Speech

by

Mr. V. Ravichandran, Chairman

at the 44th Annual General Meeting

on

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Ladies and Gentlemen,

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

The annual report for the Financial Year 2018 – 19 was sent to you some time back and I trust it would have given you an overview of your Company's performance.

Economy

Following a broad-based upswing in cyclical growth that lasted nearly two years, the global economic expansion decelerated in the second half of 2018. Activity softened amidst trade tensions and tariff hikes between the United States and China, decline in business confidence, tightening of financial conditions and higher policy uncertainty across many economies. Against this background, a combination of country and sector specific factors further reduced the momentum. After peaking at close to 4 percent in 2017, global growth remained strong at 3.8 percent in the first half of 2018, but dropped to 3.2 percent in the second half of the year.

Against this backdrop, India is still a beacon of growth. As per the Economic Survey 2019-2020, the Indian economy grew by 6.8% in 2018-19, slightly lower than 7.2% in the previous Financial Year (FY). India continued to be the fastest growing major economy in the world and ranks third in terms of size after the U.S. and China. Per Capita Net National Income, a crude indicator of prosperity, has shown an upswing. Consumer inflation has been contained within 4% and showing a downward trend since FY 2016. The Index of Industrial Production, an indicator of growth across key industries, registered a rise in FY 2017 and FY 2018, but dipped in FY 2019. India's economic growth will depend upon the ability to provide affordable, reliable and sustainable energy to citizens and the country is required to raise per capita energy consumption.

According to the CMIE, slow growth in government spending due to fiscal constraints and burgeoning trade deficit dented the economy's growth in 2018-19. Trade deficit ate into as much as 4.4 per cent of GDP. CMIE expect the economy to continue on the near seven per cent growth trajectory in 2019-20.

A recent UN report has highlighted how the population in India living in multi-dimensional poverty has almost halved from 55.1% to 27.9% between 2005-2006 and 2015-16, when India enjoyed high economic growth, uplifting as many as 271 Million people. Stronger growth reduces poverty at a faster pace and continued growth momentum is needed to move people out of poverty. The Economic Survey has called for policies to generate a virtuous cycle of rising exports, GDP, domestic savings and foreign investments and a comprehensive road map to achieve the Government vision of a $5 Trillion Economy by 2024-25.

Sugar Industry

It was perhaps one of the most challenging year for the Sugar Industry. World sugar production after its strong rebound during 2017-18 season coming after two years of deficit,slid from the peak in 2018-19 season, but still ranked the second highest on record. Strong oil prices prompted Brazil to significantly divert cane for ethanol production, correspondingly cutting the sugar production. As a result, India has re-emerged as the largest sugar producer, displacing Brazil. World sugar prices plunged to a new low in April 2018, which moved up marginally later. The projected decline in production in 2018/19 is too minimal to cause a shortage in the backdrop of huge stock pile which stifles the scope for perceptible price recovery. Any adverse weather conditions to affect supply could get off-set by Brazil which enjoys ethanol mix arbitrage. World prices for now remain largely on a neutral note, moving in a relatively narrow range between 11 & 13 c/lb. The neutral market tone has also resulted in a steady and relatively weak nominal white sugar premium that is far below the long term average.

Indian Sugar

The sugar production during the 2018-19 season will be an all-time high of 32.5 MMT as the season will end in September 2019. Estimates for the 2018-19 season at different times witnessed wide fluctuations. While the initial estimate on falling sugarcane yield in Maharashtra that suffered under a short-tailed monsoon turned incorrect, further surge in UP's sugar recovery more than made-up for the downside elsewhere. As a result, the three dominant sugar producing States of UP, Maharashtra and Karnataka have maintained their peak in sugar production, driving the country's overall production to a new peak. Two successive years of record high sugar production, building a surplus of 160 lakh tonnes that is close to 7-8 months' consumption, left the market jittery. Sugar prices suffered a catastrophic downfall, nearing to breach Rs. 20/- kg level. Amidst all this, sugarcane price arrears also peaked causing considerable anguish to the farmers. Government came in as a saviour with its timely intervention by mandating Minimum Selling Price (MSP) for sugar initially at Rs.29/kg and later at Rs.31/ kg that curtailed the downfall and resulted in lifting the sugar prices to the MSP level. The MSP though criticised as being below the cost of production, undoubtedly gave a safety net for the industry, besides playing a critical role in reducing the cane price arrears. Central Government also brought back monthly sugar sale quota to ensure price stability.

