

The Chairman's Letter to Shareholders

Dear Shareholder,

Global Economy:

The global economy recorded a healthy growth of 3.6% in 2018. During the second half of the year, however, the global economy lost some momentum, mainly on account of the increased trade frictions between the US and China, and the tightening of financial conditions. International Monetary Fund (IMF) expects growth to decelerate to 3.3% in 2019 and its projections suggest that all three major engines of the global economy, viz. US, China and Euro area are likely to decelerate in 2019. On the positive side, however, IMF expects world economic output to recover and grow at 3.6% in 2020.

Of late, there have been a few growth-supportive factors such as the announcement of economic stimulus in China and halt to the process of monetary policy tightening in developed countries. But the business sentiment has become somewhat clouded with challenges arising from the apparent setback to the US-China trade talks, the spread of trade frictions to technology sectors and the increased intermingling of economic policies. These challenges signal that global commodity prices could be under pressure.



The Indian cement industry witnessed a year of favourable demand scenario, achieving double-digit volume growth, last seen in FY10. With healthy volume off-take and comparatively lesser new capacity addition of 12 mtpa during FY19, capacity utilisation for the industry improved to 71%, about 5% higher than the previous year.

Indian Economy:

Indian economy exhibited mixed record in the just concluded fiscal. GDP growth slowed from 7.2% in FY18 to 6.8% in FY19. Sub-par rainfall in 2018, tight financial conditions faced by the non-banking financial sector and moderation of external demand were the key challenges faced by the economy. Consumption growth declined during the second half of the year, but there were some signs of revival in the investment cycle, as the rate of gross fixed capital formation improved from 31.4% of GDP in FY18 to 32.3% in FY19.

Macroeconomic stability indicators broadly maintained their health. Low inflation has created the space for monetary policy easing, which will also help support growth revival. The fiscal deficit target for FY19 was adhered to, despite a shortfall in tax revenues. While the current account deficit was high at 2.6% of GDP during the first three quarters of FY19, the softness in international oil prices portends its narrowing in the coming quarters. Following the resounding political mandate for the ruling Government, expectations of further economic reforms and impetus to large infrastructure investments have been reinforced. These are reflected in strong inflows in the capital market, taking equity indices to record levels in the weeks following the general elections.

India's medium-term growth prospects continue to be robust. Significant reforms undertaken in the recent years such as GST and insolvency code would raise India's growth potential in the coming years, amplifying the effect of the long-term structural cornerstones of the Indian growth story such as demography and urbanisation. In the near-term, however, uncertainty over the forthcoming monsoon season and the heightened global risks present headwinds for FY20. Accordingly, the outlook for the Indian economy in FY20 is one of cautious optimism at this juncture.

Your Company's Performance:

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lesser new capacity addition of 12 mtpa during FY19, capacity utilisation for the industry improved to 71%, about 5% higher than the previous year.

During FY19, your Company put in an impressive performance attaining net revenues of US\$ 5.26 billion (₹ 36,775 crores) and EBITDA of US\$ 1.03 billion (₹ 7,227 crores).

The significant development of the year was the successful acquisition of Binani Cement Limited, renamed as UltraTech Nathdwara Cement Limited, having an installed capacity of 6.25 mtpa in India. The acquisition provides your Company access to large reserves of high-quality limestone. It also consolidates your Company's leadership in the fast-growing Northern and Western markets in the country. After completing quality upgradation, the "UltraTech" brand was successfully launched from the erstwhile Binani plants.

Your Company also commissioned a greenfield cement project of 3.50 mtpa at Manavar in Madhya Pradesh. With this, the total cement capacity for your Company has enhanced to 94.75 mtpa in India.

In the next fiscal, with the acquisition of Century Cement, we expect UltraTech's installed capacity to scale up to over 113 mtpa. It gives me great satisfaction to inform you that UltraTech is today the third largest cement company in the World, excluding China.

Your Company has also made rapid strides in its sustainability journey. UltraTech has a water-positive score of over 2.00 across its plants as appraised by DNV-GL, a global quality assurance and risk management company. Three of its integrated plants became water-sufficient as a first step towards becoming water-positive in the foreseeable future.

Your Company has developed in-house technology to use all waste generated from the rejected concrete in the form of waste sludge or slurry for recycling into Ready Mix Concrete production. This technology is fully automated and enables the plant to be real zero discharge with no water and solid waste. This eliminates the cost of waste disposal and recycling material

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generated out of the said process. The partial substitution of sand, fly ash and water makes it a sustainable business proposition.

