

# Kiri Industries Limited

## Q4 FY'20 Results Conference Call

### July 1, 2020

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q4 FY'20 Earnings Conference Call of Kiri Industries Limited. 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 '\*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand over the conference to Mr. Anuj Sonpal from Valorem Advisors. Thank you. And over to you, sir.

**Anuj Sonpal:** Thanks, Rupali. 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 Financial Year ended 2020.

Before we begin, I would like to mention a short cautionary statement as always. Some of the statements made in today's earning 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 any undue reliance on these forward-looking statements in making any investment decision. The purpose of today's earnings conference call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

I would now like to introduce you to the management participating with us in today's earnings concall. We have with us Mr. Manish Kiri -- Managing Director; Mr. Jayesh Hirani -- Senior Manager of Accounts and Finance and Mr. Suresh Gandalia -- Company Secretary.

Without much delay, I request Mr. Manish Kiri to give his opening remarks. Thank you. And over to you, sir.

**Manish Kiri:** Good afternoon, everybody. It is a pleasure to welcome you to the Fourth Quarter of the Financial Year 2020 Earnings Conference Call. For the ones who are participating for the first time, let me give a brief background about the company. Kiri Industries Limited is one of the largest manufacturers and exporters of diversified range of Dyes, Intermediates and certain

Chemical products, which include Disperse Dyes, Reactive Dyes, Specialty Dyes Intermediates and many, are based on Naphthalene and Aniline Derivatives. The company has sizable manufacturing facilities of dyes intermediates and basic chemicals at Vadodara. Majority of its production facilities are located at Vadodara. And company has strengthened its competitive edge by having full vertically integrated facilities located in India. Kiri had formed a joint venture with Long Sheng of China and set up manufacturing facility for dyes in the name of Lonseng-Kiri and financial parts of the Lonseng-Kiri has been consolidated line-by-line in our consolidated results.

Let me also now go through the "Operational Highlights for the Quarter." The company faced total lockdown between March 20<sup>th</sup> to April 27<sup>th</sup>. After which the plant were partially allowed to operate. Initially during May 2020, the company was allowed to fulfill its export commitments by operating its dyes manufacturing facilities partially and lately since June 2020 the company has been allowed to resume normalized operations and to domestic sales also.

For the quarterly performance of the company on a standalone basis, operational income for the quarter was around Rs.213 crores which degrew by around 30% year-on-year basis. The comparative gross margins have remained on a similar range around 38% and EBITDA reported at around Rs.11 crores which declined by 63%. The decline was due to lockdown which affected revenues and correspondingly fixed overheads could not be absorbed and thereby impacting EBITDA. At the same time, please also note that EBITDA is impacted due to a huge legal cost which has incurred in this quarter. EBITDA margins were at 5.13% with net profit after tax of 3.4 lakhs with almost zero PAT. The operational income on a standalone basis for FY'20 was around Rs.969 crores which declined by 8.7%. EBITDA for FY'20 was Rs.96 crores which declined by 38.6%, bringing EBITDA margin to 9.92% while net profit for FY'20 reported Rs.50 crores and PAT margin was at 5.18%. Since the operational expense include legal expenses as well as fees for valuation towards continuing litigation in the matter of DyStar Singapore international commercial court, the cost of litigation in Singapore has been fairly high which has substantially impacted the bottom line of the company in this quarter. This is the quarter in which the extensive hearings have taken place and this is a quarter where court had given all the hearing dates and that is particularly the reason that the engagements of valuers and lawyers was quite high.

Now, I will try to take you through the quarterly performance of the company on consolidated basis. The operational income for the quarter was around Rs.298 crores which decreased by 22.7% year-on-year basis. EBITDA is Rs.30.7 crores which declined by 34.6% on year-on-year basis. And EBITDA margins were around 10.30%. Net profit after tax was Rs.18 crores with PAT margin of 6.10%. The operational income for FY'20 was around Rs.1,305 crores which has declined by 6.3%. EBITDA reported for 2020 was Rs.186 crores which declined by 19.4% and EBITDA margins were at 14.26%. Net profit after tax was Rs.116 crores which accounts to PAT margin of 8.86%. Total comprehensive consolidated income for FY'20 stood at Rs.375 crores. For the year 2020, the major contributors to the consolidated profits, net of write-downs and exceptional provisioning include Kiri standalone contributing Rs.49.82 crores, JV which has

contributed Rs.67.19 crores which is Lonseng-Kiri and associated company DyStar which has contributed Rs.259 crores and that is how the total brings up to Rs.375 crores which is a very decent number on a consolidated basis.

