



Shree Renuka Sugars Limited

Q4 ended 30th September 2011, Conference Call Transcript
November 11th, 2011

Moderator:

Ladies and gentlemen, good afternoon and welcome to Shree Renuka Sugars Limited Quarter 4 results conference call. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions later at the end. If you should need 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. At this time I would now like to hand the conference over to Mr. Narendra Murkumbi, Vice Chairman and Managing Director of Shree Renuka Sugars Limited. Thank you and over to you, Sir.

Narendra Murkumbi:

Good evening friends. Thanks for joining the call. We have had a difficult quarter and we would like to take some time to explain what is happening in the business and the steps that we are taking forward to rectify the losses that we are seeing especially in one of our Brazilian subsidiaries. I would like my colleague and the Chief Financial Officer, Mr. K.K. Kumbhat to first run us through the main numbers and then I will talk about the business.

K. K. Kumbhat:

Good evening to all the participants. I will give you the consolidated numbers for the quarter and cumulative for 12 months period ended September 30, 2011. The total income consolidated for the quarter is Rs. 24.19 billion and the consolidated for the 12 months period is Rs. 88.35 billion.

The consolidated EBITDA for the quarter was Rs. 3.28 billion and consolidated EBITDA for 12 months period is Rs. 14.28 billion. The consolidated depreciation for the quarter was Rs. 2.25 billion and for 12 months period the consolidated depreciation was Rs. 6.84 billion. Consolidated interest for the quarter was Rs. 1.93 billion and for 12 months period it was Rs. 6.58 billion.

We have had an exceptional item on account of foreign exchange loss for the period end due to currency fluctuation and for the quarter it was Rs. 5.70 billion and Rs. 3.87 billion for the 12 months period. In the prior period, we had exceptional item by way of positive gain and therefore the net figure for the 12 months is lower.



After all these adjustments and before taxes, loss for the quarter is Rs. 6.59 billion, and for the 12 months period it is about Rs. 2.99 billion. Adjustment for the taxes is minus Rs. 405 million and for 12 months period it is Rs.88 million. The net after the tax adjustment and minority interest is a negative figure of Rs. 6.16 billion for the quarter and Rs. 3.03 billion for 12 months period ending September 30. These are the numbers. Now I will hand over to, Mr. Murkumbi to give you more details about the industry. Thank you.

Narendra Murkumbi:

As against the positive outlook that I projected in the last earnings call, we have had a big setback in Brazil and that too in one company, which is Renuka Do Brasil. We had reduced our expected cane number to 10 million tonnes in the last earnings call in August. By then we had already seen that the weather was not very good. It had been exceptionally dry and we have also subsequently had two instances of frost, which means temperature went below 4 degree centigrade, causes cane to stop growing. I think the entire industry in Brazil including us have been slow to accept or to realize the full effect of these drops in yield in Brazil. The main effect has been in the state of Sao Paulo. So, we have dramatically different results in our two Brazilian subsidiaries. At Renuka Vale do Ivaí, which is in Parana State where we have had reasonable amount of rainfall and good yield, the company this quarter has reported an EBITDA margin of 46% and a strong profit number before unrealized forex variation.

On the other hand, Renuka Do Brasil has suffered one of the worst effects of the drop in yields in Brazil. Our yields are cumulatively down by 30% and most of that has been realized in the last three months. Against our last estimate of 10 million, we are going to end the crop around 8.3 and 8.4 million total for the two companies with almost all the drop being in Renuka Do Brasil. Because the main reason for the drop in cane has been the lower yields, the cost per tonne of cane has gone up because growing costs and amortization of planting expenses, etc., are incurred on per hectare basis and the lower yields automatically translates into higher cost of raw material.

Our third party farmers have also suffered a drop a yield and therefore supplies from our farmers have also reduced roughly in the same proportion. Sao Paulo State as a whole has declined in yields by 22%, but as I said our company has declined a little more than average at about 30%. The net effect of that is we have a loss of about Rs.90 Crores in the two companies combined. We expect that this year as against our expected EBITDA out of Brazil, we will probably be at around 55-60% of our previous guidance and this obviously is the main reason for the negative operating results.



