Shree Renuka Sugar
August 2010

Moderator:

Ladies and gentlemen, good afternoon and welcome to the Renuka Sugars Limited Q3 FY'10 earnings conference call, hosted by Alchemy Share & Stock Brokers Private Limited. All participants will be in the listen-only mode and there will be an opportunity for you to ask questions at the end today's presentation. If you should need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nirmal Shah of Alchemy. Thank you and over to you Sir.

Nirmal Shah:

Good afternoon. Ladies and gentlemen on behalf of Alchemy I welcome you all to the Q3 earnings call of Shree Renuka Sugars. To discuss the results we have with us Mr. Narendra Murkumbi Managing Director, Mr. Kumbhat Chief Financial Officer and Mr. Gautam Watve Head, Strategy and Planning. Now I would like to hand over the floor to Mr. Murkumbi to give the initial remarks and then we can have a Q&A session. Over to you Sir.

N. Murkumbi:

Good morning everyone. Thanks for dialing in to our earnings call. I will first request my colleague and CFO Mr. Kumbhat to give us the highlight of the financial performance. I will then speak about the general outlook of the business and I will request my colleague Mr. Gautam Watve to speak a little bit about our Brazil operations and the results for the last quarter.

K. K. Kumbhat:

Good afternoon everybody. I will give you highlights of the first three quarters consolidated for the group. Our gross sales and income from operations for the first nine months was 53 billion, I mean Rs. 53,156 million. For the quarter the total turnover was Rs. 20.446 billion. Other income for the first nine months was Rs. 831 million; other income for the quarter is Rs. 426 million. EBITDA for the first nine months is Rs. 9.613 billion. EBITDA for the quarter is Rs. 2.052 billion. Interest for the nine months is Rs. 1.2 billion; interest for the quarter is Rs. 646 million. Depreciation for the nine months is Rs. 986 million, deprecation for the quarter is Rs. 552 million and the profit after tax, minority interest and other adjustments for nine months period is Rs. 5.753 billion and the profit for the quarter after all these adjustments is Rs. 902 million. Now Mr. Murkumbi will give you other details about the business and prospects of sugar industry locally and globally. Thank you.

N. Murkumbi:

Good afternoon again. This has been a very interesting quarter and it is also much differentiated quarter between the domestic and the world markets. In the quarter under review, in the first week of May we saw the world sugar price plunge to an 18 months low of 13.00 cents/lb. It was in the middle the European crisis. Since then world sugar prices have rebounded very sharply by almost 50%. Yesterday the market closed at 18.97 cents/lb, almost 45% higher than its low. The reasons for the strength in the world markets are twofold. One is that except for India everywhere else in the world in the major sugar producing and importing countries there are weather problems. We have serious flooding in Pakistan and China and we have drought like, I would not say drought yet but I would say a very dry season in Brazil, much drier than it is good for the crop, it is only the Indian monsoon that is normal. The European weather is also very bad especially in Russia and Ukraine the crop is extremely stressed. The Russian beet sugar crop is likely to come in 30%-50% lower than its earlier estimates and Russia is the second largest importer of sugar after India and when India is not in the import market it is traditionally the largest importer in the world. All these factors have impacted the world sugar market. Also when the price in the Q1 of this calendar year had reached between 25 cents and 30 cents lot of countries chose to draw down stocks and eat existing inventories rather than import from the world market so there has been a lot of destocking and this pent-up demand has meant that the new Brazilian crop is virtually now sold out. More than half of the crushing in Brazil is over now and it looks like most of the sugar exports are already committed and there is a very, very long line up of vessels in Brazil now stretching to almost 40 days waiting time for loading because of this pent-up demand. So we expect world prices to continue to be firm. In conjunction with that the white sugar price is even stronger. White sugar refining premiums have touched as high as $200 during the expiry of the August contract and it is currently at around $130 per ton. So, by historical standards it is a very strong refining margin in sugar at the moment. The domestic market on the other hand has been very disappointing, domestic prices are now almost Rs. 5 a kilo cheaper than the world prices. The reason for that is the increased estimates of production in India coupled with the large amount of imports contracted in the first two quarters have meant that the domestic market is well supplied. With exports not allowed there is no easy arbitrage possible between the world and domestic market. Due to which the domestic market is actually lagging the world market by a very big margin now and the problems have further increased by excessive releases of sugar by the government who has been over cautious as in terms of sugar prices and extra sugar has really brought down prices in the last two months and the fundamentals are clearly going in the opposite direction.

