

Shree Renuka Sugars Limited
Q3 FY 2010-11 Conference Call Transcript
August 11th, 2011

Moderator:

Ladies and gentlemen, good evening and welcome to the Q3 FY'11 earnings conference call of Shree Renuka Sugars. We have with us on the call today Mr. Mr. Narendra Murkumbi, Managing Director, Mr. K. K. Kumbhat, Chief Financial Officer and Mr. Gautam Watve, Head, Strategy and Planning. As a reminder all participants will be in the listen-only mode and there will be an opportunity for you to ask questions later at the end. If you 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. Narendra Murkumbi. Thank you and over to you, Sir.

Narendra Murkumbi:

Good evening friends. Welcome to our Q3 FY 2011 earnings conference call. This is the first quarter where we are seeing a substantial contribution from our Brazilian subsidiaries, more in line with what we believe is their full potential and I will request our CFO, Mr. K. K. Kumbhat to first present the broad numbers and then I shall give an outlook for the business.

K. K. Kumbhat:

Good evening. I will present the consolidated quarterly numbers for the company as a whole, for Indian operations and Brazilian operations. The total consolidated turnover for the Q3 ending 30th June, 2011 was Rs.23.66 billion as compared to Rs.20.42 billion in the same quarter last year. The total EBITDA for Q3 2011 was 5.58 billion as compared to 2.05 billion in Q3 2010. EBITDA as a percentage of the total income for the quarter ended June 30, 2011 was 23.5% as compared to 10.0% year.

Our profit after tax in Q3 2011 ended June 30, 2011 was 1,870 million as compared to 902 million in Q3 ended June 30, 2010. The Indian operations details are as following: The total turnover for the standalone entity for Q3 ended June 30, 2011 was 12.03 billion as compared to 12.30 billion for the corresponding quarter last year. The standalone EBITDA for the quarter was 1,329 million as compared to 434 million in corresponding quarter last year. EBITDA as a percentage of the total income for the quarter increased to 11% against 3.5% in last year. Total net profit after tax in Q3 ended June 30, 2011 was Rs.472 million as compared to Rs.89 million in the corresponding quarter last year.

Coming to the Brazilian operations, the total turnover for Brazilian subsidiaries for Q3 2011 was 10.99 billion. The total EBITDA stood at 4.17 billion while total profit after tax for Brazilian operations for Q3 ended June 30, 2011 was Rs.1.39 billion. I will now hand over the call to Mr. Murkumbi to give you more details about the industry

Narendra Murkumbi:

The world sugar market has been relatively firm since our last conference call in early May. The price has increased by almost 10 cents per pound since then. The main underlying reason for high sugar prices has been poor crop yields and the extremely strong demand for ethanol in Brazil providing a floor to the market price and many large producers in Brazil, including us, diverted more of our juice to ethanol in this period. In the past quarter, almost 56% of our sugarcane juice was diverted to alcohol versus a peak production capacity for sugar of 70%, making the production of ethanol relatively higher. At the same time, there have been downward revisions of the Brazilian crop, yields are poorer than the average by almost 18% across the region and it is expected that overall for the season the total cane crushed will be between 15% and 17% lower than the initial estimates.

Today the Sugar Industry Association of Centre South Brazil UNICA, is about to publish their third revision to the crop and we expect that to be significantly lower than their last estimate of 534 million tonnes of cane. As Brazil has 70% market share in the world raw sugar market, any revision in production in Brazil leads to an immediate decrease in availability of sugar in world market. We now expect, firstly, that the deficit of the last two years, which are supposed to end in this quarter, will continue at least till the end of this calendar year and possibly into the first half of 2012 until the next Brazilian crop starts being harvested.

