

**THE CHAIRMAN'S ADDRESS TO SHAREHOLDERS OF INDIAN RAYON  
AT VERAVAL ON FRIDAY, 1<sup>st</sup> AUGUST, 2003**

Dear Shareholders,

I take great pleasure in welcoming you to the 46th Annual General Meeting of your Company.

As all of you know, the year 2002-2003 has been a very demanding one. Geopolitical issues, an erosion of consumer confidence and, the expected global economic upturn, which did not happen, pressurized economies the world over. We, in India, had to face its vibrations as well.

Despite the sharp deceleration in demand, more so in the Garments and Textile sectors, and the de-merger of the Insulator business, your Company has done remarkably well. The Viscose Filament Yarn and Carbon Black businesses have been the key growth drivers. Your Company's commendable performance demonstrates the solid fundamentals that underpin its major businesses. I will dwell on these aspects subsequently.

First of all, let me post you on the notable developments that have a significant bearing on your Company's sustainable success and which, I believe, are value-creating measures. These encompass – **firstly**, the formation of Birla NGK Insulators Private Limited, a Joint Venture Company. **Secondly**, the divestment of your Company's stake in MRPL and **thirdly**, the acquisition of TransWorks.

**The transfer of the Insulator business**

As you are aware, your Company has transferred its Insulator Business and formed a Joint venture Company named "BIRLA NGK Insulators Private Limited" with NGK Insulators of Japan, the undisputed global leader in this sector. Your Company aims to leverage its partnership with NGK and further strengthen the leadership position it already enjoys in the domestic market. Backed by NGK's technology inputs and global network, the JV is poised to scale new heights.

As a consequence of the de-merger, your Company has received cash inflow of Rs. 119.3 Crores and has earned a one time capital gain of Rs.38.4 Crores.

The JV became operational from the 6th of February 2003 with the transfer rendered effective from the 1st of August 2002. Hence your Company's financial performance includes the performance of the Insulator Division only for four months, from April 2002 to July 2002. Your Company has retained the domestic marketing rights while exports marketing is vested with NGK.

### **Divestment of MRPL stake**

Your Company took a strategic decision to divest its equity in MRPL to ONGC. It has incurred a loss of Rs.57.08 Crores. With this, divestment your Company has exited its exposure in the petroleum sector and is free from all the promoters obligations towards MRPL.

### **Acquisition of TransWorks**

Your Company has acquired "TransWorks Information Services Private Limited" -a leading Indian Business Process Outsourcing (BPO) Company, at a cost of Rs 50.15 Crores. TransWorks is now a subsidiary of your Company. Your Company may be required to pay an additional consideration up to Rs. 10 Crores based on the milestones as agreed in the Share Purchase Agreement.

Your management is excited by the potential of the BPO sector and is very pleased to have TransWorks joining the Group. This acquisition helps synergise, support and leverage your Company's existing thrust in the IT services sector in particular, and the services sector in general.

The Indian BPO sector is growing at a 60% clip annually, and is believed to have crossed the US \$ 2.5 billion mark. Building upon the platform and process capabilities already created, your Company's entry is expected to propel TransWorks into a higher growth trajectory amongst the best Indian BPO players.

It might interest you to learn that TransWorks has delivery centers in Mumbai and Bangalore. It is the world's first Customer Operation Performance Centre (COPC) certified company – which is a recognition of its exemplary service and quality standards. The Company has a current revenue run rate close to US \$ 1 million per month and is anchored by a 1000 strong work force.

### **Let me now share with you the highlights of your Company's performance during 2002-2003,**

- Net revenues at Rs.1443.8 Crores have grown by 2% despite the de-merger of the Insulators business.
- Operating profit at Rs.248.3 Crores vis-à-vis Rs.200.8 Crores is up by 24%.
- Net profit has more than doubled to Rs. 105.33 Crores as against Rs. 43.5 Crores in the previous year.

I take great pride in the fact that notwithstanding the muted economic conditions, your Company has posted such impressive results. This performance trend is seen in the results for the First Quarter too. And I shall dwell on this a little later.