ISMA estimates sugar production at 28.2 MMT during the season 2019-20, about 4.3 MMT lower than 2018-19 Season. This estimated production is based on assumption of normal rainfall and other optimum conditions and is a preliminary estimate. After considering rainfall in July – September, 2019, water situation in reservoirs and second set of satellite images in September-October 2019, ISMA will release its 1st advance estimates. The opening stock as on 1st October 2019 is expected to be an all-time high of around 14.5 MMT. As compared to a normative requirement of around 5 MMT on 1st October of any year as opening stock, the industry is carrying an additional 9.5 MMT of inventory. From the estimates for next year's production, it is clear that there will still be a small surplus over the domestic requirement, which is a cause of concern.

As you may be aware, sugarcane is one of the most attractive crop and a sturdy crop which can withstand weather fluctuations better than any other crop. It provides better and assured remuneration as farmers get 50-60% higher returns as compared to any other competing crop for which MSP is fixed by the Central or State Government The Farmers since incentivised, the areas under cane cultivation have seen multi fold increase over the years leading to higher sugar production. However, consumption is growing at a meagre 1.5% with consumption pattern revolving around two sources of demand, bulk buyers comprising around 65% and the balance by direct household. The ongoing continuous surplus situation has had a cascading effect on the ex-mill and retail sugar prices. The problem is compounded primarily because of the very high cane price & the mismatch with sugar price. The Fair and Remunerative Price (FRP) paid for sugarcane procurement has seen steady increase over the past few years vis a vis Ex-mill sugar prices causing much strain for the Industry. While the moves of the Government towards mandatory inventory norms, monthly sale quota, export quota and minimum sugar price are well meant and seen inevitable to bail out the industry and protect the farmers, it clearly tends to bring the fundamental question to the table, the unfinished agenda of sugar industry reform. In fact, the Government has taken a number of steps during the last one year to alleviate the miseries of sugar industry.

- Increase in import duty from 50% to 100% & removal of 20% export duty
- Announcement of MIEQ with subsidy
- Production subsidy on cane as part of FRP in 2018-19
- Monthly sugar sale quota for each mill
- Min. ex-mill sugar sale price
- Buffer stock subsidy for 3 MMT
- Interest subvention for one year on soft loan @ interest not exceeding 7% pa

However, all these measures are kneejerk reactions to address current pressing issues rather than a long term policy direction. The policies and incentives of the Government have not fully solved the problem of high sugar inventory and cane price arrears meaning that something different is needed.

The long term remedy for the malaise of sugar industry lies in rationalizing the cane pricing policy by linking sugarcane price to realization from sugar and primary by products as recommended by Dr Rangarajan Committee .The formula might need a refinement for the emerging ethanol switch model. This would possibly obviate the need for frequent Government intervention, often costing the Government quite heavily and yet in the end leaving every stakeholder unhappy. International laws/practice across sugar producing nations mandates determination of cane price as per formula as a percentage of revenue from sugar and other by-products. It varies in the range of 60-66% in Brazil, Thailand, Australia, EU, Mauritius, Kenya, Tanzania etc. Though the Expert Committee had recommended a formula that was adopted in Maharashtra and Karnataka, it has not been properly implemented. CACP for the last 4 years, has also recommended for a Price Stabilization Fund (PSF), as FRP will be the minimum price which the farmers will get and Cane price will be payable by mills as per

Revenue Sharing Formula (RSF). If RSF payment is below FRP, gap is to be filled up through PSF. But Government has only been accepting the FRP, ignoring the second part of the recommendation on PSF by CACP.

There is an imminent need to address surplus stockpile. Exports despite prescriptive quotas backed by subsidies repeatedly fall short of set targets owing to inherent un-competitiveness caused by the cane cost that is the highest amongst large exporters. Though the export target of 5 MMT set by the Government is ideal, however, for a successful export programme, the Government needs to avoid imposing too many conditions on exports and subsidies as it discourages mills to export.

