

SUSTAINABILITY


McLEOD RUSSEL INDIA LIMITED | ANNUAL REPORT 2011-12



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“TEA IS NOT A MERE COMMODITY
FOR US. IT IS HERITAGE BASED ON
VALUES AND CULTURE FULL OF
SENTIMENTS AND COMMITMENTS”

— B M Khaitan, *Chairman*

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IN A CYCLICAL TEA PLANTATION BUSINESS, McLEOD RUSSEL HAS INVESTED IN SUSTAINABILITY, WITH THE OBJECTIVE OF RESISTING INDUSTRY DOWNTRENDS BETTER THAN ITS PEERS AND CAPITALISING ON SECTORAL REBOUNDS BETTER THAN ANY OTHER COMPANY.

THE YEAR 2011-12 SHOWCASED OUR CAPABILITY. WHILE AVERAGE NORTH INDIAN TEA REALISATIONS DECLINED 2.71%, McLEOD RUSSEL INDIA'S REALISATIONS GREW 3.41%.

THE RESULT: McLEOD RUSSEL'S CONSOLIDATED 2011-12 SALES REVENUES GREW 14.09% AND PROFIT AFTER TAX INCREASED 18.08% OVER THE PREVIOUS YEAR.

MISSION STATEMENT

"McLeod Russel India Limited follows the tenets of a good corporate citizen, providing equal opportunity to all employees, in a safe and healthy working environment, ensuring social and economic development to sustain and improve quality of life. It is committed to safeguarding the environment by adopting an eco-friendly, transparent and participatory approach in all activities whilst ensuring that the best quality of tea is produced."

– Aditya Khaitan, *Managing Director*

CORPORATE IDENTITY

McLEOD RUSSEL INDIA LIMITED, TOGETHER WITH ITS SUBSIDIARIES, IS THE WORLD'S LARGEST TEA-PRODUCING COMPANY IN THE PRIVATE SECTOR WITH OPERATIONS SPREAD ACROSS 64 ESTATES AND 62 PROCESSING FACTORIES IN FOUR COUNTRIES AND TWO CONTINENTS.

McLEOD RUSSEL INDIA ACCOUNTED FOR OVER 8% OF ALL THE TEA PRODUCED IN INDIA AND AROUND 16% OF ALL THE TEA PRODUCED IN ASSAM.



PARENTAGE

- ▶ McLeod Russel India Limited is part of the Williamson Magor Group, which has been in the tea-producing business for almost one-and-a-half centuries.
- ▶ McLeod Russel is the tea plantation company under the Chairmanship of Mr. B.M. Khaitan. McLeod Russel India was originally incorporated as Eveready Company India Private Limited on May 5, 1998.
- ▶ Effective April 2004, Eveready Industries India Limited demerged into McLeod Russel India Limited and Eveready Industries India Limited to enable McLeod Russel to focus on the tea plantation business.
- ▶ In July 2005, McLeod Russel, by acquiring Borelli Tea Holdings Limited, U.K., gained control over its subsidiary Williamson Tea Assam Limited with 17 Tea Estates in India. In 2006 and 2007, McLeod Russel acquired Doom Dooma Tea Company Limited and The Moran Tea Company (India) Limited. All companies acquired between 2005 and 2007 were merged with McLeod Russel.

PROMOTERS

- ▶ The Company represents a balance of proprietary and professional interests. The Company is led by Mr. Brij Mohan Khaitan (Chairman), Mr. Deepak Khaitan (Vice Chairman) and Mr. Aditya Khaitan (Managing Director).
- ▶ The Company's shares are actively traded on the Bombay and National Stock Exchanges. The Company enjoyed a market capitalisation of Rs. 2970 cr as on 31st March 2012.

BUSINESS

- ▶ McLeod Russel is engaged in the cultivation, processing and sale of tea.
- ▶ The Company primarily produces crushed, torn and curled (CTC) tea, which accounts for more than 90% of its production; the rest of the tea manufactured by the Company comprises the Orthodox variety.
- ▶ The Company, with its subsidiaries, produced 103 million kgs of tea in 2011-12 and it is one of the largest global black tea exporters.
- ▶ The Company has established a state of the art tea blending factory at Nilpur, Assam to cater to the growing demand from customers for bespoke blends of the Company's own teas from India.
- ▶ McLeod Russel Middle East DMCC, a subsidiary of the Company, was set up in 2011 at Dubai, UAE to serve as a trading and marketing hub for multi origin blends from Group's own estates in India, Vietnam and Africa. McLeod Russel Middle East is able to provide turnkey solutions to customers looking for teas in straight line, blended or value added form.

