"Shree Renuka Sugars Limited Conference Call"

November 20, 2009

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Moderator Ladies and gentlemen good afternoon and welcome to the Shree Renuka Sugars Limited Q4 Earnings Conference Call hosted by Alchemy Share & Stock Brokers Pvt. Ltd. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode. 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 call please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Nirmal Shah from Alchemy Share. Thank you and over to you, sir.

Nirmal Shah Good afternoon, ladies and gentlemen. On behalf of Alchemy I welcome you all to the fourth quarter earnings call of Shree Renuka Sugars. To discuss the results we have with us Mr. Narendra Murkumbi – Managing Director, Mr. K. K. Kumbhat – Chief Financial Officer and Mr. Gautam Watve – Head, Strategy and Planning from Shree Renuka Sugars. 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.

Narendra Murkumbi Good evening, friends. Thanks for dialing in to our conference call for our annual results. I request our Chief Financial Officer, Mr. K.K. Kumbhat to run through the numbers and then I will give you an overview of the business and outlook for the next year.

K.K. Kumbhat Good evening, everybody. I will present the 2008-09 annual consolidated numbers and the Q4 numbers. Our total gross revenue for the year 2008-09 was Rs. 29,086 million as against Rs. 21,605 million last year, that is an increase of 34.6%. The total revenue net of excise and other income was Rs. 28,225 million as against Rs. 21,192 million last year, that is an increase of 33.2%. EBITDA for the year was Rs. 4,721 million as against Rs. 2,663 million last year, that is an increase of almost 77.3%. The interest amount for the year was Rs. 1,077 million as against Rs. 686 million. That is an increase of almost 57% as compared to the previous year. PBT for the year was Rs. 2,968 million as against Rs. 1,608 million last year, that is an increase of almost 84.6 %. Profit after tax, after adjusting minority interest was Rs. 2,235 million as against Rs. 1,339 million, that is an increase of 66.3%. Now, Mr. Murkumbi will give you the other details of the company and business.

Narendra Murkumbi Thank you, Mr. Kumbhat. We have had a fairly good year this year. We could not eventually sell as much sugar as we hoped to in the last quarter. We ended up for the year at about 802,000 tons for the year. The last quarter sales were about 285,000 tons.

Our production for the year was about 1.01 million tons, which is a new record for us and also makes us by far the largest producer in the country. The sugar price realization improved during the quarter compared to previous quarters. However, in the month of September, there was a pretty steep decline in the domestic price which was largely caused by an excess release of sugar in the market by the central government in advance of Diwali and some of the state elections and that impacted both volumes and realization in the second half of the quarter under reporting.

Prices have since improved considerably. Sugar prices which were around Rs. 27 toRs. 28 at the end of September are currently trading at Rs. 32 in Karnataka and about Rs. 33 in Haldia and we expect them to remain strong because the supply/demand gap for the coming year is much bigger than last year. Last year, the difference between demand, which has come in at 23 million tons finally and production which was 14.7 million tons; the supply/demand gap was therefore about 8.3 million tons, but most of this was met by a drawdown in opening stock. As per official numbers now opening stock in the country of white sugar, that is sugar suitable for human consumption, would be about 2.7 million tons as against about 10 million tons at the start of the last sugar year on 1st October 2008. So it has been a very massive drawdown on inventory. Also it means that for the second half of November we have virtually finished all the opening stock carried over from the previous year and what is currently feeding the market is the last few hundred thousand tons of old sugar as well as imports of white sugar and production of white sugar from raw sugar refining in October and November, which is quite small. Going forward, I think this year we need imports of between 6 million tons and 7 million tons in total.

The country has a total opening stock of raw sugar of about 1.5 million tons as on 1st October and we expect further buying cumulatively from all companies including Shree Renuka to be about 3 million tons. The total import availability is about 4.5 million tons that leaves roughly 3 million tons of buying yet to come. This buying is more likely to be mainly white sugar rather than raw sugar, because there is less and less time now for refining our raw sugar along with sugarcane across the country.

