

McLEOD RUSSEL  
*The world's cup of tea*



McLEOD RUSSEL INDIA LIMITED  
ANNUAL REPORT AND ACCOUNTS 2010 - 11



“Tea is not a mere commodity for us.  
It is heritage based on the values and culture,  
full of sentiments and commitments”

*B.M. Khaitan*  
Chairman



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### Bankers

Allahabad Bank  
 Axis Bank Ltd.  
 Central Bank of India  
 HDFC Bank Ltd.  
 ICICI Bank Ltd.  
 Indian Bank  
 State Bank of India  
 State Bank of Bikaner and Jaipur  
 UCO Bank  
 United Bank of India

### Solicitors

Khaitan & Co LLP

### Registrar

Maheshwari Datamatics Pvt Ltd.  
 6, Mangoe Lane, 2nd Floor  
 Surendra Mohan Ghosh Sarani, Kolkata – 700001.  
 TEL. : (033) 2243-5809; 2243-5029  
 FAX : (033) 2248-4787  
 E-mail : mdpl@cal.vsnl.net.in

## Board of Directors

Brij Mohan Khaitan	<i>Chairman</i>
Deepak Khaitan	<i>Vice-Chairman</i>
Aditya Khaitan	<i>Managing Director</i>
Raghavachari Srinivasan	
Bharat Bajoria	
Ranabir Sen	
Utsav Parekh	
Srikandath Narayan Menon	
Rajeev Takru	<i>Wholetime Director</i>
Azam Monem	<i>Wholetime Director</i>
Kamal Kishore Baheti	<i>Wholetime Director</i>
Amitabha Guha Sarkar	<i>Company Secretary</i>

### Audit Committee of the Board

Raghavachari Srinivasan	<i>Chairman</i>
Bharat Bajoria	
Ranabir Sen	
Srikandath Narayan Menon	

### Shareholders'/Investors' Grievance Committee of the Board

Ranabir Sen	<i>Chairman</i>
Bharat Bajoria	
Utsav Parekh	

### Remuneration Committee of the Board

Bharat Bajoria	<i>Chairman</i>
Raghavachari Srinivasan	
Ranabir Sen	

### Auditors

Price Waterhouse  
 Plot No.Y-14, Block-EP, Sector-V  
 Salt Lake Electronic Complex, Bidhan Nagar,  
 Kolkata - 700 091

### Registered Office

Four Mangoe Lane  
 Surendra Mohan Ghosh Sarani  
 Kolkata - 700 001  
 Phone : (033) 2210-1221/2243-5391/2248-9434/35  
 Fax : (033) 2248-8114 / 2248-3683  
 E-mail : administrator@wmg.co.in



## REPORT OF THE DIRECTORS

For the financial year ended 31st March 2011

Your Directors have pleasure in presenting the Annual Report with the audited Accounts of your Company, for the financial year ended 31st March 2011.

### REVIEW OF PERFORMANCE

The Financial Results of the Company for the year ended 31st March 2011 are summarized below:

	2010-11 Rs.In Lakhs	2009-10 Rs.In Lakhs
Profit before Interest, Depreciation and Taxation	32,746.19	36,331.32
Less: Interest and Exchange Fluctuation (Net)	1,834.78	2,526.80
	<u>30,911.41</u>	<u>33,804.52</u>
Less: Depreciation & amortization	2,754.18	2,711.72
Profit before Taxation	<u>28,157.23</u>	<u>31,092.80</u>
Taxation Charge		
Current Tax	5,173.34	6,561.00
MAT Credit	(839.00)	—
Deferred-Tax	600.00	498.89
Profit after Taxation	<u>23,222.89</u>	<u>24,032.91</u>
Balance brought forward from previous year	<u>9,236.53</u>	<u>4,309.02</u>
Balance available for Appropriations	<u>32,459.42</u>	<u>28,341.93</u>
Proposed Dividend	5,472.79	4,378.23
Tax on Proposed Dividend	887.82	727.17
Transfer to General Reserve	<u>16,000.00</u>	<u>14,000.00</u>
Balance carried forward	<u>10,098.81</u>	<u>9,236.53</u>

The Board is pleased to report that despite loss of crop in the early part of the season, the Company managed to have almost the same turnover as in the previous year which was possible for higher prices of Tea prevailing in the market during the year under review. The net profit for the year was marginally down at Rs.23,223 Lakhs despite significant increase in input costs.

