

Kiri Industries Limited
Q4 FY 2019 Earnings Conference Call
May 30, 2019

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q4 FY 2019 Earnings Conference Call of Kiri Industries Limited. As a reminder, all participant lines will be in 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 touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, Sir!

Anuj Sonpal: Thank You, Stephen. 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 the Fourth Quarter and Full Year Financial Year 2019.

Before we begin, I would like to mention a short cautionary statement, as always. Some of the statements made in today’s concall 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 decisions. 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.

I would now like to introduce you to the management participating with us in the earnings conference call. We have with us Mr. Manish Kiri --Managing Director; and Mr. Jayesh Hirani -Senior Manager (Accounts and Finance); and Mr. Suresh Gondalia -- Company Secretary.

I now request, Mr. Manish Kiri to give his opening remarks. Thank you. And over to you, Sir!

Manish Kiri: Good afternoon. And thank you for the introduction, Anuj Ji. We would like to welcome everyone to the Earnings Call today for the Fourth Quarter and the Financial Year Ended 2018 and 2019.

As you know, Kiri Industries Limited is one of the largest manufacturers and exporters of various specialty chemicals, especially dyes, intermediates and related basic chemicals.

Firstly, I would like to update you about the important event which has taken place yesterday, with regard to the Kiri's minority operation suit in the matter of DyStar. I am extremely happy and proud to inform you that after a very long legal battle of almost 4.5 years, the company has won a landmark judgment in the Supreme Court of Singapore yesterday. Senda's appeal, Senda means Longsheng, our partner's appeal against Honorable SICC, Singapore International and Commercial Court's order dismissed with a cost. Thereby, Kiri's minority operation suit against Senda has been now upheld, which means that the buyout is upheld, and confirmed by the Honorable Supreme Court of Singapore. The Court of Appeal in Singapore pronounced judgment on 29th May, 2019, upholding the earlier SICC decision and dismissed the appeal with a cost filed by Senda, means Longsheng. Hence, Kiri's minority operations suit and original judgment of SICC dated 3rd July, 2018, has been upheld and maintained by the Court of Appeal in the Supreme Court of Singapore in their judgment as only yesterday.

This was the part of the minority operation suit which I just briefed to you. Senda also appealed against the dismissal of part of the counterclaims against Kiri and alleged breaches of non-compete and non-solicitation clauses in a Shareholders and Share Subscription Agreement.

DyStar had also appealed against the dismissal of a part of the claim for the breaches of non-compete and non-solicitation clauses of SSSA. The appeals against the decision dismissing the counterclaim and claims for the breach of the non-compete and non-solicitation of SSSA has been allowed with costs against Kiri, and Mr. Manish Kiri. In respect of the sale of the products to DyStar customers in Sri Lanka, referred to as Hayleys and Brandix to customers in Japan. However, the amount pertaining to these claims would be quite insignificant, considering the expected buyout amount which would be multiple times higher, which Kiri has to receive as proceeds from buyout order which has been upheld.

Further course of action, if I like to update you, what will happen now in Singapore? As per the directions of SICC, now Kiri and Senda shall submit their respective valuations to DyStar. Two valuers have been appointed and valuation would be submitted to SICC. Then both the parties shall thereafter file their responses on such valuations. SICC is expected to hear the matter of valuation during the month of August. So we expect that by month of August, proceedings related to valuation should get concluded.

I would also like to mention before I go into the financials and numbers, an important understanding of this judgment. One must understand that Kiri's valuation for the buyout order has been frozen dated January 3rd, 2018, which means that whatever is DyStar's value as on that particular date, Kiri's perspective, the valuation has to be carried out on that date, whatever happens post July 3rd, 2018 at DyStar in terms of its profits, for Kiri's valuation perspective it is irrelevant. It would not be affecting the valuation of Kiri. Which means that,

when you read our financial statements, you will see that the share of associated companies which we are consolidating, that number for the valuation perspective is not a relevant number, which is not going to affect the valuation of Kiri as on dated July 3rd, 2018.

So, while you go through our financial statements and you understand our financial statements, you will see our consolidated profits of the current continuing businesses and that is a profit that you should consider as a consolidated profit, which is profit from the continuing operations on consolidation statements. So, if any questions anybody has regarding this important information, regarding this important understanding, please let me know during questions time and I will be happy to answer.

Now going to financial and operational highlights.

For the fourth quarter financial year 2018 and 2019, performance of our company on a standalone basis, we reported income for the quarter about Rs. 370 crores, which has grown by 19.6% year by year. EBITDA reported was Rs. 36 crores with an EBITDA margin of 11.75%.

Net profit after tax for the quarter reported is Rs. 22 crores and PAT margin was around 7.14%. Please note that the tax effect and the tax payments from this quarter would be higher than the earlier quarters, because now company has started paying and come into the bracket of the tax at a higher rate.

For the financial year ended 2018 - 2019, performance on a standalone basis, the total income for the years stood at Rs. 1,065 crores and grew by 17.7%. EBITDA reported was Rs. 159 crores, which grew by 19% compared to last year, when EBITDA margins stood at 14.95%. The profit of the year end was Rs. 120 crores on standalone basis, which is 17% higher on a year-to-year basis compared to the last year's profit.

