"Shree Renuka Sugars Limited Conference Call"

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MODERATORS: **MR. NIRMAL SHAH**

SPEAKERS : **MR. NARENDRA MURUKUMBI**

MR. K.K. KUMBHAT

MR. GAUTAM WATVE

Moderator: Ladies and gentlemen, good morning and welcome to the Shree Renuka Sugars second quarter earnings call hosted by Alchemy Shares and Stockbrokers Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference, please signal an operator by pressing "*" and "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 of Alchemy Shares and Stockbroker Private Limited. Thank you and over to you Sir.

Nirmal Shah: Good morning, ladies and gentlemen, on behalf of Alchemy I welcome you all to the second quarter's conference call of Shree Reunka Sugars. To discuss the results we have with us Mr. Narendra Murukumbi, 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. Murukumbi for the initial remarks and then we can have a Q&A session. Over to you Sir.

N. Murukumbi: Good morning ladies and gentlemen, thanks for taking the time to attend this earnings call. I would first request my colleague and CFO Mr. K.K. Kumbhat to highlight the main financial performance numbers and then I will give an outlook of the industry and how we see things panning out.

K.K. Kumbhat: Good morning everybody. I will give you the consolidated second quarter figures for the current financial year. The gross sales and income from operations for the quarter was 18.107 billion rupees as against 4.451 billion rupees in the corresponding quarter, , then total EBITDA for the quarter is about 3800 million rupees as against 931 million rupees in the corresponding quarter. Profit before tax for the quarter is 3301 million rupees as against 422 million rupees in the last corresponding quarter,. Earnings per share for the quarter is 3.48 rupees on increased capital as against 1.20 in the previous quarter. Interest liability for the quarter was about 260 million rupees as against 344 million rupees last year and depreciation for the quarter was 239 million rupees as against 165 million rupees in the corresponding quarter. Thank you.

N. Murukumbi: It has been a very interesting quarter I think between the last conference call and this conference call. There has been a dramatic change in the price trend of sugar. For the last three quarters sugar prices rose, world sugar prices peaked in early February and domestic prices also peaked in the last week of January 2010. At that time, the conference call if you will remember I mentioned that the market was in a very steep inverse. What essentially it was doing is that there was very limited supply across the world and all the available supply was being pulled in to the spot market, so the spot prices were about 29 cents per pound, they peaked at 30 cents and long-term prices at that time were about 22 cents, long-term prices as in, prices for delivery of sugar one year ahead. Since then, there has been a very dramatic correction of the world market. One would argue that it has been probably accelerated because of the level from which it fell, the fact that it was very high before probably helped accelerate the fall. We have a correction as of today of almost 45% in the spot price of sugar and a drop of about 22% in the long-term price of sugar, so long term prices have dropped from 22 cents to about 16.5 cents, two-months ahead delivery or

