Management Discussion and Analysis

The Indian economy has registered a GDP growth of 6.7% YoY in FY 2017-18 as compared to 7.1% in FY 2016-17 slowing down due to transitionary impact of implementation of Goods and Services Tax, a historical tax reform in the country. The pace of economic growth witnessed an improvement towards the end of the year with Q4FY2017-18 recording GDP growth of 7.7% YoY. The Index of Industrial Production expanded by 4.3% YoY in FY 2017-18 driven by growth in the Electricity Sector (5.4% YoY) and Manufacturing Sector (4.5% YoY). During the year, public consumption expenditure recorded a growth of 10.9% and private consumption expenditure grew by 6.6 %.

In the backdrop of prevailing economic conditions, the Company has performed well, during the year, recording all-around growth in Revenue, EBITDA and PAT as detailed below.

The Company's financial performance for the year also includes performance of the businesses of erstwhile Aditya Birla Nuvo Ltd. (ABNL), for 9 months (1st July 2017 to 31st March 2018) consequent to the merger of ABNL with the Company with effect from 1st July 2017. Also, during the year, the Company has acquired right to Operate and Manage Century Rayon Division from Century Textiles and Industries Ltd., with effect from 1st February 2018.

Business Performance Review:

Viscose

The Viscose segment comprises of VSF and the VFY business of erstwhile Aditya Birla Nuvo (ABNL) and Century Textile and Industries. Grasim Industries acquired the right to Manage and Operate the VFY business of Century Textile Industries in H2FY18.

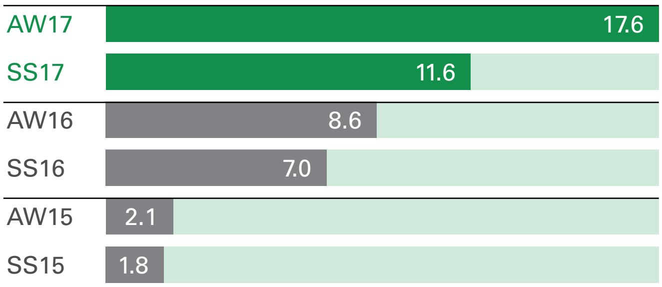
	Unit	FY 2017-18	FY 2016-17	% Change
Standalone Performance				
Installed Capacity – VSF	'000 TPA	498	498	-
Installed Capacity – VFY	'000 TPA	46	-	-
Production – VSF	'000 Tonnes	499	493	1
Production – VFY	'000 Tonnes	19	-	
Sales Volumes – VSF	'000 Tonnes	508	500	2
Sales Volumes – VFY	'000 Tonnes	19	-	
Divisional Revenue	₹ Crore	8,538	7,715	11
EBITDA	₹ Crore	1,680	1,439	17
EBITDA Margin	%	20	19	

The Global VSF demand continues to grow at a solid pace of 6% per annum higher than the demand growth of competing fibres like cotton and polyester, which are expected to grow in the range of 1% to 2% per annum. The VSF demand in India is expected to grow ~8% per annums and outpace the global demand growth rate. The domestic demand growth for VSF has been at an inflexion points driven by demand in fast fashion, home textile, inner wear and other newer areas.

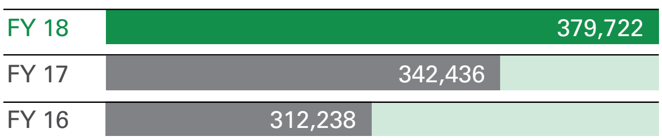
The attractive growth profile of VSF industry, globally, led to new capacity additions (upwards of 1MTPA) announcement by the industry players. In FY 2017-18, some of these capacities came on stream, and we expect ramping up of the same to take place in FY 2018-19 and FY 2019-20.

In FY 2017-18, the global VSF prices maintained a flattish trend while the global cotton and polyester prices witnessed an increase. The rise in global cotton prices was driven by multiple factors like strong US cotton exports, lower than expected India cotton crop, and depletion in China cotton reserve. The rise in the oil prices has led to a rise in polyester prices. The prices of key raw material like caustic soda, sulphur and other inputs which is key raw material for manufacturing of VSF, witnessed a sharp increase in FY 2017-18. Grasim is in a unique position compared to all global VSF players as it has backward integration to the tune of 80% of total cost comprising of key inputs (Pulp, Caustic Soda, Power, CS_2) used for manufacturing.

