



Shree Renuka Sugars Limited
Q2 FY 2010-11 Conference Call Transcript
May 11th, 2011

Moderator:

Ladies and gentlemen, good afternoon and welcome to the Shree Renuka Sugars Limited Q2 FY'11 earnings conference call, hosted by Alchemy Shares & Stock Brokers Private Limited. As a reminder for the duration of this conference all participants' 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 any assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. At this time I would now like to hand the conference over to Mr. Nirmal Shah. Thank you and over to you Sir.

Nirmal Shah:

Good evening ladies and gentlemen. On behalf of Alchemy, I welcome you all to the Q2 earnings call of Shree Renuka Sugars. To discuss the results, we have with us Mr. Narendra Murkumbi - Managing Director, Mr. K. Kumbhat - Chief Financial Officer and Mr. Gautam Watve - Head, Strategy and Planning. Now, I would like to hand over the floor to Mr. Murkumbi to give the initial remarks followed up with question and answer session. Over to you Sir.

Narendra Murkumbi:

Good evening friends. Thanks for joining in our earnings call today. I request my colleague Mr. K. Kumbhat to first tell us the main points of the results and then I would like to give you the business outlook and also discuss some of the specific issues, which are of concern to our investors.

K. K. Kumbhat:

Good evening all participants. I will give the consolidated numbers for Q2 and first half for the company. The total income for the second quarter of the FY'10-11 was Rs.19.3 billion as against Rs.18.07 billion for the corresponding quarter last year. EBITDA for the quarter was Rs. 3.7 billion as against Rs. 3.8 billion for the corresponding quarter last year. For the first half, total EBITDA was Rs. 7.3 billion as against Rs. 7.6 billion for the corresponding first half of the last year. The total interest cost for the quarter was Rs. 1.9 billion as against Rs. 260 million for the corresponding quarter last year. For the first half, total interest was Rs. 3.0 billion as against Rs. 550 million for the corresponding half for the last year. The depreciation and the amortization for the quarter was Rs. 1.17 billion as against Rs. 240 million for the corresponding quarter last year. For the first half, the total depreciation was Rs. 2.8 billion as against Rs. 434 million for the corresponding half last year. The total profit before tax for the quarter was Rs. 709 as against Rs. 3.3 billion in the corresponding quarter last year and for the first six months the total profit was Rs. 1.4 billion as against Rs. 6.6 billion last year. The total provision for the tax for the quarter was Rs.127 million as against Rs.1.05 billion in the corresponding quarter last year. For the first half total provision for tax was Rs.183 million as against Rs.1.7 billion in the corresponding half last year. The total net profit after minority interest and adjustment for the quarter was Rs.594 million as compared to Rs. 2.2 billion in the corresponding quarter last year. For the first half, the total profit after tax and minority interest was Rs.



1.258 billion as against Rs. 4.85 billion last year. Mr. Murkumbi will give you business update and other details. Thank you.

Narendra Murkumbi:

The quarter that has just passed has shown a very sharp rally in the world market and then a subsequent correction. After the Australian cyclone in the first week of February, world prices peaked at 36 cents/lbs and subsequently declined as it became clear that the production was not affected as badly as it was feared on that day. Overall, the market has been in a very steep backwardation with a big shortage in the first half of 2011, and a better situation is expected in the second half of 2011. Looking at the peak price of about 27 cents/lbs for the October 2011 contract, which is most relevant for the pricing of our Brazilian production, the current price of about 22 cents/lbs is 20% below the peak price.

Going forward, our outlook for the world market is a much stronger price for ethanol in parity with sugar prices and we do not see a return of sugar prices above 30 cents/lbs in the foreseeable future. The quick decline of prices in the world market in April and May has been mainly due to unexpected production rise in Thailand. The production in Thailand is about 10 million tonnes or almost 3.5 million tonnes more than preliminary forecast. The increase in crop in Thailand has been primarily due to the switching of production from tapioca to sugarcane because of better prices and also because of disease in the tapioca crop.

Looking at India, the domestic operations of the company as well as the domestic industry in general has not benefited from the high prices that prevailed in the period between August 2010 and March 2011, because the exports of sugar were quite restricted. The overall exports from the country in the last six months have been about 1.5 million tonnes, which included re-export of imported sugar as well as the old advance license scheme exports.