May end delivery now is trading at 16.5 cents for May versus peak price of 29 cents. What have been the three main reasons for this collapse. I think the single most important reason has been the unexpected increase of the final sugar production in India, the final number is expected to be between 18 and 18.5 million tonnes of which the big chunk of increase has been about 3 million tonnes, 1 million tonne in Uttar Pradesh and about 2 million tonnes in Maharashtra and North Karnataka. The main reason for the increase in the crop in the North has been less diversion to Gur and Khandsari because the cane price towards the end was in the Rs. 270-280 per quintal range. In Karnataka and Maharashtra the main increase in production has been due to improved yield of the second half of the crop; the crop that was harvested after January had record yields. We have seen yields per acre of almost 40 tonnes of cane per acre against the normal of 30 tonne, almost 33% more can per acre for the cane harvest in the last two, three months and this is primarily caused by good rains in September and October and better care and cultivation by farmers because of the high prices that started being paid from November 2009 onwards. We have ended the crushing season where the cane price of 2,800 rupees per tonne against an expectation of 3,000 rupees earlier which we had accounted in the first quarter, so final prices is about 2,800 rupees per tonne, that is what we expect to close with. We have sold a total of about 440,000 tonnes of sugar this quarter and of which about 224,000 was manufactured sugar and 215,000 was traded sugar both raw and white. The current price levels are about 26 rupees in Maharashtra and about 28 rupees in Haldia. In North India the average price is about 29 rupees. These are very low prices compared to what prevailed in the last quarter that is January and February and essentially the domestic market has fallen tracking the world price. The reason for the tracking is obvious. The import of both raw sugar and white sugar is open up to December as of current policy and therefore the domestic market has fallen. It has not fallen in 1:1 correlation with the world market. Definitely the direction is the same. The total import of sugar into India so far this year from October 1 has been 3.5 million tonnes of which about 2.7 million tonnes has been raw sugar and 0.8 million tonnes has been white sugar. If you add this to the opening inventory of about 1.1 million tonnes of raw sugar we end up with a total import availability of about 4.6 million tonnes for the current year, so adding the domestic production of 18 million, we have a total availability of about 22.6 million tonnes and since opening stocks were about 3 million tonnes we expect the situation to be still tight. In the next five months it is possible that there will be another up to 800,000 to 1 million tonnes of further raw sugar imports. We are not seeing any significant white sugar imports at the moment because there are lots of traders who are importing white sugar, have suffered large losses. There has been lot of defaults in the white sugar market and currently there is very little trade happening. Secondly the bulk consumers who had bought imported white sugar most of them have either completed their buying requirement or the balance requirement they are sourcing from the domestic markets as restrictions on them have started getting eased, so net-net we expect total availability for imports this year to be about 5 million tonnes and domestic availability at 18 million tonnes, stocks going in to next year will continue to be tight and we do expect a positive correction in the domestic market. Now that the entire crushing is over and there are very few factories now still running, about 30-40 factories are still running in Maharashtra at low capacity and rest of the country is virtually closed, so we expect sentiment to improve after the domestic crop is over as well as the domestic stocks gets drawn down. Currently in the country between raw sugar and white sugar you have about 14 million tonnes in stock as of end of April. Now coming to the government policy obviously in January and February there was a lot of noise on sugar prices and the main tool for government to control prices have been to tighten trade restrictions, to stock limits, turnover limits on traders as well as stock limits on bulk consumers which have never been done before in previous shortages. The net result of that was that the domestic price is continuously lagging in the world market and now the first steps have been taken to ease stock restrictions. We do expect that with significant part of the domestic industry now selling sugar at lower than its cost that the government will come in to protect domestic industry by imposing an import duty on white sugar and otherwise making white sugar import difficult. The reason for saying that is that cane arrears have already crossed 1,000 Crore rupees for the current season and we do expect that if domestic prices remain at these levels we could have a significant and very fast arrears position building up in the coming season. As far as cane prices are concerned, the FRP for the next year is Rs.139 at 9.5% recovery, which means for us in Karnataka with 11.5% recovery it will be roughly Rs.158 and this of course includes harvesting and transport, so the net minimum price that the farmers will get will be about Rs. 125 per quintal as per the statutory price. Now we do expect significantly downward correction in the cane price for the next season in line with the prevailing sugar prices of that time. We do not think that next year we will have a problem of high cost inventories, however the current year obviously we have produced sugar from cane at a high cost. I want to talk separately about our refining business and our cane business. On the cane side, we have produced about 448,000 tonnes of sugar by crushing 4 million tonnes of cane. The average recovery was 11.2% and this number includes two domestic subsidiaries, Gokak Sugars and Ratnaprabha Sugars. We have already started the process to merge eRatnaprabha Sugars into the parent company. . I am just giving you all the numbers for the domestic cane crushing operations, 448,000 tonnes of sugar of which we have roughly 280,000 plus in stock at the moment and the average production cost of this sugar is about 25 rupees, so this is the one which is under margin pressure. On the raw sugar side, we have done better. Our raw sugar cost we are carrying existing inventory at about Rs. 21,000/ ton and significant part, most of our inventory required for refining in the next five months is arriving in a just-in-time basis and is open on price, so we will benefit from the drop of the market. Our raw material will be at significantly lower cost compared to the previous two quarters and this would help us to continue to get a good refining margin on the raw sugar business. Coming to the ethanol side, the main policy announcement has been the decision by the group of ministers to restart the ethanol programme at a price of Rs.27. We expect the programme to commence in the next couple of months; the group of ministers' decision will need to be approved by the cabinet. Oil companies are positive about the programme with oil at $85. At current prices of petrol and the differential taxation between ethanol and petrol, the oil companies are saving almost Rs.12 a litre, so on a 5% blend, which is nationwide 850 million litres, they could expect to save a Rs. 1,000 crore every year at the 5% blend level. Currently there is no plan to increase the blend because the requirement of 5% itself has gone up to 850 million litres and I think both the suppliers that is the sugar industry and the oil companies would like to achieve that target steadily first before increasing the blend.