LIVA Tagging (Mn-Million)



Domestic Sales Volume (MT)



The brand "LIVA", launched by Grasim in FY 2014-15, stands for high quality fabric made using natural cellulosic fibres of the Company delivered through accredited value chain. The usage of VSF in women's clothing has witnessed a steady rise. Grasim has partnered with 33 brands, amongst the top fashion brands in India, for sale of LIVA tagged apparels, which are available in more than 3,000 stores in India. The demand for LIVA tagged garments witnessed a sharp increase in SS18 to 26.3 mn.

Outlook

The VSF business will continue to focus on expanding the market in India by partnering with the textile value chain, achieving better customer connect through brand LIVA, and enriching the product mix through a larger share of specialty fibre. The Company is increasing capacity from 498 KT to 788 KT (by FY 2020-21) to cater to the growing demands of VSF in the domestic as well as export markets. The new capacities likely to come on stream in China may impact the global VSF prices in the near term.

Chemicals

	Unit	FY 2017-18	FY 2016-17	% Change
Caustic Soda				
Installed Capacity	TPA	938	840	12
Production	TPA	886	780	14
Sales Volume	TPA	879	785	12
Chemical Business				
Divisional Revenue	₹ Crore	5,105	4,180	22
EBITDA	₹ Crore	1,300	842	54
EBITDA Margin	%	25	20	

The demand for caustic soda witnessed a CAGR growth of 5% in the last 3 years driven by the demand from key user industry like Alumina, VSF and Textile. In India, the firmness in caustic soda price was driven by global factors. Chlorine prices were very weak due to oversupply in the market. The demand for chlorine, which is a by-product of caustic, witnessed signs of pick-up towards the fag end of FY 2017-18, creating a positive impact on the prices.

The chlorine Value-Added Products (VAP) consists of products like AlCl3 and stable bleaching powder, where we have a global leadership. In India, we have a leadership position in CP (Chlro Parafin), PAC (Poly Aluminium Chloride) and PA (Phsophoric Acid). We are working with large city municipal communities to help them in finding solutions for sewage treatment using our chlorine VAPs. The business is focussed on expanding the existing chlorine VAPs portfolio and improving the level of chlorine integration.

In Epoxy resins also we have a leadership position in India. Our volumes have grown by 15% in FY 2017-18. Our customers include leading paint companies, wind mill manufacturers, electrical machinery manufacturers, etc. in India.

The improvement in Revenue and EBITDA reflects better realisation and the impact of consolidation of ABNL's chemical business. The business witnessed a rise in the input cost of power and salt during FY 2017-18.

Outlook

The demand for caustic soda in India is expected to grow with rising consumption from the Alumina and Textile sectors. The demand-supply situation is well balanced for next couple of years with a limited visibility of large new capacity additions.

INDO GULF FERTILISERS

India received a normal monsoon in FY 2017-18 with record food production. The global urea prices witnessed a firm trend during FY 2017-18. In other key development, the Direct Benefit Transfer (DBT) project initiated by the Department of Fertiliser was rolled out on pan India basis from 1st February, 2018.

Indo Gulf Fertilisers, manufactures of urea and value-added products, has positioned itself as a “total agri solutions provider” offering a full range of agri inputs – fertilisers, seeds, agro-chemicals and specialties – right from sowing till harvesting. “Birla Shaktiman” enjoys market leadership in the entire zone of Uttar Pradesh, Bihar, Jharkhand, Punjab, Haryana and West Bengal, being Indo Gulf’s core markets, through excellent product quality and customer servicing.

The Fertiliser business achieved an EBIDTA of ₹ 195 Cr. in FY 2017-18. This was despite a 9-day shut down and due to a focus on productivity, managing costs and higher sales of Value-Added Products.

Outstanding fertilisers subsidy was at ₹ 902 Cr. compared to ₹ 778 Cr. in the previous year, due to increase in Natural Gas Price on account of increase in crude price.

Textiles

Grasim Textiles business has two key product lines, i.e., Linen and Wool. The linen industry registered moderate demand growth in FY 2017-18, after healthy growth of CAGR of 15% during FY 2007-08 to FY 2012-13. Indian wool combing units operated at higher capacity utilisation compared to European and Asian regions.

