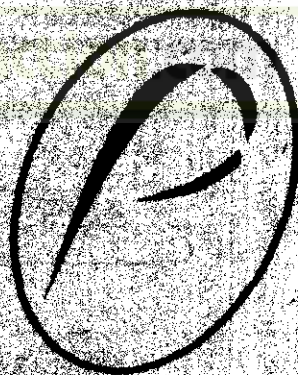


PONNI SUGARS (ERODE) LIMITED

Report



9th

Annual Report
2004-05

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ECS / BANK MANDATE

FOR DIVIDEND PAYMENT

**DIRECTORS**

Mr N GOPALARATNAM (*Chairman*)
 Dr L M RAMAKRISHNAN (*Vice Chairman*)
 Mr ARUN G BIJUR
 Mr BIMAL PODDAR
 Mr C K PITHAWALLA
 Mr K RAJAN (*Nominee-UTI Mutual Fund*)
 Mr S K RAMASAMY
 Mr N RAVINDRANATHAN
 Mr N RAMANATHAN
[Director (Finance) & Secretary]

AUDIT COMMITTEE

Mr K RAJAN (*Chairman*)
 Mr ARUN G BIJUR
 Mr BIMAL PODDAR
 Dr L M RAMAKRISHNAN
 Mr N RAVINDRANATHAN

REMUNERATION COMMITTEE

Mr N RAVINDRANATHAN (*Chairman*)
 Mr ARUN G BIJUR
 Mr N GOPALARATNAM
 Mr K RAJAN

**SECURITIES TRANSACTIONS CUM
INVESTORS GRIEVANCE COMMITTEE**

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

AUDITORS

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

COST AUDITOR

Mr M B KANNAN

BANKS AND INSTITUTIONS

INDUSTRIAL DEVELOPMENT BANK OF INDIA LTD
 UTI MUTUAL FUND
 BANK OF INDIA
 UCO BANK
 UNITED BANK OF INDIA

REGISTERED OFFICE

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

WORKS

ODAPPALLI, CAUVERY RSPO
 ERODE 638 007
 TIRUCHENGODE TALUK
 NAMAKKAL DISTRICT
 TAMIL NADU

REGISTRAR & TRANSFER AGENT

CAMEO CORPORATE SERVICES LTD
 "SUBRAMANIAN BUILDINGS", 5th FLOOR
 No.1, CLUB HOUSE ROAD, CHENNAI 600 002



PONNI SUGARS (ERODE) LIMITED

Registered Office : "Esvin House" 13, Old Mahabalipuram Road,
Seevaram Village, Perungudi, Chennai 600 096.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Ninth Annual General Meeting of the Company will be held at New Woodlands Hotel Pvt Ltd, 72-75 Dr Radhakrishnan Road, Mylapore, Chennai 600004 on Friday, the 22nd July 2005 at 10.25 AM to transact the following business:

ORDINARY BUSINESS

1. Adoption of Accounts etc.

To consider and adopt the audited Balance Sheet as at 31st March 2005, the Profit & Loss Account for the year ended on that date and the Reports of the Board of Directors and Auditors thereon.

2. Dividend declaration

To declare dividend on Equity Shares

3. Reappointment of retiring Directors

To appoint directors in the place of Mr Bimal Poddar and Dr L M Ramakrishnan, who retire by rotation and being eligible, offer themselves for reappointment.

4. Appointment of Auditors

To appoint auditors from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting and to fix their remuneration. M/s Maharaj N R Suresh & Co and M/s R Subramanian and Company, the retiring auditors of the Company, being eligible, offer themselves for reappointment.

SPECIAL BUSINESS

5. Appointment of Whole-time Director

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

"RESOLVED that Mr N Ramanathan appointed as an additional director of the Company with effect from 1st April 2005 by the Board of Directors and vacating his office at this meeting be and is hereby appointed as a Director of the company liable to retire by rotation, requisite notice under Section 257 of the Companies Act, 1956 having been received for this purpose.

