



Grasim Industries Limited

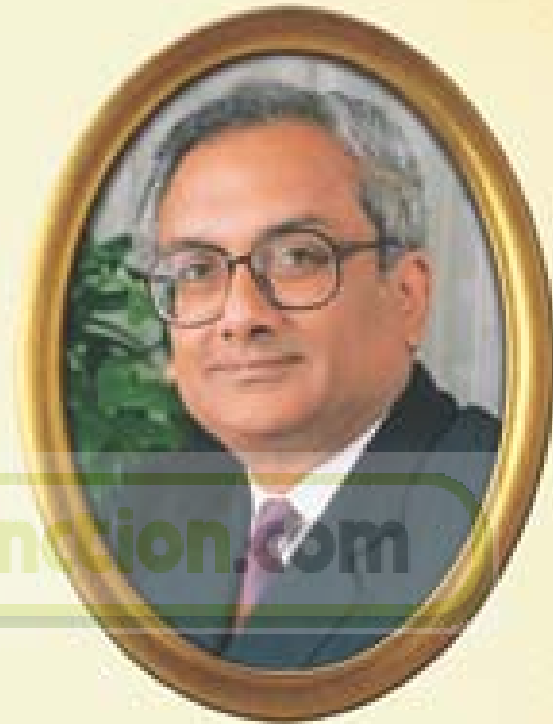


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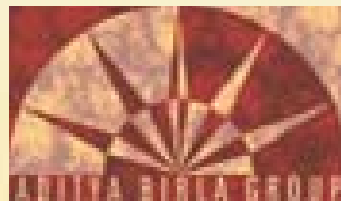
*I*N HOMAGE TO OUR VISIONARIES
OUR INSPIRATIONS AND OUR GUIDING LIGHT



GHANSHYAMDAS BIRLA



ADITYA VIKRAM BIRLA



GRASIM INDUSTRIES LIMITED

BOARD OF DIRECTORS

Mr. Kumar Mangalam Birla - Chairman
 Mrs. Rajashree Birla
 Mr. M.L. Apte
 Mr. B.V. Bhargava
 Mr. R.C. Bhargava
 Mr. Y.P. Gupta
 Mr. S.B. Mathur
 Mr. Cyril Shroff
 Mr. S.G. Subrahmanyan
 Mr. Shailendra K. Jain - Whole Time Director
 Mr. D.D. Rathi - Whole Time Director

Company Secretary

Mr. Ashok Malu

Auditors

M/s G.P. Kapadia & Co., Mumbai

Solicitors

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

EXECUTIVES

Fibre & Pulp Divisions

Mr. Shailendra K. Jain Business Director
 Mr. S.S. Maru Sr. Executive President, Staple Fibre
 Division, Nagda
 Mr. Thomas Varghese Sr. Executive President, Pulp and
 Grasilene Divisions, Harihar
 Mr. Vijay Kaul Chief Marketing Officer
 Mr. S.V. Kulkarni Executive President, Birla Cellulosic
 Division, Kharach

Cement Divisions

Mr. Saurabh Misra Business Director
 Mr. O.P. Puranmalka Group Executive President & Chief
 Marketing Officer
 Mr. S.K. Maheshwari Group Executive President & Chief
 Manufacturing Officer
 Mr. L.N. Rawat Sr. Executive President, Rajashree
 Cement
 Mr. R.M. Gupta Sr. Executive President, Vikram
 Cement & Aditya Cement
 Mr. D.R. Dhariwal President, Birla White Cement

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 Business Director
 Mr. S. Krishnamoorthy President

