PONNI SUGARS (ERODE) LIMITED

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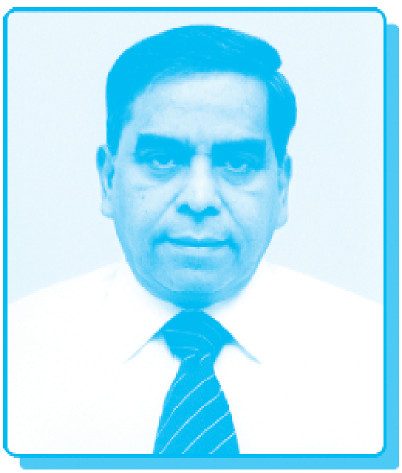

Speech of
Sri N GOPALA RATNAM, Chairman
at the 22nd Annual General Meeting of the
Company on Wednesday, 25th July 2018
at New Woodlands Hotel Pvt Ltd,
72-75 Dr Radhakrishnan Road,
Mylapore, Chennai 600 004

Ladies and Gentlemen:

I am pleased to welcome you all to this 22nd Annual General Meeting of the Company. The Annual Report for FY 2017-18 has been with you for some time. Let me take it as read with your kind permission.

Your company faced mixed fortunes in the year passed and is confronted with greater challenges in FY 2018-19. I would delve on these while dealing with our performance and outlook a little later.

Your Board has recommended a dividend of Re.1.00 per Equity Share for the year, considering subdued operating results and stressed near term outlook.

Macro Economy – Global

The global economic upswing that began around mid-2016 has become broader and stronger. As per IMF April'18 report, global growth at 3.8% in 2017 was the fastest since 2011. More particularly, growth in the second half was above 4%, the strongest since the second half of 2010 supported by a recovery in investment. With financial conditions still supportive, global growth is expected to kick up to 3.9% in both 2018 and 2019.Thereafter it is projected to soften, weighed by aging population and lackluster productivity.

Global trade has been robust, but is expected to moderate with likely waning in capital spending. A faster than expected rise in global interest rates combined with a renewed strength of US$ has contributed to tighter external financing conditions and moderating capital inflows in Emerging Market and Developing Economies (EMDEs). Commodity prices - particularly oil – are also higher than previously expected, mainly reflecting supply side considerations. Growth in EMDEs is projected to gain further strength reaching 4.5% in 2018 before stabilizing at 4.7% in 2019-20.

Accelerated tightening of global financing conditions and disorderly exchange rate developments could have severe consequences in many EMDEs facing record high debt levels, mounting refinancing needs and deteriorating credit quality. Escalation of trade restrictions among major economies could derail global trade with particularly adverse consequences for EMDEs. Electoral outcomes in a number of countries including in Europe could heighten policy uncertainty, while an intensification of geopolitical tensions could also hamper growth prospects. Policy makers in EMDEs need to meet head-on the headwinds with appropriate policy priorities.

Macro Economy – India

India's GDP growth after touching a peak of 8.2% in 2014-15 during the current decade decelerated in the next two years both due to back to back drought and the disruptive impact of demonetization and GST. GDP however is estimated to rebound sharply in 2017-18 to 7.4% supported by all-time high production of foodgrains and horticulture.

As per data compiled by the World Bank, India has advanced to become world's sixth largest economy in 2017 surpassing France and is well poised to go past UK in 2018. While India's growth rate marginally slipped in 2017 below China, it would regain top rank in annual GDP growth rate amongst large economies again in 2018. In fact, India's growth rate of 7.7% in Q4 of 2017-18 has clearly overtaken China's 6.8%. However, in per capita terms, India ranks much poorer than most other large economies, underpinning the need for sustaining growth at high levels to create enough employment opportunities and reap the demographic dividend.

In this context, it is heartening to note that India for the first time moved into the top 100 in the World Bank's Ease of Doing Business global rankings on the back of sustained business reforms over the past several years. India is the only large country this year to have achieved such a significant shift, having implemented 8 out of 10 Doing Business indicators. The Hon'ble Prime Minister has set an ambitious goal to be within 50th rank in two years. No doubt, States have to play an integral and more intensified role in our federal structure for achieving this objective.

Indian Agriculture

The forecast for the South-west monsoon is normal for 2018. Government's recent move to significantly hike the MSP for all major crops pegging it at not below 50% above cost of production should help diversify cropping pattern, derive productivity gains and strengthen agriculture's contribution to the economy.

