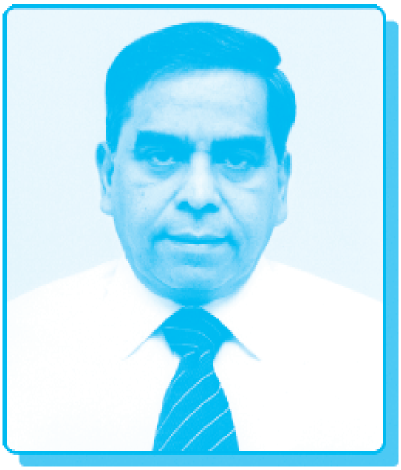
PONNI SUGARS (ERODE) LIMITED

CIN : L15422TN1996 PLC037200
Regd Office : ESVIN House, 13 Rajiv Gandhi Salai (OMR)
Perungudi, Chennai 600 096
Ph: (044) 39279300 Web: www.ponnisugars.com



Speech of
Sri N GOPALA RATNAM, Chairman
at the 21st Annual General Meeting of the Company on Wednesday, 2nd August 2017
at New Woodlands Hotel Pvt Ltd,
72-75 Dr Radhakrishnan Road,
Mylapore, Chennai 600 004

Ladies and Gentlemen:

I have pleasure in welcoming you all to this 21st Annual General Meeting of the Company. The Annual Report for FY 2016-17 has been with you for some time. Let me take it as read with your kind permission.

Your company right now is on the cusp of change in its fortunes. It had an enviable and exhilarating performance in the year gone by, recording the second highest of operating profits ever achieved. But even before the celebrations could sink in, we are faced with daunting challenges and dreadful year ahead. I would delve on this paradigm shift in our performance outlook a little later.

Your Board considering the good results in FY 2016-17 decided to step-up the dividend and has recommended a dividend of Rs.2.50 per Equity Share for the year.

Macro Economy - Global

Global economic activity is picking up with the long awaited cyclical recovery in investments, manufacturing and trade. As per World Economic Outlook of IMF, world growth is projected to rise from 3.1% in 2016 to 3.5% in 2017 and 3.6% in 2018. However, binding structural impediments hinder a stronger recovery and the balance of risks remains tilted to the downside, especially over the medium term. This includes low productivity growth, high income inequality and increasing pressures in inward-looking policies in Advanced Economies (AEs). These threaten the global economic integration and the cooperative global economic order that has for long served the world economy, especially Emerging Markets & Developing Economies (EMDE), well. Policy choices will therefore be crucial in shaping the outlook and reducing the risks. Credible strategies are needed in many countries to place public debt on a sustainable basis.

Growth in AEs is projected at 2% in 2017 and 2018 due to pick-up in growth prospects of the US, Japan and the Euro area. Growth in EMDEs would be at more than double that level at 4.5% in 2017 to go up further to 4.8% in 2018. In this, India despite the slowdown caused by demonetization, shines as a polar star with the highest growth among large economies and relegating China to the second place for three years in a row.

Macro Economy – India

India's GDP decelerated to 7.1% in 2016-17 from 7.9% in the earlier year caused primarily by a slower investment growth. Also contributing for this moderation was the transient impact of the Government's demonetization of high value currency notes. Growth momentum should doubtless pick up again beginning 2017-18, propelled by good monsoon this year coupled with the tax and economic reforms such as the introduction of Goods & Services Tax (GST) and Insolvency and Bankruptcy Code.

The third advance estimate of food-grain production released in May 2017 by the Ministry of Agriculture confirms the record level of output achieved in 2016-17 and in fact revised it upwards to 273 mlt.

The IMD in June 2017 has reaffirmed the forecast of a well distributed south-west monsoon that augurs well for the agricultural outlook. Private investment however is lackluster and manufacturing recovery subdued. These trends call for both fiscal and monetary stimuli, while the RBI has abstained from reducing the policy rate gives its primary and persistent focus on inflation. There is no denying that continued commitment to reform will help India maintain its pre-eminent status as the world's fastest growing major economy.

Agriculture in India – What ails?

The relative share of agriculture in GDP of the country has come down to 17.2% in 2017 from the high of about 50% at the time of Independence. Yet it supports 60% of our population and more importantly is the linchpin of our rural economy. Hence its relevance and importance from a policy perspective cannot be over stated. Notwithstanding the focus bestowed and array of schemes formulated time and again by both the Central and State Governments, the financial health of agriculture and those dependent on it is abject and outright abysmal.

While sugar mills have periodically had to lock horns with cane farmers on the price for cane and payment thereof during times of depressed sugar prices and emaciated cash accruals, there has of late been increasing intensity of farmer protests in large parts of the country. The orchestrated demand for farm loan waiver on ostensible grounds of heightened farm distress leads invariably to polarization in political stance. Following this, Loan waiver schemes have recently been sanctioned by States such as UP, MP, Maharashtra and Punjab.

