Shree Renuka Sugars Limited
Quarter ended 30th June 2012 Conference Call Transcript
August 16th, 2012

Moderator

Ladies and gentlemen, Good day and welcome to the Shree Renuka Sugars Q1 FY13 Earnings Conference Call. We have with us today Mr. Narendra Murkumbi, Vice Chairman & Managing Director; Mr. K.K. Kumbhat, Chief Financial Officer and Mr. Gautam Watve, Head of International Operations. As a reminder 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 the discussion. Should you need assistance during the conference call, please signal an operator by pressing '*' followed by '0' on your touchtone phone. I would now like to hand over the Conference to Mr. Narendra Murkumbi. Thank you and over to you, Sir.

Narendra Murkumbi

Unlike in the past, this time we have only declared the stand-alone results for the quarter ended 30th June 2012. We found that excessive management time in Brazil was going in compiling the quarterly results quickly and in translating them into Indian GAAP. So we decided to give us little more time this year in order to focus on the main operational challenges there.

We intend to declare the consolidated results for the last quarter and maintain the same level of disclosures on our Brazilian subsidiaries that we have been doing since the last few quarters. With that let me speak about the outlook for the business and the results.

We have continued to see strong EBITDA margins; by far the best in the Indian Sugar Industry. They have been primarily driven in this quarter by very strong performance of our refineries and sugar exports. The sugar export policy was changed to a free regime from 12th May, 2012. Lot of the exports which I had mentioned in the last conference call was held up for want of proper policy. The shipments for those contracted exports happened in the last quarter i.e. April to June; especially from May 14th onwards and as a result we have seen good realizations and a good volume on the export market.

The realization in the domestic market last quarter was about Rs. 27/kg. That has of course changed significantly. The key driver has been that in early July it became apparent that India is going to have a deficient monsoon. The most affected part of India because of drought has been the western part of India, right from Karnataka up to Punjab, which accounts for about 60% of India's total sugar production. Consequently there is an expectation in the market that the next crop would be negatively affected. We are seeing poorer yields across Maharashtra, Karnataka and Gujarat. Overall, on a national basis, cane area is up by 4% but the total cane crop should be lower. It would be probably premature to guess how much lower and we should have a better estimate towards the end of September when the monsoon is over. So this has affected the prices which are up from about Rs. 27/kg to the current level of about Rs. 33/kg. We expect prices to be steady for the rest of the quarter and potentially go up in the fourth quarter when stocks in the country are lower.

As far as exports go, they have a significant role in balancing between supply and demand. Total sugar exports from India are expected to touch 3.5 million tons. About 3 million tons has already been shipped out and we expect only existing commitment to go out further. We do not see any new deal happening because export parity is now 10% lower than the domestic price.

On the other hand, the absence of exports from India is positive for our refineries. We have already restarted the refineries with Brazilian raw sugar this month and we expect Kandla to work at full capacity for the rest of the year. We would also be restarting Haldia as soon as we can get raw sugar placed there.

Now we come to the Brazilian outlook. The quality of cane crop, currently, is the best that we have observed in the last three seasons. This is because of the heavy rains in the second quarter, especially June which was a very rainy month. This meant that very little crushing was possible during those months. However, it has ensured that the crop standing in the field is in a very good shape. We are seeing yields that are significantly higher than our earlier estimate which was about 63 tons per hectare. So currently yields are higher and we would be giving you an update on our total cane crushing estimate for the current year when we present our consolidated results next month.

I will let my colleague, Gautam Watve, to speak a little bit about the actual operating numbers in Brazil and then we can have the question and answer session.

Gautam Watve

In Brazil this time, because of the rains that the whole of Centre-South region had during the months of May and June, the overall crushing performance in the Centre-South region, including our companies Renuka do Brasil S/A and Renuka Vale Do Ivai S/A has been lower by 30% to 40%. We had lower crushing as compared to the same quarter last year. We crushed about 1.34 million tons in RdB and about 0.57 million tons in RVdI which is about 48% and 27% lower respectively as compared to the same period last year. This was mainly due to the fact that June was one of the wettest months that Brazil has seen for quite some time now. The good part of the rain that we had in May and June is that the yields are probably going to go up in the later part of the season. However, it had its effect in form of lower ATR (sugar content in cane) as compared to what you would normally expect in this time of the year.

Narendra Murkumbi

With those opening remarks we can move over to the questions and answers session.

Moderator

Thank you very much. We have the first question from the line of Sanjay Manyal from ICICI Direct. Please go ahead.

Sanjay Manyal

I had a question about the recovery rates in Brazil. Is it because of the more sucrose content and probably for entire full year you will see much lower recovery rates from Brazil. What kind of effect it could have on production?

