Ponni Sugars (Erode) Limited

Chairman's speech

28th AGM – 5th June 2024

Dear shareholders,

I am happy to welcome you all to this 28th Annual General Meeting of the Company. I am indeed happier to share with you our company's stellar financial performance in FY 2023/24 amidst all round operating adversities.

In line with our overall improved show, your Board has recommended a dividend of Rs.7 per share for the current year. Significantly, the company has consistently stepped up the dividend rate for six years in succession and the current dividend marks an all-time high in its annals.

The Company has already circulated the Annual Report and Audited Financial Statements for FY 2023/24. They 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

IMF in its April 2024 report estimates global growth for 2024/25 at 3.2%. Understandably, emerging markets and developing economies would grow faster at 4.2%. This pace of expansion is low by historical standards owing to host of factors such as high borrowing costs, withdrawal of fiscal support, long term effects from Covid 19 pandemic and geopolitical tension besides increasing geo-economic fragmentation. The latest forecast for global growth five years from now – at 3.1% - is the lowest in decades. Risks to the global outlook would now seem broadly balanced.

Organisation for Economic Cooperation and Development (OECD) has projected global growth at 3.1% in 2024 and 3.2% in 2025. In its view, the risk of global recession has receded but concerns of impending inflation could re-ignite the risk of global financial stability. While so, IMF, World Bank and prominent rating agencies have predicted further slow-down in global growth this year. Escalation of the recent conflict in the Middle East, financial stress, persistent inflation and a slowdown in international trade are downside risks for global growth. Clearly, the world economy is at crossroads and impregnated with imponderables posing grave challenge to growth.

Indian Economy

India's GDP is set to cross USD 4 trillion in FY 2024, while its equity market has already achieved a significant milestone by hitting USD 4 trillion valuation. In the last 10 years, it has leap-frogged from 11^{th} to the 5^{th} largest economy by way of GDP and at current growth rate should seamlessly be able to transition and occupy the third slot in the next three years. The bad loan problem is by now behind the Banks, corporates have significantly pared debts, their respective Balance Sheets have become robust for lending and borrowing, fiscal deficit and inflation inching towards target and rupee relatively staying stable.

Amid all pessimism, India is seen by international agencies and top rating firms as an emerging economic superpower of the world. It is projected to grow at 6.6 per cent by OECD, the fastest among major emerging markets as opposed to China at 4.9% and Brazil at 1.9%. IMF's April 2024 World Economic Outlook has highlighted the expected robustness of the Indian economy in 2024 and 2025, attributing it to strong domestic demand and a growing working-age population.

India’s Central Bank in its monthly economic review observes “There is a growing optimism that India is on the cusp of a long-awaited economic take-off. India is positioned to remain the fastest-growing major economy, demonstrating resilience amid geopolitical challenges and supply chain pressures.” It has recorded satisfaction over 7% or above growth achieved in three successive years.

India has thus enticingly emerged as the lodestar of global economy. There is however no denying that India ranks too low at 136 in the league of nations in per capita income. It is hence critical to sustain and step up our growth at 7 to 8% over the next couple of decades to get rid of poor country label, though extreme poverty is mercifully already extinct.

World Sugar

World sugar production and supply is increasingly being driven by Brazil, the dominant producer and exporter. Sugar-ethanol price parity for quite some time has been decisively in support of sugar, prompting higher allocation of sugarcane for sugar in the product mix. Brazil has singularly been successful in neutralizing lower production elsewhere and stabilizing global sugar balance.

Weather forecasts transcending from El-Nino to La-Nina conditions portend a realistic scope for rebound in production outside of Brazil as well in the coming year. Sugar fundamentals portraying demand-supply parity have thus come to checkmate world sugar price rise that decisively declined from a peak of 28.14 c/lb in November 2023 to just above 18 c/lb by May 2024. With India most unlikely to re-enter world market any time soon, global prices may stay range bound in near term between 18 and 20 c/lb.

