

BSE Code: 532670 **NSE Code:** RENUKA **Reuters Code:** SRES.NS **Bloomberg Code:** SHRS:IN

Shree Renuka Sugars Ltd (SRSL), the stock of the fifth largest sugar producer in the world, after reflecting some correction in the past one month, stands out to be a fundamentally a strong counter in the sugar pack and is well poised to display some upswings in the coming one year horizon. Beside, sugar production in India is likely to fall in the coming season, which would be profitable for all sugar mills as it has already resulted spike in sugar prices. SRSL, as one of the leading sugar producers of India, is all set to reap the benefits of rising sugar prices.

Investor's Rationale

SRSL stands out to be the fifth largest sugar producer in the world, besides being the largest exporter from the country. With its unique business model, the companies has come a long way as the most efficient sugar processor and the largest marketer of sugar and ethanol in India, and hence consolidate a large renewable business, to drive an innovative business model, which in turn will aid its journey from various acquisitions to profitability.

SRSL's Brazilian operation has undertaken an accelerated cane plantation programme, cumulatively planting 25,000 hectares of land, in order to improve cane availability that in turn will lead to higher asset utilization. The final number of cane crushing last year for Renuka do Brasil was 6 (million tonnes) MT and for Renuka Vale do Ivai was 2.23MT. Currently, the company estimates that both combined would do about 9.5MT of crushing for this new season.

During crushing season FY12, the company achieved the highest ever recovery of 12% in the past one-and-a-half decades and crushed 4.9 million tons, aided by improved weather conditions. The management expects an average recovery of 11.5% for the crushing season FY13 on concerned cane supplies. Besides, as the largest exporter of sugar from India the company expects to benefit from the weakening rupee and favorable export policy that in the coming quarters.

SRSL has also recently commenced production at its new sugar refinery on the West coast of India, near the port of Kandla, and having been operating all through the year post the acquisitions of Brazilian assets, the commissioning of this refinery gives the sugar giant easy access to the overseas market. SRSL exports European grade refined white sugar from its mills and Kandla refinery to overseas market.

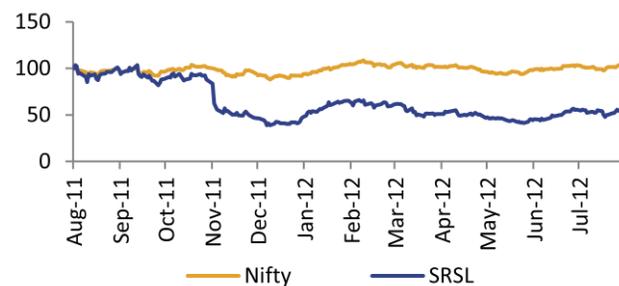
Market Data

Rating	BUY
CMP (₹)	32
Target (₹)	40
Potential Upside	~22%
Duration	Long Term
52 week H/L (₹)	67.2/22.8
All time High (₹)	120.7
Decline from 52WH (%)	52.4
Rise from 52WL (%)	40.4
Beta	1.3
Mkt. Cap (₹ bn)	2.1
Enterprise Value (₹ bn)	102.2

Fiscal Year Ended

	Oct'09- Sep'10	Oct'10- Mar'12	Apr'12- Mar'13E	Apr'13- Mar'14E
Revenue (₹bn)	76.7	123.7	98.7	123.3
Net Profit(₹bn)	7.0	-	2.7	5.7
Share Capital	0.7	0.7	0.7	0.7
EPS (₹)	104.9	-	40.5	84.5
P/E (x)	0.3	-	0.8	0.4
P/BV (x)	0.1	0.1	0.1	0.1
EV/EBITDA (x)	5.7	5.3	5.7	4.2
ROE (%)	30.0	-	11.1	18.8
ROCE (%)	7.8	-	2.2	4.6

One year Price Chart



Shareholding Pattern

	Jun'12	Mar'12	Diff.
Promoters	38.1	38.1	-
FII	17.5	17.4	0.1
DII	12.2	12.6	(0.4)
Others	32.2	31.9	0.3



