

Kiri Industries Limited
Q3 & 9M FY2019 Conference Call
February 15, 2019

Moderator: Good evening, ladies and gentlemen and welcome to the Q3 FY19 earnings conference call of Kiri Industries Limited. As a reminder all participants' lines will be only 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 an operator by pressing '*' then '0' on your telephone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Pranav Khandwala from Valurum Advisors. Thank you and over to you, sir.

Pranav Khandwala: Thank you Margaret. Good afternoon everyone and a warm welcome to you all. My name is Pranav Khandwala from Valorem Advisors. We will present the investor relations of Kiri Industries Limited. On behalf of the company and Valorem Advisors I would like to thank you all for participating in the company's earnings conference call for nine months Q3 FY 2019.

As usual before we begin I would like to mention a short cautionary statement; some of the statements made in today's con-call may be 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 beliefs as well as assumptions made by and information currently available to the management. Audiences are cautioned not to place undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earning conference call is purely to educate and bring awareness about the company's fundamental business and financial performance.

Now I would like to introduce you to the management participating in today's earning conference call and give it over to them for their opening remarks. We have with us Mr. Manish Kiri – Managing Director and Mr. Jayesh Hirani – Senior Manager, Accounts and Finance. Now I will hand over to Mr. Manish Kiri for his opening remarks. Thank you.

Manish Kiri: Good afternoon everybody. It is my pleasure to welcome you all to this nine-month as well as Quarter 3 ending December 2018 for the financial year 18-19 earnings conference call. Let me just begin with a brief introduction of Kiri if anybody is new to the conference call. Kiri is one of the largest manufacturer and exporters of wide range of Dyes, Intermediates and Basic Chemicals in India. It has sizable manufacturing facilities which are backward integrated and it has very competitive edge in industry.

Let me just begin with giving you an operational highlights for the quarter which has just ended in December 2018. The December quarter is usually a low quarter, seasonally a low quarter for the company and also for the industry and it is on the account of routine annual maintenance as well as on the account of Diwali and Christmas festivals where workers and laborers are usually off for about a month. Specifically this is the quarter especially in the months of November and December you would see that the prices of the products in the industry are almost at a lowest level throughout the year. This time as well as earlier years also there is usually three weeks shut down which impacted the overall tone of business in November 2018. Supplies from China to the global market increased as compared to previous quarter and hence prices for Dyes, Intermediates, Basic Chemicals were also on the lower side comparatively in this quarter which can be vouched from the fact that market of H-acid which was at around Rs. 420 to 450 earlier during Quarter 2. They reduced to around Rs. 400 to 410 in Quarter 3 and the market prices for Vinyl Sulphone also reduced from Rs. 260 to around Rs. 240-250 in Quarter 3 and these are the impacts which you can see on the numbers. Similarly prices for all finished products have also reduced in the quarter because when Intermediates go down the prices of Dyes also reduced and such reduction in prices have impacted the top line and margins of almost all companies in specialty chemicals sector and Dyes and Dyes Intermediates are not exception to that.

Now I will take you to the quarterly performance of the company on a standalone basis; the total income for the quarter is about 234 crores which has grown 29% year-to-year for nine months ended. EBITDA which is INR 32 crores with EBITDA margin of 13.54% which has grown by 26 basis points year-to-year, net profit after tax 22 crores and PAT margin which is 9.44% which has increased again 26 basis points on year-to-year basis. On nine monthly performance on standalone basis, the total income for nine months is 758 crores which has grown by 17% year-to-year, EBITDA which is 123 crores and EBITDA margin is 16.24% which has grown by 59 basis points on year-to-year basis and profit after tax of 98 crores with the margin of 12.94% as a percentage margin has grown by 93 basis points. And these are the numbers basically which highlights the quarter.