While so, higher MSP for crops per se would seem inadequate to address farm distress unless backed by guaranteed procurement or compensated in time for the price deficiency. It clearly calls for aggressive pursuit of agri market reforms, creation of cold storage facilities, expanding irrigation infrastructure and promoting comprehensive crop insurance cover to achieve sustainable growth in agriculture and uplift farmers' fortunes. Despite best of intent, the implementation of grandiose schemes on ground is lackluster with the last mile delivery proving inefficient and ineffective; same with contract farming for achieving land aggregation and realising higher productivity gains through scientific large scale farming. India ranks high in the production of food grains but pretty poor in productivity. We need to steadfastly focus in these areas for giving impetus to our farm sector and making it vibrant on par with global standards.

World Sugar

World sugar output is set to reach 186 Mt, an all-time high in 2017-18 (October/ September) crop cycle. The spectacular end of campaign in India and Thailand has catapulted world surplus to 10.5 Mt after two deficit years. Despite Brazil, the largest sugar producer and exporter, sizably increasing its sugarcane allocation for ethanol to correspondingly cut sugar output, world production would again witness a surplus, albeit at a lower level, in 2018-19. The twin surplus years inevitably lead to glut in supply, spurt in stock/consumption ratio and a ferocious fall in world sugar prices.

India was alternating with Brazil to be the top sugar producer of the world till the 90s but with the exponential expansion in capacity, Brazil has managed to remain unchallenged as numero uno for too long. It now looks India is sure to displace CS-Brazil (Centre-South region that produces more than 90% of the country's sugar) and in all probability surpass total Brazilian sugar output in 2018-19. India would thus become the top producer and consumer of sugar in the world, an enviable record coupled with unenviable challenge posed thereby.

Global price levels as evidenced by raw and refined world futures contracts have been trending downward since early 2017. After a brief increase from 2015 and 2016 based on smaller global production surpluses, growing supplies in subsequent years have led to steady decline in the global sugar market. Short-term price increases may still arise due to changes in weather conditions, production outlooks, domestic market developments that hamper sugar infrastructure, or domestic policies in major sugar markets. On the other hand, additional downside pressure could result if domestic and trade policies from major sugar producing countries encourage exports to address domestic supply gluts or burdensome inventories. The current outlook for the market fundamentals in 2017/18 and 2018/19 points toward prices remaining at subdued levels.

Indian Sugar

First estimates for 2017/18 sugar production by both the industry and Government pointed to a rebound in production to about 250 lac tonnes from 203 lac tonnes of previous season. While this at once was perceived to restore domestic demand-supply equilibrium, it was not feared to depress market prices. Alas! Everyone guessed it right on the rising trend this year but everyone got it wrong on the quantum thereof. Sugar production estimates revised at every successive interval to higher and higher number stridently shocked and strikingly shattered the market sentiments. India will now have a record high production in excess of 320 lac tonnes for this season that marks not just an imploding increase of 60% YoY but also far above our consumption requirement of around 250-255 lac tonnes.

Increased sugar output has ostensibly come from a strong rebound in Maharashtra and further surge in UP, both States scoring a new high in their respective sugar output this season. The lone exception to this rising trend is Tamil Nadu (where your company operates), slipping in production to barely 20-25% of its capacity due to drought impact.

Based on planted sugarcane area and normal monsoon, production outlook for the coming 2018-19 season is predicated to be further higher. With the pricing of cane mandated at levels 50-60% higher compared to other major sugar producing and exporting countries, Indian sugar is rendered inherently uncompetitive in the world market. As a result, sugar export invariably is dependent on the crutches of Government through subsidies that have to be WTO compliant. For sure, we have a sugar mountain to climb and conquer between now and next year.

Sugar Policies

The Central Government no doubt has been initiating slew of measures to address the current crisis triggered by excess production and plummeted prices of sugar that in turn led to record high sugarcane price arrears. In this process, the Government has come to impose multitude of regulatory restraints that regrettably sets the reforms clock back. It is rather fatuous and presumptuous to conceive of control measures to combat a systemic flaw that has given rise to the current challenge.

Given the humongous stock pile, there is no escape from stepping up exports, besides producing ethanol directly from sugarcane juice and B-heavy molasses with concomitant cut in sugar output. In this endeavour, sugar industry has taken steps to break new grounds by targeting sizeable exports to China, Indonesia and Sri Lanka and has urged our Government to facilitate this happen. It is heart-warming to note the path-breaking initiative taken by the Centre in announcing differential pricing for ethanol that concedes a premium for its production from B-heavy molasses and sugarcane juice. This indeed is a clear and clever game changer to absorb excess cane by promoting a bio-fuel.

Having conceded higher MSP for different crops, it is time and imperative that the Government lifted sugarcane support price out of industry's domain. Sugar companies can only pay cane price in tandem with realization from sugar and primary byproducts on the lines of global pricing model, as recommended by Dr Rangarajan Committee and as annually reiterated by CACP in its Pricing Policy Report. Minimum price protection for sugarcane to be real and effective has necessarily to come from Government like for all other agricultural crops, as it militates against basic economic tenets to expect the industry pay a price for its input that has no correlation to its output prices in the market.

