sugar ethanol power

Shree Renuka Sugars Limited
Q1 FY 2010-11 Conference Call Transcript
February 14th, 2011

Moderator:

Ladies and Gentlemen, good evening and welcome to the Q1 FY 2011 Earnings Conference Call for Shree Renuka Sugars Limited hosted by Alchemy Shares & Stock Brokers 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 any assistance during this conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nirmal Shah from Alchemy Shares & Stock Brokers Private Limited. Thank you and over to you, Sir.

Nirmal Shah:

Good evening ladies and Gentlemen, on behalf of Alchemy, I welcome you all to the Q1 FY 2011 Earnings Call of Shree Renuka Sugars. To discuss the results, we have with us Mr. Narendra Murkumbi, Managing Director, and Mr. Gautam Watve, Head Strategy and Planning from 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.

N. Murkumbi:

Good evening friends. Thank you for logging into our call. We have circulated a more detailed earnings release than we use to previously and I hope there has been enough time for you to go through it. It is also available on the website. I just want to touch on some of the main highlights, the industry outlook and then we will leave enough time for questions. As far as industry is concerned, I think we have two very different pictures. In India prices had peaked last year, particularly in the January-March quarter, and since then, after a steep correction, prices have been remarkably nonvolatile and have been in the Rs. 25-29 range ex-mill for the last eight months. The world market on the other hand has seen a very dramatic resurgence in prices. We saw a low in prices of about 13 cents last May and since then, the market has climbed and in the last quarter, the market crossed the 30 cents mark and currently is holding above 30 cents for early delivery contract i.e., March and May 2011 contract. The reason for this very sharp rally in sugar prices; a lot has to do with weather and also with the lack of excess capacity across the industry, especially in Brazil. We had weather problems in almost every major producing, exporting and importing country except India and crop estimates have been adjusted downwards all over. The main difference has been in Brazil. The South Brazilian crop has ended at about 557 million tonnes of sugarcane crushed versus the initial estimate of 600 million tonnes for the 2010 calendar year. Going forward for 2011, the crop is estimated to be almost the same and the consensus number is about 560 million tonnes, the same as 2010. There will be a slight increase in the amount of sugar available because some of the companies are planning to make more sugar and less ethanol. However, this number is likely to be in the range of just another one million tons or so. On the ethanol front, prices have rallied in line with sugar prices and also in line with oil prices. The equivalent price of ethanol in Brazil is now about 21 cents/lbs in sugar terms.

There is an expectation in the world market that for the rest of 2011, the production and demand balance is either even or it is a slight deficit and therefore price visibility is very strong. We have seen prices of up to 25 cents even 12 months forward. This means that even the start of the 2012 season is showing a price above 25 cents. In Brazil, we do not see any new greenfield investments yet and only a small amount of brown-field investments being done. Also, as I said few projects are being undertaken to increase the amount of sugar in the product mix but again not a very strong swing towards sugar, maybe 1% more swing towards sugar compared to 2010.

Now, coming to India, initial estimates were upwards of 25 million tons. Currently the season is about half over. Numbers that we have indicate that the production of sugar in India up to January 31, 2011 was about 11.2 million tonnes, which is about 1.4 million tonnes more than the same period last year.

The current estimate of the Government of India for sugar production is 24.5 million tonnes and the Indian Sugar Mills Association estimates the production at 25 million tonnes. The main reason for this is that both major states Maharashtra and Uttar Pradesh are currently showing lower than normal yield per hectare. The effect of the lower yield will probably be more pronounced in the second half of the season. We expect crushing in Uttar Pradesh to get over by the end of March. Maharashtra and Karnataka would continue crushing till the end of April, with two or three districts in Maharashtra continuing till early May.

In terms of Government policy, so far, there has been no decision on the move to allow exports under the open general license scheme. What is currently allowed is re-export of about half a million tonnes of imported sugar, most of which has already left the country and another one million tonnes of old advance license (ALS) obligations to export white sugar against the raw sugar imported in the past . Out of this one million tonnes, about half a million has been shipped and the remaining half million will be shipped contractually by the end of March. In total, about 1.5 million tonnes of sugar would be shipped out by end of March. In addition, we do think that given the fast pace of crushing and lack of cash flow among the weaker companies in the industry, the government will announce some exports under OGL shortly. We expect this to happen in the next three or four weeks and could be starting with a quota of about half a million tonnes. We do not see inventories high at the end of this sugar season. Initial indications for the next season do not hint at any great resurgence in the crop. Cane prices are lower year-on-year in all the major sugar producing states of the country and would likely inhibit further planting in new areas.