During FY'20 DyStar has earned 121 million before considering exceptional expenses, provisioning and write-offs of 25.86 million which are disputed items by Kiri directors. During the last two financial years 2018-19 and '19-20, Kiri has been strengthening its product portfolio by expanding and optimizing its manufacturing facilities to manufacture diversified range of products which basically has contributed in improving its product mix, which include specialty dyes intermediates and disperse dyes among others. Finance cost increased on account of increase in financial charges charges and pertaining to discounting of LCs and other bank charges. Operational expenses of Rs.872 crores include significant amount of again legal and professional fees related to Singapore court litigation costs.

Working capital cycle has been under tight vigil and average cycle has been controlled where the collection period of account receivable has remained consistent. Trade payables period has been around 105-days whereas collection of receivables has been around 70-days in 2019-20. The company's holding inventory of around 36-days, that is an average period in the '19-20 financial year.

Kiri standalone property, plant and equipment have increased Rs.110 crore which during the preceding year had increased by Rs.114 crores. So the expansions of specialty intermediate plants is almost to get over with all these investments in last few years.

Lastly, with regards to update on Kiri suit in the matter of Singapore. It is important to highlight that ongoing trial at Singapore International Commercial Court was completed on April 6, 2020. The relevant hearings got completed on this date which were held in two tranches during the last quarter of financial year '19-20 which is from January to March. The final hearing of overall closing and related arguments were going on yesterday and today and just about 15, 20 minutes ago the final hearing arguments got completed in Singapore. The valuation of stake of Kiri shall be crystallized based on financial position of DyStar as on July 3rd 2018 which is a valuation date. Now the judgment is reserved and we expect the judgment to come as per our prior experience in the next month or two. But nothing more to be done from either side and just await for the judgment to come from the court.

Another development is that the DyStar has initiated another suit against the company for the violation of non-compete clause in shareholders' agreement in other parts of the world which is different from the earlier claims which is mainly pertaining to Bangladesh, Pakistan, Iran and Brazil. Company has also filed counter-claim on June 8th. So company has again come up with the strong response to DyStar on that ground. And the customers which are alleged by DyStar in their new claim have been in business with Kiri prior to execution of shareholders agreement. So Kiri strongly believe that it is out of the purview of the non-compete clause. Again, we think that these are the desperate attacks by DyStar and Long Sheng together knowing the position that Kiri has been having since last five years and the judgments which have been awarded in

Kiri's favors in last two years. So Kiri management does not foresee any payment of damages to DyStar on the suit. We will keep you updated. Again, on the main suit, we are awaiting for the judgment now and let us see when the judgment is delivered.

Now I would like to open the floor for the questions. Thank you very much.

**Moderator:** Thank you so much. We will now begin the question-and-answer session. We have a first question from Mr. Saurabh, retail investor. Please go ahead.

**Saurabh**

**Retail Investor:** I have a question like what is the expected date on which the final result of this hearing on the valuation will be taken, because it is already so long and if the valuation is already done, I think they might have told some date also when the decision will be declared?

**Manish Kiri:** When the closing arguments got completed today and as per the earlier practice of the court, they just reserve the judgment. Court does not give the specific date on which they will deliver the judgment. So when entire process is completed, judgment is reserved. So as on today, on 1st of July, court has reserved that judgment. The only thing we can say from the timeline perspective is what we have experienced in past. So when court delivered SICC judgment on 3rd of July and the subsequent judgment by SICC as well as Supreme Court, it has taken at least two to two months, right. In this case, we are expecting at least about a month or two... again, this is the expectation. And during the time the judgment should come.

**Saurabh**

**Retail Investor:** Is it possible to share like how much amount of valuation we have put forward in front of the court?

**Manish Kiri:** Because matter is sub judice and till the judgment is out, we are bound not to disclose any number. But you have seen DyStar performance till today, you have seen DyStar performance till July 2018 which is a relevant date and you know the profitability from the Kiri's financials and as an analyst you can estimate what could be the fair value of DyStar and that would be the number and Kiri is expecting a substantial number. I may not be able to give a number. It will be premature to give any number, but I am sure court will give proper justice and court will provide a number which would be the fair number to the valuation of DyStar. Court has done the whole process of hearing both the valuers giving them enough chance to respond to each other. Court has engaged them with joint meetings and court has done a lot of efforts to find out the true value of DyStar and I am sure it would be reflecting in the judgment.

**Saurabh**

**Retail Investor:** As per the standalone financial statement, it was written that due to COVID, there is some impact and we could able to read in a pre-COVID status with regard to productivity by the end

of December. Is it not like too much that we could be able to regain the same kind of production level and everything considering that everything is open right now in India for example?

