

CHAIRMAN'S LETTER TO SHAREHOLDERS

“Dear Shareholder”,

Covid-19 and the associated lockdowns across countries have triggered a once-in-a-century crisis for the society and the economy in 2020. January now seems like a month of a bygone era — such has been the enormity of change. This is a defining period in human and business history: one that will test the resilience of individuals, societies, corporations, and nations.

Given the fog of uncertainty all around, it is hard to be prescient in these times. But there is little doubt on one reality: companies with quality leadership, sound business fundamentals, and a track record of winning in turbulent times, will emerge as champions in the new global order.

GLOBAL ECONOMY

It has been several months since the pandemic engulfed the world and yet there is a lot of uncertainty with respect to the extent of the economic contraction due to this crisis, and the subsequent pace of recovery.

This year will see an economic contraction, but this 2020 recession is turning out very different from the past recessions. It has been too sudden – almost off the cliff; its spread has been all-encompassing – affecting almost every economy and sector, and the plunge in economic activity levels and employment has been unprecedented.

On the positive side, this recession is likely to be one of the shortest, assuming no second wave of the pandemic recurs. As present lockdowns around the world get lifted, and businesses reopen, economic activity is likely to bounce back fairly quickly. Around \$9-trillion stimulus from different governments globally will help to support this recovery, along with the monetary actions by Central banks. These policies will also help to restrict the second-order effects like defaults and bankruptcies.



CHAIRMAN'S LETTER TO SHAREHOLDERS (continued)

Some scars of the crisis will remain in the form of subdued consumer and business confidence. Some sectors, like airlines and hospitality, will take time to recover fully. And some supply chain disruption effects will linger. The International Monetary Fund (IMF) and other agencies are predicting that it could take about 5-6 quarters for global GDP to inch back to pre-crisis levels, and the global economic trajectory thereafter will be below the Pre-Covid trajectory for the next few years.

As the world emerges from the current crisis, the next few years are likely to be marked by lack of buoyancy in growth, subdued commodity prices and inflation, a cautious trend in project investments, heightened risks of de-globalisation and political uncertainty; and increased dependence of financial systems on ultra-loose monetary policy conditions. We will also have to watch out for potential post-Covid changes in consumer behaviour (such as more virtual engagements) and of operating models of organisations (such as work-from-home norms, diversification of supply chain risks, more use of e-commerce).

INDIAN ECONOMY

Covid-19 struck India at a time when the underlying economic conditions were subdued on account of heightened global uncertainty and stress in the domestic financial system.

Against this backdrop, a stringent national lockdown to slow the spread of the pandemic started in the last week of FY20 and remained active to varying degrees in different geographies through most of the Q1 of FY21. It is estimated that about 80% of India's GDP originates from districts which were classified under the red and orange zones during the lockdown, where economic activity remained severely constrained.

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Correspondingly, India's GDP is likely to contract in FY21, which would be the first such instance in over four decades. The contraction is estimated to be particularly severe during Q1.

Responding to this challenge, both the Reserve Bank of India (RBI) and Government of India announced several policy measures to provide relief to the affected sections of the economy, to reduce the possibility of business failures and to support the process of recovery. Government has initiated some remarkable reforms in agriculture, mining, and public sector enterprises. Such pragmatic policies – along with the ambitious National Infrastructure Pipeline program that the Government had announced in December 2019 – will support India's medium-term growth rebound. In the interim, however, the Indian economy – like the global economy – will need to navigate through some difficult quarters.

ABG IN PERSPECTIVE

Over a longer historical arc, the Aditya Birla Group has witnessed dramatic disruptions across periods, businesses, and geographies. And yet, we have come out stronger always. A wide range of insights and experiences accumulated over diverse situations, allows the Group to fortify its businesses from both the immediate and the lingering effects of economic pain, caused by the pandemic.

In these turbulent and dynamic times, the Group's near-term focus is to hold the ship steady and to see it through the turbulence – by emphasising on conservation of cash, the safety of its teams and assets, and strengthening its business relationships. The Aditya Birla Group is also closely examining the evolving changes in the business environment and their implications, to position itself well for leveraging the opportunities through and after the economic revival.

As the events began to unfold worldwide in the last quarter of the financial year, we anchored to our core strengths – our people, our processes, and our agility. In line with the Group's core philosophy of employee care and wellbeing, swift action was taken to shut down our offices, manufacturing units, retail outlets and branches— where necessary; and recalibrate

operations where feasible. Overnight, everyone switched to a new paradigm of work from home and adopted digital technology seamlessly. This is not an easy transition for large, diverse global organisations. But it was made possible due to the adaptability and commitment of our employees, discipline of the leadership, strong processes, and past investments in digital technologies. Our culture of learning hugely supported this quick switch over. A multi-generational workforce was an added advantage; as the younger digital-native employees played a reverse mentor role in guiding the older employees to become digitally savvy; the older employees enabled others to stay calm, focused and productive in difficult times. Continuous listening to employees through pulse surveys and guiding them to **Make the Most** of the situation led to a productive and winning mindset. A pulse survey conducted with ABGites showed an assuring trend – 86% were confident about delivering their Q1 goals of the new fiscal.