Coming to Shree Renuka, we have had, I must say, a muted quarter compared to last year. We have just completed our first crushing season in Brazil and I think the effects of the restructuring and revival are already very visible in Vale Do Ivai, which we have been running for more than a year now and we hope to do the same with Renuka Do Brasil (formerly called Equipav), which is our second and larger acquisition in Brazil acquired in July 2010. Now, in both these companies, our principal challenge has been to increase their capacity utilization. Last year we crushed a total of 10.5 million tonnes of cane in Brazil, 8.9 million was crushed in Renuka Do Brasil and 1.55 million tonnes was crushed in Vale Do Ivai. Due to our early start and take-over of Vale Do Ivai, we have successfully managed to plant about 10,000 hectares of new cane, which is one of the highest increases anywhere in the Brazilian sugar-ethanol sector last year. As a result of this, Vale Do Ivai is expected to crush 2.5 million tonnes of cane in 2011. Similarly, at Renuka Do Brazil, although we made a late start, we do expect to crush a little more than last year between9.5 to 9.7 million tonnes. So, for 2011, we expect our Brazilian subsidiaries to crush about 12 to 12.2 million tonnes in the coming calendar year. The crushing season in Brazil starts from March and continue up to December.

As I said, prices are strong for both sugar and ethanol and supply continues to be tight. We have adopted a very balanced hedging strategy with a primary aim of protecting our downside with the use of put spreads, collars and other options strategies while leaving most of the upside open. So, we expect to capture a significant upside up to 30 cents in case the price moves up. Currently the futures contract for the relevant months for Brazil i.e. July 2011 and October 2011 contracts, against which most of the sugar is sold are trading at 27.0 cents and 25.5 cents. We do expect some additional upside as the tightness in the sugar market continues. What we have seen in Brazil is that the white sugar price is quite high. It is about $800, which is actually higher than the London contract at the moment and the reason for that is an over export of sugar in the early part of the crop which means that sugar available in Brazil for domestic consumption is tight. There being no government control on domestic sugar sales, we expect this tight situation to continue for at least one more year. All told the price outlook in Brazil is very strong and is much stronger than the actual prices at which we have invoiced sugar last year. Especially in Renuka Do Brasil, we had a lot of legacy contracts, some contracts, which were overdue by more than two years and these prices are below 15 cents, so we have achieved a net price of 16.7 cents in Renuka Do Brasil and about 20 cents in Valo Do Ivai. Looking forward, our minimum price levels would be something like 23 cents with further upside possible in the next few months. On the world market scenario, the market has been of course very strong and that has meant that many countries have drawn down stocks to a bare minimum and we expect that this replacement demand, which has been postponed for almost four to five months now will keep supporting the market. In 2011, I see two scenarios for the world market. If there is any further disturbance in a major country like China or Brazil, we would expect the market to go up much more than it is already. On the other hand, if weather continues to remain normal, we would expect it to range between 25 and 30 cents as stocks are very low in most importing countries and every time there is a dip, there is a rush for replacement buying from some of the major importing countries. We also believe that China is contracting a lot of sugar for the third and fourth quarter to fill up perceived gap of about 2 million tonnes in 2011 supplies due to a weak crop.

In the last week, we have adopted the audited accounts for the last financial year and therefore I will disclose the consolidated and standalone balance sheet. We have also disclosed and published the first quarter reviewed, unaudited result for FY-2011.

Looking forward, the March quarter is an off season period in Brazil. So, we would not expect to have significant contribution from the Brazilian subsidiaries. However, the Indian business, which have had muted sales and performance in this quarter should do better. Renuka is one of the few companies with a very large proportion of export sales compared to its total production, almost 50% of our sugar this year would be exported under our old advance licenses and we would expect most of those revenues to be booked in Q2 and Q3. The current export price on an ex-mill basis is around Rs. 33, which compares very favorably with the domestic price of Rs. 26 a kilo. From the April-June quarter onwards, I expect very strong performance from the Brazilian subsidiaries as the full effect of the higher price and improved crush as well as the increase in cogeneration output that we expect in Renuka Do Brasil will reflect in the financial results. So, now you can see the change in the company's business model and geographical spread and how the contribution of Brazil and India are more evenly balanced. I want to say a quick word about the refining business. It has been the mainstay of our profit for the last four five quarters. We are now reaching a period where the raw white spread is at a record low level. The March spread was about $70. However, margins are improving further as it can be seen from the spread between the May raw sugar and May white sugar which has now increased to about $110 and the July-August spread i.e. the third quarter spread, is about $120. So, we do expect an improvement in the refining margin. We, currently, have about 220,392 tonnes of raw sugar, which will suffice till the end of this quarter. We have also positioned some sugar for the trial runs of our second refinery at Kandla in Gujarat. These trials will start at the end of March and we have enough material there to take us through the middle of May. By then, we expect white sugar refining margins to expand significantly. Currently a lot of the world's major refineries are either shut or they are working at a very low capacity given the low margins. Most of the deficit this quarter, being in the supply of raw sugar, we expect this to be a temporary phenomenon and should correct from the next quarter onwards.