### DIVIDEND

Your Directors are pleased to recommend for approval of the shareholders a dividend of Rs.5/- per equity share on 10,94,55,735 fully paid up equity shares of Rs.5/- each being 100% on the paid up value of the equity shares of the Company for the year ended 31st March 2011 as against 80% (Rs.4/- per share) paid for the previous year.

### REVIEW OF OPERATIONS

During the financial year, your Company produced 749 Lakh Kgs tea as compared to 772 Lakh Kgs in the previous year. Unfavorable weather and unprecedented pest attack in the South Bank resulted in a decrease in crop over last year. During the beginning of the year the Dooars estates had severe hail damage which also resulted in a decline in harvest.





As a result of the ongoing Uprooting and Replanting Policy, the age profile of the tea has improved. Your Company now has about 75% of the area under 50 years of age. A good standard of young tea was established. The average yield of the last three years is close to 2100 kgs per hectare which is much higher against an Industry average of 1700 kgs per hectare. All tea estates have good clonal nurseries with the requisite clonal blend.

Your Company's focus has always been to produce quality teas, which continues to command a premium both in the domestic and international market. As part of the upgradation and modernization programme of factories, withering capacity was increased on eight estates. Ten Rotorvanes, four Rotorvane feeders, twenty-one CTC machines, three Continuous Fermenting Machine (CFM), three Vibro Fluid Bed dryers (VFBD), three coal stoves, one mini boiler, eight milling machines, nine chasing lathes, nine Sinar moisture meters and three colour sorters were purchased and installed in various factories. In some factories extension of building was undertaken to accommodate additional sorting machinery and create additional storage space for packed tea. To augment the standby generating capacity one new 380 KVA gas generating set and one 30 KVA diesel generating set were installed. For undertaking river embankment work bordering tea estates and deepening outlet drains one new JCB Excavator was purchased. Seven new weigh bridges were installed to facilitate the weighment of green leaf, ration, fertiliser, coal, etc. An additional blending drum was commissioned in the Nilpur Blending Unit. As blending operations are expected to increase, an additional storage space of 13,500 square feet has been constructed.

The Company has forty five Hazard Analysis and Critical Control Points (HACCP) certified factories. Your Company also has four estates certified as "Fairtrade" and fifteen estates certified as "Rainforest Alliance." The Nilpur Blending Unit is a HACCP Certified unit.

The average price realization for the Company's tea for the year was Rs. 145.11 which is higher than the North Indian auction average of Rs. 124.18.

The Company saw a total export quantum of 210 Lakh kgs with an overall turnover of Rs.32,981 Lakhs. Favourable feedback was received from the buyers both in terms of quality and deliveries.

#### D1 WILLIAMSON MAGOR BIO FUEL LIMITED

D1 Williamson Magor Bio Fuel Limited (D1WML) was incorporated under a joint venture agreement between Williamson Magor & Co, Limited (WML) and D1 Oils Trading Ltd. UK to facilitate development of Jatropha Plantation under contract farming arrangements for production of bio diesel from Jatropha oilseeds. Being an associate of WML your company presently holds 33.93% of equity capital of D1WML.

The price of crude petroleum has firmed up during the year and so also the price of bio fuel being the supplement to fossil fuel. The demand for bio fuel is globally quite strong and there is acute shortage of feedstock to meet the demand. D1WML's effort to develop bio diesel feedstock, once established, is likely to fetch market premium. In addition, D1 Oils plc has developed poultry feed from de-oiled bio mass which has been patented in UK.

