



**HINDALCO INDUSTRIES LIMITED
ANNUAL REPORT 1999-2000**

Contents

Highlights	3
Chairman's Letter	4
Management's Discussion and Analysis	7
Environment Report	19
Social Report	21
Corporate Governance Report	23
Shareholder Information	30
Board of Directors	35
Financial Highlights	36
Directors' Report	38
Auditors' Report	52
Balance Sheet	54
Profit and Loss Account	55
Schedules	56
Secretarial Compliance Certificate	84
Reconciliations of Profits and Stockholders Equity under US GAAP with Indian GAAP	87
Subsidiary Company Accounts	89

Highlights

- Commenced work on the Rs.18 billion brown-field expansion at Renukoot
- Acquiring a majority stake in Indian Aluminium Company Limited
- Metal production up 3.3% year-on-year; Smelter utilisation at record high levels of 103%
- Share of value added products risen from 49% to 52%
- Sales revenues grew by 15%, export revenues soared 89%
- Operating costs up only 1.6%, defied even inflationary trends
- Operating margins improved further from 44% to 46.3%
- Pre-tax profits soared 24%; Net profit after extra-ordinaries up 8%
- Return on average capital employed up from 21.4% to 22.7%
- Debt-equity down further to 0.14x
- Received commendation certificates - CII Exim Award for Business Excellence and Rajiv Gandhi National Quality Award.

The Chairman's Letter to Shareholders

Dear fellow shareholders,

HINDALCO – IN FOCUS

It was yet another successful year for us at Hindalco. To transform it from being a supplier of metal to a complete solutions provider and to maintain its leadership in the domestic aluminium industry, the Company has made several value creating strategic moves during the year.

Hindalco decided to acquire a 54.6% stake in Indian Aluminium Company (Indal) from Alcan. It is also in the process of making a public offer for a further 20% stake, as per regulatory norms. This is the biggest cash buy-out made by any corporate in India so far. The synergistic benefits of the acquisition, arising out of Indal's surplus alumina capacity, strong market position in downstream products and locational advantages will enable Hindalco move closer to customers and enhance value for shareholders.

The Company has opted in favour of a brownfield expansion at its existing site in Renukoot and has already commenced work on the project. It will be commissioned in phases during the next three years and will contribute immensely towards Hindalco retaining the coveted position of the "market leader" in the domestic aluminium industry.

Hindalco has shelved the greenfield project, Aditya Aluminium, on value creation criteria. As mentioned in my letter last year, we carried out a detailed study on the proposed greenfield project with the help of Kaiser Bechtel. The outcome was not encouraging and expected returns were not commensurate with the risk associated with the project. This necessitated shelving of the project during the year.

These proactive measures, I believe, will go a long way in strengthening Hindalco's competitive position in the domestic and international markets. It will also aid the Company to continue to be one of the lowest cost aluminium producers in the world.

It was an excellent year operationally. Overall performance demonstrated significant improvement on the back of improved plant efficiency, higher yields and better price realisation. Consumption norms were further improved, reflecting a continued search for excellence by the management of the Company. The revenues and profitability have reached record high levels. Gross sales revenues grew by 15% while pre-tax profit and net profits have risen by 24% and 8% respectively.

Our outlook for aluminium and Hindalco is buoyant. The global aluminium industry is on the growth trajectory and is benefiting from the on-going recovery in Asia, consolidation in Europe and stable US markets. LME pricing outlook is also promising. Benefiting from such positive trends and accelerating levels of economic and industrial activity, the domestic aluminium industry is expected to grow strongly in future. Increasing acceptance for new applications will contribute positively towards this end.

Deregulation and globalisation have made geographical boundaries meaningless and resulted in increased competition from international producers and threat from substitute products. Going forward, tight control over costs, improved efficiency and optimum asset utilisation will be key to enhancing margins. We, at Hindalco, are fully seized of the situation. Our strategies aim to leverage on the Company's strategic and cost advantages to enhance value in the changing business environment. We are proud to be amongst the lowest cost producers in the world with benchmarked efficiencies.

The Company's strategy for delivering outstanding value in the new millennium is three pronged: Strengthen cost structure, improve market effectiveness and pursue value creating growth opportunities.

The Company will maintain its cost competitiveness through further improvements in control over key inputs, enhanced asset utilisation and reduction in consumption norms. Hindalco will capitalise on its advantages of integrated manufacturing facility and scout for opportunities to further strengthen control over key inputs. It will better consumption norms of bauxite, alumina, power and steam by embracing cost efficient technologies and refining process efficiencies.



