CHAIRMAN'S SPEECH

24th Annual General Meeting - 2019-20

My Dear Shareholders,

I have great pleasure in welcoming you all to this 24th Annual General Meeting of the Company. Egged by the emergence and fast spread of Covid-19, lockdowns, imposed by the Central and State Government and strident need for strict adherence to social distancing norms, your company for the first time, like every other listed company, is holding the Annual General Meeting this year through Video Conference/ Other Audio Visual Means. While this does deprive a face to face interaction with shareholders, it has broad-based the reach, facilitating pan Indian participation of shareholders at the meeting.

The Company's annual report and audited financial statements for FY 2019-20 electronically circulated this time have been with you for some time and with your permission I shall take them as read.

Amidst abounding gloom all around, let me start on the positive note that your Company has come out with a stellar operational and financial performance during FY 2019-20, braving overwhelming external challenges. At the conclusion of my speech, our Managing Director would make a brief presentation on the performance highlights.

Your Board has recommended a dividend of Rs.4.00 per equity share for the year as against Rs.2.00 per share last year. This is on par with the highest dividend declared a decade ago by the Company in FY 2009-10.

Macro Economy - Global

Covid-19 declared as a pandemic by the World Health Organization (WHO) is unarguably the black swan event in a century, cutting across countries and sparing none from its catastrophic impact. The most mournful fall out in the mounting number of death cases that yet refuses to attenuate or abate, while the search for a preventive vaccine or curative pill is still work in progress.

Covid-19 has obviously had its knock out effect on the global economy. The demand destruction and consequent de-growth in GDP is of a degree not seen since the Great depression. IMF in June'20 report has projected global growth at negative 4.9%. While the growth for Advanced Economies would be (-) 8%, Emerging Markets and Developing Economies are relatively better placed at 3% negative growth. China would in all probability prove to be the sole exception to post a positive growth at 1% amongst major economies. India too would suffer (-) 4.5% growth for 2020 as against (+) 4.2% in the previous year.

As per current projections, global activity is expected to trough in Q2 of 2020, recovering gradually thereafter. Robust recovery would perhaps need to wait till 2021. There is no escape from playing the patient waiting game for the present.

Macro Economy - India

RBI in its Aug'20 assessment has echoed similar sentiments. In the Monetary Policy Committee's assessment, global economic activity has remained fragile and in retrenchment in the first half of 2020. A renewed surge in Covid-19 infections in major economies in July has subdued some early signs of revival that had appeared in the previous two months. In India too, economic activity has started to move up from the lows of April-May but re-clamping of lock downs in several cities and States pulled back the recovery.

The only silver lining for India is the strengthening prospects of agriculture on the back of copious south-west monsoon and expansion in the total area sown under kharif by 13.9% up to 31st July over last year. Recovery of the rural economy is expected to be robust to improve domestic demand, while external demand would continue to be anemic under the weight of global recession and contraction in global trade. RBI too reiterates GDP growth for India to remain in negative terrain for FY 2020-21, without putting any specific number in its recent report.

The country has shown commendable resilience in facing Covid-19.We place our bets and prayers at this juncture for the scientific and medical team to achieve early success in their R & D efforts to find a credible cure to this deadly phenomenon.

World sugar

World sugar production after touching a record in 2017-18 recorded a decline in the next two years, marking the biggest reduction of 13.5 million tonnes during any period of two years. Production decline of 7.7 million tonnes in the current year is the biggest decrease in 11 years. This is essentially due to the dynamic shift in product mix in favour of ethanol by Brazil and drought decisively down-sizing the production in India and Thailand.

Despite the discernible decline in production, sugar prices largely remained low for long, weighed by inventory overhang. Just as the trend started reversing with a resonant rise in Jan/ Feb’20, the party was spoiled by the Covid-19 pandemic. World oil prices collapsed, prompting Brazil to perk up the allocation of cane for sugar in the mix. The resultant higher sugar production concomitant with demand deceleration pulled back sugar prices. With phased unlocking, the demand is back and prices have started rebounding from the trough, though they remain far below the peak in Feb’20.

As per early estimates, the supply side of global sugar balance would mark an increase in 2020-21 after two years of decline based on production increases in India, Thailand and NAFTA regions. It would still leave a deficit of 6.9 million tonnes that should strengthen the fundamentals and help sugar prices move up in the near term.

Indian sugar – Current Status

Historically India's sugar production has been the least from the east, while the other three regions remained well balanced. There however appears a tectonic shift in this distribution during the past five years. The State of UP was always the largest sugarcane producer but the recently introduced new cane variety, that enjoys an enviable combination of high yield and high sucrose content, has catapulted UP as the undisputed leader in sugar production with little year-on-year variation. In contrast, the south has turned a victim of recurring drought and erratic weather and became a structurally low production zone with low sugar recovery that is challenging the very survival of sugar mills in the region. While so, the West comprising Maharashtra and north Karnataka go through weather induced cycle of high and low production with year-on-year swing too significant that eventually drives and determines the surplus or deficit in the country's sugar balance.

