



Ponni Sugars (Erode) Ltd.

Report  Junction.com

11th
Annual Report
2006-07

Ponni Sugars (Erode) Limited

Report  junction.com

Year of Fluctuating Fortunes

- *All time high cane crush and sugar production*
- *Sustained progress in energy efficiency*
- *Steep fall in Sugar and Molasses prices*
- *Resultant fall in PBT and PAT*
- *Dividend reduced to 9%*

11th Annual Report 2006 - 07

DirectorsMr 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 CommitteeMr 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

Industrial Development Bank of India 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

CONTENTS**PAGE NO.**

Chairman's Message	2
Notice	4
Directors' Report	6
MDA Report	9
Corporate Governance Report	19
Auditors' Report	29
Balance Sheet	32
Profit and Loss Account	33
Schedules	34
Cash Flow Statement	46



From Chairman's desk

Dear Shareholder,

In my last year's communiqué, I unwittingly bet on the buoyancy to persist both for the Indian economy and the sugar sector in the current year. I am presciently proved right on the macro level prediction, with Indian economy clocking a convincing 9.4% GDP growth for 2006-07 as per the recent release of CSO. I am however painfully proved wrong on the micro level forecast on the sugar sector wherein our immediate interest lies.

Analysts and researchers world over went wrong in significantly underestimating sugar production for 2006-07. Much of it was marred by the mountainous increase in the Indian estimates at every successive revision. Initial estimate of world sugar surplus at 2.17 mln tonnes in August 06 now stands uprevised by ISO to 9.1 mln tonnes in May 07. Stock to use ratio is poised to reach a 25 year high.

The euphoria on Indian sugar turned ephemeral. Near doubling of sugar production in India within just two years, unprecedented in the annals of any major sugar producing country, brought in its wake ineluctable supply-side pressures. This was only exacerbated by the baneful ban on sugar exports for too long during the year at a time when world sugar prices remained high. As a double whammy, initial production estimate for 06-07 at 22 mln tonnes now stands enhanced to 27 mln tonnes. Still worse, the higher production trend is predicted to persist and the demand-supply gap only widen in the next two years.

It is thus no wonder that sugar prices have come to crash both globally and locally. There were times when sugar was sold below cost of production. But present prices have plummeted to levels lower than cane cost. Financial performance of sugar companies in such a scenario is fraught with formidable challenge.

While the under-performance of sugar companies first hits their shareholders, its ill-effects equally spread in quick time to impact cane cultivators. Sugar scrips have obviously lost much of their sheen, while cane arrears are on their climb. Aligned to the crisis, the Government is now stepping in to stem the rot with relief measures by way of buffer stock and export subsidies. Exports are vital to declog domestic glut but falling global prices, weakening dollar and high cane price come to decisively deter the scope for sizeable exports.

The problem of plenty now remains deep-rooted. Despite defensive moves by the Government and industry, there is no quick fix solution to the malaise. Enhancing ethanol mix, diversifying product range (raw and refined sugar for exports) and stepping up cogeneration should be the sustainable business model, besides long-term linkage of cane price to the dynamics of sugar prices.

I am glad to state that your company has done exceptionally well during 2006-07 on all operating parameters. It has reached new milestones on cane crushing, sugar production and sales. Its financial performance amidst all-round market constraints is rather commendable. It remains focused on continuous improvement in production and cost optimization. The Modernization project to be completed by August 07 would further strengthen its internal efficiencies. Its current preoccupation is to weather the external challenges and stay afloat to await the upturn in commodity cycle.

Considering the near term outlook and compulsion to conserve resources to invest in growth, the Board of Directors have proposed 9% Dividend for the year compared to 18% last year.

With a view to derisk its business model, your company is in steadfast pursuit of a greenfield sugar project with cogeneration and ethanol facilities. It looks to early orders of the State Government for cane area reservation to help start the project activity at once.

Detailed discussion on industry and your company is descriptively presented in the Directors' Report and Management Discussion and Analysis Report. I am constrained to seek your indulgence and understanding for the likely below-par financial performance in near-term, for reasons beyond the control of Management. I am however sanguine of the long-term prospects of your company, given its underlying strengths as well as the time tested resilience of the sugar industry.

