



Shree Renuka Sugars Limited

Standalone results for Quarter ended 30th September 2012 Conference Call Transcript
November 06th, 2012

Moderator

Ladies and gentlemen good day and welcome to the Q2 FY13 earnings conference call of Shree Renuka Sugars. We have with us today 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 at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing * followed by 0 on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand over the conference to Mr. Narendra Murkumbi. Thank you and over to you Sir.

Narendra Murkumbi

Good Evening Friends. Thank you for dialling into our earnings conference call for Q2 FY13. We presented our standalone results on 2nd November. The current quarter has been good for our sugar segment. Going forward, for the next few quarters, the domestic sugar segment would be in focus. We have seen higher capacity utilization in our refineries in the previous quarter. This could have been even higher had it not been for the logistical delays in getting raw sugar from Brazil to Kandla. We are currently operating the refinery division at full capacity and we have a high degree of visibility on its operations for the next few quarters. Coming to the sugarcane segment, the crushing in Maharashtra and Karnataka has just started, however it is not completely underway due to farmer agitations and absence of farm labour because of the festival period and this would probably continue till the end of next week. After that we expect things to settle down and crushing to be in full swing. The domestic sugar price has increased significantly in the last quarter by about 25% mainly due to expectation of a lower crop this year, absence of surplus in the domestic market and early concerns about the season 2013-14 crop. We therefore think that the next 6-8 quarters are looking quite positive for the domestic business.

In our Brazilian units, we saw a much better performance during the quarter in terms of capacity utilization. Weather was mainly dry, which is ideal during the crushing season and cane availability was better than last year, so Y-o-Y we are up about 27% compared to the previous quarter. We have also crushed about 2.5 times more than the April - June quarter.



In terms of the India standalone financials, the EBITDA for the quarter is Rs. 1,128 million which is 85% higher than the same quarter last year. In Brazil we are realizing better yields which we need for a turnaround. At Renuka do Brasil S/A, compared to the sugarcane yield of 60 tons/ha which we achieved last year, our current yield till date has been 67 tons/ha on our own plantations. In terms of price outlook and policy outlook, I just want to make a couple of comments. The world market has a surplus of about 6 million tons of sugar. Part of the surplus is going to manifest itself as an increase in the inventory in China with more than 90% of that inventory held by the Chinese Government in strategic stocks. About 3 million tons may get absorbed there and we may have a net trade flow surplus of about 3 million tons going up to September 2013. So, we do not expect any sharp rally in the world market at the moment. The Brazilian crop has come in slightly better than expected with total crushing expected to end in December at around 520 million tons of cane as opposed to 493 million tons which was actually crushed in 2011.

Currently, the main two things to watch out for would be the planting in southern and western part of India which together accounts for about 2/3rd of the Indian production. In these areas, the planting would mainly be done in months from October to January. The expectations of this planting and the crop for 2013-14 would be a major determinant of the world sugar price in 2013. The other factor of course would be the progress of rainfall in Brazil over the next 6 months which would be important for the progress of the season 2013-14 Brazilian crop. I think these are the two key variables. At the moment the world sugar price is around 20 cents/lb and barring any new fundamental inputs it should vary in a range of between 19 cents/lb - 22 cents/lb. On the Indian policy outlook, since we last spoke, the Dr. C Rangarajan Committee has submitted its report on the sugar sector reforms. We find that the report is both comprehensive as well as very forward looking. There are 2 main parts to the report. The product portion deals with reforms on the way sugar is sold; it talks about levy sugar reforms and about the EXIM policy for sugar. And the other part on the sugarcane side talks about the new formula for deciding cane price in terms of sharing revenue between mills and farmers. It talks about area de-reservation and the minimum distance criteria which is currently applicable between two sugar mills. We expect that reforms on the product side would have a much better chance of success than reforms on the raw material side and we are hoping to see some positive announcements and decisions in the next 2-3 months. So, with these opening remarks, I would like to throw the floor open for questions.

Moderator

Thank you. We have the first question from the line of Nirav Shah from Antique Broking. Please go ahead.



