



ADITYA BIRLA NUVO LIMITED

The Chairman's Address to the Shareholders of Aditya Birla Nuvo Limited at the 54th Annual General Meeting held on 28th September, 2011 at Veraval

Disclaimer

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Dear Shareholders,

It is a pleasure to welcome you to the 54th Annual General Meeting of your Company.

Worldwide, an unmistakable phenomenon all around has been the sharp accentuation of uncertainty about the future course of the large global economies. Governments are struggling to respond appropriately to this uncertainty which inevitably spills over into the world of business. This is more than evident in terms of volatile financial markets, uncertainty in growth, uneven trade, high unemployment, and intractable inflation. Clearly, such pronounced volatility is highly disruptive, both for the global economy and for business. And India is no exception to these tectonic happenings.

India's economic performance during 2010-11 was powered by the agricultural and service sectors. Growth in the infrastructure and capital goods sector was slower than the GDP growth. While the economy showed signs of a turnaround, it suffered setbacks, albeit in a limited way. Factors that affected us include high inflation, fiscal and current account deficits and lack of policy facilitation to increase domestic investments, among others. Despite several measures adopted by the Government and the Reserve Bank of India, inflation has not been reined in at the desired level.

Despite this challenging environment, your Company's performance has been commendable. Your company has delivered robust earnings growth during 2010-11, reporting a consolidated revenue of ₹ 18,000 Crore or USD 4 billion. It has posted highest ever consolidated EBITDA of ₹ 2,702 Crore which grew by 60%. Likewise consolidated net profit of ₹ 822 Crore, which grew 5 times over the preceding year, is the highest ever.

Moving to the first quarter performance, revenue rose by 24% to ₹ 4,767 Crore and net profit grew by 70% to ₹ 253 Crore.

In the **Financial Services** business, your Company's vision is to become a leader and a role model with a broad based and integrated business. Aditya Birla Financial Services is one of the two non-bank players in India which ranks among the top 7 players in both life insurance and asset management businesses. It is also a prominent player in the NBFC, Private Equity, Broking & Wealth Management and Insurance Advisory space. It is managing USD 20.5 billion worth of assets collectively for about 5.5 million customers. Aditya Birla Financial Services registered a revenue of ₹ 6,296 Crore, i.e., USD 1.4 billion and a net profit of ₹ 309 Crore vis-a-vis a net loss of ₹ 359 Crore in the preceding year. This turnaround was largely driven by the life insurance business which posted its maiden profit during 2010-11.

In the **Life Insurance** business, the renewal premium surged by 41% to ₹ 3,597 Crore, led by a strong persistency ratio. The new business premium at ₹ 2,080 Crore de-grew year on year.

ULIP sales were impacted across the industry post the new guidelines which became effective from 1st September 2010. However, non-ULIP sales gained traction. For Birla Sun Life Insurance, non-ULIPs contributed 25% of its individual new business vis-a-vis 1% in the preceding year. Birla Sun Life Insurance posted a net profit of ₹ 305 Crore compared to a net loss of ₹ 435 Crore. No capital infusion was required during the year.

The Embedded Value of Birla Sun Life Insurance grew from ₹ 3,816 Crore as on 31st March 2010 to ₹ 4,108 Crore as on 31st March 2011. The Value of New Business margin, a measure used for gauging the profitability of new business, stood at 27.5% for 2010-11 vis-a-vis 22.5% for 2009-10.

Coming to the **Asset Management** business, the market share of Birla Sun Life Asset Management increased from 8.3% to 9.1%. Its revenue grew by 25% to ₹ 366 Crore and net profit soared by 75% to ₹ 85 Crore. Its total AUM stood at ₹ 71,394 Crore, i.e., USD 16 billion.

The average book size of Aditya Birla Finance, the **NBFC** arm, more than doubled to around ₹ 1,850 Crore. Its operating profit, net of interest cost, extended by 22% to ₹ 57 Crore.

In the **Fashion & Lifestyle** business, your Company is capitalising on its brand leadership and expanded retail space to ensure profitable growth. Today, Madura Fashion & Lifestyle, the largest premium branded apparel player in India, sells one branded apparel every two seconds. It has a strong customer reach through about 950 exclusive brand outlets spanning across 1.4 million square feet along with more than 1,250 multi brand outlets and departmental stores. Over 250 exclusive brand outlets have been added during 2010-11.

