



PONNI SUGARS (ERODE) LIMITED

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Speech of
Sri N GOPALA RATNAM, Chairman
at the 19th Annual General Meeting of the
Company on Friday 24th July 2015
at New Woodlands Hotel Pvt Ltd,
72-75 Dr Radhakrishnan Road,
Mylapore, Chennai 600 004

Ladies and Gentlemen:

I am pleased to welcome you all for this 19th Annual General Meeting of the Company. The Annual Report for 2014-15 has been with you for some time and I shall take it as read with your kind permission.

Indian economy has bounced back from bitter to better times with several of the macro economic factors recording remarkable resurgence. GDP is on robust rise, inflation is reasonably reined-in, CAD is lowered and growth impulses resonant. Without taking your time to delve on these positives, that are no doubt noteworthy and welcome, let me turn straight to sugar industry with which we are directly connected and deeply concerned.

World Sugar

I mentioned in my last year speech that going by global analysts' forecast, world sugar production after scoring a surplus for four consecutive years might return to the deficit phase in 2014-15. Near record output in India and Thailand has proved this prognosis patently wrong, leading to fifth consecutive year of global surplus. While it now looks more likely that 2015-16 would mercifully mark the beginning of the deficit phase, the degree of decline wouldn't be decisive enough to kick-start a meaningful rebound in sugar prices.

The fall in sugar prices has frustratingly failed to signal course correction in sugar economy that is attributable to a large extent to Government regulation in a number of producing

and consuming countries. Additionally, world sugar price dynamics have been particularly influenced during the year by the weakening of Brazilian real vs. US dollar. As a result, cane and beet harvests in Brazil, India, the EU and Thailand continue to defy desired course correction. Further, lower sugar prices do not lead to improved consumption which dominantly is driven by income and population growth as world-wide sugar demand remains relatively inelastic to changes in prices. Of course, sugar prices have not been falling in isolation, evidenced by the downward trend in ICE No.11 Futures over the last 4 to 5 years that displays a close correlation with broad-based decline in the prices of energy and non-energy commodities over the same period.

Given the record high sugar stocks, world sugar prices having crashed by 50% in three years and touched a six year low, might just move in a narrow band in the near term. This virtually shuts the export window for the high cost Indian sugar produced from high cost raw material.

Indian Sugar – Current state

Following the global trend, India has equally posted five successive years of surplus sugar production. Notably, the highest increase in the global production for 2014-15 has come from India. Further, diverging from the global trend India will have continued surplus production in 2016-17 as well. Such an unchequered upsurge defying traditional trade cycles is not merely a

breaking news but it is breaking the very backbone of the industry.

Sugar news has been hitting media headlines all through the year, oftentimes not for right reasons. Sugarcane farmers feel frustrated with rising cost of cultivation, static cane price, delayed payment and declining prospects. Yet he is loath to shift to other crops due to weather, market and price risks associated with alternative crops. In sugarcane, he perceives multiple advantages by way of sturdy crop, secured market, guaranteed price, comparably better returns and above all periodic Government intervention for troubleshooting with bail-out packages. In this bargain, the desired crop switch and consequent stock correction for facilitating price recovery proves eternally elusive.

Sugar mills on the other hand feel depressed and deprived due to the convoluted combination of controlled price (more often arbitrarily fixed at unaffordable levels on political considerations) for their input and free market price (faced with a free-fall during sluggish market conditions) for their output. The degree of disconnect between input and output prices is rather devastatingly diverging by the day with sugar mills currently losing about Rs.8-10 per kg of sugar produced. Sugar industry is no stranger to short term shocks caused by cyclical swings and consequent negative margins. But the longevity of downturn and the magnitude of losses staring at it this time is manifestly mind-boggling.

Sugar consumers are of course little excited by the steep slide in sugar prices by almost 50% from the peak. After all, sugar constitutes only a miniscule of his monthly budget and with the modicum of savings he won't exactly be laughing all his way to the Bank!

Sugar sector employees are understandably worried over its woeful state. Investors have turned sceptical and rue over the investments already made. Banks wouldn't touch the industry with a bargepole due to adverse credit rating and an alarming rise in NPAs. The Government is equally unhappy with the snowballing problems eventually ending at its doors for resolution that warrants repetitive hand-holding. At the end of the day, there is clearly no winner in the whole bargain. It is indeed a sorry state of affairs for a core industry like sugar.

The problems have become further compounded for sugar mills in our State that have had to bear the additional brunt brought about by the infelicitous impost of VAT on sugar, while there is no such levy in other major sugar producing States. With the States of Maharashtra and Karnataka already enjoying comparative cost advantage in producing sugar due to high volume of cane availability, better recovery and lower cost of production, the VAT levy from 1st November 2014 has proved to be lethal like the proverbial last straw on TN sugar mills. Sugar off-take for them has virtually come to a crawl since then and private mills presently carry stocks

representing the full season's production beginning October 2014. Despite repetitive representations and relentless follow-up, desired policy correction isn't forthcoming. Meantime, the huge stock pile-up has choked the cash flow and further delayed the payment to cane farmers. I would earnestly appeal to our State Government to set right this anomaly at once and restore the level playing field for local producers.

Indian Sugar – Way forward

The Hon'ble Prime Minister has given a clarion call for 'Make in India' to revitalise Indian manufacturing. Sugar is not only made in India but it is essentially and in entirety 'Made in Rural India'. Having suffered hefty losses for two years in a row and faced with further frightening losses looming large in the near term, the industry has never felt it so low and nadir in its long history. It is high time, the Government comes out with a National Sugar Policy integrating with it a National Sugarcane Policy, to swiftly complete the residual reform measures and thereby reinvigorate the industry. This should comprehensively address the long awaited linkage between sugar and sugarcane prices based on global models, expand and effectuate the ethanol blend programme by removing archaic State controls, facilitate evacuation of surplus sugar through mandated or incentivized exports or higher ethanol production directly out of surplus cane.