SRSL's unique business model to aid its journey from acquisitions to turnarounds

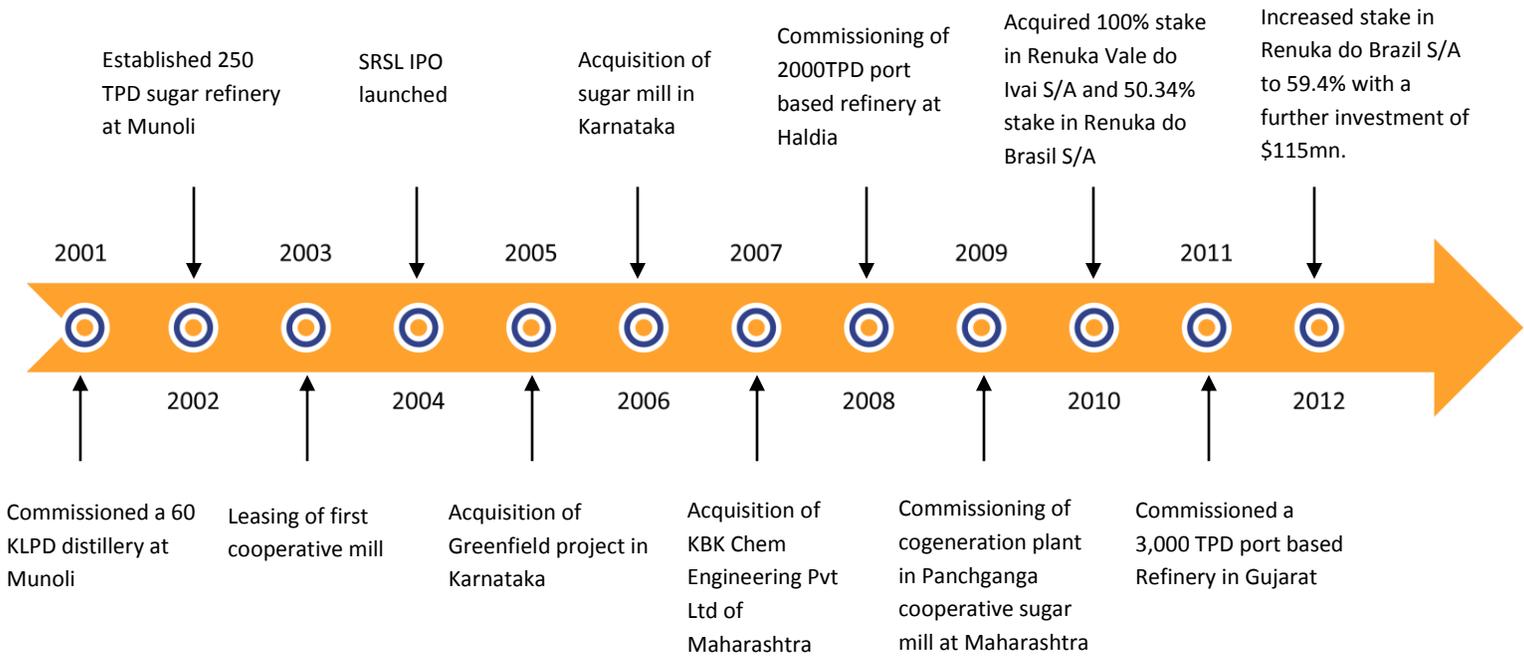
Shree Renuka Sugars Ltd (SRSL), with a market capitalization of over ₹20 billion, stands out to be the fifth largest sugar producer in the world, besides being one of the largest global sugar refiners. Started by the Murkumbi family in 1998, the company has come a long way as the most efficient sugar processor and the largest marketer of sugar and ethanol in India, to consolidate a large renewable business and to drive an innovative business model. Under its unique business model, SRSL uses a combination of owned and leased mills for its capacity expansion. Out of its 11 mills, 5 are leased, which enable quicker time-to-market and higher profitability as the variable cost is directly under the control of the management. In India, the sugar season lasts for 150 days. In order to extend this sugar season, SRSL invested in multi-feed sugar refineries. During the season it uses sugarcane juice to produce sugar and during off season it uses raw sugar, thereby doubling the asset utilization rate against peers. The company also enjoys locational advantage as all its units are located in Maharashtra and Karnataka where the crushing season lasts longer and where the sugar yield from the sugarcane is also 10-12% higher than in other parts of India.

