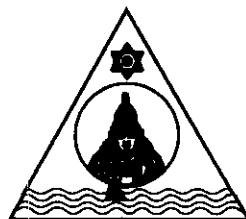


PONNI SUGARS AND CHEMICALS LIMITED



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18th
ANNUAL REPORT
1999-2000

**STOCK EXCHANGE LISTING****MADRAS STOCK EXCHANGE LTD**

Exchange Building, 11 Second Line Beach
Chennai 600 001
Phone : 5224382, 5224392, 5224393
Fax : 044-5244897

THE STOCK EXCHANGE, MUMBAI

Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai 400 001
Phone : 2655581, 2655626, 2655860-61 Fax : 022 265 8121

NATIONAL STOCK EXCHANGE OF INDIA LTD

Trade world, Senapati Bapat Marg,
Lower Parel, Mumbai 400 013
Phone : 4972950-59 Fax : 497 2985
Email: cmlist@nse.co.in

PAYMENT OF ANNUAL LISTING FEES TO STOCK EXCHANGES

Listing fee has been paid to all the three Stock Exchanges
in which the Company's Equity Shares and Non-Convertible
Debentures are listed, upto the year 2000-01

REGISTERED OFFICE

"Esvin House", Perungudi, Chennai 600 096
Phone : (044) 4961920, 4960293, 4961056
Fax : (044) 4960156
Email: ponnisugars@satyam.net.in

WORKS

- (i) Pallipalayam, Cauvery RSPO, Erode 638007
Namakkal District, Tamil Nadu
- (ii) Sagarpalli, Deogaon 767029
Balangir District, Orissa

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DIRECTORS

SRI S VISWANATHAN (*Chairman*)
 DR L M RAMAKRISHNAN (*Vice Chairman*)
 SRI N GOPALARATNAM (*Vice Chairman*)
 SRI BIMAL PODDAR
 SRI J K MOHANTY (*IPICOL nominee*)
 SRI C K PITHAWALLA
 SRI K RAJAN (*UTI nominee*)
 SRI K J RAJASIMHA (*ICICI nominee*)
 SRI N RAVINDRANATHAN
 SRI S K RAMASAMY
 SRI G RAJAGOPAL (*Managing Director*)

AUDIT COMMITTEE

SRI K J RAJASIMHA (*Chairman*)
 SRI K RAJAN
 SRI N RAVINDRANATHAN

SECURITIES TRANSFER AND GRIEVANCE COMMITTEE

SRI S VISWANATHAN (*Chairman*)
 DR L M RAMAKRISHNAN
 SRI G RAJAGOPAL

AUDITORS

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

COST AUDITOR

SRI M B KANNAN

INTERNAL / TAX AUDITOR

M/s N R SURESH & CO.,

SECRETARY

SRI N RAMANATHAN

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 LTD
 THE ORISSA STATE CO-OPRETAVE BANK LTD



NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 18th Annual General Meeting of the Company will be held as specified below:

Day : Saturday
 Date : 3rd March 2001
 Time : 02.00 PM
 Venue : New Woodlands Hotel Pvt. Ltd, 72-75 Dr Radhakrishnan Road
 Mylapore, Chennai 600 004

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 period ended 30th September 2000, 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 Mr S Viswanathan, Mr N Gopalaratnam and Mr C K Pithawalla who retire by rotation and being eligible, offer themselves for reappointment.

SPECIAL BUSINESS

3. Revision of Auditors' remuneration

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

"RESOLVED that M/s R Subramanian & Co, Chartered Accountants, Chennai and M/s Suri & Co., Chartered Accountants, Chennai, who were appointed as Auditors of the Company from the conclusion of 17th Annual General Meeting till the conclusion of this Annual General Meeting, be paid an additional remuneration of Rs.45,000/- plus service tax, as applicable to each of them and reimbursement of out-of-pocket expenses incurred, in view of the extension of the financial year by six months upto 30th September 2000".

4. Appointment of Auditor

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

"RESOLVED that pursuant to Section 224 and other applicable provisions of the Companies Act, 1956, M/s R Subramanian & Co, Chartered Accountants, Chennai, one of the retiring Auditors of the Company be and are hereby reappointed as Auditors of the Company to hold office from the conclusion of this Meeting upto the conclusion of the next Annual General Meeting on a remuneration of Rs.90,000/- plus service tax and reimbursement of expenses incurred."

5. Appointment of Director

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

"RESOLVED that Mr S K Ramasamy be and is hereby appointed as a Director of the Company liable to retire by rotation".

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

Chennai-600 096
 30th January 2001

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. 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. In case any assistance is required, Members may write to the registered office of the Company.
4. 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.

