

BALRAMPUR
CHINI MILLS LIMITED
Annual Report 2001-02

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S.T.R.E.T.C.H.
Getting ready for the future

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 realized, 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 materialize, 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.

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CONTENTS



Our values	7	Interview with SL Jain	8	Interview with the Managing Director	10	Enhancing shareholder value	14
Five year financial summary	16	Value-added statement	17	Ratio and ratio analysis	18	Directors' report	20
Corporate governance	28	General shareholders' information	31	Auditor's certificate on corporate governance	33		
Management discussion and analysis	34	Auditor's report	41	Balance Sheet	44	Profit and Loss Account	45
Schedules	46	Cash flow statement	60	Balrampur's Board of Directors	62	Corporate information	64

LIBERALISATION.

The liberalisation of the Indian economy that began in India in 1991, began to trickle down to the Indian sugar industry only a decade later.

A rapidly liberalising scenario is an exciting time to be in any business. But when one of the world's most regulated industries, like the Indian sugar sector, gets progressively de-regulated, it holds out bigger opportunities for growth than the industry has seen over the last number of decades. The opportunities will only increase for companies like Balrampur Chini Mills who possess a number of strengths that we have explained in the following pages.

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It is our conviction that when the effects of liberalisation are reflected in the marketplace, the companies to benefit the most will be those whose balance sheets are equipped to see out the temporary troughs and ride out the crests with ease.

Balrampur possesses such a balance sheet.	sugar company during the period under review.	For instance, Balrampur expanded incrementally, never adventurously.	the company's balance sheet. For instance, even after having created one of
In 2001-02, a year when realisations per tonne stayed flat and costs increased, the company reported a return of 19.44 per cent on the average capital employed. This was perhaps the highest return reported by any Indian	The better-than-industry average return reported by Balrampur in 2001-02 is the result of years of prudent asset creation in regulated markets. As a policy during these times, Balrampur expanded cautiously but consistently.	Balrampur funded growth through accruals and debt, never either. Balrampur raised debt at the lowest possible cost.	the biggest cane crushing capacities in the country, Balrampur enjoyed a debt-equity ratio of only 0.31 in 2001-02. Interest cover was at a comfortable 5.52 times.

As liberalisation sets in, a stand-alone sugar-manufacturing model will require to be replaced with an integrated business model.

This integrated model, which comprises an ability to make a variety of sugar-derived products, will enable the company to cushion flat sugar realisations with surpluses from its ancillary businesses.

Balrampur already possesses such a business model.

Its 100 KLPD distillery utilises most of the molasses generated in the manufacturing process to

