"First Quarter 2009 -10 Earnings

Conference Call of Shree Renuka Sugars Ltd"

January 15, 2010

Speakers: **Mr. Narendra Murkumbi, Shree Renuka Sugar Limited**

Mr. Nirmal Shah, Alchemy Share & Stock Brokers Private Limited

Moderator: Ladies and gentleman, good evening and welcome to the First Quarter Earnings Conference Call with Shree Renuka Sugars Ltd. hosted by Alchemy Share & Stock Brokers Private Limited. All participants' line will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's opening remarks. If you should need assistance during the conference 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. Nirmal Shah from Alchemy. Thank you and over to you sir.

Nirmal Shah: Good evening ladies and gentlemen. On behalf of Alchemy I welcome you all to the First Quarter Earnings Call of Shree Renuka Sugars. To discuss the results we have with us Mr. Narendra Murkumbi, the Managing Director, Mr. K.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 for initial remarks and then we can hand over Q&A. Over to you sir.

Narendra Murkumbi: Good evening ladies and gentleman. Welcome to the call. May I request Mr. Kumbhat, our CFO, to first tell us the main numbers and then I will give an outlook for this.

K.K Kumbhat: Good evening everybody, I am Kumbhat here. I will give you the first quarter consolidated numbers of the company. Total income for the quarter is 14,437 million rupees as against 4,028 million rupees in the previous corresponding quarter; there is an increase of about 258%. EBITDA for the quarter was 3,761 million rupees as against 634 million rupees in the previous corresponding quarter, increase of approximately 490%. Interest liability for the period was 294 million rupees as against 299 million rupees in the last year. The depreciation for the quarter was about 195 million rupees as against 140 million rupees for the previous year, an increase of about 39%. Profit before tax for the quarter was 3,272 million rupees as against 196 million rupees. Provision for tax for the quarter was about 662 million rupees as against 70 million rupees last year. The effective tax rate for the quarter was approximately 20% as against 36% for the last corresponding quarter. The total profit after minority interest for the quarter was about 2,609 million rupees as against 110 million rupees during the corresponding previous quarter. I hand over to Mr. Murkumbi; he will give you the developments of the industry and would reply to your queries.