Gautam Watve

Normally, what we would see is that in the April to June quarter, the yields are little lower because yields usually follow a bell curve. So in the next 3 to 6 months, both the yields and the recovery would go up significantly which is what you would see in India as well. But what we have seen so far is that the recovery or the ATR as we call it in Brazil is almost the same or little lower than last year whereas the yields which is the tons of cane per hectare is little higher than last year.

Sanjay Manyal

One more question about the Brazilian operations. Are we expecting higher sugarcane production? What I understand is that raw sugar prices should not move up from here. As you have mentioned in the last quarter that almost 50% of the sugar has been sold at 22.5 cents/lb, what is the status on the sugar contracts now, Sir?

Narendra Murkumbi

Our weighted average price for both companies combined would come to about 22.5 cents/lb. We have hedged about 50% of sugar in RdB and close to 100% in RVdI at a minimum price of 24 cents/lb. The balance is being priced as it is shipped. The price being in the low 20's, we could expect an average price of between 22 cents/lb and 23 cents/lb for the whole year. This is assuming that the market does not rally in the fourth quarter.

Right now, in terms of the world market outlook, currently we are looking at a surplus of between 4 to 6 million tons of sugar for this current sugar year based on Centre-South Brazil producing 33 million tons and India producing about 25 million tons of sugar. The final sugar quantity from Brazil will be dependent on the rainfall which occurs at the end of the season and when the season closes in December and January. The price formation in the world market in the fourth quarter would be significantly impacted by the final result of the Indian monsoon which is still not clear. It is a deficient monsoon in India. There has been some rain in August but there is still a big gap between the amount of rainfall needed and what has actually happened.

Sanjay Manyal

Just one more number on the debt front. What is the consolidated debt that we have at this point in time?

KK Kumbhat

Stand-alone debt as on 30th June is Rs. 4,019 crores as compared to Rs. 4,318 crores as on 31st March, 2012. So there is a reduction of Rs. 300 crores and this is after considering the mark to market forex provision of 78 crores from long-term borrowing. So actually, Rs. 378 crores is the reduction in debt during the quarter. And total consolidated debt as on 30th June is Rs. 9,869 crores as against Rs. 10,005 crores as on 31st March, 2012.

Moderator

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

Achal Lohade

On the stand-alone company, the interest cost has gone up fairly substantially. Just wanted to know how do you see it going forward? Second question is on the capex for Brazil. What's the outlook on plantation for next year or two?

Narendra Murkumbi

Part of the interest until the last quarter has been capitalized in projects that were underway including the refinery. What you are seeing in this quarter is the full interest cost. Also the rupee portion of our debt has increased as Dollar loans, ECBs etc have been repaid in the current year and replaced with rupee borrowings. There is an increase in the average interest rate as well. We expect this to be the peak interest cost for the year. We are seeing a further seasonal reduction in our debt figure in the stand-alone company.

As on 30th June, we still had more than 3.25 lakh tons of sugar inventory and we expect that to go down at the end of the current quarter.

Achal Lohade

One more question on the refineries. As you said the sugar segment profits were also a function of the refinery performance, would you be able to share what was the kind of EBITDA we had on the refining operations? What kind of volumes do we estimate for the year for refineries as a whole?

Narendra Murkumbi

For the last quarter the overall margin was about Rs. 3,000/ton on the refining segment. As far as the forward outlook is concerned, from 1st August, we expect to run Kandla at full speed and Haldia to restart from 1st October. So together for the current financial year, our total refining volumes should be in the range between 8.5 lakh tons to 9.5 lakh tons. So the median number would be about 9 lakh tons with both refineries combined.

Achal Lohade

The last question is about the capex program for Brazil.

Narendra Murkumbi

The main capex program in Brazil is the planting and our target is to plant about 30,000 hectares this year plus another at least 10,000 hectares which would be done by suppliers and therefore would not require an outlay from us.

Moderator

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

Girish Achhipalia

Firstly there have been various numbers floating on the inventory in the system in India. And there is a talk on consumption numbers being incorrectly stated by ISMA. Could you please share some light as to what you believe is the right consumption and inventory number in India?

sugar ethanol power

Narendra Murkumbi

Nobody knows the correct answer. In the past 2 to 3 years, there was a practice that stocks were verified every 6 months using the information from the Central Excise Department which was responsible for each factory in the country. For the last few months, this hasn't been done. The off-take or dispatch figure reported as per the releases given by the government would be only about 21 million tons. However now there is very strong anecdotal evidence to suggest that the actual consumption is higher than that. The main reason is that due to a cash crunch and delay in payment and cane arrears in the season, a lot of companies were using relief from the courts in order to make cane payments on time. This amount could be pretty large and that could push the consumption number anywhere between 22 and 23 million tons. That is where we have potentially between 1 and 2 million tons of variation between the official numbers by the government and the Industry Associations viz. ISMA and National Co-operative Federation. So they all are agreeing more or less on the same opening stock as on 1st October 2012 of about 7 million tons. But as I said depending on how much sugar was sold with the court orders during the season, this could be 1 to 2 tons million less.

