

Renuka Sugars in talks with UK, German firms to sell Brazil asset

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MUMBAI

German sugar producer **Suedzucker AG** and UK-based **Associated British Foods Plc (ABF)** are in talks with **Shree Renuka Sugars Ltd's** power production unit in Brazil, two people close to the development said.

Renuka Sugars is expecting to raise at least ₹2,000 crore from selling stake in its Brazil business.

Investment bankers estimate the total value of Renuka's Brazilian operations at about \$1.5 billion. Renuka is looking to sell its co-generation asset in Brazil at the moment, said one of the people quoted earlier. A co-generation plant manufactures both sugar and biofuel.

"Brazil is an important market for any sugar firm and Renuka will not let go of its assets in Brazil easily. In order to pare debt, it is natural for a company to sell its not-so-core assets first," said the person. Both declined to be named.

Renuka's Brazil business includes two subsidiaries—**Renuka do Brasil S/A** and **Renuka Vale do Ivaí S/A**. Renuka do Brasil houses a 313 (megawatt) MW co-generation plant that produces biofuel from sugarcane waste.

Suedzucker and ABF are the world's top two sugar producers.

Suedzucker's spokesperson declined comment. Public relations firm of ABF too said the company cannot comment on the speculation.

"We are exploring alternatives to improve the overall capital structure of our Brazilian Subsidiaries," Renuka Sugars' spokesman said. "This could include spin-off of our co-generation assets or induction of equity partner in our Brazilian Subsidiaries." He declined to name the companies Renuka is talking with.

Standard Chartered Bank India, Motilal Oswal Investment

Advisors Pvt. Ltd and law firm **Crawford Bayley** are advising Renuka Sugars on the asset sale. All three were contacted but did not comment.

Acquisition of assets in Brazil can help both Suedzucker and ABF in establishing a presence in Latin America. While Suedzucker is the largest sugar producer in the world and has a strong presence in Europe, the firm has no footprint in Latin America. Similarly, ABF has manufacturing facilities in Asia, Africa, Europe and North America but no foothold in South America.

Both the companies also have a large interest in biofuel business and Brazil is one among the top three bio-etha-

nol producers in the world, according to Renewable Fuels Association, a trade association for the US ethanol industry.

In fiscal year 2013, Suedzucker generated 8,08,000 cubic metres of bio-ethanol, a renewable energy source that is manufactured from sugarcane waste and is used as a substitute for petrol.

ABF's sugar division, **AB Sugar**, has a joint venture with oil and gas firm **BP Group** and **DuPont** for producing bio-ethanol. The joint venture,

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Vivergo Fuels Ltd, is the largest bio-ethanol manufacturer in the UK and produces 70,000 cubic metres of the fuel per year. The plant,

once fully operational, is expected to produce 4,20,000 cubic metres of ethanol per year, according to ABF's website.

Renuka Sugars, India's largest producer of raw sugar, is considering various options to pare its around ₹8,477 crore debt.

"If the sale of co-gen asset does not go through, the firm is open to sell a minority stake in Brazil business," an investment banker said, requesting anonymity.

The sugar maker has been trying to sell stake in Brazil unit over the past couple of years. However, lower global sugar prices have been a deal spoiler. Sugar prices in India have seen a spike but analysts have a

mixed opinion about the deal going-through even now.

Since January, spot sugar prices in India have fallen by 7%. On Friday, sugar prices closed at ₹3,023.85 per quintal. Sugar spot prices in Brazil have, in contrast, fallen 28% since January to Brazilian Real 163.6 per quintal.

"We do not expect a rally in the sugar prices in the near term. There is substantial carry-over stock from last year and there has been a good monsoon," said Vibhu Ratandhara, assistant vice-president, commodity research at **Bonanza Commodity Brokers Pvt. Ltd**. The price rose in August and Ratandhara said the spike in prices was due to a robust demand during the festive season. The deal will be a tough one, given Renuka Sugar's debt, according to Deepak Ladha, executive director at **Ladderup Finance Ltd**. "Renuka has a debt overhang due to the acquisitions made by it earlier," Ladha said. "Lower sugar prices has further accentuated the debt pressure."

In 2009, Renuka acquired **Distillery Valley Ivai SA** (Renuka Vale do Ivai) for \$240 million. In 2010, it bought 59.4% stake in **Equipav SA** (Renuka do Brasil) for \$250 million.

Ratandhara said production has been good in Brazil but exports have not increased much. "So, we do not expect the sugar prices to go up globally."

On Friday, Renuka Sugars ended at ₹16.85 on BSE, down 0.88% from the previous close, while India's benchmark equity index, **Sensex**, rose 1.53% to 19,270.06 points.