The forward outlook for sugar prices in India is to be range bound. The production is expected to be in the range of 24 to 25 million tonnes. The Indian Sugar Mill Association's last forecast was 24.5 million and we may be looking at updating the same in our meeting on Friday. In general, the Uttar Pradesh crop has come in lower than expectation, ending at only about 5.9 million tonnes. But the Maharashtra and Karnataka crops are as per expectation and Maharashtra would be about 9.1 million tonnes or so and Karnataka would be about 3.6 million tonnes. So, these two states are on target whereas the North Indian crop is lower than expectation.

Overall, if you take domestic consumption of about 22.0 to 22.5 million tonnes and exports including the recently allowed OGL of about 2 million tonnes then the inventory in the country is not expected to rise. It will be the same of about 6 million tonnes that was the opening stock on 1st October 2010. The outlook on the ethanol market has improved. The price of ethanol, as per the recommendation of the pricing committee headed by the planning commission member Dr. Saumitra Chaudhuri is linked to the petrol price. It has not yet received approval of the cabinet, but once accepted it will automatically get a retrospective increase in price both for last quarter as well as for this quarter and given the petrol price is expected to rise in India that will further directly add to the ethanol price.

This segment has improved considerably in the quarter as you can see from our Earnings Presentation and the MDA. Alcohol sales are significantly higher than last year and most of the increase has been contributed by the off take from the oil companies. On a nationwide basis, their performance or actual off take is about 80% of the contracted quantities. The remaining 20% lag is only because of licensing and permit issues between states and flow of alcohol between states.



Power prices in the southern region in the quarter were relatively strong in April and May was even stronger. This was partly because of elections and partly because the southern grid has had very high prices compared to the rest of the country due to grid connectivity problems between the south zone and the rest of the country. We have been one of the beneficiaries of the high prices.

Coming to the Brazilian season outlook, what we are seeing is a very strong increase in ethanol demand because of the sale of almost more than 2 million cars last year, which can use ethanol. The total demand is much higher than supply. The country virtually ran out of alcohol in March and April of this year leading to a very high spike in prices and there is a lot of concern in the government on ensuring that this does not happen again in future. Lot of announcements have been made by the Brazilian government, however, now the long term policy is more clear that the government would like to incentivize the production of ethanol and have greater oversight on the production storage and distribution of ethanol. We expect that this will be positive for the sector on the whole because there would be more funding available to reduce the volatility in ethanol prices between season and off-season.

In the past, for example in 2010, the average price in the crushing season has been about half the price in the off season. When the ethanol prices are lower in the season, more sugar and less ethanol is produced, which leads to a shortage and a spike of prices in ethanol in the off crop. So, with the promise of funding and investment by the government of Brazil and Petrobras, we expect this volatility will be reduced. There were some talks of a sugar export tax, which we now understand is nowhere on the cards and we do not see much possibility of that coming in.

As far as the crop is concerned, there has been heavy rain in January-March period. The crop growth is good; but the yields are poorer. The expected amount of renewal of the cane fields has not happened for the last two years. The primary reason for this was the financial stress in the industry. Also, last year, due to drought, the growth of the cane is lower and productivities are, therefore, lower. The consensus estimate of the Brazilian crop is going to be the same as it was last year. We now expect the sugar production to be lower than last year as more ethanol will be produced compared to the previous year.

Previous year, the crop was about 55% ethanol and 45% sugar. Our own internal estimate for this year is about 42% to 42.5% sugar and 57% ethanol. In our earnings presentation we have not included the relative prices of these products but the revised version, which we shall upload later tonight will have this graph. From there you can see that for most of the last two years, sugar prices were higher than the ethanol prices by a big margin, especially in 2010. On the other hand, in the past two months the price of alcohol has been higher than that of sugar. The price of hydrous alcohol has now come to be about equal to that of the price of sugar, which is about 22 cents/lbs. However, prices of anhydrous ethanol which is used to mix with gasoline sold in Brazil and also has export demand to the European Union. It is still selling at a very high rate and the current sugar equivalent price is about \$28 cents per pound.

In terms of product priority, which, in the recent past has been exceedingly biased towards sugar, the current priority of production is anhydrous ethanol followed by sugar followed by hydrous ethanol, which is almost at par with sugar. So, we are expecting lower sugar production from Brazil and this to a certain extent should counter balance the higher sugar production that we have seen in Thailand this season.

As far as our business goes, we have been busy with the turnaround of the Brazilian operations and the imminent commissioning of our second sugar refinery in Gujarat near the port of Kandla. The refinery is now in trials and we expect the full-scale commercial production to start sometime next month. The



refining margin in India, as has been generally in the world, has been quite poor. With the spikes in raw sugar prices for some of this period, it was more profitable to dispose of the raw sugar outright and you can see some of the contribution in the trading segment for us. Similarly most of the world's largest refineries were shutdown in Q1 2011. In our case also, we had used this opportunity to take an early annual maintenance break but due to very low margins the break was extended to almost 60 days- from the middle of February to April 27th 2011. The margins have now expanded with the current white premium at a level of \$125, which should give a net EBITDA margin of about \$45. We have restarted shipment of raw sugar from Brazil from June.