On the co-gen business, I think power prices have been reasonably firm though not as high as last year. We have achieved an average of about Rs. 4.9 per unit for the previous quarter and this quarter currently prices are about Rs. 5.5 per unit. The long-term prices notified by the Maharashtra Electricity Regulatory Commission for co-gen are about Rs. 4.8 and in Karnataka the KERC has notified a price of Rs. 3.67. Even the long-term prices are quite attractive.

Coming to Brazil and our ventures there, firstly the Brazilian crop last year ended at about 538 million tonnes of cane. Almost 50 million tonnes of cane was left over in the field because crushing was interrupted by a lot of rain in the peak month of July, August, September, and also the entire month of December was a washout, so the crop ended prematurely and most factories have carried over cane into this year. Now almost 50 million tonnes of cane this year is actually carried forward cane. There is hardly an incremental cane other than this cane, so the total cane that is likely to be crushed in the coming year is 595 million tonnes, a rise of roughly 11% from the previous year and as I said most of this cane is old cane, the cane has low recovery because it has been standing, it is over mature, it should have been crushed by December last year, but is actually being crushed now from April. The crop has started in April. There has been some rain but it is not as rainy as it was last year, so far the weather can be said to be fair. The other major weather event to watch for in the sugar market is the Indian monsoon but that is some time away and it is hard to predict what will happen. The Brazilian sugar industry last year despite record high prices produced only 43% sugar and 57% ethanol. Despite that, the country virtually ran out of ethanol and the government had to reduce the blend in gasoline from 25% to 20%. Also as a result of the virtual doubling of ethanol prices last year, there was some demand lost to gasoline and only now the prices have come back to reasonable levels. Ethanol demand has gone back to its peak demand level, which can be calculated taking into account the total number of flex fuel cars in the Brazilian market. Essentially almost 90% of new cars are flex fuel cars and these cars typically use only ethanol for the most part, only in the last quarter, January to March because ethanol prices had sore. Some of these cars switched back to gasoline, so there was some lost demand there, but even after all that loss demand, Brazil had just scraped through with its ethanol stock and now we expect very strong ethanol demand going forward. At current levels of the world price about 15.5 cents domestic ethanol prices are around past, so we expect more conversion of ethanol if the world sugar prices are to go lower and that would form a kind of supportive floor for the world sugar market as well.

Speaking of our two ventures there, we completed the acquisition of Vale Do Ivaí on March 19, 2010. Vale Do Ivaí will crush about 2 million tonnes of cane this year. Crushing has already started and we have fully hedged this year's production at good prices in the sense that sugar that is going to be produced by them has been completely sold forward, part of the ethanol is also being sold forward and also we have sold a part, about 50% of the sugar that we expect to produce in 2011. It was because our view was that we wanted to lock in good EBITDA levels in the first couple of years after completing the acquisition. The second acquisition which is larger in scale of the Equipav is in progress. We are satisfied with the progress we have made with the banks. I think we have made very good progress and it is very close to completion, the negotiation with banks holding more than 90% of the total debt is almost complete and the process has taken longer primarily due to more elaborate due diligence etc., and beyond that I would not like to comment today other than to say that we will of course do our best in terms of the deal for Renuka Sugars and to make sure that we have a very comfortable period to turn around the company so that the next three years we have a comfortable cash flow situation in the company. Equipav also for 2010 is fully covered on sugar sales and further price coverage for next year we will look at once we have closed the transaction. So we do expect some final announcement in the month of May. I think that is it from me in terms of comments. I would like to now throw it open for questions from the investors. Over to you gentlemen.

Moderator: Thank you sir. Ladies and gentlemen we will now begin the question and answer session. At this time, if you like to ask a question, please press "*" and "1" on your touchtone phone. Please use only handsets while asking a question. Ladies and gentlemen in order to ensure that the management is able to address questions from all participants in the conference, please limit your questions to two per participant. The first question comes from the line of Sandeep Somani from HSBC Securities. Please go ahead.

