ADITYA BIRLA
GRASIM

ANNUAL REPORT 2019-20

GRASIM INDUSTRIES LIMITED

BIG IN YOUR LIFE

TRIBUTE TO A VISIONARY AND A PASSIONATE ENTREPRENEUR

Mr. Aditya Vikram Birla
(14.11.1943 - 01.10.1995)

We live by his Values. Integrity, Commitment, Passion, Seamlessness and Speed.

CHAIRMAN'S LETTER TO THE SHAREHOLDERS

Dear Shareholders,

COVID-19 and the associated lockdowns across countries have triggered a once-in-a-century crisis for the society and the economy in 2020. January now seems like a month of a bygone era – such has been the enormity of change. This is a defining period in human and business history: one that will test the resilience of individuals, societies, corporations, and nations.

Given the fog of uncertainty all around, it is hard to be prescient in these times. But there is little doubt on one reality: companies with quality leadership, sound business fundamentals, and a track record of winning in turbulent times, will emerge as champions in the new global order.

Global Economy

It has been several months since the pandemic engulfed the world and yet there is a lot of uncertainty with respect to the extent of the economic contraction due to this crisis, and the subsequent pace of recovery.

This year will see an economic contraction, but this 2020 recession is turning out very different from the past recessions. It has been too sudden – almost off the cliff; its spread has been all-encompassing – affecting almost every economy and sector, and the plunge in economic activity levels and employment has been unprecedented.

On the positive side, this recession is likely to be one of the shortest, assuming no second wave of the pandemic recurs. As present lockdowns around the world get lifted, and businesses reopen, economic activity is likely to bounce back fairly quickly. Around $9-trillion stimulus from different governments globally will help to support this recovery, along with the monetary actions by Central banks. These policies will also help to restrict the second-order effects like defaults and bankruptcies.

Some scars of the crisis will remain in the form of subdued consumer and business confidence. Some sectors, like airlines and hospitality, will take time to recover fully. And some supply chain disruption effects will linger. The International Monetary Fund (IMF) and other agencies are predicting that it could take about 5-6 quarters for global GDP to inch back to pre-crisis levels, and the global economic trajectory thereafter will be below the Pre-COVID trajectory for the next few years.

As the world emerges from the current crisis, the next few years are likely to be marked by lack of buoyancy in growth, subdued commodity prices and inflation, a cautious trend in project investments, heightened risks of de-globalisation and political uncertainty; and increased dependence of financial systems on ultra-loose monetary policy conditions. We will also have to watch out for potential Post-COVID changes in consumer behaviour (such as more virtual engagements) and of operating models of organisations (such as work-from-home norms, diversification of supply chain risks, more use of e-commerce).

> Government has initiated some remarkable reforms in agriculture, mining and public sector enterprises. Such pragmatic policies – along with the ambitious National Infrastructure Pipeline program that the Government had announced in December 2019 – will support India's medium-term growth rebound

Indian Economy

COVID-19 struck India at a time when the underlying economic conditions were subdued on account of heightened global uncertainty and stress in the domestic financial system.

Against this backdrop, a stringent national lockdown to slow the spread of the pandemic started in the last week of FY20 and remained active to varying degrees in different geographies through most of the Q1 of FY21. It is estimated that about 80% of India's GDP originates from districts which were classified under the red and orange zones during the lockdown, where economic activity remained severely constrained. Correspondingly, India's GDP is likely to contract in FY21, which would be the first such instance in over four decades. The contraction is estimated to be particularly severe during Q1.

Responding to this challenge, both the Reserve Bank of India (RBI) and Government of India announced several policy measures to provide relief to the affected sections of the economy, to reduce the possibility of business failures and to support the process of recovery. Government has initiated some remarkable reforms in agriculture, mining and public sector enterprises. Such pragmatic policies – along with the ambitious National Infrastructure Pipeline program that the Government had announced in December 2019 – will support India's medium-term growth rebound. In the interim, however, the Indian economy – like the global economy – will need to navigate through some difficult quarters.

The Aditya Birla Group: In Perspective

Over a longer historical arc, the Aditya Birla Group has witnessed dramatic disruptions across periods, businesses, and geographies. And yet, we have come out stronger. Always. A wide range of insights and experiences accumulated over diverse situations, allows the Group to fortify its businesses from both the immediate and the lingering effects of economic pain, caused by the pandemic.