The world market has already reacted to this and the white sugar premium, that is the difference between white sugar and raw sugar, has started expanding rapidly in the last three - four weeks as it became apparent that the import demand would be more concentrated on white sugar from this point on. The raw/white spread has therefore now again expanded above $100 on the world market and the import parity in our assessment today is about Rs. 32 per Kg on the coast and the landed price at inland location like Delhi would be another Re.1 to Re. 1.2 higher than the import parity at the coastal location. Coming to our outlook we opened this year with an inventory of about 390,000 tons of which about 98,000 tons is raw sugar and the remaining is white sugar. In the white sugar we have about 74,000 tons of imported white sugar We expect to liquidate most of this inventory in the current quarter as well as some from new production.

As I said earlier prices are currently at around Rs. 32 and the average for the current quarter is likely to be around Rs. 30 to Rs. 31.

On the ethanol and power side, in both segments, we have had expansion of volume. On the power side, our average realization is about Rs. 6.5 last year. There has been a drop and currently power price is about Rs. 5.25 per unit.

On ethanol side, last year we delivered the last of our commitment under the three-year contract to the oil companies at Rs. 21.5 and the balance we sold in the potable segment, where we had an average price realization of Rs. 30. In the last week there has been a very significant decision by the union cabinet that the ethanol mandate will continue to be enforced irrespective of short-term supply problem.

So far the main problem was not that alcohol was unavailable but the problem was that the oil companies were insisting on a maximum price of Rs. 21.5 ex-distillery even though the market price of alcohol have shot up to Rs. 30. Post the decision of our cabinet the oil companies have revised their offer to about Rs. 26 and they are likely to get about 40% of their requirement, which is about 250 million liters.. We see a possibility that they will be offering even a higher price so that they can complete the quantity required for a 5% blend and I think that the ethanol program has survived through the worst period of shortages of supply that was there and the program continues, which is a very positive thing for the industry.

Coming to our international trading operations; which has seen a very strong result this quarter. We took the opportunity of the tight situation in Asia, especially with white sugar prices. In the quarter under question just to give a background, the raw sugar price on the start of the quarter was 16.81 cents and it ended the quarter at 24.12 cents, currently the raw sugar price is about 22.8 cents. White sugar prices started the quarter at $468 per ton and world white sugar price was $618 on the 30th of September. So it was the strongest quarter in many, many years, maybe in a couple of decades in terms of the absolute rise in prices.

Currently, the white sugar price is about $610. We expect a further strengthening of the white premium because in our assessment there is a shortage of refining capacity, both in India compared to the size of the deficit as well as across the world and white sugar is becoming extremely difficult to ship, coupled with that in the last two weeks dry bulk freight rates have gone up very strongly and old vessels that are typically used for transporting white sugar are becoming very, very expensive and very hard to find as well. So looking forward to this year we have about 1.2 million tons of raw sugar committed. Part of it has arrived. The rest will come throughout the year. Compared to most other companies we are much more evenly balanced throughout the year in terms of our raw sugar capacity. In fact, we have more raw sugar capacity in the off season because our mill-based white sugar refining capacity is about 4,000 tons at our three main mills in Karnataka and they will be crushing from end October. They have already started, they are in full swing and they will continue up to March. After that for the next six months they will be refining raw sugar at the rate of rated capacity being 4,000 tons a day. So we are going to evenly refine throughout the year and hopefully that will give us the ability to be present in the market in a substantial way throughout the year.

As far as cane is concerned we are seeing the crop a little better than last year, late rain has helped yields of the crop that will be harvested between January and March in our area. Also we see strong planting. Cane prices in the Karnataka, Maharashtra region, as you know, are more market-based; we have been saying this for many quarters now. Just to highlight the difference between us and north India that in times of strong sugar prices our cane price typically tends to be higher and in times of low sugar prices our cane prices tend to be lower. The actual cane price today is 2,300 per ton and this is for cane, with an expected recovery of 11%. Our outlook is that if sugar prices continue in this band of say Rs. 32 to Rs. 35 ex-mill the final cane price would end up at around 2,700. This would be the cane price that we would actually need to pay this year and that is obviously a very, very attractive price compared to other crops and we see at least a 40% jump in the overall cane availability next year.

