SHREE RENUKA SUGARS

DECISIVE MOVES. BRINGING BACK SWEETNESS.

Shree Renuka Sugars Limited

Annual Report 2016-17

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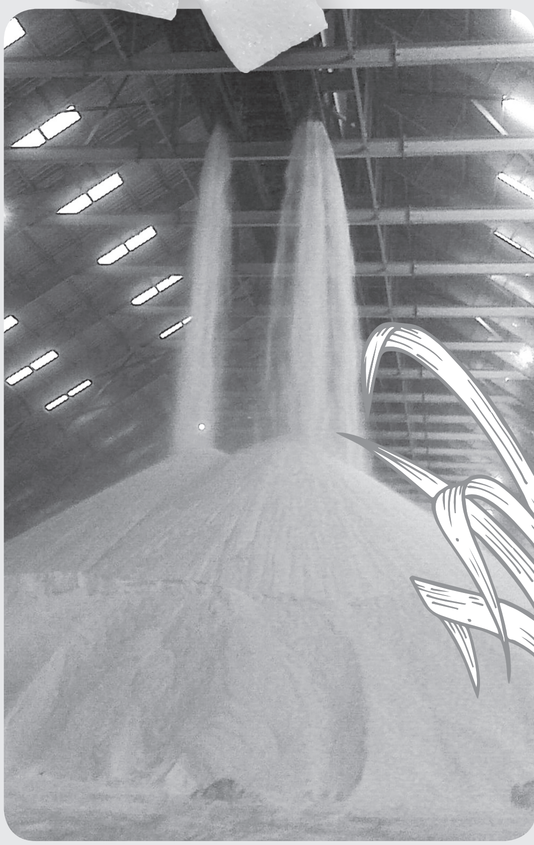
DECISIVE MOVES ARE CRITICAL TO AN ORGANISATION'S EXISTENCE.

For the past few years of our existence, we were faced with the challenge of overburdened debt, which, despite healthy performance at operational levels, was dragging down our bottomline. Drought in our operating regions in the last two years further strained our financial condition. As a result, our net worth was eroding, shareholders' worth remained stagnant, and confidence in the Company was dwindling. Revival initiatives undertaken in the past was but bringing temporary relief.

It was time we start taking some decisive moves.

One that can reduce interest cost. That can reinforce our net worth and creditworthiness. That can make our business sustainable in the longer run. That can reward the shareholders.

One that can bring back the sweetness in our business.



DECISIVE MOVES. BRINGING BACK SWEETNESS.

#1 DECISIVE MOVE

Comprehensive debt re-structuring

We intend to infuse capital worth ₹ 34,318 million in the business, which shall facilitate in reducing debt. The various modes of capital infusion planned include:

- ₹ 7,840 million by Wilmar Sugar Holdings Pte. Ltd. (WSH) in the form of compulsorily convertible preference shares.
- ₹ 26,478 million by various financial institutions in the form of instruments like equity shares, redeemable preference shares, optionally convertible preference shares and non-convertible debentures.

#2 DECISIVE MOVE

Hiving-off loss-making Brazilian unit

We are currently engaged in hiving-off all our Brazilian assets. The proceeds from this auction shall be utilised for settling the debt of the concerned units as well as recover some of our investment.

#3 DECISIVE MOVE

Organisational restructuring

We shall focus on optimising manpower while sweating existing resources adequately to reduce costs. Increasing the capacity utilisation of our ethanol division shall be a top priority.

