



Ponni Sugars (Erode) Ltd.

16th
Annual Report
2011-12



Sugar recovered

- ❖ *Robust rise in Cane volumes*
- ❖ *Swift rebound in recovery*
- ❖ *Exports boosted margins and relieved inventory pressures*
- ❖ *Cogeneration Project to commission soon*
- ❖ *Dividend at 25%*

Directors

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

Audit Committee

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

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, Chennai
 Maharaj N R Suresh & Co., Chennai

Cost Auditors

S Mahadevan & Co., Coimbatore

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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Financial Highlights- Ten Years at a Glance

(₹ In Lakhs)

	2002-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12
For the year										
Total Income	9666	9057	8922	14074	14263	13961	15122	28591	27356	27002
Total Expenditure	8471	7926	7568	11919	13021	13984	12763	21154	25546	23730
PBIDT	1195	1131	1354	2155	1242	-23	2359	7437	1810	3272
Interest	613	371	247	217	139	112	189	179	148	119
Depreciation	234	222	227	242	245	282	297	306	309	329
Profit before exceptional items	348	538	880	1696	858	-417	1873	6952	1353	2824
Exceptional Items	212	218	-97	-38	0	-108	0	1411	-1411	212
PBT	136	320	977	1734	858	-309	1873	5541	2764	2612
Tax	50	70	375	598	368	-121	647	1856	903	833
PAT	86	250	602	1136	490	-188	1226	3685	1861	1779
EPS (₹)	1.04	3.04	7.35	13.86	5.97	-2.29	14.46	42.86	21.64	20.69
Cash EPS (₹)	4.51	6.61	11.95	18.38	8.70	-1.72	21.02	56.40	14.54	24.18
Dividend %	0	0	10	18	9	6	25	40	20	25
As at year end										
Gross Block	4940	4948	5029	5422	5752	6673	6962	7095	7564	15722
Net Block	4118	3913	3773	3940	4093	4737	4771	4703	4917	12834
Loan Funds	5182	5084	2660	2061	2456	4328	3358	3430	1645	5005
Net Worth	1472	2018	2527	3547	3951	3705	4679	7964	9625	11154
Book value per share (₹)	15.52	22.18	28.39	40.82	45.75	42.75	54.42	92.62	111.94	129.72



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 16th Annual General Meeting of the Company will be held at Hotel Deccan Plaza, 36, Royapettah High Road, Chennai 600 014 on Friday, the 20th July 2012 at 10.15 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 2012, 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 V Sridar and Mr N R Krishnan 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 (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. 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 C K Pithawalla, who has opted not to seek re-election, be left unfilled for the present."

6. Appointment of Director

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

"RESOLVED that Mr K Bharathan 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
30th May 2012

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 10.15 AM on 18th July 2012.

3. Book Closure

The Register of Members and the Share Transfer Register will remain closed from Wednesday, the 18th July 2012 to Friday, the 20th July 2012 (both days inclusive)

4. Dividend

Dividend on declaration will be paid on 6th August 2012.

Members are advised to refer to 'Shareholder Information' section of the Corporate Governance Report (Page 35 of the Annual Report) for details on dividend entitlement and dividend warrants.

5. Unpaid 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.



Accordingly the Unpaid Dividend for the Financial Year 2004-05 will be transferred to the above Fund during August 2012. Members who have not encashed their Dividend warrants are requested to lodge their claims immediately with the company.

6. E-Communication

Members are requested to opt for electronic mode of communication and support the Green initiatives of Government (Refer page 30 of the Annual Report).

7. 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.

EXPLANATORY STATEMENT

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

Item No.5:

Director Vacancy

Mr C K Pithawalla has been a director of the Company since 2001. He had indeed been closely associated with our Erode Sugar Mill for more than 2 decades. He has played an effective role through his global experiences in business ventures.

Mr C K Pithawalla retires by rotation at this Annual General Meeting. Owing to his advanced age, he has now proposed not to seek re-election upon retirement this time.

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.

Item No.6:

Appointment of Director

The Members at the Annual General Meeting held on 15th July 2011 decided not to immediately fill in the vacancy caused by the retirement of Mr S K Ramasamy. The Explanatory Statement conveyed the desire of the Board to induct an independent director in due course to restore fair balance between independent and non-independent directors.

The Board in pursuit of above identified and inducted Mr K Bharathan as an additional director effective 28th December 2011. He would hold office till the date of this meeting vide Section 260 of the Companies Act, 1956.

Mr K Bharathan is a Chartered Accountant by qualification and a Banker by profession. He started his career in 1975 and moved to ICICI Ltd in 1980. In 2002, he was deputed to ICICI Lombard General Insurance Company Ltd and later he became the National Head for Government Solutions Group. Currently he serves as the Chief Adviser of ICICI Lombard for business in South India. He has widely travelled and brings to bear rich experience in Finance, Financial Services and General Management.

The Company has received a notice under Section 257 of the Companies Act, 1956 together with requisite deposit proposing the candidature of Mr K Bharathan as Director of the Company liable to retire by rotation. Your Board commends the same for the consideration of members.