Also the equivalent price of ethanol in Brazil has risen. The potential consumption of ethanol is far higher than the current ability to produce, especially, given the fact that sugar prices are now again higher than ethanol prices. Anhydrous ethanol for example is currently at about equivalent of USD 24 cents sugar. We expect very strong support for the world sugar price between 24 and 25 cents because below that all producers in Brazil will start producing more ethanol and less sugar which itself will correct any supply surplus that emerges. On the upside, we have to wait for the final number from Brazil. But given that the crop has been revised downward two to three times, it is possible that sugar prices will again get close to their peak of 30 to 35 cents which we saw in the first quarter of 2011. So price outlook looks very firm in the international market.

Coming to India, the domestic prices has been largely flat. There has been a variation of Re.1 to Rs.2, in the quarter. The price has been moulded more by the monthly quota and the periodic releases of sugar for export. After the allowance of export of 1.1 million tonnes under advance license under the old advance

licenses, which expired on March 31, we have seen two further releases of sugar for export, one in April and one in the end of June. Together these releases have been worth a million tonnes. Combined with production of 24.2 million tonnes and a domestic consumption of between 21 and 21.5 million tonnes, these exports are serving to balance the production and demand. We do expect, probably within the next one or two weeks, another half a million tonnes of exports to be allowed from the production of the current year. That means that we will go into the next season with a fairly manageable inventory of below 6 million tonnes, which in my opinion is supportive for domestic prices. However, the lack of a free export window and this kind of calibrated exports means that the world price and the domestic price are not trading at the same level. The domestic prices are currently at a discount of about USD 120 per tonne to the world price. This difference is affecting realizations in domestic market.

In the case of our company, last quarter we had a significant proportion of sugar sales in the export market which helped us to show a profit in an environment where most of our peers are showing losses. We are also seeing a further strong performance from our renewable energy segment that is co-generation and ethanol in India, where we have strong volumes and better prices compared to last year. For example the average sale of power this quarter has been at a price of Rs.6.31 per unit and most of the production was from bagasse, therefore, giving a high EBITDA margin in that segment. For Ethanol also, we have had good numbers and the realizations and the profits that we have shown are based on the provisional price of Rs.27, which is being paid by the oil companies. In our case, about 55 million litres of ethanol has already been dispatched to the oil companies. If the pricing formula of the expert committee is approved by the cabinet we will get retrospectively further additional realizations for at least the last two quarters. That is from January to June because the recommendation on pricing is based on the linkage with the domestic petrol price, which has been increased multiple times in the last two quarters. So we do expect some further earnings as and when this report is approved by the Cabinet.

The tenders for next year's ethanol program have already been floated and we will again be making a substantial commitment to the alcohol program. Domestic alcohol prices are firm. The price of rectified spirit in South India has risen to Rs.30 because it is off-season period and there is not much surplus. Also there is plenty of export demand around the same price. In fact, although we do not think there is a surplus of alcohol in India next year, but if there were to be a surplus then we would expect the world market to soak up this alcohol at a price above Rs.30 because currently Brazil is very tight and will not be exporting any significant volumes.

Coming to the outlook for our company, I think what we are seeing this quarter is the first substantial results out of our Brazilian subsidiaries. I would particularly point out to the outstanding results of Renuka Vale do Ivai. This is a company, which was in a distressed condition, when we took over the management in November 2009. We completed the legal transaction and investment in March 2010. Last

year, it crushed at only 50% of its capacity. We planted almost a million tonnes of additional cane last year since we began planting early when the weather was favourable and this year we expect its capacity utilization to rise above 80%. We are already seeing very strong results from the company. This quarter, the EBITDA is 48% (net of forex variation) backed by strong ethanol and sugar prices. The average sugar price for our Brazilian subsidiaries this quarter was about 25.6 cents excepting about 48,000 tonnes of sugar, shipped from opening stocks, which was under the last of the legacy contracts and got shipped in the first week of this quarter. For all the other sugar sold from the current year (2011-12) production the average price is USD 25.6 cents per pound. Our average price for anhydrous ethanol was about USD 29 cents per pound equivalent for this quarter.