RESOLVED that in accordance with the provisions of Sections 198, 269, 309, Schedule XIII and other applicable provisions of the Companies Act, 1956 approval be and is hereby accorded for the appointment of Mr N Ramanathan as Whole-time Director of the company with the designation as "Director (Finance) & Secretary" or such other designation as may be determined by the Board from time to time, for a period of three years from 1st April 2005 to 31st March 2008 on the remuneration and other terms and conditions set out in the Explanatory Statement attached to the notice, a copy whereof initialled by the Chairman for the purpose of identification is placed before this meeting.

RESOLVED that the Board be and is hereby authorized to increase, vary or amend the remuneration and other terms of the appointment from time to time subject to approval by the Remuneration Committee provided that such revised remuneration shall also be in conformity with and within the ceiling of Part II of Schedule XIII to the Companies Act, 1956 as stipulated from time to time and other applicable Government guidelines on managerial remuneration".



6. Voluntary Delisting of Equity Shares

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

"RESOLVED that subject to the provisions of the Companies Act, 1956, Securities Contracts (Regulation) Act, 1956 and the rules framed thereunder, Listing Agreements, Securities and Exchange Board of India Act, 1992, Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003, (including any statutory modification(s) or reenactment(s) thereof for the time being in force and as may be enacted hereafter) and all other applicable laws, rules, regulations and guidelines and subject to all such approvals, permissions, exemptions and sanctions, as may be necessary and subject to such conditions and modifications as may be prescribed or imposed by any authority while granting such approvals, permissions, exemptions and sanctions, which may be agreed to by the Board of Directors of the Company (hereinafter referred to as "the Board", which term shall be deemed to include any Committee thereof for the time being exercising the powers conferred on the Board by this Resolution), approval be and is hereby accorded to the Board to voluntarily delist the Equity Shares of the Company from the Madras Stock Exchange Limited at Chennai and the Board be and is hereby authorised to decide upon the timing of Voluntary delisting from Madras Stock Exchange Limited and do all acts, deeds and things as it may in its absolute discretion deem necessary, desirable and appropriate in connection therewith and incidental thereto."

(By Order of the Board)

For PONNI SUGARS (ERODE) LIMITED

Chennai
10th June 2005

N Ramanathan
Director (Finance)
& Secretary

NOTES

1. Proxy

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. Deposit of proxy

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 10.25 AM on 20th July 2005.

3. Book Closure

The Register of Members and the Share Transfer Register will remain closed from Saturday, the 16th July 2005 to Friday, the 22nd July 2005 (both days inclusive)

4. Address change

Members holding shares in physical form are requested to notify promptly any change in their address to the Registrar and Transfer Agent of the Company by quoting their folio number along with changes, if any, in their Bank Mandate. Members holding shares in electronic form may communicate the changes directly to their respective Depository Participants.

5. Dividend

Members are advised to refer to shareholder information section of the Corporate Governance Report (Page 25 of the Annual Report) for details on dividend entitlement and dividend warrants.

6. Member identification

(a) Members are requested to bring the attendance slips duly filled in along with their copies of Annual Reports to the meeting.

(b) Members holding shares in Electronic form are requested to bring in their details of DP ID and Client ID for ease of identification and recording of attendance at the meeting.

Ponni Sugars (Erode) Limited

EXPLANATORY STATEMENT

(Pursuant to Section 173 (2) of the Companies Act, 1956)

Item No.5:**Appointment of Whole-time Director**

Mr N Ramanathan was elevated to the Board as an additional director of the company, with effect from 1st April 2005 by the Board of Directors vide resolution passed at their meeting held on 18th March 2005. He vacates his office as director at this meeting. It is now proposed to appoint Mr N Ramanathan as a Whole-time Director of the company liable to retire by rotation for which relevant notice under Section 257 of the Companies Act, 1956 together with cash deposit has been received.