Government of Tamil Nadu having seen the futility of State Advised Price for cane (SAP) on ground frustrating all constituent stakeholders when sugar prices are low has finally decided to bite the bullet. In the State Budget for 2018/19, it has announced its intent to implement revenue sharing formula for sugarcane price from 2017-18 season. As a transitionary measure, it would pay direct subsidy of Rs.200/ t of cane so as to protect current earnings of the cane farmers. The Tamil Nadu Sugarcane (Regulation of Purchase Price) Act, 2018 to give effect to this has already been introduced in the State Assembly. I greatly commend the strong will and sagacious policy initiative of the State Government in this vital matter so as to put this core industry on a sustainable platform in the long run.

Company performance

The Board's report along with MDA report before you enumerates the contours of company performance in FY 2017/18. Our operations were severely daunted by drought and dented by low cane availability and poor sugar recovery besides precipitous fall in sugar prices in the second half of the year.

Higher power production using disparate varieties of biofuel, supplementary sugar production from imported raw sugar under special tariff quota and higher off-take of Renewable Energy Certificates together helped the company to stem the tide and come with positive results, though at much lower level compared to the previous year.

Performance for Q1 (April-June 2018)

The first quarter is normally an off-season for us. Last year was an exception when we were compelled to draw and crush under-aged cane that otherwise was facing imminent perishing under water stressed condition. With better summer showers this time we face no such threat and hence the standing cane would get crushed at the right age. We have however operated our Cogen plant this quarter on standalone basis using 100% biofuel. In fact, we have achieved record high production of power and exports during June 2018. The margin on such power production though regrettably gets punctured by the inordinate delay in receiving payment therefor from the Distribution Licensee.

Outlook for 2018-19

We began the year on a highly despondent note with dismal sugarcane crop, depleted inventory, deflated funds on hand and depressible sugar prices. By dint of Government diktat on minimum sugar price, we have seen prices recover from their rock-bottom, though staying yet at sub-par levels.

Improved rainfall and increased water storage this year in the Mettur reservoir that feeds our command area have revived our hopes for meaningful rise in sugarcane yield and rejuvenated farmers' interest in fresh cane planting. We are still largely dependent on a normal North-East monsoon that dominates and determines overall annual rainfall for our region. We do hope the lady luck similes on us this time.

On our part, we are in punctilious pursuit of cane development initiatives that encompasses identifying new cane varieties suited to our location in collaboration with Sugarcane Breeding Institute, engaging outside expert services for improving cultivation practices and encouraging drip irrigation through tie-up of finances with 100% interest subvention as our subsidy, all on a war-footing. We have thus mercifully moved on from extreme pessimism to subdued optimism as of now.

Shareholding in physical mode

SEBI with the objective to check fraudulent practices and have independent external evidence of ownership has been continuously tightening the screws for physical mode of shareholding and prompting conversion of physical shares into electronic mode of holding with the Depositories. In this endeavour, SEBI in January 1999 mandated compulsory trade in listed shares only through demat mode, while permitting physical shares to be transferred outside of the market mechanism. Later SEBI mandated in June 2011 that the promoters' holding shall compulsorily be in demat form.

In furtherance of the above, SEBI has since amended the Listing Regulations in June 2018 barring listed entities effective

5th December 2018 from giving effect to request for transfer of securities, except in case of transmission or transposition, unless the securities are held in demat form with the Depository. Meantime, SEBI has also advised listed entities to take special efforts to collect PAN and Bank account details of holders of securities in physical mode.

Having regard to the above, our company through its RTA on 22nd June 2018 has sent a circular letter to our shareholders having shares in physical mode. In this, we have sought relevant PAN and Bank account details besides urging our valued shareholders to convert their physical holdings into demat form, lest the right to transfer same could get impaired.

Though 95% of our company shares are currently under demat mode, more than one-third of the shareholders continue to have their holdings in physical form. As per SEBI directive, no investor need to pay any charge for opening of a Beneficiary Owner account excepting for statutory charges, while custody charges would be paid only by the listed entity.

In the light of this, I once again appeal to those still holding shares in physical form in our company to take immediate steps for its conversion into demat form.

Acknowledgement

I convey my appreciation and sincere thanks to our sugarcane farmers, employees and customers for their continued cooperation. I thank the Banks and Government officials for their understanding and support. I further thank my colleagues on the Board for their wise counsel and guidance. Above all, I convey my deep sense of appreciation and thanks to our shareholders who have steadfastly stood by the company in both sunny and rainy days.

Thank you

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