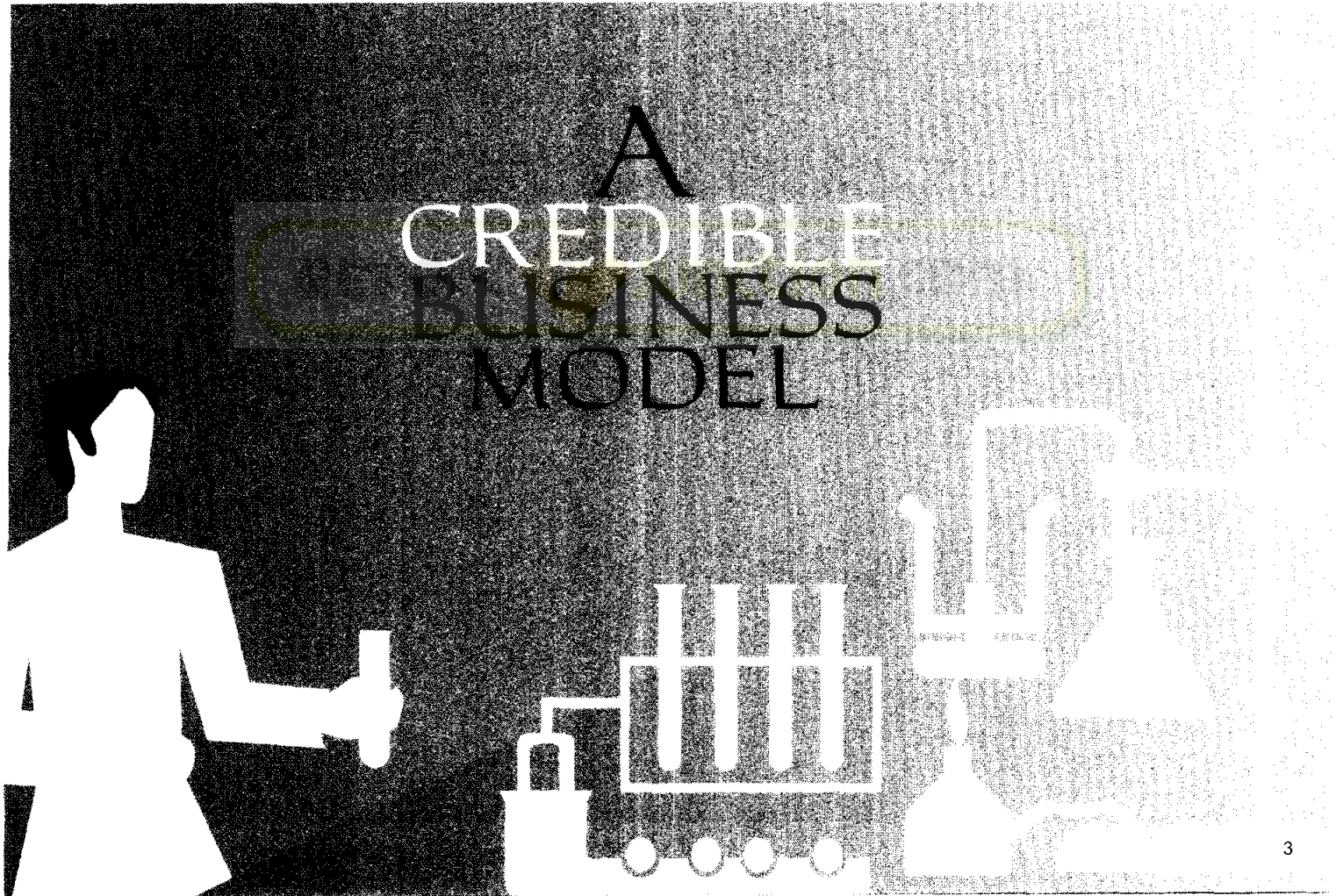
produce alcohol. Bagasse, which is generated as a by-product, is currently used as the principal feedstock to generate electricity for captive consumption. By December 2002, the surplus bagasse will be utilized in the 19.55 MW co-generation power plant and the electricity will be sold to Uttar Pradesh Power Corporation Limited. Press mud, in combination with the spent wash, is already

being used to manufacture Bhumi Shakti, an organic manure.

