Shree Renuka Sugars Limited
Standalone results for Quarter ended 30th June 2013 Conference Call Transcript
19th August 2013

Moderator

Ladies and gentlemen, good day and welcome to the earnings conference call to discuss the Standalone results for Q1 FY-14 of Shree Renuka Sugars Limited. We have with us today from the management Mr. Narendra Murkumbi – Vice Chairman and Managing Director, Mr. K K Kumbhat – Chief Financial Officer and Mr. Gautam Watve – Head, International Operations. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Narendra Murkumbi. Thank you and over to you, Sir.

Narendra Murkumbi

Good evening friends. Thank you for joining us today for the call. It is probably one of the most volatile days that we have seen in the markets and I am grateful that you have found the time to join us.. I would like to go through the last quarter results and also the forward outlook that we see for our business. We have had a weak April-June quarter in India primarily because of the low sugar price and the high cost of our cane which was fixed in the end of 2012 when domestic sugar prices were much higher. Therefore, we have virtually zero margin on our inventory cost of milling sugar as well as some off-season expenses, which means that the cane milling section is actually making a loss. There is a positive contribution on the refinery division where we operated at close to 100% capacity for the quarter and reported a total output of more than 400,000 tons for the quarter.

On the ethanol side, we had weak revenue and therefore low bottom line because the orders from the Oil Marketing Companies (OMCs) were slow in arriving. These have since been received. For the country as a whole, the suppliers or ethanol manufacturers have received orders of 40 crore liters to be supplied, depending on the supplier, either up to December this year or up to May next year. Out of these 40 crore liters, we have received orders for 3.7 crore liters which we will endeavor to supply by December 2013. The new tender for the next season has also been floated which closed earlier today. The total quantity that the Oil Marketing Companies are looking to procure is about 133 crore liters and we expect to be a strong participant in this new tender as well. On the cogen side, we have had an off season quarter and the cogeneration output is mainly due to the captive power plants in the refineries which are mainly for the purpose of providing steam and power to the refinery section.

On the Indian business, the key outlook and the management challenge for us going forward is to rationalize the price of sugarcane and I am quite positive and hopeful about that in our part of the country, especially in Karnataka where we have 80% of our total cane crushing. Karnataka has passed a new legislation involving a revenue sharing formula in line with the best practice globally. We are awaiting the operational rules and the board under this law to be set up and we expect this to be in place before the start of the new season in November. We believe that our cost of cane this season will be lower than last year in both the states of Karnataka and Maharashtra in which we are operating. Historically, the cane price in these states has been varying along with the sugar price and we are still significantly above the Fair and Remunerative price (FRP) which is the minimum statutory price set by the Central Government, so we have room to go down. The State of Maharashtra is also considering a similar legislation and we are hopeful that there will be progress on that front before the start of the coming season. In terms of the India business, we have had a weak June quarter and we expect similar margins for the September quarter. From October we should have improved margins across the Indian business because the cost of production is expected to be low in the coming season.

In Brazil so far we have had significant operational improvements compared to the previous year. We see good agricultural performance with above average yields leading to lower costs and also higher availability of cane. There is a significant positive margin on sugar due to the devaluation of the Brazilian Real. We have higher cane availability than the previous year by almost 1.5 million tons and this should also reflect in the results of the Brazilian subsidiaries.

In India we have a very positive scenario on ethanol where the average ethanol prices are in the range of Rs. 36 per litre (ex-distillery) compared to the average price prevailing a year ago which was around Rs. 25 per litre – Rs. 27 per litre. For the domestic sugar outlook, we do not see any room for a bullish price scenario. However given the current INR/USD exchange rate, I think, there will be significant amount of exports in the coming season. The current export parity between the domestic price and the world price is about USD 480 per ton whereas the London market is trading at around USD 500 per ton. Therefore, Indian sugar for export is viable even at values at or below the value of the London white sugar futures. That is what makes me positive about exports in the coming season which should put a floor on domestic sugar prices. With these few opening remarks, I would hand over the floor for questions.

Moderator

Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Achal Lohade of JM Financials. Please go ahead.

Achal Lohade

On the India interest cost which has gone down by 50-55% Y-o-Y, could you help us understand a little bit about the suppliers credit side and what is the cost of borrowing in that case and do we see this sustaining going forward?