To give you further highlights on the standalone operations, the volume of dyes grew by 19%, dyes intermediates by 10% and basic chemicals by 10%. And this higher volume growth is coupled with 12% increase in the prices and that gave an overall growth of 18% increase in revenue during the current financial year as compared to the previous year.

In financial year 2019, company has recorded an upsurge of 28% in export as compared to previous years. This means that company has exported more products, diversified products and tried to capture market share for export.

Also, Kiri has been concentrating in consolidating its product portfolio by expanding its manufacturing facilities, diversifying its range of specialty chemicals and going beyond only dyes related intermediates to specialty intermediates which are naphthalene and aniline based. And Kiri is focusing continuously on innovations to achieve sustainable growth.

During the year 2019, I would also like to update you that zero liquid discharge facilities were up and running, completed in August 2018. Further, the manufacturing facilities of disperse dyes of Phase-I as we announced earlier, also started up and running.

Similarly, partially specialty intermediates facility was also operational during this year. And this year has already captured the partial capacity utilization of these expansions. Production capacities for the plants, especially for specialty intermediates for remaining expansions will be completed within this year. And these all expansions are adding intrinsic value of Kiri's business and it will provide further growth in the next coming years.

Now, ongoing expansions of multipurpose specialty chemicals and specialty intermediates and basic chemicals, we expect it to get completed and become operational in the current year, before the end of 2020. So during the past two years, Kiri has concentrated on innovations to strengthen its product basket.

This year, which is an important year, shall complete 12 months business cycle for these expanded facilities completed in the current year for certain specialty chemical intermediates, which will add to the top and bottom line of the company. And as mentioned earlier, significant investments are being made in this year in specialty intermediates and basic chemical expansions, and proposed capital expenditures shall be funded from internal accruals of the company. The expansion project undertaken in the past two years and the proposed capital expenditure in this year FY 2020 shall enable company to achieve double-digit growth in the coming years. We expect to grow by at least 30% in the next three years with these expansions in place. All these expansions, I would like to mention to all of you, are non-dilutive and non-borrowing based, they are all funded from the internal profits of the company. And that is going to continue in coming years too.

Moving on the fourth quarter performance of our company on consolidated basis, the total income for the quarter was Rs. 387 crores, which has provided 17.7% year-on-year growth. EBITDA reported was Rs. 48 crores on consolidated basis and EBITDA margin was 12.5%.

I would also like to mention to all of you that when you look at the other expenses in our financial statements, there is a huge legal and litigation expenses are involved, which are currently being booked as expenses. And that is one of the reasons that our expenses are relatively higher compared to the other peer companies.

And for the financial year 2018 - 2019, on consolidated basis, the total reported revenue has grown by 22.8%, EBITDA at Rs. 234 crores, which has grown by 28% and EBITDA margins stood at 16.73%. Net profit after tax on consolidated basis was Rs. 158 crores, which has grown by 24%, which resulted into 11.28% profit after tax.

And please note that in regarding DyStar's financials, there are exceptional write-downs and exceptional provisioning which have been made by DyStar. If we add back to the share of profit of associate and consolidated net earnings for 2019, would be amounting to Rs. 444 crores.

Please note that these exceptional items and exceptional provisioning are disputed and Kiri has disputed, and there are disagreements in disputes for the substantial amount which is close to \$113 million. So, if you add back this \$113 million DyStar's reported profit stood at \$148 million actually in the year 2019 - 2020. And Kiri has taken position that these expenses and claims are wrongly expressed to the consolidated financial statements of DyStar and bonus and special incentives have been charged through DyStar's financial performance which are not included in the above mentioned amount. If we include those, the profits would be even higher. These experiences are not substantiated and therefore, not being added right now.

I would also like to mention to all of you, again, that this numbers of DyStar, this result of DyStar for the financial year for Kiri's valuation of shares perspective as for the court order are irrelevant and are not going to be impacting the numbers for Kiri for the valuation purpose.

I would also like to share a good news that the Board of Directors of Kiri has decided which is recommended a dividend of 20% Rs. 2 per equity for Rs. 10 share.

Now, I open the floor for the Questions-and-Answers. Thank you.

Moderator: Thank you very much. We will now begin the Question-and-Answer Session. The first question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, I just wanted to know what would be your capacity utilization on the intermediate side and the dyes side? And secondly, when we look at next year is on this capacity what growth is possible? And next year's growth a lot depends on that multipurpose and disperse dye CAPEX that you have done. So, what kind of utilization numbers will come from those two capacities?

Manish Kiri: Our dyes capacity utilization for this year was about 60% and intimidates capacity utilization of the previous capacities was more than 90% which is almost full utilization I would say. But the new capacities which have been created last year, which are for disperse dyes and for the new specialty intermediates partially started have not been even 50% utilize. So, this is the first full year that we would be able to utilize those facilities which are already created. Now, if I look at a reasonable number, it should be 25% to 30% growth we can expect through the new capacities as well as utilizing the old capacities. And looking at the further investment which is happening in this year, we can have at least 25% to 30% growth continuing for the next two years to three years from the expansions which are already happening and which have already happened in past.

