

PONNI SUGARS (ERODE) LIMITED



8th
Annual Report
2003 - 04



सत्यमेव जयते

भारत सरकार

GOVERNMENT OF INDIA

वाणिज्य एवं उद्योग मंत्रालय

MINISTRY OF COMMERCE & INDUSTRY

संयुक्त महानिदेशक, विदेश व्यापार का कार्यालय

OFFICE OF THE JOINT DIRECTOR GENERAL OF FOREIGN TRADE

मान्यता प्रमाण पत्र

Certificate of Recognition

निर्यात सदन
EXPORT HOUSE

मेसर्स.....

(आयातक-निर्यातक कोड संख्या आयकर स्थायी खाता सं.) को
निर्यात-आयात नीति के उपबन्धों के अनुसार एतद् द्वारा निर्यात सदन के रूप में मान्यता दी जाती है।
यह प्रमाण-पत्र, 1 अप्रैल, से 31 मार्च तक वर्षों की अवधि के लिए वैध है।

M/s. **PONNI SUGARS (ERODE) LIMITED, 13, SEEVARAM VILLAGE,
OLD MAHABALIPURAM ROAD, PERUNGUDI, CHENNAI - 600 096.**

(IEC No. **0401023371** and Income Tax PAN No. **AACCP2779A**)

are hereby accorded the status of an **Export House** in accordance with the provisions of the
Exim Policy. This Certificate is valid for a period of **FOUR** years effective from 1st April, **2003**
to 31st March, **2007 ON FOB BASIS.**

सं० **N^o 013767**

No

तारीख

Date **30.3.2004.**

स्थान

Place **CHENNAI.**

M. R. SUHRIL
/R. SUHRIL/ 30/3/04

अतिरिक्त निर्यात आयुक्त/

संयुक्त महानिदेशक, विदेश व्यापार

ADDITIONAL EXPORT COMMISSIONER/
JOINT DIRECTOR GENERAL
OF FOREIGN TRADE

**DIRECTORS**

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

AUDIT COMMITTEE

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

**SECURITIES TRANSACTIONS CUM
INVESTORS GRIEVANCE COMMITTEE**

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

SECRETARY

Mr N RAMANATHAN

AUDITORS

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

COST AUDITOR

Mr M B KANNAN

FINANCIAL INSTITUTIONS AND BANKS

INDUSTRIAL DEVELOPMENT BANK OF INDIA
 ICICI BANK LTD
 UTI MUTUAL FUND
 BANK OF INDIA
 STATE 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 638007
 TIRUCHENGODE TALUK, NAMAKKAL DISTRICT
 TAMIL NADU

REGISTRAR & TRANSFER AGENTS

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

CONTENTS**PAGE NO.**

NOTICE	2
DIRECTORS' REPORT	8
AUDITORS' REPORT	26
BALANCE SHEET	29
PROFIT AND LOSS ACCOUNT	30
SCHEDULES	31
CASH FLOW STATEMENT	44

Ponni Sugars (Erode) Limited

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Eighth Annual General Meeting of the Company will be held at New Woodlands Hotel Pvt Ltd, 72-75 Dr Radhakrishnan Road, Mylapore, Chennai 600004 on Wednesday, the 21st July 2004 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 2004, the Profit & Loss Account for the year ended on that date and the Reports of the Directors and Auditors thereon.

2. Reappointment of retiring Directors

To appoint directors in the place of Mr N Gopalaratnam, Mr Arun G Bijur and Mr. S K Ramasamy, who retire by rotation and being eligible, offer themselves for reappointment.

3. Appointment of Auditors

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

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

SPECIAL BUSINESS

4. Increase in 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 Authorised Share Capital of Rs.12 00 00 000 (Rupees twelve crores only) divided into 1 00 00 000 (One crore only) Equity Shares of Rs.10 each and 20 00 000 (Twenty lacs only) Preference Shares of Rs.10 each be and is hereby increased to Rs. 15 00 00 000 (Fifteen crores only) divided into 1 15 00 000 (One crore fifteen lacs only) Equity Shares of Rs.10 each and 35 00 000 (Thirtyfive lacs only) Preference 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 Authorised Share Capital of the Company is Rs.15 00 00 000 (Rupees fifteen crores only) divided into 1 15 00 000 (One crore fifteen lacs only) Equity Shares of Rs.10 each and 35 00 000 (Thirtyfive lacs only) Preference 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 Authorised Share Capital of the Company is Rs.15 00 00 000 (Rupees fifteen crores only) divided into 1 15 00 000 (One crore fifteen lacs only) Equity Shares of Rs.10 each and 35 00 000 (Thirty five lacs only) Preference 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 authorised to do such other acts, deeds and things as may be necessary for giving effect to this resolution."

