SHREE RENUKA SUGARS

The Resolve To Solve

Annual Report 2014-2015

Contents

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.

SHREE RENUKA SUGARS

The Resolve to Solve

It all begins with a resolve.

A resolve to identify the problem, however difficult it may be. And decide to proactively search for an equitable solution.

A resolve to identify the vital facts, however complex they may be. And to put all energies into thrashing them out, one by one.

A resolve to confront the challenges head-on, however elusive they may be. And to sit together with all the stakeholders to find a sustainable solution.

The first step to finding a holistic solution to all trials and tribulations afflicting any business or industry is to stride resolutely forward, leaving behind the excess baggage of the past. To shrug aside all apathy and to put our minds together and resolve to solve the problems plaguing the Indian sugar industry. To accept unequivocally that only our collective resolution can yield a meaningful and far-reaching solution.

Corporate Snapshot

A global agribusiness and bio-energy corporate, Shree Renuka Sugars Limited (referred to as "Shree Renuka" or the "Company", NSE: RENUKA, BSE: 532670) is one of the largest integrated sugar and bio-energy producers globally. The Company, which operates in four segments: Sugar, Trading, Ethanol and Power, has its Corporate office in Mumbai (Maharashtra, India) and Head Office in Belgaum (Karnataka, India). The shares of the Company are listed on the Bombay Stock Exchange Ltd (BSE) and the National Stock Exchange of India Ltd (NSE)

The Company operates eleven mills globally (four in Centre-South Brazil and seven in India) with integrated ethanol and power co-generation capacity. It also has two large port-based sugar refineries in India. Its Indian operations are present in sugar rich belt of South and West India, ensuring high sugarcane yields and sugar recovery from cane. The strategically located port-based refineries in Gujarat and West Bengal states of India cover India, South Asia and Middle-East markets competitively.

Key business segments

Sugar

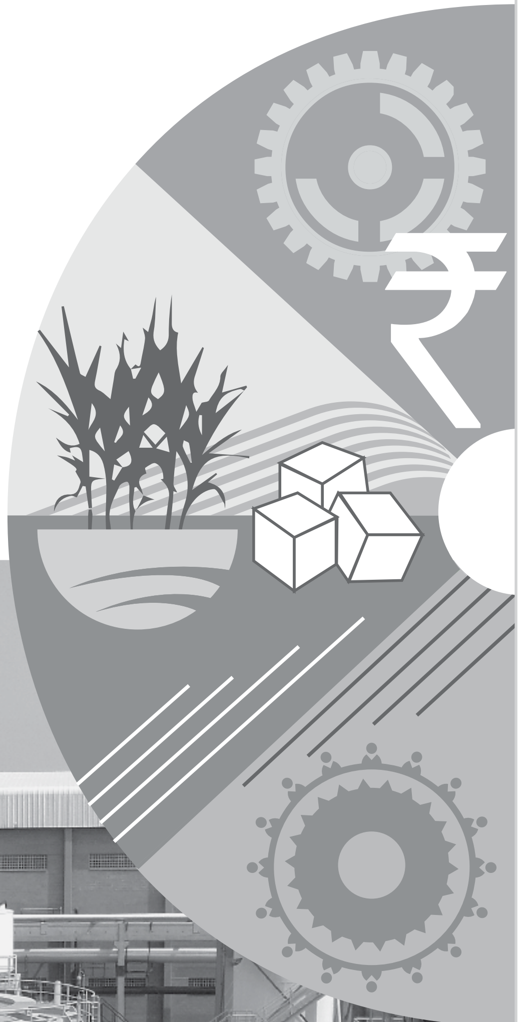
- 11 mills globally with a total crushing capacity of 22 Million tonnes per annum (MTPA) or 101,520 tonnes crushed per day (TCD)
- 7 sugar mills in India with a total crushing capacity of 8.4 MTPA or 42,000 TCD
- 2 port-based sugar refineries with capacity of 1.7 MTPA
- Significant presence in South Brazil, through acquisitions of Renuka Vale do Ivai (100%) and Renuka do Brasil (59.4%), with combined crushing capacity of 13.6 MTPA