Except Mr K Bharathan, no other director is concerned or interested in this item of business.

(By Order of the Board)

For PONNI SUGARS (ERODE) LIMITED

Chennai
30th May 2012

N Ramanathan
Managing Director

Details of the Directors seeking appointment / reappointment at the 16th 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 V Sridar B Sc, ACA DIN:02241339	27.07.1947	Rich experience in Banking, Finance and General Management. Held several high positions in commercial banks and National Housing Bank.	Director Aadhar Housing Finance Company Ltd	Chairman of Audit and Remuneration Committee
	05.06.2009		Hindusthan National Glass Industries Ltd ICICI Bank Ltd IDFC AMC Trustee Company Ltd Lamco Tanjore Power Company Ltd Lanco Vidarbha Thermal Power Company Ltd Morpheus Capital Advisers P Ltd Seshasayee Paper and Boards Ltd SPB Papers Ltd Sarda Metal & Alloys Ltd Securities Trading Corporation of India Ltd STCI Primary Dealer Ltd SICOM Ltd	Lanco Vidarbha Thermal Power Company Ltd Chairman of Audit Committee Lamco Tanjore Power Company Ltd Sarda Metal & Alloys Ltd Member of Audit and Remuneration Committee Seshasayee Paper and Boards Ltd Member of Audit Committee Securities Trading Corporation of India Ltd STCI Primary Dealer Ltd Hindusthan National Glass Industries Ltd ICICI Bank Ltd Member of Share Transfer & Shareholders' / Investors' Grievance Committee ICICI Bank Ltd



Ponni Sugars (Erode) Limited

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 N R Krishnan IAS (Retd) B Sc (Hons), M Sc DIN:00047799	20.06.1938	Rich and varied experience in Administration and General Management. Held several high positions in State and Central Governments. Served as non – executive director on the Boards of several large Public Sector Undertakings and Financial Institutions.	Director Tamil Nadu Road Development Company Tamilnadu Petroproducts Ltd The India Cements Ltd Cognizant Foundation Indo Zinc Ltd	Chairman of Audit and Remuneration Committee Tamil Nadu Road Development Company Member of Audit and Remuneration Committee Tamilnadu Petroproducts Ltd
	05.06.2009			
Mr K Bharathan ACA DIN:00210433	15.04.1950	Rich and varied experience in Banking, Finance and General Management.	Director Aban Offshore Ltd	NIL
	28.12.2011			

DIRECTORS' REPORT

Your Directors present their 16th Annual Report and the audited statement of accounts for the year ended 31st March 2012. In accordance with the changes brought about by the revised Schedule VI to the Companies Act, 1956, the financial statements have been presented in the new format.

	2011-12	2010-11
Physical Performance (tonnes)		
Cane crushed	745644	628613
Sugar produced	76464	76870
Financial Performance (₹crores)		
Turnover	265.62	269.48
Profit before Exceptional Items	28.24	13.53
Profit Before Tax	26.12	27.64
Profit After Tax	17.79	18.61
Surplus from Previous Year	21.33	14.72
Amount available for appropriation	39.12	33.33
Appropriations:		
Transfer to General Reserve	15.00	10.00
Proposed Dividend	2.15	1.72
Dividend Tax	0.35	0.28
Balance carried forward	21.62	21.33

Dividend

Your Directors recommend a dividend of ₹2.50 per Equity Share of ₹10 each for the financial year ended 31st March 2012.

Sugar Industry Overview

In line with the infamous cyclicity, Indian sugar production scorecard recorded its second successive year of surplus production. Significantly, the surplus was so sizeable as to pose a serious threat to destabilize and decimate domestic price equilibrium. Fortuitously for us, Brazilian sugar production fell for the first time in a decade that provided a ready platform and presented a premium pricing for India to export and stay clear off its surplus.

World sugar markets were highly volatile during 2011. ISA Daily price for raw sugar peaked to 32.57 c/lb at the beginning of February 2011, the highest daily quote for more than 30 years. It then dreadfully drifted to a low of 20.89 c/lb in May but commenced its second bullish upward move during July and August to nearly breach

30 c/lb. It later lost all the gains and current prices are just a tad over 20 c/lb.

The underlying volatility unarguably underscores the importance and imperative for real-time response by swiftly timing our exports in tune with market dynamics. However the vacillating policy stance of the Government in permitting piecemeal quotas in trickles and tranches decisively dented the prospects of Indian exporters and deplorably deprived them of the rare opportunity to optimally ride on buoyant world sugar prices.

For the first time, the Government introduced during the year mill-wise quota for OGL sugar exports. While this system could work during times of huge price differential between the world and domestic markets, it soon turned out to be a damp squib delaying and discouraging exports. Only by May 2012, Government finally bit the bullet and decided to dismantle the quota system to place sugar on OGL in its true sense.

