



PONNI SUGARS (ERODE) LIMITED

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10th
Annual Report
2005-2006

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Ponni Sugars (Erode) Limited



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Year of Sweet Success

- Cane crush nearly doubled
- Sugar production and Turnover at an all time high
- Strident progress in energy efficiency
- PAT & EPS move to new peak
- Dividend hike from 10% to 18%

10th Annual Report 2005-06

Directors

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

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

M/s R Subramanian and Company, Chennai
 M/s Maharaj N R Suresh & Co., Chennai

Cost Auditor

Mr M B Kannan

Banks

Industrial Development Bank of India Limited
 Bank of India
 UCO Bank
 United Bank of India

Registered Office

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

Works

Odappalli, Cauvery RSPO
 Erode 638 007
 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,

Sugar as a product is eternally sweet. Sugar as an industry however intermittently turns sour. We are hence happy that sugar now tastes sweet for its producers and investors as well.

The change in the fortunes for sugar has been brought about by factors both fundamental and cyclical. The former brings in a lasting advantage while the latter throws up trappings of transitory gains. Both are doubtless welcome.

World trade distortion by developed countries piggybacking on farm subsidies is now laid to rest by the recent WTO ruling against same. Ethanol is emerging as a viable, cost effective and environment friendly auto fuel. Current crude oil prices cruising at considerably high levels with little scope for respite have only helped to catalyse and accelerate Ethanol Blend Programme. Major sugar producing countries like Brazil understandably resort to large scale diversion of sugarcane for direct production of ethanol that indirectly helps in corresponding reduction in sugar production. These structural changes have come to strategically alter the basics of sugar to crown it with the current exalted status.

The interplay of agrarian and economic factors has resulted in three consecutive years of sugar production falling short of consumption to in turn deplete inventory to desirable levels. It is thus no wonder sugar prices have not only recovered from their rock bottom levels but now remain robust.

Resurgence in profit performance has rekindled investor interest in sugar. After long hibernation, green-field and brown-field projects are being taken up on a hectic pace in sugar. Stock markets have also re-rated sugar scrips with all-round optimism.


Your Company has largely succeeded in optimizing its production to ride on and benefit by the current boom. Within a short span of five years, it has shown remarkable resilience to achieve singular success on debt extinguishment, net worth improvement, dividend resumption and financial consolidation. The year on hand not only displays a convincing growth on a comparative note but also marks an all time high performance in Production, Turnover, PAT and EPS figures.

Your Company has now turned its focus to further fortify its production base, improve on its efficiencies and launch new Projects in Sugar and Co-gen. Keeping this in view, dividend rate is enhanced but within bounds at 18%.

I feel the current buoyancy would persist both for the Indian economy and the sugar sector in the coming year. High oil price, current account deficit and hardening of interest rates would cause a dampener but only within limits. Price rise on sugar from current levels could be rather muted. Your Company would walk that extra mile to further optimize its productivity and strive to deliver value to all its stakeholders.

I sincerely thank you for your continued patronage and support to the Company.

Chennai
9th June 2006

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 10th Annual General Meeting of the Company will be held at New Woodlands Hotel Pvt Ltd, 72-75 Dr Radhakrishnan Road, Mylapore, Chennai 600004 on Saturday, the 22nd July 2006 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 2006, 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 C K Pithawalla and Mr N Ravindranathan, 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. Alteration of Articles of Association

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

"RESOLVED that pursuant to Section 31 and other applicable provisions, if any, of the Companies Act, 1956,

the Articles of Association of the Company be and is hereby altered in the following manner:

In the existing Article 78 the words 'three years' be substituted in the place of 'two years'."

6. Borrowing Powers

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

"RESOLVED that pursuant to Section 293(1)(d) of the Companies Act, 1956, consent of the Company be and is hereby accorded to the Board of Directors to borrow any sum or sums of monies from time to time, which power the Board may exercise by delegation to a duly constituted Committee of the Board, notwithstanding that the monies so borrowed together with the monies already borrowed (apart from temporary loans obtained from the Company's Bankers in the ordinary course of business) may exceed the aggregate of the paid up capital and its free reserves, that is to say, reserves not set apart for any specific purpose, provided however that the total amount so borrowed and remaining outstanding at any one time shall not exceed Rs.250 crores (Rupees two hundred and fifty crores only) in the aggregate."

