

# Kiri Industries Limited

## Q2 FY19 Earnings Conference Call”

### November 13, 2018

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q2 FY19 Earnings Conference Call of Kiri Industries Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Sonpal – CEO of Valorem Advisors. Thank you and over to you sir.

**Anuj Sonpal:** Thank you, Lizan. Good afternoon, everyone and a warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the investor relations of Kiri Industries Limited. On behalf of the company, I would like to thank you all for participating in the company's earnings conference call for Q2 FY19 as well as half yearly FY19.

Before we begin, I would like to mention a short cautionary statement as always. Some of the statements made in today's earnings conference call maybe forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management's beliefs as well as assumptions made by and information currently available to management. Audiences are cautioned not to place undue reliance on these forward-looking statements in making any investment decision. The purpose of today's earnings conference call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

Now, I would like to introduce you to the management participating today's earnings conference call with us. We have with us Mr. Manish Kiri – Managing Director; Mr. Yagnesh Mankad – Chief Operating Officer; Mr. Suresh Gondalia -- Company Secretary and Mr. Jayesh Hirani – Senior Manager, Accounts and Finance.

Without much ado, I request Mr. Manish Kiri to give his opening remarks. Thanks and over to you, sir.

**Manish P. Kiri:** Good afternoon, everybody. It is my pleasure to welcome you to this Q2 FY19 and first half earnings conference call. Since this is the first earning call which we have started, let me just give you a brief overview of the company. Kiri Industries Limited is one of the largest and prominent manufacturers and exporters of wide range of Dyes, Intermediates and Specialty

Chemicals from India. Kiri Industries has two verticals – One is the investment in Lonsen Kiri which you see consolidated line-by-line in our statements and you would have one line item where we have earnings from DyStar which has been added as the earning from associate company. So these are the two verticals of the company. Our unique and industrials approach of adding specialty dyes, including reactive dyes as well as Disperse Dyes, intermediates and specialty chemicals have enabled the company not only to attain a sustain growth during the past few years but also to charter a roadmap for our future growth. Successful implementation of zero discharge facility which has just been completed, has given further impetus to the sustainability of the company. We have just started Thionyl Chloride project which has been implemented with commencement of trial production and commercial production is expected to kick start in the current quarter.

Our fully integrated business operations and commitment to fulfilling compliance of environment norms are the two major enabling factors to withstand global competition for the company.

Let me give you some of the key highlights for the earnings for this quarter and half year financial performance: The consolidated turnover and EBITDA have increased in Q2 FY19 by 39% and 50% respectively in comparison to Q2 FY18. Specialty Dyes and Dyes Intermediates were added to the portfolio which in turn reinforced increase in consolidated turnovers as well as earnings. In this particular quarter we have ended with about 45% of total sales coming from Dyes sector and about 55% of total turnover is coming from Intermediates and Basic Chemicals sector. The earnings after tax in absolute terms have increased by 21% in Q2 FY19 as compared to Q2 FY18. Share of KIL in DyStar earning in Q2 FY19 has also increased to about Rs.58.32 crores, which is the number that has been achieved and DyStar performance in the financial statements which you see have several disputed extraordinary and one-time charges which have been charged by the management and Lonsen since calendar year 2015. Many of these charges are non-cash basis and many of these charges are not related to the core performance of the company. These charges have been disputed by the Kiri nominated directors on the board of DyStar and these charges includes impairment of inventory, impairment of plant and machinery, provision for bad debt and doubtful debt of accounts receivables, certain administrative expenses, Lonsen fees, **(guarantees fee) 6:18** etc. This is just to let you know that when you look at DyStar numbers, what these numbers post are one-time item and what these numbers would be before one-time items. Gross margin in absolute terms have increased by 32% compared to Q2 FY18 mainly on account of increase in turnover. The improvised product mix in Q2 FY19 has ensured sustain gross margin of around 38%. Increase in trend of consolidated revenue which you see from Rs.248 crores in Q3 FY18 which has now reached this year Q2 FY19 to Rs.373 crores, it is an absolute increase of about 50%. EBITDA has increased of about 74% in Q2 FY19 in comparison to Q2 FY18, and as a result of increase in a number of specialty chemical products in the portfolio, this increase is also attributed to addition of new products and some of the increases are attributed by increase in prices in this quarter