Pritesh Chheda: Just clarifying here, we had invested Rs. 80 crores in the special intermediates in this Phase-I of disperse dyes I think we have invested close to about Rs. 40 crores. So we have Rs. 120 crores of CAPEX what is the asset turn in that? And how much of that revenue will come in a FY 2020? Or how much of that revenue is there in FY 2019 also?

Manish Kiri: In FY 2019, if you look at the number the revenue is a little bit more than Rs. 100 crores. FY 2020, we are expecting to add at least Rs. 200 crores to 300 crores.

Pritesh Chheda: And what is the peak asset turn for this Rs. 120 crores?

Manish Kiri: At a peak value if you look at more than 90% of utilization we would be able to achieve close Rs. 400 crores.

Pritesh Chheda: Okay. So out of that Rs. 100 crores has come in FY 2019 itself and you are expecting Rs. 300 crores in FY 2020.

Manish Kiri: And if the market is good, we might be able to achieve even fully in this year but let us be cautious and try to have at least Rs. 200 crores to Rs. 300 crores somewhere number in between.

Pritesh Chheda: Just clarifying it is a 3x asset turn on Rs. 120 crores of CAPEX...

Manish Kiri: It is almost, at a full capacity is it would be 4x.

Pritesh Chheda: Okay. And this is the only capacity which will come in FY 2020, right?

Manish Kiri: Yes, this is the capacity that can be fully utilized in FY 2020, and this a partial capacity the further capacity is already being built and the plants are under commissioning as we speak and one more building is completed. So, if we assume that we complete that expansion in this year, which is a FY 2020 and at a full capacity of the current expansion which is going to take place again for the for the specialty intermediates in this year will bring us another almost Rs. 700 to Rs. 800 crores of top line.

Pritesh Chheda: What is a CAPEX on that then?

Manish Kiri: CAPEX on them, some of the CAPEX is already incurred as a part of AT which you mentioned because it is an ongoing process we started partially. So, further during this year, we are expecting at least another Rs. 110 crores.

Pritesh Chheda: On special in on multipurpose intermediates only?

Manish Kiri: Correct.

Pritesh Chheda: So, it is an 80 plus Rs. 120 crores, Rs. 200 crores which translates into Rs. 800 crores of revenue.

Manish Kiri: Total yes, Rs. 800 crores.

Pritesh Chheda: Okay. And lastly, just wanted to check on this disperse dye Rs. 40,000 tonne Phase-II capacity. What is the status there?

Manish Kiri: We have not started yet.

Pritesh Chheda: You have not started the construction.

Manish Kiri: No, have not started yet, we would we would first complete the specialty intermediate that is a target for this year. And we would not be able to start that expansion in current year it would go for 2021. And by that time we want to fully utilize the existing one which we have created and we are positive that in the next two quarters only we will be able to achieve 100% of the installed capacities of around 8,000 tonne of disperse dyes of Phase-I.

Pritesh Chheda: So basically Rs. 120 crores CAPEX you spend this year and Rs. 150 of this Phase-II disperse dyes goes next year.

Manish Kiri: Yeah, which is 2021.

Pritesh Chheda: And Longsheng Kiri JV, what is the run rate of utilization of that capacity and what is expected run rate next year?

Manish Kiri: This year, we have utilized actually quite a substantial capacity, we have utilize almost 75% to 80% capacity and generated 900 and...

Pritesh Chheda: So that is about 3.5 thousand tonnes per month.

Manish Kiri: Yes. So, we have generated more than Rs. 900 crores of top line standalone for Longsheng Kiri actually, this year. And if we utilize fully, we can go up to almost Rs. 1,200 crores to Rs. 1,300 crores at 100% capacity which has not been utilized yet.

Pritesh Chheda: In how much time would you be able to utilize that?

Manish Kiri: Well, it depends on the market. And it depends on whether we want to reduce prices or we want to have our prices firm. If you look at the profitability of Longsheng Kiri compared to last year has increased significantly and we do not wish to have profit deteriorating growth. So we hope that in the next two years, we should be able to utilize at full not affecting the percentage of profit that we want to unfold.

Pritesh Chheda: What is our run rate of utilization, run rate intense tonnage terms?

Manish Kiri: Tonnage terms, if you put all products together would be, it would be close to 22,000 tonnes - 23,000 tonnes right now.

Pritesh Chheda: Per annum?

Manish Kiri: Per annum, correct.

Pritesh Chheda: For Longsheng Kiri ?

Manish Kiri: For Longsheng Kiri, correct.

Pritesh Chheda: So we were told 5,000 tonnes per month is the capacity and utilization was at about 3,000 tonnes per month.