“Our strategies aim to leverage on the Company's strategic and cost advantages to enhance value in the changing business environment. We are proud to be amongst the lowest cost producers in the world with benchmarked efficiencies”

*— Kumar Mangalam Birla,
Chairman*

Greater market effectiveness by emphasising on value-added products and long-term competitiveness is the second leg of our strategy. The Company will increase share of value added products to mitigate the impact of LME volatility and create competitive entry barriers in the market place. Application development will remain a focus area. Energies will be riveted on sustaining long-term competitiveness by leveraging Hindalco's strong metal base and competitive cost structure.

Thirdly, we will pursue value adding growth opportunities through creation of globally competitive capacities in the primary and downstream segments, where required. Timely expansions and acquisitions will be considered for capturing opportunities in the aluminium industry. Such moves will be made only if it makes economic sense and offers significant potential to create value for shareholders.

In essence, aluminium is, and will remain, a core growth business for the Aditya Birla Group. Hindalco will continue to focus only on aluminium in future. The Company's well crafted strategy, benchmarked efficiencies and continuing search for excellence, I believe, will allow it to scale new heights and deliver outstanding value for shareholders and other stakeholders in the new millennium.

At this juncture, I would like to take the opportunity of placing on record my admiration for our employees and the management team at Hindalco. Their dedication and commitment have been, and continue to be, integral to our success and to creating shareholder value.

THE ADITYA BIRLA GROUP – IN PERSPECTIVE

I would now like to brief you on some of the measures taken by us at the Group level. As you are aware, tectonic shifts are changing the very contours of the economic and business environment, regardless of geographic boundaries. Digitalisation, deregulation, globalisation and investor activism have altered the corporate landscape and ushered in an era of discontinuity. Organisations in India have had to reconstruct their business architecture and we, at the Aditya Birla Group, are no exception.

To face these challenges, over the last few years, we have been constantly re-inventing our Group. Our basic objective is to ensure sustainable success and deliver outstanding value for our shareholders, customers, employees and the community at large.

A slew of proactive measures have been unveiled, riding on our renewed strategic thrust, innovative structural initiatives and contemporary systems adoption. In my letter last year, I had shared several of these. Today, I wish to keep you abreast of the progress achieved in these areas and the growth trajectory that we will traverse in this new millennium.

RENEWED STRATEGIC THRUST

Fundamental value creation and a razor-sharp business focus continue to be the pillars of our strategic thrust.

Consequent to the in-depth review of business portfolio by the Boston Consulting Group, we have identified the core business for each of our Companies. Businesses have been evaluated against stringent value creation criteria. We have made a conscious decision to build and grow only those businesses that have high value creation potential.

While in the past, our portfolio focused heavily on capital intensive manufacturing businesses, the future may see us move increasingly into knowledge-based, brand-management and service sectors, where again we will scout for a premium position – a position of leadership. At the portfolio level, we will continue to look into some of the businesses that are futuristic and add to enhancing shareholder value.

Knowledge-based industries offer enormous growth. This sunrise sector is far less capital intensive and has the advantage of enhanced value creation in a much shorter time frame. Acquiring management control in Learning Byte International by overseas companies of the Group and the strategic alliance with Lawson for setting up the Lawson Competency Centre by Birla Consultancy and Software Services,

“Our basic objective is to ensure sustainable success and deliver outstanding value for our shareholders, customers, employees and the community at large”

a division of Grasim Industries Limited — are forward steps in this direction. Similarly, the acquisition of Madura Garments by Indian Rayon and Industries Limited has overnight catapulted the Group to the top-of-the-league in the branded apparels sector. Importantly, these strategic moves have significantly enhanced value for shareholders of Indian Rayon and Grasim.

In the new economy, cellular services offer a significant growth platform in the telecom sector that is rapidly consolidating. Our strategic alliance with Tata Telecommunications is a forward step that will help take our telecom business ahead.

To bring in sharper business focus and to realise better synergies, we have resorted to restructuring, where ever necessary. Restructuring of the cement business has not only created synergies and simplicity of operations, but has given us one resounding voice in the market place, propelling our growth from one strong platform vis-à-vis fragmented units in operation.

STRUCTURAL INITIATIVES

To institutionalise enabling processes that help us benchmark with the best in the world, to align the interest of shareholders and employees, and to better manage capital, we have chosen Cash Value Added (CVA) as our measurement metric. It is the cornerstone of the “value management” architecture, to which I am personally committed. CVA helps us focus on the three key aspects of value creation, i.e., profitability, asset productivity and growth. Simply put, CVA is a structured, exhaustive process that entails understanding business variables in depth and quantifying their effect on value creation. This process enables us put our finger on the key drivers of value creation in every single activity that we do.

