our intent is to provide unrivalled learning opportunities to our people across levels.

Today, our Group is anchored by an extraordinary force of 72,000 employees. More than 70 percent of these are under the age of 40 and over 12,000 of our people are drawn from 20 foreign nationalities. Even as the focus on managerial capability is becoming much sharper, we are building capabilities not for an Indian manager who works internationally, but for a global manager, who happens to be an Indian.

We are positioned in almost all our businesses at the cusp of growth opportunity. Above all, our people have the passion that brings energy into the organisation.

Best regards,

Yours sincerely,



Kumar Mangalam Birla

Date: 28th April, 2004

FINANCIAL HIGHLIGHTS

Year →	Unit	2003-04	2002-03	2001-02	2000-01	1999-00	1998-99 [#]	1997-98	1996-97	1995-96	1994-95
Production											
Viscose Staple Fibre	Tonnes	221005	224610	176462	218847	188002	164355	174281	155385	162470	143421
Grey Cement	Mn Tonnes	11.85	11.09	9.53	9.10	8.40	5.82	4.71	4.10	3.27	2.55
White Cement	Tonnes	310578	310163	267915	251594	240492	131979	-	-	-	-
Sponge Iron	Tonnes	687272	612879	559567	663998	709094	670231	667350	706510	347513	405224
Turnover											
Viscose Staple Fibre	Tonnes	229110	227900	181520	203854	192452	164130	171148	151838	161993	144820
Grey Cement	Mn Tonnes	11.96	11.16	9.68	9.16	8.42	5.88	4.70	4.14	3.15	2.56
White Cement	Tonnes	314819	305223	266105	251291	240014	133660	-	-	-	-
Sponge Iron	Tonnes	676921	612425	562334	673852	822996	565682	767255	585917	435503	354175
Profit & Loss Account											
Gross Sales	Rs. Crs.	6130	5412	5070	5184	4982	4325	4023	3602	3199	2399
Net Sales	Rs. Crs.	5213	4606	4372	4453	4273	3757	3500	3089	2742	2061
Other Income	Rs. Crs.	200	133	129	108	88	110	124	135	211	113
Operating Profit (PBITD)	Rs. Crs.	1475	1136	909	900	739	674	698	706	773	558
Interest	Rs. Crs.	154	168	190	239	256	292	256	259	230	142
Gross Profit (PBDT)	Rs. Crs.	1321	967	719	661	482	381	443	447	543	416
Depreciation	Rs. Crs.	273	254	252	252	237	210	167	148	124	75
Profit before Tax & Exceptional Items	Rs. Crs.	1048	713	467	409	245	172	276	300	420	341
Current Tax	Rs. Crs.	291	192	57	50	12	8	45	41	88	32
Deferred Tax	Rs. Crs.	7	-15	52	0	0	0	0	0	0	0
Net Profit after Tax (before Exceptional Items)	Rs. Crs.	750	536	359	359	233	164	231	259	332	309
Exceptional Items	Rs. Crs.	29	-169	-56	18	0	0	0	16	0	0
Net Profit after Exceptional Items & Total Taxes	Rs. Crs.	779	368	303	378	233	164	231	275	332	309
Equity Shares Dividend (including CTD)	Rs. Crs.	145	103	83	81	72	63	54	52	45	41
Balance Sheet											
Net Fixed Assets*	Rs. Crs.	3213	3264	3263	3303	3401	3354	2633	2473	2222	1866
Investments	Rs. Crs.	2541	1796	1416	682	683	680	717	507	619	899
Net Current Assets	Rs. Crs.	550	613	733	991	967	1002	1092	1250	1012	634
		6303	5673	5412	4976	5052	5037	4442	4230	3853	3400
Share Capital	Rs. Crs.	92	92	92	92	92	92	72	72	72	72
Reserves & Surplus*	Rs. Crs.	3514	2879	2615	2395	2685	2524	2243	2068	1845	1558
Deferred Tax Balance	Rs. Crs.	633	626	641	589	-	-	-	-	-	-
Loan Fund	Rs. Crs.	2065	2076	2065	1900	2275	2421	2127	2090	1936	1769
Net Worth*	Rs. Crs.	3606	2971	2707	2486	2777	2616	2316	2140	1917	1630
		6303	5673	5412	4976	5052	5037	4442	4230	3853	3400
*Excluding Revaluation Reserve	Rs. Crs.	5	6	7	18	20	22	25	28	31	34
Ratios & Statistics											
PBITD Margin	(%)	28.3	24.7	20.8	20.2	17.3	17.9	20.0	22.9	28.2	27.1
Interest Cover (PBITD-Tax/Interest)	(x)	7.70	5.60	4.48	3.56	2.84	2.28	2.56	2.57	2.98	3.70
ROACE (PBIT/Avg.CE) @	(%)	20.4	16.2	12.9	13.5	10.5	10.1	13.1	15.0	19.2	18.7
RONW (PAT/NW) @	(%)	22.8	18.9	13.8	13.7	8.6	6.6	10.4	12.8	18.7	23.0
Debt Equity Ratio	(x)	0.57	0.70	0.76	0.76	0.82	0.93	0.92	0.98	1.01	1.09
Dividend per Share	Rs./ Sh.	14.00	10.00	9.00	8.00	7.00	6.75	6.75	6.50	6.25	5.75
Earning per Share @	Rs./ Sh.	82	58	39	39	25	20	32	36	46	43
Cash Earning per Share @	Rs./ Sh.	112	85	72	67	51	41	55	56	63	53
Book Value per Share	Rs./ Sh.	393	324	295	271	303	285	320	296	265	225
No. of Equity Shareholders	No.	191770	242359	263549	279207	298232	199083	206851	213619	219859	229892
No. of Employees	No.	15971	16648	16912	21473	23345	24407	23157	23397	22144	21582