Your Company has significantly outperformed the market. Its revenue of over USD 400 million, reflect a 45% growth in value terms and 28% growth in terms of apparels sales volume. Driven by its robust sales growth, Madura Fashion & Lifestyle is today a profitable venture. It has posted an EBITDA of ₹ 137 Crore vis-a-vis a loss of ₹ 4 Crore in the preceding year. The return on capital employed has also improved led by enhanced earnings and better working capital management.

The **IT-ITeS** business continued to augment its capacities and build a strong order book with a clear focus on the bottom-line. Aditya Birla Minacs sold total contract value of USD 775 million as compared to USD 600 million in the preceding year. Its revenue grew by 11% to ₹ 1,692 Crore or USD 375 million and EBITDA grew by 75% to ₹ 183 Crore. EBITDA margin improved from 7% to 11%. The business posted a net profit at ₹ 74

Crore vis-a-vis a net loss of ₹ 13 Crore in the previous year. It has added 21 new prestigious clients to its already impressive roster. More than 4,000 employees have been recruited to support the growth. Aditya Birla Minacs is serving more than 100 clients globally through 35 centres anchored by 20,000 employees. It ranks among the top ten BPO companies in India by revenue size. Recently it was named among 'top five emerging outsourcers to watch for in North America' by Frost & Sullivan.

At the strategic level, to achieve utmost synergy and efficiency of operations and management, the IT subsidiaries - Aditya Birla Minacs IT Services Limited and Aditya Birla Minacs Technologies Limited, have been merged with the ITeS subsidiary - Aditya Birla Minacs Worldwide Limited. This has been achieved through a Composite Scheme of Amalgamation, sanctioned by the Hon'ble High Court of Karnataka on September 5, 2011.

Your Company has acquired the balance 11.72% stake in Aditya Birla Minacs Worldwide Limited from RHCP, comprising of 2,753,333 equity shares. It is now a wholly owned subsidiary of your Company.

In the Telecom business, your management's thrust is on building sustainable competitiveness while maintaining the growth momentum. I am pleased to share with you that Idea ranks among top 10 cellular operators in the world with more than 1 billion minutes of usage per day. Idea has been the biggest revenue market share gainer for the past two years with a large customer base of over 95 million subscribers.

In India, Idea Cellular is the third largest cellular operator. Its revenue market share at 13.6% has grown from 12.6% a year ago. Its revenue rose by 25% to ₹ 15,438 Crore or USD 3.5 billion. A strong growth in the total minutes on network absorbed a 20% decline in average revenue per minute. EBITDA grew by 6% to ₹ 3,853 Crore. Idea has a 92.5% active

subscribers' ratio, which is the highest in the industry. Idea currently offers 3G services in 19 out of 22 service areas in India. With the consistently rising revenue market share, Idea is positioned to become an even more forceful player in the long run.

In the **Manufacturing** businesses, your Company's focus is on capturing the sector growth and realizing its full potential. Collectively, these have posted a revenue of ₹ 4,689 Crore or USD 1 billion, registering a growth of 26%. The revenue growth was fuelled by an expansion in the carbon black business and a buoyant demand in the linen segment. The combined EBITDA margin at 16% and return on average capital employed at 26% has been encouraging. EBITDA stood at ₹ 781 Crore up from ₹ 748 Crore earned in the preceding year.

Let me give you a brief on our manufacturing businesses.

In the **Carbon Black** business, revenue rose by 37% to ₹ 1,588 Crore, riding on capacity expansion, increase in realization and higher power sales. EBITDA grew from ₹ 253 Crore to ₹ 258 Crore. Profitability was partly offset by stabilization of the expanded capacity.

In the **Agri-business**, revenue was up by 22% to ₹ 1,244 Crore, aided by higher realization and agri-input sales. EBITDA mounted by 13% to ₹ 176 Crore propelled by higher agri-input sales.

In the **Rayon** business, revenue stretched by 5% to ₹ 565 Crore, while EBITDA de-grew from ₹ 155 Crore to ₹ 109 Crore. A steep rise in the input and fuel costs strained profitability. The Rayon business plans to expand its presence in fine and superfine VFY segment, using spool technology from Germany at a capex of about ₹ 270 Crore. It is also expanding its caustic soda capacity by 125 tons per day at a capex of ₹ 155 Crore.

