



Ponni Sugars (Erode) Limited



17th
Annual Report
2012-2013



Year Highlights

- ❖ *Sugar sector reforms announced*
- ❖ *Levy abolished and release mechanism dismantled*
- ❖ *Cane control continues*
- ❖ *Company performance impacted by drought*
- ❖ *Cogen commissioned*
- ❖ *Overall, satisfactory results*

Directors

N Gopala Ratnam (*Chairman*)
 Dr L M Ramakrishnan (*Vice Chairman*)
 N Ramanathan (*Managing Director*)
 Arun G Bijur
 Bimal Poddar
 V Sridar
 N R Krishnan
 Dr Nanditha Krishna
 K Bharathan
 Bharti Chhotubhai Pithawalla

Audit Committee

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

Nomination Cum Remuneration Committee

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

Securities Transactions Cum Investors Grievance Committee

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

Auditors

R Subramanian And Company
 Chartered Accountants
 No.6 (Old No. 36) Krishnaswamy Avenue
 Luz, Mylapore
 Chennai - 600 004

 Maharaj N R Suresh And Co.
 Chartered Accountants
 No.9 (Old No.5) II Lane, II Main Road
 Trustpuram, Kodambakkam
 Chennai - 600 024

Cost Auditors

S Mahadevan & Co.,
 Cost Accountants
 No. 112, Sri Abirami, Ist Floor
 Dr. Radhakrishnan Road, Tatabad
 Coimbatore 641 012

Banks

Bank of India
 IDBI Bank Limited
 Canara Bank

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

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

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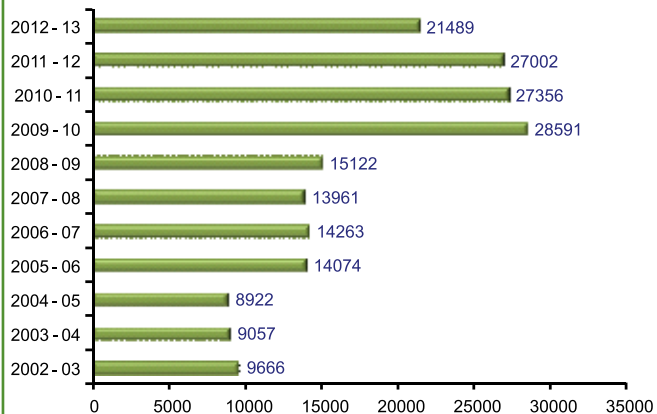
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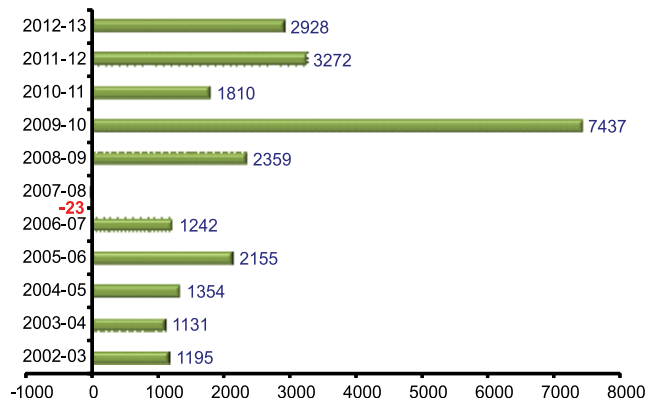


Ponni Sugars (Erode) Limited

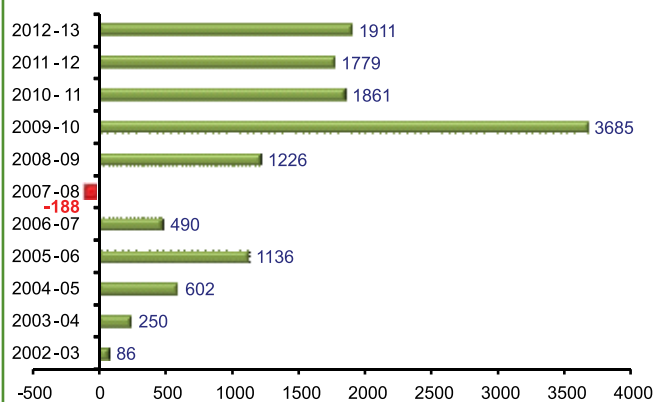
Total Income (₹ Lakhs)