The Linen business expanded its Yarn capacity from 3,400 MTPA to 6,250 MTPA to tap sector growth. JST maintained its leadership in the market with 45% market share in linen fabric and 39% in linen yarn. For 9MFY2017-18, the textile business reported a revenue of ₹ 1,172 Cr. and EBITDA of ₹ 62 Cr.

The linen business added 28 new ‘Linen Club Fabrics’ EBOs, during FY 2017-18, to 172.

Insulators

The power generation, transmission and distribution sector is the key growth driver for the insulators industry. Over the past couple of years, demand in domestic insulator market has been sluggish, primarily due to lack of investments. Additionally, increased acceptance of alternate technologies continues to adversely impact (both on volume and price) the domestic porcelain insulator industry, which is the core of our business.

The size of the Indian insulator market was unchanged from the previous year, but there was a change in market share mix between porcelain and composite. The share of porcelain dropped to 69% (FY 2017-18) from 72% (FY 2016-17), while the share of Composites grew to 31% (FY 2017-18) from 28% (FY 2016-17). The Revenue and EBITDA grew to ₹ 390 Cr. and ₹ 34 Cr., respectively for FY 2017-18.

Outlook

In the medium term, the demand scenario is expected to improve driven by the Government initiatives like ‘Make in India’, ‘Power for All’ by 2019 initiatives and ‘UDAY’ scheme.

Globally too, the demand in the year remained subdued. However, while Composites continue to grow, Ceramic Insulators are making a comeback in many geographies, such as the United States of America and China.

UltraTech Cement Ltd. (A Subsidiary of the Company)

The cement sector saw an impressive pickup at over 7.5%, ending a 7-year down cycle. UltraTech reported revenues of USD 5.01 Billion (₹ 32,305 Cr.) and EBITDA of USD 1.04 Billion (₹ 6,729 Cr.).

UltraTech successfully completed acquisition of the 21.2 MTPA capacity of Jaiprakash Associates Limited. The Company also commissioned a greenfield clinker capacity of 2.5 MTPA at Manawar, District - Dhar, Madhya Pradesh (M.P.), coupled with a cement grinding facility of 1.75 MTPA capacity. As at the year end, total consolidated capacity of the Company stands augmented at 89 MnMT per annum.

Aditya Birla Capital Ltd. (ABCL a subsidiary of the Company)

ABCL was listed on the stock exchanges on 1st September 2017, as the culmination of the composite scheme of arrangement for merger of Aditya Birla Nuvo Limited with the Company, and subsequent demerger of the financial services undertaking into ABCL. ABCL has a significant presence spanning multiple sectors, namely, non-banking financial company (NBFC), asset management, life insurance, health insurance, housing finance, private equity, general insurance broking, wealth management, broking, online personal finance management and pension fund management.

ABCL reported a Revenue of ₹ 8,953 Cr. and PAT of ₹ 354.3 Cr. for the period from 1st July 2017 to 31st March 2018.

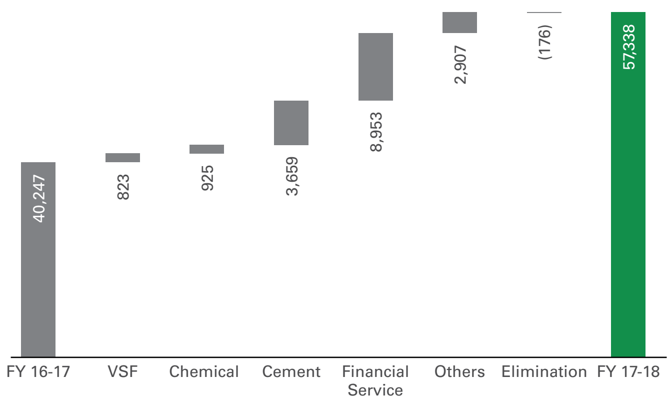
The NBFC lending book (including housing) grew 32% YoY to ₹ 51,378 Cr. as on 31st March 2018.

The Asset Management business (ranked No. 3 Mutual Fund in India) reported a 27% YoY increase in average assets under the management to ₹ 2,67,739 Cr. as on 31st March 2018. The business reported an overall domestic market share of 10.75% and equity market share of 9.2% FY 2018.

Life Insurance business saw a 12.4% growth in the Indian embedded value to ₹ 4,281 Cr. as on 31 March 2018. The net value of new business (VNB) margin turned positive at 4.3% in FY 2018 vis-à-vis negative 5.5% in FY 2017.