Coming to the outlook for domestic prices I do not see prices improving very significantly until the start of the new season. When we start crushing in the new season, two things will happen one is that the cost structure of the industry would change quite a lot. We expect cane prices to be much lower than last year. In our case, we are expecting a 30% decline in our cane prices as compared to the 2800 that we paid last year. The second thing is that the government is likely to ease all remaining restrictions on export and this would probably allow the world prices and the domestic price to converge and that would be very positive for margin. Thirdly, we do expect now a very strong push by the Ministry of Food to decontrol the sector and I think that would be very positive for consolidation as well as for the general cyclicity of the industry because a lot of the artificial barriers like the levy sugar which is being taken from us as well as the release mechanism which controls how much sugar is sold, where it is sold how much to be exported all these controls would be disbanded so it would be very positive for the sector, gives much more play for market forces to act. I think this is one of the key turning points for the growth of the sector. I will now ask my colleague Gautam Watve to talk about our Brazil operations. Gautam has being spearheading our effort in Brazil. I think we have made considerable progress there and we now have two operating companies under our control. I will now hand it over to him for an update on our Brazilian operations.

Gautam Watve:

Thank you. Good afternoon friends. I will start off with highlights of the transaction that has just been completed, which is Equipav. We signed the basic documents with the shareholders on June 23rd. The appointment of the board of directors and the actual firm control was transferred to Renuka Sugars on July 8th. On the same day the term sheet with the major lenders was signed and we conducted the first board meeting just last week on August 4th at Equipav and Narendra is taking over as the Chairman of the Board at Equipav as well. In relation to the bank restructuring that took place at Equipav, all the global contracts with the three different categories mainly the G6, which are the top six banks in Brazil, with the EPP export pre-finance linked banks and the smaller banks have been signed and now just smaller amendments are currently being negotiated. We expect to sign all these final agreements with all the banks in this month probably towards the last week of August.

Now moving over to the operating results, I will go to Equipav first. Equipav this quarter crushed 3.1 million tonnes of cane and produced 165,000 tonnes of sugar along with 119 million liters of ethanol. We also exported 118,000 megawatts-hour of power over this quarter.

Now moving over to Vale Do Ivai, VDI crushed 566,000 tonnes of cane producing 41,000 tonnes of sugar and 15 million liters of ethanol.

Moving over to the financial results of Vale Do Ivai we actually closed Equipav on July 8th, so the consolidation will only happen in the current quarter where as for Vale Do Ivai closed on March 19th. We had the first full quarter of consolidation for Vale Do Ivai in this quarter. So in terms of numbers the total turnover for Vale Do Ivai was Rs. 1.4 billion and the EBITDA was 717 million for this quarter, which is almost 50% and the net profit was Rs. 81 million. We will throw the board open to questions now.

Moderator:

Thank you very much sir. We will now beginning the question and answer session. First question is from Nirav Shah from Antique Stock Broking. Please go ahead.

Nirav Shah:

Good afternoon sir. Couple of questions on the front of VDI operations; do you feel that the current margins of around 50% are sustainable and what are the reasons for such high margins?

N. Murkumbi:

In fact this year VDI is operating at around 65% of the rated capacity. We are crushing 2 million tonnes versus its capacity of 3.1 million tonnes. Next year when its production goes up, it will do even better. The reason for the margins is the sugar there is hedged at 20 cents and secondly we have had a good quarter in terms of performance. The recovery in Brazil we do not call it recovery, we call it ATR, the ATR is higher than the previous year so that is why the numbers are looking good. Also you will see that in VDI we have a very special arrangement. We host a Yeast manufacturing plant, which is owned by American multinational company called Alltech and we supply steam and power to them as well as molasses and that is also giving us an income stream which is virtually like cogeneration. So while VDI does not have cogeneration it gets the cogeneration like income stream from the supply of steam and power. These three factors are contributing to the good EBITDA margins of VDI. We are quite optimistic that next year when we reach close to its rated capacity numbers will be quite good.

