# The Chairman's Letter to Shareholders

Dear Shareholder,

## Global Economy

The global economy is on a rebound. The International Monetary Fund (IMF) estimates indicate that global real GDP grew 3.8% in 2017. This is the highest growth pace over the last six years. It is also the broadest synchronized global growth upsurge, since 2010 as underlined by IMF.

This impetus from a supportive monetary policy was further buoyed by a revival of investment spending in advanced economies. The expansionary fiscal and monetary policies in the US led to improve growth prospects. The US grew at 2.3% in 2017 as against 1.5% in 2016. Growth accelerated in Europe and Asia too.

The global economic recovery is expected to continue. For the current and the next year, a growth at 3.7% is projected. This positive outlook is somewhat clouded. Increased trade protectionism, rising international crude oil prices, geo-political risks and the uncertainty about normalization of monetary policies in advanced economies from highly accommodative conditions in the past, are some of the factors that dim the outlook.

India's economy is emerging strongly from the transitory effects of demonetization and implementation of Goods and Services Tax (GST). Although India's GDP growth slowed from 7.1% in FY17 to 6.7% in FY18, the economy recorded a seven-quarter high GDP growth of 7.7% in the exit quarter of FY18.

## Indian Economy

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India's macroeconomic indicators remain healthy. The fiscal deficit has been cut to 3.5% of GDP. India's foreign exchange reserves as at March end stood at a comfortable level of $424 billion.

Investors seem to be positive on India's economic prospects. The Foreign Direct Investment (FDI) flows continue to be encouraging. India's global ranking on the ease of doing business notched up to 77 from 142 in barely four years, while that on global competitiveness index has climbed from $71^{st}$ in 2014-15 to 39th in 2016-17.

The prevailing sense of optimism accentuates India's continuing economic growth in the future as well. It is attributable to the country's solid fundamentals, such as deleveraging by corporates, resulting in much stronger balance sheets, better capacity utilization with consumption demand becoming stronger, and insolvency and bankruptcy process weeding out non-performing assets, among others. The Government's unwavering push for infrastructure projects – Bharatmala Pariyojana, airports, metros, affordable housing, urbanization, smart cities and digitization are excellent stimulators for the economy's growth in the medium-term.

At the same time, we cannot ignore near-term challenges. The bucket of concerns consist of rising oil prices, hardening inflation, firming bond yields and widening current account deficit. The ongoing global trade frictions, particularly between the US and China, are worrisome and can have a spillover negative effect on countries like India. So the terrain ahead could be a tad bumpy depending on the economic and geopolitical environment.

## Your Company's Performance

The Indian mobile industry witnessed yet another year of hyper-competition, with major disruption coupled with high regulatory headwinds. As you are aware the new 4G operator has offered abysmally low priced plans. This led to an explosion in the voice and data volume growth. Aggressive price plans including the deeply discounted unlimited voice bundled data plans had to be offered by incumbent operators to retain the existing subscribers.

The impact of steep reduction in domestic and international MTC settlement rate impaired your Company's revenues and earnings. Consequently, high ARPU consumers migrated to lower priced 'unlimited voice bundled data plans'. In this environment, the gross revenue attained by the Company was Rs.282,789 million, a decline of 20.5% vis-à-vis the previous year.

As your company continues to expand its scale of operations, the operating expenses have risen. This, along with the revenue pressure resulted in a decline of 41% in your Company's EBITDA during the current financial year to Rs. 60,476 million (vs Rs. 102,436 million in FY17). The EBITDA margin for the year declined to 21.4% from 28.8% in FY17.

The 'Depreciation & Amortisation' charge and 'Interest & Financing Cost (Net)' for FY18 stood at Rs. 84,091 million and Rs.44,600 million respectively. Your Company saw an unprecedented standalone PAT loss of Rs.41,628 million in FY18 (vs PAT loss of Rs. 4,075 million in FY17). The consolidated Total Comprehensive Income (including proportionate share from Indus & ABIPBL) stands at a loss of Rs. 41,399 million in FY18 (vs loss of Rs. 4,040 million in FY17). The 'Net Debt' as on 31st March 2018 stands at Rs.523.3 billion. This is inclusive of a large component of debt from DoT under 'Deferred Payment Obligation' for Spectrum acquired in Auctions.