The reasons for farm distress are however not far to seek. Indian agriculture is typically characterized by fragmented land holdings, low scale of operations, low productivity levels and inexorably inefficient water use despite growing food-grain production helping self sufficiency and reassuring food security. More than half the area under cultivation in the country is without access to irrigation and is monsoon dependent. The farmer suffers during adverse weather with crop loss or considerably lower yield. Alas, he suffers equally when crop is good as the glut in supply plummets its prices in the market.

Modern agriculture needs investment in farm machinery and farm input that ruefully remain outside the financial reach of most farmers. As per the recent Government survey, one in seven farm households experienced negative return from crop production during 2012-13. Rising expenses on health, education and social ceremonies put additional financial demand on farm families. As a result, debt servicing is all the more stressed.

Loan waiver is by no means the answer to address the root of this recurring rural problem. In any event, it just covers a tiny fraction of farmers having access to, borrowings from and outstanding dues to institutional sources. It erodes credit culture and impedes flow of fresh credit besides involving serious identification and implementation challenges. Increasing the crop productivity, dismantling archaic State controls, establishing warehousing and cold-storage facilities, providing market access & intelligence for physical and e-trading and evolving a well structured comprehensive crop cover would indeed be the right recipe to resurrect farm sector, reinvigorate farm viability and reassure farmer well being in the long run. There is no qualm on any of these but concerted action is needed on ground.

World sugar overview

In contrast to the sharp decrease in world sugar output in 2015-16, there is a marginal rise in the current year 2016-17. The increase however is far too inadequate to cover growing consumption. As a result, the stock to consumption ratio has witnessed a formidable fall to its lowest level in the current decade. World sugar prices rollicked on the continuing deficit outlook and low inventory levels for 2016-17 and touched a peak of 23.81 c/lb in Sep'16.

The market however moved down witnessing a hasty retreat since Apr'17 with the re-emergence of surplus outlook for 2017-18 and the year following. In fact, world raw sugar prices fell below 13 c/lb in late June'17. The bearish trend in world sugar prices has been caused by a combination of negative factors – low commodity prices (especially oil), higher import duty imposed by China, low ethanol prices in Brazil and increased bearish bets by Hedge Funds. The negative reaction from the market would seem excessive, since world stock levels do not lend credence to sustained bearish pressures. Prices look to remain range bound in the near term, barring any major adverse development on the weather front.

Indian Sugar Scenario

Sugar production has declined by 19% in 2016-17 to the level lowest in seven years. The decline is directly ascribable to deficient monsoon playing truant and trouncing production by almost 50% in two major sugar producing regions, namely, Maharashtra and Karnataka. With improved monsoon in 2016 helping partial recovery of cane area lost to dry weather, sugar production is set to rebound to around 250 lac tonnes in 2017-18, restoring domestic demand-supply equilibrium.

While volatility in sugar production and consequently in sugar prices are but ineluctable, the Government deserves credit for its commendable foresight and swift policy intervention. While it introduced mandated export quota in December 2015 to correct excess stock pile, it effectively closed the export window by imposing an export duty of 20%, when once it sensed a deficit phase in domestic sugar for 2016-17. Indeed, the Government was in close and continuous monitoring of the situation through effective coordination with the industry body. It adroitly avoided knee-jerk response by way of premature or excessive imports that would have jeopardized domestic industry and the interest of sugarcane farmers. At the right opportune time, it came out with a calibrated measure announcing TRQ for import of 5 lac tonnes of raw sugar to address region specific shortage in sugar. This has at once ensured that the country this time did not import raw sugar at highly inflated global prices, domestic supply was kept in fine balance in consumer interest while domestic prices ruled at levels supporting payment of sugarcane prices.

Sugarcane pricing

The Central Government has steeply increased the Fair & Remunerative Price (FRP) for sugarcane by 11% for 2017-18 season despite little change in the cost of production of cane estimated by CACP for this year. In fact the cost of cane for sugar producers in India is considerably higher compared to other countries by 37% (Brazil), 34% (Thailand) and 49% (Australia). This seriously impacts and erodes the export competitiveness of Indian sugar during times of surplus. Further, the increase in the price of sugarcane by 97% during the last nine years is ominously out of sync with the increase of only 47% in the MSP of wheat and paddy.

The fundamental flaw in this price-fixation exercise remains in the discernible disconnect between the price of sugar (that widely fluctuates in the market based on demand-supply parity) and the price of sugarcane (that is dictated by Government with unidirectional increase). It must be realized that fixing the price for cane through FRP is only the beginning and its meaningful end is only when sugar mills pay that price to reach the hands of farmer. For this, it is axiomatic that the sugar millers have concomitant paying capacity through commensurate levels of sugar prices.