The plantation developed by D1WML under contract farming arrangements has been going through initial gestation period at various levels of maturity. The farmers in some areas of the North East have faced difficulties in maintaining the plantation because of excessive weed growth, but have been able to maintain plantation on about 25,000 hectares which is likely to be productive. The company has also been promoting the plantation in more areas where farmers are positive and undertaking due upkeep. The company has re-engineered the plantation management with focus on productive plantation and sizable cost reduction.

The quantity of oilseed harvest by the farmers during the year had not been adequate to manufacture oil on a commercial basis and therefore stored for use in 2011-12. The initial gestation period is longer than the estimate and this has been experienced across the world. The longer gestation period on contract farming model results in shrinkage of productive area. However, D1WML has re-worked the business plan based on present productive area. It expects sub commercial crop during 2011 and 2012 and final commercial production in 2013.



## SUBSIDIARY COMPANIES AND CONSOLIDATED FINANCIAL STATEMENTS

Borelli Tea Holdings Limited ('Borelli'), the wholly owned subsidiary of the Company in U.K. is inter alia engaged in the business of investing funds in various Companies and as at the end of the year on 31st March 2011 had the following Subsidiaries in different countries :-

- (i) Phu Ben Tea Company Limited, Vietnam – controlling stake of Borelli being 100%
- (ii) Rwenzori Tea Investments Limited ('Rwenzori'), Uganda – controlling stake of Borelli being 100%
- (iii) McLeod Russel Uganda Limited – 100% subsidiary of Rwenzori
- (iv) Olyana Tea Holdings LLC, ('Olyana') USA – controlling stake of Borelli being 95%

Olyana had submitted a bid with the Government of Rwanda for acquisition of 60% stake of Gisovu Tea Company Limited ('Gisovu'). Later the Government of Rwanda at its Cabinet Meeting held on 11th February 2011 decided to sell 60% shares of Gisovu instead of Olyana, to its holding Company Borelli. In line with the said decision, Borelli signed an MoU with Rwanda Development Board and Rwanda Tea Authority and provisionally entered into management and took over control of Gisovu on 23rd February 2011 pending other formalities which are being complied with.

Borelli has set up a wholly owned subsidiary in Dubai by the name of McLeod Russel Middle East DMCC which was granted the requisite license on 9th May 2011 for doing Tea Trading business in Dubai. With this, your Company now has one wholly owned subsidiary and five step-down subsidiary Companies.

As required under the Listing Agreement with the Stock Exchanges, Consolidated Financial Statements of the Company, its five Subsidiaries and two Associate Companies namely D1WML and Babcock Borsig Limited prepared in accordance with the applicable Accounting Standards issued by The Institute of Chartered Accountants of India are attached.

In accordance with the general circular issued by the Ministry of Corporate Affairs, Government of India, the Balance Sheet, Profit and Loss Account and other documents of the subsidiary companies are not being attached with the Balance Sheet of the Company. The Company will make available the Annual Accounts of the subsidiary companies and the related detailed information to any member of the Company who may be interested in obtaining the same. The annual accounts of the subsidiary companies will also be kept for inspection at the Registered Office of the Company and that of the respective subsidiary companies. The Consolidated Financial Statements presented by the Company include the financial results of its subsidiary companies. A Statement containing financial information of the Subsidiary Companies is included in the Annual Report in the Chapter containing Consolidated Financial Statements. The performance of the major subsidiaries are summarised below for your information.

### BOELLI TEA HOLDINGS LIMITED

During the year ended 31st March 2011 Borelli Tea Holdings Limited earned a net profit in Indian Rs.2,143 Lakhs and has recommended payment of Dividend @ 100% on its equity capital held by your Company.