Narendra Murkumbi

Bank debt has gone down significantly and that is the reason why interest cost has gone down. On supplier credit, we are paying a LIBOR linked rate but to that we have to add the cost of hedging as well. The base rate that we are paying is about 3% and the cost of hedging was earlier about 5% to 6%, which is currently about 9%.

Achal Lohade

And the Rs. 87 cr Forex loss you have provided for it has largely to do with the suppliers credit ?

Narendra Murkumbi

That is right. It is mainly due the suppliers credit. Our overall foreign currency denominated bank loans are less than USD 100 million now because substantial amounts were repaid last year.

Achal Lohade

And how much would that be suppliers' credit in terms of dollar?

Narendra Murkumbi

Our balance as on 31st March 2013 it was about USD 440 million.

Achal Lohade

Plus USD 100 million, is that correct?

Narendra Murkumbi

Yes. On the 31st of March 2013, these liabilities are accounted at the spot rate so even when they are paid off, they are paid off at the forward rate. This itself will accumulate into a loss of almost Rs. 50 crores to 60 crores for the quarter.

Achal Lohade

If you look at the earnings presentation we say that the cane crushing capacity in India has gone up to 42,000 TCD and if I look at the fourth quarter presentation it was 35,000 TCD. Just wanted to get a clarity as to where has the capacity been added and also the second query was what is the cane crushing guidance we are looking at for FY14 compared to 4.8 million tons last year?

Narendra Murkumbi

Over the last 12 months, we have done very little CAPEX except for a small amount of maintenance and balancing CAPEX. We report the crushing capacity as per the environmental licenses and industrial licenses that are applicable to each unit and we have updated that number to reflect the latest position. There has been no significant CAPEX for any of the mills in terms of capacity expansion. The actual throughput per day has been around 38,000 to 40,000 tons. Last year we crushed 4.8 million tons of cane and this year we expect to crush the same quantity. The sugar cane acreage is a little lower than last year (about 5% to 7% lower) from factory to factory, but due to good rains this monsoon we see better sugar cane yields and higher sugar recovery than last year. Last year, the sugar recovery was 10.89% compared to the long term average of 11.50%. We expect the sugar recovery to go back to the long-term average this year. Also, I see some mills might not be able to start in the coming season due to lack of finance and because they have not yet paid the farmers for the previous year. In the state of Karnataka, we have cane arrears of about Rs. 800 crores, which are mainly pertaining to about 6 -7 sugar mills in the same region as we are and we do not expect some of them to start this year. Hence, some of that cane will also come to our mills and we are thinking of a similar cane crush number as last year.

Moderator

Our next question is from Nirav Shah of Antique Stock Broking. Please go ahead.

Nirav Shah

What is the kind of reduction in the cost of production we are expecting because of higher yields at RDB from what it was previously expected. And the impact of frost on the cost of production at RVDI ?

Gautam Watve

The yields in 2012 were 59 tons per há which increased to 67tons last year. This year we are seeing yields which are 5-7% higher than last year closer to 73 tons per ha . So we expect the cost of production to be at least R$ 5/ton to 7 R$/ton of cane lower as compared to last year.

Nirav Shah

For RVdI what is the impact of Frost that we see on the overall Brazilian sugar production or ethanol production?

Gautam Watve

On an overall basis there is a change in terms of the amount of sugarcane that we are diverting towards sugar and ethanol as compared to last year. This quarter we had only about 35% of the ATR going towards sugar whereas last year the sugar mix was around 65%. Hence overall sugar and ethanol numbers are bound to change. Because of frost there will be a little bit of impact on RVdI but that is more or less compensated by the additional cane that we are getting in RdB. Our overall cane crushing number will remain at 11 million tons.

Nirav Shah

But will the frost impact next season's production at RVdI?

Gautam Watve

It will not impact, it will just delay the start of the season.

Nirav Shah

On our domestic front on the sugar segment's PBIT, can you just give a broad breakup of what is the EBITDA per ton that you are making on refining spreads for the current quarter?

Narendra Murkumbi

In Kandla, we are currently making on an EBITDA of around USD 35 per ton. In Haldia it is lower at about Rs. 1,000 per ton. The overall segment EBIT for refining last quarter was around Rs. 60 crores.

Moderator

The next question is from Aman Sonthalia of Mukesh Chokania & Company. Please go ahead.

Aman Sonthalia

Sir, what is the expected production of India in the coming sugar year as the Farm Minister today indicated that the production will exceed the ongoing year production.

