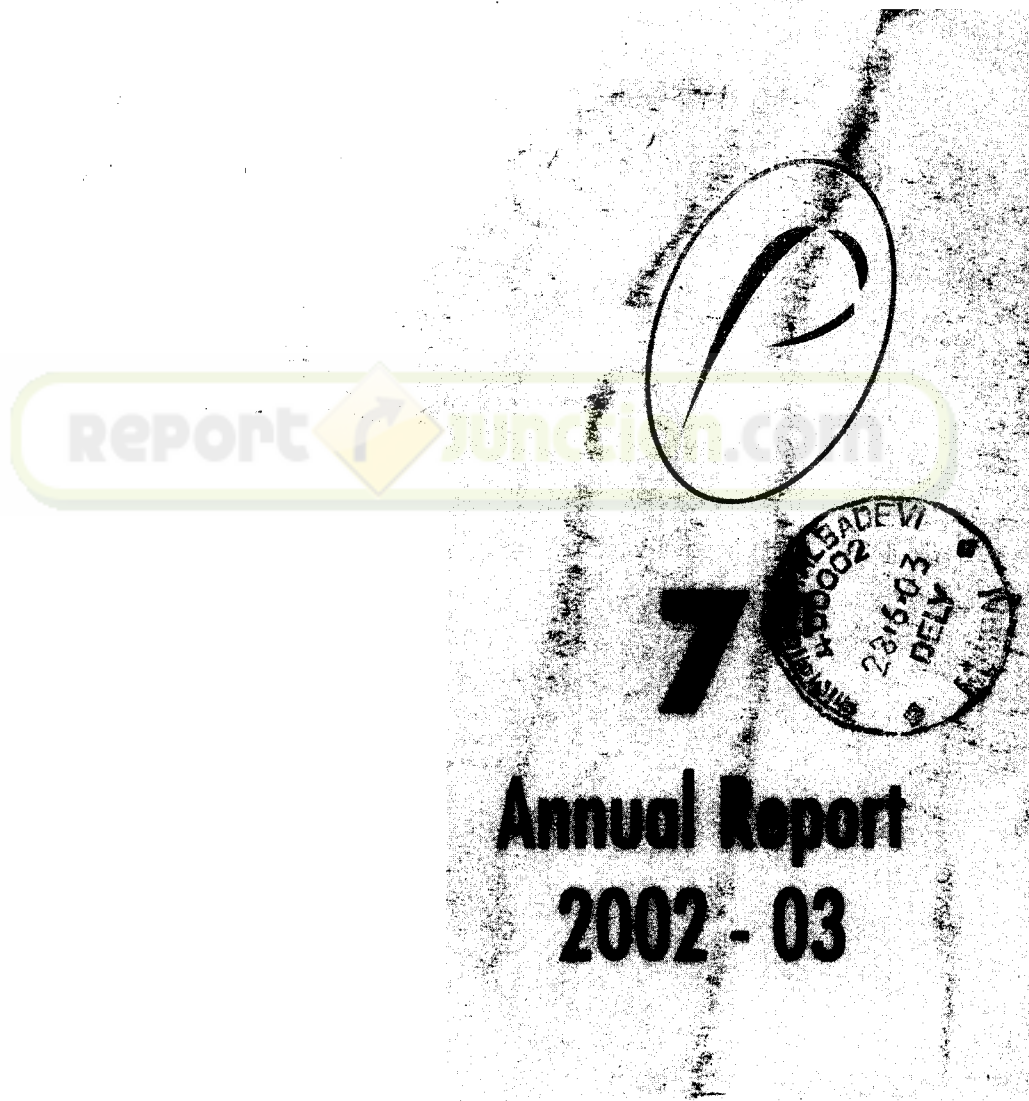


PONNI SUGARS (ERODE) LIMITED



**DIRECTORS**

Mr N GOPALARATNAM (*Chairman*)
 Dr L M RAMAKRISHNAN (*Vice Chairman*)
 Mr G RAJAGOPAL (*Managing Director*)
 Mr ARUN G BIJUR
 Mr BIMAL PODDAR
 Mr C K PITHAWALLA
 Mr N RAVINDRANATHAN
 Mr S K RAMASAMY
 Mr K J RAJASIMHA (*Nominee-ICICI Bank Ltd.*)
 Mr K RAJAN (*Nominee-UTI*)