5. Issue of Preference Shares

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

"RESOLVED that in accordance with the provisions of Sections 80, 81(1A) and other applicable provisions, if any, of the Companies Act, 1956, read with the Memorandum and Articles of Association of the Company and subject to such consents and approvals as may be required and also subject to such terms, conditions and modifications, as may be considered necessary by the Board of Directors (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) or as may be prescribed in granting such consents and approvals and which may be agreed to by the Board, the consent of the Company be and is hereby accorded to the Board to issue Redeemable Non Convertible Preference Shares of Rs.10 each on private placement basis to The ICICI Bank Ltd. (ICICI), Industrial Development Bank of India (IDBI) and Unit Trust of India (UTI) or to any of its affiliates, associates or one or more specific Schemes of UTI, on such terms as may be determined by the Board at the time of issue of these shares, for an aggregate face value not exceeding Rs.136 lacs in aggregate and premium on redemption not exceeding Rs.40 lacs for consideration other than cash in full and final satisfaction of Company's obligations to these Institutions under their terms of approving the Demerger Scheme for the transfer of Erode Undertaking and extension of financial package as an integral part thereof to the Company.

RESOLVED FURTHER that for the purpose of giving effect to the above, the Board be and is hereby authorized to determine the amount, manner, form, terms and timing of the issue and all other matters connected therewith, vary such terms from time to time and to do all such acts, deeds and things as may be necessary in respect of this issue as the Board may in its absolute discretion deem fit and appropriate in the interest of the Company."

6. Mortgage of Assets

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

"RESOLVED that consent of the Company be and is hereby accorded in terms of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956, to create / mortgage and / or charge 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) of all the immovable and movable properties of the Company situate at Odappalli, Cauvery RSPO, Pallipalayam, Erode 638 007, in the State of Tamil Nadu, both present and future as and by way of First Charge and / or conferring power to enter upon and take possession of the assets of the Company in certain events to or in favour of, UCO Bank (UCO) and United Bank of India (UBI) to secure:

1. Rupee Term Loan not exceeding Rs.450 lacs (Rupees four hundred and fifty lacs only) lent and advanced by UBI to the Company;
2. Rupee Term Loan not exceeding Rs.630 lacs (Rupees six hundred and thirty lacs only) lent and advanced / agreed to be lent and advanced by UCO to the Company

together with interest at the respective agreed rates, additional interest, liquidated damages, commitment charges, premium on prepayment or on redemption, costs, charges, expenses and all other monies payable

Ponni Sugars (Erode) Limited

by the Company to UBI and UCO in terms of their Letters of Sanction / Hypothecation Agreements entered into / to be entered into by the Company, in respect of aforesaid Loans and to the Board agreeing with UBI and UCO in terms of their respective Loan Agreements / Hypothecation Agreements / Letters of Sanction to reserve a right to take over the management of the business and concern of the Company in certain events.

PROVIDED that the charge as above shall rank pari passu with the charges created / to be created in favour of Financial Institutions, Banks and others for securing their Term Loans or Debentures and further that the charge on specific movable properties shall be subject to prior charge in favour of Banks and others securing working capital facilities and the Board is hereby authorised to determine and agree upon the inter se rights and ranking of Secured Lenders from time to time.

RESOLVED FURTHER that the Board be and is hereby authorized to finalise with UBI and UCO and other Secured Lenders the documents for creating the aforesaid mortgage and / or charge and for reserving the aforesaid right and to do all such acts, deeds and things as may be necessary or incidental for giving effect to the above resolution."

(By order of the Board)

For PONNI SUGARS (ERODE) LIMITED

Cheennai
11th June 2004

N Ramanathan
Secretary

NOTES:

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote on a poll instead of himself and such proxy need not be a member of the Company.

2. Proxies in order to be effective, must be received at the registered office of the Company not later than 48 hours before the meeting, viz., by 10.30 AM on Monday, the 19th July 2004.

3. The Register of Members and the Share Transfer Register will be closed from Friday, the 16th July 2004 to Wednesday, the 21st July 2004 (both days inclusive).

4. Information on Directors seeking reappointment at the meeting pursuant to Clause 49 of the Listing Agreement with Stock Exchanges is appended.