compared to earlier quarter and last year. **(Inaudible) 7:43** KIL's offering to its valued customers and thereby increasingly improving and strengthening its product mix. So product mix has been a very important factor which Kiri Industries and the management has been looking at very carefully, meticulously to see what best earnings can be earned with what kind of product mix. Industry margins on combined basis for Dyes and Dyes Intermediates have comparatively remained stable and we can see over quarter-to-quarter Kiri has given much better results. If you look at the gross margin which has remained around 36% to 38% which is also stable for the past five to six quarters. Kiri has successfully delivered consistent performance and has established a strong and reliable track record during past few years. If I talk about standalone, these are the standalone margins which we are discussing right now. The revenues from operations have increased by 25% in Q2 FY19 as compared to Q2 FY18. EBITDA in absolute terms has also increased by 27% in Q2 FY19 compared to Q2 FY18. EBITDA margins have been around 17% and it is expected to remain around that percent which is quite healthy, stable and sustainable. Our successful implementation of CAPEX plan and strengthening product mix and product portfolio of Dyes and Intermediates with consistent monitoring and continuous improving product mix based on market intelligence have supported Kiri in controlling manufacturing and operational cost giving improved sales realization and earning better margins. The operational cost as a percentage of sales have remained under control during the quarter similarly to previous quarter as a percentage of revenue. If you look at the earnings which Kiri has sustainably increased over the last several quarters, Kiri was unable to declare any dividend during the previous years in view of the provision of Section 123(1) of Companies Act. Let me clarify that because this is the factor which prohibited declaration of dividend unless carried previous losses and depreciation -are set off against the current profits. Now KIL has accumulated losses amounting to Rs.234 crores as on March 31st 2015 and I am happy to announce that the entire accumulated losses have been wiped out by end of Q2 FY19 and therefore the limiting provisions will not be applicable to Kiri from the coming quarters enable Kiri to declare dividend in the current year and also in future years.

Let me also throw a little bit back ground of the legal case which is happening in Singapore and which is an important factor for **(Inaudible) (technical difficulty) 11:16**. Just to give you some back ground of how that started, Kiri acquired DyStar and if you look at the numbers consistently for the last several quarters which are one of the best results which DyStar has ever performed. The acquisition of Kiri was successful, turnaround of DyStar was successful, DyStar turning to a good profitability was also successful. Unfortunately, Kiri faced minority operations from a partner Lonsen and Kiri filed minority operations suit against Lonsen subsidiary specifically in Singapore High Court which was later on shifted to Singapore International Commercial [court](#). The proceedings of trial got completed in March 2018 and the judgment was announced on July 3rd, 2018 and as per the judgment which was announced in favor of Kiri and Kiri was awarded that Senda has to buyout Kiri shares at a fair market value and Kiri's market value is to be estimated based on the valuation which is to be conducted

under the supervision of the court and which is going on at this moment as we speak. So Kiri is expecting that post the Supreme Court trial that is getting completed by April 2019 we should expect an outcome from Supreme Court and post which the issue should get addressed and then based on that the Lonsen would have Kiri's shares post outcome of Supreme Court. This is about DyStar.

In nutshell, I would say that with technology innovations which KIL had started, its CAPEX plan which has implemented to improve and strengthen its product portfolio and product mix of Dyes, Dyes Intermediates and Specialty Chemicals, all put together, Kiri has added number of products as you can see over the period of last one to one-and-a-half years, which has contributed to improvement of margins, and with the commencement of certain types of naphthalene and aniline based intermediates, that is an ongoing intermediate facility plant which is under construction, under erection and that will also add to significant contribution in future years to come. With this progress I would say that the overall business shall increase and shall further support the company through its performance in future quarters.

I think I have covered most of the key elements and please proceed further for your next step to have question-and-answer. Please feel free to ask questions. Once you have gone through our numbers if you have certain specific questions I would encourage you to ask us and we will be happy to address during this conference call. Thank you.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

**Manish Ostwal:** My question first on the product price outlook especially H Acid prices in the Vinyl Sulphone. What is our outlook -- whether current prices can sustain or and the demand/supply situation in the industry can you comment on that sir?

**Manish P. Kiri:** Let me first give equation about the prices. Prices of H Acid and Vinyl sulphone both are the key indicators of price also and price of H Acid is right now hovering around in the range of Rs.420 to Rs.450, Vinyl sulphone price is ranging from Rs.240 to Rs.260. Now these prices we believe that will sustain, these prices would sustain because China is still operating at much lower capacity, China is continued to have constraints on environmental strictness and because of that majority of the Chinese plants are operating at 40% to 50% capacity. We see a balancing of H Acid and Vinyl Sulphone supply and demand, and because of that it is highly possible that these prices would maintain and these prices are not very high prices, these are reasonably good prices and reasonable prices which has more ability to sustain. This is first regarding price. Second part of your question which relates to supply demand in the Dyes. If you look at India's export of Dyes which has been consistently increased months-to-months and if I give you some rough estimate on the Dyes export, has increased in last 10 years almost 100% and today more than 80% of Dyes and Reactive Dyes requirement out of China. So increase in export of dyes also gives benefits to us as well as to other dyes producers from India. And increase of dyes

again would consume more H Acid and Vinyl Sulphone. Now to get new permissions of these kinds of intermediates in India particularly in Gujarat as well in other states is extremely difficult. If you see that no new entrants or very few new entrants are entering into this manufacturing and because of that the existing players are expected to benefit and again the prices are expected to sustain at moderate level.

