REFINING SUGAR.

REDEFINING SUSTAINABILITY.

Shree Renuka Sugars Limited

Annual Report 2015-16

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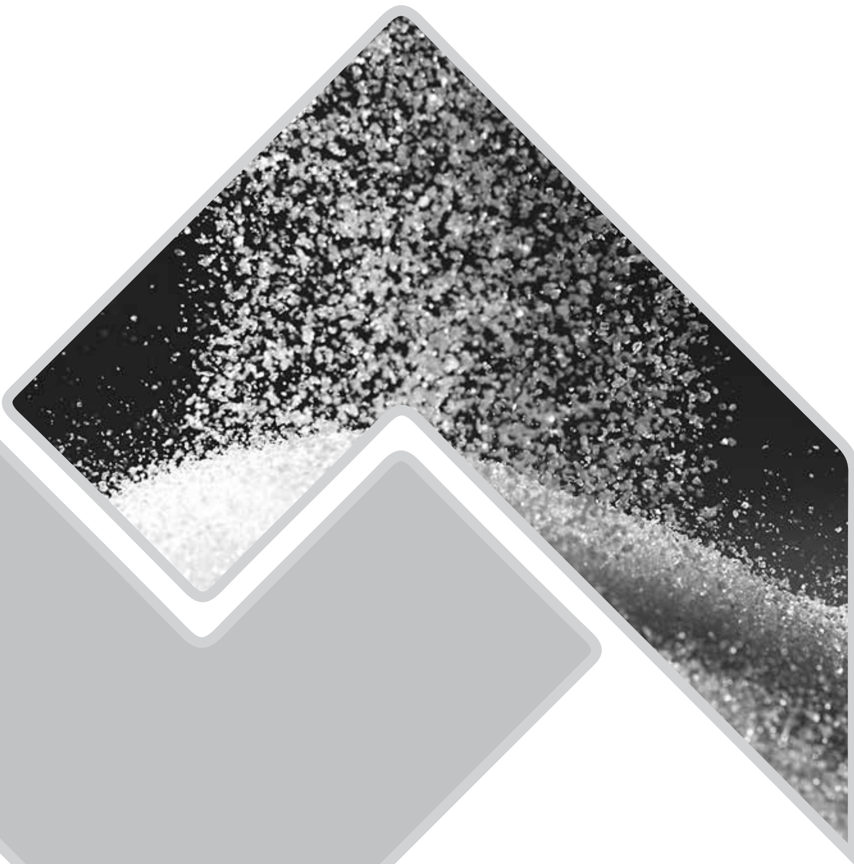
REFINING SUGAR.
REDEFINING SUSTAINABILITY.

The past few years witnessed the entire sugar value chain suffer from an excess supply scenario impacting realisations of farmers and profitability of sugar mills which suffered from a debt crisis driven by plummeting sugar prices.

Excess sugarcane production in India has been a cause of concern not just for the sugar industry but also for the environment, guzzling millions of litres of water resulting in reduction of usable ground water and raising question about its sustainability. **The need of the hour is to follow better management practices and undertake sustainable sugarcane cultivation.**

CORPORATE SNAPSHOT

Shree Renuka Sugars Ltd. is one of the largest agribusiness, bio-energy companies and refiners globally having operational presence in world's top two sugar producing countries - India and Brazil.



Engaged in the business of sugar manufacturing, sugar refining, sugar trading, ethanol and co-generation

About us

- Corporate Office in Mumbai (Maharashtra, India) and Head Office in Belagavi (Karnataka, India)
- Presence in South Brazil, through acquisitions of Renuka Vale do Ivai (100%) and Renuka do Brasil (59.4%)
- Shares listed on BSE Ltd. (BSE) and the National Stock Exchange of India Ltd. (NSE)
- 11 operational mills (seven in South and West India and four in Centre-South Brazil) with integrated ethanol and power co-generation capacity; and
- Two port-based refineries in Kandla and Haldia

Strengths

- SCALE OF OPERATIONS:
  It is amongst the largest sugar companies in the world with a combined (India and Brazil operations) capacity of 22 million tonnes per annum (MTPA) of sugarcane crushing, 1.7 MTPA of refineries, 4,160 Kilo Litres per day of distillery and 588 MW of co-generation

- STRATEGICALLY LOCATED:
  Indian operations spread in South and West India and Brazilian operations spread in Centre-South region having specific soil and weather conditions that facilitate high sugarcane yield and better sugar recovery from cane. Further, the proximity to cane field reduces turnaround time and logistics costs. It has one of the largest port-based refineries located in Kandla (West India) catering to Middle East region and Haldia (East India) catering to South Asian region

- DIVERSIFIED AND INTEGRATED:
  Extensive business integration through processing of cane for sugar, bagasse for power, molasses for ethanol and refining raw sugar into white sugar. This provides diversified income stream and reduces risks associated with one business

