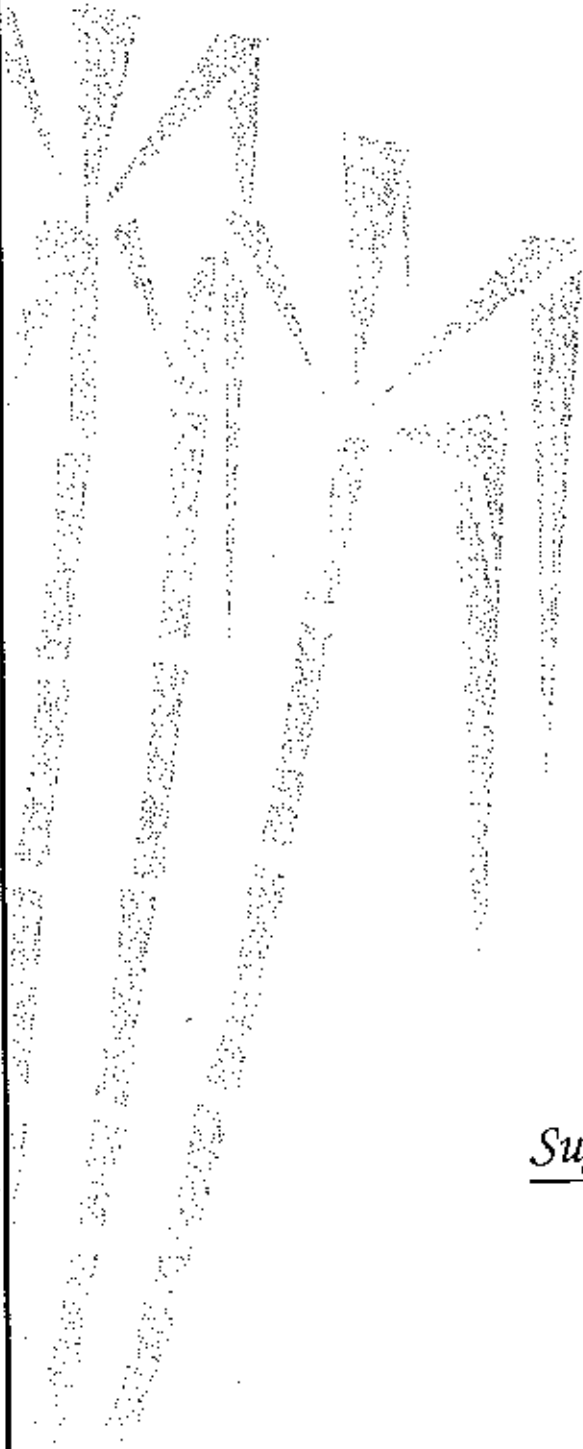




**Ponni Sugars (Erode) Ltd.**

**14th**  
**Annual Report**  
**2009-10**



*Sugar turned sweetest*

- ❖ *Enhanced production*
- ❖ *Ebullient prices*
- ❖ *Exhilarating profits*
- ❖ *All time high Dividend of 40%*

#### Directors

N Gopala Ratnam (*Chairman*)  
 Dr L M Ramakrishnan (*Vice Chairman*)  
 N Ramanathan (*Managing Director*)  
 Arun G Bijur  
 Bimal Poddar  
 C K Pithawalla  
 S K Ramesamy  
 N Ravindranathan  
 V Sridar  
 N R Krishnan

#### Audit Committee

V Sridar (*Chairman*)  
 Bimal Poddar  
 Dr L M Ramakrishnan  
 N Ravindranathan  
 N R Krishnan

#### Remuneration Committee

N Ravindranathan (*Chairman*)  
 N Gopala Ratnam  
 Dr L M Ramakrishnan  
 V Sridar

#### Securities Transactions cum Investors Grievance Committee

N Gopala Ratnam (*Chairman*)  
 Arun G Bijur  
 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  
 United Bank of India

#### Registered Office

"ESVIN HOUSE"  
 13 Old Mahabalipuram Road  
 Seevaram Village, Perungudi  
 Chennai 600 096  
 Ph: 044 39279300  
 Email: admin@ponnisugars.com  
 Web: www.ponnisugars.com

#### Works

Odappalli, Cauvery RSPO  
 Erode 638 007  
 Tamil Nadu

#### Registrar & Transfer Agent

Carneo Corporate Services Ltd  
 "Subramanian Buildings", 5<sup>th</sup> Floor  
 No.1, Club House Road, Chennai 600 002

Contents	Page
Chairman's Message	2
Notice	5
Directors' Report	7
MDA Report	11
Corporate Governance Report	23
Auditors' Report	36
Balance Sheet	39
Profit and Loss Account	40
Schedules	41
Cash Flow Statement	55





## From Chairman's desk

Dear Shareholder,

It gives me great pleasure to report that your Company has come out with a stellar performance during 2009-10. Higher sugar production in a year of robust sugar prices has indeed helped us achieve spectacular results.