Since we have yet sold only about 20% of the current year's expected production, we do expect stronger turnover and contributions in the next three quarters. Given that we expect a very tight situation in the ethanol market in Brazil during the off-season i.e. January to March, we will spread out our ethanol sales across the three quarters and not sell it as it is produced. Similarly with sugar we will be having sales across the three quarters and we do expect that we will continue to see substantial results from these companies. Our aim is to bring down sharply our Debt to EBITDA ratio accompanied by some repayment of debt this year as we have a few loans which were not restructured and we would seek to repay those high cost loan that we have.

Another event that has taken place is that in the last week of July we have commissioned our second refinery at Gujarat near Kandla. Commercial operation has commenced and it is currently being stabilized. Refining is still running at roughly 50% of its total capacity, because while we have managed to lock in some good margins, there have been gaps in the production due to the delay in arrival of raw sugar from Brazil and the substantial line up that we see in Brazil.

The outlook for the next Indian sugarcane crop the current estimate is that cane area is up by about 5% and that sugar production will be up about 8% based on an assumption that the increased area will go entirely for sugar production and will not be diverted to Gur & Khandsari. The Indian Sugar Mills Association (ISMA) currently expects the next year's crop to be about 26 million tonnes. Given the balanced approach of the Government in terms of allowing export this year when the production was relatively lower compared to next year's expectations, we are positive that exports will be allowed especially during the season when farmers' payments need to be done. So we are expecting substantial exports to be allowed right from November when crushing starts and therefore we do not see any significant buildup of inventory. This should support the domestic sugar price and we do not see any bearishness for the same. We do think that the world market can absorb 3 million tonnes of Indian exports over the next sugar season. So both for sugar and ethanol we see world markets being very supportive of the situation in India.

Looking forward beyond that it is very tough to call right now because the cost of cultivation of cane in India has gone up quite a bit, especially on harvesting and transport cost where the labor cost has virtually doubled. In the same context, cane prices, which were an average of Rs. 2,800 in Maharashtra last year had dropped to about Rs. 2,400 in the current season and our preliminary outlook for the next season, assuming prices being flat where they are today, is that the cane price would drop to about Rs.2,200, It could be the second consequent year when sugarcane prices will be lower than the previous year, and we will have to wait and see what will be the effect of this cane price on the total area under sugarcane cultivation especially in the FRP governed states of Maharashtra, Karnataka and Gujarat.

This briefly ends my outlook. I think I would like to reinforce two points; one is that we continue to be very positive about the structural gap between demand and supply in the world sugar and ethanol market. Despite the entry and investment of two large oil companies in Brazil, we still see that production capacity is lagging behind the demand and there is a substantial gap opening up between potential ethanol demand in Brazil and the actual ethanol available. This is because when the ethanol prices are tending to be higher than gasoline in some months, people are using gasoline and ethanol demand grows in case prices become weaker and that is supportive of the market. We expect this gap to remain at least for the next three or four years and therefore supporting prices at a very high level. In terms of our own focus it is on sweating the assets in Brazil. Renuka Vale do Ivaí, which is our first acquisition, you will see the full results right from this quarter. In Renuka do Brasil, the same process is underway, which we have successfully done at Renuka Vale do Ivaí, but it will be with a lag of one year, because we have taken over last July after which there was a drought in Brazil and no additional planting was possible last year. So we are very confident of increasing our earnings in Brazil over the next two years, to improve both, our capacity utilization and improved margins.

Finally, taking into account the change in our company's structure and the relative importance of our global business where we have harmonized the financial year end of both the subsidiaries to March and also taking into account the tax year in India which ends in March, we have decided to change the financial year end of the company to March 31. So, subject to regulatory approvals, we will have the current year closed at March 31, 2012 so that we can harmonize the audited accounting year for the entire global business.

This is the end of my presentation, and I would like to throw the floor open for questions.

Moderator:

Thank you. We will be now beginning the question and answer session. First question is from Parinita Poddar from ICICI Direct. Please go ahead.



Parinita Poddar:

I would just like to have the quantity of sugar and ethanol sales from Brazil, quantity sold?