Coming to our balance sheet, obviously the size of the balance sheet expanded considerably in the last 12 months, primarily due to the acquisition of the two companies in Brazil viz. Renuka Vale do Ivai and Renuka Do Brasil. The acquisition was funded out of our resources in the main company and therefore the surplus cash in India also was used up there. Overall, we have a total gross debt about 8,300 Crores of which about 4,900 Crores is in Brazil and the remaining is in India. In India, the March 31 quarter saw peak use of funds, given that we have the peak production and inventory period here. Also, we have almost completed the investment for all our old projects in India, which includes the Rs. 450 Crores Kandla refinery as well as the completion of our last two BOOT projects for cogeneration, which are amounting to about 54 MW and a capital cost of about Rs. 250 Crores.

These projects are all currently in the CWIP account and should be capitalized before the end of September. Management is concerned and I know investors have lot of concern on the overall debt level; however, we believe that we have build a company of size with assets both in India and Brazil, which is big enough to generate the cash flow needed to service and to bring down this debt and our main focus over the next two years would be on paying down debt through better earnings.

In terms of our risk management strategy, we have been more conservative than the average company in Brazil. Against an average hedging ratio of about 50% for the industry ,at Renuka, we have more than 80% of our expected sugar production locked in at a price of about 23 cents, which ensures a very good EBITDA margin for the coming quarters. Most of the crushing in Brazil will happen between April and December of 2011 for this year and we do expect this to show through in our numbers. Given that anhydrous ethanol prices are higher than sugar prices we would actually not be hedging anymore sugar but will be diverting more of our production to anhydrous ethanol which as I said earning a price higher than sugar at the moment and is expected to remain at a sufficiently high level and probably would outperform sugar throughout the season in Brazil.

So in terms of India, the investment cycle that we had here is over. Projects that we had started in 2009 and 2010 prior to the large acquisition in Brazil are getting over and should be fully capitalized in the next 2 quarters. With our Brazilian Subsidiaries starting the new season with high visibility on revenues and earnings we seek to use ensuing cashflows to pay down debt.

With these few words, I will throw the floor open for questions from the audience.

Moderator:

Thank you very much Sir. The first question is from the line of Anup Ranadive from Tower Capital & Securities. Please go ahead.



Anup Ranadive:

You provided the breakup between how much cane would be diverted for sugar and ethanol, about 40% to 43% sugar and 57% for ethanol. I just wanted to understand how frequent can the shift happen?

Narendra Murkumbi:

Actually, let me clarify. The switch of 42.5% sugar and 57% ethanol is for the whole industry. In our case, given our high level of sugar capacity, when sugar is fetching a higher price than hydrous ethanol, we would expect our ratio to be more like 70%-30%. In Brazil you can swing on a daily basis depending on the relative price of the products on that day and obviously if you produce less sugar than you have sold forward, you can buyback that sugar at the current market price, which will actually give you a profit on the hedging. So, all these flexibilities are possible. We believe that Renuka has one of the most flexible production capacities in Brazil. We can swing from 70% sugar to 80% ethanol, if required. As we go forward, we see the rollout of soft loan schemes, etc., which the government of Brazil is working on. It could make it more advantageous to produce ethanol rather than produce sugar. The increase in the Brazilian ethanol market potential is about 3 billion litres per year and currently the industry is not able to grow fast enough to meet that demand.

Anup Ranadive:

Okay, the second question is regarding the ethanol pricing. Like we have long-term contracts for sugar, Are there any long-term contracts for ethanol pricing?

Narendra Murkumbi:

The domestic future market in Brazil is there for ethanol. It has reasonable liquidity now, but it is only liquid for only about 6 months. Right now, the futures up to about November are liquid.

Anup Ranadive:

Last question is regarding other income. We had other income of about 90 Crores. Can I just have the breakup of the other income?

Narendra Murkumbi:

Other income is mainly forex gain in Brazil and we have a small forex loss here in India.

Anup Ranadive:

Entire 90 Crores would be forex income, is it?

Narendra Murkumbi:

Yes, other income is mainly on account of forex gain.

Anup Ranadive:

That is it from my side. Thank you.

Moderator:

Thank you. The next question is from the line of Rajat Chandak from ICICI Prudential. Please go ahead.