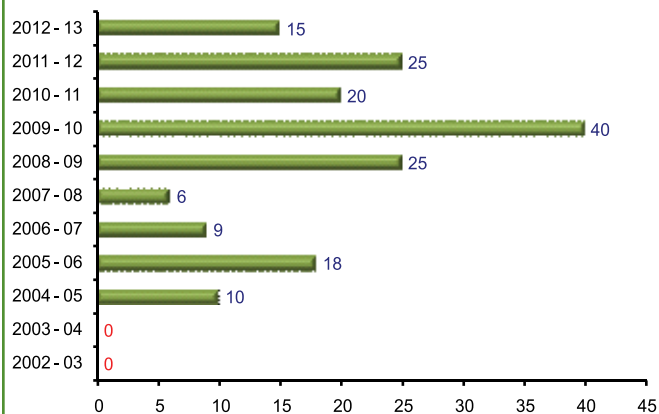
PBIDT (₹ Lakhs)



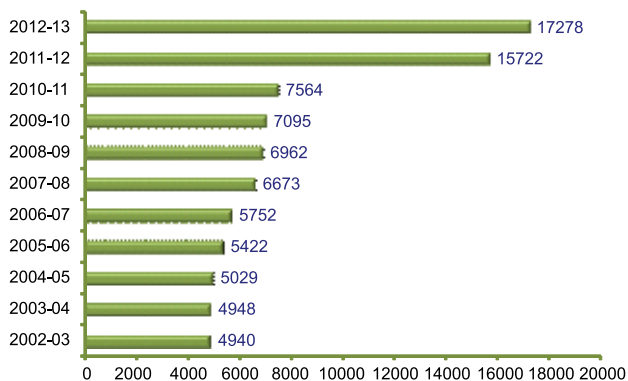
PAT (₹ Lakhs)



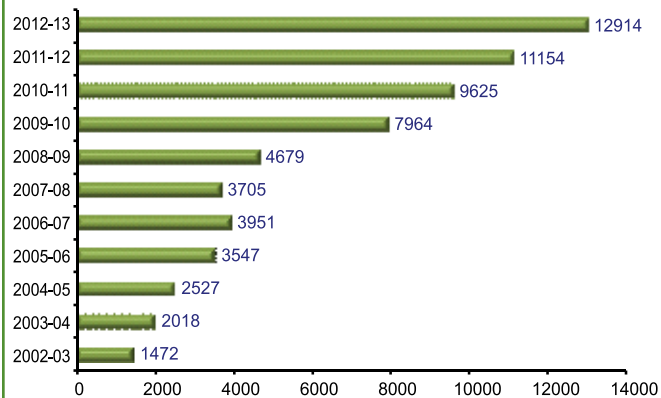
Dividend %



Gross Block (₹ Lakhs)



Net Worth (₹ Lakhs)





PONNI SUGARS (ERODE) LIMITED

ESVIN House, 13 Old Mahabalipuram Road, Seevaram Village, Perungudi, Chennai 600 096
Phone : 044 3927 9300 Fax : 044 2496 0156 E Mail: admin@ponnisugars.com

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 17th 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 24th July 2013 at 10.30 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 2013, the Profit & Loss Statement 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, Mr Arun G Bijur 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 And Co (Firm Registration Number 001931S) and M/s R Subramanian and Company (Firm Registration Number 004137S), the retiring auditors of the Company, are eligible for reappointment.

SPECIAL BUSINESS

5. Appointment of Director

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

RESOLVED that Mrs Bharti Chhotubhai Pithawalla (DIN: 00341382) be and is hereby appointed as a Director of the Company liable to retire by rotation.

(By Order of the Board)

For **PONNI SUGARS (ERODE) LIMITED**

Chennai
29th May 2013

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 10.30 AM on 22nd July 2013.

3. Book Closure

The Register of Members and the Share Transfer Register will remain closed from Monday, the 22nd July 2013 to Wednesday, the 24th July 2013 (both days inclusive).

4. Dividend

Dividend on declaration will be paid between August 5, 2013 and August 10, 2013.

Members are advised to refer to 'Shareholder Information' section of the Corporate Governance Report (Page 32 of the Annual Report) for details on dividend entitlement and payment options.

5. Unpaid Dividend

Unpaid dividend for over 7 years will be transferred to Central Government and no claim will lie thereafter. Members may refer to Page 33 of the Annual Report and lodge their claim, if any, immediately.

6. E-Communication

Members are requested to opt for electronic mode of communication and support the Green initiatives of Government (Refer page 27 of the Annual Report).

7. Member identification

Members are requested to bring the attendance slips duly filled and copy of the Annual Report to the meeting.