Narendra Murkumbi:

My colleague Gautam who is in-charge of Brazil will take that.

Gautam Watve:

The total quantity of sugar sold from Brazil is about 157,759 tonnes.

Parinita Poddar:

Ethanol?

Gautam Watve:

Ethanol is about 94,670 kilolitres.

Parinita Poddar:

There is one more question on inventory in Brazil of sugar and ethanol both?

Narendra Murkumbi:

In Brazil we do not maintain much inventory at the end of the first quarter, we do not have a number here, but it would not be much.

Parinita Poddar:

There is one question from the power segment in India, your realizations for the power segment seems to stand at 6.3, which looks substantially high. So if you could tell us why this is so high and what was the ratio sold to merchant power because of which the realization has been so high?

Narendra Murkumbi:

I think this is a one-time thing. This quarter there was a very high demand for power in South India whereas the transmission capacity was a constraint from other regions. The South Indian prices were between Rs.8 and Rs.10 for most of the summer. In Maharashtra we are selling power to the State Electricity Board at a fixed price of about Rs.4.79. In Karnataka, Power was sold at substantially higher price. However, we have taken a decision to go in for more of long-term contract where the power price in Karnataka would be about Rs. 3.59, which is also under revision and we expect it to be around Rs.4.20

or so once the regulator decides on the petition. So we do not expect this kind of prices to prevail in all quarters. Also due to the fact that all our power this quarter was generated from bagasse, therefore the margins are also high.

Parinita Poddar:

That is about it. Thank you so much.

Moderator:

Thank you. The next question is from Sanjay Satapathy from DSP Merrill Lynch. Please go ahead.

Sanjay Satapathy:

My first question is regarding the total debt level that is there in India, if you can just give us that data? How are they playing compared to the previous quarter?

Narendra Murkumbi:

We disclose the debt numbers every six months, but I would say prima facie that it has reduced compared to last quarter. But we will give you the exact figure at the end of the September quarter.

Sanjay Satapathy:

Sir, my next question is, in the current quarter if I strip-off the other income for the Brazilian mills, then the EBITDA margins looks like it is about 28%, so just wanted to understand from you that considering that the price realization has gone up so much, when is it likely to reflect in the EBITDA per tonne and was there something one time in the sense, some ramp up related to costs which have impacted this quarter results in the Brazilian operation in terms of EBITDA margins?

Narendra Murkumbi:

The forex gain on the valuation of outstanding foreign exchange loans in Brazil when converted to Indian Rupees was about Rs. 104 Crores. The EBITDA margins including these gains was 38% for the two companies combined in Brazil. That is for the entire Brazilian operation. The EBITDA margin without the foreign exchange earnings would be about 31%, not the number you said. In this the VDI margin is about 48%. The RDB number is lower at about 27%. The reasons for these are two-fold; one is that Renuka Do Brasil had a shorter operation. We started in the middle of April and the cane yield that is the recovery was lower. It was about 114 kg per tonne of cane, which over the season will be 130 on average. So the cost of production is relatively higher in this quarter. Secondly, about one-third of the sugar sold

by Renuka do Brasil was the last of our legacy contracts; about 48,000 tonnes sold where the unit price of USD 18.8 cents/lbs (Sugar came from opening stock and not current quarter production). This is a one-time matter, which will not be there from the next quarter. We do expect lower costs in the next two quarters as we go into the peak season along with higher volumes and prices. As we have said in the past, for our pricing we have a minimum of 23 cents and we have a maximum of about 28 cents because of the hedging we have done. Now that the market continues to remain firm and the ethanol parity has moved up to about 24 cents, we expect to be closer to the top end of that range for that full year (Apr-2011 to Mar-2012).

Sanjay Satapathy:

Sorry Sir, I could not get one part of your thing that that what was the recovery of RDB in this quarter? I could not get that.

Narendra Murkumbi:

It was 114 kg per tonne of cane.

Sanjay Satapathy:

It will move up to how much?