In response to the changing times, we are continuously striving to make the Aditya Birla Group as market-driven and agile. To do so, we are doing our utmost to create an organisational ambience where talent can bloom. Unleashing people power in a planned manner through a focus on their growth, development and learning is our priority. Our thrust is on developing the Group's intellectual capital. Infusion of fresh blood and talent at all levels coupled with the creation of “thought leaders” has gained momentum.

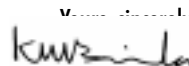
Six directors have been inducted at the Corporate level and professionals of high calibre have been recruited. The retirement policy has been implemented. Succession plans are well in place. Building, developing and upgrading competencies across the Group through training and development continues as an integral ongoing activity. These steps will not only help us nurture leaders, but capable, self-assured colleagues across all levels. The push on growing intellectual capital in the Group will propel it to new heights of value-creation in future.

CONTEMPORARY SYSTEMS ADOPTION

We are institutionalising processes to realise better value for our shareholders. To create a wired organisation, which will accentuate the quality of communication and information flow throughout the Group, we are in the process of setting up the “Aditya Birla Information Highway”. “Gyanodaya” our temple of learning has gone on-stream. It will help us constantly upgrade our knowledge base.

These proactive measures, in my view, will help weave our Group into one seamless organisation, with the singular aim of creating value for our shareholders in 21st century and beyond.

Thank you,



Kumar Mangalam Birla

“In response to the changing times, we are continuously striving to make the Aditya Birla Group as market-driven and agile”

Management's Discussion and Analysis

— From the President and Whole-Time Director to Shareholders

OVERVIEW

It was another excellent year for Hindalco, both strategically and operationally. The Company recorded all-round improvement in performance with improved asset utilisation, better yields and higher price realisation. The Company has achieved the highest ever volumes and revenues during the year.

Gross sales revenues have gone up 14.6% year-on-year (YoY) to Rs.23.08 billion and operating profits have soared from Rs.7.78 billion in 1998-99 to Rs.9.40 billion in 1999-2000. Net profit before extraordinary has gone up 12% from Rs.5.67 billion to Rs.6.35 billion. Net profit after extraordinary at Rs.6.12 billion reflects an increase of 8% YoY.

STRATEGIC MOVES TO ENHANCE SHAREHOLDER VALUE

It was a landmark year strategically. The Company announced the acquisition of Indian Aluminium Company Limited (Indal), commenced work on brownfield expansion and shelved the greenfield project on the value creation criteria. These moves will enable Hindalco deliver outstanding value for shareholders on a sustained basis in future.

Acquisition of Controlling Stake in Indal

The Company decided to acquire a majority stake in Indal, through the acquisition of a 54.6% stake from Alcan, followed by a public offer for an additional 20% stake as per regulatory norms. The acquisition will be done at a price of Rs.190 per share and would cost the Company around Rs.10.1 billion. The acquisition will be funded through surplus cash available, with no fresh debt or equity. The entire process is expected to be completed by end-June 2000.

The acquisition offers significant synergistic benefits to the Company. It will enable Hindalco strengthen presence in the alumina and downstream products. Indal has a strong position in the downstream products and benefits from its locational and distribution strengths. These factors, together with Hindalco's existing leadership in the primary aluminium market, will enable it to reach closer to the customers efficiently.

Brownfield Expansion Underway

Following its decision to shelve the green-field project and the need to ensure future growth, the Company embarked on a brownfield expansion at the existing location in Renukoot, Uttar Pradesh. This project will be implemented at a cost of Rs.18 billion. It will expand the Smelter capacity by 100,000 tonnes per annum (TPA). In addition, alumina refining capacity will be increased by a 210,000 TPA with a matching increase in captive power generation facilities. The project will be funded through debt and internal cash generation. The work on the project has already begun and will be commissioned, in phases, in next 3 years.

Greenfield Project Shelved on Value Creation Criteria

The Company shelved the proposed greenfield project in Orissa on the value creation criteria. A detailed feasibility study on the greenfield aluminium project was completed during the year. The results were not promising and expected returns were not commensurate with the risk associated with such a large project. The initial cost of Rs.228 million incurred on the project was written-off as a one-time, non-recurring cost during the year.