### PHU BEN TEA COMPANY LIMITED

During the year ended 31st December 2011, Phu Ben Tea Company Ltd achieved a total production of 46.76 Lakh Kgs. Sales, including carry forward from the previous year amounted to 47.05 Lakh Kgs which were sold at an average price of \$1.82/kg. This was 3% higher than last year. The plantations achieved a yield per hectare of 2,656 kgs. Total production from plantations at 30.96 Lakh kgs was another record, up from the previous year by 2%.

During this period of the Company recorded a net profit in Indian Rs.161 Lakhs on a sales turnover of Rs.3,252 Lakhs. The acquisition of the fourth factory assisted by way of capacity expansion and also contributed for the increase in production. New withering troughs were constructed in one factory.

The Company continues to lay stress on quality control in both field and factory and adheres to GAP for plantation development, along with IPM measure for the control of pesticides. All the plantations were "Rainforest Alliance Certified" in 2010. The Company, which employs 2,499 farmers, workers and staff had good Industrial relations and





received awards and certificates from both State Government agencies and Provincial Authorities for environmental protection, contribution to the development of the Tea Industry in Vietnam and was cited as a model business venture.

#### McLEOD RUSSEL UGANDA LIMITED

McLeod Russel Uganda Limited in its first year of operation under McLeod Russel Group and blessed with exceptionally favorable weather conditions that prevailed from December 2009 until October 2010, achieved an all time record production of 168.39 Lakh kgs of made tea. Of this 25.37 Lakh kgs were from out grower green leaf purchase and 143.02 Lakh kgs from own crop. The resultant yield of 4347 kg/ha was an increase of 12% over the previous year. The average sales price realized was \$1.84 against the Ugandan average (auction) of \$1.77. During the year ended 31st December 2010 the Company recorded a net profit in Indian Rs.2,504 Lakhs on a sales turnover of Rs.11,854 Lakhs.

The area under tea was increased by 7.00 ha of extension clonal planting and 20.00 ha of eucalyptus forestry plantation were also added. Factory expansion projects were commenced at two of the Company estates, to increase processing capacity from 2 to 3 lines at each location. The Company increased mechanical harvesting to 53% of own crop, and undertook commercial trials of one man harvesters.

The Company estates were Rainforest Alliance Certified during the year, and ISO 9001 (QMS) and ISO 14001 (EMS) certifications were renewed. Good Industrial relations were maintained with the over 6000 strong work-force. Efforts with regard to health and family welfare were recognized with an award from USAID/HIPS Project as one of the 10 best organizations in the country, in Health in the Workplace Programme. The Company was also awarded the Gold Award in the Presidents Export Awards, for Tea exports.

#### CORPORATE SOCIAL RESPONSIBILITY

Your company is conscious of its social responsibilities and firmly believes that sustainability of an enterprise depends on perfect harmonization with the environment within which it operates. With this philosophy in mind, it has continued with its activities in the sphere of education, health-care, culture, welfare, environment preservation and building of social infrastructure.

Your Company provides high standard of medical care to its work force through well equipped individual estate hospitals and specialized treatment at the Central Hospitals. Apart from this, the Company has also been reaching out to remote villages by holding medical camps. It also holds regular eye camps in collaboration with the Sri Sankardeva Nethralaya, Guwahati and District Health Departments, and complicated cases are provided specialized medical treatment. It has also been assisting the Blind School at Moran for several years, as also a school for hearing impaired children.

The Company has been involved with the promotion of Education for a long time and provides financial assistance to many schools and colleges in areas neighbouring its estates, and elsewhere.

The Assam Valley School, established with financial contribution and other assistance from your Company, has emerged as a premier Public School of the country and continues to provide excellent opportunity to the children of the planting community and the North East in terms of Education and all round development. The School is viewed as a pan-Indian centre of educational excellence and currently ranked amongst the top ten Most Respected Residential Schools in India. The Williamson Magor Education Trust has awarded over a 100 scholarships since the inception of this scheme in 1991. Many brilliant students have benefitted from this scheme to pursue higher studies in Management and specialized disciplines in Engineering.

