

ADITYA BIRLA GROUP

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INDAL



ADITYA BIRLA GROUP

A N N U A L
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INDIAN ALUMINIUM COMPANY, LIMITED

EXEMPLIFYING EXCELLENCE



The late Aditya Vikram Birla was a visionary. His innovative ideas and the ability to bring those ideas to fruition, has left an indelible imprint on the corporate landscape.

But there was more to him, beyond business. A painter, a singer, a patron of the arts and a pilot. A naturalist, he took delight in nature's majesty and simplicity.

His personality matched his versatility. Though a tough taskmaster, he was warm and caring. While passionately committed to work, he believed that life was too precious to let go of its moments of laughter and joy. A man of courage and conviction, he was an aggressive listener who appreciated constructive dissent. He set the most challenging goals, but never took shortcuts to reach the destination.

Simply put, he epitomised excellence. In business and as a human being.

Our constant endeavour is to emulate such excellence.



ADITYA VIKRAM BIRLA, November 14, 1943 - October 1, 1995

Contents

Indian Aluminium Company, Limited

Chairman's Letter	2		
Board of Directors	6		
Highlights	7		
Management Discussion and Analysis	8	Schedules	58
Environment Report	23	Cash Flow Statement	77
Social Report	26	Eleven-year Statistical Highlights	78
Corporate Governance Report	29	Statement regarding Subsidiary Company	80
Shareholder Information	37	Indal Exports Limited	
Report of the Directors	43	Report of the Directors	81
Annexure to Directors' Report	50	Secretarial Compliance Certificate	82
Statement on Significant Accounting Policies	53	Auditors' Report	84
Auditors' Report	54	Balance Sheet	85
Profit & Loss Account	56	Profit and Loss Account	86
Balance Sheet	57	Schedules	87

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Registered & Corporate Office : 1 Middleton Street, Kolkata 700 071. Tel : (033) 240 22 10

Regional Sales Offices : **Bangalore** Indal House, 140 Field Marshal K.M. Cariappa Road, Bangalore 560 025. Tel : (080) 558 50 51 • **Kolkata** 1 Middleton Street, Kolkata 700 071. Tel : (033) 240 22 10 • **Mumbai** Air India Building, Nariman Point, Mumbai 400 021. Tel : (022) 202 35 37 • **New Delhi** UCO Bank Building, Sansad Marg, New Delhi 110 001. Tel : (011) 371 14 11

Other Sales Offices : **Ahmedabad** Tel : (079) 685 40 51 • **Bhubaneswar** Tel : (0674) 55 43 61 • **Chennai** Tel : (044) 643 10 53 • **Coimbatore** Tel : (0422) 44 44 15 • **Hyderabad** Tel : (040) 772 18 83 • **Pune** Tel : (020) 581 65 28

The Chairman's Letter to Shareholders



Dear fellow shareholders,

For all of us at Indal, the year has been indeed rewarding, both strategically and operationally. Strategically, the linkages between Indal and Hindalco have fortified our standing in the aluminium sector manifold. Synergies have started to accrue through the integration of logistics and product rationalisation. In turn, this will lead to significant value creation. And the process is gaining momentum.

Your Company is a dominant player in alumina and has significant strengths in the downstream product segments. We are confident that these strengths, coupled with Hindalco's dominance in meta and its competitive cost structure, will make the Indal-Hindalco combine a major force in the aluminium industry.

To institutionalise enabling processes that help us benchmark with the best in the world; to align the interests of shareholders and employees and to better manage capital, we have extended CVA (Cash Value Added) as our measurement metric to your Company as well.

The 'Parta' system which has been further honed by a single-minded focus on sweating the assets better, increasing the throughput in every respect and managing capital with utmost efficiency, has been transplanted in your Company too.

Operationally, your Company has put in a splendid performance, in fact the best ever in its 62-year old history. Revenues and earnings have registered a substantive growth.

Despite an extremely challenging business environment, aided by a favourable LME, your Company's revenues at Rs 12,834 million reflect a growth of 22 per cent year-on-year, while pre-tax profits at Rs 1,525 million has risen by an impressive 55 per cent, with the earlier year figure being Rs 980 million. Net profit touched an all-time high at Rs 1,160 million, which is a significant 38 per cent increase over that of the previous year which stood at Rs 839 million.

Better capacity utilisation, an enriched product-mix, a thrust on exports, improved operating efficiencies and a significant reduction in working capital have been the value drivers.

OUTLOOK

Our outlook for aluminium and Indal is positive. While aluminium consumption has slowed down in the US, China is on a growth trajectory. The outlook in other parts of Asia is expected to improve. The demand for aluminium from Europe continues to be stable. The closure of US aluminium capacities has led to an erosion of global supplies which should support prices. Given such an environment, international prices are expected to remain consistent.

