

A CLEAR
VISION OF
TOMORROW,
TODAY.

Report  junction.com

INDAL



2001 - 2002
ANNUAL REPORT

INDIAN ALUMINIUM COMPANY, LIMITED



The late Aditya Vikram Birla, a man rooted in Indian values yet global in vision. Rock solid in fundamentals.

He spawned a culture that encouraged vigour and vitality, the spirit of innovation, the spirit of experimentation, and the passion to excel. A culture where learning afresh underpinned success.

Beyond business, he nurtured communities, sending out a clear message that we care.

Simply put, he was one man who made a difference. In business and as a human being.

Our constant endeavour is to keep up to his standards.



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

CONTENTS

Indian Aluminium Company, Limited

Management Team	2
Highlights	3
Chairman's Letter	4
Management Discussion and Analysis	8
Social Report	24
Environment Report	27
Report on Corporate Governance	30
Shareholder Information	36
Report of the Directors	42
Annexure to Directors' Report	49
Statement of Significant Accounting Policies	52
Auditors' Report	53
Profit & Loss Account	56
Balance Sheet	57
Schedules	58
Cash Flow Statement	81
Eleven-year Statistical Highlights	82

Annapurna Foils Limited

Report of the Directors	84
Annexures to Directors' Report	86
Management Discussion and Analysis	93
Auditors' Report	95
Profit and Loss Account	98
Balance Sheet	99
Schedules	100
Cash Flow Statement	110

Indal Exports Limited

Report of the Directors	111
Secretarial Compliance Certificate	112
Auditors' Report	114
Balance Sheet	115
Profit and Loss Account	116
Schedules	117

Statement Regarding Subsidiary Companies	119
--	-----

Consolidated Financial Statement

Statement of Significant Accounting Policies	120
Auditors' Report	121
Profit and Loss Account	122
Balance Sheet	123
Schedules	124

BOARD OF DIRECTORS

Kumar Mangalam Birla
Chairman

A.K. Agarwala
Vice Chairman

S.K. Tamotia
President & CEO

P.K. Choksey

S.C. Jain
Nominee of Financial Institution

N.J. Jhaveri

S. Misra

A.L. Mudaliar

B.L. Shah

OFFICERS

S. Talukdar
Joint President & Chief Financial Officer

Sanjeeb Chatterjee
Company Secretary

AUDITORS

Price Waterhouse

ADVOCATES & SOLICITORS

Sandersons & Morgans

BANKERS

Standard Chartered Grindlays

Bank of America

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

P.K. Sen
Joint President – Engineering, Commercial & Business Development

M. George
Joint President – Metal & Power

S. Talukdar
Joint President & Chief Financial Officer

G. Mukherjee
Joint President – Foil & Packaging

S. Ray
Vice President – Chemicals & International Trade

C.B. Agrawal
Vice President – Planning & Monitoring

A.B. Powar
Vice President – Technology

A.K. Basu
Chief Executive – Human Resource Management

S. Banerjee
Chief Executive – Sheet Business

UNIT HEADS

CHEMICALS

V.K. Sood
Chief Executive, Operations

V.R. Agrawal
Works Manager – Muri

H. Bhagawati
Mines Manager – Lohardaga Mines

A.R. Rane
Assistant General Manager – Durgamwadi/Chandgad Mines

ALUMINIUM

Metal & Power

R. Misra
Chief General Manager, Works – Hirakud Power & Smelter

C.G. Jolly
General Manager, Works – Alupuram Smelter

Sheet

K.K. Binani
Works Manager – Behar

S.D. Sharma
General Manager, Works – Talaja

Foil & Packaging

A.R. Sangolli
Chief Executive, Operations – Kalwa

Extrusions

C.G. Jolly
General Manager, Works – Alupuram Extrusions

MANAGEMENT TEAM

HIGHLIGHTS


Hon'ble Minister of Power
Shri Suresh Prabhu presenting the
Special Prize 2001 for
Energy Conservation to
Dr S.K. Tamotia

OPERATIONS

- Record-high revenues and net profits, notwithstanding demand pressures and weak global alumina and aluminium prices.
- Best ever output from both Belgaum and Muri Alumina refineries.
- Highest ever utilisation of installed capacities in Hirakud and Alupuram smelters.
- Record power generation from the Hirakud Captive Power Plant with PLF of 92%.
- Record production at the Alupuram Extrusions plant.
- Turnaround in Sheet gained momentum, enabled by superior product-mix, improved efficiencies and controlled costs at Belur and Taloja.
- Higher sales realisation in Foil with enriched product-mix.
- Annapurna Foils acquired, being merged with Indal.

AWARDS & RECOGNITION

- Accorded "Star Trading House" status by the Director General of Foreign Trade, Government of India.
- Hirakud Smelter awarded Special Prize – 2001 for winning National Energy Conservation Award for the third successive year by the Ministry of Power, GOI.
- Hirakud smelter was adjudged the "Best Performing Smelter" in the one to three million hours category by International Aluminium Institute, UK.
- Hirakud Smelter & Power first in the aluminium sector in India to achieve ISO 18001 Occupational Health & Safety Assessment System Certification.