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EXPLANATORY STATEMENT

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

Item No.3: Revision of Auditors' remuneration

M/s R Subramanian & Co, and M/s Suri & Co., Chartered Accountants, Chennai, were appointed as Auditors of the Company at the Annual General Meeting held on 6th September 1999, to hold office from the conclusion of 17th Annual General Meeting till the conclusion of the next Annual General Meeting on a remuneration of Rs.90,000/- each plus service tax as applicable and reimbursement of out-of-pocket expenses incurred.

Considering the additional work done by Auditors consequent upon extension of financial year to cover 18 months period, it is proposed to pay an additional remuneration of Rs.45,000/- to each of them plus service tax and out-of-pocket expenses incurred. Accordingly, the requisite resolution is placed for your approval.

None of the Directors of the Company is concerned or interested in this resolution.

Item No.4: Appointment of Auditor

M/s R. Subramanian & Co. and M/s Suri & Co, Chartered Accountants, Chennai were reappointed as Auditors of the Company at the last Annual General Meeting to hold office till the conclusion of this Meeting. Since M/s Suri & Co., Chartered Accountants have given a letter to the effect that they do not seek reappointment, it is proposed to appoint only M/s. R. Subramanian & Co., Chartered Accountants, Chennai, as Auditor at this Meeting.

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

Item No.5: Appointment of Director

Mr S K Ramasamy was a Director of the Company for 16 years from inception upto 13.10.1998. He was again co-opted in the Board of your Company as Additional Director under Section 260 of the Companies Act, 1956, with effect from 28.01.2000. He holds office till the date of this Meeting.

The Company has received a notice from a Shareholder under Section 257 of the Companies Act, 1956 together with requisite deposit for proposing his candidature as Director of the Company.

In view of his standing among the local farming community at Erode and considering his contribution during his earlier tenure, the Board commends his appointment as regular Director.

The approval of the Shareholders is requested for the appointment of Mr S K Ramasamy as a Director, liable to retire by rotation.

None of the Directors other than Mr S K Ramasamy is interested in this item of business.

(By Order of the Board)

for **PONNI SUGARS AND CHEMICALS LIMITED**

Chennai-600 096
30th January 2001

N Ramanathan
Secretary

Ponni Sugars and Chemicals Limited

DIRECTORS' REPORT

The Directors submit their Report and Audited Accounts for the 18 months Period ended 30th September, 2000 :

	For the Period ended 30.9.2000	For the Year ended 31.3.1999
<i>Physical Performance</i>		
Cane Crushed (t)	1024833	714192
Sugar Bagged (t)	100259	66906
Sugar Recovery (%)		
– Erode	9.72	9.49
– Balangir	10.10	8.88
<i>Financial Performance</i> (Rs. Crores)		
Turnover	161.39	109.40
Gross Profit/(Loss) before extraordinary items	10.34	(1.67)
Extra ordinary items		
– Change in method of inventory valuation	7.65	
– Additional write-off of Miscellaneous Expenditure	6.00	
– Advances written off	4.78	18.43
Gross Profit/(Loss) after extraordinary items	(8.09)	(1.67)
Interest	26.40	15.16
Depreciation	4.76	3.18
Profit/(Loss) for the Period	(39.25)	(20.01)

DIVIDEND

In view of persistent losses, your Directors regret inability to recommend dividend for the financial year 1999-2000.

INDUSTRY OVERVIEW

Sugar Season 1999-2000 ended for the country with an all-time high production of 182 lakh tonnes. The exponential increase in production juxtaposed with the steady but marginal growth in consumption led to an ineluctable overhang in supply side to push prices down to perilous levels. The situation would have still been not so alarming but for the 23 lakh tonnes of imported sugar that came to flood our local market in recent years. Such inimical imports on discriminatory terms not only did an immediate damage to the domestic sugar industry by depressing prices but also foisted a formidable level of inventory with attendant aggravated supply side pressure and add-on carrying cost for the near term. Indeed, sugar industry is now ordained to carry a hefty stock of over 100 lakh tonnes at the start of current season of which free sugar stocks represent 8 months of consumption, which makes a mockery of sugar economics per se for the industry.

Belated initiatives through hike in import duty and levelling the playing field on par with local industry have no doubt eventually helped to stem further inflow of imports. While export window has been opened up after a three-year gap, global distortions impinging upon free and fair trade on sugar continue to constrict the scope for export of Indian sugar, notwithstanding the fact that India is one of the lowest cost producers of sugar.



