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{ Sugar. Beyond commodity }



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Balrampur Chini Mills Limited Annual Report 2003-04

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Forward-looking statement

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words

such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in our assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions.

Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, the actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.



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At Balrampur,

we will strive to...

Stick to our core competence of manufacturing sugar and allied products.

Recruit and retain skilled and superior expertise measure and reward high performance.

Incorporate the principles of corporate governance to maximise the delivery of shareholder value.

Ensure that the development of the community in which we are based is concurrent with our business growth.

Integrity

We demand of others and ourselves the highest ethical standards. Our effort will be directed in making products that are of the highest quality.

Teamwork

This is the critical cog, which runs the Balrampur wheel. We know that if we are to succeed we must work together - more effectively and efficiently.

Leadership

We believe that a leader company is not as much a company which leads others as much as a company which has leaders at every level. This can be achieved only if the company creates growth opportunity, empowers adequately and creates incentives to reward its members.

Respect for people

People have made Balrampur what it is today. Balrampur has a proud record of treating its members well and with dignity; the company expects to live by this philosophy as the cornerstone of its operations.

Shareholder value

We will strive to maintain global standards of corporate transparency. We will strive to increase shareholder confidence in our management ability; we will strive to deliver a value to our shareowners that is commensurate with our managerial depth and financial solidity.

Customer focus

We are deeply committed to understanding and meeting the needs of customers.

Growth

We strive for a continuous improvement in our performance driven by an aggressive expansion in our assets.

Community

We will strive to be seen as a company with a conscience that extends beyond its cash flow - to the bigger challenge of making the world a better place to live in.

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Sugar

{ Beyond commodity }

In a society, where sugar essentially draws up an image of the few spoonfuls added to a beverage cup, it might be worth reminding that the sweetener is more integral to our existence than most people are aware of.

Helping keep the environment clean

In a world that is getting increasingly concerned about whether manufacturers working with natural resources are exploiting the environment, it would be worth appreciating that the sugar industry goes one responsible step further: it directly contributes to making the world a cleaner place to live in.

This is happening through two principal applications - the production of a clean automotive fuel additive and clean power.

1. ETHANOL, GREEN FUEL

One of the most attractive applications of molasses (sugar byproduct) is in the manufacture of ethanol, an environment friendly fuel. Being an oxygenate, ethanol contains 35 per cent oxygen, helps combust fuel more completely and reduces vehicular tailpipe emissions.

Over the last year, the government of India encouraged the blend of ethanol with automotive fuel to the extent of 5 per cent in nine states and four union territories; this is likely to be extended to the entire country following which the blend is

expected to be raised to 10 per cent in line with the trend in other countries.

This progressive use of ethanol will not only reduce the vehicular pollution load in the environment but also accelerate the company's migration to Euro IV norms.

THE BALRAMPUR RESPONSE

The company commissioned a 40 klpd ethanol plant at its Balrampur unit in 2002-03 followed by a 60 klpd ethanol plant at Babhnan in January 2004. The company's entire production of ethanol is secured by way of stable long-term contracts with oil majors like IOL, HPCL, BPCL and IBP.

2. BAGASSE, RENEWABLE POWER SOURCE

The use of bagasse (byproduct) in the co-generation of power

represents three attractive propositions: cost saving, income generation and the prudent substitution of fossil fuels with renewable energy sources.

Over the last few years, with the onset of power sector reforms the trend towards co-generation has accelerated.

This is line with the global preference for renewable energy forms. For instance, the European Union and other developed countries have specified that a percentage of incremental power should come from renewable sources to protect the environment from greenhouse gases, a feature that is reflected in India's Electricity Act 2003.

The Kyoto Protocol represents an extension of this spirit into practice. It was adopted under the UNO

framework of conventional climatic changes designed to reduce greenhouse gas emissions and combat global warming. It would be relevant to indicate that power co-generated from bagasse represents a renewable energy source and meets all the parameters of the Kyoto Protocol.

THE BALRAMPUR RESPONSE

Balrampur's two co-generation plants - at Balrampur and Haidergarh - possess a combined capacity 39.8 MW. These plants have not only serviced the company's complete power requirement at these two units, helping it save the differential cost that it would have had to pay for commercial purchase; they have also generated a steady income of Rs 47.37 cr in 2003-04. In doing so, they have addressed also the parameters of the Kyoto Protocol.

Robust engine of rural growth

In a world where growth is increasingly polarised around cities at the expense of rural development, it would be worth acknowledging the role of the sugar industry in redressing this imbalance.