**Manish Ostwal:** Second sir on the DyStar side, we have already won the case. Now you said the valuation process is going on. So according to you what is the timeframe where we can expect the proceeds coming into the company? Second question is on that, what would be the utilization of that cash – we do some buyback or something, what are the plans on that side sir?

**Manish P. Kiri:** As we speak now the valuation process is ongoing in the court. The next date for is on November 23rd where valuation criteria, valuation process would be conducted, the appointment of valuer, all the expert valuers both the sides, all these factors are going to be addressed by the court and decided by the court, post which the valuation exercise would take few months based on our estimation. So one is the valuation, and second is what happens in Supreme Court in appeal trial. So the appeal in Supreme Court is expected to have hearing before April 20th. The dates which are coming right now is from April 9th to April 16th 2019, so during these dates Supreme Court is going to hear this. It would be only probably one day hearing and as per the previous Singapore Supreme Court's precedent, usually the judgment will be pronounced same day the hearing takes place. So you can say by middle of next year is a conclusion year and if some time is given by the court I would expect 2019 the matter should be concluded. Second part of your question was where the funds were used. Kiri's board is discussing, deliberating and one thing I can tell you that we will invest for a new platform where we will invest for chemical industries for specialty chemicals portfolio of other chemicals but we would invest prudently, we would invest conservatively and make sure that the investment would fetch enough returns to the shareholders. But again, which specific project? Which specific product line? That is to analyze several projects and then **(Inaudible) (technical difficulty) 21:31**. For the other question that you asked regarding buyback, Kiri's board is also open, looking at the scenario, whether it is buying back, whether it is acquisition say for example if any other bill like DyStar which comes on the table. So where to invest is still open, under discussion, deliberations should be made and I can tell you that it would be a very prudent and fruitful decision for the company and its shareholders.

**Manish Ostwal:** Actually, our equity base will be increased because of conversion of ECB because those bankers will be ultimately not equity holders, because of that there was a consent that those will be selling in the market. So if buyback will support the price basically, sir.

**Manish P. Kiri:** Yes-yes, we are open for it and when the time comes we will address this too.

**Moderator:** Thank you. We will take the next question from the line of Deepak Agarwal from **(Inaudible) 22:45** Advisors. Please go ahead.

**Deepak Agarwal:** I like to know what is the total CAPEX done on Thionyl Chloride project and Disperse Dyes project?

**Manish P. Kiri:** Specifically on Thionyl Chloride project was less than Rs.20 crores and the CAPEX on Disperse Dyes project was almost Rs.42-43 crores.

**Deepak Agarwal:** Both of these projects started production?

**Manish P. Kiri:** Yes, Disperse Dyes already started production, products are already sold in the market, products are even exported, number of countries products have received very good feedback, quality of Disperse Dyes has been accepted in many countries such as Korea, Brazil, Turkey and positive responses have already been received for Disperse Dyes. Thionyl Chloride commercial production will start in this quarter. So in the next few weeks it would be commercially selling the products. The disperse is already ongoing at the moment as we speak.

**Deepak Agarwal:** What is the expected revenues at the peak of the capacity utilization on these projects?

**Manish P. Kiri:** For Disperse Dyes, at the peak of utilization, we are expecting somewhere between 250-300 crores on annual basis. Thionyl Chloride is more of captive use rather than external sale because Thionyl Chloride is one of the main raw materials for vinyl sulphone and starting Thionyl Chloride would help to improve margin. Rather than buying it from outside which company has been doing till now, it would be produced in-house and that will help in enhancing margin rather than adding the top line. But if you talk about standalone plants output, how much it would be valued, it would be close to Rs.60 crores per year.

**Deepak Agarwal:** We have Rs.60 crores of capital WIP at the end of September. So, what CAPEX projects are those?

**Manish P. Kiri:** There are three projects; one was which we just mentioned, Thionyl Chloride and Disperse Dyes which were ongoing and then we also completed zero discharge facility and there was big investment which has already been completed. So part of Rs.60 crores this year has also been spent for zero discharge facility which has been implemented now and there is a multi-purpose Specialty Intermediates facility which the construction has almost been completed now and the commissioning and erection is going on. So the CAPEX has also been invested into this multi-purpose specialty intermediates plant. That would add to an additional range of Intermediates which Kiri is not into today. On a full year basis it would generate **(Inaudible) (technical difficulty) 26:26-26:31** capacity utilization whenever, whichever year it can utilize at a peak level but that facility would be up and running in 2019-20.

**Moderator:** Thank you. We will take the next question from the line of Ashish Agarwal from Navis Capital. Please go ahead.

