BORDERLESS THINK!NG

Shree Renuka Sugars Limited | Annual Report 2008-09

Forward-looking statement

In this Annual Report we have disclosed forward-looking information to enable investors to know our product portfolio, business logic and direction and comprehend our prospects. This report and other statements - written and oral - that we periodically make are based on our assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'believe', 'estimate', 'expect', 'intend', 'plan', 'project' and words of similar substance in connection with any discussion of future performance. We cannot guarantee that these forward looking statements will be realised, although we believe we have been prudent in our assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. If known or unknown risks or uncertainties materialize, or if underlying assumptions prove inaccurate, actual results can vary materially from those anticipated, estimated or projected. Readers may bear this in mind. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

Contents

In our first decade in existence...

Shree Renuka Sugars emerged as India's largest sugar company growing its production to 1.01 mn Tons. Growing from 1 location to 11 locations including 2 in Brazil.

In the second decade, Shree Renuka Sugars expects to sustain its growth through a widening global presence.

Our identity

Shree Renuka Sugars Ltd. (SRSL) defied convention to create a dynamic business model in a challenging cyclical sector.

Diversified business

Convergence of three businesses in one organisation. Sugar. Biofuels. Renewable energy.

Decade-old presence

- Possesses India's largest sugar refining capacity (6,000 TPD)
- Accounts for over 20% of India's international sugar trade
- India's leading fuel ethanol producer

Inspiring vision for tomorrow

To be the most efficient sugarcane processor and the largest marketer of sugar and ethanol in India.

Dotting India's landscape

- Headquartered in Karnataka (Belgaum) and corporate office in Maharashtra (Mumbai)
- Cane crushing operations in Karnataka (Munoli, Athani, Havalgah and Gokak) and Maharashtra (Pathri); operates two leased facilities at Maharashtra (Arag) and Karnataka (Raibag)
- Three integrated refineries in Karnataka (1,000 TPD each at Munoli and Havalgah and 2,000 TPD at Athani) and a port-based refinery in West Bengal (2,000 TPD at Haldia)
- Acquired a majority stake in KBK Chem Engineering Pvt. Ltd, facilitating turnkey distillery, ethanol and bio-fuel plant solutions

Definitive numbers

Our Company	Our sugar business	Our refining business	Our power business	Our ethanol business
Market capitalisation Rs. 62,572 mn September 30, 2009	Cane crushing capacity 35,000 TCD September 30, 2009	Refining capacity 6,000 TPD September 30, 2009	Generating capacity 173 MW September 30, 2009	Distillery capacity 900 KLPD September 30, 2009
Foreign holding 30.54% September 30, 2009	Cane crushing 8 units September 30, 2009	Refining facilities 1 standalone unit and 3 units at mills September 30, 2009	Exportable capacity 95 MW 2008-09	Sales volume 65 mn litres 2008-09
Promoter holding 34.46% September 30, 2009	Recovery 10.73% 2008-09	Volume refined 663,032 Tons 2008-09	Average realisation per Kwh Rs. 6.48 2008-09	Average realisation per litre Rs. 25.90 2008-09

