



PONNI SUGARS (ERODE) LIMITED

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Speech of
Sri N GOPALA RATNAM, Chairman
at the 18th Annual General Meeting of the
Company on Tuesday 22nd July 2014
at New Woodlands Hotel Pvt Ltd,
72-75 Dr Radhakrishnan Road,
Mylapore, Chennai 600 004

Ladies and Gentlemen:

I extend a warm welcome to all of you for this 18th Annual General Meeting of the Company. The Annual Report for 2013-14 has been with you for some time. With your kind permission, I shall take it as read.

Economic environment

World economy as per IMF estimates is set to grow at 3.6% in 2014 marking a second year of positive trend. Notably, Euro area will post a positive growth after the contraction witnessed in 2012 and 2013. The Economic Survey 2013-14 is optimistic on similar positive uptick for India. Leaving behind the sub 5% growth on GDP witnessed over the last two years, the Indian economy is poised to grow in 2014-15 in the range of 5.4–5.9%. Downside risks emerging from below-normal monsoon, geopolitical tensions, elevated levels of inflation and benign growth outlook in some Asian economies may however push the final tally closer to the lower side of this range.

The discernible decline to sub 5% in GDP growth as above for two consecutive years has been witnessed for the first time in 25 years demonstrating the high degree of challenges daunting our economy. The interplay of structural constraints, delays in project implementation, subdued domestic sentiments and an uncertain global milieu led to general growth slowdown. These

factors triggered risk emergence and injected considerable risk aversion in investment activity. As a result, manufacturing suffered the steepest fall from a noteworthy 11.3% in 2009-10 to a negative (-) 0.7% growth in 2013-14. In the backdrop of such grim data and gloomy outlook, the decisive electoral mandate in favour of the new Government has overwhelmingly come to challenge the status quo and change overnight the business sentiments and investment climate for better. It is on the strong expectation of a stable Government being in a position to steadfastly push ahead required policy reforms with renewed vigour to reignite the growth engines.

The Union Budget for 2014-15 has its focus and direction clear, resolving to usher in a policy regime that will result in desired macro-economic outcome of higher growth, lower inflation and a prudent policy stance for achieving a sustained growth of 7-8% or above within the next 3-4 years. It has set clear goals and roadmap for fiscal consolidation, FDI promotion, providing a stable and predictable taxation regime that is investor friendly and early implementation of GST and DTC.

I remain sanguine and confident like most of my peers that India would sure and sooner get back to higher growth trajectory on a conducive policy platform and investor friendly business environment towards fulfilling the

rising aspirations of our growing young population.

World Sugar

World sugar production after recording a surplus for four consecutive years may return to the deficit phase in 2014-15. However the modest size of the projected deficit is more likely to have only a muted impact on year-end inventory levels and stock/consumption ratio. It might hence lend only limited support for potential price recovery based on fundamentals.

World prices for both raw and white sugar display of late only lateral movements, oscillating within a very narrow range. Despite near term subdued outlook, the growing deficit phase on the strength of plateauing production and creeping rise in consumption should hold good promise for buoyancy in world sugar markets in the long run.

Indian Sugar

Indian sugar industry was notorious for "maximum Government and minimum Governance" for too long with plethora of laws and regulations rigorously controlling every sphere of its functioning. In this milieu, Dr C Rangarajan Committee recommendations that came last year breathed fresh air on the long overdue reforms. The Central Government on its part swiftly implemented the recommendations on the sugar side,

abolishing levy quota and dismantling the monthly free-sale quota. What thus began well however remains only half-done till date.

Sugar industry is still saddled with State-level controls on the sugarcane side. In particular, the politically fixed State Advised Price devoid of economic rationale is proving to be its proverbial Achilles Heel. No doubt, States like Karnataka and Maharashtra have begun with baby steps for embracing the revenue sharing formula in arriving at the final cane price but the process would need to be perfected. More importantly, such a revenue sharing model should be followed in other major cane producing States (viz. UP and Tamil Nadu) as well.

It is a no-brainer that input-output price parity is central to long term business sustainability in any economic endeavour. This core principle can be flouted only at the peril of all its constituent stakeholders. In the sugar industry, arbitrary high cane prices have ipso facto led to the build-up of huge sugarcane price arrears, warranting in turn Central Government intervention through soft loan support and other forms of munificence. While such sops would seem justified to help protect the poor farmer, it doubtless addresses only the symptom ignoring the systemic malaise. The sure-shot remedy clearly lies only in sugarcane

price rationalization. It is time the new Central Government engages with major sugar producing States and brings about a long term formula based sugarcane pricing on revenue sharing model within a definitive timeframe.

India would be entering 2014-15 sugar season with much higher than normal carryover stocks and a likely fifth successive year of surplus sugar production. Sugar prices would hence face the resistance for robust recovery by the supply overhang. With limited scope for export, the industry has to increasingly rely on improved value addition for its by-products through cogeneration of power and ethanol. However regulatory challenges and lack of price discovery mechanism continue to pose a grave challenge. Considering the overwhelming livelihood issues of sugarcane farmers that are inextricably linked to the financial stability of the sugar industry, I do hope the Government would come with a holistic approach and affirmative policy response to revitalize this rural centric industry.

