

LAST MAN
STANDING



FIRST MAN
FORWARD



ANNUAL REPORT
2011 - 2012

GRASIM INDUSTRIES LIMITED



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



Dear Shareholders,

Almost four years after the greatest financial and economic upheaval since the Great Depression, the global economy is regaining a measure of stability and confidence. But the risks to growth looks unsteady once again, with the problems in the Euro Zone. The IMF projects that the global economic growth will decline from 4% in 2011 to 3.5% in 2012, before picking up to 4% in 2013. The Euro zone shows signs of slipping into a recession again, though that is expected to be offset by around 2% growth in the US and 6% in the emerging and developing economies. The economies of Africa, particularly sub-Saharan Africa, are demonstrating structural improvement. Japan is on the road to normalcy after the twin disasters of the tsunami and the Fukushima nuclear reactor accident. The global supply chains, disrupted by the disasters in Japan and the floods in Thailand, have been restored. The financial condition of the large global corporations is extremely strong, and their cash holdings at an all-time high.

The worst-case scenarios for the global economy have not come to pass. That, in no small measure, is due to the unprecedented stimulus provided by governments and central banks. Europe has also reached a degree of consensus on fiscal reforms. The ECB has also put in

place firewalls to ward off a widespread economic contagion.

Clearly, the road ahead is not yet smooth. The bond, inter-bank and sovereign debt markets in Europe remain jittery. The process of financial deleveraging still has a long way to go. Oil prices remain stubbornly high. Unemployment is proving extremely sticky and concerns about inequality are growing. A major worry is the political gridlock in many major countries, that makes it difficult to strike the right trade-offs between growth and fiscal and monetary restraint.

The Indian economy was quick off the mark in recovering after the 2008 shocks. But the growth momentum has slowed considerably over the past year. GDP growth in the third quarter of FY 2011-12 was 6.1%, down from 8.3% in the corresponding quarter of FY 2010-11. Some of the key indicators are bearish. Gross fixed capital formation has contracted in recent months. Growth in industrial production in the April 2011-February 2012 period slid to 3.5%, compared to 8.1% during the same period last year. Inflation, particularly in food items, remains high. There have been major slippages on the fiscal side. The current account deficit, in the April-December 2011 period widened to 4.0% of GDP, a clear warning sign. On a trade-weighted basis the Rupee depreciated around 8% in the past year. Given the slippage in growth, RBI's decision to ease monetary policy was timely. Even so monetary policy will not be effective unless it is supported by fiscal restraint. India's economy is poised delicately. Recent policies have not taken the economy forward. These have a bearing on your Company's growth and performance.

For the Financial Year 2011-12, your Company's consolidated revenues stood at US\$ 5.3 billion (₹ 25,244 crores) vis-à-vis US\$ 4.7 billion (₹ 21,550 crores) in the previous year. Net profit at US\$ 553 million (₹ 2,647 crores) is higher by 16% (in rupee terms) in comparison to US\$ 501 million (₹ 2,279 crores).

VSF – ramping up capacities

Your Company has completed the acquisition of a one-third stake in Domsjö Fabriker (Sweden). As I had apprised you earlier, this acquisition marks a major milestone for our VSF business, giving us access to quality pulp.

Our efforts to solidly consolidate our pole position in the VSF business in which we enjoy a leadership status globally, continue. Through a Greenfield project at Vilayat (Gujarat) 120,000 tpa and Brownfield expansions at Grasim Harihar (Karnataka) 36,500 tpa and Domsjö Fabriker (Sweden) 45,000 tpa, we intend to beef up our leadership position. These expansion projects will be commissioned during FY-2012-13. Collectively, these projects will ramp up capacities by 50% to an impressive 498 ktpa.

Furthermore, a 180,000 tpa Greenfield plant in Turkey is in planning stage. As a country, Turkey offers enormous potential, given its pre-eminence as a major textile hub. A detailed study and obtaining the requisite approvals to get this project going, is underway.

Cement

We have lined up aggressive growth plans in the Cement sector as well. Brownfield expansions at Chhattisgarh and Karnataka, are expected to become operational by the first quarter of FY-2013-14. With this our total Cement capacity will stand augmented by 10 million tpa, bringing it to a total of 62 million tpa, up by 20%, further bolstering our top of the league status.

Capital Outlays

In the VSF and related Chemicals businesses, your Company's capex stands at US\$ 700 million (₹ 3,700 crores). This is largely towards the Greenfield and Brownfield projects at Harihar and Vilayat.

In the Cement sector, we have provided for a capital outlay of over US\$ 2 billion (₹ 10,400 crores).