Mr N Ramanathan was appointed by the Board as Whole time Director with the Designation 'Director (Finance) & Secretary' on the following terms as approved by the Remuneration Committee:

- | | |
|-------------------------|---|
| I. Tenure | : 01.04.2005 to 31.03.2008 |
| II. Salary | : Rs.40000 (Rupees Forty Thousand only) per month. |
| III. Commission | : Two percent of net profits of the Company but restricted to annual salary. |
| IV. Perquisites | : Perquisites shall be restricted to an amount equal to the annual salary. Contribution to Provident Fund, Superannuation Fund, Gratuity Scheme and Leave Encashment shall however be excluded in reckoning the said ceiling. |
| V. Minimum Remuneration | : In the event of loss or inadequacy of profits in any financial year, remuneration as above shall be paid as Minimum Remuneration. No commission however is payable in such a year. |

Note: Profit for purpose of managerial remuneration shall be as per computation under Section 349 and 350 of the Companies Act, 1956.

Mr N Ramanathan is professionally qualified as a Chartered Accountant, Company Secretary and Cost Accountant with an impressive academic track record all along. He has over 25 years of professional standing and played a pivotal role in the 'Demerger Scheme' that resulted in the spin-off of Erode Undertaking to our company. His persistent and painstaking efforts on debts swap and interest rate restructure have helped the Company in optimizing the cost of borrowing for Erode unit.

The terms of appointment of Mr N Ramanathan are well within the ceiling stipulated under Schedule XIII of the Companies Act, 1956 and hence do not require the approval of the Central Government. The remuneration as above has been approved by the Remuneration Committee of the Board of Directors and the terms of appointment are subject to the approval by a resolution of the shareholders in a General Meeting in terms of Part III of the said Schedule. Accordingly, this subject is placed for the approval of the members. Intimation under Section 302 of the Companies Act had already been circulated to all Members within the stipulated time.

A copy of the Board resolution passed in this respect and other relevant records are available for inspection of members on any working day of the company between 11.00 AM and 1.00 PM.

No Director other than Mr N Ramanathan is concerned or interested in this item of business.

**Item No.6:****Voluntary Delisting of Equity Shares**

The Equity Shares of the Company are currently listed at Madras, Mumbai and National Stock Exchanges. Consequent to rapid changes in the capital market and with the availability of nationwide trading facility on the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE), the investors have wide accessibility for trading in the Equity Shares of the company. While transactions are reported on a daily basis in NSE and BSE, there are no transactions at the Madras Stock Exchange ever since the Equity Shares were listed in April, 2002. With the overwhelming presence and seamless facility of trading available with NSE and BSE, the regional exchanges appear to have lost their relevance in most cases.

It is accordingly proposed to voluntarily delist the Equity Shares of the company from Madras Stock Exchange Limited subject to necessary approvals as may be required in this regard.

As per the Delisting of Securities Guidelines, 2003 issued by Securities and Exchange Board of India (SEBI), an exit opportunity need not be provided to the shareholders in the event of delisting, provided the Equity Shares continue to be listed at BSE or NSE.

The proposed delisting will not affect the investors, as the Company's Equity Shares will continue to be listed at NSE and BSE having widest market accessibility.

The Board of directors recommend passing of the Resolution as a Special Resolution.

None of the Directors of the Company is concerned or interested in the said resolution save and except to the extent of their shareholding, if any, in the company.

(By Order of the Board)

For PONNI SUGARS (ERODE) LIMITED

Chennai

10th June 2005

N Ramanathan

Director (Finance) & Secretary

Ponni Sugars (Erode) Limited

Details of the Directors seeking appointment / reappointment at the 9th Annual General Meeting

[Pursuant to Clause 49 of the Listing Agreement with Stock Exchanges]