Finally, on the National Ethanol Program, there is a provisional price of Rs.27 per litre. Dispatches in practice actually started only towards December and we should see a much stronger volume in this quarter. Renuka, for example, has more than 3.30 Crore litres of stock at the end of last quarter. Our production is on track and the lifting has picked up considerably since January. The committee set up by the Government of India to finalize the price of ethanol is about to conclude its discussion. The ethanol prices would be mainly linked to the price of gasoline in India, which should improve price visibility and should make this non-cyclical with the sugar business and that is very positive.

At current oil prices, we do expect a very good price. I do not want to give the numbers right now because I am a member of that committee and it would not be right for me to divulge the final number before the report is in the public domain. On the power side last quarter power price in the spot market was weak. We had some contracts, which were long-term and some which were for a year's duration at around Rs.4-Rs.4.5 and the average price does not suffer too much. It is about Rs.3.82 for the quarter. We now see spot prices at around Rs.5 for this quarter and up to May and we expect that to contribute more to the bottom-line. In any case, our total power export is up by about 35% year-on-year and we expect to continue this trend for the rest of the year. These are my opening remarks and now I would like to throw the floor open for questions.

Moderator:

Thank you very much Sir. Ladies and Gentlemen, we will now begin with the question and answer session. Our first question is from the line of Sanjay Satapathy from DSP Merill Lynch, please go ahead.

Sanjay Satapathy:

Sir just wanted to ask bit more about Brazil integration. Thanks a lot for giving out lot of information on that. Couple of things that I mean, it will be great to know the EBITDA margin, which has fallen to about 25%, just wanted to know how much of it is because of decline in other income and the second thing is just wanted to know that within that can we get some sense of what is the breakup of raw material cost as a percentage of sales and what are the other costs as percentage of sales?

N. Murkumbi:

Thank you Sanjay. Our EBITDA margin is actually roughly constant when you take out the foreign exchange gain or loss. There is a slight decline in VDI by about 5% because the cost was estimated for about 1.8 million tonnes (on an apportionment of cost basis) but because of drought, actual crush was only about 1.55 million tonnes. So, we had to adjust for the additional cost in the last quarter of crushing. As far as Renuka Do Brasil is concerned the margin is almost constant. Renuka Do Brasil has of course a lower unit price and that is actually what is weighing also on the margin. As far as the cost breakup is concerned in terms of the contribution to EBITDA, our cane cost was about 50 R$ per tonne of cane and other costs were about 15-18 R$ that includes factory cost, sales, and general administration cost.

Sanjay Satapathy:

This is for the current quarter i.e., December?

N. Murkumbi:

That is right.

Sanjay Satapathy:

Okay. I just wanted to understand one more thing you just mentioned that your RDB had a realization of about 16.7. I believe that is for the quarter and VDI had about 20 cents per realization?

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N. Murkumbi:

Well, just to clarify those are for the season. We have not given a breakup by quarter.

Sanjay Satapathy:

Okay and Sir, despite having such a huge difference in terms of prices it looks like the EBITDA margin of both the company are more or less similar?

N. Murkumbi:

RDB last year crushed only 7.5 million tonne and this year crushed 8.9 million tonnes, which 80% of its current installed capacity. Vale Do Ivai is a 3.1 million tonne company and when we acquired it the cane was about 1.8 million tonnes but due to drought it shrunk to 1.55 million tonnes. The main difference is actually in the overheads.

Sanjay Satapathy:

Okay and can we get a sense like how the margin will improve if the effective realizations improve from these levels to 23-24 cents?

N. Murkumbi:

I will tell you how cost behaves because the price of course directly goes to the top-line. In terms of cost, in case of cane that is bought from third party, we get 40% of the upside and the farmer or supplier gets about 60% of the upside and this is calculated on a statewide basis and published every month. Now in RDB 40% of our cane is from third party and in Vale Do Ivai 10% of our cane is from third party, the balance is all owned by us. In case of our own cane, virtually all of the top-line increase comes to the bottom-line. There is a small cost increase because the lease rents are linked to the price of sugar and ethanol but that is very small. On own canes almost all the upside would come to the company and as I said if you take a weighted average of our total expected crushing of 12 million then about 70% would be our own cane across the two companies.

Sanjay Satapathy:

Okay, so in case of 70% of the cane the entire upside will come to you and in the remaining 30, 50% of the upside will come to you.

N. Murkumbi:

40%.

Moderator:

Thank you. Our next question is from the line of Nillai Shah from Morgan Stanley, please go ahead.