Nirav Shah

On the debt front, did we benefit in terms of any Mark to Market gains which were adjusted in the balance sheet in the quarter?

K. K. Kumbhat

Yes, but the amount is very little, about Rs. 15-20 crores. Probably major gains will come in the current period in case rupee goes down substantially.

Nirav Shah

Rupee appreciated quite sharply. I think on June 30th, the USD/INR ending rate was 55.5 and on September 30th the ending rate was around 52.85.

K. K. Kumbhat

If you have your loans fully hedged then appreciation or depreciation does not make much of a difference.

Nirav Shah

On the distillery, I was just looking at the inventory of molasses; we have hardly utilized that. Sir any particular reasons for that? Are we looking for a better pricing once we start using molasses for ethanol because on Q-o-Q basis inventory has hardly reduced from 87,000 tons to 80,000 tons?

Narendra Murkumbi

As per environment control rules in India, distillery cannot operate in the monsoon. Some of these inventories were accumulated by us after the summer was over and also when you have a short season, you have to continue production using coal to fuel the boilers. So we have taken a calculated decision to utilize that in the current season. The prices are higher Y-o-Y and we expect to utilize that molasses this year along with whatever we have produced in the current season.

Nirav Shah

What is the likely sugarcane cost which we will be starting with? What would we be paying in the current season?

**Narendra Murkumbi**

Last year with an average domestic sugar price of about Rs. 26 per kg, the cane price in the high recovery areas of Maharashtra and Karnataka ended up at around Rs. 2,500 per ton of cane. If this year, the current ex-mill sugar price of Rs. 32 – Rs. 33 per kg sustains, we expect the sugarcane price to be between Rs. 3,000 – Rs. 3,100 per ton. This is based on an average sugar recovery of 11.5% in this region and we need to adjust that for the recovery in terms of sugar cost.

Moderator

We have the next question from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade

You said that a lot of planting takes place in October to January period in the southern and western region. I just wanted to get a sense as to how much would be the proportion of total planting that takes place in this particular duration?

Narendra Murkumbi

In India, typically sugarcane planted gives 1 ratoon and in some cases 2 ratoons. So, on an average 40% of the total cane area has to be replanted. Out of this 40% of the total cane area, roughly 4/5th is planted in the November to January period and 1/5th is planted in what is called the ‘Adsali’ period of June, July, and August which is the monsoon period.

Achal Lohade

What is your sense in terms of the water availability issues? And on the positive side, the sugarcane price are looking up. So how do you see farmers reacting to both these opposite variables?

Narendra Murkumbi

The return from sugarcane is more than double compared to the next competing crop. But the key constraint here is water. In Karnataka, Maharashtra, most of Gujarat as well as Tamil Nadu, the main problem is irrigation availability, especially in the period after January, between February to May when summer is approaching. So, we see considerable reluctance among farmers to plant without assurance of water. In the ‘Adsali’ planting, which has just finished, which is about 1/5th of the total planting, only



about 50-60% of the available acreage has been planted. So we have to wait and watch as the next 90 days are a very critical period which influences the size of the season 2013-14 crop.

Achal Lohade

What is the target crushing volume for Renuka Group for the current year for India?

Narendra Murkumbi

Last year, we crushed 4.9 million tons of cane and this year we expect to crush about 4.2 million tons.

Achal Lohade

For Brazil, do we maintain the same 9-9.5 million tons crushing or you think it could be higher?

Narendra Murkumbi

We believe that overall as a group we will crush around 9.5 million tons of cane. We are having slightly better yields in Renuka do Brasil S/A, which will cross 7 million tons and slightly lower yields in Renuka Vale do Ivai S/A. The overall crushing should be 9.5 million tons as of now.

Achal Lohade

On the stand alone operation, the cogen realization actually declined sharply to Rs. 2.7 per unit. Despite the higher crushing volume, the cogen exports were lower. I wanted to know the outlook going forward in terms of realization and volume.