Despite drought-like conditions prevailing in most part of our command area, we have crossed the threshold mark of 8 lakh tonnes cane crushing for the third time. We could further step up our sugar production with timely import of raw sugar and cross 90,000 tonnes of annual sugar production for the second time. Above all, we not just surpassed the pinnacle of our past performance in 2008-09 but scored a thumping three-fold increase over same in all the key parameters, viz, PBIDT, PBT, PAT and EPS.

In line with such record high financial performance, your Board has been pleased to step up the rate of dividend; and recommend 40% for the year.

Sugar prices remained buoyant during most part of the year but curiously changed their course with continual climb-down from February 2010. The swiftness of the price rise as well as the rapid speed of its fall during the year were rather unprecedented. Such spikes in commodity prices surely upsets everyone's calculations, unsettles market players and gravely enhances business risk. Speculators sensing windfall gains step in to distort market equilibrium and drive prices to dizzy heights. The correction that is bound to follow is often sharp and severe. It just leaves all stakeholders with short term jubilation and longer term jolt.

Sugar production estimates turned egregiously erroneous both during 2008-09 and 2009-10 seasons but the divergence was in the opposite direction. If the former season were to start with a higher estimate that warranted successive down sizing, the current season witnessed an abrupt upward correction towards its later part. This of course is not a pan India phenomenon but is confined only to two major sugar producing States. It is rather enigmatic that with available scientific tools like satellite mapping, we are still grappling with grave errors in crop estimation that in turn accentuates avoidable volatility in prices.

The Government on its part has only exacerbated the situation with a string of policy changes. Obstinate persistence with the overdose of checks and controls beyond the point of necessity has now pushed sugar prices below par. While this may help Government otherwise tottering on inflation issue earn some brownie points, the relief to consumer can only be ephemeral. The crippling cash flows of sugar mills will soon cascade into cane price contraction and conspicuous defaults in payment. It needs no guessing that the farmer will again switchover swiftly from sugarcane to other cash crops leading to an imminent sugar shortage.

Every one realizes the need to strike a proper balance between the interest of sugar consumers and sugarcane farmers. It is conveniently forgotten that sugar production needs sugarcane, sugarcane requires remunerative cane price and sugar mills depend on viable sugar prices to be able to pay such cane price. As a result, India is frequently faced with sharp swings in its annual production creating panic and skewing prices not only in domestic but in global market as well.

Contrary to normal monsoon prediction for the country, the command area of your Company continues to experience considerable water stress due to successive years of monsoon failure. Our cane volumes may hence shrink sharply in the coming year due to drought. Government of Tamil Nadu has already announced much higher State Advised Price for 2010-11 season that would escalate our cane cost. Sugar prices are however expected to remain subdued under changed market fundamentals and current bearish market outlook.


Your Company is thus faced with an unenviable task to reckon with reduced output, higher input cost and lower product realization. With the help of carryover inventory and tight leash on cost, we hope to combat these challenges and stay positive. It is but pragmatic to recognize that current year profitability has come under extremely propitious circumstances and hence it would be unrealistic to look for its recurrence in the coming years.

Your Company is now pursuing Cogeneration project on a capital outlay of Rs. 95 crores to produce 19 MW of power through installation of 112 ata high pressure boiler. This would facilitate the power export of 13 MW during season and 16 MW during off-season. The project will be funded out of internal accruals of Rs. 30 crores and rest from term debts.

I thank you for your continual support to the Management. It is now time for us to rejoice our resounding performance during 2009-10 and in the same breath be realistic in recognising the challenges that confront us in the coming year. The Management on its part would redouble its efforts towards sustaining and enhancing shareholder value.