EXPLANATORY STATEMENT

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

Item No.5:

Appointment of Director

The Members at the 16th Annual General Meeting held on 20th July 2012 decided not to immediately fill in the vacancy caused by the retirement of Mr C K Pithawalla.

Subsequently, on the basis of the recommendations of the Nomination cum Remuneration Committee, the Board inducted Mrs Bharti Chhotubhai Pithawalla, spouse of Mr C K Pithawalla as an additional director effective 1st February 2013.

Mr C K Pithawalla holds 925466 equity shares constituting 10.76 %. Mrs Bharti Chhotubhai Pithawalla is therefore categorized as promoter and non-independent director.

In deference to Section 260 of the Companies Act, 1956 she would hold office till the date of this meeting. The

Company has received a notice under Section 257 of the Companies Act, 1956 together with requisite deposit proposing the candidature of Mrs Bharti Chhotubhai Pithawalla as Director of the Company liable to retire by rotation. Considering her long year's association with the business of Mr.C.K.Pithawalla, the Company would stand to gain by her experience in their global business. Your Board commends her appointment for the consideration of members.

Except Mrs Bharti Chhotubhai Pithawalla, no other director is concerned or interested in this item of business.

(By Order of the Board)
For **PONNI SUGARS (ERODE) LIMITED**

Chennai
29th May 2013

N Ramanathan
Managing Director

Details of the Directors seeking appointment / reappointment at the 17th 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: 00001945	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 SPB Group of Companies and steering them to higher growth trajectories.	Chairman & MD Seshasayee Paper and Boards Ltd Chairman High Energy Batteries (India) Ltd SPB Projects and Consultancy Ltd Esvi International (Engineers & Exporters) Ltd Time Square Investments Ltd SPB Papers Ltd	Chairman Shareholders/ Investors Grievance Committee in High Energy Batteries (India) Ltd Member 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 troubleshooting expertise. Has overall managerial experience as MD of SPB PC Ltd.	Managing Director SPB Projects & Consultancy Ltd Director Seshasayee Paper and Boards Ltd Esvi International (Engineers & Exporters) Ltd	Chairman Share Transfer and Shareholders/ Investors Grievance Committee in Seshasayee Paper and Boards Ltd
Dr L M Ramakrishnan M B B S, D L O DIN: 00001978	30.09.1942 19.12.2001	Doctor turned Educationist having wide experience in the establishment and management of educational institutions. Commands goodwill and respect from local farming community.	Director Knitwell Needles Ltd Erode Medical Supplies (P) Ltd SKM Egg Powder Ltd	NIL
Bharti Chhotubhai Pithawalla G.C.E – O Level, OND – Business Studies DIN: 00341382	26.02.1948 01.02.2013	Varied experience through the global experience of their family business.	Director Pithawalla Techno Industries Pvt Ltd CKG Pithawalla Pvt Ltd	NIL



DIRECTORS' REPORT

Your Directors present their 17th Annual Report and the audited financial statements for financial year ended 2012-13.

	2012-13	2011-12
Physical Performance		
Cane crushed (tonnes)	653498	745644
Sugar recovery (%)	9.98	10.21
Sugar produced (tonnes)	65270	76464
Power produced (lakh kwh)	448.25	--
Financial Performance (₹ crores)		
Turnover	211.12	265.62
Profit Before Tax	12.16	26.12
Profit After Tax	19.11	17.79
Surplus from Previous Year	21.62	21.33
Amount available for appropriation	40.73	39.12
Appropriations:		
Transfer to General Reserve	10.00	15.00
Proposed Dividend	1.29	2.15
Dividend Tax	0.22	0.35
Balance carried forward	29.22	21.62

Dividend

Your Directors recommend a dividend of ₹ 1.50 per Equity Share of ₹ 10 each for the financial year ended 31st March 2013.

Sugar Industry Overview

World sugar production is poised to outpace consumption in 2012/13 for the third year in a row, touching an all time high of 182 million tonnes. Brazil, the top producer, would record a massive recovery under normal weather to boost global surplus to the highest in a quinquennium. This has come to mark the end of low stock environment, one of the main market characteristics since 2008/09.

Weighed by supply overhang, sugar prices have been caught in the quagmire of continuous climb down. After touching a peak of 24 c/lb in July 2012, raw sugar drifted downward to hit a 34 month low at 16.81 c/lb in May 2013. Leading trade houses and commodity analysts in the global arena have in this macro scenario predicted the bearish trends in world sugar prices to persist in the near term.

