



ANNUAL REPORT
2015-16

HINDALCO INDUSTRIES LIMITED



BIG ON GROWTH
BASED ON STRONG FUNDAMENTALS



Mr. Aditya Vikram Birla

We live by his values.

Integrity, Commitment, Passion, Seamlessness and Speed.

THE CHAIRMAN'S LETTER TO SHAREHOLDERS



Dear Shareholders,

Global Economy

The global scenario continues to be trapped in a low growth trajectory, despite the steep drop in crude oil and commodity prices. Furthermore, a barrage of monetary stimulus has driven down interest rates close to zero in many of the advanced economies. With the monetary stimulus option by and large exhausted, governments are more likely to turn to fiscal and structural measures to revive growth.

The IMF projects global growth to inch up from 3.1% in 2015, to 3.2% in 2016, and increasing to 3.5% in 2017. Growth in the advanced economies is projected at 1.9% in 2016, with US growth pegged at 2.4%, Europe at 1.5% and Japan at 0.5%. Growth in the emerging markets in 2016, overall, is projected at 4.1%, much of it coming from China, India and the ASEAN region. Growth in Latin America is expected to be only 0.5%, on account of a 3.8% decline in growth in Brazil. No sustained upside is seen in oil and commodity prices in 2016.

The path ahead for the global economy remains challenging, with greater uncertainties thrown in. Concerns persist about the slowdown in China and its ability to shift smoothly from export-led to domestic-led growth. Fiscal pressures will accentuate in the oil producing countries, including the rich Middle-East countries. Financial markets remain nervous and exchange rate volatility has been pronounced. This is reinforced by the impending reversal of the interest rate cycle in the US.

Indian Economy

Against the backdrop of a muted global economy, India's economy is an outperformer. For 2016-17, GDP growth is projected at 7.5%. This would make it the fastest growing among the large economies. This is particularly creditable in the context of two successive unfavourable monsoons and a decline in exports. Recent data indicate a 5.7% year-on-year growth in eight of the key core sector industries, against 2.3% growth registered last year.

Inflationary pressures have been contained. The rise in the consumer price index averaged 4.9% in 2015-16, down from 5.9% in the previous year. The wholesale price index declined 2.5% on an averaged basis, compared to a rise of 2.0% in the previous year. In 2015-16, merchandise exports and imports each fell over 15% over 2014-15. The trade deficit in 2015-16 was US\$ 118.5 billion, a decline of 14% over the previous year. The current account deficit narrowed sharply from US\$ 26.1 billion to US\$ 22.0 billion, representing 1.4% of GDP. India's foreign exchange reserves, as at March-end 2016 were US\$ 360.2 billion. The government is also committed to meeting the current year's fiscal target of 3.5% of GDP. Overall, the economic fundamentals are sound.

There have also been positive moves on the policy front, in areas related to ease of doing business, promoting start-ups, rationalising the tax structure and administration, and opening up more areas for foreign investment through the automatic route. The government is substantially stepping up infrastructure spending.

Having said that, some issues come to the fore. For instance, capital investment will take time to revive, given stretched corporate balance sheets, low capacity utilization, (at only 72.5% in the organized industrial sector), and competition from imports. Slow global output and trade growth will continue to impact exports. There is also the overhang of non-performing assets in the banking sector. Much more also needs to be done to "monsoon-proof" the Indian economy.

The growth in the manufacturing sector has been subdued, including a decline in the output of capital goods.

Your Company's Performance

Your Company attained a consolidated revenue of US\$ 15 billion (₹ 100,042 crore) and PBITDA of US\$ 1.5 billion (₹ 10,007 crore). This was despite a sharp drop in LME and the decline in aluminium ingot premium that caused a large adverse metal price lag. Further, the interest and

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depreciation charges rose significantly in line with the commissioning of new facilities. However, higher volumes and a significant reduction in the cost of production enabled your Company record a robust performance.

The year 2015-16 was indeed a milestone year for your Company. Aluminium and alumina production at 1.1 million tons and 2.7 million tons respectively has been the highest ever achieved as were the shipments of flat rolled products. Your Company's three Greenfield projects – Mahan Aluminium, Aditya Aluminium and Utkal Alumina ramped up to their full capacity. Utkal, in fact, has positioned itself in the lowest decile on the global alumina cost curve on the back of very efficient logistics in a remote terrain and robust operational performance.