Girish Achhipalia

In terms of Brazil, I have heard that because of cane crush being lower, are you facing some issues on the supplier side in terms of cane procurement? What is your guidance now for the cane crush?

Narendra Murkumbi

No. In fact, because of better yields, we do not have any problem with the cane supply. Last year, along with our own cane, suppliers cane had also got badly affected and suppliers were having problems supplying the contracted quantity. This year yields are better than normal and in fact some additional cane would potentially be available at the end of this season. In terms of actual crushing I can just share that our crushing in July in Renuka do Brasil S/A is equal to our total crushing in the first quarter. It is running at full speed and at full rated capacity of the mills. So we don't see any issues with the technical performance.

Girish Achhipalia

So you maintain guidance in a way.

Narendra Murkumbi

Yes and we will have an update for you when we publish the Brazil and consolidated numbers.

Girish Achhipalia

You will be having an earnings call again?

Narendra Murkumbi

Yes that is the plan.

Girish Achhipalia

On standalone the other expenditure has actually dropped on Y-O-Y basis. Given the high volumes that we are operating, why would that happen?

Narendra Murkumbi

This time season ended somewhere in the 1st week of April and the total crushing during April-May-June was only about 1 lakh tons of cane. These are basically the other expenses incurred through the production and because of the lower volumes of crushing we had reduction in expenses.

Moderator

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

Arya Sen

There has been a lot of talk about cane being diverted for fodder because of low rainfall and fodder prices being very high. What's your take on that? And what sort of impact could that have on production in Maharashtra and Karnataka?

Narendra Murkumbi

Well according to us this is the news which makes good headlines but the net diversion from this could only be about 4% to 5% of the crop. More serious is that the overall yields are lower. So Maharashtra government, for example, is forecasting that with almost the same area under cane cultivation they will have 30% less sugar, i.e. 7 million tons in the 2012/13 season compared to 9 million tons in current season. It is a fact that even government agencies operating cattle camp have been buying sugarcane at a very attractive price for fodder. Maharashtra will have about 60 million tons of cane. You need a lot of cattle to make a significant dent in that kind of quantity. The overall yields are lower because of under irrigation and we also have a worrying situation in Maharashtra with regards to the main reservoir levels. We have less water. The water availability for irrigation beyond the monsoon is going to be an issue throughout the year. On top of that we have the electricity issue. So overall I expect in the western part of

India it is going to be a struggle not only for sugarcane but for other crops to have optimum levels of irrigation until the next monsoon, regardless of what happens in the next 4 to 6 weeks.

Moderator

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

Nirav Shah

Maharashtra and Karnataka being the worst impacted in terms of cane availability, how much do you see our crushing in this season? Because last time we met our crushing estimates, so now have we revised that?

Narendra Murkumbi

Well as of now we would expect, in our case, a reduction of about 20% in crushing volumes compared to last year.

Nirav Shah

In terms of debt repayment can you share the figures for RdB and RVdI and the standalone entity?

Narendra Murkumbi

We just gave you the debt numbers. Our repayment in RVdI starts in October 2012. In the standalone, we don't have much long-term loans to repay and RdB loans repayment start in July 2013.

Nirav Shah

In terms of global industry outlook, what are the sustainable production levels at Russia and EU for them to sustain at around 21 cents/lb of sugar price. Is it sustainable to produce there?

Narendra Murkumbi

At the current 20 cents/lb kind of price, Eastern Europe is under pressure. The returns are not very good and profitability for the farmer depends on whether they get a good yield for the beet or not. A lot of this additional production that we have seen in Europe has happened because for two years the average prices were above 25 cents/lb. So at the current 20 – 22 cents/lb price levels, a lot of this is unviable.

Moderator

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

Sanjay Satapathy

My question is related to Brazil. At around 22.5 cents/lb and with your cane target getting achieved what kind of EBITDA per ton can you make? Is it something that you can share?

Narendra Murkumbi

I don't mind answering that but we have not discussed consolidated numbers. I don't want to make a comment now.