On a consolidated basis, profit after tax without the forex variation is Rs.46.1 Crores negative, which is mainly from Brazil. Indian business on a PAT basis is slightly negative with minus Rs.3 Crores, being the off-season quarter and continuous sluggish prices in the last quarter. Coming to what we are doing about this. Obviously we have made several management changes in the Renuka do Brasil Management especially in the cane department to further improve our over-sight and estimation about our cane. Secondly, we have launched an extensive planting program so that we come back to full capacity within two seasons. This trend is prevalent across whole of the South Brazil industry where most companies are suffering a severe loss of cane due to the poor weather in the last two years.

On the whole the sugar industry in Brazil has lost about 85 million tonnes of cane between the first estimate and the latest estimate. That has been one of the reasons that world prices have continued to remain strong. However, in the last two months the world sugar prices have stopped going up despite further negative updates from Brazil primarily because of bigger crops in Europe that is in Russia and EU and the expectation of big crops in India and Thailand.

In India, as we are seeing, until September we had very flat prices. We had a total exports of about 2.6 million tonnes of which our company was able to do about 6 lakh tonnes. Half of it is from our refineries and half from our mills. For the 12 months period up to September 30 we ran at roughly 50% of capacity in our refinery division, which was about 350,000 tonnes, which included a few thousand tonnes in Kandla and most of it in Haldia. The outlook for the new season in India is very interesting. There is a very big hike in cane prices in Uttar Pradesh, whereas in Maharashtra there is a big confrontation between the cooperative sugar mills and the farmers because the cooperative mills want to decrease the price of cane from what they previously paid last year by about 25%. So, including the cost of harvesting and transport, they are offering Rs.1900 per tonne for cane of average recovery of 11.5% versus cane price of Rs. 2,400 per tonne last season and this is the the reason most of the mills in Maharashtra have not started crushing yet and the situation has to be watched because it has taken a political turn and the crop has already delayed by almost one month. Since, India had an opening stock of about 3 months of sugar on the first of October, currently we are having sugar slightly more than one month consumption and that is the result sugar price have turned almost vertical and gone up by almost Rs.3 per kilo in the last 15 days as it became clear that crushing in Maharashtra will not start early.

We do not expect these prices to sustain because the crop is relatively big and the government estimate of the crop is about 25 million tonnes whereas the Indian Sugar Mills Association and the National Co-operative Federation is estimating at 26 million tonnes. World sugar prices continue to hold above 25

cents which translates to an export price of white sugar of roughly on ex- mill equivalent of about Rs.32 to Rs.33 given the weak Rupee.

In our domestic business, we continue to see challenging conditions in this quarter. In the refineries, we are operating the Kandla Refinery for part of the period; however, we have substantial commitments of domestic raw sugar from the Co-operative Mills in Maharashtra as raw material for our refinery and we expect a fairly large export quota to be opened up. So, we will be able to purchase export licenses and export refined sugar at a profit. This operation is currently cheaper and has higher margin than buying raw sugar from Brazil and landing it in Kandla. We expect that for the next five to six months starting in December, these refineries will be running on domestic raw material and will be running at better capacity utilization. We are currently waiting for the starting of crushing in Maharashtra to start this operation.

No doubt because of the set back we suffered in Sao Paulo there is a concern about our overall debt levels. Currently , we have no issues with liquidity; however, as a proactive measure we have been pursuing certain interest that we had received for both equity stakes in our Brazilian operations as well as for another proposal to spin off of our cogeneration assets.

Currently we are in a formal process in Brazil to spin off roughly half of the cogeneration assets of our Brazilian subsidiary Renuka Do Brasil. We have expressions of interest from about seven energy companies and we expect firm bids to be received before the end of this quarter and we are taking definitive steps to pursue this transaction which we believe will considerably deleverage the balance sheet of Renuka Do Brasil and help us to better focus on our core business of producing sugar and ethanol from cane.

In India, our outlook is that we are close to the bottom of the Indian cycle for different reasons. The sugar industry in North India is subject to high state advised price. On the other hand is the Maharashtra Co-operative Sugar Industry which is facing a big cash crunch due to lack of profits and lack of net-worth due to losses accumulated over the last few seasons. We feel that in both states we have the conditions for very big cane arrears to be built up in the current season as crushing goes on and therefore, would signal the end of high production cycle in India which might result in better prices. Due to the emerging crisis we also do expect an acceleration of some of the policy moves at the central government level and I am quite hopeful that we will see movement on both ethanol prices and ethanol policy as well as on our request to end the current levy system where sugar is purchased at a subsidized price from the mills.

