Ponni Sugars (Erode) Limited

Chairman's speech

26^{th} AGM - 20^{th} July 2022

Dear shareholders,

I am happy to welcome you all to this 26^{th} Annual General Meeting of the company. And I am happier to share with you our improved operating and financial performance in FY 2021/22 delivering a decadal high PBT.

The company declared last year a dividend of Rs.4 per share plus a special dividend of Re.1 per share to commemorate the silver jubilee year. Based on our improved performance, your Board has recommended a dividend of Rs.5.50 per share for the current year.

While Covid may no longer be life threatening, it isn't time yet to lower the guard. Both the Central and State Governments have been handing out periodic advisories on the continuing need for strict adherence to Covid protocol. In deference to that, the AGM of our company for the third year in a row is being held through Video Conference/ Other Audio Visual Means. Incidentally, this has wide-opened the window for virtual participation of increasing number of shareholders from different parts of the country.

The company has already circulated the Annual Report and Audited Financial Results for FY 2021-22. These have been with you for some time and with your permission I shall take them as read. At the conclusion of my speech, our Managing Director will make a brief presentation on the sugar industry and performance highlights of the company.

Global Economy

World Bank in its latest Global Economic Prospects report of June ‘22 has voiced concern over headwinds halting and harrowing global economic growth. Compounding the damage from Covid-19 pandemic, the Russia-Ukraine war has magnified the slowdown in the global economy that would appear entering a protracted period of feeble growth and elevated inflation. Global growth would likely slump from 5.7% in 2021 to 2.9% in 2022 – significantly lower than 4.1% that was anticipated just a few months ago in Jan ‘22. The persisting geopolitical tensions and concomitant sanctions, lockdowns in China, supply-chain disruptions, surge in prices across wide range of energy related commodities and the risk of stagflation together hammer and hamper growth.

RBI in its June ‘22 Monetary Policy Statement echoes similar warning and caution over the global economy continuing to grapple with multi-decadal high inflation and slowing growth, escalated cost of crude oil and other commodities and lingering Covid-19 related supply chain bottlenecks. Growing stagflation concerns are leading to tightening of the global financial conditions and posing heightened risks to the growth outlook and financial stability.

Indian Economy

Amidst global economy’s gloomy outlook, it is good comfort that our Indian economy shows great resilience and good promise. As per World Economic Outlook April ‘22, Indian GDP growth in FY 2023 would be the highest, notably above China. Indeed, India offers foreign investors the brightest bet till FY 2027 with its GDP growth projected to be markedly higher than every other country. The current decade doubtless belongs to India that is fast emerging the fastest growing economy in the world with an average of 7-8% (in real terms) per annum.

India has also successfully demonstrated to the world that its management of the economy under Covid adversity is the most adroit and altruist model. While several of the advanced economies loftily advocated loosening the purse strings to bolster demand, India consciously chose the conservative and cautious path. It hence endeavoured to address the supply side bottlenecks, besides free food supply for elongated period to those in lower strata suffering under job loss. India further won world acclaim for its fast-tracking the vaccine production from indigenous technology and vast coverage of its populace under State sponsored immunisation programme.

No doubt, India has no escape from the contagion of global inflation; nonetheless, it hasn't gone out of bounds. RBI expectedly tweaked the policy rates upwards in June '22 with prime focus on taming the inflation. With normal south-west monsoon outlook and improved agricultural prospects, rural consumption would benefit from higher income. Going forward, urban consumption should improve with a rebound in contact-intensive services. Investment activity would get supported by improving capacity utilization, Government capex boost and strengthening bank credit. Accounting for the negatives, RBI has retained the real GDP growth projection for 2022-23 at 7.2% that under extant environment is creditable.

World Sugar

Global analysts and trade houses before the start of 2021-22 season bet on continuing deficit phase in world sugar balance. With every successive revision, the production estimate went up and in the bargain the modest deficit originally envisaged would now appear to end with a modicum of surplus. Strong production recovery/ upsurge in India and Thailand more than offset for the precipitous fall in Brazil.

World sugar prices throughout 2021-22 stayed stronger compared to the previous two years. However, spot and futures prices have corrected more than 10% over the last one to two months, thanks to softening oil prices swinging ethanol parity.

India steadfastly remains the second largest sugar exporter after Brazil in 2021-22.

