

Kiri Industries Limited
Earning Conference Call
August 14, 2019

Moderator: As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand over the conference to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, sir!

Anuj Sonpal: Thanks Evan. Good morning everybody 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 Q1 FY20.

Before we begin, I would like to mention a short cautionary statement as always. Some of the statements made in today’s con-call maybe forward looking in nature. Such forward looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. The statements are based on management’s belief 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 fundamental business and financial quarter under review. I would now like to introduce you to the management participating in today’s earnings call with us We have with us Mr. Manish Kiri – Managing Director, Mr. Suresh Gondalia – Company Secretary and Mr. Jayesh Rane – Senior Manager Accounts and Finance. I now request Mr. Manish Kiri to give his opening remarks. Thank you and over to you, sir.

Manish Kiri: Good morning everyone. This is my pleasure to welcome you to this first quarter of financial year 2020 Earnings Conference Call. For the once who are participating first time just for their information Kiri Industries Limited is one of the largest manufacture and exporters of diversified range of dyes intermediate specialty intermediates and chemicals which include disperse, reactive certain other specialty intermediates which are based on naphthalene and aniline based derivatives. Company has sizable manufacturing facility of dye intermediates and basic chemicals at Padra Vadodara. Major of its production facilities are located at Vadodara and company has strengthen its comparative edge by having fully vertically integrated facilities in India. Kiri formed a joint venture with Lonsen Kiri and Lonsen Kiri is another joint venture entity which has been consolidated line by line in Kiri financials.

Let me just walk you through the operational highlights for the quarter and this is a first quarter of 2020. Kiri has been concentrating in consolidating its product portfolio by expanding and optimizing its manufacturing facilities to manufacture diversified range of products and is focused on continuous innovations to achieve sustainable growth. The ongoing expansions of multipurpose specialty chemical facilities on track, certain parts of facility have already started, certain products have already commenced commercial production which has been added in this quarter performance. The expansion projects are continuing in a phase manner. Second phase and third phase would also be up in running in the next several months. So you will see that the next quarters would have more and more products which are added from the specialty intermediates new facility in our product portfolio and in our sales offering and this would also add certain top lines in this financial year and company would benefit from the expansion which has been going on for the last one and half years.

Now I will take you through the quarterly performance of the company on a standalone basis. The total income for the quarter is about 278 crore and which grew around 16% year-on-year. EBITDA was 38 crore the margins were 13.66% on a standalone basis with a net profit after tax stood at 26 crores with a PAT margin of 9.31% and if I give you certain highlights on the consolidated numbers the total income for the quarter ended is 366 crores which grew by 10% year-on-year and EBITDA is 62 crore, EBITDA is declined to the last year, year-on-year basis, but that is mainly due to the market forces and current economic and market situations which we have observed in the quarter ended. EBITDA margin was 16.9% and which is almost 17% EBITDA on a consolidated basis. I would rather highlight that consolidated number makes more sense for you to consider because there are raw materials which are supplied from the one unit to the other from Kiri to JV and finished products are produced in JV and sold. So when you look at the consolidated number it captures the intermediates as well as Dyes margin both and net profit after tax on consolidated basis reported is 39 crore which stood at around 10.7% close to 11% and we all know that the economic slowdown impacted prices of finished goods. There are certain raw materials also got impacted during the quarter raw material prices went down, but the finished product prices also reduced and to an extent finished product prices reduced to a large proportion compared to the reduction of the raw material prices.

Kiri capitalized on reduction in raw material prices and also expanded and strengthen its product portfolio in this quarter to maintain margin to focus on profits rather than volumes and you have seen that even though our quantity has not increased much as an overall, but the profit as a percentage has been maintained in the quarter. I would also highlight that the export of sales of dyes and also domestic sales of dyes intermediates both have improved marginally in the quarter.