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Outlook:

We remain optimistic in our outlook for the cement sector in FY20 and expect the industry to grow at 7 to 8%.

With a stable government at the Centre, we expect a renewed thrust on infrastructure development through the construction of roads, metro rail projects, airports renovation, irrigation projects etc. This augurs well for your Company. UltraTech, with its strategic expansion plans in the last three years, is well positioned to participate in the growth story of a rising India.

The Aditya Birla Group: In Perspective

The Aditya Birla Group in many ways is a proxy for a Rising India, given the diversified nature of our businesses.

FY19 has been one of strategic decisions and partnerships; with many transformational business transactions: Vodafone-Idea merger, purchase of Binani Cement, acquisition of Aleris in Metals and Suktas in Textiles. We have demonstrated the courage to think mega scale, to act decisively and to be calm in a volatile and changing environment. We have reaffirmed the commitment and trust that we can reinvent ourselves and be game changers in the industry. Consequently, we are globally the third largest cement company (outside of China), and among the top 3 telecom players in the world. We closed the year with revenues of US\$ 48.3 billion and an EBITDA of US\$ 6.1 billion.

We believe our people and people processes give us the definitive edge to manage scale and yet remain nimble to embrace change proactively.

On the people front, I am delighted to share that our robust people processes that have been the bedrock of our success over the years continue to evolve and stay contemporary. Let me give you a flavour of what we have accomplished and how it is making a difference.

As a Group, we continue to be deeply invested in our talent pipeline across levels. At one level, we have on-boarded over 200 fresh recruits from top engineering and management institutes for premier trainee programs, and at the other end, we are actively building an internal talent pipeline in our businesses. Our Employee Value Proposition of 'A World Of Opportunities' is truly coming alive with this eclectic mix of experienced and young leaders. We have developed a robust leadership pipeline with a healthy ratio of 1:1 identified successors for more than 300 leadership roles across the Group.

Gyanodaya, the Aditya Birla Group Centre for Leadership Development continues to build curiosity for new learning, self-reflection and coaching in existing and future leaders. Broad-based leadership programs like Chairman Series brought 300 top leaders across the globe together on marketing, finance and strategy and built cohesion and cross-functional appreciation.

Functional Academies have been established in 5 distinct areas: Human Resources, Manufacturing, Sales / Marketing and Customer Centricity, Information Technology and Finance to develop cutting edge functional capabilities in these areas. Over the past three years, over 5,000 employees have refreshed their skills, thereby enhancing the functional design and experience across the Group.

ABG Core Conclave, of middle managers across businesses, enabled 3,000 managers and business leaders to share nuances and have candid conversations on missed opportunities and challenges ahead. This unique platform reinforced the One ABG connect, brought new perspectives and gave me a first-hand feel of the excitement, passion and commitment of our vibrant next generation leaders.

Businesses have adopted new areas like Robotic Process Automation, Artificial Intelligence, Machine Learning, Analytics, Design thinking. They are experimenting with the same in manufacturing processes, servicing customers, logistics, enhancing the agility of the business and turnaround times, dramatically.

I believe the real test of HR processes lies in advancing business outcomes, and we have demonstrated a track record of doing

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just that. Greenfield projects were commissioned at earlier than planned time, and at a lower cost, acquired units were rebranded and recommissioned in days instead of months, earlier. While saving precious capital and related resources, these initiatives inspire confidence within the organisation and in the ecosystem.

The Aditya Birla Group, over the years, has institutionalised best practices that have led to efficiency, safety, sustainability, and stronger Businesses. We have systematically got the customer to the centre of our Business discussions. As we continue to strive on this front, we need to get closer to the end consumer and innovate continuously to ensure a faster growth trajectory. With this in mind, we have constituted the Central Innovation Team. This team will not only build the innovation framework and pipeline but also get an outside-in perspective to our Businesses. This team works closely with Business R&D and Marketing teams, Technology talent, and a strong team of Data scientists. We are also in the process of evaluating partnerships with Global Universities and Start-ups relevant to the sectors in which we operate. The intent is to shift the Centre of gravity of your Company closer to the consumer.

We are determined to innovate. We are determined to grow.

I am excited with the speed and precision with which we are transforming ourselves to be future-focused while remaining steadfast to our time-tested values. We move into 2019, with the confidence that we have the right capabilities not just to seize, but pounce on every opportunity that comes our way.

The best is yet to come. Thank you for your continuing support.

Yours sincerely,



Kumar Mangalam Birla