While CACP has been urging in the last couple of years for the establishment of a Price Stabilization Fund (PSF) for bridging the gap between FRP and its paying capacity during times of distressed sugar prices, the Government has thus far turned a Nelson's eye to this integral and vital part of the recommendation. This time the industry has strongly pleaded that the Government should holistically consider and implement the CACP recommendation or in its absence the Government should clearly stay away from cane pricing, leaving it to market forces. When sugar prices are high, it automatically ensures higher cane prices through the revenue sharing formula. While this cardinal principle has already been embraced by some States, others are to follow suit sooner than later.

Company performance for FY 2016-17

The Board's Report along with MDA before you outlines the key features of the company's performance in FY 2016-17. Your company has resoundedly recorded all round improvement in its operational performance this year with increased cane crushing and improved power generation. Helped further by buoyant market conditions and revised power tariff, there is marked improvement in the financial results that has turned out to be our best profit performance after FY 2012-13.

Performance for Q-1 (April-June 2017)

We have had to forcefully advance our crushing operations despite climate not being conducive for sugar production in the hot summer months. This was solely with the intent to mitigate the hardship of cane farmer by harvesting the standing cane that was immature but staring at total perishal any time soon for lack of water. We have operated for 62 days in the first quarter (PY 38 days) and expectedly our sugar recovery at 7.74% has been the lowest and hugely adverse. We have however been benefitted by the raw sugar import quota of 6269 tonnes under TRQ fully exempt from basic customs duty. We have effectively combined the raw sugar processing with cane sugar production that helped optimize our plant performance. Sugar prices have stayed at satisfactory levels during the period.

Your company has to follow IndAS Regulations beginning Q1 of FY 2017-18. Accordingly, the IndAS compliant unaudited financial results for Q1 would be considered by your Board in the afternoon. The results will get uploaded in our website soon thereafter for your viewing.

Outlook for 2017-18

Sugar mills in Tamil Nadu have at all times had to reconcile with lower sugar recovery compared to rest of India due to geographical disadvantage. This inherent challenge however was largely neutralized by a combination of factors such as the highest sugarcane yield, longest operating days and cost effective access to ports that helps importing raw sugar during shortage or exporting white sugar during surplus. However, monstrous failure of monsoon, measly flow in rivers originating in neighbouring States and horrendous level of water in dams, ponds, tanks and wells in the recent years have together led to a precipitous fall in sugar production, eroding the competitiveness of TN Mills. Indeed, the State is now scourged by the worst ever drought in 140 years.

As per SISMA-TN, the cane availability for the ensuing sugar season 2017-18 would hardly support sugar mills operate at 20-25% capacity. At these levels, the fixed cost impact would frighteningly triple or quadruple on unit cost of production. Sugar recovery that is already 200-250 basis points lower for the State could further get slashed in the ensuing year. Your company is no exception to this State level sordid phenomenon. With higher price for cane brought about by the increased FRP in 2017-18 and likely pressure on sugar prices that would be caused by increasing domestic supply, our problems could only get further compounded.

It is indeed an extraordinary situation that cries for instant attention and timely intervention of both the Central and State Governments to bail the TN mills out of the impending crisis. Given the gravity of challenge, sugar mills with their frail finances have no means to combat same on their own. A combination of measures such as (i) a special TRQ for import of raw sugar by TN Mills at Nil import duty, (ii) direct subsidy on FRP for the decline in recovery below the base rate of 9.5% brought about by *force majeure* conditions and (iii) exemption from taxes on end products for one year would help save the industry and subserve cane farmers' interest in this State.

There is equally a crying need for developing new sugarcane varieties that are drought resistant, consume less water and are optimized for yield and recovery. In addition, micro irrigation with credible and time-bound Government support has to be embraced on war-footing. On its part, private sugar industry in the State has already collaborated with the Sugarcane Breeding Institute in Coimbatore for developing region specific sugarcane varieties. But there is no escape from the fact that such projects involve long gestation. Unless the sugarcane challenge is vanquished, cane cultivation will banish and sugar industry vanish in the State.

Acknowledgement

I convey my sincere thanks to the sugarcane farmers who have had to weather a rough storm and grow cane amidst all round adversity. I convey my appreciation to our employees for their commitment and performance. I thank the Banks and Government officials for their continued understanding and support. I thank my colleagues on the Board for their wise counsel and guidance.

We have been fortunate in receiving the unflinching understanding of our valued shareholders who have steadfastly stood behind the company both during good and difficult times. I am sure with your support and leveraging on the inherent strengths of the company, we would face the headwinds ahead and move forward in realizing our goals and objectives.

Thank you

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