Our efforts to solidly consolidate our pole position in the VSF business in which we enjoy a leadership status globally, continue. Through a Greenfield project at Vilayat (Gujarat) 120,000 tpa and Brownfield expansions at Grasim Harihar (Karnataka) 36,500 tpa and Domsjö Fabriker 45,000 tpa, we intend to beef up our leadership position. Collectively, these projects will ramp up capacities by 50% to an impressive 498 ktpa.

Our plans include setting up of clinkerisation plants at Chhattisgarh and Karnataka, grinding units, captive power plants, bulk packaging terminals, ready-mix concrete plants and enhancing logistics infrastructure besides modernisation.

Outlook

I look upon both the VSF and Cement sector as having great growth potential over the long haul. In the short term in VSF, volatile market conditions, the mushrooming of VSF capacities in China and an abundance of the cotton crop, may lead to some concerns.

In the Cement sector, given the huge gaps in infrastructure and the Government's intent to bridge them through a sharp focus on infrastructure in the 12th Five-Year plan, my outlook in the long term is buoyant. That said, the surplus capacity scenario that exists today may continue for the next 3 years. In the present context, high input costs, rising energy and freight costs coupled with volatile prices, are challenges that we have to grapple with proactively.

Let me conclude on an optimistic note, more so when I look at the quantum leap in the capacities of your Company's key businesses. Your Company with its strong fundamentals, is all set to attain new milestones in its growth trajectory.

To our teams

I thank of all our teams for their solid performance, undiluted commitment and laser sharp focus on delivering results.

The Aditya Birla Group in perspective

Despite a choppy global economy, our Group turned in a solid performance in FY 2011-12, anchored by our 133,000 strong workforce comprising 42 nationalities spanning 36 countries. Our consolidated revenues were a little over 40 billion dollars, reflecting a 14% growth.

It is my abiding belief that our people are the single most important enablers from every perspective. It is with a sense of deep pride that I share with you the fact that our continuous investment in the people area has paid rich dividends. Our Group has been ranked fourth in the Global Top Companies for Leaders and first in Asia Pacific in the Top Companies for Leaders' 2011 study conducted by Aon Hewitt, Fortune and the RBL Group. 470 companies worldwide participated in this study. This recognition is personally heartening for me, given that we have competed against the best of breed global companies.

I personally am convinced that we are now forging ahead on the people front. Our dedicated efforts in enhancing the quality of life of our employees and their families, continues unabated.

Our Talent Management and Leadership Development processes have been further enhanced, to meet our very specific talent requirements, with many more employees being included. To mention a few, launched:

- a Global Manufacturing Leadership Program to induct lateral recruits and fortify our technical talent in our Units.
- a Continuing Education Policy to support managers in acquiring higher specialist education for skills upgradation while they continue to be in their jobs.
- "Cutting Edge", the accelerated P&L Leadership development Program, to enable function leaders to transition to P&L roles.
- And over 30,000 touch points to our learners through multiple learning formats. With these the number of people being targeted for honing competencies and developing skills has risen many times over. This is in sync with our "World of Opportunities" proposition. The customization of these learning programmes is far sharper this year on.

In the VSF and related Chemicals businesses, your Company's capex stands at US\$ 700 million (~ 3,700 crores). This is largely towards the Greenfield and Brownfield projects at Harihar and Vilayat.

In the Cement sector, we have provided for a capital outlay of over US\$ 2 billion (~ 10,400 crores). Our plans include setting up of clinkerisation plants at Chhattisgarh and Karnataka, grinding units, captive power plants, bulk packaging terminals, ready-mix concrete plants and enhancing logistics infrastructure besides modernisation.

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Beyond Business

Given that our employees have a desire to contribute to the larger community, including those of their colleagues who need support, we are setting up a new trust called the "World Of Opportunities Foundation", through which our employees can contribute to supporting the higher education of children in need.

Last Man Standing-First Man Forward

And finally let me add that over the years, we have through determined and deliberate effort come to be in this position of being the 'Last Man Standing', almost across each of our businesses. And when we do face a downturn today, from our position of strength, the message I want to convey is that, the last man standing has the best chance at being the first man forward. The first man forward to consolidate market positions, to show superior performance in each industry and get a few steps ahead of competition.

