



Speech
by
Mr. A. Vellayan, Chairman
at the
41st Annual General Meeting
on
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Ladies and Gentlemen,

Good Evening. I have great pleasure in extending a warm welcome to all of you to the Forty first Annual General Meeting of E.I.D.- Parry (India) Limited.

Indian Economy

The Economic Survey 2015-16 presents an optimistic picture of Indian economy stating that amidst the gloomy landscape of unusual volatility in the international economic environment, India stands as a haven of stability and an outpost of opportunity. It further states the country's macro-economy is stable, founded on the government's commitment to fiscal consolidation and low inflation. With a growing entrepreneurial ecosystem, strong demographic dividend and a large domestic market, the time is right for India's economy to soar. The world is expecting India to translate its potential into action. The Indian economy is on a robust growth trajectory and boasts of a stable annual growth rate, rising foreign exchange reserves and booming capital markets amongst others. Yet, India also has its own challenges, including shrinking exports, an infrastructure deficit, barriers to business and the urgent need of accelerated reforms in a majority of sectors. The future agenda must include much better governance, better social services and high quality independent institutions.

Sugar Industry Overview

Let me now move on to Sugar, which is the most significant business of EID Parry.

It was probably the most challenging year for the Sugar Industry in India and I was asked to head the Indian Sugar

Mills Association (ISMA) as the President last year. It was with some reluctance that I accepted this position as I have not been active in the Association earlier. However, I would like to share with the fellow shareholders that last year has been the most eventful year in the history of the Sugar Industry as also in my tenure as Chairman of EID Parry.

As I took over the role of President of ISMA, the Industry was reeling under huge losses due to the fact that cane prices were higher than Sugar prices and large stocks of 9 – 10 Million Tons of Sugar were burdening the whole Industry. On assuming this role, I discussed the sugar industry issues with key Government Officials, Central Ministers and key Industry Players. Soon a Core Committee was formed and we worked very closely with McKinsey in bringing out a report on the way forward for the Indian Sugar Industry. In this report which was widely circulated, McKinsey team studied the policy for Sugar in countries like Brazil and Thailand and using those as models suggested the way forward for India. Since this was an independent report, I used this report to present to the Government an outside experts advice on how we can resolve the problem within the Sugar Industry in India.

After a series of meetings between Industry and Government, a presentation was made to the Prime Minister largely based on the ideas featured in the report.

This entailed the following major actions:

- (1) Fixing of remunerative price for Ethanol blending with Petrol and convincing the Oil Companies to take blending levels to 5 – 7% over the next two years.

- (2) The excise duties on Molasses for Ethanol was removed.
- (3) The Government announced an interest subvention scheme providing loans to Sugar Mills for clearing outstanding FRP payments.
- (4) The Govt announced the Minimum Indicative Export Quota (MIEQ) of 40 lakh tonnes of sugar for 2015-16 season with a view to liquidate surplus sugar stocks and shore up domestic prices from depressed levels. Similarly, with a view to offset the cost of cane and facilitate timely payment of cane price dues of farmers, the Govt announced a production subsidy of Rs.45/ MT of cane conditional upon the sugar mills complying with stipulated percentage export quota and ethanol blending norms.
- (5) The cap for levy of sugar cess was hiked from Rs.25 / qtl to Rs.200 / qtl. by the Sugar Cess Amendment Act, 2015 notified on 28-01-2016.
- (6) The Government also amended the Industries (Development & Regulation) Act to clarify the exclusive jurisdiction of the Central Govt pertaining to Industrial Alcohol.

Thanks to the Government's timely and thoughtful action, the near disaster situation for the Sugar Industry started to take a positive turn with the announcement of export incentive and movement of Molasses to Ethanol, Sugar prices started to improve. Further with the liquidity provided by the soft loan and between prices, Mills were able to pay off FRP dues.

With domestic demand being relatively stable in India, sugar prices in the country are largely a function of net domestic supply and consumption and the change in global supply situations. With a 14 per cent monsoon deficit and near-drought conditions that adversely affected cane crops in Maharashtra and Karnataka, India is estimated to produce 25.2 Million Tonnes (MT) in the 2015-16 sugar season starting from October to September. ISMA estimates that sugar stocks at the end of sugar season 2015-16 will be 7.5 Million Tonnes compared to 9.1 Million Tonnes a year back. Sugar analysts opine that lower-than-average rainfall will adversely affect sugarcane production in 2016-17 in major parts of Maharashtra and Karnataka. But this shortage is likely to be partly compensated by higher production from UP. Because of unfavourable weather condition, analysts have slashed their production estimates for most sugar producing regions, including India, Thailand, EU and north-east Brazil. A dry El Nino has reduced agricultural yield and sugar recoveries in Thailand and this trend is likely to continue in 2016-17.

