



Speech

by

**Mr. A. Vellayan,
Chairman**

at the 42nd Annual General Meeting

on

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E.I.D.- Parry (India) Limited

'Dare House', Parrys Corner, Chennai - 600 001, India

CIN : L24211TN1975PLC006989

Email: investorservices@parry.murugappa.com

Tel: 044 – 2530 6789, Fax:044 – 2534 1609

Web : www.eidparry.com



Ladies and Gentlemen,

Good Evening. I have great pleasure in extending a warm welcome to all of you to the Forty second Annual General Meeting of E.I.D.- Parry (India) Limited. Another eventful year has passed by and I am happy to share my thoughts with you yet again on our performance and prospects.

Economy

It has been an eventful year for India, with the Government initiating reforms in the areas of taxation, infrastructure, agricultures and digitization. India continues to be amongst the fastest growing economies, inspite of global uncertainties and is projected to grow at 6.7% on GVA basis in 2016-17, primarily driven by government consumption and recovery in exports. The macroeconomic indicators remain strong, with narrowing of fiscal deficit, strengthened currency and foreign reserves, lowered interest rates and stable inflation, bringing stability and governance to the economy. Further, the outlook for 2017-18 looks positive as accelerated rate of remonetisation, lower lending rates, GST rollout and government induced growth stimulus are likely to boost consumption and investment across the sectors. World Bank, in its recent Economic Review, has estimated the Indian economy to grow by 7.2% in the current Financial Year 2017-18, as strong domestic demand and ongoing policy and economic reforms will improve the business environment that will be more conducive to private investment.

Indian Agriculture

On the agriculture front, near normal South West monsoon in 2016-17, after previous two drought years, boosted crop sowings during Kharif and Rabi seasons and food grain output is estimated to reach record levels of 273 million tons. Government's focus towards making India self-sufficient in pulses and oilseeds through remunerative pricing support resulting in positive response from the farming community and production of the said crops went up by 30%-40%. Currently, India's buffer stock remains well above the stipulated norms, addressing the supply side inflation. Though the farm income came under stress as record output created ample availability for the commodities affecting crop prices, overall agriculture scenario remained upbeat, with agriculture and allied sector expected to grow by 4.1% in 2016-17.

The current year has also seen positive monsoon activity in the initial periods, boosting crop sowings by ~8-9%. However in most of Tamil Nadu and Southern Karnataka, rainfall has been very low and reservoirs are running dry. This has affected agricultural economy very badly. We hope that the Government's focus towards doubling farmer income over next few years by bringing in structural improvements in terms of infrastructure support, price discovery mechanism and market access, risk coverage and credit access will help in ensuring sustainable and inclusive growth.

Sugar Industry Overview

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

It was probably one of the best years for the Sugar Industry in India. After a lacklustre performance of last two years driven by unusually subdued sugar prices, a surging sugar price on the back of a set of structural initiatives by the Central Govt augured well for the industry.

Sugar Price

The price of sugar among other things is largely a function of demand and supply. The Indian Sugar Mills Association (ISMA) had pegged output at just 20.2 million tonnes for 2016-17 down from the official estimate of 25.1 million tonnes in 2015-16. Further, ISMA has pegged the country's sugar output in 2017-18 (Oct-Sep) at 25.1 million tonnes, up 23.6 per cent from 20.2 million tonnes produced in the previous year. Uttar Pradesh, Maharashtra and Karnataka, the three top sugar producing states are expected to produce over 19 million tonnes of total sugar output during the next season. Once known for being a major sugarcane producing state in the country, Tamil Nadu has witnessed a substantial drop in cultivation of the cash crop in the past decade. The area of sugarcane in the state has fallen from 3.9 Million hectares in 2006-2007 to 2.37 Million hectares in 2016-2017, registering a 41% dip. While the shrinkage in cultivation area has been attributed to drought and poor rainfall, falling yields and rising labour costs have also contributed for the same and Tamil Nadu now has less than 5% of its arable area under sugarcane cultivation.

Prices have increased substantially during the past 18 months with the expected supply deficit in the country and abroad. Since March, 2017 international sugar prices have been on a downward trail and have fallen 30 per cent to trade at 13.5 cents per pound due to better production in Brazil, no Indian demand in international market, and a depreciating Brazilian currency. To keep domestic sugar prices stable, the government increased the cap on import duty by 10%. The government's move to raise duty on sugar is likely to keep the prices stable. This step also indicates that the government is keeping an eye on the industry's situation and is expected to continue to take measures to keep the prices stable. While sugar prices should hopefully stay at remunerative levels, any tangible gains there from would be affected by low volume of cane especially in the southern states of Karnataka, AP, Telengana and TN. The availability of adequate amount of cane to run the units for a reasonable period during the season in the face of stiff competition will be a cause of concern next year.

