Ponni Sugars (Erode) Limited

Chairman's speech

27th AGM – 21st June 2023

Dear Shareholders,

I am happy to welcome you all to this 27th Annual General Meeting of the Company. There can be nothing more satisfying to me than sharing with our beloved shareholders the stellar operating and financial performance of the Company in FY 2022-23.

Buoyed by the overall improved performance, your Board has recommended a dividend of Rs.6.50 per share for the current year as against Rs.5.50 per share last year. This in deed is the highest ever dividend declared by our Company.

It has now become new normal for corporates to convene their AGMs through Video Conference/ Other Audio Visual Means. Technology has transcended to take over all facets of our life and corporate AGMs could be no exception. Video participation and remote e-voting options certainly pave way for larger participation of shareholders from diverse regions in the decision making process, thereby strengthening the corporate governance tenets.

The Company has already circulated the Annual Report and Audited Financial Statements for FY 2022-23. 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 June '23 Global Economic Prospects Report underpins the precarious state in which the global economy currently remains. Post pandemic effects, prolonged Russia – Ukraine warfare and sharp tightening of the monetary policy to contain high inflation have together significantly slowed down global growth. Overall growth is projected to precipitously decline from 3.1% to 2.1% in 2023. Of this, advanced economies would record a deep decline from 2.6% to 0.7% while Emerging Markets and Developing Economies (EMDEs) would post a marginal rise from 3.7% to 4%. Significantly, India for three years in a row would have a higher growth over China and this trend would perspicaciously persist in the coming two years.

The World Bank report cautions the possibility of more widespread Bank turmoil and tighter monetary policy that would further weaken global growth. Rising borrowing costs in advanced economies could cause financial dislocations in the more vulnerable EMDEs. It accordingly calls for a comprehensive policy action at the global and national levels to foster macroeconomic and financial stability.

Continued global cooperation is also necessary to accelerate the clean energy transition, mitigate climate change and provide debt relief for the rising number of countries experiencing debt distress. Downside risks of the World Bank outlook for all regions include possible further global financial stress and more persistent domestic inflation than projected in the baseline. Geopolitical tensions, conflicts and social unrests and natural disasters stemming from climate change also present downside risks in varying degrees. Perspicuously, the world economy is in stormy seas.

Indian Economy

Reserve Bank of India (RBI) in its June ’23 Policy Statement voices satisfaction that the Indian economy and the financial sector stand out strong and resilient in a world of unprecedented headwinds and swift cross currents. Domestic macroeconomic fundamentals are strengthening – economic activity is exhibiting resilience, inflation has moderated, current account deficit has narrowed and foreign exchange reserves are comfortable. Further, fiscal consolidation is ongoing inchmeal, banking system remains stable, credit growth is robust and domestic financial markets have evolved in an orderly manner.

India’s real GDP recorded a growth of 7.2% in 2022-23, the highest among the large economies in the world. Turning to 2023-24, domestic demand conditions remain supportive of growth on the back of improved household consumption and investment activity. Given the healthy twin Balance Sheets of Banks and Corporates, supply-chain normalization and declining uncertainties conditions are fervidly favourable for the capex cycle to gain momentum.

Robust Government capex program is also expected to nurture investment and manufacturing activity. Consumer and business outlook surveys display continuing optimism. While so, the headwinds from weak external demand, volatility from global financial markets, protracted geopolitical tensions and intensity of El Nino impact pose downside risks to the outlook. Factoring all these, RBI projects real GDP growth for 2023-24 at 6.5%, with risks evenly balanced.

World Sugar

There has been successive downward revision in world sugar production estimate for 2022-23 during the year, caused by the contraction in cane crop both in India and Thailand. It would still leave a tiny surplus, thanks essentially to the strong rebound in Brazil's production by about 10 million tonnes. A larger allocation of cane to sugar in preference to ethanol ensured that Brazil's sugar production increase is more than proportionate to the rise in its cane output.

Global sugar production over a decade has largely remained within a narrow band, intermittently impacted by weather, in the absence of major capex for capacity creation. While so, global consumption is on a steady rise barring the Covid period. With India focussing more on ethanol than export, global supplies would for sure remain tight in the years to come. The fundamentals thus remain reassuring for strong prices for both raw and whites in the near term.

World raw prices rebounded strong and touched 26.45 c/lb in April 2023, a 11-year high. Though these have since corrected by about 10%, the market undertone is blissfully bullish. India is unlikely to announce its export quota anytime soon that denies and deprives Indian producers' access to the lucrative export market for now.

Indian Sugar

After peaking to 358 lakh tonnes in 2021-22 sugar season, Indian production is now set to fall to 328 lakh tonnes in the current season, a decline over 8%. Despite area under cane being constant, depleted cane yield in Maharashtra due to excessive and extended water logging during the grand growth period dampened the State's output. There is no official estimate yet on the production outlook for 2023-24 season. While the Southwest monsoon forecast by IMD is normal, El Nino concerns persist as enigma.