Of the 4 coal blocks – two in Chhatisgarh and two in Jharkhand - bagged by your Company in the auction process, both the Gare Palma mines in Chhatisgarh have become operational.

Your Company's Copper business also put in a commendable performance. Copper production for the year was at a record level of 388 KT. The continued thrust on value addition led to a higher production of continuous cast rods.

The year also marked the culmination of Novelis' large scale investment programme, started four years ago. Novelis' Aluminium recycling center in Germany, the world's largest of its kind, is stabilizing well. Additionally, it commissioned two new automotive lines in the US and in Europe. In all, the 5 automotive finishing lines consolidate Novelis' leadership in the high growth Auto segment.

Importantly, Novelis' auto shipments increased 47% during the year, in line with the strategic portfolio shift that is underway.

Outlook

The overall outlook for commodity markets continues to be challenging. The macroeconomic headwinds persist and the uncertain global macros pose many concerns. However, your Company's structural positioning in the markets that it serves has strengthened significantly, following the completion of its ambitious Greenfield investments in India and the ongoing enrichment of the product portfolio in Novelis.

Our People: Our Pride

Despite yet another challenging year, we have achieved good results. This has been largely due to deft cost management, a concerted move towards on-streaming of new capacities, focus on efficiency improvement, productivity and customer centricity. Our employees have unflinchingly rallied around us. And for this, I would say a big "thank you" to all of them".

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The Aditya Birla Group: In perspective

At the Group level, we have done well both in terms of revenue and earnings. As a matter of fact, the EBIDTA attained has been the highest ever.

Having worked extensively on the people front for over a decade, I am happy to state that our leadership processes are now mature. At the management level we have built quality bench strength.

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To create a leadership pipeline to the Business Head roles within the next couple of years, we have created the Aditya Birla Fellows programme. The managers who have won this recognition are put in charge of critical Group-wide projects under my personal oversight. Up until now, we have named 14 managers who have tremendous potential to rise to the stature of Business Heads, going forward.

A slew of other initiatives have been set afoot to grow leaders from within. To do so, we have announced a hiring freeze at the middle and senior management levels for the next 3 years. It paves the way for accelerated talent growth.

In this context, I am happy to state that our accelerated leadership programme Cutting Edge, which prepares high potential leaders for P&L positions across our Group is gaining traction. It was launched last year. Up until now, 20 of the 35 graduates of this programme have already moved roles to take on higher responsibilities.

Furthermore, the 250+ youngsters who joined us over 6 years ago as Group Management Trainees, in our Leadership Associate Programmes (Lead) and Leadership Programme for Experienced youngsters (Leap), are shaping well. In the last 2 years nearly a 100 from this slot have moved across functions and businesses. Additionally, we have 25 mid-career participants who have joined us in the Group Manufacturing Leadership Programme. They too are making significant contributions in our manufacturing business units.

The first batch of 14 participants in “Spring Board”, (a programme designed specially for high calibre women) graduated commendably to higher roles. The second batch of 39 women leaders is making good progress on their way to greater responsibilities. As of now, we have nearly 5,000 women – 14 percent in the managerial cadre.

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In the last 3 years, we have had more than 1100 inter-business and over 1000 intra-business transfers of employees across levels.

At Gyanodaya, the Aditya Birla Global Centre for Leadership Learning over 2000 managers enrolled for learning programmes. With a mix of academics and live case studies, these programmes enable our people to keep abreast of the developments in their area and stay contemporary. Side by side the Gyanodaya Virtual Campus hosts more than 500 e-learning modules in multiple languages. During the year, over 25,000 employees chose to access these programmes.

The Aditya Birla Group Leadership Programme aimed at securing young talent from the top tier Business Schools of India has become aspirational. I am happy to record that our Group's brand attractiveness has taken a quantum leap across 35 top B-Schools in India. Our Group features among the formidable Top-5 in the A C Nielsen – CRI Campus Recruitment India Index 2015.

In sum

All these moves are a testament to our commitment to accord a World of Opportunity for our people and they are leveraging it. Our people are fully aware of what business needs to succeed. They are committed to contribute their best to our values based, performance driven, meritocratic culture. We are future ready.