Narendra Murkumbi: Good evening friends. I think we have had a very good quarter this time. For the first time, we have managed to dispatch more than 3 lakh tons of sugar and also produced slightly more than that. Our production is ramping up at all locations. Crushing is very good at the moment. Cane availability is better than expected and we think that we will go until March end if not into early April. The crushing of course started later this year because of the heavy rains in Karnataka and Maharashtra in October. In November and December the recovery has been about 0.5% lower than the normal for those months and this is partly due to the wet condition of the fields because of late rains which causes the cane plant to absorb more water. However, the trend is very positive, the day recovery is about 11.6% as on today and cumulatively we have got average recovery, till date from the start of the season of about 10.7%. We do expect that the recovery for the season will be about 11% which is what we had hoped for. Cane availability seems to be slightly better than earlier expected because yields per acre are up because of late rain and also, thanks to the firm outlook of sugarcane prices, farmers have taken better care of the crop. Also, we are seeing good planting for next year and we should see a substantial jump in the total cane availability for our 8 sugar mills. This quarter, we have also produced about 150,000 tons from raw sugar and we have a closing stock of raw sugar of about 329,000 tons. As you all know, the sugar price has moved considerably. The fundamental outlook was that the Brazilian crop actually ended prematurely because of continuous rain during the crushing season. Normally, it is dry in Brazil between May and November but this year there was continuous rain and the average time lost due to rain in São Paulo State is about 10% to 12% in a normal year. This year it was 20% to 25%. So more days were lost due to rain and the net result has been that the total cane crushed in Brazil has grown only by about 30 million tons and there is about 50 million tons of cane left over, so almost 10% of the crop is left over and will have to be crushed first before they crush the cane, which is actually cultivated for crushing in 2010 calendar year. The rain was so heavy in early December that many of the mills that were planning to go on till Christmas had to close and suddenly the Brazilian Sugar mills themselves had to buy sugar to deliver against advance contracts that they had done with the foreign or international trading companies, and as a result of which there was a sharp spike in the world sugar price in the second week of December and that has been reflected now in the domestic market. The monthly quota for free sale sugar is lower than previous year because the expected production in India as per government estimates is 160 lakh tons and that is the only sugar that is under the main release mechanism and that needs to be spread out over the next 10 months in order to have enough sugar every month or at least have a base quantity of sugar every month for the next 10 months. So the amount of sugar allowed to be sold produced from sugarcane was only 11 lakh tons this month. This is very important to understand because it is sometimes wrongly thought that the rally in the domestic price happen on a step-to-step basis with the world market. It normally does not happen that way, they do not tally on a day-to-day basis but clearly there is a need to conserve domestic sugar which is limited and as per government estimates is about 160 lakh tons. We must remember that out of that 160 lakh tons, about 28 lakh tons will be used for levy sugar so only 132 lakh tons is available for sale over from October 2009 to October 2010. In terms of further outlook, the world market is in a very interesting curve, the March contract which is the first contract is being traded under futures market is higher than all the other months and it is in very steep backwardation. So March is higher than May by about 25 dollars a ton, this is raw sugar, I am just converting cents per pound to dollars per ton. So it is higher by about 25 to 27 dollars over the May contract and the May contract is higher by almost 50 dollars per ton from the July contract. What this is indicating is that the most acute shortage and the peak of the shortage is likely to hit in the intercrop period before the next Brazilian crop comes. So March and May are much higher than July and October contracts and the October actually is trading at only 20 cents per pound whereas the March is at about 27.5 cents per pound. A similar situation obtained on the white sugar market and in all this, I think the market is very clearly indicating the peak of the shortage in the first six months of 2010. We also see a long list of countries that have not bought any significant amount of sugar, prominent among them are Pakistan, Indonesia, both of which needs to import about a million tons. Also Iraq and Iran, which needs substantial quantities of sugar and most of the requirement is now going to be white sugar requirement. Our assessment is that the production in India could be about 155 lakh tons. The opening stocks in the country on October 1st 2009 was estimated to be about 3.1 million tons of white and 1.3 million tons of unprocessed raw, so 4.4 million tons in total and the import so far has been about 1.9 million tons of raw and 0.4 million tons of white. So in the last 105 days we have seen about 2.3 million tons come in and we estimate outstanding contracts, that is sugar purchased and will come up to September to be about 2.3 million tons more. This includes about 1.6 million tons of raw and about 0.7 million tons of white. So the total availability from import this year will be about 5.7 million tons versus a gap of about 7 million tons. So we need another 1.5 million tons to be bought. Now there is some refining capacity in Tamil Nadu for which you would see buying throughout the year because Tamil Nadu has the longest season and most of the companies have boilers that can run on coal so they can work in the off season. Other than that, the country would probably end up buying another 1 million tons of white sugar. This coupled with the white sugar demand from other countries has meant that the refining margin or what is called in sugar terminology, the white premium, is at a record. The May white futures versus the raw futures are at 130 dollars and the August white futures again the July raw futures are at a record of 139 dollars, showing that the most of the shortage is in the white sugar market. Currently sugar prices in the country are around Rs 37.5 per kg in Maharashtra and Karnataka and about Rs 41 per kg in Uttar Pradesh and about Rs 40 per kg in Haldia and this kind of indicates that it is viable for raw sugar to be purchased even at the current prices, so we do expect further contracts of raw sugar. There seems to be some interest from even the Cooperatives in Maharashtra to do something in the second half of the season. So all in all, I think commenting on the future price trend, a large part will be dependent on how the balance of imports is met. Until India has purchased all its requirement of sugar for this year, which is almost 7 million tons, we will continue to move in step with the World Market and one must be conscious that the second half futures for 2010 are at a lower level than the first half.

