



RAJSHREE SUGARS & CHEMICLAS LIMITED

338, Avanashi Road, Peelamedu, Coimbatore 641 004.

Speech delivered by the Chairperson at the 25th Annual General Meeting of the Company held on 10th August 2011, at the Conference Hall, Indian Chamber of Commerce and Industry Building, Coimbatore.

Ladies and Gentlemen

It is my pleasure to extend a warm welcome to all of you to the 25th Annual General Meeting of your Company. The notice convening the meeting has been with you for some time now and with your permission I shall take it as read.

The National Economy

The dust has barely settled in the aftermath of the last global financial crisis triggered by the collapse of some of the most venerable financial institutions of the United States in 2008, when the world is teetering on the brink of the next global financial crisis brought on by the downgrading of the US debt, following on the heels of the Eurozone default. The US is seeing itself in the same liquidity trap as Japan experienced in the 1990's, with discounted interest rates and high infusion of liquidity into the financial system with the hope that consumption led growth would revive the economy, but consumption declined. The US seems to be headed in the same direction and is likely to see a 1% GDP growth this year.

In hindsight, India's more traditional approach to combat inflation, hardening interest rates at a time when the country's industrial sector was pushing national GDP towards a 9% growth, squeezed credit off-take and lowered GDP estimates to 8 %, but seems to have been a wiser reaction to deflate the liquidity bubble. No doubt this will have an impact on industrial growth at a time when the worldwide ripple effects of the US debt crisis will also put pressure on Indian exports.

The cascading effect of the US debt crisis has had its effect on all markets across the globe, with commodity markets also following the slide with oil prices already below US \$ 80 a barrel. The international sugar markets are also seeing the depressing effects, and with global production estimated at 168 million tons this year, up from 160 million tons last year, may see a further decline in futures prices.

India has seen a good monsoon this year in most of the agrarian states and national grain production is above 250 million tons. Though the production is high prices of food grains have strengthened in the markets, with food inflation still hovering around 15%. Unfortunately, sugar being a controlled commodity, it has not had the benefit of market forces supporting its price.

The Sugar Industry

The Indian sugar production for the current 2010-11 season is estimated at 261 lakh tons, a tremendous increase over the 189 lakh tons produced during the last sugar season 2009-10. The increase in production has mostly been in Maharashtra and UP, closely followed by Karnataka on the back of high prices paid for cane. Though a high cane price of Rs 2000 per ton was announced in the state, Tamilnadu did not contribute much to the increase with current season production pegged at 17 lakh tons as against 13 lakh tons during the last season. This is because of poor rainfall over the last two seasons, which saw a reduced production of sugarcane in the state. Better than usual rainfall in the current season augurs well for sugarcane availability for the next sugar season, with production estimated at 20 lakh tons.

With an opening stock of 49.8 lakh tons, a production of 261 lakh tons and an import of 3.43 lakh tons, the country had a total availability of 314.23 lakh tons of sugar. The domestic consumption for the year is estimated at 240 lakh tons and with an export of 18 lakh tons it leaves a closing stock of 56.23 lakh tons of sugar, equivalent to 3 months consumption supporting food security of the country.

The increase in sugar production this year took every industry stakeholder by surprise, but with Government wary of being caught with low stocks were reluctant to allow export of more than 10 lakh tons of sugar, and that after much hard lobbying by the industry. The international prices remained high for most part of the current year, and India could have profitably exported an additional 10 lakh tons of sugar without burden to the state. The opportunity may be irrevocably lost with the current volatile international markets and the higher anticipated international production of sugar next year.

In spite of the little export that was permitted, domestic sugar has been under pressure with the unanticipated increase in production, and prices have ruled around Rs.26 per kg for most part of the year. Tamilnadu suffered a double whammy this year, with lower sugar production in relation to other states and low sugar prices.

The sugar industry had supported the Government at the beginning of the season, when sugar production was anticipated at much lower levels, by importing raw sugar under the Duty Free Scheme to augment domestic production at high prices. Caught unawares by the tremendous increase in domestic sugar production which lowered the domestic sugar prices below economical cost of conversion of raw sugar into refined white sugar, the industry suffered great loss. The Government further extended duty free import of raw and white sugar till end June 2011 holding down domestic sugar prices.

In 2009-10 when the production was expected to be about 150 lakh tons, the Government had increased the levy procurement from 10% to 20% to meet the requirement of the Public Distribution System sale to BPL families. The levy procurement has since been reverted to 10% on the back of increased production. The procurement price of levy sugar this season has been marginally increased to Rs.18.78 per kg from Rs.17.85 per kg during the last season.

The Central government has announced a FRP of Rs 1450 per ton of sugarcane linked to a basic sugar recovery of 9.5% for the season 2011-12 as against Rs.1391 per ton last season. The FRP takes into account the profit as well as risk element and is therefore supposed to be remunerative to the farmers. But, the practice of State Governments announcing higher state advised cane prices puts to nought this pricing formula. The Indian Sugar Mills Association has for long been representing that the cane prices should be linked to sugar prices thereby delivering equity to all stakeholders.