Now for the country to return to self-sufficiency we will need the production in 2010-11 of about 24 million tons. For that we need virtually 8 million tons to 9 million tons expansion of production over the current year and that can only happen if there is a big increase in planting in acreage across the country. 40% increase in Maharashtra, Karnataka and Gujarat where cane price are very high, alone is not going to be enough to return the country to self-sufficiency. So since planting in North India only happens in the February-March period, the main plant will happen in February-March. We will probably have a fair idea of the next crop only by end of March. On the alcohol side the last of our ethanol projects we are completing our capacity expansion and we are making a lot of extra neutral alcohol. So we expect average alcohol prices to be quite strong for us this year. The oil companies also as I told you are paying about Rs. 26.

On power we have commissioned another 30 Megawatts of capacity. This is our first project in a cooperative mill on a build-own-operate basis and that has been successfully synchronized this month and we are implementing another 24 Megawatts in Maharashtra which will be commissioned next year and we continue to look for more projects on this format. Then we have already had a conference call to explain our

Brazil acquisition, we would have full management control of this company by the end of December and we will be happy to answer any additional questions on that as well. I just want to end with our understanding of the controversy over Fair and Remunerative Price. I think the main motivation actually for the Fair and Remunerative Price was the need to set up base cane price for the calculation of the levy sugar price and there was, however, a clause 3B in the regulation which said that if any state government were to declare a cane price higher than the Fair and Remunerative Price then the state governments would have to bear the difference in cane price between the SAP and the FRP, i.e. the Fair and Remunerative Price. We understand from news flashes that the government has decided in an all-party meeting to withdraw this amendment and therefore the curb that have been introduced on the state government's ability to declare a SAP will probably be withdrawn. As I said earlier in our part of the country the SMP, which is the previous version of the FRP only matters in a downturn because that sets the minimum price of cane that you can pay in a bad year. In years like these the situation is quite dynamic and market-based and therefore there is very little focus on FRP or SMP at all by the farmers. And the cane prices I said is already quite high and even adjusted for recovery and the crushing is going on smoothly and obviously the other positive effect is that you will have a much bigger crop next year, which should be good, especially given what we see as a fairly balanced to a slight deficit situation continuing next year. So with these few comments I would like to end our remarks and throw the floor open for questions.

Moderator Thank you, sir. Ladies and gentlemen we will now begin with the question-and-answer session. Anyone who wishes to ask a question may press '*' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue you may press '*' and '2'. Participants are requested to use handsets while asking a question. The first question is from the line of Sandeep Somani from HSBC Securities. Please go ahead.

Sandeep Somani Good evening, sir. My question is with regards to the trading part is concerned, there is trading contribution to the overall profitability. How much volume has been traded? And secondly is that looking at the cane cost at this point of time, what could be the expected landed cane cost for the company for the current year?

Narendra Murkumbi We have traded about 116,000 tons of sugar this quarter and the the segment profit is about 12 Crores and for the subsidiary is about 56 Crores. Coming to the question on cane price as I mentioned to you while we started last month with Rs 2,300/ton of cane. I expect that given the fact that cane supply is only about 50% of the installed capacity that means there is a severe shortage of cane and given that if the sugar price were to continue above Rs. 32, which it is today, our expectation of the cane price this year is Rs. 2,700.

Sandeep Somani Sir, is it the landed costs you are referring to?

Narendra Murkumbi Landed including harvesting and transport which we pay on behalf of the farmers. This is all-in cost and this is for cane and about 11% recovery is what we expect for the year.

Sandeep Somani Lastly, what is the cash on books at the end of the year you have?

Narendra Murkumbi We have about 480 Crores of cash, mainly the QIP money, which we had raised for our projects, which we could potentially also use to fund part of our overseas acquisition.