Being an eco-friendly industry, the Company has provided a vast, clean and peaceful environment in this cramped, crowded and noisy world. It has also taken up tree planting schemes at its various locations. Awareness of the importance of preservation of natural habitat is instilled in children from an early age, to ensure a clean and green environment in future. Heritage conservation is a continuing programme of your Company also.

With the Company's continued support, the Assam Valley Literary Awards programme constituted to honour stalwarts who have kept alive the richness of Assamese literary heritage, has now completed twenty one years. This year the



award was conferred upon eminent Assamese writer Shri Hare Krishna Deka. For the promotion of Assamese language and literature, the Company, in collaboration with the Asom Sahitya Sabha and leading publishers, has brought out reprints of old books.

Your company believes in the philosophy that building proper social infrastructure will result in the betterment of the society. Towards this end, it has taken certain initiatives. It is continuing to support the Bodo Handloom Scheme in Mangaldai region of Assam for economic empowerment of women. The promotion of local handicraft is stressed upon continuously.

The Company was instrumental in setting up the auditorium at Vivekananda Kendra in Guwahati. The auditorium is used for discourses, seminars, yoga sessions and character building classes for the youth of the region. As a prominent member of the Indian Tea Association, the Company along with its peers in the Industry and the Government of Assam has helped in the construction of 'Pragjyoti', a cultural centre which is considered as the pride of the North East.

With your company spreading its wings, its corporate social responsibility activities have also transcended the boundaries of the nation. Your company's subsidiary, McLeod Russel Uganda Limited (MRUL) is a major participant in the USAID project, Health Initiatives for Private Sector (HIPS), in Uganda. MRUL does commendable work in AIDS prevention programme in that country. MRUL was ranked among the best ten companies in Uganda in Health in the workplace programme.

## DIRECTORS

Since the last Report Mr. Balaji Swaminathan resigned from the Board with effect from 23rd March 2011. The Board placed on record its sincere appreciation for the valuable services rendered by Mr. Swaminathan during his association with the Company as a Director.

The term of appointment of Mr. A. Khaitan as the Managing Director and Mr. R. Takru, Mr. A. Monem and Mr. K. K. Baheti as the Wholetime Directors had expired on 31st March 2011. Considering their satisfactory performance, the Board of Directors by its resolution passed on 1st April 2011 re-appointed Mr. A. Khaitan as the Managing Director and Mr. R. Takru, Mr. A. Monem and Mr. K. K. Baheti as Wholetime Directors for a fresh term of three years in each case commencing from 1st April 2011. Approval of the Members to the said re-appointments as also to the remuneration payable to the Managing Director and the Wholetime Directors will be sought at the ensuing Annual General Meeting.

In accordance with the provisions of the Articles of Association of the Company, Mr. D. Khaitan, Mr. U. Parekh and Mr. A. Monem will retire by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment.

## COST AUDIT

The Ministry of Corporate Affairs, Government of India by an Order directed audit of the Cost Accounts maintained by the Company under Section 209(1) (d) of the Companies Act, 1956 in respect of the Plantation Product on a yearly basis. In terms of the said Order Cost Audit is conducted by four firms of Cost Accountants appointed with the approval of the Ministry of Corporate Affairs ('MCA'). In terms of the General Circular No.15/2011 issued by MCA, full particulars of the Cost Auditors as also other details pertaining to the Cost Audit are given in the Annexure forming part of this Report.

## AUDITORS

Messrs. Price Waterhouse retire as the Auditors at the conclusion of the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment.

## AUDITORS' REPORT

With regard to the observation made by the Auditors in their Report relating to non-ascertainment of value of green leaf consumed, reference is made to Note 20(b) of Schedule 17 of the Accounts, which is self-explanatory.