### **The Dividend**

Moving over to the dividend, your Directors recommend a 37.5 percent dividend (Previous Year 33%) for your approval. The payout on this account for the year 2002-2003 will be Rs.25.33 Crores, inclusive of the corporate dividend tax of Rs.2.88 Crores, vis-à-vis Rs.19.76 Crores in the previous year.

### **Divisional brief and outlook**

Having provided you with this snapshot, let me now dwell upon our business sectors and share with you our plans for taking these ahead despite the challenging times.

### **Viscose Filament Yarn (VFY)**

VFY has played an excellent role in strengthening your Company's position. It is the single largest contributor to your Company's overall profitability. Novel applications of VFY and VFY-based products, its increasing use in apparels, saris and fashion-wear fabrics have spurred growth in the domestic sector. The Division is leveraging its 'RAY ONE' brand, and targeting it to premium customers.

Even as the Division has attained first quality levels in excess of 60%, it is targeting to reach up to the level of 76% during the current fiscal.

While the long-term outlook for VFY is positive, in the short-term realizations may get impacted as stock accumulated in the industry will need to be liquidated to optimum levels. To sustain growth, the Division's focus on superior quality levels, and increasing the value-added product mix, would be unrelenting.

### **Garments**

The Garments division has maintained its market leadership despite the extremely challenging environment. Weak consumer sentiments have affected volumes though early signs of recovery seem visible. A stiff competition from regional players, particularly in the popular segment, put pressure on pricing, and led to huge inventory levels. Higher discounting by Industry players further compounded the situation. The turnaround of the division during the first quarter has been truly remarkable.

The long-term outlook for the Garments' business remains positive, fuelled by the economic growth, which we are witnessing today, and increasing customer spends. Even though, in the short-term, the consumer's sentiment is likely to improve, the environment is challenging.

To continue on its growth trajectory and earnings, the Garments' Division will strive to enhance its leadership in Van Heusen, Louis Philippe and Allen Solly, its "Power" brands, while maintaining the momentum of "Peter England". Its other focus areas encompass – expanding its retail presence through Planet Fashion and exclusive brand outlets. A thrust on new product innovations, aggressively executing its new initiatives such as its superior-crafted suits, Allen Solly's Women's Wear, and Jeans, and leveraging its retailing and brand strength through licensing in select areas like leather goods, ties and other accessories forms part of its road-map too.

### **Carbon Black**

The recovery in the auto and tyre sector has had a positive rub-off on your Company's Carbon Black business. Tyre exports have also picked up considerably, which augurs well for your Company.

To capitalize on the increasing demand for Carbon Black, led by the auto/tyre sector, your Company has planned a brown-field expansion at its Gummidipoondi plant. This will help raise the plant's capacity from 40,000 Tonnes to 80,000 Tonnes. On completion, your Company's total capacity will move up from 1,10,000 Tonnes to 1,50,000 Tonnes.

We have met with considerable success in developing speciality grade Carbon Black for tyre and non-tyre applications at the Aditya Birla Institute of Fundamental Research at Chennai. We feel very buoyant about this business, given the Government's stress on infrastructure development, particularly the quadrangular highways, as they provide an enormous potential for tyre usage.

We also believe that the softening of CBFS prices will benefit the cost structure of Carbon Black, though the crude oil prices remain volatile globally. Regardless of the pricing pressure that may be exerted to maintain the import price parity, we see the Carbon Black business moving forward and bolstering the earnings of your Company.

### **Textiles**

The Textile Division's profitability has been constrained, operating as it did amidst extremely difficult market conditions. Realisations have been under pressure, as the rise in input costs could only be partially passed to customers. On a positive note, the Division performed well on the exports front.

To ensure its sustainability, the Division is focusing on niche businesses such as, flax/linen and speciality fabrics like flame retardant fabrics. Its thrust will also be on retailing of linen as the fabric of the future.

I am very pleased to inform you that your Textiles division has won the OHSAS18001 accreditation and SAS 8000 Certification. Your Textiles division is the first composite textiles unit in the country to have won such an honour. The OHSAS18001 and SAS 8000 Certifications are a validation of the highest standards of safety and working conditions enjoyed at your Company's Textile unit.