The company, after starting its journey as a sugar manufacturer, under took many acquisitions, worked on turnarounds of distressed assets and built capacities to achieve economies of scale and synergies in operations. It ventured into the power generation business in the year 2000, followed by the acquisition of a Greenfield project in 2005, a sugar mill in 2006 and of KBK Chem-Engineering Pvt Ltd in 2007 that specialized in the delivery of turnkey distillery, ethanol and bio-fuel plant solutions. The following two years saw the commissioning of two refineries in the port towns of Haldia and Kandla, as a part of SRSL's efforts to turnaround refining business from seasonal to annual. In 2010, the company widened its presence in two of the most important sugar markets with the acquisition in two sugar mills in Brazil, paving the into the South Asian and Middle-east sugar markets.

SRSL's unique business model helps accelerate assets utilization rate through extended operational period.

SRSL's organic growth strategy empowers wider operational base and wider geographic reach

SRSL's journey in past decade





Wide product Portfolio with higher operational efficiency

SRSL is a global agribusiness and bioenergy corporation with operations in the following segments:

Sugar: SRSL operates 11 mills globally with a total crushing capacity of 20.7 million tonnes per annum (MTPA), of which 7 mills with total crushing capacity of 7.1 MTPA are operated in India along with two port based sugar refineries with capacity of 1.7 MTPA. Meanwhile, its Brazilian subsidiary companies have a combined crushing capacity of 13.6 MTPA. During Oct'11-Mar'12, SRSL crushed a total of 4,798,148 MT of cane to produce 814,837MT of sugar.

Trading: SRSL operates a trading hub in Dubai to capitalise on trade opportunities in the Asian region and generated trading revenues worth ₹18.5 billion between Oct'10-Mar'12.

Power: SRSL produces power from bagasse (a sugarcane byproduct) for captive consumption and sale to the state grids in India and Brazil. Co-generation revenue between Oct'10-Mar'12 stood at ₹5.8billion, owing to a rise in power export to grid by 51% from 397 million units to 599 million units.

Ethanol: SRSL also manufactures fuel grade ethanol that can be blended with petrol. Global distillery capacity is 6,240 KL per day (KLPD) with Indian distillery capacity at 930 KLPD (630 KLPD from molasses to ethanol and 300 KLPD from rectified spirit to ethanol) and Brazil distillery capacity at 5,310 KLPD. SRSL's sales from Ethanol division between Oct'10-Mar'12 stood at 164,240 KL against 51,149 KL in the previous year with average realisation of ₹27,972 KL.

SRSL's operational capacities

	India	Brazil	Total
Sugar crushing capacity (TCD)	35,000	59,520	94,520
Annual crushing capacity (MMT)	7.1	13.6	20.7
Ethanol production capacity (KLPD)	930	5,310	6,240
Sugar refining capacity (TPD)	9,000	-	9,000
Power generation capacity (MW)	242	313	555
Power exportable (MW)	135	221	356
Own cane plantation (in hectare)	-	110,000	110,000

SRSL's segmental operational performance in India

	Oct'11-Apr'12
Sugar Segment	
Sugarcane crushed (MT)	4,903,810
Raw Sugar processed (MT)	250,703
Sugar produced from cane (MT)	589,363
Sugar produced from raw sugar (MT)	242,846
Recovery (weighted average, %)	12.0
Cogeneration plant	
Power generated (Million KWH)	455
Captive consumption (Million KWH)	221
Ethanol plant	
Total spirit produced (million litres)	74

SRSL's segmental operational performance in Brazil

	Crop season 2011	
	RDB	RVDI
Sugarcane crushed ('000 tonnes)	6,009	2,264
ATR (kg/MT of sugarcane)	129	128
Sugar produced ('000 tonnes)	389	164
Ethanol produced ('000 m3)	221	67
Energy exported (MWh)	205	-
Sugar mix (%)	55	59