THE CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear fellow shareholders,

The year 2001-02 will be remembered for long, not necessarily for all the right reasons. It has been a year of aberrations. With the attack on the World Trade Centre in September, dark clouds encircled the global economy. Given the preponderance of the U.S., worldwide business faced great uncertainty. The sudden drop in consumer confidence was no surprise. Stock markets nose-dived as well. No longer insular, corporates in India too felt the tremors of these seismic events.

In the face of these setbacks, your Company has shown remarkable resilience and posted a reasonably good performance. Regardless of the slump in alumina prices and a weak LME, your Company's revenues at Rs 13,683 million have risen 7 per cent year on year. Pre-tax profit before non-recurring items at Rs 1,597.5 million is slightly lower than the preceding year as margins were considerably drained due to an unprecedented rise in input costs and lower realisations. Net profit has been sustained at Rs 1,171 million. In the previous year it stood at Rs 1,160 million.

An excellent asset utilisation culminating in a record production of alumina, metal, extrusions and power and a value-added product mix have been the levers that have pushed growth.

Among the two major developments which would be of interest to you are – firstly, the capacity enhancement at Hirakud and secondly, the acquisition of Annapurna Foils.

Raising the smelter capacity at Hirakud from 30,000 tonnes to 57,200 tonnes, will augment the metal availability for downstream consumption. Importantly, it will enable your Company surpass its current cost efficiencies, rendering it even more competitive. The additional capacity will be fully operational by the last quarter of the financial year 2002-03.

“... your Company has shown remarkable resilience and posted a reasonably good performance ...
... excellent asset utilisation culminating in a record production of alumina, metal, extrusions and power and a value-added product mix have been the levers that have pushed growth.”

“At the end of the day, despite the strong economic undercurrents, your Company has managed to maintain profits, by and large outperforming their competitors in most of the sectors in which they operate. This is a matter of satisfaction for all of us.”

The acquisition of Annapurna Foils Limited is yet another measure aimed at moving up the value chain. Annapurna Foils' 4,000 tonnes foil plant at Kollur near Hyderabad, produces quality foil. It admirably complements your Company's strengths in foil. Subject to regulatory approvals, Annapurna Foils is soon to be merged with your Company.

Outlook

The US economy is well on course, and Europe seems posited on the growth track. Given the snowballing effect of these world economies, expectations of a substantial improvement in alumina and metal consumption, world over, run high.

Closer to home, the ongoing thrust by the Government on the infrastructure and power sectors, the increasing use of aluminium as an eco-friendly metal in the white goods category, besides the automobile and consumer durable segment, should fuel the demand for aluminium.

Against the backdrop of this tenor, besides WTO and the resultant fall of competitive barriers, increasing capacities in China pose stiff challenges. Your Company is fully geared to meet them upfront. Even as your Company's predominance in the chemical and downstream businesses and its locational advantages endow it with a competitive flange, a finely-tuned strategy that will give it an edge, is in place.

It encompasses moving up the value chain to minimise the impact of the global price fluctuations, a renewed focus on exports particularly of downstream products that face a capacity overhang with fragmented operations domestically, and deeper market entrenchment through leveraging the synergies that accrue from the Hindalco and Annapurna Foils connection.

Let me add that being customer-centric, offering superior quality products and technical services, being cost obsessed, are hygiene factors in your Company.

At the end of the day, despite the strong economic undercurrents, your Company has managed to maintain profits, by and large outperforming their competitors in most of the sectors in which they operate. This is a matter of satisfaction for all of us. To my mind, more than anything else, it is the culture of meritocracy that we espouse, it is the ebullience, the perseverance and the commitment of practically all of your Company's employees that has made your Company what it is today. I wish to record my sincere appreciation of their contribution.

They know fully well that creating and enhancing shareholder value is at the core of your Company's agenda.

The Aditya Birla Group – In Perspective

That said, I would like to dwell on the proactive measures taken on various counts to keep our Group attuned to the shifting realities of today's hyper-competitive landscape, and importantly to make sure that we continue to remain successful.

Over the last four years, we have embarked on a continual process of renewal with a single-minded strategic focus on creation of customer and shareholder value.

Being among the top three players, in the sectors in which we operate or exiting; offering superior value addition to our customers, being continually focused on targeted, cost-effective commercial innovations that drive us unflinchingly towards global benchmarks in every operation of ours and building upon the Aditya Birla brand form the contours of our strategic structure.

Our strategic architecture

Value creation is the raison d'être underpinning all of our businesses.

Growth in our key businesses has been pegged on consolidation, acquisition and mergers. In so far as it relates to acquisitions, we are very clear that we will bid at values and prices that make sense for us, depending on what value we see in the asset and at what price we think we will create value for our shareholders.

At Hindalco, the Rs 1,800 crores brownfield expansion is well on track. The 9th Potline in the smelter has been commissioned. The phased implementation of the expansion programme will make much headway during this financial year and should be completed by the year 2003-04.