**Rajat Chandak:**

In your presentation of press release you have mentioned that we have entered into long-term contracts for co-gen. Is that in Brazil or India and at what rate we have entered, any idea?

Narendra Murkumbi:

Actually it pertains to both. In the Indian business, earlier all our cogen in Karnataka was mainly been sold in the spot market or the open access market. Now, in Maharashtra, the long-term rate has been increased to Rs. 4.79 so and in this quarter we have switched all our plants in Maharashtra to this rate. In the south, for the last four months, since February we have had very good prices because of the differential price in the southern zone versus the rest of the country. Their also the Karnataka government is working on a revision for the long term price, which is currently about Rs.3.65. So, we are in the process of locking in those prices. In Brazil, when we took over this company, already about 80% of it was locked in at an average of about R\$160 per unit and it translates to about slightly over to Rs.4 per unit. There are renewable energy auctions for new production capacity that you can participate in and prices there are currently prevailing at about Rs.4.5 per unit.

Rajat Chandak:

Secondly, a small question actually, the power exports in India for the quarter has gone up by only 8% whereas the crushing has been up by 24%, any particular reason? May be more of it is used for capital requirement is that the reason?

Narendra Murkumbi:

Comparable quarter of last year, the cane crop is very small so the crushing finished early and we made up the power exports because we were burning coal in our boilers. We had been burning coal in our boilers to provide steam for sugar refining. You can see that the effect of the switch in raw material on the contribution from that division, because now we are using internal bagasse and external bagasse price have also come down so the margin has expanded quite a lot.

Rajat Chandak:

Another thing, has demand in the domestic market come down? I mean you said 22 to 22.5 million tonne, which looks like it has been stagnant or absolute decline from what we have been getting at 23 million tonne plus has there been impact because of high prices, is that the case?

Narendra Murkumbi:

I think there has been a onetime correction last year. I think in 2009, the apparent demand of 24 million included substantial stocking up of sugar. When the government imposed stock limits last year, lot of that sugar was released in the market and Stock limits still continue. So, we have had that one time correction. I would expect that next year you would start growing again. There has been a reaction both due to higher prices as well as the main reason has been the unloading of stock by dealers. Dealers no longer hold as much stock as they did in the past.

Moderator:

Thank you. The next question is from the line of Vikash Jain from CLSA. Please go ahead.



Vikash Jain:

I had a question regarding debt. Could we get the breakdown of short-term and long-term in overall, both consol and standalone if there is any short term in consol as well? I mean subsidiary as well?

Narendra Murkumbi:

If you see our Brazil debt, we have given a comparison also on page 4 of our earnings release. The subsidiary debt, which is mainly almost entirely in Brazil, has increased by about Rs. 150 Crores. This includes the increase of about roughly \$50 million in terms of short-term debt and the net increase about Rs. 150 Crores. In the India book, the increase in debt you see is about Rs. 600 Crores. We have raised ECB of about \$20 million to fund some of the Capex that was completed last quarter. On the whole, it is mainly short-term debt and is in line with the seasonal variation that we have in terms of current assets which we have increased by Rs. 1,100 Crores between September and March and the debt is up by Rs. 1,600 Crores.

Vikash Jain:

The other thing was if we look at the consolidated balance sheet, there are two things which are a read through for me, because all the details are not there, so it could not be exactly the way that I am looking at, but as I can see it roughly for the six months the Capex that I can derive out of it is close to about Rs.12 billion or so, and at the same point of time there is this increase in other current assets. Could you explain what is this related to and firstly if the Capex is around that region, then could you give a break up of that Capex? Basically after the annual report, the balance sheet from the annual report versus what we have right now consolidated?

Narendra Murkumbi:

The total Capex that is underway and almost complete in India is about Rs. 750 Crores that includes two Co-genprojects of total 54 MW, one of which we are setting up in a cooperative under BOOT and the Kandla Refinery, which is about Rs. 450 Crores. In Brazil, we have an ongoing Capex with total cost of about Rs. 21 Crores for Cambui expansion in Vale do Ivai which is funded as part of our equity infusion and Capex of about Rs. 580 Cr0res for the expansion of Equipav to 12 million tonnes crushing capacity and an increase of Cogen by 95 MW.

Vikash Jain:

Of the Rs. 580 Crores, a large part has already been spent, is it?

Narendra Murkumbi:

About half of it has been spent and there are some of the other items which are advances to suppliers etc.

Vikash Jain:

Can we, kind of, safely assume that since Brazil season has started and all of that should be showing in the next quarter, that this could more or less be close to where peak levels would be in the more medium term?