Nillai Shah:

Sir, in the Brazilian business you have about 23-24 cents/lbs as the price of sugar, which you spoke going forward with the current prices where they are, don't you have to pay a mark-to-market on account of this loss. Do you have these losses on your books?

N. Murkumbi:

As I explained to you so far hedging has been done on option basis. We have kept the upside open, so we have no short future actually in either of the company. We do believe that this price is actually - while it is a good price for normal weather- the price in case of any weather disturbance across the world in the next six months could be very high. So therefore we have not really turned short unlike the other companies that operate in this sector.

Nillai Shah:

Is there likely to be a working capital crunch again in Brazil because of this?

N. Murkumbi:

Not really because in all the estimates which I have seen, nobody has hedged more than 50% for next year i.e., for 2011 and the company that is hedged for 50% is also well capitalized. So, I do not expect working capital crunch. The main problem for the small and medium companies in Brazil is that for the last two years they have not planted any cane. They had a financial crisis for two years in 2008 and 2009 due to which they did not plant. In 2010, for most of the season it was very difficult to plant because there was no rain.– Due to this, the average age of cane has gone down and people are struggling on capacity utilization. In general, if you compare the situation when we first entered Brazil for M&A about one-and-a-half year back to the current situation, the industry is much healthier even though debt levels have still not come down to reasonable level.

Nillai Shah:

Sir, second question is on the ethanol program you just mentioned and the possibility of being linked to the gasoline prices. The last I heard of this was it was another review of the Saumitra Chaudhuri Committee, which had given an interim relief to the sugar companies. From there how has it moved to this new committee wherein it actually linked to gasoline prices?

N. Murkumbi:

I am referring to the committee headed by Dr. Saumitra Chaudhuri who is a member of the Planning Commission and they are now almost ready with the final recommendation - the price is supposed to be set every three months and the primary basis for fixing the price is going to be the domestic gasoline price.

Nillai Shah:

But that was not mentioned Sir in the report which he released, right?

N. Murkumbi:

There is no report that has been released. There has only been newspaper articles suggesting what it is; the report is still under discussion.

Nillai Shah:

Sir, third question is on the refining business, so effectively will Haldia be shut for the year?

N. Murkumbi:

We have stock up to the middle of April now, most of which was purchased before December and is there in the opening stock. We also hope that if OGL exports are allowed, we will be able to source domestic raw sugar at a competitive price, refine it and export that as part of the OGL exports.

Nillai Shah:

So it is currently on, the refinery?

N. Murkumbi:

Well, we closed for about 15 days for some rebalancing etc., but it has been operating till early February and it will restart on the 24th.

Moderator:

Thank you. Our next question is from the line of Jasdeep Walia from Kotak Securities, please go ahead.

Jasdeep Walia:

Sir, could you give the other income for both your Brazilian entities separately?

N. Murkumbi:

There is no significant result there, there is a small forex gain and that together in the two companies is about 29 Crores.

Jasdeep Walia:

Could you split these 29 Crores, Sir?

N. Murkumbi:

I do not have the breakup here.

Jasdeep Walia:

This 29 Crores include the full other income for Equipav or 50% of the other income?

N. Murkumbi:

No, this is consolidated fully at the moment.

Jasdeep Walia:

Okay. In the refining business you have been saying since the last two quarters or so that the lower spreads are temporary and they will improve but they are trending downward only since the last two quarters?

N. Murkumbi:

As I just explained, if you see the current spread, the March contract of white sugar expired a day before and the spread expired at around $70. If you see the May contract, it is about $108 just now. If you see the August-July, which is the third quarter spread, it is about $120. So, you can already see on a forward basis, an improvement in the spread. The reason is very simple. Currently everybody in the world is trying to manage whatever inventory they have and many of the world's largest refineries are shut at the moment as the price of raw sugar in the spot market is very high. This it-self will lead to tightness in the white sugar market because lot of refining capacity will be idle depending on how people had arranged raw material between one month and six months. That is what is giving rise to this increase in forward refining spreads, which are already visible on the exchange.

Jasdeep Walia:

Sir, could you just give broad understanding on the costing in refining business. Just very, very broad Op-Ex per tonne and transportation cost per tonne those are two variables I am looking for?

N. Murkumbi:

Well, operations in and out on export basis is about Rs.2000.

Jasdeep Walia:

This includes the transportation cost of that?

N. Murkumbi:

And the transportation cost from Brazil is currently about $40.

Jasdeep Walia:

$40 a tonne, so I have to add this $40 on top of Rs. 2000?

N. Murkumbi:

That is right.

Jasdeep Walia:

So roughly at $70 refinery business would not work essentially because you would not even reach breakeven level?