It thus looks that the sugar industry and all its constituent stakeholders have been made to bear the brunt of misplaced and ill-timed policy prescriptions with the lopsided emphasis on having a constant check on sugar prices. With sugar production for 2000-01 season poised to remain again at high levels, sugar prices can only be expected to face stiffer resistance in its ascendancy to reach a reasonable level. It is hence imperative that a comprehensive Sugar policy is evolved at once to address all such seminal issues lest the sugar industry should slide further down from its morbid state to moribund finale. With all developed countries highly subsidising and protecting their farm sector, it calls for a determined and decisive resolve on the part of Government now than ever before to place the Indian Sugar industry playing a crucial role in our agro economy on a viable and sustained footing.

POLICY CHANGES

Government brought down the levy percentage from 40% to 30% from 1st January 2000. It was further reduced to 15% effective 1st February 2001 concomitant with the decision to restrict PDS supply to only below poverty line families in most States. PDS sugar price was hiked from Rs.12 to Rs.13 per Kg from April 2000. A little flexibility was bestowed on sugar mills to sell upto 10% of their monthly free sale quota with spillover facility upto the first week of the following month. Stock holding limits on recognised dealers have been dispensed with. Government has in principle decided to introduce futures contract in sugar by amending Forward Contract (Regulation) Act, 1952. Sugar releases to facilitate forward contract are proposed to be made six months in advance. These measures are intended to impart certain degree of price stability in sugar. Sugar has been taken out of selective credit control mechanism by RBI in its credit policy. Compulsory jute packing was partially relaxed for 10% of sugar production but it was too short-lived to get restored again in full.

Import duty on sugar was raised in phases to its present rate of 60% plus additional customs duty. Simultaneously levy obligation and administrative release mechanism were clamped on imported sugar from December 1999. Government has allowed export of 10 lakh tonnes of sugar during the financial year 2000-01. To facilitate same, sugar exports have been exempted from levy obligation upto 31st March 2001. Besides 5% DEPB benefit under Exim Policy, sugar exports will have the benefit of adjustment in the free sale stocks only at the end of 12 months from the date of export that would help in interest savings. These measures should go to enhance export capability with the help of likely upturn in world sugar prices.

OPERATING PERFORMANCE ERODE UNIT

Erode Unit during 12 months ended 31st March 2000 crossed the 6 lakh tonnes mark by crushing 609493 tonnes and also bettered on sugar recovery at 9.8% (previous year 9.5%) by further improving upon the cane varietal mix. It sustained such an improved performance during the succeeding 6 months as well. The record level of sugar production coupled with commendable operational efficiency got partly neutralized with sugar prices mostly remaining below previous year levels. The interim stay order on the writ petition challenging State Advised Price in the Madras High Court has indeed helped us peg cane price for three years in a row, contain our cost of production and above all maintain sugarcane payment schedules to the satisfaction of our cultivators.

In appreciation of the significant work done on pollution abatement and ecology preservation, the International Greenland Society functioning from Hyderabad has awarded our Erode unit the prestigious Indira Gandhi National Award for Excellence in Indian Industries for the 'Best Environmental & Ecological Implementation'.

Your Directors are happy to report that, during the year, the Company was awarded 'ISO 9002' accreditation, for its quality systems, by Det Norske Veritas, The Netherlands.

A Voluntary Retirement Scheme was implemented during April 2000 to rationalise manpower under changing economic environment that has helped in achieving a near 25% reduction in employee strength. With assured availability of required cane and constant emphasis on continuous cost control and quality improvement measures, the outlook for Erode Unit is placed above par.

BARGARH UNIT

Though the Bargarh Sugar Mill was restored to its owners effective 30th June 1998 consequent upon the unilateral termination of Management Agreement brought about by them, final settlement between the parties is still pending.

BALANGIR UNIT

Balangir unit showed an improved trend by crushing 1.5 lakh tonnes and posting an all-time high sugar recovery of 10.1%. Indeed, its sugar recovery for 1999-2000 season at 10.51% was the highest for any sugar mill in Orissa. It is only a matter of regret that such an upturn in vindication of your Company's initial techno-economic studies has come too late.

Balangir unit's eligibility under Sugar Incentive Scheme 1993 was surrendered during the year, considering its unattractiveness for Orissa Zone. Indeed, this unit could meaningfully improve upon its top and bottom line and ease cash flow during the last 4 years with such relinquishment of incentive entitlement. While so, levy sugar price for 1999-2000 season came to be fixed at an incredulously low rate of Rs. 1091.51 per quintal against Rs. 1460.58 per quintal of the previous year. The arbitrariness of such an abominably low levy price fixation has been challenged and based on the interim order of Cuttack High Court, levy sugar sales have been effected at the provisional price as applicable for the previous year i.e. Rs. 1460.58 per quintal.