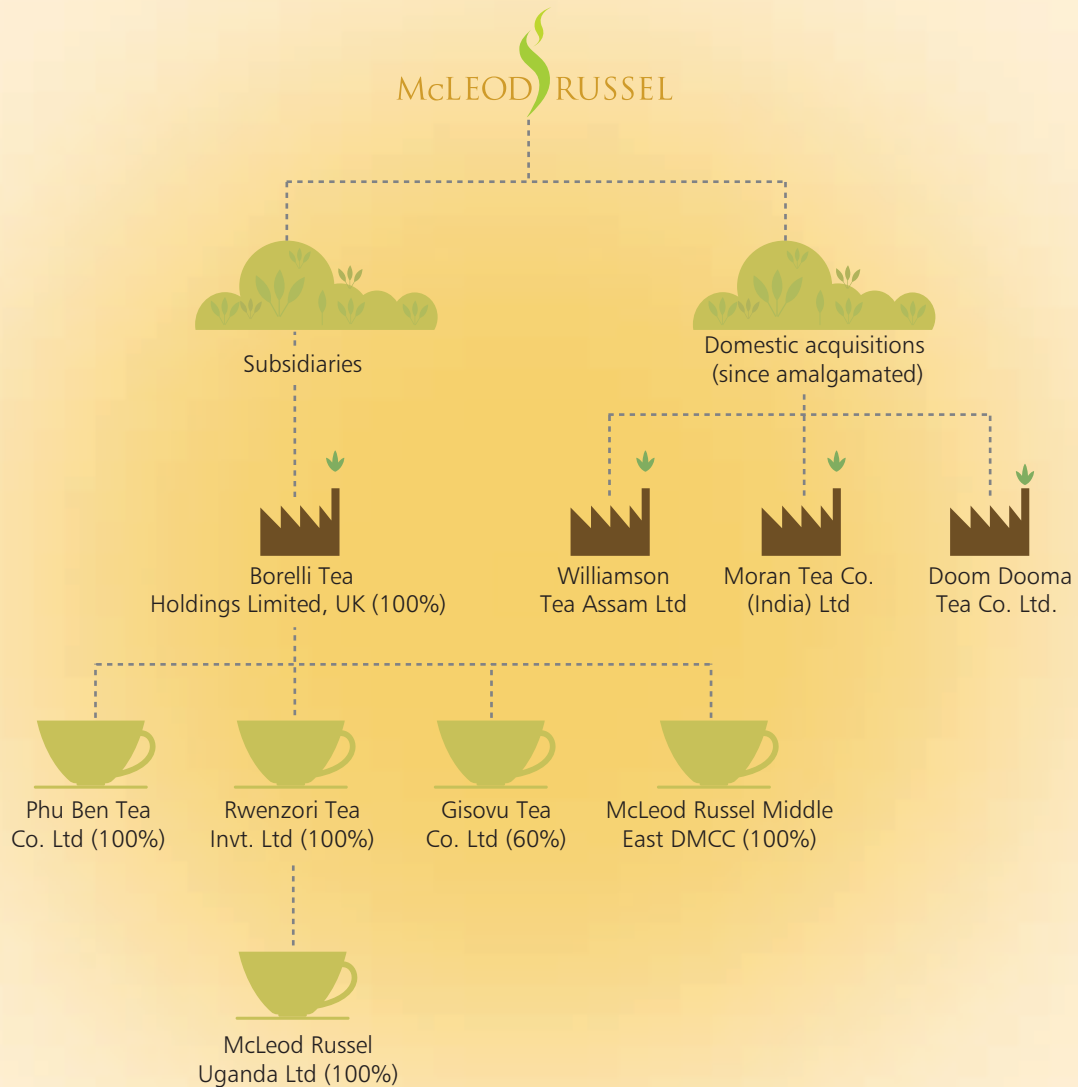
LOCATION

- ▶ McLeod Russel is headquartered in Kolkata, West Bengal.
- ▶ The Company has 39,358 hectares under tea cultivation globally
- ▶ The plantations of the Company and its subsidiaries comprise 54 estates in India (48 in Assam, 6 in West Bengal), 3 in Vietnam, 6 in Uganda and 1 estate in Rwanda.
- ▶ The Company exports its tea to 22 countries namely, Australia, Bangladesh, Canada, Chile, China, Egypt, Germany, Indonesia, Iran, Ireland, Japan, Kazakhstan, Kenya, Pakistan, Poland, Russia, Saudi Arabia, Sri Lanka, Netherlands, UAE, UK and USA.

