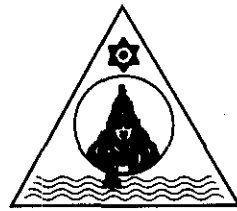


PONNI SUGARS AND CHEMICALS LIMITED



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STOCK EXCHANGE LISTING

MADRAS STOCK EXCHANGE LTD
Exchange Building, 11 Second Line Beach
Chennai 600 001
Phone : 5224382, 5224392, 5224393

THE STOCK EXCHANGE, MUMBAI
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai 400 001
Phone : 2655581, 2655626, 2655860-61

NATIONAL STOCK EXCHANGE OF INDIA LTD
Trade world, Senapati Bapat Marg,
Lower Parel, Mumbai 400 013
Phone : 4972950-59

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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 C K PITHAWALLA
 DR M A M RAMASWAMY
 SRI K J RAJASIMHA (*ICICI nominee*)
 SRI R RANGARAJAN (*UTI nominee*)
 SRI R N RATH (*IPICOL nominee*)
 SRI N RAVINDRANATHAN
 SRI G RAJAGOPAL (*Managing Director*)

SECRETARY

SRI N RAMANATHAN

AUDITORS

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

REGISTERED OFFICE

'ESVIN HOUSE'
 Perungudi, Chennai - 600 096.
 Phone : 496 1056, 496 0293, 496 1920
 Fax : 496 0156
 email : ponnimds@vsnl.com

WORKS

- 1) PALLIPALAYAM, CAUVERY R S P O, ERODE - 638 007,
 NAMAKKAL DT., TAMIL NADU.
- 2) SAGARPALLI, DEOGAON - 767 029, BALANGIR DT., ORISSA.

FINANCIAL INSTITUTIONS

ICICI LIMITED • INDUSTRIAL DEVELOPMENT BANK OF INDIA • UNIT TRUST OF INDIA

BANKERS

BANK OF INDIA • STATE BANK OF INDIA • UCO BANK • UNITED BANK OF INDIA
 • THE KARUR VYSYA BANK LIMITED • THE ORISSA STATE CO-OPERATIVE BANK LIMITED



NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 17th Annual General Meeting of the Company will be held as specified below

Day : Monday
 Date : 6th September, 1999
 Time : 10.30 AM
 Venue : Sathguru Gnanananda Hall (Narada Gana Sabha),
 254, TTK Road, Alwarpet, Chennai 600 018

to transact the following business:

ORDINARY BUSINESS

1 Adoption of accounts etc

To consider and adopt the audited Profit and Loss Account of the Company for the financial year ended 31st March 1999, Balance Sheet as at that date and the Reports of the Directors and Auditors thereon.

2 Reappointment of retiring Directors

To appoint Directors in place of Dr L M Ramakrishnan, Mr N. Ravindranathan and Mr Bimal Poddar 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.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.90,000/- payable in one or more instalments plus service tax, as applicable for each of them and reimbursement of out-of-pocket expenses incurred."

SPECIAL BUSINESS

4 Appointment of Managing Director

To consider and if thought fit, to pass with or without modifications, the following resolution as an Ordinary Resolution: "RESOLVED that Mr G Rajagopal, appointed as an additional director of the Company by the Board of Directors at their meeting held on 23.10.1998 and vacating his office at this meeting be and is hereby appointed as a director of the Company in pursuance of Notice under section 257 of the Companies Act, 1956 having been received for this purpose.

RESOLVED FURTHER that in accordance with Sections 198, 269, 309, 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 G Rajagopal be and is hereby appointed as Managing Director of the Company for the period 23.10.1998 to 31.03.2002, his office of Director not being liable to retirement by rotation in terms of Article 38 of Articles of Association of the Company 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 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."