Manish Kiri: Yeah, but see what happens is 5,000 tonnes capacity per year is the capacity that can be at depending on what products mix that we use. So, if you look at the current product mix even if we consider for a full utilization because the number of products are multiple now, we produce their indigo, we produce a lot of other dyes, total number of products are more than 150. And based on that even if we try our best we would not be able to go more than 40,000 tonnes. But at the same time, selling 40,000 tonnes 50,000 tonnes per year is also a challenge. So the capacities are much-much higher. And because of that we are able to utilize slowly and if I consider entire 50,000 tonnes or 60,000 tonnes to be utilized then you are talking about the total revenue which can go up to I know close to Rs. 7,00 crores to Rs. 2,000 crores. But I do not expect that much sales can come from there in the near future. Because again, we do not wish to increase sales and increase capacity utilization on reduction of profits. So, if you take an example of reactive dyes exports from India and entire export is 15,000 tonnes per year. So, if we realized that India somewhere exports around 180,000 tonnes and Longsheng Kiri alone cannot capture 50,000 tonnes 60,000 tonnes which would be almost one-third of India's export. So I do not think it is practically possible with maintaining profit. So, we are trying to be cautious and trying to increase utilization in a way that secures the profit.

Pritesh Chheda: it's based this figures India exports 180,000 tonnes, in which Kiri is about 20,000 tonnes?

Manish Kiri: In which Kiri is about 20,000 tonnes. Longsheng Kiri is also around that. So, if you put Kiri group together on a on a quantum and volume basis, we together as a group around 40,000 tonnes already out of 180,000 tonnes.

Pritesh Chheda: Global market size is?

Manish Kiri: Global market size for reactors would be see 180,000 tonnes there is export, our domestic consumption is again close to 60,000 tonnes. So you are talking about 240,000 tonnes combining our export as well as domestic market. China is almost 350,000 tonnes and rest of

China is another 50,000 tonnes. So you are talking about roughly 700,000 tonnes plus is reactive dyes global market requirements.

Moderator: Thank you. The next question is from the line of Pratik Kothari from Unique Asset Management. Please go ahead.

Pratik Kothari: So just to clarify from earlier question. So we are putting about Rs. 190 crores - Rs. 200 crores of CAPEX on intermediates which will give us about Rs. 800 crores of revenue.

Manish Kiri: Correct.

Pratik Kothari: And another Rs. 40 crores which you have put in disperse dyes should again give us Rs. 200 crores - Rs. 250 crores of revenue.

Manish Kiri: That is true, correct.

Pratik Kothari: Okay. And currently, the 60% utilization you mentioned is on the reactive side, right of the standalone basis.

Manish Kiri: Yes, on the reactive side

Pratik Kothari: So, our average realization is somewhere around Rs. 500 a kg on standalone basis?

Manish Kiri: See, our realizations of intermediates and dyes both are at different levels. Dyes realization is around Rs. 240 a kilo and Rs. 250 a kilo. Intermediate realization main two products vinyl sulfone would be close to Rs. 220 a kilo - Rs. 225 a kilo. H-acid is around Rs. 420 a kilo - Rs. 430 a kilo. Other specialty chemicals, yes close to Rs. 500 a kilo. So, different categories have different realization. And of course, basic chemicals are much lower sulfuric acid and oleum they range from Rs. 5 a kilo to sometimes Rs. 12 a kilo.

Pratik Kothari: Sir, so what was the volume number then for the whole year for standalone dyes that we sold in absolute terms?

Manish Kiri: One second, I will just give you the exact number.

Pratik Kothari: Because when you say 60% utilization of 15,000 tonnes, it is not 19,000.

Manish Kiri: So the exact quantity is 17,000 tonnes of dyes in the year 2018 - 2019.

Pratik Kothari: 17,000 tonnes. Okay. And sir, you talked about a lot of legal expansion this year, can you quantify that number?

Manish Kiri: Well, the number is quite large and it is still in the process of computing. And Kiri has been awarded through even in the Supreme Court its entire cost. And so we are now putting together a total cost of Kiri's legal expenses in since 2015 till now. And ballpark number is quite high. It is actually ranging more than \$14 million to \$15 million, in fact. So, but again, we will try to recover and Honorable Court has awarded in Kiri's favor the entire cost. So let us see how much they allow and how much Kiri is able to recover. And whatever Kiri is able to recover, would be added back to Kiri's income, because it has already been expensed out.

Pratik Kothari: Okay. And the last question, what was out share of say specialty dyes for the whole year?

Manish Kiri: What was the share of?

Pratik Kothari: Specialty chemicals for the whole year?

Manish Kiri: For the whole year, if you take out Adjusted VSN Commodity Chemicals and if you take out the dyes, only the special products that we could do this year, more than Rs. 60 crores to Rs. 70 crores, it should be in that range as sales.

Moderator: Thank you. The next question is from the line of Ayush Tandon from AZB. Please go ahead.

Ayush Tandon: So my question is on again on dyes part, coming back to the disputed charges, which you had mentioned. I appreciate that you mentioned that these disputed charges may not affect the valuation that is your view. But can you just give us a better picture of what the disputed charges are? And what were the objections that you raised and what transpired and where are we now on those? And who are the auditor specifically or did you take it up with them?