The announcement of the minimum price of sugar by the Government is indeed laudable and provided much relief to the moribund sugar industry. However, the MSP should cover the minimum cost of production as the MSP is based on most efficient sugar mill's costs excluding interest and depreciation. The average cost of production of the industry should be considered which should include interest and maintenance/repairs. Accordingly, MSP should be revised to Rs.35-36 per kilo.

Further, the innovative policy initiative of the Government to promote ethanol production in place of sugar, incentivizing the switch through premium pricing depending on the degree of sugar substitution is indeed commendable. Although this may not bring immediate relief to current falling sugar prices, it is expected to be a game changer in the long run if crafted carefully and can assure long term sustainability of Indian sugar industry. Ethanol policy should be vigorously pursued as an attempt to balance sugar production as there is enormous scope to divert surplus cane. With ethanol production capacities being set up at a great pace, it is expected that capacity for another 3 bn litres will be created in 2 years and the Government needs to announce a Long term ethanol pricing policy for the sustenance of this path breaking initiative and timely payback of the investments.

Sugar Industry- South India

Let me now move to TN Scenario. For the past several seasons, the cane availability in TN has seen significant decline due to scanty rainfall and prevailing drought like situation.

Government of Tamil Nadu having discontinued the State Advised Price (SAP) for sugarcane from 2017-18 season has enacted 'The Tamil Nadu Sugarcane (Regulation of Purchase Price) Act, 2018.' This provides for a minimum price for sugarcane equivalent to the Fair and Remunerative Price of Central Government. However, this law further mandates sugar mills to bear the full cost of transportation of sugarcane, putting the mills at a considerable cost disadvantage compared to their peers in other States. It also provides that sugarcane suppliers would get additional cane price through the revenue sharing formula, if applicable.

The recent policy announcement of stock release quota might seem necessary in moderating supplies from surplus producing regions. However, it is ill-conceived for a deficit region like Tamil Nadu (TN) with abysmal low sugar sale quota obstructing cash flows and fuelling cane price arrears. The formula followed in the Central Government's mandated Minimum Indicative Export Quota (MIEQ) in fixing mill-wise quota is also unfavourable to the interest of TN sugar mills.

The continuous cane deficit scenario in the state of TN has vindicated the Company's well calculated move a few years back to foray into the state of Karnataka, a state bestowed with favourable agro climatic conditions duly supplemented with soils for sugarcane cultivation, which stands 3rd in sugar cane and sugar production. In

Karnataka, the cane availability continues to be higher and provides Company, the much needed thrust to de risk itself from the enormous challenges of the existing operations in TN. However, the Company is not able to take full advantage of the abundancy of cane due to its capacity constraints as compared to nearby large capacity mills. The Company is required to progressively increase its capacity to capitalise the opportunity available. The Karnataka State was only the second to Maharastra to enact legislation as early in 2013 to ensure a revenue sharing formula for payment of cane price. If the State Government strictly enforces the command area concept, the cane availability for the mills can be secured and will prevent the existing unhealthy completion among mills to secure cane. In AP, there is further scope for increase in the cane availablility and the Company is exploring the ways and means to enhance the crushing to ensure a stable and sustainable operation.

Performance & Financials

Your Company's performance during the year 2018-19 has been discussed at length in the Annual Report. The Company registered a total income from operation of Rs.1855.03 Crore as against Rs.2079.83 Crore last year and a profit of Rs.163.13 Crore Vs. profit of Rs.101.01 Crore in 2017-18 on a standalone basis. During the year, the total cane crushed by the Company was at 37.19 LMT as against 36.72 LMT of last year. The Sugar division registered a revenue of Rs.1390 Crore as against Rs.1491 Crore.