Revenue from Operations

The Consolidated Revenues from operations increased to ₹ 57,338 Cr. in FY 2017-18 from ₹ 40,247 Cr. in FY 2016-17, driven by growth in Viscose, Chemicals, Cement businesses, and addition of Aditya Birla Capital and other businesses of Aditya Birla Nuvo Ltd. (ABNL) post-merger of ABNL with effect from 1st July, 2017.



Other Income

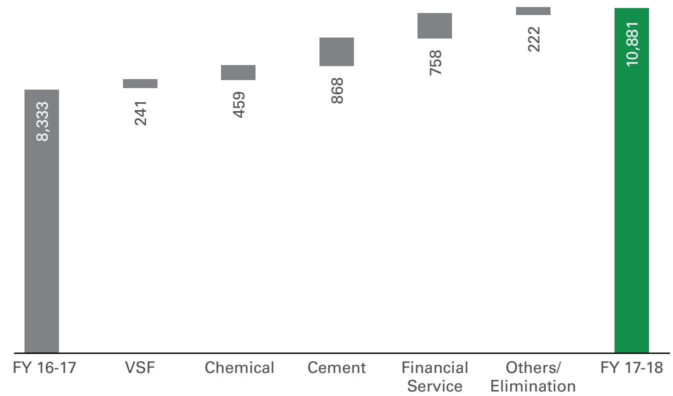
The other income marginally increased to ₹ 990 Cr. in FY 2017-18 compared to ₹ 948 Cr. in FY 2016-17.

Operating Profit (EBITDA)

The rise in the EBITDA from ₹ 8,333 Cr. (FY 2016-17) to ₹ 10,881 Cr. (FY 2017-18) was driven by the Viscose, Chemicals, Cement businesses and addition of Financial Services businesses to Grasim's fold.

Finance Costs

The Finance Cost moved up from ₹ 702 Cr. (FY 2016-17) to ₹ 1,359 Cr. (FY 2017-18), mainly due to higher borrowings by UltraTech during the year (Debt taken to acquire the JAL and JCCL Assets). At standalone level, the finance cost increased from ₹ 57.6 Cr. (FY 2016-17) to ₹ 128.13 Cr. (FY 2017-18) led by increase in the debt level, post-merger of ABNL with the Company.



At Consolidated level, the Company moved from net surplus (liquid investment) position of ₹ 2,438 Cr. in FY 2016-17 to Net debt level of ₹ 14,165 Cr. in FY 2017-18.

At Standalone level, the net surplus (liquid investment) stood at ₹ 384 Cr. in FY 2017-18 against ₹ 2,260 Cr. in FY 2016-17. The reduction in net surplus was on account of payment towards acquisition of right to operate and manage the VFY business of Century Textiles and Industries Ltd., debt of ABNL (with ABNL's merger with Grasim) and capital expenditure during the year.

Depreciation

The Depreciation charge increased from ₹ 1,808 Cr. in FY 2016-17 to ₹ 2,724 Cr. in FY 2017-18 on account of acquisition of assets and capitalisation of new plant in cement business and depreciation of ABNL businesses.

Tax Expenses

The total Tax Expenses increased from ₹ 1,707 Cr. in FY 2016-17 to ₹ 1,947 Cr. in FY 2017-18.

Profit after Tax (PAT)

The Profit after Tax (Before Exceptional items of ₹ 433 Cr.) for the year was at ₹ 2,991 Cr. in FY 2017-18 compared to ₹ 3,167 Cr. in FY 2016-17. The reduction in PAT is mainly on account of share in loss of Idea Cellular Ltd. amounting to ₹ 652 Cr.

Standalone Financial Performance

The Revenues are up 43% to ₹ 16,035 Cr. in FY 2017-18 from ₹ 11,253 Cr. (FY 2016-17) on the back of strong YoY growth reported by the Viscose and Chemicals businesses and merger of ABNL with the Company, with effect from 1st July, 2017. The Revenues of Viscose business are up 11% YoY to ₹ 8,538 Cr. in FY 2017-18 from ₹ 7,715 Cr. in FY 2016-17 driven by better realisation and marginal improvement in the sales volume. The Chemicals business reported a

Revenue growth of 22% to ₹ 5,105 Cr. in FY 2017-18 from ₹ 4,180 Cr. in FY 2016-17.