Finally, I want to end by just saying a little bit about our first Brazilian acquisition. We have received clearance of all the banks and we are signing final loan documents and we have already taken over commercial control of the company and day-to-day operations also we will be having a complete hand-over in the last week of this month. The company has not sold any sugar forward. It had less capacity to make sugar. It was about 60% sugar in one mill, in the main mill which crushes most of the cane and only ethanol is made in the second mill. Now, we are launching an investment program which is already part of their investment plan and we are upgrading both these both to produce about 70% sugar and these will be commissioned sometime in the latter half of 2010. So we will get a partial benefit in this season itself and full benefit in the next year. We also want to bring to your attention that the price of ethanol in Brazil has gone to full parity with gasoline after a very long time, after almost three years. So, it is trading at about 70% to 75% the price of gasoline, which is considered the equivalent price based on the mileage given by both the fuels and this price is equivalent to 22 cents per pound of sugar. So, even the ethanol is trading at a fairly nice margin today in Brazil. What can change the outlook of the world sugar market I think, is a further price rise of the March and the May contracts are possible because there is no significant large availability of fresh production in the world export market until the New Brazilian crop starts which will start from April onwards. Second half should be more moderated, however, when we are assuming here that the weather will be normal in both India and Brazil. As you remember last year, the maximum impact on the world sugar price has been because of excess rain in Brazil during the crushing season and too little rain in India. So the second half of the year, we will have to be very cautious in looking at the monsoon outlook in India as well as the kind of rainfall that we see in Brazil right from May when they start…when everybody starts crushing in South Brazil. So this concludes my remarks and I will ask the moderator to start taking the questions please.

Moderator: Sure sir, thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. At this time, if you would like to ask a question please press "*" and then "1" on your touchtone phones. Please use only handsets while asking a question. The first question is from the line of Mr. Nirav Vasa from Gupta Equities. Please go ahead.

Nirav Vasa: Hello. Thank you very much for taking my question sir. Sir, in your opening remarks you had informed that importing white sugar would still be of valuable proposition which will be considered by major players in the industry. Yesterday, on the Bloomberg Terminal, I had checked that the price in Brazil for white sugar is close to 40 rupees a kg. If I add around 2.5 rupees as freight and 1.5 rupees as inland transport, price comes to close to 44 rupees per kg landed, what arbitral do you think still exists at these levels of purchase price which makes the industry positive to import white sugar.

Narendra Murkumbi: It is Thai sugar which is most, you know, attractive to import to India. CNF price today is about 780 dollars, which at an exchange rate of 45.6 rupees is about 35.5 rupees per kg landed price. If you take discharging cost and taxes etc. you are getting a price of about 37 rupees, at which it can be sold at the port, so which means ex-Delhi price of about 38 rupees. I do not know which numbers you are working from, but this is what is being quoted in the trading market.

Nirav Vasa: Okay, sir, what is the progress of the new ethanol contracts which the oil-marketing players want to issue. Because there was a lot of talk that they are going to renew contract at around 26 to 27 rupees per litre; so can I have your comments on that.

Narendra Murkumbi: Well, I do not want to disclose the actual price because it will be subject to approval from the cabinet, but clearly there is an offer from the oil companies to pay Rs 26 per litre and there is a demand from the ethanol producers for 28 rupees per litre for a period of three years. Now what has happened is as follows: The Union Cabinet has reaffirmed that the ethanol program has to go on and a committee has been formed of three ministers, the Agriculture Minister, Mr. Pawar, the Oil Minister Mr. Murli Deora and the Non-conventional Energy Minister, Mr. Farooq Abdullah and they have had a meeting both with the oil companies and the ethanol producers and it has been agreed that the industry association that is The Indian Sugar Mills Association and the Cooperative Federation will actually collate the total requirement of alcohol, so what emerges is that about half of the current year requirement would be available because it is at a very late stage and people have disposed off their molasses and alcohol for other uses, including potable alcohol, as exports as well as for chemicals. So about this year for the 5% blend, about half will be available and the discussions are going on. The price will need to be approved by the Union Cabinet, so it may take one or two months more but definitely this is going to be revised. For the next two years, it appears that the industry is able to supply the entire requirement at the 5% blend. I just wanted to let you know that the total requirement of the 5% blend, which was at 650 million liters last year is projected to be about 850 million liters, so a jump of almost 30% in the last two years because of the rapid increase in sales of petrol. So this is the target market. It appears that in the next two years this will be substantially covered except for a few states like Tamil Nadu, etc. where the state government wants to reserve the entire molasses and alcohol for the purpose of making potable alcohol. This is the status of ethanol.

Nirav Vasa: Thank you very much sir, my queries are done.

Moderator: Thank you. Participants if you wish to ask a question please press "*" and "1" on your touchtone phone. The next question is from the line of Mr. Sanjay from Merryll Lynch. Please go ahead.