AUDIT COMMITTEE

Mr K J RAJASIMHA (*Chairman*)
 Mr ARUN G BIJUR
 Mr BIMAL PODDAR
 Mr N RAVINDRANATHAN
 Mr K RAJAN

SECURITIES TRANSACTIONS CUM INVESTORS GRIEVANCE COMMITTEE

Mr N GOPALARATNAM (*Chairman*)
 Mr G RAJAGOPAL
 Mr ARUN G BIJUR

SECRETARY

Mr N RAMANATHAN

AUDITORS

M/s R SUBRAMANIAN & CO., CHENNAI
 M/s N R SURESH AND CO., CHENNAI

COST AUDITOR

Mr M B KANNAN

FINANCIAL INSTITUTIONS AND BANKS

ICICI BANK LTD
 INDUSTRIAL DEVELOPMENT BANK OF INDIA
 UNIT TRUST OF INDIA
 BANK OF INDIA
 STATE BANK OF INDIA
 UCO BANK
 UNITED BANK OF INDIA

REGISTERED OFFICE

"ESVIN HOUSE", 13 SEEVARAM VILLAGE
 OLD MAHABALIPURAM ROAD, PERUNGUDI
 CHENNAI 600 096

WORKS

ODAPPALLI, CAUVERY RSPO, ERODE 638007
 TIRUCHENGODE TALUK, NAMAKKAL DISTRICT
 TAMIL NADU

REGISTRAR & TRANSFER AGENTS

CAMEO CORPORATE SERVICES LTD
 "SUBRAMANIAN BUILDINGS" 5th FLOOR
 No.1, CLUB HOUSE ROAD, CHENNAI 600002

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*Ponni Sugars (Erode) Limited***NOTICE OF ANNUAL GENERAL MEETING**

Notice is hereby given that the Seventh Annual General Meeting of the Company will be held at New Woodlands Hotel Pvt Ltd, 72-75, Dr Radhakrishnan Road, Mylapore, Chennai 600004 on Saturday, the 19th July 2003 at 10.45 a.m. to transact the following business:

ORDINARY BUSINESS**1. Adoption of Accounts etc.**

To consider and adopt the Audited Balance Sheet as at 31st March 2003, the Profit & Loss Account for the year ended on that date and the Reports of the Directors and Auditors thereon.

2. Reappointment of retiring Directors

To appoint directors in the place of Dr L M Ramakrishnan, Mr C K Pithawalla and Mr N. Ravindranathan, who retire by rotation and being eligible, offer themselves for reappointment.

3. Appointment of Auditors

To consider and if thought fit, to pass with or without modifications, the following resolution as a Special Resolution:

"RESOLVED that pursuant to Section 224-A of the Companies Act, 1956, M/s N R Suresh and Co, Chennai and M/s R Subramanian & Co, Chennai the retiring auditors of the Company, be and are hereby reappointed as auditors of the Company to hold office from the conclusion of this meeting till the conclusion of the next Annual General Meeting on a remuneration of Rs. 80,000 per annum plus service tax as applicable for each of them and reimbursement of travelling and other out-of-pocket expenses incurred."

(By order of the Board)
For PONNI SUGARS (ERODE) LIMITED

Chennai
13th June 2003

N Ramanathan
Secretary

NOTES:

1. **A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote on a poll instead of himself and such proxy need not be a member of the company.**
2. Proxies in order to be effective, must be received at the registered office of the Company not later than 48 hours before the meeting, viz., by 10.45 A.M. on 17th July 2003.
3. The Register of Members and the Share Transfer Register will be closed from Wednesday, the 16th July 2003 to Saturday, the 19th July 2003 (both days inclusive).
4. Information on Directors seeking reappointment at the meeting pursuant to Clause 49 of the Listing Agreement with Stock Exchanges is appended.
5. Members are requested to bring the attendance slips duly filled in along with their copies of Annual Reports to the meeting.
6. Members holding shares in Demat form are requested to bring in their depository account number (Client ID number) for ease of identification and recording of attendance at the meeting.



