Shree Renuka Sugars Limited
November 2010

Moderator:

Ladies and gentlemen, good day and welcome to the Shree Renuka Sugars Limited Q4 and FY'10 results 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. Thank you and over to you Sir.

Nirmal Shah:

Good Evening, ladies and gentlemen, on behalf of Alchemy I welcome you all to the Q4 FY'10 conference call of Shree Reunka 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 to give the initial remarks and then we can have a Q&A session. Over to you Sir.

N. Murkumbi:

Good evening ladies and gentlemen, thanks for joining the conference call for the earning of the full year as well as the last quarter 2010 financial year ended September 30, 2010. We will be delighted to share the results with you a) because I think it is the first clear quarter where the results of our Brazilian operations are also reflected in the numbers and also I think we have been able to show how differentiated our business model is from the rest of the industry and also showcases our superior risk management and marketing abilities in a very volatile environment. We have had positive results both from sugar manufacturing in India as well as in Brazil and sugar trading both in India and globally. So I will now request my colleague and Chief Financial Officer Mr. K.K. Kumbhat to give you a quick recap of the main numbers and then I will come to the outlook and our plans for the future. Thanks.

K.K. Kumbhat:

Good evening. I will give you the present Q4 and the year ended September 10, 2010 results for the company as a whole that is consolidated results. The total income for the quarter was Rs.25.712 billion and for the total 12 months that is full year it was Rs.78.639 billion, which includes other income of 1.1 billion for the quarter and 1.94

billion for the 12 months, full year. The EBITDA for the quarter was Rs.4.53 billion and for the 12 months it was Rs.14.145 billion. The total interest for the quarter was Rs.1.67 billion and for the 12 months period it was Rs.2.87 billion.

Depreciation for the quarter was Rs.1.6 billion and for the 12 months full year it was Rs.2.58 billion. Total profit before tax for the quarter was Rs.1.26 billion and for the year it was Rs.**8.68** billion. Provision for tax including deferred tax was Rs.139 million and for the year it was Rs.1.528 billion. The total profit before minority interest was Rs.1.4 billion for the quarter and Rs.7.16 billion for the 12 months period. Minority interest for the quarter was Rs.230 million and for the year it was Rs.237 million. The total profit after minority interest under tax MAT for the quarter was Rs.1.17 billion and for the year it was Rs.6.92 billion.

Earnings per share that is basic and diluted for the quarter was Rs.1.75 per share and for the year it was Rs.10.66 per share. I will hand over to Mr. Murkumbi for giving you more details about the industry. Thank you.

N. Murkumbi: Sugar continues to be a very volatile commodity in the last three months since we had our last earnings call. The market has first shown a very sharp upward trajectory rising from about 17-18 cents to a level which peaked at the new contract high end of a 30-year high price of 33.39 cents and subsequently a major correction in the last two sessions on Thursday and Friday by almost 20% and ending at 26.2 cents. Today the market has opened quite and range bound. It is about unchanged. But what this highlights actually is the two underlying factors, one is the small amount of inventory across the world which means that there is a lot of buying on this and secondly the other thing that 2010 has shown us is an extreme vulnerability of the world sugar market on the performance of two countries, India and Brazil. Brazil is now about 60% of global sugar supply and about 70% of the raw sugar supply for the world market. So any disturbance in Brazil is having a disproportional effect on the world market. In the prevailing period July-August-September, there was a little rain in Brazil. The crop was very dry, yield started falling, agriculture yields have fallen by an average of about 8 tonnes per hectare or 10% and the 2010 crop which was supposed to be 602 million tonnes of cane it is likely to end at around 562 million tonnes of cane and this was the main trigger for the rising market. It has been helped by drought in Russia, which is the major importer this year in 2010 and also by China. Traditionally, China has managed with small amount of exports from its traditional supply to Cuba and opportunistic purchases at low prices from the world market, but this year already we believe China has bought 1.5 million tonnes of sugar and is likely to be a major support factor of the market on this because while its crushing is currently going on, it is expected to produce about two to three million tonnes less this year compared to its domestic demand, which is now about 14 million tonnes.

Strength in sugar has also been reinforced by the strong performance of corn and Soybean. These crops are having an extended bull run, but the volatility that is there, is a function of both the effect of weather on production estimate as well as the large participation now of hedge funds and other financial investors who are participating in the agricultural market especially till October 1 we increased allotment of funds to buy H1s to the commodity space and especially agri-commodities has served to highlight and increase the volatility in these markets.