Sandeep Somani With regards to your imported quantity, can you share any kind of cost for the 1.2 million tons target next year?

Narendra Murkumbi The average CIF costs will be about $440 and it will come in as I said almost evenly throughout the year.

Sandeep Somani Okay. Thanks a lot, sir.

Moderator Thank you, Mr. Somani. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade You mentioned in the opening remarks you are expecting an increase in the acreage in Karnataka and Maharashtra, particularly for your company you said 40% jump in the cane volume, so how do you see production in Maharashtra next year and also in Karnataka?

Narendra Murkumbi This year the State Cooperative Federation has put out a number of 4.8 million tons. We think we will be around 5 million tons. Next year it should be about 7 million tons to 7.5 million tons in Maharashtra. In Karnataka again we expect about 2 million tons this year and next year could be 2.5 million tons. But net-net the point I was making is that for 2010-11, to reach a self-sufficiency kind of situation we will need a big expansion in cane crop across the country. Karnataka and Maharashtra growing alone is not going to help. For example, Gujarat probably is paying the highest cane prices in the country today. The sector is fully cooperative, there is no private factory. But they do not expect more than 2 Lakh tons extra sugar next year just because the available acreage for sugarcane is very small.

Achal Lohade Okay and another question is you mentioned 56 Crores of profit in the subsidiary. Is that for the full year or fourth quarter?

Narendra Murkumbi It is just for the quarter. For the full year it is about 84 Crores.

Achal Lohade So out of 280 Crores, about 96 Crores is from the trading?

Narendra Murkumbi Yes, except trading it is around 200 Crores.

Achal Lohade On the CapEx I just wanted to know what is the sense on how much we are going to spend on the CapEx for the current year and next year?

Narendra Murkumbi Well, our main CapEx is on the refinery in Gujarat, the 3,000 ton new refinery on the west coast. That will be about 400-450 Crores plus cogeneration project. So our cash flow for domestic CapEx in the next 12 months would be about 500 Crores.

Achal Lohade What are the benefits we are receiving for these refineries in West Bengal and Gujarat?

Narendra Murkumbi The West Bengal refinery has a VAT waiver, but there is no VAT on sugar. It is not really helping us. Other than that there is no particular tax advantage at either location.

Achal Lohade Okay, that is it from my side, sir. Thank you.

Moderator Thank you, Mr. Lohade. The next question is from the line of Sanjay Manyal from ICICI Securities. Please go ahead.

Sanjay Manyal As you said 1.2 million tons of volume next year; what would be the probable imported quantity and what would be through cane crushing?

Narendra Murkumbi Overall about 3/4th of our production next year will be from raws. From cane depending on the final cane crushing number we will be roughly between 4 Lakh tons and 5 Lakh tons of sugar. What I spoke of 1.2 million tons is from raw sugar.

Sanjay Manyal So it means volume will be much higher than this.

Narendra Murkumbi The total volume will be about 1.7 million tons.

Sanjay Manyal As you said that next year cane area will be higher, so there will be less of import probably in 2011. So how you will be sustaining the volumes probably next year?

Narendra Murkumbi Well as we have explained in the past the refinery is at the port, they are capable of tolling and re-export. Our view today is that we will still need imports in 2010-11, but even if there is self-sufficiency in that year, we still have a large regional market of almost 10 million tons of white sugar needed by various countries surrounding India and that is why the two refineries are located at the port. Of course, in a self-sufficiency environment in India we will not be refining raw sugar at our mills in Karnataka. However, currently these mills are operating on cane at 50% of capacity. In a full year if there is enough cane our mills can process 7 million tons of cane and the sugar from cane will go up to about 8 Lakh tons. This will be an increase in spurt not only in the amount of sugar produced from cane, but also in the ethanol and power produced by production.

Sanjay Manyal Okay, but still there will be a dip in volume, I can say?

Narendra Murkumbi With the two refineries, actually we should do more than 2 million tons a year after this.

Sanjay Manyal Okay, okay. I think that is it.