Sugarcane price

The fixation of cane price continues to remain one of the most contentious issues facing the sugar Industry. Dual cane pricing both by the Central Government and State Government distorts cane and sugar economy, and is contributing majorly to cane price arrears and cyclicity. There is an immediate need to ensure a uniform pricing policy across the country. For the SY 2016-17, the Central Government fixed FRP of Rs.230 per quintal, which was supposed to be uniformly applicable to all mills across the country. The FRP for 2017-18 SS has been increased by 11% to Rs.255 per quintal at 9.5% recovery. The FRP of sugarcane over last 9 years has increased by almost 97% whereas the MSP of competing crops like wheat and paddy have increased by only 47% in 8 years. If the phenomenal increase in FRP in 2017-18 SS

is based on the expected sugar prices in 2017-18 alone, without considering the fact that the sugar prices might fall in future, it is going to pose a serious threat to the industry.

With almost nil impact of El Nino and normal weather, almost all countries are expected to have normal to surplus sugar production. With the removal of EU quota system, EU is expected to become a net exporter instead of a net importer adding to world surplus. All this will cause the global sugar prices to be depressed. The current global prices have reached the lowest level of 12.53 cents for July delivery. Field reports suggest increase in cane area in 2017-18 with sugar production to jump back to normal level and may even be surplus. With a good monsoon last year and expected again in 2017, the Cane area is expected to further increase for the sugar season 2018-19.

The disconnection between sugar and sugarcane prices brought about either by lower market price for sugar or by higher arbitrary State Advised Price (SAP) for cane has long been the bane of the industry. Sooner this is corrected, the better it is for all stakeholders and for the unhindered functioning of the industry to focus on core business value enhancement. The Central Government should ensure a uniform price for sugarcane across the country, accept that liability of sugar mills be limited as per Revenue Sharing Formula (RSF) and form a Price Stabilisation Fund (PSF) to fill the gap between RSF and FRP in the event the sugar prices are lower. CACP should make it mandatory for Government to accept all its recommendations as a package and devise ways to fund PSF in the new GST regime. The State Governments should accept RSF system of determining cane price and instead of SAP which is fixed without any scientific basis. If still wish to give SAP, the difference must be borne from the State budget (like wheat & paddy, where bonus given by States themselves). The Govt of Maharashtra and Karnataka have already passed legislation to fix the cane price as per RSF. The Tamilnadu Govt is yet to follow suit and since initiated tripartite meetings and formed a committee to resolve this imbroglio.

Performance & Financial

Your Company's performance during the year 2016-17 has been discussed at length in the Management Discussion and Analysis Report. The Company registered a total income of Rs.2631.21 Crore as against Rs.2785.59 Crore last year and a profit of Rs.283.61 Crore Vs. loss of Rs.92.11 Crore in 2015-16 on a standalone basis. Your Company's improved performance was on account of better sugar prices. The Company capitalized the opportunities of a favourable market environment, balancing the challenges of severe drought conditions in its command areas in Tamilnadu, Andhra Pradesh and Karnataka, with internal efficiencies, focussed crop management measures and farmers support. Higher profitability was achieved notwithstanding lower cane crushed, lower sugar produced and sold as compared to the previous year, due to better sugar prices and a host of other initiatives taken by the Company to improve profitability. The Company has focussed on differentiation and value addition to the customer to improve realizations. The Company is a preferred sugar supplier to major institutional customers due to its strong product customisation expertise, stringent quality systems and global certification standards. The institutional segment accounts for a significant part of E.I.D.-Parry's total sales with roster of institutional customers comprising major

pharmaceutical ,soft drinks, beverage, food, confectionary and value addition for better price realization from the institutional segment.

The Company was selected in 2016 as the best performing Company and winner in the sugar sector by Dun & Bradstreet, for the second year in running. Further, the Company received a special recognition at the National level in May 2017 for its “Commitment to Engagement” as part of the Aon Best Employers India 2017. Several units of the Company have received awards successively from Sugarcane and Sugar Technologies Association and the Confederation of Indian Industry on a host of technological efficacy and parameters and benchmark themselves in the sugar industry.

Sugar

During the year the cane crushed by the TN plants was at 24.61 LMT as against 23.46 LMT of last year. During the year, all the Plants in Tamilnadu have performed well in all technical parameters. The performance of the plants in Karnataka and AP was also comparatively better than the last year. The cane crushed was at 19.83 LMT as against 32.43 LMT last year. The Sugar division registered a higher turnover of Rs. 2319 Crore as against Rs.2574 Crore mainly due to higher sugar prices, and increased power and distillery realisations.

Bio pesticides

During the year, the Bio Pesticides division of the Company was severely impacted by significant increase in neem seeds price from previous year levels due to season failure across southern India combined with increased competition. This unprecedented price increase has adversely impacted the profitability resulting in 45% drop in operating profits in spite of 22% growth in revenue over previous year. To mitigate the risks relating to the seeds availability, the business has taken measures over short term and long term horizon. The Bio-Pesticides Division registered revenue of Rs.122 Crore as compared to Rs.100 Crore in the previous year, accounting for 5% of the Company’s revenue. On a consolidated basis the Bio-Pesticides Business registered a revenue of Rs.123 Crore in 2016-17 as compared to Rs.107 Crore in the previous year, registering 15% growth over previous year.