SHREE RENUKA AT A GLANCE

Business areas

SUGAR	ETHANOL	CO-GENERATION
Operation	**Operation**	**Operation**
• Engaged in cane crushing and raw sugar refining operations in India and Brazil, and marketing processed sugar globally.	• Engaged in molasses-based ethyl alcohol production in India and sugarcane juice-based fuel grade ethanol production in Brazil.	• Engaged in bagasse-based power production for captive consumption and sales.
Capacity	**Capacity**	**Capacity**
• 11 mills with 22 MTPA or 1,01,520 tonnes crushed per day (TCD) crushing capacity. Seven mills with 8.4 MTPA capacity are in India and four with 13.6 MTPA capacity in Brazil. • 2 port-based sugar refineries with capacity of 1.7 MTPA.	• 4,160 KLPD of distilling capacity. 930 KLPD in India and 3,230 KLPD in Brazil.	• 588 MW (271 MW in India and 317 MW in Brazil) of power generation capacity with exportable surplus of 371 MW (150 MW in India and 221 MW in Brazil).

Poised to grow

COST COMPETITIVENESS	DIVERSIFIED REVENUE STREAMS	REDUCTION IN DEBT BURDEN	LOCATION ADVANTAGE
• Large scale of operations and integration facilitates significant control over costs.	• Integration across the value chain provides diversified revenue streams.	• Post restructuring exercise, debt and interest burden to considerably decline by 60% and 49%, respectively.	• Farm lands in strategic locations facilitate superior yield apart from being in proximity to crushing facilities thereby reducing transit cost and time. Advantage of having port-based refineries in Kandla (west India) and Haldia (east India) facilitate in catering to Middle East and South Asian regions respectively.

BRINGING BACK THE SWEETNESS...

BY FORTIFYING A SUSTAINABLE BUSINESS

A sustainable business model is one that is integrated, has multiple revenue streams, has flexibility to make switchover, and where consolidated sum of parts is greater than the individual constituents.

Keeping this viewpoint in perspective, we developed an integrated and flexible business model that is a combination of three businesses – sugar, ethanol and co-generation. This reduces our dependence on the core sugar business. While sugar and ethanol are produced through diverse means using cane juice as base, power is generated using bagasse and coal.

Being a commodity, the prices of sugar and ethanol keeps fluctuating. Given the flexibility of our operations, we are able to switch between the production of sugar and ethanol depending upon the market condition and prices to enjoy better margins. The co-generation business on the other hand supplies power to our manufacturing facilities and excess being sold off to grid.

Our timely investments in scaling the ethanol and co-generation businesses has enabled us to grow revenues and reduce operational costs, and at the same time protected downside risks due to business cyclicality. Besides, these businesses have even contributed to our environment sustainability objective – ethanol, used for blending with fuels, facilitates in greenhouse gas reduction and co-generation uses greenhouse gas emitted in production process to generate power.

A sustainable business model

Revenues from sugar business

92.41%

₹ **72,674** million

Revenues from ethanol business

5.96%

₹ **4,686** million

Revenues from co-generation business

1.44%

₹ **1,131** million

537 **million kWh**

of power generated in 2016-17 of which 308 million kWh was sold

74 **million litres**

of ethanol produced in 2016-17

MANAGING DIRECTOR'S REVIEW

"With the objective of putting us back on the path to sustained profitability, we are implementing a comprehensive debt restructuring plan across the group"

Dear Shareholders,

The year 2016-17 saw a significant rally in domestic sugar prices in India as production witnessed an unprecedented decline. Droughts in the previous two years coupled with low water availability in key sugarcane growing regions including Karnataka and Maharashtra led to lower acreage of sugarcane in south India. Therefore, raw material availability for your Company was affected severely and we could not fully benefit from the rise in sugar prices. Production of ethanol and power also suffered as a result. Despite a better performance in sugar refining, the Company has been struggling to service its current level of debt.

Debt Restructuring

After considering various options, we decided to go for a comprehensive debt restructuring package accompanied by a large injection of new capital (₹ 784 crores) from Wilmar International of Singapore. As a result of this exercise, we expect the long-term debt to drop to ₹ 1,471 crores. In addition, we would have ₹ 580 crores of long duration NCDs paying a coupon of 0.01%. We expect the final closing of the debt restructuring exercise before 20th February, 2018.