Notwithstanding the encouraging trend in Sugar recovery during 1999-2000, fresh sugarcane planting had to be suspended for registration during that year, dictated by the overwhelming paucity of funds in the backdrop of persistent losses. This in turn has led to skipping sugar production during 2000-01 season. Your Company had indeed sought the support of Orissa Government as and by way of soft term financial assistance to help revive the operations in the interest of rejuvenating an industry so inseparably connected to the well-being of the large local populace in one of the most backward parts of the State. Despite an expression of intent to support such request by the Orissa State Co-operative Bank Ltd and positive view taken by NABARD, the final sanction of funding assistance is yet to fructify. As a result, Balangir unit has been rendered unable to resume sugarcane planting for registration during current season as well which would in turn force this unit skip sugar production for one more year i.e., during next season. Having thus reached the dead end of efforts, it has become inevitable to initiate steps towards closure of Balangir Sugar Mill. Your management will take requisite legal steps in furtherance of same.

Demerger Scheme

Shareholders will recall that the company had proposed a structural re-organisation plan involving the demerger of its Erode unit into a new Company. The leit motif of Demerger Scheme is to insulate the Erode unit from the adversities of Orissa operations, facilitate optimal debt servicing by shifting major part of borrowings to the Erode Unit and in the long strive to achieve value enhancement for shareholders.

The Demerger Scheme was approved by the shareholders at the Court ordered Meeting held on 7th April 2000. Rescheduling the redemption of 16% NCDs was also overwhelmingly approved at the meeting of Debentureholders held on that date. The Financial Institutions have since conveyed their approval for the Scheme and also granted all agreed reliefs and concessions.

While so, the Demerger Scheme came to be opposed by State Bank of India (SBI) who have relatively larger stakes at our Orissa operations. In order to address SBI's concerns and secure their consent as well, a joint meeting of Financial Institutions and Banks was convened in pursuance of which a modified plan to enhance SBI's comfort level was submitted to SBI.

Since the effective date of Demerger is 1st April 1999 which is pending sanction of the High Court of Madras, the company in anticipation of SBI's consent to the Demerger Scheme obtained extension of time for holding Annual General Meeting upto 5th March 2001 and simultaneously extended the financial year for 18 months covering the period 1st April 1999 to 30th September 2000. These were advised to shareholders by circular letter dated 4.12.2000. Support of SBI for the Demerger Scheme is however still eluding even on the strength of the modified plan. This has come to cast grave uncertainty on the Demerger Plan.



It would seem pertinent in this context to recapitulate the following gains that would have accrued to the company if the Demerger Scheme has come into force as originally envisaged.

- FIs as an integral part of Demerger agree upon an extended moratorium and much elongated repayment schedule to ease cash flows and meet long-term working capital needs.
- FIs further concede reduction of interest rates and conversion of sizeable share of their debt into zero-coupon instrument entailing an aggregate interest saving of over Rs.60 crores to the Company to endure over 15 year tenure.
- Sizeable debt servicing is reassured on the basis of equitable allocation of debt, keeping in mind the limits of servicing capability.
- 40% of share capital is shifted to the Erode outfit with definitive scope for value enhancement.
- Growth prospects of Erode Unit are sought to be better served with its decisive delinking from Orissa outfit.
- Working capital is facilitated to be tied up on cost competitive terms on the strength of improved Balance Sheet back-up.
- Balangir Unit is enabled with better chance of soft-loan tie up to bridge immediate operating deficit until breakeven level is achieved.

Indeed, the Company would not have become a 'sick industrial company' as would be evidenced from the following, if the Demerger had materialized as originally envisaged.

		[Rs.lakhs] Upon Demerger	
Financial Status	Existing	Ponni Sugars (Erode) Limited	Ponni Sugars (Orissa) Limited
01/04/1999			
- Share capital	2090	1020	1254
- Reserves & Surplus	172	81	928
- Misc.Expenditure	1371	0	0
- Net worth	891	1101	2182
30/09/2000			
- Share capital	2090	1020	1254
- Reserves & Surplus	2107	209	928
- Profit & Loss Account	-5860	-	-1490
- Misc.Expenditure	159	159	0
- Net worth	-1822	1070	692

Note: Net worth would have been positive upon Demerger as of 30/09/2000 for both Ponni Sugars (Erode) Limited and Ponni Sugars (Orissa) Limited.

The High Court of Madras has now ordered meetings of secured and unsecured creditors with a view to ascertain their views on Demerger Scheme through special majority. The outcome of creditors' meetings would doubtless hinge upon the final stand as may be taken by SBI, one of the major creditors. While your Company shall continue to pursue its case with SBI to facilitate fructification of Scheme, the Annual General Meeting is now being convened to consider the annual accounts without incorporating the effect of Demerger as well as the reliefs and concessions granted by FIs as an integral part of such Demerger.