Manish Kiri: Well the disputed charges account for a lot of provisioning, which are non-cash, exceptional items and those provisioning include a closure of Nanjing plant, which means that Dystar's Nanjing plant was closed due to pollution problems in China and around 67 million which is the biggest item the 67 million was made as a provisioning. Similarly, there are other provisions which relates to goodwill, you know, goodwill impediment, also, that was more than \$20 million, almost \$26 million and there were management fees, administrative fees, which Longsheng has taken out from the company, which was close to 8.7 million. And these are the major items. So, actually, all majority of these items are non-cash exceptional and they are gone for almost \$113 million. The reason we have not agreed for those because they were not substantiated, number one. Number two, we believe that there is an intentional profit reduction mechanism, which has been adopted and Kiri and Kiri directors have not agreed to the financial accounts when the accounts were closed, number one. Number two, the global auditor for consolidation is KPMG. But sometimes the subsidiaries are not fully audited by KPMG. KPMG is only reviewing it and that is the reason that if you look at the last quarter, for example, the last quarter January to March quarter, the reported profit after did after deducting all this provisioning, it is about the profit was about 8 million, but if you add back all

these one-time charges and which are non-cash actually, which are non-factual, and then you will you will have a number of \$27 million plus in a quarter. And again, that is not including bonus and incentives which are paid. Now, we believe and Kiri has already expressed to DyStar management that these are deliberate attempts to show negative profits or the lower profits of DyStar. But saying so, again, it is not relevant for Kiri's perspective because our valuation is frozen in time on the date of the judgment of SICC, which is July 3rd, 2018.

Ayush Tandon: Understood. Just last couple of questions. Do you suspect that these will be continuing charges maybe on an ongoing basis? And secondly, is there what the level of debt in DyStar is currently?

Manish Kiri: Well, if you if you look at the core profitability of the company when you look at the gross margin of the company, the gross margin is close to 29% for the full year, okay. And 29% gross margin on 1.12 billion top line is almost north of \$300 million. So \$320 million - \$325 million kind of gross margin that company is generating and that shows the core strength of the company. Now see, what Longsheng and DyStar together makes such provisioning in next few years or not, I do not know to be honest with you, because we have no clue of what kind provisionings can come every quarter or every year. So that is difficult to predict again, we are not concerned because we are not concerned from valuation perspective. And from valuation point of view, we ensure that the impact does not come there.

Ayush Tandon: Very fair. And I think, explicitly written in the judgment that the date valuation is frozen. And is there any debt in DyStar currently?

Manish Kiri: DyStar has very minimum debt. So DyStar for end of the year December, DyStar's debt was around \$90 million. But when you take out the cash the net of cash would be actually less than \$70 million debt. So not much debt in fact. So it is almost very low debt company in fact because all these cash generation has been used to pay off the borrowings.

Moderator: Thank you. The next question is from the line of Shree Hari from TCS Securities. Please go ahead.

Shree Hari: Firstly, if I look at a gross margin on console basis. Especially during the second half, it has been pretty weak. What is the reason for that? And what is the blended margin you would expect for FY 2020? And secondly, the legal and litigation expenses that you mentioned, how much has been expensed out during the FY 2019 and FY 2018?

Manish Kiri: The first question which you raised about gross margin the gross margin of more than 30% - 32.05% that we have right now, the gross margin in the last two quarters which is last the second half of the year, reduced mainly because of reduction in the prices, in this quarter especially December quarter we had Chinese policies are two step forward and one step backward. So, there is also a negative impact which we had from China in terms of global prices reduction. And raw material prices also reduced in the last two quarters of the year. But the

sales prices reduced higher than the reduction in the raw material prices. Say for example, vinyl sulfone price reduced by 6%; H-acid price reduced by 6%, correct. We have sulfopolyester price reduced by 11%. So price reductions even disperse dyes also reduced by 15%. So these were the quarters where various categories of products have general reduction in the sales prices. And those sales prices reduction were higher than the reduction in corresponding raw materials price reductions. So that that is a reason for the reduction in the gross margin, right. Now...

Shree Hari: its improving I mean, any chances of pass through or will it relate around do you see the gross margins improving FY 2020 or will it be at around the Q4 level?

Manish Kiri: I think, it should be, we should expect is around to Q4 levels because over a year on year basis, we should expect now to have some consistency. And the reason being, sometimes we get a spike in the margin and the spike in the sales prices when we see hitch from China. But then after a few months, those hitch up have subside. We see that when there is economic and trade war, trade war concerns at China they relax their policies then after sometimes they strengthen. And so as I said, they go to step forward and one step backwards. In such a situation, we should not expect, we should not expect higher to be on a little conservative side and if we get higher spikes, it is fine, it would add to the profits anyway.

Shree Hari: And the legal and litigation expenses?

Manish Kiri: Those expenses, I may not be able to give a number to it because we are compiling all this details. Now, I give a ballpark number. But ultimately, we will whatever number that we report to the court, we need to be sure that we compute every number for every year since 2015. So giving any number for right now may not be appropriate and premature till we till we submit to the court. So if you can excuse me for this specific number on these two years.

Shree Hari: So this the \$15 million that you mentioned that is over a period of four years.

Manish Kiri: Yes, that is true.

Shree Hari: So in other words, roughly, probably you can take around \$4 million per year that would be a workable figure?