The profit for the year is mainly attributed to the sale of the bio pesticides division. The Company's operational performance during the year was affected on account of lower sugar prices. This coupled with lower cane crushing in Karnataka due to technical bottlenecks at one of the plant adversely affected the performance. The Company continues to strengthen its existing measures and mechanisms and focus on innovative ways to protect its cane area and procurement as the menace of cane diversion has become a recurring phenomenon in Karnataka due to lack of enforcement of command area concept. Notwithstanding these challenges, the Company capitalized on the opportunities to improve internal efficiencies, focussed management measures and farmers support. Efforts in expanding the market by focussing on upgradation from bottom of the pyramid resulted in volume growth of the Retail Sales, the highest in the last several years. The Company focused on its portfolio of branded sugar - Parrys White Label, Parrys Refined Pure and Amrit, for the retail market. 'Amrit' the Company's offering of 100% Cane Sugar, expanded shelf space, addressing the consumer need for healthy sugar. The Company focused on expanding its retail footprint and channel sales with customer engagement initiatives and innovative marketing strategies. The Company's Bonsucro certified sugar, produced from sustainable cultivation practices, has proven to be an advantage with large multinationals and discerning customers focusing on sustainable raw materials and practices. 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.

At the overall level not withstanding adverse business conditions, we have been able to deliver reasonable performance. At the same time we continue to uphold the highest standards of corporate governance treating them as an ethical requisite rather than a regulatory necessity and continue to base all our actions on the principles of fairness, trust and transparency. Going forward, the business environment will remain true to its nature – as uncertain and unpredictable as ever. In such an environment only those organisations that put in efforts to remain relevant to the changing needs and preferences of consumers– understanding the consumer requirements and adapting the business model to suitably address these requirements will be able to deliver long-term growth and sustainable returns to all the stakeholders. Our vision of becoming the most inspirational sugar brand is based on the growing consumer preference for refined, sulphur free sugar and sugar with wellness as the consumer looks forward to differentiated products with a unique identity. As an organisation we will continue to expand our product offerings by gaining critical insights from consumer behaviour and choices. The by- products generated in the process of manufacturing sugar have limitless opportunities to harness, which the Company is embarking upon as a new area of sustainable growth. The Company is identifying technology and competence to encash the prospects of better utilising the Bagasse, Molasses, Spent wash ash and press mud as new avenues of growth. We are also exploring new markets for our existing products and identifying new thrust areas for our existing technology, process and products.

At E.I.D Parry we have always strived to enhance the livelihood of the farmers by pioneering scientific and sustainable farming methods. We believe, increasing farm yield, recovery and productivity, with environmentally responsible cultivation practices, is vital for our sustainability. Our Research & Development function is fully geared towards this and its various research initiatives have helped farmers to establish scientific and sustainable cultivation practices to enhance yield. Scaled up production of high sugar varieties in Karnataka and Andhra Pradesh has led to increase in revenue for farmer. Project 'Y60' launched to improve cane yield, resulted in doubling of cane yield for farmers, which was selected for the trial planting in 3 districts in TN.

ENVIRONMENT AND SUSTAINABILITY

Your Company prioritises responsible interaction with environment to avoid depletion and degeneration of natural resources to maintain its long term quality. The by-products generated during the manufacture of sugar are efficiently recycled as enriched compost to implement the concept of waste to wealth. The Company promotes water conservation and management by drip irrigation system. The Company does not use ground water for process in any of the sugar units. Sugarcane contains 70% of water which is extracted and recycled in process as well as used back for irrigation in fields. The Company through training and demonstrations to its farmers promoted the concept of not to burn the trash post-harvest, but to shred and mulch to enrich the soil and balance fertiliser application. Carbon and water foot printing exercise has been carried out with National and International Institutions. Most importantly as we navigate through the ever-changing business landscape to create growth avenues for the future, it is important to contribute positively towards the society and the environment. Efforts taken by us for water conservation and wastage reduction as well as investments made in the area of renewable energy usage are steps taken to create a long-term sustainable journey for the organisation.

Water shortages can cripple agricultural growth, and the Government has rightly focussed on regeneration and conservation of this precious natural resource. The Government's recent call to revitalise agriculture and conserve water resources as well as speedy action taken by the Government in the implementation of the schemes like PM- KISSAN, formation of a Jal Shakti Ministry, and new initiatives like Nal Se Jal are indeed commendable and augurs well for the economy.