Name of Director/ Qualification	Date of Birth / Date of Appointment	Expertise in specific functional areas	Directorship in other companies (excluding foreign companies)	Committee / executive position held in other companies
Mr Bimal Poddar B.Com	25.12.1942	Varied experience in the spheres of Finance, Administration and General Management for long in diverse family businesses	Chairman & Managing Director The Coonoor Tea Estates Co Ltd Chairman Matheson Bosanquet Enterprises Ltd Lucky Valley Investments and Holdings Ltd Hope Textiles Ltd Sua Explosives and Accessories Ltd Director Seshasayee Paper and Boards Ltd Sua Finance & Investments Ltd Coonoor Investments Ltd Poddar Niket Developers Ltd Atlas Copco (India) Ltd Pragati Business Ltd Matheson Keells Enterprises Pvt Ltd	Member in Audit, Remuneration and Directors' Committee in Atlas Copco (India) Ltd Member of Audit Committee in Hope Textiles Ltd and Seshasayee Paper and Boards Ltd Chairman of Remuneration Committee in Hope Textiles Ltd
	19.12.2001			
Dr L M Ramakrishnan M.B.B.S., D.L.O.	30.09.1942	Doctor turned Educationist having wide experience in management of educational institutions. Also having wide contacts among local farming community	Director Knitwell Needles Ltd Erode Medical Supplies (P) Ltd SKM Egg Powder Ltd	NIL
	19.12.2001			
Mr N Ramanathan ACA, ACS, AICWA	14.06.1954	Vast experience in diverse disciplines of finance, taxation and general management. Active participant in professional forums as speaker	NIL	NIL
	01.04.2005			



DIRECTORS' REPORT

Your Directors present their 9th Annual Report and the audited statement of accounts for the year ended 31st March 2005

(Rs. crores)

	For the year ended 31.03.2005	For the year ended 31.03.2004
Financial Performance		
Turnover	88.17	81.13
Profit Before		
Exceptional Items	8.80	5.38
Exceptional Items	0.97	(2.18)
Profit Before Tax	9.77	3.20
Profit After Tax	6.02	2.50
Deficit From Previous Year	(2.51)	(5.71)
Amount available for appropriation	3.51	(3.21)
Appropriations:		
Transfer from Debenture		
Redemption Reserve	NIL	0.70
Transfer to General Reserve	1.70	NIL
Proposed dividend	0.82	NIL
Dividend Tax	0.12	NIL
Balance in Profit & Loss		
Account carried forward	0.87	(2.51)

Dividend

Your Directors have great pleasure to recommend a maiden dividend of 10%, ie. Re.1 per Equity Share of Rs.10 each for the financial year ended 31st March 2005. Your Directors regard that this dividend rate strikes a right balance between rewarding investors and conserving resources for growth.

Company Performance

Your Company has come out with convincing operating performance to post creditable financial results for the year. Profit Before Tax (PBT) has nearly trebled while Profit After Tax (PAT) has shown an impressive

increase of 140%. Correspondingly, Earnings Per Share (EPS) has more than doubled. Indeed, PBT, PAT and EPS figures have scaled to a new peak to score an all round splendid performance for the year.

With relentless pursuit of unregistered cane and restrained recourse to raw sugar import, sugar production was supplemented during the year to take benefit of rising market. Sugar price hike brought about by buoyant market conditions with concomitant increase in byproduct realization could not only help combat cost hikes but also contribute in copious measure to shore up financial performance.

The Company was in aggressive pursuit of liquidating and restructuring high cost long term debts to further fortify its financial position. In fact, the Company had to start with an unenviable Debt Equity Ratio of over 3:1 upon Demerger not too long ago that has now considerably improved to a tad over 1:1 at the end of current year. Improved cash flows were utilized to prepay debts while interest rates have got restructured and reset at much lower levels on payment of negotiated premium. As opposed to the high cost of around 15% for both long term and working capital debts upon Demerger, the rates have now been beneficially brought down to single digit on the strength of improved financials and softening rates.