Manish Kiri: You can average out, correct.

Moderator: Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Sir, my question was on, you briefly touched upon what is happening in China. Can you give a much broader and also slightly longer term outlook there? What is actually happening because certainly there is a lot of disconnect between various chemical products there? I mean, the

prices, some of the prices are up, some of the prices are down. So what is exactly happening on the pollution side? What exactly is happening post the explosion that we had, we saw the prices jump up violently after the explosion. But since then, they have kind of drifted down. So ultimately, sir what is the impact of first of all, that explosion? Second, how is the policy expected to go forward? And the second part of the question is, given the trade tensions, do you expect some more volatility to come in or you expect at least these prices to continue? The last time I met, you mentioned that these prices are below this even the Chinese cannot survive because of the increased costs. So what is your outlook going forward?

Manish Kiri:

So if I ask your last question first here, so I still maintain that stand, that the prices at which we are prevailing the cost factors would not allow Chinese to go below the current prices and that would allow us to have a reasonable EBITDA which we are having now. If you look at the last two quarters of financial years, which we ended. Post explosion to give your answer to the first question. Post explosion, Chinese government had massive drive for safety and environment audits at number of industrial parts. Few industrial parks in Jiangsu Province were permanently closed down and number of units were permanently closed down. Some of the units post safety audits they were allowed to get restarted. And, some of the units they did not allow to restart. Now, if you look at the overall impact after explosion, some of the products prices which were directly impacted when the prices of dispersed price intermediates because those specific products plants were located in the same or nearby industrial area, where the explosion took place. meta phenylene diamine the very same plant, which was which was exploded, that that particular product has gone up almost 3 times to 3.5 times now, from fine \$5.5 to \$15. So certain products which are directly impacted due to explosion surrounding industrial parks and the parks which are permanently closed are impacted. And those prices are higher and some of the prices are even much higher than what we expected earlier. Now, other its intermediates, let us say for example, H-acid plant, there were no H-acid plants in that area, there were no vinyl sulfone plants in those areas. And they were undoubtedly shut down for some safety audits, but then again they got restarted. So I would not generalize that post explosion, everything will go up or everything will sustain at a higher price. Actually, some of the non-impacting products have stabilized again came back to the similar level levels, those were there earlier. So on a long term basis, if you look at the impact of various factors on prices on China, as you rightly mentioned, trade war and because of the economic pressure on trade war, we have seen that at many times, Chinese since middle of last year, have relaxed their policies, relax their monitoring, allowed some space to the industries production went up. So those factors will continue to play a role. And hence, I would suggest that we should have only reasonable expectations. And because no doubt on one side, the environmental strictness and safety sickness and standards of safety are definitely strengthening in China. But at the same time that demands are also lowering. So if you look at the exports of textile, consumption of dyes, consumption of intermediates, those are also going down and a lot of businesses being shifted from China to Bangladesh to Vietnam and to other countries. So on one side you have lower production. But on the other side, you have lower demand also within China for the

Chinese market. And that also restrict price increases to some level. So having all this mix of factors, I would say that the prices would sustain at a level where we can have a reasonable EBITDA margin of around 15%. And I believe that over a period of next two years to three years, this is sustainable and this kind of margins and this kind of prices will sustain and Chinese would not again, be able to go below that. If you look at the current prices, if Chinese for the H-acid increase prices as high as \$7.5 to \$8. But prices from India never went up more than \$5.5 to \$6, right? Because before it go beyond \$5.5 to \$6 again, it came down to \$6 within a period of 1.5 month, so my opinion would be that 15% EBITDA level prices and the margins are sustainable over a period of next two years to three years at least we can have visibility.

Agastya Dave:

Sir, when can we expect a AGM to be heard? Just pick a tentative date.

Manish Kiri:

September, the date has not been fixed yet but it would be second half of September. You are welcome.

Moderator:

Thank you. The next question is from the line of Naushad Chaudhary from Systematix. Please go ahead.

Naushad Chaudhary:

Again, one clarification on the margins, sir. You said, your exit rate of 4Q FY 2019 would be the margin going forward. So in 4Q FY 2019, on a console basis it will be around 12% only. And now you guided for 15% versus the full year we did around 17%, 16.6%. So just clarify on this.

Manish Kiri:

Yes, so my opinion was that full year we have 16.5% but on a year to year basis, there are some price hitch ups which may have, sometimes we may not have. But I believe that around 15% maybe a few percent plus minus quarter to quarter is a level that that can be a sustainable level.

Naushad Chaudhary:

Okay. And when you say 25% to 30% growth year on year, so this is the growth at EBITDA or PAT level you are giving for revenue growth 25% to 30%?

Manish Kiri:

Both revenue and PAT.

Moderator:

Thank you. The next question is from the line of Raghavendra Kedia from MH Capital. Please go ahead.

Raghavendra Kedia:

My question is would you know how much money Senda has in their books? I mean, once they are made to pay Kiri the money, how would they do it? Would they just move it from the books? Or would they have to raise cash? That is my first question. And my second question is regarding indigo, the product which is the JV, can you make something similar or anything close to it once the entire JV in China with DyStar is out and also the Indian entity, standalone basis can you make it? That is my second question.