Indian Sugar

Now turning to Indian sugar industry, it breathtakingly broke a barrage of records in the current 2021-22 sugar season. Both its production and consumption at 360 lac tonnes and 275 lac tonnes respectively mark a new mountain top. More significantly, its trailblazing performance on the export front, bereft of the benefit of Government sops to compensate for its higher cane cost, is lofty and laudatory. Indian exports for the first time would hit a century, touching the 100 lac tonnes mark, riding on robust global sugar prices for most part of the year. With its eyes firmly on food inflation, the Government in a preemptive move chose to shift sugar exports from OGL to restricted category from June '22. Its current intent is to cap aggregate exports around 100 lac tonnes through export release order mechanism.

India has unarguably become structurally surplus in sugar production. In the past, higher sugar production was invariably associated with unviable sugar prices and unabated rise in cane price arrears. The foresight of the Government of India in imaginatively formulating and effectively following through the Ethanol Blended Petrol (EBP) programme has turned out to be a decisive game-changer. Sugar industry in turn has shown admirable alacrity and awesome aggression in swiftly responding to the Government's policy initiatives. Sugar exports coupled with sugar subsumed in ethanol have together ensured that domestic inventory is within bounds to reassure and reinforce domestic price stability.

Thanks to the above, sugar stocks at the close of current season by end September 2022 would be about 68 lac tonnes constituting 25% of annual consumption. This would be a four year low. While there is no official estimate of sugar production yet for the next season, it would for sure be another year of abundant sugarcane crop and surfeit of sugar production.

Ethanol

India started its EBP program in 2003, that however had a chequered progress. Year-on-Year fluctuation in sugarcane availability caused grave uncertainty and dented the EBP targets. The perceptible increase in sugarcane yield brought about by new cane varieties and highly remunerative price for cane compared to other crops have since catapulted cane availability to higher levels on a sustainable basis.

Buoyed by supportive pricing policy, ethanol blend ratio has shown steady and sustainable uptick since 2018. For the first time, the country would achieve 10% ethanol blend in the current season. Further, the Government has set an ambitious target to double the blend level to 20% by 2025 – in a matter of just three years - as compared to Brazil mandating a similar increase from 10 to 20% only over 25 years. This convincingly proves that effective Government-industry collaboration can work wonders for the economy.

Government on its part is firing on all cylinders in promoting ethanol. It has extended excise concession now for 12% and 15% ethanol blended petrol. Flex-fuel engines are given a hard push and Production Linked Incentive (PLI) has been extended to auto components of flex-fuel engines. Looking at the impending higher demand, Government is concurrently promoting grain based ethanol, though sugarcane based ethanol would continue to be the dominant player in the near term. Research is on to promote ethanol blended with diesel. All these sound extremely positive towards strengthening the sugar industry and in turn sub-serve both rural economy and environment.

Electricity

Government of India ever since the advent of the Electricity Act, 2003 has been passionately pushing for proactive policy changes to promote electricity production with greater emphasis on renewable energy sources, besides strengthening the market forces for sustainable growth. The frail state of finances of most Discoms in the country however has been a clear dampener. In the absence of timely tariff revision, their losses and cash deficits have only been mounting. In turn, power producers like our company haven't been able to realize their dues for months, that at times spans over a year. The one-time financial package announced in October 2020 by Government of India with special long term transition loan to State Discoms did show a good promise but its effectiveness was just ephemeral.

In this backdrop, the Ministry of Power has now come out with the Electricity (Late Payment Surcharge and Related Matters) Rules, 2022. This *inter alia* envisages a one-time plan for the liquidation of outstanding arrears as of 3rd June 2022 by the errant Discoms. It further grants liberty for power producers to get out of the long term power purchase agreement and sell their power in market during periods of continuing arrears by Discoms.

This new strategy to restructure old dues no doubt is well conceptualized and its intent commendable. It however looks patently unjust and poignantly inequitable to make power producers painfully suffer both in terms of liquidity and loss of interest. As per this scheme, our dues would get paid by TANGEDCO over as long as 48 EMIs but without bearing any interest compensation for the extended period of delay. It is but travesty of justice that a defaulting party is bestowed a benefit, while the power producers for no fault of them are fastened with delayed principal and deprived interest.