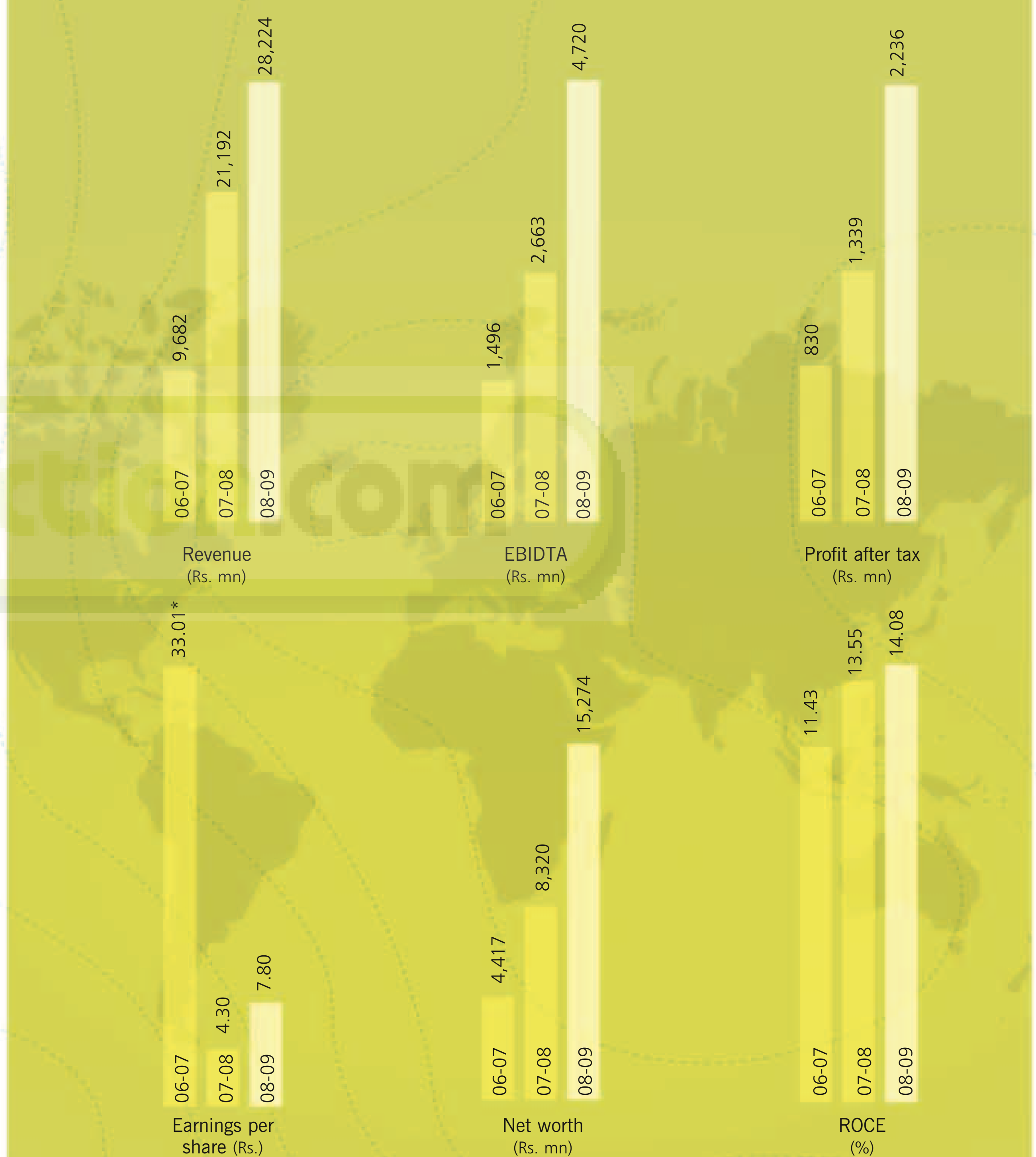
Young and strong

What boldness can one demonstrate in a largely mature industry like sugar? SRSL thought and acted differently.

Initiatives

- Pioneered the concept of leased sugar manufacturing assets in India
- Popularised the concept of sugar refining as an independent business vertical; strengthened sugar refining technology
- Emerged as the first Indian sugar company to establish a manufacturing footprint outside India
- Exponentially increased the ethanol manufacturing capacity

Attractive financials



*The equity shares of the Company were sub-divided (split) from a face value of Rs. 10 to Re. 1 each with effect from April 21, 2008; accordingly, the high/low/closing share prices from April to September 2008 are based on a face value of Re. 1 each

"Our future will be dictated by two precious resources – land and water."

Mr. Narendra Murkumbi, co-founder, Vice Chairman and Managing Director, elaborates on the Company's long-term vision

Dear friends

These are interesting times in the sugar sector with prices spiralling to historic highs.

The sugar deficit is a worldwide phenomenon. Globally, sugar prices galloped 96% in 2008-09 following droughts and delayed monsoon in parts of India and excessive rain washing away crops in Brazil. Sugar prices reached a 28-year high of 26.25 cents a pound in the futures market at New York on September 1, 2009. In India, we had stock in September 2009 for only one-and-a-half months of consumption, an all time low.

In such a scenario, we performed creditably, reflected in our strengthening numbers.

- Revenue growth: 33.18%
- EBIDTA growth: 77.24%
- PAT growth: 66.9%
- Increase in operating margin: 416 bps
- Increase in ROCE: 53 bps
- EPS grew from Rs. 4.30 in 2007-08 to Rs. 7.80 in 2008-09

But these encouraging numbers have already been anticipated and discounted on the bourses leading to value accretion for shareholders. At this point, readers would have one question in mind – "what next?"

We have a vision for the next 10 years; our strategy and investments rest on two basic resources in the globe: land and water.

India and Asia

The growth of Asia is destined to position it as the growth engine of the world, with India and China emerging as important economic and industrial hubs. In Asia, food supply is not expected to keep pace with economic growth, increase in disposable income and hence improving lifestyles. Just consider: barring Thailand, in Asia, all other countries import sugar, creating a huge opportunity for India-based sugar refiners. Asia imports around 10.7 mn Tons of sugar every year from outside the continent *(Source: J Kingsman)*. Over the last decade, China has turned from a food exporter to a net food importer.