I will end here with this. I am sure you have lot of questions and we are here to answer these questions. We do realize that it has been a disappointing quarter for us and for our investors but we are very focused on turning around the business in Brazil. We can highlight that in Renuka Vale do Ivaí, our cane crush this year is going to be about 50% higher than the cane crush last year. Our EBITDA margin for the whole year is going to be above 40% and this is probably among the top two in terms of results in the Brazilian Sugar / Ethanol Industry to the extent that results are publicly published. So we are working hard on effecting the same turnaround at Renuka do Brasil and given reasonably normal weather, we are confident of doing so.

With these few words I would like to throw the floor open for questions.

Moderator:

Thank you so much, Sir. We will now begin with the question and answer session. We have first question from the line of Sanjaya Satapathy from BOAML. Please go ahead.

Sanjaya Satapathy:

Hello Sir. On Brazil, can you just share with us how are you going to improve with the cane yield of the Brazilian mills and what are the kind of investments really needed to improve the cane yields and also give us the guidance on how much cane crush we will be doing next year and the year after that?

Narendra Murkumbi:

This year in Renuka do Brasil, our yields are going to end at about 59 tonnes per hectare whereas the normal yield should be about 80 tonnes per hectare. Last year, because we took over the company in July and then there was a drought upto September, we could only plant about 3,000 hectares of new cane. This year we have already achieved about 16,900 hectares of planting and we expect to end by December 31 with about 22,000 hectares of planting. Also, if you see, lot of the yield loss happened in the last three to four months when it was very dry. Part of the cane was hit by frost weather which is temperature below 4 degree centigrade due to which the cane completely stopped growing. In some of the plots that we harvested with frost, yields have been as low as 20 tonnes per hectare. So we expect that given normal rain, the average productivity would be 65 tonnes per hectare next year which is about a 10% jump from this year, and therefore, it is a very conservative calculation. Our first estimate for next year (Apr 2012-Mar 2013) is 7.1 million tonnes of cane in Renuka do Brasil and our target for 2013 is to reach full capacity of 10.5 million tonnes in Renuka Do Brasil. In Renuka Vale do Ivaí last year we crushed about



1.5 million tonnes of cane, this year we will crush 2.3 million tonnes out of which 2 million tonnes is already crushed. That company still has cane, so we will crush almost till Christmas. So this year we will do 2.3 million tonnes of cane versus 1.5 million tonnes last year and next year we have already planted about 4,000 hectare which would give us a cane of about 2.8 to 2.9 million tonnes which is almost full industrial capacity of the plant. We have pooled the cane teams and leadership teams of both Renuka Do Brasil and Renuka Vale do Ivaí to accelerate the cane planting at Renuka Do Brasil. Next year's planting program would involve an additional expenditure of about 100 million Reais. To achieve that what we have done is that we have accelerated our additional investments. We had the option to increase our stake in Renuka Do Brasil from 50.34% to 59.4% at same valuation as of acquisition by investing additional 200 million Reais as primary equity in the company. As of September 30, we have already put in another USD 35 million and we have an additional USD 80 million to do by March 31, 2012. But we will in fact be bringing it in the current quarter which will be before December 31, 2011. So with that we should have enough cash flow to implement the current planting program, which I talked about.

Sanjaya Satapathy:

Just one more thing on the RDB what is the total land area which is cultivated and the related question to that is what is the average yields and to improve the quality of cane do we need to really keep on investing this kind of quantity for a very long period to come?

Gautam Watve:

We have about 72,000 hectares of land in RDB, which is under own cultivation, and the average age is about 3.6 years. If you look at the planting program that we just talked about, you will realize that once you plant 22,000 hectares this year which we were talking about and plant another 25,000-30,000 hectares next year we will bring down this average age to about 2.4 years level which is what the ideal age is for most companies with own cane.

Sanjaya Satapathy:

Thanks a lot. Can you just give us the inventory level for that RDB as well as VDI at the end of the quarter?

Narendra Murkumbi:

Total stock in two companies from 167,374 tonnes of sugar and ethanol is 88 million liters. In RDB, we are continuing crushing in the Equipav Mill and that will close by the end of November and in VDI there is crushing is expected to continue up to the end of December.