Narendra Murkumbi

The September quarter is an off season quarter, so none of our mills were running bagasse based boilers. Whatever realization you are seeing is based on the power co-generated on the coal based boilers in the refinery. The tariff in the northern and western part of the country in the monsoon period was around Rs. 2.7 per unit and it is now about Rs. 3.6 - 3.8 per unit. The power tariff at which we are now selling in the new crushing season in South India is about Rs. 6.5 per unit. Almost all our power in Karnataka is being sold at this spot rate and we see prices being quite strong at least till the summer, i.e. for the next 8 months. In Maharashtra, our power output is sold on a long term contract for which the current rate is Rs. 4.79 per unit. So, you should see the net realization per unit increase going forward.

**Moderator**

Thank you. We will take the next question from the line of Sanjay Satapathy from Merrill Lynch. Please go ahead.

Sanjay Satapathy

My first question is relating to the refinery business in India. You have restarted Haldia refinery. I just wanted to know that how much is your refining volume target for 2nd half of fiscal 2013 and what kind of margin one can look forward to? I also wanted to reconfirm whether sugar from Haldia refinery is for domestic market or for re-export as well?

Narendra Murkumbi

As I said, we are currently running at full capacity. Last month, we refined about 100,000 tons combined for the two refineries. Currently, our order book in Kandla refinery is for the export market right up to March 2013. EBITDA margins are about USD 40 per ton for the exports. In Haldia refinery, we are currently selling in the domestic market given that sugar prices in West Bengal are very high in the festival period. So, even after paying a duty of 10%, it is viable. I think there the outlook is more balanced. We could swing to exports as the crushing season starts and the sugar prices have a downturn. I would not like to forecast either the margin or whether it is going to be distinct for the world or domestic market. But in Kandla we have a fair bit of visibility and also we have committed exports for the next 6 months.

Sanjay Satapathy

And my last question is relating to the de-leveraging initiatives which you have been looking forward to. Is there any progress which you would like to add?

Narendra Murkumbi

As you know, this is a very sensitive matter and all I can say is that we are committed to it. We have several discussions that we are engaged in. If there is any concrete progress, we will be announcing that transparently to the exchanges. We remain committed to de-leveraging the Brazilian business.

Moderator

We have the next question from the line of Girish Achhipalia from Morgan Stanley. Please go ahead.



Girish Achhipalia

On the refining side, is there any levy obligation currently that we have to fulfil?

Narendra Murkumbi

The current law is that levy is applicable both to imported sugar as well as domestic sugar. But in case of imported sugar, we are not sure what the price of the levy sugar will be and what will be the component that will determine this price. We are waiting for that clarity and right now, we are assuming that it will be similar to what it is for cane sugar.

Girish Achhipalia

So, imported sugar you mean, you are actually saying the imported raw sugar.

Narendra Murkumbi

Yes. Our reading is that it is applicable to all imported sugar, white and raw. This is what the law has said for the last 7-8 years. Whenever India has imported and there was a zero import duty to facilitate imports because of a shortage here, the Government has always relaxed the levy obligation for a defined period. So there has never been a precedent on collecting levy on imported sugar. We will give you the clarity as it comes.

Moderator

We have the next follow up question from the line of Achal Lohade from JM financials. Please go ahead.

Achal Lohade

Could you share some information on the Dubai trading subsidiary numbers? What have been the revenue and the profitability of that company?

Narendra Murkumbi

We will talk about it along with the results of our Brazilian subsidiaries in early December. Strategically, for us the Dubai subsidiary now is more important as a kind of marketing office for the output of our refineries and is doing less of general trading and more of the marketing operations given that our output of white sugar now into the Asian market has increased considerably.



Moderator

Thank you. We will take the next question from the line of Aman Sonthalia from Suvridhi Capital Markets Ltd. Please go ahead.

Aman Sonthalia

What is the price outlook of sugar for the coming quarter and the next quarter?

Narendra Murkumbi

I think we have had a rally based on improved fundamentals and reduced production and the ex-mill sugar prices have moved from about Rs. 26 per kg to Rs. 33 per kg in the south. Now, we have a shorter crushing season. However, large part of the industry continues to be financially stressed and therefore, we expect prices to be under pressure while farmer payments are being made. This season should end more or less in early February. After that, given the planting trends that are expected, we see a rally in the domestic price. Of course, we have to consider the effects of both the import policy which is the import duty structure on raw sugar as well as the world price which will also have important influence. But if things remain flat in the world market, we would expect the price to rally by 10-15%.