Lastly I would like to update you on the court case in Singapore, but before I do that I would like to draw your attention on the consolidated numbers where we consolidate DyStar number as a one line item in our financials and as always there has been a large amount of disputed items in the financials of DyStar. There are certain items which Kiri director did not agree to

and certain provisioning which were made by DyStar were not agreed by Kiri director and which remained disputed matters in the financial numbers irrespective of that I would like to draw your attention to a main important point is that DyStar performance post July 2018 has no relevance for Kiri which is neither benefitting Kiri not losing out Kiri and the valuations for Kiri perspective has been frozen on the date dated July 03, 2018 and Kiri shareholders Kiri as a company would get benefitted only from the valuation that is dated on this specific date as per the order of the court. As we currently speak the proceedings for valuing DyStar are going in and there are definitive dates which have been given by the court now.

As we speak on August 19 the valuations from both the sides are going to be submitted to the court. October 7 is the final date of submitting all the filings to the court and then October 14 to 17 are the dates which have already been fixed for the final hearing and for the trial to determine the valuations of DyStar and determining at what price in buyout order which has already been upheld by the supreme court of Singapore is to be executed at. These are the updates in Singapore in the court case which was an important matter for you to know and now floor is open for the questions. I welcome questions and concerns which all of you can have. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Naushad Chaudhary from Systematix. Please go ahead.

Naushad Chaudhary: Two, three questions I have firstly I wanted to understand on our disperse dyes, if you can share how much volume we did in this quarter and what is the update on our phase two expansion of this product?

Manish Kiri: Just to address your first question for a disperse dyes portion we have out of total dyes in this quarter disperse dyes was at 8% and we have achieved almost 65% of the installed capacity of 6,000 to 8,000 tons based on the product mix and dispersed dyes have been continuously month-on-month basis are in increasing quantities added to the overall dyes sales so that is the portion of disperse dyes.

Naushad Chaudhary: 65% of 8,000 capacity which we have right.

Manish Kiri: Yes correct.

Naushad Chaudhary: And how much at optimal?

Manish Kiri: So let us say at optimal level we should be able to go up to 85% and if possible 90% of 8,000 tons.

Naushad Chaudhary: And when do you see this happening sir?

Manish Kiri: I think by next quarter or the quarter after within this year we expect to achieve to the optimum installed capacity to the fullest capacity.

Naushad Chaudhary: And what is the plan for phase two expansion?

Manish Kiri: Well for disperse dyes we are not yet starting any phase two expansion. The expansion of specialty intermediates which is going on at the Vadodara side is the priority and we would try to complete that in the next quarter or two and we would not be starting phase two disperse dyes at least in this financial year.

Naushad Chaudhary: How much revenue in this quarter was from the multipurpose intermediate which we have started you said few products you have started in this quarter, so any number you can share how much revenue was added from these products?

Manish Kiri: So if I look at only at the specialty intermediates in the quarter it has added about 37 crore 36.74 to be precise.

Naushad Chaudhary: Can you elaborate little more on these products, what are these exactly and where they are going, what is the end application of this product?

Manish Kiri: Well these are the group of products I may not give you the exact name of the products, but these are the products which are being sold currently at the rate of Rs. 520 to Rs. 648. So these are relatively high priced products, these are the products which are used mainly on as a dye intermediates but two of them are also used as a performance chemical in performance chemical areas and right now we have started about 5 products at the moment and we would be able to add 4 more in the next quarter.

Naushad Chaudhary: And what could be the sizable market for this product sir all 9 products which you will start?

Manish Kiri: I think if we do 9 products and also run on a optimum capacity we should be able to hit close to 200 crore on an annual basis.

Naushad Chaudhary: So this is entirely sold in India or do we export this product?

Manish Kiri: Right now, it is entirely sold in India, but we have plans to exporting future.

Naushad Chaudhary: And margin profile would be similar to existing products?

Manish Kiri: A little bit better and that is one of the reasons even though it is a small quantum and it is less than actually 15% of the total sales still we would be able to maintain better margins little bit better.

