

Ponni Sugars (Erode) Limited

Chairman's speech

25th AGM 2020-21

My dear shareholders,

I have great pleasure in welcoming you all to this 25th Annual General Meeting of the company. This marks our silver jubilee year and I am happy to state that your company has come out with a stellar performance amidst all round challenges. This has prompted your Board to recommend a dividend at Rs.5 per share, that includes a special dividend of Re.1 per share for the silver jubilee year, which marks the highest ever dividend declared by the company in its annals.

With the re-emergence of Covid in an altered avatar, we are compelled to diligently follow social distancing norms and strictly adhere to all the advisories of the Govt in larger public interest. Accordingly, for the second year in a row, we are holding the Annual General Meeting of the company through Video Conference/ Other Audio Visual Means. Of course, everyone by now is reconciled to and at ease with increasing use of digital media for both business and personal needs.

The company's Annual Report and audited Financial Statements for FY 2020-21 that were electronically circulated have been with you for some time. With your kind permission, I shall take them as read. After the conclusion of my speech, our Managing Director will make a brief

presentation on the sugar industry and the performance highlights of the company.

Macro Economy – Global

IMF in its June 2021 report has sounded optimistic on the global outlook for 2021. Global output in 2020 sank into its steepest contraction since the Great Depression at (-) 3.5%. This is set to expand 5.6% in 2021, its strongest post recession pace in 8 years. It however marks an uneven recovery between Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs). Growth is concentrated in a few major economies, notably the US owing to substantial fiscal support. In contrast, in many EMDEs, elevated Covid-19 case loads, obstacles to vaccination and fiscal pressures forcing partial withdrawal of macro-economic support have made them laggards. The global outlook remains subject to significant downside risks with likely re-appearance of Covid-19 in new virus variants and the financial stress amid high debt levels in EMDEs.

Controlling the pandemic at the global level has become the principal challenge. This in turn rests on more equitable vaccine distribution, especially for low income countries. Fiscal support for recovery measures has to be balanced with the need to safeguard price stability and fiscal sustainability.

In this context, India has admirably demonstrated its knowledge prowess with the invention of cost effective vaccines and further scaling up the production capacities therefor in a record time. While we are a large country

with inadequate health infrastructure, our Govts both in the Centre and the States have remarkably risen to the redoubtable challenge in vaccine administration. A calibrated policy stimulus was first unveiled in March 2020 with direct assistance in cash and kind to the poor that was progressively broadened into a comprehensive package – Aatma Nirbhar Bharat – to provide support to the various ailing sectors of the economy.

Macro Economy – India

India suffered an unprecedented contraction in GDP in Q1 of 2020-21 (Q2 of 2020). It suffered a formidable fall of 24.4% YoY - the worst amongst G20 countries – but smartly recovered in every successive quarter. Sensing the recovery gaining traction, equity markets became ebullient. Corporate performance in Q2 and Q3 of 2020/21 turned out to be strong and vibrant. Financial markets regained verve, equity valuations surged and bond yields eased.

Growth impulses in the second half were however inadequate to neutralize and overwhelm the deep decline during the first half. As a result, India ended with 7.3% negative growth for FY 2020-21, the lowest in over four decades.

When all were in sigh of relief with every economic indicator ticking positive and showing good promise, things changed abruptly and deleteriously so since March'21. India was saddened and saddled with the highest caseloads in the globe and highest daily new infections. The delta variant of the virus - declared a 'variant of concern' by the WHO in May'21 - was more

transmissible and more intense in causing illness and catapulting death counts.

India consciously chose to impose selective and targeted lockdown this time as opposed to nationwide shut last year; yet it was across regions and fairly widespread and its economic impact colossal. Earlier estimates of a GDP growth of 10.1% for FY 2021-22 have now been toned down revised to 8.3%. Thanks to normal monsoon last year followed by an optimistic outlook for current year, agriculture that supports more than one-half of our population continues to do well.

With vaccine inoculation drive catching up and its availability scaled up, there is greater confidence that India would be battle ready to face and combat new waves of infections and mutant strains of Covid that most experts forecast to occur before long. From the lessons learnt in handling the earlier crisis and with improved medical and managerial preparedness, I am sure our country will overcome this global virus threat decisively and the economy will clock decent growth in fiscal 2021-22.

World Sugar

World sugar is witnessing a third continual annual fall in production in 2020-21 that will be about 10 million tonnes lower than the peak achieved in 2017-18. International Sugar Organization (ISO) projects a second consecutive year of world sugar deficit for 2021-22. Brazil, world's top sugar producer and exporter, has been hit by one of its worst drought in a century. Thailand, traditionally the second big exporter, too has been blighted and

battered by drought that desiccated its cane crop for two years, while the recovery for 2021-22 would seem modest. Responding to the demand-supply disequilibrium, world sugar prices have bounced back by about 50% YoY, touching a new four-year high during May 2021. This is most welcome from Indian perspective towards addressing its huge exportable surplus.