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

Warm regards



N Gopala Ratnam

Chennai

8th June 2007

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 11th Annual General Meeting of the Company will be held at New Woodlands Hotel Pvt Ltd, 72-75 Dr Radhakrishnan Road, Mylapore, Chennai 600004 on Thursday, the 19th July 2007 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 2007, 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.

(By Order of the Board)

For PONNI SUGARS (ERODE) LIMITED

Chennai
8th June 2007

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 17th July 2007.

3. Book Closure

The Register of Members and the Share Transfer Register will remain closed from Friday, the 13th July 2007 to Thursday, the 19th July 2007 (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 27 of the Annual Report) for details on dividend entitlement and dividend warrants.

5. 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.

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.

11th Annual Report 2006 - 07

Details of the Directors seeking reappointment at the 11th 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	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.	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	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
	26.12.1996			
Arun G Bijur B.Tech. (Chemical Engineering) DIN: 00024434	11.04.1948	Technocrat with proven experience in Project Management skills and trouble shooting expertise. Has overall managerial experience as MD of SPB PC Ltd.	Managing Director SPB Projects & Consultancy Ltd Director Far & Wide Marketing Pvt Ltd Esvi International (Engineers & Exporters) Ltd	NIL
	26.12.1996			

Ponni Sugars (Erode) Limited

DIRECTORS' REPORT

Your Directors present their 11th Annual Report and the audited statement of accounts for the year ended 31st March 2007

	For the year ended 31.03.2007	For the year ended 31.03.2006
Physical Performance (tonnes)		
Cane crushed	834122	713905
Raw Sugar processed	-	2500
Sugar produced	83007	73331
Financial Performance (Rs. crores)		
Turnover	139.37	136.32
Profit Before Tax	8.58	17.34
Profit After Tax	4.90	11.36
Surplus from Previous Year	1.55	0.87
Amount available for appropriation	6.46	12.23
Appropriations:		
Transfer to General Reserve	-	9.00
Proposed dividend	0.74	1.47
Dividend Tax	0.13	0.21
Balance in Profit & Loss Account carried forward	5.59	1.55

Dividend

Your Directors, having regard to the depressive downturn and desolate outlook of the industry in near term have recommended reduced dividend of 9% (last year 18%) i.e., 0.90 paise per Equity Share of Rs.10/- each for the financial year ended 31st March 2007.

Industry Overview

The year under review postulates a paradigm shift for sugar industry from high optimism to horrendous pessimism. As the year started, sugar shortfall was expected to persist for an extended period. While high oil prices prompted Brazil divert larger cane to ethanol, EU forcibly cutback production under WTO dispensation. Thailand and Australia were grappling with declining production while India was struggling hard to strike domestic equilibrium of its demand-supply. World sugar prices were on ascendance to reach record high levels.

India was indeed well-poised to capture higher market share in world sugar under the aforesaid propitious circumstances. The stage was rather perfectly set with export prices decisively ruling above domestic prices, a rare phenomenon. The untimely export ban imposed in June 2006, on ostensible ground of curbing inflation, however dented yet again, India's image as a reliable sugar supplier and pre-empted local producers from seizing sizeable export orders.

By the time the over-cautious Indian Government reversed in Jan 07, its policy and re-opened exports, world market conditions had taken a topsy-turvy turn. Production response to higher sugar prices prevalent during last two years by the two largest producers, namely, Brazil and India was qualitatively swift and quantitatively substantial. Aided further by smart production recovery in other countries, world sugar prices under prophetic oversupply nosedived to nadir as if to virtually impose an economic ban on sugar exports by Indian producers.

The ill-timed move of Indian Government in imposing export ban has thus come to cause irreversible and incalculable damage to the industry. As a result, the industry that had started the year enviably with voluntary offer of higher cane prices and record low cane arrears is yet again caught up by year-end with the conventional cobweb of escalating cane arrears.

Sugar mills in other major producing States are being extended hefty subsidies, be it for setting up greenfield projects or facilitating exports or to tide over current cash crisis. Level playing field thus gets distorted and denied for sugar mills in Tamil Nadu in the absence of similar support measures. Further, tax incidence on cane is the highest in the State, while rigid control on molasses has come to depress its realizable value ruefully below its intrinsic worth. The thrust to promote micro irrigation by Tamil Nadu Government with 50% subsidy towards capital cost, however, is timely and commendable.