Looking at Brazil at current exchange rate of about 1.7 to the dollar the cash cost of production is about 11.5 cents for mills in the Sao Paulo state. It is higher for the mills in the interior of the country because of higher logistics cost and the full cost of production for new mills is between 18-20 cents. So we think that given the slow pace of capacity addition in Brazil and the virtual aspects of any major new source of supplier other than Brazil, the world prices on the whole will stay above the Brazilian fuel cost of production because otherwise it is very little incentive for new construction and even for projects to make more sugar rather than ethanol in Brazil. For the current crop in Brazil the mix is about 44.5% sugar, which means that despite high sugar prices for the last 12 months this swing has been quite minimal. Renuka has been an exception in this trend in the sense that in both our companies we have made immediate investment to produce more sugar from the existing cane and existing plant and machinery by adding some balancing equipment and more crystallization capacity.

Coming back to India domestic prices of course peaked at around Rs.42 for sale in January and February 2010 and since then corrected very sharply along with the world market and bottomed at around Rs.24 per kilo except in Karnataka and Maharashtra in September. Since then, the prices have risen again partly because of the surplus the government allowed the export of imported sugar that was about 57,000 tonnes and also allowed export of against old export obligations in advance licenses. So the net effect has been a release of about 1.5 million of sugar from India to the world market, of which currently about 0.5 million is shipped and another million is expected to go out in phases between now and the end of March 2011.

In addition, to this the industry is agitating very strongly to be allowed to export about 2 million tonnes of sugar on a free basis. Right now this is under consideration. No decision has been taken. We do expect some additional exports to be allowed after the season crushing commences. Weather in India has been very unusual unlike the rest of the sugar world where drought has been a problem. In India, there has been excessive rain and a prolonged monsoon with a deferred withdrawal. So even today, in the cane growing region of Maharashtra and Karnataka we are having a lot of rain. Mills have started crushing. Almost all mills have started in Maharashtra and Karnataka, but are crushing at around 50% of the capacity because it is very difficult to cut cane with this kind of rain and it is expected to continue until the end of November.

Current estimates are that the sugarcane crop is about 346 million tonnes, which by past experience would be a production of between 25-26 million tonnes of sugar. However, in Maharashtra with this delayed start and if we have a regular monsoon next year with the rain starting in the second week of June, it is possible that all the canes that is available will not be crushed. So the industrial capacity will be inadequate versus the total quantity of cane available and this would be one limiting factor on total sugar production in the country. As far as cane prices go, domestic price levels are higher than was expected about three months back. As I said, average sugar prices in India are about Rs.27, in Maharashtra and Rs.29 to Rs.30, in the north. The Maharashtra cane price in my expectation is starting out at around 2200 to 2300 and would probably rise to about 2400 provided prices remain stable and more exports are allowed.

Currently, for exports the export price for 150 ICUMSA of sugar, which is the majority of sugar manufactured in the country, is about Rs.28 to Rs.29 a kilo and for refined sugar i.e. 45 ICUMSA of sugar, which we make in our refineries it is about Rs.30 a kilo. This is on ex-mill refinery basis. Looking forward for the next year of course India will be about between 25 and 26. It is an exportable surplus depending on government policy of about 2-3 million tonnes in total of which as I said, already a million tonnes under old advance licenses has been allowed.

In Brazil, the 2011 crop depends a lot on weather going forward. There has been very little planting because it was very dry for four months, so basically it is the same cane as the cane in 2010 season. So no net increase in area is expected. The 2011 crop could have the same amount of cane as this year provided we have good rains over the next four months. About two-thirds of the annual rainfall is happening between October and March in South Brazil, so this is what we would call a rainy season in Brazil, off season also starting next month and it would be very critical to observe the rainfall in this period because that would affect the yields in Brazil, but the more optimistic estimates are that we have a crop almost equal to this year, so the pessimistic one could be a smaller crop which will again be very supportive of the world market price.

As far as ethanol is concerned ethanol prices have risen a lot year-on-year in Brazil as well as in the world market, but they are still trading at the equivalent of 20 cents sugar for anhydrous alcohol which is mixed with gasoline and about 17 to 18 cents for hydrous alcohol which is sold as a fuel directly for flex-fuel cars.