Yours sincerely,



Kumar Mangalam Birla

BOARD OF DIRECTORS

Mr. Kumar Mangalam Birla - Chairman
 Mrs. Rajashree Birla
 Mr. M.L. Apte
 Mr. B.V. Bhargava
 Mr. R.C. Bhargava
 Mr. A. K. Dasgupta (upto 21st June, 2012)
 Mr. Cyril Shroff
 Dr. Thomas M. Connelly
 Mr. Shailendra K. Jain
 Mr. N. Mohan Raj (w.e.f. 21st June, 2012)
 Mr. D.D. Rathi
 Mr. K.K. Maheshwari, Managing Director
 Mr. Adesh Gupta, Whole-Time Director

Chief Financial Officer

Mr. Adesh Gupta

Company Secretary

Mr. Ashok Malu

Statutory Auditors

M/s. G.P. Kapadia & Co., Mumbai
 M/s. Deloitte Haskins & Sells, Mumbai

Branch Auditors

M/s. Vidyarthi & Sons, Gwalior

Solicitors

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

EXECUTIVES**Fibre & Pulp Business**

Mr. K.K. Maheshwari Business Director
 Mr. S.K. Saboo Group Advisor,
 Chairman's Office
 Dr. Prakash Maheshwari Group Executive President,
 Chief Operating Officer (India)
 & Head (Projects)
 Mr. Vijay Kaul Group Executive President
 (Marketing) & Head-Pulp
 Operations
 Mr. Vinod Tiwari Chief Operating Officer
 (Pulp Operations)
 Dr. Aspi Patel Chief Technology Officer
 Mr. Rajeev Gopal Chief Marketing Officer
 Dr. Raju Mistry Chief People Officer

Cement Business

Mr. O.P. Puranmalka Business Head
 Mr. R.K. Shah Group Executive President &
 CMO (Mfg. & Projects)
 Mr. S.N. Jajoo Chief Marketing Officer
 Mr. K.C. Birla Sr. Executive President (Finance)
 Mr. C. B. Tiwari Chief People Officer

Chemical Business

Mr. Lalit Naik Business Head
 Mr. K.C. Jhanwar Group Executive President
 Mr. G.K. Tulsian Executive President
 Mr. Gerard Dcunha Chief People Officer

Textile Business

Mr. Thomas Varghese Chief Executive Officer
 Mr. S. Krishnamoorthy President

Corporate Finance Division

Mr. Pavan K. Jain Executive President

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Registered Office: Birlagram, Nagda 456 331 (M.P.)
www.grasim.com/www.adityabirla.com