Chennai  
28th May, 2010

Warm regards



N. Gopala Ratnam





# Ponni Sugars (Erode) Limited

## Financial Highlights- Ten Years at a Glance

Rs. in lakhs

	2000-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10
<b>For the year</b>										
Total Income	10368	10656	9666	9057	8922	14074	14263	13961	15122	28591
Total Expenditure	9046	9291	8471	7926	7568	11919	13021	13984	12763	21153
PBIT	1322	1365	1195	1131	1354	2155	1242	-23	2359	7438
Interest	908	880	613	371	247	217	139	112	189	179
Depreciation	200	204	234	222	227	242	245	282	297	306
Profit before exceptional items	214	281	348	538	880	1696	858	-417	1873	6953
Exceptional items	0	0	212	218	-97	-38	0	-108	0	1411
PBT	214	281	136	320	977	1734	858	-309	1873	5542
Tax	0	100	50	70	375	598	368	-121	647	1856
PAT	214	181	86	250	602	1136	490	-188	1226	3686
EPS (Rs)	2.61	2.20	1.04	3.04	7.35	13.86	5.97	-2.29	14.46	42.86
Cash EPS (Rs)	5.05	4.70	3.90	5.76	8.22	15.52	8.96	-0.18	17.72	62.85
Dividend %	0	0	0	0	10	18	9	6	25	40
<b>As at year end</b>										
Gross Block	4692	4759	4940	4948	5029	5422	5752	6673	6962	7095
Net Block	4298	4161	4118	3913	3773	3940	4093	4737	4771	4703
Loan Funds	7846	7348	5182	5084	2660	2061	2456	4328	3358	3450
Net Worth	1171	1387	1472	2018	2527	3547	3951	3705	4679	7964
Book value per share (Rs)	14.28	14.48	15.52	22.18	28.39	40.82	45.75	42.75	54.42	92.62



## 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 14<sup>th</sup> 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 Wednesday, the 21<sup>st</sup> July 2010 at 11.00 AM to transact the following business.

#### ORDINARY BUSINESS

**1. Adoption of Accounts etc.**

To consider and adopt the audited Balance Sheet as at 31<sup>st</sup> March 2010, 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 N Gopala Ratnam and Mr Arun G Bijur 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. Director vacancy**

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

"RESOLVED that the vacancy caused by the retirement of Mr N Ravindranathan who has opted not to seek re-election be left unfilled for the present."

(By Order of the Board)

For PONNI SUGARS (ERODE) LIMITED

Chennai  
28th May 2010

N Ramanathan  
Managing Director

#### 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 11.00 AM on 19<sup>th</sup> July 2010.

**3. Book Closure**

The Register of Members and the Share Transfer Register will remain closed from Thursday, the 15<sup>th</sup> July 2010 to Wednesday, the 21<sup>st</sup> July 2010 (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 write to the company for duplicate warrants.

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.



## Ponni Sugars (Erode) Limited

### EXPLANATORY STATEMENT

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

#### Item No.5:

##### Director Vacancy

Mr N Ravindranathan became a Director of the Company from 26.10.2001. He had played a pivotal role in the land acquisition and initial setting up of the Erode Sugar Mill. The Company has benefited by his counsel during his long association.

Mr N Ravindranathan is an independent director. He has also served in various Committees of the Board, viz. Audit Committee & Remuneration Committee.

Mr N Ravindranathan retires by rotation at this Annual General Meeting. He is presently aged 83 years. The Company has received a letter from him proposing not to seek re-election upon his retirement, having regard to his advanced age.

The composition of the Board and its Committees would undergo a change with the exit of Mr N Ravindranathan.

It is the intent of your Board to induct an independent director in due course to restore the fair balance of independent and non independent directors.

Section 256 of the Companies Act, 1956 requires the vacancy caused by retiring directors to either get filled up at the Annual General Meeting or in the alternative to expressly resolve not to fill the vacancy. Requisite resolution for this purpose is accordingly placed for the consideration of members.

No director is concerned or interested in this item of business.