Finally I wanted to talk a little bit about our company's operations in Brazil. During the Q&A question I will request Gautam Watve, my colleague, Head of Strategy, who is also looking at all our operations in Brazil, who will answer specific questions about the Brazilian subsidiaries, but we have a turnaround plan in both the companies and I think in VDI now we are in control for almost nine months and we can see the effects of the turnaround and we can highlight three factors to this turnaround, one is the capitalization which has enabled us to restart agricultural planting of more cane and also to take better care and fertilize the current crop for better yields and two is the investments in making more sugar and more anhydrous ethanol compared to previous change due to product mix, change the product mix to improve realizations per tonne of cane and thirdly good risk management, for example this year VDI has an average price of about 20 cents which was locked in much ahead of the collapse that happened in between and we have started taking similar hedging action for next year as well, so that we can lock in a good margin on our sugar sales which are about 70% of the total production volume of the company, we have a product mix of 70% sugar and 30% ethanol in VDI which again a project which we started upon taking over and which is already commissioned. In Equipav which is now renamed as Renuka Do Brasil, we have cleared a lot of the pre-existing issues and started an aggressive program for planting more cane, the capacity of Renuka Do Brasil is supposed to go up from 10.5 million to 12 million, but currently there is only about 9 million tonnes of cane, so we have to increase cane in two years from 9 million to 12 million tonnes per annum. There was virtually no top management team but we have inducted several senior officers including the agriculture director, the logistic director and people from legal and HR and most importantly we need to announce that one of the most respected CEO in Brazil, somebody who was handling one of the top two cement firms in the country is joining us as a CEO; he has headed a 2 billion Reais company until recently and has a proven track record in turning around and managing a sick company and putting in systems and improving the financials, cutting down costs and improving logistics. He comes with a very wide experience in this field and he will be joining us from tomorrow, so we are looking to a very positive outlook in both the companies. For the last quarter, Renuka Do Brasil had effectively carried over sugar contracts from last year which has not been fulfilled and the average price of sugar for this quarter is just 15.83 cents but despite that you can see the financial performance of Renuka Do Brasil is already reflecting improved performance and we do expect that in the coming quarters our Brazilian business would be very important, probably the leading contributor to our total EBITDA. As the operating levels of the company is very high and we do expect as performance improves, operating performance improves prices, we expect to remain firm and the combination of this will enable a very rapid accretion of cash flows in both the companies leading to a much more improved financial position in these two subsidiaries. This is the summary of how our companies have done in the last quarter. I think the India business had a very weak result last quarter, I think with the correction in sugar prices in the last two quarters it required a lot of management and balancing between exports and domestic sales to have positive results. We took proactive action to lock in sales, mainly export sales to Pakistan. Of the total of around 260,000 export sales , 227,000 was exported to Pakistan and if you look at our opening stock of white sugar, which is about 270,000 tonnes, almost 160,000 tonnes of that is already sold at a good price for export sales, so we are entering the **first** quarter with very little opening inventory. Therefore, we do not expect any inventory losses, given the fact that we have a decent amount of export licenses and now a rising domestic price. This is the end of my opening remarks and I will throw the floor open for questions. With me are our CFO Mr. K.K. Kumbhat and our Head of Strategy and Brazil Operations Gautam Watve.

Moderator:

Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Neerav Vasa from SBI Caps. Please go ahead.

Neerav Vasa:

My question pertains to the Indian operations. The pricing that you are offering to your cane farmers that is in the range of 2,200-2,300 rupees per tonne, what is the mood across the farming community as of now based on these prices, are they happy to continue cane cultivation or are they interested in switching to other crops?

