



## **PONNI SUGARS (ERODE) LIMITED**

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Speech of  
**Sri N GOPALA RATNAM**, Chairman  
at the 20th Annual General Meeting of the  
Company on Tuesday 26th July 2016  
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 to this 20<sup>th</sup> Annual General Meeting of the Company. The Annual Report for 2015-16 has been with you for some time. With your kind permission, I will take it as read.

I am happy to state that our Company has swiftly returned to positive financial performance in the current year. Accordingly your Board is pleased to recommend a Dividend @ ₹ 1.20 per Equity Share.

### **Macro Economy**

IMF in its World Economic Outlook update of July'16 has cut global growth forecast marginally, factoring in the unexpected UK vote to leave European Union that has created a wave of uncertainty amid already fragile business and consumer confidence. IMF foresees that the Brexit vote implies a substantial increase in economic, political and institutional uncertainty that will have negative macro economic consequences, especially in advanced European economies. Global growth is forecast at 3.1% in 2016 and 3.4% in 2017. Of this, the share of Advanced Economies is pegged at 1.8% for both the years while the share of Emerging Market and Developing Economies would be 4.1% in 2016 and 4.6% in 2017. India's growth rate at 7.4% in both the years is placed well ahead of China at 6.4% for 2016 and 6.2% in 2017.

World trade remains muted in an environment of weak demand. The global recovery remains fragile and struggling to gain traction amidst weak and uneven growth, a slowdown in world

trade and prevailing uncertainties in financial and commodities markets. While macroeconomic stability is returning to some emerging market economies, geopolitical tensions and high volatility in financial markets impede the resumption of momentum and the outlook remains challenging. In this light, gold prices remain elevated on safe haven demand.

Indian economy at this juncture stands out in terms of growth and investment potential. India has indeed emerged as the fastest growing major economy in the world as per the Central Statistical Organization (CSO) and International Monetary Fund (IMF). It has convincingly overtaken China in the process, though it is yet a decade behind China on basic indicators of income.

GDP growth in 2015-16 for India was at 7.6%. Deficient monsoon in the last two years however led to derisory growth in agriculture. With likely restoration of normal monsoon, India should hopefully be firing from all cylinders to hit higher growth in 2016-17 targeted at 7.8%. India's financial system remains stable, despite the banking sector facing formidable challenges. With the Government's commitment to continue on the path of fiscal discipline, the efforts on containing the revenue deficit and rationalizing subsidies need to be reinforced. GST, a major indirect tax reform that is now closer to fruition, should further significantly reassure the ease of doing business and reignite growth momentum.

### **World Sugar Overview**

Sugar industry is intrinsically cyclical and it has come a full cycle in the last one

year. After recording a recurring surplus for an unprecedented five years in a row, it finally corrected with the dawn of deficit in 2015-16. Global trade houses and analysts have been unanimous on the escalating scale of deficits for the year with every successive revision in the estimate, though diverging on the precise size of the deficit. There is further near unanimity that the deficit phase would persist during the following 2016-17. As a result, sugar prices have sharply corrected with a strong rebound by over 50% from the low of 14 c/lb during April'16 to about 21 c/lb during the 1<sup>st</sup> week of July'16. Heavy inventory pile-up in the long surplus phase would however be a dampener against further spiraling in prices to the dizzy heights of 2011.

### Indian Sugar Scenario

India too witnessed similar *volte-face* during 2015-16 season. Deficient monsoon and depleted water table in major reservoirs led to shriveling cane crop and shrinking sugar production in two of the major sugar producing States, namely, Maharashtra and Karnataka. As a result, sugar production in 2015-16 is slated to reach near parity with consumption, while the mandated sugar exports under the Minimum Indicative Export Quota has helped to correct excess stock pile. More significantly, the production outlook for 2016-17 is subdued to trigger a deficit that however would seem manageable as per current forecast.

No doubt, sugar prices responding to the change in global and domestic fundamentals as above, staged a smart recovery by about 50% in the course of

the year. This stupendous rise however does not mean a largesse to the industry but only underpins the losses suffered in large measure until recently. As a matter of fact, sugar prices have just rebounded to a level that covers the current cost of production for the industry.