I will now take you quarterly performance of our company on consolidated basis; the total income for the quarter is 302 crores on a consolidated basis which has grown 22% year-to-year, EBITDA 44 crores, EBITDA margin is 14.57% which has grown around 220 basis points, net profit after tax 27 crores and profit after tax on percentage basis 8.84% has grown 220 basis points year-on-year. The nine monthly performance on a consolidated basis if you look at the total income for the nine-month on consolidated basis up 1009 crores which has grown by 25% on year-to-year, EBITDA which is 185 crores with the EBITDA margin of 18.36% which has grown by 138 basis points and profit after tax of 131 crores with a profit percentage of 13.01% which has grown by 99 basis points on year-to-year on a percentage basis. During 2018 DyStar has earned remarkable profit, this was probably the highest profit operationally DyStar has ever earned since the acquisition which was about 132 million after tax, before considering

exceptional items and this is the highest profit ever reported the highest gross margin DyStar has ever made. Then there were write-downs in provisioning which were disputed and also disagreed by the company to the tune of 86.35 million bringing profit down to that extent. And it's not only the highest earned profit, its highest earned gross margin which shows the core profitability of the company with top line crossing \$ 1.18 billion. So core profitability of DyStar has strengthened over the past 9 years since its acquisition by Kiri. Since CAPEX plan being implemented in some of the projects are now operational, the depreciation amount has increased by 26% and the increase in finance cost when you look at the P&L you will see is preliminary on the account of increase of banking transaction cost for KIL which includes discounting, LCs and others.

Global footprint in penetration has been increasing for the company and its exports during the current quarter has increased by 133% on year-to-year basis and that shows that the export market share that the company is capturing which is in line with the industry growth and the industry exports. During the current year for the period of nine months company has spent around 90 crores on capital investment of the new plants which are under construction in addition to this as we have already started the Intermediate facilities, the new facilities are already under construction and the moment and under commissioning. We expect to spend another 20 crores till end of the year to make sure that by year 19-20 remake certain of these facilities operational and the company can take benefit through the operations of new facilities which will kick in. Company has commenced production of certain types of Intermediates which are based on Naphthalene and Aniline and that would also add profitability. The company's objective has been to improve its product basket, to improve its product portfolio and in that direction it has successfully able to start certain products which has added to its business. Again Disperse Dyes which was started earlier this year is heading every month additional revenue as well as bottom line for the company.

Now if I update you on the DyStar case which is an important event and I'm sure that affects the company greatly. Singapore International Court is going through a valuation process, so the judgment which came January 18 which was disclosed and announced and based on which the valuation has already commenced. In the first week of April the valuation would be completed from both the sides and valuation submission date would be around April 2. Post that another 6 weeks time Court has stipulated to cross examine as well as to counter each other's valuation to come to the final conclusion by the Court which would be decided by the Court after 6 weeks from April first week. That is the development which has taken place in Singapore International Court. Now there is a parallel trial of appeal which is in process at Singapore Supreme Court which is pertaining to the appeal files by the counterpart and that appeal hearing fortunately has now little bit expedited so it would be from 25th March to April 12, any of these dates we are expecting the final hearing and that would be the final judgment from the Supreme Court against the order which was received by the International Court on July 3rd, 2018.

I will be happy to take further questions on any of the topics which I have addressed today and looking forward to further interaction with all of you. Thank you. I now open the floor for questions and answers.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Heer Guglani from Isha Securities.

Heer Guglani: I would like to know the current pricing for H-acid and VS Vinyl Sulphone, for the current month and what is the Chinese situation right now like are they operating at the highest capacity utilization rate now?

Manish Kiri: Current price of H-acid is around Rs. 410 to 425 as on today and they are on the little of increasing trend. Similarly the price for VS is around Rs. 250 and we are also seeing somewhat increasing trend for Vinyl Sulphone price too. We have seen in the last quarter that Chinese capacity utilization increased and Chinese supply in the global market was also high. But we are now the reverse trend from January onwards, again we saw similar effects what we have seen earlier that the government crackdown on Chinese facilities is continuing and because of that Chinese have again started going up on the prices, the supplies again seems to be getting affected and that is why we are seeing uptrend just started about 2 weeks ago and we hope that till the end of the current quarter we might have little bit better than the last quarter prices for these two Intermediate.

Heer Guglani: My next question was regarding the profit share that we get from DyStar, so the profit share that we are entitled to, they have not been received in cash as such, right?