Sanjay Satpathy: Sir, congratulations on a great set of results. Sir, can you just give us some idea about the cost of the inventory that you have now and just can you reiterate what is the price that you are paying for the cane right now and what is the cost of production from cane and what eventually the cane price is going to be.

Narendra Murkumbi: Yes, thanks Sanjay. We are estimating price of about 3,000 rupees per ton of cane. This includes harvesting, transport, as well as we have purchase tax…pretty large purchase tax of about 65 rupees in Karnataka. So the cost of cane is 3,000 rupees, the recovery rate is about 11% so we have to adjust for that and the cost of inventory basically is about 26 rupees per kg at the moment.

Sanjay Satpathy: This is for all inclusive, i.e., raw sugar as well as cane sugar.

Narendra Murkumbi: Yes, it is the blended one.

Sanjay Satpathy: Sir, the other thing that we hear that you are planning to buy more white sugar. Can you give us some idea as to how much of white sugar is likely to be imported by you and released in the current market.

Narendra Murkumbi: Well, white sugar we had an opening stock as on 1st October of 74,200 tons. We have additionally purchased about 73,100 tons in this quarter and we have sold about 36,000 tons, so we have a closing stock of about 111,200 tons and we possibly could do another 3 lakh tons over the next three quarters.

Sanjay Satpathy: And have you already entered into contract for the additional 3 lakhs.

Narendra Murkumbi: Yes, most of those contracts are entered. In some cases, you know, the final price will be known when the freight is fixed because you cannot book the small ships for white sugar well in advance. The sugar has been purchased on FOB basis.

Sanjay Satpathy: Sir what could be that FOB price?

Narendra Murkumbi: We do not have it here right away.

Sanjay Satpathy: Sir, last question from my side is that we have an average realization of 28.9 rupees per kg for white sugar and what could be the reason why our realization is so much lower consistently compared to the UP Mills.

Narendra Murkumbi: Well, one is we had 12,600 tons of levy sugar sales. Also, half the sales of the quarter were in October when the average price was 27 rupees. Also, we have sold more from Karnataka in this quarter then from Haldia, because Haldia has relatively lower stock and we also stopped it for annual maintenance, also some rebalancing to squeeze out more processing capacity. So it had almost a one-month stoppage in this quarter. So most of the sales have been in the Karnataka area and also that has been more in October than in the other two months.

Sanjay Satpathy: Okay, and this 26 rupees cost of inventory that you paid that is going to be the cost for the total amount of sugar that will possibly be sold during this Jan to March period.

Narendra Murkumbi: We hope to sell more. Now if you look at what we have done. We had a opening stock of manufactured white sugar of about 218,000 tons and we have raw sugar of about 98,000 tons, so about 316,000 tons. Whereas our sales this quarter, have been roughly in the same range. Essentially, we sold the opening stock. This year our production is likely to be roughly 4.5 lakhs tons from cane and about 1.2 million tons from raw sugar. Now almost that whole quantity, going by the country's sugar balance, we will have to sell or in other words the market will pull the sugar in the first ten months. So we will have to dispatch almost 160,000 per month on an average if we are going to achieve our targets. So I would expect that second quarter sales would be higher than first quarter purely on this logistical limitation, and the third and fourth quarter will have the highest dispatches. Because in our case unlike I think almost everybody else in the industry, Haldia works evenly throughout the year except for this one month stoppage we had in this quarter and the mills actually produce sugar from cane mainly up to March and then three of our big mills will refine at the combined capacity of 4,000 tons per day starting April and ending in September. So almost 5 lakh tons of raw sugar will get processed in Karnataka in our mills between April and September. So that volume will basically come in those six months. So therefore there will be another significant increase in the sold volume in this quarter.

Sanjay Satpathy: Sir it is a significant quantity of sugar you are planning to sell in the second half of this fiscal and considering that you have a bearish outlook about sugar price for the second half, will you be in a kind of difficult position to liquidate your inventory?

Narendra Murkumbi: No, actually you know if you see the world market is on a steep backwardation. However, the physical tightness in India will increase as we go towards September-October. So we do not see domestic prices dropping at the same sharp angle that the world market switches and we have already seen that there has been an expansion in margin between the price of raw sugar and the selling price of white sugar in India. Also you know unlike some of our competitors, we have not got all our raw sugar upfront. It is bought against the current month for which it is required. So to that extent we will continue to have almost the same margin across the year.