In the copper business of Indo Gulf while we have grown the smelter capacity from 100,000 TPA to 150,000 TPA at Birla Copper, with a view to attain a global scale, a further expansion is on the anvil.

As you are well aware, we have acquired 12.89% equity in Larsen & Toubro. This initiative represents a strategic investment by us, in what I believe, is India's premier infrastructure company. We have identified cement among other sectors along with knowledge-intensive businesses, with a strong service orientation, as businesses that offer significant growth opportunities, going forward.

In VSF we have outpaced competition not only in India but in the Asian region too, commanding as we do nearly 25% of the global pie. To retain our hold and grow further, given the changing market dynamics, we are exploring the possibility of foraying into selective cellulose fibres like Highwet Modular Fibres and Lyocal.

To turn around the textile business in the foreseeable future and to stem recurring losses, we have divested our textile unit at Gwalior to Meledeon Exports Ltd., as a going concern as the unit made losses continuously. Our premier brands "Grasim and Graviera" are now being manufactured at a single location in Bhiwani. Besides bringing in better synergies, fixed costs and the value of current assets have been significantly pared. This is the first major step to reverse the downturn of the fabric business.

To achieve a fair balance in terms of portfolio, in the recent past we have forayed into the ready-to-wear apparel segment and the insurance sector. This year we have ventured into the software sector, given its growth potential. The acquisition of PSI Data Systems from Groupe Bull S.A. of France, is a step in this direction.

“Over the last four years, we have embarked on a continual process of renewal with a single-minded strategic focus on creation of customer and shareholder value.”

I am also pleased to inform you that we have been able to dispose off the Sea Water Magnesia Plant at Visakhapatnam.

In the telecom sector, the three-way joint venture between AT&T, Tata Cellular and our Group, newly christened "Idea Cellular Limited" is progressing very well. Currently, the fastest growing cellular venture has registered a growth of 135 per cent this year, outpacing the industry average of 80 per cent, and commanding a teledensity in excess of 30 per cent in the country.

Birla Sun Life, our insurance venture, is gaining ground. As you may be aware in this sector we have to factor a gestation period of at least five years before returns accrue.

Regrettably up until now we have not been able to exit from petroleum refinery given the complexities of this J.V.

Structural Processes / People Processes

CVA (Cash Value Added) is indeed well entrenched as our measurement metric across the Group. We are now in the third planning cycle of the CVA. Over the last three years we have successfully met with its objective – essentially the streamlining and refinement of management decision making processes which necessitate understanding business variables in depth and quantifying their effect on value creation.

As a proactive response to today's competitive global landscape and changing times, we are continuously ensuring that our Group remains customer-centric, nimble footed, performance-driven and accountable on all fronts. To do so, we spawn a culture of creativity and continuous innovation that can best the competition.

We are endeavouring to foster an environment in which our people are enthused to work with an entrepreneurial spirit, creating that enabling ambience where passion becomes embedded in the genetic coding.


Unleashing people potential in a balanced manner through a razor sharp focus on competence enhancement and learning is happening at Gyanodaya, the Aditya Birla Institute of Management Learning. Our aim here is also to convert our people into global managers, to create entrepreneurs out of them, to encourage them to think out-of-the-box. I believe it is only new ideas and new thought that prevent obsolescence, create value for shareholders and enable the Group to achieve ongoing profitable growth.

Thank you,

Yours sincerely,

Mumbai
2 May 2002


Kumar Mangalam Birla



MANAGEMENT DISCUSSION AND ANALYSIS

Dr S.K. Tamotia
President & CEO

OVERVIEW

This year in many ways has been a watershed year for Indal. Certain key value drivers turned adverse. Your Company's exposure to commodity price fluctuations and administered cost escalations put pressure on operating margins. That the results were still commendable is testimony to the management's resolve to drive fundamental operating improvements, make adroit responses to meet situational needs and institutionalise appropriate risk management processes to reduce volatility of profits and cash flows. Your Company continued its focus on certain value-adding strategic initiatives to strengthen the competitiveness of its core businesses.

In the previous year, Indal had seen an export led growth in sales and profits. This year, low export realisations and global recession saw a fall in export revenue. However, record revenues and profits demonstrated your Company's resilience in highly adverse circumstances.

Extremely Challenging Environment

The year 2001-02 was indeed challenging. The prolonged slowdown in the US and its corresponding impact on other global economies including Asia had a telling effect. Though the year started with hopes of recovery, the 9/11 developments and resultant dampening of consumer sentiments razed them. Reflecting this, global demand contracted, alumina prices dwindled and aluminium prices hit a 30-month low notwithstanding production cuts from large producers in the US.

On the domestic front, industrial growth halved to a decade low of 2.7% in 2001-02. GDP grew by 5.4%, but this was primarily due to recovery in the agricultural sector, which benefited from a good monsoon. Manufacturing costs came under pressure due to unprecedented rise in cost of key inputs like power, oil and caustic soda.

Record-high Sales and Profits notwithstanding Macro Pressures

Viewed in this context, Indal's performance was commendable. Aggregate revenues were higher by 7% year-on-year (YoY) to Rs 13,683.5 million and profit