



the way forward

Balrampur Chini Mills Limited
Annual Report 2006-07

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Balrampur Chini Mills Limited (BCML).

One of the largest sugar manufacturers in India's private sector.

The Company has nine mills spread across eastern and central Uttar Pradesh with an aggregate sugarcane crushing capacity of 73,000 tonnes per day (TCD).

Over the years, the Company has de-risked its business through diversification into distillery (320 KLPD), power cogeneration (181 MW-saleable power 126 MW) and bio-compost manufacture.

The Company also acquired a majority stake in Indo Gulf Industries, engaged in sugar, molasses and bagasse.

Challenging environment

During the sugar season 2006-07, the fortunes of the Indian sugar industry weakened. This transpired on account of a growing sugar surplus on the one hand and weaker realisations following unfavourable government policies on the other.

The country's consumption was estimated at 20-21 million tonnes; total production increased sharply from 19.2 million tonnes in 2005-06 to 28.3 million tonnes. The result was a surplus of around 8 million tonnes at the end of the sugar season 2006-07.

Sugar realisations in the state of Uttar Pradesh, accounting for 30% of the total sugar produced in the country, declined to Rs.13 per kg. Even as sugar prices declined, raw material costs for UP-based sugar companies increased to Rs.125 per quintal (as per SAP) amounting to Rs.13.71 per kg. Result: non-recovery of even operating costs for companies like Balrampur Chini.

As a result of this mismatch between the realisation of sugar and price of raw material, Balrampur Chini reported an operating loss of Rs. 52.26 crore from its sugar segment, the first time ever in its history.

In the midst of this challenging environment, the integrated nature of the business model as well as scale of economies enabled the Company to arrest the full downside of the circumstances.

Our capacities

Units	Sugar crushing capacity (in TCD)	Distillery (in KLPD)	Cogeneration (in MW)	Bio-compost (in MT)
Balrampur	12,000	160	24.55	30,000
Babhnan	10,000	60	3.00	18,000
Tulsipur	7,000	—	—	—
Haidergarh	5,000	—	23.25	—
Akbarpur	7,500	—	18.00	—
Rauzagaon	7,500	—	26.75*	—
Mankapur	8,000	100	34.00	10,000
Kumbhi	8,000	—	20.00	—
Gularia	8,000*	—	31.30*	—
Total	73,000	320	180.85	58,000

* Project under implementation and will commence operation beginning season 2007-08.



Building block

Sugar is more than just a business; it is a way of life for a large part of India.

The industry is the second largest agro-based sector in India; area under sugarcane accounts for 2.2% of India's total cropped area.



The sugar industry is a large employment generator, providing employment to over two million skilled and semi-skilled workers in addition to those involved in ancillary activities at 570 factories across the country. Around 45 million sugarcane farmers, their dependents and a large mass of agricultural labourers are involved in sugarcane cultivation, harvesting and ancillary activities, constituting no less than 7.5% of India's rural population.

The sugar industry acquires a rural produce, pays on time, remunerates an increasing value per unit of purchase, invests in larger capacities and catalyses other supporting businesses. In turn, this development has resulted in the creation of schools, colleges, healthcare centres and hospitals for the benefit of India's rural populace.

Over the years, a number of companies extended from the singular production of sugar to downstream businesses like distilleries, organic chemical plants, paper and board factories as well as cogeneration units. Besides, the sugar industry generated its own restorable biomass, used it as a resource without depending on fossil fuels and made a significant contribution to the economy.

From this holistic perspective, the sugar industry can be considered as a building block of economic progress in the regions of its presence.

Corporate picture

Balrampur's evolution from a fledgling sugar mill into the second largest sugar manufacturer in India has correspondingly translated into considerable regional growth, reflected in the improvement of roads, power, irrigation, health and education support, influencing in turn the lifestyles of farmers, employees and citizens.