Sanjay Satpathy: Okay, okay**.** Thanks a lot sir. Thanks a lot for answering my question.

Moderator: Thank you. The next question is from the line of Mr. Avinash Agarwal from Sundaram BNP Paribas. Please go ahead.

Avinash Agarwal: Good evening Sir.

Narendra Murkumbi: Good evening.

Avinash Agarwal: Sir, just wanted to understand your consolidated numbers if you could give us a breakup and the difference between the consolidated EBITDA and the stand-alone EBITDA.

Narendra Murkumbi: The main difference is we have a small profit in KBK and we have a profit of about 66 crores in our international trading subsidiary, which is based in Dubai and the turnover there is mainly from the sales of white sugar to other countries i.e. third-country trading of white sugar to other Asian countries.

Avinash Agarwal: And what is the profit from KBK Sir?

Narendra Murkumbi: The profit from KBK is quite low this quarter. We had most of the invoicing this quarter for projects that were about to be complete and the profit was only about 8 million rupees.

Avinash Agarwal: Sir in Cogen have you tied with anyone for say medium-term contract for say 3-6 months sort of.

Narendra Murkumbi: There is an update on the Cogen side. We have for the last couple of years been selling under open access. For the last quarter, prices have now started moving down; this quarter our average is 5 rupees per unit and the outlook for the next quarter is about 5.25 rupees, which is significantly lower than at the same period last year. On the other hand, in both the states where we operate the long-term price has been increased by the State Regulatory Commission. In Karnataka, the price has been increased to 3.59 rupees per unit and Maharashtra, the price has been just announced earlier this week and it will be 4.79 rupees per unit. So in both the states now, I think it makes much better sense going for a long-term contract. In Karnataka, we have appealed against the price that has been given but even subject to that, some of our power we will now start selling on the long-term market. But definitely in Maharashtra, 100% of the power. In the case of Karnataka, we had some contracts at 5.25 for three months and in one place for 12 months. So those contracts will continue and at some stage over the next 12 months, we will sign up for the long-term. We do not expect any major spike in power prices, except for a few days in the summer every year. We also notice that the SEBs have become more reluctant to buy very high priced power.

Avinash Agarwal: Sir, by long-term you mean 20-25 years?

Narendra Murkumbi: These are, cogeneration projects typically these are of 10 years and in the case of Maharashtra, I think it is 12 years.

Avinash Agarwal: Okay. So will you go ahead even if they give you only Rs 3.59 per unit or you will keep your options open in Karnataka.

Narendra Murkumbi: In Karnataka, I do not have to answer that question right now because for the next three months we have sold at around Rs 5.25. But we will take a view on it in the summer.

Avinash Agarwal: Okay, sir. Thank you.

Moderator: Thank you Mr. Agarwal. The next question is from the line of Ashwini Desai from Bajaj Allianz Insurance. Please go ahead.

Ashwini Desai: Good evening Sir.

Narendra Murkumbi: Good Evening.

Ashwini Desai: Sir, I wanted to know this revenue from trading that I am seeing in your revenue figures. Can you tell me if it is white sugar that you just now mentioned; sale of white sugar?

Narendra Murkumbi: Yeah. It is white sugar and also some Brazilian ethanol which we sold to Europe, etc.

Ashwini Desai: Okay, And Sir, can you give me the revenues.

Moderator: Thank you. The next question is from the line of Mr. Somani from Kotak. Please go ahead.

Augustay Somani: Good evening Sir. I just wanted to get what is the total debt in cash position as of the end of the quarter.

Narendra Murkumbi: I will let Mr. Kumbhat answer that.

K.K Kumbhat: Well, my consolidated debt is close to about 1,447 crores rupees and net debt that is net of cash and cash equivalent with cash and some cash balance lying with the banks, is about 1029 crores rupees and the break-up of this is long-term debt is Rs 939 crores and short-term is about Rs 91 crores as of 31st December.

Augustay Somani: Okay, okay. Sir, just another clarification. Earlier you had mentioned that in the call that around 3-lakh-tons of white sugar is contracted to be imported during the year. So, is this for the trading contracts in the standalone business?