We also continue to make all efforts to sell our Brazilian subsidiaries. However, so far we have not met with success in this endeavour. Currently, world sugar prices are low and the investment climate in Brazil is not positive. Also, we have had legal challenges to our resolution process in Brazil from one of our banks. While we continue all efforts to dispose of these assets, we have also ring-fenced the parent company from all financial obligations to its overseas subsidiaries.

Coming to the financial results, on a consolidated basis, in 2016-17 revenues grew 22.4% to ₹ 1,22,981 million and EBITDA by 257.2% to ₹ 10,602 million. Significant interest cost at ₹ 9,318 million continued to burden operations resulting in losses for the year 2016-17 reaching ₹ 10,397 million compared to ₹ 18,092 for the previous year.

Speaking of the Brazilian operation, revenues for the year 2016-17 grew 20.4% to ₹ 28,132 million, while the EBITDA grew nearly 296% to ₹ 7,574 million driven by the firm sugar prices prevailing in 2016-17. Our mills focussed more on production of sugar to maximise profits resulting in significant decline in ethanol production.

Looking Forward

Despite good monsoon during the year 2016-17, a major setback was the uneven spread of rainfalls, especially in the southern part of the country resulting in a 54% decline in sugarcane production in the region. Going forward, I believe the raw material situation will improve in 2017-18 and normalise fully in 2018-19. With this, we expect our quantity of sugar produced from cane to increase. It will also boost our production of ethanol and co-generation power. The Government of India has recently announced a nearly 5% increase in the procurement price of fuel ethanol creating further incentive to maximise production of the same.

> **"Coming to the financial results, on a consolidated basis, in 2016-17 revenues grew 22.4% to ₹ 1,22,981 million and EBITDA by 257.2% to ₹ 10,602 million"**

Diversification Advantage

As the environment norms get stringent, our diversification to ethanol and co-generation power from bagasse (renewable energy) business provides significant scope to generating more revenues. These businesses while facilitating in meeting social obligations, at the same time contributes to our business sustainability with significant bottomline contribution. The Government's focus on ethanol blending with fuel and enhancing power generation from renewable sources continues to provide fillip to these businesses.

Message to Shareholders

We are at an important juncture of existence, whereby a series of future-focussed initiatives shall bring back sweetness to our business. While we are determined to come out of the debt trap, we are also confident of creating value for our shareholders. I thank all our stakeholders for supporting us during the difficult times.

Warm regards,
Narendra Murkumbi

FOCUSSED ON HOLISTIC DEVELOPMENT

We are focussed on holistic community development through dedicated efforts in the area of healthcare, education, employment skilling, and community infrastructure development.

Corporate Social Responsibility (CSR) has always been an important success determinant of our Company. While on one hand, we focus on growing our business, on the other we ensure that communities around us continue to prosper. Taking into perspective our vision for long-term and sustainable social development objective, we formed two institutions – Shree Renuka Sugars Development Foundation (SRSDF) Trust and Shree Renuka Institute for Rural Development and Research (SRIRDR) NGO – to ensure dedicated commitment.

SRSDF Trust concentrates its efforts in the area of education and other related activities for children, and nurturing personal skills of individuals for all-round development.

SRIRDR NGO undertakes efforts for transforming the lives of deprived and underprivileged sections of rural communities by providing services in the areas of education, healthcare and socio-economic development.

Healthcare initiatives

Healthcare continues to be one of our major focus areas for facilitating inclusive development in rural areas. We regularly organise health check-up (general, maternal and child, cardiovascular, and eyes) and blood donation camps across our healthcare and other notified centres to ensure maximum coverage. Some of our key initiatives in the healthcare area include:

Healthcare centres

We have established three healthcare centres at Kokatnur, Havalga and Munoli that provide medical assistance to employees and dependents, sugarcane farmers, harvesting offices, and general population near our plants. Each unit serves an average of 50 patients on a daily basis.

Ambulance service

We have two well-equipped ambulances that provide services at subsidised rates in Havalga (Gulbarga district) and Athani (Belgaum district).