



## ADITYA BIRLA NUVO LIMITED

### The Chairman's Address to the Shareholders of Aditya Birla Nuvo Limited at the 55<sup>th</sup> Annual General Meeting held on 9<sup>th</sup> August, 2012 at Veraval

#### **Disclaimer**

*Certain statements in this document may not be based on historical information or facts and may be "forward looking statements" within the meaning of applicable securities laws and regulations, including, but not limited to, those relating to general business plans & strategy of the Company, its future outlook & growth prospects, future developments in its businesses, its competitive & regulatory environment and management's current views & assumptions which may not remain constant due to risks and uncertainties. Actual results could differ materially from those expressed or implied. The Company assumes no responsibility to publicly amend, modify or revise any statement, on the basis of any subsequent development, information or events, or otherwise. This document does not constitute a prospectus, offering circular or offering memorandum or an offer to acquire any shares and should not be considered as a recommendation that any investor should subscribe for or purchase any of the Company's shares.*

Dear Shareholders,

I am delighted to welcome all of you to the 55<sup>th</sup> Annual General Meeting of your Company.

As you are aware that Indian economy is going through a phase of stagflation - that is low growth and high inflation scenario. Other challenges which Indian economy is facing are weakening of Indian Rupee against US dollar, high interest rates and a large fiscal deficit.

Amidst this challenging environment, your Company has posted strong results for the year ended 31<sup>st</sup> March 2012.

Consolidated revenue of your Company grew by 20% and crossed ₹ 21,000 Crore mark. Consolidated EBITDA at ₹ 3,259 Crore surged year on year by 21%. Net profit at ₹ 890 Crore is the highest ever.

During the first quarter ended 30<sup>th</sup> June 2012, for which results were declared recently, revenue grew year on year by 11% to ₹ 5,323 Crore and EBITDA rose by 14% to ₹ 915 Crore. Net profit grew to ₹ 267 Crore.

While industry growth has moderated in few of the sectors where your Company operates, the Company continues to outperform in most of its businesses.

The **Financial Services** business of your Company has gained market share across the Life Insurance, Asset Management, NBFC and Broking businesses. Today, Aditya Birla Financial Services ranks among the top 5 fund managers in India excluding banks and LIC. Its combined assets under management stand at more than ₹ 94,600 Crore.

It has moved one step up to rank as 5<sup>th</sup> largest private life insurer and 4<sup>th</sup> largest asset management player in India.

Birla Sun Life Asset Management has become the largest fixed income manager in India.

The NBFC business has doubled its book size in past one year. A capital of ₹ 75 Crore was infused in March 2012 to support its growth. It is growing at a good pace and will further require capital for future growth.

Aditya Birla Private Equity augmented its assets through launch of one more fund.

The Broking business garnered all time high retail market share in commodity as well as equity broking segments.

During 2011-12, Aditya Birla Financial Services posted combined revenue at ₹ 6,550 Crore – a modest growth of 4%. Its earnings before tax grew by 27% to ₹ 600 Crore.

With the strong emergence of profitability, Birla Sun Life Insurance has started paying dividend.

Birla Sun Life Insurance has declared its Embedded Value which stands at ₹ 4,015 Crore as on 31<sup>st</sup> March 2012 compared to ₹ 4,108 Crore in the previous year. Embedded Value before dividend and tax thereon is ₹ 4,129 Crore. VNB margin for fiscal 2011-12 is 22.8%.

In the Telecom business, Idea Cellular continued to lead the industry as the biggest revenue market share gainer since past 4 years.

Its revenue market share stands expanded at 15%.

Today, Idea is the 8<sup>th</sup> largest operator in the world with more than 117 million subscribers and 1.4 billion minutes of voice calls every day.

Idea continues to lead the industry as an MNP provider and enjoys the highest active subscribers' ratio in the industry. All these achievements reflect the strength of its brand and quality of its services.

In 2011-12, revenue of Idea Cellular grew year on year by 26% to about ₹ 19,500 Crore - nearly twice the industry growth rate.

EBITDA grew by 32% to ₹ 5,135 Crore.

Net profit was lower since depreciation and interest costs relating to 3G investments were being capitalized in the earlier year.

During the first quarter, net profit has grown year on year by 32%.

**Madura Fashion & Lifestyle** almost doubled its revenue in past two years to reach ₹ 2,250 Crore mark supported by scaling up of retail channel. Over 230 exclusive brand outlets were added during 2011-12 itself.

With this, its retail channel stands expanded to 1,167 exclusive brand outlets spanning across 1.7 million square feet.

Madura is also reaching customers through more than 1,400 multi brand outlets and departmental stores.

Led by strong 24% growth in sales revenue and improved product mix, EBITDA shot up by 46% to ₹ 198 Crore.

Supported by strong earnings growth and improved working capital management, ROACE improved significantly to 21%.

Your Company aims to fortify its leadership position in the Fashion & Lifestyle business by entering into the value segment including kidswear and womenswear.

In this direction, the Board of your Company has approved the proposed acquisition of a controlling stake in Future Group's 'Pantaloon Format Business' post its demerger from Pantaloon Retail (India) Ltd. (PRIL)

Your Company, through its subsidiary, has invested ₹ 800 Crore in PRIL during June 2012. Due diligence is in progress and demerger scheme will be filed by your Company and PRIL shortly.

PRIL will demerge the Pantaloon Format through court scheme of arrangement.