The industry has also been pressing for deregulation. The Planning Commission, Ministry of Commerce and the Ministry of Finance had already given their consent for deregulation of the sugar industry. Considering the sensitivity of cane area deregulation and cane price issue, the Prime Minister had desired that the matter be discussed with the states, which subject is yet pending. A Committee was also formed under the Chairmanship of Dr Rangarajan, Chairman of the PM's Economic Advisory Council to recommend a formula for linkage of sugarcane price to the sugar and by-products realisation. This would stabilise fluctuating cane prices and also bring stability to sugarcane production. Deregulation would result in abolition of the monthly release mechanism for free sale sugar and abolition of levy procurement with a price subsidy by the industry.

Sugar Division

Your company has crushed a total of 17.25 lakh tons of sugarcane during the financial year 2010-11, producing 1.55 lakh tons of sugar, with an average recovery of 8.96%. The company had also processed 14739 tons of raw sugar during the period producing 14084 tons of refined white sugar. The total sugar production during the year was 1.69 lakh tons.

The company had imported 23900 tons of raw sugar under OGL in line with Government policy and because the domestic prices were ruling high on the anticipation of significantly lower domestic production. When we began receiving the raw sugar the stunning increase in domestic production dampened domestic prices making it uneconomical to continue processing raw sugar into refined white

sugar. In a quick decision, the company decided to re-export the unprocessed raw sugar at ruling international market prices. With diligence, your Company was able to obtain permission to re-export 19500 tons of raw sugar, thereby significantly reducing the loss to your company.

With intensive cane development activity, your Company has been able to increase total cane availability to 17.25 lakh tons in the 3 units put together in the financial year under review against 14.27 lakh tons the previous year. Continuing efforts in encouraging farmers to implement drip irrigation systems and practice precision farming gives us the confidence to report that estimates of cane availability for the current financial year is 22 lakh tons, which will yield cascading benefits in cogeneration of power and alcohol production.

Distillery Division

The distillery unit produced 60.88 lakh litres of alcohol in the financial year 2010-11. The reduced production is due to uneconomical conversion cost of molasses to alcohol using fuel other than bagasse for steam generation. Your Company found it more profitable to sell molasses directly as the prices of molasses was high because of lower quantity of cane crushed in Tamilnadu last year.

Co-generation Division

Your Company generated 22.63 crore units of power during the year under review, against 19.10 crore units during the previous year. After captive consumption, 15.80 crore units of surplus power was exported to the TNEB grid as against 12.80 crore units last year.

Subsidiary Company

Trident Sugars Limited, your subsidiary company crushed 3.96 lakh tons of sugarcane in the year under review as against 3.11 lakh tons during the previous year. With an average recovery of 10.4%, the subsidiary company produced 41,100 tons of sugar.

Financial Performance

Your Company recorded a total income of Rs.641.5 crores for the financial year 2010-11, as against Rs.552 crores in the previous year. The Company has reported a net loss of Rs.36.92 crores as against a net profit of Rs.43.17 crores last year.

As I had informed you earlier today, your Company had re-exported unprocessed raw sugar and restricted the net loss to Rs.9 crores. I had during the previous annual general meeting reported that your Company had arrived at a settlement with Axis Bank on its disputed derivative transaction. The settlement of Rs.25 crores has been written off as an extra-ordinary item. These two significant transactions have led to the loss reported during the current financial year. Your Company had otherwise performed well on all operational parameters in spite of adverse conditions.

I am glad to state that your subsidiary Company, Trident Sugars Limited continues to do well earning a net profit after tax of Rs.3.35 crores on a total income of Rs.128.47 crores during the year under review, against a net profit of Rs.2.83 crores on a total income of Rs.63 crores the previous year.

Under the circumstances, your Board of Directors do not recommend any dividend to the shareholders of the Company.

Company Plans

I had reported last year that your Company had obtained a license from the state Government to establish a new 80 KLPD distillery in Unit III, Gingee. I am pleased to inform you that the state-of-art distillery project is now being established, and is expected to be commissioned as scheduled in December 2011. The distillery unit will add value to the Company and will reflect in the annual report for 2011-12.

The Company is also working on a feasibility study to upgrade the co-generation plant in Unit I, Varadaraj Nagar and also proposes to establish a co-generation plant in its subsidiary Company, Trident Sugars Limited.

Acknowledgement

I have had the privilege and honour to draw upon the rich and varied experience of your Board of Directors. Their advice and guidance has been invaluable and I thank them for their unstinting support.

I thank the Bankers and financial institutions, the central and state governments for their support.

I am ever grateful to the cane growers, equipment suppliers, business associates, employees and shareholders for their continued support.

On behalf of the Board of Directors and on my own behalf, it is my honour to extend my sincere thanks to all and every one of you.

I pray to **Goddess Lakshmi** for the continued success and prosperity of the Company.

Thank you.

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