The prospects in India are encouraging as well. The constant focus by the Government on the infrastructure and power sectors should fuel the demand for aluminium. At the same time, competition in this sector is becoming increasingly intense, more so in the downstream segments where supply outstrips demand, and secondary producers have joined in the fray.

To ensure your Company's continued growth, to attain a cutting-edge position and importantly to keep creating value, a well crafted strategy is already in place.

"Operationally, your Company has put in a splendid performance, in fact the best ever in its 62-year old history. Revenues and earnings have registered a substantive growth."

Realisation of synergy gains with Hindalco, sweating of assets in a decisive manner, cost-optimisation, and raising the bar of operating efficiencies are key to your Company's forward-looking strategy.

Aggressive marketing in tandem with Hindalco, an enriched product-mix, and strengthening of exports will take your Company forward. Our thrust will be on increasing exports of standard and special grades of alumina through deeper penetration into the existing markets while foraying into newer markets for alumina and downstream products. Exports of value-added sheets and downstream products will remain a priority even in the future.

This, coupled with customer-centric distinctive services, will further lift your Company's revenues and earnings.

SUMMARY

As I mentioned at the outset, your Company's results have been truly path-breaking. To do an encore, is the challenge ahead.

Having said this, I would like to take the opportunity to record my sincere appreciation of the employees and the management team at Indal. Only through their dedication and commitment have we been able to deliver superior results despite the challenging operating environment that prevailed during the year. Their partnering with us in an exemplary manner will surely aid us in delivering value for our shareholders year after year.

THE ADITYA BIRLA GROUP – IN PERSPECTIVE

That said, let me focus on the proactive steps taken by us at the Group level, to attune to the unrelenting pace of change that confronts Corporates today, and more importantly to ensure the Group's sustainable success. This is integral to fulfilling our avowed goal of relentlessly pursuing the creation of value for our shareholders, customers, employees and society at large. To do so, in the recent past, we have hinged on three focal points. Firstly, a distinctive strategic architecture; secondly, novel structural processes and thirdly, adopting systems which ensure that we remain a cutting-edge premium business conglomerate.

We have a proven track record in successfully managing different businesses, and we will continue to remain a conglomerate at the Group level. The pre-condition for this is, of course, that each of our businesses allows us dominance in that sector. Additionally, the returns on financial resources and management time invested in each of them must be commensurate with our expectations.

Over the last two years, I have apprised you of the developments on the business front. My intent is to share the progress attained and the ways we have adopted to keep stoking growth.

OUR STRATEGIC ARCHITECTURE

It is my firm belief that value-creation must course through all of our businesses.

Growth in our key businesses has been characterised by consolidation, acquisitions and restructuring. Consolidation of the cement business, through the merger of Indian Rayon's

"Aggressive marketing in tandem with Hindalco, an enriched product-mix, and strengthening of exports will take your Company forward. Our thrust will be on increasing exports of standard and special grades of alumina through deeper penetration into the existing markets while foraying into newer markets for alumina and downstream products. Exports of value-added sheets and downstream products will remain a priority even in the future."

"With CVA (Cash Value Added) as our measurement metric, we have been able to streamline and refine management decision-making processes so that these are totally aligned to shareholder value. This has been accomplished under the umbrella of 'Project Together', a Group-wide initiative to drum up support across all levels."

Cement Division with Grasim, has yielded rich dividends for both of our Companies' shareholders, apart from admirably elevating Grasim's stature in the industry. The amalgamation of Dharani Cements with Grasim and the intent to acquire cement companies that strengthen our national footprint are steps that enable us further cement our position.

The acquisition of global rights for world-class brands such as Louis Philippe, Allen Solly (barring North America), Peter England (with the exception of the UK and Ireland) marks a turning point. It at once catapults Indian Rayon's potential to become a global player in the menswear brands. Incidentally, the branded apparel segment has been and continues to be the major growth driver at Indian Rayon.

To accord the desired focus to the software sector, we have hived off Grasim's Software Division, Birla Consultancy Software Services, into a separate wholly owned subsidiary of Grasim. This move also allows Grasim to stay focused on its two key businesses — Viscose Staple Fibre and Cement.

In the Telecom sector, teaming up with Tata Telecommunications, has been a forward-looking initiative. The acquisition of RPG and Vodafone's stake in Madhya Pradesh by this joint entity, has enlarged our geographic reach. Today we command 30 per cent of the teledensity in the country.

Our foray into the Life Insurance sector in partnership with Sun Life of Canada is a measure to step up our interests in futuristic knowledge-oriented growth businesses, which have the potential to grow in revenues and earnings.