### **Insulators**

The fortunes of your Company's Insulators Division are now linked with the efficiencies of its joint venture partner, NGK and also the demand for Insulators in India.

Your Company's joint venture partner has charted out an ambitious Capex and modernization plan. Its intent is to enhance the current capacity by 8000 Tonnes to 42000 Tonnes to bring in superior quality levels. Over a period of time, the yield

will improve from 55% to 75%. Internal accruals and short-term borrowings will fund the entire Capex.

The Outlook for the Insulators business is positive. The enactment of Electricity Act in June 2003 and the resultant activity in Transmission & Distribution (T&D) segment augurs well for the Division.

### **First Quarter performance**

For the quarter ended June 2003, your Company has recorded a Net Sales of Rs.339 Crores vis-à-vis Rs.364.5 Crores achieved in the corresponding quarter of the earlier year. This drop in revenues is largely due to the overall impact of the weaver's and transporter's strike, on its major businesses. At the same time, for the Insulators business, your Company has factored its sales in the domestic markets only. These stand at Rs.13.5 Crores as against Rs.44.6 Crores attained in the comparable quarter of the previous year, which reflects both domestic and overseas sales. Consequent to the de-merger of its Insulator business, from the 1<sup>st</sup> of August 2002, your Company caters exclusively to the domestic sector. Thus even though its remaining business have grown by 1.8%, despite adversities, the overall net sales at Rs.339 Crores is lower by 7 %.

Importantly, your Company has attained a gross profit of Rs.49 Crores up by 9.6 %, as compared with Rs.44.7 Crores achieved in the corresponding quarter. The Carbon Black business has contributed substantially to your Company's profitability. A significant fall in interest costs and a higher interest income, have also boosted the gross profit. Despite the constraints faced by your Company, Net profit grew to Rs.21.6 Crores from Rs.15.1 Crores in the corresponding quarter, up by 43 %.

In sum, I believe, the future of your Company is bright.

### **A Caring Corporate Citizen**

Last but not the least, I would like to very briefly speak about the role that your Company has been playing as a committed, responsible and a caring corporate citizen.

Your Company is totally committed to sustainable development. For your Company, this goes far beyond pollution prevention and tinkering with environmental stipulations. It is an integral part of our philosophy. Hence, environment considerations are always featured in your Company's decision-making process.

All of your Company's plants are run in an eco-efficient manner and are ISO 14001 EMS certified. I am pleased to inform you that your Company's plants' adherence to environment systems has been validated by reputed bodies such as the Central Salt and Marine Chemical Research Institute, KPMG and the Bureau

of Indian Standards. Besides this, quality standards being followed have earned the Deming Award 2002, for your Company's Gummidipoondi plant.

Likewise, we have always looked beyond the traditional spheres of influence and addressed the larger issues facing people in proximity to our plants and beyond.

Your Company's social projects are carried out under the aegis of the Aditya Birla Centre for Community Initiatives and Rural Development. The footprint of its work spans 113 villages, in proximity to our Plants at Veraval and Halol in Gujarat, Renukoot in Uttar Pradesh, Rishra in West Bengal and Gummidipoondi in Tamil Nadu. Your Company reaches out to one lac fifty thousand people annually, of whom a majority live below the poverty line.

Your Company's focus areas are healthcare and family welfare, education including adult literacy, sustainable livelihood, which also encompasses women empowerment processes, besides others. These projects stem from the unfulfilled basic needs of the communities. They evolve in tandem with the village panchayats and are the outcome of a consensus.

For the year 2002-2003, we have mobilized Rs.399 Lacs through different development programmes, apart from our own contribution. We were able to influence the lives of thousands of people. The difference is palpable.

Going forward, development of model villages in a phased manner underpins your Company's strategy. Your Company is committed to developing 17 model villages. Making of a model village entails ensuring self-reliance in all aspects over a four-year timeframe. In our own humble way, we are endeavouring to help the Government raise the Human Development Index of our nation.

Having provided you with a snapshot of your Company, in all of its key dimensions, may I now commend the first resolution relating to the adoption of the Accounts and Director's Report for your consideration and approval.