



Mr. Aditya Vikram Birla

We live by his values
Integrity, Commitment, Passion, Seamlessness and Speed

CHAIRMAN'S MESSAGE

Towards a More Socially Secure and Resilient Future

The Global Economy

The world has been fighting the COVID-19 pandemic for more than a year now, and the struggle has had deleterious economic effects. In 2020, the global economy contracted by 3.3%, the largest contraction on record, at least since World War II. Much of it was concentrated in the first half of our fiscal year FY21, as several countries enforced strict lockdowns. Economies bounced back – albeit at differentiated speeds – in subsequent quarters, on the back of large fiscal stimulus packages, especially in the developed countries, restocking demand after dilution of lockdowns, and improved confidence levels following the start of vaccination programmes. As per the recent forecasts from International Monetary Fund (IMF), the US and China are expected to record a strong recovery in 2021, resulting in a net positive expansion of their economies over the 2019 levels. These two engines of growth are expected to boost demand for exports from other countries. Even the other two large economies, the EU and Japan, are expected to expand.

In response to the pandemic, central banks resorted to strongly supportive monetary policies in most developed economies, causing interest rates to go down to record lows. At the same time, another consequence of this policy has been a surfeit of liquidity. That has led to a strong rally in prices of many industrial commodities, which has also been supported by the evolving economic recovery, stimulus-related demand expectations and certain supply-side disruptions. This has caused inflationary pressures on the cost dynamic of several manufacturing industries.

The latest IMF forecast suggests a strong 6% growth in global GDP in 2021. But the occurrence of second and third waves of COVID in different parts of the world and reports of virus mutations have created downside risks to the outlook of a strong growth rebound. Recovery remains uneven and uncertain, with the extent of fiscal support and level of vaccination being key differentiators of the short-term economic outlook across countries.

Indian Economy

Indian economy, which was firmly on the path of recovery in the second half of FY21, was hit by a rather unexpectedly virulent second wave of COVID-19. That caused a severe strain on healthcare facilities in many parts of the country, leading to localised lockdowns and a fall in mobility to levels seen a year ago. This may lead to some reassessment of growth estimates for FY22.



As a silver lining, disruptions to production and supply chains have been far less severe during the second wave than during the first wave.

Vaccinations are picking up pace, which would support faster normalisation of mobility levels and of related economic activities. Continued accommodative monetary policy of the RBI and the expected increase in capex from the Government are factors that will support growth recovery. In addition, global growth prospects provide us with exports as an additional strong driver of growth.

The longer-term prospects for the Indian economy continue to be robust. Various initiatives, including privatisation of public sector enterprises, monetisation of assets, implementation of National Infrastructure Pipeline, targeted investment incentives through the Production-Linked Incentives Scheme and the new Labour Code, are likely to spur a virtuous cycle of investments and growth in the medium-term.

ABG In Perspective

Like for many other organisations, the COVID crisis brought out challenges of many forms. Economic impact and business disruptions apart, many members of our extended family – our employees and their near ones, our value chain partners, our neighbourhoods – faced health emergencies. The pandemic also caused deep psychological scars as people had to adjust to new ways of living and working. Notwithstanding these challenges, our employees have displayed the highest possible resilience in coping with personal concerns and yet staying focused on the customers and the business. Our business results convey only a small part of the story of our employee courage, compassion, community spirit and cultural strength.

As the lockdowns took a firm grip on people's lives and constraints mounted in the early part of the financial year, our leadership teams rose to the occasion with robust planning and continuous communication with people at all levels

through the organisation. Personally, it was energising for me to engage at scale with employees globally through a series of digital townhalls that instilled confidence in employees and reinforced the power of 'One ABG'. The 'Respond, Recover and Re-imagine' framework underpinned several new initiatives. These included close coordination among HR teams across the Group units to respond to local-level challenges by leveraging the organisational resources and a thrust on disseminating relevant information through all digital channels about the resources lined up to help the extended ABG family deal with the emergencies.

COVID warriors were trained, and voluntary networks were formed to assist our employees and their families in need. Preferential tie-ups with local hospitals and a central coordination centre with an external party were set up to provide special assistance to our employees through Doctors' network, telemedicine and other COVID related Health assistance. Workplace health, hygiene and COVID-appropriate behaviour remained the focus of our managers at all levels helping the organisation to stay ever vigilant. 'Test, Treat and Trace' was the mantra of protection and well-being followed scrupulously.

Apart from focusing on health emergencies, initiatives for mental agility and continuous learning were taken to maintain organisational morale. A learning programme christened as 'Chairman's Invitation Series' was curated to bring the best insights on a changing world from the world's leading thought leaders. There was an increased thrust on online education, recognition, and knowledge sharing sessions. These well-rounded initiatives on the people front also helped our Business performance to bounce back strongly. The focus on customers and costs remained undiminished through the year. Critical business processes such as new line commissioning, new product launches, new system and technology implementation-

all happened seamlessly and presented a unique human story of innovation and fortitude bringing alive the values of commitment and passion. People learnt new skills and new behaviour at work while not being at office or at the workplace as one knows. People engagement, team trust and Group values proved to be the energy and the glue for our performance.