Manish Kiri: Yes. One of the main point of Minority Oppression Suit was not getting any dividend. Kiri and Kiri's shareholders since acquisition of DyStar in last 9 years and now 10th year we haven't received anything. So the buyout order which international Court has awarded in favor of Kiri that is what Kiri is awaiting for. And please understand that whatever profit which you are seeing posted July 3rd and whatever impact on the profitability that DyStar and the majority shareholders are imposing would not affect Kiri. Kiri's time frame is fixed and it is frozen on July 3rd. So whatever the events and whatever profit changes which happens after that either up or down that does not belong to Kiri. So the valuation will take care of whatever profit earned till July 3rd 2018 and that would be incorporated in the value that Lonsen would have to pay to Kiri under the buyout order of the Court. So we cannot expect any more cash or any more dividend from there but we can definitely expect the buyout order to be executed by the majority shareholders under Court's gyrations as soon as possible. So that is what we should be looking for if you ask me.

Heer Guglani: So there is no possibility that the trials that they have challenged in the Supreme Court that can turn out in their favor are there any chances for that?

Manish Kiri: Chances according to our legal advice, the chances to overturn the judgment are lesser and the reason they are lesser is because it's a unanimous judgment of three judges. It is not like two versus one and the judgment was strongly in favor of Kiri and reading and looking at the judgment it would be challenging task for any defendant to overcome the hurdles such as to prove that the all three judges made a wrong judgment, they could not understand the facts and they made error in finding the Oppressions where they were number of Oppressive acts not one which were proven in the court. So to overcome this and in Supreme Court usually would be looking at the..... they are not going to reexamine facts. They would look at the interpretations maybe of the facts and mainly there is any law question or not here, if there is any law related question that is what Supreme Court is going to hear. So the barriers are high for defendant and according to our legal advice we will have very strong chance that the judgment will continue in Supreme Court. But again please understand that the valuation is July 3rd, 2018. So post that whatever changes you see in the numbers or whatever DyStar earns profit or do provisioning or intentionally reduce the profit or whatever ask which are happening or which would happen would not be impacting Kiri's valuation. All that is frozen in the date July 3rd, 2018 that's the important point.

Moderator: The next question is from the line of Ashish Agarwal from Navis Capital.

Ashish Agarwal: I was noticing the numbers of Lonsen Kiri for this quarter, have taken a material shift from the earlier trend. In the first half they were very strong but in this quarter they have been quite weak. Could you share context what....?

Manish Kiri: Very important question Ashish. I'm glad because this was an important point I thought I wanted to address that too because the actual performance of Lonsen Kiri is still strong. It is still strong in this quarter and I will explain to you how, this is the quarter in which there was also a shut down at Lonsen Kiri in addition to Kiri because the feedstock and Intermediate plants were shut down and because of the lower operational activities Lonsen Kiri was also shut down in this quarter that is number one. Number two there was the repayment of redemption of the preference shares and those were the preference shares which were given by both the shareholders to Lonsen Kiri seven years ago which were getting matured. So Lonsen Kiri paid through both the shareholders Kiri as well as Lonsen, the preference shares amount back and that incurred a loss of around 19 crores. That was a onetime foreign exchange difference which is impacted the one-time item, the profit of the company particularly in this quarter. The reason being the preference shares when they were allotted at that time the rupee was 46 and when they were paid the rupee was quite changed in last month. So the difference was booked and the difference is pertaining to almost 19 crores. Out of this 19 crores you will see that the effect on the top line was around 14 crores because it was an adjustment against the foreign exchange gain and another 5 crores in other expenses. So total 19 crores if you add back which is one-time item and if you look at the operations then the EBITDA was 54 crores in this quarter and it was 27.74% which was 28% in quarter earlier and profit after tax of Lonsen Kiri was then adding back to this amount coming out to be 15% which was in the

quarter earlier 16%. So operationally it still made almost 55 crores of EBITDA in this quarter and if you look at year to year, last year it was 52 crores and it's a very strong EBITDA and PAT netting out this exceptional item is still strong.

Ashish Agarwal: The entire retail of this item is covered with in Q3 or will there be any impact on future quarter?

Manish Kiri: No, it was only Q3. There would be no impact in future quarter. It is all done, all redemptions paid back and nothing is now pending.

Ashish Agarwal: Another quick question which is on the Kiri, what is a realistic timeline in terms of expecting cash flows for your stake in DyStar?