Aman Sonthalia

What is the current cost of processing raw sugar in India at the current price of 19.3 cents/lb or 19.4 cents/lb?

Narendra Murkumbi

Our cost varies depending on the logistics cost, the cost of fuel, the process loss, etc. that you have in a refinery.

Aman Sonthalia

What is the best case scenario production for Maharashtra and Karnataka for the current season?

Narendra Murkumbi

The official forecast of the cane commissioners of respective states is 6 million tons for Maharashtra and 2.6 million tons for Karnataka.



Aman Sonthalia

What is your expectation of the best case scenario for the next season 2013-14?

Narendra Murkumbi

I said in my opening remark that the main planting period is November to January and you would therefore expect a clear picture by the end of January.

Moderator

Thank you. We have the next question from the line of Arya Sen from Jefferies. Please go ahead.

Arya Sen

My first question is just on the imported sugar, as there was some talk of doing away with the 10% import duty on raw sugar. Is there any update on that? And also, is there any importer other than you importing raw sugar to sell in the domestic market right now?

Narendra Murkumbi

I do not want to say anything further than what has been reported in the press. I think the import duty both on raw sugar and white sugar are being evaluated on whether they are right, whether they need to be reduced, whether on white sugar the duty needs to be increased. As far as actual imports go, to the best of our knowledge, we run the most efficient refining facilities in the country. So, clearly our viability will come before anybody else due to the location advantage and the size of our facility. As I have already said, right now even for us in Kandla, the Middle Eastern market is much more attractive than the domestic market. It is now in the growing season, so I do not expect this to change until January. By end of January, the domestic season will be over, we will also have a much better outlook for season 2013-14 and then we should re-evaluate the situation. I would expect that Government would also probably re-evaluate the import duty on sugar at that time.

Arya Sen

Any update on your plans to sell some cogen assets in Brazil to reduce the debt?



Narendra Murkumbi

I answered in the earlier question that we remain committed to de-leveraging our Brazilian assets and it is one of our top priorities. At the moment, we have nothing more concrete to add to that. As soon as we do, we will inform the exchange.

Moderator

We have the next question from the line of Manish Mahawar from Edelweiss. Please go ahead.

Manish Mahawar

If possible, can you give me this consolidated debt number?

Narendra Murkumbi

We can discuss that when we have our Brazilian numbers. The domestic standalone debt numbers, are already there in the earnings presentation.

Manish Mahawar

If you look at your EBIT for the sugar division, it is around Rs. 91 crores and we have sold 0.3 million tons sugar. Roughly, we are making almost Rs. 3 per kg at EBIT. If you look at the Q-o-Q basis for the first quarter, we have done roughly Rs. 3.7 per kg and now Rs. 3 per kg. Is there any specific reason for the same?

Narendra Murkumbi

In the previous quarter, we had export sales at a much higher price. The world price has been in an inverse, so it was higher last quarter than this quarter. The domestic price has been the reverse.

Manish Mahawar

Right now you said that in the southern market, sugar price has gone up from Rs. 26 per kg to Rs. 33 per kg. It is still at Rs.33 per kg level or it has come down?



Narendra Murkumbi

It is right now at around Rs. 32 per kg to Rs. 32.5 per kg. We expect it to be flat to slightly weak for the next 3 months, because of the cash flow pressure that results from crushing and a lot of small companies are forced to sell more than their entitlement. Beyond that it should strengthen significantly.

Moderator

Thank you. That was the last question from the participants. I would now like to hand the floor back to Mr. Narendra Murkumbi for closing comment.

Narendra Murkumbi

Thank you so much for attending our conference call and we look forward to publishing our Brazilian numbers in early December and to talk with you again. Thank you!

Moderator

Thank you Sir. Ladies and Gentlemen on behalf of Shree Renuka Sugars that concludes this conference call. Thank you for joining us.



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