



CHARTING GLOBAL GROWTH



Grasim Industries Limited

ANNUAL REPORT 2006-2007



Mr. G. D. Birla and Mr. Aditya Birla, our founding fathers.
We live by their values.
Integrity, Commitment, Passion, Seamlessness and Speed

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. S.B. Mathur
 Mr. Cyril Shroff
 Mr. S.G. Subrahmanyam
 Mr. Shailendra K. Jain - Whole Time Director
 Mr. D.D. Rathi - Whole Time Director & CFO

Company Secretary

Mr. Ashok Malu

Auditors

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

Solicitors

M/s Mulla & Mulla and Craigie, Blunt & Caroe
 M/s Amarchand & Mangaldas & Suresh A. Shroff & Co.

EXECUTIVES

Fibre & Pulp Divisions

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

Cement Division

Mr. Saurabh Misra Business Head
 Mr. O.P. Puranmalka Group Executive President & Chief Marketing Officer
 Mr. S.K. Maheshwari Group Executive President & Chief Manufacturing Officer
 Mr. R.M. Gupta Sr. Executive President, Vikram Cement & Aditya Cement
 Mr. D.R. Dhariwal President, Birla White Cement
 Mr. Anil Kumar Pillai Jt. President & Unit Head, Rajashree Cement
 Mr. S. Natarajan Jt. Executive President & Unit Head - Grasim Cement (South)
 Mr. M.M. Tiwari Jt. Executive President & Unit Head - Grasim Cement (Rawan)

Vikram Ispat

Mr. S.N. Jajoo Executive President

Chemical Division

Mr. K.C. Jhanwar Sr. Executive President
 Mr. G.K. Tulsian Executive President

Textile Division

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 stands in the midst of an epochal transformation. Today, we are the fourth largest economy in the world in terms of purchasing power parity, the third largest in Asia, and the second largest among the emerging nations. Growing at a clip of over 9% annually, India is one of the few markets that has enormous potential for growth and earnings in practically all sectors. There is no let up from the Government on the reform process which has spurred the economy. These developments at the macro level will have a positive impact on your Company.

Your Company has posted a commendable performance. Its net consolidated turnover at Rs.14,095 crores, up by 38%, with a net profit of Rs.1,968 crores reflecting a sharp growth of 89%, is indeed praiseworthy.

To sustain and grow our leadership position in both the VSF and Cement sectors, which are your Company's core businesses, significant strategic steps have been taken.

In the Cellulosic Fibre business we as a Group have 21% of the global market share. And we have set our sights higher.

Over the years, we have been moving away from being a pure commodity player to a value-added player for the niche segments of the market. In addition to spun dyed fibres, we have significantly enhanced our Specialty Fibre portfolio covering all generations of man made Cellulosic fibres. Our intent is to be an equally significant producer of fibres for non-woven applications. So we have embarked on brownfield expansions in India, Thailand, Indonesia and China, and a Greenfield project at Egypt, which will notch up the Group's capacity from 566,000 TPA to 864,000 TPA. These facilities have been engineered for the production of specialty fibres for the higher end of the market and also for the production of fibres for the fast growing non-wovens segment.

In India a 63,875 TPA capacity expansion is coming up at your Company's plant in Kharach (Gujarat). Alongside, the process of obtaining regulatory approvals for a 31,000 TPA brownfield expansion at Harihar (Karnataka) is on.

Your Company's plans for bolstering the captive pulp availability are on track. A.V. Nackawic facility's (Canada) conversion from paper grade pulp to dissolving grade pulp should happen by the first quarter of FY 09.

Your Company, as you are aware, is the lowest cost producer of superior quality VSF. It is fully geared to capitalize on the increased demand for Viscose Staple Fibres. Today, there is a marked shift in consumer preference towards Cellulosic products, both in the domestic and export markets. This robust growth and given our years of experience, brightens the Company's outlook for the VSF business.

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In the Chemical business, to improve efficiency levels, the residual caustic soda capacity based on mercury cell technology has now fully transited to the new energy efficient membrane cell technology. Going forward, your Company's emphasis would be on optimizing resource utilization and reducing costs through R&D, coupled with the development of ancillary and value-added products.

Your Company's Cement business continues to grow from strength to strength. To sustain its leadership and to garner a larger pie of the growing market demand, your Company is augmenting capacities by an additional 9.5 million TPA through greenfield and brownfield projects.