It is predicted that the country will have above-normal and well-distributed monsoon after two successive droughts which will improve the prospects for cane planting in 2016-17. Thus, prices are likely to see some correction on expectations of improved supply from Brazil, and forecast of normal monsoon in India in the 2016-17 sugar season. However, strong domestic demand will limit the extent of price correction.

Apart from the volatile sugar prices, the Industry faces its perennial and long drawn problem of the rising cane cost. The cane prices have gone up by over 50% during the last few years, unmatched by any other crop in the country. Sugar mills in India pay the highest cane price in the world.

The rising cane procurement costs combined with escalating production costs has been unevenly balanced against the lower price realization, adding to the severe hardships for the sugar industry. There is an urgent need to rationalise the cane pricing policy by linking the cane price to revenue realisation as adopted in Maharashtra & Karnataka and followed world over. The Government intervention in sugar has been frequent, forceful and sometimes short term without a long term vision, be it to facilitate the rise or fall in sugar prices or to help clear cane price dues through soft loan packages. It is time, the reforms initiated in 2013 must remain irreversible and the unfinished agenda must at once be addressed on the sugarcane front so as to decisively link and establish sustainable input-output price parity.

In case of TN, the problem of the sugar industry is unique where the adverse policies like a higher SAP for cane, 5% VAT on sugar, 14.5% VAT on RS and ENA and lower tariff for cogenerated power has made the TN Mills highly uncompetitive. None of the important sugar producing States impose VAT on sugar and RS/ENA. Regarding the Central govt initiative of blending ethanol with petrol, the TN Government is not encouraging adequate ethanol production which can give the much needed Cash flows to mills, earn foreign exchange for the country besides reducing environmental pollution. With Rationalised cane pricing being in place for country's 50% sugar with Maharashtra and Karnataka Governments adopting the Revenue sharing formula for determining the cane price, it is extremely necessary that the TN Government should soon follow the

pricing model. This will be a win- win for all stake holders i,e mills, farmers and Government etc.

Performance

Your Company's performance during the year 2015-16 has been discussed at length in the Management Discussion and Analysis Report. The Company registered a total income of Rs.2395 Crore as against Rs.2265 Crore last year and a Loss of Rs.66 Crore Vs. profit of Rs.148 Crore on a standalone basis. Your Company's performance was reasonable in the context of a volatile and uncertain environment, especially with an all time low sugar price which showed an upward trend only during the last quarter of the year. This single factor completely eclipsed the satisfactory performance on a host of technical and operating parameters that the Company achieved during the year. During the year the Company launched a number of initiatives including execution excellence programme and total productivity management etc. to improve efficiency and cash flows to mitigate the challenges posed by the sugar price cyclicalilty and burgeoning cane cost.

I am also happy to share with you that E.I.D. - Parry (India) Limited was selected as the Best Performing Company and Winner in the 'Sugar' Sector for the Dun & Bradstreet Corporate Awards 2016. Many of the Company's plants received Awards from SISSTA for operational performance and cane development.

Sugar

During the year the cane crushed by the TN plants was at 23.46 LMT as against 27.97 LMT of last year. During the year, all the Plants in Tamilnadu have performed well in all technical

parameters reducing the risk associated with the decline in sugar price to an extent. The performance of the plants in Karnataka and AP was also comparatively better than the last year. The cane crushed was at 25.05 LMT as against 21.65 LMT last year. The Sugar division registered a higher turnover of Rs. 2171 Crore as against Rs.1948 Crore mainly due to higher sugar volumes, and increased power and distillery realisations.

Bio pesticides

The Bio-Pesticides Division registered a turnover of Rs.104.6 Crore in 2015 -16 as compared to Rs.93.6 Crore of previous year and accounting for 4% of the Company's revenue. The sale of Aza Products registered a growth of 14% over 2014-15. Export sale of Neemazal Technical registered a growth of 15% over 2014-15. USA accounted for 63% of Export sales, while Europe and Asia accounted for 33% and 4% respectively. Domestic sales registered a growth of 15% over 2014-15 enabled by growth of Aza & Non Aza products by 12% & 18% respectively. EBIDTA for the year was higher at Rs.28 Crore against Rs.27.5 Crore in 2014-15.

