



**CONSOLIDATE.
STRENGTHEN.
INTEGRATE.**


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Forward-looking statements

In this Annual Report, we have disclosed forward-looking information to enable investors to comprehend our prospects and take investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', 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 assumptions. The achievements of results are subject to risks, uncertainties, and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated, or projected. Readers should keep 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.



Every business that grows at a rapid pace, encounters cycles of consolidation, strengthening and integration.

Over the past few years, we have spent our energies in consolidating and strengthening our business and achieving better integration across our global platform, thereby preparing our organisation for **sustainable profitability both in India and Brazil.**

We strengthened our operations in India by **climbing up the value chain** and pursuing sales of branded sugar and increasing capacity utilisation of our port based refineries and distilleries. In Brazil, we planted more cane to increase crushing in the coming season and revitalised our team with members who have proven track record in **running sizeable plantation operations.**



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2012-13 AT A GLANCE: THE YEAR OF CONSOLIDATING AND STRENGTHENING OPERATIONS

Over the past 12 months, our efforts were focussed on consolidating and strengthening our business both in India and in Brazil – that of stabilising our operations and balance sheet with emphasis on turning around our operations in Renuka do Brasil.

BRAZIL – THE MOVE WE MADE

The key improvement we have to report on the Brazil front has been an increase of 15% in cane crushing which touched **9.5 million** tons in crop season 2012, and an additional cane planting in the period which will increase cane availability in the current season.

Total sugar produced in Brazil during the crop season 2012 increased by **31%** reaching **0.73 million** tons as against **0.55 million** tons in the previous crop season.

Energy sales from co-generation plants stood at 331 MWh in crop season 2012 as against 205 MWh in crop season 2011.

THE RESULT IT YIELDED

In our Brazilian operations, we have improved our EBITDA margin for the year to **26% from 24%** in the previous year.

The overall EBITDA reported in Brazil is ₹ **8,023 million**. We see a **much better performance operationally and financially going forward**. More cane availability will help significantly.



INDIA - THE MOVE WE MADE

In India, our main focus was on increasing the capacity utilisation of our **refining** division where we doubled the capacity utilisation compared to the previous year. Since October, 2012 we have been running our refineries at almost **full capacity**, delivering a growth of **29%** in sugar segment sales in the year ended March 2013 as compared to 18 months ended March 2012.

THE RESULT IT YIELDED

The Indian standalone business has reported a net profit of ₹ **518 million** for the year ended March 2013.

Increased capacity utilisation at our refineries helped us not only offset the decline in production of our cane sugar, but also supported our profitability as **refining spreads have remained healthy**.

We **successfully leveraged our ability** to purchase raw sugar on credit thus bringing down our total interest cost.

Meanwhile, the Indian sugar price scenario has turned more bearish than it was a year back because of production being at the higher end of estimates, and this has resulted in muted prices. As a result the EBITDA margin in Indian operations has gone down, even though profits from the refining operations cushioned matters to an extent. High cane prices also impacted the margin expectation, as **increase in cane prices was more than the increase in sugar prices**.

LETTER FROM THE MANAGING DIRECTOR



In global terms, the sugar industry was in a surplus, with sugar production outstripping consumption for the third year in a row. The total sugar production was higher by 1.4% to 174.5 million MT.

There comes a time in the life of every Company when you shrug off the vagaries of nature and circumstances, and focus on consolidating operations. For us at Shree Renuka Sugars, this year was one such time. Over the past years, we have focussed our energies in consolidating and strengthening our organisational capability in preparation for sustained growth.

During the past 12 months, we focussed on improving our operations and balance sheet as well as turning around our operations in our Brazilian subsidiaries. We have taken significant strides in this direction, though there is more work to be done. While progress has been made, this is an ongoing agenda that will come to fruition in the years ahead.

The Indian standalone operations reported a net profit of ₹ 518 million for the 12-months ended March 2013.

In global terms, the sugar industry was in a surplus, with sugar production outstripping consumption for the third year in a row. The total sugar production was higher by 1.4% to 174.5 million MT. This overhang of supply impacted prices which reached a level of US\$ 17 cents per lb as against the last two years' average of US\$ 25 cents per lb. With sugar prices near a 3-year low, there is a healthy demand for the commodity for current consumption and restocking from most of the importing countries.

With sugar prices near a 3-year low, there is a **healthy demand for the commodity** for current consumption and restocking from most of the **importing countries**

During the year, we noticed a marked contrast in our performance in Brazil and India, though there was commonality in terms of good news from the regulatory front.

Growing strength in the India Operations

In the sugar business in India, there has been a landmark decision, when the Government declared the partial de-control of the sugar sector in April 2013.

By eliminating levy sugar purchased at a discount of 40% to the market price and moving to the open market purchase of PDS requirement, the Government has at one stroke enhanced the earnings ability of sugar companies. We estimate that your Company will make substantial savings annually.

Quantitative restrictions on domestic and export sales of sugar have been removed and it is our view that the ability to market our product at the time of our choice will lead to companies becoming more competitive with the ability to manage their cash flows according to their inventory management and price scenario. However, we are presently witnessing an adjustment period wherein smaller companies in the sector with high working capital requirements are aggressively selling their stock, thereby applying pressure on the prices.