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

6. Members holding shares in Demat form are requested to bring in their depository account number (Client ID number) for ease of identification and recording of attendance at the meeting.



EXPLANATORY STATEMENT

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

Item No.4: Increase in Authorised Capital

The present Authorised Capital of the Company is Rs.12 00 00 000 (Rupees twelve crores only) comprising 10 crores of Equity Capital and 2 crores of Preference Capital.

As stated in Item No.5 infra, it is proposed to issue and allot Preference Shares to Institutions for consideration other than cash for an aggregate face value not exceeding Rs.136 lacs. Further, the Company is currently evaluating diversification projects such as Ethanol that would in due course require fresh issue of Equity Shares.

It is therefore considered expedient to increase the Authorised Share Capital of the Company from Rs.12 00 00 000 (Rupees twelve crores only) to Rs.15 00 00 000 (Rupees fifteen crores only). Clause V of the Memorandum of Association and Article 5 of the Articles of Association of the Company are accordingly proposed to be altered for this purpose. Approval of members is being sought for same in accordance with Sections 16 and 31 of the Companies Act, 1956.

A Copy of the Memorandum and Articles of Association of the Company is open for inspection by the members between 10.30 AM and 12.30 PM on all working days at the registered office of the Company.

No director of the Company is interested or concerned in the resolution.

Item No.5: Issue of Preference Shares

The Erode Undertaking of erstwhile Ponni Sugars and Chemicals Ltd (PSCL) was transferred to the Company

in terms of the Demerger Scheme approved by the members and sanctioned by the High Court of Madras in September 2001. As an integral part of the Demerger Scheme, the three Financial Institutions – ICICI, IDBI and UTI extended significant reliefs and concessions comprised in their financial package. The Company in turn was required to give suitable comfort to them for addressing their residual debt obligations in PSCL that was renamed Ponni Sugars (Orissa) Ltd (POL).

The Secured Lenders of POL with the active indulgence of that company decided to sell the assets charged to them for an estimated consideration of Rs.11 crores and share the net proceeds amongst them in an agreed manner. The secured assets of POL have accordingly been taken possession by them in terms of the SARFAESI Act, 2002. POL thereupon moved a winding up petition and the High Court of Madras passed orders on 2.4.2004 for the winding up of that company.

The expected realization on sale of POL's assets falling considerably short of debt outstandings, the Financial Institutions were insistent that Ponni Sugars (Erode) Ltd should at least meet the principal shortfall in respect of debts having first charge over assets of POL. After considerable negotiations and several rounds of discussions, the Company has consented to meet the shortfall of Rs.136 lacs by conceding to the persistence of FIs but without involving an immediate cash out flow to the Company, through issue of long term instruments in the form of Redeemable Preference Shares.

It is accordingly broadly agreed between the Company and the three Institutions to issue Non-convertible

Ponni Sugars (Erode) Limited

Preference Shares of Rs.136 lacs redeemable at a premium not exceeding Rs.40 lacs during 2014-15. The issue of Preference Shares would be for consideration other than cash in full and final satisfaction of Company's obligations to the Financial Institutions under their terms of approving the Demerger Scheme and extension of financial package to the Company.

Since the issue is for consideration other than cash, the financial impact of same has already been provided for in 2003-04 as an exceptional charge to the profit and loss statement. The cash outgo on this has however been deferred until all the term debt obligations in terms of the Demerger Scheme get fully extinguished. Since the Preference Shares have no conversion right / option, the Preferential Issue norms of SEBI would be inapplicable in this case.

Approval of the members is being sought for the proposed issue of Preference Shares to the Institutions for consideration other than cash under the facts and circumstances of the case.

No director of the Company is interested or concerned in this resolution.

Item No.6: Mortgage of Assets

The Company has initiated steps for prepayment of high cost debts and foreclosure of Zero percent Loan at discounted value. It has for this purpose tied up fresh Term Loan of Rs.4.5 crores from United Bank of India (UBI) and Rs.6.3 crores from UCO Bank (UCO).

The Term Loans of UCO and UBI are to be secured by First Charge on all immovable and movable properties of the Company ranking pari passu with the charges created / to be created for securing other Term Loans provided that the charge on specific movables shall be subject to prior charges for securing working capital facilities.

Since the creation of mortgage may be construed to trigger provisions of Section 293 (1)(a) of the Companies Act, 1956, consent of members is sought for same by way of Ordinary Resolution. The requirement of voting by postal ballot is not applicable for this purpose.