Sanjaya Satapathy:

Thanks a lot Sir.

Moderator:

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

Vikash Jain:

My question was regarding sales volumes and realization in Brazil. Could you give us the volume of sugar as well as ethanol sold in Brazil as well as the realization?

Narendra Murkumbi:

Sugar sold in Brazil is 189,000 tonnes the average price of the sugar was USD 26 cents/lbs. One of the reasons why the average is lower is because we have lost almost about 180,000 tonnes of the best price contracts which we would have been able to supply if our cane had come in at about 10 million tonnes and on Ethanol we have sold about 78,684 cubic meters at a price net of taxes of 1,315 Reais per m3. Most of it was anhydrous ethanol.

Vikash Jain:

The other question was in relation to debt. Now I understand that there is a war very large element of forex which are there but could you give us your debt numbers in the respective currencies. What is there in US dollars and what is there in reais and what is there in Indian Rupee?

Narendra Murkumbi:

I think, Vikas we have put it as a table in the earnings report but I will give you. Brazil is where the 90% of forex variation is, I will quickly give you the numbers there. For the US Dollars denominated debt there, as on of September 30, 2011, our Dollar debt in Brazil is USD 485 Million and we have trade advances of another USD 117 million so our Dollar exposure is about \$600 million.

Vikash Jain:

The one last question that I have. Could you give the absolute depreciation number for Brazilian subsidiaries since it varies on a quarter-on-a-quarter basis? Would you have that number in front of you?

Narendra Murkumbi:

We will give you in a later half of the call. I will come back to you on that. The variation is because of the cane amortization number. Now I must point out that we have paid down debt in Brazil over the last six months and also across the consolidated balance sheet especially on the standalone balance sheet. We have been able to reduce our current liabilities or trade creditors by about Rs. 900 Crores in this period and you can see there is also been considerable shrinking of things like debtors etc., as we tighten our management of the current assets.

Vikash Jain:

Just a comparison on VDI and Renuka do Brasil, since you already made that do you think that the main reason for the difference is firstly of course the weather, but secondly also because the average age of the cane in VDI was much younger so yields were not affected so much. Was it primarily because of the weather and the other reason was in case of Renuka do Brasil the goal was in mid of August so a large part of the variation which is coming now happened in the last 45 days or it was simply that probably an underperformance of the cane team in that company?

Narendra Murkumbi:

Firstly to answer your question in VDI, actually in the first year after taking over VDI (2010) it ran only at 50% capacity. So the cane was very old. But if you see the composition of current year cane it includes the 10,000 hectares we planted last year whose age is one year. So that is how the average has come down for VDI. In RDB we took over last July we had a drought up to September so we had a very small planting window. So virtually we have carried over all the cane that was there. The cane that we harvested in the second half starting about July was actually affected by last year's drought as well as well as dry conditions this year. I think along with many other big groups there, we have not been able to quickly figure out that the yield drops were going to continue throughout the season. Initially, low yields that started coming in were explained as due to frost and that because when the frost hits a certain patch of land you first harvest that cane and you keep the other cane aside. We have effected a major re-organization in the Renuka do Brasil cane team including replacement of the Director of Cane. I think there is a contribution of both and I will not be shy in admitting that we could have been done better in managing the situation despite the fact that there have been very strong weather reasons for the collapse in yields. Again I want to highlight that while the entire South Brazil crop has been affected by weather, the main effect has been in the State of Sao Paulo. So, some companies which remain in the interior region and some within Parana State have done relatively better compared to those in Sao Paulo and Minas, these two states together had about 70% of the Brazil crop.

Vikash Jain:

Thanks.

Moderator:

Thank you. Our next question is from the line of Nirav Shah from Antique Stock. Please go ahead.

Nirav Shah:

Sir good evening. Thank you for taking my question. Sir, first thing is on the global industry front. How sharply do you think that the Brazilian production can recover next season and how comfortable are we with the projection of 26 million tonnes of sugar production in India? I mean do we see any downside to that?