Narendra Murkumbi:

From a seasonal perspective and an investment cycle perspective, we would hope to, and are putting our whole focus on making sure that the March number is the top of the debt position, both on an absolute debt basis as well as a ratio to networth.

Vikash Jain:

The other way is that if there is another Rs. 300 Crores that you need to put in the present expansion of Equipav, so do you think that as per your assessment you would need more debt for this?

Narendra Murkumbi:

The surplus from operating cash flow will pay for the completion of the expansion.

Vikash Jain:

Just one last thing, in terms of Brazil, although you have given the net revenue, EBITDA and PAT number, could we also have the absolute depreciation number, why I am asking for that is if you look at it quarter-on-quarter the depreciation is not exactly moving in tandem and I understand probably this could be because of plantation amortization that you might have done?

Narendra Murkumbi:

I will ask my colleague Gautam Watve to explain the way we account for depreciation of the operating assets.

Gautam Watve:

The way we account for depreciation in Brazil, in fact it is basically spread out over the production so when you actually start selling your products that is when the depreciation will actually hit, so if you look at last year, you will realize that most of the sales have happened in nine months between April and December that is where all the depreciation has actually come in and you will find very little depreciation that is coming into this quarter.

Vikash Jain:

So basically depreciation is also matched with revenues and it is not equally distributed?

Narendra Murkumbi:

It matches production and not revenues. The quarterly revenue can vary depending on sales policy.

Vikash Jain:

Thank you.

Moderator:

Thank you. The next question is from the line of Princy Singh from JP Morgan Limited. Please go ahead.

Princy Singh:

Two questions, one the 80% sugar in Brazil which you said is locked at 23 cents/lbs in terms of quantity approximately how much would that correspond to?

Narendra Murkumbi:

Our peak production plan between the two companies was 940,000 tonnes so 80% of that about 750,000.

**Princy Singh:**

The second question is that just reading from news flow that there are some issues in terms of the capability of ports in Brazil to ship out sugar and in fact the turnaround time being cited is 40 to 50 days. Is that easing and if that eases out, consequently could it lead to some further correction in the raw sugar prices?

Narendra Murkumbi:

Last year, the line up peaked at about 75 days. Now, Brazil is responsible for 70% of the world raw sugar exports. There are only two ports that do 90% of those exports and within the two ports, there are only 6 terminal buildings. That is where the whole logistical bottleneck is. This year, so far the line up waiting time has increased only to about 15 days. It is just the start of the season as well as mills are producing more ethanol than sugar. So, there is not enough flow of sugar coming into the port. In our case, we are helped by the fact that we own 12% of one of these port terminal called PASA where capacity is also being increased this year. So, next year the PASA terminal which we are a part owner of will have double the capacity of this year. On the whole, we would expect fewer bottlenecks next year, but this year no new expansion projects have yet been commissioned to port terminals. The effect of that is actually to increase the premium of Brazilian sugar over the future markets. So currently for June, if you want to buy Thai sugar you can buy almost at the July Futures price of raw sugar, while Brazilian sugar you have to pay 10 cents/lbs over and above the Futures price because of the long lineup.

Princy Singh:

Thanks a lot. That is all from me.

Moderator:

The next question is from the line of Girish Achhipalia from Morgan Stanley. Please go ahead.

Girish Achhipalia:

Firstly, just want a clarification on the other current assets, you said there is about Rs.1,200 Crores which have been sitting in the Brazil books, which has been advances to suppliers, so are these for cane plantation that you are going to do, have you already given money for the upcoming season?

Narendra Murkumbi:

I do not think the other current assets have increased by Rs. 1,200 Crores. Let me just get the number. Do you have another question? We will come back to this one.

Girish Achhipalia:

In terms of the Brazil guidance, would you reiterate your guidance for about 25 dollars per tonne of cane crush for the upcoming season?

Narendra Murkumbi:

For this season, given the fact that we locked in our prices and with the improved ethanol prices we are very comfortable with that

**Girish Achhipalia:**

One last question, if I may ask, on the refinery side, would your guidance for 1 to 1.2 million tonnes hold true now as well?

Narendra Murkumbi:

We have got a one-quarter delay in the commissioning of the Kandla Refinery, which is now in trial, and secondly we had to shut down Haldia for about two months so we do expect our refining for the current financial year to only be about 700,000 tonnes.

Gautam Watve:

Girish, Coming back to other Current Assets, what has happened is, if you are actually comparing last March 2010 with this quarter then obviously RDB was not there.

Girish Achhipalia:

Actually I was looking at September?