Moderator Thank you, Mr. Manyal. The next question is from the line of Sanjay Satpathy from DSP Merrill Lynch. Please go ahead.

Sanjay Satpathy Sir, my first question is that how much procured sugar that you are planning to sell in the current year and how much of that will be in the first quarter?

Narendra Murkumbi Sanjay, we are going to produce 1.7 million tons and if you take just white sugar, opening stock is about 3 Lakh tons. So we have got 2 million tons to deal with. So it is like eating an elephant, you got to eat it everyday otherwise you are not going to finish it. What I am trying to say is that we will have to dispatch as much as we can everyday and try to dispatch it evenly throughout the year. If we achieve it, it will be the largest quantity of sugar sold by any company in this country ever in one year.

Sanjay Satpathy Okay and, sir, how has it been so far in this quarter?

Narendra Murkumbi So far just to give you to-date numbers we have done about 2 Lakh tons of dispatches in 45 days -50 days.

Sanjay Satpathy One more thing I was wondering is that your average realization is that you have reported for this quarter, as well as the quarter prior to that consistently the difference is turning out to be almost Rs. 2 or more than that compared to the UP counterparts and considering that you have a significant part of sales coming from Haldia and also smaller quantity of levy sugar sales, because of being refined sugar, why is it that the realization is turning out to be low compared to the U.P. counterparts?

Narendra Murkumbi Yeah I think last two quarters, especially this quarter, which we are reporting now, for example, we have an average price of only 25,000. The main reason is out of our 8 Lakh tons of sales, only about 3 Lakh tons is from Haldia, the balance is from Karnataka and secondly, in this particular quarter, in hindsight, we got it wrong in terms of timing of sales, we had large volume in July when the average sugar price was about Rs. 22 in our area and much lower dispatches in August and September. So we hope to make up some of that backlog of that period in the current quarter.

Sanjay Satpathy Okay, sir, my last question is that you have given the long-term debt for the company. Can I just ask what is the total working capital loan at the end of September?

Narendra Murkumbi We have about 350 Crores or so, but we also have 480 Crores of cash. Partly QIP money has to be banked separately, etc., plus a significant portion of the cash is in the overseas subsidiary and we are now going to use that surplus cash which is our accumulated profit and that cash we will use partly for the funding the overseas acquisition, etc.

Sanjay Satpathy What is the average cost of the sugar inventory that we are carrying for the current year, that is the total of 390 mt that we have?

Narendra Murkumbi The average price is about Rs. 21/kg.

Sanjay Satpathy That is the cost, so that means you will be making about Rs. 10/ton profit for the sugar that you are selling now?

Narendra Murkumbi Yes.

Sanjay Satpathy Thanks, sir.

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

Ashwini Desai I want the gross block and capital work in progress as of FY09?

Narendra Murkumbi Gross block plus capital work in progress combined is about 1800 Crores.

Ashwini Desai This is net block and CWIP?

Narendra Murkumbi No, gross block plus CWIP and cumulative depreciation is about 155 Crores.

Ashwini Desai Okay, sir, can you give the breakup of other income in this quarter, because it is negative?

Narendra Murkumbi The other income for the quarter it is about 5.7 Crores. I do not have the details here. But it should be some foreign exchange variation.

Ashwini Desai I have heard that the income tax department had raised a demand for tax in the difference of SMP and the cane price that you paid to the farmers? So will this in any case affect you?

Narendra Murkumbi You are talking of the income tax department, right?

Ashwini Desai Yeah.

Narendra Murkumbi Actually this is the cases that have been filed against the cooperative because some of the cooperatives or most of them tend to take the profit and divide it among the farmer shareholders and claim that it is additional cane price. So it has been treated as a deemed profit and those mills have been asked to pay. So it is an issue very particular to the cooperative.

Ashwini Desai You would not be affected?

Narendra Murkumbi No, we would not be affected.

Ashwini Desai Thanks a lot, sir.

Moderator Thank you, Ms. Desai. The next question is from the line of Suyog from Venus Capital. Please go ahead.