Sanjay Satapathy

My next question is related to India and the drought which you are talking about and which is impacting your cane crush guidance. Is the drought impact going to be restricted to just this year or will it also impact the new sowing so that the next year's production will also get impacted? Is that something which you can throw some light on?

Narendra Murkumbi

The way it works is, in Maharashtra and Karnataka, about 15% of the cane is planted in this quarter. It is called as Adsali cane, typically harvested after 18 months. There is very little planting happening at the moment. The cane planting mainly happens between November and February and we need to see what the water availability is and what happens for the rest of the monsoon. Currently, the replenishment levels, both for dams as well as for ground water is not very encouraging. Beyond that on the plus side, because of the system of cane pricing in our region which is essentially sharing of the revenues, one would expect higher cane prices this year in line with high sugar prices. Therefore there is a lot of incentive for farmers to plant sugarcane. However, the deciding factor would be their judgement on the availability of irrigation rather than the price of cane versus other crops. So some of the shorter duration crops paying less could be more attractive just because there is less risk of water running out. We will have a clearer idea by the end of September but as I said clearly the pre-seasonal planting has been affected.

Sanjay Satapathy

In terms of pricing, what kind of price you will end up paying this season and also if you can throw some light on what companies in Uttar Pradesh will be end up paying?

Narendra Murkumbi

I am not going to say anything about Uttar Pradesh. But in our area it is a function of the sugar price. So if the sugar price is going to be 20% - 25% higher than last year, one would expect a cane price to be at least 20% higher than last year.

Sanjay Satapathy

You are saying that whatever said and done it will trail the price of sugar pricing.

Narendra Murkumbi

Absolutely, that is how it moved for the last 12 years and that is the way it will continue to move in this region because the co-operatives' always fix the cane price in line with their revenue. They have no additional balance sheet strength to pay out more than what they can afford.

Sanjay Satapathy

On the refining side you were saying that you were getting raw sugar from Brazil and re-exporting it. What are the kinds of margin we are getting there and also is it possible for you to start importing and selling it into the Indian market as well?

Narendra Murkumbi

Currently the EBITDA margin is about USD 40/ton. This is because the demand is flat during the Ramadan period. Of course we have locked in some sales for the current quarter at better margins but looking forward in the fourth quarter currently the EBITDA margins are about USD 40/ton. As far as domestic equivalence is concerned currently there is a 10% import duty. Even with that duty today, there is parity between the domestic price and the price of refined sugar after paying the duty. So it is still better for us to re-export because of the current EBITDA margin than to sell in India. But this is a dynamic situation and depending on what happens in the next couple of months these things would change.

Moderator

Thank you. We have the next question from the line of Vikas Jain from CLSA. Please go ahead.

Vikas Jain

This is related to Brazil. The earlier estimates for Centre-South region was close to around 500 million tons which were broadly based on yields between 65 tons/Ha and 70 tons/Ha. So where do you see that moving and how have yields been in the Centre-South region after rains have subsided in the last two months or so.

Narendra Murkumbi

Most analysts have increased their estimates of crushable cane in Centre-South Brazil to about 510 to 515 million tons from the 500 million tons level. But the question is whether all of this will get crushed. A respected consultant, Datagro, has said that while 515 million tons of cane is available, the season has got delayed due to heavy rains at the start and it will not catch up and the season will end when rains return in the second half of October – December quarter. Probably the industry will end with around 503 million tons of cane crushed and the rest of the cane will get carried over to the start of the next season. As far as yields are concerned, they seem to be between 3 tons/ha to 5 tons/ha higher than the earlier estimates. And there is an expectation that the cane that will be harvested in the last quarter would be even more positively affected because it had better rain for a longer period.

Vikas Jain

Broadly what you are saying is that in terms of the overall sucrose content it will still be higher. What I am trying to get on to is that increase in yields will more than offset the decrease in the recovery. Is that the general belief?

Narendra Murkumbi

Last quarter the recovery was slightly lower than normal but in fact in our factories the recovery Y-o-Y was the same. Generally across the region it was lower than normal but now it has caught up. For example, against recovery of 114 kg/ton in RdB last quarter and current day recovery is around 135 kg/ton. What we are saying is that the yields are back to normal now in this quarter and the final cane numbers will be decided by when rain returns. As I said in my last call- the most important weather factor this year is El-Nino which causes both heavier than normal rains in South America and a bad monsoon and less rain in India and the rest of Asia. And we have seen both these phenomena in June – July and there is still a chance that this would return in September. So we have to wait and watch. I think the next 6 weeks here for the monsoon are quite critical and also that would give us an indication about whether early rains would return in Brazil in the fourth quarter.

sugar ethanol power

Vikas Jain

When you said that part of the cane may be left standing on the field, I want to understand that Renuka should not be facing that problem, is that correct? Because the capacity constraint which RdB has is not so much with the manufacturing part but more with cane availability which you are trying to increase over the next couple of seasons? Since you said that you are operating nearly at fully rated capacity, you should not really face the problem of going into the rains coming back and having some cane being left stranded.

