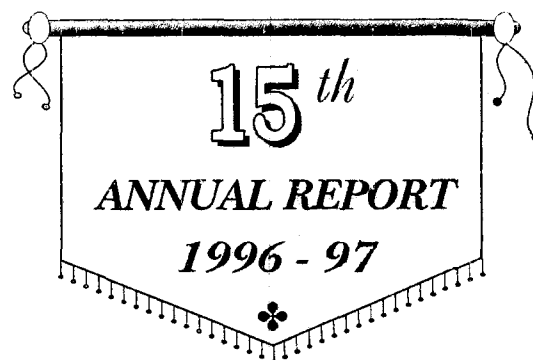


PONNI SUGARS AND CHEMICALS LIMITED

MD	<input checked="" type="checkbox"/>		BKS	<input checked="" type="checkbox"/>
CS	<input checked="" type="checkbox"/>		EFY	<input checked="" type="checkbox"/>
RO	<input checked="" type="checkbox"/>		DV	<input checked="" type="checkbox"/>
TRA	<input checked="" type="checkbox"/>		AC	<input checked="" type="checkbox"/>
ACM	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	SHI	<input checked="" type="checkbox"/>
SE	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>

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Ponni Sugars and Chemicals Limited

DIRECTORS

SRI S VISWANATHAN (Chairman)
DR L M RAMAKRISHNAN (Vice Chairman)
SRI N GOPALARATNAM (Vice Chairman)
SRI BIMAL PODDAR
SRI P GOPALSAMY
SRI CK PITHAWALLA
DR M A M RAMASAMY
SRI K J RAJASIMHA (ICICI nominee)
SRI S K RAMASAMY
SRI R N RATH (IPICOL nominee)
SRI N RAVINDRANATHAN

MANAGING DIRECTOR

SRI B S GURUMURTHY

SECRETARY

SRI N RAMANATHAN

AUDITORS

M/S. R SUBRAMANIAN & CO., MADRAS
M/S. SURI & CO., MADRAS.

BANKERS

BANK OF INDIA
UCO BANK
KARUR VYSYA BANK LIMITED
STATE BANK OF INDIA
UNITED BANK OF INDIA

REGISTERED OFFICE

'ESVIN HOUSE'
PERUNGUDI, MADRAS 600 096.

WORKS

- 1) PALLIPALAYAM, CAUVERY R S P O, SALEM DISTRICT
- 2) BARGARH, P O TORA, SAMBALPUR DISTRICT, ORISSA
- 3) SAGARPALLI, DEOGAON, BALANGIR DISTRICT, ORISSA.

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Ponni Sugars and Chemicals Limited

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Fifteenth Annual General Meeting of the Company will be held on Friday, the 12th September 1997 at 10.15 AM at New Woodlands Hotel (P) Ltd., 72-75 Dr. Radhakrishnan Road, Mylapore, Chennai - 600 004 to transact the following business :

ORDINARY BUSINESS

- 1 To consider and adopt the Profit and Loss Account of the Company for the financial year ended 31st March 1997, Balance Sheet as at that date and the Reports of the Directors and Auditors thereon.
- 2 To appoint Directors in place of Sri C.K. Pithawalla, Sri S.K. Ramasamy and Sri P. Gopalsamy who retire by rotation and being eligible offer themselves for reappointment.
- 3 To consider and, if thought fit, to pass with or without modifications the following resolution as Special Resolution:

"RESOLVED that pursuant to Section 224-A of the Companies Act, 1956, M/s. R. Subramanian & Co., Chartered Accountants, Chennai and M/s. Suri & Co., Chartered Accountants, Chennai, the retiring Auditors be and are hereby reappointed as Auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting on a remuneration of Rs. 60,000/- for each of them plus out-of-pocket expenses incurred."