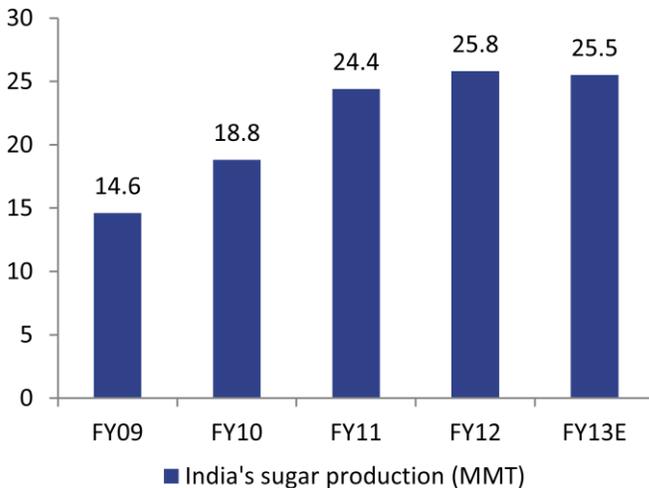
Lower than expected Monsoon to affect FY13 sugar productivity

The global sugar industry production rose by 5.8% to 171 MMT during the FY12 season as compared to 161.6 MMT in FY11, mainly due to higher production in India, Thailand and EU. The rise in consumption, however, has not been so steep resulting into closing inventory levels for FY11 and FY12 seasons at 30.6 MMT and 31.6 MMT respectively. With an improvement in the sugar mix to 48.75% from 48.43% in FY12, sugar production is expected to improve by 5.7% to 33.1 MMT and export availability by 8.5% to 24 M MT in FY13E. On the other hand, the domestic sugar industry, with 476 operational mills produced 211.6 lakh tonnes during the FY12 sugar season against 185.71 lakh tonnes produced in FY11. Maharashtra led the race with 73.03 lakh tonnes of sugar production while Uttar Pradesh and southern states of Karnataka & Tamil Nadu occupied the consecutive positions with 60.15 lakh tonnes, 32 lakh tonnes & 10.80 lakh tonnes of output, respectively.

Going further, the Indian Sugar Mills Association (ISMA) expects the country to produce 25MT of sugar in 2012-13 factoring in dry spells in biggest producer Maharashtra as well as Karnataka. Monsoon, which brings more than 70% of India's rain, is set to be less than normal in the whole season for the first time in three years, which is likely to impact the sugar yields this season. ISMA also estimates sugar production to drop by 15% to 7.6MT in Maharashtra and by 21% to 3MT in Karnataka in the marketing year FY13. Hence, for leading sugar producers like SRSL, with most of its sugar mills and refineries located in Maharashtra, where cane productivity is expected to be around 10% lower, we expect sugar production to stay muted in FY13.

In Maharashtra and Karnataka, where sugar cane production is expected to be lower in FY13, hence SRSL with concentrated presence in these two states is expected to result muted sugar production for FY13

Sugar production in India likely to stay stagnant in FY13E



Region-wise expected sugar production in India

	Sugar Production (MMT)	
	Crop Season 2011-12	Crop Season 2012-13 (Expected)
Uttar Pradesh	6.9	7.8
Maharashtra	8.9	7.6
Karnataka	3.7	3.0
Tamil Nadu	2.2	2.5
Gujarat	0.9	0.1
Andhra Pradesh	1.1	1.0
Other	1.9	2.1
All India	26.0	25.0

Lower sugar cane productivity due to lower monsoon, to keep sugar prices at peak levels in crop season FY13