N. Murkumbi:

Well last year, the average price in Maharashtra and Karnataka with the average recovery of about 12% was about 2,800 rupees per tonne. This year the price would be depending on how sugar prices move over the season up to April or May and the price will vary from 2,200 to about 2,400. It may even go to 2,500 if a larger export quota is allowed. Currently, the sugarcane price is definitely lower than last year and therefore we are not seeing much interest for new planting but I think the price is quite good enough for farmers to maintain their output subdued right now, waiting for the allowing of exports of wheat. The decision has not yet been taken by government and unlikely to be taken very fast, but in the south, one major factor is the price of cotton., In some parts of Maharashtra, cotton is one of the shorter duration crop than sugarcane. We are working on the situation. Cotton has never outperformed sugarcane before but right now the price is very attractive and it is in a new zone. World cotton prices are at an all time high and nobody knows where the next trend of cotton prices is, so that is something to watch, but net-net, I do not see any increase in area given that prices have dipped compared to last year, but neither is there a distress situation, the other thing to watch is if we are actually going to have a 25-26 million tonne sugar production, peak stocks in India could be about 15 million tonnes at the end of April. That means that cash flow for cane payment in the last half or one third of the season could be quite bad. This is primarily because a majority of the industry, more so unlisted space, which means unlisted private companies, which are typically small companies and the whole cooperative sector, which accounts for 40% of the Indian sugar production have not made any money, despite the record sugar prices that prevailed for part of the last year. So, there balance sheets are, if anything, in worse shape this year than they were last year and one must wait and watch to see the extent of cane arrears and I would say that these are the main factors that will influence the trend of the total acreage under sugarcane.

Neerav Vasa:

Sir, my second question pertains to the pricing which is offered by the gur and khandsari manufacturers to the cane farmers as of now, can you throw some light on that?

N. Murkumbi:

Well, price of gur was very high until the start of November, so it is not a major factor in Maharashtra and Karnataka, more than 90% of the cane comes into the factory and in the North, it is only now that the gur prices have started coming off and I believe that with an SAP of 205, the gur producers will have to pay at least 190-200 because they pay on the same day whereas we pay after 15 days. So they do get cane at a slight discount and I think the price of gur is going down, so it maybe difficult for them to match the 200 to 205 rupee price vis-à-vis SAP.

Moderator:

The next question is from the line of Ashwini Desai from Bajaj Allianz Insurance. Please go ahead.

Ashwini Desai:

Sir, I have questions pertaining to Brazil, can you give me a sense of cost of production in VDI and Equipav because I heard that like in Maharashtra, you have to share the portion of the profits with the farmers, and so could you throw some light on this?

Gautam Watve:

Normally what happens is for cane that you get from suppliers you end up sharing 60% of the cost with them, 60% of the revenues you get from ethanol and sugar and for your own cane obviously it is only the least cost, it comes to about 20-25% of the revenues that you share. Depending upon your mix of own and supplier cane, your sharing would actually vary, now at full capacity the cost of production should be 11.5 cents as Mr. Murkumbi had mentioned earlier.

Ashwini Desai:

Is this for VDI?

Gautam Watve:

11.5 cents at full capacity, today VDI would be about 14.5, 15 cents.

Ashwini Desai:

So, how much is Equipav?

Gautam Watve:

Equipav today is at about 15.5 cents.

Ashwini Desai:

Okay, this is just the cost of production, if you were to export, then there will be some transportation cost which will have to be added to this right?

Gautam Watve:

The cost which I told you is FOB.

Ashwini Desai:

My second question is have you presold your volumes for VDI and Equipav for the next year?

N. Murkumbi:

Our policy for the next year, because we saw a rapidly rising market, has been to hedge mainly by export, so we are for both the companies, we have protected at an average of about 20.5 cents with a lot of the upside open, we have not hedged using futures because market was very volatile and the margin on the pricing would be very high, so what that means is that we have kind of guaranteed a minimum price of about 20 cents.

Ashwini Desai:

My last question is, can you share what is the annualized depreciation for VDI and Equipav? What numbers should we assume next year?

N. Murkumbi:

Depreciation for this quarter is there, it is for Renuka Do Brasil that is Equipav we will give you the numbers. It is about 1,046 million rupees.

Ashwini Desai:

For Equipav, that is just for a quarter, so I will have to annualize it and what is for VDI?

N. Murkumbi:

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Moderator:

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

Sanjaya Satapathy:

Just wanted to take forward this Brazil discussion. You mentioned that in VDI the cost of production is 14.5 cents, is that at PBT level?

K.K. Kumbhat:

Sanjay, what I mentioned was the full cost including interest and depreciation.

Sanjaya Satapathy:

So, that is at the PBT level; just for a better understanding out of this, I know you have mentioned this depreciation and amortization figure, but just wanted to know what is the cash cost out of it and what is the non-cash component?

K.K. Kumbhat:

We will come back to you on that Sanjay.

Sanjaya Satapathy:

You have hedged at 20.5 cents for next year, that means you will be earning at least this much and if I have to assume this price, then what is the kind of cash generation that you can have for next year Sir?