Naushad Chaudhary: Can you name the dye intermediate also which dye intermediates are using these products?

Manish Kiri: Those dye you mean to know which are the dye intermediate which uses this product?

Naushad Chaudhary: Yeah.

Manish Kiri: You mean particular names?

Naushad Chaudhary: Yeah if you can share.

Manish Kiri: Some of them are aromatic combined, some of them are the sulphonated naphthalene derivatives. Some of them are based on the hydrogen which are captively used as well as sold outside. I may not be able to give you the exact names.

Naushad Chaudhary: I am just trying to understand the final usage of these products so aromatic combined.

Manish Kiri: These are all used in making specific dyes, specific rates, some of them are used to produce intermediates of specific **(Inaudible) 15:58** these are the niche products.

Naushad Chaudhary: So eventually used in textile, only right?

Manish Kiri: Yes, some are in textile and I said two products in performance chemicals.

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

Pratik Kothari: The first regarding this FCCB we made discloses some 22 lakh shares got converted recently, so at the end of FY21 or 22 how many of them do that converted I believe 2 crore of them?

Manish Kiri: The total numbers I will just give you 2.04 crore are the total numbers. Right now, the instructions which we have received from the **(Inaudible) 16:51** is for 22 lakh, but yes eventually the remaining 1.82 we do not know when they would be converted, but based on discussions that we had last as and when we get instruction we would keep converting them. So when you look at the total numbers you have to look at the total numbers of shares as 5.18 crore. So I would suggest you take a total number at 5.18 crore shares.

Pratik Kothari: But is it possible for us as a company to buyout this FCCBs from them and so that it does not get converted?

Manish Kiri: Well they were restructure earlier and post restructuring currently because company does not have financial resources right now to buy them or a priority to buy them and there has not been such proposal in discussion also. There is not an option and there could be a mutual discussion if that takes place, but not currently that kind of discussion is active.

Pratik Kothari: Sir my second question regarding specialty intermediate product plant that we are putting up in Padra, sir how is it progressing I mean we are hearing that there is a lot of the Gujarat pollution control board from the chairman of Tata Steels and we are not giving further permission, so are we facing any challenges as such?

Manish Kiri: As such what we are doing right now is the permission which Kiri already had existing earlier. We had taken permissions to produce this specialty products earlier. So from permissions point of view there is no problem at the company. Number two some of these products which we have started just now are all currently being produced under zero discharge compliance conditions and that is very important to note because today we have significantly invested to make facility zero discharge and because of that achievement so we are able to add and produce new products with the facilities of zero discharge already available with us and that is the reason that we would be able to even add continue production and in future take a price advantage and as you right said because of the new permissions restricted there are limited new entrant which we can foresee in future. I think overall strictness of the department, overall strictness of the department overall strictness and monitoring of pollution control board on the units in entire Gujarat not only Vadodara or Padra would help us in terms of achieving and having a balanced and reasonable prices from the market in future.

Pratik Kothari: Sir, the current capacity which you are putting we will be doing about 200 crore this year, but peak revenue it should be about 600 or 800 crore right?

Manish Kiri: Actually, when we finish all the phases and all the products are added even in today prices we should be able to get minimum 600 crore any better prices 800 crore of a total top line absolutely.

Pratik Kothari: And which will be done by the end of this year all the products?

Manish Kiri: Yes all the products and everything would be completed by the end of this year absolutely.

Pratik Kothari: Sir, my last question I think we have done a fantastic volume growth at least on a standalone number which was mentioned, but there seems to be some major reduction in prices of end product, so if you can just talk about what is the current end prices have become and why this major change in end prices?

