

Ponni Sugars (Erode) Limited

Chairman's speech

29th AGM – 11th June 2025

Dear shareholders,

I am happy to welcome you all to this 29th Annual General Meeting of the Company. The Annual Report and audited Financial Statements for FY 2024-25 that had already been circulated have been with you for some time. With your permission, I shall take them as read.

At the outset, I hasten to acknowledge that our financial performance this year has witnessed a climb down from the peaks achieved in the previous two years. In lockstep with lower profits and in line with our Dividend Distribution Policy, your Board decided to reduce the dividend to Rs.3 per equity share this time. The Managing Director will make a brief presentation on the sugar industry and performance highlights of the company at the conclusion of my speech.

Global Economy

The global economy in 2025 is projected to grow at 2.8%. This is not only below its historic average (3.7% in 2000-19) but also below the growth of 3.3% in 2024 on account of heightened global trade protectionism, rising policy uncertainty and ongoing geopolitical tensions. Without exception, both Advanced Economies (AE) and Emerging Market and Developing Economies (EMDE) have recorded a decline. Policy makers face the daunting task of carefully calibrating monetary and fiscal policies to support growth without compromising financial and macroeconomic stability.

The first quarter of the 21st century has indeed been transformative for EMDEs. They now account for about 45% of global GDP, up from 25% in 2000, thanks to robust growth in three largest EMDEs – China, India and Brazil. Collectively, EMDEs have accounted for 60% of annual global growth since 2000, double the share compared to the 1990s. Their ascendance was powered by swift global trade and integration. Yet EMDEs confront a host of headwinds in the near term. Structural reforms have got stalled locally while protectionist measures and geopolitical fragmentation have sharply risen globally. EMDEs have the unenviable task to sustain accelerated growth for catching up with AEs and ratcheting up the standard of living of their local populace.

Global economy has been stirred and shaken by the United States announcing in April '25 multiple waves of tariffs on major trading partners and critical sectors. While much of these scheduled tariff increases are on hold for now, the combination of measures and counter measures has hiked US and global tariff rates to a centennial high. Unlike in the previous century, the global economy is now characterized by a high degree of economic and financial integration, with supply chains and financial flows crisscrossing the world. Any potential unwinding could trigger a tectonic economic upheaval.

Global economy is circumscribed by high debt, sluggish production, geopolitical tensions, declining consumer and business confidence, increased financial market volatility and potential disruptions in manufacturing and supply chains. Tariff induced price shock risks hiking inflation, slowing growth, driving up unemployment and complicating monetary policy. At the same time, constrained fiscal space – particularly in developing countries – limits the ability of Governments to effectively deal with such shocks. These challenges

jeopardise growth and sustainable development. No doubt, these are testing times.

Indian Economy

Amidst challenging global economic environment, Indian economy exhibited remarkable resilience during 2024-25, supported by robust macroeconomic fundamentals and proactive policy measures. Inflation eased and moved below the target by end of last fiscal year. The financial sector remained robust on the back of healthier bank and nonbank Balance Sheets, improved asset quality and capital buffers that enabled double-digit credit growth. Stock markets are strong with bullish undertone and intermittent corrections. On the fiscal front, the Central Government has ensured fiscal consolidation, supported by buoyant tax revenues, while maintaining the thrust on expenditure quality.

GDP growth in Q4 at 7.4% was the highest amongst four quarters in FY 2024-25. Average GDP growth for 2024-25 at 6.5% is of course the lowest in four years, yet India's growth remains the fastest amongst large economies for the fourth year in a row. In this bargain, it has emerged the fourth largest economy, overtaking Japan, as per latest IMF data. The India growth story thus remains promising and exciting.

World Sugar

Thanks to favourable weather, both Brazil and India, the top two producers, would record higher production in 2025-26 in contrast to the decline suffered by them in 2024-25. This would more than off-set lower EU production and the world sugar balance will return to surplus in 2025/26. Reacting to same, world sugar prices are correcting and currently rule below 17 c/ lb that is

balefully below the cost of production in most countries barring Brazil. Consumption growth has been slower compared to production, while weather brings intermittent correction to the world sugar balance. Fresh capacity creation is thus neither needed nor pursued in a big way anywhere in the world.

