



Shree Renuka Sugars Limited

Quarter and 18 Months ended 31st March 2012 Conference Call Transcript

May 31st, 2012

Moderator

Ladies and Gentlemen, Good day and welcome to the Shree Renuka Sugars Earnings Conference Call for the Quarter and Financial year (18 months) ended 31st March, 2012. As a reminder, for the duration of this conference, all participants' 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. Should you need assistance during this conference call, you may signal for an operator by pressing “*” and then “0” on your telephone. Please note that this conference is being recorded. Joining us on the call are Mr. Narendra Murkumbi – Vice Chairman and Managing Director; Mr. K. K. Kumbhat – Chief Financial Officer and Mr. Gautam Watve – Head of International Operations. At this time 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. Thanks for dialling into this call. I want to talk about our results which we released on 29th May. This year onwards, we have changed our accounting year from October – September to April - March. So these results are for the quarter and 18 months ended 31st of March, 2012.

As you have seen and are aware, our results have been dragged down by the underperformance of Renuka do Brasil, our larger subsidiary in Brazil. The quarter gone by was an off-season quarter in Brazil. Therefore, the sales volumes were lower than the previous two quarters and given the relatively high level of fixed costs and interest, there has been a net loss. The overall loss in Brazil is about Rs. 105 crores for the quarter which has been offset by good earnings in India and our International Trading division. In India, operationally we have had a very strong quarter with an EBITDA of about Rs. 195 crores. The PAT number, however, is lower due to high interest costs as well as forex losses which I will explain later in the call.

In terms of the outlook, firstly for the Brazilian business, we are looking at a better performance for the coming year. Between the two companies, we have planted 25,000 hectares of cane in the last 12 months and we should benefit from the larger cane area in the coming year. About the weather, rains were not normal and we had seen drought in 2010 and 2011. But since the last two months, rain is better than normal and we do expect a positive affect on yield in the second half of the season. At the moment we are not



changing our estimates of cane crushed, but it is possible given the current weather conditions that there could be upside in the latter half of the year. Both in India and Brazil we have seen significant weakening of the two currencies, Rupee and the Brazilian Real. In Brazil, a large part of this is due to a conscious Government policy in order to keep the currency weak and exports competitive. It is good for our business because almost 80-85% of our revenue is from export sales. In India as well, the weak rupee is providing a lot of support making India competitive for export. As the largest exporter of sugar from India, we expect to benefit from that in the coming quarters.

The recent changes in the Indian export policy are very positive. There had been restricted exports right from the time they were restarted in September 2010. We had 2 million tons allowed in the current sugar year from October 2011 under a quota system with sellable export licenses which used to impose a lot of cost on actual exporters. This system has now been abolished. From the 12th of May, the Indian sugar export policy is unrestricted and is subject only to the paperwork of a registration scheme which the Government has put in place to monitor the quantity of exports. However, there is no explicit limit on the quantity of exports. We do expect that with the rupee at current levels, Maharashtra and South India would continue to be competitive for exports in the next year. We do not see higher cane prices in the coming season which starts in October and in the case of our company, we expect to continue to have strong export sales in the coming quarters. In Brazil, we have begun the new season in March/April and all four mills are working now.

The raw sugar price in the world market in dollar terms has dipped from the range of 25 cents/lbs to the current level of 20 cents/lbs. However, in Brazilian Real terms, the price remains almost the same. If we have decent yields of sugar cane this year, the margins will remain good. Our main focus in Brazil has been to continue our intensive cane planting program, both directly as well as through third party suppliers. Secondly we are implementing a rather large cost reduction program in Renuka do Brasil to bring overheads and costs in line with the quantity of the cane crush.