In these turbulent and dynamic times, the Group's near-term focus is to hold the ship steady and to see it through the turbulence – by emphasising on conservation of cash, the safety of its teams and assets, and strengthening its business relationships. The Aditya Birla Group is also closely examining the evolving changes in the business environment and their implications, to position itself well for leveraging the opportunities through and after the economic revival.

> *"Grasim traces its very origin to the spirit of nation-building. Its success over 8 decades is an emphatic endorsement of Atmanirbhar Bharat. Grasim today, is home to world-beating fibre and cement companies. The unmatched global scale built across diverse sectors like fibre, chemicals and cement is on the back of decades of relentless innovation, soaring and fearless ambition, incessant cost consciousness and nimbleness. These are the qualities of an Atmanirbhar Grasim which has been nourished from India and flourished globally."* – Mr. Kumar Mangalam Birla

As the events began to unfold worldwide in the last quarter of the financial year, we anchored to our core strengths – our people, our processes, and our agility. In line with the Group's core philosophy of employee care and wellbeing, swift action was taken to shut down our offices, manufacturing units, retail outlets and branches — where necessary; and recalibrate operations where feasible. Overnight, everyone switched to a new paradigm of work from home and adopted digital technology seamlessly. This is not an easy transition for large, diverse global organisations. But it was made possible due to the adaptability and commitment of our employees, discipline of the leadership, strong processes, and past investments in digital technologies. Our culture of learning hugely supported this quick switchover. A multi-generational workforce was an added advantage; as the younger digital-native employees played a reverse mentor role in guiding the older employees to become digitally savvy; the older employees enabled others to stay calm, focussed and productive in difficult times. Continuous listening to employees through pulse surveys and guiding them to Make the Most of the situation led to a productive and winning mindset. A pulse survey conducted with ABGites showed an assuring trend – 86% were confident about delivering their Q1 goals of the new fiscal.

Faced with an unprecedented nationwide lockdown, our Group businesses proactively created 'Business Continuity Plans' working through different scenarios. Our teams engaged deeply and meaningfully with customers and value chain partners to support them better in these extraordinary times.

Over the last few months, business models have been reassessed, to identify strategic and tactical opportunities to improve effectiveness, prune avoidable costs as well as prepare for the new normal. New opportunities are continuously being ideated and explored. For example, Aditya Birla Fashion and Retail has made an emphatic foray into masks, our Chemicals Business is producing disinfectants, and the Fibre Business is manufacturing antibacterial fibre.

The pandemic has also accelerated our shift to digitisation across businesses. A new wave of digital energy is being unleashed with a clear focus on getting closer to our customers.

Our Group businesses are also leaving no stone unturned in redefining workplace hygiene. Every business has implemented new standards of safe working with guidelines for social distancing and zero-touch interactions. Similar protocols have been created for safe and superior customer engagements. We believe that things will continue to be dynamic and uncertain in the coming months. Even as we open offices and factories with protocols to put employee safety at the forefront and enhance productivity, we will continue to leverage our strength of adaptability and agility.

A crisis of such magnitude is a great reminder of our responsibility to give back to society. True to its legacy, ABG has curated a multi-pronged approach to help our communities fight COVID-19, with a commitment of over ₹ 500 Crore towards COVID-relief measures. This entailed a contribution of ₹ 400 Crore to the PM CARES Fund. In addition, we have also leveraged the capabilities of our apparel business to commence the production of one million triple-layer surgical masks and 100,000 coverall garments. Several hundred thousand food packets, provisions and disinfectants have been distributed to the needy across the country. Given the depth of our presence in India, we have also earmarked over 300 beds for COVID-19 patients at our network of hospitals in our units.

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This unflinching support to our employees, communities and other stakeholders is core to our DNA and will enable our long-term, sustainable growth.

Your Company's Performance

Your Company delivered a strong performance in FY20, that was in part affected by the tumultuous last few weeks of the fiscal. Grasim demonstrated extraordinary resilience in this period of turmoil. This was largely on account of its diversified business portfolio and the inherent Balance Sheet strength. This gives me the confidence, that your Company will emerge stronger from this global crisis and maintain its long-term competitive advantage built on the back of a well-calibrated strategy of customer orientation, cost optimisation and product development. The benefits of this strategy were already apparent in FY20. On a Consolidated basis, Grasim's Revenue for FY2019-20 stood at ₹ 77,625 Crore and EBITDA at ₹ 13,846 Crore.