Sandeep Somani: Sir, this is in regard to your refining business. I want to understand what is the total refining you have done YTD and what is the guidance for the full year now?

N. Murukumbi: We have done about 326,000 tonnes of refined sugar in the first half and that is primarily because our refineries in Karnataka and the mills were crushing cane at full speed, so most of this has been done at Haldia. In the second quarter, we expect to do about 8 lakh tonnes.

Sandeep Somani: Right sir and as regard to the guidance on the prices on the prices are concerned where do you see, they are heading from Rs. 26 and what kind of averages you can expect for the second half?

N. Murukumbi: I think it is partly dependent on government policy and partly on world prices. I expect the world price to have a range of between 15 to 18 cents for the next six months and prices thereafter to be dependent driven by expectations for the 2011 crop in Brazil and India. So going for this quarter and the next quarter, this would be the price range. We are currently near the bottom of that range. In the domestic market, the price will form by three factors. The first one is the world price as I said, the second is the government policy especially with regard to white sugar imports and trade restrictions in the domestic market, which I expect positive news over the next few weeks and thirdly it will be driven by the fact that there is no more Khandsari or Gur coming into the market production as the alternative sweetness has stopped and there is less pressure and inventories will get drawn down from the current level of about 14 million tonnes to about 3.5 million tonnes at the end of September. So we do expect I mean if I were to take a guess now between Rs. 30 and Rs. 32 is what should be the price level going forward.

Sandeep Somani: For the second half averages?

N. Murukumbi: Yes.

Sandeep Somani: Okay, thanks a lot.

N. Murukumbi: Sorry, I have a correction on the refined sugar production from raw sugar; we have done 326,000 tonnes in the half-year.

Sandeep Somani: And this is primarily from Haldia.

N. Murukumbi: Primarily from Haldia. The mills have been occupied with cane most of the six months.

Sandeep Somani: Sir, if I can ask the last question as regards to the total volume sold is concerned, as a group Renuka was looking at 1.8 to 2 million tonnes short of volumes. What it would be now for the full year from the volume perspective?

N. Murukumbi: The last quarter has been extremely difficult because you had high prices but at the same time very great difficulty in actually executing sale because of volatility and the trade restrictions on domestic traders, there was always a problem of pushing out volumes at those prices, so prices spiked up, but there is no way to capture these prices in large quantity. I would expect sales at the run rate of about 125, 000 to 140,000 tonnes per month from now on. I think things are much more stable now, trade restrictions have started easing, harassment of traders by state government which was rampant in December, January, February has stopped completely and sugar prices are a non-issue politically, so I do expect and we already are seeing visibly improved trade conditions and better volume flow.

Sandeep Somani: Great sir, thanks a lot.

Moderator: Thank you, the next question is from the line of Rajat Chandak from ICICI Prudential Mutual. Please go ahead.

Rajat Chandak: Good morning sir. Just a couple of questions. What amount of raw sugar inventory would we be carrying now at the end of quarter?

N. Murukumbi: Coming to the inventory, as you have noticed as per the new listing guidelines we have also given you the main balance sheet numbers, so I just want to run through them I am sure that will be question that will be asked. We have white sugar inventories of about 399,000 tonnes in the main company plus about 46,000 tonnes in the two domestic cane subsidiaries, total of about 445,000 tonnes and we have 321,000 tonnes of raw sugar.. On the total white sugar inventory, which we are carrying is valued at about 1,115 Crores (including white sugar stock of Ratnaprabha and Gokak). Raw sugar inventory is valued at around Rs. 21 which was about Rs 675 crores, so total of manufacturing finished goods plus raw material is about Rs 1,675 crores. We have another 650 crores of trading inventory essentially 147,000 tonnes of white sugar and 93,000 tonnes of raw sugar, most of this has been sold to bulk consumers, white sugars has been sold to bulk consumers and some traders and the raw sugar has been sold to other sugar mills in the country who have bought the sugar from us for processing, but since it is not yet dispatched in invoice we are still carrying it as inventory, the total value of this inventory is about 700 Crores, but we have as and when the sugar is dispatched we will have a trading profit on this because the sales are already locked in so we have no prices on this Rs. 700 crores, essentially the main inventory which is being carried by us is Rs. 1,000 crores of white sugar which is valued at about Rs. 25,000 per tonne.