Satish Desai Good evening, sir. This is Satish desai. Congratulations for good set of numbers and the Brazilian acquisition. First you talked about that you will be producing around 4-5 Lakh tons from the sugarcane this year. So assuming 11% - 11.5% recovery the sugarcane would be 4-4.5 million tons, sir?

Narendra Murkumbi That is right.

Satish Desai And just to throw some light on raw sugar processing, you had said that you have a closing stock of around 98,000 tons and rest you have contracted for next full year?

Narendra Murkumbi That is right.

Satish Desai That is still in transit and when will you be getting this?

Narendra Murkumbi I am getting it every month almost evenly. So we have for example, in this month almost five ships arriving, next month another three, so it keeps arriving across the year. Unlike most other companies in the industry our refining is more even. Just to amplify that a little bit, the refinery at Haldia works throughout the year, so it has an even production and in Karnataka most of our refining is in the off season, so the bulk of the refining will be done between March and September. Basically utilizing part of the same equipment for refining raw sugar and therefore it is available only in the off season. The bulk of the refining of that 4,000 tons of capacity in Karnataka is only applicable in the off season.

Satish Desai What would be the average cost of this raw sugar, sir?

Narendra Murkumbi It is about $440/ton CNF.

Satish Desai Okay, just to get an idea about the power plants in Maharashtra cooperatives, you have done 30 megawatts. Earlier you had said that you can capture around 300 megawatt of total potential of 1200 megawatt in cooperatives, so what are the plans and when we can expect some more announcements in this front?

Narendra Murkumbi Each contract has to be negotiated and then we have to get approval from the state government because the cooperatives have to get approval for each of these contracts from the state government. We have got another 24 megawatt under execution and we have three to four other projects under negotiation. So we see this kind of capacity coming up between three years to four years. It is not going to happen in one year altogether.

Satish Desai Okay, one thing more as we have seen some moderation in the power prices, at what prices these kind of power projects on BOOT basis are competitive as we have to share some of the revenues with cooperative mills?

Narendra Murkumbi We are using a breakeven price of Rs. 3.25 which is already close to the renewable tariff, long-term tariff that is already there in Karnataka and Maharashtra. In both these states currently there are petitions from the Sugar Mills Association and from Renuka Sugar individually asking for a review of these prices. In both states in my opinion these are in the final stage. And in the next couple of months we should get a revised long-term price for power and I am quite hopeful that the price will be very attractive.

Satish Desai It means you cannot sell it through merchant power trading because you are already doing this.

Narendra Murkumbi No, we are currently selling it under open access.

Satish Desai The last question is regarding the Brazilian acquisition. You had said that it has the capacity of 3.1 million tons of cane crushing. The annual capacity is been calculated on 365 days or what is the scenario like in Brazil? Effectively or in reality basis, how much a mill can crush of that?

Gautam Watve If you look at the average crushing that happens in Brazil, it happens anywhere between 200 days to 240 days depending upon how much it rains there. Mills can crush either more or less. That is why when we say 3.1 million tons that is what they would crush in a normal year. So whether it goes a little more or less would depend upon the rains.

Satish Desai I believe the average recovery would be a bit higher at 13%, 14% over there.

Gautam Watve Yes it is at 13%.

Satish Desai What are the molasses and spirit stocks that we have at the year-end?

K.K. Kumbhat Molasses stocks are 88,805 tons and spirit stocks are 25,000 liters.

Satish Desai At what costs they have been calculated sir? Molasses and spirit.

K.K. Kumbhat Molasses is at 3,500 and spirit is at 22.

Satish Desai That is all from my side, sir. Best of luck for the future. Thanks a lot.

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

Augustya Somani The sugar profitability in this quarter is a bit lower if we compare it to the third quarter, even though average realization is much higher. Any idea on that?

Narendra Murkumbi You are comparing it with the third quarter?

Augustya Somani Yeah, the preceding quarter.