(By Order of the Board)

For PONNI SUGARS (ERODE) LIMITED

Chennai  
28th May 2010

N Ramanathan  
Managing Director

### Details of the Directors seeking reappointment at the 14<sup>th</sup> Annual General Meeting

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

Name of Director/ Qualification/ DIN	Date of Birth/ Date of Appointment	Expertise in specific functional areas	Directorship in other companies	Committee position held in other companies
N Gopala Ratnam B.Sc (Physics), B.E (Mech) DIN: 00001845	15.04.1947 26.12.1996	Technocrat with rich and varied experience in project and operational management of process industries. Brings to bear leadership skills in heading ESVIN Group of Companies and steering them to higher growth trajectories.	<b>Chairman &amp; MD</b> Seshasayee Paper and Boards Ltd <b>Chairman</b> High Energy Batteries (India) Ltd SPB Projects and Consultancy Ltd Esvi International (Engineers & Exporters) Ltd Time Square Investments Ltd	<b>Chairman</b> Shareholders/ Investors Grievance Committee in High Energy Batteries (India) Ltd <b>Member</b> Share Transfer and Shareholders/ Investors Grievance Committee in Seshasayee Paper and Boards Ltd.
Arun G Bijur B.Tech. (Chemical Engineering) DIN: 00024434	11.04.1948 26.12.1996	Technocrat with proven experience in Project Management skills and trouble shooting expertise. Has overall managerial experience as MD of SPB PC Ltd.	<b>Managing Director</b> SPB Projects & Consultancy Ltd <b>Director</b> Seshasayee Paper and Boards Ltd Esvi International (Engineers & Exporters) Ltd	<b>Chairman</b> Share Transfer and Shareholders/ Investors Grievance Committee in Seshasayee Paper and Boards Ltd



## DIRECTORS' REPORT

Your Directors present their 14<sup>th</sup> Annual Report and the audited statement of accounts for the year ended 31<sup>st</sup> March 2010

	Year ended 31.03.2010	Year ended 31.03.2009
<b>Physical Performance (tonnes)</b>		
Cane crushed	808612	680238
Sugar produced	90920	71820
<b>Financial Performance (Rs. crores)</b>		
Turnover (Net)	244.64	137.27
Profit Before Tax	55.41	18.72
Profit After Tax	36.85	12.26
Surplus from Previous Year	6.88	3.13
Amount available for appropriation	43.73	15.39
<b>Appropriations:</b>		
Transfer to General Reserve	25.00	6.00
Proposed dividend	3.44	2.15
Dividend Tax	0.57	0.37
Balance carried forward	14.72	6.88

### Performance Pinnacle

Your Company has had a spectacular financial performance that reached a crescendo during 2009-10. Its gross turnover crossed the Rs.250 crores mark. Its PBITD and PAT figures displayed a dream run, scoring a scorching three-fold increase over the last year. Two successive years of strong profit performance has helped to significantly strengthen its financial position, providing the right platform to launch its diversification plans.

### Dividend

Your Directors are pleased to recommend a dividend of Rs.4/- per Equity Share of Rs.10 each for the financial year ended 31<sup>st</sup> March 2010.

### Sugar Industry Overview

Sugar business has been intrinsically cyclical in India but the swings in recent times have turned rather too sharp and swift. Sugar production discernibly doubled between 2005 and 2007 that hurriedly halved just within the next two years. From this low base, it is now well poised to nearly double again in the near term.

No other major sugar producing country is witness to such galloping gyrations in year on year production. Price volatility is but a necessary outcome of such production volatility. This has rather made the diverse stakeholders by turn taciturn and dis-spirited towards taking a long term commitment for the orderly functioning and growth of this core industry.

The causes for such intermittent and intimidating upsurge and downswing in sugar production are too well known. It is axiomatic to recognize and pave way for price parity between sugar and sugarcane on the one hand as well as sugarcane and other competing cash crops on the other. A cohesive and comprehensive action plan is imperative and its need immediate to meaningfully moderate, if not totally eliminate, the adversity of sugar cycles occurring in our country at frequent intervals with ferocious intensity.

Indian production figures have their domino effect both on the direction and degree of world sugar balance. It is thus no wonder that world sugar balance suffered a deficit during 2008-10 that is now heading towards surplus in 2010-11. As a corollary, Indian exports are invariably during glut at the bottom of global prices while imports are during deficits at the peak of prices. On both counts, the huge financial burden befalls on producers, consumers and the exchequer though in varying degree.

With two successive sugar years of low production, Indian sugar prices have been continuously on their climb up to reach robust levels. This in turn empowered and prompted the industry to offer high and remunerative cane price so as to lure the farmer back to cane crop. Sugar mills have voluntarily paid a whopping Rs.20,000 crores over and above the Central Government's mandatory cane price in this process. As a result, there has been a swift and strident recovery in Indian sugar production to narrow down the deficit during 2009-10 and turn surplus during 2010-11. There is no arguing that this remarkable rebound could and in fact has come only on the strength of buoyant sugar prices and consequent benevolent cane prices.