Rajat Chandak: You said that VDI you are targeting 2 million tonnes of cane crushing in this year. Why is that so low considering the capacity is 3.1 million tonnes?

N. Murukumbi: We had mentioned this number last call also. The main reason is for two years they had not planted cane, so there was a gap in the cane cultivation. We are increasing the planting this year as part of the capitalization that we have done in to VDI is going into increasing the cane planting, so we should be at about 2.7-2.8 million tonnes of cane next year.

Rajat Chandak: Okay sir. Thank you.

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

Trilok Agarwal: Hi, good morning, just two things. I missed out on the white sugar trading and raw sugar volume, can you just tell me once again?

N. Murukumbi: We have a total trading stock of about 240,000 tonnes, which is 93,000 tonnes of raw sugar and 147,000 tonnes of white sugar. It is essentially sold to bulk consumers. This is more of a trading operation. In the current quarters, our trading operation sold 215,000 tonnes of sugar with a segment turnover of 678 Crores and a segment profit of about 58 Crores. Similarly, we have the sale agreements for another inventory of about 240,000 tonnes, this total current cost to us is of about Rs. 650 Crores. What I am trying to say is, there is no price discount because it has been sold to other people and we are having deposits and LCs from various customers who bought this.

Trilok Agarwal: Okay**,** on the trading front I want just to get one clarification. This quarter on a sequential basis our revenue contribution has almost doubled whereas PBIT is almost flat on a quarterly basis. Can you just explain why it is so?

N. Murukumbi: I think the trading margin value changes as per opportunity. In this case, some of the sugar especially the white sugar was purchased at relatively high prices, but we did manage to sell it at better prices than what we purchased at. The margins in trading fluctuate based on the trading opportunities, so I cannot give you a predicted EBITDA level or margin level for trading. Also we do not consciously try to keep any fixed level of trading every quarter. But production plan is for our refining business and cane-processing business, while the trading is more opportunistic around that business.

Trilok Agarwal: Okay and I believe in the last quarter we actually almost had a contract of 1.2 million tonnes of raw sugar, have you already booked the profit from that bit of contract because as you mentioned you will basically import as in just-in-time whenever you want to process it in the next half of the year, have you already squared off the contracts.

N. Murukumbi: As I said part of that has been sold to others, almost Rs 700 crores of sugar is yet to be sold to others, that profit is not yet realized in the previous quarter. Part of the profit has been realized, it appears in the trading segment, it is mainly raw sugar that is being sold to other, some other sugar has been rolled forward in to future quarters and when that sugar is actually shipped in Brazil then the profit will come in, so you will see it over three quarters including what you have seen in this quarter.

Trilok Agarwal: One final question on trading stock, you said 215,000 tonnes of sugar has been sold in the last quarter in trading rate, out of that can you give a break up in white and raw?

N. Murukumbi: I do not have that break up right now but we can give it to you.

Trilok Agarwal: Okay, fair enough. And I believe this quarter you have already consolidated VDI numbers. Can you just give the breakup as to what is the sales and EBITDA contribution in that?

N. Murukumbi: Mr. Kumbhat will reply.

K.K. Kumbhat: Well in case of VDI the total consolidation is only for 14 days and in 14 days also in fact there were no manufacturing operations and just the establishment expenses. So on manufacturing side you have almost like 20 million rupees coming as a debit, that is a loss for the period and the small is on account of currency conversion that is about 50 million.

Trilok Agarwal: What could be the run rate we can expect from a VDI contribution in the next two quarters?

N. Murukumbi: I don't want to give a forward number other than to just say that we have covered the sales and we should get a decent margin over the next three quarters.

Trilok Agarwal: Can you just give us price at which you have covered?

N. Murukumbi: 20 cents average for raw sugar.

Trilok Agarwal: Fair enough thank you very much.

Moderator: The next question is from the line of Vikas Jain from CLSA. Please go ahead?