We have also had a management reorganization in Brazil. We have made Mr. Paulo Zanetti, who is the CEO of our smaller company, Renuka Vale Do Ivaí, as the CEO of both the companies. We have merged the management at the top and we are closely integrating the management of both the companies. My colleague, Gautam Watve, who is heading our International Business, is moving to Sao Paulo and will be based there to supervise the turnaround of Renuka do Brasil. Paulo Zanetti, the new CEO of Renuka do Brasil, has been the CEO of VDI even before we took it over. Under our ownership and leadership, he has been instrumental in turning around Renuka Vale Do Ivaí in the last two years. For the last 12 months, we



have had an EBITDA of Rs 291 crores roughly in RVDI; with a profit after tax of Rs 118 crores. We believe that the bigger challenge in our Brazilian operations is the availability of sugarcane. Paulo Zanetti has worked for the last 25 years in agriculture area and in sugarcane sector and we believe that is the most relevant experience he brings to the company.

Recently, the markets have seen an unprecedented volatility in currencies. However, on the whole, weaker currencies are good for us as exporters in both geographies. In India we have had a long season and production at the higher end of estimate, about 26 million tons. The outlook for next year is that there is less planting in southern India and more planting in Uttar Pradesh. We would expect the crop next season to be about 25 million tons which means we have a surplus again and the current export policy is therefore a very good signal.

The other last important factor that I want to touch on Indian policy is the setting up of the Dr. C. Rangarajan Committee which is looking at Decontrol of Sugar sector. We hope they will make a presentation to the Prime Minister next quarter. The industry here in India is very stretched and we hope that decontrol or some measures that could be taken in that direction would be positive. So we are waiting for clarity on that. With these few opening remarks I would like to throw the floor open for questions.

Moderator

Thank you Sir. We will begin the question and answers session now. Our first question is from the line of Nirav Shah from Antique Stock Broking. Please go ahead.

Nirav Shah

Good Evening. Few questions. First thing is what is your outlook on the target cane crush for all the three companies - Standalone, RdB and RVDI in the coming season?

Narendra Murkumbi

In India we crushed 4.9 million tons in the current season and our outlook is that we will have probably the same crop next year. We had a record recovery this year of 12.02% for the whole season. The positive climate factors helped us to achieve that. We would probably expect it to revert to about 11.5% in the next year which is our average recovery. I will now hand over the question to Gautam Watve who is responsible for Brazil operations.

**Gautam Watve**

In Brazil, the final number of last year for Renuka do Brasil was 6 million tons and for Renuka Vale do Ivai was 2.23 million tons. Currently, we are estimating that both combined would do about 9.5 million tons of crushing for this new season.

Nirav Shah

And on the hedging policy, the earnings release mentioned that 75% of our export volume has been hedged for the current year. Can you just give us the hedging price and if it is the net of any hedging cost? What is the hedging cost separately?

Narendra Murkumbi

The two companies will together produce about 800,000 tons of sugar in this year in Brazil and we have about 75% of it hedged at the average price of around 22.5 cents/lbs.

Nirav Shah

That is net of hedging cost?

Narendra Murkumbi

Yes, Net of hedging cost.

Nirav Shah

And on the Capex front, what is the Capex plan for FY 12-13? Is it whatever we are planting in the Brazil operations?

Narendra Murkumbi

We have very little Capex on the industrial side, about R\$ 20 million which is Rs. 50 crores and in India our Capex budget for the next 12 months is about Rs. 50 crores.

Gautam Watve

On the agriculture side we have a plan of about 20,000 hectares of planting in RdB and 4,000 hectares in VDI for this year.

Nirav Shah

Okay and how much would that cost?



Gautam Watve

Roughly about R\$ 125 million.

Nirav Shah

And can you just brief on the current water situation in Maharashtra because we have been hearing some really concerning news regarding the water levels at the dams going to be much lower. So, how much can be the impact of that possibly? I know it is too early but just a perspective on that.