Your company continued aggressive expansion of its wireless broadband infrastructure, adding 44,856 broadband sites (3G+4G) during the year. The broadband sites increased

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As I apprised you earlier, Vodafone's operating telecom entities were to merge with your Company. I am pleased to highlight that the merger is now complete with National Company Law Tribunal, Mumbai bench having passed the final order on 30th August, 2018. The merger became effective from 31st August, 2018.

from 110,054 as of 31st March 2017 to 154,910 sites as of 31st March 2018, taking the overall network footprint on EoP to 286,356 sites (GSM+3G+4G). The wireless broadband population under coverage now expands to over 650 million Indians spread across 164,000 towns and villages in 22 service areas. Idea also started deploying its capacity spectrum (TDD) of 2300 MHz in its leadership circles of Maharashtra & Kerala and 2500 MHz spectrum in Andhra Pradesh to further augment its wireless data capacity. Further, your Company expanded its fibre network to 156,800 km as on 31st March 2018.

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### The Aditya Birla Group: In Perspective

The year 2017-18 has been a momentous year on all counts. We reached a record revenue of $ 43 billion with an EBITDA of $ 6 billion. Our Group's market cap crossed the $ 50 billion mark. These spectacular achievements are a reflection not only of our growing size and scale, the inherent soundness of our strategies and operations, but importantly the enormous confidence that investors and other stakeholders have reposed in us.

I am delighted to share with you that Aon Hewitt, a reputed global consulting firm, in the 'Best Employers 2018' study conducted by them, have named our Aditya Birla Group as the 'Best Employer' in India.

**Moving on to our people processes**, what strikes me most is that the development and leadership aspects embedded in it, are all futuristic. I believe, we are headed in the right direction. Let me give you a flavour of what we have accomplished and how we are constantly refreshing and reengineering our HR initiatives.

Our Group HR has formulated a unique proposition for leadership development through the 2x2x2 formula. It is structured in a manner that accords opportunities to high talent to work in two businesses across two geographies and in two functions. Such an approach, should give a holistic experience and help prepare our leaders of the future.

I had apprised you earlier on the talent councils led by Business Heads and Directors at Group, business and at the functional levels. So far more than 250 talent councils meetings have been held with over 8000 development conversations and actions initiated for these colleagues. I have attended several of these meetings and am much encouraged by the positivity and enthusiasm they generate among employees down the line. They rightly believe that talent will always bubble to the top.

More than ever before in the people domain two segments that have grabbed the attention of progressive corporates, comprise of the millennials and gender diversity issue. In our Group 52% of our executives are under 35 years of age. They are the leaders of tomorrow whom we need to groom today.

Today women constitute over 14% of our employee force. Game changing career enabling policies have been introduced. These include work life issues such as maternity, childcare, flexi time, local commute and accompanied travel for the child and the caretaker. Alongside as part of the family support initiative, paternity leave is also being provided.

For younger employees, through our flagship programme, which is the Aditya Birla Group Leadership Programme (ABGLP), we are

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building a robust talent pipeline at the entry, junior and middle levels who over the years move into senior leadership. From this cadre, over 350 youngsters have been placed across the Group.

Gyanodaya, the Aditya Birla Global Centre for Leadership and Learning continues its commitment to prepare P&L and manufacturing leaders through Accelerated Leadership Development programs. I take great pride in Gyanodaya bagging Gold Award as Best Corporate University – Culture and Brand in Global CCU Awards 2017, "for operating at the highest levels of excellence and creating value for people, business and society".

The sales, marketing and customer centricity academy, the HR academy enabled 1765 managers hone their expertise to greater heights. The Gyanodaya virtual campus continues to offer 900+ e-learning modules in multiple languages. During the year nearly 40,000 employees leveraged the e-learning programme.

We are enhancing our HR processes for scale, agility and consistent employee experience. A comprehensive HR assurance and excellence framework, the HR portal to enable the last mile employee anytime anywhere connect, SeamEx, the Group HR Shared Services Center are milestones in this journey, as they enthuse and energize our people.

## In sum

Our Group's robust revenue growth, healthy EBITDA margins, deploying capital efficiently and generating cash flows, support our ambitious growth plans. Innovation and spirit of entrepreneurship that our employees bring to work is amazing and a major contributant to our Group scaling newer heights year after year.

Yours sincerely,

**Kumar Mangalam Birla**