**Ashish Agarwal:** A question around Lonsen Kiri which had very strong revenue growth this quarter. Was it from a new customer acquisition product or from the existing business contract? And also if you could share the exposure that Lonsen Kiri has percentage of revenues from Dyestuff?

**Manish P. Kiri:** Very important question, Ashish ji, you asked because that is an important contributor to our financials and performance this year. Lonsen Kiri's growth which is top line almost increased by 77% and bottom line has doubled which is attributed by a number of factors and the combination of those. One is the addition of products. So the products like Indigo liquid has been added into the product portfolio. Second is the increase of number of customers. So in addition to DyStar is one of the customers, other new customers have also started buying from Lonsen Kiri. Three is the increase of prices because this quarter we have almost 7% increase in prices compared to the last quarter. Combination of all these factors have contributed Lonsen Kiri and Lonsen Kiri already had capacity installed. So those installed capacities are better utilized and improved its performance. This level of performance we believe would also sustain going forward from here. The next part of your question, yes, so DyStar is one of the outlets of Lonsen Kiri which is the maximum and #1 sales but other sales have now come into the total portfolio. Other customers have also started buying from Lonsen Kiri, but yes, DyStar would be more than 70% of sales.

**Ashish Agarwal:** Also, just a question on the capacity utilization of Lonsen Kiri given the new much higher revenue base?

**Manish P. Kiri:** If you look at our total quantities of production today, our total quantities of production including all product ranges -- reactive, specialty reactive, Indigo liquid -- all put together we are about 2,500-3000 tons per month and Lonsen Kiri capacity is close to 4,500-5,000 tons per month. So we still have room to grow. I would say even at this level we are reaching close to 65-70% capacity and we still have little more room to further grow if the market supports, if demand comes and if the sales increases, but if you look at in totality, the core performance of DyStar at a gross margin level has significantly improved, Kiri's performance has improved and Lonsen Kiri's performance has also improved. So that is the effect of overall better business which has happened throughout our chain of companies.

**Ashish Agarwal:** Also, wanted to get if you can share any guidance on expected CAPEX both for this year and the next year?

**Manish P. Kiri:** We will be completing our Specialty Intermediates facility which is in process right now and approximately in the range of Rs.40-45 crores further investment to complete that plant and that is the one CAPEX that we expect this year. For the next year we may start construction and erection of phase-2 of Disperse Dyes and which may continue for another 1-1.5-years and that investment is a large investment which would be in the range of Rs.150-170 crores. By completing the Specialty Intermediates plants, we are completing all the projects which are in

pipeline. So all these projects which we have started last year all will be completed by end of this year.

**Moderator:** Thank you. We will take the next question from the line of (Sunil Kothari from Unique Investments). Please go ahead.

**Pratik:** This is Pratik here. Sir, for the second quarter 37% growth that we have seen. Can we bifurcate it between value and volume?

**Manish P. Kiri:** The growth has been contributed by both value terms as well as volume terms; around 7-10% effect has come in terms of increase of prices and rest entire effect has come because of increase of volume.

**Pratik:** For the second quarter, what would be the contribution of say Specialty products revenue share?

**Manish P. Kiri:** The newly added Specialty products in addition to our common products would be at least 15-20% by the end of the year.

**Pratik:** So what has been the historical trend of Vinyl Sulphone or H Acid prices if we look at last five years or ten years maybe, where are we in that cycle?

**Manish P. Kiri:** If you compare last five years, there are certain things that we seen, for example, H Acid has gone to almost Rs.1,800 if I talk in rupee terms, Vinyl Sulphone has gone as high as Rs.450. And we have seen in these five years lot of volatility in the market and those ups and downs were mainly driven by China factor since some of the plants getting closed in China, again reopening, again getting closed, running at lower capacity, all those factors have attributed in the fluctuations. On the lower side, we have seen Vinyl Sulphone close to Rs.220-230 and H Acid we have seen as low as Rs.325-330, I am comparing last five years only. Now if you compare even earlier time, it would be even much lower. So the entire platform of pricing has now uplifted. And H Acid to remain above Rs.400 and not going down Rs.320-330, Vinyl Sulphone remaining Rs.250 and above we consider these prices are healthy, reasonable and sustainable prices and current prices are also running at these levels. We are not expecting H Acid to go back to Rs.1800 or Rs.800 or Rs.900 but we are expecting it to continue sustainably at Rs.420-450, that would be a reasonable range.

**Pratik:** Just wanted to clarify one thing; this CAPEX of Rs.40 crores of Disperse Dyes that we have done. You said we expect revenue of Rs.250-300-odd crores from that?