Narendra Murkumbi

If you remember I spoke about this in the last quarter's conference call. Despite having a regular monsoon, Maharashtra has run out of water before the next monsoon. We expect this to be a regular feature because of the very high water usage rate due to urbanisation of the state. Coming to sugarcane per se, the State Government currently says that they will have about 8 to 10% less cane next year which is the result of a small drop in acreage accompanied by lower yields. The main feature to observe now is the monsoon. It is expected to start normally, but we do have to watch for the El-Nino effect. The El-Nino has two effects: in South America, it causes rain higher than normal that we are already seeing in Brazil and Argentina. And the other effect is that it has a dry effect in the Northern Hemisphere in Asia and we will have to wait and watch what happens in the second half. As of now, therefore, the best estimate we can make is a 10% drop in sugarcane.

Nirav Shah

And last question, considering higher refining spreads, are we planning to import any raw sugar for export purpose or we will be just doing domestically sourced raw sugar and exporting that?

Narendra Murkumbi

As you can see from the earnings release, we have shown an increase in refining utilization this quarter. As against 69,000 in the same quarter 12 months ago we have done 169,000 metric tons this time. It's also about double of what we did in the previous quarter (Oct – Dec '11) which was 81,000 metric tons. Today we are refining domestic raw material but we expect to run out of our domestic raw material by the end of June. Right now, raw-white spreads have increased from their levels of about \$80-100 per ton which prevailed when raw sugar prices were very high. Now raw sugar prices are lower. There is a lot of good buying from the importing countries and the white sugar spread has moved up to \$125. So, we are viable for refining raw sugar imported from Brazil.

Moderator

Thank you. We will take our next question is from the line of Jehan Bhadha from Darashaw. Please go ahead.

Jehan Bhadha

Firstly can you give us some sense on the arrears front? What are the figures for arrears of Maharashtra and UP and how do these compare with historical figures and whether you see any impact on production in the coming year?

Narendra Murkumbi

Well, the arrears in India this year peaked at around Rs. 10,500 crores for the whole country as on 31st March. Arrears are now reducing as factories have been selling whatever sugar they have produced to pay to the farmers. The previous high for season arrears was about 5,500 crores in 2007-2008 season when the production was about 28 million tons. We expect the sticky arrears to be the ones which basically could be about Rs. 2,000 crores to Rs. 3,000 crores in U.P and about Rs. 1,000 crores in the rest of the country. So, carryover level of between Rs. 3,000 crores to Rs.4,000 crores of arrears into the start of the next season, which would be unprecedented. It had never been more than Rs. 1,000 crores. Arrears always peak in March, April, May and then they get reduced to virtually zero by September. This is the first time when we could cross the Rs. 3,000 crore mark going into the new season. What has happened, however, is that during the planting season the signal to the farmer is that there has been a good cane price. Arrears have increased towards the second half or maybe the last one-third of the crushing season. By then a lot of farmers had decided to replant the cane. Therefore, as you can see, because of very high State Advised Price in Uttar Pradesh, that state is actually going to have the highest increase in cane area and probably produce 1 million tons of sugar more in the next season. About 8 million tons versus 7 million tons this year. So the effect of these arrears is not yet being felt.

Jehan Bhadha

My second question is in terms of attractiveness to farmers within Maharashtra. How does cane compare with other crops and is there a possibility for farmers migrating to other crops?

Narendra Murkumbi

Soya bean is definitely a strong competitor. Soya meal is exported so in a way it is benefiting also from the weak rupee. Of all edible oil used in India, 50% is imported. So soya oil prices are also moving with global benchmarks. That is the main alternative crop that farmers have here. Cotton is not doing so well



so I do not consider cotton as a big competitor. The main constraint in Maharashtra is that every farmer is rationing the water that he has and planting cane only on part of his land because he wants to be sure he can irrigate it through the right period of nine months after the monsoon. Therefore, the constraint now in Maharashtra is to have enough water to irrigate rather than alternative returns.

Jehan Bhadha

Okay so you do not see any major shifts from this planting pattern?

Narendra Murkumbi

As we said, it is 10% less.

Moderator

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

Sanjay Satapathy

First of all I would like to know what the targets for your refinery are in the current year as well as next year. And the second thing, what I would like to understand is, as we heard on TV, you were saying that RdB may not do material improvement in terms of profitability. Would like to understand that part?