While doing so, there is no denying that the farmer deserves minimum

price protection within a realistic band. Whenever the required support price falls below the revenue sharing model due to volatile market conditions, the difference must be directly borne by the Centre or State Government that so desires to protect the farmer. It is eminently feasible for the Government to disburse this as farm subsidy under the 'Direct Benefit Transfer' mode since sugar companies have ready details of the Bank account of all their cane growers that could be tapped for this purpose.

Sugar industry unarguably occupies a pivotal place in the rural map of India supporting the livelihood of about 5 crore farmers and 5 lakh direct and indirect labour. With its very survival currently under grave challenge, I do hope the Government would soon come to squarely address the structural issues and provide a stable platform for its long term sustainability.

Companies Act, 2013

The new Company Law coming into force from 1st April 2014 has had its initial challenges and grey areas. The Government deserves applaud for swiftly coming out with scores of circulars, clarifications and changes required to iron out problem areas. As such, corporates should have no major cause for complaint.

Our Company has ensured due compliance with all the applicable provisions well in time. We have appointed requisite number of independent directors and woman

director before the deadline. Statutory auditor rotation is being taken care. Secretarial audit has been done and we have obtained a clean report.

While all the resolutions at the 18th AGM were passed through e-voting, having due regard to the amended provisions of the Companies Act, 2013 and Clause 35B of the Listing Agreement, your company has now offered three alternative options for shareholders to vote on resolutions proposed at this 19th AGM, viz. (i) remote e-voting (ii) postal ballot (iii) voting at the AGM venue. There is of course avoidable ambiguity whether postal ballot route is mandatory. Even several of the bellwether companies have strikingly chosen to shun this option. Your company however has consciously decided as a matter of good governance to offer all the three modes of voting for its shareholders. While voting under the first two options has already been completed, I would request you to exercise your franchise, in case you have not done so earlier, when once voting commences at this venue. I would expect to announce the voting results during the day itself.

Company performance

The Board's Report and the MDA before you give an overview of the company's performance in FY 2014-15. Your company was under severe stress due to the failing monsoon, frail water flow, flagging cane volume and to cap it all by the formidable fall in sugar prices. It was indeed a nightmare to haplessly watch the horrendous decline in sugar

prices on a day-to-day basis. Still worse, there is little evidence in sight of a visible turnaround in the prospects of sugar industry any time soon. Having lost much of the energy in frenetically fighting the adversities over the last two years and become egregiously effete by now, the industry is still in for a long battle before sensing viability.

We have of course no escape from the hostility and volatility of the external environment. Looking inward, we have redoubled our efforts towards further strengthening internal efficiencies and sprucing up production operations. Monsoon behavior is a bit better, albeit at levels still far below long term average, this time. We are taking painstaking efforts to educate and motivate our sugarcane farmers to imbibe scientific farming. Our focus is on comprehensive soil testing, remedying the damage done by excessive chemical fertilizer, organizing supply of composite nutrients for strengthening soil productivity and rejuvenating seed quality from our nursery. Our in-house team works in close and effective co-ordination with cane growers on this long haul programme, while green shoots are already visible by way of higher cane yields even under the current water stressed conditions.

We have further introduced process changes to considerably reduce chemical consumption fetching not only financial savings but also achieving sizeable reduction in sulphur content in the final product. Efforts are on to optimize productivity gains in Cogen segment.

Current year performance, April-June 2015

We had little crushing operations during the first quarter. Sugar off-take was sluggish while sugar prices fell further down steeply during the period. We have in the bargain suffered huge losses in this quarter.

Audited Financial Results for the first quarter are being considered by the Board in the afternoon. It will get uploaded in our website soon thereafter for your viewing.

Current year outlook

As mentioned, we would be faced with increasing and redoubtable challenges during FY 2015-16. In the absence of decisive Government intervention, sugar industry having come threateningly close to the point of elasticity is virtually on the verge of breaking. It is however inconceivable that the Government would ever allow such a catastrophe to occur.

We have won the long fought legal battle, establishing in unequivocal terms our entitlement to receive various subsidies from the Central Government. The Appellate Tribunal for Electricity has upheld on all major grounds our contention for refixing the power tariff for supply to TANGEDCO. We do hope to benefit by these developments during the current year and realize our legitimate dues under these heads that would come in quite handy in weathering the financial challenges in store.

There is no denying that we are far better placed than most of our peers in combating the current negatives and bide our time till turnaround is achieved. I have no doubt that such a revival though might get a bit delayed can never be deprived for a core industry like ours. I hence remain sanguine on the long term prospects of your company.

Acknowledgement

I am indeed thankful to our cane farmers who have had to bear the brunt of the financial distress of the industry. They have shown utmost understanding and restraint during a difficult period. I thank our Bankers for their steadfast support towards funding our credit requirements despite deteriorating financials for reasons beyond our control. Our employees in all ranks have displayed full confidence in the management and admirably responded to operational challenges.

I must thank my colleagues on the Board for their wise counsel and guidance. Above all, I sincerely thank our valued shareholders for their forbearance and ineffable indulgence during our tough times. I would like to assure all our stakeholders that the company would continue to uphold core principles of governance and strive as ever to meet their expectations over time.

Thank you

Note : This does not purport to be a record of the proceedings of the Annual General Meeting