Manish Kiri: If we look at the existing timelines before middle of April Supreme Court is going to conclude and post that if the valuation is getting completed by May or June, we are looking at the middle of the year by which the final conclusion from the court takes place. And I can imagine another few months, 2-3 months we should count practically to have the order executed. So you are looking at somewhere close to between July to September 2019.

Moderator: The next question is from the line of Pratik Kothari from Unique Asset Management.

Pratik Kothari: Can we throw some light on what share of revenue came from specialty Dyes in Quarter 3 or maybe first nine months?

Manish Kiri: First nine months if you look at those specialty Dyes, we are somewhere near 90 crores. It's a top line.

Pratik Kothari: Lonsen is 100% into Reactive Dyes and so are we, so how is the order makes a difference between Lonsen and us on standalone basis?

Manish Kiri: Lonsen Kiri has three categories of products, standalone basis Kiri has Reactive Dyes, Kiri has Intermediates and Kiri also has Basic Chemicals, so three categories. And Reactive Dyes now also added Disperse Dyes and some of Acid and Direct Dyes so it's mix of all these Dyes. So Dyes, Intermediates and Basic Chemicals are three major product categories at Kiri and now another specialty Chemicals and Intermediates are being added, so that's Kiri's product line. Now if you look at Lonsen Kiri's product line it has Reactive Dyes which are common regular commodity Dyes then it has two very important product categories and the margins and the business performance is coming from those categories, one is Indigo and second is very specialized Dyes which are Fluorine based products which are high margin and high-priced products so those are again specialty Dyes which Kiri is not making, so the only common product range is a product range which is pertaining to the commodity Reactive Dyes in both the plants and both the companies and which are Generic Dyes. But in addition to that other categories are different in both the places.

Pratik Kothari: So this Indigo and Fluorine based, they are very-very high margin?

Manish Kiri: Yes relatively high margin and that is bringing in profit to the company.

Pratik Kothari: So the one that more than 70% of our revenue comes from DyStar on the Lonsen part, how will these materially change after a settlement is done?

Manish Kiri: Kiri's more than 70% revenue doesn't come from Lonsen Kiri. So Kiri's revenue from Lonsen Kiri to Kiri is less than 20% actually.

Pratik Kothari: From Lonsen how much of revenue comes from DyStar?

Manish Kiri: You mean from DyStar to Lonsen Kiri?

Pratik Kothari: Yeah.

Manish Kiri: I misunderstood your question, so today the Lonsen Kiri's dependency on DyStar is higher so it would be almost 70% to 80% products are produced for DyStar and post separation we do not know how the contract shall agreement would take place. There are lot of other customers also in the market and we would see where the demand is coming. Today DyStar is one of the major customers. Tomorrow other customers can also emerge as major customers. So it depends on how the relationship operationally go forward to supply to DyStar and it is based on the mutual beneficial agreements post separation and we will see how it takes place. But as far as the sale of Lonsen Kiri products are concerned, they're good products, high quality products, lot of demand in the market. There are very few producers for example that's the only Indigo plant in India. So we are sure that there would be demand of those products and we are sure that customers would be coming and approaching us for those products in future.

Pratik Kothari: If required can we manufacture this Indigo in-house standalone entity?

Manish Kiri: Not currently. Future plans we do not know but currently no.

Pratik Kothari: From this DyStar the money that we are supposed to get we had plans to enter some different line of chemistry, something different from Dyes. Have we decided anything on that part I mean have we come to a conclusion?

Manish Kiri: There is no conclusion yet. A lot of projects have been studying, a lot of projects have been given feasibility analysis but no conclusion has been reached yet. So we have studied now almost 15 projects and looking at the best options Kiri's board would be deciding on the best possible return aspects from these projects. But that would be I can tell you and assure you that that would be away from Dyes and Intermediates. To give you a rough line, India also imports today lot of other specialty chemicals and India's import is huge. India is actually deprived of lot of facilities that can be coming up in India that could have opportunity for Indian

market and we are looking at those segments, again within Specialty Chemicals and Chemical areas. But areas where India is requiring those chemicals today being imported and tomorrow there is a future and the growth in India, so we are looking at those aspects.