SPECIAL BUSINESS

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

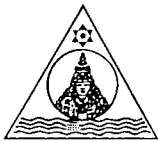
RESOLVED that in accordance with Section 269, 309, 198, Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, and subject to such consents and approvals as may be necessary, Mr. B.S. Gurusurthy be and is hereby reappointed as Managing Director of the Company for a period of three years from 1.4.1997 to 31.3.2000 and he be empowered to exercise substantial powers of management subject however to the supervision, control and direction of the Board of Directors on terms and conditions set out in the Explanatory Statement attached to this Notice (a copy whereof initialled by the Chairman for the purpose of identification is placed before this meeting).

RESOLVED FURTHER that the Board be and is hereby authorised to increase, vary or amend the terms of the appointment from time to time subject to the condition that the revised remuneration shall also be in conformity with and within the ceiling of Part II of Schedule XIII to the Companies Act, 1956 and other applicable Government guidelines on managerial remuneration.

(By order of the Board)
for **PONNI SUGARS AND CHEMICALS LIMITED**

Chennai-96
5th August 1997

N. Ramasathan
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. Such a proxy need not be a member of the Company.
2. Proxies, in order to be effective, must be filed with the Company not later than 48 hours before the meeting.
3. The Register of Members and the Share Transfer Register will be closed from Tuesday, the 2nd September 1997 to Friday, the 12th September 1997 (both days inclusive).
4. Pursuant to Sec. 205A (5) of the Companies Act, 1956, all dividends upto the financial year ended 31st March 1993, which remained unpaid or unclaimed have been transferred to the General Revenue Account of the Central Government. Members concerned are requested to claim the amount from the Registrar of Companies, Shastri Bhavan, Haddows Road, Chennai. In case any assistance is required in this regard, please write to the registered office of the Company.
5. Members are requested to intimate change in their addresses, if any, immediately to the Company at its registered office quoting their folio number.

EXPLANATORY STATEMENT

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

Item No. 4 :

Mr. B.S. Gurumurthy has been associated with the Company since inception. He initially headed the operations as General Manager and was elevated to the position of Managing Director from 18th February 1988. His tenure of office as approved by the Company at the 11th Annual General Meeting expired on 31.3.97.

Mr. B.S. Gurumurthy has played a pivotal role in the success of Erode unit. He brings to bear a high degree of technical expertise and professional competence with his rich experience in the sugar industry spanning over three decades. He has over the last couple of years been leading from the front our Orissa operations amidst adversities all around in our endeavour to establish early viability.

Despite considerable progress having already been made on cane development efforts in the neighbourhood of our Orissa units, the Company has an arduous task ahead to vigorously pursue its business plans for logical culmination in the success of our Orissa operations. The Board of Directors therefore, consider it in the interest of the Company to continue to have the stewardship and expertise of Mr. B.S. Gurumurthy at this critical juncture.

The Board of Directors, having regard to the above, have reappointed Mr. B.S. Gurumurthy as Managing Director of the Company for a further tenure of three years from 1.4.1997 to 31.3.2000. Keeping in view the all round increase in compensation package for professional managers and weighing the formidable challenges involved in steering through the operations of the Orissa units, an appropriate remuneration package for the Managing Director has been determined by the Board as under :

Ponni Sugars and Chemicals Limited

- I Salary : Rs. 25,000 (Rupees Twenty five thousand only) per month including Dearness Allowance and all other allowances.
- II Commission : Equivalent to one percent of the net profit of the company subject to a ceiling of an amount equal to annual salary.
- III Perquisites : Perquisites shall be restricted to an amount equal to the annual salary.
Following perquisites shall however be excluded in reckoning the ceiling on perquisites :
Contribution to :
(a) Provident Fund
(b) Superannuation Fund
(c) Annuity Fund
- IV Minimum Remuneration : In the event of loss or inadequacy of profits in any financial year, the Managing Director shall be paid remuneration by way of salary and perquisites as specified above. No commission is payable in such a year.

An abstract of the terms of the above reappointment has already been sent to all the members on 4.4.97 in deference to Section 302 of the Companies Act, 1956.