Nutraceuticals

Nutraceuticals division registered a standalone turnover of Rs. 72 Crore in 2015-2016 as compared to Rs.74 Crore of the previous year. Exports constitute 86% of standalone sales. The 4% decline in turnover can be attributed to the drop in organic Spirulina sales, mainly due to decrease in demand from the Asia Pacific market on account of intense price competition from competitors. EID Parry's Nutraceutical Business includes 2 wholly owned subsidiaries – US

Nutraceuticals LLC., (Valensa) and Alimtec SA. Valensa is based in Florida, USA and is into the business of Natural Products which it markets as Ingredients and Condition Specific Formulations for Joint, Cardiovascular and Eye Health. Alimtec SA, based in Chile, has an expertise in the manufacture of Astaxanthin, a core ingredient in Valensa's formulations. Alimtec registered sales of Rs. 4 Crore as compared to Rs. 6 Crore in the previous year. The Nutraceuticals division will continue to strengthen its position across its Micro Algal value chain in the coming year, by improving downstream technology and introducing new products in the marketplace.

Subsidiary Companies

Let me now brief about the performance of our major operating subsidiaries.

Coromandel International Ltd

The fortunes of Coromandel are closely tied to Agriculture, a sector that has been severely challenged for the last few years due to vagaries of the monsoon and the down-trend in output prices for major crops. The year 2015-16 was a challenging one for the Indian agriculture, with two consecutive drought years. The lower reservoir levels and prolonged moisture stress impacted the Kharif and Rabi crop sowings. Coupled with low global agri commodity prices, the farming sector witnessed one of its most difficult operating environments in recent times. During the year, Coromandel had a satisfactory performance considering that the Southern markets were affected by weak monsoon and lower crop sowings. The Company improved its phosphatic fertiliser volumes and

gained market share in its primary markets of Andhra Pradesh and Telangana. Crop Protection's exports segment improved its performance due to higher demand for its key molecules and fall in utilities cost which expanded margins for the technical business. Over course of a decade, Coromandel has transformed from being product centric to a service oriented, customer centric organization. The Company's presence across the farming value chain, from Seed to Harvest stage, positions the Company uniquely to understand the farming needs and deliver innovative solutions. With presence of around 800 Mana Gromor Centers, the Company has moved closer to the farming fraternity and are leveraging the technology and knowledge platform to make a difference to the farmer's life.

During the year, Coromandel recorded a total revenue of Rs.11,564 Crore and Net Profit after tax of Rs. 361 crore.

Parrys Sugar Industries Ltd (PSIL)

PSIL's Ramdurg Unit crushed a total of 7.39 Lakh tonnes during 2015-16 as compared to 5.55 lakh tonnes in the previous year. The average recovery was lower at 11.91% as compared to 12.14% during the previous year. The total revenue for 2015-16 stood at Rs 292 crore with a Loss of Rs. 26 crore.

PSIL is proposed to be merged with the Company subject to approval of the shareholders, Courts and other Regulatory Authorities.

Parry Sugars Refinery India Pvt Ltd

The operations of Parry Sugars Refinery India Pvt Ltd has been stabilized after the plant re commenced its operations in

2014-15 with the commissioning of the coal fired boiler. The company is engaged in the business of importing raw sugar from the international market, produce and export refined sugar as per international quality and customer specifications. During the year, the revenue of the Company improved substantially from Rs. 260 Crore to Rs. 1169 Crore, an increase of about 350%. The Refined sugar sales volume for the year was at 4.37 LMT as compared to 0.89 LMT in the previous year. The Refined Sugar production for the year was at 4.41 LMT as against 1.36 LMT in the previous year.

The company continued to carry out its transaction of buying and selling raw sugar and refined sugar through the International Commodity Exchanges viz. New York and London Commodity Exchange with the pricing effected through these exchanges, enabling margins/spreads to be locked over future contract periods. During the year the company also commenced the export of surplus power and sold 97 Lakh Units of power. The factory at Kakinada, has obtained the various internationally accepted certificates namely, ISO, HACCP & FSSAI standards which would enable the Company to service its Institutional customers effectively. With the sustained throughput, continuous focus on Cost reduction, hedging of the sugar in the international market, the profitability of the business is expected to improve during the year 2016-17.

Overseas Subsidiaries

US Nutraceuticals LLC (Valensa) earned an income of US\$ 26.45 million with a PAT of US\$ 1.67 million.



Parry America Inc reported an income of US\$ 7.86 million with a PAT of US\$ 0.28 million.

I would like to close by thanking the shareholders for their continued and valuable support. I thank my colleagues on the Board for their valuable counsel and support.

I also place on record my appreciation for the commitment and team work put in by the employees of the Company at all levels.

I am also thankful to all the other stakeholders comprising of the cane growers, suppliers, banks, financial institutions and the customers who have contributed to the Company's operations during the year.

Thank you,

Mr. A. Vellayan
Chairman

This does not purport to be a record of the proceedings of the Annual General Meeting.