Agriculture

Indian agriculture is exposed to escalating challenges on multiple fronts owing to increasing cost, stagnant yields, global warming and erratic nature. Market risk of course is minimal for crops like rice and wheat where minimum support price mechanism is reasonably effective and this risk is virtually absent in the case of sugarcane crop. Nonetheless, cane availability is contingent on nature and returns to farmer from competitive crops.

Technology, unlike in the case of industry, has been largely missing in agriculture due to highly fragmented land holdings and unorganised nature of operations. Lack of scale limits the scope to infuse technology and shore up efficiencies. Land holding restrictions prevalent for too long have lamentably led to this lacklustre status.

Historically, land ceiling legislations were conceived in the socio economic milieu then prevailing soon after independence. With the relative share of agriculture in GDP steeply declining and scope for earnings to our workforce vastly improving outside of agriculture since then, it is time to revisit the archaic controls on farm land holdings that belong to byzantine era. Regrettably, the new Farm Laws sought to be introduced in 2020 by Government of India have failed to fructify at a national level.

Agriculture being a State subject, State Governments can take the lead and initiative to facilitate consolidation of land holdings, with or without disturbing the ownership structure as the local situation might warrant. In fact, Government of Tamil Nadu recognising the redundancy of urban land ceiling abolished its governing law about 25 years ago. It is time now to retrospect on the relevance of agricultural land ceiling and repeal its governing law too. This will help harness economies of scale, embrace new age technology, unleash the untapped potential of our agri-lands and transform them to large scale tech driven farm factories. It is no doubt politically sensitive but being a foundational flaw cries for early correction. The issue at large begs informed discussion, collective will, consensus building and bold decision making.

Sugarcane

Sugarcane is the singular raw material for sugar production in the country that is central to the eventual sustainability of sugar business. Despite assured off-take and guaranteed price, cost escalations in its cultivation are fast cutting into the margins of cane farmers and weaning them away from cane. Stagnant yield and static sucrose content warrant urgent strategic intervention in cane crop using state of the art technology to revitalize its innate strengths.

While so, traditional farming has inherent limits to combat the current challenge. Need of the hour is to scout for technologies that bring in higher efficiencies, not just incremental but exponential. Artificial Intelligence (AI) is now becoming omnipresent, fundamentally changing things in all walks of life. Of late, it is gaining attention and adoption in agriculture, including sugarcane crop. It envisions online and real time monitoring of the crop, programming

irrigation schedules, optimising input usage, enabling early detection and intervention in the event of pest and disease attack, *et al*. In the process, it helps cut costs, improve yield and increase profitability for the farmer. Your company has joined hands with Indian Sugar and Bio-energy Manufacturers Association (ISMA) to test AI tools and methodology on select cane fields. No doubt, the process and its perfecting would take time for large scale adoption but it is heart-warming that a good beginning has already been made on this.

Further, Genome-Editing (GE) is now becoming a new chapter in agriculture innovation. The Union Agriculture Ministry has recently released two genome-edited paddy varieties developed by the Indian Council of Agricultural Research (ICAR). GE is drastically different from Genetically Modified (GM) crops that was introduced for cotton years ago in our country. GE targets modification to a plant's own DNA without introducing any foreign gene. This is unlike GM organisms that involve insertion of genes from other species that may trigger health issues. Recognizing this crucial distinction, India's 2022 "Guidelines for the Safety Assessment of Genome Edited Plants" exempts certain Genome edited crops from the lengthy GMO regulatory process. Sugar industry should look at ways to develop appropriate GE process for sugarcane crop. Its significance would lie in reducing crop duration, boosting yields, optimising input resources and ensuring climate resilience.

Indian Sugar

Indian sugar production estimate for 2024-25 season has been undergoing successive downward revisions owing mainly to lower sugar recovery and cane yield in Maharashtra and Karnataka. Final production may just be a tad over 260 lakh tonnes while our domestic consumption may drop marginally to 280

lakh tonnes from 290 lakh tonnes in the previous year. Sugar exports may not fully exhaust the quota of 10 lakh tonnes by reason of bearish world prices. The opening inventory for SS 2025-26 will most likely to be the lowest in eight years. This has infused positive sentiments in domestic market and bolstered ex-factory sugar prices to remunerative levels.

Going forward, cane crop in both Maharashtra and Karnataka should significantly rebound this year, riding on the good monsoon in 2024 and its likely recurrence in 2025. Early estimates point to a palpable rise in 2025/26 production, suffice to fully support the ethanol programme and yet leave a surplus for sugar exports. Timely decision on these policy fronts is *sine-qua-non* for market stability and timely payment of cane price.