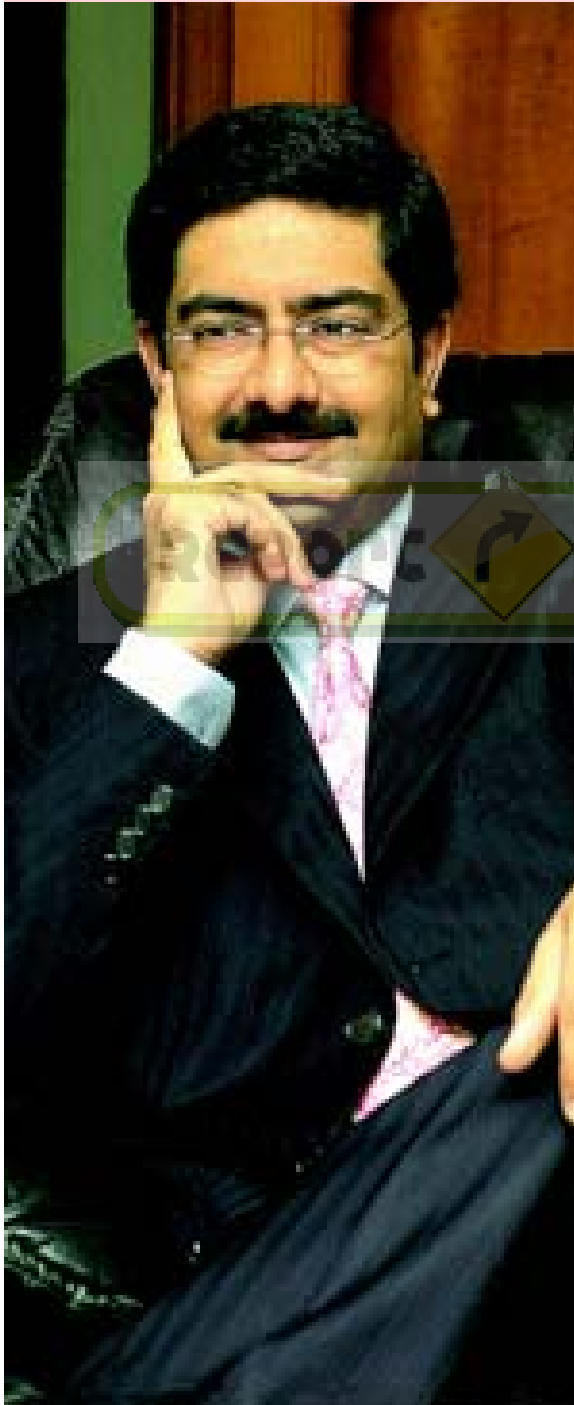
Corporate Finance Division

Mr. D.D. Rathi Whole Time Director & CFO
 Mr. Sanjeev Bafna Dy. Chief Financial Officer

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

THE CHAIRMAN'S LETTER TO SHAREHOLDERS



Dear Fellow Shareholders,

India as a Nation has come of age. With a great measure of pride, we see our country rise up the ranks of the powers that be in the global economy. We have grabbed the world's attention and imagination. For the third consecutive year, our GDP has recorded a near 8 per cent growth - among the highest in the world. To sustain the current growth rate and to push it closer to double-digit levels year after year, the Government seems committed to an aggressive agenda for economic reforms. While economic reforms provide a strong structural foundation for future growth, these are undeniably buffeted by substantive productivity improvements and an overall positive mindset. These developments at the macro level portend well for your Company.

Your Company has achieved an excellent performance, marking a milestone, as it crosses the Rs.100 billion mark. Its net consolidated turnover hit an all-time high at Rs.10,192 crores, up by 10 percent with a net profit of Rs.1,041 crores, reflecting an 18 percent growth.


To grow in the VSF and Cement sectors, your Company's core businesses, we have taken some strategic initiatives.

In the Cellulosic Fibre business, while as a Group we enjoy a leadership position globally with a 22 percent market share, our intent is to take the business to a new level. Your Company plans to expand its capacity by around 20% from its existing level of 257,325 MT per annum. As we expand, we will be requiring far larger quantities of pulp. Our strategy to maintain our edge dictates the setting up of holistic backward integration, right from the plantation stage to the final Viscose Staple Fibre (VSF) production. We have therefore envisioned an integrated plantation and pulp project with a 200,000 tpa capacity in Laos, in joint venture with our Group Companies. The project will be implemented in two stages – first the Plantation phase, and second – the commissioning of the Pulp Plant which would coincide with the harvest of the first plantation, viz., the 7th year.