In the **Textiles** business, revenue soared by 34% to ₹ 774 Crore and EBITDA rose by 48% to ₹ 103 Crore. The earnings build-up was spurred by the buoyant demand in the linen segment and improved realisation across both the wool and the linen segments.

In the **Insulators** business, revenue intensified by 21% to ₹ 518 Crore and EBITDA extended by 17% to ₹ 135 Crore. Higher volumes and improved yield contributed.

The promoter group companies further infused a sum of ₹ 426 Crore on conversion of remaining warrants into equity shares on the 20th December, 2010. As a result, the paid up equity capital of your Company amplified from ₹ 103.01 Crore to ₹ 113.51 Crore on allotment of 10.5 million equity shares.

Improved earnings and equity infusion by the promoters has bolstered the standalone balance sheet. Net debt to EBITDA lowered from 4.1 in March 2010 to 3.2 in March 2011. Net debt to Equity fell from 0.74 in March 2010 to 0.58 in March 2011.

Moving on to the **Dividend**, the Board of Directors of your Company, in its meeting held on 30th May, 2011, had recommended a dividend of 55%, i.e., ₹ 5.50 per equity share of ₹ 10 each for the financial year ended 31st March, 2011. Towards this we seek your approval as shareholders at this meeting. The Board has also recommended a dividend of ₹ 6 per preference share of ₹ 100 each. This will entail a total cash outflow of ₹ 72.57 Crore including dividend distribution tax.

Let me now briefly allude to our growth strategy.

Going forward, ABNL's thrust is on capturing growth opportunities across its businesses to scale the next growth peak. Its business-wise strategy includes:

Firstly, to increase its market share in the Life Insurance business while building a profitable book with a focus on distribution efficiency, persistency, expense management and customer service.

Secondly, increasing market share profitably in the Asset Management business with a thrust on distribution and high margin assets, superior fund performance and customer service.

Thirdly, continue to augment revenue market share in the Telecom business by capitalising on brand IDEA and its exemplary customer service.

Fourthly, leveraging brand leadership and expanded retail space in the Fashion & Lifestyle business.

Fifth, augmenting capacities, building a strong order book and asset sweating in the IT-ITeS business.

And sixth, increasing margins through maximization of operating efficiency in the Manufacturing businesses and passing on the rise in production costs.

To capture sector growth, capacity expansion in the Carbon Black, Viscose Filament Yarn, Caustic Soda and Insulators businesses is also on the anvil.

Before going ahead with the agenda for the day, I would like to very briefly speak about **your Company's role as a caring corporate citizen.**

At the Aditya Birla Group, caring for the underserved is a legacy and an unwritten edict. Your Company is proud to be a part of this legacy. **Your Company's CSR activities** are concentrated in 1,082 villages which are close to your Company's manufacturing plants. These are spread across the country.

Your Company's endeavors to bring in inclusive growth are channelized through the Aditya Birla Centre for Community Initiatives and Rural Development, of which, your Director, Mrs. Rajashree Birla, is the Chairperson.

Long before sustainability and environment conservation became buzzwords, we as a Group, operated and continue to operate our businesses as Trustees with a deep rooted obligation to synergize growth with responsibility. Even as we build a robust business model for long-term growth, texturing sustainable development within its ambit, is part of our process. Environment conservation and sustainable development are always on our radar.

Social and environmental practices in our Group entail the simultaneous creation of economic, environmental and social value, and taking these practices far beyond compliance. Over the last decade, these measures have been institutionalized in the Group. Consequently, these are integrated into our business strategies and in all our endeavors to foster inclusive growth as well.

Your Company's efforts towards environment conservation and social projects are spelt out in detail in the Annual Report. I hope all of you have read these chapters.

I also take this opportunity to very warmly thank all of our employees for their contribution to your Company's performance. We applaud them for

their superior levels of competence, dedication and commitment to your Company. I am grateful to our Bankers who have helped us by supporting our growth momentum.

I would also like to express our deep sense of gratitude to all of you, our shareholders. I look forward to your continuing commitment and support in your Company's onward march. Finally, I wish you all a very happy festive season.

Having provided you with a snapshot of your Company, may I now commend the first resolution relating to the adoption of the Accounts and Directors' Report for your consideration and approval.

Thank you !

(This document does not purport to be a record of the proceedings at the Annual General Meeting)