Pratik Kothari: We had guided for 20% tax for FY19 given that accumulated losses are done, in first nine months it's 15% so 20% was blended FY19 or only for Quarter 4?

Manish Kiri: No it was blended. So, the last quarter where it ends we will see where we are on a blended, on a relative basis what percentage of tax but we can expect that eventually it would be close to 20% this year

Pratik Kothari: That we will have to pay on blended basis. One more data point if this 20% growth that we saw in Quarter 3 was it volume driven everything?

Manish Kiri: Yes if you look at on year-to-year basis it's all volume driven.

Pratik Kothari: So realizations are back to what they were last year?

Manish Kiri: Yes realizations were fluctuating but averagely they are similar, so the growth which you see nine-month is actually a volume growth.

Pratik Kothari: Like you mentioned I think on one of the television channels today, you expect the prices to stabilize at this rate?

Manish Kiri: Right, yes correct.

Pratik Kothari: Because of this conversion of FCCB some 2 crores odd shares will be added I think in FY 21.

Manish Kiri: Right.

Pratik Kothari: So who are the owners of the share I mean we have mentioned the Bank of New York Mellon London in our annual report but who is the ultimate owner?

Manish Kiri: I think currently there is a blend of certain Middle Eastern funds and certain European funds. They are owning them and so those are the ones.

Pratik Kothari: But promoter wouldn't have any relation...?

Manish Kiri: No. Not at all.

Moderator: The next question is from the line of Harsh Shah from PM Securities. Please go ahead.

Harsh Shah: I actually wanted to get some clarity on the FCC deals. First of all are they redeemable after 2022 or they can be redeemed any time before that?

Manish Kiri: They are not redeemable actually. So, they would be converted at some point in time from now till 2022. So, when you take the total equity as we have mentioned fully diluted business that is what you should take into account because please understand that these FCCB were restructured. About 3-4 years ago when we were going through restructuring process and they were cut after negotiations and negotiations almost one third compared to what did they used to be earlier. We also had a subsequent talk and we expect that it would be actually converted based on the messages that we are getting.

Harsh Shah: After the conversions the total equities will be diluted to almost 5 crore 35 lakh shares, around approx. including?

Manish Kiri: 5 crore and 15 lakh shares something like that. But if you look at our quarterly fully diluted number that's the correct number around that.

Moderator: The next question is from the line of Ashit Kothi, an Individual investor. Please go ahead.

Ashit Kothi: First question is basically when the collaboration with Lonsen, will it be terminated, after this case?

Manish Kiri: After we are separated and after the case, the outcome is executed by Lonsen then we would be not part of DyStar. We will be separated from DyStar and then if you are referring to Lonsen-Kiri, it would be the separate negotiation between the shareholders. I am sure that both the sides want to separate but terms of separation, the way how this plant would be going to whom and how it will take place would be a separate negotiation which is not on the table today. Today the focus is on DyStar and separation at DyStar but once it takes place there would be another negotiations, another discussion which would figure for Lonsen-Kiri after that.

Ashit Kothi: How advanced that facility is compared to our Kiri facility?

Manish Kiri: Kiri facility as far as Dyes is concerned the Dyes, as I mentioned earlier some of the Dyes facilities and Dyes categories, the Generic Dyes are similar. But Intermediate facility, Basic Chemical facilities are only in Kiri which are not there and certain specialty Dyes which are in Lonsen-Kiri are not in Kiri, so they are differentiating product ranges at both the units and both the companies.

Ashit Kothi: So that way Lonsen-Kiri is way ahead?

Manish Kiri: It's not about ahead or lower. Lonsen-Kiri is way ahead in terms of Dyes, you are right but not in terms of Intermediate and Specialty Chemicals. So, in terms of Dyes categories yes, it has advanced technology of Fluorine Chemistry, it has Indigo, correct in addition to Generic Dyes.

If you look at Kiri, Kiri has a mix of various Dyes which includes Disperse which Lonsen-Kiri doesn't have. Some direct acid which it doesn't have and certain other Generic Dyes. So, if you look at it and compare only dyes category on both the sides the Lonsen-Kiri products and Specialty Dyes products are more compared to Kiri Dyes segment.