5 Restriction on subdivision/transfer below market lot

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

Ponni Sugars and Chemicals Limited

"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 altered as under:

(A) In the existing Article 10, the following proviso shall be added at the end:

Provided that with regard to shares held otherwise than in depository mode, notwithstanding anything contained in this Article or any other Articles or in Table A forming part of Schedule I to the Companies Act, 1956, the Board shall have the right not to accept the application for sub-division of share certificates into denominations lower than the market lots except when such sub-division is required to be made to comply with any statutory order or an order of a competent Court of Law.

(B) After the existing Article 16, the following new Article 16-A shall be added:

16-A Refusal to register transfers below market lots :

The Board may also decline to register the transfer of shares of less than market lot held otherwise than in depository mode, provided however that the Board shall not exercise such power in respect of the following:

- (a) Transfer of shares pursuant to statutory order or of an order of a competent Court of Law;
- (b) Transfer of the entire shares by an existing shareholder who holds in aggregate shares below market lot provided that such transfer is made by a single transfer to the transferee being single or joint names;
- (c) Transfer of more than market lots in favour of the same transferee under one or more transfer deeds where one or more of them is for transfer of less than market lot.

Explanation

Where a Member holding shares in excess of market lot transfers his holding(s) in respect of market lots, the residual shares shall be permitted to stand in his name notwithstanding that such residual shareholding is below market lot;

- (d) Transfer of shares held by a Member below market lot where such shares have been allotted to him by the Company in terms of Rights/ Bonus issue or any other shares resulting from conversion of Debentures/ Warrants or other instruments; or
- (e) The transfer of shares below market lot where both transferor and transferee are existing shareholders of the Company."

6. Dematerialisation of Securities

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 altered by inserting the following heading and Article-20A after the existing Article-20:

DEMATERIALISATION OF SECURITIES

20A (i) Definitions for the purpose of this Article:

'Depositories Act' means the Depositories Act, 1996, including any statutory modifications or re-enactment thereof for the time being in force and it includes where appropriate, the Rules made thereunder.

'SEBI' means the Securities and Exchange Board of India established under Section 3 of the Securities and Exchange Board of India Act, 1992.

Words and expressions used and not defined in this Article shall have the meaning assigned to them in the Depositories Act.

The provisions contained in this Article shall prevail notwithstanding anything to the contrary in any other Article.

(ii) Dematerialisation/Rematerialisation of securities

The Company shall be entitled to dematerialise and/or rematerialise its securities and offer fresh securities in physical or dematerialised form in terms of and in conformity with the Depositories Act and extant Regulations in force and conforming to the Bye laws of the Depositories.



(iii) Provisions of Articles to apply to securities held in depository

Except as specifically provided in these Articles, the provisions relating to joint-holders of shares, calls, lien on shares, forfeiture of shares and transfer and transmission of shares shall be applicable to shares held in Depository.

(iv) Transfer of securities

Transfer of Securities held in Depository shall be governed by the Depositories Act and extant Regulations in force.

(v) Board to decide on depository

The Board in its discretion shall decide the effective date from which depository option will be made available to the Members and Debentureholders. Different dates may be decided for different class and type of securities."

7 Mortgage of assets

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

"RESOLVED that the 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 for mortgaging and/or charging by the Board of Directors of the Company of all the immovable and moveable properties of the Company situated at Balangir in the State of Orissa, both present and future, as and by way of second charge and/or conferring power to enter upon and take possession of the assets of the company in certain events to and in favour of Unit Trust of India/Trustees for the Debentureholders to secure Zero Percent Secured Non-Convertible Debentures not exceeding Rs.113.15 lakhs placed/to be privately placed with UTI 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 by the company to UTI/ Debenture Trustees in terms of their Letters of Sanction/ Trustees Agreement/ Hypothecation Agreements entered into/to be entered into by the company, in respect of aforesaid Loan/ Debentures and to the Board of Directors of the Company agreeing with UTI/Debenture Trustees in terms of their respective Trustees Agreement/ 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.

RESOLVED FURTHER that the Board of Directors of the company be and are hereby authorised to finalise with UTI/ Debenture Trustees the documents for creating the aforesaid mortgage and/or charge and for reserving the aforesaid right and to do all such acts and things as may be necessary for giving effect to the above resolution."