After two years of record high sugar production, there has been a welcome decline during 2019-20. Nonetheless, the lower output is still above domestic demand and coming on top of huge inventory carry over poses a grave challenge. With sugarcane enjoying clear competitive advantage over other commercial crops due to guaranteed off-take and price, there is no stopping of its exponential expansion in the large sugarcane growing regions. The resultant structural surplus in the system demands a sustainable solution for the long term.

The Government is rightly focused on the two Es, viz. Exports and Ethanol, a time tested model embraced by the world leader Brazil to tackle surplus production. But unlike Brazil, sugar exports are feasible for India only on the back of huge Government subsidies, given the inherent cane price dis-advantage for Indian mills. Continuance of export subsidies beyond the next couple of years would seem imponderable under WTO norms, though that fight is for another day. It thus leaves ethanol to emerge as the only viable alternative to absorb surplus cane. This also brings in collateral benefits like reducing import dependence on oil and abating vehicular pollution by use of renewable eco-friendly fuel, besides buttressing farmers' income security. While ethanol production has considerably picked up and peaked in 2018-19, there is dire need for its dogged pursuit to achieve higher blending targets. The innovatively structured three tier pricing for ethanol incentivizing the switch from sugar is indeed a game changer. The Government should now come out with a long term pricing formula to attract fresh investments in green field ethanol projects and enthuse Banks to finance these projects.

Amidst all round adversity, the spread of Covid-19 triggered an exponential growth in the demand for hand sanitizers, with its shortage pushing the price up too high. The Government swiftly intervened with a host of measures that included sounding the sugar industry to produce sanitizers from ethanol/ alcohol. The sugar industry readily responded, fine-tuning its production process with requisite Government approvals coming on fast track. In turn there was instant increase in the supply of alcohol based sanitizers from about 100 sugar mills having ethanol production facilities. These were supplied to Local bodies, District Administration, large hospitals, etc. With improved supply, the Government was prompted to remove price caps and export bans. The role played by sugar industry in rising up to the need of the hour is truly commendable.

Indian Sugar – Current Outlook

Indian sugar production in 2020-21 is well poised to bounce back again to over 300 lakh tonnes. Coming on top of copious stocks on hand, there is urgent need to aggressively push both exports and ethanol in the coming year to inject requisite cash in sugar mills’ kitty commensurate with their sugarcane payment obligations.

Aside that, the Government should be ready to bite the bullet and link input – output pricing parity through revenue sharing formula. CACP has been recommending this for years and Niti Aayog has also reportedly endorsed it now. It is time the Government recognizes the underlying economic imperative, puts aside political expediency and implements this rational recommendation. Any subsidy to cane farmer can and must necessarily come out of direct benefit transfer (DBT) from the Government, leaving the industry to shoulder only the sustainable part of cane price on the lines of global majors.

The Minimum Sale Price (MSP) for sugar is a necessity so long as the floor price for cane in the form of Fair and Remunerative Price (FRP) persists. The MSP fixed at Rs.31 per kg in February 2019 is far below the cost of production, causing cane arrears to shoot to dizzy heights. Its revision to Rs.33 per kg appears on the cards that is necessary but not sufficient, pitted against the current cost of production. The impending increase in FRP from October 2020 would clearly warrant commensurate rise in MSP for the industry to be able to pay the promised cane price.

Electricity reforms

Electricity Act, 2003 was aimed at creating a free market environment for power through open access. The National Electricity Policy further laid thrust to encourage renewable energy production through policy preference. Sugar industry readily responded to this paradigm shift in policy with significant investment in bagasse based power generation on the promise of guaranteed off-take and pricing, backed by long term power purchase agreement with Discoms.

The floundering finances of Discoms in recent years is ruefully causing regular and recurring breach of commercial contracts signed in pursuance of regulatory tariff orders. Sensing the urgency and imperative to reassure the sanctity of contracts, the Centre has since come out with a funding package of Rs.90,000 crores to State Discoms, linked to conditionalities for improving the functioning of these Discoms.

It is obvious that undue delay in realization of power dues further weakens the flailing finances of sugar industry and impacts payment of sugarcane price. A credible and sustainable payment mechanism for settling power dues of sugar industry in time and in compliance of regulatory tariff orders is clearly overdue and I do hope the Centre's efforts on this bear fruits.

Sugar distress in Tamil Nadu

Sugar industry in Tamil Nadu is bewailingly going from bad to worse. Nearly one-half of the private sector sugar mills remain shut, with the remaining producing below one-half of their capacity. Still worse, sugar recovery in the State is sacrilegiously 200-250 bps below the national average. While the recurring drought and resultant funds crunch has led our State to this despicable state, there is crying need to correct this deplorable trend for the resurrection of industry.

The Government of Tamil Nadu is well alive to and appreciative of the problems. It has since introduced requisite rationalization in sugarcane pricing by enacting a new Law in 2018. Concurrently, it has offered transitional production incentive to protect farmer's interest. In April'20, it has further come out with a transport subsidy that aims at restoring the parity for TN sugar mills with the rest of the country. It is aggressively promoting drip irrigation, offering up to 100% capital subsidy for small and marginal farmers. It also facilitated clearing about 50% of power dues to sugar mills by providing a special ways and means advance to TANGEDCO. We are truly beholden to the State for its proactive and catalytic role to bail the industry out of crisis.