Details of the Directors seeking reappointment at the 7th Annual General Meeting

Name of Director	Date of Birth	Date of appointment	Expertise in specific functional areas	Qualification	Directorships in other companies (excluding foreign companies)	Committee / executive position held in other companies
Dr L M Ramakrishnan	30.09.1942	19.12.2001	Doctor turned Educationist having wide experience in management of educational institutions. Also having wide contacts among local farming community.	M.B.B.S., D.L.O.	Director Knitwell Needles Ltd Erode Medical Supplies P Ltd SKM Egg Powder Ltd	NIL
Mr C K Pithawalla	03.10.1940	19.12.2001	A successful NRI businessman having diverse interests in UK, Germany and Switzerland.	B.E. (Mech)	Director CKG Pithawalla P Ltd Plastwood Industries P Ltd Polydecor Industries P Ltd Cumac Investments P Ltd Chamesh Investments P Ltd Pidmac Investments P Ltd Ashoma Investments	NIL
Mr N Ravindranathan	02.03.1927	19.12.2001	A reputed Technocrat having wide experience in the areas of operations and general management in Pulp and Paper Industry.	B.Sc., B.Sc.(Hons) (Tech.), M.S., (USA)	Director Seshasayee Paper and Boards Ltd Abhilash Consultants and Management Services Pvt Ltd Sri Sakthi Paper Mills Ltd	Member of Audit Committee in Seshasayee Paper and Boards Ltd

*Ponni Sugars (Erode) Limited***DIRECTORS' REPORT**

Your Directors present their 7th Annual Report and the audited statement of accounts for the year ended 31st March 2003.

	(Rs. crores)	
	For the year ended 31.03.2003	For the year ended 31.03.2002
Financial Performance		
Turnover	113.22	98.96
Profit Before Exceptional Items	3.48	4.88
Exceptional Items	(2.12)	(2.07)
Profit Before Tax	1.36	2.81
Provision for Deferred Tax	(0.51)	(1.00)
Profit After Tax	0.85	1.81
Deficit from Previous Year	(7.81)	(9.42)
Transfer from / (to) Debenture Redemption Reserve	1.05	(1.75)
Transfer from General Reserve	—	1.75
Balance in Profit & Loss Account carried forward	(5.71)	(7.61)

DIVIDEND

In view of the overwhelming compulsion to conserve available resources to combat the challenges ahead, no dividend could be recommended for the financial year 2002-03.

SUGAR INDUSTRY SCENARIO

World sugar production is set to rise in excess of consumption growth in 2002-03 with Brazil dominating in production and domineering in exports. There is little tangible progress on reduction or roll back of subsidies by developed countries despite assiduous advocacy for same by WTO. With production persistently outstripping off-take through most part of last decade, there are no triggers to correct falling world sugar prices. The scenario in India is no different, rather it is still worse. Notwithstanding the large decline in crop output last year due to poor monsoon and widespread drought causing agricultural GDP decline by 3.1%, the sugar production has defied this trend and witnessed unabated increase for the fifth year in a row, outpacing domestic consumption to result in ever escalating stock levels. There is some solace that sugar exports have received some focus of late. Considering the enormity of stock pile up at home and the absence of level playing field in world trade on sugar, there is no escape from aggressively stepping up exports for which further fiscal and other financial support is the sine qua non.

Sugar production in India, contrary to the initial estimate of decline, continued to hover high at 185 lakh tonnes for 2001-02 season. The situation has indeed become further unmanageable with production estimate for 2002-03 placed around 195 lakh tonnes. The reason for such unchecked rise in sugar production is readily traceable to Government's decision to continuously hike sugarcane prices not only disproportionate to the prevailing prices of other competing crops but also in utter disregard of drastically declining sugar prices in open market. As a result, sugar prices have since fallen to a six year low, severely impacting the profitability of sugar mills and impairing their paying capacity to honour higher cane prices fastened on them by the Government in defiance of market realities.



In the aforesaid context, the industry was bewildered when confronted with the unexpected announcement of an adhoc and arbitrary hike in Statutory Minimum Price (SMP) for sugarcane by Government for the second time in 2002-03 by a steep Rs.50 per tonne linked to 8.5% recovery. Indeed, such a second revision within a month of initial SMP fixation for the season has never been done since the promulgation of Sugarcane (Control) Order in 1960. This has come at the most inopportune time for the industry already mauled by mountainous problems. The sugar industry has challenged such an arbitrary and unreasonable cane price fixation on extraneous grounds and irrelevant considerations before various High Courts, while the Centre has now moved the Supreme Court with a Transfer Petition on the issue.

The purported intent of such price hike might prima facie look praise-worthy in aiming to provide drought relief to farmers. But the Government has unwittingly put the cart before the horse. It is axiomatic that the health of the industry should first get improved and its viability restored before it is called upon to accommodate a higher remunerative cane price to the benefit of farmers. The Union Budget 2003-04 echoes the open admission of sugar industry's woes and Government's resolve to resurrect this industry from its ruinous state. The comprehensive package promised out of joint action by the Food and Finance Ministries is anxiously awaited as of date.