It is noteworthy that Indian sugar output in the last five seasons has been far in excess of domestic off-take. In four out of five years, production was over 300 lakh tonnes. India however benefited by a buoyant world market to export its surplus without Government sops by way of export subsidies. Further, the Government's fervent focus and fastidious pursuit of ethanol blending program facilitated higher diversion of sugar to ethanol. Together, they have effectively and efficaciously addressed the supply overhang. As a result, the country's closing stock has been continually declining that would touch one of its lowest level by end of current season.

In the aforesaid context, sugar prices have gained steam since May 2023. Amidst intermittent corrections, the price outlook for FY 2023-24 would appear bullish. A run away rise is however unlikely, given Government's steadfast focus on inflation control and its penchant to fine tune export policy to reassure domestic availability.

Ethanol

Though India started its Ethanol Blended Petrol (EBP) program two decades ago in 2003, it gathered pace only from 2018. Realizing ethanol's pre-eminent role in pollution abatement, oil security, foreign exchange saving and higher income generation for farmers, Government has been coming out with timely and multitude of measures to kick start and step up domestic ethanol production and supply. This has helped the country achieve 10% blend in line with the target. The Government is now keen on diversifying ethanol production from multiple feedstocks including grains. 2G ethanol of course is still in an embryonic stage, its economic viability yet to be established and reasonably reassured.

The effective co-ordination between sugar industry and oil marketing companies has ensured nation-wide implementation of the E10 program. In order that old vehicles can embrace ethanol without changing the engine, Indian Sugar Mills Association (ISMA) has initiated a study with IIT-Delhi on higher ethanol fractions in commercial gasoline vehicles that uses a special conversion kit and thereby obviate the need for changing the old engines. Tests have been conducted satisfactorily for blend levels from E12 to E100. These trials have shown good promise and the IIT report would now be taken to the Automotive Research Association of India (ARAI) for necessary certification.

One of the OMCs has now launched a ground breaking pilot study on vehicles using E27 fuel and ethanol blended diesel fuel. Preliminary studies conducted on vehicles fuelled with E27 have shown remarkable reduction in emissions when compared to traditional gasoline. The study would now be expanded for extended mileage accumulation up to 10,000 km for two-wheelers and 20,000 km for passenger cars in a phased manner.

Ethanol has thus come to occupy centre-stage in auto fuel consumption and its blend scope is being broad based and expanded from petrol to diesel and for higher blend mix up to 100% through flex fuel vehicles. Sugar industry would continue to remain the principal supplier of ethanol for the Government to meet its E20 target by 2025.

The Energy Conservation (Amendment) Bill 2022 passed by the Parliament directs the creation of carbon markets within India for the first time. The Bureau of Energy Efficiency has been made the administrator and nodal authority for creating and executing India's Emission Trading System. This can have major implications for the sugar industry having several potential areas to tap carbon credits. It has earlier done so for its Cogen plants in the UNFCCC CDM regime. Currently, Brazil and USA have carbon linked incentives for ethanol production through sugarcane route but no such incentive exists in India. ISMA is working towards getting similar accreditation for sugar based ethanol that helps avoid annually about 7 million tonne of emissions. ISMA would further be partnering with Carbon Markets Association of India to facilitate sugar industry's participation in the upcoming Carbon Credit Trading Scheme.

Electricity

Sugar industry is engaged in cogeneration of power from renewable sources. Renewable energy was central to India's ambitious climate challenge announcements at UN 26th Conference of Parties (COP26) at Glasgow in Nov '21. India announced plans to achieve the target of net zero emission by 2070 and reduce the carbon intensity of its economy by more than 45%. India is also working on a roadmap to implement 500 GW non-fossil energy capacity target by 2030.

India currently occupies fourth position globally in overall renewable energy. It has 42% cumulative installed capacity from non-fossil fuel sources and the target is to take it to 50% by 2030. Solar and wind power have become cheaper due to steep climb down in capital cost, while they have virtually no fuel cost.

As the source of about 75% of global greenhouse gas emissions, the energy sector holds the key to respond to the world's climate challenge. The world is set to add as much renewable power in the next five years as it did in the past 20 years, overtaking coal as the largest source of electricity generation. The current global energy crisis brings both new opportunities and new challenges for renewable energy.

Sugar industry for ever was rooted in renewable energy to meet its captive needs. After the advent of the Electricity Act, 2003 and open access policy, it has swiftly moved to surplus production and export of green power to the grid. Regrettably, the huge capital investment made in this endeavour has been receiving repetitive shocks of late.