N. Murkumbi:

We are producing a total of a million tonne between the two companies there next year and as I said we have some upside, we also have an upside in the ethanol prices, they are much stronger than last year, I do not think we have a ready total cash accrual number but I think you can work it out based on the quantitative numbers.

Sanjaya Satapathy:

Lastly from here as far as your Indian sugar refining operation is concerned, what will be the kind of total quantity refining that you are targeting for the current year considering that you are coming up with a new refinery and what are the strategies regarding that considering whatever the regulation?

N. Murkumbi:

Well, as of now with the world price being higher than the domestic price it makes no sense to import into India even the duty is still zero up to December 31, however we have a stream of raw sugar which we have booked when prices were lower in the second and third quarters and that keeps us going up to February in Haldia. The Kandla refinery in the west coast starts end of February, so between March and September of this year, we would need to buy sugar at current international rates. The prices of raw sugar start decreasing after March; up to March is the Brazilian off-season period when the prices are the highest now is a very tight situation. Refining margins are much lower than last year. At current outlook, we think between the two refineries, we will do about 1.2 million tonnes for 2010-2011 financial year, though our plan was to be above a million tonne we eventually ended up doing only about 867,000 tonnes in Haldia plus our refining capacity in the mills in Karnataka.

Sanjaya Satapathy:

What kind of refining margin can we expect for 2010-2011 on this 1.2 million tonnes, which includes some export contracts, which you have already got at a good price?

N. Murkumbi:

Well, on the whole we should get a net margin of about $40 per tonne.

Moderator:

The next question is from the line of Jasdeep Walia from Kotak. Please go ahead.

Jasdeep Walia:

Sir, the white raw spreads have come down after mid-September, any reason, could you quantify how much they have come down?

N. Murkumbi:

Well, there was a huge buying of raw sugar from all destinations, which had virtually run out of sugar in the first quarter, and the prices were very high. People sold inventory rather than buy fresh sugar. So when prices dipped there was a big demand for raw sugar. As a result, the raw sugar sales from Brazil got over committed, the production estimate started going down and the producers in Brazil themselves who had over committed started buying back. So the initial bull run was lead by the raw sugar market and as a result the raw sugar market has run ahead of the white sugar market. Now what has happened since October is that many refineries, large refineries across the world have run out of raw sugar. There are a couple of them in the middle-east region, for example, who will be forced to stop operation. One has stopped and another big one is about to stop by the end of November because they have not been able to buy raw sugar for the last two, three months at those prices. So, we expect that this shortage which has been there in the raw sugar market is partly getting sold or mitigated by lack of buying from refineries and this will translate into a tighter situation on the white sugar market from the next quarter and therefore margins would again improve and the white-raw differential would again open up, it in fact peaked sometime in the second quarter of 2010 at over $200. The December white futures versus March raw futures spread is about $110 currently and we do expect that the margin would go up once the white sugar stocks at various destinations run off.

Jasdeep Walia:

Another question is that with the three countries which were driving the short-term squeeze in the spot markets viz. China, Pakistan and Russia, going ahead with their crushing season from October onwards; do you expect some softness in the global sugar price?

N. Murkumbi:

Well, in Russia, people have imported, but they have not tried, so they have to buy the futures , only the sugar has been shipped and a lot of sugar is booked but we will

be sailing there by December and they have to price the future, so in that sense there is buying to come. China has been different. It has never been a big factor in the world sugar market. It has always been India unlike in many other commodities, but this year Chinese buying is estimated, already at 1.5 million tonnes and there are Chinese government entities and couple of the Chinese PSUs which are actually buying discreetly on the world market and it is this buying which has been a bullish factor supporting what they are doing. They are not buying for spot contract which is more expensive but they are buying for delivery in July and October, that is one contract and that is how China is operating. As far as Pakistan is concerned, we sold about 227,000 tonnes to the Government of Pakistan through a Singapore based trading company. In addition, they bought another 500,000 tonnes from other companies and currently the domestic price in Pakistan, retail price is equivalent of 55 Indian Rupees and the wholesale price is above 45 Indian Rupees, which is a very high price. They have now asked the private sector to import and we expect with the current world price the Pakistan market has a positive import margins, so we do expect buying from them to continue. They have a very short season between December and March and the crop has been damaged by the extensive floods that they had in the country. Yes, there could be a lull in buying from that to March but people know that Pakistan needs sugar again, so whenever there is a dip, there is supportive buying.