Narendra Murkumbi

Yes absolutely. I think we have very little chance of leaving cane as left over. As I said earlier we have increased our operations to run at the full rated capacity on a daily basis.

Vikas Jain

The additional 3 tons/Ha to 5 tons/Ha that you mentioned, is this broadly the average for most people? So the estimate of 68 tons/Ha, if I recall well, has now gone to 70 tons/Ha – 71 tons/Ha or is it slightly less?

Narendra Murkumbi

That is right.

Moderator

Thank you. We will take the next question from Nirav Shah from Antique Stock Broking. Please go ahead.

Nirav Shah

With the cane crushing in Centre-South remaining in line with the estimate, we are hearing some news that there is a possibility of increase in ethanol blending with gasoline, from 20% to 25%. Is it likely from your point of view?

Narendra Murkumbi

While the industry and Government of Brazil have been in a dialogue, what has happened recently is that due to the drought in the US, corn prices have gone up by about 60% in the last two months and that has increased the export demand from Brazil for US. So at the moment from an earlier estimate of less than half a billion litres of ethanol export from Brazil in the current season, the current estimate has risen to more than 2 billion litres. Therefore the industry has suggested to the Government not to increase the blend from 20% back to 25% right now, but to announce the date from which they will do it in the next season. So we have suggested that they go back to the 25% blend from 1st May, 2013. Right now with the current crop and the risk of excess rain at the end of next quarter, we are not confident that there will be enough ethanol to meet the increase in blend.

Nirav Shah

What is the inventory cost for sugar, white sugar and raw sugar, both?

Narendra Murkumbi

You are asking about international?

Nirav Shah

Domestic, India.

Narendra Murkumbi

Inventory of white sugar is around Rs. 28/kg at the end of this quarter.

Nirav Shah

And raw sugar?

Narendra Murkumbi

We do not have too much raw sugar. It would be little lower than that. We have only about 30,000 tons of raw sugar.

Moderator

Thank you. I would now like to go back to Mr. Narendra Murkumbi for closing comments. Over to you, Sir.

Narendra Murkumbi

Thank you everyone for dialling in our call and we hope to come back to you in a few weeks' time with our Consolidated and Brazil numbers. Thank you very much for your interest.

Moderator

Thank you. On behalf of Shree Renuka Sugars that concludes this conference call. Thank you for joining us.

Analyst/ Investor/Media Enquiries:

Vishesh Kathuria +91 22 4001 1400

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

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Shree Renuka Sugars Limited
Brazilian subsidiaries results for Quarter ended 30th June 2012 Conference Call Transcript
October 04th, 2012

Moderator

Ladies and gentlemen, Good day and welcome to the conference call on Q1 FY13 results for Brazilian subsidiaries of Shree Renuka Sugars Limited. We have with us today Mr. Narendra Murkumbi – Vice Chairman and Managing Director; Mr. K. K. Kumbhat – Chief Financial Officer; Mr. Gautam Watve – Head, International Operations. As a reminder, for the duration of the call, all participants' lines will be in 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 this call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Narendra Murkumbi. Thank you and over to you, Sir.

Narendra Murkumbi

Good evening friends. Thanks for dialling in again for results for quarter ended 30th June 2012 of our Brazilian Subsidiaries. We hadn't declared these results along with our stand-alone results on the 14th of August.

This quarter has been a muted quarter in terms of production, mainly due to heavy rain in the months of May and June when more than half of the operating time was lost. We have achieved an EBITDA of Rs. 700 million in Renuka do Brasil and Rs. 583 million in Renuka Vale do Ivai for the quarter ended 30th June 2012. The cane crushed was about 1.91 million tons between the two companies which is about 20% of the estimated cane target for this season. Since July, we have had much better weather in Brazil. In general the weather in Brazil this year has been normal on the whole and the best weather in the last three years. Crushing is now in full swing and we have more or less caught up with the difference that was evident in June between cane crushed this season against last season. We hope that we will meet our target of about 9.6 million tons of crushing during the current ongoing season in Brazil.