N. Murkumbi:

What happens is in Asia typically, you will sell white sugar at a premium to the London market so while we are buying raw sugar at equal to the New York market in Brazil the Asian market trades at a premium because it is the shortage area in the world. Last quarter we sold between $20 and $45 over London. If you take an average of $30 there, even at $70 you would make about $20.

Jasdeep Walia:

Sir, your interest cost has fallen quarter-on-quarter for the Brazilian entities?

N. Murkumbi:

Well, I must explain a very peculiar or onetime event. The main debt restructuring Renuka Do Brasil happened on October 1st,2010. So, the debt on September 30th does not fully include the effect of the debt restructuring. We have also given you numbers for December. The average interest cost has fallen as the debt restructuring takes effect. We expect some further fall, this on slide #8 in our presentation and also we expect a little more reduction in the interest rate on the completion of certain restructuring formalities. Also we have about 58% of debt now in dollars, which is at a much lower interest rate and the rest is in brazilian currency (Reais).

Moderator:

Thank you. Our next question is from the line of Vikash Jain from CLSA, please go ahead.

Vikash Jain:

Hi, I had a question regarding Brazil, as you had mentioned that you have hedged your future sugar for next season sugar at 23-24 cents. Firstly how much of our production is hedged? Is it 70%, which is roughly what is going to come from RDB or is it the full production expectation?

N. Murkumbi:

We have protected about 80% of our sugar production; we will produce roughly two-third sugar and one-third ethanol.

Vikash Jain:

Okay so of that two-third, 80% is hedged?

N. Murkumbi:

I want to emphasize again, probably it was not very clear from what I said, and we still have an upside open so this is not a precise number. If the prices continue at 27-30 cents level we would get close to that may be one or two cent lower than that.

Vikash Jain:

Yes sure, that is the cost of buying protection, right?

N. Murkumbi:

Yes, absolutely.

Vikash Jain:

So it is primarily through puts only, so the upside is still open and the downside is capped at 23-24 cents?

N. Murkumbi:

We find it very volatile here and we need a lot of margin finance if you went short, and as I said there is a lot of upside, which is dependent on whether if that comes through, then you would like to be in a position to take advantage of that.

Vikash Jain:

Okay. The other thing was in terms of the ethanol business, the one-third ethanol that you would produce, I just want to understand in terms of ethanol pricing in Brazil, is it completely linked to sugar production or it has some linkage to gasoline prices because I understand gasoline price in Brazil are roughly at $65 or so. So how does it work? I mean with higher crude would also move up ethanol prices or is it linked completely to sugar?

N. Murkumbi:

Well, there are two types of ethanol that are produced in Brazil about one-third of the total ethanol is in anhydrous form, which is 99.8% pure and this is mixed as a 25% blend with gasoline sold in the country. The remaining two-third is 95% pure and that is called hydrous ethanol, which is directly used in flex-fuel cars. Now with flex-fuel cars the gas price at the pump today for gasoline is about 2.6 R$ per liter and the ethanol price (though the ethanol price has virtually doubled in twelve months) in the main states like Sao Paulo, it is around 1.6-1.7 R$ per liter, so at this level for the same mileage, this is on par and therefore ethanol demand continues to be strong. It will not rise beyond this because people will switch to gasoline. However, when gasoline consumption is more, it still needs 25% of ethanol because in Brazil there is no neat gasoline. Gasoline itself has 25% ethanol. Now this 25% blend is actually non-price sensitive because it is a mandate, it has to be there so currently anhydrous ethanol prices are giving about a 15% higher realization than hydrous ethanol. Looking at this, one of the things we have done in Renuka do Brasil is actually to make more anhydrous ethanol than the previous year and coming year almost 80% of the total ethanol we will produce will be anhydrous because that actually has no price ceiling. The higher the ethanol price goes, flex-fuel cars will use more of gasoline and the gasoline needs anhydrous ethanol.

Vikash Jain:

Okay, so what I wanted to come down to is in terms of EBITDA say $23-$24 a tonne what is the rough EBITDA, would it be per tonne of cane crushed. Would it be closer to say $25-$30 per tonne of cane crushed, is that a rough EBITDA number, which is correct?

N. Murkumbi:

Yes, about $25-$30.

Vikash Jain:

So that means almost two-third of 80%, which is roughly 55% or 60% on the $25 and your cane crushed is the minimum EBITDA that you would any way expect?

N. Murkumbi:

That is correct.

Vikash Jain:

Okay. The other thing was in terms of inventory. Could we have some sense of what is the inventory that is there in Brazil and how much of this is still forward sold at low price for Equipav?