Environment Regulations

Government policies and regulations play a pivotal role in shaping business prospects. India post-independence embarked on industrial policy resolution to diversify its economy largely then reliant on agriculture. Mixed economy model was embraced to promote both private and public sector investment in industry. Employment creation and equitable distribution of wealth were the *leitmotif* in the early days of industrialization. With growing environmental conscience, pollution control laws came into being from mid 1970s. Over time, the environmental standards have got increasingly tightened and rightly so.

Given this background, Government of Tamil Nadu in 1989 issued a G.O. proscribing the establishment of new industries on the banks of notified rivers within a distance of one km. This was further tightened to five km distance in 1998. Recognising the plight of large number of industrial units that were set

up in such restricted zones before the issue of these G.Os, relaxations are being considered for expansion on case to case basis but not for diversification.

This blanket ban inhibiting the potent growth of such industrial units, that for historic reasons came to be established on river banks, would now appear anachronistic and is best avoided. With growing global competition, business enterprises are on their toes, compelled to optimise resource utilization and maximise throughput. They need to pursue for this purpose both green field and brown field growth options. There is no denying that technology has improved leaps and bounds over the last 3-4 decades in all spheres that now offers credible solutions to effectively combat and contain pollution loads. The end objective being protection of environment, it is time to displace the outright ban and manage with stricter environmental norms. This will strike a right balance between growth and environment objectives.

Sugar and health

Sugar is no stranger to both being extolled and censured. It is perceived as an essential commodity and yet painted as a health hazard. Lately, the Central Board of Secondary Education has mandated affiliated schools across the country to install 'Sugar Boards' to educate students on the risks of higher sugar intake.

Sugar has strikingly slew of positives to boast about. It is a quick source of energy for the body. It has glucose that improves cognitive function, concentration and overall mental health. It enhances flavour, acts as a preservative, balances acidity and bitterness and enhances the appetite for nutritious meal.

No doubt, sugar is not without its share of negatives. Excessive sugar consumption is strongly linked to obesity that in turn is associated with numerous health problems. It is considered a major risk factor for developing type-2 diabetes though largely attributable to hereditary. Excessive sugar intake disrupts insulin function, leading to insulin restriction.

The ideal choice doubtless lies in informed choice and ingenious diet balancing. As the old saying goes, even nectar if consumed in excess is poisonous. Moderate consumption, active lifestyle and a well-balanced diet would be the sure recipe for safety and sustainability. Given the low per capita consumption in India compared to developed countries, there is little risk at present on account of excessive consumption but there is an alarming rise in sedentary lifestyle. The current move of CBSE to create awareness in students on healthy dietary habits is hence timely and welcome. It must be accompanied by spread of scientific literature carrying concise yet comprehensive analysis of different food products and suggested course for fine diet balancing.

Cogeneration

Bagasse based cogeneration dawned decades ago that was the first game changer for sugar industry long before the current policy thrust on ethanol. Production of power from a renewable source best serves the interest of environment. No wonder, the National Electricity Policy and Tariff conceived and conceded priority status and a preferential long term 'cost plus' pricing model for such electricity to promote investment in bagasse based cogeneration.

While so, the contours of cost plus formula and in particular the interpretation of constituent factors therein led to multiple disputes. Your company had set up its cogeneration plant in 2012 and various Tariff Orders issued since then were in challenge before the Appellate Tribunal for Electricity. Hearings have since been concluded and judgement reserved. I do hope that the contentious issues will reach finality in the current year.

Further, since the preferential tariff is for using renewable fuel, its eligibility is conditional on restricted usage of fossil fuel in the overall mix. This however posed attendant challenge to the use of bagasse as a renewable source of raw material in the pulp and paper industry. Unarguably, bagasse used in pulp production helps conserve longer tenure pulpwood plantations in the process. It thus effectively aids in the protection of environment and hence merits parity in policy priority.

In this context, it is heart-warming to observe that Tamil Nadu Electricity Regulatory Commission (TNERC) in its latest consultative paper has proposed relaxation in fossil fuel usage when bagasse gets diverted for pulp production. This has been proposed case specific, confined to a State Government enterprise. Sugar industry has sought generic adoption of this principle to apply to all cases involving long term tie-up for bagasse supply between any sugar and paper mill within the State.