Narendra Murkumbi: This is just the standalone business.

Augustay Somani: Okay, so that will be the trading revenues again during the year.

Narendra Murkumbi: Yeah. Because this is coming to India. The overseas subsidiary does only third country trade, that is, trade between Brazil and Thailand and other importing countries.

Augustay Somani: Okay, right Sir. Thanks a lot sir.

Moderator: Thank you Mr. Somani. The next question is from the line of Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah: Thanks. Can you give me the outlook for the alcohol prices for the rest of the year, how do you see that moving.

Narendra Murkumbi: Currently Rectified Spirit (RS) price is about Rs 29 per litre, and in the North may be 28 or so. If the ethanol program gets delayed beyond March, the prices could move southwards by about 2 rupees and where will it stop? It will stop at the export parity price, which is around 26 rupees, 25-26 Rupees equivalent. Because there is a shortage of alcohol in Brazil itself. The Brazilian government in fact, has cut the blend for anhydrous ethanol and petrol from 25% to 20% for three months. So there is a very tight world market. So that is one floor. If the ethanol program were to take shape, then we could expect prices to be either at the same level 29, or slightly high. The main reason why prices will not go up further is that the chemical industries, who use ethanol. Chemicals made from ethanol, at its peak in 2008, this industry consumed almost 900 million liters. Now, this has three types groups of chemical, the first two are acetic acid and MEG. Now, both these products can be also manufactured from petrochemical derivatives and I am given to understand that until oil is below 100 dollars a barrel, it is better to make it from petrochemical feedstock rather than from ethanol at 27-28 rupees a litre. Thus many of these plants are running at very low capacity or are shut. The third category of alcohol chemicals, which consumes about 300 to 400 million liters in total out of this 900 million liters, are items like ethyl acetate which can only be made from ethanol and for these products obviously the price of finished product, then reflects the cost of ethanol worldwide and in India, currently the alcohol price is not much different from the alcohol price in Brazil. So, India continues to be not only a viable production base for domestic consumption but also for exports. So plants in this category are running and they are consuming. Overall this loss of demand on the chemical side is counterbalancing the reduction in availability of molasses given that the crop will be about 155 lakh tons of sugar.

Nillai Shah: Okay so all in all crude has to go above 100 for these RS guys to come back into the market.

Narendra Murkumbi: At about Rs 27 per litre. Yes.

Nillai Shah: Okay. And just to confirm regarding this trading revenues of 300 crores. Could you just explain that once more what exactly that is Sir.

Narendra Murkumbi: Well, in the standalone results basically we are bringing a large amount of raw sugar. Now, it is based on a certain plan of refining. Very often we have some flexibility in that and there are other mills in the country, which decide to buy raw sugar at short notice. Also the world market is in backwardation. So actually if you have surplus raw sugar because of your supply pipeline you have the ability to sell the sugar to others and cover it at a cheaper price for arrival after a month or after two months. So we have been doing that. It gives an additional income, which is shown in the results. I must tell you though that it will skew the average price that we use for raw sugar because typically what we are selling today to others is bought at a cheaper rate than what we will replace it at. So when you look at our total refining business, the profit from that will be the sugar segment result as well as the trading segment result because the raw material pool of both is the same. So what I am trying to say in other words is that, the margin from trading is not as high as it looks in this quarter. Partly, there is an effect because we are selling sugar initially bought for processing; selling that for trading and then covering again at a higher price for our own consumption.

Nillai Shah: So is it back to back in that case also.

Narendra Murkumbi: It is a back-to-back but it is still yielding a margin of between 15 to 20 dollars a ton easily. It is not 20% margin. Back to back, it is yielding about a 15 to 20 dollar margin.

Nillai Shah: Right Sir. Just one broader question. Your view seemed to be more balanced right now in terms of future outlook for sugar at least over the next six months in terms of international sugar prices. Yet, you seem to be contracting a lot of white sugar.

Narendra Murkumbi: Yeah, go on.

Nillai Shah: I just wanted to understand your view and your understanding of this market right now as to where you see this. On one hand, understood you know that the Indian white sugar shortage is going to be acute in the second half of the season and hence you are preparing yourself for that but on the other hand you know, you are talking about the backwardation and how steep that is. So, in how much time can the white sugar again hit the Indian market once the Brazilian raws come into effect.

