



PONNI SUGARS (ERODE) LIMITED

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Speech of
Sri N GOPALA RATNAM, Chairman
at the 17th Annual General Meeting of the
Company on Wenesday 24th July 2013
at New Woodlands Hotel Pvt Ltd,
72-75 Dr Radhakrishnan Road,
Mylapore, Chennai 600 004

Ladies and Gentlemen:

I extend a warm welcome to all of you for this 17th Annual General Meeting of the Company. The Annual Report for 2012-13 has been with you for some time. With your kind permission, I shall deem it as read.

Economic environment

Global economic growth slowed from 3.9% in 2011 to 3.2% in 2012. As per World Economic Outlook released by IMF in July 2013, global growth is projected to remain subdued at slightly above 3% in 2013 as well. The lowering of the forecast for 2013 has been driven to a large extent by appreciably weaker domestic demand and slower growth in several key emerging market economies as well as by a more protracted recession in the Euro area.

India certainly is not decoupled or firewalled from the happenings in the rest of the world. Its GDP growth from the dazzling 9.3% achieved in 2010-11 descended to 6.2% in 2011-12 that further decelerated more agonizingly to a decade low of 5% in fiscal 2012-13. In particular, IIP growth for 2012-13 plummeted

to a 20 year low of 1.1%. While so, current account deficit peaked to 6.7% of GDP and as an ineluctable fall out, the rupee in a blistering pace breached ₹ 60 to a dollar during June 2013. Headline inflation despite intermittent corrections continues to rule high. RBI while conceding the imperative to kick start investment and propel growth is yet reluctant, and understandably so, to significantly soften interest rates.

Our present constraints choking growth are no secret. Land acquisition, fuel linkage, infrastructural bottlenecks, bureaucratic reluctance in decision making and muted business confidence together clouding the investment climate remain a key challenge. While industry was accused of creating problems for environment in the past, it has now paradoxically come to the turn of environment to challenge and stall the growth of industry with several projects getting inordinately locked in the labyrinth of environment clearance.

We can draw little solace from the fact that even at the current low growth rate India is next only to

China and Indonesia during 2012-13 and might improve to the second slot after China in 2013-14. Given our population growth and rising aspirations of Gen-next, we must get back quickly to 8% growth rate which indeed has been our average growth during the Eleventh Plan period. The Government has of late made decisive moves by liberalizing FDI, putting pending projects on fast track and firmly committing to fiscal consolidation. Buoyed by the normal monsoon forecast, our economy should be able to reverse the trend and achieve higher growth in FY 2013-14.

World Sugar

World sugar production has risen to dizzy heights during 2012-13 with the size of global surplus swelling further at every successive revision in the estimate. Sugar stocks as well as the stock to consumption ratio at the close of current season would be at a five year high. With record high cane planting in Brazil, the largest sugar producer and dominant exporter, sugar surplus is sure to permeate and persist during 2013-14 for the fourth year in a row.

World sugar prices weighed by the global glut are now on a continuous climb-down. They currently rule just a tad above 16 c/lb, the lowest in three years. Brazil is likely to allocate during 2013-14 a higher share of its cane crop for ethanol production; still that would only help to moderately reduce but not meaningfully address the growing sugar surplus. Accordingly world sugar prices are likely to remain under continual bearish pressures in the near term.

India lags behind only Brazil as the second largest sugar producer but lacks considerably on cost competitiveness. Brazilian sugar mills own 60% of cane area and their typical farm size is 1000 acres and above. In India, factories cannot own land under land ceiling restrictions and average farm size is just about 5 acres. More importantly, Brazil is endowed with Amazon forests bestowing copious rainfall and rendering the cane crop totally rain-fed while irrigation costs are considerable for India. As a result, cane cost is roughly 40% lower in Brazil. In addition, Brazil has well stabilised its ethanol blend programme which is currently at

25% while India is yet to get over the glitches in the implementation of its maiden 5% ethanol blend plan. It is thus obvious that the high cost Indian sugar produced out of high cost cane is clearly out-priced in the world market, rendering sugar exports unviable and unfeasible during our surplus times. We therefore need to comprehensively address this structural problem to stay competitive in the world market on a sustainable basis.