Gautam Watve:

What happen at the start of every year, you actually pay advances to the suppliers when you are leasing the land. So you pay one year of rent to them at the start of the year. That is where there is an increase in current assets and then this amount obviously will start getting adjusted over the next few quarters as cane starts getting supplied.

Girish Achhipalia:

Any revised guidance on the mix that you would want to share at this point in terms of sugar versus ethanol and then anhydrous?

Narendra Murkumbi:

Currently, cumulatively we are more like 40% sugar and 60% ethanol. I do not want to give the guidance because the two prices are dynamic and as I said we could go to 70% only sugar, which is about a million tonnes of sugar, or we could go to 20% sugar and 80% ethanol, which also seems unlikely at the moment. We will aim to maximize revenues. In our revised presentation which we will upload shortly, you will see the two graphs of sugar and ethanol prices, publicly available information which can be tracked. We have much more flexibility than other groups. We will use that to arbitrage between the two markets. In addition, if the Brazilian government comes out with a soft loan scheme on ethanol storage, then we would probably instead of making sugar for export in the last quarter make more ethanol because the ethanol balance sheet of Brazil is very, very tight for the first quarter of 2012. For example, the peak price, which we sold alcohol this year, was Rs.60 per litre in Brazil. Next year also in the off season quarter we would see a tight situation. It is a very dynamic thing and I do not want to guide beyond telling you the technical boundaries in our case.

Moderator:

The next question is from the line of Sanjay Satapathy from Merrill Lynch. Please go ahead.



Sanjay Satapathy:

Just wanted to understand your Capex plan in more detail, you just mentioned that you have plan of Rs. 580 Crores for Capex in Brazil and half of it you have already spent?

Narendra Murkumbi:

As I said, this is the industrial side, let me clarify. There will be another Rs. 200 Crores or so of planting expenses to increase the size of the crop because as we increase industrial capability, we have to plan more cane also.

Sanjay Satapathy:

So these are plans for the current year?

Narendra Murkumbi:

This is the plan for the next 12 months to be more specific.

Sanjay Satapathy:

This industrial Capex will that go down to something like zero in the subsequent year?

Narendra Murkumbi:

To reach full capacity itself, it will take one more year. So, we do not foresee any Capex in either of the two companies in the next one-year subsequent to this current Capex cycle.

Sanjay Satapathy:

As far as the plantation is concerned, you are planning to spend Rs. 200 Crores in the next 12 months? What is the amount that you are going to pay in the subsequent 12 months?

Narendra Murkumbi:

Well the maintenance Capex for cane fields between the two companies is about 100-125 Crores on a steady state basis.

Sanjay Satapathy:

So this Rs. 200 Crore includes the maintenance CapEx and it will come down to 120 Crores?

Narendra Murkumbi:

The steady state for a company of 15 million tonnes will be about Rs. 125 Crores. Again to point out, we have already completed much of the catch-up Capex cycle in VDI last year. So, from 1.55 million tonnes of cane, which we crushed last year (2010) , we will have about 2.5 million tonnes of cane. The incremental Capex next 12 months will be low. Main agricapex is going to be in Renuka do Brasil.

Sanjay Satapathy:

As far as India is concerned, you have said that the Capex is virtually over and can we understand how much your net working capital can cover, are we going to see some kind of improvement in the inventory and receivables going forward?

**Narendra Murkumbi:**

Given the high debt level, one of our focus areas right now for management is the tightening up the current asset size. The only thing where we are less flexible is on the inventory side. In the past, Renuka has always had the policy of being at the forefront of the export program so that you end up with relatively lower stock at the end of September. In fact this quarter has been a little disappointing in terms of actual dispatches of sugar for export. Against the target of more than 200,000 tonnes, we have been able to ship only 115,000 tonnes because about 85,000 tonnes spilled over into April. Again, this quarter we hope to ship out 200,000 tonnes into the export market of which, as I said is, in April already 86,000 tonnes have been shipped out and we have a shipment plan of about 141,000 tonnes for the next two months. Given that projected sales of about 227,000 tonnes in the export market, we should see a considerable reduction in the inventory.

Sanjay Satapathy:

Sir, if I can just take one more question, basically it is just kind of a maintenance question. We have seen that the raw sugar inventory has come down from 220 million kg at the end of December to something to 84 million kg but during this period only about 70 million kg has got processed in your refinery so was there some kind of raw sugar sales or something, just trying to understand?

