



cane and able

BALRAMPUR CHINI MILLS LIMITED
ANNUAL REPORT 2016-17

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5 big messages that we wish to convey through this report

We are an efficient manufacturer in the Uttar Pradesh sugar industry

We moderated the impact of sectoral cyclicality through proactive investments in downstream by-product processing

We are working closely with farmers to facilitate higher productivity & varietal improvement in order to attain a better recovery

We invest in modern cane and agriculture technologies to benefit farmers

We proactively invested in environment protection and control to create a green sugar ecosystem

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 'anticipates', 'estimates', '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 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, 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.

5 destinations of our business by 2020

Positioning as an 'environment-friendly' sugar company

Catalysing rural prosperity

Sustained cost effective leadership

Net cash position

Balanced business model largely insulated from cyclical impact



cane and able

The success of our company can be encapsulated in three sentences.

- We encourage farmers to plant high-yielding cane varieties
- We encourage them to plant more cane of the early maturing varieties
- We maximise cane utilisation and by-product generation

Produce better cane.

Crush more cane.

Crush efficiently.

That's really what success in the sugar industry comes down to:
as you sow, so you reap.

Our **cane** competence has come a long way

Value-creation engine

Balrampur Chini Mills reported the largest cash profit in its existence in 2016-17: ₹697.22 crore. This was 108.5% higher than the previous record profit achieved during financial year September 2009.

Cash profit

FY September 2009 (₹ crore)	FY 2017 (₹ crore)
334.45	697.22

Operational

The Company widened the coverage of superior cane varieties from 4.87% of its command areas during sugar season 2013-14 to 41% during sugar season 2016-17 (enhancing recoveries).

Early maturing cane varieties

SS 2013-14	SS 2016-17
4.87%	41%

Gearing

The Company had a gearing of 0.13 (following repayment of ₹471.85 crore long-term debt during the year) as on 31 March 2017. The Company had ₹204.84 crore long-term debt as on 31 March 2017 (more than two-thirds at zero percent interest and rest at a low rate of interest).

Peak long-term debt

FY September 2008 (₹ crore)
1020.78

Long-term debt

FY17 (₹ crore)
204.84

Sustainability

The Company believes that the investments in capacity de-bottlenecking and growth will be adequately funded by accruals and negligible debt.

Cash accruals

FY17 (₹ crore)	FY16 (₹ crore)
697.22	210.37

Capex

FY17 (₹ crore)	FY16 (₹ crore)
129.56	153.24

Uniqueness

Balrampur Chini Mills became arguably the first agro-based company in India to announce a share buyback in 2016-17.

Cash accruals

FY17 (₹ crore)
697.22

Share buyback

FY17 (₹ crore)
175

5

things you must know about Balrampur Chini Mills Limited.

5

The Company is a diversified sugar company with around 17% revenues from non-sugar products.

The Company is engaged in the manufacture of sugar, industrial alcohol, ethanol, power, molasses and bagasse among others.

1

The Company is among the largest integrated sugar manufacturer in India.

Cumulative cane crushing capacity of 76,500 tonnes per day, distillery capacity of 360 kilolitres per day and saleable cogeneration capacity of 163.2 megawatts.

4

The Company has grown operations from two manufacturing units to 10 across two decades.

The Company's operations are spread across Balrampur, Babhnan, Tulsipur, Haidergarh, Akbarpur, Mankapur, Rauzagaon, Kumbhi, Gularia and Maizapur.

2

The Company's units are located in the eastern and central part of Uttar Pradesh
79% of the Company's crushing capacity is based in Eastern Uttar Pradesh; 21% of the Company's crushing capacity is based in Central Uttar Pradesh

3

The Company (headed by Shri Vivek Saraogi) is respected as a wealth creator.

The Company's market capitalisation of ₹3415.88 crore as on 31 March 2017, reported 3.2x increase in the last five years (equity shares listed on BSE, NSE and CSE).



MD's review of the Company's 2016-17 performance

NEVER IN MY LAST TWO AND A HALF DECADES OF WORKING IN THE INDIAN SUGAR INDUSTRY HAVE I BEEN MORE OPTIMISTIC THAN I AM NOW.