India yet again fumbled and floundered during 2011/12 to capitalize on buoyant world sugar prices. By restricting and

rationing export quotas, we were lackadaisical to let go a golden opportunity to pare inventories through aggressive exports at lucrative world prices. As a result, we are now over-burdened with huge sugar stocks hitting a 5 year high mark with little scope for its liquidation at the current juncture where export price parity is palpably negative.

As feared, domestic sugar prices have crumbled and continually crashed during 2012/13 sugar season. After peaking to ₹ 3800/ qtl in August 2012, ex-factory prices in Tamil Nadu currently rule below ₹ 3000/ qtl – too sharp a slide in too short a period. Meantime, sugarcane prices have been hiked significantly both by the Centre and State. As a result, sugar margins have got stridently squeezed and turned strikingly negative for most producers. Little wonder, sugarcane arrears have mounted more steeply in States that mandated an abominable hike in cane prices.

Sugar Decontrol

The Central Government has finally taken the crucial decision to liberate the sugar sector from the clutches of excruciating controls. Pursuant to the recommendations of Dr C Rangarajan Committee made in October 2012, CCEA on 4th April 2013 decided to do away with levy obligation for sugar produced from October 2012. While Government would continue with PDS sugar for BPL families, the subsidy burden would henceforth shift from the industry to the Government. Further, sugar release mechanism has been dismantled to confer greater freedom on industry for managing its cash flows. This indeed is a watershed decision to bring about greater certainty, stability and rationality into the system and has the potential to propel the sugar sector to higher growth trajectory.

The decontrol move is well begun but is just half-done. The reforms have conscientiously covered the sugar-side in a comprehensive and conclusive manner but consciously shied away from addressing the sugarcane-side. The Centre has pragmatically left certain major decisions to States like linking sugarcane price to realization from sugar, cane area reservation and minimum distance criteria between two sugar mills and pushed ahead with only the first phase of reforms. It is however imperative that a long term formula on cane price with linkage to revenues from sugar and its by-products is evolved soon to decisively address the cyclicity in sugar production and build a long term relationship between the industry and the cane farmers.

Company performance

The operations of the Company during the year were painfully punctuated, rather punctured, by the onslaught of acute drought that engulfed the entirety of its operational area. Total failure of monsoon, low level of water in the Mettur reservoir, poor flow in river Cauvery, depleted water table and disruptive power supply have together come to inimically impact irrigation and strikingly shatter the very base of cane cultivation. As a result, cane area and average yield fell steeply that cut our cane volumes by 12%. Sugar recovery too suffered by reason of poor cane quality. Raw sugar import to supplement sugar production was unviable under extant price parity.

The Cogeneration Project was commercially commissioned from 1st September 2012. We produced 448 lakh kwh in the new Cogen plant and exported 338 lakh kwh to State Grid under the long term Power Purchase Agreement. We were however hard hit by the steep reduction in the tariff fixed at ₹ 3.76/ kwh under the 2012 Tariff Order by the Tamil Nadu Electricity Regulatory Commission as against ₹ 4.37/ kwh under their 2009 Tariff Order. While the tariff is cost based and every element of cost has conceivably gone up considerably in the last 3 years, the drastic downward reduction by the Regulator has rather come as a bolt from blue. We have challenged this tariff order, along with other sugar companies in the State, before the Appellate Tribunal for Electricity. The hearing is complete and the Appellate order is awaited.

Sugar sale volume declined by 33% under sluggish market conditions, leading to larger inventory build-up to our discomfiture. Indeed, we have recorded negative top-line growth despite the commissioning of a new revenue stream ie. Cogen project during the year.

Sugar prices rose sharply during the second quarter but relentlessly receded from the third quarter onwards. Molasses price too remained stubbornly subdued throughout the year. Sugar segment had therefore to reckon with negative margins for most part of the year.

In the end, our PBT has declined by more than half YoY. PAT however has moved modestly due to beneficial deferred tax impact of Cogen project. Considering the enormity of external challenges brought about by the severity of drought and sluggishness of sugar market, our overall performance should be regarded reasonable and satisfactory.

Finance

Your Company conceived the Cogen project on a Debt-Equity mix of 2:1. It however prudently deployed the surplus generated in the last two years to prune debt and finally completed the project on a Debt-Equity of 1:2. It further prepaid seven quarterly instalments due from April 2013. As a result, the Company would have a manageable debt servicing burden during times of formidable financial adversity.