Indian Agriculture

Restrictive land ceiling regulations and consequent fragmented land holdings, though well intended to achieve social justice, havein effect blocked R & D and technology upgradation in agriculture.This is in dire contrast to world class excellence achieved in manufacturing by conglomerates in several sectors. It is clear and evident that agricultural revolution and modernization alongside of consolidation of landholdings is critical to sustain farm production and improve farm income.

In this context, it is heartening to note that Indian agriculture is slowly moving to embrace smart agriculture or precision farming. It is defined in relation to 5-Rs ie, applying the right input in the right amount to the right place at the right time and in the right manner. It encompasses utilization of modern tools such as Robotics, Internet of Things (IoT), location sensors/ factors, drones, GPS as well as AI (Artificial Intelligence).

The data gathered from these tools include comprehensive information about crop yield, weather, rainfall and soil health. The data so collected is used to increase resource allocation, crop growth, management of nutrient, irrigation, pesticides and harvesting updates. Early detection of anomalies allows for timely intervention, drastically reducing the spread of disease and pest infestation. This not only saves crops but also reduces the need for chemical treatment, thereby promoting a healthier environment.

The cardinal objective is to improve the effectiveness and productivity of farming, reduce cost of cultivation and maintain a healthy ecosystem that results in improved yield, lower input cost and reduced environmental impact. In this, AI is the science or technology that can help analyse large and complex data very easily, quickly and exhaustively. AI has the potential to take Indian agriculture to next level.

Indian rural folk, for long labelled illiterate and uninitiated, is no stranger to swiftly embrace emerging technologies as evidenced by internet and mobile app penetration and seamless use of digital payments. It is imperative to take modern technological innovations and practices including AI from professional platforms to peasants' fields in quick time for sustainability of our agriculture and for meeting growing food and fuel requirement without expansion of area under agriculture.

Sugarcane

Sugarcane forms the fulcrum for the sugar industry to produce plenitude of final products. The imminent and ineluctable need is to enhance sugarcane production keeping in mind the muted scope for expanding cane area to meet the demands of the sugar industry to cater to domestic consumption, create an exportable surplus and concomitantly achieve the higher ethanol blend target.

By optimising farming practices embracing smart agriculture, farmers can achieve significant gains in efficiency and sustainability. With growing concerns on climate change and water stress, another game changer is drip irrigation, a technology that ensures water reaching the plant roots directly, minimizing wastage. This targeted approach alongside advancement in soil health management and the use of bio-fertilizer paves way for responsible use of the land. Your company is actively engaged in promoting drip irrigation, producing and supplying micro nutrient mixture and mobilising drones backed by targeted subsidies. It is also working in close co-ordination with ICAR-SBI on varietal improvement.

India has considerably strengthened and improved its rail-road infrastructure for countrywide connectivity. It has established a National Grid for the integrated operation of the Indian power system, facilitating transfer of power within and across regions. It has painstakingly integrated the indirect tax structure through GST under 'One Nation One Tax' concept. It is now high time we take credible steps in the same way for interlinking rivers to achieve 'One Nation One River' goal. Such a dream was floated five decades ago but is understandably fraught with formidable challenges, much of it political. Overtime, things that for long were perceived impossible do become possible and to quote Victor Hogo "No force on earth can stop an idea whose time has come." Let me hope thenew Government would on priority pursue this ambitious, rather audacious, project to take head on the flooding and droughts alternating among regions. States like Tamil Nadu would largely benefit by such a river-grid for sustainability in agriculture including sugarcane cultivation.

Indian Sugar

India's net sugar production for 2023/24 season was initially estimated at a tad above 300 lakh tonnes while market grapevine was betting it far lower. This was premised on poor monsoon putting paid to sugarcane yield and recovery estimates for Maharashtra and Karnataka. Late rains however helped to partially undo the damage. Government on its part was determined to stabilize local supply for which it clamped a virtual export ban and constricted sugar subsumption in ethanol production. Final sugar production would now approximate 320 lakh tonnes. Domestic offtake is on steady rise post covid time contraction that is well poised to hit a peak of 290 lakh tonnes this year. Year end stocks would expand by about 50%.

