



INSPITE
MIGHT *of* UNDEMIED
EVERYTHING.



ERRATIC RAINFALL. LOW YIELDING
CANE. POOR IRRIGATION. POOR
ROADS. LONG DISTANCE FROM
FARM TO FACTORY. LOW FARMER
CONFIDENCE. REMUNERATIVE
ALTERNATIVE CROPS. GLOBAL
WARMING. RECOVERY DECLINE.
LOW DRAWAL RATE. OBSOLETE





TECHNOLOGY. LOW SUGAR PRICES.
BLURRED ETHANOL OUTLOOK.
WEAK FARMERS. SUB-OPTIMAL
CANE YIELD. AD HOC GOVERNMENT
POLICY. HIGHER LEVY QUOTA.
CANE INFLATION. INDUSTRY
CYCLICALITY. INSPITE OF
EVERYTHING...





INSPITE OF EVERYTHING.... WE INVESTED MORE IN OUR BUSINESS.

THE SUGAR INDUSTRY IS ONE OF THE MOST REGULATED SECTORS IN INDIA. THERE ARE CONSTRAINTS ON RAW MATERIAL PRICING AS WELL AS RESTRICTIONS ON THE TIMING, QUANTITY AND REALISATIONS OF THE END PRODUCT. IN A NUMBER OF WAYS, JUST THE KIND OF REALITIES THAT WOULD PUT PROSPECTIVE INVESTORS OFF.

In spite of these challenging realities, Balrampur Chini Mills consistently invested in the business. Good year or bad. Encouraging policy or restrictive.

This growing investment was the result of a conviction that the Company would be able to generate positive returns over the cost of capital incurred over the long-term.

Protecting Investor Interests.

The Company invested Rs. 2085.55 crores in Gross Block between 1998-99 and 2008-09; the compounded annual investment in Gross Block was 23.45% during this period. This addition was 621.4% of the Gross Block at the start of 1998-99, indicating the extent of corporate reinvention.

The Company's annual investment in the business ranged from a low of Rs. 19.27 crores (2001-02) to a high of Rs. 636.34 crores (2006-07).

The Company generated a return-on-capital employed ranging from 5.52% to 40.13% from trough to peak and an average of 21.15%.



INSPITE OF EVERYTHING.... WE SCALED AND SPREAD OUR BUSINESS.

THE SUGAR INDUSTRY IS REALLY THREE BUSINESSES IN ONE. SUGAR. MOLASSES DERIVATIVES. POWER CO-GENERATION. EACH WITH ITS OWN COMPLEXITY. EACH WITH ITS SPECIFIC GOVERNMENT REGULATION. EACH WITH ITS INDUSTRY DYNAMIC.

In spite of these formidable realities, Balrampur Chini Mills widened the scope and spread of its business.

The growing investment in each was the result of a confidence that the Company would be able to leverage growing cane availability, reduce production cost, maximise production efficiency and enhance the viability of each.

Derisking Revenues.

The Company operated two mills across 24 years until 1998-99, then added seven in 10 years since.

The Company trebled its cane crushing capacity between 1998-99 and 2008-09 (generally regarded as a bad cane year) from 15,500 TCD to 73,500 TCD.

The Company's trough-to-peak crushing five-folded from 18.22 lac qtls. (1998-99) to 92.31 lac qtls (2006-07).

The Company increased the quantum of its non-sugar revenues from Rs. 66.02 crores in 2001-02 (12.43% of revenues) to Rs. 259.33 crores in 2008-09 (15.21% of revenues).

The Company increased the quantum of co-generation revenues in its non-sugar revenues from nil in 1998-99 to Rs. 125.60 crores in 2008-09 (48.43% of non-sugar revenues).

The Company reported a recovery in excess of 10% in five of the last 10 years and above 9.8% in eight out of 10 (compared with an average U.P. recovery of 9.25% during the last few years).



INSPITE OF EVERYTHING WE ENRICHED OUR INVESTORS.

THE SUGAR INDUSTRY IS CYCLICAL AND UNPREDICTABLE.
THE RESULT IS THAT IT IS CHALLENGING TO SUSTAIN ANY
INCREASE IN INVESTOR VALUE.

In spite of this evident challenge, Balrampur Chini Mills enriched its long-term shareholders with an increase in the value of their holdings.

This significant increase in value was the result of increasing investments by the Company in its three businesses as well as the robust viability of each.

Enriching Prosperity.

The Company increased its EBIDTA from Rs. 72.25 crores in 2002-03 to Rs. 466.49 crores in 2005-06 (18 months-period); from Rs. 99.27 crores in 2006-07 to Rs. 454.40 crores in 2008-09.

The Company reported a positive economic value-added in 9 years out of 10.

The Company strengthened its market capitalisation from Rs. 163.22 crores in 1998-99 to Rs. 3143.97 crores (as on 30th September, 2009).

MD's review



“WE EMERGED FUNDAMENTALLY STRONGER IN 2008-09”

Mr Vivek Saraogi reviews the Company's performance for 2008-09 and scripts the road ahead

Even as the world passed through its most challenging year in decades, BCML reported a vigorous rebound in profits.

While this may seem odd to most people exposed to the phenomenon of a decline in profits at a time of financial uncertainty, decoupling was a visible reality in India's sugar industry in 2008-09.

Take the macro perspective. The foundation for the next phase in the cyclicity of the Indian sugar industry was laid well before the financial market showed its first sign of collapse. This transpired after the Uttar Pradesh government raised cane prices independent of sugar realisations and the prevailing reality in 2006. The result was that mills could not remunerate farmers in 2006-07 and 2007-08. Meanwhile, other cereal realisations rose, inducing cane farmers to grow alternative crops. The combined effect was a sharp decline in cane cropping, which inevitably translated into higher sugar realisations. The reality of a sugar price increase (arising out of a drawdown in Indian cane supply) was far too severe to be influenced by the

collapse in the global financial markets.

Take the micro perspective. Even as global markets collapsed in October 2008, Balrampur passed through relatively unscathed for an important reason: we had a relatively understressed balance sheet with no cocktailing of foreign exchange transaction derivatives. As a result, every lender knew exactly where we stood — no hidden liabilities. As an extension of this conservative reality, we refused to dilute our equity even when cash was easily available in 2009, simply because we did not have any project at hand to deploy it profitably.

Now to answer the question that was asked: owing to these realities, we grew our topline 14.08% and bottomline 133.44% in 2008-09 over 2007-08, indicating a vigorous rebound from a cyclical bottom.

What were the significant challenges and achievements of 2008-09?

During 2008-09, there were no major challenges for the Company as cane output declined and our operations ran on an auto-pilot mode, except for

the period between October and December when the financial sector was affected by turmoil.

So Balrampur set about bringing all variables under its direct control. In January 2008, the promoters reinforced the Company's net worth with an infusion at Rs.92 per share at one of the most challenging moments in its existence, enhancing creditor comfort. This also reinforced our funding to sustain production during a challenging downturn.

Besides, we were always aware that when profits rise, so do our costs. Not this time though; we set about managing our costs better and though the effects may be visible only in 2009-10, I can assure that our overheads will be relatively lower and better benchmarked across the industry.

How do you see the sugar trend unfold?

I visualise a robust industry performance for three years due to the following reason: a global production shortage. Brazil, the largest supplier of sugar to the global markets, was affected by a production shortfall because of adverse climatic conditions and cane diversion towards ethanol. In