Ethanol

- Manufactures fuel grade ethanol that can be blended with petrol
- Global distillery capacity of 4,160 Kilo Litres per day (KLPD) and Indian distillery capacity of 930 KLPD (630 KLPD from molasses to ethanol and 300 KLPD from rectified spirit to ethanol)
- Brazil distillery capacity of 3,230 KLPD

Power

- Produces power from bagasse (a sugarcane by-product)
- Captive consumption and sale to the state grid in India and Brazil
- Total co-generation capacity increased to 584 MW with exportable surplus of 371 MW
- Indian operations produce 271 MW with exportable surplus of 150 MW
- Brazilian operations produce 313 MW with exportable surplus of 221 MW



Letter from the Managing Director

I write to you at the end of yet another challenging year for your Company. An unfavourable macro environment once again impacted business, even as we continued to work closely with all stakeholders, including the government, to find a fair and equitable solution to the problems ailing the Indian sugar industry.

The sugar industry has, globally, been in the midst of turmoil with surplus sugar production resulting in high inventory levels across the sugar-producing regions. Global raw sugar prices also hit a bottom towards the end of August 2015, on account of higher than estimated sugar production in India, Brazil and Thailand. The global sugar industry was thus impacted by surplus sugar for the fifth consecutive year, leading to a further increase in inventory levels.

In India, increase in sugar production, particularly in Maharashtra and Karnataka, has further aggravated the industry woes. As Maharashtra reported record sugar production, the overall production in the country is estimated to increase by 15.3% in 2014-15, putting India on the way to its fifth straight year of surplus sugar production. The 2014-15 domestic season in the country also witnessed record crushing and higher recovery in North India, leading to increased sugar output. A surplus sugar stock of 3.5 Million tonnes within the country and glut in the global market have depressed sugar prices both within and outside India. As a consequence, sugar mills are finding it difficult to dispose of their sugar.

The prevailing environment has posed serious challenges for the entire domestic sugar industry. The cane farmers are no less affected as mounting arrears, resulting from the inability of the troubled mills to pay, have triggered serious concerns for them. Urgent redressal measures are required to ensure the survival of the industry.

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Unprecedented crisis impacts performance

It would not be an understatement to say that the Indian sugar industry is currently facing its worst ever crisis. The overall environment, both on the macro and micro fronts, is disastrous and shows no signs of improvement in the short term. The highly regulated sugarcane pricing mechanism has unfortunately pushed the industry to the brink. The industry, particularly the miller, is caught in a high production-low price situation. The mills find themselves in the unenviable position of having no funds to pay the arrears of the sugarcane producing farmers. With farmers' arrears now running into two years, the crisis continues to worsen, with no solution in sight in the near future.

Your Company is, naturally, not insulated from the current crisis. Our performance during FY15 resonates with the overall industry performance, as reduction in sales volumes and lower average price realisation pulled down revenues. For the year ended 31st March, 2015, the standalone revenue decreased by 13% and EBITDA went down by 7%. The foreign exchange loss for the year was ₹ 1,342 Million compared to a loss of ₹ 3,317 Million last year. Your Company has reported a net loss of ₹ 2,951 Million for the year ended 31st March, 2015.

Like the rest of the industry, your Company's sugar business is seriously impacted by the regulatory controlled sugarcane pricing mechanism. While sugar volume and sales prices are market determined, sugarcane price remains under government control which is completely delinked from the prevailing sugar prices and skewed against the millers.

The last five years of sugar surplus and increase in minimum sugarcane price against the backdrop of bearish commodity markets globally have led to a serious mismatch between cane price and sugar price, underlining the imperative need for rationalisation of the sugarcane pricing policy. In fact, the entire cane reservation and pricing policy needs to be seriously reviewed on an urgent basis if the industry is to be saved from what seems to be an imminent disaster.