Consider the various levels at which the sugar industry contributes to rural and national development:

- It is the second largest agro processing industry in India.
- Its rural integration of farm and factories generates an annual sugar turnover of around US \$5300 million and contributes US \$500 million to the exchequer.
- Its raw material base provides a remunerative income for nearly 50 million farmers.

- It provides employment directly and indirectly (including ancillary units) to about two million people in India.

- It catalyses rural infrastructure creation, necessitated by the speedy delivery of cane to the factory. For instance, it facilitates road building around each factory that connects farms to the factory.

- It acts as a principal economy-driver of its rural catchment area: nearly 70 per cent of the total annual expenses incurred by a sugar company are dispensed within its hinterland.

- It strengthens rural income-

generation potential through a wider irrigation coverage, the use of quality seeds / fertilisers as well as scientific planting and cane protection practices.

THE BALRAMPUR RESPONSE

Balrampur's corporate prosperity has translated into an attractive growth in the regions of its presence. This has been increasingly reflected in the improved lifestyle of farmers and employees, growth of townships, stronger health and educational infrastructure and increase in rural entrepreneurship.

The price of land adjoining the Babhnan factory area increased 15-

fold since the company took over that factory in 1990, enlarging community wealth and leading to the purchase of tractors, trucks and jeeps by farmers.

The company annually disburses about Rs.400 cr to farmers for cane supplies across all its four factories.

Its corporate success has inspired the creation of an entire second tier of businesses - suppliers, contractors, machine repair workshops, spare parts shops, truck operators, truck drivers, cane loaders and cane cutters - in the vicinity of its plants.

{ Responsible farmer-miller-consumer partnership model }

In a world where industry growth is often assumed to be derived at the expense of supply chain partners, it would be worth showcasing the sugar industry as a model of responsible partnership.

The sugar industry's farmer-miller-consumer partnership model is marked by a mutual respect for the other's interest, leading to a win-win proposition for all.

Farmer: The fact that millers must draw cane only from their respective command areas makes farmer welfare central to a mill's existence. Not just this, millers must consume all the cane delivered by the farmers, an attractive insurance for growers against non-sale. Besides, all the cane must be remunerated within 14 days of the delivery of produce. Over the years, the cane

price has increased faster than the remuneration derived from other competing crops, independent of the realisations of its end product. This remuneration is not only structured on the basis of the product by weight but is also influenced by the incidence of its sucrose content, leading to a fair and precise estimation of the farmer's hard work. Besides, farmers are also entitled to a share in sugar realisations as per the Bhargava Formula.

Miller: The farmer cannot supply cane to a miller other than the one stipulated by the State Government. This ensures a predictable availability of raw material for the miller to base

his annual budget and production plan. Since the remuneration is based on a mix of weight and sucrose content, it protects the miller's interest in the event of sub-optimal raw material delivery.

Consumer: Sugar is integral to our lives. It constitutes the mainstay of our everyday diet through its visible use in beverages and confectioneries and its invisible use in chewing gums, ice creams, mint, juice, energy beverages, chocolates, chutneys, various packaged foods, ketchup, biscuits and colas, among other products.

Sugar is the most reasonably priced

core daily food ingredient, reflected in the fact that its annual price appreciation is the lowest compared to other cereals and its retail price in India is among the lowest in the world. As an extension, this low price has created a strong base for sugar's increasing consumption among the lower income sections of society.

THE BALRAMPUR RESPONSE

Over the years, Balrampur has remunerated farmers unfailingly within the stipulated period, it has proactively enhanced its production capacity and provided farmers with an incentive to grow more cane and its product quality compares with the best in the country.

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{ A neat agricultural-industrial fit }

In a country where the interests of the agricultural are often seen as contrary to the requirements of the industrial, sugar is unique because it reconciles India's vast agricultural tradition with the needs of modern-day industry.

It is the only industry with an agricultural origin (sugarcane) and a consumer (sugar) as well as an industrial (ethanol and power) application.

This translates into a broad raw material base that will enable it to meet the needs of all its direct and indirect consumers over the foreseeable future.

This advantage is derived from the following factors:

Vast spread: Cane covers 4.61 million hectares in India.

Dispersed presence: Cane is grown in around 16 Indian states.

Deep presence: It is grown by 50 million farmers, 12.4 per cent of India's farm labour.

Sturdy presence: It possesses an ability to resist extreme variations of temperature and rainfall.