- FARMER RELATIONSHIP:
  The Company enjoys strong relationships with farmers in India and Brazil. It works closely with them for ensuring timely availability of raw material

11 mills with a total crushing capacity of
22 Million
tonnes per annum

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588 MW
generation capacity with exportable surplus of
371 MW

KEY BUSINESS SEGMENTS

Sugar

- The Company has operations in India and Brazil. It procures sugarcane from farmers and crushes them at its mills for producing raw sugar and white sugar. It has port-based refineries in India that procure raw sugar from local and international markets and process them to white sugar for exports
- 11 mills with a total crushing capacity of 22 Million tonnes per annum (MTPA) or 101,520 tonnes crushed per day (TCD). Of this 7 in India with a capacity of 8.4 MTPA or 42,000 TCD and 4 in Brazil with a capacity of 13.6 MTPA
- 2 port-based sugar refineries with capacity of 1.7 MTPA

Ethanol

- The Indian operations utilises molasses to produce ethyl alcohol, which is used in production of potable alcohol fuel blending and as a raw material for production of various derivatives by other chemical industries
- The Brazilian operations directly manufacture fuel-grade ethanol from sugarcane juice
- A total of 4,160 Kilo Litres per day (KLPD) of distillery capacity of this Indian operations has a capacity of 930 KLPD and Brazil has 3,230 KLPD of distillery capacity

Co-generation

- The Company produces power from bagasse for captive consumption and sells to industrial consumers or state grid in India and Brazil
- Indian operations has a generation capacity of 271 MW with exportable surplus of 150 MW
- Brazilian operations has a generation capacity of 317 MW with exportable surplus of 221 MW

MANAGING DIRECTOR'S REVIEW

Dear Shareholders,

The year 2015-16 brought in a renewed optimism for the global sugar industry that had been distressed over the past few years on account of surplus production. The dire situation led to the industry players getting overburdened with a debt and some even closing down their operations.

However, with the recent turn of events, globally the industry is set to come back on track and recover. Firstly, in the financial year under review, for the first time since 2009-10, the sugar consumption exceeded production leading to a rally in sugar prices during the latter half of the year contributing to improved realisations and a positive outlook for the industry. This trend is expected to continue in the current fiscal as well. Secondly, the correction in fuel pricing policies of the Brazilian and Indian governments has stimulated fuel-ethanol demand and led to increasing share of sugarcane consumption for ethanol production which shall stabilise sugar production. Thirdly, the limited availability of land, water and nutrient resources is forcing the industry players to regulate excess sugarcane harvesting. Fourthly, the depreciation in Brazil's currency, that further contributed to weak global sugar prices has stopped.

While in the Indian context, the much delayed and the much needed support from the government has finally provided some relief to the industry players. A series of initiatives including grant of soft loans worth ₹ 6,000 crore, raising ethanol blending with petrol from 5% to 10%, providing production subsidy to millers for sugarcane crushing and removal of central excise duty on ethanol produced from molasses resulted in a sharp change in industry fundamentals.

"Going forward, our refining business is going to be a key focus area that shall contribute to growth and business sustainability"

PERFORMANCE DURING THE YEAR

Indian operations

The on-going crises have had a negative impact on our performance. On standalone basis our revenues increased 2% to ₹ 58,642 million driven by strong growth in our sugar trading and ethanol business but counter-balanced by lower sugar prices. While EBITDA declined 20.5% to ₹ 1,432 million with a margin of 2.44% on the revenues. Declining realisations and high interest costs continue to drag down our profitability. Though during the current fiscal the Company managed to arrest the net loss to ₹ 2,853 million as compared to ₹ 2,951 million in the previous year. The foreign exchange loss during the year amounted to ₹ 977 million.

Brazilian operations

The Brazilian operations of the Company witnessed another rough period amidst depreciating Real and low sugar prices resulting in the revenues declining from ₹ 31,344 million in 2014-15 to ₹ 22,739 million in 2015-16. The on-going conditions compelled the Company to run the plants at lower capacity utilisation resulting in rising operating costs and decline in EBITDA from ₹ 2,294 million in 2014-15 to ₹ 2,050 million in 2015-16. The Company witnessed a net loss of ₹ 14,130 million as interest costs surged to ₹ 6,232 million driven by high leverage.

One of the key developments during the year was that the Brazilian subsidiary of the Company viz., Shree Renuka do Brasil Participações Ltda (SRDBPL) together with all of its subsidiaries (collectively 'Renuka Brazil'), on 28th September, 2015 filed for protection under Judicial Recovery (Law 11.101/2005-Recuperação Judicial) in the designated court in the capital of the state of São Paulo. The designated court on 26th July, 2016 approved the Re-organisation Plan of the Company's subsidiary viz., Renuka Vale do Ivai S/A (Renuka VDI) resulting in debt declining by ₹ 1,680 million. While for the remaining debts on book, the Company received period extension grace (ranging from 9 to 15 years) and substantial reduction in interest rates.