Divesting those of the businesses that destroy shareholder value is a natural corollary. Scaling down of our spinning operations, the divestment of the Fides business to Raymonds and our desire to exit from petroleum refining, indicate our firm resolve to pare off those businesses which are not value adding and our focus on focus.

NOVEL STRUCTURAL PROCESSES

With CVA (Cash Value Added) as our measurement metric, we have been able to streamline and refine management decision-making processes so that these are totally aligned to shareholder value. This has been accomplished under the umbrella of 'Project Together', a Group-wide initiative to drum up support across all levels.

CVA serves as the sinew of our Organisation. Its roll out has been eminently successful. The Group's commendable results are partly the spin-off from CVA.

Our antenna is tuned in to the external world. We have been constantly sharpening our wherewithal to channel and drive the forces of change. To do so we are moulding ourselves into a quick-response, market-driven people who are constantly innovating and designing product delivery systems as customer solutions.

Infusion of fresh blood and grooming talent at all levels aids us in attaining the objective. Increasingly, professionals of a high calibre have been and continue to be recruited whenever

the required competence is not found internally. Alongside we have been moving talent effortlessly across the Group. The senior positions that fell vacant consequent to the retirement policy, have been largely filled in through the internal recruitment of talented, competent professionals. The transition has been flawless.

I firmly believe that our people provide us with the cutting edge. They are the backbone of our organisation. They breathe life into the business, endowing it with both character and staying power. Therefore harnessing people power, breeding thought-leaders and creating platforms from which every individual can contribute are priorities, in continuum.

Our endeavours to be a fluid, flexible and seamless Group backed by our strong values, and a robust performance ethic are ongoing.

INSTITUTIONALISING SYSTEMS

Towards creating value, we have embedded systems and processes firmly. The Aditya Birla Information Highway, rechristened as 'Aditya Disha' ensures that learning and knowledge sharing is genetically hardwired into our Group. Leveraging the immense networking opportunities it offers, 'Aditya Disha', our intranet knowledge portal, assists employees at all levels to work faster and smarter. In doing so, it accords us a competitive lever.

Gyanodaya, the Institute of Management Learning, is today a world-class training and learning Centre, one in which we take great pride. Since its inception more than 65 management programmes have been conducted by top-notch professionals over 220 days, attended by 1300 managers. These are of immense value, honing as they do people skillsets required in today's competitive era. More importantly these programmes foster our intellectual capital, so fundamental to our remaining on top of the league in the sectors in which we operate.

All of our initiatives are strung together by one abiding dictum which is -- to factor the aspirations of our shareholders, and to ensure that total shareholder returns grow significantly year on year.

Thank you,

Mumbai
24 April 2001

Yours sincerely,


Kumar Mangalam Birla

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Board of Directors

Kumar Mangalam Birla
Chairman

A.K. Agarwala
Vice Chairman

S.K. Tamotia
President & CEO

N.K. Choudhary
Managing Director, Operations

P.K. Choksey

S.C. Jain
Nominee of Financial Institution

N.J. Jhaveri

S. Misra

A.L. Mudaliar

B.L. Shah

OFFICERS

S. Talukdar
Chief Financial Officer

Sanjeeb Chatterjee
Company Secretary

AUDITORS

Price Waterhouse

ADVOCATES & SOLICITORS

Sandersons & Morgans

BANKERS

Standard Chartered Grindlays

Bank of America National Trust & Savings Association

Bank of Baroda

Citibank N.A.

Deutsche Bank

Punjab National Bank

State Bank of India

Syndicate Bank

The Hongkong & Shanghai Banking Corporation Limited

Union Bank of India

MANAGEMENT COMMITTEE

S.K. Tamotia

President & CEO

N.K. Choudhary

Managing Director, Operations

C.B. Agrawal

Vice President – Planning & Monitoring

M. George

Vice President – Metal & Power

S. Ray

Vice President – Chemicals & International Trade

P.K. Sen

Vice President – Engineering, Commercial & Business Development

R.P. Singh

Vice President – Human Resources & Corporate Affairs

S. Talukdar

Chief Financial Officer

M.S. Varma

Vice President – Foil & Packaging and Extrusions

BUSINESS DIVISIONS

CHEMICALS

V.K. Sood

Chief Executive, Operations

S.K. De

General Manager – Works (Belgaum)

V.R. Agrawal

Works Manager (Muri)

S.R. Panja

Asst. General Manager – Mines (Lohardaga)

A.R. Rane

Asst. General Manager – Mines (Durgmanwadi/Chandgad)

METAL & POWER

A.K. Kar

Chief Executive – Hirakud Complex

R. Misra

Chief General Manager – Works (Hirakud Power)