Ashit Kothi: In that case Kiri product portfolio, if I am dividing that into Dyes, Pigments and Intermediates these three categories in percentage terms how exactly it is constructed?

Manish Kiri: If I tell you the numbers for nine-month ending so around 40% is Dyes for nine-month ended in this financial year, 57% is Intermediates and 3% is Basic Chemicals. So, you can save 40% Dyes and 50% Intermediates and other Chemicals. That is Kiri's breakup of its three important portfolios.

Ashit Kothi: If you have to say profit contribution from Dyes and Intermediates?

Manish Kiri: This is the division in terms of sales. So, 40% sales of the company come from and the profit from Intermediates is larger than Dyes.

Ashit Kothi: How much, if we have to ...?

Manish Kiri: So, I will give you the breakup. If you break it up, sorry the major profits come from Intermediates and less from Dyes. So, if I break it up into two categories you will have almost 25% to 28% profit coming from Dyes and 70% to 73% profit coming from Intermediates. When you calculate this is an incremental profit in Dyes. What it means, is that whatever profit which has been captured at Intermediate level, if you look at that profit even if there is a captive consumption of Intermediate and sales of Dyes, that portion and that profits center of Intermediate and Basic chemicals will fetch more than all about 70% profits while 25% to 28%....

Ashit Kothi: So, if we have to net-out the inter-division consumption and the profitability part, then does that mean that Intermediate we would be more?

Manish Kiri: Yes, Intermediate is more profit. That's what I am saying, Intermediates is the major profit center. Dyes is a small incremental profit center.

Ashit Kothi: Keeping that in mind to what extent that business can get affected once this partition takes place?

Manish Kiri: Kiri's business is not going to get affected at all. There is no sale to DyStar from Kiri, there is zero sales there.

Ashit Kothi: But at the same time the purpose of acquiring Kiri way back in 2010 was to cater to or get into the international markets?

Manish Kiri: Right, if you look at the; one of the Oppressive acts which Kiri had claimed was same that even though Kiri as originally acquired DyStar and Kiri was selling a lot of products through DyStar to the end market. Since 2012-2013 DyStar under influence of majority shareholders discontinued business with Kiri so whatever business you see at Kiri today of Dyes there is no DyStar sale at all, its zero. One of the claims that we made in our Oppression Law Suit, was also about oppressing Kiri by not purchasing products from Kiri which they were bound to purchase under the shareholders agreement to treat Kiri as a preferred supplier so not treating Kiri as a preferred supplier in buying from Kiri was also one of the claims that Kiri raised in the suit there and that is absolutely right what you are saying.

Ashit Kothi: In a way what we are expecting from this claim is, (1) is claim with regards to supply and (2) claim with regards to share in profit?

Manish Kiri: So, if you look at the Minority Oppressive Acts which are already proven and which court order, there are six of them. Not giving dividend, yes, is one that you rightly mentioned and then taking away money from DyStar as a loan, related party transaction which are conducted with DyStar. So, all those factors are part of minority Oppressions. So, there are six of those acts, if you have time go through the judgment which is there in the public domain. You would be able to understand what court awarded and why awarded would be much clear, you do it and we are there to answer any questions whenever required.

Ashit Kothi: Basically, when we are saying that something which would have coming from DyStar, by way of dividends has also not coming.

Manish Kiri: This was the major factor after 10 years of investment Kiri has not earned anything, not received anything not even a single dollar till date.

Ashit Kothi: Even if assuming that DyStar was giving a dividend, what kind of dividend income in 10 years Kiri would have acquired or would have received?

Manish Kiri: So, if you look at what DyStar has earned?

Ashit Kothi: Only to that extent the claim for us now or it will be only the valuation?

Manish Kiri: The order, the court ordered and the prayer of KIRI that this relationship with a partner cannot continue. The trust is broken so better is Kiri exit from the company and Lonsen buy our stake. And that is what court has ordered, court has not ordered to pay dividend or give money whatever was earned. Who court has ordered Lonsen to buy out Kiri stake at a fair market value and how that fair market value is to be estimated that is governed and that is being directed by the court so which means that because of this oppressive acts, Kiri has broken trust, no relationship can exist anymore and the court understanding and proven the fact of Minority Oppression ordered that you buy out Kiri's stake and let them be free from all this 10 years of

struggle and hassle with you. That is what has happened. So, what we are expecting out of the court case; is that Lonsen honor the court's decision, court's order and buy out Kiri's 38% stake at a fair market value which is now in the court direction. The valuation is in progress for which.