Narendra Murkumbi There is slight increase in costs, because overhead for another quarter are added. The raw sugar part which is sold this month would be slightly higher compared to the previous quarter but net-net there should be a good margin, but I do not have the exact reply to this. We will get back to you.

Augustya Somani Just wanted some small details on the Brazilian acquisition. You mentioned that it has 3.1 million crushing capacity, so what is the kind of production that we are looking in a normal year, maybe next year, in terms of how much would be sugar and how much would be ethanol?

Narendra Murkumbi This company again has flexibility to produce sugar and ethanol and we are also investing part of the capital to increase the sugar percentage to 75%. Our target is to make it 75%, the thing is optimum. But that will be probably in the next season and coming to the utilization this year they had 2.4 million tons of cane crushed. In Brazil actually it is the cane availability and the weather that plays a factor in terms of what is finally crushed. They had 2.4 million tons of total cane available between own plantations and what they buy from third-party farmers. So, one of our first steps is actually to expand, so that we can utilize a full capacity of 3.1 million tons.

Gautam Watve The other thing is, since we have not yet closed the transaction once we close it we will be able to disclose much more details on it.

Augustya Somani Okay, sir, thank you very much.

Moderator Thank you, Mr. Somani. The next question is from the line of Vikas Jain from CLSA. Please go ahead.

Vikas Jain Just a question on the Brazilian acquisition again. This incremental capacity that you just mentioned would be coming in for the next season, but as of now assuming 3.1 million ton is the capacity and we are able to do that, the maximum sugar that we can produce is that about 0.17 million ton which is from the bigger mill only because I believe the other one is alcohol?

Narendra Murkumbi That is right. That is about 0.17. Our aim is to take the capability to about 3 Lakh tons.

Vikas Jain That is what we aim to do and probably we will be able to do that next year.

Narendra Murkumbi It is a very short project. It is a crystallization project, which is relatively low, it mainly include the addition of centrifugal and dryer to make crystal sugar rather than alcohol.

Vikas Jain The other thing was on the debt front. The numbers that you mentioned in the MDA as well 908 Crores, all of that is standalone or it is all consolidated?

Narendra Murkumbi Consolidated.

Vikas Jain The 350 Crores and 480 Crores?

Narendra Murkumbi All numbers are consolidated, including the cash.

Vikas Jain Just few numbers on the results again, for the full year the difference between the consolidated and the standalone profits is about 80 Crores?

Narendra Murkumbi That is right.

Vikas Jain You said about 84 Crores of that is explained because of the trading subsidiary. Now I understand that the minority interest for the full year that I see is about 50 Lakhs. I believe that a large part of it would be coming from KBK and that would essentially translate into profit of KBK being about 2.5 Crores or so. Is that correct?

Narendra Murkumbi We have three subsidiaries with significant numbers. We made two acquisitions during the year; first being Ratnaprabha Sugars, which has one sugar mill in Maharashtra and second being Gokak Sugar which has one sugar mill in Karnataka. We are obviously in the process of merging these companies in judicial process. One of them has also minority interest. Coming to KBK, we have had a net turnover of 242.6 Crores this year with a bottom line of 4.4 Crores after prior period adjustment and 5.2 Crores without prior period item. The two sugar subsidiaries actually had a combined loss of about 8 Crores, but again in this case mainly because bulk of their sugar is not been sold in the last year and it will be sold in this quarter and they are in the process of being merged.

Vikas Jain The inventory that we have got 0.39 million tons, you said about .098 of that is raw sugar, correct.

Narendra Murkumbi That is right. Remaining is white sugar.

Vikas Jain Coming to the Brazil acquisition, the area that is mentioned I believe which is the own area which is about 18,000 hectare is currently planted on, but the actual area owned is a much larger area. Is that the case? Because 74% self cane is probably for 3.1 million tons capacity, so that area will not be probably sufficient given the yields that you are giving now.