Your Company's Cement business is on a high growth trajectory and it continues to be at the top of the league. We will be augmenting our capacity by 8 million TPA through Greenfield and brownfield projects at an investment of around Rs.2,475 crores. At Kotputli in Rajasthan, your Company is building a 4 million TPA plant with a Split Grinding Unit. Yet another 4 million TPA brownfield expansion has been planned at Shambhupura in Rajasthan. An additional 2 million tonnes will be generated through a 1.3 million TPA Grinding Unit at Dadri in U.P. and de-bottlenecking at its existing facilities. Collectively, these initiatives will elevate your Company to a 41.2 million TPA Cement major.

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I would now like to apprise you of significant developments in our business sectors, their performance and the blue-print for future growth.

Viscose Staple Fibre (VSF)

Your Company continues to be a market leader in the Viscose Staple Fibre sector, having notched a world-wide market share of 12 percent and is well-positioned to capitalize on emerging opportunities. To meet the growing demand for VSF in India, as well as the South Asian countries, we are expanding our capacity by around 50,000 tonnes at a capex of Rs.368 crores.

Your Company's plans for backward integration in pulp have been further strengthened. Nackawic Pulp Mill, which was acquired during the year jointly with other Group Companies, has already started producing paper grade pulp. Rayon grade pulp will roll out by the second quarter of FY08.

Specialty fibres, such as Spun Dyed Fibre, Modal and Viscose Plus, which cater to the premium end of the fibre market, have stemmed from your Company's Research and Application Centre at Kharach (Gujarat). It continues to nurture the development of new applications and value-added products, which will translate into a rise in the demand for VSF.

The outlook for the VSF business is bright, given the anticipated rise in demand post MFA abolition, the planned capacity expansion and bolstering of the captive supply of quality pulp.

The Chemicals business is on the growth track as the VSF sector, and other end-users keep ascending. The residual caustic soda capacity, based on the mercury cell technology, will transit to the new energy efficient membrane cell technology at an investment of Rs.148 crores. The converted plant is expected to go on stream by the third quarter of the ensuing fiscal.

Cement

Your Company's focus continues to be on expanding its footprint and raising its market share through capacity additions through the green field and brown field route. With a view to minimizing

energy costs, both your Company and its subsidiary, UltraTech, propose to set up thermal power plants at various locations. Optimising efficiencies, leveraging the benefits that stem from logistics, recouring to a higher usage of alternative fuels and a great thrust on a value-added product mix, including blended cement - will translate into higher earnings for your Company's Cement business as we go forward.

I am pleased to share with you that UltraTech has achieved an impressive turnaround, registering a net profit of Rs.225 crores.

The Cement sector is on the upswing. The Government's attention to infrastructure development is a source of great encouragement. Industrial expansion is on the rise. Additionally, the availability of affordable finance has spurred the growth of the housing sector.

VSF and Cement, your Company's key businesses will continue to be the growth enablers. Collectively and on a consolidated basis, these account for about 90 percent of both revenues and operating profit.

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Fortifying our leadership position in the VSF and Cement sectors, cost optimization, unsparingly sweating the assets, far-sighted financial management, and above all, its solid fundamentals, I believe, will have a salutary effect on your Company's future. We can all look ahead to top-line and bottom-line growth.

The overriding reason behind our success has been our strikingly sharper accent on people. We look upon them as our core asset, much more critical than our physical assets or financial assets. I value their contribution in building a culture of meritocracy.