Ashit Kothi: Because the court has asked both the parties to submit the valuation on their own business?

Manish Kiri: Correct and then court will make the decision which one is right or what is the fair value.

Ashit Kothi: After that is over, then your Baroda unit of Lonsen- Kiri will come into picture?

Manish Kiri: Yes, after that, that is a separate legal entity. There is a separate, even though the partners are same so the discussion on that may start after that.

Ashit Kothi: As of now nothing is being?

Manish Kiri: No, no discussion yet.

Ashit Kothi: And the control is totally with Lonsen only?

Manish Kiri: The management control of that company is with Kiri. As of the shareholders agreement, Kiri has to appoint Managing Director and the Management team and that is why Kiri is consolidating line by line. Kiri is operating that plant.

Ashit Kothi: In that case how keen we would be in buying that Lonsen from that company?

Manish Kiri: Very keen. That's our primary objective.

Ashit Kothi: What has been the numbers of Lonsen-Kiri in terms of totality of theirs, profitability numbers and turnover numbers?

Manish Kiri: If you look at for example last quarter; or the quarter earlier every quarter, the EBITDA is right now running around 50 crores.

Ashit Kothi: All in all, if I am trying to just as a thumb rule calculation, basic elementary calculation 200 crores of EBITDA for 4 quarters?

Manish Kiri: Around that, correct and about 900 crores of top-line, 900 to 1000 crore of top-line.

Ashit Kothi: How do we plan to challenge the Chinese exports which is again going to increase assuming that they are going to comply with all the guidelines as far as environmental concerns are there and they come back in a market in a big way. How the Indian manufacturers and Kiri in particular would tackle that?

Manish Kiri: What is the change, from earlier time to today's time? So, the change is that even though Chinese producers come back on stream like what happened, many of them got restarted in the last quarter but they have to also treat their affluent; they also have to make adequate arrangements for the treatment and for the environment protection because of that they have to incur their operational cost. Their prices would be higher; they cannot sell at a lower price by having all the compliances done and spending for that. They would date to make investment, capital investment for building such facilities to treat and to run on a zero discharge. Many of them are given zero discharge permission now. To achieve those standards they will have to incur the cost and that would compel them to keep prices at a reasonably good level and that is what we are seeing now, so from China as far as their treatments and their compliance is concerned they will have to incur that cost and because of that they will have to keep the prices at certain level and if you ask me what are those levels; in H-acid you can see around 400, 425, around 400 is that level that they have to be minimum at that cost, could be higher than that and similarly treatment cost here in India as well as in China both are similar and technology at both the places are also similar. So, we can understand what kind of level that they will have to be at the same level we would also be able to sell in the market and make a reasonable profit, not very good profit but at least at a decent level of 15% to 20% EBITDA in between should be maintainable on a long run basis on a year-to-year basis.

Ashit Kothi: But large capacities, that cost of maintaining environmental concerns taking care of that, would be comparatively less and with large capacities compared to Indian manufacturers, we will have the upper hand or no?

Manish Kiri: There won't be much upper hand because it would be at par. Most of that operational cost is variable cost and variable cost is proportionate to how much affluent you generate. Even though they can put up large capacities their operational cost to run those plants at the level of energy cost, at a level of people required, at a level of our aids, it would be similar. It won't get much advantage on economy of scale on the treatment facilities.

Ashit Kothi: Now keeping this in mind, what is going to be our export plus how exactly we would plan to because then DyStar would be a competitor for us?