The seriousness of the situation can be gauged from the fact that as India moves into the next season, it will have a reserve stock of around 40% of the total sugar consumption requirement. Another good season, which seems to be in the making, will wreak further havoc on the beleaguered industry. The crisis is further aggravated by the fact that banks are not extending loans to mills to help them tide over the situation and on the side, the farmers continue to be stressed by the outstanding sugarcane arrears.

While the government is working on a long-term plan to revamp the industry, a near-term solution to the current catastrophic conditions continues to elude.

Sugar exports also take a hit

Your Company's performance clearly reflects the industry downturn, which has been exacerbated by policy bottlenecks on the exports front too. The delayed approval by the Indian government on the extension of sugar exports subsidy, which eventually came only towards the end of the last domestic sugar season, has further hit the industry. What's more, the prevailing weak global sugar prices and the stable rupee made the export prices fare poorly in comparison with prices of other sugar exporting countries during the year. This accentuated the problem in the exports market as the subsidy could not be availed in time. One only hopes the government will move fast this year to announce the subsidy, or some other export incentive measure, well in time for the next sugar season to help the mills retrieve some of the lost ground.

Brazil operations impacted

Unfortunately, the entire global sugar industry is also in the doldrums, largely on account of the high inventory levels resulting from the continued surplus sugar production, coupled with sharp depreciation in the Brazilian currency against the US Dollar. Less cane availability resulting from drought conditions has also adversely impacted our Brazil operations, further pushing down our revenues in the sugar business during the year.

EBITDA for the Brazilian subsidiaries stood at ₹ 2,294 Million for the year ended 31st March, 2015 compared to ₹ 7,485 Million in previous year. Lower capacity utilisation, increase in operating costs due to reduction in productivity of cane and lower realisation of raw sugar during FY15 were the major impediments to growth. The Brazilian subsidiaries reported a net loss of ₹ 15,841 Million for the year ended 31st March, 2015 on account of lower EBITDA and high foreign exchange variation charges.

Urgent need for a resolve to solve

While the international sugar industry scenario will continue to be dictated by global determinants, the urgent need to find a long-term solution on the domestic front necessitates a collective resolve on the part of all the stakeholders to battle the unprecedented challenge faced by the sugar industry. The entire industry has already joined hands with the government and other stakeholders in search of a fair and long-term solution, but the process needs to be expedited if the industry is to be saved from impending doom.

As a responsible and leading industry player, we are also at the forefront of this campaign to resolve the various issues troubling the domestic sugar industry. The industry needs to be freed from the shackles of inequitable regulatory mechanisms if the situation is to be salvaged. The FRP (Fair Remunerative Price) formula needs to be reexamined and a cane-sugar price linkage formula needs to be put in place as per the recommendations of the Rangarajan Committee and in line with the international practice. The government has already initiated several steps to address the issue of cane price arrears, raising hopes of complete resolution in the long term.

Looking beyond sugar

With a diversified business portfolio, your Company has been successful in off-setting some of the sugar segment losses. Higher margins in the renewable segment in the last quarter and improved margins in the refinery segment partially improved the EBIDTA margins for your Company.

Our ethanol business remains on track, with the Government's `Make in India' focus auguring well for the segment's growth and profitability. However, the ethanol sector needs greater vibrancy if it is to emerge as a viable alternative for the ailing sugar industry. The industry continues to push for more ethanol production from sugarcane but the current policies of the government do not favour such a shift. The recent exemption given to Indian sugar mills from excise duty on ethanol for blending will lead to increased realisation, which may result in increased diversion of molasses towards ethanol production.

In Brazil, the decision to increase ethanol blending to 27%, as well as re-imposition of CIDE tax on gasoline, would result into higher diversion of cane towards ethanol and may provide some support to sugar prices.

Co-generation is another business that contributed positively to your Company's performance in India during the year. Power generation and sales were good during the crushing season and we expect the trend to continue in the next season.