Remunerative presence: It enjoys higher-than-competing crop realisations, inspiring increased planting.

As a result, India's average cane production of 289.63 million tonnes is an attractively large proportion of India's total average agricultural production.

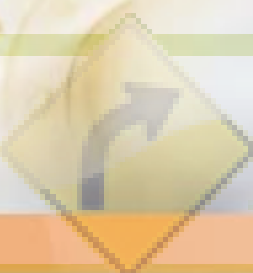
THE BALRAMPUR RESPONSE

Over the years, Balrampur has incentivised an increased planting of cane through the following initiatives: timely remuneration, wider irrigation coverage, seed distribution and advanced planting techniques. This has helped the company increase its crushing in eight years out of the last 10, one of the most formidable growth records in the Indian sugar industry.





REPORT



Deregulation

The big step ahead



Over the last number of pages, you have read about how sugar represents an integral part of India's national and rural economy.

Looking forward, its presence in the national fabric can be strengthened through a process of deregulation.

This proposed deregulation will be in line with the government's broad migration towards reform. Principally, deregulation promises to replace politics with market economics as a policy-driver.

In doing so, deregulation is expected to lead to the following benefits:

- ◆ Strengthen farmer cash flow.
- ◆ Enhance mill profitability.
- ◆ Ensure the availability of affordable sugar for consumers.
- ◆ Prompt investments in larger capacities.
- ◆ Smoothen cyclical and enhance industry stability.

deregulation

The Haidergarh complex

Driver of the company's future

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Introduction

There are three features that make the Rs 150 cr Haidergarh complex unique within the company's context - its product integration, its greenfield nature (the first among the company's four plants to be so) and its commissioning in a record ten months, ahead of schedule. To capitalise on the company's existing goodwill among farmers in Eastern Uttar Pradesh, the complex was commissioned on the Lucknow-Banaras highway, just 60 kms from Lucknow, in November 2003.

Products

The business model of the Haidergarh complex is its win-win income proposition.

Sugar (capacity 4000 TCD): It draws cane from the neighbouring areas to produce white plantation sugar of 80-90 icumsa, resulting in quick offtake and enhanced realisations.

Power (capacity 20.25 MW): It consumes the byproduct bagasse to generate power. While 6 MW is used to sustain in-complex operations, the rest is sold to the Uttar Pradesh state electricity grid.

Molasses: This sugar byproduct is transferred to the Babhnan unit where it is used to produce alcohol and ethanol.

haidergarh
haidergarh

The Haidergarh complex Driver of the company's future

haidergarh



Raw material

The plant shall procure cane from the Haidergarh command area (15 lac hectares). This command area generated 34 lac quintals of cane for the plant's maiden season in 2003-04, a fair performance by industry standards. As the company's cane development extends, raw material is expected to increase.

The bagasse generated in sugar manufacture is consumed as the principal raw material in the generation of captive power.

Technology

The Haidergarh mill represents the latest in automated sugar manufacturing technology in exchange for maximised efficiency, minimised manual intervention and reduced manpower.

- ◆ This automation system is based on the latest Distributed Control System leading to operational consistency.
- ◆ The modern assets and equipment have helped rationalise power consumption by almost 67 per cent with relatively no maintenance cost.
- ◆ The film type sulphur burner maintains the juice pH and reduces lime and sulphur consumption.
- ◆ An energy-efficient vapour condensing system reduces power consumption.
- ◆ Its continuous pan maintains process consistency.
- ◆ The centrifugal machines are fully automated, there is a fluidised bed sugar drier, the sugar weighing machines are fully automated, the use of helical gears has rationalised power consumption, the use of anti-friction bearings and helical gears in mill transmission gearing arrangement has helped reduce power consumption, the DC Drive on mills has enhanced operational consistency and R.M.E., the D.C. Drive on C/F also generates power, a ventilation system for cooling of the MCC enhance its life while the use of attractive Matapoly roofing sheets possess a life that is three times that of ordinary sheets.

Power consumption

In a conventional sugar plant, power accounts for 45 KW per MT of cane. The Haidergarh plant has successfully demonstrated low power consumption in addition to a captive generation capability.

Thanks to the use of 70 Variable Frequency Drive - the first time that any sugar company has installed them across such a large

scale - power consumption declined from 29 KW/ton to 26 KW/ton of cane crushed in the sugar plant and from 42 KW to 36 KW in the cogeneration plant. Through the use of energy saving lights in the company's housing colony for employees, power consumption was rationalised by almost 50 per cent.