## MANAGEMENT DISCUSSION & ANALYSIS REPORT AND REPORT ON CORPORATE GOVERNANCE

As required in terms of the Listing Agreement with the Stock Exchanges, a Management Discussion and Analysis Report and a Report on Corporate Governance are annexed forming part of this Report.

### DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the Companies Act, 1956 the Directors state as follows:

1. That in the preparation of the annual accounts for the financial year ended 31st March 2011, the applicable accounting standards had been followed with no material departures;
2. That the Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;
3. That the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in preventing and detecting fraud and other irregularities;
4. That the Directors had prepared the annual accounts on a going concern basis.

### CONSERVATION OF ENERGY AND TECHNOLOGY ABSORPTION

A statement giving details of conservation of energy and technology absorption in accordance with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, is annexed.

### PARTICULARS OF EMPLOYEES

A statement of particulars of employees as required under section 217(2A) of the Companies Act, 1956 forms a part of this report as a separate Annexure. In terms of Section 219(1)(b)(iv) of the Act, this Report is being sent to all Members without the said Annexure. Any member interested in taking inspection or obtaining a copy of the said statement may contact the Secretary of the Company at its Registered Office during working hours.

### EMPLOYEE RELATIONS

The Company has a large work force employed on tea estates. The welfare and well being of the workers are monitored closely and harmonious relations with its employees are being maintained.

The Industrial relations remained cordial throughout the year and your Board of Directors wish to place on record its appreciation for the dedicated services rendered by the executives, staff and workers at all levels and for the smooth functioning of all estates. The policy of transparency and recognition inspired the employees to contribute their best efforts for the Company.

For and on behalf of the Board

Place : Kolkata  
Date : 30th May 2011

A. Khaitan – Managing Director  
K. K. Baheti - Wholetime Director



## Annexure to the Directors' Report 2010-2011

Information in accordance with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, and forming part of the Directors' Report for the year ended 31st March 2011.

### A. CONSERVATION OF ENERGY

- The Company has installed energy efficient machines in the tea estates. Withering facility was enhanced on eight estates. Ten Rotorvanes, twenty-one CTC machines, three CFM, three VFBDs, three coal stoves and one mini boiler were installed in various estates. This would reduce the energy consumption in tea factories with improved productivity of machinery resulting in lesser hours of manufacture.
- The energy consumption for domestic purposes has been rationalized through creation of awareness and regular monitoring.

### B. POWER & FUEL CONSUMPTION

	Year ended 31.03.2011	Year ended 31.03.2010
1. Electricity		
(a) Purchased :		
- Units (Kwh)	56789769	54198894
- Total Amount (Rs.)	353360326	323980437
- Rate / Unit (Rs.)	6.22	5.98
(b) Own Generation :		
Through Diesel Generator		
- Units (Kwh)	13298870	16211107
- Units per Litre of Diesel Oil	3.02	2.98
- Cost / Unit (Rs.)	12.49	11.34
2. Coal		
- Quantity (Tonnes)	45023	42117
- Total Amount (Rs.)	212796993	197787788
- Average Rate (Rs.)	4726.42	4696.15
3. Furnace Oil		
- Quantity (Litres)	203925	674209
- Total Amount (Rs.)	7086002	22893188
- Average Rate (Rs.)	34.75	33.96
4. Total Power and Fuel consumption per unit of production of Tea		
- Saleable Production - Tea (Kgs)	74871720	77179896
- Electricity (Kwh)	0.94	0.91
- Furnace Oil (Litre)	0.00	0.01
- Coal (Kg.)	0.60	0.55
- Others (Rs.)	1.85	1.16

### C. RESEARCH AND DEVELOPMENT

The Company continues with the policy of reviewing clone blends to improve the yield and quality of tea estates.

The production of Vermicompost was increased by tea estates to improve the organic status of the soil. This will result in improving the yield in all areas of extension and replanted teas.