Indian Sugar

Indian production has rebounded during 2020-21 sugar season with Maharashtra and Karnataka resolutely recovering from last year's drought decimation and blissfully being back to their normal levels of production. For the third time in four years, Indian production would be in excess of 300 lakh tonnes during the current season. Further, the production outlook for the next 2021-22 season is also high and for sure it would be more than 300 lakh tonnes. It is evident and incontrovertible that India has become strikingly strong and structurally surplus in its sugar production during the last one decade.

This however brings with it the unenviable and ineluctable challenge in dealing with recurring surplus of huge order. Sugar export is an obvious solution but the high cost of cane renders Indian sugar globally uncompetitive. Exports are hence critically dependent on a viable combination of buoyancy in global prices and bounties from the Govt. Despite the delay in announcing 60 lakh tonnes of export quota for 2020-21 by more than three months and lowering the quantum of subsidy this year, Indian sugar millers were quick to grab available opportunity in the

global markets and consummate export contracts for the entire quota of 60 lakh tonnes in a record time of six months. Export of another 5-10 lakh tonnes under OGL, dehors Govt doles, looks feasible for now. Indeed, India has emerged the second biggest sugar exporter after Brazil, displacing Thailand in the bargain.

Further, the preferential and premium pricing for ethanol produced from B-heavy molasses and sugarcane juice by sacrificing sugar output in the process, has helped reduce sugar production by about 20 lakh tonnes this season. The Govt's target is to further raise this swap swiftly to 60 lakh tonnes in the next 2-3 years so as to stoutly address the systemic surplus in our sugar balance.

Thanks to both exports and ethanol switch, sugar inventories for the first time would be below 100 lakh tonnes by Sep'21 – that also marks the lowest stock to consumption ratio - in four years. Domestic sugar prices however remain range bound by dint of continual surplus outlook. Often times, sugarcane payment pressures force distress sales by millers even below the Minimum Selling Price (MSP) fixed by Govt of India.

Ethanol

Govt of India has been showing admirable aggression and astounding alacrity in promoting ethanol as an alternative automotive fuel in the country. The benefits that flow to the economy and environment by blending ethanol with petrol are by now too well known that bears no repetition here. Though the 5% EBP target was first fixed in the year 2003,

it took almost 15 years to reach this level during 2018-19. From then on, ethanol has switched gears and swiftly progressed to achieve higher blend ratios. Ethanol supply year 2020-21 is likely to clock 8.5% blend, an all time high for this program. There is further all round optimism to reach the 10% blend milestone in the coming year.

The Hon'ble PM while addressing the Nation on the World Environment Day in June'21 underpinned the need for moving both ecology and economy forward together. On this occasion, he released NITI Aayog's 'Roadmap for Ethanol Blending in India 2020-25'. He further committed to advancing the deadline for 20% blend on all India basis effective 1st April 2025 as opposed to the earlier target of 1st April 2030.

Govt also let know its plan to mandate auto manufacturers to produce future vehicles only with flexi fuel engines. BIS standards have already been notified for E12 and E15 during June'21. There is regular and periodic review by the Central Govt with the officials of concerned State Govts and other stakeholders to address and remove the bottlenecks in the timely implementation of ethanol projects and/ or in the seamless supply of ethanol to the OMCs. Interest subvention support has been offered to enthruse capex in ethanol and its validity periodically extended. The Govt is thus firing on all cylinders to realise the ambitious, some may say audacious, target of E-20 in the shortest span of time.

While growth in sugar consumption has become near static despite increasing population and improving income, ethanol is now evolving and

expanding to provide exciting growth option for the sugar industry in areas where there is copious cane supply. I am tempted to say the by-products of the sugar industry have since graduated and transformed as 'co-products' implying meaningful value addition for the overall sustainability of this core industry.

Electricity

The special report of International Energy Agency (IEA) carried out in collaboration with World Bank and World Economic Forum observes that the world's energy and climate future increasingly hinges on successful transition by EMDE's ability to successfully transition to cleaner energy systems. Annual clean energy investment in these economies needs to increase by more than seven times - from less than USD 150 billion last year to over USD 1 trillion by 2030 - to put the world on track to reach net -zero emissions by 2050, according to this report. In fact, it reportedly costs about half as much on average as in advanced economies for EMDEs to avoid a tonne of CO2 emission.

While there is no shortage of money worldwide, it has to find its way to the countries, sectors and projects where it is most needed and most productive. International public finance institutions shall be given a strong strategic mandate to finance clean energy transitions in the emerging world. On this, India is steadfastly committed to meet its emission reduction obligations and is continuously focussed on achieving this ahead of the committed timeframe. As an integral part of this mission, renewable energy

promotion and ethanol blending with petrol program have received top policy focus and concerted thrust where sugar industry plays a pivotal role.