Nirav Shah:

Great sir, second on the Brazilian operation is what are the carry forward losses at Equipav and VDI?

N. Murkumbi:

We are making a full disclosure of both balance sheets as soon as the audit reports are over. You should have that in the next month or so.

Nirav Shah:

Finally even for higher other income during the quarter?

K. K. Kumbhat:

Are you talking on a standalone level?

Nirav Shah:

On a consolidated basis I think you have other income of around Rs. 43 Crores?

K. K. Kumbhat:

In this quarter, I have received dividend income of about Rs. 56 million on investment of surplus money, then I have some profit on sale of investment, which was there in the book of around Rs. 37 million, and balance is actually forex gain for the company.

Nirav Shah:

Okay that is forex gain. Great sir. Thanks a lot sir.

Moderator:

Thank you. The next question is from Vikas Jain from CLSA. Please go ahead.

Vikas Jain:

I have couple of questions on the consolidated profits if we take off the standalone and also of the profit reported for VDI we still get about 73 Crores as profits from other subsidiaries. Could you provide me the breakup for that?

N. Murkumbi:

Well about our other Indian subsidiaries have about Rs. 50 million of profit, companies that are operating sugar mills, which are not yet consolidated; they are in the process of merging with the main Renuka Sugars Limited. The rest is trading profits from our Dubai subsidiary. Now we had large imports, large trading in white sugar and raw sugar. In the quarter under review two things happened. We have had trading income both in the standalone company as well as in our Dubai subsidiary. The reason being that we profited is because of two things. One is in the January to March quarter we had sold lot of our raw sugar when the market was close to its peak and some of the those shipments are happened in the current quarter especially in April and May and those profits have been booked in this quarter. Secondly, we had trading position of white and raw sugar, with these sugars, of course the Indian market was not very attractive but in the region for example, Thai Sugar there was a big shortage. Thai government brought back a lot of white sugar, so the prices of white sugar in the Asian export market were very high and Renuka on a group basis has benefited from some of these trades.

Vikas Jain:

You mentioned that the trading profits in Indian subsidiary, it is roughly how much?

N. Murkumbi:

It is there in the segment result, it is about 286 million, mainly due to the sale of raw sugar to other parties. Most of the sales were done in February and March but the actual shipment happened in April to June quarter.

Vikas Jain:

The other thing was in terms of VDI as I see if you look at the net sales breakup others form a significant chunk which is about one third roughly so this would be what you are talking about the Yeast and other income thing or it is a one off because we had a lot of inventory when we started the year?

N. Murkumbi:

No, I think in this quarter the main contribution is from sale of steam, power and molasses to Alltech and as I explained this is not something which we had not highlighted in the past. There are so many other things to talk about, but basically this functions like a cogeneration and the proportion this quarter is slightly higher is almost one third, you are right, mainly because of the low sales of sugar there is lot of inventory of sugar, which we have dispatched to the port but because of the huge logistical logjam the sugar has not yet been loaded on the ships and invoiced to the customer. And therefore the proportion has got a bit disturbed. It is said when the plant is operating that is the three quarters, second, third and fourth calendar quarters of the year you would expect this kind of income stream every quarter from the other segment, which is steam, power and molasses sale.

Vikas Jain:

So on absolute basis you are okay with the number it is only that the percentage has gone up?

N. Murkumbi:

Percentage has varied due to the less dispatches of raw sugar to the customers because of the logistical problem, but it will catch up in the next two quarters.

Vikas Jain:

That is okay. The other thing was in terms of number you have given the EBITDA and net profit could you also provide the breakup in terms of depreciation and interest, would that also be available for VDI?

N. Murkumbi:

Yes, Gautam will give you the number.