With India's economic growth averaging more than 7% over the last eight years, a trend which is expected to continue over the Eleventh Plan and with money going right down to the bottom of the social pyramid, India is expected to witness a movement of two-thirds of its population from less than sub-Saharan level of nutrition (2,200 calories/day) to South Asia's level (2,400 calories/day), creating an additional food demand as per the table below.

Grains	Fruits and vegetables	Sugar	Pulse	Vegetable oils
20	22	2	2.5	1.2

The situation gets worse, when we add to this the incremental growth in demand on 'business as usual' basis, which is annually about 2% for grains and 4-5% for other food items. This can be solved only by improving productivity and /or bringing more land under agriculture. Use of technology and more intensive cultivation can improve the yields but the average land holding being very small, inhibits rapid adoption of new practices.

Hence, we strategised to position ourselves in Asia and outside Asia in the key supplying nation of Brazil depending upon the availability of land and water. Our marketing focus is India, but our two port-based refineries can competitively cover South Asia, the Middle East and East Africa. Our domestic cane-based production is supplemented by our refineries, which are, in turn, (partially) backward integrated with plantations and raw sugar mills in Brazil.

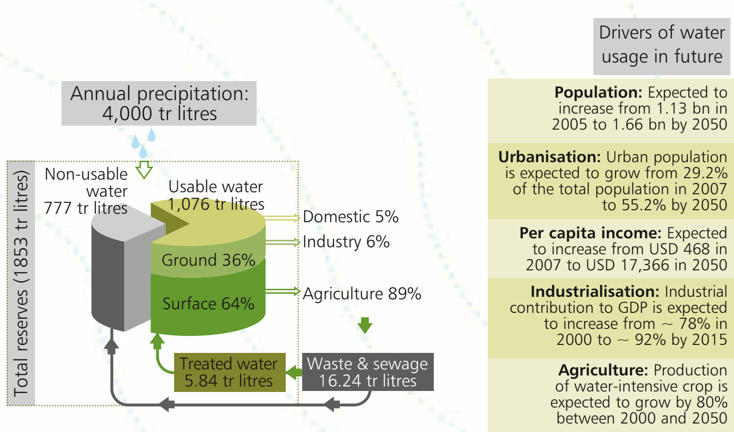
Land scarcity

Land scarcity is one of the key limiting factors for increasing food supply. The total land under cultivation grew 18% annually between 1950 and 1970, while it grew 2% annually from 1970 to 1990. This growth is expected to turn to negative with agricultural land being used to satiate the demand for rapid industrialisation and growing urbanisation. Consider this: India alone has earmarked USD 494 bn for infrastructure creation during the Eleventh Plan. Further, the country is expected to emerge as an important industrial sourcing alternative to China. Add to this the demand for suburban or leisure housing. This is expected to have a definitive impact on the land available for agriculture. In China too, the land resource for agriculture is being diverted for industrial needs and for housing mass urbanisation.

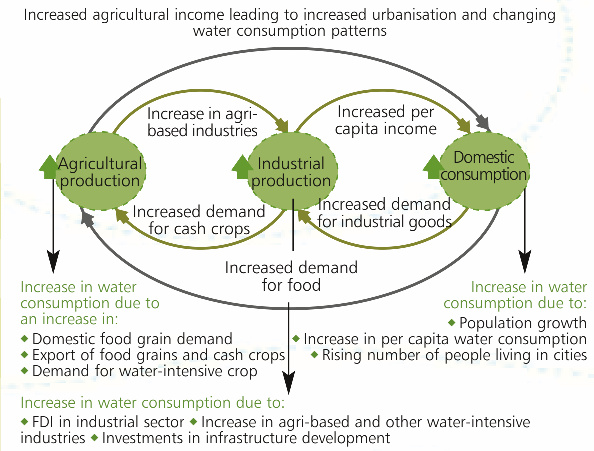
Impending water shortage

Water, is expected to emerge as a huge concern area for key developing nations globally, sooner than anticipated. It

Water in India – overview



Water consumption cycle in India



(Source: Grail Research)

is only in the recent past that some nations and corporates are strategising derisking initiatives.

Global per capita water consumption is expected to grow from 89 litres a day in 2000 to 167 litres a day by 2050. Nearly 90% of all available freshwater will be depleted by 2025 (Business Standard, May 21, 2009).