The terms of reappointment are well within the ceiling stipulated under Schedule XIII to the Companies Act 1956 and hence it does not require the approval of the Central Government. In terms of Part III of the said Schedule, the reappointment and remuneration as above shall be subject to the approval by a resolution of the shareholders in a general meeting. Accordingly, this subject is placed before the members for approval.

A copy of the Board resolution passed in this respect is available for inspection of Members on any working day of the Company between 10.00 hrs and 13.00 hrs.

Except Mr. B.S. Gurumurthy, no other director is interested or concerned in this item of business.

(By order of the Board)
for **PONNI SUGARS AND CHEMICALS LIMITED**

Chennai - 96
5th August 1997

N. Ramanathan
Secretary



DIRECTORS' REPORT

The Directors submit their Report and Audited Accounts for the year ended 31st March, 1997 :

Financial Results :

	31.3.97		For the Year ended 31.3.96
Cane Crushed (t)	803877		542481
Sugar bagged (t)	71589		46633
		(Rs. lakhs)	
Turnover	<u>5689</u>		<u>6066</u>
Gross Profit before Interest and Depreciation	779		182
Less :			
Interest	923	512	
Depreciation	<u>214</u>	<u>122</u>	
	1137		634
Net Profit/(Loss) for the year	(358)		(452)
Appropriations :			
Net Profit/(Loss) for the year	(358)		
Add :			
Surplus from the previous year	47		
Investment Allowance Reserve withdrawn	33		
General Reserve withdrawn	300		
	380		
Balance carried forward	22		

DIVIDEND

Your Directors regret to inform the Members that no dividend is recommended for the financial year 1996-97 due to unsatisfactory working results.

SUGAR INDUSTRY PERSPECTIVE

The seasonal and cyclic nature of the sugar industry has never been so pronounced as it was during the last three years, if not more. The fluctuating jaggery prices add a further dimension to the uncertainty in the fortunes of the sugar industry. When the prices of sugar are unremunerative, the farmers tend to reduce the cane production. With the result in two or three years' time, shortage in cane supply becomes visible pushing up the sugar prices which in turn stimulates more cane production bringing down in its wake the profitability aspect of the industry.

The Country witnessed continuous growth of sugar production during the years 1993-94 -- 1995-96 resulting in unremunerative prices for sugar as supply exceeded the demand substantially. It looks as though from 1997-98 onwards, there will be shortage of sugar in the country for a few years as cane production steeply falls resulting better prospects for the industry.

Ponni Sugars and Chemicals Limited

We were unfortunately caught up with the adverse cycle when we were ready to commence sugar production in our Orissa operations. Cane development became the most traumatic exercise in Orissa since the industry in the country itself was groaning under the burden of surplus production. Inexorable forces of economics prevented us from growing cane to maintain 100% capacity utilisation of our sugar mill. In the next few years, the production in our Orissa sugar mill would increase when the country's sugar production is likely to fall down.

The Government after a long wait of four years hiked PDS sugar price from Rs. 9.05 to Rs. 10.50 per kg. The revised price still falls short of realistic cost structure. Both the industry and the Government continue to distribute huge subsidy on this count. The Central Government in realisation, though belated, of the plight of sugar industry, exempted sugar production for the period June - September 95 from levy obligation. This helped the industry particularly in Tamil Nadu, to neutralise albeit in part, the adverse impact of fall in recovery.

While so, sugar exports have now come to be decanalised and imports are permitted under OGL with zero per cent import duty which is totally inexplicable against levy of import duty by all the other countries in the world, some of them as high as 100 and 200%. It is truly perplexing why import of sugar should be exempt from import duty or countervailing duty while domestic production must bear the obligation of contribution to PDS besides bearing excise duty. It is hoped that this anomaly will be set right ere long.

In this context, the recent decision of the Supreme court on the formula of levy price fixation and the Allahabad High Court that the State Government have no power to fix sugarcane price other than the statutory minimum price fixed by the Central Government have come in as a shot in the arm of the industry. The Industry has been persistently pleading with the Government for a pragmatic Policy Review in all aspects of control in the sugar industry.