Narendra Murkumbi:

The average for the year is expected to be about 130 kg per tonne of cane, so the next two quarters will be higher.

Sanjay Satapathy:

Just to understand, how do we account for the cost? I mean, is it proportionate to the recovery or it is just proportionate to the total tonne of cane that we process?

Narendra Murkumbi:

It is proportional to the total tonnage. Most costs are direct costs, but the costs that are incurred in the off-season for maintenance etc., are apportioned based on the expected amount of the crushing.

Sanjay Satapathy:

Sir, my last question is what could be your guidance for the total number of cane that you will crush this year and what will it be in the next year and also if you can give a sense of the hedging position for the next year's crop?

Narendra Murkumbi:

Well you have asked an important question. One of the reasons why the sugar price is closer to 30 cents is because of the low yields in Brazil. Against our previous estimate of 11-12 million tonnes of crushing this year, we had reduced the quantity that we expect to crush between 10 and 10.4 million tonnes and we have seen similar revisions by all the other major groups and the industry as a whole. As far as the next year is concerned, between the two companies, we have a target of planting about 32,000 hectares out of which we have already managed to plant about 15,000 hectares. Right now, the weather is not conducive for further planting, but assuming we can finish the balance 20,000 hectares, we would expect to have next year cane of about 13 million tonnes. Similarly, the outlook for Brazil is based on what the industry can plant in the last five months of this current calendar year, which is a main planting period. You cannot plant much from January onwards. As far as hedging for next year is concerned, we have got a very good opportunity in June and July and we are about 40% hedged for the next year with a floor price of 24 cents and a cap price of 30 cents. So we will be able to fix a final price between these two levels and we have hedged about 40% of our next year production based on that.

Sanjay Satapathy:

Just wanted to confirm that if the VDI got 48% EBITDA while RDB got 27% and this difference will not be there next year?

Narendra Murkumbi:

It will not be there next year; it will also narrow in the subsequent three quarters of this year itself.

Sanjay Satapathy:

Thanks a lot Sir.

Moderator:

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

Vikash Jain:

Sir, I had a few questions. Firstly on the projects that you have been mentioning that have been undertaken in terms of Capex as mentioned Kandla has been commissioned, so should I assume that all the Capex on that has been completed in terms of payments and all?

Narendra Murkumbi:

Yes it will be completed by end of September. We have one more turbine to commission in the end of August, so our September balance sheet we will have the fully capitalized Capex of Kandla as well as the last of our BOOT based co-gen projects in Maharashtra where work has been going on for the last one year.

Vikash Jain:

Roughly how much cash payment is left for the Indian projects these two put together?

Narendra Murkumbi:

I think about 50 Crores.

Vikash Jain:

On Equipav expansion that is the capacity expansion how much incremental Capex has been spent during the quarter?

Narendra Murkumbi:

We are expanding in Renuka Do Brasil. We have slowed down that expansion because we do not expect enough cane to use the expanded capacity next year. So the number is relatively low, but as I told you before, this money has already been funded to the subsidiary.

Vikash Jain:

The planting that you mentioned, I believe in the last call you had mentioned that you would spend about 200 Crores incrementally on plantation. Like you said, should I roughly assume 25% or 40%?

Narendra Murkumbi:

Our 40% has already been completed and the remaining 60% requires better weather conditions.

Vikash Jain:

I think you mentioned, but I probably missed the figure, the sugar realizations that you mentioned was only for VDI or is it for both average Brazil sugar realizations?

Narendra Murkumbi:

Combined is 25.6 cent.

Vikash Jain:

This is including the legacy sales that you are saying?

Narendra Murkumbi:

Without the legacy.

Vikash Jain:

Of the volume that you mentioned 157,000 tonnes of sugar how much was the legacy sale roughly?

Narendra Murkumbi:

It was about one-third.

Vikash Jain:

One-third of the total business?

Narendra Murkumbi:

It is 48,000 out of 157,000 tonnes.