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

(By order of the Board)

For PONNI SUGARS (ERODE) LIMITED

Chennai
11th June 2004

N Ramanathan
Secretary



Details of the Directors seeking reappointment at the 8th Annual General Meeting

Name of Director	Date of Birth	Date of appointment	Expertise in specific functional areas	Qualification	Directorship in other companies (excluding foreign companies)	Committee / executive position held in other companies
N Gopalaratnam	15.04.1947	20.07.2002	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.Sc (Physics) B.E.(Mech)	Chairman & MD Seshasayee Paper and Boards Ltd Chairman High Energy Batteries (India) Ltd Energy Investments Ltd Mathur Investment Co Ltd Esvi International (Engineers & Exporters) Ltd SPB Projects and Consultancy Ltd Time Square Investments Pvt 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	11.04.1948	20.07.2002	Technocrat with proven experience in Project Management skills and trouble shooting expertise. Has overall managerial experience as MD of SPB PC Ltd.	B.Tech. (Chemical Engineering)	Managing Director SPB Projects & Consultancy Ltd Director Far & Wide Marketing Pvt Ltd	NIL
S K Ramasamy	05.10.1937	19.12.2001	Agriculturist having wide contacts with local farming community	Intermediate	NIL	NIL

Ponni Sugars (Erode) Limited

DIRECTORS' REPORT

Your Directors present their 8th Annual Report and the audited statement of accounts for the year ended 31st March 2004.

	(Rs. crores)	
	For the year ended 31.03.2004	For the year ended 31.03.2003
FINANCIAL PERFORMANCE		
Turnover	81.13	113.22
Profit Before		
Exceptional Items	5.38	3.48
Exceptional Items	(2.18)	(2.12)
Profit Before Tax	3.20	1.36
Provision for Deferred Tax	(0.70)	(0.51)
Profit After Tax	2.50	0.85
Deficit From Previous Year	(5.71)	(7.61)
Transfer from/(to) Debenture		
Redemption Reserve	0.70	1.05
Balance in Profit &		
Loss Account carried forward	(2.51)	(5.71)

DIVIDEND

The creditable profit performance would normally entail commencement of dividend declaration. Your Directors however feel constrained by the domino effect of drought impacting production outlook for 2004-05. No dividend is therefore recommended for the financial year 2003-04.

MANAGEMENT DISCUSSION AND ANALYSIS**i. Industry Structure and Development****(a) Sugar Industry Overview**

Indian sugar production peaked to an all-time high of 201 lakh tonnes in 2002-03 season, contrary to the initial estimates that portended a 10% drop in production. Indeed, production continued to outstrip demand for 5 years in a row causing sugar prices to collapse. Free Sugar Prices for most part fell even below the levy sugar price, underscoring the unenviable state of the industry. The thrust on exports to evacuate the stock pile brought some breather but turned ephemeral with weakening world prices, higher

freight rates and rising rupee rendering exports unviable. Indeed, sugar industry came to suffer a hefty blow with the infliction of Rs.5000 crores of losses in a matter of 2 years and climb up in cane arrears to a whopper of 30% of cane dues by August 2003.

The parlous plight of sugar industry has come to be repetitively acknowledged but precious little policy change has yet emanated out of such statements of intent. Both the Union Budget of 2003-04 and the Interim Budget for 2004-05 admit the complex web of problems faced by the industry with promise to unfold immediate revitalization package and long-term reinvigoration plans. While a high level committee has been constituted on this, the industry awaits a comprehensive and integrated policy to reinforce the growth prospects of this all important agro based industry and ensure its global competitiveness.

The sugar industry has at last come to sight the much awaited and long overdue correction in production. Notwithstanding the overall normal monsoon in the country, the inter dispersal incongruities amongst most major sugar producing States have come to cast a shadow on cane availability for current season. Sugar production is hence set to steeply slide below 150 lakh tonnes in 2003-04 season. This course correction would doubtless help reduce and restore sugar inventories to normative levels, thereby improving the price outlook in near term. Taking cue of same, sugar prices have shown definitive rise to reasonable and viable levels that should help neutralize in most part the adversity of under-capacity utilization on account of cane shortage. Recourse to raw sugar import is now being made by domestic players to supplement production and sustain export market presence.

Sugar mills were fighting tooth and nail to contain cane price compatible with low end product price till recently. The improved sugar price outlook has not only helped in clearing past cane overdues but also offering voluntarily higher cane price in a bid to secure optimal cane availability and outperform competitors in sugar production. It only goes to prove the obvious, if at all such proof is ever needed, that cane price can