Narendra Murkumbi

Well, the first point. I have given projections on refining continuously and not been able to meet those projections. I am very conscious of that but I am going to be brave and make an estimate again this time. For the next 12 months, we have this ability to utilize about 50% of our new enhanced capacity which would be about 850,000 tons for the 12 month period. Right now we have enjoyed positive margins on the basis of domestic raw material for the last 3 quarters including the current quarter. And we see positive margins now for the next 2 quarters from imported raw material. With the mix of domestic and imported raw material, based on which part of the year it is, season or off-season, we should be having better capacity utilization. Coming to the second part, we had a total 12 month loss (PAT) of Rs. 400 crores in Renuka do Brasil but a cash profit of about Rs. 119 crores. Our attempt is to breakeven for the next 12 months and with the increased cane, good hedge ratio, and a weak currency, we should be able to break-even. That is a fair target to work towards.

**Sanjay Satapathy**

My last question is on this El-Nino thing that you were talking about and will this lead to some kind of positive surprise in production in Brazil by any chance?

Narendra Murkumbi

As I said in my opening remarks, this year we are working on a very conservative cane yield and there could be a small positive surprise in terms of yields in the range of 5-6 tons per hectare. It is very early to say. We need to see this kind of weather sustaining but current- heavier than normal rain in April and May is very consistent with the past history of El-Nino effects. The El-Nino also causes dry weather in Asia. We have to wait and see its effect on the Indian monsoon.

Moderator

Thank you. The Next question is from the line of Anish Palande from Capital Matrix. Please go ahead.

Anish Palande

My question is relating to the acquisition in Brazil. So when do we expect the turnaround going forward?

Narendra Murkumbi

Well as I said earlier our first acquisition Renuka Vale Do Ivai, for the last year had an EBITDA of Rs. 319 crores and a PAT of Rs. 119 crores. We expect it to continue to do well in the current year. For the second company Renuka do Brasil, our target is to break even this year on a net basis.

Anish Palande

So this year will we be positive on net basis?

Narendra Murkumbi

It should breakeven. It had a loss last year.

Moderator

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

Nirav Shah

I was just looking at our balance sheets for RdB and comparing it with September. Whatever increase in net worth has happened, it is because of increase in the equity which was going into the company rather



than buying the stake from the existing holders. Because there is a big jump in the net worth of RdB. So their debt-equity was earlier 8x and right now it is around 3 to 4x?

Gautam Watve

Main reason is because of the additional R\$ 200 million that we have put into the company for increase in stake from 50.34% 59.4%.

Nirav Shah

And those were used for debt repayment?

Gautam Watve

Those were used for various purposes including planting.

Nirav Shah

Okay. Just one last question. Like \$550 of white sugar price, how much does Indian export sugar translate, in INR terms, considering whatever discount Indian Sugar trades at?

Narendra Murkumbi

Talking of Indian exports, there are two categories of sugar that are exported. More than 98% of the Indian sugar production is what is called plantation sugar or sulphitation sugar. Currently, the export price is at fob \$520 which is \$30 discount on the future price. The sugar that we are exporting from our mills and Kandla refinery is European grade refined sugar that is trading at the Future market price. In fact, due to location advantage of India, it is trading at a small premium of about \$20 over and above the futures price. In some countries around us, large part of the Middle East for example, the regular Indian sugar is not allowed. It does not meet local standards and therefore they buy only refined sugar. So there are actually two different markets and we, Renuka, this year has exported mainly refined European white sugar and not the regular Indian plantation sugar.

Nirav Shah

So again the realization should be somewhere closer to Rs. 32-33 per kg in this quarter?

Narendra Murkumbi

Yes, that is the realization.

Moderator

Our Next question is from the line of Varun Guntupalli from Edelweiss Securities. Please go ahead.

Varun Guntupalli

My question is pertaining to this exports being lower this quarter on a Y-o-Y basis. What is the reason for the same?