Gautam Watve:

The number for depreciation for this quarter is Rs. 341 million and interest is Rs. 296 million.

Vikas Jain:

The forex gain you just mentioned in the previous question how much would that roughly is for the consolidated?

K. K. Kumbhat:

For the quarter forex gain is roughly about Rs. 497 million.

Vikas Jain:

Yes, thank you. One more thing was I mean this is something, which you typically mention in your opening remarks. But how are you seeing in terms of production for the coming season in India, is it very similar to what you were seeing when we did the last quarter call or is it I mean you are more confident about the numbers now or anything?

N. Murkumbi:

Well, the situation has turned quite dramatically actually the production estimate has not changed. I think we will currently go with the ISMA estimate of 25 to 25.5 million tonnes for next year. What is interesting is that if the government were to allow free trade of sugar then I don't see any problem at all with the market. As I said earlier the export price from India today is around 28 rupees and the domestic price is at 24-25 rupees. Next quarter also as the Brazilian season is in full crush, however the line up of ships is getting longer and longer and our own estimate is that the entire Brazilian export for this year are already sold, that means they are committed, a lot of it has to be shipped but basically the exports are all committed, so in that sense the outlook is very positive for the next quarter. Brazil is having a very dry winter this year, which is helping the crushing to go on very fast, however it is pressing the crop for the next year and something we all are worrying about those of us who are operating in Brazil, that again puts a further positive tilt to the market, so the issue now is really how free the Indian industry is to manage its marketing and that will really affect our profitability for the next year. That is why we see decontrol as a key to the future in fact. In the meantime I must say something, which I should have addressed in my opening remarks. We still have the flexibility today for all imports of raw sugar that rather than bring it under zero duty we can actually import it in advance license scheme, refine it and re-export it, since this is additional sugar that we are bringing in to the domestic area we are free to re-export that even under the current policy, so since the middle of last month Renuka's refineries are actually processing raw sugar under advance license for re-export into the world market and as I said raw white premiums are at record levels and the net margins we are realizing are about $80-100 per tonne and therefore we are focusing all our additional refining which we are going to do from this point onwards on the re-export market, so we are no longer exposing any further inventory to the domestic market.

Moderator:

Next question is from Shekhar Singh from Goldman Sachs. Please go ahead.

Shekhar Singh:

Sir, on the global scenario what is it that is impacting the European production business? You mentioned that in the opening remarks.

N. Murkumbi:

Well, you must have seen the news reports on what is happening in the wheat market. Wheat market is up about 80% in the last two months because Russia is having the worst drought in 50 years. Wildfires are also running because of the complete dryness of the country, the climatic conditions are very dry. What this has meant is that the sugar beat crops, the wheat crops; the major crops of the planes of Russia are completely affected. The same thing is happening in France and Germany also in a lesser extent but it is mainly Northern Europe that is extremely badly affected. Russia is traditionally the largest importer of sugar; it consumes 6 million, more than 3 million it imports from Brazil. Now there is an expectation that the imports may rise to as high as 4.5 million, secondly in Pakistan I think yesterday aid agencies announced that almost half million tonnes of sugar production has been wiped out in the flood. Pakistan is already facing an extremely tight situation; unlike India the private sector in Pakistan did not import any raw sugar so the government has had to do all the imports this year. That has created a very big shortage situation. So that is expected to continue in the next year. But I think over and above all this the main issue of concern for the market in 2011 is actually the dryness in South Brazil. In Parana State where Vale Do Ivai operates the rainfall is normal but Parana is only 15% of Brazilian production. The main Sao Paulo, which is about 65% of Brazilian production, is drier than normal. It is going to press the crop in the last three months of this year when the cane is still young and it will be crushed in the October December period. More significantly for next year people are now saying that the Brazilian crop will be lower than the current year. Current year estimates were earlier 600 million tonnes of cane to be crushed in south Brazil and have been reduce to 580 million tonnes, that is the equivalent about 3 million tons of sugar lost because of the lower estimate. So that is why the outlook for sugar worldwide has improved dramatically.