C.G. Jolly

General Manager – Works (Alupuram Smelter)

SHEET

A.B. Powar

Chief Executive, Operations

S. Banerjee

Chief General Manager – Works (Belur)

S.D. Sharma

General Manager – Works (Taloja)

S. Samaddar

General Manager – Sales & Marketing

FOIL AND PACKAGING

A.R. Sangolli

Chief Executive, Operations (Kalwa)

H.U. Bhelande

General Manager – Sales & Marketing

EXTRUSIONS

B. Arun Kumar

Chief Manager – Works (Alupuram Extrusions)

P. Anil Kumar

Asst. General Manager – Sales

- **Successful operations driven by improved fundamentals**
 - Record capacity utilisation at Alumina plants and Smelter
 - Record PLF at Captive Power Plant
 - Record Sheet production at Belur Sheet Mill
 - Highest-ever Sales, Exports and Profits
- **Continuous improvement in performance, quarter-on-quarter and year-on-year**
 - Net revenues up 22% YoY; operating margins improved
 - Pre-tax profits up by 55% YoY
 - Net profit at record high levels of Rs 1,160 million, up 38% YoY
 - EPS and CEPS at record high levels of Rs 16.3 and Rs 26.1 per share respectively
- **ROCE up from 11.8% to 15.7% while ROAE improved from 11.4% to 14.5%**
- **Awards and Achievements**
 - Hirakud Smelter was adjudged the “Best Performing Smelter” in the one to three million hours category by the International Primary Aluminium Institute, UK
 - Company selected amongst the “10 Greenest Companies in India” in a survey conducted by the Tata Energy Research Institute (TERI) and Business Today
 - Hirakud and Alupuram smelters and Belgaum alumina plant received ISO 14001 EMS certification

Management Discussion and Analysis

— From the President & CEO to Shareholders

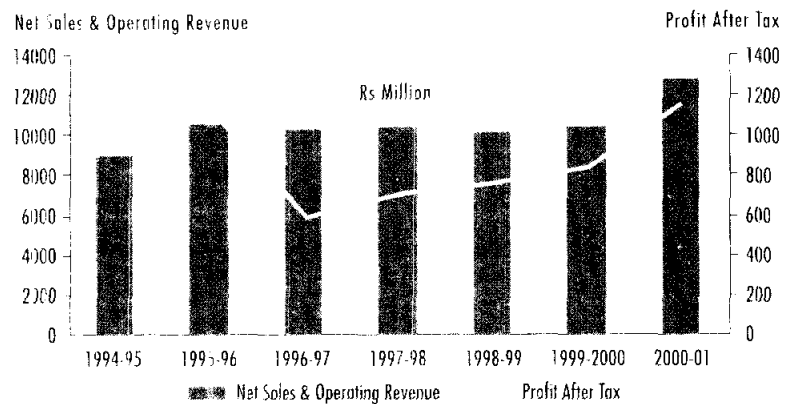


Dr S.K. Tamotia

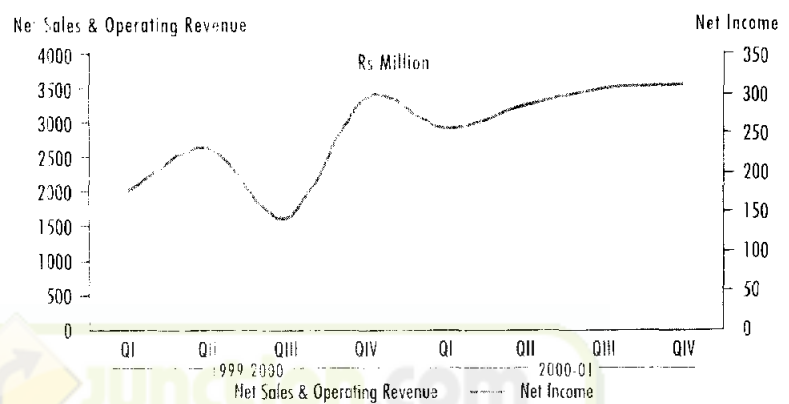
OVERVIEW

Indal's performance for the year has been outstanding. The first year of operations under the Aditya Birla Group witnessed the best ever performance on every front with the highest ever sales, exports and profits:

- Highest ever Sales, Exports and Profits



- Strong improvement over previous year. Consistently over quarters



This exemplary result was driven by fundamental improvements :

- Highest ever utilisation at alumina plants and smelters
- Record PLF at captive power plant
- Path breaking production at Belur sheet plant
- Smart turnaround in extrusions business

Benefiting from significant operational efficiencies, higher market share, better alumina realisations and stringent working capital controls, after five years of flat sales, your Company