In India too, water will emerge as a significantly scarce resource over the long term. For important reasons:

- Industrial water consumption is expected to rise significantly from 6% of total water consumption in 2000 to 18% of total water consumption in 2050.
- Domestic water consumption, as a proportion of total water consumption, is expected to increase from 5% in 2000 to 11% in 2050.
- India's agriculture accounts for around 89% of the total water consumption in the country. Water consumption for irrigation is expected to increase 68.5 tr litres between 2000 and 2025.

Diversion for better returns

India produced 271.25 mn Tons of sugarcane in 2008-09 sugar season. Of this, industry estimates suggest, about 147 mn Tons was used for producing sugar, down from over 260 mn Tons in the preceding year *(Source: Ministry of Agriculture)*. More than 116 mn Tons of sugarcane was diverted for jaggery production and other purposes in demand.

Domestic environment

Sustenance and growth of conventional sugar business revolves around adequate cane availability, expected to emerge as a serious issue over the coming years due to the paucity of land and water resources. Improved lifestyles, rapid industrialisation, growing urbanisation, rampant destruction of the green cover revealed itself in distinctive climatic changes across the globe, India being no exception. More importantly, the already over-exploited irrigation infrastructure (at about 42% of the area under agriculture) has raised serious doubts on the agricultural sector as a dependable source of sustained feedstock for continued and growing operations. Hence, areas of the globe with ample land and water will be the ideal places for further growth of cane-milling.

Our initiatives for a stronger global footprint

To position ourselves as a significant global player in line with diminishing key resources, we have taken two strategic initiatives

- Commissioned our Haldia refinery and started work on our Gujarat refinery
- Established a foothold in the world's most important sugar producing nation, Brazil

These initiatives should be seen as critical steps towards sugar refining, which is expected to emerge as the 'preferred business vertical' over the medium term. It will enable us to satiate growing global sugar demand in the face of depleting resources.

The Haldia refinery – strengthening our competitive advantage

This 2,000 TPD refinery is only 0.5 km from the Haldia port and sits in the heart of the most sugar deficit region of India namely West Bengal and the North East. We are building a 3,000 TPD port based refinery in the western part of India i.e. Gujarat. It is expected to be commissioned in 2010-11.

The Brazilian foothold – securing our foundation

Brazil's edge over other nations: Brazil currently accounts for more than 50% of the world sugar exports. What is more pertinent is that its competitiveness is going to continue over the long term. Globally, it is the ideal locale suited for sugarcane cultivation – abundant land (170 mn hectares under agriculture with only 7 mn hectares for sugarcane) and plentiful rainfall, in excess of 1,000 mm per year obviating the need for irrigation. These advantages make it one of the lowest-cost sugar producing nations and also the only major producer growing in scale.

Although, in the recent past, the nation's competitive edge has been dampened due to two factors:

- New agricultural lands for sugarcane are far away from the ports, adding to the logistics bill for exports
- Appreciating Brazilian currency against the dollar

But there is no globally viable alternative of scale. Hence, Brazil would remain the sugar source for Asia over the medium term.

SRSL's advantage: After the commissioning of our second refinery, we will need about 1.7 mn Tons of raw sugar annually. But the problem is assured feedstock. This is where Brazil synergises with the Company's plan, assuring feedstock for our refinery operations. We expect that we would be able to source about 20% of our raw sugar requirement (on present capacity) from our Brazilian facility. There are also other significant benefits like its share of essential logistic assets and storage facilities, including a port terminal, which will facilitate the supply chain between Brazil and India.

Outlook for the next season

The outlook for the current sugar season looks optimistic. Sugar realisation is expected to remain robust in the off-season, with constant increase in demand. More importantly, sugar imports are expected to grow significantly in the current year, strengthening the prospects of sugar refining.

	Shortage (mn Tons)	Draw down from stock (mn Tons)	Imports (mn Tons)
Sugar year 2008-09	8	6.9	1.1
Sugar year 2009-10	7	NIL	7

Moving ahead

The road ahead is challenging. We need to combine two diverse cultures and operations in two distant locations to create a robust and resilient global sugar company. This is possibly the most daunting task in the Company's history. Another important challenge is execution. We expect to increase throughput by about 70% by sweating our existing assets, the growth this year largely coming from our refining business due to India's poor cane availability. Besides, other projects in the pipeline will accelerate growth significantly over the coming years.

- **Refining business:** We are implementing another 3,000 TPD refinery on the west coast of India in Gujarat with improved synergies with the existing model and expansive reach in the domestic and global market. This initiative will warrant an investment of over Rs. 4,000 mn over the next 12 months, to be funded through debt and equity.
- **Feedstock supply:** We need to modify Brazilian operations slightly to ensure that we can match our target feedstock supply from this unit. One out of two mills has the capacity of producing 60% sugar and 40% ethanol, while the other is a distillery only. In line with our focus on raw sugar production there, we aim to convert both into a capability of 75% sugar production. In addition, we would be looking at other deals to strengthen our feedstock supplies.