Standalone EBITDA rose by 35% to ₹ 3,542 Cr. in FY 2017-18 from ₹ 2,629 Cr. in FY 2016-17 led by solid EBITDA growth reported in the Chemical and VSF businesses. The Reported PAT increased by 13% YoY to ₹ 1,769 Cr. in FY 2017-18 (after inclusion of an Exceptional Item of ₹ 273 Cr.) from ₹ 1,560 Cr. (FY 2016-17).

Sources of Cash

Cash generated from operations during the year was at ₹ 2,635 Cr.

(₹ in Crore)

Particulars	FY 2017-18
Sources of Cash	
Cash from Operations	2,635
Non-Operating Cash Flow	90
Proceeds from Issues of Share Capital	2
Proceeds from Sale of Investment	13
Proceeds of Borrowings (Net of Repayment)	94
Interest Received	55
Dividend Received	227
	3,117
Usage of Cash	
Net Capital Expenditure	1,069
Acquisition of Century Rayon Business	903
Increase in Working Capital	280
Increase in Investments	338
Interest (Net of Interest Subsidy)	142
Dividend (Incl. DDT)	406
	3,138
Net Decrease in Cash and Cash Equivalents	**-20**
Cash and Cash Equivalents at the Beginning of the Year	**35**
Cash and Cash Equivalents Transferred from erstwhile ABNL	**12**
Cash and Cash Equivalents at the End of the Year	**26**

Dividend and Interest income

Your Company received Dividend of ₹ 227 Cr. in FY 2017-18 and Interest income of ₹ 55 Cr.

Uses of Cash

Capital Expenditure

The Company's net capital expenditure stood at ₹ 1,972 Cr. in FY 2017-18. This amount includes the capex spent in VSF and Chemicals businesses and amount paid towards acquisition of right to Operate and Manage VFY business of Century Textiles and Industries Ltd.

Working Capital

The working capital increased by an amount of ₹ 280 Cr. with the consolidation of erstwhile ABNL businesses.

Dividend

Cash outflow on account of dividend for the FY 2016-17 was ₹ 406 Cr. (inclusive of the corporate tax on dividend).

Your Company has identified the following risks:

Key Risk	Impact on Grasim	Mitigation Plans
Commodity Price Volatility Risk	Fluctuation in prices of key raw materials, energy inputs and finished goods may adversely impact profitability	• Securing the supplies of the key raw material in the Viscose Business by setting up captive caustic soda and pulp plants • Securing the supplies of key raw material (Salt) for Chemicals business by improvising on the sourcing mix between captive and third party • Minimising our reliance on grid/energy exchange by setting up of captive power plants in all businesses and long-term tie-ups • Optimising the fuel mix and energy efficiency as well as explore alternative fuels for use in the plant for Cement business • Increasing share of value-added products in Viscose, Chemical and Cement businesses • Cost reduction and higher efficiency
Availability of Natural Resources-based Inputs	Scarcity of coal driven by high consumption in key user industries may increase the prices	• Government taking various measures, viz., auctioning of coal mines to private players, removing bottlenecks at Coal India and soft demand for coal globally to improve supply of coal • Entering into long-term contracts, securing coal supplies at competitive prices • Higher share of petcoke/alternative fuels in cement business
	Non-availability of limestone may impact the growth plans of Cement business in long term	• Cement business currently possesses sufficient limestone reserve. Apart from preservation and elongation of existing reserves, a range of measures, including strategic sourcing and changing input mix, are adopted by the business
	Scarcity of water may impact business operations in Viscose, Chemicals and Textile Businesses	• Creating new reservoirs near to the plant location • Reduction in the fresh water consumption • Water recycling and Zero liquid discharge
Global capacity additions in the VSF business	Impact on demand and realisation of VSF	• Increasing focus on domestic sales to maintain the leadership position • Newer product applications • Continuous focus on R&D
Human Resources Risk	Attrition and non-availability of the required talent resources can affect the performance of the Company	• Continuous benchmarking of the best HR practices across the industry and carrying out necessary improvements to attract and retain the best talent • Regular review, monitoring and engagement on personal development plans of high performers and high potential employees • Ring-fencing critical talent • Proactive action to strengthen technical and other functional bench strength by mapping internal/external talent market and accelerated hiring • Focussed talent development