Jasdeep Walia:

Exactly how much of the volume has been hedged for Equipav and VDI at 20 cents for next year?

N. Murkumbi:

They have about 80% of our volume locked in at these prices, the balance we will wait for a better outlook on the weather. As I said earlier, the rain in the next four-and-a-half months will determine the size of the next Brazilian crop. With normal rain we should make about a million tonnes of sugar between the two companies.

Jasdeep Walia:

How much of this volume is hedged by futures and how much by put options?

N. Murkumbi:

I have already said I think we have shared fairly good data on that; I do not want to break it up further.

Moderator:

The next question is from the line of Achal Lohade from JM Financial. Please go ahead?

Achal Lohade:

Just two questions, basically one, can you tell us what is the consolidated trading revenue and EBIT?

K.K. Kumbhat:

The trading segment is already disclosed in the stand-alone result.

Achal Lohade:

I was wondering about the consolidated trading, I think the segmental is stand-alone trading which is India, just wanted to check what is the trading revenue and EBIT in our Dubai subsidiary?

N. Murkumbi:

The bottom line is about 60 Crores.

Achal Lohade:

Okay, the second question was regarding the cogeneration. In the last con-call you had talked about the cogeneration outlook for Brazil, so just wanted to get a sense as to how is that panning out? How much was the revenue from cogen for VDI and Equipav and how do we see it for the current year entirely?

N. Murkumbi:

In VDI we do not do cogeneration, we sell steam and power to the world's largest yeast plant which is located next to our main sugar mill in VDI, so it is effectively like cogen income, that contributes about 10% to our EBITDA.

Achal Lohade:

And what about Equipav?

N. Murkumbi:

The cogen in Equipav mill, the first mill, is working and this year, we will do about 400 million units from there, last quarter contribution was about 599 million rupees of revenue, so about 60 Crores of revenue from power.

Achal Lohade:

What would be the margins on these?

N. Murkumbi:

About 70% based on the transfer price of bagasse.

Achal Lohade:

Sir, last question on the margins, I understand that you have shared a fairly good detail about the realization hedged at 20-20.5 cents per pound, at these realizations if one was to assume, what kind of EBITDA can we generate Sir, because I think you have talked about the cost of production for sugar, we are not sure about the cost of production for ethanol and how the realization panning out, just a ballpark number, I am trying to understand what kind of EBITDA per tonne of cane we are looking at?

N. Murkumbi:

We have hedged mainly as imports, so we think we have some upside on top of this, as the situation develops. We do not want to lock in prices at 20 cents because any disturbance in rain in Brazil in the next four months would send this market shooting up 5-10 cents, so we would look at an EBITDA next year, if you take the worst case of about 20 cents you would look for an EBITDA of about $20 per tonne of cane and we are looking at about 11.5 million tonnes of cane between the two companies.

Achal Lohade:

$20 per tonne is the blended we are talking about?

N. Murkumbi:

There is about 20 cents equivalent for anhydrous and between the two companies next year. We will producevery little hydrous as it is trading at about 17 cents but as I said, one of our big focus area there has been to improve the product mix and even within alcohol, we are more friendly to the price of anhydrous alcohol than to the hydrous alcohol.

Moderator:

The next question is from the line of Avinash Agarwal from Sundaram Mutual Fund. Please go ahead?

Avinash Agarwal:

Could you give us a view on the expansion happening in Brazil right now in terms of investment, both in terms of cane area as well as in terms of milling capacity?

N. Murkumbi:

As I said earlier, very little new cane has been planted. In VDI, we have planted about 10,000 hectares which would give us a million tonnes of cane and I think we are probably as a group the largest expander in terms of cane area. Most of the other groups are going to have flat cane compared to this year. This is not because there is no land available, but because in the peak planting season, there was no rain or even cane that was planted in January-March a lot of that young immature cane got dried up in the dry period between April and September which was very unusually dry. There were about 120 days with no rainfall which is very unusual in South Brazil. So, for the next year there would be very little increase in cane. In terms of Greenfield capacity, this year only four have been commissioned, next year there is virtually no project that is on screen. If you look at investments coming into this sector, they are mainly buying minority stakes or taking over existing units like we have done and very little focus on

Greenfield units. Everybody has realized that the value is created closer to the logistic facility and not inland because Brazil is a very big country and 2,000 kilometers inland the logistic cost of bringing sugar to the port can go as high as 5 cents per pound, so even with sharply improved prices now, there is very little focus on new Greenfield focus, we see no major announcement.