Vikash Jain:

The other thing I wanted to know was about stake in the Port of Parana. How is that income from that accounted?

Narendra Murkumbi:

The benefit goes to us in terms of lower logistics cost in RVDI and RDB because the companies in the same group are allowed to have shareholder's benefit. So against a market price today for elevation of \$13 per tonne for exported sugar we are getting the facility at \$3 per tonne. So we are saving \$10 on our entire Brazilian production, roughly about \$8 million a year. Secondly, out of its own internal accruals and borrowing on the existing assets, without taking any call from the shareholders, this port terminal is

being doubled in capacity from 3 million tonnes a year to 6 million tonnes a year. As a 12% shareholder, with the first right of refusal over the quantity not used up by other shareholders, we expect that in the foreseeable future this terminal is enough to meet our entire export requirements, even with expected growth in our production and business.

Vikash Jain:

I need other guidance. Firstly, on sugar refining, last call you had mentioned that the plan was to produce 0.7 million tonnes in refined sugar. Should we take it lower or do you expect to still reach that with the increased Kandla capacity?

Narendra Murkumbi:

I think Kandla has got commissioned later than we expected at the last call and now there is a month of delay, so I do not want to give a new number because we have missed many targets this year and I would leave it for another quarter to see what exactly happens. But I do expect that we would be in a much better position next year when both the plants stabilize and a clearer outlook on the Indian scenario which will enable us to make plans. Actually in the world market, we need raw sugar prices to not go too high like crossing 30 cents. The white premium margin or the refining margin deteriorates because that is one of the ways the market adjusts to a shortage situation. The other thing is if Indian exports are free then we are very viable and competitive based on Indian raw material itself. We are right now in this gray zone with the refining margins are quite volatile and there is uncertainty on exports from India. So I would not venture to put out another number in this call, but definitely by the next quarter we will have more clarity on the prospects. Having said that, we have a decent quantity going through both the refineries at the moment where the margins have been locked in when they were higher, and that will run until about the end of September.

Vikash Jain:

How much was the profit from the Dubai Trading subsidiary?

Narendra Murkumbi:

With the refining and Brazilian operations being our focus, our trading operations are relatively small. The trading profit out for the whole quarter is about INR 11.1 Crores on a turnover of INR 237 Crores.

Vikash Jain:

For the full year what is the kind of power volumes that we can expect from Brazil? Power exports, which is 95 million units this quarter for the full season of Brazil what is this number likely to be?

Narendra Murkumbi:

We will come back to you later in the call with that number.

Vikash Jain:

Thank you.

Moderator:

Thank you. The next question is from Manoj Bahety from Edelweiss. Please go ahead.

Manoj Bahety:

I have a couple of questions. My first question is when we compare EBITDA margin of Brazil operation vis-à-vis EBITDA margin of India operation, in Brazil the cane cost is forming part of depreciation which goes below EBITDA. So how do we do a like-to-like comparison? Is it possible to see what is the cash component in the depreciation or how much is the cane portion in the depreciation. Is it possible to quantify that amount?

Narendra Murkumbi:

Well firstly let me clarify that amount of cost in agriculture which is amortized is relatively small. It pertains only to the planting cost and in the case of RDB, which is in Sao Paulo order state the crop size is 6 years, so it is amortized over 6 years. In RVDI the average crop size is 8 years so it is amortized over 8 years. Now I would say that about 40 million USD is the amount that is capitalized every year and about one-sixth of that is written off.

Manoj Bahety:

Sir, my second question was on the forex gain, like as I understand it is just the convergent impact or an accounting impact of Brazilian currency to Indian Rupees, but logically I think it will never ever get converted into cash because we will never convert Indian Rupees to Reais and pay it off. So it is only an accounting impact, right?

Narendra Murkumbi:

This is not a cash impact yet and that is why we have separately disclosed this amount which is about Rs. 104 Crores.