Sugar prices during the year witnessed progressive rise but got effectively capped and eventually corrected by dint of active and aggressive Government intervention. In fact, current sugar prices are unarguably inadequate to neutralise the increased cane price and other cost escalations in the normal course. The industry was also shut out of lucrative export market during 2023/24 where prices were ruling at a premium to domestic realisation.

Government Regulations

Sugar is no stranger to scores of Government Regulations and I would like to briefly touch upon two of them.

First, the Minimum Selling Price (MSP) for sugar that was last revised to Rs.31 per kg in February 2019 has remained static and not been aligned with increasing Fair and Remunerative Price (FRP) for sugarcane. This is in clear defiance of the inbuilt revision mechanism reassured in the Sugar (Control) Order, 1966. While the industry is ordained to pay FRP to cane farmers within 14 days under the Sugarcane (Control) Order, the Government is dithering on its obligation under the other control order by inordinately delaying the revision of MSP for sugar. It is fundamental and axiomatic that there is continuing co-relation between the price for sugarcane and sugar, lest the yawning gap leads to cane arrears.As a lasting solution, the revenue sharing formula and price stabilization fund must be made an integral part of the Control Order as assiduously being advised by CACP over several years in its Cane Pricing Policy report.

The other intriguing issue is sugar packing. Jute packing was mandated on a host of manufactured goods when the country's economic model was one of 'command and control'. All except sugar got freed from this diktat decades ago but it egregiously eludes sugar for no explicable reason. Jute packing is not the preferred choice of sugar consumers, while it inflicts a three-fourth increase in packing cost for sugar producers. The puerile attempt to cross subsidise jute industry at the cost of sugar industry and in turn bestow a benefit to jute growers at the cost of cane growers is discernibly devoid of economic rationale, nor does it serve a social objective. Drawing an analogy, the financial burden of free or subsidised power has been taken out of Discom's domain and foisted on respective State Governments under the power sector reform. It is but just and fair that financial support to jute sector should similarly come directly out of Government's coffers and not loaded on sugar industry.

Sugar & Health

Sugar is facing its fair share of criticism, of late in increasing crescendo, on health concerns. A reputed MNC in the FMCG sector has been recently blamed for using higher sugar content in its baby food products in the Indian market as opposed to far less sugar for the US and European market. There is no denying that health and safety norms must be uniform and universal.

It would however seem impetuous and imprudent to plant unfounded fears in the minds of an ordinary consumer. After all, one man's food is another man's poison. Sugar does play a positive role for the common man to have gainful access to requisite calories and nutrients at and affordable cost, concurrently satiating his taste buds. It is used as a food preservative, it imbibes positive energy and is a mood booster. Barring those having health issues like diabetes, sugar in-take in moderation coupled with normal physical activities is no taboo. It is not without reasoning that sugar is labelled as an essential commodity in the Indian context.

Science is never static but is ever evolving. Sugar producers have found ways to refine and redefine their processing by totally eliminating sulphur content from the end product. Our company towards this endeavor has already moved from the customary double sulphitation to single sulphitation process so that even in the absence of refinery the goal is substantively met. The need of the hour is to innovate and develop sugar products with lower glycemic index, lower calorie content and added nutritive value to meet evolving consumer preferences and market demands. Further research may be needed to progressively peg and eventually erase remnant traces of harmful molecules and atoms from the final sugar while perceptibly preserving all its positives. Industry on its part would need to double down efforts and diligently work on reformulating its product that is at once healthy, nutritious, tastyand wholesome.

Ethanol

The ethanol blend program reinvigorated in 2018 has been a great success story for the sugar industry. There has been a steady rise in the blend percentage that reached 12% in Ethanol Supply Year 2022/23. Current year target of 15% may not however be met due to restrictions clamped on ethanol production by sacrificing sugar but this at best is just a blip.

Concurrently, Government has been promoting grain based ethanol but sugar industry would be playing a pivotal role for the country to achieve the 20% blend target. There is growing interest and gaining momentum to launch flex fuel vehicles that could operate with ethanol mix up to 100%. Given its economic and environmental positives, ethanol has to come to stay as a viable and sustainable eco-friendly fuel for India.