Curiously, no sooner did the Food Ministry lift the quota restrictions on sugar exports, the Commerce Ministry hurried to impose the ceiling. Similarly export releases were dispensed with by Sugar Directorate but Registration Certificate was mandated by DGFT. OGL Sugar thus remains an oxymoron. Meantime, global prices have considerably corrected and contracted, resulting in steady erosion and near extinction of the premium on exports. Still there is little escape from India exporting its surplus in the interest of instant liquidity and domestic price stability.

Supply overhang was feared at the start of the year to disrupt and derail domestic prices considerably. Exports came in handy to soften and stem the down-slide and help sustain local prices at reasonable levels.

Reliable database is the touchstone for sound decision making. Sugar production and stock estimates had often times suffered wild variance in the past, distorting and debilitating the decision making process. Increasing recourse to state-of-the-art technology can considerably help address this deficiency. In this endeavour, sugar industry has for the first time engaged a professional agency to undertake Satellite mapping of cane area for sugar season 2011-12 and early results are highly promising. Similarly the Government has put in place an SMS based weekly reporting followed by a web-based system for monthly reporting by each sugar mill. These measures must help in real time and reliable data flow and facilitate swift policy response towards addressing emerging surplus or shortage in sugar supply.



Government measures

Government has constituted an expert committee in January 2012 under the chairmanship of Dr C Rangarajan for sugar sector reforms. Indian Sugar Mills Association and the Regional Associations have given their representations urging upon (i) levy sugar abolition (ii) dismantling release mechanism (iii) liberated Exim policy with occasional intervention only through tariff recalibration as opposed to physical embargo (iv) abolition of mandatory jute packing. Above all, it has underpinned the economic rationale and global models to have in place a long term cane pricing formula devoid of political intervention, with due linkage to realization from sugar and its by-products.

Levy obligation continues at 10% for 2011-12 season. Quarterly release mechanism has been introduced in place of monthly releases from April 2012. Duty-free raw sugar import facility is being extended periodically and is currently in force till end of June 2012. Stock holding norms on trade and restrictions on bulk users have been withdrawn during the year.

Fair and Remunerative price for sugarcane has been fixed at ₹145 / qtl for 2011-12. Government of Tamil Nadu has fixed the SAP for this year at ₹200/ qtl plus transport cost to be fully borne by sugar mills. CACP has recommended an FRP of ₹170 / qtl for 2012-13. All these base prices are linked to 9.5% recovery.

Levy of Service tax is being made comprehensive on all services except those under a small Negative List or that are specifically exempted. Services rendered by sugar industry for harvest or agri extension is protected under the Negative List.

Company performance

Cane crushing improved by 19 % despite little recourse to outsourced cane. More significantly, sugar recovery showed a swift rebound during the year. In fact, our sugar recovery touched an all time high of 11.9% on two days in March 2012. On the strength of higher cane volume and improved recovery, sugar production could be maintained close to last year level despite discontinuance of raw sugar import.

Your Company continues to lay stress on sugarcane productivity and its long term sustainability. Our initiatives on this outlined in last year's report have been well received by the sugarcane farmers and field level results tend to show good promise.

Sugar price rise was muted and fell strikingly short of the rising cost of cane, fuel and overheads. Higher realization on sugar exports however came to our rescue to protect

and prop up operating margin. Molasses price has been on a devastating downward spiral for 8 successive quarters. Other income fell sharply in the absence of exchange gains and interest earnings on surplus funds. Despite these cost adversaries, our Company could protect its net margin on the strength of increased cane volume, improved sugar recovery and higher export realization.

In sum, our PBT and PAT figures compare quite favourably with the previous year, more so when the previous year had the benefit of booster-dose from exceptional income. The overall performance of the company for the year is commendable and highly satisfactory under the adversity of extant external constraints.

A Decade after Demerger

Ten years is a short period in the life of a Company but marks an occasion to trigger tracking its accomplishments. Your Company took the reigns of the Erode Sugar Mill through a Demerger Scheme sanctioned by the High Court of Madras in September 2001. It had to take a disproportionately high share of debt to win the support of lending Institutions and was faced with the formidable task to service same out of a single unit producing a single product.

Soon after Demerger, the Company restructured its debts with deft recourse to lower cost options under a benevolent financial market with benign interest rates. With enhanced earnings on the strength of improved cane volumes and higher sugar recovery, it accelerated debt servicing and completed same well ahead of original schedule. It then implemented an energy conservation plan followed by modernization scheme to optimize operational costs without recourse to external debts. Its share prices in turn shot up in the stock market responding to its strong fundamentals and improved financials.

Thus the Company has delivered in every sphere on its promise to stakeholders made in the Demerger Scheme. It is now diversifying into power with its Cogeneration slated to start producing green energy from the second quarter of FY 2012-13. It will continue to remain steadfastly focused in adding value to all its stakeholders.

Finance

RBI in dealing with the dichotomy between growth and inflation has embraced a hawkish monetary policy stance by hiking rates 12 times in a row. Commercial Banks on each occasion showed an instant response by realigning their base rate and correspondingly hiking the effective lending rates to corporates. Paying heed to the dismal industrial growth, RBI relented and rolled back repo rates by 50 bps in April 2012. Commercial Banks have however passed on the benefit to borrowers only in part.