Legitimately, for the purpose of bailing out the ailing State Discoms, the Central or the respective State Governments or both should be bearing the financial cost of rescheduling their over-dues. In addition, many a power producer may not have the liquidity strength to bear with the extended period of repayment. Hence a specific scheme of bank finance with 100% interest subvention support from Central or State Government should have been conceived for one-time resolution of the past dues.

The reschedulement scheme is a *fait accompli* as power producers have no option but to accept the mandate. Our company has taken a one-time hit of Rs.4.8 crores as impairment loss that is duly recognized in its Q1 results. It is hoped that State Discoms would in the least strictly adhere to the EMI payments, besides meeting current dues, in time.

Company Performance

The Board's Report along with the Management Discussion and Analysis Report presents an overview of our FY 2021-22 performance. The company has shown sustained improvement over all key operating parameters during the year. Higher crushing, better cane variety and increased yield, continuous improvements and fine-tuning of our Cogen system have together contributed to commensurate rise in margins. Decline in sugar price, higher cane cost and formidable rise in fuel prices were the negatives to navigate. Overall, the company has delivered a delectable operating and financial performance for the year.

On the ethanol front, our company has been encountering prolonged delay in securing environment clearance for its project. At a time when environmental laws and regulations were evolving and pollution control technology was nascent, Government of Tamil Nadu thought it wise to impose an outright ban on setting up of manufacturing units proximate to notified rivers. Unarguably, much water has flown since then. There is acute awareness and constant public vigil on environment compliance these days. Proven technology and state of the art plant and equipment are available for effective pollution control. Without diluting the underlying objective and persisting with zero tolerance on effluent discharge, it is time for a revisit on the total ban conceptualized decades ago and evaluate any new project wherever located strictly from the standpoint of environmental compliance norms. This would at once create a level playing field for older units that for historic reasons came to be established within 5 km distance of notified rivers and it would be a right step in the 'ease of doing business' approach.

After considerable time and effort, we could persuade Government of Tamil Nadu for relaxing the minimum distance criteria for our ethanol project. For clarity we have had to approach the State again for confirmation that the exemption covers all the allied products of the ethanol unit. In particular, the Sugarcane (Control) Order specifically states that ethanol by definition includes rectified spirit, special denatured spirit, extra neutral alcohol, absolute alcohol, anhydrous de-natured ethanol, fuel grade ethanol or any other form of ethyl alcohol. It is imperative that we have in-built product flexibility in our ethanol plant for its long term viability. We do hope the Government would adopt an industry friendly approach in this regard.

Q1 Performance / FY 2022-23

We have achieved improved crushing with better recovery this quarter compared to last year. Sugar prices have stayed stable. We were however faced with higher R&M cost to complete accumulated jobs. Further, our receivables that have to be recognized at fair value have taken a one-time hit under the Ministry of Power scheme enumerated above. The withdrawal of transport subsidy by the State was again a big blow.

As a result, despite higher turnover and much improved operating performance, our financial results for Q1 was below par. The Board has considered and approved the unaudited financial results on 19th July 2022 as summarized below:

(Rs. lakhs)

Description	April-June 2022	April-June 2021
Total income	8809	6529
PBIDT	452	677
PBT	248	518
PAT	216	457

Outlook for FY 2022-23

Area under cane cultivation has been showing steady rise over the last couple of years, thanks to our concerted cane development efforts backed by planting subsidy for high sucrose cane variety. The high cost of agriculture in our State has however become the bête noire. In particular, harvesting charges have horrendously risen, gobbling up 40-50% of the cane price and in turn leaving the farmer in the lurch.

We have to address the above embarked on mechanized harvesters that no doubt is impregnated with innate challenges. We will double-down our efforts in overwhelming the challenges and shore up the share of machine harvested sugarcane over time.

Based on current planting trend, the company would be able to sustain and marginally improve its cane crush alongside of a modest rise in sugar recovery in the coming year. Sugar prices might remain range bound by dint of yet another year of high production, but the downside should get ring fenced by expanded diversion of sugar to ethanol.

Barring imponderables, I remain sanguine that your company would be able to repeat a strong financial performance in FY 2022-23.

Acknowledgement

I hasten to thank our sugarcane farmers, other suppliers, customers and employees for their continued support. I thank the officials of Central and State Governments and Banks for their understanding and guidance.

I am thankful to our valued shareholders for continuing to repose their confidence in the company. I look forward to your comments and suggestions from time to time.

Thank you

Erode
July 20, 2022

N Gopala Ratnam
Chairman

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