To understand where my optimism comes from, it would be necessary to examine the reasons for the extensively cyclicity within India's sugar industry.

The cyclicity within India's sugar industry was largely derived from the Government's perspective that the industry existed only to benefit the cane grower. The result of this belief was that cane costs were periodically and arbitrarily increased for non-economic reasons; this arbitrarily-enforced pricing usually inflated raw material costs for sugar manufacturers without a corresponding capability in passing on such cost increases to consumers. When the squeeze transpired, a number of sugar manufacturers reported losses.

Transformation

The last sectoral trough was particularly challenging for two reasons. It was the most prolonged slowdown that one has seen in India's sugar industry; it was also the most intensive; sugar manufacturers did not just suffer losses across a longer tenure than usual; they also suffered considerably larger deficits than they had faced in their existence.

This background is necessary to appreciate the nature of the sectoral transformation that has transpired in the last couple of years and how this transformation is fundamentally different from the usual rebound in India's sugar industry. The rebound in the fortunes of India's sugar industry has to a large extent been

influenced by the pragmatic policies of India's new Government that came into power in May 2014.

That the sugar sector began to revive not long after the new Government assumed charge is no coincidence. Over the last few years, we have seen a new perspective emerge from the Government: that if farmers are paid on time and attractively then the health of the country's sugar sector would be assured. In turn, we have seen the Government enunciate that if the health of the sugar sector needs to be revived and protected what it needs is policy clarity, consistency and equity, making it possible for sugar manufacturers to plan their growth across the foreseeable future.

Pragmatic interventions

The Government extended its intent into content; over the last couple of years, there have been a number of pragmatic interventions by the Government that have helped address emerging sectoral challenges with urgency, decisiveness and fairness. The result is that India's sugar industry is considerably more optimistic of its prospects because the decisions of the Indian Government are informed, professional and responsive.

The result is a win-win-win for farmers, manufacturers and consumers. Farmers are getting increasingly remunerated on time, strengthening their cash flows; manufacturers are enjoying superior viability after years of losses; consumers

are benefiting from stable prices with the prospect a larger cane crop next season indicating that realisations will be stable. This superior proposition for all sectoral stakeholders indicates that we might be at the sweetest spot in decades – finally what is good for the farmers is also good for the miller and consumer.

Change in State Government

For Uttar Pradesh sugar manufacturers, this sectoral transformation comes at a time when the state's Government has changed. After decades, we have a Government in Uttar Pradesh that is of the same political party as the Government at the Centre. This is more than just a coincidence; the new Chief Minister of the Uttar Pradesh Government has initiated evaluation of the longstanding cane pricing formula with the objective to model it on the formulae followed in Maharashtra and Karnataka. Among other initiatives, the Chief Minister indicated a review of the existing Molasses and Ethanol Policy with the objective that the interests of the manufacturers are better represented; he indicated that it is time cane growers in the state extended to the use of higher yield cane varieties over conventional equivalents.

These observations by the Uttar Pradesh Chief Minister inspire the optimism that for the first time in living memory, the Governments of Centre and State would be working in tandem for industrial development – taking a holistic, aligned and uniform view from the perspectives of sugar realisations and raw material pricing.

Sectoral inflection

I believe that this alignment provides the basis for a sectoral inflection point. It would be myopic to believe that the Indian sugar sector will cease to be cyclical; what is becoming increasingly evident is that the sectoral downtrends would be shorter and less pronounced than what they were in the past; conversely, there is a growing optimism that the uptrend years will be far more and durable than the years of sectoral weakness.

Interestingly, even as this improvement will raise the water level for the broad sector, some manufacturers will rise higher than the others. I believe that the efficient, compliant and ethical companies will perform considerably better than the sectoral average; during industry rebounds, the companies that play completely by the book will report disproportionately larger gains than the rest. In this respect, one must indicate that when Balrampur Chini Mills made a large proactive investment in zero-discharge distilleries a couple of years ago, this decision was questioned on the grounds that we did it when nobody was doing it and hence was not necessary.