7. Mortgage of Assets

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

"RESOLVED that pursuant to Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956, consent of the members of the Company be and is hereby

accorded to the Board of Directors of the Company (hereinafter referred to as the 'Board' which term shall be deemed to include a duly constituted Committee thereof) to create such charges, mortgages and hypothecations in addition to the existing charges, mortgages and hypothecations created by the Company, on such movable and immovable properties, both present and future, and in such manner as the Board may deem fit, together with power to take over the management and concern of the Company in certain events, in favour of Banks/ Financial Institutions and / or other Lenders/ Investing Agencies/ Trustees for Debentures/ Bonds to secure borrowings from time to time provided that the aggregate of borrowings so secured shall not exceed Rs.250 crores (Rupees two hundred and fifty crores only) outstanding at any time exclusive of interest, additional interest, compound interest, liquidated damages, commitment charges, premia on prepayment or on redemption, costs, charges, expenses and all other monies payable by the Company in respect of such borrowings.

RESOLVED FURTHER that for the purpose of giving effect to the above Resolution, the Board be and is hereby authorized and empowered to finalize, settle and execute requisite agreements, documents, deeds, indemnities, guarantees, declarations or other legal undertakings and do all such acts, deeds, matters and things as it may in its absolute discretion deem necessary, proper or desirable and to settle any question, difficulty or doubt that may arise in regard to creating mortgages/ charges as aforesaid."

(By Order of the Board)

For **PONNI SUGARS (ERODE) LIMITED**

Chennai
9th June 2006

N Ramanathan
Director (Finance) & Secretary

NOTES:

1. Proxy

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

2. Deposit of proxy

Proxies in order to be effective, must be received at the registered office of the Company not later than 48 hours before the meeting, viz., by 10.30 AM on 20th July 2006.

3. Book Closure

The Register of Members and the Share Transfer Register will remain closed from Monday, the 17th July 2006 to Saturday, the 22nd July 2006 (both days inclusive)

4. Address change

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

5. Dividend

Pursuant to Section 205 A 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 financial year ended 31st March 2005 are requested to make their claims to the company.

Members are advised to refer to 'Shareholder Information' section of the Corporate Governance Report (Page 27 of the Annual Report) for details on dividend entitlement and dividend warrants.

6. Member identification

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

(b) Members holding shares in 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

Alteration of Article

Article 78 of the Articles of Association of the Company deals with appointment of Chairman of the Board. The directors are empowered to elect one among them as Chairman for a period of two years from the date of such election.

Directors of the Company retire by rotation in conformity with the provisions of the Companies Act, 1956. In order to align the tenure of the office of Chairman with the normal tenure of office of director liable to retire by rotation, it is considered desirable to enhance the term of former to three years from the present term of two years. Article 78 is proposed to be amended suitably for this purpose.

Section 31(1) of the Companies Act, 1956 empowers the Company to alter its Articles by a Special Resolution. Accordingly the Resolution for amending Article 78 is proposed as a Special Resolution.

A copy of the 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 other than Mr N Gopala Ratnam is concerned or interested in this item of business.

Item No: 6 & 7

Borrowing powers and Mortgage of Assets

The Company requires the consent of members under Section 293(1)(d) of the Companies Act, 1956, for borrowing

monies in excess of its paid-up capital and free reserves. The limit for this purpose was set at Rs.100 crores at the 5th Annual General Meeting on 19.12.2001.

The Company having consolidated its financial position since Demerger is now actively considering expansion/diversification projects in the areas of Sugar Mill, Co-generation and Ethanol. The implementation of these projects would warrant large capital outlay and necessitate higher levels of borrowings. Consent of the members is accordingly sought to suitably hike the borrowing limits upto Rs.250 crores from the present level of Rs.100 crores.

It is simultaneously proposed to get the consent of the members for creating mortgage/ charge to secure borrowings upto the aforesaid limit of Rs.250 crores.

Requisite resolution in terms of Section 293(1)(a) of the Companies Act, 1956 has been proposed for this purpose.

No director of the Company is concerned or interested in the above items of business.