Narendra Murkumbi: Well, the sugar that we will be importing in the third quarter of 2010 will be sugar that is already bought from that backwardated curve. We are not going to buy white sugar today at a very high price and then sell it at a time when the market is backwardated and therefore lower in those months. Secondly, we are not actually buying any white sugar at current, anywhere, near current levels. We bought it sometime back. Somebody else asked the question. I do not have the number right yet but it is significantly lower than the current price of white sugar. We do not see too much merit in buying white sugar at the current price because as I explained to you the landed price or the break-even price itself is at 37 rupees. As I said, our white sugar will come in over the next nine months so it will obviously be, the sugar that comes in the third quarter will be cheaper than that which is coming in the first quarter.

Nillai Shah: Sir, last question. Do you think this deep backwardation is merited because I am seeing some very weird numbers in terms of import you know in the first half and second half of the season, countries were waiting to import. And really out of the dark, it seems a big, big number. So even if Brazilian production were to increase by you know 15-20% there seems to be still a situation where there could be another deficit year, a small one at that but still a deficit year.

Narendra Murkumbi: Yes. I think I already talked that the next year will also have a deficit plus the last two years deficit is unresolved. When we just see the production and demand of a given year there are countries that have de-stocked to an alarming level. You look at India. We have gone from 10 million tones of opening stock two years back to 3 million tonnes this year and expecting to run down stock even further at the end of September 2010. Similarly, many countries have drawn down their stock and while the supply demand gap in 2011 may be smaller than in 2010, there is also this restocking that will be required. So if prices were to move down, countries would all race to import and stock up because everyday sugar will be cheaper than it was earlier. So there will be a pull. And secondly, you know this year the deficit is unlikely to be resolved, so ultimately some countries are going to import too little and therefore, have no availability for a few months and we have seen that happening next door in Pakistan last year. We are seeing it currently in Nepal. There is no sugar. The price of sugar is above 1000 dollars and the government of India as you might have noticed in the press has also clamped down on the smuggling of sugar and also sugarcane across the borders to stop our own prices going up. So we have all these signals. So there will be some lost demand. There will be some very tight stock positions, which will support the market.

Nillai Shah: But you still think the backwardation is actually merited. I mean, the steepness of it.

Narendra Murkumbi: Just because we know for very sure that for the next three months there is no sugar. There is nobody who has any ability to hedge against March and May because for example the largest producers of sugar in Brazil are all telling us that they do not know when their season will start, because they are not sure of the rains. The official rainy season is currently going on. They do not know when it will stop. July-October is still some long time away. Typically producers hedge faster than consumers buy. So the Brazilians have started hedging some quantities against July and October. They are making over 50% EBITDA today. They are locking in some of that margin and consumers on the other hand are buying hand to mouth because they have sticker shock.

Nillai Shah: What is the ‘spec’ position right now, any idea on that?

Narendra Murkumbi: There are two types of speculative positions in the New York Raw Sugar futures. The discretionary funds, you know**,** the long/short funds are about 180,000 contracts long which is about 9 million tons and the index funds which operate commodity ETF's and other index based products. They have about 150,000 contracts, which is 7.5 million tons.

Nillai Shah: Are all these for the raw's market?

Narendra Murkumbi: Yes, actually London, the FSA does not disclose speculative position for commodity markets.

Nillai Shah: I just saw that the white outstanding actually doubled over the last two months so is there a concern about that.

Narendra Murkumbi: No. I do not think it has doubled**.** It is almost constant at around 3.5 million tons. I do not think it has. It might have increased by about 0.5 million tons at most.

Nillai Shah: Okay. Okay, thank you sir. Thank you.

Moderator: Thank you, Mr. Shah. The next question is from the line of Mr. Shlok Agarwal, from Birla Sun Life Insurance. Please go ahead.

Shlok Agarwal: Sir, what would be the opening stock as of 1st Jan.

Narendra Murkumbi: 1st Jan opening stock would be about 329,000 tons of raw sugar, 212,000 tons of white sugar, manufactured white sugar and about 111,000 tons of traded white sugar, that is, imported white sugar.