Companies Act, 2013

The major changes brought about by the Companies Act, 2013 impinging on your Company have been highlighted in the Directors' Report. It indeed aims at a tectonic shift from one CG – 'Central Government' to another CG – 'Corporate Governance' as the touchstone of corporate functioning

and pivot of democratic decision making.

With a view to enlist wider shareholder participation for informed decision making, the new Company Law mandates listed companies to offer electronic voting facility for all General Meetings. Following this, your company has offered e-voting facility for this meeting that commenced on 16th July 2014 and closed on 18th July 2014. The Scrutinizer has since given his report on e-voting results and I would be sharing this with our members at the conclusion of my speech.

While the underlying thrust of the new Company Law in structuring and strengthening the governance process is unexceptionable, it has unwittingly thrown up several areas of ambiguities and practical difficulties. It is unarguable that 'related party transaction' is a critical area for observance of due governance process and detailed disclosure. However, the current provisions would need a revisit keeping in mind the ground realities of business and fine-tuning in a manner as not to create road-blocks in legitimate pursuit of business plans. There are also several areas of clear and glaring inconsistency between the stance of MCA and SEBI, both governing listed companies. It is imperative that these get duly synchronized and synergized with due emphasis on clarity of purpose, ease of compliance and facilitation of business.

Industry Associations have submitted a detailed memorandum on various issues confronting the business under the new Company Law. I am sure the Government would come forward soon to assuage these areas of concerns.

Company performance

The Directors' Report and the MDA give a detailed account of the company's performance in FY 2013-14. Your company had to face the double whammy of a hostile local environment (successive years of drought, depleted water table, poor flow in river Cauvery and low storage in Mettur Reservoir – together impacting seriously both availability and quality of cane) on the one hand and a horrendous macro environment (global glut in sugar, galloping stockpile of sugar in India, persistent fall in sugar prices coupled with unabated rise in sugarcane price – a sure recipe for financial disaster) on the other. It continues to witness poor monsoon and stressed water availability in its command area of sugarcane; still worse there are yet no visible signs of resumption of normalcy in monsoon outlook in its neighbourhood.

Your Company has hence had to reckon with rueful operating results for FY 2013-14, suffering the highest ever loss of Rs.478 lakhs after tax. Given the overwhelming business challenges and formidable financial pressures faced during FY 2013-14,

most of which might persist or perhaps aggravate during FY 2014-15, your Board has recommended a reduced dividend of 6% (Re.0.60 per Equity Share of Rs.10 each) just as a token of goodwill. I do hope I will have your indulgence for the same.

Current year performance, April-June 2014

The first quarter is normally an off-season for sugar companies and your company had virtually no production operation during this period. Sugar prices have somewhat recovered from their rock-bottom levels but they continue to remain unviable. Molasses realization has remained buoyant for the last one year and thankfully the trend persists during the current year as well.

Audited Financial Results for the first quarter are being considered by the Board in the afternoon. It will get uploaded in our website soon thereafter for your viewing.

Current year outlook

Pan-India monsoon forecast for the current year is below normal and there would appear increasing probability for the occurrence of El Nino which is associated with lower rainfall for India. However, sugarcane area remains almost on par with last year and water storage level in most reservoirs would seem adequate to support cane crop that is largely under irrigation

cover. Persistent rain deficiency in the remaining part of the year could impact crop yield to marginally pull down sugar production. Nonetheless, the huge sugar stocks would limit the scope for price recovery in the absence of global weather related corrections to the sugar balance.

Your Company continues to bear the brunt of the severest of drought conditions in its command area. Cane planting has only suffered further decline, solely due to water stress. We are thus caught up in an unenviable situation to face heavy head-winds for one more year.

Your Company is of course well fortified to take on the tough times ahead. It has built up a strong Balance Sheet and it enjoys good credit rating for its working capital borrowing. Periodic prepayment of long term debt, orderly conduct of account even during times of distress, continuous engagement with Banks for information sharing and transparency in dealings have together helped strengthen its bond with them and establish an enviable reputation. Indeed, your Company was one amongst the few early recipients of the Loan under the "Scheme for Extending Financial Assistance to Sugar Undertakings, 2014" where we get full interest subvention facility. Despite losses, its operational performance ranks ahead of most of its peers.

In sum, the goodwill built overtime has put the company in good stead during the current challenging environment. We are of course conscious of the fact that an early turnaround of financial performance is imperative to meet and serve diverse stakeholder expectations. For this, while we remain critically dependent on the return of normalcy in monsoon in our command area, the management and operating team on their part remain firmly committed in their resolve to achieve operational excellence within extant constraints.

Acknowledgement

I wish to thank the cane cultivators for their understanding and cooperation despite the enormity of weather challenges faced by them. I thank our Bankers for steadfastly standing by the Company during the current difficult times and swiftly meeting its fresh funding requirements. Our employees have demonstrated their best of effort and commitment to combat adversities. Above all, our valued shareholders have displayed their continual confidence, understanding and appreciation. I am indeed grateful to all of them as well as my colleagues on the Board for their wise counsel and guidance.

Thank you

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