Company Performance

The operational performance was creditable with the company achieving all-time high volumes in cane crushing, sugar production and sales. Paradoxically, such excellence in in-house plant performance did not result in congruent profit performance but was pilloried by the disquieting decline in the open market prices of both sugar and its by-products. Unabated adversity in product pricing compared to last year has indeed made a dent of over Rs.10 crores to the bottom-line of the Company for the current year.

Cane volumes in the command area recorded a robust increase for the year both in terms of area and yield. All operating parameters were near optimal and costs were under control. The Modernization Project conceived on a capital outlay of Rs.10 crore was partly implemented during the year, while the balance equipment would get erected and commissioned during the next off-season.

Going by the growing concerns on sugar industry, ICRA has down-revised the Credit Rating for the Company's Commercial Paper (CP) Programme of Rs.10 crores to "A2+". However, no CP was issued in view of sourcing required working capital funds through other cost effective routes. Interest costs could be curbed with significant prepayment of debts in the past and containing overall working capital utilization during the year. Interest burden is however sure to escalate considerably from now on, having to reckon with rising stocks of sugar and hardening rates of interest.

Attention is invited to last year's Report delineating the claim of Sugar Development Fund on the Company towards recovery of loans referable to Ponni Sugars and Chemicals Limited. The Company has steadfastly resisted the claim and furnished legal opinion from a former Attorney General as also detailed documentation to vindicate its stand. The issue is being relentlessly pursued.

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 2007-08

Considering the normal monsoon and remunerative pricing for cane, the Company remains reassured on captive cane availability to sustain and further enhance sugar production during 2007-08. The tectonic shift in industry prospects is sure to subsist in near term to keep sugar prices, both local and global, under tight leash. As such, the financial performance during 2007-08 would remain underpinned by external market challenges.

The Company is fully geared to weather the short term challenges confronting the industry. Its carefully crafted strategy by meaningful utilization of cash surplus during the last boom towards prepayment of high cost debts and significant investment in plant modernization & energy efficiency projects should stand the Company in good stead to combat current adversity. It would on its part remain steadfastly focused on operational excellence and continuous performance improvement.

The Company is in constant pursuit of organic growth options. In particular, it is keen to set up a new sugar mill complex for effective by-product utilization and diversifying its product range to reduce the rigour of sugar cycles. In this endeavour, it has made requisite application to State Government for cane area reservation in Attur Taluk of Salem District. The Company has also furnished Bank Guarantee for Rupees One Crore as required under the amended statute in demonstration of its seriousness in the project. While all preliminary steps and preparatory efforts have been undertaken, further progress on this front now rests on the decision of the State Government.

Ponni Sugars (Erode) Limited

Directors

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

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 2007 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 2006-07 in excess of the sum prescribed under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975.

Corporate Governance

A separate section on Corporate Governance is included in the Annual Report and the certificate from the Company's Auditors confirming the compliance of conditions on Corporate Governance as stipulated under Clause 49 of the Listing Agreement of the Stock Exchanges is annexed thereto.

Conservation of Energy etc

Information relating to conservation of energy, technology absorption and foreign exchange earnings and outgo, as required under Section 217(1)(e) read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is given in the Annexure hereto.

Auditors

M/s Maharaj N R Suresh & Co and M/s R.Subramanian and Company retire at this meeting and are eligible for reappointment pursuant to Section 224 of the Companies Act, 1956.

Cost Audit

M/s S Mahadevan & Co., Coimbatore have been appointed as Cost Auditors for 2006-07. Cost Audit Report for the year would be filed with the Central Government in due course.

M/s S Mahadevan & Co have been reappointed as Cost Auditors for 2007-08 as well.

Appreciation

Your Board places on record its appreciation of the support and co-operation received from Banks, cane cultivators, suppliers and customers whom your Company looks upon as valued partners in progress. Your directors commend the zeal and zest of employees at all levels culminating in the Company setting yet another new record on its operational performance for the year. Your directors wish to thank the shareholders for their continued encouragement and confidence reposed in the management.

For Board of Directors

Chennai
8th June 2007

N Gopala Ratnam
Chairman