Narendra Murkumbi

Well firstly we are going to make up for that in the current quarter because we had a lot of confusion on the export policy last quarter. The original scheme was to allocate export quota to mills on the basis of past production and you could trade that allocation. Because some traders got into it in a very speculative manner, the price of these allocations went to very high levels which were not really sustainable for serious exporters. So as a company, we took the decision to step back. We continued producing. You have seen our Kandla refinery production numbers last quarter. We produced at full stream, but we basically held back our exports to the current quarter. And therefore, against the number of 43,000 tons last quarter, our current quarter exports are about 196,000 tons as on today. So we expect a much more substantial export performance on this quarter and the next quarter.

Varun Guntupalli

And out of this 43,000 tons we have exported in the March ending quarter, how much is from the refineries?

Narendra Murkumbi

It is about half from the mills and half from the refineries.

Varun Guntupalli

Okay and pertaining to our debt in Brazilian books, we had been planning to do some sale of cogen assets which has been getting deterred. So in that context what are our plans like?

Narendra Murkumbi

We have been very pragmatic in terms of pursuing this particular spin-off. We continue to believe that it makes a lot of sense in Renuka do Brasil almost 40% of the industrial assets are actually cogeneration assets. All of the capacities have now been commissioned. We came close but we could not close any deal in the last quarter primarily because of two reasons. One is the macroeconomic disturbances across the



world and second more importantly, we had very low spot power prices in Brazil which created a kind of negative feeling about renewable energy. At that time, since then the domestic power price in Brazil have virtually doubled; current price is about Rs. 4.50 in Indian rupee terms and we continue to be open and we are pragmatic about the valuation because it will lead to a big deleveraging very fast. Otherwise we should be okay. The Government of Brazil has launched a soft loan scheme payable over 6 years for the entire industry. The total amount under the scheme being offered is equivalent to 2 billion US Dollars and it is meant to promote cane cultivation because there is shortage of 100 million tons of cane across the industry compared to the industrial capacity. So that is one source of additional funding which we would tap in addition to our own resources.

Varun Guntupalli

Do we plan to replace some of our existing debt by taking some portion of the soft loan by the Brazilian Government?

Narendra Murkumbi

There is a small repayment anyways. Even in the last 12 months in net terms we have repaid about R\$ 120 million, about Rs. 350 crores last year also. Reason why the debt number in rupees has not moved is because rupee has depreciated even against the Brazilian Real not just the Dollar. So even this year, there will be some repayment in the regular course of the non-restructured loans.

Varun Guntupalli

Okay and my last question is pertaining to this Brazilian loan part. In the Earnings release, you have mentioned that there is some breach of financial covenants for which you have applied and are awaiting details on that. Can give details pertaining to that?

Gautam Watve

These waivers are for the covenants as of 31st March. Normally most of these banks take their time to analyze the balance sheets before they actually give out the waivers. So we are expecting these waivers to come over in the next one to two months. Last year as well these waivers came in the month of September.

Moderator

Our next question is from the line of Mr. Girish Achhipalia from Morgan Stanley. Please go ahead.

**Girish Achhipalia**

Did we have a late start this time around versus last year season in Brazil?

Narendra Murkumbi

Yes absolutely. In VDI, we started in time because we think we have enough cane to run up to Christmas. In RdB, we have consciously started late and many people in the industry have done the same. The idea is to allow the cane more time to grow. You have more industrial capacities than the cane available even in this year. The later you crush the higher the sugar recovery.

Girish Achhipalia

Secondly on the foreign exchange rates for the hedge that you have done, what is the fixed rate that we have entered this hedge? If you can just share that.

Narendra Murkumbi

We have not hedged as much of our Forex as we have hedged our Sugar but we have some hedges at around R\$ 1.95 / USD average in RdB and about R\$ 1.85 / USD in VDI.

Girish Achhipalia

Is this on the loan side?