ACCREDITATIONS

- ▶ McLeod Russel enjoys a number of globally respected accreditations and certifications, which enhance its export footprint and realisations.
- ▶ The certifications comprise Fairtrade, Rainforest Alliance, Hazard Analysis Critical Control Point (HACCP), Ethical Tea Partnership and International Organisation for Standardisation (ISO 22000) in respect of many of its Tea Estates.
- ▶ McLeod Russel was voted India's Best Managed Small Cap Corporate, for 2009 by ASIAMONEY for its commitment to quality, acquisitions and growth.

ORGANISATION STRUCTURE



HIGHLIGHTS (CONSOLIDATED)



Net Sales
(Rs. in lakhs)



EBITDA
(Rs. in lakhs)



EBITDA margin
(% on sales)



Profit after Tax
(Rs. in lakhs)



Saleable production
(lakh kg)



OUR BUSINESS MODEL

SUSTAINABILITY IN A CYCLICAL BUSINESS



AT McLEOD RUSSEL, WE RECOGNISE THAT THE SUCCESS OF OUR BUSINESS MODEL WILL ALWAYS BE MEASURED BY OUR RELATIVE INSULATION FROM THE CYCLICALITY OF THE TEA PLANTATION SECTOR.

OVER THE LAST DECADE, THE COMPANY INVESTED IN SPECIFIC INITIATIVES TO ENHANCE THIS INSULATION TO REPORT LOWER THAN INDUSTRY DECLINES DURING SECTORAL SLOWDOWNS AND HIGHER THAN INDUSTRY REBOUNDS DURING PERIODS OF SECTORAL RECOVERY.

THE BUILDING
BLOCKS OF OUR
SUSTAINABILITY

- ▶ Focus on Quality
- ▶ Volume Growth
- ▶ Cost Management
- ▶ Process Orientation and System
Standardisation

BUILDING BLOCKS

At McLeod Russel, we recognise that business sustainability is most effectively achieved by the ability to produce the largest volume of the best quality at the lowest cost.

► **Our quality focus:** We have consistently positioned ourselves as a quality-driven tea producer (as opposed to a singular focus on volume generation) to generate higher-than-industry average realisations during industry uptrends and market our teas faster than others during sectoral declines. The result: our average realisation for 2011-12 was Rs. 26.97 per kg higher than the all-Assam average and Rs. 32.36 per kg higher than the North Indian Auction average.

► **Our volume growth:** We enhanced yields from within our own gardens and increased the purchase of tea leaves from other

gardens to drive volume growth higher than the industry average. Besides, we reduced our excessive dependence on tea grown from one region or country to mitigate climatic risks. Until 2009, 100% of our tea was produced in India; in the last three years, we increased revenue considerably through our non-Indian production, derived from timely acquisitions of tea estates in Vietnam, Uganda and Rwanda. The result: we reported a consolidated volume growth of 6.90% in 2011-12.

► **Our cost management:** We progressively strengthened human productivity in our tea estate, helping us amortise fixed costs more effectively and emerge as one of the lowest cost tea producers. The result: McLeod Russel India is reported to be among the industry's highest labour

productivity – 25 kg per person day in tea plucking.

► **Our process orientation:** We invested in an operational environment that has standardised processes and practices across workers, managers, gardens and countries. This was reinforced by an efficient documentation discipline that helped identify and correct deviations in the shortest time. In a business marked by thousands of variables, this standardisation enhanced operational predictability and replaced dependence on the diverse operating styles of managers with a stable institutionalised approach. The result: McLeod Russel India's average yield of 1957 kgs per hectare was considerably higher than the average Assam yield.

THE RESULT

Over the years, our investments in sustainability translated into superior financials.

Beta: When all-India realisations declined by Rs. 6.83 per kg in 2005 (calendar year), a year considered unfavourable for the tea industry, McLeod Russel's average realisations declined only by Re. 0.24 per kg in the relevant

financial year. When all-India realisations improved by Rs. 18.92 per kg in 2009 (calendar year), a year considered favourable for the tea industry, McLeod Russel India's average realisations strengthened by Rs. 23.49 per kg in the relevant financial year.

Rising margins: The Company strengthened its consolidated

EBIDTA margin over the last four years – from 17.40% in 2007-08 to 28.43% in 2011-12. Some of the newer gardens like Gisovu Tea Company (Rwanda) reported an EBIDTA margin which is substantially higher than this corporate average.