(By order of the Board)

For **PONNI SUGARS AND CHEMICALS LIMITED**

Chennai - 96
July 28, 1999

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. Such a proxy need not be a Member of the Company.
2. Proxies, in order to be effective, must reach the Company not later than 48 hours before the meeting.
3. The Register of Members and the Share Transfer Register will be closed from Wednesday, the 1st September 1999 to Monday, the 6th September 1999 (both days inclusive).
4. Pursuant to Section 205A(5) of the Companies Act, 1956, all dividends upto the financial year ended 31st March 1995, 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 Bhawan, Haddows Road, Chennai 600 006. Members may write to the registered office of the Company for any assistance required in this regard.
5. Members desirous of making a nomination in respect of their shareholdings in the Company pursuant to section 109A of the Companies Act, 1956 may file Form 2B with the Company. It is recommended that Members holding shares in their single name opt for this facility. For further clarification or assistance, please write to the Company.

EXPLANATORY STATEMENT

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

Item No. 4 : Appointment of Managing Director

Mr G Rajagopal was appointed as Additional Director of the Company by the Board of Directors at their meeting held on 23.10.1998 and he vacates this office at this meeting. It is now proposed to appoint Mr G Rajagopal as a Director of the Company for which relevant notice under Section 257 of the Companies Act, 1956 has been received.

At the abovementioned Board meeting, Mr G Rajagopal was also appointed as the Managing Director of the Company. Approval of Members is now sought for this appointment on following terms:

Sl No Gist of Terms and Conditions

I	Tenure	23.10.1998 to 31.03.2002
II	Salary	Rs. 25000/- (Rupees Twentyfive Thousand only) per month including all allowances.
III	Commission	Equivalent to one percent of the net profits of the Company subject to a ceiling of an amount equal to annual salary.
IV	Perquisites	Perquisites shall be restricted to an amount equal to the annual salary. Contribution to Provident Fund, Superannuation Fund and Annuity Fund shall however be excluded in reckoning the said ceiling.
V	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.

Note: Profit for purpose of Managerial Remuneration shall be as per computation under Sections 349 and 350 of the Companies Act, 1956

An abstract of the terms of the above appointment has already been sent to all the Members on 24.10.1998 in deference to Section 302 of the Companies Act, 1956.

Mr G Rajagopal is an ACA, AICWA and ACS. He has an impressive academic background as a rank holder at University and All India levels. He is associated with the Company since inception and has had varied and variegated experience in diverse disciplines of operations, finance and general management. He is fully seized of the problems in store and challenges ahead. The Board of Directors have thus considered it in the interest of the Company to have his stewardship as Managing Director at the current crucial juncture and commend the same for the approval of Members.

The terms of appointment are well within the ceiling stipulated under Schedule XIII to the Companies Act, 1956 and hence do not require the approval of the Central Government. In terms of Part III of the said Schedule, the appointment 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. This may also be treated as intimation of the Resolution of the Company under Section 302 of the Companies Act, 1956.

A copy of the Board resolution passed in this respect is available for inspection of Members on any working day of the Company between 11.00 a.m. and 1.00 p.m.

Mr G Rajagopal is interested in the above appointment.

Mr G Rajagopal is distantly related to Mr S Viswanathan, Chairman of the Company, though not a 'relative' of a Director within the meaning of the Companies Act, 1956.

No other Director is concerned or interested in the above appointment.

**Item No. 5 : Restriction on subdivision/transfer below market lot**

There has been an increasing tendency in the recent past to split and transfer shares much below market lots. There are indeed numerous cases where the shares are sought to be sub-divided and transferred in a lot of one share each.

The Board considers it imperative to strike a proper balance between the need for wider disbursement of shares on the one hand and cost effective management and prompt servicing of the shareholding community at large on the other hand. Undue enlargement of shareholder list with fragmented holdings, if allowed to be perpetuated and aggravated, may lead to dilution of effective servicing of genuine shareholder interest.