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Expansion plans at Shambhupura and Kotputli, both in Rajasthan, are progressing in line with expectations. The Shambhupura Plant is slated to be commissioned by the end of FY08. The Kotputli Plant is expected to go on stream by the first quarter of FY09.

Apart from setting up of Thermal Power Plants at these plants, the Grinding Unit at Dadri in Uttar Pradesh will also be up and running by FY08.

Additionally for UltraTech, your Company's subsidiary, we are putting up a 4 million TPA plant at Tadpatri in Andhra Pradesh. Together, these initiatives raise your Company's Cement capacity by 14 million TPA and exalt your Company to a 45 million TPA Cement major.

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The Cement sector is on a roll, as the housing and infrastructure sectors, coupled with the increasing industrial investment continue to grow. Therefore, the outlook for the Cement business is encouraging.


In sum, as in the past, VSF and Cement will continue to be the growth drivers for your Company. Collectively and on a consolidated basis, they contribute to 90% of your Company's top-line and bottom-line. Shoring up of our leadership position in the VSF and Cement sectors, cost optimizing, maximizing asset productivity and prudent financial management, which are your Company's hallmarks have a positive impact on your Company's ongoing success. We look upon the future with great optimism as we move forward.

For our success, much credit must go to our people. The quality of our people, their intellectual and emotional commitment has been and continues to be unwavering. I deeply acknowledge their contribution in perpetuating such a meritocratic organization.

The Aditya Birla Group: In Perspective

In line with our vision to be a premium global conglomerate with a clear focus at each business level, I am pleased to inform you that our geographic reach has far expanded. This year has indeed been a landmark year consequent to major acquisitions. Today, our Group is a US\$ 24 billion corporation with a market cap in excess of US\$ 23 billion, anchored by a committed 100,000 workforce belonging to 25 nationalities, representing 20 countries across 5 continents. We are all glued together by a common set of values – Integrity, Commitment, Passion, Seamlessness and Speed.

As a Group, we are a meritocracy with a sharp focus on people processes. We try and make space for new ideas and encourage a spirit of experimentation. Champions of good ideas have every chance to try them out.



Our people systems and our Group's HR strategy continue to evolve as our Group increasingly globalises. In this regard, we are continuously innovating to support our business vision with world-class HR processes and strategies. The Group-wide implementation of Project Poornata – the People soft based HR-ERP Programme, in its first year of implementation is already reckoned as an enabler of strategic people decisions. These on-line people processes enhance transparency and productivity.

Talent management and strengthening of the talent pool in building leadership across the Group continues to be a focus area. On the professional front, our people systems are aligned to foster excellence, empower and enrich people, recognize creativity, innovation and reward performance. People with a track record, people with a passion to perform are steered on to a growth trajectory. Our endeavours to identify, develop and push high potential talent, which was an initiative begun two years ago, will soon be institutionalised. It might interest you to learn that more than 4,000 of our high caliber management talent have been put through our Development Assessment Centres and their professional development plans charted out.

Our investments into employee development both through classroom teaching, e-learning, personal coaching by senior management and mentoring have been scaled up.

Given the intense war for talent, in addition to these HR systems, we have taken a slew of initiatives to strengthen our employer brand and to improve the quality of life of our employees. This, we hope, will help us keep the edge.

We have set up a taskforce to define the unique employment proposition that our Group can and does offer. Our intent is to ensure that these employee value propositions translate in the day-to-day experiences of our people and enhance their involvement with our Group.

To offer our people a share in the value created by the organisation, we announced the Employee Stock Option Plan which we expect to roll out in FY08. This would give them an increasing sense of ownership in our Group.

It is with a great sense of pride that I share with you the fact that our Group has been adjudged as the Best Employer in India in 2007 and amongst the top 20 Best Employers in Asia in the Hewitt-Economic Times and Wall Street Study of 2007. This is a singular achievement and a great honour, given that the Study encompassed 230 companies in India and over 700 companies in Asia. This honour is also a reflection of the pride, the affection and attachment that colleagues all over have for our Group.

While we cherish this acknowledgement, we realise that we have to work harder in the people area and bring in an even sharper focus on employees and their engagement.