Vikas Jain: Just wanted to understand in terms of the difference in PAT from consolidated and standalone, how much of that is from Dubai trading subsidiary and from KBK or others?

N. Murukumbi: Dubai is about 300 million rupees and the rest is from the other subsidiaries including the domestic sugar subsidiaries.

Vikas Jain: This might be a little bit of repetition but in terms of the raw sugar balance if you could go through it again, you mentioned it in different parts in the call, essentially we started this quarter for example with an inventory of raw sugar of I think 0.33 million tonnes if that is correct, how much of the additional imports came in, how much of that has been produced and how much of raw sugar is yet to come in?

N. Murukumbi: What we have processed so far in six months is about 326,000 tonnes and our opening stock of raw sugar now first of April is about 321,000 tonnes and we expect to import and receive about another 480,000 tonnes, because our refining plan is about 800,000 tonnes for the second half of the year.

Vikas Jain: You mentioned that this is no more at a particular price this would be contracted and will be produced at the current prices or lower prices whatever the case may be. The other thing is in terms of debt the consolidated and the standalone debt mentioned this I believe would also include a part of the working capital debt which you get during the operations when there are ongoing operations so how much of it would be long-term for example 15.9 billion mentioned as the standalone debt?

K.K. Kumbhat: Well long-term loans are around 900 crore rupees including all Indian subsidiaries, you see there is cash on the balance sheet and there is small utilization of working capital, so net of cash available utilization is about 200 crores on account of working capital, so 900 Crores is what you mention as standalone long term debt.

N. Murukumbi: Standalone and including all Indian subsidiaries Ratnaprabha and Gokak Sugars.

Vikas Jain: What is the additional debt coming in from the consolidation of VDI?

K.K. Kumbhat: Additional is about 670 Crores.

Vikas Jain: 670 Crores is coming from VDI and this is at the Brazilian PLR rate plus something or what is the interest rate that we should be assuming for this?

Gautam Watve: This is a loan that was restructured where it had a moratorium of three years at L+2 for the dollar denominated loan and CDI+2 for the Real denominated loans and after three years there will be a repayment over the next five years where the interest rate would go up to L+5 and CDI +5.

Vikas Jain: Okay, that is very helpful. Thank you so much.

Moderator: The next question is from the line of Satish Kataria from Venus Capital, please go ahead.

Satish Kataria: Good morning sir. I just want to know this 2800 rupees per tonne of cane prices, is this including loading and transport and harvesting cost?

N. Murukumbi: Yes, it includes harvesting and loading cost, in fact there has been one major structural shift on the ground. This year our harvesting and transport cost is likely to be about 380 rupees a tonne which is part of this 2800 and this is almost a 40% increase over previous years and the situation in Maharashtra and Karnataka on cane harvesting labour is very bad, it has already been very bad in Tamil Nadu for the last three, four years, Tamil Nadu and Andhra Pradesh, now with increasing prosperity alternative employment in construction and industrial activity we are seeing a massive shortage of farm labor and mechanization is nowhere near, anywhere near this period, which it will replace the shrinking labor so currently for example I mentioned earlier almost 40 factories in Maharashtra are working, the main reason they are working and their crushing is at 30 to 40 % of their daily capacity. Main reason is they have not had enough labor to harvest the cane; otherwise the season would have been over by now. We expect that the crop planting is up about 20 to 25% across the country total area. We expect next year to have a much more serious problem with harvesting especially in the south. This is becoming one of the constraints to increasing domestic production. Already we are a big escalation in harvesting and transport cost. I must clarify that the FRP which is notified by the central government which is a replacement of a statutory minimum price that price includes the cost of harvesting and transport, so finally whatever is the cost it is recovered from the farmer, so the net income increase to the farmer is significantly lower than the gross increase in cane price, but if cane prices were to correct significantly next year for example if they were to drop to SAP in north India and close to FRP in the south, one would expect a significantly less competitive scenario for sugarcane against say wheat or rice or soya beans.

Satish Kataria: So, you are saying that next year the 158 rupees would be including harvesting and transport?

N. Murukumbi: At a recovery of 11.5% it would be about 158 rupees including harvesting and transport.

Satish Kataria: Just wanted to know sir, this 2800 rupees harvesting and transport cost do you show it in the raw material cost itself or you do you show it under some other head of income.