It is accordingly proposed to introduce reasonable restrictions with a view to curb the unhealthy practice of seeking subdivision or transfer of shares in smaller lots being below the marketable lots. Care has been taken to ensure that genuine requests for such transactions below market lot are accommodated. The Articles of Association of the Company require suitable alteration for this purpose.

The Register of Members and Articles of Association are available for inspection of Members on any working day between 11.00 a.m. and 1.00 p.m.

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

Item No. 6 : Dematerialisation of Securities

Holding and trading of securities through Depository mode has gained increasing investor acceptance, having regard to the host of advantages attendant thereto. The Depository mode is of course only optional for holding securities, though it is being made mandatory for trading of securities in large corporates.

Your company proposes to join the Depository mode in due course with a view to make available this optional facility for desirous Members. In order to bring the Articles of Association of the Company in tune with this need, requisite amendments/additions have been proposed.

The Articles of Association of the Company is available for inspection by the Members of the Company on any working day between 11.00 a.m. and 1.00 p.m.

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

Item No. 7 : Mortgage of assets

In terms of the Restructuring Package, Unit Trust of India (UTI) had agreed *inter alia* to fund interest accruals on 16% Non-Convertible Debentures (NCDs) held by them in our Company payable during 01.04.1997 to 31.03.1999 aggregating Rs.113.15 lakhs. Interest so funded has since been converted into zero per cent NCDs and allotment of NCDs was made to UTI on 31.05.1999.

The zero per cent NCDs of Rs.113.15 lakhs has been secured by a second charge on the fixed assets of the Company pertaining to the Balangir Unit ranking *pari passu* with the charge in favour of 16% NCDs aggregating Rs.1323 lakhs. Required resolution in compliance of Section 293 (1) (a) of the Companies Act, 1956 to conform to the stipulations made by the Debenture Trustees at the time of security creation is now submitted for the approval of the Members.

Documents pertaining to issue and allotment of Debentures and creation of security are available for inspection by Members at the registered office of the Company on any working day between 11.00 a.m. and 1.00 p.m.

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

(By Order of the Board)

For **PONNI SUGARS AND CHEMICALS LIMITED**

Chennai - 96
July 28, 1999

N. Ramanathan
Secretary

DIRECTORS' REPORT

The Directors submit their Report and Audited Accounts for the year ended 31st March, 1999 :

	For the year ended	
	31.3.1999	31.3.1998
Physical Performance		
No. of Sugar Mills	2	3
Cane Crushed (t)	7,14,192	6,17,558
Sugar Bagged (t)	66,906	55,966
Sugar Recovery (%) -		
Erode	9.49	9.21
Balangir	8.88	9.20
Financial Performance (Rs. Crores)		
Turnover	102.70	91.39
Profit/(Loss) before Interest and Depreciation	(1.67)	15.80
Interest	15.16	15.06
Depreciation	3.18	18.34
Profit/(Loss) for the year	(20.01)	(2.70)

After adjusting the surplus from previous year, the balance loss of Rs.19.34 crores is being carried forward.

DIVIDEND

In view of losses suffered, your Directors regret that no dividend could be recommended for the financial year 1998-99.

ECONOMIC ENVIRONMENT

The economic sentiment was on a low key throughout the year under review. Notwithstanding a reasonable GDP growth of 5.8% propelled by handsome increase in agricultural production, industrial growth was subdued at one of its lowest ebb since 90s at 3.8% in the backdrop of weak domestic demand and fiercely competitive imports. Commodity industry is perhaps the worst hit, world over, with prices trounced to their lowest level in more than a decade mostly in the wake of falling demand due to economic adversity in East Asia, Russia, Japan and Latin America. Sugar is no exception to the cyclic change of forces in the world trade on commodities.

WORLD SUGAR

World sugar production in 1998-99 crop year is slated to reach 130 million tonnes. This record of production far exceeding the offtake inevitably depressed the prices. The prices accordingly bear no relationship to cost of production of even the most efficient producers. Any further increase in global production in 1999-2000 will severely hurt the industry on long term.