Manish Kiri: The two major indicators of intermediate prices which then drive the dyes prices also are Vinyl sulphone and H-acid which we tried to update you on a regular basis and Vinyl sulphone today is reduced as low as Rs. 350 to Rs. 360 which was more than Rs. 400 in the earlier quarters. So the current level of prices are lower. Similarly, vinyl sulphone has now hit Rs. 185 and probably in the last three to four years we have seen this as a lowest price breaking barrier of Rs. 200 and going below. But saying so at the same time other major basic chemicals have also reduced so the input cost has also gone down. Let us say aniline price is around Rs. 67 to Rs. 69 which

is much lower if you look at the last three to four years average prices also and similarly caustic has gone down, acidic acids is at the lowest level, soda ash is reduced. So the basic input chemicals have also reduced. The issue is that when the prices went down on intermediates as well as on dyes they reduce more than the proportionate impact of the raw materials to finished products and at least we foresee that this quarter the chances of reviving back the prices are lower, but hopefully next quarter if situation changes we might be able to have some upturn on the prices of intermediates as well as dyes both. There are few, one reason is the slower demand compared to earlier quarters and the supplies are continuing in the market. Second reason Chinese counterparts also reduced their prices in China. So to match those prices there is no way but the Indian producers would also have to reduce their prices. International market if you look at the price of H-acid has now reduced to \$5.3, \$5.4 from China which was \$6.5 earlier. Vinyl Sulphone from China has also reduced to \$2.8 from \$3.3 earlier. So when products are coming out of China at a reduced price again Indian producers have no choice but to match those prices and that is another factor that the prices may reduce. So one is demand second is overall supply increase, third China price reduction.

Pratik Kothari:

But sir the earlier reasoning that China will now have to comply to higher environment and safety norms and hence the prices would stay elevated I mean are we seeing a change?

Manish Kiri:

Say for example if you look at H-acid at 5.3, 5.4 we see it now that it is not going further down, it is not going \$5 or below. So we saw that at \$5.4 that bottoming out from China and we can based on our cost of production as well as cost of environment compliance and pollution treatment which is similar to that in China. Chinese would also not be able to go below this price level; it appears to us based on how the prices are not further going down. Similar situation exists with vinyl sulphone for example 2.8 below is not going in China. So we hope earlier we expect that at least \$3 it should bottom out and affordability would be challenged below that, but it seems that 2.8 because of the raw material reduction of vinyl sulphone 2.8 seem to be a new item below which it does not seem to be going in China negative South to 2.8. We still maintain that at certain levels prices have to be balanced and Chinese would also not be able to reduce to a level where the compliances become challenge where the treatment of the affluent become challenge and we do not see that situation arise in currently.

Pratik Kothari:

Last question I think I asked on every con-call so from the money that we are receiving from dye if I have decided any capital allocation plans?

Manish Kiri:

There is no specific plan at the moment as we mentioned earlier, we would mention that Kiri board is going through a detailed discussion and debate, but there is not crystallization of allocation of the funds. Actually, we would also do not know currently what exit amount we would be getting and in the next 2 to 3 months' time the company will have clarity on what amount we are looking at. Even though this could be a substantial amount. So once there is amount clarity, once we pass through the crucial hearing of the valuation at the court and then we would have further debate, but I can tell you that we will have a prudent decision. It would

be in the benefits of shareholders and it would benefit the company as a large and all the decisions would be made with proper debate and proper discussion at the board of Kiri.

Moderator: Thank you. The next question is from the line of Harsh Gupta from Ashika Group. Please go ahead.

Harsh Gupta: Just couple of questions about the timeline of the court case, do you think 14th to 17th October would be the final hearing for evaluation after the 7th October submission so that is an SICC so there is a chance of that being appealed by let us say per moment assuming the losing party say DyStar in the supreme court?

Manish Kiri: If Losen losses they have a right to go to supreme court and if once the hearing finish then we can also expect a reasonable time first to get a judgment. So based on our prior experience even the latest judgment from the supreme court it takes at least a month to get a judgment from the court and post judgment Longsheng or Senda can go to supreme court right to go to supreme court they already have and the number which will ordered by SICC can be challenged in the supreme court. Assuming that supreme court would admit the matter, assuming that supreme court will entertain because this would be the third appeal, assuming that it would take at least another 4 to 6 months' time.