Interest rates that went up sharply during FY 2011-12 have shown no appreciable decline later despite RBI coming out with marginal cuts in policy rates. Interest cost has considerably surged for the Company due to the commissioning of Cogen Project and higher working capital borrowings to finance inventory build-up. Your Company has received timely sanction of additional or ad hoc working capital facilities from its bankers on cost effective terms for this purpose.

Power supply from Cogen segment is entirely made to TANGEDCO under the long term Power Purchase Agreement. We however face long and undue delay in the settlement of bills. In fact, bills for energy supplied throughout the year have remained outstanding at the close of the year. We are now getting paid after a delay of 8-10 months. Cogen units in the State in the meantime suffer silently and significantly on account of both liquidity crunch and additional interest cost.

Legal cases

There has been no tangible progress during the year on our longstanding dispute with Sugar Development Fund (SDF). The High Court of Madras in November 2010 has held in our favour that loans extended by SDF to the erstwhile Ponni Sugars and Chemicals Ltd could not be recovered from another Company, ie. our Company. The Appeal filed before the Division Bench by SDF challenging this ruling was admitted and stay granted in October 2011.

In this bargain, your Company suffers liquidity stress with the blocking of ₹ 6.9 crores of undisbursed subsidy and ₹ 2.2 crores of differential levy sugar price for 2009-10 season. In addition, eligible concessional loan for Cogen Project remains unsanctioned. We earnestly hope for early resolution of this contentious issue in the coming year.

Investment

As mentioned in the last year Report, your Company had invested ₹ 12.50 crores in 62.50 lac Equity Shares of ₹ 10



each in SPB Papers Ltd. The merger of this company with Seshasayee Paper & Boards Ltd (SPB) has since been sanctioned by the High Court of Madras on 26th April 2013. Accordingly, your Company would receive one Equity Share of SPB for every 11 Equity Shares held in SPB Papers Ltd.

Management Discussion and Analysis Report

A detailed discussion on the industry structure (dealing with world sugar and Indian sugar) as well as on the financial and operational performance is contained in the 'Management Discussion and Analysis Report' enclosed hereto that forms an integral part of this Report.

Outlook for 2013-14

World sugar balance would record a surplus for the fourth year in succession in 2013/14, a feat not witnessed for over two decades. The only redeeming feature is the strong ethanol price parity that would prompt Brazil divert a larger share of cane from sugar to ethanol production to correspondingly slice the size of surging sugar surplus. With export availability outweighing demand, world prices would remain bearish, virtually shutting the export window for the high cost Indian sugar.

Indian Meteorological Department has predicted a normal monsoon for 2013 for the country as a whole but a sub-par rainfall in the southern parts that include Tamil Nadu. With likely steep fall in cane area in Maharashtra, Indian sugar production would decline by about 10% during 2013/14 sugar season. This is still adequate to meet local off-take, thereby limiting meaningful scope for inventory draw-down. Accordingly, local sugar prices should only remain range bound under continual supply side pressures.

Meanwhile, there was advance signaling by Centre in hiking Fair and Remunerative Price for sugarcane for 2013-14 by a hefty 24% (₹ 170 to 210 per quintal). State Governments are generally prone to give pro-rata or higher hikes and hence cane pricing risk looms large on the industry.

With persistent drought, sugar production in Tamil Nadu is on the throes of steep decline and the industry may hardly operate at 50% of its potent capacity. Your Company has been the hardest hit on this front, with fresh cane planting having virtually come to nought and ratoon crops wilting under woeful water shortage.

There are thus clearly more negatives and little positives for the sugar industry in general and your Company in particular in the coming year. Your Company is poised to face the severest of challenge in recent times on cane availability, sugar recovery and margins. It has of course no

choice but to play a patient waiting game till the resumption of monsoon and restoration of water flow in river Cauvery for the turnaround of its production prospects. In the meantime, its strong fundamentals should stand in good stead for battling the near term challenges.

Directors

Mr N Gopala Ratnam, Mr Arun G Bijur and Dr L M Ramakrishnan, directors of your Company retire by rotation at this meeting and being eligible offer themselves for reappointment.

Mrs Bharti Chhotubhai Pithawalla was appointed as additional director on 1st February 2013. She is the spouse of Mr C K Pithawalla, one of the founder promoters of the Company. She will retire at this meeting in accordance with Section 260 of the Companies Act, 1956. Notice u/s 257 has been received for her appointment as director liable to retire by rotation. Approval of members has been sought for same at this meeting.

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 2013 and of the Profit of the Company for the year ended that date;
- (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 a going concern basis.

Employees

No employee of the Company was in receipt of remuneration during the financial year 2012-13 in excess of the sum prescribed under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975.