REVIEW OF OPERATIONS

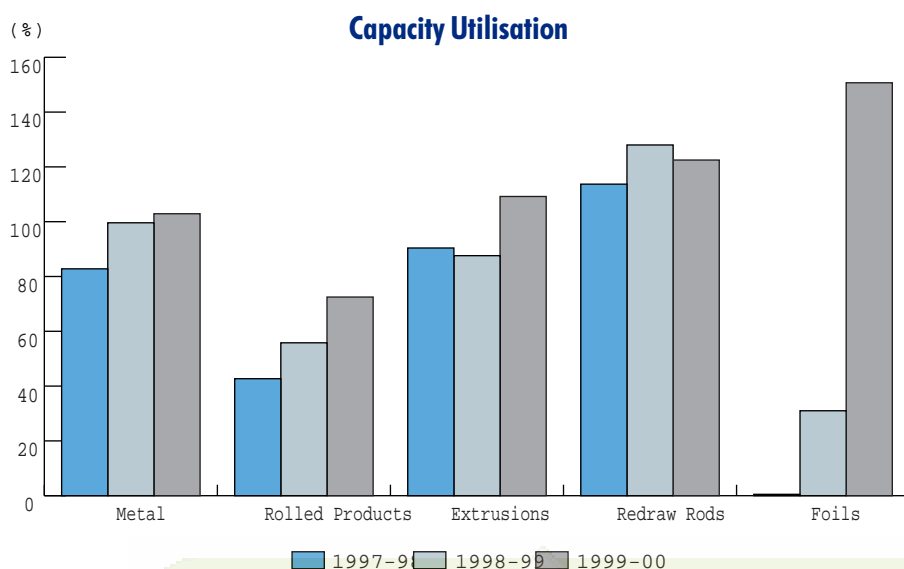
Operational Review and Analysis

The performance of the Company demonstrated significant improvement during the year. Improved plant efficiency, higher yields as well as better price realisation in the local and export markets led to record high volumes, better revenues and enhanced profitability.

Capacity Utilisation at Record High Levels

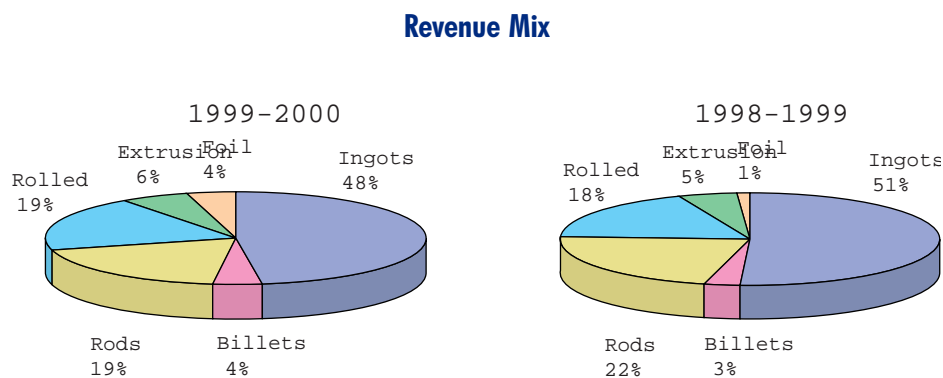
The Company enhanced its overall assets utilisation considerably. This was substantial in the Smelter, Rolled Product, Extrusion and Foil plants. Smelter utilisation soared from 99.6% to 102.9% on the back of improved current efficiency and resulted in a 3.3% rise in metal output to 248,930 tonnes in 1999-2000. It is significant considering the fact that the smelter was already operating at optimum utilisation level.

Benefiting from this and increased focus on high-margin value-added products, downstream facilities also reported notable improvement in utilisation levels during the year.



Sales Volume and Product Mix

Sales volumes grew by 8.5% on the back of a substantial recovery in the demand from key consuming sectors viz., consumer durables, electrical and electronics, construction and transportation. The recovery in the economy and resultant pick-up in demand for end-use products had a positive bearing on aluminium consumption. Taking advantage of this and aggressive marketing efforts, Hindalco consciously increased its share of high margin, value added products, up from 49% to 52% in 1999-2000.



Its renewed export focus to take advantage of a recovery in global demand also contributed towards improving sales volumes. Overall exports zoomed from Rs.1.66 billion in 1998-99 to Rs.3.12 billion in 1999-2000, an increase of 89%YoY. Export of value added products contributed significantly.