N. Murkumbi:

No, there is virtually no inventory in Brazil. There is some anhydrous ethanol for which we have contracts with Petrobras and other private sector oil refiners. So we have about 80,000 cubic meter of ethanol remaining mainly with Renuka Do Brasil. Sugar we have very little, about 20,000 tonnes. The Brazilian model is that you produce and you export; unless you have a very strong price view, you would not actually hold back the production. So, the main sales happen in the three quarters from April to December and ethanol sales would be more evenly spaced and sales would be spread over the four quarters.

Vikash Jain:

So, essentially next quarter there would be no negotiation in terms of lower realization because we anyway have low inventories of sugar. For next season onwards is it anywhere at higher prices?

N. Murkumbi:

The off-season quarter has no sales because you dispatch most of your product as you produce it. From the April-June quarter we expect a very positive effect of the fact that all the sugar will be sold at rates that we are currently locking in and there is no legacy contract left

Vikash Jain:

Okay, couple of other things - in terms of India business sugarcane cost per tonne has been what for this quarter and what are we currently paying right now?

N. Murkumbi:

Well, I think in the last earnings call, I said we at that time started paying about Rs.2,200 per tonne and we expect the cane price to go up to Rs. 2,400 per tonne . So, the cane price you can expect for the whole season would be about Rs. 2,400 per tonne. Part of the increase is because the harvesting and transport cost has gone up by about Rs.100 per tonne. Recovery on the other hand in Maharashtra, in general, has been disappointing, but in our factory actually the recovery has been better than expected. Currently for the season, we are running at about 11.2% and for last quarter, it was about 10.7%, but as on date we have reached 12.2% with couple of our factories running at 13% recovery at the moment on a daily basis. So, we do see a good crop; however, the total cane increase may be less than previously expected for everyone because yields per hectare are not matching with the record yields that we saw in the last season.

Vikash Jain:

In terms of the inventory in India, what is the carrying cost, is it priced at Rs.25 or so?

N. Murkumbi:

It is around that much; I do not have the exact number.

Moderator:

Thank you. The next question is from the line of Achal Lohade from JM Financial, please go ahead.

Achal Lohade:

Just a couple of questions; #1 on the interest cost can we get some idea as to what is the average interest cost we have in terms of for Brazil?

Gautam Watve:

The overall cost of Brazil would be about 7.5% for all the debt, which includes Renuka Do Brasil and Vale Do Ivai.

Achal Lohade:

How about India?

Gautam Watve:

India should be about 11%.

Achal Lohade:

Sir, just another question on the cost of production, would you be able to guide us as to what is the cost of production in terms of the cash cost or in terms of the EBITDA level cost of production, let us say at current 23 cents to 24 cents kind of realization?

N. Murkumbi:

The total cost per tonne of cane and these prices assuming about 40% cane from outside, which is what Renuka Do Brasil should be between 66 and 70 R$ per tonne and the revenue would be about 110 R$ per tonne.

Achal Lohade:

Sir, on the tax rate, would you be able to guide us as to what is the effective tax rate or what tax should we have in Brazil and how do we see tax rate on consolidated level?

Gautam Watve:

Achal, in Brazil what happens is when we have the net operating losses, which we are carrying forward we can actually take advantage; 30% of our profits for that particular year can be set off against the operating losses that have been carried forward, the rest will be at 34%, so the tax treatment of accumulated loss is actually more unfavorable than we have in India, in India we can adjust the entire amount of accumulated losses starting from the first year.

Achal Lohade:

What is the tax rate we are expecting for FY'11?

N. Murkumbi:

For Brazil it would be about 22%-23%.

Achal Lohade:

Sir, in Brazil there have been lot of talks about lot of cane will be going for replanting that would drive the cane production down. What is our sense as to what kind of replanting we are looking at in Brazil as a country?

N. Murkumbi:

I think the estimate that the cane supply next year will be the same as this year already is factored into account indicating that the amount of cane to be replanted will be higher than normal. However, there is a logistical limitation, a lot of cane is now mechanically planted. You need to buy new machines to actually plant more cane. So people's replanting capacity cannot double overnight. There is a little more extra planting, I mean one would expect about 3-5 million tonnes of cane to go for replanting in addition to what is normal so that is all factored into an estimated cane available for crushing of 560 million tonnes.

Moderator:

The next question is from the line of Sandeep Somani from Edelweiss, please go ahead.

Sandeep Somani:

Sir, my question is with regards to the ALS; what is the Renuka's commitment for the current year under ALS scheme to be exported outside?

N. Murkumbi:

In total, we have about 180,000 tonnes of sugar that we can export under ALS. Besides that, the entire sugar refined in Haldia after July has been imported under advance license and the entire quantity is available for re-export. I think last quarter; we have already mentioned the amount of sugar exported. Last quarter it was about 112,000 tonnes, this quarter it will be about 230,000 tonnes and the quarter after it will be about 140,000 tonnes.