Your Company's stake in resulting entity will be about 45% triggering open offer.

Your Company's holding in the resulting entity post open offer shall be a minimum of 50.01%. The resulting entity will become a listed subsidiary of your Company.

This whole process is expected to take 5-7 months subject to all requisite approvals.

In the IT-ITeS business, while new business acquisition is under pressure, order book built in the previous years led to earnings growth of Aditya Birla Minacs.

Favourable forex movement also contributed.

Aditya Birla Minacs sold total contract value of USD 730 million and won 16 new clients during 2011-12.

Its revenue grew by 23% to cross ₹ 2,000 Crore mark and operating EBITDA grew by 16% to ₹ 201 Crore.

The business is generating steady cash profit to fund its capex and working capital requirements

Your Company acquired 11.72% holding in Aditya Birla Minacs.

The IT and ITeS subsidiaries have been merged and your Company now holds 99.85% in the merged entity.

Coming to the Manufacturing businesses.

Combined revenue soared by 33% to ₹ 6,244 Crore.

Agri-business crossed ₹ 2,000 Crore revenue mark supported by commencement of trading in imported fertilizers.

Textiles business crossed ₹ 1,000 Crore revenue mark. Indian Rayon remained largest Indian exporter of VFY for 7<sup>th</sup> year in a row.

In the Carbon Black and Insulators businesses, sales volume and capacity utilization remained under pressure due to cheaper imports from China.

Combined EBITDA was maintained at ₹ 752 Crore. Higher trading of imported fertilisers in the Agri-business has augmented profitability.

Improved realisation in the Rayon and the Textiles businesses also contributed.

However, dumping from China and rise in production costs strained profitability in the Carbon Black and Insulators businesses.

Both these businesses along with other domestic players have approached the Government for levy of appropriate duties.

Going forward, the key business-wise strategies include:

Augmenting product offerings in the **Life Insurance** business,

Growing profitable assets in the **Assets management** business,

Scaling book size in the **NBFC** business,

Expanding revenue market share in the **Telecom** business,

Leveraging brand leadership and expanding retail space in the **Fashion & Lifestyle** business,

Sustaining revenue growth momentum in the **IT-ITeS** business and

Enhancing cost competitiveness and capacity expansion in the **Manufacturing** businesses

The Rayon business has commenced expansion of its VFY capacity using Spool Technology from ENKA, Germany. It is targeted to complete by end of 2012-13 at a capex of ₹ 270 Crore - out of which around ₹ 110 Crore has already been spent.

Rayon business is expanding its caustic soda capacity as well by 125 tons per day at a capex of ₹ 155 Crore. It is expected to complete in 2013-14.

To capitalise on the buoyant demand in the linen segment, the textiles business is planning to expand its linen yarn and fabric capacity at a capex of ₹ 100 Crore. It is expected to complete in next 12 months time.

Coming to the balance sheet position.

Net Debt increased from ₹ 3,142 Crore to ₹ 3,750 Crore as on 31<sup>st</sup> March 2012 mainly due to slower recovery of subsidy in the Agri business.

As a result standalone Net Debt to EBITDA at 3.6 appears higher.

However, the Company has received subsidy to the tune of ₹ 425 Crore in July 2012.

To sum up the financial performance, as a conglomerate your Company is progressing well on the growth path to tap sector opportunities.

To further strengthen the balance sheet, your company has issued 16.5 million warrants in May 2012 to Promoters on preferential basis after getting approval from the shareholders. Out of total planned equity infusion of ₹ 1,500 Crore, a sum of ₹ 375 Crore has already been received as 25% application money.

Moving on to the **Dividend**. The Board of Directors of your Company, in its meeting held on 15<sup>th</sup> May, 2012, had recommended a dividend of 60%, i.e., ₹ 6 per equity share for the year ended 31<sup>st</sup> March, 2012. Towards this we seek your approval as shareholders at this meeting. The Board has also recommended a dividend of ₹ 6 per preference share. This will entail a total cash outflow of ₹ 68 Crore including distribution tax.

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 Aditya Birla Group, we believe that bringing the benefits of education, basic healthcare, sustainable livelihood, infrastructure and social reform will make a difference to the lives of the poor.

**Your Company's CSR activities** are run under the aegis of Aditya Birla Centre for Community Initiatives and Rural Development, spearheaded by Mrs. Rajashree Birla. We at Aditya Birla Nuvo, work in 215 villages, touching the lives of 6.6 lakh people. Of these 215 villages, we are committed to transform 16 villages into model villages in phased manner.

Yet another initiative that we have taken this year is that of teaming up with Indira Gandhi National Open University (IGNOU) Learning Centre for honing garments stitching skills. It might interest you to learn that under this programme over 5,000 women work with us at Madura Fashion & Lifestyle and that 90% of them are from the villages.

In the direction of sustainable livelihood, we recently formed partnership with the Confederation of Indian Industry, the European Union, British Council and City & Guilds U.K. We have converged together for a project relating to the vocational training of 11,000 youngsters from vulnerable

and marginalized groups in Sirsa (Haryana) and Sitapur (Uttar Pradesh, over a three year time-span. Up until now, we have successfully completed training 359 youngsters, of which 215 have been already placed in various industries.

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.

To wrap up, I take this opportunity to very warmly thank all of our employees for their contribution to your Company's performance.

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.

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)*