As a matter of fact, your company was the pioneer in configuring such a model under long term MoU with the neighbouring paper mill of Seshasayee Paper and Boards Ltd. The proposed relaxation is progressive and pragmatic to

promote optimal end use of bagasse as a critical input for the production of power or pulp or any combination thereof.

Ethanol

The Ethanol Blended Petrol (EBP) programme has been one of the biggest success stories in India's quest to achieve sustainability. Ethanol blending has increased from 12% in ESY 2022-23 to 18.61% in ESY 2024-25 as of April '25 riding on right policy framework by the Government and remarkable response from the sugar and ethanol industry. India's ethanol drive has so far added over Rs.one lakh crores to farmers' earnings, saving about Rs.1,26,210 crores till April '25 in foreign exchange by avoiding crude oil imports.

With India on the verge of achieving E20 target ahead, goal post is now sought to be shifted to 30% blend by 2030. Achieving this vision will of course require scalable infrastructure, flexible feedstock usage and consistent policy framework that supports sustainable pricing and growth across the value chain. Policy measures will be pivotal on - rationalising GST for FFVs (5%), introducing differential pricing for ethanol fuels, and ensuring Total Cost of Ownership (TCO) parity with EVs. Ethanol pricing mechanism linked to the Fair and Remunerative Price (FRP) of sugarcane can provide the predictability needed for sustained producer investments.

Creating ethanol-integrated bio-hubs in sugarcane-rich regions could be the next master plan. These hubs, combining ethanol production with co-generation of bioelectricity, biogas, and biofertilizers, represent a model for resource-efficient, circular rural economies.

Company performance

The Board's Report along with the Management Discussion and Analysis Report presents an overview of our FY 2024-25 performance. Of late, climatic change has come to hit Tamil Nadu sugar mills quite severely and in quick sequence. After crushing commendable cane volumes in the last two years, the company suffered a discernible decline in FY 2024-25. Still worse, pallid cane quality pilloried our sugar recovery, pushing it down to the lowest in seven years. These two being key operating performance drivers, their negativity dented our margins and derailed overall financial performance. Rebound in sugar price was inadequate to keep pace with the upsurge in cane cost, while the buoyancy in realisation from by-product viz. molasses was our sole saviour.

For reasons dwelt at length in the Board's Report, both our PBT and PAT for the year have fallen from the high pedestal. A facile comparison of our results with immediate past would no doubt be disquieting and discomfiting; yet I would consider our overall performance for the year fairly successful and reasonably satisfactory under extant adversities.

Outlook for FY 2025-26

IMD has reiterated and in its last update marginally improved its forecast for southwest monsoon in 2025 at 105% of long period average. It has also underlined caution for certain regions that include Tamil Nadu which may perform below par. We are however enthused by the favourable monsoon forecast for Karnataka. This strengthens the prospects for copious flow in river Cauvery and full storage in the Mettur reservoir that supports a large chunk of our command area.

We look to a modest rise in cane planting and noteworthy improvement in sugarcane quality this year. Under continuing supply squeeze, higher cane cost is bound to exert and exacerbate margin pressures. The company on its part is in proactive and persuasive engagement with its farmers introducing new cane varieties, improving cultivation practices, increasing drip irrigation and initiating mechanical harvesting. It has developed in-house a dedicated 'Cane App' facilitating digital interaction and offering one stop solutions. It has extended a package of subsidies aimed at reinvigorating and improving both volume and quality of cane in its area.

Alas, at the end of the day, agriculture is monsoon driven and risk prone to climatic changes. Competitive crops too are fast emerging by turn, tilting farmers' choice in favour of short duration and lower labour dependent alternatives. Our daunting challenge and unremitting endeavour in such a scenario is in sustaining farmers' interest in cane crop in our command area. I am glad to state that we have been largely successful on this till date.

Acknowledgement

I sincerely thank our farmers who have been the bedrock of our long term successful operations. I thank our suppliers, customers, officials of the Central and State Governments and our Bankers for their continued support. I wish to commend the committed performance of our employees, readily rising to the day-to-day challenges and optimising our operational performance.

As always, it is my pleasure to thank our valued shareholders for their unequivocal patronage and unstinted support to the management. I look forward to your comments and suggestions from time to time.

Thank you

Erode
June 11, 2025

N Gopala Ratnam
Chairman

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