



Ponni Sugars (Erode) Ltd.

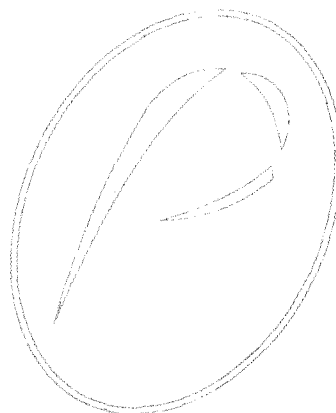
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12th

Annual Report

2007-08

Ponni Sugars (Erode) Limited



Report  junction.com

Year of Struggle

- *All time high crushing and sugar production*
- *Operations at optimum efficiency*
- *Depressed sugar prices inflicting hefty losses*
- *Modernization Project completed*
- *Dividend reduced to 6%*

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Directors

Mr N Gopala Ratnam (*Chairman*)
 Dr L M Ramakrishnan (*Vice Chairman*)
 Mr N Ramanathan (*Managing Director*)
 Mr Arun G Bijur
 Mr Bimal Poddar
 Mr C K Pithawalla
 Mr S K Ramasamy
 Mr N Ravindranathan

Audit Committee

Mr Arun G Bijur (*Chairman*)
 Mr Bimal Poddar
 Dr L M Ramakrishnan
 Mr N Ravindranathan

Remuneration Committee

Mr N Ravindranathan (*Chairman*)
 Mr Arun G Bijur
 Mr N Gopala Ratnam
 Dr L M Ramakrishnan

**Securities Transactions Cum
Investors Grievance Committee**

Mr N Gopala Ratnam (*Chairman*)
 Mr Arun G Bijur
 Mr N Ramanathan

Auditors

R Subramanian And Company, Chennai
 Maharaj N R Suresh & Co., Chennai

Cost Auditors

S Mahadevan & Co., Coimbatore

Banks

Bank of India
 IDBI Bank Limited
 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
 Tamil Nadu

Registrar & Transfer Agent

Cameo Corporate Services Ltd
 "Subramanian Buildings", 5th Floor
 No.1, Club House Road, Chennai 600 002

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From Chairman's desk

Dear Shareholder,

The performance of your Company during 2007-08 was on predicted lines, as feared in my last year's communiqué. On the positive side, the Company has scaled to new highs on most of the vital operating parameters:

Highest cane crush of 9.22 lakh tonnes

Highest sugar production of 92324 tonnes

Highest volume of sugar sales of 98207 tonnes

Highest turnover of Rs. 140.28 crores

Such a commendable physical performance, however, translated only to a traumatic financial performance in the end. It is painful that your Company was sadly saddled with net loss for the first time in its functioning. It is some solace that we could contain the magnitude of losses with all-round improvement in our in-house performance. In all, we were largely destabilized by the industry downturn.

While the Industry overtook us with a production much larger in quantum than what most pundits predicted, it is now comforting that the recovery in sugar cycle appears to be imminent. Sugar markets have recovered from their rock-bottom, though nowhere near buoyant levels, as evidenced from the improving global quotes and increasing domestic realization.

Inflation remains an area of high concern for the Government and rightly so. There is all-round anxiety that remedial measures being conceived should not turn out to be worse than the disease. Not in the distant past sugar exports were banned on such inflation concerns when international prices were ruling high that dealt a cruel blow to the industry. A year later, Government had not only to open up sugar exports but back it up with subsidies, since global prices had receded by more than 30% then.

There are always outlandish outcries when sugar prices start climbing. It must however be remembered that a meaningful price rise for sugar is overdue and necessary at the current juncture to restore the health of this core industry. Besides, Sugar is no longer an essential commodity that it was. This fact has been succinctly brought out in the Report of A C Nielsen Market survey documenting more than 75% of sugar consumption to come from industrial, small business and high income household segments. In such context, any pre-emptive move of Government to thwart reasonable price rise in sugar would prove counter productive. More importantly, it would be seriously detrimental to the interest of sugarcane farmers at large.