Narendra Murkumbi Let me clarify. Firstly, when you call own cane it means that the cane is planted, grown and belongs to the company. But the land is typically not owned. Factories in Brazil do not own all the land, but rent it on a long-term basis. In this case in the state of Parana, the average length of the sugar cane crop is ten years. It is planted in year one and you cut it ten times and then uproot it. So the lease period is also for typically ten years. The cane when we say 74% we are talking of current availability of cane, which is about 2.4 million tons. Our outlook is that there is sufficient good fertile land available nearby for expanding the planted cane. We can get more land on lease. The company had been under a very strained working capital position for the last two years since the turn down on sugar prices and then the global financial crisis and has therefore not invested sufficiently in new cane cultivation and also it has lost the confidence of some of the farmers who are supplying it on a third-party basis. However, post the recapitalization of the company by Renuka Sugar, we expect it to be the strongest mill in the area, there are three, four other smaller mills, mainly cooperatives, which are much weaker financially, and we expect therefore there is significant interest and we are very confident of bringing the cane cultivation back to the rated capacity.

Vikas Jain In the last call you mentioned that, at the current costs which of course part of that is also linked to the sugar price because that is the cane that you buy from the farmers; the costs of producing sugar would be about 15 cents or so….?

Narendra Murkumbi The price of cane purchased from third-party farmer is set by a formula called Consecana, which is independently compiled by universities appointed for that and it is roughly at 60-40 sharing formula of the monthly average of sugar and ethanol prices, are based on the average product mix of the state. So currently to give you an idea the Consecana price is about 40 Real per ton of cane. If you take the Real at Rs. 28 you are buying it at around Rs. 1,120 per ton delivered with the recovery of 13% and your own cane, the cost of cultivation is lower than 40 Real obviously. Even after you amortize the one-time planting costs the overall cost of cane after paying lease rent for the land, etc., it will come to about 30 to 32 Real.

Vikas Jain Okay, that is the fixed cost that we are having, so on an average we assume that about 25% would be the variable cane cost and the remaining would be…?

Narendra Murkumbi And the cane cost to farmer is obviously a 60% share of average revenue in that area based on both sugar and ethanol.

Vikas Jain That is a lot of help. Thank you.

Moderator The last question is from the line of Arya Sen from Credit Suisse. Please go ahead.

Arya Sen Good afternoon, sir. What is the effective cane crushing capacity that you will have for FY10?

Narendra Murkumbi We have 35,000 this year fully deployed and we should crush at that capacity in the peak season. Because of the shortage of cane this year we will probably do only 4 million tons of cane, but in a good year we should do 7 million tons of cane. Roughly 200 days we can operate.

Arya Sen For the refinery based sugar that you sold this year FY09, what was your average processing cost?

Narendra Murkumbi At Haldia, logistics costs are low and the total cost is about Rs. 2,000 a ton and we earn about Rs. 1,000 from the cogen, but that gets reflected in the cogen segment, so in the sugar segment we should add about Rs. 2,000 a ton. In Karnataka, the mills are inland and there is an additional logistics cost of taking raw sugar from the port to the mill. The average distance is about 300 Kms and the refining is also less efficient, because they are smaller plants and we are essentially using plants built for crushing cane to refine raw sugar, so there we access it at around 3,500/ton.

Arya Sen Out of the total sugar that you produce from raw sugar this year, 660,000 tons, how much was from Haldia and how much was from mill based refinery?

Narendra Murkumbi It was 407,000 tons from Haldia and the rest from Karnataka.

Arya Sen You said that 300,000 metric tons happened from Haldia, is that right?

Narendra Murkumbi Slightly more than 300,000.

Arya Sen Okay. Thanks a lot, sir.

Narendra Murkumbi Okay. Thanks, everyone for dialing in and thanks for your support and hope to see you on the next call. Thank you.

K.K. Kumbhat Thank you.

Moderator Thank you. Mr. Nirmal Shah, would you like to give any closing comments?

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

Moderator Thank you, gentlemen of the management. Thank you, Mr. Shah. Ladies and gentlemen, on behalf of Alchemy Share & Stock Brokers Pvt. Ltd, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.