Manish Kiri: To answer your first question, Senda is an SPV based in Hong Kong, which is an investment vehicle for Longsheng. Longsheng is a parent company and Longsheng is if I believe has market cap of more than \$10 billion today. If you look at their financials and numbers, what I remember recently is they generate almost \$400 million cash. And we strongly believe that that Longsheng and Senda they are one and the same. They have definitely availability of funds and their financial capability either they fund within themselves or they raise or whatever they do, they have enough more than enough capability to pay Kiri for buying out Kiri's stake under court's order. That is number one. Second, second question which you asked about indigo that to be honestly with you, indigo is right now produced at Longsheng Kiri and when we exit from the DyStar through the court process, we do not know what would be the new setup and what would be the new conditions like that we will have. But one thing is for sure is that Kiri, post separation Kiri no restrictions and Kiri may enter into products which Kiri wishes to if the market supports. And Kiri does not wish to even post the separation compete DyStar or do anything which is negative for DyStar. That is not at all intention of Kiri. Kiri Katie does not have any plan actually to producer ay liquid indigo even post separation; there is no such plan. And there is no such indication yet Longsheng Kiri which is producing Indigo Kiri s benefiting from there and let Longsheng Kiri continue to produce and we do not know the fate of Longsheng Kiri as on yet. And once we have more clarity, I would be able to give you more clarity going forward once the exit takes place.

Raghavendra Kedia: Fair enough. Sir, on a separate note, can you also give some color on the JV in India with Senda, any color insights on the separation are there talks or what kind of consideration you are in terms of getting separation with your Chinese partner for your Indian entity?

Manish Kiri: There is no for Longsheng Kiri if you are referring to which is Indian JV there is no separation talk at the moment, there is no discussion on the table right now. And there is no indication of anything at the moment, it would be a separate discussion between the shareholders. It would be a separate negotiation whenever it takes place. But I think, both the shareholders are currently focusing at a DyStar level and see, what eventuality happens at DyStar level through the order of the court which we have today, you know, which we see what happens to that and then post that we would have some discussions related to Longsheng Kiri, which is India JV.

Raghavendra Kedia: Fair enough. Sir, my last question is regarding there have been some export duty tariffs from China on chemical exports, which has actually benefited a lot of Indian companies and Kiri has also benefited from them. Now, with this trade war escalation. Chinese government has indicated that these tariffs could be export duty could be lowered. So is there anything which is up for any timeline or any date which is there and any of the products which would actually be impacted, which Kiri currently manufactures and export?

Manish Kiri: I think, it has already happened. Some of it has already happened, because VAT in China was 17% earlier, then it was reduced from 17% to 16%. And, from 16%, it was then reduced recently to 13%. But that 13% we VAT reduction in China, the same 13% is not refunded back. So earlier,

the 17% they were paying and now the 17% impact has reduced down to 13%. That 13% is still a significant number and that 13% of export tax indirect export tax, I would say by not giving refund of VAT is also a large number and it is not going to impact Kiri in any way.

Moderator: Thank you. The next question is from the line of Prashant Hazariwala, an Individual Investor. Please go ahead.

Prashant Hazariwala: My question is like after conversion of FCCB, promoter's stake will come down to around 27% as per my calculation. Is there any plans to raise the stakes, promoter stake?

Manish Kiri: Well, there is no such plan at the moment because promoters already whatever they have they invested in the company and promoters including me does not have any further assets to increase a stake at the moment. But, once we once the eventuality of DyStar takes place and when the company receive funds and at that time only if buyout takes place then the promoters stakes can go up, I mean that could be the only way if it happens and if it makes sense and if Kiri's boards decides to do so, if it is not, then it is okay whatever stakes is going to there, there is no other plans in that.

Prashant Hazariwala: And other question on DyStar, since last four year - five years it has been making profit around 100 billion and we have not this is so far. So, is this like all these earnings will be calculated during evaluation because we are just talking about the PE multiples, enterprise valuation, EBITDA, PAT that kind of valuation we are talking about. But what about this whatever we have earned during this last four years - five years and we have not received anything from you?

Manish Kiri: Of course, whatever has not been given or dividend out would be calculated and would be added. And that is how DyStar's book value has gone almost up to \$900 million. So, valuation we'll take that into consideration, yes, of course, definitely. Valuation would also take into consideration that the debt of the company has reduced drastically, there is almost no short-term or long-term debt, only a small debt is left net of cash if you consider. So, those factors would also be considered in valuation. So the business strength of the company, including the retained earnings, all would be taken into consideration at the time of valuation, definitely.

Moderator: Thank you. The next question is from the line of Vivek Sahani, an individual investor. Please go ahead.

Vivek Sahani: Sir, my question is regarding the number appearing in the consolidated profit and loss account, share of profits from associates, which is around the loss of Rs. 52 crores in this quarter. So can you please give the breakup of this amount from which associate companies this loss is?