Shekhar Singh:

On a balance for the world as a whole like in terms of production what is the estimate as compared to the last time?

N. Murkumbi:

If you take the estimate by Kingsman the world was supposed to move from 6 million tonnes deficit last year to a surplus of 4 million next year in 2011. I think now that number will probably be flat and if there are further revisions due to weather, next year will also go in to a deficit. Now when you account that a considerable portion of increase in production is in India, which is not easily accessible to the world market, then the world is already in deficit, the world excluding India is already in deficit, that explains part of the movement in the world market.

Moderator:

The next question is from Arya Sen from Credit Suisse. Please go ahead.

Arya Sen:

Good afternoon sir, firstly I want the cost at which the inventory is being held at the end of this quarter, the different inventory figures that you have given.

N. Murkumbi:

We have average cost of about Rs. 25.50 on our sugars here in India and our inventory of white sugar is about 409,000 tonnes, manufactured sugar.

Arya Sen:

That is at what price Sir?

N. Murkumbi:

Rs. 25.50.

Arya Sen:

And the raw sugar that you are holding of 187,000 tonnes?

N. Murkumbi:

Well, that is a mix of cheap sugar that we imported later, the average price is about Rs. 22.

Arya Sen:

Sir, on Renuka DMCC the trading subsidiary, I just wanted to understand what is the nature of the business that you are doing there and what can we expect from it going forward, is it completely opportunistic, or is it something we can expect some higher numbers going forward as well. Can you elaborate a little on that?

N. Murkumbi:

Well, it has been our subsidiary for more than four years and if you study the results of the past it has been opportunistic, it does trading only in sugar and ethanol, not in any other commodity and it does that on the basis of the information we have from our manufacturing operations in India and now of course also in Brazil, and for the last three or four quarters, it has been actively trading in raw sugar and white sugar including selling to other Indian companies, which were importing sugar. It has benefited from these flows, also as I said both in Renuka DMCC as well as in the parent company, we had liquidated a significant quantity of raw sugar purchases in the first quarter and we are seeing some of the follow through effect, because some of the dispatches are completed in this quarter and there have been sizable gain on those sales. Now, in addition, we were trading Thai white sugar there and Thai white sugar premiums have been at a record because the government of Thailand itself got back Thai sugar for the domestic market, so some of these trades were priced at very high margin even by historical standards. Going forward this quarter also we expect good numbers from the subsidiary, because there are good sales, which will be dispatched in this quarter and on the standalone basis as I said our refining business is now working on an advance license basis, bringing in raw sugar and refining and re-exporting and that will have much better margins than the domestic market.

Arya Sen:

Sir, on the refining business what sort of volumes from the standalone business are you expecting from the refining site for next year?

N. Murkumbi:

Well, I think, our plan is that our refinery in the West Coast of Gujarat will get commissioned in January 2011, so Haldia plus the new West Coast refinery together we hope to do about 1.2 million tonnes, the outlook for the refining margin is very strong at least for the next six to nine months and going forward after that we will have to see, but currently the tightness in the white sugar market is much tighter than the raw sugar market, also logistically what is happening in Brazil is that because of the restricted port capacity, many of the port terminals, which were handling white sugar are now converting themselves to raw sugar terminals, because the throughput by mechanical loading of raw sugar is about four times the throughput of loading white sugar in bags, so effectively Brazil is slowly exiting the white sugar market for logistical and cost reasons. And therefore, we expect the tightness in the white sugar market, which has become a structural tightness until more refining capacity comes up at destination. So we see the outlook quite strong for the next couple of years.

Arya Sen:

For re-export purposes, would you be running the mill-based refineries as well or it will be mainly from the port-based refineries?

N. Murkumbi:

Well at the current margins, even mill-based refineries are earning good margins, which is a surprise. We never expected that, margins by historical standard are very high. At current levels of margin, the white premium of $120 to $130, it is viable to run even Karnataka based refineries on the re-export mode. Of course now between October to March they will be crushing cane, so they will have very little capacity for processing raw sugar in addition. But Haldia would continue to work throughout the year on re- export basis as it is doing at the moment.