Narendra Murkumbi

I am not aware of today's statement by the Honorable minister. As per ISMA, the estimate for next year is about 23.8 million tons which is about 1.2 million tons lower than the current year.

Aman Sonthalia

Mr. Sharad Pawar has said that because of good rainfall and good yield the production will exceed last year production.

Narendra Murkumbi

I am not sure we really have the information to validate that right now. The planted acreage in India is down by about 4% over the last year , which is again provided by Ministry of Agriculture.

Aman Sonthalia

How much raw sugar have you processed and sold in the domestic market during the current year so far?

Narendra Murkumbi

I think we have disclosed this in the earnings presentation. For last three quarters, the total tonnage would be in the order of about 450,000 tons.

Aman Sonthalia

This is raw sugar only or cane sugar also?

Narendra Murkumbi

This is only sugar from raw sugar.

Moderator

Our next question is from Chetan Vadia of JHP Securities. Please go ahead.

Chetan Vadia

Sir, can you tell the debt number for India and Brazil?

Narendra Murkumbi

Standalone debt in India will be a little lower than March. This are about Rs. 2,400 crores and in Brazil the debt number is almost the same as March about Rs. 5,190 crores. There has been some repayment in Brazil in the quarter but there is also an increase due to Forex variation. It is almost the same as March.

Moderator

Our next question is from Arya Sen of Jefferies. Please go ahead.

Arya Sen

Is there any new rule in Maharashtra about implementing micro-irrigation systems on cane acreage?

Narendra Murkumbi

Just to clarify, there is no rule today making it compulsory for anybody to adopt micro-irrigation as yet. There is some talk that this should be made compulsory. There are a lot of practical difficulties. Some of our farmers have had to change their drip irrigation system twice or thrice and are still not getting good results. There has been a very massive subsidy scheme under which a lot of unproductive micro-irrigation sets were put into the ground. So in fact, drip has not universally given positive results. Some places it has worked, some places it has not worked and it also creates a lot of problem with harvesting. There are some practical difficulties. I think it would be extremely unusual for the state Government to mandatorily impose this. Government have given enough warnings and counseling to the drought affected districts that each farmer needs to carefully plan the amount of acreage he is going to devote to sugarcane because the Government will always prioritize drinking water and city water supply and therefore would not be responsible for letting water out of the main dams for irrigation. This was shown last year in the way that the Government completely stopped irrigation supply to some districts in the non-monsoon period and therefore you see this drop in acreage in Maharashtra. I think this is the main way the state Government is trying to bring water supply and demand into a balance.

Arya Sen

Could you remind me what was your landed cost of cane last year and what is the FRP for the coming season? I believe that has been announced.

Narendra Murkumbi

The FRP for the coming year would translate at our recovery to around Rs. 2,600 per ton. Our actual cane price including purchase tax was about Rs. 3,050 per ton last year and that was fixed by all of us with the farmers at the time when sugar prices were prevailing at around Rs. 32.0 per kg to Rs. 32.5 per kg (ex-mill). The current sugar prices in Maharashtra and Karnataka are in the range of Rs. 28.5 per kg to Rs. 29 per kg. So we are expecting that we will be able to reduce cane prices in proportion to the drop in the sugar prices.

Moderator

Our next question is from Achal Lohade of JM Financials. Please go ahead.

Achal Lohade

If I look back about couple of years, we had talked about India possibily being a deficit country for a longer period. However, if we look at the last two years and even coming years production numbers and cane pricing, do you see the possibility of us heading into a larger deficit ? Will there be a scenario of large scale imports in the next couple of years given the cane pricing especially in the recent monsoons?

Narendra Murkumbi

Well I think what has happened is due to the large drought in Brazil in 2011 and 2012, India has actually missed one down-cycle. At the time when production increased after the 2009 shortage, the surplus was easily absorbed by the World Market. There came a time when export licenses were trading at a premium. Farmers and the State Governments continued to get increased cane prices even though domestic production was increasing above demand. I think this is all coming to a halt at the moment. The world is in surplus and while the surplus has reduced considerably in the last three months, there is still a surplus. Also the cane arrears, especially in a couple of states, are very high. Cane prices are unsustainable where state Governments have interfered in the cane pricing mechanism and we would probably see the effects of that in the next year because, as you have pointed out, we have good planting and good amount of cane available. What we have avoided since 2010 is a period of low prices. World prices have been a big support for the Indian sugar industry and this is unlikely to be the case going forward.