Manish Kiri: That is what I referred earlier, that it all belongs to DyStar. So, what DyStar did is DyStar till September, third quarter ending, DyStar was showing \$45 million profit. And at the end of the

year in December they made a lot of provisioning to create losses in the books of DyStar. And that is only DyStar related, there is nothing else there.

Vivek Sahani: Sorry to interrupt. I was also referring to note 13 which you have given, wherein what I understand is for this quarter, March ended quarter, Kiri's share profit is around \$3.22 million after adjusting extraordinary items which are disputed items.

Manish Kiri: So if you look at January to March quarter, they reported only about \$8 million profit by again making provisioning and at one time items. If you take that out, that quarter profit was more than \$27 million.

Vivek Sahani: So, I got your point. So, my point is, even after adjusting these disputed items, there was a profit declared by DyStar around \$2.5 million and Kiri's share is around \$3.22 million for this quarter. So, which means that even the number which is appearing as share of profit from associates, it should be profit rather than loss of Rs. 52 crores. So, is there loss of some other associate company last year?

Manish Kiri: No, there is no loss of any other company.

Vivek Sahani: Because it should be profit then, why there is a loss of Rs. 52 crores?

Manish Kiri: So, see what has happened is EAT for the March and, see when we consider DyStar's financial year from January to December, but we consider the third quarter for their financial year and one quarter for this year for us. So, when we put that together and if we make that as a full year, ending March 31st, we ended up having 2.58 million earning after tax for the full year, for the financial year, which means that if I consider DyStar also from April to March and ours also April to March, that is what we came up with. And so that \$2.5 million when we convert it into crores, it translated into Rs. 6.51 crores. And then they reported up to nine months ending the Rs. 58.53 crores negative after provisioning. So, that's Rs. 6.51 crores positive and then minus Rs. 58.53 crores, which is negative, ended up having Rs. 52 crores negative. Again, this arithmetic which I explained to you from the DyStar's valuation perspective for Kiri's buyout order has no relevance. As on today as we own the company, we are bound and statutorily we have to report this numbers to you. And this is how these numbers have arrived.

Vivek Sahani: Sir, so my point was, even in the note 13 for this quarter only, January to March, you have disclosed the DyStar's profit and Kiri's share there. So, annually I got your point that how Rs. 6.5 crores of consolidated profit, share of profit from associates has come, that is okay. But my concern was more on to this quarter only, because...

Manish Kiri: Yes, so if you look at that particular quarter and if you look at our financial results and the last note, note number 13 which you refer to, so if you just look at this one quarter, quarter which

is ended 31st March, in that particular quarter reported Kiri's share of profit is \$3.2 million that is correct.

Vivek Sahani: Absolutely. So that means which comes out comes up to be around Rs. 22.5 crores. Then in this quarter there should be a positive figure as share of profit from the associates?

Manish Kiri: See, when we do reconciliation of four quarters we cannot put that number directly in to financial numbers, because the auditors will take from 1st April till what is reported. And then adjust it till the last quarter, because we were given number on the second quarter by DyStar, we were given number on the third quarter of their calendar year, which is financial year. We were given numbers which we announced on December end and then the provisioning came. Then they will reconcile from 1st of April till 31st of March, and then whatever is the residual number, when we prepare that number, this 3.21 will then change to minus Rs. 52 crores.

Vivek Sahani: Okay, I got your point.

Manish Kiri: You got my point, right? I hope I explained you. And that is the correct reporting that auditors have prepared.

Vivek Sahani: Alright. So that means, nutshell, there is no loss from any other associate company, including Kiki Infrastructure or...

Manish Kiri: No, nothing. The share of profit from associated companies, only DyStar, there is nothing else there.

Moderator: Thank you. The next question is from the line of Saurav Soni, an individual investor. Please go ahead.

Saurav Soni: Mr. Kiri, I have a question with regards to this legal thing which we lost with regard to selling in Japan and Sri Lanka. So, can you quantify like how much it would be the amount which we need to pay to the code with regard to the non-compete fees, as a non-compete violation?

Manish Kiri: I think the amount would be so insignificant, I don't know the number because it would be computed and it would be estimated under the directions of the court. But it is so insignificant, even in the last one which was FOTL, which the earlier order of the court and now the one Sri Lanka is added, even the last one their claims were much lower than \$500,000. So it's very small, it's nothing compared to...

Saurav Soni: So its less than \$1 million we can assume, right?

Manish Kiri: Yes, much lesser, our estimation, much lesser.

Saurav Soni: Okay. And any estimation with regard to how much valuation we will put up in front of court, any ballpark estimation?

Manish Kiri: No, no number at the moment, and the valuation is right now under preparation. I cannot disclose the number, and I don't know the number till it is submitted to the court. But you are all smart analysts, investors, you have this company which is making consistently having track record of more than \$100 million profit, its an MNC, huge IP, more than thousand patents, you can have an estimate of what a fair number could be, if you ask me honestly.

Moderator: Thank you. Ladies & gentlemen, as there are no further questions, I would now like to hand the conference over to Mr. Manish Kiri closing comments.

Manish Kiri: I would like to thank all of you to patiently hear me and to participate in this call. Thank you very much. And we will see you all next quarter. Thank you.

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