Sandeep Somani:

Secondly, as far as power in Brazil is concerned, is this again the realization on a PPA mode or there is a merchant power as well in Brazil?

Gautam Watve:

Sandeep, for RDB we have got long-term contract, which are under the PPA mode. For Vale Do Ivai, though we do not have long-term power contracts, we actually supply steam and utilities to another company where we have got a long-term contract.

Sandeep Somani:

In these long terms contract, what kind of escalation we see every year?

Gautam Watve:

It is a fixed price contract.

Moderator:

Thank you. The next question is from the line of Nirav Vasa from SBI Cap Securities, please go ahead.

Nirav Vasa:

Thank you very much for taking my questions. My first question pertains to the pricing, which was offered by the other mills specifically in the cooperative mills. All the bigger mills like Renuka and all the other big level integrated players have offered cane prices in the range of Rs.200 to Rs.240 per quintal whereas the trend is not followed by smaller and cooperative mills. Do you think this could be prime changer in terms of cane area under acreage for the next crushing season?

N. Murkumbi:

In Maharashtra and Karnataka where cane prices are set mainly by competition, almost everyone is offering the same cane price, otherwise they will not get much cane and the farmer would hold back the cane and then divert it to those who are paying better. What is happening on the ground is many of the smaller companies and a lot of the cooperatives are having a cash crunch especially now that half the crop is over most people's working capital limits are full and there is no liquidity. Right now the industry is selling about 1.7 million tonnes in the domestic market per month and we are producing 5 million tonnes. A lot of inventory is accruing and because the unit price of sugar is much higher than it was two years back people's working capital limits are not keeping pace with that. The differentiation which I would expect in the second half of the season would be on the basis of cane payment, how prompt it is rather than on price. The fact that everybody has to match the same price despite varying levels of integration and byproduct monetization is the main reason why many of these cooperatives are as they are.

Nirav Vasa:

Do you foresee the cooperative as of now because of the tight liquidity conditions would be resorting to lower cane pricing for the rest of the period because on one side the sugar prices are not really remunerative and on the other hand it does not make any sense for them to do aggressive pitching of the raw material?

N. Murkumbi:

No, I do not think that happens in practice and it does not solve the liquidity. Actually by cutting the price even by 10% or 15%, the liquidity problem does not get solved, so people delay payments. On the other hand there is a general view that with the production of about 24.5 to 25 million and the closing stock would not be larger than last year.

Nirav Vasa:

At this price, which is offered to the cane growers, do you think that it could result in a significant availability of Ratoon cane for the next crushing season or is it that the farmers are diverting their land towards other remunerative crops?

sugar ethanol power

N. Murkumbi:

Well, right now as I said the cane price is lower than last year, it does not mean that it is not remunerative it is still a good price; however, there is a downward trend, so I do not see new land coming in for cane, but I do expect that there may be replanting of the area where the Ratoon is being uprooted this year. So I would expect the area to be constant next year as per my initial estimate.

Nirav Vasa:

Sir, my last question pertains to the appetite for more acquisitions in Brazil, you have already done two acquisitions, is there any other company in pipeline?

N. Murkumbi:

Well, I said this earlier also and in other interviews also. Actual crushing at Renuka Do Brasil & Vale do Ivai last year was 10.5 million tonnes. With the expansion that we have already funded in Renuka Do Brasil, these two companies together can crush 15 million tonnes in 2012. The primary focus is increasing our capacity to that extent. We also have commissioned about 100 MW of cogen, which is also something that is underway that will double the power output at Renuka Do Brasil. So we have a lot to do. There are one or two assets, which are very close to our mills. It would not be right not to look at them but it is not a priority for us and we are anyway not looking at any large assets. Our primary focus, I want to emphasize again, is to finish what we have already financed in terms of expansion in the cane area to meet the industrial capacity much more and then pay down debt.

Moderator:

Thank you. The next question is from the line of Sanjay Manyal from ICICI Securities, please go ahead.

Sanjay Manyal:

Just few questions; one regarding the Brazil operation, as you said that your realizations are almost 16 cents and 20 cents what I understand is, in the three-month period, prices despite the hedging strategy you have adopted and prices are about 25 cents, it is difficult to understand?

N. Murkumbi:

When we talk of hedging we are talking of the next season 2011. The 2010 prices one we inherited in Renuka Do Brasil contracts on takeover and in the case of Vale do Ivai these prices are fixed at 20 cents in January and February.

Sanjay Manyal:

From the Indian operation side also as you said that you are paying almost Rs. 2,400 per tonnes of sugarcane despite the fact the production levels are I think in Maharashtra specifically at the peak levels of 9 million tonnes around. So is it a deliberate strategy or is there any strategy regarding that because I think even if you take the minimum support price you can pay much lower?