Authorisation of members was obtained for issue of Preference Shares of the face value of Rs.136 lacs at the last AGM towards settling institutional claims in full and final discharge of your Company's obligation against Ponni Sugars (Orissa) Ltd (POL). Claims of ICICI Bank and IDBI Ltd have been prepaid at agreed NPV while negotiations are on with UTI for foreclosure of all its debts. As a result, Preference Share issue would no longer be required for this purpose. Full consideration on sale of POL assets was realized during the year by ICICI Bank and in turn distributed to all secured lenders per consensus already reached. Your Company's altruistic approach in decisively resolving the POL imbroglio has won the acclaim and appreciation of one and all.

Ponni Sugars (Erode) Limited

Pursuant to the ruling of Supreme Court in May 2004, no State Advised Price is payable by sugar mills in Tamil Nadu. Accordingly, your Company is relieved of all uncertainties in respect of past liabilities on this score. The fixation of Statutory Minimum Price (SMP) for 2003-04 was initially challenged in and interim stay obtained from the High Court of Madras. Most sugar mills, including your Company, have since volunteered to pay same as advance against additional cane price that may become payable to farmers, having regard to the later surge in sugar price realisation. As such, the dispute for 2002-03 season challenging the ad hoc increase in SMP is rather the only remaining major legal issue on cane pricing and due provision has been made therefor in the accounts as a measure of prudence and abundant caution. Purchase tax incentive case pending before Supreme Court has since been remanded to the High Court in November 2004 where again requisite provisioning and payment under protest have been made in past:

The Company has undertaken an 'Energy Saving Project' on an estimated capital outlay of Rs.3.25 crores. This is calculated to achieve considerable reduction in steam consumption besides marginally enhancing effective operating capacity. It envisages the introduction of instrumentation control, installation of certain additional equipment and redesigning steam distribution arrangement. It is targeted to implement the project in the current off-season with no loss of production and its benefits are aimed to accrue from 2005-06.

A detailed discussion on the industry structure as well as on the financial performance with respect to operational performance of the Company contained in the 'Management Discussion and Analysis Report' enclosed hereto forms an integral part of this Report.

Outlook for 2005-06

After reeling under the adversity of monsoon failure in successive years, there is welcome change with widespread rainfall in our region in the current year. As a result, cane planting and registration have gained good momentum to realistically raise our hopes to look for resolute improvement in our operations during

2005-06. Despite discernible decline in sugar prices in recent times for no explicable reason, current demand-supply equilibrium should bring sooner the required correction in sugar prices. Overall, the Company looks to the prospects of 2005-06 in all confidence and on an optimistic note.

Directors

Mr G Rajagopal who was appointed as Managing Director for the period 26.10.2001 to 31.03.2005 demitted office on expiry of his current term citing personal reasons to pursue his other goal objectives. He has accordingly ceased to be the Managing Director as well as Director of the Company from the close of 31st March 2005.

Mr G Rajagopal has had a long stint of association in diverse locations and positions in the Company as well as the Group. He was closely involved in the setting up of Erode mill and played a pivotal role in placing it on a strong footing. After braving the challenges in Orissa operations, his deft handling ensured smooth winding up operations and eventual sale of Balangir Sugar Mill. Your Directors wish to place on record their appreciation of the commendable role played by Mr G Rajagopal all along.

Your Directors have appointed Mr N Ramanathan as an additional director in recognition of his long stint and valued contribution to the Company. He functions as a Whole-time Director of the Company with the designation 'Director (Finance) & Secretary' effective 1st April 2005. He retires at the ensuing meeting and seeks reelection. Consent of the members is being sought both for his appointment and terms thereof.

ICICI Bank has withdrawn the nomination of Mr Manas Ranjan Pani and accordingly he ceased to be a Director of the Company from 25.06.2004. Since the Company has no debt outstanding to ICICI Bank, no new nominee has been appointed by them.

Mr Bimal Poddar and Dr L M Ramakrishnan, Directors of your Company retire by rotation at this meeting and being eligible offer themselves for reappointment.

Directors' Responsibility Statement

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