Manish Kiri: Not really. Not right now and in future post separation we do not know how things will change but if you look at our exports, our export has been increasing in line with India's export has been increasing and we continue to increase our export of Dyes even by adding other categories of Dyes, other product range and the existing product ranges both. In the next 2 to 3 years to give you an example of Reactive Dyes. India today exports around 14000 to 15000 tonnes of Reactive Dyes per month. 6 years ago, India was exporting 7000 to 8000 tonnes. So, in the 6 years we have almost doubled our export. Now global requirement if you take out Chinese market in China, some markets share with Korea and Taiwan. India can go up to 25,000 to 28,000 tonnes per months. That market still India has ability to capture and you will see that in the next 5 years India's export of Dyes will also increase by minimum 50% and it can go up

to 70%-80% compared to the existing level of India's export and Kiri's objective is also to get that share. Kiri's objective is also to get to have increasing export of Dyes share from India and we would continue to do so for the next 3 to 5 years. When you reach to 25000 to 28000 tonnes a month out of India of Reactives that is the level at which now we have reached the saturation which has not come yet.

Moderator: The next question is from the line of Karan Ramesh from Ashika Group.

Karan Ramesh: I just wanted to ask what's your dividend policy going forward.

Manish Kiri: Till now, we have not been able to give dividend because of only reason that the regulations didn't allow us because the earlier losses were not got wiped out but now it has taken place. All those losses have been recovered and you will hear very soon. So probably by next board meeting or in the next quarter you will see that the company would start paying dividends.

Karan Ramesh: By next quarter?

Manish Kiri: The next board meeting would be the topic in which we would be discussing the dividend but it would be there. So, this is the time to answer your question, company will start paying dividend we have reached that stage, we have recovered the earlier losses, regulation allows us and it will start now from the performance of this year only.

Moderator: The next question is from the line of Pratik Kothari from Unique Asset Management.

Pratik Kothari: Just one clarification, you mentioned that our specialty Dyes contributed about 90 odd crores of revenue?

Manish Kiri: Yes.

Pratik Kothari: I'm not sure of this data, wasn't it 15%-20% share in the first half?

Manish Kiri: There are few categories of products that we added this year. One was the Disperse Dyes, the second was the Intermediates. So, Intermediates are the different segment and Intermediates are also we are adding more and more products. If you look at the Dyes category of products which includes Disperse and which includes other Dyes that we have added, it would be somewhere close to 90 crores so if you look at our total turnover till now, it is 10% and then if you add some more intermediate it would be around 15% but our target by year end to hit 20%. It changes from quarter to quarter. So, I would be happy by end of the year, if we make up at least 200 to 224 that's the target we are looking at which is non-generic and non-traditional products revenue. That's what we have planned.

Pratik Kothari: So, you mentioned Disperse Dyes one of the things which we count under specialty, what other products?

Manish Kiri: There are other Naphthalene and Aniline based products, like there are specific technical products and I may not be able to give you the technical names but those are the products which are used in Performance Chemicals, those are the products which are used as a Pigment Intermediates and some of them are also used as the Dyes Intermediates.

Moderator: The next question is from the line of Ashish Agarwal from Navis Capital.

Ashish Agarwal: Could you share thoughts on the outlook for FY20, what kind of volume growth do you expect on the listing products as well as revenue potential of new products?

Manish Kiri: 2019-20 Ashishji we expect at least 25% to 30% growth minimum. If I look at the specialty products addition it would be largely and mainly coming from a lot of specialty products. So, let us say if we are able to touch as per our current projection close to 1300 to 1400 crore coming to next year and then we would be targeting at least 300 to 400 crores coming from non-traditional, non-generic products and I will be happy if we can touch 1500 next year on a standalone business.

Ashish Agarwal: You mentioned the prices of H-acid, VS to be rationally stable and given your new products are higher margin expansion as well?

Manish Kiri: Right. So exactly the next margin expansions we are likely to get from other products assuming that VS and H-acid and other traditional products remain as it is at a reasonable level. If we get a few hiccups in a year due to a gain disturbance coming from China or some other pollution issues than those are the spikes and we have seen over the last 3-4 years the spikes give us an advantage in few months and then it again comes down. So, we have taken a flat conservative view for next year for those generic products.

Moderator: As there are no further questions from the participants, I now handed the conference over to the management for closing comments.

Manish Kiri: Thank you very much for all of you taking time and to participate in this conference call and we wish you all the best. Thank you very much.

Moderator: Thank you. On behalf of Kiri Industries Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.