Even so, the Government chose in quick succession strong antidotes such as to impose stock holding limit, withdraw export quota and levy a hefty export duty on sugar. Knee-jerk reactions such as these look rather pre-mature and at this juncture are clearly avoidable. It is time the sugar industry is allowed to recoup its losses, refinance its kitty, repay and reduce its escalated level of debts and come clear of cane dues in entirety. For this, sugar prices at current levels are still unarguably not fully supportive. Prudence and pragmatism should hence prevail over politics, forbearing the Government from perverse policy intervention that would allow further moderate and measured rise in the market price for sugar in the normal course. This in turn will help restoring the financial health of the industry and reassuring viability in operations.

### Sugar & Sugarcane – Myth Vs Pith

Sugar has been in the human diet for centuries, forming part of a healthy and balanced diet for a normal human being. In recent years, the overall role of sugar in human health and its association with a growing prevalence of non communicable diseases has come under intense debate in shaping public health policies. A lot of information underpinning the current 'sugar and health' debate can be misleading and incomplete. As the old adage goes, one

person's food can be another person's poison and excessive indulgence in anything is innately inimical. But there is insufficient scientific evidence to suggest a causal relationship between total sugar intake and the prevalence of obesity. Sugar is classified as an 'essential commodity' in scores of countries while there is growing outcry for imposing carbon tax on sugary products in several other countries. It is hard to perceive that sugar can simultaneously be hazardous and essential. Science and research is ever an ongoing process to bring new findings but there is little credible evidence as of date to directly and decisively link sugar intake to obesity and the jury is yet out on this.

Now turning to sugarcane crop, this appears to have become the whipping boy, wantonly blamed for the back-to-back drought in Maharashtra's worst affected Marathwada region. Sugarcane of course requires more water than most competing crops when measured in absolute volume. But it is facile to predicate on the basis of such puerile data and proscribe cane crop which per se is a veritable value creator in the rural economy. Sugarcane is a longer duration crop and verily consumes less water when measured on per day basis. More significantly, cane crop consumes less water for every unit weight of biomass produced. Equally important is the fact that the cane crop itself has 70% weight content by water. This water meets the process requirement for sugar and for producing steam and power, yet leaving a surplus that after cooling in spray ponds and undergoing primary treatment is reused for irrigation. It thus renders net water requirement of sugar

mills negative. In addition, sugarcane is the fulcrum for a galaxy of green products such as renewable energy, alcohol, fuel ethanol as well as bio-compost. Even the sugarcane tops largely serve as cattle feed or bio-manure. It is thus incontrovertible that based on scientific allocation of water consumption over the longer crop duration and amongst an array of green products produced therefrom, water consumption for cane crop is in no way adversarial when pitted against other competing crops.

### Agri-Focus

There is of course no arguing that the crying need of the hour in the country is to promote water use efficiency in all spheres. In fact, India ranks top in the list of top ten water using countries in the world. Agriculture in India has a lion's share of 92.6% in the overall water usage. Not just in the case of sugarcane but for most crops flood irrigation should give way to drip and ferti-irrigation. This would bring about 40-50% reduction in water consumption for cane besides leading to a 30% saving in fertilizer along with improving sugarcane productivity by 25-50% as observed by the Indian Institute of Sugarcane Research, Lucknow.

While on this, it should be realized that increasing demand for sugar like other food items to keep pace with increasing population and improving standard of living cannot just be met out of incessant expansion in land area. Higher production of food crops cannot therefore come out of horizontal expansion in crop area but is critically dependent upon vertical rise in productivity. In this scenario, India

ranks pretty low in farm yield parameter for most crops.

Sugarcane yield likewise has remained stagnant for over decades. Desultory pursuit of dissipated plans to tinker with farming techniques has led only to derisory growth. Varietal change can no longer afford to be transitory but must turn transformational or to be more precise transgenic. Here, GM cotton has proved to be a game-changer for the cotton crop and its cultivators. There are of course a slew of well and ill-founded concerns and an eerie feeling in embracing GM technology. The scientific community at large and agri experts in particular are best placed to deliberate and debate on the pros and cons that in turn would facilitate the policy-makers take a final call on this. The urgency and timeframe to do this in a large agro based country like ours is rather yesterday.