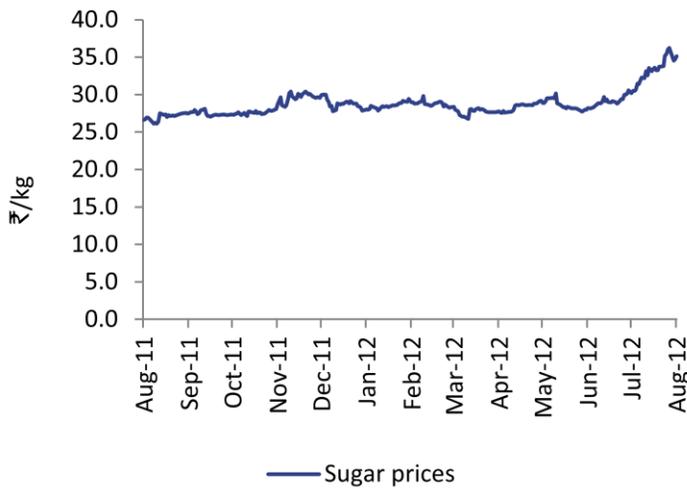
Sugar prices to stay at peak levels in FY13

In India, in the past two and a half months, sugar prices have seen a sharp rise of 25% to over ₹35 per kg amid concerns over lower output this year due to poor monsoon rains. At a juncture, when drought and diversion of cane as fodder have reduced cane availability for sugar production, mills are gearing up for a price war for securing cane supplies and farmer organisations in the state are pushing for a higher cane price. The Union Government has recently increased the fair and remunerative price (FRP) for the 2012-13 seasons by 17% from ₹145 in the current year to ₹171 per quintal of cane. According to ISMA, this has been the highest ever increase in a year by the government, which will have an impact on the input cost of sugar mills. Considering all these, sugar prices are expected to stay at peak levels between

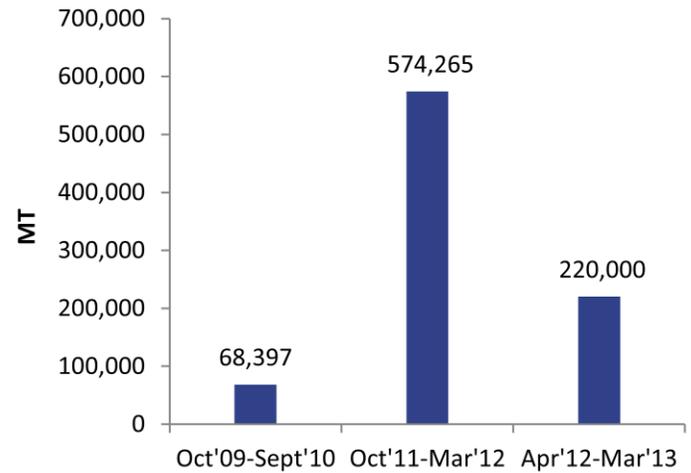


October 2012 -September 2013. However, in a bid to check rising prices, the government has decided to release additional 2.66 lakh tonne sugar in the open market and has amended the sale conditions relating to release of quarterly non-levy quota for June-September quarter under which a quantity of 45 lakh tonnes was released.

Sugar Prices in India-one year trend



SRSL's refined sugar export volume trend



SRSL is capable of producing high quality refined sugar, as per the demand of the overseas market and as its productive facilities are located near the port, the company is all set to reap the benefits of export policy liberalization on sugar by the Indian government

Location proximity of SRSL's sugar mills to drive export

SRSL, the largest exporter of sugar from India, is all set to bank on the government's recent decision to lift volume ceiling in sugar export, which was subjected to the issuance of registration certificates without any limitations on the total quantity to be exported. SRSL had already exported 2 million tons of sugar from October 2011 under a quota system with sellable export licenses which used to impose a lot of cost on actual exporters. SRSL's Refining and Milling assets are close to the port and are capable of producing high quality refined sugar for the discerning markets in the Middle-East and Asia Pacific.

SRSL has also recently commenced production at its new sugar refinery on the West coast of India, near the port of Kandla, and having been operating all through the year post the acquisitions of Brazilian assets, the commissioning of this refinery gives the sugar giant easy access to the overseas market. The rated capacity of the Kandla sugar refinery is 3,000 tonnes per day (1 Million MT per year). Beside, SRSL already operates a 2,000 tonnes per day sugar refinery on the East Coast of India near the port of Haldia.