Manoj Bahety:

Last question is since drop in yield is expected to be in the range of 15% to 17% in Brazil, do you see some regulatory pressure in Brazil also because there may be a shortage of ethanol within the country? Do you see some sort of disincentives for the exports? Some types of tax on sugar exports or control on ethanol exports from Brazil?

Narendra Murkumbi:

Well I think I had dwelt this question at the last conference call. There was lot of noise in April and May when there was a very serious shortage of ethanol in Brazil. In fact ethanol is being sold at Rs.50 a litre and at that time we had talked about sugar export tax and about reducing the ethanol blend ratio for gasoline. As time has gone forward, the industry and the government had several rounds of discussion and two things have happened. One is the market itself has adjusted in a way that ethanol prices have risen to above the parity price of petrol in some states which are far away from the production centres and automatically the demand in Brazil has adjusted downwards. There is a shortage of gasoline in Brazil. If you know the world gasoline price today, it is about \$115 a barrel whereas Petrobras is selling gasoline in Brazil at a price equivalent of \$65 per barrel. So every barrel of gasoline that is imported, they have to pay about \$50 of subsidy. They have been proactively engaging with the industry to try and manage so that they do not have to import this gasoline. We do not see any punitive measures coming. The industry has proactively contracted about 300 million litres of ethanol imports in the off-season and it is possible that more ethanol will be contracted to meet the gap. I think last year everybody was taken by surprise because the drought came towards the later part of the season and the production fell dramatically at a late stage. This time the planning has started right from the beginning and we do expect prices to move higher once production stops but we do not expect a stock out position like we had in April of this year.

Manoj Bahety:

Thanks a lot for answering my question. Wish you all the best.

Moderator:

Thank you. The next question is from Sanjay Manyal from ICICI Direct. Please go ahead.

Sanjay Manyal:

Sir, one question on the production. You said that there have been two revisions in Brazil and probably now sugar production is estimated to be 31.8 million tonnes. What kind of production are we expecting in the Euro-zone and specifically Russia, China, Thailand? Thailand would be one of the countries, which will be exporting. I think there are surplus expected in these countries?

Narendra Murkumbi:

These are the main producers in the northern hemisphere and their production will start from October, so Russia and Europe are expected to be higher than last year; however, Europe has a very small stock position so we do not expect any significant export from Europe again for the next year also. In the case of Russia, we expect import requirement to be 1 million tonnes lower than last year. As far as China is concerned China is one of the strongest sugar markets in the world. The current price of sugar in China is about \$1,100 per tonne, which is roughly 90% more than the Indian domestic price. China is in fact the largest importer of sugar in the world. They have already bought about 3 million tonnes this year. It is off-season there, just like it is in India and prices are still rising. Every time the world prices dip to the bottom of their range (about USD 25 cents/lbs), we do see buying of raw sugar in large quantities by Chinese government entities because sugar is considered as one of the strategic food products now. They had a peak reserve of sugar of about 3 million tonnes. Those stocks have all been sold in the domestic market last year to control prices and only about 300,000 tonnes is left in the reserve. So we expect Chinese import demand to continue next year but the crop is not going to be much higher next year than this year. We expect Chinese import demand to be strong and with further additional re-stocking demand in case prices correct below 24 cents. As far as Thailand is concerned the Thai Cane and Sugar Board, the official government body which regulates the sugar industry has said that their production of sugar would be 9.2 million versus 9.8 million tonnes this year, so slightly smaller.

Sanjay Manyal:

So they will be exporting less?

Narendra Murkumbi:

It will automatically translate into lower export sales.

Sanjay Manyal:

If you can just throw some light on Australia because I think it is also one of the larger exporters?

Narendra Murkumbi:

Australia, I do not think will vary much. The deviation is between 100,000 and 200,000 tonnes. It is becoming significantly lower. The total exports of Australia now are smaller than Cosan, the largest sugar company in Brazil.

Sanjay Manyal:

About the company's operations, Kandla refinery you said is now been functional, but what I understand that it will not be functional until and unless we import some sugar and that is going to happen in the near future?