Viscose Staple Fibre Business

The Viscose Staple Fibre (VSF) business delivered superior operational performance in FY20, with all its plants operating at full capacity. Our push towards greener fibres received a significant impetus through the launch of an eco-enhanced version of Liva – Livaeco. This new variant boasts of unmatched sustainability credentials as it saves water, increases forest cover, biodegrades fast and reduces CO2 emission. Sourced from certified sustainable forests, the journey of every Livaeco-tagged garment can be traced to its origin. This new offering has been well received in the market.

Sustainability is at the core of every action taken by your Company. The VSF business has committed to go even beyond stipulated regulatory norms and adopt the most stringent European Norms (referred to as EU Best Available Technology) at all its viscose fibre manufacturing sites by FY22. By doing so, your Company would be setting industry-leading benchmarks on sustainable business practices, with the lowest water consumption and sustainable forest management.

> The Viscose Staple Fibre (VSF) business has delivered superior operational performance with all its plants operating at full capacity utilisation. Our push towards greener fibre received a significant impetus through the launch of an eco-enhanced version of Liva - Livaeco

The VSF business reported best production and sales volume of 567 KT and 554 KT in FY20, up 5% and 2% YoY. FY20 revenue from Viscose business stood at ₹ 9,237 Crore and EBITDA at ₹ 1,339 Crore. The fall in EBITDA due to the loss in realisations, was partly cushioned by the reduction in pulp prices and various cost optimisation programmes undertaken during the year.

Our focus will continue to be on the areas of cost optimisation, sustainability, and developing new products & applications.

Chemicals

The production and sales volume of caustic soda nearly touched the one million-tonne mark in FY20. The realisation remains under pressure as the domestic chlor-alkali industry is witnessing excessive oversupply from newly created capacities and rise in imports. However, the demand for chlorine value-added products remains strong and has improved towards the end of FY20 driven by health and hygiene products.

On the sustainability front, the business has commissioned Zero Liquid Discharge plants at Ganjam and Rehla. The Chemicals division has also committed to increasing the share of renewable energy in the overall power mix.

The Net Revenue of the Chemicals unit for FY20 stood at ₹ 5,504 Crore and EBITDA at ₹ 1,008 Crore.

Other Businesses:

The urea business provided a steady stream of profitability. We had maintenance shutdown during the year which impacted the volumes; however, our non-Urea sales - called "Purak", grew by double digits during the year, providing overall stability to the business.

The performance of the Textiles business consisting of linen, wool, and premium cotton, was significantly impacted due to the weak market conditions in the premium segment, in which the Company operates. However, your Company was able to unlock significant amount of liquidity through the release of working capital in this business.

The Insulator business witnessed subdued demand in FY20. This was largely due to lack of large investments in the power sector. We are evaluating new product lines and export markets to boost the earnings of this business.

Our Pulp JVs in Canada and Sweden are of strategic importance to us. These units cater to a significant portion of our pulp requirement and ensure consistency in the supply of prime quality pulp. The performance of these JVs was impacted due to correction in the Pulp prices.

Capex

Your Company has been in the process of executing a capex plan of ~₹ 7,800 Crore (at standalone level) for raising capacities in both the VSF and Chemical businesses and towards modernisation capex at various plants. The capex plans are currently being reviewed, in the context of the current economic environment.

UltraTech Cement Limited (a subsidiary of the Company)

The cement demand in the country, after witnessing a double-digit growth of 13% in FY19, declined in FY20 led by extended monsoons, and slowdown in capital expenditure for infrastructure and housing sectors.

UltraTech reported net revenues of ₹ 42,125 Crore and EBITDA of ₹ 9,930 Crore during FY20.

The acquisition of cement business (capacity 14.6 Million tonnes per annum) of Century Textiles and Industries Limited has provided UltraTech undisputed market leadership not only pan India, but also in each Zone of India - North, South, East, West and Central.

UltraTech's global capacity is now 114.7 million tonnes per annum up from about 70 million tonnes just 3 years ago. Today, UltraTech is the 3rd largest cement manufacturer in the world, excluding China; and is the only Company to have a capacity of over 100 million tonnes in a single country, outside of China.