	Sales Volume (Tonnes)			Gross Sales (Rs. in Million)		
	1999-2000	1998-99	% Change	1999-2000	1998-99	% Change
Ingots	120,540	118,050	2.1	9,722	9,180	5.9
Billet	10,552	7,357	43.4	823	572	43.9
Redraw Rods	48,311	51,031	(-)5.3	4,425	4,436	(-)0.2
Rolled Products	48,742	41,439	17.6	5,055	4,132	22.3
Extrusion	15,257	11,664	30.8	1,624	1,220	33.1
Foils	7,314	1,505	386.0	979	198	395.8
Others	—	—	—	448	393	14.0
Total	250,716	231,046	8.5	23,076	20,131	14.6

- **Ingots and Billets**

The combined sales of ingots and billets grew by 4.5% from 125,407 tonnes in 1998-99 to 131,092 tonnes in 1999-2000. Export of these products nearly doubled to 35,775 tonnes on the back of improved billet volumes to the US and Asian markets. The modest rise in aggregate sales volumes of ingots and billets reflect the Company's conscious shift towards value added products.

- **Redraw Rods**

Redraw rods was the only product category, where we experienced a decline in volumes. Sales volumes dipped by 5.3% from 51,031 tonnes in 1998-99 to 48,311 tonnes in 1999-2000. This was the result of a conscious decision taken by the Company due to a slack in demand from the State Electricity Boards and poor realisation.

- **Rolled Products**

The sales of rolled products grew by 17.6%, on top of a 25.8% growth last year, to 48,742 tonnes in 1999-2000. Improved demand from the construction, transportation, consumer durables, electrical and electronics sectors contributed towards this end. Aggressive marketing efforts and successful penetration into the new export markets also contributed positively. Exports of rolled products grew by 46% from 6,067 tonnes in 1998-99 to 8,875 tonnes in 1999-2000.

The quantum jump in commercial vehicle sales led to a spurt in demand for rolled products used for body-building activities. The growth in demand from the electrical sector, especially in the lamp cap and bus bar applications also contributed towards better volumes during the year. A pick-up in the construction sector also contributed positively with higher demand for roofing sheets.

The Company benefited immensely from its concerted efforts to introduce new applications. During the year, the Company successfully established novel applications in the following areas:

- Litho stock used for printing
- Alclad brazing stock being supplied to Auto-sector for usage in car radiators
- Circles for elite cookware
- Flooring sheets for bus-body application
- Stucco embossed sheet for roofing

These applications contributed modestly to volumes during the year. The share of these products should rise substantially with increasing acceptance in future.

- **Extrusions**

The upturn in the transportation, construction, electrical & electronics and consumer durable sectors helped the extrusions segment as well. The sales of extruded products grew by 31% YoY

to 15,257 tonnes as against a negative growth in 1998-99. The key contributors of such an impressive growth were recovery in demand for commercial vehicles, increasing shift towards aluminium bodies by commercial vehicle users and better demand from the construction sector for curtain walling, partition and door/window panelling applications.

The Company's new product development efforts enabled it to broaden its product profile and enlarge the customer base, eventually resulting in better extrusion volumes and realisation. New products and applications successfully introduced during the year include:

- Turbo cooler stock for computer-hardware
 - Lead free machining alloys for high machining speeds
 - 6005 / 6082 medium strength alloys for the transport and the construction sector
- **Foils**
The year marked a significant improvement in the operations, volumes and product-mix in the foils segment. Sales volumes jumped 386% YoY to 7,314 tonnes with stabilisation of the plant operations. Going forward, the Company will focus on high value products, including thinner gauge materials and converted foils.
 - **Wheels**
The aluminium alloy wheel plant at Silvassa commenced operations during September 1999 and is being stabilised. The Company produced 5,451 wheels and focused energies on getting product approval from the Original Equipment Manufacturers (OEMs). The Company recorded a sales volume of 2,126 wheels and was primarily in the after-sales market. The Company made significant progress in its efforts to set up the marketing network for aluminium alloy wheels and will be reaping its benefits in the current financial year.

Pricing and Profitability

The LME aluminium prices recovered sharply during the year, after touching a 5-year low of US\$ 1,141 per tonne during March 1999. This resulted in a recovery in the global demand and drop in the LME inventories.

The global aluminium industry fared well during 1999, on the back of a 6.3% growth in demand, after a weak performance in 1998. Strengthened demand from Asia, notably from China, continued strong growth in the US as well as a consolidation in Europe contributed towards this end. Global supplies, however, grew by only 4.2% and enabled a recovery in global aluminium prices during the year. Global alumina shortages due to disruption in supplies also contributed towards firm LME price trends during the year.

LME monthly prices reported a growth of 14% YoY at US\$ 1,473 per tonne in 1999-2000, a major portion of which came through only during the last quarter of 1999-2000. It thus had a limited impact on the average realisation for the Company. The monthly average price on LME was US\$ 1,358 per tonne and US\$ 1,362 per tonne respectively during the calendar years 1998 and 1999.

