PONNI SUGARS (ERODE) LIMITED

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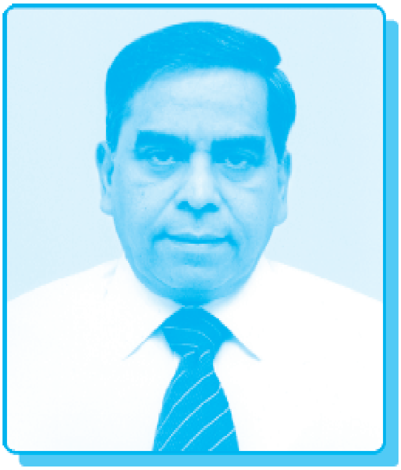

Speech of
Sri N GOPALA RATNAM, Chairman
at the 15th Annual General Meeting of the
Company on Friday, the 15th July 2011
at New Woodlands Hotel Pvt Ltd.,
72-75 Dr Radhakrishnan Road
Mylapore, Chennai-600 004.

Ladies and Gentlemen:

I am pleased to welcome you all for this 15th Annual General Meeting of the Company. The Annual Report for 2010-11, in hard or soft version as you have consciously chosen, has been with you for some time. With your permission, I shall deem it as read.

Indian Economy

Indian economy has reverted to its high growth trajectory during 2010-11 after some moderation in the preceding two years under adverse global conditions. The growth reflects a rebound in Agriculture and sustained levels of activity in Industry and Services. India has continued to outperform most emerging markets during 2010-11, retaining its pre-eminent position as the second fastest growing economy, after China, amongst the G-20 countries.

Inflation posed the severest of challenge in 2010-11 reflecting both supply shocks and gradual generalization of price pressures. RBI's hawkish hard monetary policy stance is overarchingly aimed at combating headline inflation even at the altar of sacrificing some growth. In this endeavour, RBI has effected periodic and hefty hikes in its policy rates on 10 occasions in a row since March 2010. As a fallout, interest rates have considerably hardened to pose a severe challenge to Manufacturing and Investment.

GDP growth of 8.6% during 2010-11 has been largely aided by the resonant rebound in agricultural growth. Industry and Services registered mild deceleration primarily during second half of the year due to waning of favourable base effect as well as deceleration in Government spending.

Both Government and RBI expect growth to stay near its trend during 2011-12. There is however a contrarian view that GDP growth would slide below 8%, given the current trend of successive fall under extant constraints in the last four quarters. Still India's growth rate would be convincing and commendable in comparison with most other countries.

There is growing perception of a significant slow-down in policy initiatives. Tax reforms are painfully cruising at snail's pace. Policy reforms in agriculture, retail and labour are in comatose state. These are crucial to reignite the economic engines and galvanise growth in double digits.

World Sugar

World sugar production has come under stress due to doubts expressed on the crop size and diversion of cane for ethanol in Brazil, the dominant producer and exporter of sugar. After two seasons of significant statistical deficit, some degree of stock-build up was to be sighted in 2010-11 but this surplus has sizeably shrunk in successive estimates. The global stock to consumption ratio has reduced to the lowest level in more than 20 years since 1989-90. The ratio is expected to decline further in 2010-11. As a result, sugar prices that receded to 20.47 c/lb have reversed trend and shown remarkable upsurge threatening to touch and transgress the 30 c/lb mark.

It is not often that India has surplus sugar to meet world deficit and benefit by buoyant global prices. After two years of domestic deficit, India has re-emerged with a moderate surplus during 2010-11 that would further swell significantly during 2011-12. It is hence time to aggressively enter the export market to declog supply overhang and secure price stability in the local market. This, in turn, would facilitate and empower the industry in meeting cane price obligations in time.

Indian Sugar

Indian Sugar production has demonstrated yet again its indefatigable inertia on cyclicality. After two years of dreary deficits, it has rebound to modicum of surplus during 2010-11 and further prognosticated to sizeably swell during 2011-12 based on current crop estimates.

Sugar industry continues to be the victim of the vestiges of State controls operating both in overt and covert mode. Fair and Remunerative Price for cane is fixed by the Central Government having regard to the key factors spelt out under the Sugarcane (Control) Order. But Sugar Mills are in same breadth inimically exposed to high and arbitrary State Advisory Price for cane. After meeting 10% levy obligation, the balance 90% is technically termed ‘free sugar’. But industry is fraught with fastidious checks and controls on such free sugar through the release mechanism that fixes monthly, fortnightly or weekly quotas as the Government choose to impose from time to time. Sugar exports are under OGL list in the Exim Policy implying freedom to export sugar based on global market conditions. But sugar cannot be freely exported with Government opting to withhold at will the release order for exports. Ethanol Blend Programme is a national priority and non potable alcohol is clearly outside the domain of State Government. But in reality Ethanol programme is convolutedly checkmated and countermanded by restrictive State mandates. Free sale of power across States is assured under the open access policy of Electricity Act, 2003. But States often impose operating restrictions impeding inter-State transmission. It is enigmatic and baffling that whatever is promised and protected under one Policy or arm of the Government is scorned and scuttled by the other. The industry in the least looks for a better co-ordinated policy framework.