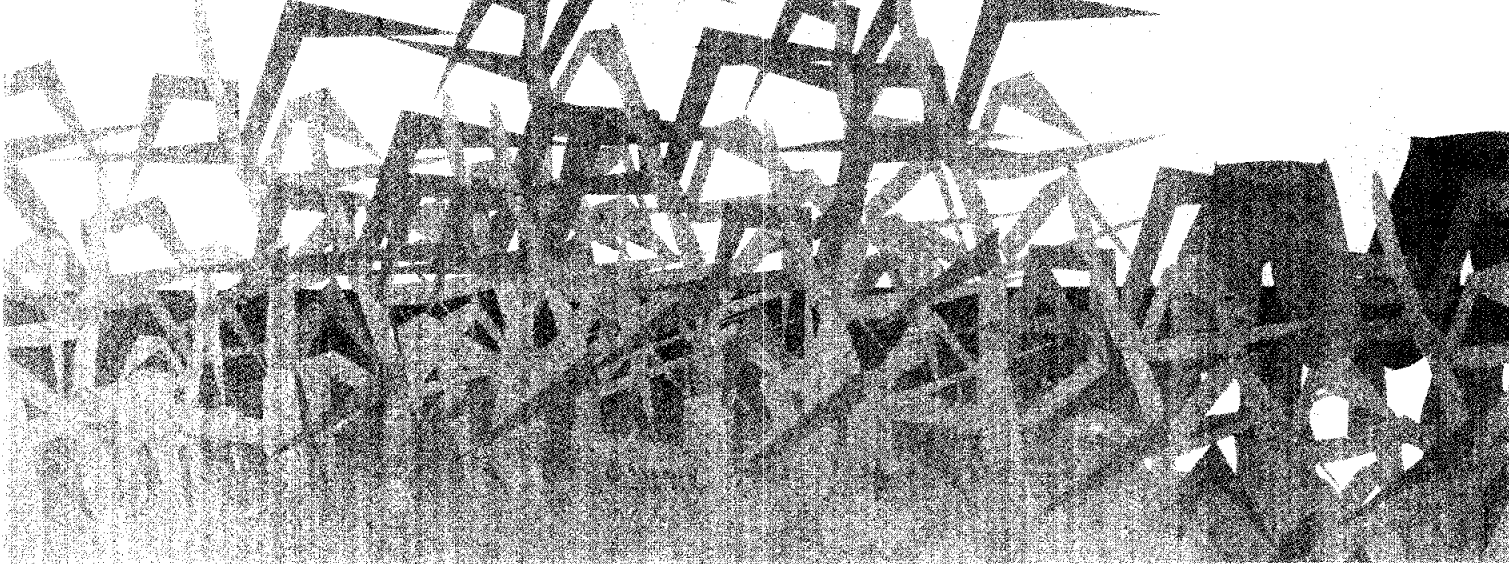
To strengthen its business model further, the company has embarked on a project to commission a modern, greenfield integrated sugar complex at Barabanki, Uttar Pradesh. The Rs 100 cr complex is expected to go on stream in December 2003 and the company expects to earn profits from the very first year.

Balrampur has also scaled its business to a point - 25,000 tcd - where it is already one of the largest in the country with one of the lowest equity structures to support it. This puts the company in an advantageous position where it can protect shareholder value during industry slowdowns and maximise it when the environment turns for the better.

A CREDIBLE BUSINESS MODEL



A FARMER SUPPORT



As the sugar industry evolves from the isolated manufacture of sugar to the co-ordinated management of core and downstream products, the industry becomes increasingly dependant on that one cog that makes this giant wheel move ahead towards a profitable revolution.

The farmer.

Sugar companies will need to forge a closer and win-win relationship with farmers so that there is at all times an adequate supply of raw material that helps them scale operations from a single product company

into a multi-product integrated complex.

Year after year, Balrampur has convincingly demonstrated that its farmer goodwill is perhaps its biggest intangible asset.

The excellent understanding

between Balrampur and its agricultural vendors is the result of a stable, longstanding relationship wherein the company has purchased progressively larger quantities over the years and remunerated farmers well within the

stipulated time.

This impeccable record translated into the highest ever crushing in all the three units in the 2001-02 season. More than 410 lac quintals of sugarcane, 40 per cent higher than the previous season.

In a liberalised environment, where competition could well be fierce, the company that survives will inevitably be the one that enjoys a competitive cost of production.

Balrampur is already there.

The company's modest cost of production comes from a complement of men and material.

Balrampur's inspired people skills are guided by systems-driven practices that set it distinctly apart from the other manufacturers in the industry.