The Aditya Birla Group : Building A Meritocracy

Our vision, as you are aware, is to be a premium global conglomerate, with a clear focus at each business level, and our vision is to deliver superior value to all our stakeholders. Implicit in our Vision Statement, is our global ambition, which necessarily implies accelerated growth to reach global-sized capacities and services. We are on course.

Meritocratic organizations are built on the strong foundation of values and not on the quick sands of opportunism. For us, our values – Integrity, Commitment, Passion, Seamlessness and Speed – reflect the soul of our organization. To develop a common in-depth understanding of what these values connote in our context, and how they should be our guiding light in the business decisions we take as well as the manner in which we conduct ourselves, we rolled out Values Workshops. In more than 373 Workshops, over 8236 colleagues across management cadre committed to ensure that these values become a part of their everyday life.

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Talent Management and strengthening of the talent pool in building leadership across the Group is a key priority. Employees identified as high-caliber management talent are put through our Development Assessment Centre. Here, the talent pool is assessed by an external agency to validate our ratings on the potential of the employee to scale up to a new responsibility level.

Gyanodaya, our management learning institute, has repositioned itself to align more closely with business requirements. The focus is very clearly on business and functional programmes, keeping in view the competencies required at every career stage. More than 1000 managers across the Group have been through the portals of Gyanodaya this year.

The Gyanodaya Virtual Campus, which is our e-Learning Programme, has also increased its reach manifold. As of today, we have 5000 e-learners in our Group, with a course completion rate of 88%, while the world benchmark hovers around 65%. For a large number of engineers and CAs, we have tied up with Universitas 21 to provide an opportunity for these talented people to do a full-time e-MBA. As of today, 46 employees have completed 165 courses in 11 subjects in the last 1 year. Soon enough, they will earn their MBA degree while continuing on their jobs.

With a view to provide for systematic and structured processes for career growth, the job analysis and evaluation process was started 4 years ago. While Managers from across businesses have been involved at various stages of the process, more than 100 managers have been trained as job analysts and another 100 have been trained as job evaluators. This exercise covered all management level jobs across India. Over 5000 jobs are already evaluated, resulting in the formation of 11 distinct job bands.

To reward and motivate our people and to ensure internal equity and external competitiveness, we have been using a performance merit grid and linking rewards to performance. A performance-linked variable pay has been introduced for all management executives. These initiatives have led to the successful institutionalisation of the Compensation Review and Performance Management Process.

These, to my mind, are significant steps towards building a more competitive and a world-class organization.