Ministry of Power in April 2021 has released the draft National Electricity Policy 2021. Its key objectives are contribution towards achieving a green planet and making India a leader in future energy security. Poor finances of State Discoms however have a huge negative fallout, depriving power producers timely cash flows and strangulating their operations. Alas, the delay at times touches even two years that is in clear and continuing defiance of regulatory dictum.

The Govt of India in Oct'20 came out with Special Long Term Transition Loan to Discoms as part of Centre's financial package in responding to Covid-19 crisis. This however is conditional upon Discoms on their part commit and achieve time-bound corrective action plan for their long term sustainability. The first tranche of this funding to TANGEDCO helped our company realize a good chunk of its receivables; yet the dues have again mounted to dizzy heights.

We have been pressing for a credible and committed mechanism for timely payment of the power dues of renewable energy suppliers that is only in line with extant regulatory tariff orders. I do hope this pressing and persecuting problem finds a lasting solution and at the earliest.

Sugar Stress in Tamil Nadu

While sugar mills in other major producing zones have been riding on the bulwark of huge capacity, humongous cane supply, high sugar recovery and expanding ethanol production, Tamil Nadu remains stranded and strangulated on all fronts for almost a decade now. While it for long was on the top of the pyramid in sugar production, it has since frustratingly fallen from that high pedestal. It is painful to observe that the State is now saddled with shut-mills, shrinking sugarcane area, stunted cane volume, sub-par sugar recovery and strained finances, inexorably caused by the recurring impact of drought. Much of the ameliorative measures of the Central Govt to prop up sugar exports and promote ethanol have become illusory and *non est* for TN mills faced with and fighting a fundamental challenge of drought induced cane shortage.

Amidst the Omni gloom, one silver lining for TN sugar is the promise shown by a new sugarcane variety Co11015 developed jointly and in collaboration with the Sugarcane Breeding Institute, Coimbatore in project mode titled 'Sweet Bloom Project'. Prompted by positive results during trials, mills are gearing to expand their planting area during 2020-21 season with this new variety. For now, we have per force to place all our bets for the success of this variety in large scale when harvested and crushed in the ensuing 2021-22 season.

Company Performance

The Board's Report along with the Management Discussion and Analysis Report presents an overview of our company performance for FY 2020-21. Braving headwinds on several fronts, the company could optimise production, contain costs and come out with a commendable financial performance for the year, that is the second highest for PBIDT, PBT and PAT in over a decade. We have also become a zero debt company during the year with strong liquidity that ensures timely payment of sugarcane price and helps sustain farmer goodwill.

Our plan to set up a 45 KLPD Distillery-cum-Ethanol plant is backed by interest subvention support of the Central Govt that was sanctioned in June 2019. We foresee no problem in tying up requisite Bank finance for this project. However, further progress is halted and hinges on tangible progress in getting environment clearance.

Q1 Performance / FY 2021-22

Our operating performance for Q1 shows strident improvement compared to last year. We have crushed more cane at higher recovery. Sugar sale volume remained flat. Sugar and molasses prices however turned bearish, while cost of cane was higher due to the increased transport charges and our free seed supply program to promote planting.

Despite the pricing pressure under an adverse market, we have been able to achieve satisfactory PBIDT and PBT for the first quarter, thanks to our operational excellence.

The Board had considered and approved the unaudited Financial Results on 19th July 2021 that is summarized as under:

<i>(Rs. lakhs)</i>		
Description	April-June 2021	April-June 2020
Total income	6529	6200
PBIDT	677	719
PBT	518	532
PAT	457	504

Outlook for FY 2021-22

We have been benefitted by a benevolent Southwest monsoon last year, though the Northeast monsoon was below par impacting major parts of our operational area. Backed by intensive cane promotional efforts and bolstered by planting and ratoon management subsidy that are being offered for a year now by our company, we look to marginally improved cane availability for FY 2021-22. The much awaited and well justified increase in MSP for sugar is yet eluding. The surplus sugar outlook on its part can be expected to exert bearish pressures on the market. Molasses prices have fallen from their peak but yet remain remunerative.

Barring unforeseen circumstances, I remain optimistic that your company would be able to achieve satisfactory financial performance in FY 2021-22.

Acknowledgement

I hasten to thank our sugarcane farmers, other suppliers, customers and employees for their unequivocal understanding and strident support. I thank the officials of Central and State Govts and Banks for all the help and

guidance. I am deeply indebted to my colleagues on the Board for their oversight and wise counsel.

Above all, I owe my deep sense of appreciation and thanks to our valued shareholders for continuing to repose their confidence in the company.

We are all still caught in the ghastly grips of Covid that is threatening to resurface in multiple variants and mutant strains. Hence my appeal to all our shareholders and their families is to follow diligently set norms, stay safe and be healthy.

Thank you

Erode
July 20, 2021

N Gopala Ratnam
Chairman

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