Harsh Gupta: So basically end of November let us say SICC order comes out for a 6, 7 weeks and then another 4, 5 months it is entertained before it is confirmed let us assume that happen when I say April of 2020 or whatever the rough number is, is there any chance of I am just asking for any maybe low probably events, is there any chance of them circumventing the order in anyway because maybe that is one of the reasons some minority shareholders are skeptical?

Manish Kiri: Well from timeline perspective yes as you say it from next April to June to be on a safer side and to be conservative is a time frame where we get the final supreme court judgment post that when you talk about dishonoring even the supreme court verdict in addition to dishonoring in SICC verdict. According to our legal advice would be extremely challenging for them because there is no further court above and going through the process of contempt of court and not honoring the court judgment is something which we do not expect Longsheng or Senda to do, but it is up to them then the consequences would be faced by them and the court will make appropriate decision to ensure the Kiri is paid its legal dues at that time and Kiri is awarded the necessary amount which has been ordered and the justice is be served to Kiri. So I am sure that court will be cognizant to take necessary step if that event comes even though the probability could be lesser.

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

Agastya Dave:

Sir I missed the first 20 minutes of the call today and just for like future also if you could post transcripts on the call on the website that would be of great help. Forget the part that I missed the first 20 minutes it is also problem because we keep on getting disconnected because of the very bad signals, so if you could post the transcripts that would be of great help so that is just one suggestion second sir I heard you mentioning that demand is slightly on the weaker side, could you quantify that sir in terms of probably tonnages or give any number to it from peak demand how much have we replaced by and second sir in the past I know that industry has support more from the supply side rather than from the demand side, so this time around what are you seeing on the demand side specifically what is the lowest point, so you said that the prices have stopped falling, but to what extent do you expect the demand to fall in the worst case scenario and also the second subpart of this question is you also mentioned the spreads have slightly compressed even the raw materials prices have fallen so where are the spreads in the historical context have they fallen enough or they would rebound from there or will they fall more?

Manish Kiri:

So firstly, to address your disconnectivity problem I think the organizer of the call will make proper arrangements for you and I think the transcript is being shared so surely you will get the transcripts. Just to answer your question number one question about demand and reduction in demand. Overall if you look at in the last two to three months' time we have seen the demand side in terms of dye supplier to supply and the dyes being exported out of India. Last two months if you look at overall from 16,000, 17,000 we are 14,000 to 15,000 tons of export from India. So that would show you the factual number to see that the demand is about approximately 10% down. It does not mean that the demand has disappeared from the end user level which means that when buyer see that the prices are falling we would purchase less dyes and dyes producers would purchase this less dyes intermediates, but at the same time how much further can follow fall your second question I can estimate that may be further 5% where it can have a maximum lower in terms of quantity of demand which means that if we reduce our export to 13,500 tons let us say from India that would be lowest I do not see the number going below that, but by the time pipelines will also get empty by the time warehouses and stocks had various points of dyes would also get finished and they would have no choice but to purchase more products from India, China, from anywhere. So that would again put demand back on track. The global consumption in this industry and the global demand is still maintained at 3% to 4% and which is continue to which is not too bad which will continue to grow at that level on year-to-year basis. So even though one quarter could be lower due to the sentimental effects of prices going down but again the quarter and the next may come back so that is the second question. Now third you said that the supply excess historical problem so if you look at the current overall scenario and the NGT's judgments which have been coming in the last 6 months' time or a one year time and if you sensibly analyze the way the overall direction of industry is growing from the environment compliance point of view there are huge restrictions being put by the NGT orders and decisions. Penalty levels have been substantially increased, new permits and new permissions in the identified which are more than 80 areas all across