Narendra Murkumbi

On the exports. For example in VDI, the export earning annually are much more than the loan payment. Exports are of the same order of magnitude as the total loans on the order book.

Girish Achhipalia

What is your outlook on the International Sugar prices in the next 6 months? How do you see the prices behave over the next 6 months?

Narendra Murkumbi

I believe we have come out from the 25 cents / lbs range to a 20 cents/lbs range because we are heading towards a global sugar surplus in the next 12 months. The prices have corrected now to 20 cents / lbs not just because of surplus but also because both the rupee and the Brazilian Real have weakened considerably. And therefore, it is more profitable, for example in Brazil, even at 20 cents/lbs to make sugar rather than alcohol. We are seeing a major pocket of demand. It is mainly replacement demand



from all the importing countries which have been living hand to mouth over the last two years of deficit. So I expect it to stabilize here for a few weeks. Beyond that then it will depend a lot on the Northern hemisphere weather. In the second half of the year, if weather is normal, we would expect prices to probably move down. I do not expect them to stay there for too long because I think a lot of the production growth that has happened across the world this year is a result of prices having been above 25 cents/lbs for the last two years and many of these countries will cut back on production. Especially Eastern Europe is vulnerable to these lower prices and would decline very fast. Sugar-beet also has a very short crop cycle; it is replanted every year. So we should see the low for world prices either in the fourth quarter of this year or first quarter of next year.

Girish Achhipalia

Just final question if I may ask. Marginal cost for you in Sao Paulo and if you can share some light there.

Narendra Murkumbi

In Sao Paulo, at normal yields and the current exchange rate of R\$ 2 / USD, your marginal cost should be around 14 cents/lbs. At the yield that we are projecting, we are going to be 17 – 17.5 cents/lbs. In Vale Do Ivaí, this year, we expect we had good yields last year and we are expecting similar yields this year. Our production cost this year at the current exchange rate of R\$ 2/USD will be about 15 cents/lbs.

Moderator

We will take the next question from the line of Mr. Sanjay Manyal from ICICI Direct. Please go ahead.

Sanjay Manyal

One question on the Brazilian side. Is there any possibility that because of the higher rain or the excess rain, you could have more sucrose content and probably the recovery rate will go below previous year?

Narendra Murkumbi

Well in the case of higher rains you could have an increase in the crop yield that you have but that would happen only in the second half of the year, not now.

Sanjay Manyal

Okay and if I can understand the debt level at this point is Rs. 10,000 crores which includes the working capital also. So probably by September, what kind of repayment is there in terms of working capital so we can calculate the net debt probably at the end of September?

Narendra Murkumbi

Well the Indian working capital cycle is about a Rs. 1,000 crores between March and September. You will see that between last September and this March also. As far as Brazilian debt is concerned, firstly I want to reiterate, that none of it is guaranteed here by the parent company. The debt is there on the Brazilian assets which are almost Rs. 9,000 crores in value and secondly we are starting the repayment of Vale do Ivaí right from October and in RdB also we have some marginal repayments. The only reason the debt would vary more than that is in terms of the fluctuation in Forex. It could be positive or negative.

Sanjay Manyal

Okay and one question on the operation side. What kind of export you are looking this year from India?

Narendra Murkumbi

You mean for Renuka?

Sanjay Manyal

Yes.

Narendra Murkumbi

Well, we have done about 120,000 metric tons so far this season. Without counting the refineries but from our mills, we have an expectation that another 2 lakh metric tons this year till March 2013.

Moderator

Sir that was the last question. I would now like to hand the conference over to Mr. Murkumbi for closing comments.

Narendra Murkumbi

Friends thank you for your interest and we continue to remain focused on the turnaround of Renuka do Brasil and the corresponding decrease in debt. That is our main focus and hopefully we should show progress in reducing our balance sheet and a better operational result in the next four quarters. Thank you again for your interest and thank you for dialling in.

Moderator

Thank you. On behalf of Shree Renuka Sugars that concludes this conference. Thank you for joining us.

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Safe Harbour

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