Moderator:

The next question is from Achal Lohade from JM Financial. Please go ahead.

Achal Lohade:

Hi, just a couple of questions. First, I just wanted to know what is the cost of production at VDI and Equipav at let us say current prices of cane and other cost?

N. Murkumbi:

Well, I do not know for this quarter we have not mentioned in terms of cents per pound, but at full capacity we expect both companies to produce sugar at variable cost of about 11 cents.

Achal Lohade:

Okay, and how much would that be in case of at the port?

N. Murkumbi:

No, I am talking about 11 cents FOB equivalent. The factory cost is about 8.5 cents and then the logistic cost of about 2.5 cents.

Achal Lohade:

Okay. Sir, another thing I wanted to know is what kind of volume we are looking at for the current year in terms of overall sales volume for India, because I remember in the last quarter call, we were expecting a run rate of 400,000 tonnes a month, but we could sell less than that, so how do you see balance couple of months, do we expect to carry large inventory towards the end of the season?

N. Murkumbi:

Well, this quarter you are right, the last quarter with prices declining in the top limit that are in existence in India, it has been very difficult to push volumes. We have done about 299,000 tonnes this quarter and in addition the trading sales have been about 93,000 tonnes, so about 390,000 tonnes of sales. This quarter with the re-export program as well as the domestic sales, we should do about 400,000 tonnes and we expect to carry forward inventory about 300,000 tonnes into October.

Achal Lohade:

In the beginning of 2007 season we were hoping for pretty low production, but we ended up having higher production probably because of the miscalculations by few of the State estimates, so do we see that gap as already being solved or do we see the same state of affairs going on?

N. Murkumbi:

Well, Indian production estimates continue to be inaccurate, it starts with the fact that the farming is very dis-segregated and very small farmers nowadays tend to register the same cane with more than one factory and in years of shortage they do not register the cane with any factory, because they want to trade the cane, so that is why production swings either way. But if you see gross acreage, the planted acreage is up only 13%. I think we are all being cautious looking at past estimates and actually forecasting a much higher increase in production than the actual planted area indicates. If you go by planted acreage, next year the estimate will be only 22 to 23 million tonnes. People are just adding a little more, I think the estimates we are just adding a little more accounting for the fact that some of the acreage may not yet be reported and may come in later.

Achal Lohade:

Okay, just on the debt front, what is the consolidated debt as of now and what is the cash position?

K.K. Kumbhat:

Well as far as our total Indian operations are concerned in consolidated total long term debt is about 870 Crore rupees and in case of VDI the total debt is about 672 Crore rupees long term and in our book we have working capital of 673 Crore rupees.

Achal Lohade:

What is the cash position Sir?

K.K. Kumbhat:

Well cash equivalent should be around 200 Crores.

Achal Lohade:

Just on the CapEx Sir, what is the CapEx we are expecting in FY'10 as well as FY'11?

N. Murkumbi:

We have got about 200 Crores additional expenditure on the Gujarat refinery which is committed and which will be spent in the next six months and we have a cogeneration project going on in Maharashtra on the build-own-operate, we have commissioned 30 megawatt, another 24 megawatt is being commissioned, that is about 90 Crores. So out of that about 65 Crores is still to be spent.

Moderator:

The next question is from Avinash Agarwal from Sundaram BNP Paribas. Please go ahead.

Avinash Agarwal:

Are we still producing for domestic market in West Bengal, etc., from Haldia or have we completely shifted to the re-export model Sir?

N. Murkumbi:

We are not producing any more sugar for domestic production in any of our refinery.

Avinash Agarwal:

Sir when did we shift from this domestic to re-export model?

N. Murkumbi:

In the middle of last month, middle of July; however there is some inventory produced for domestic consumption. As per current rule the government does not allow export of that sugar. But even that we expect to be freed up in the next few months, but at the moment that is not allowed for exports, but current production is all destined for exports.

Avinash Agarwal:

What is the kind of realizations that we are getting right now in the domestic market sir for whatever inventory is left?