Despite the prediction of normal monsoon, cane crop for coming season would be on decline due to a variety of reasons. On top is the unattractive cane price compared to other competing crops and considering current high cost of cultivation. It needs no guessing that a rewarding cane price needs in turn, or rather pre-warrants the prevalence of viable sugar price. There is no denying that a farmer's dependence on remunerative sugar price towards safeguarding remunerative cane price and receiving same in time is both economically crucial and socially justified. He thus has a far superior claim as opposed to the miniscule higher burden brought about by marginal increase in sugar prices on consumers who are predominantly in high-end segment.

Turning to our Erode Sugar Mill, while it has been a consistent good performer, it continues to suffer on one vital count, namely, absence of by-product development. Our efforts to set up a new green-field sugar complex have regretfully received a temporary setback as detailed in the Directors' Report. We are now planning to establish a standalone distillery to partially de-risk our business model.

In line with overall decline in cane cultivation in our neighbourhood, your Company is also faced with lower cane potential and reduced sugar production during 2008-09. I am however optimistic that our overall financial performance would be satisfactory with discernible improvement in product prices.

Dividend for the year is trimmed to 6% that would more seem as a token gesture.

I sincerely thank you for your patronage and support to the management when the Company had to pass through a difficult year. As of now, the best news is that the worst is already over. Let us together hope for and look forward to a better and brighter future.

Chennai
6th June 2008

Warm regards



N Gopala Ratnam

PONNI SUGARS (ERODE) LIMITED

ESVIN House, 13 Old Mahabalipuram Road, Seevaram Village, Perungudi, Chennai 600 096

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 12th Annual General Meeting of the Company will be held at New Woodlands Hotel Pvt Ltd, 72-75 Dr Radhakrishnan Road, Mylapore, Chennai 600 004 on Friday, the 18th July 2008 at 10.15 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 2008, 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 S K Ramasamy 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, are eligible for reappointment.

SPECIAL BUSINESS

5. Appointment of Managing Director

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

"RESOLVED that Mr N Ramanathan whose current term as Whole-time Director with the designation 'Director (Finance) & Secretary' expired on 31.03.2008 be and is hereby appointed as Managing Director of the Company for a period of three years from 01.04.2008 to 31.03.2011.

RESOLVED FURTHER that pursuant to the provisions of Sections 198, 269 and 309 read with 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 Managing Director on the remuneration and other terms and conditions set out in the Explanatory Statement attached hereto.

RESOLVED FURTHER that the Board of Directors be and is hereby authorized to increase, vary or amend the remuneration and other terms of the appointment from time to time 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 or any statutory modification(s) or re-enactment thereof.

RESOLVED FURTHER that the Board of Directors be and is hereby authorized to take all such steps as may be necessary, proper or expedient to give effect to this Resolution".

6. Conversion of Preference Capital into Equity

To consider and if thought fit, to pass with or without modification(s) the following Resolution as a Special Resolution:

"RESOLVED that pursuant to Section 81(1A) and other applicable provisions, if any, of the Companies Act, 1956 and subject to the provisions in the Memorandum and Articles of Association of the Company and in deference to the Guidelines for Preferential Issues contained in the SEBI (Disclosure & Investor Protection) Guidelines, 2000 (the SEBI Preferential Issues guidelines) and all other applicable Laws, Rules, Regulations and Guidelines and subject to such approval, permission or consent as may be necessary or expedient, the consent of the Company be and is hereby accorded for the conversion of 20,00,000 Redeemable Preference Shares of Rs.10 each held by Seshasayee Paper and Boards Limited in the Company into 4,00,000 Equity Shares of Rs.10 each, fully paid, on the following terms:

- (1) The date of allotment of 4,00,000 Equity Shares of Rs.10 each shall be the date of passing this Resolution under Section 81(1A) of the Companies Act, 1956 by the General Body of Shareholders. Accordingly immediately on passing this Resolution, 4,00,000 Equity Shares of Rs.10 each (comprising face value of Rs.10 and premium of Rs.40 per share) of the Company shall stand issued, subscribed and allotted to Seshasayee Paper and Boards Limited (SPB).
- (2) Concurrently upon the issue and allotment of Equity Shares to SPB as above, 20,00,000 Preference Shares of Rs.10 each aggregating Rupees Two Crores held by SPB in the Company shall stand fully redeemed. There shall be no further right or obligation for either

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party in respect of these Preference Shares upon such redemption.