Indian Sugar

Sugar industry has received a major booster dose by the policy reforms announced in April 2013. Reacting swiftly on the recommendations of Dr.C.Rangarajan Committee, the Central Government has thankfully removed its regimental controls on sugar by abolishing levy quota and dispensing with the regulated release mechanism for the free sale quota. There were indeed similar or larger scale reductions in the levy quota in quantitative terms in the past. But the scrapping of levy in toto is a welcome qualitative change in pushing the sugar industry into free market environment. Sugar companies must now gear themselves up

towards meeting the challenges of the dynamics of market economy and learn the nuances of 'futures trading' as well.

The Centre has however left it to the State Governments for deciding upon policy corrections concerning the sugarcane side, namely, cane pricing and cane area reservation. What has been done by the Centre is no doubt strategic and significant but still not sufficient. It is rather imperative and urgent to link the sugarcane price to realization from sugar and its by-products as recommended by the Expert Committee for the stability and sustainability of sugar business and deftly balancing the interest of diverse stakeholders.

Indian sugar production was slated to fall steeply to 240 lakh tonnes or lower during 2012-13 due to deficient monsoon in the major cane growing regions of Maharashtra and Karnataka. With late recovery of monsoon, final sugar production is now poised to touch 250 lakh tonnes as against the local demand of 225-230 lakh tonnes. Early estimates point towards a near demand-supply parity in 2013-14 with little scope for inventory draw-down.

Sugar prices responding to the aforesaid trend rule in a narrow band and refuse to rise to catch up with the cascading rise in cane cost. With most producers losing money and languishing under negative cash flows, cane arrears in the country have touched an all time high of ₹ 12500 crores with no credible solution in immediate sight. This clearly underlines the urgency and compulsion for commensurate rise in domestic sugar prices kept under leash by the skewed Exim policy in recent times.

Company performance

A detailed account of the Company's performance in FY 2012-13 has been presented in the Directors' Report. Your Company has successfully graduated during the year by getting into the league of Cogen production. While the full potential of Cogen is not currently getting tapped due to crippled cane volumes under the adversity of drought and lower regulatory tariff fixed in our case, the additional revenue from Cogen has unarguably come to strengthen our operating margins. Considering the preponderance of external adversities, your Company

has recorded satisfying profit performance in FY 2012-13.

Having regard the extant cash flow pressures and the heightened challenges for us to combat in the coming year, your Board has recommended a reduced Dividend for FY 2012-13 at 15% (₹ 1.50 per Equity Share) and I seek your indulgence for the same.

Current year performance, April-June 2013

Our crushing operations for the main season closed by mid March 2013 and we have virtually no sugar production for the first quarter that is normally our off-season. Sugar movement was sluggish and sugar prices remained flat, resulting in a relatively lower turnover for this period. Audited Financial Results for the first quarter are being considered by the Board in the afternoon and will get uploaded in our website soon thereafter for your viewing.

Current year outlook

With all round sugar surplus both in the global and domestic arena, sugar market would most likely remain in the grip of bears, barring intermittent soft corrections. Monsoon forecast

is normal for India as a whole but is predicted below normal for southern Karnataka and Tamil Nadu.

Your Company has had to bear the brunt of one of the severest of drought last year in its command area. As a result, fresh cane planting is dismal and yields woefully lower. The scope for mobilizing surplus cane from outside area is also limited due to overwhelming shortage throughout the State. Raw sugar import at current price parity is unviable. As such, your Company has little option but to weather the storm and wait for a turnaround in agro-climatic conditions.

I however believe that the worst is behind us. With good Southwest monsoon and fast filling reservoirs in Karnataka this year, the water flow in river Cauvery for Tamil Nadu is improving. The rising level of water storage in Mettur Dam should soon

help restore the confidence of our cane growers and re-ignite fresh planting to commence any time soon.

Acknowledgement

I wish to place on record the unstinted co-operation and committed support received by your Company from its cane cultivators, employees and customers. I also wish to thank our bankers and valued shareholders for their continual confidence reposed in the management. I am grateful for my colleagues on the Board for their wise counsel and guidance.

I now move for the adoption of Directors' Report and the Audited Accounts. We would be glad to respond to your queries on our plans and performance before I proceed with the Agenda.

Thank you,

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