The world raw sugar price has gone lower given the impending surplus in the world market. However, it has seen strong support below 20 cents/lb and it is currently trading at around 21 cents/lb. This has happened because the large part of the surplus in the current Brazilian season was delivered on the futures exchange when the October contract closed last Friday. We expect better prices going forward. We also do not see any exports from India in the next two seasons and that should be supportive of the world price.

sugar ethanol power

On the commercial side an important feature is the resumption of strong exports of ethanol from Brazil to the United States given the shortage of ethanol there. So also is the approval of a new track of "Advanced Bio Fuel Standard", where sugarcane ethanol qualifies under their prescribed criteria of green bio fuel while corn-based ethanol does not. Current year's quota for the category of "Advanced Bio fuel" opened up by the US government for sugar cane based ethanol is about 2.4 billion litres and this will increase by 50% to 3.6 billion litres in 2013.

There continues to be a difference in the performance of Renuka do Brasil and Renuka Vale do Ivai. One of the big reasons for that is the productivity of the agriculture land. Agriculture yield for the season up to 30th September was 67 tons/ha in Renuka do Brasil and 79 tons/ha in Renuka Vale do Ivai. That is the main reason for the difference in the margin. As, we rebuild our cane plantations in Renuka do Brasil, we expect this gap to keep closing. With these few remarks, I will throw the floor open for questions.

Moderator

Thank you very much. We have our first question from the line of Girish Achhipalia from Morgan Stanley. Please go ahead.

Girish Achhipalia

Valor came out with a report couple of days back talking about the potential merger between yourself and ETH. Just wanted your sense of what is this transaction all about? And secondly just wanted to understand the implications of the government notification which talks about the potential levy obligations on all the imported raw sugar that refineries are importing currently?

Narendra Murkumbi

As regards to your first question, there is nothing firm that is worth to be shared. In general, Renuka is open to discussions and there are a lot of ideas floating round in Brazil at the moment. However, this particular report, in our opinion, was speculative and therefore does not need any comment beyond that.

As far as your question on the Indian side, it is always been the case that if you have imported raw sugar and processed it in India to sell in the domestic market, there will be a levy component. The question is what the levy price on imported sugar will be, because levy price is determined based on cost. We therefore do not anticipate any additional burden from furnishing of levy on anything that is imported.

Girish Achhipalia

This levy price that you have to sell to the government, wouldn't that price be different from levy for domestic sugar?

Narendra Murkumbi

In fact this statute has never been used in the past. So it is unclear how the cost would be determined.

Moderator

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

Nirav Shah

What are the debt repayment obligations for both RVdI and RdB for FY2013 and 14?

Narendra Murkumbi

In Renuka Vale do Ivai, the moratorium period has just ended in September 2012 and we have just started the repayment. I would ask Mr. Gautam to provide you with the debt details.

Gautam Watve

In Renuka Vale do Ivai the repayment for this year ending March, 2013 is roughly about USD 30 million. For Renuka do Brasil there is a repayment of about USD 50 million by March 2013.

Nirav Shah

And debt repayment in FY14?

Gautam Watve

We start our repayment from September 2013 for Renuka do Brasil after their moratorium period. So the total repayment would be about USD 100 million in Renuka do Brasil for FY14 and about USD 40 million for Renuka Vale do Ivai.

Nirav Shah

Can you just repeat the repayment for FY13 for Renuka do Brasil?

Gautam Watve

It is about USD 50 million.

Nirav Shah

Can you give me a break-up of our total leased area under cultivation? Can you give us the break-up between RDB and RVdI for both 2013 plantation which you have completed and 2013?

Gautam Watve

For Renuka do Brasil the plan was to plant 20,000 hectares and we have already done 10,000 hectares out of that. For Renuka Vale do Ivai the plan was 3,500 hectares and we have done about 1,700 hectares of that.

Nirav Shah

Is this for the next season?

Gautam Watve

This is for the current year planting for cane to be available next season.

Nirav Shah

Can you provide the total land under cultivation?

Gautam Watve

The total amount of land that we have in RdB is about 78,000 hectares and 30,000 hectares in RVdI.

Moderator

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

Sanjay Satapathy

You explained that the difference in the margin between RdB and RVdI is because of the difference in the agriculture yield and capacity utilization between those two companies. We have also noticed that the average selling price of the sugar is also very different between the two entities. Can you just tell us, why the prices are so different between the two companies?

Narendra Murkumbi

Yes, there is a difference in the price of about 1.5 cents/lb. This is basically because while our overall hedge ratio is about 50% at 24 cents/lb, higher percentage of sugar was hedged in RVdI compared to RdB. Given the production setback we had last year in RdB, from a risk perspective, we have been a bit more cautious. So in the quarter ended June 2012, we have actually shipped out more sugar priced at the spot price from RdB compared to RVdI.

Sanjay Satapathy

During the June quarter, what was the capacity utilization in terms of cane crushing in RdB and RVdI?