Narendra Murkumbi:

In Brazil, I think the first preliminary numbers the independent analysts have released talks about a recovery in cane next year. They are talking about 480 this year and first two estimates that I seen are in the range of 510 to 515 million tonnes for next year. So, an increase of about 6%. In India, yes the number is 26 million ton. There are both positive and negative numbers. One is that the electricity situation in South and West India has been quite bad during last two months. So as the crop needs irrigation in the non-monsoon period the availability of adequate electricity supply is going to be a major factor in sustaining the yields of the cane especially the cane that will be harvested in the second half that is March to May in these areas. Secondly one has to see what is the effect of this delay stretching now to almost one month in the crushing in Maharashtra. So, on the positive side you could have higher recovery but on the other side since the crop is quite large compared to the crushing capacity of the state you could push some this crop into the high summer months and into the monsoon months when the recovery get severely affected. I think the government has already estimated 25 million tons and we expect that the export will be allowed in phases as production progresses.

Nirav Shah:

Sir just coming back to the Brazilian Sugar that we have 510-515 million tons, but how much of that impact will be on sugar because this season there was around 400 basis point diversion more towards sugar than ethanol so do we see that diversion turning anything normal or like sugar remain a 48% right now against the average of 44%?

Narendra Murkumbi:

This year the sugar percentage has been 48% primarily because mills were running at low capacity and therefore have more flexibility to produce more sugar. We do not see any major projects to make more sugar in the existing mills. The ethanol price in Brazil has been steady at an equivalent of about 22 to 23 cents for the last six months. We expect that trend to continue. In fact, Ethanol should trade closer to 25-26 cents in the off-season. I would say that if world sugar prices remain above 25 cents in 2012, one would maximize sugar which would be about 48%. On sugar basis, in this current crop would be about 30.5 million tonnes of sugar in centre south Brazil, and in the next crop could be about 32.5 to 33 million tonnes.

Nirav Shah:

Sir, since last time on the debt front on a standalone basis our debt has more or less remained same compared to March quarter despite or all the inventory liquidation. Any particular reasons for that or have you funded the \$30 million investment in Renuka do Brasil from this?

Narendra Murkumbi:

Investments have already gone up as you can see in the comparison with the March 31 figure to that extend but we have paid off a lot of the credit purchases we have done for raw sugar so our current liabilities have reduced by about Rs. 900 Crores. So overall outside liabilities had reduced by about Rs. 1,000 Crores.

Nirav Shah:

Thanks Sir. Just last question on the cane price for the current season. I mean for India, what is the likely price for that you estimate and you factoring in your model?

Narendra Murkumbi:

Out of our seven mills, four in Karnataka and one in Maharastra in our case have already started. In Karnataka, we expect to pay the same price as last year which is about Rs 2,400 per tonne of cane. In Maharashtra, the negotiation with the cooperative mills is going on and we are waiting to see. Probably the decision is going to be taken this weekend and we should know the starting price of cane before Monday.

Nirav Shah:

Thanks Sir. That is it from me. Thank you.

Moderator:

Thank you. The next question is from the line of Girish Achhipalia from Morgan Stanley. Please go ahead.

Girish Achhipalia:

Sir thanks for taking my question. Just couple of them. Firstly we had given out our guidance of USD 300 million in EBITDA in Brazil. So, where does our revised guidance now stand at given whatever we have faced in terms of weather and second the funding of the \$80 million that you mentioned is it going to be debt funded or it is going to be generated partly by debt and internal accruals?

Narendra Murkumbi:

I think I do not really want to give a number every quarter but since there has been a big change I would say that our current estimation is about \$160 million for the twelve months period up to March 2012 for Brazil. In the case of the additional investment for acquisition of higher stake in Renuka Do Brasil, we will fund it primarily by debt plus whatever internal accruals we can get in India in the next six months.

Girish Achhipalia:

Then finally I was just looking at some news flow on Renuka getting approval on setting up a refinery possibly in Sri Lanka is there some serious thought behind it? Thanks.

Narendra Murkumbi:

Well as I explained in the last call we have put all our investments proposals on hold. Yes we are developing certain projects outside India but we do not envisage any financial commitment to this in the near future and in case we do make a financial commitment we would announce it first to our investors before doing anything. Given the current position and the high debt that we have, we are very conscious about our focus. Our first and primary focus is on the turnaround of Renuka Do Brasil. On India, I am actually more positive than I was in the last earnings call because I see a very clear turnaround here. If the cooperative mills in Maharashtra, in fact, announce a cane price higher than last year, our belief is that they do not have the ability to pay this price and that they will be announcing this only under political pressure that the farmers groups have generated and I see this as a major turning point in terms of the sugar cycle domestically.