Nutraceuticals

The Nutraceuticals Division’s standalone revenue was at Rs.71 Crore in 2016-17 as compared to Rs.77 Crore of previous year representing 3% of the Company’s revenue. US Nutraceuticals LLC registered sales of \$23.8 million which represents a degrowth of 8% over the previous year. Alimtec SA registered sales of Rs. 11 Crore as compared to Rs. 4 Crore in the previous year. On a consolidated basis the Nutraceutical Business registered revenue of Rs. 228 Crore as compared to Rs. 240 Crore in the previous year. During the year, overall sales of premium Organic Spirulina increased by 22% over previous year mainly due to improved sales in European market where premium quality continues to be valued. Spirulina production from the new Greenfield unit established at Saveriarpuram, Tamilnadu had commenced during Q4 of previous year and stabilised well during the year. The division has received the U.S. Food and



Drug Administration (US-FDA) approval for its Oonaiyur facility for organic microalgae cultivation and processing.

Subsidiary Companies

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

Parrys Sugar Industries Ltd

During the year, Parrys Sugar Industries Ltd merged with the Company after approval was received from the National Company Law Tribunal (NCLT) bench at Bengaluru and Chennai.

Coromandel International Ltd

It has been an eventful year for the Indian Agriculture, which benefitted from a normal south west monsoon after experiencing two consecutive droughts in previous seasons. During the year, Coromandel has made significant strides across key operational parameters. Differentiated business through unique nutrient solutions, smart sourcing, stable currency, capacity augmentation of key molecules, new product introductions and operational efficiencies across manufacturing locations - contributed to the overall realization. On the operational front, Coromandel improved its performance, driven by Crop Protection business and higher agri nutrients uptake on account of normal monsoons. The soft commodity price trend in the international markets reduced overall sourcing costs and the Company on its part, passed on the benefits of a benign raw material environment to the farming community. The Company's unique fertiliser offerings have been doing well, balancing crop and soil needs, and accounts for close to one-third of sales. Specialty nutrients and Organic manure businesses expanded its product offerings, targeting pulses and horticulture segments. During the year, the Company moved closer to the farmers by developing an integrated nutrient structure, ably supported by team of agronomists. Going forward, we expect this shift to significantly contribute towards strengthening our commitment and connect with the farming community. During the year, Coromandel recorded a total revenue of Rs.10,238 Crore and Net Profit after tax of Rs. 477 crore.

Parry Sugars Refinery India Pvt Ltd

The Company continues to engage itself in the business of importing raw sugar from international market, produce refined sugar as per international quality and customer specifications and export the same into the international market. The year 2016-17 has been a remarkable year in the history of the company. During the year, the company achieved financial turnaround and posted its maiden profit before tax of Rs. 1416 Lakhs.

This was made possible by successful ramping up of business volume coupled with hedging of spreads between refined sugar and raw sugar prices (through international commodity exchanges). During the Year, the Company exported 596572 MT of refined sugar. The company commenced refined sugar sales through containers to get additional premium. During the Year, the Company achieved total revenue of Rs. 1878 crore as against Rs 1192 crore for the year ended March 31, 2016. The refinery operations successfully improved its cost structure and



increased its production of refined sugar to 598072 MT from 450326MT during 2015-16. The company also has been successful in debottlenecking its refinery capacity to 2300 TPD. With the sustained throughput, continuous focus on Cost reduction, the profitability of the business is expected to be sustainable in the year 2017-18.

Overseas Subsidiaries

US Nutraceuticals LLC (Valensa) earned an income of US\$ 24.48 million with a PAT of US\$ 0.42 million.

Parry America Inc reported an income of US\$ 8.55 million with a PAT of US\$ 0.72 million.

We are convinced that your Company will continue to maintain its unique leadership position in sugar industry and its products will be the choice of most customers. Consistent with that objective, we are continuing with all our planned investments to increase production capacity and introduce new products from time to time while continuing with our efforts to reduce costs and improve quality. In this fast changing and increasingly complex global environment, the Company needs to re imagine not only its business models but more fundamentally its role in the society. The Company is optimistic about the future and well-positioned to leverage opportunities for profitable growth and value creation. We are firmly of the belief that good corporate governance is fundamental and brings value to the company and is of benefit to all. Constant improvement is part of our culture and we always have best practice as our aim. We have a good framework of Governance in place so that you, our investors, can be confident in the management and control at E.I.D.Parry.

Mr. Anand Narain Bhatia, Independent Director of the Company retired on 29th July 2017. Mr. V.Ramesh, Managing Director took an early retirement on 31st July 2017. The Board wishes to place on record their valuable contributions made to the Company and steering the Company ahead in most challenging times.

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.

The Company during the year received commendable understanding and cooperation from the farmers despite various issues facing the industry. I am also thankful to all the other stakeholders comprising of the 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.