- (3) For the purpose of giving effect to this Resolution, there is 'constructive receipt' of Rupees Two Crores from SPB towards subscribing to 4,00,000 Equity Shares of Rs.10 each of the Company and corresponding 'constructive payment' of Rupees Two Crores to SPB towards redemption of 20,00,000 Preference Shares of Rs.10 each held by SPB in the Company.
- (4) The redemption of Preference Shares for purpose of Section 80(1) read with the proviso (a) thereunder shall be regarded as out of the proceeds of the fresh issue of Equity Shares made for the purpose of such redemption.
- (5) The 'relevant date' for the determination of applicable price for Equity Shares issued and allotted hereunder in accordance with the *SEBI Preferential Issues Guidelines* is 18th June 2008 being the date 30 days prior to the date of passing this Resolution by Shareholders.
- (6) In case the price for Equity Shares determined in accordance with the *SEBI Preferential Issues Guidelines* after the relevant date is higher than Rs.50 per share, then the issue of Equity Shares for Rs.2,00,00,000 be made at that price and concurrently the number of Equity Shares so issued shall be reduced *pro tanto*.
- (7) The Equity Shares so issued and allotted in terms of this Resolution shall rank *pari passu* with the existing Equity Shares of the Company in all respects excepting their entitlement for dividend for the financial year ended 31st March 2008.
- (8) The Equity Shares issued and allotted to SPB forming part of Promoter/ Promoter Group in terms of this Resolution shall remain locked in for 3 years from the date of allotment subject however to such change or modification as may be effected by SEBI in this regard.
- (9) The Board of Directors of the Company (which term shall be deemed to include any duly constituted Committee thereof) be and are hereby authorized to obtain requisite approvals (including the listing of new Equity Shares issued and allotted in terms of this Resolution), consent, permission or sanction and agree to such terms and conditions as may be imposed by any authority in giving such consent, permission or sanction, enter into requisite agreements and take such actions as may be necessary, desirable or incidental for this purpose."

7. Reorganisation of Authorised Capital

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

- (A) "RESOLVED that pursuant to Sections 16, 31, 94 and other applicable provisions if any, of the Companies Act, 1956 the present Authorized Share Capital of Rs.15,00,00,000 (Rupees fifteen crores only) divided into 1,15,00,000 (One crore fifteen lakhs only) Equity Shares of Rs.10 each and 35,00,000 (Thirtyfive lakhs only) Preference Shares of Rs.10 each be and is hereby altered to Rs.15,00,00,000 (Rupees fifteen crores only) divided into 1,50,00,000 (One crore fifty lakhs only) Equity Shares of Rs.10 each.

- (B) RESOLVED FURTHER that Clause V of the Memorandum of Association of the Company be altered by substituting the following new Clause V in place of the present Clause V thereof.

The Authorized Share Capital of the Company is Rs.15,00,00,000 (Rupees fifteen crores only) divided into 1,50,00,000 (One crore fifty lakhs only) Equity Shares of Rs.10 each with rights, privileges and conditions attaching thereto as are provided by the terms of issue or the regulations of the Company for the time being.

The Company has the power from time to time to increase or reduce its capital in accordance with the provisions of the Companies Act, 1956.

- (C) RESOLVED FURTHER that Article 5 of the Articles of Association of the Company be altered by substituting the following new Article 5 in place of the present Article 5 thereof.

The Authorized Share Capital of the Company is Rs.15,00,00,000 (Rupees fifteen crores only) divided into 1,50,00,000 (One crore fifty lakhs only) Equity Shares of Rs.10 each with rights, privileges and conditions attaching thereto as are provided by the terms of issue or the regulations of the Company for the time being.

The Company has the power from time to time to increase or reduce its capital in accordance with the provisions of the Companies Act, 1956.

- (D) RESOLVED FURTHER that the Board of Directors be and are hereby authorized to do such other acts, deeds and things as may be necessary for giving effect to this resolution."