N. Murukumbi: It is my total raw material cost.

Satish Kataria: Regarding cane crushing, you said that you have crushed around 4 million tonnes of cane, is that for the total cane for the year or is it for the first half of the year?

K.K. Kumbhat: We have completed the reason and total cane crushing is 4 millions. . The season is over; all the factories have already closed.

Satish Kataria: And how much is the total?

N. Murukumbi: To clarify, it is for the whole half year, it is not for the quarter.

Satish Kataria: Okay. And total production would be around 448,000 tonnes.

N. Murukumbi: Can we move to the next question please?

Satish Kataria: What are the current realizations and what is your outlook going forward on the sugar?

N. Murukumbi: Let us give a chance to others and we will come back to these questions.

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

Nillai Shah: Thanks. Sir question on Equipav. There was a press article that you were looking at increasing the stake out there because of fall in prices. What is the take right now on there and is it certain that the acquisition will 100% go through?

N. Murukumbi: We have a binding agreement, which was signed in February. Obviously it is a large transaction involving also 27 banks and fairly detailed process of due diligence and clarification. As we disclosed on February 22 when we announced the deal the final valuation and the final stake that Renuka will achieve will be subject to adjustments and closing and with a minimum of 50.79% to Renuka. Now therefore it is possible that the stakes could be adjusted upwards or there could be changes in line with the way that the agreement has been drafted. I don't want to say anything more at this stage because we are in the final closing stage with the bank and with the shareholders and it is likely that we will make an announcement in the next couple of weeks. Is it delayed beyond the first deadline, yes it has been delayed but then it is more procedural than anything else and the plants are operating, the day to day operations are being done with full knowledge and consent from our side and we are pushing the closure of the transaction as soon as possible.

Nillai Shah: On the inventory, if I am not mistaken your September year end inventory was about 1070 Crores, your increase in inventory in the first half as per your numbers is about 600 Crores if I am not mistaken. What is this 3000 Crores in the balance sheet that is coming through?

N. Murukumbi: Let me talk about the standalone balance sheet. We have 1000 Crores worth of white sugar, about 400,000 tonnes of white sugar valued at 1000 Crores. We have about 321,000 tonnes of raw sugar valued at 675 Crores. We have trading inventory which I just explained about raw and white sugar of Rs. 700 crores which is essentially sold but not yet dispatched or not yet loaded and it will go out over the next two quarters and the balance of about Rs. 300 crores is a combination of ethanol inventories industrial spirit, molasses, coal, bagasse, and press mud.

Nillai Shah: And the last question just confirming these inventory numbers you said that the total refinery volumes are about 326,000 tonnes in first half largely Haldia and you said that the raw sugar inventory is about 321,000 tonnes, so had there been more refined sugar sold during the quarter?

N. Murukumbi: No, our sales have been 215,000 tonnes.

Nillai Shah: How do I reconcile this Sir in terms of production versus inventory?

N. Murukumbi: Nillai we will just get back to you, I don't want to do it on the phone. We will just work that out.

Moderator: Thank you Mr. Shah. The next question is from Mr. Ajay Vora from Enam Asset Management. Please go ahead.

Ajay Vora: Sir just one question what do you think next years India level production to be because there are reports of around 25 million tonnes. Do you think that is achievable next season?

N. Murukumbi: After the volatility in the last two year's crop it is very difficult to stick our neck out and make a prediction. On the basis of planted area, which we assesses to be up about are fair to be up about 20% to 25%, which I must point out currently the government agriculture department has recorded only a 5% increase in acreage but we think on the ground our assessment is that the total cane planting is over in South India as well as in North India and we think that it is about let us say in this range of 20% to 25% assuming that the record yields that we had in Maharashtra this year will continue that will work out to a 23 million tonne crop and with the same levels of diversion as last year. If we assume that cane prices were lower and they would fall towards the SAP kind of levels then we have to see whether all this sugarcane will actually converted to sugar. Having said that there are estimates in the markets between 22 to 25 million tonnes.

Ajay Vora: And sir just one last thing you said that the total sugar sold during the quarter was around 480, 000 tonnes?

N. Murukumbi: 439,000 tonnes.

Ajay Vora: And of this how much was raw?