India almost 100 areas which are declared critically polluted new permissions are becoming extremely challenging and difficult. So in such a situation well the supply cannot be too much excess from the existing capacities. It can be excess to the extent of 15% to 20% but it does not seem to be happening like past where whatever the demand and two times demand or three times demand capacities come in the market and everyone has a free entry to put up new plants, ramp up production and the demand would not match for the next 10 years. I do not see that kind of situation and that kind of possibility which is happening and it is not those kind of intermediates plants are not under construction at the moment in any industrial area and we do not see that the mass supply and the mass production can take place which can far exceed next 5 years demand I do not see that situation is happening that was the historical context I am giving you. So if you look at and if you position yourself let us say 10 ago or 7 years ago and you position yourself now it is changed quite a lot in terms of restrictiveness of the supplies, in terms of new entries for the new facilities which is much, much restrictive compared to earlier times.

Agastya Dave:

Just a follow up on what said on the apparent demand which is the real demand, so could you describe a little bit how this supply chain is generally in this industry. I for one have not been paying too much attention to that, but basically B2B business right sir so the supply chain what you said the buyers are not buying and they are liquidating the stocks so what kind of stocks do they generally keep, what would be the total quantum and if any light can you throw around that that would be great that is it from my side good luck for the next quarter?

Manish Kiri:

Let me give you some of the supply line idea so that you can understand the logic when we supply from basic chemicals to intermediates, intermediate producers of lot of liquids do not have much talk of basic chemicals they come regularly and use regularly then basic chemicals are converted into intermediates. Now intermediates inventories and intermediate stock could be in the range of 15 days or maximum up to 2 months we have not seen it is exceeding more than 2 months or 3 months' time even if you combine all intermediates stocks everywhere wherever dye is produced India as well as outside India then intermediates are converted into dyes the next step. Now dyes stocks are many, dye stocks are at a DyStar producers' level, dye stocks are at a various warehousing level of manufacturers and most of the dyes are sold to multinational companies or to wholesalers. So there is a buffer between consumers who are actual user of dye and the producers of dyes. So multinational companies and wholesalers have their own stock points in respective countries and respective geographical areas where they cater to their customers that is the major chunk of stock and that stock in China for example can vary anywhere from 1 month to 4, 5 months sometime. So that stock of dyes is a major stock point. Intermediate stock is comparatively lesser in terms of the number of days, dye stocks is higher in terms of number of days and supply chain then those dyes are used by the textile producers who produce for branch and retailers and when textile is produced nowadays textile production cycles and supply chain timelines are shrinking for the last 5 years which means that branch and retailers are expecting textiles to produce everything and dispatch

them within 8 weeks for example, 10 weeks, 12 weeks. So the timelines for textile producers also restricted and the stock is important necessary for them to be suppliers by their vendors so that they can process textile fast and dispatch and export and when it reaches to consumer C level is when the branch and retailers sell the finished textiles or finished leather products or finished paper or finished plastics at the end of the day to the end users that is the chain. As you can see there is a 2-month buffer, there is a 3-month buffer sometimes 4 month buffer also. So when the demand shifts from quarter-to-quarter or month-to-month this in between stock is being consumed and used.

Moderator: Thank you. The next question is from the line of Atish Roy Mohan from Drone Capital. Please go ahead.

Atish Roy Mohan: I just want to know if you have been seeing a return in capacities coming from Chinese manufacturers in the previous quarter and if you see this increase in the forthcoming years?