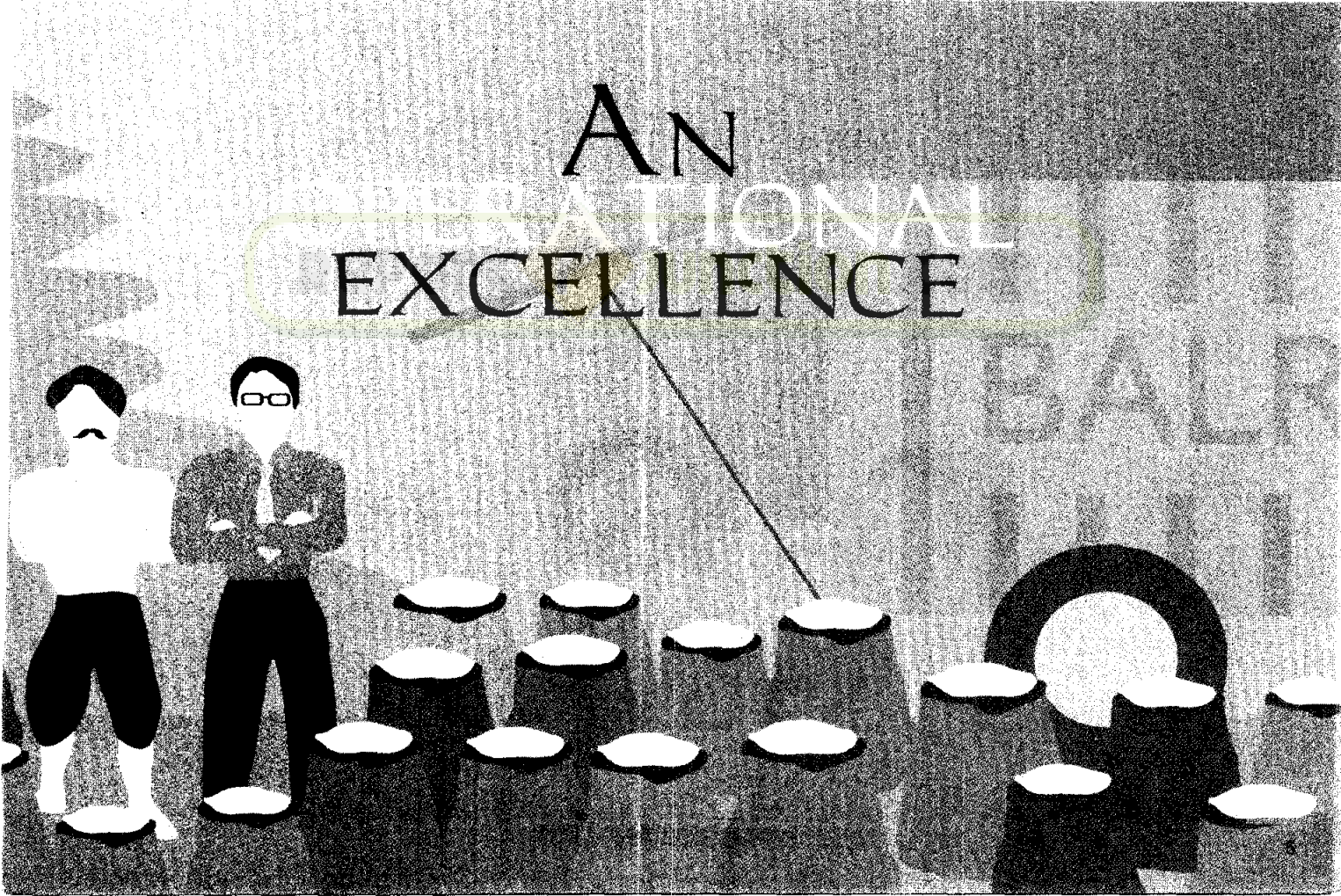
As a result, all of Balrampur's incremental capacities have been commissioned on schedule – a rare industry achievement.

Thanks to this intangible people asset, Balrampur commands an alchemist's touch in its business: the ability to turn unviable plants around in the

shortest possible time and strengthen the working of its existing profit-making factories.