Environment

As a responsible corporate citizen, the company made significant investments to mitigate any probable production fallout on the environment with the following results:

- ◆ Its effluent treatment plant (2000 metric cube /day capacity) resulted in the harmless effluent-free release of 500 m3/day with a B.O.D. content (15-25) that is well below the norms set by the U.P. Pollution Control Board. This release is recycled and used for watering plants within the complex.
- ◆ The installation of a Rs 1.5 cr electro static precipitator in the duct of the boiler's chimney, which prevented all the unburnt bagasse particles from being emitted (effectiveness of 50 MG/NM³ as against the statutory norm of 150 Mg/NM³).

Performance

Thanks to various initiatives, the Haidergarh mill performed better than the targets for the first season of crushing. Its performance comprised:

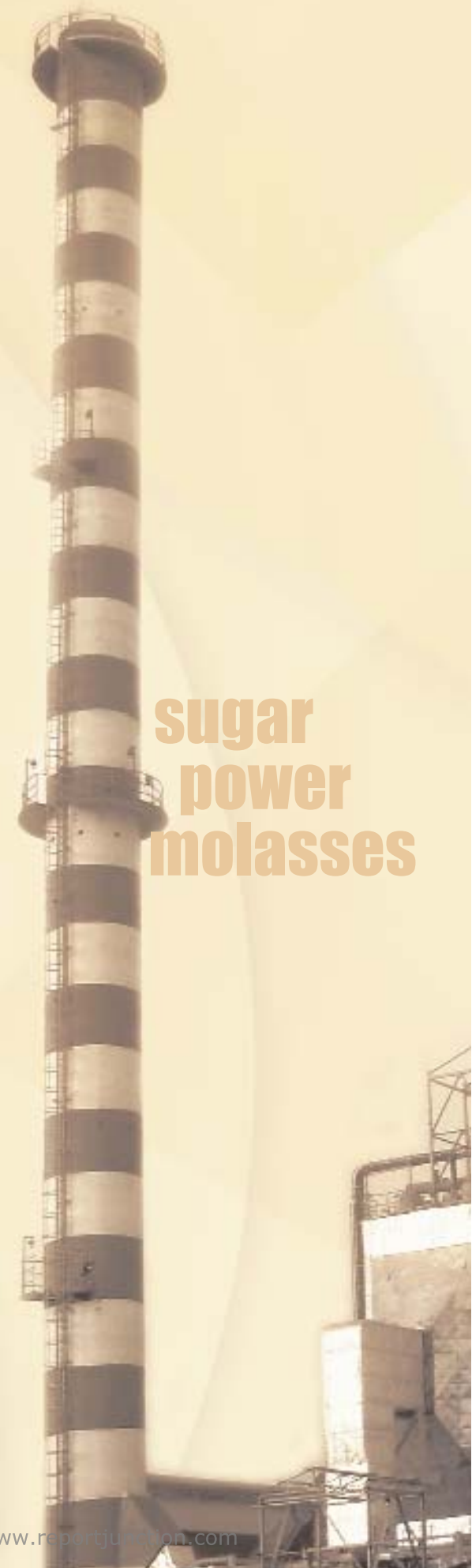
- ◆ The consistent production of 80-90 icumsa sugar, which translated into a premium and strengthened the corporate brand.
- ◆ A peak utilisation of 110 per cent for sugar and 101 per cent for power.
- ◆ Power consumption at 36 KW/ ton of cane against the target of 42 KW/ton of cane.
- ◆ Steam consumption at 45 per cent against the target of 47 per cent.
- ◆ Losses at 1.90 against a target of 2.00.

Outlook

The company expects to invest aggressively in its Haidergarh complex with a view to protect it from industry downtrends and maximise opportunities from uptrends.

It expects to extend horizontally into a sugar refinery, bio-compost plant and distillery on the one hand and vertically enhance its installed sugar manufacturing capacity to 10,000 TCD and power exports to 50 MW on the other.

sugar power molasses



**"We increased profits
attractively following
one of our most challenging
years in the business"**

**Mr. Vivek Saraogi reviews
what went right for the company
during 2003-04**

Q Were you pleased with the performance of the company in 2003-04?