First, Ministry of Power by law restructured the old outstanding dues of State Discoms and made them repayable over a long tenure and free of interest. This has horrendously hit the power producers like our company, in the State of Tamil Nadu which had the largest outstanding dues and for the longest duration in the country. Second, time-bound revision in Regulatory tariff is not strictly followed with ad hoc extension of control period that results in gross under recovery of costs for the power producers. Third, Renewable Energy Certificate (REC) has got prematurely foreclosed and RE producers' right therefor forfeited in the case of captive consumption. All these have enervated our earnings from electricity that is tax-free and hence have formidable financial impact for our company.

Company performance

The Board's Report along with the Management Discussion and Analysis Report carries an overview of our FY 2022-23 performance. This year, we were in operation for more than 10 months that is a pretty long crushing season and our sugar and by-products production turned out to be the best in 15 years. Power production peaked to 12 crore units. Total income stood at an all-time high of Rs.450 crores.

Sugar prices remained flat in the domestic market on the average, while unit realization from molasses and power lowered. In contrast, we encountered marginal uptick in cane price coupled with a formidable rise in fuel prices. Predictably, our margins got squeezed. Despite same, thanks to our enhanced volume, improved cost efficiency and a few one-off gains, our profit trajectory was promising and stayed positive. Over all, our PBT was higher by 32% YoY, while our PAT turned out to be the best ever bottom-line. As a listed entity, we publish quarterly results and it must be gratifying to note that we have remained profitable for 17 successive quarters now.

It is disquieting that our ethanol project has for long been hit by locational restraints imposed under State environmental laws. After considerable pursuit, general exemption for ethanol from this embargo was obtained in Oct '21 but it suffered from a restrictive interpretation so as to confine this exemption only to the production of ethanol for the EBP program. Government of Tamil Nadu has since come with its 'Ethanol Blending Policy, 2023' that conceives in clear terms that the 'consent to operate' issued by the pollution authority would cover other allied products like ENA and RS as well.

I do hope that this new Policy is followed in spirit and we get the requisite clearance, more so when the company stands firmly committed to zero liquid discharge using state of the art technology. In the interregnum, we have lost the interest subvention support for the ethanol project by lapse of time. Government of India would now appear keen to aggressively promote grain-based ethanol projects, having been satisfied of adequate capacity creation under the sugarcane route. As of now, we are in sincere and serious pursuit of the environment clearance for our ethanol project.

Outlook for FY 2023-24

Sugarcane planting was picking up well in the State of Tamil Nadu, including in our command area, over the last couple of years, due to the resumption of monsoon and consequent improved water availability. In particular, our company could achieve a strident rise in sugarcane planting by dint of its concerted cane development efforts and carefully crafted subsidies to promote the planting of high sucrose cane varieties. It however looks that farmer’s interest in fresh cane planting is now on the wane because of the extraordinary rise in cultivation cost and exorbitant increase in harvesting charges.

Labour cost in Tamil Nadu is almost 2-3 times as compared to the rates prevailing in major cane producing States like UP. Effective cane price, including transport, for the Tamil Nadu mills is already far higher compared to their peers. This impedes and impairs their ability to further incentivise cane farmers through additional subsidies. The challenge thus looks intimidating and daunting. Concerted efforts towards promoting mechanization, improving cane yield and enhancing the sucrose content through varietal change no doubt remain our priority areas of pursuit to combat this challenge.

Unarguably, all these do take time to turn out tangible results on ground and at large scale.

In view of the above, we apprehend a likely decline in our cane volumes and concomitant operating parameters in FY 2023-24. We do not foresee any abnormal rise in the price of cane or fuel, while sugar prices should hopefully strengthen under extant macro conditions. The one-off gains that bolstered our bottom-line in FY 2022-23 would of course not be repeating. Accordingly, our PBT and PAT are presciently poised for deceleration in FY 2023-24. I for one remain sanguine that they would still be far above our long term average.

Acknowledgement

I thank our sugarcane farmers, other suppliers and customers for their continued support. We have successfully completed a new wage settlement that would remain in force till 30.09.2026. I thank all our employees for their positive spirit of participation during wage negotiations and for their wholehearted involvement and commitment that has resulted in our operational excellence. I thank the officials of the Central and State Governments and Banks for their understanding and guidance.

At this juncture, I would like to state that three of our Independent Directors, viz. Mr V Sridar, Dr Nanditha Krishna and Mr K Bharathan would be demitting office on the 31st Mar ’24 after completing two successive tenures of five years each. Accordingly this would be the last of our company AGM that they would be attending. The company has immensely benefitted by their active engagement, wise counsel and effective oversight. I would like to specially thank them on this occasion.

It is my pleasure and bounden duty to thank our valued shareholders who have steadfastly stood with the company and been supporting the management all along. I look forward to your comments and suggestions from time to time.

Thank you

Erode	N Gopala Ratnam
June 21, 2023	Chairman

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