Aditya Birla Capital Ltd. (a subsidiary of the Company)

Aditya Birla Capital's consolidated revenue grew 11% year-on-year to ₹ 16,792 Crore. The consolidated profit after tax (after minority interest) reflected a growth of 6% year-on-year to ₹ 920 Crore. The Company raised ₹ 2,100 Crore of equity capital in September 2019 through a preferential allotment to the Promoter/Promoter group and marquee investors.

The overall lending book (NBFC and Housing Finance) stood at just under ₹ 60,000 Crore and the gross premium (across Life and Health Insurance) grew to ₹ 8,882 Crore. The Company's retailisation strategy helped it to grow its active customer base to ~ 20 Million through 850+ branches and 2,00,000+ channel partners and several bank partners. Aditya Birla Capital has robust risk management frameworks and continues to focus on quality growth, while creating value across its businesses.

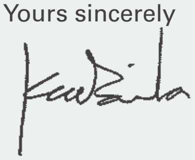
> "The urea business provides a steady stream of profitability. We had maintenance shutdown during the year which impacted the volumes, however, our non-Urea sales which is called "Purak" grew by double digit during the year, providing overall stability to the business"

Conclusion

FY20 is not just another fiscal. Never has the transition between two financial years been as tumultuous for the global economy. The pandemic is no doubt, a sobering reminder of how the world can change in unforeseeable ways.

As COVID-19 gets quelled and the global economy reawakens, endurance will pave the way for renewal — for individuals and corporations alike. When we emerge from the coronavirus, I have no doubt that the world will recognise and celebrate corporations that are exemplars of good governance and sustainable growth. You can count on your Company as being one of them.