At a time when sugar prices were already adversely impacted by supply overhang, the situation was exacerbated by select players moving courts and securing interim orders for sale of sugar in excess of monthly quota entitlement on the ostensible plea of payment of sugarcane arrears. This de facto destabilized the control mechanism at once to push price of free sugar well below even levy sugar price. After much delay, the Government has now amended the Essential Commodities Act to directly bring in 'sugar release mechanism' under the said Act and thereby ensure effective check on sugar mills for adhering to the monthly quota. This is doubtless a welcome measure to overcome the malicious move of a few in flouting release orders. But the malice caused by high production and resultant stock build up still needs to be addressed through aggressive exports.

POLICY PROCLAMATIONS

Levy obligation continues at 10%, while the Government has made its intent clear to continue with monthly release mechanism to regulate free sugar supply in the interest of price stability by further strengthening its powers for this purpose under the Essential Commodities Act. Futures and Forward Trading in sugar is yet to commence, despite Government's in principle consent for same accorded in May 2001. Buffer stock has been created for 20 lakh tonnes for one year from December 2002. In reckoning the factory-wise allocation of buffer quantum, sugar exports have been treated as deemed stock.

Inland freight subsidy has been extended for sugar exports so as to reimburse freight charges from sugar mill premises to the port of shipment from June 2002. The coverage of freight subsidy has later been enlarged from February 2003 to cover ocean freight as well at a flat rate of Rs.350 per tonne. All these subsidies, in entirety, come out of Sugar Development Fund contributed solely by the industry and there is an imminent need to further enhance the ocean freight subsidy to enable Indian sugar effectively compete in distant markets.

EXIM Policy has been tightened to discourage raw sugar import for tolling and re-export.

Ethanol programme has been encountering initial teething trouble. The fiscal incentive promised in the Union Budget 2001-02 came to be notified much later in September 2002 and at a reduced rate of 30 paise per litre against the budgetary promise of 75 paise per litre. Simultaneously, the Government issued the notification for mandatory admixture of 5% ethanol in petrol in 9 States and 4 Union Territories from 1st January 2003 but its implementation in most parts of the country had to be deferred to June 2003. There would now appear to be a broad agreement on pricing between the Oil and Sugar industries for supply of anhydrous ethanol. It is expected that the ethanol programme would smoothly take off throughout the country from 2003-04 season.

Ponni Sugars (Erode) Limited

The Central Pollution Control Board has initiated steps to tighten pollution control norms for the sugar industry with added emphasis on conservation of fresh water in-take, reduction in the limit of effluent water generation and more stringent norms for air emission. The proposed norms are under discussions with the industry. Your Company can take legitimate pride that it already conforms to the suggested norms in all respects.

Sugar Development Fund Regulations have been amended to accommodate inland and ocean freight subsidy for exports and finance rehabilitation of sick mills. Besides, cogeneration and ethanol projects have been made eligible for funding assistance.

Sugar sector plays a pivotal role in agriculture and rural industry. For the Government to achieve its ambitious target of 8% annual growth in the Tenth Five Year Plan concomitant with its crucial aim to promote a balanced and equitable regional development, the promised sugar policy should be bold and imaginative to reinvigorate this vital agro-industry.

OPERATING PERFORMANCE

	Year ended 31-3-2003	Year ended 31-3-2002
Cane Crushed (lakh t)	6.37	6.27
Sugar bagged (t)	69572	67703
Sugar Exports (t)	37963	18130
Sugar Recovery (%)	10.92	10.80

The Erode Sugar Mill has been a consistent performer in terms of high capacity utilization and efficient recovery of sugar ever since its establishment. It was able not only to sustain but also further improve on its operating performance during the year reaching the following milestones in the process.

- High volume of crushing.
- All time high sugar production and sugar recovery for the year as a whole.
- Highest ever turnover.
- Record high sugar exports – 100% growth over last year – 50% of free sugar production exported.
- Steepest fall in sugar inventory level and working capital borrowings.

It is however inconsolable that such a trailblazing operating performance was substantively sought to be nullified to a substantial extent in financial terms by the steep fall in sugar prices. In fact, the sugar price differential compared to last year created an incredible dent in profit by a straight and staggering Rs.9 crores. In addition, the company had to fund Ponni Sugars (Orissa) Limited (POL) for making upfront payment of Rs.one crore to State Bank of India (SBI) in deference to the Madras High Court order sanctioning the Scheme of Demerger soon upon SBI consenting to the same. Besides the company had to lend Rs.87 lakhs for the asset preservation at POL in response to the stipulation of FIs and Banks at their joint meeting. These are to be viewed as necessary and ineluctable fall-out of the Demerger Scheme that had to be put through with the assent of all Lenders. It is hoped that upon fructification of the efforts of Lenders in the sale of Balangir Sugar Mill, the company would get absolved of its further financial obligations on account of POL. Till then, every effort is being made to contain our outgo on this score.