Our ethanol project has however failed to take off due to the rigid stance of pollution control authorities. We have been contending that for longterm sustainability and viability, our ethanol plant has to be co- located within the sugar mill complex and be on a level playing field with our peers by being able to produce all allied products as well, such as rectified spirit and extra neutral alcohol. The locational restrictions imposed by the State Government for setting up industrial units within 5-km distance of a notified river however came in our way.

It looks this conditionality would certainly warrant a revisit when technology has much transgressed and transformed to efficaciously tackle environmental concerns. In particular, expansion and diversification of existing industrial units on these locations shall be allowed, subject only to their strict adherence to the stipulated standards on environment. This being a larger issue involving public policy, our ethanol project is kept in abeyance. Nonetheless, the policy focus of the Centre on ethanol has come to reinforce the demand for our molasses fetching us much improved prices for this by-product.

Company performance

The Board's Report along with the Management Discussion and Analysis Report contains an overview of our FY 2023/24 performance. The back to back drought hit us badly with its knock-on effect by way of decline in cane area, decrease in yield and more significantly a despicable deceleration in sugar recovery. We have largely been able to contain and overwhelm these negatives with our aggressive cane promotional and mobilization moves as well as cost optimisation measures. Mercifully, we were aided by market buoyancy that helped protect our margins. We were also successful in securing a favourable ruling from the power regulator that protects our right to full tariff till we attain normative capacity utilization on a cumulative basis.

Our PAT for the year vaulted by 22% turning out to be the best ever bottomline for the company. As a listed entity, we publish quarterly results and it is hugely gratifying to note that we have remained profitable for 21 successive quarters now.

Outlook for FY 2024-25

El Nino that invariably leads to prolonged dry periods and droughts in Asia hit us badly in 2023. It resulted on deficient southwest and northeast monsoon and depletion of storage in water reservoirs. Total absence of winter and pre-monsoon precipitation further exacerbated our woes. Indeed, reservoir levels were dropping week after week. Under such water stressed conditions, we have had to run our sugar mill during peak summer, drawing inimically immature cane with resultant reduction in sugar recovery. This was solely with a view to bail our sugarcane farmers out of a threatening total crop loss. Sizeable sugarcane volume having thus been drawn ahead of normal schedule, we are faced with commensurate shortage of fully matured cane when we begin our special season in July.

We are now placing our renewed bet on favourable rains from south west monsoon this year. The latest IMD forecast of rainfall at 106% of long period average is reassuring. Other private and global weather agencies too are in clear concurrence on good monsoon this time. We accordingly look to improved flow in Cauvery, increased storage in Mettur reservoir and perceptible water precipitation in our cane fields. On our part, we are fully geared to motivate our farmers, backed by free seed supply and support infrastructure, for swiftly scaling up cane cultivation towards meeting our cane requirement in the succeeding year.

As it stands, our operating performance in FY 2024/25 would more likely witness a decline owing to last year's drought impact. We should to a large extent be able to get support from higher product prices. In the absence of one off gains that boosted our profits in FY 2023/24, outlook for FY 2024/25 is subdued but would be in line with our long time average.

Acknowledgement

I thank our sugarcane farmers who in large number continue to engage in cane cultivation braving weather challenges. I wish to place on record the committed performance of our employees in achieving optimised operational performance. I further wish to thank our suppliers, customers, officials of the Central and State Governments and our Bankers for their understanding and support.

Three of our Independent Directors, namely Mr V Sridar, Dr Nanditha Krishna and Mr K Bharathan retired on 31st March 2024 after completing two successive tenures of five years each. Further Mr Bimal K Poddar, a non-independent director, too resigned and vacated office on 31st March 2024 owing to his advancing age and other commitments. The company has been immensely benefitted by their active engagement, wise counsel, effective oversight and valued contribution for a long time. I would like to specially thank them on this occasion.

Dr Lakshmi Nadkarni and Mr Chellamani Naresh have joined as independent directors on our Board from 15th March 2024 for a fixed tenure of five years. I welcome them to this meeting.

It is my pleasure and bounden duty to thank our valued shareholders who have steadfastly stood by 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 5, 2024 Chairman

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