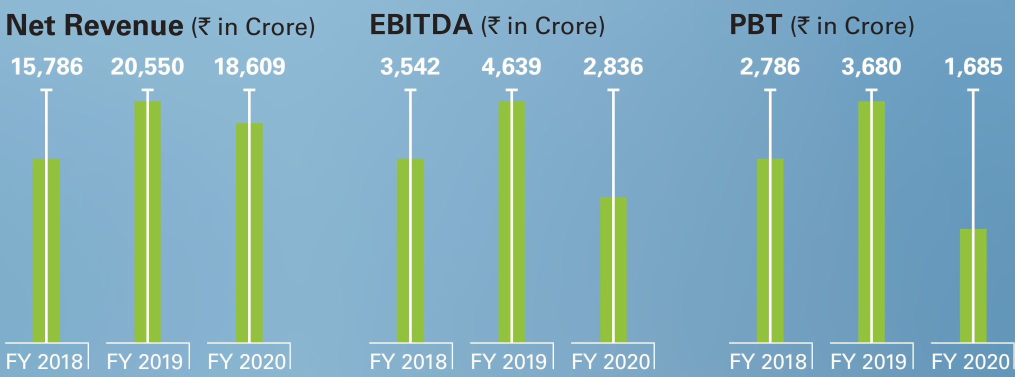
Yours sincerely



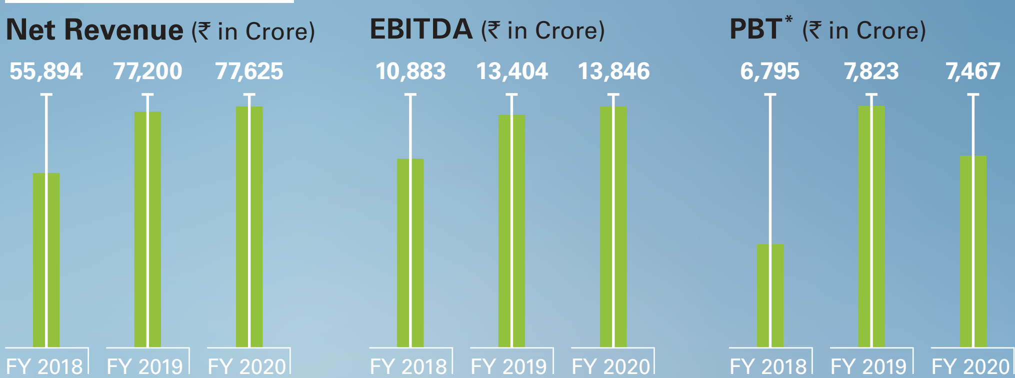
Kumar Mangalam Birla

FINANCIAL HIGHLIGHTS

Grasim Standalone

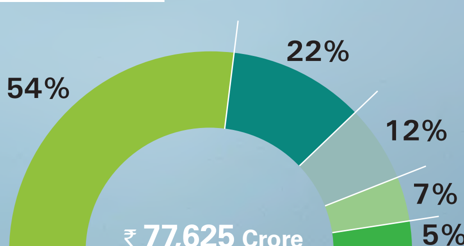


Grasim Consolidated



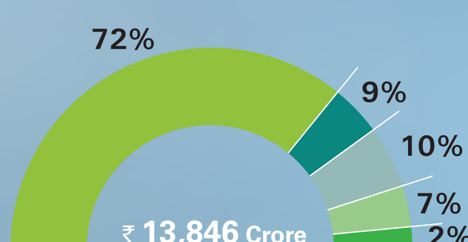
* Before Share in Profit of JVs and Associates

Net Revenue



- Cement: ₹ **42,125 Crore**
- Financial Services: ₹ **16,706 Crore**
- Viscose: ₹ **9,237 Crore**
- Chemicals: ₹ **5,504 Crore**
- Others & Inter-segment Eliminations: ₹ **4,053 Crore**

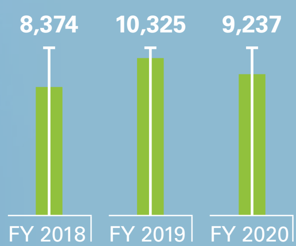
EBITDA



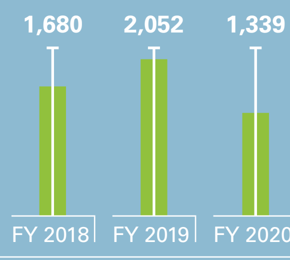
- Cement: ₹ **9,931 Crore**
- Financial Services: ₹ **1,198 Crore**
- Viscose: ₹ **1,339 Crore**
- Chemicals: ₹ **1,008 Crore**
- Others & Inter-segment Eliminations: ₹ **370 Crore**

Viscose Business

Net Revenue (₹ in Crore)

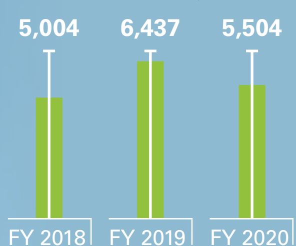


EBITDA (₹ in Crore)

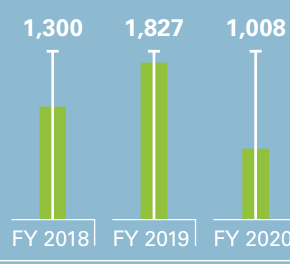


Chemicals Business

Net Revenue (₹ in Crore)

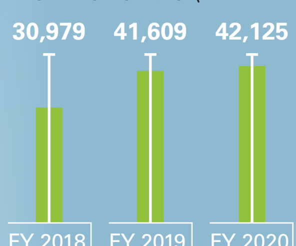


EBITDA (₹ in Crore)

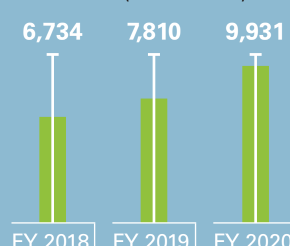


UltraTech - Cement Business

Net Revenue (₹ in Crore)

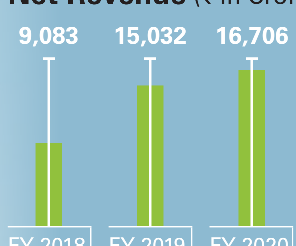


EBITDA (₹ in Crore)

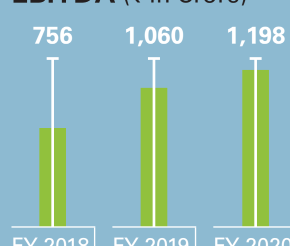


AB Capital - Financial Services Business

Net Revenue (₹ in Crore)



EBITDA (₹ in Crore)



BOARD OF DIRECTORS

MR. KUMAR MANGALAM BIRLA

Chairman

MRS. RAJASHREE BIRLA

Non-Executive Director

MR. DILIP GAUR

Managing Director

DR. SANTRUPT MISRA*

Non-Executive Director

MR. VIPIN ANAND#

Non-Executive Director

MR. SHAILENDRA K. JAIN

Non-Executive Director

MS. USHA SANGWAN@

Non-Executive Director

* w.e.f. 13th June 2020 # w.e.f. 13th August 2020 @ up to 16th May 2020