It has come as a good relief to the company that it could secure during the year SBI's consent to the Demerger Scheme. Based on same, the Madras High Court has disposed of SBI's appeal challenging the Demerger and hence the Demerger has now become final and decisive. Pursuant to this, the company has cleared all dues to SBI as



already undertaken and it now awaits the formal withdrawal of the debt recovery proceedings initiated by SBI against POL prior to Demerger. Your directors wish to convey their deep sense of appreciation and gratitude to SBI for the reconsideration of their earlier stand and an affirmative decision of support in the end.

The company having earlier received ISO 9002 accreditation migrated to the ISO 9000:2000 version for quality system during the year. It also received ISO 14001 accreditation for its environmental system in April 2002.

With failed monsoon and depleted flow in Cauvery river for most part of the year, the water table has considerably gone down in the command area of the company. Sugarcane supplies would hence get considerably impacted for 2003-04. There is little scope to draw surplus cane from neighbouring areas as most sugar mills in the region face similar, if not more severe adversities. Accordingly sugar production is likely to be lower for the ensuing year and the company is largely left to depend upon an upturn in sugar prices to sustain the viability of its operations. It continues to enjoy the goodwill and patronage of its cultivators as ever, as it not only pays the highest SMP for cane amongst private sector mills in the State but is also prompt in its payment thereof.

The company had earlier submitted a proposal to Lenders for the shifting of usable plant and equipment of POL and its integration to expand capacity of the Erode sugar mill. With growing concerns on falling sugar prices and constricted cane volume in the near term, the company has opted not to pursue this for the present.

FINANCE

The aggressive pursuit of exports helped the company to significantly improve cash flow and marginally overcome domestic price pressures. This singular move stood the company in good stead, facilitating discharge its obligations to FIs and Banks in full and without delay. This in itself can be regarded a commendable feat, given the formidable state of sugar industry and its finances during the year.

Interest rates have been witnessing a steep and recurring fall, with RBI overtly opting for a soft interest rate regime. In fact Bank rate is now 6%, the lowest in 30 years. PLRs of commercial banks of course refuse to move in tandem with the fall in Bank rate, as interest spread is still sought to be maintained at higher levels. As a result, the interest differential between a few blue chip companies (getting access to Bank funds at sub PLR) and the hapless rest has come to be considerably widened. Under such circumstances it is good comfort that the company has been able to line up a mix of working capital products such as FCNR(B) Loan, Packing Credit and Short Term Loan at lower costs. With the active support and assistance of its working capital banks, the company has thus been able to peg its cost of funds at acceptable levels.

CORPORATE GOVERNANCE

A separate section on Corporate Governance is included in the Annual Report and the certificate from the Company's Auditors confirming the compliance of conditions on Corporate Governance as stipulated under Clause 49 of the Listing Agreement of the Stock Exchanges is annexed thereto.

DIRECTORS' RESPONSIBILITY STATEMENT

Your Directors, in terms of Section 217 (2AA) of the Companies Act 1956, confirm that:

- i. all applicable accounting standards have been followed in the preparation of the annual accounts;
- ii. your Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as of 31st March 2003 and of the profit of the Company for the year ended that date;

Ponni Sugars (Erode) Limited

- iii. proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- iv. the annual accounts have been prepared on going concern basis.

EMPLOYEES

Industrial relations were cordial throughout the year.

No employee of the Company was in receipt of remuneration during the financial year 2002-03, in excess of the sum prescribed under Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975.

CONSERVATION OF ENERGY ETC.

Information relating to conservation of energy, technology absorption and foreign exchange earnings and outgo, as required under Section 217(1)(e) read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is given in the Annexure.

DIRECTORS

Dr L M Ramakrishnan, Mr C K Pithawalla and Mr N Ravindranathan, directors of your Company, retire by rotation at this meeting and being eligible, offer themselves for reappointment.

AUDITORS

M/s N R Suresh and Co and M/s R Subramanian & Co, Auditors of the Company, retire at this meeting and are eligible for reappointment. Appropriate resolution for their appointment as Auditors of the Company has been proposed as a special resolution pursuant to Section 224-A of the Companies Act, 1956.