By encouraging the planting of cane, thousands of farmers within the Company's command areas have graduated from labourers into land-owners. The Company's emphasis helped introduce superior quality seeds leading to an enhanced yield. The Company's awareness programmes educated farmers on the improved application of knowledge, including crop rotation and irrigation.

The Company catalysed regional economic growth through the generation of renewable power, green fuel and bio-compost manure. In 2006-07, Balrampur generated 6,768.06 lac units of power; 4,926.17 lac units were marketed the state electricity grid. The Company produced 10,177.78 KL of ethanol, which was sold to oil companies for onward blending with petrol. It manufactured 25,460 MT of organic manure. Besides, the Company paid Rs. 87.10 crore in various taxes viz. excise duty and income tax during the year under review.

The way forward

Despite this significant local, regional and national contribution, India's sugar industry is presently challenged by industry cyclicity, high raw material support prices, inadequate working capital, partial control and an uncertain export programme. A combination of these is threatening not just the industry in a direct way, but the entire social structure supported by the industry in an indirect manner.

If the Indian sugar industry is completely de-regulated and provided with a level playing field, it can achieve steady production growth, feed a growing nation, deepen its retail presence, diversify into power generation and ethanol production and enhance its international exposure.



Parity

Even as India's sugar industry is positioned to play a growing role in the economy, it continues to be shackled by ever-increasing raw material prices that are completely decoupled from end-product realisations. In short, the raw material prices that are required to be paid by the industry are completely insensitive to existing industry realities.

This market place-industry mismatch was most visible in Uttar Pradesh where sugar companies were compelled to pay farmers as per the State Advised Prices (SAP) that were higher than the Statutory Minimum Prices (SMP) set by the Central Government.

The anomaly: while Uttar Pradesh-based Balrampur Chini Mills was compelled to pay Rs. 125 to procure one quintal of cane, its counterpart in Maharashtra was required to correspondingly pay only Rs. 90, leading to significant variations in input costs across regions and a considerable inequity in the implementation of a government directive.

The impact

- Volatile sugar prices worked against sugar manufacturers during the downturn.
- Sugar manufacturers suffered an accumulation of arrears payable to farmers. For instance, Uttar Pradesh mills purchased sugarcane worth Rs. 11,000 crore in 2006-07 but could only remunerate to the extent of Rs. 9,500 crore.
- The decoupling induced cyclicalities, destabilising revenues.

Corporate picture

Through its presence in Uttar Pradesh, Balrampur Chini was also adversely affected. The Company suffered on account of rising cane prices and declining sugar realisations. The result: the Company's sugar segment reported an operating loss of Rs. 52.26 crore for 2006-07, the first such instance in its existence.

As it turned out, even as sugar realisations declined to Rs. 14.56 per kg, raw material costs at Rs. 13.71 per kg were almost 94.17% of realisations, considerably higher than that in the past. With a delta of only 0.85 paise per kg, the Company was unable to recover its operating costs.

As a result, a Company that prides on timely payments to farmers delayed payments by almost five months for the first time in its history, entirely on account of unreasonable business conditions created by government ruling. Its inability to recover basic costs resulted in arrears of Rs. 125 crore, again for the first time in the Company's existence.

The way forward

At this challenging juncture, what is required is inclusive growth where the farmer shares the industry upturn and downturn with the sugar company. The government can couple the two through a linkage between cane and sugar realisations; it can modify the sugarcane pricing mechanism to evolve a formula based on region-specific variations. A uniform national cane pricing policy can supersede the State Advised Price, removing regional disparities.

In an industry, where raw material accounts for 70% of the total cost, linking raw material cost to sugar realisations could lead to a lower-cost sugar economy on the one hand and equip its manufacturers better to handle industry downturns. In the long run, this sensitive structure promises to protect the long-term viability of both, enhancing industry sustainability.



Security

In India, ethanol is derived from molasses, a sugar industry by-product. This diversification helps generate additional revenue and provides stability especially during industry downturns when it helps protect margins. By virtue of being a green fuel, ethanol also promotes the case for a clean environment and counters global warming.