N. Murukumbi: Of this the traded sugar was about 215,000 tonnes.

Ajay Vora: So that is the raw sugar, which we had…

N. Murukumbi: Both raw and white I don't have the breakup.

Ajay Vora: Okay thank you very much sir.

Moderator: Thank you Mr. Vora. The next question comes from the line of Tushar Manubhame from Prabudas Lilladher. Please go ahead.

Tushar Manubhame: Good morning sir. Sir just a basic question, with this estimation of about 18 to 18.5 million tonnes of domestic products, just would like to understand how much would be the cane planted area?

N. Murukumbi: As I said earlier the planted area last year I don't know the exact numbers of acreage here, it was not the planted area that went up too much on last year, it increased from 14.6 million last year to 18.5 has largely been by better yields of up to 30% more in Maharashtra which is kind of a record yield, it is the best yield in 10 years and less divergence from the Gur and Khandsari in the north.

Tushar Manubhame: Any idea on the water availability conditions? How much is it depending on monsoon this year or if the monsoon is normal or not normal and still the water limit in the dam so that the sugar production takes place.

N. Murukumbi: I think the rainfall at the right time makes a difference. If you see last two years experience on a relatively low-planted acreage I think it was about 3.2 million hectares the variability in sugar production has been 3 million tonnes, it was positive production this year because of good late rain and last year because of a poor monsoon and poor crop care it dropped from an initial estimate of 18 to 19 million tonnes all the way down to 14.6 million tonnes.

Tushar Manubhame: How does the costing work for this sugar from Brazil, this 2 million tone crushing?

N. Murukumbi: To give you a very rough idea the cash cost of sugar FOB for VDI is about 11 cents per pound at full capacity. This year will be running at 2 million tonnes, 66% so it will be higher..

Tushar Manubhame: This includes processing and everything.

N. Murukumbi: Yes everything FOB cost, these are all cash cost and at the EBITDA level and as Gautam said earlier all the sugars have been sold at 20 cents. Ethanol prices currently are lower; they are the equivalent of about 16.5 cents.

Tushar Manubhame: All right thank you sir.

N. Murukumbi: One last question please.

Moderator: Thank you. The last question comes from the line of Krishna Kumar from Sundaram BNP. Please go ahead.

Krishna Kumar: Good afternoon sir. Could you just spend a minute on the current year volumes, we started off looking at selling about 2 million tonnes of sugar for the year, only about 0.6 million tonnes at this point in time and for rest of the year, so are we going to be lower on volumes for full year and carry forward some stock or what is the strategy Sir?

N. Murukumbi: If you see for six months we sold a total of about 831,000 tonnes.

Krishna Kumar: Does that include traded sugar also?

N. Murukumbi: That includes traded sugar. Manufactured sugar is about 523,000 tonnes. We expect over the next seven months that is up to October before the start of the next season. For the next seven months we will have a higher run rate of about 125,000 tonnes per month.

Krishna Kumar: Would we be reducing utilization levels on the refining side?

N. Murukumbi: As I said we expect to do another 800,000 tonnes on the refining side which will give us a total refining about 1.1 million tonnes about 100,000 less than earlier but we do see much stronger off take now. As I explained the last quarter had been very difficult in terms of actually achieving dispatches, because of the severe stock and trader restriction it has been very difficult to actually get volumes at those prices. So we are seeing in the month of April much stronger dispatch level. We are quite confident of ending the year at about 1.4 millions or 1.5 millions.

Krishna Kumar: Sir in consolidated numbers what is the contribution from VDI because I believe you would not have produced anything there

N. Murukumbi: As Mr. Kumbhat said earlier it is about minus 7 Crores, which is mainly a currency translation and some operating loss for the off-season period. The main numbers should start from this quarter.

Krishna Kumar: Going forward also would the fourth quarter VDI normally be sort of loss making sir mainly because of no production?

N. Murukumbi: No because we have hedged sugar at good levels so we don't expect it to make a loss despite having lower capacity utilization this year.

Krishna Kumar: Thank you very much sir.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor to Mr. Nirmal Shah to add a few closing comments.

Nirmal Shah: I would like to thank the management of Shree Renuka Sugars for giving us the chance to host the conference call. Thank you sir.

N. Murukumbi: Thank you 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.