COST AUDIT

The Central Government pursuant to Section 233B of the Companies Act, 1956 has ordered that the company carries out an audit of cost accounts relating to sugar every year. Mr M B Kannan has been appointed as Cost Auditor. The Cost Audit Report for the year 2002-03 will be submitted to the Government before due date.

APPRECIATION

Your directors thank the Financial Institutions and Banks for their continued support and assistance. Your directors commend the employees at all ranks who were instrumental in achieving enviable operating results during the year. Your directors convey their deep sense of gratitude for the indulgence and understanding shown by the larger body of shareholders despite being put on a long wait to get a reasonable return on their investment. Your directors with reinforced commitment would strive to sustain and carry forward the good performance to eventually help in speedy absorption of the past losses transferred from POL and thereby be able to meet shareholders' expectations in the near term.

For Board of Directors

Chennai
13th June 2003

N.Gopalratnam
Chairman



Information as required under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

A. Conservation of Energy

- a) Energy conservation measures taken:

The following energy conservation measures were taken during the year.

- Higher power consuming Hydraulic drive replaced with D.C. Drive for 5th mill.
- ID fan impellers and ETP aerators replaced with high efficiency type.
- Replacement of inefficient capacitors to improve the power factor.

- b) Additional investments and proposals, if any, being implemented for reduction of steam and energy.

NIL

- c) Impact of the measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods.

The impact of the energy conservation measures resulted in reduction of electricity consumption from 32 units per ton of cane crushing to 29 units.

- d) Total energy consumption and energy per unit of production are given in Form A.

B. Technology Absorption

- e) Efforts made in Technology absorption are given in Form B.

C. Foreign Exchange earning and outgo

- f) Activities relating to exports, initiatives taken to increase exports, development of new export markets for products and services and export plans:

The Company substantially stepped up its exports during the year covering more than 50% of its free sugar production. Its export markets are Sri Lanka, Germany, Malaysia, Bangladesh and Maldives.

- g) Total foreign exchange used and earned:

	(Rupees in Lakhs)	
	Current Year	Previous Year
Earnings	3909	1669
Outgo	NIL	NIL

FORM A (RULE 2)

Form for disclosures of particulars with respect to Conservation of Energy

	Current Year	Previous Year
(A) Power and Fuel Consumption		
1. Electricity		
a) Purchased Units (kwh lakhs)	5.45	3.56
Total amount (Rs lakhs)	36.70	23.89
Rate/Unit (Rs/kwh)	6.73	6.71
b) Own generation		
i) Through Diesel Generator	—	—
ii) Through steam turbine/Generator		
Units(kwh lakhs)	181.07	194.74
Units per tonne of fuel (kwh) *	—	—
Cost/Unit (Rs/kwh)	1.35	1.39
2. Coal		
Quantity (tonnes)	39037	23905
Total Cost (Rs lakhs)	900.23	631.03
Average Rate (Rs/t)	2306	2640
3. Lignite		
Quantity (tonnes)	3387	28286
Total Cost (Rs lakhs)	39.05	325.20
Average Rate (Rs/t)	1153	1150
4. Coconut Shell		
Quantity (tonnes)	—	8161
Total Cost (Rs lakhs)	—	150.01
Average Rate (Rs/t)	—	1838
5. Bagasse		
Quantity (tonnes)	49131	68522
Total Cost (Rs lakhs)	NIL	NIL
Average Rate (Rs/t)	NIL	NIL
(B) Consumption per unit of production:		
Product-Sugarcane (t)		
Electricity (kwh)	29	32
Fuel (t) *	0.10	0.13
* (Lignite/Bagasse/Coconut Shell calculated on Coal equivalent weight basis)		

Note: Figures for the previous year have been regrouped, wherever necessary.

FORM B (Rule 2)

Form for disclosure of particulars with respect to Technology Absorption

A) Research & Development (R&D) (Rs.Lakhs)	NIL	NIL
B) Technology absorption, adaptation & innovation		
1) Adaptation of manufacturing process to produce upto 20% of bold sugar in the product mix.		
2) Achievement of optimal re-cycling of treated water for cooling purposes with corresponding economising of raw water consumption.		
3) Conversion of solid waste generated from the ETP into Bio compost which can be applied in place of chemical fertilizers by cane cultivators.		

For Board of Directors

N Gopalaratnam
Chairman

Chennai
13th June 2003