Shlok Agarwal: Okay. So this 111,000 tons of white sugar which we imported, what is the cost of that.

Narendra Murkumbi: The average price of this sugar is, is about 26 Rs per kg.

Shlok Agarwal: 26 rupees. Okay, so fair enough. Thanks a lot.

Narendra Murkumbi: The Ex-Kandla selling price of imported white sugar is about 37 to 38 rupees per kg.

Shlok Agarwal: Okay. Thank you very much.

Narendra Murkumbi: Next question please.

Moderator: Sure sir. Thank you Mr. Agarwal. The next question is from the line of Mr. Vivek Kumar from Anand Rathi. Please go ahead.

Narendra Murkumbi: Congrats, sir for a good set of numbers.

Narendra Murkumbi: Thank you.

Vivek Kumar**:** Sir what is the order book of KBK.

Narendra Murkumbi: KBK order book is about Rs 180 crores including one large order from HPCL which they are executing for their Bihar project and they are currently having good amount of interest from Southeast Asia and Africa. The domestic investment cycle is low because obviously with severe shortage of raw material, not many players want to expand their alcohol capacity.

Vivek Kumar**:** And how do you see the situation of ethanol and sugar in Brazil and how the people would be producing ethanol or sugar in the coming season for Brazil?

Narendra Murkumbi: This year, throughout the producing season, the price of sugar was significantly higher than the price of alcohol. However, the production has ended up being 43% sugar and 57% ethanol because of technical limitations in the plants. They have not enough back-end capacity to produce more sugar. Next year, if the weather is normal, the sugar percentage could rise to 44%. The total cane crush could increase by about 50 million tons. Net you could have about additional 4 to 5 million tons of sugar on a max sugar basis. Since the ethanol price reaches parity with gasoline in Brazil at around the equivalent of 21

US cents per pound raw sugar equivalent and the world price is higher than that for raw sugar, we do expect that they will continue to operate in sugar-max mode. However, if the world price were to for any reason move below 20 cents, then we could expect immediately a swing to ethanol, which would absorb some of that excess production.

Vivek Kumar**:** So net, net they would be producing around 33 to 34 million tons of sugar?

Narendra Murkumbi: Center south region could produce about 34 million toes. The northeast produces consistently about 5 million tons. That number does not change. It is not a growing industry there.

Vivek Kumar: So total 39 million tonnes according to you, Brazil would be producing. Right Sir?

Narendra Murkumbi: The export availability from Brazil in the calendar year 2010, assuming normal levels of rainfall in the crushing season would grow by about 4 to 5 million tons of sugar.

Vivek Kumar**:** Okay. And what is the maximum capacity you could refine in all your refineries?

Narendra Murkumbi: About 1.2 million tons; our technical team continues to look for ways to increase the capacity further in all our locations that we are refining. We have four main refining locations and as of now, we think we will process about 1.2 million tons.

Vivek Kumar**:** Sir, one of our competitors got large quantities of raw sugar and they are not allowed to bring it into the factories. Is there any chance that you would be taking those sugars and then process it in your factories

Narendra Murkumbi: Well, I think the policy to enable transfers of raw sugar has just come in. We are still studying the details. But the short answer is we always would be interested if there is something available at a discount to the replacement value from Brazil.

Vivek Kumar**:** Okay. Sir, if given a chance you can go ahead to bid for that.

Narendra Murkumbi: And other limitations are refining capacities. Let us see. As of now, we think we are fully covered but I think if at all, anybody is interested to get raw sugar processed, the logical place really is Maharashtra and Gujarat where the cooperatives are less able to take commercial risk with the price of raw sugar and have kind of missed the bus entirely in this import campaign. Let us see how things develop.

Vivek Kumar**:** Okay, that's from my side, Sir. Thanks a lot.

Narendra Murkumbi: Thank you all. Thank you for attending the call.

Moderator: Thank you Mr. Kumar. I would now like to hand the floor back to Mr. Nirmal Shah. Thank you and over to you Sir.

Nirmal Shah**:** I would like to thank the management of Shree Renuka Sugars for giving a chance to us for hosting the conference call. Thank you, Sir.

Moderator: Thank you very much. On behalf of Alchemy Share and Stock Brokers Private Limited**,** that concludes this conference call. Thank you for joining us and you may now disconnect your lines.