On the other hand, recently, the markets have seen an unprecedented volatility in currencies. However, on the whole, weaker currencies are good for SRSL in both geographies. In India, the company has had a long season and production at the higher end of estimate, about 26MT. As for the current fiscal, SRSL intends less planting in southern India and more planting in Uttar Pradesh. As the industry expects, the crop next season to be about 25MT in FY13, we expects SRSL to export 200,000MT of sugars in FY13.



SRSL's Brazil operations is focused to improve cane availability

SRSL's thrive to grow higher in the Brazilian market gives the sugar major competitive advantage over its peers with operational bases in two countries

In the past 18 months, the company has been continuously challenged by the adverse weather conditions in Brazil and a grim global macro-economic environment. The company's Brazilian subsidiary, Renuka do Brasil S/A has reported operating EBITDA of ₹7,798 million but a net loss of ₹3,995 million for the 18-month period. However, the company saw a turnaround at its other subsidiary in Brazil, Renuka Vale do Ivai. With good operating performance and lesser impact of the adverse weather, Renuka Vale do Ivai performed significantly well with EBITDA margins of 38% for the 18-month period. In order to offset the effect of losses incurred at Renuka do Brasil, the company has launched an extensive cane plantation program to improve productivity from available land and ensure better utilization of our crushing assets. The company is implementing a comprehensive cost reduction programme in Renuka do Brasil to bring down overheads and costs, which in turn will improve our profitability.

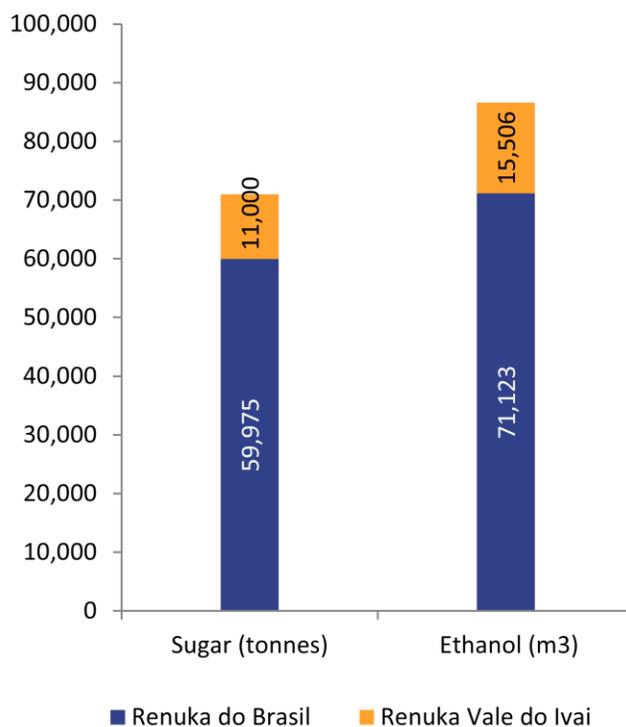
To ensure optimum capacity, SRSL is focused to improve cane availability. With two successive difficult seasons with lower cane output, both Renuka do Brasil and Renuka Vale Do Ivai have undertaken an accelerated cane plantation programme, cumulatively planting 25,000 hectares of land. This is relatively higher than the industry average in Brazil and it is expected that improved cane availability will lead to higher asset utilization. The operational turnaround of Renuka do Brasil will require two seasons to assured cane availability. Thus, with increasing the capacity utilization of the plant for improving productivity and lowering operational costs is a virtuous goal that will help the company boost profitability.

Seed-cane requirement for plantation in Brazil

Agricultural Data	Renuka Vale do Ivai (2011-12)*	Renukado Brasil (2011-12)*
Own cane harvest area (hectre)	23,439	62,570
Yield (tonne/(hectre))	74.8	60.1
Own cane (MT)	1.75	3.77
Supplier cane (MT)	0.50	2.24
Total cane crushed (MT)	2.25	6.01
Reform Area (hectre)	3,880	13,081
Expansion Area (hectre)	1,256	6,919
Total Planting (hectre)	5,136	20,000
Total available area for next crushing season** (hectre)	24,695	69,489

*Crop season upto December 2011.