INDIAN SUGAR

Indian Sugar industry as in the case of many other industries is subject to cyclical changes resulting in surplus followed by shortage reflecting classical rise and fall in product pricing. The record high sugar production during 1995-96 resulted in surplus stock during succeeding years thereby making a bearish trend in sugar prices. This situation was further compounded by irrational and confusing import policy under which huge volumes of sugar were permitted to be imported with nil or



marginal import duty thereby driving the domestic industry into a near crisis. Permitting infiltration of 16 lakh tonnes of sugar involving foreign exchange outgo of near Rs. 2000 crores has indeed resulted in havoc to the indigenous industry.

POLICY ISSUES

Sugar has been delicensed from 31st August 1998. No decision on decontrol and other major recommendations of the High Power Mahajan Committee has been taken yet even after lapse of more than a year.

Revision in levy sugar price for 1998-99 season is yet to be announced even after the main crushing season has come to a close in the country recording more than 95% of total season's estimated production. Government has marginally diluted the administrative release mechanism by dispensing with weekly/fortnightly despatch regulation, but instead monitoring the same on a monthly basis. Even this little flexibility is welcome.

Private sector Sugar mills in Tamilnadu through their Association have challenged the vires of the State Advised Price and obtained stay from Madras High Court. Consequently, the Tamilnadu Government has made the increase in SAP from Rs.660 to Rs.702.50 per tonne of cane linked to 8.5% recovery for 1998-99 season applicable only for co-operative and public sector units. Even so, cane dues have started escalating for most private sector mills as well in the backdrop of unviable sugar price. Cane planting trend however remains unaffected as of now.

COMPANY PERFORMANCE

Erode unit achieved an all-time high crushing of 5.96 lakh tonnes during the year, an increase of 60% over last year. Sugar recovery despite extended working to handle larger cane volume was also better at 9.49% (previous year 9.21%) due to improved cane varietal mix. Such a highly commendable physical performance could not however get translated to tangible financial gains in the end owing to grossly unremunerative sugar prices and unprecedented fall in molasses price.

Bargarh Sugar Mill was handed over to the owners thereof consequent upon the termination of Management Agreement effective 30th June 98 as mentioned in last year's Chairman's speech. Since the Company has had to absorb off-season expenditure and interest cost till liquidation of sugar stocks, the resultant burden of Rs.2.6 crores is included in this year's loss. The final settlement between the parties upon termination of the Management Agreement is yet to take place. Your company has initiated necessary legal process for this purpose.

Balangir Sugar Mill, though started well during the year, received a severe setback mid-course due to the untimely breakdown of 3 MW TG set. Its domino effect led to discontinuity in production, downfall in sugar recovery and decline in sugarcane planting, causing an overall demoralising effect. This has indeed broken our back as the proverbial last straw, forcing us now than ever before to look at harder options to be able to steer through our future operations.

The huge loss of Rs.20 crores suffered during the year is essentially attributable to the continued uneconomic and unviable functioning of Balangir unit, exacerbated by the downturn in the sugar industry.

Your company is hopeful of maintaining and even marginally improving its operating performance at its Erode unit in 1999-2000. Sugar quality has been bettered through process improvement. An energy audit was conducted through CII and such of those recommended energy conservation measures that involve minimal capital investments have been implemented. Costs are continuously monitored to effect economies and build on efficiencies. While these measures would help to shore-up the performance of Erode unit, the malaise at Balangir unit would appear deep-rooted and hence demands drastic defensive measures as discussed in detail in the latter part of this Report.

FINANCE

The finances of the company have undoubtedly turned tenuous on account of the huge losses suffered during the year. The company has had to encounter delay and difficulty in the tie up of working capital. Adverse credit rating had its ineluctable impact by way of higher borrowing costs.

Though interest rates softened during the year with successive cuts in Bank Rate from 11% to 8% in stages, the unduly high