Being proactive

At Balrampur Chini Mills, we have believed that the time is always right to do something that is correct. The Pollution Control Board took a particularly stringent view of the environment standards that applied to the industrial sector in that state. The result was that a number of non-compliant manufacturers were compelled to shut operations. On the other hand, a proactive and compliant company like Balrampur Chini Mills is permitted to run for a higher number of days.

What gives me pleasure is that Balrampur Chini Mills is in a comfortable industry position at the start of the industrial rebound. The Company reported a 181.91% increase in cash profit to ₹697.22 crore over the previous year; this cash profit was 108.50% higher than the previous cash profit peak reported by the Company during September 2009, validating the investments that we made in our business capacity and capabilities during

the last few years. Besides, our company completed a buy-back during the year under review, moderated long-term debt from ₹676.69 crore to ₹204.84 crore and reduced its average debt cost. The message that we would like to send out to our shareholders is that even as the sectoral rebound is far from over, Balrampur Chini Mills has strengthened its fundamentals with sustainable implications across the foreseeable future.

One of the questions that I have often been asked is where the Company is likely to go from here. My answer is that we would definitely like to keep growing: through quantitative and qualitative strategies. We believe that with the Government's new rules, staying in business could result in sectoral opportunities to acquire assets around a compelling price-value proposition. As always, Balrampur Chini Mills will be selective when it comes to inorganic opportunities, preferring to focus on independent assets over companies and buying into assets that are relatively clean of litigations and unseen encumbrances.



We expect to increase our cane crushing capacity by 10% in the next season in the normal run of things. But more than this increase is the prospect of increasing the coverage of high-yielding cane varieties within our command areas.

Growing from within

In addition to inorganic opportunities, we see a considerable scope in growing from within. We expect to increase our cane crushing capacity by 10% in the next season in the normal run of things. But more than this increase is the prospect of increasing the coverage of high-yielding cane varieties within our command areas. During the season gone by, 41% of our cane comprised early maturing cane varieties; the operating leverage available tells us that we have a few years of hard work ahead. This would consequently lead to further growth, enhancing our average consolidated recovery on the one hand

and profitability on the other as we intend to achieve 80% of high yielding cane varieties in next two years.

Besides, I am convinced that while we have grown through entrepreneurial opportunity-seeking and passion-driven interventions, the time has come to graduate to systems-driven professionalism that would make our company increasingly independent of a disproportionate dependence on select individuals and greater focus on organisation-wide entrepreneurial leadership within. To achieve this Balrampur Chini Mills has engaged the best to strengthen its process orientation. We hope to reap the benefits of this process orientation in the near future.

Outlook

So where does this thinking converge?

The outlook at Balrampur Chini Mills will be to focus particularly on safety. We wish to create a working environment that will be safe, eliminating the incidence of accidents and mishaps. But more than that, we wish to create a Company where shocks

are taken out of the system, processes are streamlined, information technology facilitates a drill-down into operating mechanics, every initiative and intervention has been audited for its comprehensive fallout and where we are completely compliant with regulatory requirements.

I believe that in the near future stakeholders will respect comprehensively safe companies like ours even more, enhancing value for all those associated with our Company.

Vivek Saraogi
Managing Director

The background is an abstract painting with thick, expressive brushstrokes. The upper portion is dominated by various shades of green, ranging from light lime to deep forest green, with some darker, almost black, strokes interspersed. The lower portion features a vibrant yellow, with some green and black strokes bleeding into it from the area above. The overall texture is rough and painterly.

In the depths of a
chilling autumn lie
**the seeds of a
glorious summer.**

6 ways in which Balrampur Chini Mills transformed the dynamics of cane quality in a change-resistant Uttar Pradesh

It would have been easy to say 'Let the farmer give us whatever cane he wishes.'

1

At Balrampur, we walked a more difficult road. We looked at increasing the quality of cane we were getting from the farmers. Farmers adjusted; we didn't. The result is that when the farmers began to realise that we would focus on better quality cane and paid within the stipulated time period and

sometimes much before the stipulated time period, they realised it made eminent sense to follow superior cane management initiatives. Which reminds us of what the legendary Henry Ford would say of customers seeking to buy his cars: 'They can like any colour – so long as it is black.'