**Manish P. Kiri:** Yes, correct.

**Pratik:** This will be similar margins that we make currently 18-20%?



**Manish P. Kiri:** Yes, the margin would be in the range of 17%-20%.

**Pratik:** From CAPEX of Rs.40 crores you will be making Rs.60 crores of EBITDA at peak level?

**Manish P. Kiri:** Yes, let me just elaborate you why it is; when we put this first phase disperse facility, all these equipments and machineries right which are installed, some of them are new one and some of them for example spray dryer, we also use the existing spray dryer that we had for reactive. If you see the data, our reactive capacities are almost 36,000 tons but we are not using that much, we are using less than half, so we better utilize part of those machinery and we put new machineries related to disperse. So when you combine that together as a combination of used which already existing in the plant and new added together, new added was worth of Rs.40 crores, but existing also been used. So that is why the number looks better but the real reason is we are using the existing equipments and machineries at a most efficient level and also the new ones which we have installed. So the combination of that gives us this delta which you have just mentioned.

**Pratik:** Sir, given that we have wiped out our accumulated losses, what will be the effective tax rate for the second half and maybe for the next fiscal also?

**Manish P. Kiri:** 20% for FY19 and then full tax next year.

**Pratik:** Sir, regarding the JV that we have with Lonsen, given we pull out of DyStar in the next five or six months, if you can throw some light or comment on how does this JV plan out after that?

**Manish P. Kiri:** JV is not a part of court case, JV is totally a legal entity which has no connection, no relevance with what is happening in Singapore at DyStar level. So it is a valuable company and it has grown well, the investment has become fruitful for both the shareholders and both we and Lonsen will decide post DyStar because our current focus is to resolve DyStar and to have DyStar dispute to put an end and to follow the court order and complete that process. Post that we will have a separate discussion with the partner and we will see at that time how best we can resolve that.

**Pratik:** Last time we met at the AGM, you hinted that some money that we will be getting from DyStar, we plan to enter something other than Dyes, new field of chemistry. So have we come to any conclusion or has there any been discussion regarding that?

**Manish P. Kiri:** We have number of projects that we have analyzed. We have deputed core team to evaluate various spaces on the chemicals and other chemical areas and we have narrowed down several projects. We have not decided which specific project, but we are almost at a conclusion stage and in the next quarter or two the board of Kiri will deliberate and then out of the selected projects, we will then choose the best product ranges which will fit for the company. But yes, lot of progress has been done, analysis has been done, evaluation on projects are going on and

then we will soon come to a conclusion that which products we will enter into...but again this is unrelated to dyes and dye intermediates.

**Moderator:** Thank you. We will take the next question from the line of Augusto Dave from CEO Capital. Please go ahead.

**Augusto Dave:** Sir, when you are giving out the revenue numbers for your disperse dyes phase-I and phase-II, I could not hear, so if you could just repeat the phase-I will give you I believe Rs.250 crores, how big will be the phase-II?

**Manish P. Kiri:** Yes, you are right, phase-I will give Rs.250-300 crores that would be the range based on the prices of the disperse dyes and phase-II is a large size project, so phase-II may run into Rs.1200-1500 crores.

**Augusto Dave:** Sir, when do we see commercialization?

**Manish P. Kiri:** We have not started that project anything related to the construction or the machinery or the erection of that project. We have already got environment clearances but investment on that project will start in the financial year '19-20, so next year we will start commencing the plant and investing for that project.

**Augusto Dave:** But sir, did I hear you correctly that you said you will start next year and then it will take another year and after that pitch it to double line, am I right in my understanding there?

**Manish P. Kiri:** You are right, we will start next year which will take about a year because it is a big facility to come on stream.

**Augusto Dave:** On DyStar, so we are nearing settlement here. My understanding of DyStar is that it has a very decent IP portfolio and I am not very sure how much of that we have access to, there is obviously some IP which was stolen by Lonsen but I am just wondering sir, after we settle with them, will we have any access to that IP portfolio or we are just completely done?

**Manish P. Kiri:** DyStar IP today also belonging to DyStar. DyStar's IP, DyStar's patents, DyStar trademarks all belong to DyStar. Today, Kiri is not using those, those are for DyStar's benefit, for DyStar's value and we expect that when the valuation of DyStar takes place, the IPs and the patents and the important intellectual innovative technologies with DyStar should be accounted for in valuation, #1. #2 if you go through the order, there are certain technology and there are certain know-how which has been transferred to Kiri court has ordered Kiri to pay for it which means that which has already come to Kiri existing at Kiri and under the court's instruction Kiri would be paying for it. So this is how it will handle in the next two quarters once the **(Inaudible) 44:09**.

**Augusto Dave:** Sir, my final question is on this Thionyl Chloride. You said that it is for captive consumption and you said that this will help you lower the cost...again, I may have missed how much will the cost be lower by, there must be some benefit, so what exactly is that number?