REVIEW OF CORPORATE PERFORMANCE

Cane crushed and sugar produced during the year were significantly higher than the previous year. The higher production could however not get translated into higher turnover due to heavy sugar stock built up in tune with the industry's trend.

Higher volume of sugar production and improved operating performance helped the company better its profit before interest and depreciation at Rs. 7.8 crores compared to Rs. 1.8 crores of last year. Interest costs were however much higher during the year on account of higher sugar inventory and heavy debt burden. Loss for the year was lower at Rs. 3.58 crores against Rs. 4.52 crores of last year.

Due to glut in sugar scenario, open market prices of sugar and molasses were ruling below viable levels and the fall in sugar prices was more pronounced during the second half of 96-97. The drought situation in Orissa further compounded our difficulties by depressing sugar recoveries and disturbing to our distress planting schedules, thereby upsetting our growth plans which now seem attainable at a lag of one year.

OPERATIONS**ERODE UNIT**

Erode Unit handled an all-time record high of 5.15 lakh tonnes of cane (previous year 4.1 lakh tonnes). While sugar recovery was disturbingly low in the first half at 7.8%, it smartly recovered to 10.12% during the second half.



Cane availability for 97-98 is expected to fall sharply in line with most other sugar mills in the State. However, the overall decline in sugar production in the State has helped sugar prices to rise and firm up at reasonable levels. Thus the overall results for Erode Unit, despite a drop in production, may prove to be satisfactory for 97-98.

BARGARH UNIT

Bargarh Unit handled 1.42 lakh tonnes (Previous year 1.31 lakh tonnes) with an improved recovery of 9.09%. The debottlenecking measures undertaken during the off-season have indeed helped the Company restore recovery level in this Unit at 9.39% for 96-97 sugar season as against 8.18% of previous season.

Cane planting during 96-97 has suffered severe setback owing to drought conditions and working capital constraints. In view of this, production during 97-98 may tend to show a fall. While so, the levy sugar price for Orissa State has been substantially hiked from Rs. 1041 per quintal to Rs. 1420 per quintal, the beneficial effect of which will largely get reflected in 97-98 operating results.

BALANGIR UNIT

Commercial production in the Unit commenced on 1st December 1996. Balangir Unit handled 1.59 lakh tonnes of cane (1.02 lakh tonnes during previous year). The severity of drought was so pronounced in this part of the State that it depressed sugar recovery to 9.06% (previous year 9.9%). While our aggressive cane development measures may ensure achieving higher cane volume even under such drought conditions, the pace of growth has undoubtedly got slowed down.

All the Four Community Lift Irrigation (L.I.) Schemes have now received grid power sanction and are ready for tapping. While the L.I. Schemes can be expected to accelerate augmented cane availability, the longer gestation of Balangir Unit would seem to exert considerable pressure on your Company's liquidity and network. A Restructuring Proposal has been submitted to the Financial Institutions with a view to overcome these problems.

FINANCE

The Finances of the Company were under severe stress and strain, owing to unsatisfactory working results in Orissa operations. The Company therefore could not meet its commitments to financial institutions and banks in time. The Restructuring Proposal aims at injecting interest-free funds to help clear financial overdues and substantially bring down interest costs for reassuring profitable performance in the near future.

RESTRUCTURING PROPOSAL

The Restructuring Proposal, as informed in the last year's Report, involved the divestiture of our shareholding in SPB and outright sale of Erode Unit. The funding for the Restructure was contemplated to be mobilised from the Promoters in entirety.

Having regard to the larger funds deficit suffered during 96-97 and the adverse impact of drought situation in Orissa distorting our business plans, it would now appear prudent and expedient to devise ways and means to face the onslaught of negative cash flow for some more time. The impending and imminent funds deficit is sought to be overcome with the funding support, accommodation and forbearance to come in an appropriate combination from the Promoters, Financial Institutions and the Orissa Government. A revised Restructuring Proposal on these lines has since been submitted to the Financial Institutions in July 1997.