(By Order of the Board)

For PONNI SUGARS (ERODE) LIMITED

Chennai
6th June 2008

N Ramanathan
Managing Director



Ponnai Sugars (Erode) Limited

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 10.15 AM on 16th July 2008.

3. Book Closure

The Register of Members and the Share Transfer Register will remain closed from Tuesday, the 15th July 2008 to Friday, the 18th July 2008 (both days inclusive).

4. Dividend

Pursuant to Section 205A of the Companies Act, 1956, dividend remaining unpaid or unclaimed for a period

of 7 years will be transferred to the Investor Education and Protection Fund of the Central Government and no claim shall lie thereafter.

Members who have not encashed their dividend warrants for the past years are requested to make their claims to the company.

Members are advised to refer to 'Shareholder Information' section of the Corporate Governance Report (Page 33 of the Annual Report) for details on dividend entitlement and dividend warrants.

5. 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 Demat 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.

EXPLANATORY STATEMENT

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

Item No.5:

Appointment of Managing Director

Mr N Ramanathan was appointed as Whole time Director with the designation Director (Finance) & Secretary for a period of 3 years which term expired on 31.03.2008. The Board of Directors at their meeting held on 28th March 2008 have elevated and appointed Mr N Ramanathan as Managing Director of the Company for a period of 3 years with effect from 1st April 2008 on the following terms as approved by the Remuneration Committee:

1.	Tenure	01.04.2008 to 31.03.2011
2.	Salary	Rs.90,000 (Rupees Ninety Thousand only) per month
3.	Commission	3% of the net profit of the Company but restricted to annual salary.
4.	Perquisites	Perquisites excluding Housing shall be restricted to an amount equal to the annual salary. Contribution to Provident Fund, Superannuation Fund, Gratuity Scheme and Leave Encashment shall also be excluded in reckoning this ceiling.
5.	Minimum Remuneration	In the event of loss or inadequacy of profits in any financial year, remuneration as above shall be paid as Minimum Remuneration. In addition he is eligible for 50% of annual salary as Incentive Remuneration but no commission is payable in such a year.
6.	Overall ceiling	In any event the total of Salary, Commission, Incentive Remuneration and Perquisites shall be within the overall ceiling as specified in Section II of Part II of Schedule XIII to the Companies Act, 1956.

Note: Profit for purpose of Managerial Remuneration shall be as per computation under Sections 349 and 350 of the Companies Act, 1956.

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Mr N Ramanathan is a professional with Finance background. He has been associated with the Company and the Group for long and has made valued contribution for the functioning and growth of the Company.

During his term as Whole-time Director, Mr N Ramanathan has gained broad exposure in sugar industry with his active role and involvement at regional and national level Associations of the industry. The Board accordingly considered it desirable and expedient to elevate him as Managing Director of the Company.

Sugar industry is highly cyclical and is still subject to Government control on diverse facets of its functioning. The Company's profit performance is hence highly vulnerable to price pressures brought about by external factors. The remuneration package accordingly includes minimum remuneration in the event of loss or inadequacy of profits. The Remuneration Committee of the Board has approved same on 28th March 2008 and this requires the approval of shareholders through special resolution. Statement containing prescribed information for this purpose is furnished hereinbelow.

Intimation under Section 302 of the Companies Act, 1956 had already been circulated to all Members within the stipulated time.

Memorandum and Articles of Association and relevant resolutions passed by the Remuneration Committee and Board 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.

Statement containing required information as per Para (B) of Part II of Section II of Schedule XIII to the Companies Act, 1956

I. GENERAL INFORMATION

(1) Nature of Industry

Manufacture of sugar and its by-products

(2) Date of commencement of Commercial production

The Company was transferred the Erode Sugar Mill Undertaking of erstwhile Ponni Sugars and Chemicals Limited effective 1st April 1999 in terms of a Demerger Scheme sanctioned by High Court of Madras. Commercial production in Erode sugar mill commenced on 3rd December 1984.