Girish Achhipalia:

So Sir finally there is no Cap-ex expected on our Brazil subsidiary as well other than the planting Cap-ex that you have mentioned?

Narendra Murkumbi:

In fact when we invested in Renuka do Brasil, of our total investments of \$250 million about half of it went for repayment of debt and half of it was going to go in to the projects to expand the cogeneration and sugar milling capacity of the Revati mill in Renuka Do Brasil. We have put the plan on hold in the last quarter and therefore the expenditure incurred has only been about 100 million Reais. So we have deferred about 130 million Reais of expenditure and diverted that money also to the planting expenditure.

Girish Achhipalia:

Sir one final request. Actually given that Brazil is now such a big part of our business, I was wondering if we could share the P&L of our subsidiaries more in detail in terms of how each of the operating expenses move because you know right now it becomes extremely difficult to actually analyze which part of the P&L is improving and not improving. So if you could just help us in that?

Narendra Murkumbi:

I think it is in the earnings release that we have e-mailed to you. I am sorry for the short duration you had this note but we thought it is important to have the call today before the market opens on Monday because people can have as much clarity as possible. We will see what we can share in terms of additional information, I take that feedback positively but there is more data there in the earnings presentation.

Girish Achhipalia:

Thank you very much Sir.

Moderator:

Thank you. Our next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade:

Thank you so much for giving me the opportunity to ask question. Sir, couple of questions. One, in the standalone company if I look at the raw material to sales it has gone up significantly from 78% to 83% sequentially. I wanted to know is that because of the very low refining margins and second you know on



the Brazilian side you know last time we are talked about of 40-45 Brazilian Reais per tonne is the cane cost. What is your revised assumption when we talk about \$160 million kind of overall EBITDA for brazil companies?

Narendra Murkumbi:

Well firstly India standalone costs; it could have to do with the change in price of raw sugar from quarter-to-quarter for the refinery division. As far as Brazil is concerned, the cane cost has gone up because you see the own cane cost has gone up because the yields are low and cost are amortized over a lower tonnage per hectare. In terms of outside cane, the canes price is linked to the realization. So the average consecana price, which is the formula for sharing the revenue between growers and mill, for the first 8 months has been based on about USD 24.5 cents/lbs of sugar price as compared to last year when the cane price was based on average price of USD 18 cents/lbs about the same time. However we must note that the revenue per ton of cane is also significantly increased this year over last year.

Achal Lohade:

Secondly in terms of refining what is the target we are looking let us say for next year and for the current year for refining volume?

Narendra Murkumbi:

Well refining has been a very volatile activity especially whenever world raw sugar prices have been above 30 cents. One of the ways the market has made up that shortage has been to compress the refining margin spread. At the current moment, we expect to run at about probably half of our increased capacity which is 1.7 million tonnes and substantially all the raw materials for at least until June would come from domestic purchases of raw sugar which are currently at a big discount to the landed prices of Brazilian raw sugar.

Achal Lohade:

Typically Sir, just to understand the strategy for future Cap-ex, what kind of ROCE do we target?

Narendra Murkumbi:

Well in the past whatever we have evaluated we had looked at 20% ROC, which is what we had historically achieved in reality until 2010.

Achal Lohade:

Thank you so much Sir. I wish you all the best.

Moderator:

The next question is from the line of Jehan Bhadha from Darashaw. Please go ahead.

Jehan Bhadha:

Sir, my question pertains to the opening remark, which you have made on the Indian production figure. You were saying that it is likely that this year could be the peak year, so I wanted to dig deeper into that because after knowing that the SAP has been increased to Rs. 240 per quintal and suppose if we were to assume that sugar prices rise by a couple of rupees and remain over there due to exports or whatever, so in that sense what if the mills are able to survive through this period and so then we could expect that next year the production will be even more than 26 million tonnes so your views on that?