### **Sugar Sector Reforms**

Sugar reforms were well begun in 2012 but even after a lapse of 4 years remain just half done. The Centre on its part dismantled the controls on the sugar-side, barring occasional aberrations like the recent impost of stock holding limits. While so, sugarcane-side reforms ruefully remain a virtual non starter in several parts of the country. It is of course gratifying to observe that States like Maharashtra and Karnataka have brought in regulations for rational cane price fixation while the State of UP has chosen to passively embrace the concept of linkage formula through State subsidies that are pegged to prevalent sugar prices.

The expert body, CACP, has repeatedly censured State Advised Price for cane

as a source of distortion and opposed to sound economic principles, while underscoring the axiom for linking cane price to sugar price. Recognizing the volatility in sugar prices, it has gone further to protect farmers' interest during times of low sugar prices by calling upon the Centre to establish a Sugar Stabilization Fund. It is thus an elegant and comprehensive suggestion of CACP looking at cane price essentially from three components, namely, (i) Fair & Remunerative Price – FRP, as minimum support price, (ii) Revenue Sharing Formula – RSF, as profit sharing concept and (iii) Sugar Stabilization Fund – SSF, for an in-built financing mechanism. All the three were to be implemented as an 'atomic whole' for the viability of the sugar industry and all the three components of hybrid pricing approach shall be implemented simultaneously to provide a logical solution to the travails of both the cane farmers and the sugar industry. Such a well meaning and sagacious suggestion has not come a day too sooner from CACP. The need of the hour is its immediate and holistic implementation.

### **Company performance for FY 2015-16**

The Board's Report and the MDA before you give a detailed insight into the company's performance in FY 2015-16. Your company has shown a marginal rise in its turnover but more significantly it has returned to profits in quick time.

Members are aware that as part of risk diversification, the company launched a Cogeneration Project that was commissioned in Aug'12. It however was shocked by the unforeseen steep reduction in power tariff, tripping its financials and trouncing project viability

at once. The company challenged such a short-circuiting before the Appellate Forum and won on principles in quick time but the tariff re-fixation on being remanded remained long pending. With the regulator finally re-fixing the tariff with retrospective effect, its electrifying effect is vividly visible with our bottomline for the year transcending from negative territory to profit trajectory. Meantime, we have toned up the operational efficiencies of our Cogen Plant and we have just received the Consent Order of TNPCB for operating this at the expanded capacity of 19 MW as against current consent for 15 MW.

#### **Performance for Q-1 (April - June 2016)**

We have operated for 38 days (PY 9 days) in the first quarter and produced 8911 tonnes of sugar (PY 1529 tonnes). During the period, we have exported 3172 tonnes to complete the stipulated 80% of minimum export quota for being eligible to draw the production subsidy of ₹ 45/ tonne of cane for 2015-16 season announced by the Central Government. In addition, we have also voluntarily exported 2430 tonnes to prop up sugar sales and gain by galloping global prices. Further exports could not however be pursued due to the impost of export duty.

Buoyed by improved sugar prices, we have been able to post positive results for the current quarter as opposed to huge losses suffered in the corresponding quarter of previous year. 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.

#### **Outlook for FY 2016-17**

We plan to crush higher volume of cane in the current financial year based on registered cane availability. With enhanced power tariff, we should be able to mobilize additional and affordable bio-fuel to spruce up cogen capacity utilization. Sugar prices have since got pushed to positive zone and in all probability will stay remunerative in the near term. Sugarcane pricing however remains a daunting challenge, while the industry has been in constant pursuit with the State Government for a meaningful resolution thereof. We thus remain sanguine and positive on improved operational performance and fairly creditable financial performance during FY 2016-17.

#### **Acknowledgement**

I convey my sincere thanks to the sugarcane farmers, our employees, Banks and Government officials who have steadfastly stood by us during difficult times. I thank my colleagues on the Board for their wise counsel and guidance.

Above all, I profusely thank our valued shareholders for their unstinted support that has in large measure helped us brave the headwinds in the recent past.

I would like to reassure all our stakeholders that our company continues to remain deeply committed on the core principles of governance and strive as ever to meet their expectations.

Thank you

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