**Manish P. Kiri:** One of the Vinyl Sulphone raw materials is Thionyl Chloride and we consume around 40 tons Thionyl Chloride per day, that is our own consumption. If you look at the cost savings, I would say that it would affect EBITDA level somewhere in the range of 0.5% to 1%. That is what we are expecting to add to our bottom line by starting this facility and having our own production. So that should be the net gain that we are expecting to come out of it.

**Augusto Dave:** You mentioned about the capacity utilizations at the JV level, but Kiri's standalone, what are the capacity utilization today?

**Manish P. Kiri:** If we talk about H Acid, Vinyl Sulphone and Intermediates, we are fairly at the high level of utilization, so we are above 80% to 85% and that is the best that we can utilize. If you talk about Dyes level, we are almost at 50% utilization, we are not utilizing Dyes at full level, but addition of Disperse Dyes would increase our utilization to another 10%. So we should be utilizing another 10%, but depending on the prices of the market, sometimes Kiri chooses to either sell more dyes ~~and~~ or sell more intermediates in the market based on where better profitability can be earned for the company, and that is how the product mix keeps changing based on how the market prices are driven.

**Augusto Dave:** We are seeing lot of fluctuations in crude and also on FX. I was just wondering sir, this is never one-to-one correlation between our raw material and crude but there is always some disruption that we see. So in terms of availability of raw materials and also pricing, how are you managing sir and what are our inventory levels of raw materials and are there any pressures or benefits that we are expecting to see in this quarter because the maximum disruption has been in September, October, right?

**Manish P. Kiri:** Yes, that is true. A very important question. What we are trying to do right now is we are trying to have at least month and month-and-a-half of inventory for the petrochemical basic material that we use, for example, sulphur, naphthalene, aniline which comes from benzene, these are the key raw materials which we try to keep at least one and one-and-half months stock. So from the quantity point of view, we have long-term suppliers, some of those suppliers are state-owned company such as GNFC where we have very, very long relationship with each other and there are certain quantities with all the suppliers which are allocated for this and many of the suppliers are direct producers and not traders. So that gives us more comfort dealing directly with them and having the supplies and the quantities secured. #2, price relations between crude oil fluctuations and dyes intermediates finished products is very small, it is very little, that influence is usually absorbed in the price fluctuations of finished products. And over the years we have observed that it is not impacting for us as the price diminishing factor or as the margin diminishing factor on the finished products. Finished product prices

influencing factors are more related to the environment, supply/demand, disruptions due to environmental compliances, and sometimes shutdown of certain plants, let us say, sometime back acidic acid was extremely short because we import most of India's consumption from outside and those kinds of disruptions which we face and which we try to manage actually and that does not impact the company, but again we are on toes to manage, we have experience and we have also designed our systems, inventory, selection of suppliers in a way that we can handle such situation.

**Moderator:** Thank you. We will take the next question from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

**Pritesh Chheda:** Just a few clarification. When I look at your standalone number, it reflects the intermediates number, right, you have lot of the capacity in standalone. So the 6% growth that I see in the first half, in that 6% growth, how much would be volume and price-led growth because you have higher at about 20% EBITDA growth. So I just wanted to know the price-led growth in the first half?

**Manish P. Kiri:** First half price-led growth is about 7% to 10%, but average you can say 8% to 9% is the growth which is based on the price increases. The entire remaining growth is attributed to the volume increase and the quantum increase. Quantum increase of Dyes has been reflected into increase in exports also. Let us say out of our total product portfolio in this half compared to previous year, we have increased from 35% of Dyes contribution to 45% of Dyes contribution, so quantum of dyes has also increased in this half, and similarly quantum of intermediates have also increased in this half.

**Pritesh Chheda:** Your standalone number would reflect the intermediates number, right, because your Dyestuff capacity is Lonsen which comes on consolidation?

**Manish P. Kiri:** No-no, standalone reflects both, standalone has both the businesses, it is not only in intermediates. If you look at the total revenue of standalone of first half, 45% of that revenue comes from Dyes and 55% of that revenue comes from Intermediates and Basic Chemicals. So revenue has two product categories -- Intermediates and Basic Chemicals and Dyes in standalone number itself and JV is all Dyes, there is no Intermediates.

**Pritesh Chheda:** So you said in the standalone about 8-10% is price-led growth and balance is volume-led growth?

**Manish P. Kiri:** Correct.

**Pritesh Chheda:** If I look at the standalone minus consolidated which is your Lonsen JV number and you do line-by-line consolidation on it, in that what you achieved for the last full year is what you have achieved in the first half in terms of EBITDA and in terms of revenue. So I think you are

operating at about 40% capacity utilization until last year, correct me if I am wrong, so just wanted to know your first half, how would have the volumes grown and what explains this massive increase in the business at Lonsen JV both in business as well as margins?