Nutraceuticals

The Nutraceuticals Division's standalone revenue was at Rs. 71 Crore in 2018-19 as compared to Rs.68 Crore of previous year. This represents 4% of the Company's revenue. The Company's subsidiary, US Nutraceuticals LLC registered sales of Rs.141 Crore. On a consolidated basis, the Nutraceutical Business registered revenue of Rs. 212 Crore as compared to Rs.216 Crore in the previous year. During the year, the Company commenced the construction of a Greenfield facility for the manufacture of Value Added Algal products through its Joint Venture with Synthite Industries, Algavista Greentech Pvt Ltd. US Nutraceuticals LLC has worked on putting plans in place for a Direct to Consumer strategy for its Prostate Health Line, which will be launched during the current financial year.

Awards and Recognitions

During the year, you Company received a number of awards and accolades in different fields and spheres of excellence which are detailed in the Annual Report. I am happy to inform you that recently your Company was conferred with the prestigious award for "Industry Leadership in Agriculture" in the 9th Agriculture Leadership Conclave 2019 for "outstanding work in promoting sustainable farming practices".

Subsidiary Companies

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

Coromandel International Limited (CIL)

During the year 18-19, Coromandel registered a turnover of Rs.13,240 Crore and PAT of Rs.714 Crore with an all round good performance. CIL continued its focus on customer engagement, new products introduction, operational efficiencies improvement, plant infrastructure strengthening and people capabilities building. Nutrient businesses have progressed well during the year. In the Phosphatic fertiliser space, Coromandel has gained market share in the select geographies, improving its sales volumes by 10 percent. The integrated nutrient structure and agronomist teams continued to support the channel and farmer activation initiatives. Speciality nutrients worked on its focused product approach, and introduced crop specific products during the year. Single Super Phosphate (SSP) business built its quality interventions and has performed very well during the year. The Organic manure business sustained its leadership position and actively engaged with the Government and the farming community for improving soil health. Crop Protection business grew in both domestic and international markets with focus on introducing novel molecules in the segment. During the year, Bio Pesticide operations which was transferred from EID Parry successfully integrated with the Crop Protection Business, which has enabled Business's access to developed markets and provided a presence in complementary product segments. Coromandel continued to focus on differentiated product approach and introduced ten new products across various businesses during the year.

Parry Sugars Refinery India Private Ltd (PSRIPL)

Due to tepid demand in target markets during the year 2018-19, PSRIPL's sugar export volume fell to 5.35 LMT compared to 6.71 LMT of the previous year. This coupled with drastic fall in International refined sugar prices led to reduction in sales turnover of the company from INR 2348 Crore in 2017-18 to INR 1414 Crore in 2018-19. During the year, the company successfully commissioned its graded sugar facility and commenced exports of graded sugar to prestigious institutional customers. It also increased its institutional sales and direct sales to destination traders. The refinery operations successfully debottlenecked its melting capacity to 3000 TPD and also made significant improvement to its cost structure. During the year, Parry International DMCC (a wholly owned subsidiary based out of Dubai) successfully commenced its trading operation and recorded a revenue of AED 14.37 Million. Due to expected fall in sugar production in all major countries, sugar prices are expected to start recovering on account of tightening supply. PSRIPL with well hedged spreads is better positioned to ride this recovery with increasing focus in value added sales and further improvements in refining costs during the year 2019-20.

Acknowledgements

Your company strives to operate its business with a focus on doing the business ethically, yielding profitable returns and pursuing sustainable cost improvements. We seek to create value by unlocking the opportunities embedded in our existing sugar operations which represent the most attractive options. We are deeply cognizant that we have miles to go in our steadfast resolve to make the sugar business profitable and immune to the weather, market and policy fluctuations and create enduring value for our stakeholders.

While we endeavour constantly to enhance returns on your investments, it has been equally an endearing and enriching expedition for me personally over the years. I would like to record my sincere acknowledgement and gratefulness to the shareholders on behalf of the Board, for your continued strong and reasoned belief in the Company. The Company is chartering a new journey and I look forward to your continued support in this endeavour.

To conclude, I on behalf of the Board of Directors of your Company would like to convey my deepest gratitude to the Central and State Government departments for consistently supporting the sugar industry with speed, alacrity and finesse in times of crisis, facilitating your company and Industry in all its endeavours. I also take this opportunity to express gratitude to the valued Farmers, customers, bankers, business associates and all the stakeholders for sharing a profound relationship with the Company and constantly supporting and strengthening the developmental efforts of your Company.

Thank you,

V. Ravichandran
Chairman

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