This year Maharashtra & Karnataka suffered from an unprecedented drought with a large area of the state facing scarcity of drinking water. In this context, many voices were raised about the viability of producing a water intensive crop, when even drinking water was scarce. We have since inception been conscious of our duties and have initiated measures to ensure that water usage and waste from our manufacturing process is minimised and we are moving towards becoming water neutral in our industrial operations.

During the year 2012-13, one of the highlights of our standalone operations was the improved performance of our refining business. Our port-based refineries at Haldia and Kandla increased capacity utilisation levels and almost doubled their output. This helped our profitability as the refining spreads remained healthy.

We were also able to access raw sugar on extended credit terms, thereby reducing our working capital requirement and bring down our interest cost.

We expect both the refineries to operate at full capacity in the foreseeable future, delivering healthy refining margins that will add to our consolidated bottomline.

Sugar prices towards the end of the year in India fell with many companies facing working capital paucity aggressively liquidating stocks. In many states, the selling price of sugar is close to or lower than its cost of production.

In our Ethanol business, there was good news at hand. In January 2013, the Government of India notified the Fuel Ethanol mandate requiring OMC's to blend 5% ethanol with petrol on an all India basis. As against the fixed pricing, the Government allowed sugar companies to participate in tenders based on competitive bidding. We have received good orders for fuel ethanol and this augurs well for the profitability of this segment going forward.

In our continuing attempts to deleverage our balance sheet, we have pared down our debt from ₹ 4,328 crores to ₹ 2,612 crores in the past one year.

With increase in refining capacity utilisation, improvement in cane crushing in Brazil, upside of Ethanol both in India and Brazil, we are poised to achieve sustainable growth.

Stable growth in the Brazil Operations

Sugar production for the Brazilian subsidiaries improved, led by higher sugarcane cultivation and increased diversion towards sugar. Our Brazilian operations are stabilising and we have increased our crushing during the year to 9.5 million tons from last year's total crushing of 8.3 million tons. We have planted more cane and we anticipate that this will increase cane availability for the coming year's crushing operations. In FY 2013-14, we expect to increase crushing to the level of 11 million tons.

Though volume increased, profitability was impacted mainly due to non cash items like depreciation and foreign exchange fluctuations. On the positives in Brazil, we have improved our EBITDA margin for the year to 26%.

As the Brazilian Real depreciates, sugar from Brazil is getting more and more competitive in the export market compared to other exporting countries.

There has been positive development on the Ethanol front in Brazil too, since the government has mandated a blend of 25% ethanol from the present 20% in gasoline. With flex-fuel cars that can use either ethanol or blended gasoline accounting for about 57% of the total car fleet in Brazil, this move is expected to increase consumption of anhydrous ethanol by 2 billion litres and thus, would be encouraging for the long-term growth prospects of the sugarcane industry. The Brazilian Government has also announced a tax credit on hydrous ethanol which will positively impact our bottomline. The tax credit is pegged at R\$120 per KL which converts to about US\$ 60 per KL which will go to the mills that produce ethanol.

These facts have already impacted ethanol pricing which is ruling above the equivalent prevailing raw sugar prices for most of this year. To meet this incremental demand, the Brazilian

sugar-ethanol industry will end up shifting the production share towards ethanol and away from sugar. This shift will result in a substantial reduction of the global sugar surplus paving the way for better prices in 2014.

Given our objective to reduce capital usage in our Brazilian operations, we plan to increase the share of third party sugarcane supplies to 50% from the existing 35% over the next 2-3 years. This will also enable equitable sharing of the cane risk with farmers and reduce our capital expenditure.

With increase in refining capacity utilisation, improvement in cane crushing in Brazil, upside of Ethanol both in India and Brazil, we are poised to achieve sustainable growth.

After the consolidation and strengthening, it is time for significant deleveraging in the next two years on the back of higher capacity utilisation across the group and select strategic initiatives.

I take this opportunity to thank our board members, senior management, our staff both in India and Brazil, our customers, our bankers and the Governments of India and Brazil with whose co-operation we are making progress.

Warm regards,
Narendra Murkumbi




There has been positive development on the Ethanol front in Brazil, since the government has mandated a blend of **25%** ethanol from the present **20%**. This will immediately raise the demand for anhydrous ethanol by **2 billion** litres.



FROM CONSOLIDATING TO STRENGTHENING OPERATIONS IN BRAZIL

We experienced the toughest two years in the decade with successive drought and unusual conditions of frost and flowering of sugarcane which resulted in a drop in our cane harvesting. These acts of nature had impacted our operations and setback our plans to stabilise our Brazil operations. This year we returned to good weather. After the 11.5% decline in 2011-12, sugarcane availability in Centre-South Brazil improved by 8% to 533 million MT in 2012-13.



As part of our turnaround strategy, we unified our management in Brazil. **Stronger emphasis** is being placed on management reporting and technical aspects of our operations. Good weather, increased planting and the expectations of a **better yield will lead us to a position of strength.**

During this year, we have taken the **first steps to strengthening our capacity utilisation** and we have increased cane crushing for our Brazilian operations from a low of **8.3 million** tons of cane crushed in 2011-12 to about **9.5 million** tons of cane crushed in 2012-13. By the next year, we expect to crush **11 million** tons of cane, which on a total capacity of **13.6 million** tons amounts to an **81%** capacity utilisation.