(3) In case of new companies, expected date of commencement of activities

Not Applicable

(4) Financial performance based on given indicators

(Rs lakhs)

Particulars	2007-08	2006-07	2005-06
Total Income	14402	14042	13737
Profit before Interest, Depreciation & Tax	-23	1242	2193
Profit Before Tax	-309	858	1734
Profit After Tax	-188	490	1136
Net worth	3705	3951	3547
Dividend (%)	6*	9	18

* Recommended by Board

(5) Export performance and net foreign exchange collaborations

(Rs lakhs)

Particulars	2007-08	2006-07	2005-06
FOB value of exports	3453	—	1905
CAF value of imports	—	2	274
Expenditure in foreign currency	6	5	306
Net foreign exchange earnings	3447	—	1599

Note: Sugar exports were banned during July 2006 to January 2007.

(6) Foreign Investments or collaborators, if any.

NIL

II. INFORMATION ABOUT THE APPOINTEE

(1) Background details

Mr N Ramanathan is professionally qualified as Chartered Accountant, Company Secretary and Cost Accountant with an impressive academic track record. He has made credible contribution during his long stint of association with the Company and Group in diverse role and responsibilities.



Ponni Sugars (Erode) Limited

(2) Past remuneration

(Rs lakhs)

Particulars	2006-07	2005-06	2004-05
Salary & Allowances	7.20	7.20	3.60
Perquisites	2.08	0.68	3.55
Commission	4.80	4.80	3.60
Total	14.08	12.68	10.75

(3) Recognition or awards

Mr N Ramanathan is a rank holder in Degree and All India rank holder in Chartered Accountancy. He is presently Vice President of South Indian Sugar Mills Association-TN and a member in the Executive Committee of Indian Sugar Mills Association.

(4) Job profile and suitability

Mr N Ramanathan is experienced in Sugar industry for 17 years. He had earlier worked in Paper and Electronics industry. He has proven expertise in business planning and strategic decision making. He is well versed in Finance, Taxation and General Management. He brings to bear admirable inter personal skills and has the requisite leadership qualities to head the Company.

(5) Remuneration proposed

As set out in the Explanatory Statement above.

(6) Comparative remuneration profile with respect to Industry, size of the company, profile of the position and person

Considering the profile of Mr N Ramanathan and current trend of compensation package in Corporates, the remuneration proposed is moderate. It is broadly in line with comparable remuneration levels in the industry.

(7) Pecuniary relationship directly or indirectly with the company or relationship with the managerial personnel if any.

Mr N Ramanathan holds 2000 Equity Shares in the Company. Other than the remuneration stated above, he has no other pecuniary relationship directly or indirectly with the Company. He has no relationship with any managerial personnel.

III. OTHER INFORMATION

(1) Reasons of loss or inadequate profits

Sugar industry is intrinsically cyclical with huge swings in production between years. Sugar prices precariously fall during glut in supply. Since Sugar and Sugarcane are essential commodities and politically price sensitive, it is subject to State intervention like export ban or arbitrary price mandate.

Despite record rise in production and operating performance, the Company has suffered loss during 2007-08 owing solely to highly depressed sugar/molasses prices in the market.

A detailed coverage on industry purview and factors impacting financial performance of the company is contained in the Directors' Report to Shareholders and Management Discussion and Analysis Report incorporated in the 12th Annual Report 2007-08.

(2) Steps taken or proposed to be taken for improvement

The loss suffered in 2007-08 was entirely due to external factors, namely, drastic decline in sugar and molasses prices under demand-supply disequilibrium. There has since been a discernible improvement in product prices due to changing macro economic state of the industry. It is hence reasonably expected that the Company would return to profitability from 2008-09.

(3) Expected increase in productivity and profit in measurable terms.

The Company already operates at high levels of productivity with optimal efficiency. It significantly reduced energy consumption by implementing Energy Efficiency Project and further improved its productivity through Modernisation Project. These are aimed at ensuring continual optimal plant performance.

Item No.6

Conversion of Preference Capital into Equity

Seshasayee Paper and Boards Limited (SPB) is the principal Promoter of the Company holding 16.90% of the Equity Capital. The Company has a strategic relationship with SPB towards long-term bagasse supply arrangement, deriving considerable value-addition therein.

SPB subscribed to Rs.5 crores of Cumulative Redeemable Preference Share Capital in 1999 in Ponni Sugars and Chemicals Limited (PSCL) with a coupon rate of 14% and