Manish Kiri: Yes, as you rightly said from the last two, three months we have been observing that the Chinese capacities are utilizing and working capacities are increasing and Chinese have started producing more than the last year. We would see that majority of the Chinese producers of both dyes as well as intermediates would continue to have optimum or a higher capacity utilization in the next quarter or let us say next one year time, but please understand that whatever Chinese production of ultimate dyes is being used within China and not being exported to that extent. However, it influences the price whatever market which is prevailing in China or the market dynamics must affect the prices in China would also affect the prices as well globally. But Chinese production are we have seen now to getting limited to the Chinese consumption and their export of finished dyes is less than even 3% to 4% of the total production. Now that is due to still one impact which is continuing in China is the non-refund of VAT for export of dyes out of China. Earlier it was 17% the reduced to 16% and now it is about 13%. So 13% non-refund of VAT is a big element for Chinese producer and that is the reason that we believe that even in next short term future if Chinese policy is not reversed China would continue to restrict themselves for the demand and for the supplies of dyes within China.

Atish Roy Mohan: I just have one more question do you have any plans on expanding upon your current vinyl sulphone and H-acid capacities?

Manish Kiri: No, there is no plant. So, we will add more and more intermediates other than vinyl sulphone and H-acid not this time.

Atish Roy Mohan: Can you please explain your rationale behind that?

Manish Kiri: I think as a sensible player in the market we do not see that we believe that the existing installed capacities of vinyl sulphone and H-acid all across India are sufficient enough to balance

demand that is for next 2 to 3 years' time. We do not see that there is an exponential growth of dyes that can drive further increase of expansion of these two products. So we do not end if we expand on this two products higher than it could be profit detrimental than the profit incremental. So we do not see there is a profitable growth and there is a possibility that if we expand too much then it may affect the prices negatively not only for us, but also overall in the market and that will impact us as well. So producers like Kiri who is one of the major producers of these two products and other producers as long as producers understand the supply demand requirements of the market and try to balance them out it would be helpful to keep reasonable margins in future.

Moderator: Thank you. The next question is from the line of Ashish Agarwal from Navis Capital Please go ahead.

Ashish Agarwal: I have a question regarding Lonsen Kiri in the context of DyStar being the main customer is there any change you are seeing in customer behavior that impacting revenues and margins?

Manish Kiri: Till now we do not see any change in between Lonsen Kiri and DyStar in terms of business dealings with each other. Lonsen Kiri continue to supply to DyStar as per DyStar requirements and both the companies have been perfectly working with each other as a customer and supplier with no impact due to the cases. We do not see that in the business between the two companies and how DyStar would behave or change once Kiri no longer shareholder we cannot say at the moment we have no idea it is up to DyStar, but from Lonsen Kiri side of course it is a customer and even in future if the supply is continuing on a regular basis on arms length basis between two companies the same way it is happening now I do not see any issue related to that.

Moderator: Thank you. The next question is from the line of Tanmay Mehta from SBICAP Securities. Please go ahead.

Tanmay Mehta: I just had a question on ethylene oxide are you facing any supply issues because the competitor pointed out that there is some supply issues that they are facing, so are you facing any supply issues?

Manish Kiri: Yes generally speaking from May onwards in fact June and July this two months entire industry and all of us face supply issues because few plants of Reliance went under shutdown and you know Reliance is the only supplier within outside, but now in the month of August we see it has come on stream and supplies are normal now and because of that you do not face in a current situation we are not facing shortage, but yes there was a shortage there was a short supply and what I understand is all vinyl sulphone producers got ethylene oxide lesser than what they actually required and Reliance curtail supplies to all and that is also one of the reasons that the vinyl sulphone production get restricted automatically irrespective of what

installed capacities are because EO is the critical raw material very important raw materials and that also controls and restricts the production of vinyl sulphone.

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

Prashant Hajariwala: Sir my question is whatever CAPEX we are doing we are doing internal accruals?

Manish Kiri: Yes every CAPEX every investment is only from the internal generated profit there is no debt the company is raising it will not raise in future. So the entire growth in the CAPEX is from the own profits no loans and no dilution at all. So and that position is going to continue in future too.

Prashant Hajariwala: So how much CAPEX you have done FY2019?

Manish Kiri: You mean the last full year?

Prashant Hajariwala: Yeah last full year.