Narendra Murkumbi:

It has stocks. It has about 25,000 tonnes of stock on June 30 and further sugar is on the way, and has arrived since that day. There is enough raw material to operate for the next 2-2¹/₂ months.

Sanjay Manyal:

So the kind of strategy you use basically you import raw sugar and re-export, if I am not wrong?

Narendra Murkumbi:

That is right, and that is fully allowed. It is not subject to export control. Export of white or refined sugar produced from imported raw sugar is allowed without any restrictions.

Sanjay Manyal:

One thing on the sugarcane pricing. You mentioned it is 2,400 per quintal. I think I asked in the last con-call also. It is a bit confusing while Maharashtra is almost producing all-time high production still our cane cost is quite high, and are you really expecting that it is going to go down next year?

Narendra Murkumbi:

It is Rs. 2,400 this year. Last year it was Rs. 2,800. This Rs. 2,400 was set at the start of the season when domestic sugar prices were about 15% higher than they are today and this was based on everybody's expectation of what the realization was, because the model in Maharashtra is to pay roughly in line with the expected sugar revenue. So given that sugar prices are now ex-mill around Rs.25 to Rs.25.5 per kilo, if this price remains stable, I would expect the cane price to be lower by about Rs.200 compared to last year. Most of the corporative sector, for example in Maharashtra is under big losses. They have a short margin, which is almost 1,100 Crores and even for starting the mills, the state government has had to

intervene because the Maharashtra State Co-operative Bank is now taken over by the RBI and NABARD. The state government has had to intervene to give a special line of peak seasonal credit of 1,100 Crores just for funding the off-season maintenance and the arrangement for harvesting and transport.

Sanjay Manyal:

One last thing, there have been news that arrears have started building up. Now are these arrears really substantial that area under cultivation probably will go down next year or what kind of production probably you could expect in 2013 season?

Narendra Murkumbi:

We are still focussing on the estimates for the 2011-12 season. I think it is too early to tell for 2012-13, but one early indication is that 18 months cane for the 2012 October crush that is 2012-13 season needs to have been planted by this time; we are not seeing much interest from farmers to plant cane. The main planting season in Maharashtra is November to February and the planting season in UP is January to March. That is the time when we will really see the outlook for 2012-13 season. I think a big driver of cane planting this year for the next crop will be how the cane payments are made in the first two or three months of the new sugar season. That in turn is going to be largely influenced by government export policy. It is a dynamic situation. I would not like to put a guess right now but these are the parameters that will drive it.

Just to get back with the expected number of power exports, which somebody asked for our Brazil operations, we expect this season to export about 350 million units of power.

Moderator:

Thank you Sir. Ladies and gentlemen due to time constraints we will take one last question from Trilok Agarwal from Birla SunLife Insurance. Please go ahead.

Trilok Agarwal:

Just want to check if you could throw some light in on working capital, how it has moved on sequential basis? I am not talking about the whole debt because you said you would not be able to disclose it.

Narendra Murkumbi:

The working capital is down by about Rs. 400 Crores in India.

Trilok Agarwal:

Any numbers that you could give on the Brazilian side? I am talking about the overall consolidated?

Narendra Murkumbi:

We have very little working capital, because our average stock at this time of the season is about one month of production. We have repaid some of the term debts already in this quarter. For the whole year, we expect about USD 100 million to be repaid this year by 31st March 2012.

Trilok Agarwal:

Thanks.

Moderator:

Thank you. Ladies and gentlemen that was the last question. I would now hand over the floor back to Narendra Murkumbi for closing comments.

Narendra Murkumbi:

Thank you for joining our call today. As we have said this quarter we have presented the first substantial result from Brazil and we are confident that that part of our business will perform closer to its potential in the coming quarters and we shall continue to build and grow that business. Our unique model is based on India based refining, Brazilian plantation based production and a strong presence in the Indian cane sector. This combination will keep us at the forefront of our industry. Thank you.

Moderator:

Thank you. On behalf of Shree Renuka Sugars that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.