Recognizing that inventing a new sugarcane variety that would bolster both yield and recovery is the singular answer and lasting solution to the current challenge, SISMA-TN collaborated with the Sugarcane Breeding Institute, Coimbatore for development of drought resistant and location specific new varieties. It is heartening to observe that one new cane variety, namely, Co 11015 tends to show good promise that is early maturing with a recovery potential 100-150 bps above current levels. Both field and factory trials have met with success and 2020-21 season should witness larger cane area planting with this new variety. While we remain convinced of the success of this new variety, simultaneously we are persisting with our efforts to develop a couple of more varieties in the pipeline. Given the resourcefulness and dynamism of the farmers in our State, I am confident that it is only a matter of time for the TN sugar industry to reinvent itself, re-emerge strongly from the current morass and regain the lost glory.

Company performance

The Board’s Report along with the Management Discussion and Analysis Report contains an overview of our Company performance in FY 2019-20. There was a quantum jump in the volume of our sugar production and sale. Our turnover touched an all-time high, PBIDT doubled and PBT tripled during the year. The earlier peak in our Company performance achieved in 2009-10 was singularly driven by an exorbitant rise in the price of sugar, both in the domestic and overseas market. Unlike that, our current year performance that is the second best for us is an accomplishment under bearish sugar market conditions and on the strength of all round operational excellence. It has come from strident increase in cane volume, step-up in sugar sales and peak in power production, helped further by a robust rise in molasses price. It is hence all the more creditable.

Realization of a major chunk of our power dues and transport subsidy for 2018-19 sugar season, both with the help of State Government, has since shored up our liquidity. It however remains our continual concern that power dues do not get paid in the normal course and in accord with contractual commitments. With persistent problem in the realization of principal, our entitlement and claim for interest is seldom honoured. We have been constantly pushing these issues both on our own and through the industry association, albeit with limited success.

Our proposal to set up a 45 KLPD Distillery cum Ethanol Plant has been considered by the State Expert Appraisal Committee in June'20 and recommended for grant of 'Terms of Reference' to the State Environment Impact Assessment Authority (SEIAA) with a public hearing. We still have to go through a number of stages before we receive the final approval and we are in relentless pursuit of same.

Performance for Q1 FY 2020-21

The lockdown imposed by the Central and State Governments to tackle Covid-19 came at the fag end of FY 2019-20 and hence had little impact for that year. It however dislodged our crushing plan that got disrupted for about a month. The delayed crushing during the peak summer month led to lower sugar recovery. We in the sugar industry engaged in the manufacture of an essential item however are fortunate to have no material impact by dint of lockdowns.

Both our cane crushing and sugar recovery are lower this year quarter-on-quarter. We have consciously given up power production during off-season on a standalone mode that turns unviable because of prolonged payment problem. We gained by higher molasses price and realization of transport subsidy that bolstered our current quarter results.

Your Board had considered and approved the unaudited Financial Results on 6th August 2020 that is summarized as under:

(Rs lakhs)

Description	*April-June 2020*	*April-June 2019*
Total income	6200	6757
PBIDT	719	326
PBT	532	80
PAT	504	50

Outlook for 2020-21

Cane availability continues to pose a daunting challenge and sugar recovery doesn't seem to recover from its rock-bottom levels. While the new cane variety shows good promise, it is bound to take time to stabilize and expand. With India returning to higher production, supply side pressures would escalate and enervate sugar prices. All these would for sure make it hard for us to match and replicate last year performance.

The expected increase in the MSP for sugar would of course help protect the downside in sugar price. FRP for cane would see a rise that may not be too high. Molasses price should continue to remain stable and buoyant. While our sugar production and sale volume could go down, they should still remain at reasonable levels.

On our part, we would continue to remain fully focused on cost control measures and cane development initiatives. We have already launched appropriate intervention measures, offering incentives to encourage planting of high sucrose cane varieties and take care of the ratoon crop. Micro-irrigation is passionately promoted in all the new planting area. Our strong financial fundamentals would help us face the headwinds and upheavals. All these must stand us in good stead.

Acknowledgement

Our sugarcane farmers during the past five years braved multitude of challenges and showed remarkable resilience in continuing with cane cultivation. I profusely thank them for same. I would also like to thank our employees in all ranks whose collective zeal and combined efforts helped the company achieve optimal operational performance.

I specially thank the Government of Tamil Nadu for the time-bound intervention and financial support in its bid to save the industry from crisis. I thank all the officials in the Central and State Governments,

Banks and customers for their unequivocal and resolute support. I am indebted to my colleagues on the Board for their oversight and wise counsel.

Above all, I sincerely convey my deep sense of appreciation and thanks to our valued shareholders for their unstinted trust and continued patronage.

Follow diligently all new norms, stay safe and be healthy. Thank you once again Ladies and Gentlemen.

Erode	N Gopala Ratnam
August 19, 2020	Chairman

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