**Manish P. Kiri:**

You are right, we have achieved in the almost entire full year last year and the major growth is a volume growth, major growth is a quantity growth. Again, there is a price growth, price growth has come due to the industry price is improving and market price is improving which has attributed to price growth, but major contributor is the higher capacity utilization. So from 40% last year as I mentioned earlier we have now increased to almost closing around 70% utilization. So that is purely coming from volume. Volume come from two places -- one is the addition of products which we have added several new dyes products in the dyes category and we consider Indigo liquid as dyes portfolio, and the second contributor is more number of customers, more demand and export from JV has also increased this year compared to last year. So these factors combined together have added the better performance of JV.

**Pritesh Chheda:**

But this was generally one product compliant, right, it was Indigo plant only, so now you have started making any variants in that, that is how it is?

**Manish P. Kiri:**

No, for example, reactive dyes is one category and we have added at least 10 to 12 in the reactive dyes category within the reactive dye. So let us divide the total products into three categories, Indigo is separate, only reactive dye is the dyes which are used for cellulose for cotton that is one product range and that is the large quantity product range. So within that product range earlier we were making somewhere close to 50 to 55 products, now we have added 12 to 15 more products in the same category. Similarly, we are making Specialty Dye and those Specialty Dyes are mainly for DyStar, those are as per DyStar's requirement and those are only sold by DyStar. So that Specialty Dyes quantum has increased, much higher than earlier year. Then third portion is Indigo. Indigo was not there last year at all, so that is a new addition.

**Pritesh Chheda:**

So what you achieved in first half for the full year in Lonsen?

**Manish P. Kiri:**

Yes, correct, last full year we have achieved only first half in terms of total value, in terms of the rupees sales.

**Pritesh Chheda:**

So we can annualize this what you achieved in first half, we should...?

**Manish P. Kiri:**

Yes, it would be annualized for the full year and would continue at similar level and you would be able to annualize and next six months would be performing at a similar level.

**Pritesh Chheda:**

So for next year when you grow, you have scope to grow in Lonsen because you have capacity there, you do not have capacity in Intermediates, so you cannot grow there and whatever you add on Disperse Dyes as a new product line, would be your growth driver for next year?

**Manish P. Kiri:** Intermediates would also grow as I just mentioned, we have Specialty Intermediates plants, but in not the same product range, so that will grow in Intermediates sector, but not on the same products what we are making now, it would be addition of products. If you look at our growth strategy in all these sectors we are rather than multiplying numbers and multiplying capacities of the same product, our objective is to add to the products, our objective is to introduce new product, produce new products, improve those margins and broaden and strengthen our total product basket, that is where we are growing.

**Pritesh Chheda:** But that plant will get operational next year, at what stage is in?

**Manish P. Kiri:** Yes, the building is completed, now commissioning has already started and our plan is to complete by April or May 2019, so it would be operational next year, it will have its numbers... if you look at all these CAPEX and all these projects which are in pipeline over the next two to three years based on whatever already commissioned, based on whatever is starting next year, we would be able to have fairly close to 25% to 30% growth minimum over the period of next three years, only utilizing what we are investing now that would be able to give us that much of growth next three years.

**Pritesh Chheda:** So just reconfirming the CAPEX that you mentioned, you said you would do Disperse Dyes capacity 8,000 tons at Rs.40 crores CAPEX Phase-1, which is already done, then you have Phase-2 is Rs.150 crores of this, right, that is what you mentioned and what is the capacity?

**Manish P. Kiri:** Phase-1 is 8,000 tons and Phase-2 would be 40,000 tons.

**Pritesh Chheda:** Then you give CAPEX of multi-purpose intermediates Rs.80 crores CAPEX and some Rs.800 crores, right, second CAPEX which is ongoing, so this is the three CAPEX which you mentioned, Phase-1 which is already incurred, Phase-2 will be undergoing and multi-purpose intermediates which is already under going. How much did you spend on Thionyl Chloride CAPEX?

**Manish P. Kiri:** Correct, less than Rs.20 crores.

**Pritesh Chheda:** How much did you spend on ETP?

**Manish P. Kiri:** ETP was close to Rs.70 crores in FY18 and FY19 both.

**Pritesh Chheda:** What is your maintenance CAPEX?

**Manish P. Kiri:** Maintenance CAPEX which we see right now which is part of our financial, it is not much, it ranges somewhere between Rs.3 to 4 crores maximum even after we completed these new facilities, it will not go beyond it, but that is part of mainly intermediates facilities incurring more maintenance, dyes facilities usually will have less maintenance.