Faced with an unprecedented nationwide lockdown, our group businesses proactively created '**Business Continuity Plans**' working through different scenarios. Our teams engaged deeply and meaningfully with customers and value chain partners to support them better in these extraordinary times.

Over the last few months, business models have been reassessed, to identify strategic and tactical opportunities to improve effectiveness, prune avoidable costs as well as prepare for the new normal. New opportunities are continuously being ideated and explored. For example, Aditya Birla Fashion and

A crisis of such magnitude is a great reminder of our responsibility to give back to society. True to its legacy, ABG has curated a multi-pronged approach to help our communities fight Covid-19, with a commitment of over ₹ 500 Crore towards Covid relief measures. This entailed a contribution of ₹ 400 Crore to the PM CARES Fund.

Retail has made an emphatic foray into masks, our Chemicals Business is producing disinfectants, and the Fibre Business is manufacturing antibacterial fibre.

The pandemic has also accelerated our shift to digitization across businesses. A new wave of digital energy is being unleashed with a clear focus on getting closer to our customers.

Our Group businesses are also leaving no stone unturned in redefining workplace hygiene. Every business has implemented new standards of safe working with guidelines for social distancing and zero-touch interactions. Similar protocols have been created for safe and superior customer engagements. We believe that things will continue to be dynamic and uncertain in the coming months. Even as we open offices and factories with protocols to put employee safety at the forefront and enhance productivity, we will continue to leverage our strength of adaptability and agility.

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This unflinching support to our employees, communities and other stakeholders is core to our DNA and will enable our long-term, sustainable growth.

YOUR COMPANY'S PERFORMANCE

The metal industry, and particularly aluminium and copper sectors, faced a volatile and challenging year in fiscal 2019-20. The subdued growth in CY2019 was a result of rising trade barriers, uncertainty surrounding trade and geopolitics and region-specific structural factors. The impact of Covid-19 on global growth since March 2020 has further depressed the economic outlook for the year ahead.

CHAIRMAN'S LETTER TO SHAREHOLDERS (continued)

Your Company registered a strong consolidated performance in FY2019-20, reflecting its resilience to withstand market cycles. This spirited show was driven by a continued record performance from Novelis, coupled with stable performance of the Indian aluminium and copper businesses.

Your Company reported a consolidated EBITDA of ₹ 15,536 Crore on a turnover of ₹ 1,18,144 Crore in FY2019-20. Your Company's aluminium and copper business in India, and Novelis continued to deliver steady operational performance, despite lower LME and tough market conditions. The major enablers were lower input prices and better cost efficiencies. Your Company (including Utkal) continued to achieve record aluminium production levels at 1.314 Mt and alumina production of 2.735 Mt in FY2019-20. Utkal Alumina also registered its best ever production in FY2019-20. All plants operated at their designed capacities. Production of aluminium value-added products (excluding wire rods) stood at 319 Kt in FY2019-20 reflecting a flattish growth y-o-y and your Company's focus on strengthening its downstream portfolio to become further delinked from LME volatility.

In the copper business, cathode production was 321 Kt, lower compared to the year earlier due to loss of production because of lockdown and plant shutdown in the month of March 2020. Continuous Cast Rod production was at a record high of 263 Kt, up 7% y-o-y because of continuous ramp-up of the CCR#3 plant at Dahej.

Novelis reported yet another remarkable performance this year with a record adjusted EBITDA of

\$1.472 billion, an increase of 8%. Adjusted EBITDA/tonne of \$450 was also the highest ever. Novelis continues to improve its product mix with the share of beverage can sheet at 66% and automotive body sheets at 19% in FY2019-20. Your Company reported the share of recycled contents at 60% in FY2019-20, and this has been continuously rising with Novelis emerging as the world's largest recycler.

Your Company continues to focus on strengthening the balance sheet, with the consolidated net debt to EBITDA dropping to 2.61x at the end of March 2020.

On 14th April 2020, your Company completed the acquisition of Aleris at an enterprise value of \$2.8 billion. The Divestment procedures for Aleris' automotive assets are underway. This acquisition will allow further product diversification for Novelis, with the addition of high aerospace and expanded speciality capabilities, while cementing your Company's position as the leading aluminium value-added player in the world.

CONCLUSION

FY20 is not just another fiscal. Never has the transition between two financial years been as tumultuous for the global economy. The pandemic is no doubt, a sobering reminder of how the world can change in unforeseeable ways.

As Covid-19 gets quelled and the global economy reawakens, endurance will pave the way for renewal — for individuals and corporations alike. When we emerge from the coronavirus, I have no doubt that the world will recognise and celebrate corporations that are exemplars of good governance and sustainable growth. You can count on your Company as being one of them.

Yours sincerely,



Kumar Mangalam Birla
Chairman

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