Volume sales at Brazil operation (Jan-Mar 2012)





Balance Sheet

(₹million)	Oct'09-Sep'10	Oct'10-Mar'12	Apr'12-Mar'13E	Apr'13-Mar'14E
Share Capital	670.4	671.3	671.3	671.3
Reserve and surplus	22,808.3	21,099.7	23,819.4	29,491.1
Net Worth	23,478.7	21,771.0	24,490.7	30,162.5
Loan funds	65,079.8	100,783.3	97,699.7	92,326.2
Minority Interest	151.5	35.8	35.8	35.8
Net deferred tax liability	1,382.2	984.4	984.4	984.4
Capital Employed	90,092.1	123,574.6	123,210.7	123,508.9
Net Fixed assets	72,820.6	101,652.5	97,296.2	92,645.6
Capital Work in Progress	7,027.1	3,951.5	3,951.5	3,951.5
Total of Fixed Assets	79,847.7	105,604.0	101,247.7	96,597.1
Investments	1,189.1	1,935.0	1,935.0	1,935.0
Net Current Assets	8,946.9	15,969.7	19,962.1	24,910.9
Net Deferred Tax Assets	108.4	65.9	65.9	65.9
Capital Deployed	90,092.1	123,574.6	123,210.7	123,508.9

Key Ratios

	Oct'09-Sep'10	Oct'10-Mar'12	Apr'12-Mar'13E	Apr'13-Mar'14E
EBITDA Margin (%)	15.3	14.9	17.7	18.4
EBIT Margin (%)	12.1	6.6	9.4	11.4
NPM (%)	9.2	-	2.8	4.6
ROCE (%)	7.8	-	2.2	4.6
ROE (%)	30.0	-	11.1	18.8
EPS (₹)	104.9	-	40.5	84.5
P/E (x)	0.3	-	0.8	0.4
BVPS	350.2	324.3	364.8	449.3
P/BVPS (x)	0.1	0.1	0.1	0.1
EV/Operating Income (x)	0.9	0.8	1.0	0.8
EV/EBITDA (x)	5.7	5.3	5.7	4.2
EV/EBIT (x)	7.2	11.8	10.7	6.7

Profit & Loss Account

(₹million)	Oct'09-Sep'10	Oct'10-Mar'12	Apr'12-Mar'13E	Apr'13-Mar'14E
Total Operating Income	76,694.4	123,691.2	98,667.5	123,334.4
Expenses	64,941.1	105,278.0	81,176.4	100,658.7
EBITDA	11,753.3	18,413.2	17,491.1	22,675.7
Depreciation	2457.3	10222.9	8,180.2	8,589.2
EBIT	9,296.1	8,190.3	9,310.9	14,086.5
Interest	2377.3	10380.5	6,602.1	6,024.8
Other Income	500.6	2,087.1	800.5	800.5
Exceptional Item	(1,321.5)	565.6	-	-
Profit Before Tax	8,740.9	(668.8)	3,509.3	8,862.1
Tax	1,701.0	(369.3)	789.6	3,190.4
Profit after tax	7,039.9	(299.5)	2,719.7	5,671.8
Minority interest & prior period Adj.	5.8	10.8	-	-
Net Profit	7,034.1	(310.2)	2,719.7	5,671.8

Valuation and view

SRSL, the fifth largest global sugar manufacturer, with its unique business model has strengthened its position in the industry as the only sugar/ethanol producer in the world with almost year-long cane crushing activity as it has operations in Brazil and India, which have complementary cane crushing seasons. Though, lower than expected monsoon rains are likely to keep cane supplies under pressure, the rising sugar prices trend are likely to keep average realizations numbers afloat. Beside, with the company's aggressive plantation strategy in Brazil to offset weather tantrums, we believe the stock could see meaningful upside. Considering, the above aspects we recommend 'BUY' on SRSL. At the current market price of ₹32, the stock is trading at a P/E of 0.4x on FY'13E EPS of ₹84.5.



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