Narendra Murkumbi:

Exactly, as I said in my opening remarks for most of January, February, March, it was better to resell back the raw sugar than to actually process it, when there are higher margin in selling off the raw material than to process it into refined sugar. The trading segment actually reflects mainly the re-sale of raw sugar of about 68,000 tonnes last quarter.

Moderator:

Thank you. The next question is from the line of Nirav Shah from Antique Stock Broking. Please go ahead.

Nirav Shah:

Can you give the valuation of the inventory that we are carrying as on March?

Narendra Murkumbi:

I will request our CFO.

K. Kumbhat:

We are having white sugar close to about average of 3,90,000 tonnes at an average value of 24,400 and ethanol we have close to about 49 million litres which is about Rs. 21,350 per kilolitre.

Nirav Shah:

And the imported white sugar is at?

Narendra Murkumbi:

This is all inclusive. Imported white sugar is a very small quantity.



Nirav Shah:

Just last thing in the financial numbers, the minority interest of Rs. 12 million that is provided does not include the minority stake at RDB, is that right?

Narendra Murkumbi:

Yes, it does not include.

Nirav Shah:

So, once we exhaust all the carry forward losses then only we incorporate this?

Narendra Murkumbi:

Yes, you are right.

Nirav Shah:

Fair enough. Thank you.

Moderator:

Thank you. The next question is from the line of Sanjay Manyal from ICICI Securities. Please go ahead.

Sanjay Manyal:

Just want to know about the inventory which we have already sold in Brazil at 23 cents/lbs, what would be the quantum of that and will those be like July contract or October contract till what time you have sold that contract?

Narendra Murkumbi:

These shipments will be mainly from the October contract and a little bit from July, which is the quantity is about 750,000 tonnes across the two companies and roughly against the July contract will be about 200,000 tonnes and 550,000 tonnes against the October contract because the October contract covers the whole period from September until about February of the next year.

Sanjay Manyal:

So I can assume that till February next year you will not be selling above 23 cents/lbs?

Narendra Murkumbi:

Some of these are hedged with option, if the market were to rally further, we could see upside till 30 cents/lbs. But at the moment, I would recommend you use the number of 23 cents/lbs.

Sanjay Manyal:

Just from the India operation, the exports, which has been allowed under the ALS and OGL, can you just give the quantity of that to how much will be exporting through ALS and OGL?

Narendra Murkumbi:

Our total exports of manufactured sugar including OGL exports, old advance license and refined sugar out of refineries would be about 220,000 tonnes this quarter.

Sanjay Manyal:

Rest of all question were answered. So thank you.



Moderator:

Thank you. The next question is from the line of Sandeep Somani from Edelweiss. Please go ahead.

Sandeep Somani:

My question is with regards to the ethanol prices given that currently the petrol subsidy is almost Rs.6. Assuming that everything is passed on what kind of hike you can expect in ethanol prices given the formula in place? Then, secondly as you said that the offtake has started picking up in the ethanol side from OMC, what has been the impact on the RS and ENA market for alcohol, how the pricing has been there in that space?

Narendra Murkumbi:

The first answer is straightforward. The formula says that the ethanol price is directly linked to the petrol prices. Whatever is the amount of increase in petrol price, we get the same per litre in the ethanol price. Since you raised this topic, I want to give a little broader numbers on the ethanol program. The requirement of the oil companies is 1 billion litres. At the time that tenders were requested, the eligible tenders received were only about 600 million litres that is 60% of what the oil companies are prepared to buy. It also was case that some companies did not want to contract for ethanol because they thought the price for ENA and RS would be higher. Against the 600 million litres tendered, the off take of course started slowly but since about February, against the monthly plan which should be 50 million litres a month about 80% is actually being lifted. Fairly good performance for the first year. However, because the crop is about 24- 24.5 million in the country, the price of alcohol for other uses is actually weak. It is about 25 to 26 for RS and ENA between 28 and 32 depending on the state you are in. So, ethanol in fact is much higher. Now, since the final report of the pricing committee has not yet got approved by the cabinet, until that is formally approved by the cabinet, we do not get that increase. But the price variation, will be retrospective from the first date, that is from October 1, 2010 and last quarter our rough estimate of price was about Rs. 30. Currently, we are invoicing and reporting at Rs.27 per litre.

Sandeep Somani:

Just a follow up question on again alcohol side you said that the prices has been weak but do you assume a scenario going forward let us assume one year down the line, when the pick up to the extent of 700 to 800 million litres there could be a substantial up side to the ENA and RS prices?