- Moderator:** Thank you. We will take the next question from the line of Naushad Chaudhary from Systematix Shares. Please go ahead.
- Naushad Chaudhary:** Question is on the Lonsen-Kiri JV thing. You mentioned that the utilization has gone up from 40% to 70% now and we have added some new product also here, but if I look at the YoY margin I do not see a much improvement there, in fact the margin has gone down YoY. So your comment on that sir because this quarter compared to last year the prices were also in favor, why it is not reflecting in the margin sir?
- Manish P. Kiri:** As I just mentioned, the growth is coming mainly from the volume and the price is compared to last quarter, this quarter prices are 8% to 10% better, but main is coming with higher capacity utilization, main growth is coming from volume only, so having volume increase in capacity utilization increase is not reflecting into increase of the percentage of margin, percentage of margin is driven the market prices and those market prices are reflected in Q2 compared to Q1. Compared to last year and this year, if you look at percentage of margins there is little change, I agree with you not much change, but main crux is having more business, having more market share which we have tried to achieve in the first half.
- Naushad Chaudhary:** What I am trying to understand here is despite increase in utilization there is not much improvement, in fact, degrowth in the margin. So is it because of the new product we have added are comparatively lower margin products or is there something else, if I deduct your consol revenue from standalone I get the revenue of JV business, right?
- Manish P. Kiri:** Revenue for the first half for JV is around Rs.470 crores.
- Naushad Chaudhary:** The JV division margin comes to around 27%, right, this 2Q?
- Manish P. Kiri:** Talking about PAT level, Rs.14 crore is added at PAT level, so 14 divided by 0.4 will give you 35.
- Naushad Chaudhary:** I think there is a lot of confusion. I will take it offline.
- Manish P. Kiri:** You give us the exact questions what you have. I think there is some confusion in what you are saying. We will be happy to elaborate and clarify.
- Naushad Chaudhary:** Okay, I will take it offline. Second question is on the working capital cycle sir. We have seen very good improvement in last two years in our working capital cycle and there is still improvement I see in this first half. So just wanted to understand do you still see a further scope for improvement and what exactly we are doing here and how it has completely changed from 180-days to 40, 50-days now, comment on that?
- Manish P. Kiri:** We have done lot of work in tightening and strengthening our working capital cycle, so lot more sales which we are doing for example in cash is immediate payment compared to cash against documents or compared to LC credit, so we have tightened our days receivables and we are

continuing to improve that, we will still try our best to further improve, but that is due to the market supporting and that is due to Kiri's brand, Kiri's image and there are distributors and customers who are ready to pay us better than the competitors which is also helping us and we would still try to further improve on our inventory, improve on the days receivables and also try to strengthen further, but we are reaching to an optimum level and we will still continue to do our best. Please understand, Kiri does not use any banking working capital lines. So for us our growth and our additional working capital requirement for increasing in growth also needs to be self-funded. So by tightening working capital, getting more grip on our working capital cycle, we would be able to cater higher and higher revenue without even in future getting any banking lines on working capital or any loans on working capital.

**Naushad Chaudhary:** But what I see in the revenue mix sir, the Dyestuff business have increased, in first half you mentioned that 45% contribution was from the Dyestuff and typically Dyestuff business is on credit basis and the payment cycle are competitively higher than Dye Intermediates business. So what different are we doing compared to industry standards?

**Manish P. Kiri:** You are right, Dyestuff is more credit. What Kiri does is, Kiri does not sell anything on open credit, so either letter of credit and majority of chunk of Kiri's business is for dyes is sold in cash against documents. So we try to choose only those distributors, only those traders, only those representatives and even the end users who have ability to pay cash to Kiri. So that is where we choose and pick our customers and even at Dyes level, you are right, the normal terms of business is a longer credit term, but we still try to do our best especially for exports and our growth majorly is coming from export rather than domestic. So domestic payment terms for payment of dyes from textile industry is even more longer, but having growth coming from exports and we are able to get cash against documents for increasing quantum of our business, we are able to manage within this, but I agree with you that it is always a situation where we will have to continuously work on and keep improving and balancing to see that not only it expands, but either it remains or it shrinks even lower. So we do our best for that.

**Naushad Chaudhary:** In export business of Dyestuff, what is the mix of direct sales to client or through distributor?

**Manish P. Kiri:** Our distributor sales is maximum. Direct sales to client would not be more than 15% to 20%. 80% of sales goes to distributor, but majority of the sales goes into Kiri's brand and recognition till end.

**Naushad Chaudhary:** Through distributor also, we sell it...?

**Manish P. Kiri:** Through the distributor also, correct.

**Moderator:** Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Manish Kiri for his closing comments.



**Manish P Kiri:**

Thank you very much to all for participating in this earning conference call. I hope we have been able to answer your questions satisfactorily. If you have any further questions or if you like to know more about the company, please feel free to reach out to our investor relations representative, Valorem Advisors, also write whenever you feel that you need some clarification from us and we are thankful to all our investors, who stood by us and also had confidence in the company's growth plan and focus. And with this, I wish everyone a great evening. Thank You.