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Best regards,

25th April, 2007

Yours sincerely,



Kumar Mangalam Birla

FINANCIAL HIGHLIGHTS

Year →	Unit	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-00	1998-99	1997-98
Production											
Viscose Staple Fibre	Tonnes	246833	228981	247952	221005	224610	176462	218847	188002	164355	174281
Grey Cement	Mn. Tonnes	14.42	13.83	12.44	11.85	11.09	9.53	9.10	8.40	5.82	4.71
White Cement	Tonnes	364649	350174	315368	310578	310163	267915	251594	240492	131979	—
Sponge Iron	Tonnes	525183	505825	780341	687272	612879	559567	663998	709094	670231	667350
Turnover											
Viscose Staple Fibre	Tonnes	250725	242399	231533	229110	227900	181520	203854	192452	164130	171148
Grey Cement	Mn. Tonnes	@ 14.52	@ 13.99	12.63	11.96	11.16	9.68	9.16	8.42	5.88	4.70
White Cement	Tonnes	367167	347500	311454	314819	305223	266105	251291	240014	133660	—
Sponge Iron	Tonnes	571127	478291	772799	676921	612425	562334	673852	822996	565682	767255
Profit & Loss Account											Rs. in Crores
Net Sales		8604	6653	6229	5213	4606	4372	4453	4273	3757	3500
Other Income		282	220	187	229	133	129	108	88	110	124
PBIDT		2619	1597	1785	1504	1136	909	900	739	674	698
Interest		112	103	139	154	169	190	239	256	292	256
Gross Profit (PBDT)		2507	1494	1646	1350	967	719	661	482	381	443
Depreciation		318	292	285	273	254	252	252	237	210	167
Profit before Tax & Exceptional Items		2189	1202	1361	1077	713	467	409	245	172	276
Current Tax		692	370	451	291	192	57	50	12	8	45
Deferred Tax		-2	-27	-33	7	-15	52	—	—	—	—
Net Profit before Exceptional Items		1499	859	943	779	536	359	359	233	164	231
Exceptional Items		37	4	-57	—	-168	-56	18	—	—	—
Net Profit after Exceptional Items		1536	863	886	779	368	303	378	233	164	231
Equity Dividend (including CTD)		287	209	167	145	103	83	81	72	63	54
Balance Sheet											Rs. in Crores
Gross Fixed Assets (incl. CWIP)*		7974	6416	6052	5802	5594	5371	5311	5206	4937	3717
Net Fixed Assets*		4593	3307	3204	3213	3264	3263	3303	3401	3354	2633
Investments		4275	3482	2982	2541	1796	1416	682	683	680	717
Net Current Assets		892	753	745	549	613	733	991	967	1002	1092
		9760	7542	6931	6303	5673	5412	4976	5052	5037	4442
Share Capital		92	92	92	92	92	92	92	92	92	72
Reserves & Surplus*		6134	4886	4232	3514	2879	2615	2395	2685	2524	2243
Net Worth		6226	4978	4324	3606	2971	2707	2486	2777	2616	2316
Deferred Tax Balance		583	584	599	632	626	641	589	—	—	—
Loan Funds		2951	1980	2008	2065	2076	2065	1900	2275	2421	2127
		9760	7542	6931	6303	5673	5412	4976	5052	5037	4442
*Excluding Revaluation Reserve		4	4	5	5	6	7	18	20	22	25
Ratios & Statistics											
PBIDT Margin	(%)	30.4	24.0	28.7	28.9	24.7	20.8	20.2	17.3	17.9	20.0
Interest Cover (PBIDT-Tax/Interest)	(x)	17.23	11.87	9.61	7.88	5.60	4.48	3.56	2.84	2.28	2.56
Debt Equity Ratio	(x)	0.47	0.40	0.46	0.57	0.70	0.76	0.76	0.82	0.93	0.92
Dividend per Share	Rs./ Share	27.50	20.00	16.00	14.00	10.00	9.00	8.00	7.00	6.75	6.75
Earning per Share	Rs./ Share	168	94	97	85	40	33	41	25	18	32
Cash Earning per Share	Rs./ Share	198	123	130	116	85	72	67	51	41	55
Book Value per Share	Rs./ Share	679	543	472	393	324	295	271	303	285	320
No. of Equity Shareholders	No.	168671	164847	174831	191770	242359	263549	279207	298232	199083	206851
No. of Employees	No.	15022	15156	15363	15971	16648	16912	21473	23345	24407	23157

Prior to FY01 Deferred Tax provisioning was not required, consequently reserves include Deferred Tax
 @ Excludes traded volumes