Moving resolutely forward

Notwithstanding the prevailing environment, which does not raise much hope of reversal of fortunes in the near term, your Company has resolved to move forward with determination and grit. We have taken the first step towards finding a reasonable and long-term solution to the problems afflicting the industry by resolving to do so. We have extended our full support to the government and other agencies working towards an equitable solution that would be in the interests of all stakeholders.

We are constantly working with our banks both in India and Brazil to find lasting solutions for our high leverage which has further increased due to losses in the last two years. I am confident that together, and with the government's support, we can solve the myriad of industry problems through our collective resolve.

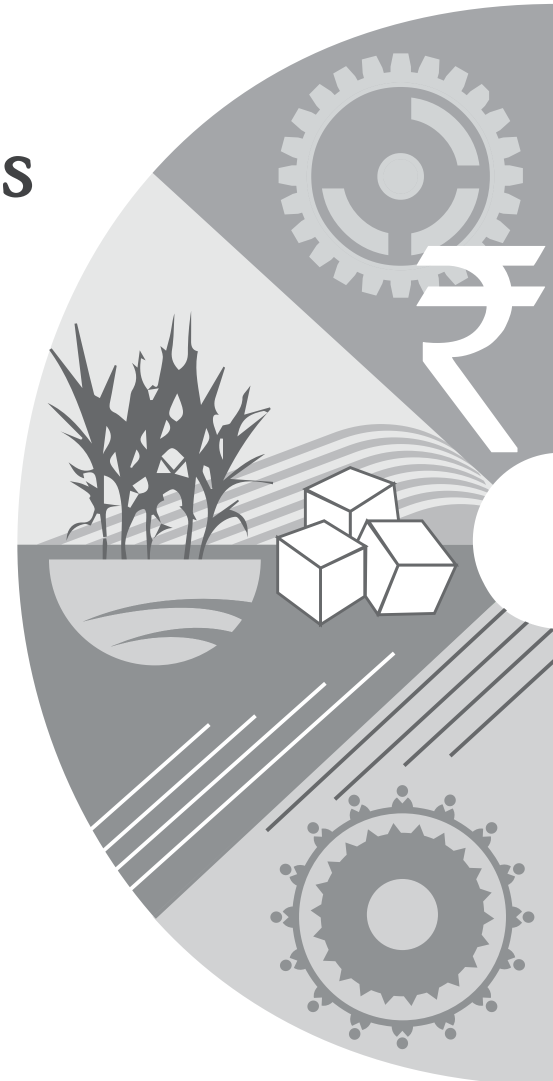
On this note, let me take this opportunity to thank our management, our bankers, our customers and other stakeholders for their continued support even in these difficult times.

Warm regards

Narendra Murkumbi

Our ethanol business remains on track, with the Government's `Make in India' focus auguring well for the segment's growth and profitability

In search of long-term solutions



The Indian sugar industry is at the crossroads. Concerned about its present and uncertain about its future, it stands today at the cusp of an impending disaster, which it is striving hard to avert. Challenged by multiple problems, it is in search of long-term solutions that will see it through these tough times. The resolve is there; only fair and equitable solutions now need to be found, for which the search has already begun!

The problem of plenty

The domestic sugar industry is faced by problems aplenty. The most worrying, however, is the problem of plenty. Surplus sugar production has led to a glut situation. Improved recovery in major sugar-producing states – Maharashtra, Karnataka & Uttar Pradesh – is the major reason for India's higher sugar production during 2014-15. This is despite the delay in the commencement of the crushing season.

The result: India is headed towards its fifth year of surplus sugar.

Ironically, farmers have continued to plant sugarcane – a sturdy crop that can withstand the vagaries of weather better than substitute crops – despite mounting arrears. Assurance of payment and the fact that sugarcane continues to remain the most profitable crop (delivering returns that are nearly double the competing crops) induces farmers to remain engaged in sugarcane farming. Sugarcane acreage has, in fact, not declined despite record arrears. Use of new variants has also boosted yields.

The result: Sugar production estimates for India for the 2014-15 season have been pegged at about 26 Million tonnes as a result of better yields and higher recovery.