(By Order of the Board)

For **PONNI SUGARS (ERODE) LIMITED**

Chennai
9th June 2006

N Ramanathan
Director (Finance) & Secretary

10th Annual Report 2005-06

Details of the Directors seeking reappointment at the 10th 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
Mr C K Pithawalla B.E. (Mech.) DIN-38371	03.10.1940	A successful NRI businessman having diverse business interests in UK, Germany and Switzerland	Chairman Pithawalla Techno Industries Pvt Ltd Director Pithawalla Engg GMBH CKG Pithawalla Pvt Ltd Plastwood Industries Pvt Ltd Polydecor Industries Pvt Ltd West Coast Pillars Pvt Ltd	NIL
	19.12.2001			
Mr N Ravindranathan B.Sc., B.Sc.(Hons) (Tech.), M.S., (USA) DIN-36240	02.03.1927	A reputed technocrat having wide experience in the areas of operations and general management in Pulp and Paper Industry.	Director Seshasayee Paper & Boards Ltd Abhilash Consultants & Management Services Ltd. Sri Sakthi Paper Mills Ltd	Member- Audit and Share Committee in Seshasayee Paper & Boards Ltd.
	19.12.2001			

Ponni Sugars (Erode) Limited

DIRECTORS' REPORT

Your Directors present their 10th Annual Report and the audited statement of accounts for the year ended 31st March 2006

	For the year ended 31.03.2006	For the year ended 31.03.2005
Physical Performance (tonnes)		
Cane crushed	713905	360037
Raw Sugar processed	2500	10500
Sugar produced	73331	46698
Financial Performance (Rs. crores)		
Turnover	136.32	88.17
Profit Before Tax	17.34	9.77
Profit After Tax	11.36	6.02
Surplus / (Deficit) From Previous Year	0.87	(2.51)
Amount available for appropriation	12.23	3.51
Appropriations:		
Transfer to General Reserve	9.00	1.70
Proposed dividend	1.47	0.82
Dividend Tax	0.21	0.12
Balance in Profit & Loss Account carried forward	1.55	0.87

Dividend

Your Directors, taking note of improved profitability and the compulsion to conserve resources to meet growth needs, are pleased to recommend a higher dividend of 18% (last year 10%) ie. Rs. 1.80 per Equity Share of Rs.10 each for the financial year ended 31st March 2006.

Company Performance

Your Company has come out with praise-worthy performance for the year. Turnover, Profit before Tax, Profit after Tax and Earnings Per Share have shown not merely a strident improvement over the past year but they all mark a new milestone in the annals of the Company.

Coming out of the worst ever drought and benefited by the munificence of monsoon, cane cultivation cantered to

comforting levels. Resultant rise in registered cane supplemented by targeted tapping of unregistered cane helped the Company avert continuance of costlier raw sugar imports and yet reach a new pinnacle in sugar production. Optimal plant running and conservation of utilities on implementation of Energy Efficiency Project contributed for considerable cost cut. Buoyant sugar prices could more than neutralize and absorb higher cane price and other budgeted cost hikes. Price of molasses however witnessed a staggering and steep fall.

The Company has initiated steps to debottleneck and thereby enhance crushing at 3000 TCD. Instrumentation and automation are being introduced to achieve consistency in plant performance.

With improved cash accruals, the Company prepaid long-term debts of Banks and UTI. Overall working capital utilization was maintained at lower levels, though interest costs surged up with the hardening of rates.

Your Company received A1 Credit Rating from ICRA for its Commercial Paper Programme of Rs.10 crores, denoting highest credit quality rating to short-term debt instruments. No Commercial Paper however was issued, as Short-term Loans could be tapped from Banks at finer rates.

Government of Tamil Nadu introduced after a gap of 8 years State Advised Price (SAP) for sugarcane for 2005-06. While current level of sugar price would seem to accommodate and justify such SAP, its continuance during downturn of sugar cycle is sure to have deleterious impact.

The Company has received claim from Sugar Development Fund towards recovery of loans availed and owed by erstwhile Ponni Sugars and Chemicals Limited (PSCL) in respect of Orissa operations. Since the Demerger Scheme as sanctioned by the High Court in clear and explicit terms provides for