[#] In FY 1998-99 Company had acquired the Cement business of Indian Rayon and Industries Ltd. pursuant to a Scheme of Arrangement.

@ Before Exceptional Items

Prior to FY01, Reserves & Surplus includes Deferred Tax balance.

MANAGEMENT DISCUSSION & ANALYSIS

OVERVIEW

It was yet another remarkable year for your Company, both strategically and operationally. The Company's results have been exemplary backed by business performance and augmented by restructuring of debts and businesses over the last 5 years. A better economic environment provided an added stimulus. The economy grew by an estimated 8% in Fiscal 2004 (FY04), against a 4% growth last year, leading to the revival of consumer sentiments and demand in sectors in which we operate.

Aggregate revenues grew by 13% year-on-year (YoY) while operating profits soared by 30% in FY04. Consequently, Profit After Tax (before exceptional items) moved up 40% while overall PAT rose by an impressive 112% YoY to Rs.779.3 Crores – the highest ever achieved.

Grasim's acquisition of management control in Ultra Tech CemCo Limited

Your Company has made significant progress towards the acquisition of management control in Ultra Tech CemCo Limited (Ultra Tech), the de-merged cement business of Larsen & Toubro Limited (L&T).

A proposal was developed for the acquisition of management control in its de-merged cement business. The proposal entailed that the cement business of L&T be first de-merged into a separate Company, wherein L&T will hold 20% stake and the balance to be distributed to shareholders of L&T proportionately. Through the process, Grasim and its wholly owned subsidiary Company will hold 12.6% stake in Ultra Tech while retaining a 15.7% stake in the remaining business of L&T. As a part of the composite Scheme, Grasim agreed to make an open offer for an additional 30% stake in UltraTech at Rs.342.60 per share. Grasim also agreed to buy an additional 8.5% stake in Ultra Tech from L&T at the same price of Rs.342.60 per share while simultaneously divesting 14.95% stake in L&T to the L&T Employees Welfare Foundation at Rs.240 per share.

The proposal was approved by the Board of Directors of both companies and consequently a Scheme of Arrangement was filed by L&T u/s 391-394 of the Companies Act, 1956 in the Hon'ble High Court of Bombay. The Scheme was approved by the creditors and shareholders of L&T at the Extra-ordinary General Meeting convened by the Court on 3rd February 2004. Thereafter, the Hon'ble High Court of Bombay has approved the Scheme on 22nd April 2004.

Upon the Scheme becoming effective, your Company is making the Open Offer for an additional 30% stake in Ultra Tech. As per the Scheme, Grasim has deposited Rs.128.0 Crores in an Escrow Account, towards 10% of the gross Open Offer consideration in December 2003 and the balance Open Offer consideration of Rs.1,151.0 Crores in April 2004. With this, your Company has deposited the entire Open Offer consideration into an Escrow Account and the same has been funded out of internal accruals.

On successful completion of the Open Offer, your Company will acquire controlling stake in Ultra Tech that houses 16.5 Mn TPA cement capacity spread across the country. Apart from the long-term strategic value, the acquisition will also bring significant synergy gains, to be realised in the coming years. On completion of the transaction, Grasim-Ultra Tech combine will be the 8th largest cement company in the world in terms of capacity.

Value unlocked from shareholding in Indo Gulf

In yet another value creating move, your Company divested its total holding of 5,528,289 shares of Indo Gulf Fertilisers Limited, being 12.3% of its equity capital, for an aggregate value of Rs.41.4 Crores through open market transaction. While unlocking capital, your Company realised profits of Rs.28.9 Crores, which has been shown as below the line item in FY04.