Manish Kiri: Last full year we have 2019 was 109 crores.

Prashant Hajariwala: And what we are expecting in 2020 this year?

Manish Kiri: 2020 as per our budget we are expecting at least somewhere around 77 crores, 78 crores for the full year.

Prashant Hajariwala: Can you explain me the zero-discharge plant that I am not understand we got some kind of discharge and how we do that below discharge exactly how it was?

Manish Kiri: See what zero discharge means zero liquid discharge. So the way it works is that you identify various streams coming out of your plant of various kinds of affluent of various characteristics and you segregate them in various streams certain streams are concentrated streams with high COD, certain streams are low concentrated streams with biological treatments and certain streams are untreated streams and then you treat every one of them and for example high concentrated stream then you will use multi effective operation system to evaporate the water, concentrate them then you dry them and then you sent to a solid waste. So by that you are not discharging any liquid. If biological treatment they you recycle reverse osmosis, ultrafiltration and then you reuse your water. So when you do not discharge any liquid out of your premises either you recycle and reuse or you convert them into solid waste by concentrating them, evaporating them. So when we mention about zero discharge it is liquid discharge to be precisely in technical terms and continue the companies like us would continue to do a solid discharge which means that solid waste is being then sent to a landfill side approved by the pollution department and also there would be air emissions because all your

chimneys, your boilers. So it is not zero at discharge it is not zero solid discharge it is zero liquid discharge. I hope I am addressing and clarifying the different application where we mention zero discharge because sometimes it is misleading if we do not mention whether zero liquid discharge, zero air discharge or zero solid discharge. So it is zero liquid discharge where you do not discharge liquid out of your premises even though you are given permissions we still have permissions today, but these are the futuristic standards that companies would have to achieve and it is not demand from the regulatory authorities and also demand from Green Peace the customer side from the brands and retailers and now there is a official platform of ZDFC which is zero discharge platform which has been created globally and Kiri has already started registering itself. So it is certification, it is a reputation, it reputation, it is credit in the eyes of customers and that shows that you are different from other mom and pop producers having that kind of a status and it would help you for your sales, it would help you with image with the customers and they would consider you a reliable partner for a long term future.

Moderator: We move to the next question which is from the line of Naushad Chaudhary from Systematix. Please go ahead.

Naushad Chaudhary: Just one question on the guidance would you maintain your earlier guidance of around 25% of volume and sales growth with 15%, 16% of EBITDA margin?

Manish Kiri: Of course, that is still maintained and on year-to-year basis we still believe that kind of growth is maintenance plus Kiri expansion especially in the case of Kiri we would maintain that kind of a volume expansion for sure.

Naushad Chaudhary: I missed out on this DyStar valuation part if I heard it correctly you said maximum by end of June next year the case should resolve or what exactly it was if you can re-explain it?

Manish Kiri: Yeah that is what I said because the timelines which we see from the court now which is having October 17th to be precise when the hearing get over and then the judgment comes there is a appeal provision whoever loses and if appeal is also entertained by supreme court of Singapore and if you factor in those timelines it will bring us somewhere around April, June 2020 right by the time things gets fully resolved exactly. So that is the timeline which we foresee now.

Moderator: Thank you. The next question is from the line of Sanket Bhatia an Individual Investor. Please go ahead.

Saket Bhatia: Just I am observing standalone basis the other expense cost has increased significantly can you elaborate?

Manish Kiri: One of the important parts in other expense is legal expenses and those legal expenses are related to court to the court cases and there is a significant rise there. So that is one point which you should understand that when you compare us with other peer group company the

others expenses which we have the legal cases and litigation related expenses and that contributes a significant portion.

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

Manish Kiri: Thanks to all for participating today in this first quarter earning call and beside this call if you have any questions or queries, please sent to us Valorem will compile them and we will be happy to answer your concerns. Thank you again for participating. Thank you all.

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