The overwhelming concern and anxiety of Government to rein in food inflation is unexceptionable and quite understandable. However its overdrive in stifling sugar prices, that has now been pushed to below cost of production for over six months, is clearly an overkill. Such excessive intervention may succeed to bring some succor in short term but doubtless damages the long term stability of industry and sustainability of sugar production in the country. India being the largest sugar consumer, it would be ill-advisable to expose its common man to the vagaries and vicissitudes of world sugar market where prices in a volatile market could swing by as high as 50-100% within the course of one year, more so when India is forced to import sugar.

Whenever sugar prices persistently plummet below cost of production, its primary impact is on producers of sugar. With losses and cash deficits thrust on sugar mills in the process, the secondary impact then balefully befalls on sugarcane farmers in the form of lower and delayed cane prices. In turn, this leads to lower cane crop and reduced sugar output triggering its terrifying tertiary impact on sugar consumers by way of steep rise in sugar prices. It is hence axiomatic that sugar price management foresightedly factors in and skillfully balances the long term interest of all these stakeholders.

The long term remedy clearly lies in decontrol of sugar industry. Despite several of the Expert Committees endorsing such a liberalization, the Government has been discernibly despondent and dithering for too long on this. With reassuring supply position in near term, it is perhaps the right time for the Government to bite the bullet.

Company Performance

The Directors' Report gives you a detailed account of our performance during 2010-11. Suffice it for me to say on this occasion that your Company has come out with commendable performance under adverse external environment. This indeed is attributable in no mean measure to our persistent focus on efficiencies and pursuit of prudent policies all along.

Dividend for the year has been proposed at 20% (Rs.2 per Equity Share), in line with the decline in profits and the need to conserve resources for ongoing Cogen Project. I seek your indulgence for same.

Current Year Performance – April-June 2011

The first quarter is essentially off-season and we had no raw sugar processing this time. Sugar prices have been progressively on decline and mostly ruling below par. Export window was shut, barring a small quota of 1615 tonnes under OGL. Audited financial results for the quarter are being considered by the Board in the afternoon that would be uploaded in our website soon thereafter.

Current Year Outlook

Sugar production during 2011-12 season is foreseen to further rise above 260 lakh tonnes in the country, resulting in a likely surplus of about 40 lakh tonnes. The industry is therefore crucially dependent on unhindered exports with a supportive policy framework to take on the fluctuating prices in the global market. Domestic price of sugar and its by-products would rather remain subdued in near term.

Sugar Mills in Tamil Nadu are currently finding it hard and difficult to pay the cane price of Rs.2000 per tonne fixed for 2010-11 season due to depressed sugar prices. Any further hike is unarguably beyond their present financial capability. Since cane price has been hiked by a hefty 80% within two years, it is now time for a pause. Further hike in cane price must be so timed to correspond to improved sugar prices in future that is in the least one season away.

Government of Tamil Nadu is poised to come out with industry specific promotional policies to achieve higher growth in agriculture and bolster industry. SISMA-TN has submitted its memorandum highlighting the challenges and seeking policy initiatives to strengthen sugarcane harvesting, improve micro-irrigation and focus on R&D. Its suggestions also touch upon issues on Cogeneration and environment clearance besides VAT/ Sales Tax. I am confident these would receive due consideration and decisive policy response from the Government.

Cogeneration Project

Our Cogen Project has been progressing as per schedule. We are indeed grateful to Canara Bank for the swift appraisal and speedy sanction of Rs.65 crores of Term Loan for this Project. Interest rate has however gone up on this Loan in quick time in line with the rising trend in our financial system. We target to commission the Cogen facility before end of current Financial Year 2011-12.

Acknowledgement

Your Company is overwhelmed by the unfailing support it receives from cane cultivators, employees and its customers. It continues to enjoy the understanding and support of Banks and shareholders. I am thankful to one and all for their sustained confidence in the management.

Before I conclude, it is my pleasant duty to place on record the long association of Mr S K Ramasamy with your Company and its Erode Sugar Mill ever since it was set up in 1984. He would be demitting office at the close of this meeting. I pray for his long and healthy life.

I now move for the adoption of Directors' Report and the Audited Accounts. We would be glad to respond to your queries on our plans and performance before I proceed with the Agenda.

Thank you,

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