Achal Lohade

Given the monsoon in Maharashtra and Karnataka and also you are talking about a possibility of linking of cane price to sugar price, that cane pricing will be a little bit lower than last year. Do you see cane acreage actually coming off in the coming months when some portion of planting does happen in February-March?

Narendra Murkumbi

If you look at the FRP for cane in India which as I explained is around Rs. 260 per quintal for 11.5% recovery, it is actually very competitive at INR/USD of 63. States which can buy cane at close to FRP should have no problem surviving given the big support we now have from the ethanol program and cogeneration. Companies, especially integrated companies, should be able to manage profitably. Today, the export price parity is around between Rs. 28 per kg – Rs. 29 per kg. Hence anyone who can produce at below that price is still okay. I believe that even at these FRP prices the farmers in the core sugar producing states would still see a good amount of planting. It is the marginal areas and marginal states which grow cane only when prices are very high or at the top of the cycle where the acreage would shrink significantly.

Achal Lohade

Just last one question on the capex front and the repayment schedule for FY14 and FY15 for the consolidated company ?

Narendra Murkumbi

Capex we continue to do what we did last year, which is mainly to maintain a very tight control on capex. If the opportunity exists, we will take factories on lease where it makes sense on a purely positive cash flow basis year to year.We have no capex plans here or overseas other than the routine capex we have in Brazil for cane replanting. In terms of repayments in India, we had about Rs. 600 crores of repayment of which about half is already done and we continue to refinance as and when it is falling due.

Achal Lohade

How about Brazil, Sir?

Gautam Watve

The net debt repayment in RdB is about R$ 180 million and in RVdI is about R$ 60 million.

Moderator

Our next question is a follow-up from the line of Aman Sonthalia of Mukesh Chokania & Company. Please go ahead.

Aman Sonthalia

What is the expected production of Karnataka and Maharashtra in the coming season ?

Narendra Murkumbi

For Maharashtra, the official number right now is 7.0 million tons . It may be revised upwards. Last year's actual production was 8 million tons. For Karnataka, last year actual production was 3.5 million tons and the Government estimate is 3.3 million tons.

Aman Sonthalia

And Sir, how much will the frost in Brazil affect the production for the coming season and for the next season?

Narendra Murkumbi

Well UNICA is expected to release an official estimate anytime in the next 7 days but the overall consensus right now is that the impact is not much. The bigger impact on the world's surplus has actually been the big shift towards ethanol in Brazil since the start of the season. Gautam gave you the numbers for our companies; how we are producing much more ethanol this year than sugar and similarly most of the groups in Brazil have done the same. That has shrunk the surplus by almost 3 million tons. The other big reason why sugar prices i.e. global sugar prices have bottomed is because the Chinese imports have been much more than earlier expected and the Chinese Government is actively building up its buffer stock at current prices which are definitely much lower than their cost of production. So China has been the big surprise importer for the current year.

Aman Sonthalia

Whether India has contracted some sugar for exports currently?

Narendra Murkumbi

The cumulative export from cane sugar, which is other than the exports from our refineries at Kandla and Haldia, has now crossed about 100,000 tons. We have also sold about 15,000 tons for export from our mills in Karnataka and we expect more demand to come in mainly when we start the new season. This is because sugar quality generally in Maharashtra and Tamil Nadu, where the exports happen, will be better with the new production. Secondly, that will be towards the end of the Brazilian sugar season, so seasonally world prices move up.

Aman Sonthalia

So which are the countries where we are exporting at present?

Narendra Murkumbi

It is mainly to the Middle East, East Africa, Sri Lanka, etc.

Gautam Watve

In Brazil, as against our budget of 11 million tons of crushing this year we have already crossed half of that quantity as of today and which is one million ton more crushing than on the same day last year.

Moderator

Thank you very much. As there are no further questions from the participants I would now like to hand the floor back to Mr. Narendra Murkumbi for closing comments.

Narendra Murkumbi

I thank everybody for participating on the call and wish you all good luck and best of health.

Moderator

Thank you Mr. Murkumbi and the members of the management. Ladies and gentlemen, on behalf of Shree Renuka Sugars Limited that concludes this conference. Thank you for joining us.

Note: Transcript has been edited for better readability

sugar

ethanol

power

<u>Analyst/ Investor/Media Enquiries:</u>

Vishesh Kathuria +91 22 4001 1400

For further information on Shree Renuka Sugars visit www.renukasugars.com

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