In the spirit of not letting a crisis go to waste, our HR Teams globally collaborated to create a long-term HR Strategy for the Group and individual businesses. This was achieved even while working remotely; 150 of the HR leaders came together digitally over a four-month period to craft a coherent HR strategy to reflect both Group aspirations and the business needs. Premised on creating an Avant Garde HR strategy, the work focused on employee experience and business productivity in a balanced mix with growth, technology, and talent as other critical pillars. This HR strategy is under dissemination to various stakeholders and an annual action agenda is being rolled out at all levels. This has been a signature example of collaboration, thought leadership and determined action – ingredients that usually make up most successful organisations.

Sustainable Focus

The experience of the past year reinforces the criticality and importance of sustainable businesses. At Aditya Birla Group, sustainable business model needs to have three pillars – responsible stewardship, stakeholder engagement and future proofing. We use four dimensions of Business sector, Geography of operation, Value chain and Time horizons to identify issues that are material for the sustainability of our businesses; and then create approaches to balance risks and opportunities for all those material issues. For example, on environment, energy conservation initiatives help us to mitigate risks, while solar energy and climate-resilient products help us to pursue opportunities. Since transparency is fundamental to our approach



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on Sustainability, most of the ABG companies have consciously begun their journey to 'mainstream' ESG reporting. This integrated report is a telling example.

Company's Performance

Your Company delivered yet another strong consolidated performance in FY 2020-21, reflecting its resilience to withstand external shocks and commodity market cycles. This resilient and spirited show was driven by a continued record performance from Novelis and a stable performance by the Indian Aluminium business supported by strong market revival and lower input costs. Your Company registered a consolidated business EBITDA of ₹ 18,896 Crore on a turnover of ₹ 1,31,985 Crore in FY2021-21. Your Company's Aluminium business in India and Novelis continued to deliver steady operational performance, despite tough market conditions due to COVID in the earlier part of the year. The major enablers were stable operations, lower input prices, better cost efficiencies and a strong revival of demand. All the plants operated at their designed capacities during the year, except for some impact in Q1 due to the COVID-induced lockdowns in India. In FY2020-21, more than 80% of Hindalco's consolidated EBITDA was delinked from the volatility of the global Aluminium prices taking together the EBITDA of Novelis, Copper and India Aluminium downstream VAP.

As a step towards the downstream expansion plans in India, your Company announced its plans to set up a 34,000-tonne extrusion plant at Silvassa. This new plant will service the fast-growing market for extruded Aluminium products in India's western and southern regions. Your Company intends to build a larger

value-added product portfolio over the next few years. This investment indicates confidence in the economic revival, which will grow the demand for downstream value-added products. In the Copper business, cathode production was 262 Kt, lower than the year-earlier due to loss of production on account of plant shutdown in the first quarter of FY2020-21. The Continuous Cast Rod production was at 235 Kt in FY2020-21, a little lower than the previous year.

Novelis, including Aleris, reported yet another remarkable performance this year with a record shipment of 3,613 Kt, adjusted EBITDA of \$1.714 Billion. The adjusted EBITDA/tonne of \$474 was also the highest ever. Novelis continues to diversify its product mix with the share of beverage can sheet at 60%, Automotive body sheets at 16%, Specialties at 22% and Aero at 2% in FY2020-21. Novelis reported the share of recycled contents at 61% in FY 2020-21, and this has been continuously rising as the World's largest recycler of Aluminium.

On 14th April 2020, your Company completed the acquisition of Aleris at an enterprise value of \$2.8 Billion, reinforcing its position as the World's leading Aluminium value-added player. The Aleris deal enables the further diversification of our metals portfolio into other premium market segments, most notably aerospace. Novelis is now poised to serve the growing Asia market more efficiently by integrating complementary assets in the region. This deal also further insulates Hindalco-Novelis from global price volatility.

Your Company continues to focus on strengthening the balance sheet with the consolidated Net Debt-to-EBITDA at

2.59 times at the end of the financial year 2020-21 from the peak of 3.83 times at the end of June 2020 post the closure of the Aleris acquisition.

During the year, Your Company received credit rating upgrades to Novelis and overall Hindalco. Novelis received credit rating upgrades on its unsecured notes by both S&P Global Ratings and Moody's Investor Services in March 2021, while Hindalco's Credit Rating Outlook upgraded from 'Stable' to 'Positive' while reaffirming the rating at 'AA' by CRISIL in April 2021.

During FY2020-21, Your Company was recognised as the World's most Sustainable Aluminium Company by the S&P Dow Jones Sustainability Indices 2020. This sustainability-led approach to business has enabled your company to strengthen its balance sheet and set global benchmarks on sustainable business practices.

Conclusion

The year-long response to the pandemic, across the globe, exhibited all that is noble and uplifting in the human spirit. A spirit that was also in display in your company's actions and performance during the year.

Through this pandemic, your Company's people and systems have been battle tested and even better prepared to face any competitive challenge or serious external disruption. It has strengthened the bonds within, opened better vistas of co-operation and convinced our stakeholders that our people deliver – no matter what! That is our best assurance of sustainability and continued collective prosperity.

Kumar Mangalam Birla
Chairman