Narendra Murkumbi:

Well, I think your argument depends on the central government being comfortable with the Rs.2 to Rs.3 increase in the domestic sugar price. Now I think we will all have to take our judgment on that. My own view is not so optimistic on that given the concern they have had with inflation. I think one other thing that will happen is that export will be less than expected in such a scenario, which would again affect the domestic price. And as far as the SAP is concerned in North India, depending on which state you are talking about, the cost of production (with the lower recovery that you have in North India) means that sugar has now been produced this season between Rs.31 and Rs.33 per kilo net of taxes. The market is still another Rs.3 or Rs.4 away from that price level needed in order to reach breakeven, so we have to take a judgment beyond that.

Moderator:

Thank you. The next question is from the line of Arya Sen from Jefferies. Please go ahead.

Arya Sen:

Good evening Sir. What are the 84 Crores of other income in consolidated statement? It seems to be coming mostly from the difference between consolidated and standalone?



Narendra Murkumbi:

Other income in UAE subsidiary on the transactions, which are mainly on realized foreign exchange gain.

Arya Sen:

Is this in Brazil or somewhere else?

Narendra Murkumbi:

Mainly it is from UAE subsidiary DMCC.

Arya Sen:

In that case I cannot understand the minority interest figure of only Rs. 3 Crores when you are saying that most of losses have been in Renuka Do Brasil because that should be the main source of the minority interest, right?

K. K. Kumbhat:

In case of loss, you do not provide for loss on account of minority and therefore there is no minority interest. Minority interest only when you have some small profit, which is maintained in the minority and in current quarter this figure comes from a subsidiary by name Gokak Sugar, which is a 93% subsidiary and there from whatever profit you earn, there is a profit in the quarter is going to minority.

Arya Sen:

On your balance sheet, the other current assets seem to have gone up quite significantly. Consolidated it is about Rs.10,000 million?

K. K. Kumbhat:

The current assets are very close to about Rs.1,000 Crores.

Narendra Murkumbi:

In the consolidated, the other current assets are reduced compared to March 2011 by about Rs 400 crores. In the standalone Other Current Assets, Rs. 290 Crores is short-term trade advances that we are giving our subsidiaries in Brazil against their deliveries of the sugar in the subsequent months and we expect these to be recovered within the next one or two quarters.

Arya Sen:

Consolidated other current assets from what I can see is about Rs. 11 billion, we are talking about that?

Narendra Murkumbi:

Rs. 10.96 billion, which is reduced from Rs. 14.59 billion reported in the second quarter.

Arya Sen:

What are these other current assets mainly?

K. K. Kumbhat:

These are basically some money given to the subsidiaries in Brazil and Gokak Sugars.

Arya Sen:

Next year you are saying yields will go up by only 10% I wanted to understand, so you are saying basically the weather effect will last for at least two years now?

Narendra Murkumbi:

We are using very conservative numbers despite planting 22,000 hectares of cane this year. We are assuming only an increase of one million tonnes in the cane availability at Renuka Do Brasil. Having seen the situation this year we would like to be conservative in terms of estimating next year's crop. There are other companies in the business who believe that yields will be closed to normal and will be between 70 and 75 tonnes per hectare. At the moment we are working with a number of 65 tonnes per hectare. Since early October, for the last 45 days, the rainfall has been quite normal. Rainfall has returned after long drought of July-September and is above average and the forecast up to March is for good rain. So we have some optimistic signs but having learnt the lesson this year, we would like to be conservative at the moment. UNICA will not release the first estimate for the new crop until January. Coming back to your question we promised to answer earlier, this quarter depreciation and amortization in Brazil subsidiaries is about Rs. 200 Crores.

Moderator:

The next question is from the line of Sanjay Maniyar from ICICI Direct. Please go ahead.

Sanjay Maniyar:

Regarding the debt, what is the amount of debt you have repaid this quarter?

Narendra Murkumbi:

Well in Brazil, last time we have talked about our balance sheet was in against the March number, so in Brazil both companies combined as of March 31, 2011 we had 915 million Reais loan, which is now at 852 million Reais and we had USD 456 million loan in March, which is slightly higher at USD 485 million now. The number for September 30, 2011 in rupees looks slightly higher because of devaluation of the rupee.

Sanjay Manyal:

I just wanted to come to this figure; you had 600-odd Crores of exchange losses. So what would be actual loss in that amount if you have repaid some debt?