| Year —> | Unit | 2011-12 | 2010-11 | 2009-10 | 2008-09 | 2007-08 | 2006-07 | 2005-06 | 2004-05 | 2003-04 | 2002-03 |
|---|---------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|-------------|-------------|
| Production | | | | | | | | | | | |
| Grey Cement | Mn. Tons | 42.11 | 39.67 | 37.02 | 32.18 | 31.22 | 29.98 | 28.43 | 26.13 | 12.60 | 11.91 |
| Ready-Mix Concrete | Mn. Cu. Mtrs. | 4.84 | 4.39 | 3.87 | 3.85 | 2.84 | 1.57 | 1.07 | 1.08 | 0.83 | 0.61 |
| White Cement | Lac Tons | 5.67 | 5.41 | 5.14 | 4.41 | 4.08 | 3.65 | 3.50 | 3.15 | 3.11 | 3.10 |
| Viscose Staple Fibre | Tons | 321085 | 305087 | 302092 | 232745 | 279901 | 246833 | 228981 | 247952 | 221005 | 224610 |
| Caustic Soda | Tons | 260326 | 242037 | 229801 | 207226 | 188537 | 136685 | 165509 | 161966 | 157541 | 151445 |
| Sponge Iron ^ | Tons | — | — | 77069 | 420156 | 562000 | 525183 | 505825 | 780341 | 687272 | 612879 |
| Turnover * | | | | | | | | | | | |
| Grey Cement (Incl. Clinker) | Mn. Tons | 43.96 | 41.56 | 39.58 | 34.96 | 33.58 | 32.56 | 30.06 | 29.24 | 12.86 | 12.19 |
| Ready-Mix Concrete | Mn. Cu. Mtrs. | 4.84 | 4.39 | 3.87 | 3.85 | 2.84 | 1.57 | 1.07 | 1.08 | 0.83 | 0.61 |
| White Cement | Lac Tons | 5.55 | 5.47 | 5.09 | 4.38 | 3.96 | 3.67 | 3.48 | 3.11 | 3.15 | 3.05 |
| Viscose Staple Fibre | Tons | 306917 | 305072 | 308431 | 238463 | 269781 | 250725 | 242399 | 231533 | 229110 | 227900 |
| Caustic Soda | Tons | 265816 | 241365 | 229876 | 207520 | 187356 | 137830 | 165853 | 163111 | 156967 | 150825 |
| Sponge Iron ^ | Tons | — | — | 75427 | 423414 | 557187 | 571127 | 478291 | 772799 | 676921 | 612425 |
| ^ Sold on 22nd May, 2009 | | | | | | | | | | | |
| * Including Captive Consumption | | | | | | | | | | | |
| Profit and Loss Account | | | | | | | | | | | |
| | | 2011-12 | | | | | | | | | |
| | | (USD Million) | | | | | | | | | |
| | | (in Crore) | | | | | | | | | |
| Revenue from Operations (Net) | | | | | | | | | | | |
| Cement | 4016 | 19236 | 15941 | 15475 | 13512 | 11792 | 9940 | 6938 | 5652 | 2549 | 2352 |
| Viscose Staple Fibre | 1045 | 5007 | 4824 | 3940 | 2915 | 3456 | 2706 | 1990 | 2009 | 1808 | 1685 |
| Chemicals | 162 | 777 | 542 | 493 | 523 | 418 | 319 | 386 | 352 | 295 | 257 |
| Sponge Iron | — | — | — | 111 | 1008 | 951 | 756 | 635 | 1021 | 639 | 406 |
| Textiles | 101 | 484 | 419 | 351 | 318 | 295 | 271 | 247 | 260 | 242 | 229 |
| Others (Mainly Telecom) ** | — | — | — | 1 | 431 | 438 | 327 | 234 | 180 | 106 | 82 |
| Inter-segment Elimination | -54 | -260 | -176 | -175 | -210 | -208 | -177 | -156 | -160 | -129 | -104 |
| Total Net Revenue | 5270 | 25244 | 21550 | 20195 | 18496 | 17141 | 14142 | 10275 | 9315 | 5510 | 4908 |
| PBIDT | | | | | | | | | | | |
| Cement | 894 | 4283 | 3345 | 4706 | 3686 | 3747 | 3175 | 1459 | 974 | 458 | 361 |
| Viscose Staple Fibre | 266 | 1274 | 1628 | 1339 | 521 | 1109 | 754 | 493 | 613 | 572 | 586 |
| Chemicals | 34 | 161 | 124 | 125 | 155 | 138 | 81 | 125 | 104 | 74 | 53 |
| Sponge Iron | — | — | — | -39 | 135 | 160 | 85 | 74 | 390 | 254 | 104 |
| Textiles | 8 | 39 | 28 | 24 | 15 | 7 | 5 | 3 | 12 | 13 | -9 |
| Others/Unallocated/ Inter-segment Elimination | 118 | 563 | 270 | 168 | 267 | 261 | 191 | 182 | 180 | 171 | 57 |
| Total PBIDT | 1320 | 6320 | 5395 | 6322 | 4779 | 5422 | 4290 | 2337 | 2272 | 1543 | 1151 |
| Interest | 66 | 314 | 407 | 334 | 307 | 222 | 229 | 219 | 284 | 196 | 213 |
| Gross Profit (PBDT) | 1254 | 6006 | 4988 | 5988 | 4472 | 5200 | 4061 | 2118 | 1988 | 1347 | 938 |
| Depreciation | 241 | 1154 | 1139 | 995 | 865 | 670 | 610 | 563 | 556 | 308 | 287 |
| Profit before Tax, Exceptional and Extraordinary Items | 1013 | 4852 | 3849 | 4993 | 3607 | 4530 | 3451 | 1555 | 1432 | 1039 | 651 |
| Exceptional Items (EI) | — | — | — | — | — | 46 | — | 4 | -129 | 1 | -169 |
| Profit before Tax and Extraordinary Items | 1013 | 4852 | 3849 | 4993 | 3607 | 4576 | 3451 | 1559 | 1303 | 1040 | 482 |
| Total Tax Expenses | 276 | 1321 | 954 | 1570 | 992 | 1466 | 1092 | 402 | 442 | 302 | 163 |
| Net Profit before Extraordinary Items | 737 | 3531 | 2895 | 3423 | 2615 | 3110 | 2359 | 1157 | 861 | 738 | 319 |
| Extraordinary Items (EO) | — | — | — | 336 | — | 236 | — | — | — | — | — |
| Net Profit before Minority Interest | 737 | 3531 | 2895 | 3759 | 2615 | 3346 | 2359 | 1157 | 861 | 738 | 319 |
| Less: Minority Interest | 197 | 947 | 660 | 714 | 444 | 457 | 392 | 116 | -19 | — | — |
| Add: Share in Profit/(Loss) of Associate** | 13 | 63 | 44 | 51 | 16 | 2 | -0.4 | — | — | — | — |
| Net Profit | 553 | 2647 | 2279 | 3096 | 2187 | 2891 | 1967 | 1041 | 880 | 738 | 319 |

**Results of Idea Cellular Limited was consolidated as 'Joint Venture' till 31st December, 2009 and thereafter as an 'Associate'.

Note 1 - 1 USD = INR 47.90