N. Murkumbi:

In Haldia is about Rs. 26. In Maharashtra it is about Rs. 24, the export realization at Haldia, because we are making refined sugar, is between Rs. 29 and Rs. 30 a kilo, on the net ex-refinery basis.

Moderator:

The next question is from Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah:

Sir, in terms of exports you just mentioned that the government would likely allow exports and thereby allow the prices in India to convert to the prices globally. The government would typically do this only if they are convinced of high production numbers. If prices do start moving up because the exports become lucrative why would the government go ahead and allow exports to happen?

N. Murkumbi:

You have posed a very pertinent question. I think the government is on record as saying that they will look at exports only after they assess production, they have a firm view of production, therefore opening up of general exports is not something that is going to happen overnight, your point is right. What I was trying to differentiate between is that and importing raw sugar, refining and re-exporting which is allowed, even now it is allowed, last month also it was allowed, last year also, this was for the first question. Secondly you are right the world market continues to be as strong as it is, there could be a view in the government that we do not allow re-exports even if there is a surplus in India. The only thing against that is in the last six months the farmers had been paid; the industry was holding high cost stock. Therefore, there was very little pressure on the government to act. Now we have a situation where the industry or large parts of the industry is making losses. Many balance sheets are strained, still have a lot of high cost inventory on their balance sheets relative to their size and we are creating a situation where come October or November, the cane prices are going to be much lower and I think we have already seen that, 1500 Crores of arrears from last year which is still not paid and the situation is going to rapidly get very bad in the first two months of the new season because many factories do not even have the money to start. The Maharashtra government has in fact has been forced to release 300 Crores to about 60 cooperatives which otherwise without that money are not even able to start crushing and it became a matter of public interest because without those factories crushing there is too much cane in Maharashtra for next season compared to the rest of the crushing capacity. So I think public policy wise while the consumer was under great pressure and prices had doubled within a year and there was a clear emphasis on controlling price. Next year if you do not have an open market the industry is not going to be able to produce 25 million tonnes and pay the farmer, so there will have to be a balance between the interest of the farming side and the consumer side.

Nillai Shah:

There are people in the government who actually understand this?

N. Murkumbi:

Government always understands this, I think it is a very difficult situation, if you see, in fact let me say for all the ups and downs we have had in this industry, India has done a much better job of its sugar economy than most other countries. There is no sugar in Pakistan for Ramadan actually. Government has bought sugar now at $725 and the sugar is not even going to arrive in time for Ramadan. The domestic price in Pakistan is Rs. 50 per kilo in Indian rupees, so we can all of course take potshots at whoever is in charge including those of us who are in charge of sugar companies but I think in very difficult volatile circumstances. You see the sugar chart for the last 12 months, if somebody is continuously able to survive and produce profits in that economy I think going forward you have a more freer industry we are setting the foundation for a very good performance.

Nillai Shah:

The second question was you said that you are now working on the advance license model again, are you not allowed to work on the tolling model?

N. Murkumbi:

Well, see we are bringing in raw materials from outside. We are purchasing it and we are re-exporting, so that has always been allowed. The problem is people who imported sugar in the past refined it and sold it in India under the ton-per-ton advance license scheme and are now asking for permission to export again those old export obligations, that clearly the government feels is taking sugar out of the domestic balance and that is why that is not being allowed.

Nillai Shah:

The difference for you as a stand-alone refinery in Haldia, that you can actually operate on the ALS scheme or you can operate on the tolling model, so why are you operating on ALS and not the tolling model?

N. Murkumbi:

No the ALS and tolling are same. It is a different way of saying it.

Nillai Shah:

In India the cost of production tends to move up as you go through the sugar year, so in Brazil too will this cost of production move up and hence bring down this EBITDA margin that we are talking about?

N. Murkumbi:

In India typically we accumulate period expenses on top of the inventory, there as you can say Brazil model is to sell product fast, you are exporting you typically have very low inventory at the end of the season. So there is no time really for accumulation of costs on top of the inventory.

Nillai Shah:

And the final question is on the ethanol policy any update on that sir?