It would have been easy to say of cane development 'It is the farmer's business.'

2

At Balrampur, we made the farmer's business our business. We engaged in cane development. Which means that we studied diverse cane varieties, we identified 3-4 varieties that would suit Uttar Pradesh's topography best; we recommended this selection to farmers; we persuaded them to trust us in graduating from their long-

standing variety to the one we suggested; we provided seeds at a subsidised cost; we monitored the planting and growth of the cane variety until harvest; we conclusively demonstrated that the new variety delivered a superior yield to the farmer and superior recovery for our company, thereby a win-win situation for both.

It would have been easy to sit on a perch and advise.

3

At Balrampur, we put our hands in the bucket instead. We created an army of more than 500 field workers who would not sit at desks and write memos; they would travel around 40-50 kilometres from village to village every single day – and appraise farm health by asking some probing doctor-like questions: '*Chacha*, how much of your cultivable area has been allotted to cane this season? Why less? Why

not more? What problems are you facing? What if I am able to suggest solutions for your problems? Have you heard of that farmer just 10 kilometres from here who raised his income 30% last season? When did you plant? When will your *ganna* be ready for your harvest? Can I have a look at your cane to test its health? Can I arrange for some help as I see a minor problem near the cane root?'

It took courage to even suggest that the farmers alter a centuries-old planting pattern.

4

At Balrampur, we made some outrageous suggestions. One was that farmers alter their planting pattern. The time-honoured tradition among cane growers in Uttar Pradesh was to sow in March and reap the harvest nine months later. The Company recommended something different: plant the crop in autumn and reap the harvest 13 months later. When farmers heard this, they scoffed: 'You are asking us to work longer for the same amount of money? What about loss in the income that we would have generated from an alternative crop?' Balrampur explained: the autumn cane would provide the highest yield.

This autumn variety was less susceptible to pests, disease and also more resistant to damage by drought and flood. The variety would permit earlier crushing and facilitate a superior recovery. The variety would substantially enhance output. The Company would handhold farmers through the transition. Sceptics said they would experiment with a small patch; when the positives began to emerge, they widened coverage. When the positive word began to go around, other farmers began to convert and adapt. Today, around 41% of our command areas comprises early maturing variety.

At Balrampur, we instituted 'cane on wheels' to collect cane directly from the incoming vehicle as opposed to the conventional approach of dumping it on the ground and getting another vehicle to collect.

It would have been easy playing the role of a demanding customer.

5

At Balrampur, we are buying cane from more than 4.5 lac farmers. It would have been usual to see things from the transaction viewpoint: farmer-vendor and company-customer. The Company positioned itself as an engaged partner instead. A role manifested in the provision of farm-supporting inputs and resources. For instance, the Company (among other things) provides bio-compost at

subsidised rates to farmers each season in addition to facilitating the distribution of various agri-inputs like fertilisers, pesticides & insecticides and urea spray. This health of sugarcane and soil. The result is that through engagements like these, Balrampur has graduated from customer into trusted friend, philosopher and guide.

It would have been smug for us to believe that our work ended with encouraging farmers.

6

At Balrampur, we instituted 'cane on wheels' to collect cane directly from the incoming vehicle as opposed to the conventional approach of dumping it on the ground and getting another vehicle to collect. This helped reduce transshipment time, effort and cost, enhancing systemic efficiency and turning raw material inventories around faster. The Company implemented the 'first in-first out formula' to ensure that

no cane-carrying vehicle was stranded outside our factory gates. The cane survey team's planning helped create a seasonal calendar of which farmer would bring what quantity of cane harvested from what corner of his farm to which plant on which day, eliminating inventory mismatches. The Company's high-performance cutters eliminated leafy and unwanted cane parts, facilitating quicker crushing.

The big story: Despite crushing nearly 63000 tonnes daily, BCML's procurement to cane-crushing period stood at a mere 4-8 hours.