Narendra Murkumbi:

Next year, firstly I think now there is great enthusiasm for everybody to supply to the ethanol program. So, against the 600 million litres, which has been contracted this year, next year I expect eligible supply to be 1.1 billion litres (which is the increased demand given the annual growth of petrol consumption). Therefore, that 500 million litres extra will go into the fuel ethanol program. On the whole, I would expect current prices to be lowest. Even for the next quarter, because most distilleries will stop for the season; we would expect alcohol prices to be higher.

Sandeep Somani:

Thanks a lot.

Moderator:

Thank you. The next question is from the line of Achal Lohade from JM financial. Please go ahead.

**Achal Lohade:**

Just a couple of questions, one on the cogen from Brazil, when we talk about guidance on EBITDA \$25 per tonne of cane crushing does that include the cogen income or is it in addition to that \$25 per tonne of cane?

Narendra Murkumbi:

This year it includes. VDI is not a company with much cogen income. Hence, Renuka Do Brasil should have a higher EBITDA than Renuka Vale do Ivai. However, this year since Renuka Do Brasil is still running below capacity and Renuka Vale do Ivai running at higher capacity utilization, we think that the EBITDA will be roughly the same for both.

Achal Lohade:

If one tries to understand what would be the contribution of cogen income for these companies in terms of per tonne? Would you be able to share some light?

Narendra Murkumbi:

For Renuka do Brasil kind of configuration, which is the most efficient configuration in Brazil today; you would get about \$5 to \$5.5 per tonne of cane additionally.

Achal Lohade:

How about VDI?

Narendra Murkumbi:

In VDI, we are actually not having cogen but in the main plant where 70% of the total cane is crushed, we are selling steam and power to a yeast plant which is located within our campus. It is the world's largest plant to make specialty yeasts and we get cogen kind of income stream, approximately \$3 per tonne of cane. That is included in the estimate of \$25 per tonne of cane.

Achal Lohade:

Just on the broader strategy front, we currently hold a 50.34% stake in RDB and I believe we have an option to increase it up to 59% by March 2012. I was just trying to understand what is our strategy on that front; Would we like to increase the stake? What would be the objectives for that and what is the kind of equity we require to infuse in the company?

Narendra Murkumbi:

We have the option to increase our stake by investing about R\$ 200 million. We have time till March 2012. Given the outlook for earnings in Brazil and the enterprise value at about 4 times of EBITDA, we will use our option at the right time to increase our stake.

Achal Lohade:

Thank you so much Sir. I wish you all the best.

Moderator:

The last question from the line of Jehan Bhadha from Darashaw. Please go ahead.

Jehan Bhadha:

If we were to assume that our global production was to rise 3% to 4% in the next year 2012, which would translate to surplus of 5 to 6 million tonnes, is it possible for sugar prices to quote at level of \$0.15 cents. I



am asking this because all the sugar segment Brazilian mills would make losses, but after accounting for profits on the ethanol segment, our net-net will be in the positive territory, so they would not really mind even manufacturing sugar at \$0.14 or \$0.16 cents so what is your stand on the sugar prices in certain situations?

Narendra Murkumbi:

Of course, prices can go lower and sugar especially has been very volatile. Last year, the same time in May, it headed down to 13 cents but it did not stay down there even for two months. So, I would not make a call on whether it is 15 cents for one day but I do not think you can sustain for even few months at prices much below 20 cents because currently the ethanol is very competitive vis-à-vis gasoline below 20 cents not just for fuel in Brazil but also for making a range of chemicals including polymers. For example, the world's largest polyethylene plant from ethanol has been commissioned in Brazil and that itself consumes close to a billion litres a year. So, we have all these swing uses that kick-in when the ethanol price goes much lower. In terms of flexibility, Brazilian mills generally have more flexibility to make more ethanol than they have to make more sugar. This is because typically mills in Brazil start up making ethanol alone and then put up sugar manufacturing sections afterwards. For example, in our case, if the raw sugar price were to go to 15 cents, we will change our product mix from that day to almost 80% ethanol. So, I think it would self adjust and, therefore, I do not see that kind of price for long. I do feel given that the peak of the shortage is over, prices would move in the 20-25 cents/lbs range where they have traded last few weeks.

Jehan Bhadha:

That was it. Thanks a lot.

Moderator:

Thank you. I would now like to hand the floor over to Mr. Nirmal Shah for closing comments.

Nirmal Shah:

I would like to thank the management of Shree Renuka Sugars for giving us a chance to host the conference call. Thank you, Sir.

Narendra Murkumbi:

Thank you. Thanks everyone.

Moderator:

On behalf of Alchemy Shares and Stock Brokers Private Limited that concludes this conference. Thank you for joining in. You may now disconnect your lines.



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Safe Harbour

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