Avinash Agarwal:

Has the port situation eased up now?

Gautam Watve:

Yes, the port situation has eased a little as compared to the last quarter, it is mainly due to the total amount of sugar that Brazil has been exporting, and there is very little sugar here left to be shipped out.

Avinash Agarwal:

Apart from India, do you see any other country which could possibly contribute to exports in the next six to nine months?

N. Murkumbi:

Well, Australia is the world's second largest exporter; it has just announced two consecutive downgrades to its crop, down by half a million compared to early estimates. Thailand is now saying it will have less to export, after last year's scare when the Thai government actually had to buy back export sugar from the trading companies. They always had a rule but never implemented, which they are now implementing, which says that the Thai sugar industry is allowed to export sugar only after fulfilling its domestic quotas of about 2.5 million and I have already spoken about China, so we do not expect any major surprise. The only one to watch is India. Latest reports on the Brazilian crop also indicate that mills are shutting down faster than expected because they are finishing the cane. Yields per hectare are poor because of the bad rainfall situation earlier in the year. In South Brazil, one must remember, cost efficiency comes because the cane grows purely on rain but that is also a weakness if the rain is not consistent and the last major drought was in 2000, so for nine years you had relatively steady rainfall and now in 2010 we have had this situation and in 2009 we had more than average rainfall which was caused by El Nino and this is the followed up by the weather event which is La Nina which is now expected to continue up to March 2011. It causes excessive rain in India and Indonesia which is affecting the crop here and it causes less than normal rain in South America.

Moderator:

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

Nirav Shah:

First question is on the hedging strategy in Brazilian companies. When we enter in to hedging contracts for sugar do we simultaneously do it for the currency or do we leave that open?

Gautam Watve:

Our currency exposure is managed by two things. We have converted a substantial portion of our loans into dollar loans so that our outflows are linked to our realization. We are 70% sugar producers now and almost all of the sugar is exported to earn dollar revenue. Secondly, we do have forward contracts for the Real. The forward rate for the Real for next year is between 1.8 to 1.9 Real to the dollar, which is quite a good rate. We hedge both, but we hedge them separately. Each transaction does not consist of a fair transaction. It is not necessary that we have the same view on currency and sugar at the same time. That is a conscious hedging strategy based on levels of currency and risk management.

Nirav Shah:

Sir, looking at our ATR at VDI and Equipav when we acquired VDI in the second quarter our ATR was somewhere around 12.2%, then it has improved to 13.6% but Equipav in the first quarter of operation, you have substantially well at around 14.8%, so is it sustainable, what is the key reason for such a wide difference in ATR between these two companies.

Gautam Watve:

What we have reported is the ATR for a particular quarter. If you look at this quarter, this quarter will have the best ATR that you would see, typically it would be a Bell curve, where this quarter would have the best ATR, what you are comparing against is you are looking at quarter to quarter and not on a full-year basis whereas for this year, the full ATR should be about 130 which is about 13%.

Nirav Shah:

Just a final question, you have mentioned about the exports to Pakistan, will that be booked in this quarter i.e. first quarter of FY 2011?

N. Murkumbi:

About one-third was shipped by September 30; the balance would be shipped in this quarter.

Moderator:

Our last question comes from the line of Abhijeet Dey from Kotak Mutual Fund. Please go ahead.

Abhijeet Dey:

Your other income for the second quarter consolidated was 111 Crores; could you give a breakup of the same?

Gautam Watve:

It is mainly due to currency fluctuation from the loans that we have in RDB and VDI.

Abhijeet Day:

So, it is basically a forex gain so to speak.

N. Murkumbi:

We would just like to clarify. I think there is some confusion earlier; Gautam would like to clarify the full cost and EBITDA level cost for the two companies at full capacity.

Gautam Watve:

For VDI the EBITDA level or the variable cost would be about 12 cents per pound and fixed would be 3 cents, so a total of 15 cents. For Renuka Do Brasil the EBITDA level or the variable cost would be 11.5 cents and the fixed cost would be 3.5 cent, so a total of 15 cents, this is the costing for 2011.

Moderator:

Thank you very much Sir. 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 us chance to host the conference call. Thank you Sir.

Moderator:

Thank you, gentlemen of the management. On behalf of Alchemy shares and stock brokers' private limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.