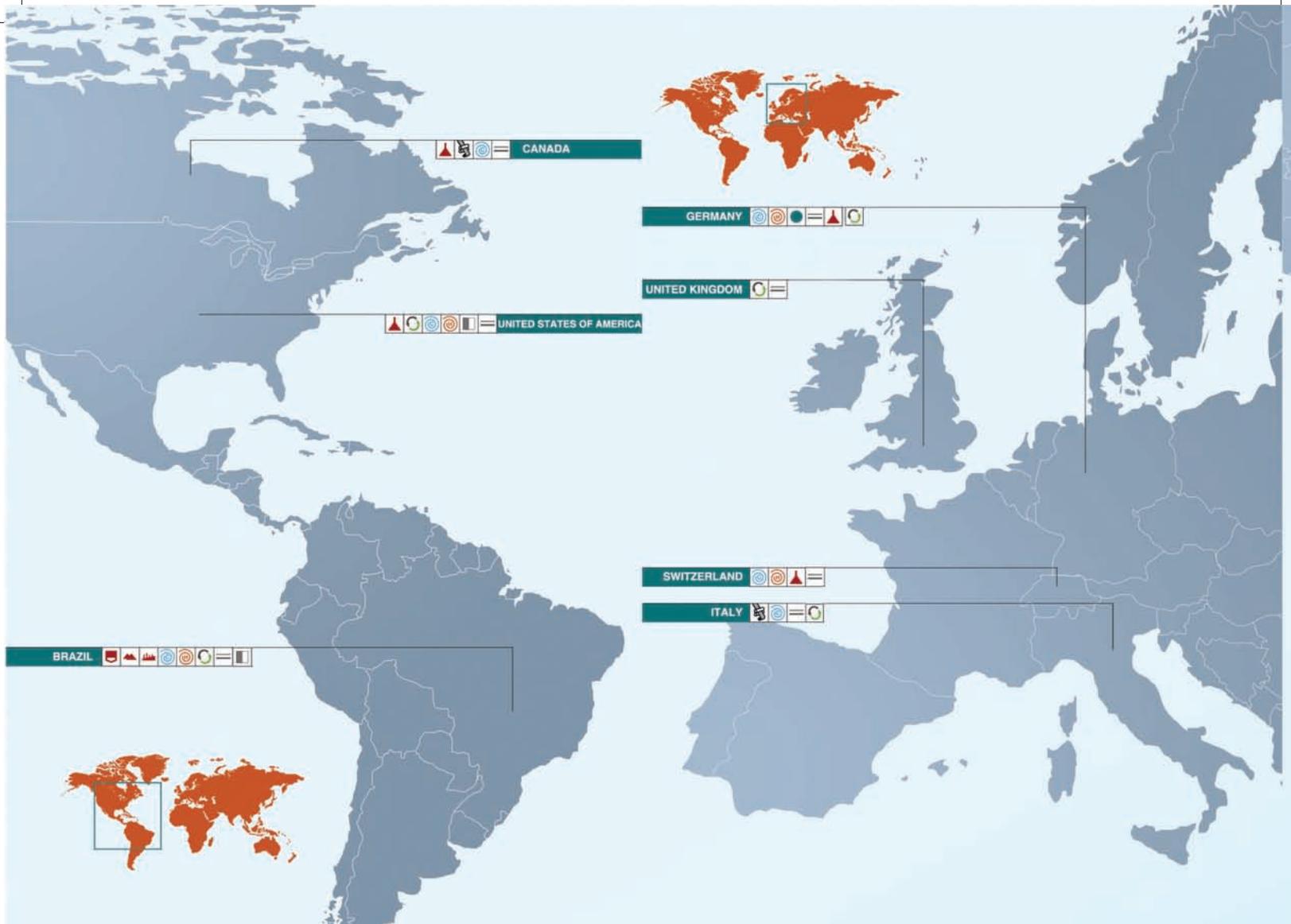
Your sincerely



Kumar Mangalam Birla

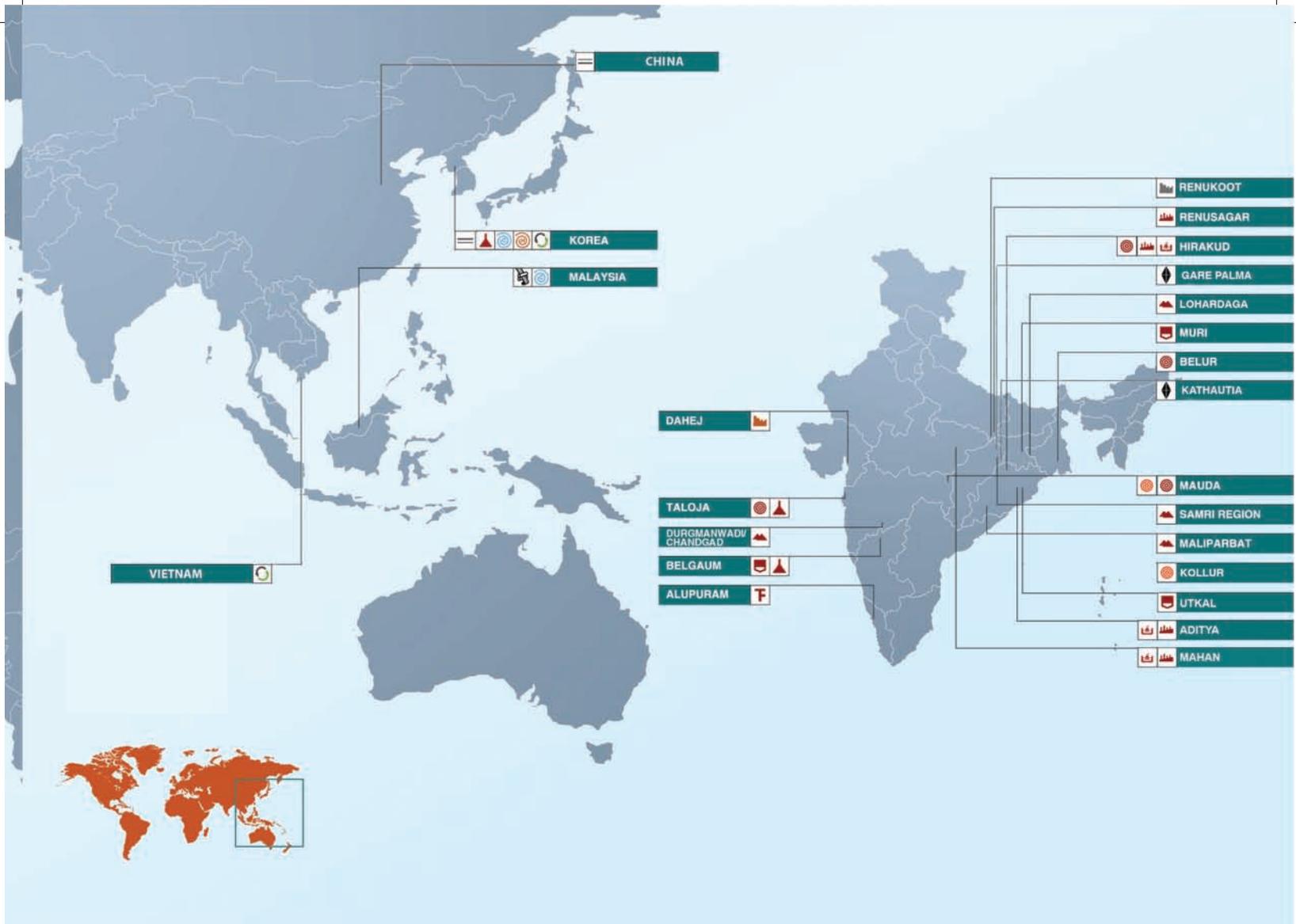
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...DIVERSE WORLD

SUBSIDIARIES	UNIT LOCATED AT	Product Types
Novelis Inc	North America	<ul style="list-style-type: none"> • Rolled Product • Foil • Recycled Product
	Europe	<ul style="list-style-type: none"> • Rolled Product • Recycled Product
	Asia	<ul style="list-style-type: none"> • Rolled Product • Recycled Product
	South America	<ul style="list-style-type: none"> • Rolled Product • Alumina • Aluminium • Recycled Product



WIDE OPERATIONS

- | | | |
|--|--|--|
|  Alumina Refinery |  Coating |  Integrated Aluminium Complex |
|  Aluminium Extrusion Plant |  Cold Rolled |  Integrated Copper Complex |
|  Aluminium Foil Plant |  Continuous Casting |  Power Plant |
|  Aluminium Rolled Product Plant |  Converting |  R & D / Technology Centre |
|  Aluminium Smelter |  Copper Mines |  Recycling |
|  Bauxite Mines |  Finishing | |
|  Coal Mines |  Hot Rolled | |

OUR VALUES



INTEGRITY
Honesty in every action

COMMITMENT
Deliver on the promise

PASSION
Energized action

SEAMLESSNESS
Boundary less in letter and spirit

SPEED
One Step Ahead Always

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