Narendra Murkumbi

On a day with clear weather, both are running at more than 90% of the installed daily capacity.

Sanjay Satapathy

I am asking about April to June period because what I see is that the raw material to sales ratio for RdB is at about 47% while for RVdI it is at 52%. But the difference in other costs as a percentage of sales is much higher between the two companies. So, just wanted to know how much of the difference is because of the difference in utilization and how much is because of probably higher level of inefficiency between RdB and RVdI?

Narendra Murkumbi

RdB is more mechanized and has higher fixed costs. But in last quarter, RVdI suffered more in terms of days lost due to rain than RdB. So that probably accounts for this difference you are noticing.

Moderator

Thank you sir. We are going to take our next question. It is from Achal Lohade from JM Financial. Please go ahead.

Achal Lohade

On the debt front, just wanted to know how much is repayable for the stand-alone entity i.e the Indian Company?

K. K. Kumbhat

The total amount repayable for the standalone Business in India up to 31st March 2013 is expected to be about Rs. 275 Crores.

Achal Lohade

And for FY14?

sugar ethanol power

KK Kumbhat

Repayment for FY 2014 would be about Rs. 300 Crores.

Achal Lohade

Would you be able to help with the debt numbers as on 30th June, consolidated as well as the break-up between RVdI and RdB?

Narendra Murkumbi

The total debt in Brazilian subsidiaries is about Rs. 5,119 crores.

Achal Lohade

You mentioned that we are looking at a 9.6 million tons target of crushing. Just wanted to know what is the break up and do you see any upside risk given the favourable weather conditions over there?

Narendra Murkumbi

We are currently holding on to our last estimate which is about 7.1 million for RdB and 2.5 million for RVdI for the current season because there is a forecast of increased rain towards the end of November. As we said earlier, the productivity so far has been 67 tons/ha against our earlier estimate of 63 tons/ha. But we are a bit conservative on the number of days we will have for crushing in the season and there could be a small volume of cane left over which we could crush early next year. We should start in April rather than in May in the next season.

Achal Lohade

Would you be able to throw some light on the hedging status? How much is already hedged and at what price?

Narendra Murkumbi

Of the sugar that is remaining, we have about 50% hedged at 24 cents/lb but at a lower exchange rate. So at today's exchange rate of 2.02 BRL/USD, that would translate into 22 cents/lb. The current market price is about 21 cents/lb.

Achal Lohade

You said that 50% is hedged. Do you mean, 50% of whatever sugar we produce out of the remaining of the 9.6 million tons of cane crushed during the season is hedged?

Narendra Murkumbi

Yes.

Achal Lohade

My last question is on the refinery. I guess you have given a remark in the earnings release that you are expecting better utilization of refineries in the second half. Just wanted to get a sense as to what is the strategy behind the refineries? Is it that you hedge both the raw materials and finished goods or you just hedge only one, say the raw material or the finished goods and take a risk on the margin?

Narendra Murkumbi

When we are refining for the world market, typically we hedge the margins, which means we hedge both the raw sugar and white sugar. Or we price the raw sugar at a later stage when we sell the white sugar physically into various neighbouring countries. Effectively we do not run any open positions on the refineries, long or short, while operating in the world market.

Achal Lohade

And in terms of the margin guidance, would you be able to throw some light on what is your current spread and what margins can you make on that?

Narendra Murkumbi

Currently the world refining margin, the white premium, is being driven by the fact that there is no Thai sugar from the previous season. The new crop will be available after January and there are also no Indian exports. Indian exports will end at around 3.4 million tons of sugar for the season upto September 30th 2012. From this month onwards, we don't see any Indian exports. Roughly on an EBITDA basis, one should take the white premium to be about USD 40 per ton right now.

Moderator

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

Girish Achhipalia

Firstly on the production in India; as we see it right now, what is the current picture looking like?

Narendra Murkumbi

Yesterday, the Government had their first estimate in their meeting with the Cane Commissioners of various important sugar producing states and as per the Food Minister's statement last night the estimate is now 23 million tons. It is 1 million ton lower than ISMA's last month estimate of 24 million tons. This includes an estimate of 6.3 million tons from Maharashtra. Our own view, being present in Maharashtra as well as Karnataka, is that the crop will be lower than that and yesterday the Maharashtra Sakhar Sangh has made a statement in Mumbai that the crop could be around 5.5 million tons. The reason for this continuous deterioration in the crop estimate in this part of the country is because in more than 50% of the cane fields, the irrigation water required to sustain the cane in the winter is not sufficient. Cane fields irrigated by ground water are the most affected and therefore the final number for sugar estimate in Maharashtra could be lower than 6 million tons. I think official as well as industry association numbers are moving down slowly because people have been cautious to cut estimates. We think we are in a very tight situation. The current domestic price is controlled only because the government has actually released almost 95% of the non-levy stocks which stood at 42 lakh tons as on 1st October. Out of that, 40 lakh tons has been released into the market for October and November and that is what is holding the price at the moment. Given the fact that the current weather and water conditions in the western part of India as well as Tamil Nadu are not conducive for cane planting for the next season, I expect upside in the domestic prices somewhere between now and February depending on how the monthly releases are given. But it is very hard to foresee how we can repeat even the current 2012-13 crop size in 2013-14.