Key Risk	Impact on Grasim	Mitigation Plans
Competition Risk	VSF and Chemicals are global commodities, therefore they are exposed to any change in the competition intensity in the global market space With expanding capacity of existing players and emergence of new entrants, competition is a sustained risk for Cement business	• Continuous efforts to enhance the brand image of the Company by focussing on R&D, quality, cost, timely delivery and customer service • Increasing level of customer engagement • Customer connect initiatives to reach out end users (such as Liva brand for VSF) • Strategic initiatives to enhance brand equity through enhanced marketing activities and continuous efforts in enhancing the product portfolio, and value-adding services have been the thrust areas of your Company
Financial Risk	The risk of exposure to interest rates, foreign exchange rates, liquidity condition, etc.	• Robust financial risk management framework which covers hedging policy, investment guideline, funding mix (long-term & short-term and local currency and foreign currency mix) • Your Company's policies to counter such risks are reviewed periodically and aligned with the financial market practices and regulations • The risks are covered in details in the Notes to the Financial statements. (Note 4.10)
Information Technology Risk	Risks related to Information Technology systems; data integrity and physical assets	• Your Company uses back-up procedures and stores information at two different locations. Systems are upgraded regularly with latest security standards. For critical applications, security policies and procedures are updated on a periodic basis and users educated on adherence to the policies so as to eliminate data leakages
Environmental and other Regulatory Risks	Any default can attract penal provisions and may impact the Company reputation	• Adherence to current norms is being ensured • Technology/equipment upgradation is being planned pro-actively • Continuous monitoring of regulatory changes to ensure compliance with all applicable statutes and regulations
Industrial Safety, Employee Health and Safety Risk	The manufacturing businesses of the Company are labour-intensive and are exposed to health and injury risk due to machinery breakdown, human negligence, etc. Chemicals business has exposure to risks arising from producing and handling of hazardous chemicals	• Association with M/s. DuPont Safety Resources to build a culture of safety and strengthen your Company's Safety Management System in Chemicals and Cement Businesses • Development and implementation of critical safety standards across the Units and Project sites, establishing processes for training need identification at each level of employee, introduction of 'Life Saving Rules' • Continuous focus on building of safety culture across Units covering entire workforce • Adequate Insurance Coverage

Financial Risks are covered in the Financial Statements. (Refer Note 4.10)

INTERNAL CONTROL SYSTEMS

Your Company has a well established and robust internal control systems in place which are commensurate with the size and scale of its operations. Roles and responsibilities are clearly defined and assigned. Standard operating procedures are in place and have been designed to provide a reasonable assurance. Internal audits are undertaken on a continuous basis by a reputed CA firm and Corporate Audit team covering all units and business operations. The internal audit programme is reviewed by the Audit Committee at the beginning of the year to ensure that the coverage of the areas is adequate. Reports of the internal auditors are regularly reviewed by the Management and corrective action is initiated to strengthen the controls and enhance the effectiveness of the existing systems. Summaries of the reports are presented to the Audit Committee of the Board. The Audit Committee reviews the adequacy and effectiveness of internal control systems and provides guidance for further strengthening them. Your Company also periodically engages outside experts to carry out an independent review of the effectiveness of various business processes. The observations and best practices suggested are reviewed by the Management and Audit Committee and appropriately implemented with a view to continuously strengthen the internal controls.

CONCLUSION

The VSF business will continue to focus on expanding the market in India by partnering with the textile value chain, achieving better customer connect through brand Liva and enriching the product mix through a larger share of specialty fibre. The focus on cost optimisation will continue relentlessly.

The capacity de-bottlenecking at multiple plant locations is progressing well, with 44 KTPA of capacity coming on-stream in May 2018. The recently announced brownfield capacity expansion plan at Vilayat is under implementation. With capacity expansions underway and focus on expanding market in India, the VSF business is poised for substantial growth.

The demand for Caustic Soda in India is expected to grow with rising consumption from the Alumina and Textile sectors. The capacity expansion nearing completion at different plants of the Company will lead to growth in the business.

In Cement, Government spending on infrastructure, rural and affordable housing will be the key demand drivers. The Company is well positioned across the country to cater to this growth in demand.

In Financial Services, ABCL is geared to provide Universal Financial Solutions to meet the customers money needs for life. ABCL's focussed customer-centric approach under a single brand "Aditya Birla Capital" will enable it to chart a differentiated, accelerated and disciplined path to growth.