### Government measures

The year under review witnessed aggressive Government intervention in sugar business to rein in rising sugar prices fuelled by the galloping deficit in production and stock estimates. Some of these measures were well justified to augment domestic sugar availability and cool-off the



## Ponni Sugars (Erode) Limited

overheated market. But several others proved too harsh and outlandish that created panic in the minds of Trade and Industry, quelling demand and disrupting off-take.

Levy obligation was doubled from 10% to 20% to protect PDS supply while levy sugar prices now remain unrevised for over six years. Duty-free raw sugar import facility was extended till end of 2010 besides opening duty-free white sugar imports for all. Indeed, white imports are presently placed at a premium over domestically produced sugar with total exemption from levy obligation and full freedom from release mechanism. Further, bulk users of sugar were subjected to unrealistic inventory norms for holding domestic sugar that has forcibly moved them to imported sugar offering greater flexibility. Inventory and turnover norms were rigidly enforced on sugar traders followed by frequent raids. The reversal of market sentiments and concomitant price decline from the peak was taken in the normal stride by the industry. But persistence with these moves have plummeted prices to below breakeven levels that cries for instant policy correction.

The Government promulgated an Ordinance, later made as Law, to retrospectively amend the Essential Commodities Act, 1955. By this, the Government has endeavoured to undo a favourable Supreme Court ruling and deny higher levy sugar price based on State Advised Price or actual price for cane. The new Law seeks to restrict and confine the levy sugar price by considering only Statutory Minimum Price for cane from 1974 to 2009. Sugar industry has challenged the retrospective amendment by filing a Writ Petition in Delhi High Court.

The concept of Statutory Minimum Price (SMP) has been changed to Fair and Remunerative Price (FRP) for sugarcane from 2009-10 season. Such FRP takes certain additional factors into consideration over SMP, namely, reasonable margins for the growers of sugarcane on account of risk and profits. FRP was conceptually intended to be total compensation and hence the sole mandatory price for cane, restraining States from announcing higher SAP. However, the Centre bowing to political pressures had to make a quick retreat and remove the ban on SAP. Dual cane pricing would thus continue to daunt the industry with its deleterious impact.

Indian sugar production for 2009-10 was initially estimated around 140 lakh tonnes that now stands uprevised to 185 lakh tonnes. Further, the production outlook for the next year is also highly promising. Simultaneously, world sugar

deficit is moving towards a surplus. All these have brought about a strident shift in market sentiment and consequent crash in sugar prices. Raw sugar prices after recording a 29 year high at 30.40 c/lb on 1<sup>st</sup> February 2010 now trades at less than 50% of that level. Concurrently, Indian sugar prices have also fallen from Rs.4200/ qtl to below Rs.2800/ qtl. Accordingly, the industry has made fervent appeal to the Government to roll back the harsh measures initiated during times of high sugar prices that are no longer relevant. Sugar prices now need to recover from the bottom for the farmer to be able to get a remunerative cane price.

Excessive Government controls on sugar, though well meant to balance the interest of diverse stakeholders, have hardly helped to serve the intended objectives. Still worse, they have repeatedly failed to meaningfully respond to market dynamics and in reality resulted in the opposite by only aggravating the crisis. It is hence high time the Government decontrols the sugar industry to unleash its innate potential, help meet the growing demands of sugar in our fast developing economy and be a credible exporter.

### Company performance

As stated, the Company had a trailblazing financial performance during the year. This was on the strength of higher production and robust sugar prices during most part of the year.

Cane volumes improved by 19% despite drought like conditions prevailing in some parts of the operational area. Sugar recovery however slipped to 10.11% from 10.55% due to adverse cane quality. Sugar production was supplemented with 9608 tonnes of imported raw sugar.

Cane price for 2009-10 season was fixed at higher levels upon negotiation with cane growers at Rs.1725/tonne besides subsidizing the full transport cost from field to factory. This is considerably higher than the FRP of Rs.1298.40/tonne and SAP of Rs.1440/tonne. In addition, the Company opted to voluntarily settle the old disputed SMP for 2002-03 season involving an outlay of Rs.4 crores. With these, we have succeeded in strengthening the bond and motivating our cane farmers, thereby achieving higher volume of cane supply during buoyancy in sugar prices.

Sugar prices recorded perceptible increase during the year till January 2010 but receded ruefully thereafter by reason of decisive change in production outlook. Your Company has been aggressive in its sales, including large volumes sold in upcountry markets, in its endeavour to