The other driver of Balrampur's competitiveness is its elaborate supporting infrastructure. This comprises a comprehensive network of cane collection centres as well as a fleet of

trucks and trailers that transport the cane to the plant. A wireless telecom network monitors the progress of vehicles across the entire network. This enables the consignment to reach the factory just when it is scheduled to be crushed, minimising juice loss and maximising recovery.



AS A COMPANY WE WILL STRIVE TO:

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

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.

Recruit and
retain skilled
and superior
expertise
measures and
reward
superior
performance.



OUR VALUES

RESPECT FOR PEOPLE

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

INTEGRITY

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

creates incentives to reward its members.

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

TEAMWORK

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

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.

LEADERSHIP

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

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.

Overview

Interview with Sri S.L. Jain
Director General, Indian Sugar
Mills Association

WHERE DO YOU SEE THE INDIAN SUGAR INDUSTRY PLACED TODAY?

At the cusp of a paradigm shift. For years, we have viewed the business largely as a single product industry. Thanks to developments that have transpired over the last year, I now have the optimism to state that the business is evolving into a multi-product industry. This evolution will strengthen the bottomlines of manufacturers, will raise incomes for cane growers and will create a cleaner environment for society as a whole – an absolutely win-win proposition for all.

In what way?

The single decision of the government to permit the blending of ethanol with petrol, initially to the extent of five per cent, is likely to change the picture of the industry over time. As a result, an increasing number of companies will go beyond building standalone sugar units towards multi-product sugar complexes.

In what way will this benefit manufacturers?

Earlier, most manufacturers sold the molasses, generated from the production of sugar, at low prices. Following the value-addition to ethanol, manufacturers will now realise better prices. This forward extension will help a number of sugar manufacturers strengthen their financial viability.

What makes you optimistic with regard to this over the long-term?

The decision to raise the blended component to ten per cent will transpire soon, perhaps by the end of 2002. This is expected to be accompanied by the permission to sugar manufacturers to make ethanol from cane juice, if they so desire. What is more important is that the government is already collaborating with Brazil to blend ethanol with diesel. All these three factors, when they become a reality, will lead to unprecedented growth within the industry.

Given the magnitude of the change, a number of people wonder whether they will transpire at all?

I must assure readers here that the pilot projects for the five per cent blending of ethanol with petrol already commenced in November 2001. So today you have sugar mills already supplying ethanol in a small way. From the later part of 2002, we expect that blending will be compulsorily institutionalised across the metro cities of the country, resulting in better returns for cane growers and sugar manufacturers.

In what way do you see the need for more reform?

Let me begin with a note of appreciation. The government's decision to remove the concept of dealer licenses is far-reaching. This means that any individual can deal in sugar to the extent of any quantity. We expect that this will extend and deepen the market for the commodity within the country.

Now let me come to what the government can do better. Even though the country is sitting on a bumper sugar production, the government has not considered it prudent to create a buffer as a provision against the time when there may be a drop in output. Each time someone raises an issue on the buffer, the standard government line is that it is 'under consideration'. Remember, the

government has already raised the resources for funding this buffer from the industry. Not only has it not paid any interest on it, it has not used the proceeds for the purpose for which it was intended. We have represented this case to the government a number of times without any result.

Besides, the notification providing for a rebate of 75 paise per litre of petrol that is blended with ethanol has been delayed for months by the finance ministry. This makes people wonder whether the government is having a re-think on the issue. Obviously, industrialists cannot plan their investments if there is even a shadow of a doubt on the subject. So what is required to clear the misconception is a comprehensive policy, which serves as a roadmap for the future. My suggestion is that this policy be created through the co-operative working of around four industries that are going to be the principal stakeholders in this blending – sugar, automobile, petroleum and environment. This high-powered committee should not only be a recommending agency but also possess the authority to implement decisions. It should comprise respectable and credible people to prevent vested interests from taking over.

What is your outlook on sugar?

The national production of around 18 million tonnes of sugar in 2001-02 is