N. Murkumbi:

See, the Group of Ministers, which had been constituted on this subject finally met after a long gap. The finance minister is heading this panel. What they have decided is that the ethanol program will restart at a provisional price of Rs. 27/litre, based on several representations from other user industries like chemicals and potable alcohol etc., they are re-looking at the price, they have appointed an expert committee, a seven member committee headed by Dr. Saumitra Chaudhuri who is a member of the planning commission. I am the member representing the sugar industry, there is also a representative from the oil industry, so this committee is set with fixing the final price of ethanol and the understanding is that whatever the committee sets as a final price and it is likely to set not only a price but also mechanism to determine the price in the future, that price will be applicable from day one, so the supplies will start immediately at a provisional price of Rs. 27/litre. Following up from that decision, the oil companies have already issued a request for proposal which is due on the 18th of August and all of us are supposed to indicate how much quantity we are willing to supply at the price to the determined by the committee and starting with a provisional price of Rs. 27. So in that sense the process of buying has already been initiated. There is one final approval required for all these procedures from the Cabinet Committee Of Economic Affairs, which is expected in the next couple of weeks, it is supposed to be discussed in the next couple of weeks and finally the update on the consumption is that with petrol consumption growing strongly, the 5% blend for the next 12 months is now supposed to require about 1.05 billion liters, up about 200 million liters or 20% more than what was the request one year back. So we feel that the entire surplus capacity of the industry and the surplus molasses will get easily absorbed by this large demand.

Moderator:

The last question is from the line of Varun Guntupalli from Edelweiss Securities. Please go ahead.

Varun Guntupalli:

With regards to the tax I would like to know why is it negative this quarter in both standalone as well as consolidated?

K.K. Kumbhat:

Well in tax you do the working on a cumulative basis, so if you have an income which is subject to the low tax or exempt under Section 80 (i) then and you need to take adjustments for that and the balance is provided for this period and therefore you have the figure which is typically negative for this quarter.

Varun Guntupalli:

In that context, do you see a similar tax number for the fourth quarter as well Sir?

K.K. Kumbhat:

No fourth quarter if numbers are fine then you will have a normal tax quarter coming at the rate of, on a standalone basis; we are somewhere close to about 28-30% it should be in that range.

Varun Guntupalli:

In terms of the molasses and bagasse what is the current price Sir?

N. Murkumbi:

Molasses price is about Rs. 3,000 and bagasse price, actually it is off-season now, there is very little bagasse left, whatever is there is about ex-factory available at around Rs. 1200.

Varun Guntupalli:

Sir in terms of these prices, are they expected to go down with new sugarcane in the next year?

N. Murkumbi:

No, as I said the request of the oil company is for a supply 1050 million liters, the potable sector is now claiming that their demand is 1.4 billion liters, if you just add these two there is actually no surplus of alcohol, also the world price of molasses and alcohol are at about, molasses about $100 plus and alcohol is about Rs. 25-26 FOB so I do not see any reason for softness in the alcohol price, in fact alcohol is at a significant discount to sugar prices and therefore is already undervalued and there is very strong demand, again from Brazil alcohol prices, export prices are very strong, so outlook is quite firm in the Asian region.

Varun Guntupalli:

I was talking about prices of molasses sir?

N. Murkumbi:

If people can sell alcohol at good prices, the molasses price moves up calculation of capacity comes in this phase. The molasses does not move in isolation, its price moves in line with ethanol prices.

Varun Guntupalli:

But I was talking in terms of the correlation with the pricing of sugarcane, I was talking about in that context actually, it moves more with alcohol price rather than sugarcane price right?

N. Murkumbi:

And that is why it is many times anti-cyclical.

Varun Guntupalli:

Okay sir and even bagasse also it is similar case?

N. Murkumbi:

Bagasse prices should move lower next year.

Moderator:

Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Nirmal Shah for closing comments.

Nirmal Shah:

I would like to thank the management of Renuka Sugars for giving us chance to hold the conference call, thank you sir.

Moderator:

Thank you Mr. Shah, thank you gentlemen of the management. On behalf of Alchemy Shares & Stock Brokers Private Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines, thank you.