Best regards,

Yours sincerely,



Kumar Mangalam Birla

14th July, 2006

FINANCIAL HIGHLIGHTS

Year →	Unit	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-00	1998-99#	1997-98	1996-97
Production											
Viscose Staple Fibre	Tonnes	228981	247952	221005	224610	176462	218847	188002	164355	174281	155385
Grey Cement	Mn. Tonnes	13.83	12.44	11.85	11.09	9.53	9.10	8.40	5.82	4.71	4.10
White Cement	Tonnes	350174	315368	310578	310163	267915	251594	240492	131979	—	—
Sponge Iron	Tonnes	505825	780341	687272	612879	559567	663998	709094	670231	667350	706510
Turnover											
Viscose Staple Fibre	Tonnes	242399	231533	229110	227900	181520	203854	192452	164130	171148	151838
Grey Cement	Mn. Tonnes @	13.99	12.63	11.96	11.16	9.68	9.16	8.42	5.88	4.70	4.14
White Cement	Tonnes	347500	311454	314819	305223	266105	251291	240014	133660	—	—
Sponge Iron	Tonnes	478291	772799	676921	612425	562334	673852	822996	565682	767255	585917
Profit & Loss Account											
Net Sales	Rs. Crs.	6621	6229	5213	4606	4372	4453	4273	3757	3500	3089
Other Income	Rs. Crs.	204	187	229	133	129	108	88	110	124	135
PBIDT	Rs. Crs.	1591	1785	1504	1136	909	900	739	674	698	706
Interest	Rs. Crs.	97	139	154	168	190	239	256	292	256	259
Gross Profit (PBIDT)	Rs. Crs.	1494	1646	1350	967	719	661	482	381	443	447
Depreciation	Rs. Crs.	292	285	273	254	252	252	237	210	167	148
Profit before Tax & Exceptional Items											
	Rs. Crs.	1202	1361	1077	713	467	409	245	172	276	300
Current Tax	Rs. Crs.	370	451	291	192	57	50	12	8	45	41
Deferred Tax	Rs. Crs.	-27	-33	7	-15	52	0	0	0	0	0
Net Profit after Tax (before Exceptional Items)	Rs. Crs.	859	943	779	536	359	359	233	164	231	259
Exceptional Items	Rs. Crs.	4	-58	0	-169	-56	18	0	0	0	16
Net Profit after Exceptional Items & Total Taxes	Rs. Crs.	863	886	779	368	303	378	233	164	231	275
Equity Shares Dividend (including CTD)	Rs. Crs.	209	167	145	103	83	81	72	63	54	52
Balance Sheet											
Net Fixed Assets*	Rs. Crs.	3307	3204	3213	3264	3263	3303	3401	3354	2633	2473
Investments	Rs. Crs.	3482	2982	2541	1796	1416	682	683	680	717	507
Net Current Assets	Rs. Crs.	753	745	550	613	733	991	967	1002	1092	1250
		7542	6931	6303	5673	5412	4976	5052	5037	4442	4230
Share Capital	Rs. Crs.	92	92	92	92	92	92	92	92	72	72
Reserves & Surplus*	Rs. Crs.	4886	4232	3514	2879	2615	2395	2685	2524	2243	2068
Net Worth*	Rs. Crs.	4978	4324	3606	2971	2707	2486	2777	2616	2316	2140
Deferred Tax Balance	Rs. Crs.	584	599	633	626	641	589	—	—	—	—
Loan Funds	Rs. Crs.	1980	2008	2065	2076	2065	1900	2275	2421	2127	2090
		7542	6931	6303	5673	5412	4976	5052	5037	4442	4230
*Excluding Revaluation Reserve	Rs. Crs.	4	5	5	6	7	18	20	22	25	28
Ratios & Statistics											
PBIDT Margin	(%)	24.0	28.7	28.9	24.7	20.8	20.2	17.3	17.9	20.0	22.9
Interest Cover (PBIDT-Tax/Interest) (x)		12.55	9.61	7.88	5.60	4.48	3.56	2.84	2.28	2.56	2.57
ROACE (PBIT/Avg.CE)	(%)	18.5	23.1	20.9	16.2	12.9	13.5	10.5	10.1	13.1	15.0
RONW (PAT/Avg. NW)	(%)	18.6	22.3	23.7	12.9	11.7	14.4	8.6	6.6	10.4	13.5
Debt Equity Ratio	(x)	0.40	0.46	0.57	0.70	0.76	0.76	0.82	0.93	0.92	0.98
Dividend per Share	Rs./ Sh.	20.00	16.00	14.00	10.00	9.00	8.00	7.00	6.75	6.75	6.50
Earning per Share	Rs./ Sh.	94	97	85	40	33	41	25	18	32	38
Cash Earning per Share	Rs./ Sh.	123	130	116	85	72	67	51	41	55	56
Book Value per Share	Rs./ Sh.	543	472	393	324	295	271	303	285	320	296
No. of Equity Shareholders	No.	164847	174831	191770	242359	263549	279207	298232	199083	206851	213619
No. of Employees	No.	15167	15363	15971	16648	16912	21473	23345	24407	23157	23397

In FY 1998-99 Grasim Industries Ltd. acquired the Cement business of Indian Rayon & Industries Ltd. pursuant to a Scheme of Arrangement. Prior to FY01 Reserves & Surplus includes Deferred Tax

@Excludes traded volumes