Girish Achhipalia

Sir, just to take it slightly forward. What is the estimate of inventory that we will have as opening? And secondly, what is Renuka's crushing target for the next year? And finally if you had to just talk about what the cane price is likely to be because I assume that the farmer in Maharashtra has not got a fair deal even last year as there are a lot of middlemen who made money. So what's the potential arrears build up that may happen or the cane price hike that they may seek this year?

Narendra Murkumbi

First in terms of our own production, we expect it to be down by about 20% over the last year. We crushed about 4.9 million tons of cane in the last season. This year we should be at around 4 million tons. As far as the cane price is concerned, in fact, the reality is opposite of what you stated. Maharashtra has actually got the highest price last year. The cane price was Rs. 2,500 per ton of cane. You must remember that the average productivity in Maharashtra is 85 tons/ha. In terms of farm income, this is the best part of the country to grow sugarcane. Sugar prices here move along with the market, so we typically have a fixed

EBITDA margin which is about 15% to 18% irrespective of where we are in the cycle. Given the sugar prices are up over the last season by about Rs. 7/kg, we expect the current year cane price to end up at something like Rs. 3,000 per ton of cane and that would be again in line with the increase in sugar price so actually in rupee terms we expect the EBITDA margin to rise by Re 1/kg and be about Rs. 5/kg because in percentage terms it should be the same. On the sugar inventory there has been some assessment online. Online data with the Ministry seems to indicate that India had about 4.2 million tons of non-levy sugar on the 1st of October and about 1.6 million tons of levy sugar on the same date. So that would be about 5.8 million tons. This implies, working backwards, that the demand last year for the domestic market was about 22 million tons. So even if you forecast a small increase this year in demand, you would come to a figure close to 23 million tons. As you can see, production estimates are shrinking rapidly below that number.

Girish Achhipalia

What according to you is the domestic raw sugar market that we have in India, I mean, in terms of volumes if you could just quantify?

Narendra Murkumbi

There is no domestic raw sugar market. Raw sugar is not a food product so it cannot be traded in the domestic market.

Girish Achhipalia

Sir last year you were procuring a lot of raw sugar for your refining operations. I believe you had some domestic raw sugar off take from that was happening. Is that a very small number?

Narendra Murkumbi

That is a flexible production. Last year mills produced raw sugar because the price that we were able to pay for raw sugar for conversion and export to the world market was higher than the domestic price, mainly because the domestic price was at 20% discount to the world price. Today the domestic price is at 25% premium to the world price, so these mills that were producing raw sugar last year would actually produce white sugar. They can do both. For us it is much cheaper this year to refine raw sugar sourced from Brazil and that’s what we are doing at the moment.

Moderator

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

Sanjay Manyal

We had one news that raw sugar has been imported in India to the tune of 4.5 lakh tons and I think Renuka has done some amount of import in that as well. So can you just quantify that?

Narendra Murkumbi

Going forward for the next two quarters we expect to run both our refineries at full capacity. As of now our margins for re-export are better. There is a 10% import duty for sale into India. So, we can do both. Currently margins for exports are better and there is very good demand for refined sugar in the Asian region given that there are no white sugar exports happening from India at the moment. This is the current outlook. There is definitely raw sugar coming to both our refineries. At the moment it is not destined for the domestic market.

Sanjay Manyal

Sir, can you quantify that number. What kind of number you would be refining this year?

Narendra Murkumbi

Well we have our full capacity of 5,000 tons per day between our two port based refineries and we hope to run them at close to full capacity next two quarters.

Moderator

Thank you. This concludes our Questions and Answer session. I would now like to go back to Mr. Narendra Murkumbi for closing comments. Over to you, Sir.

Narendra Murkumbi

I thank everyone for your continued interest and have a good day.

Moderator

Thank you. On behalf of Shree Renuka Sugars Limited that concludes this conference. Thank you for joining us.

Analyst/ Investor/Media Enquiries:

Vishesh Kathuria +91 22 4001 1400

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

Safe Harbour

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