Despite our satisfying performance over the last year we are just 4.5% of the Indian sugar market, representing ample scope of growth. We believe we now have the size, financial strength and managerial bandwidth to operate in multiple and diverse geographies to achieve our strategic vision.

Regards

Narendra Murkumbi

Sugarcane – a water guzzler

Interestingly, water consumed for the production of wheat, rice and sugarcane increased by 88 tr litres over 2000 to 2008. For wheat it increased by around 4 tr litres, for rice by around 18 tr litres and for sugarcane by around a significant 66 tr litres!

Even as most Indian sugar players were growing their sugar manufacturing capacities to cater to local demand, Shree Renuka Sugars was perhaps the only Indian company intent on concurrently building sugar refining capacities to cater to the global (including India) market.

In doing so, the Company pioneered the concept of sugar refining – as distinct from cane-derived sugar manufacture – as an integral part of its business model through the following initiatives:

- Invested in advanced sugar refining technology to meet exacting EU quality parameters
- Created India's largest cumulative refining capacity (6,000 TPD) that is primarily port-based

Globally-focused **CAPACITY**

INDIAN PRESENCE. GLOBAL OUTLOOK. THIS CAPTURES THE INTRINSIC CHARACTER OF SHREE RENUKA SUGARS.

- Engaged in the commissioning of India's largest refinery (3,000 TPD) in Gujarat: expected to be commercialised in 2010-11

This sugar refining focus achieved two things: liberated the Company from a complete dependence on domestic sugar sale and sugarcane and created operational continuity (average 325 days) in a sector marked by low asset utilisation (average 150 days).

Low price for a priceless asset!

In 2009, Shree Renuka Sugars acquired Vale Do Ivai S.A Acucar E Alcool (VDI), a Brazilian sugar and ethanol producer, for USD 82 mn against its enterprise value of USD 240 mn.

Shree Renuka Sugars' reinvention could not have come at a more relevant time. In the medium-term, India is starved of cane. In the long-term, infrastructure growth and regulatory policies are expected to cap any significant increase in sugarcane availability.

So, even as Indian companies focused on increasing yield from finite resources (command area) as their only response to dwindling cane availability, Shree Renuka Sugars became India's first company to acquire a foreign sugar company. The Company acquired a sugar company in Brazil, the largest global sugar producing and exporting nation in return for the following benefits:

Global POSITIONING

INDIAN COMPANY. GLOBAL UNIT. THIS IS THE NEW FACE OF SHREE RENUKA SUGARS.

- Securing majority of its annual raw sugar feedstock requirement of 2 mn Tons (2010-11 onwards)
- Value-addition and profitability of its Indian refinery operations
- A first-hand insight into global trends and opportunities in the sugar and ethanol segments.

Besides, this acquisition secured the Company's position in the largest ethanol exporting nation in the shortest possible time and a seamless entry into select developed economies (US and EU) that are expected to become major ethanol importers.

Consequently, Shree Renuka Sugars is positioned to secure its growth, even as rest of the industry grapples with depleting resources like land and fuel.

A profitable investment

An investment of Rs. 1,000 in the Company's equity shares at the IPO as on October 25, 2005 had grown to Rs. 6,928 as on September 30, 2009.

Even as a number of Indian sugar companies re-engineered their business structures to enhance revenues from cane sticks, Shree Renuka Sugars did so too, but with a difference in the following ways:

- Created a business model derisked through a presence in sugar (from cane), refining, ethanol and co-generated power with technology that generates revenue even in the absence of cane
- Stretched the value chain a step in both directions – cane cultivation on 18,000 hectares through its Brazilian acquisition at one end and quality, refined sulphurless sugar at the other
- Established a trading hub in Dubai to capitalise on trade opportunities in the Asian region

Globalised MINDSET

ONE COMPANY. MULTIPLE DRIVERS. THIS IS THE ROBUST BUSINESS MODEL OF SHREE RENUKA SUGARS.

- Leveraged its rich knowledge to generate engineering and project management revenues through its stake in KBK Chem Engineering Pvt. Ltd (around 35% revenue from global assignments; Rs. 2,500 mn order book as on September 30, 2009)

As a result, Shree Renuka Sugars strengthened its market capitalisation from Rs. 28,159 mn as on September 30, 2008 to Rs. 62,572 mn as on September 30, 2009, with around 30% of the equity comprising foreign institutions holding as on September 30, 2009.