I was pleased because the seeds of a fair performance in 2003-04 originated in a difficult 2002-03, perhaps the most challenging year since we took over the company's management in the early Eighties. During the year, we were unexpectedly required to crush more cane than we had anticipated and, as a result, the sugar season extended into July 2003. During this extended period, our recovery declined from 10 per cent to around 4 per cent and we lost nearly Rs 10 cr on its account. Had this not transpired, the company would have reported additional 16 per cent increase in its bottomline during the year under review. In view of the fact that we managed most challenging variables competently, I would consider the company's performance during the year under review to be fair and satisfactory.

Q Could the company have avoided crushing the extra cane?

From one perspective, yes. The company could have hypothetically cited its inability to crush beyond May, which is normally the time when it ceases to crush cane. There were legal remedies available through which we could have prevented crushing this extra quantum. It is at this juncture that we took a call that came more from our heart: we recognised the invaluable support of our farmers in raising an increasing quantity of cane year after year and as a gesture of gratitude and commitment, we took on as much cane as they could give. We are convinced that the upside from this single decision will far outweigh the one-time decline in profits. For one, it has already encouraged farmers in our command areas to continue planting cane – at a time when cane production has declined all across the country.

Q What factors went in the company's favour during the year under review?

Sugar realisations corrected during the fourth quarter of 2003-04 and improved to the levels that the company had enjoyed in October 2001. This transpired due to two reasons: as the decline in cane output became evident as the 2003-04 season progressed, there was an improved sentiment in the trade channels, which helped realisations recover. Besides, there was a perceptible decline in the national sugar inventory, which helped sugar realisations stabilise. Balrampur encashed this improvement: as a result 39 per cent of its post-tax bottomline for 2003-04 was

derived in the last quarter. Besides, the company strengthened its prospects for the long-term through the pre-scheduled commissioning of its greenfield integrated project at Haidergarh in November 2003.

Q In what other ways did Balrampur emerge as a stronger company in 2003-04?

We rationalised our labour, starting with a 20 per cent reduction at Tulsipur. We benchmarked our cane transportation in line with the best standards in the industry, which helped reduce costs and time. We instituted an internal audit cell that strengthened checks and balances. A number of these initiatives translated into a stronger culture of urgency, best reflected in a May 2003 peak recovery of almost 10.5 per cent corresponding to an East UP average of 9.53 per cent and compared to the company's 10 per cent in May 2002. We reinforced this with a non-mill initiative: we mobilised low cost funds through ECBs from IFC Washington and other money market instruments, which helped rationalise the cost of our average long-term funds to only about 6.34 per cent compared to a 2002-03 average of about 8.38 per cent.

Q How did the company's greenfield Haidergarh unit perform in its first year?

It might seem amazing, but Haidergarh is really our first greenfield project - an integrated sugar-cogeneration plant. It reported a satisfying first year: it was commissioned in only 10 months (concept to commissioning) and well in time for the new sugar season. In its opening year marked by a huge cane shortfall, Haidergarh crushed 34 lac quintals of cane through a strong wellspring of goodwill that existed for the company among the farmers. The power plant achieved a 100 per cent capacity utilisation within only two months of commissioning. Meanwhile, the company's 4000 TCD capacity was debottlenecked in its maiden season by 25 per cent. As a result, the Haidergarh plant vindicated the reasons for its commissioning and is expected to report a better production on the back of increased cane availability during 2004-05.

Q In what way is Haidergarh important in the company's strategy?

Looking ahead, all our greenfield plants will henceforth be integrated on the lines of Haidergarh. The complex demonstrated a number of operational upsides: it is absolutely automated and state-of-the-art. It reported improved efficiencies, enhanced quality and low costs - the lowest power consumption/ tonne of cane among all our plants, for instance. As cane availability increases, we are convinced that the Haidergarh mill will emerge as our principal profit driver.

Q What is the company's outlook?

It is positive from a number of perspectives. India's consumption level of around 18.5 million tonnes is growing at around 3-4 per cent annually. Cane production declined in drought-hit Maharashtra and there are indications that this drop may have a lasting impact. For the moment, this rationalised the national sugar inventory, which helped realisations recover to the levels that prevailed in August 2000. For the slightly longer-term, this drop is likely to present a bigger opportunity for sugar manufacturers in rain-fed and sun-blessed areas of Uttar Pradesh. We expect that this industry rebound will sustain for the next 3-4 years, during which time Balrampur's integrated business model will be effectively leveraged to report robust profits.

Q How does the company expect to enhance value for shareholders?

Over the years, the company invested prudently in a strong team represented by experienced plant leadership and modern practices. The time has now come to drive growth through organic or inorganic means.