Narendra Murkumbi:

This is actually all unrealized. This is on the balanced sheet figures of debt as on September 30, 2011.

Sanjay Manyal:

Because I was just reading the annual report and the debt which was due for this year was 700 Crores. If I am not wrong, so has that been repaid the total amount of due repaid?

Narendra Murkumbi:

You are talking about Brazil?

Sanjay Manyal:

I am talking about the overall consolidated, which I have read in annual report.

Narendra Murkumbi:

We will come back to you on that.

Sanjay Manyal:

One more thing what is the repayment schedule of the next quarter?

Narendra Murkumbi:

Well in Brazil, about 85% of total loans are restructured in VDI the repayment starts in the middle of 2012 and Renuka Do Brasil we have the repayments starting June 2013.

Sanjay Manyal:

So there is no immediate problem. If the rupee stays where it is, then there is no immediate concern of increase in the Mark to Market losses?

Narendra Murkumbi:

There is no substantial cash out flow on the forex variations in the next 12 months in either of Brazilian subsidiaries. I must point out that while we have taken a big hit on the unrealized forex loss, weak Reais is actually very good for the business over the next few quarters. As per the average realization, we have next year about \$450 million of exports projected taking a nominal price of 24 cents for next year out of the two Brazilian companies. At full capacity, exports are about \$600 million. So, the additional earning from the dollar exports that we get is actually much more, totalled over the next few quarters, than the loss that we have seen currently on the unrealized portion on the debt.

Sanjay Manyal:

What are you trying to say basically next few quarters you will get other benefit in the numbers?

Narendra Murkumbi:

We expect better margins on these account compared to Reais price, which the last quarter was 1.56.

Sanjay Manyal:

One more thing from the domestic either because there is a rupee to dollar change also, could we have get the benefit in the exports also?

Narendra Murkumbi:

We are already seeing that because world prices have been relatively flat for the last two three months whereas the rupees have declined from 45 to 50, so that is translating immediately into 10% gain in terms of the price.

Sanjay Manyal:

Thank you.

Moderator:

Thank you. The last question is from the line of Jasdeep Walia from Kotak.

Jasdeep Walia:

Good evening Sir. Sir, if you could just repeat the additional investment you are doing in Renuka do Brasil and the incremental stake that you are taking there?

Narendra Murkumbi:

Our total investment is at the entry valuation of last year and will be about USD 115 million(R\$ 200 million), of which 35 million has already been done as on September 30, and another 80 million we expect to do in the current quarter.

Jasdeep Walia:

How much additional stake on account of this?

Narendra Murkumbi:

We will increase our stake to 59.4%.

Jasdeep Walia:

You are saying that there is other income component in the UAE business; could you elaborate on how it has materialized?

Narendra Murkumbi:

Well these are realized gains mainly on forex transactions.

Jasdeep Walia:

This other current assets you mentioned that you have lent some money to Gokak Sugar. But they get netted of in your consolidated balance sheet.

K. K. Kumbhat:

Yes, in consolidated this will not appear because all these intercompany balances will get knocked off, in standalone these numbers will come.

Jasdeep Walia:

But then if it is being netted off in the consolidated balance sheet, why have your other current assets have gone up sharply?

Narendra Murkumbi:

Actually, again I want to clarify it, other current assets as on March 31, 2011 was 1,459 Crores, they are down to 1,095 Crores.

Jasdeep Walia:

Thanks Sir. My questions are over.

Narendra Murkumbi:

Friends, thank you so much for your patient hearing and we reiterate our commitment to improve the performance of the company. We are focussed on the critical issues which is the running Renuka Do Brasil at full capacity, running our refineries at full capacity and the shrinking of the balance sheet. With that I would like to thank you all for joining this call. Gautam Watve, my colleague, has been Head of Strategy and Investor Relations for so long. He has recently been promoted to Head the International Operations in Brazil and would spend most of his time there. His colleague, many of you already know, Mr. Vishesh Kathuria will now be in charge of Investor Relations. He is based here in Mumbai and I welcome you to speak further with Vishesh, CFO Mr. Kumbhat or myself over the next few days. Thank you so much.

Moderator:

Thank you. On behalf of Shree Renuka Sugars Limited I conclude this conference. Thank you for joining us. You may now disconnect your line. Thank you.

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Safe Harbour

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