N. Murkumbi:

Well, as I said prices in Maharashtra and Karnataka is set by a competition. When prices of sugar are much lower you can then drop your cane price closer to the FRP, which is set by the central government. But when product prices are higher, people tend to pay more and you end up with roughly at 15% to 20% EBITDA margin whether sugar prices are low or high.

Sanjay Manyal:

Okay, so if I assume the cost of production as of now for the Indian operation are you saying that it is below the current realizations?

N. Murkumbi:

No, it is not, because you have to adjust for the recovery, right? The price I mentioned - our recovery currently for the season is 11.2% and it is likely to close higher than this.

Sanjay Manyal:

As you said in the opening remarks also that the production levels is almost 1.1 million tonnes higher. So the 24-25 million tonnes, which has been set by different estimates, you are trying to indicate that the production probably will be much lower than that?

N. Murkumbi:

No, I said that the production earlier estimate was 25 million tonnes plus, currently the Indian Sugar Mills Association has an official estimate of 25 million tonnes and the government has an official estimate of 24.5 million tonnes.

Moderator:

Thank you. The next question is from the line of Kunal Vora from BNP Paribas, please go ahead.

Kunal Vora:

First question is on the debt; looking at the debt number which you have given out last quarter and this quarter for Brazil, you had a debt of 6.11 billion in VDI and 34 billion in Equipav last quarter. While I am seeing that during the current quarter you have given that Brazil consolidated debt is 48 billion so can you please help me reconcile it how this 40 billion became 48 billion?

N. Murkumbi:

You are talking of the last presentation?

Kunal Vora:

Last presentation you had VDI debt at 6 billion, Equipav at 34 billion, now I am looking at Brazil debt at Rs. 48 billion?

Gautam Watve:

Kunal, this is Gautam here. The difference between what we have given last time and this time is actually the difference between the restructured debts. So, what we have given last time for RDB was the debt levels before the restructuring happened and before the initial amortization of the debt happened at that point in time, so we had given out the net debt at that time.

Kunal Vora:

I am not completely clear, how does the restructuring change the debt number like why it did get revised upwards from 40 billion to 48 billion?

Gautam Watve:

I do not think it has got revised upwards I think what has happened is that last time we had given out net debt level and this time we have given actual debt, so if you remove the cash you will have the same.

Kunal Vora:

I was looking at total cash number also that looks Rs.86 billion even then it goes down from 48-42?

N. Murkumbi:

We will clarify that to you after this call, we will look at that, for any other difference we would like to clarify.

Note: The difference is because there was cash reserved by the banks, ear-marked against some of the loans which have been treated as investments under Brazilian GAAP- amounting to Rs. 1,536 million which was included in annual 2009-10 MDA, Q1 FY-2011 earnings release doesn't include these amounts in cash and cash equivalents.

Kunal Vora:

Sure sir. Sir, how comfortable are you with the 25 million tonnes production number because lot of people are talking about much lower production estimates for Uttar Pradesh and even Maharashtra I am hearing that 9 million looks aggressive. Do you think it can be below 24 million tonnes or do you think 24 million tonnes is achievable for India?

N. Murkumbi:

I have a privilege that my investors are more bullish than I am happen to be the President of the Indian Sugar Mills Association this year. Whatever is the estimate of the association is my estimate. We are keeping a close eye on it, as I said up to January 31st, 2011, actual increase in output over last year is about 1.4 million tonnes and we will see now what happens. If at all there is a major change in the crop, it will happen because yields come in lower per hectare over the next second half of the crop, so something to look at, but at the moment crushing is going on strongly and even with these numbers, we do not expect any significant addition to the closing inventory in the country.

Kunal Vora:

What will be the expectation for utilization levels in Kandla refinery?

N. Murkumbi:

Well, we start trial at the end of March, so we will probably run at full capacity for about 4-4.5 months, it is 3000 tonnes per day so about 150 days is about 4 lakh to 4.5 lakh tonnes this year.

Moderator:

Thank you. The last question is from the line of Basav Raja from Mirae Asset, please go ahead.

Basav Raja:

Sir, I actually wanted to know what is the own plantations for Brazil this year?

N. Murkumbi:

In Renuka Do Brasil, we expect to crush 9.5 million, we have about 60% own cane and in Vale do Ivai, we expect to crush 2.5 million in 2011, we have 90% own cane.

Moderator:

Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the floor over to Mr. Nirmal Shah for closing comments.

Nirmal Shah:

I would like to thank the management of Shree Renuka Sugars for giving us a chance to host the conference call. Thank you Sir.

N. Murkumbi:

Thanks everybody.

Moderator:

Thank you. 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.

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Safe Harbour

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