The Reorganisation Plan for the other subsidiary, Renuka do Brasil S/A is in the final stages of negotiation.

Sugar industry to revive on sustainability issues

Environment sustainability has always been a key issue in sugarcane plantation given the fact that it consumes significant amount of water. In India, insufficient irrigation and droughts in the past two years have resulted in water scarcity across major sugarcane producing states. Despite this, these regions witnessed extensive sugarcane plantation that led to further deterioration in conditions resulting in scarcity of usable water and ground water level depletion. In addition to this, excess sugarcane plantation leads to decline in land available for production of other important crops.

Thus, it is very important for various government agencies, farmers and sugar industry players to come together for a more sustainable approach to sugarcane plantation. Adoption of better crop management practices is another key area that can enhance yield while at the same time consume less resources. Finally, a balanced crop pricing policy by the government is now essential and it is heartening to see that this is already being articulated by the policy-makers.

Key priorities - leveraging refining strengths

Going forward our refining business is going to be a key focus area that shall contribute to growth and business sustainability. We have two port-based refineries strategically located in Kandla and Haldia ports providing us access to markets in Asia and Middle-East. The combined capacity of these refineries is 1.7 million tonnes per annum. These refineries primarily depend on imported raw sugar for operations while they also have the option of procuring from domestic markets. It is a great example of competitive global manufacturing out of India without any government incentive or subsidy.

Further, the recent imposition of export tax on sugar going out from India is likely to benefit us given the fact that we have coastal refineries and these taxes would not be applicable to us. These taxes are likely to tighten global white sugar supply resulting in rising prices. Thus, to take advantage of the situation we are running our refineries at full capacity.

Diversification enabled us survive

Our diversification into the businesses of ethanol, renewable energy and sugar trading provided us buffer by minimising the impact of downturn and losses from the sugar business. These businesses shall continue to drive our growth in the future while contributing to the bottomline.

Our ethanol business is all set to grow (both in revenues and margins) with the Indian government raising oil blending target for oil marketing companies from 5% to 10%. In Brazil too, the on-going recession and rise in gasoline prices is expected to push vehicle owners opting for ethanol over gasoline.

Our co-generation business is also doing well, driven by increasing focus on renewable energy sector. It enables us to reduce our power costs while at the same time contributing to revenue growth through sales to grid. This business shall continue to remain profitable due to rising importance of environment protection.

Message to shareholders

I would like to convey my heartiest regards to all the stakeholders for trusting us and being with us during the tough times, which appear to be ending. The past three years have been one of the most challenging times in our existence. I am confident that with the improvements in fundamentals of sugar industry and current macro-economic scenario, the sugar industry is expected to return to profitability and we are well placed to capitalise on the opportunity.

Best regards,
Narendra Murkumbi

PROFITABILITY AND SUSTAINABILITY THROUGH REFINING SUGAR

Focus on sugar refining would enable us to promote environment sustainability through checking sugarcane demand in India resulting in lower water and resources consumption

We at Shree Renuka Sugars realised that in a country like India that is marked by low agricultural productivity, insufficient irrigation facilities, droughts, depleting ground water levels and declining net agricultural area, it would not be sustainable to go on increasing sugarcane production.

Thus, when others were focussed on expanding milling capacities, we focussed on developing port-based refining capacities that utilises raw sugar procured domestically or from international markets, process it into high quality refined sugar and market it.

KEY ADVANTAGES

- High scale of production provides the advantage of economies of scale, while efficient operations enable reduction of overhead costs
- Strategic port-based presence minimises freight and logistics costs, enables efficient inventory management and distribution to Indian or international markets
- Kandla refinery in West India enables efficient distribution at competitive rates to sugar deficit Middle-East region, while Haldia refinery caters to East India and South-East Asia region

The result:

Focus on sugar refining would enable us to promote environment sustainability through checking sugarcane demand in India resulting in lower water and resources consumption. While, at the same time, it contributes to our business sustainability by providing an additional revenue stream that generates higher margins.

RELIABILITY AND FORMIDABILITY THROUGH DIVERSIFICATION

The ethanol is used as an environment protection measure through blending with petrol resulting in lower greenhouse gas emission

We at Shree Renuka Sugars realised that sugar business, being a commodity play, is marked by uncertainties relating to sugarcane production, weather conditions and fluctuating market prices.

Thus, we diversified our operations to ethanol and co-generation businesses and scaled it over time to enable us protect our business during a downturn in the sugar business. These businesses enable us to effectively utilise by-products generated in the sugar production for ethanol and renewable power production.

The ethanol is used as an environment protection measure through blending with petrol resulting in lower greenhouse gas emission. Co-generation is also an environment-friendly method of producing renewable energy that is used for captive consumption and surplus being sold to grid.

The result:

These businesses not only contribute to environment protection, it also enhances our business formidability and revenues reliability accounting for nearly 8.6% of the total revenues of the Company in 2015-16.