**Manish Kiri:**

I agree with you. That is an optimistic view. And current situation in India as well as outside India, all are very much uncertain and changing daily. So even though we may expect recovery to come faster like how it had happened in China but may not necessarily happen that way. So, I would say it is an optimistic view, but we can give more indications or directions by the end of first half which means by next few months when we see the situation emerging in other countries for our exports as well as changes happening in India, we would have more visibility. However, today I agree with you, it is a lot of uncertainty and looking at that we have to wait until we are able to estimate reasonably predictable forecasts, which is difficult as you, can understand and you rightly said for the full year to date. Therefore, we hope, but let us connecting and let us keep updating so that how we can see the recovery coming.

**Saurabh**

**Retail Investor:**

Is there any plan with regard to disposal of the money we will receive from that court? I expect that by the end of this year for sure we will receive the stake from the DyStar. Is there any plan company internally discussing with regard to maybe doing a buyback or dividend or maybe expansion of the current business or will you consider it later on when the decision will be finalized?

**Manish Kiri:**

There was a broad understanding at Kiri's board and which was conveyed earlier and I would tell you again that the majority of the funds would be used to create a new platform for Kiri to transform Kiri to also a billion dollar company, right, but at the same time certain portion would also go back to shareholders. So there would be too broad usage of it. Now, we are not certain what is the amount as on today. So once the amount becomes available and known, we can give more clarity in terms of the numbers, but there are no specific plans yet, there are no specific projects that company has decided yet. The company has been evaluating the various options of Greenfield projects of many feasibility studies, but nothing has been crystallized as of now. Therefore, we would be open to look at what is the best interest for the company and the shareholders and then we will we will find to invest into very productive in a very prudent way. So not crystallized yet.

**Moderator:**

Thank you. We have next question from Mr. Karan From Ashika Group. Please go ahead.

**Karan**

**Ashika Group:**

I wanted some clarity on the cases going on because when I look at the auditors' report, there is also a note mentioning that the company has filed defamation suit against DyStar because of damage suffered by Kiri because they have stopped purchasing from Kiri. So could you give some information on that?

**Manish Kiri:** There is a main case and the main suit that we are fighting is a minority operation case where we are waiting for court to decide the value of DyStar and the buyout order to be executed at that value. That is a main suit. All other suits are I would say these are side suits. So the suit which you are referring is Kiri has filed two suits against DyStar. Let me just elaborate so that one is a defamation suit in which DyStar and Long Sheng to conduct propaganda against Kiri to tarnish image of Kiri. In addition, there were certain evidences for that. So that is why Kiri filed suit against them. Kiri filed second suit against DyStar saying that you have not catered for all these years Kiri as a preferred supplier and it is the shareholders obligation for DyStar to treat Kiri as a preferred supplier which they have not done, that is what we believe. So there is a second suit that Kiri has filed against DyStar. So these are the two suits against DyStar going on from Kiri side. Similarly, DyStar has filed suit against Kiri which I just explained is a non-compete, that Kiri has competed with customers of DyStar and tried to take away business of DyStar. So that is third. So all these three suits are side suits I would say. And in a legal battle you have multiple cross-suits against each other. Therefore, you have to look at this battle as side battles and the main battle is the operation battle and the execution of the buyout. So these are the side suits that are filed against each other by both the parties.

**Karan**

**Ashika Group:** So this is a recent one or is this going for a longer time the one that Kiri filed against DyStar?

**Manish Kiri:** I think Kiri filed almost a year back... I do not recall the exact date but quite some time ago.

**Karan**

**Ashika Group:** And so when you say DyStar had stopped taking orders from Kiri as the preferred supplier, is this the recent development or was this happening since the time...?

**Manish Kiri:** No, no, it has happened since 2013. It is not a recent development.

**Karan**

**Ashika Group:** I think there is a hearing on June 24th because there was not some disclosure about your travel history. Could you share something on that as well?

**Manish Kiri:** Yeah, when I was in Singapore in lockdown, there was COVID-related issue that came up. There are a list of questions when you enter into a building at that time in Singapore and I was entering the court that did you have fever, did you have sore throat, have you been close contact with someone who has had virus infection, those COVID-related questions. So one of the questions which they thought that it was the wrong question. I said that well, that was my genuine mistake and actually, that was the right question what I said. So then they investigated on this. This is all virus related. It is nothing to do with other cases. Then they investigated and then they realized that yes, my contentions are correct and attorney general chamber dropped

all the charges against me. It is already over, it is finished last week and then I returned to India... so I am back to India now.

**Karan**

**Ashika Group:** And on the operations side sir, I wanted to know during the lockdown, company had a lot of labor issues that everyone was going back. But are we seeing the laborers returning now or is the situation still the same?

**Manish Kiri:** Labor issues are serious issues and which we are also facing those. Almost 40-50% labors have again come back now. But at the same time, we also have demand issues. So, there are two major issues which everyone is facing including us is that demand for textiles and demand for dyes has dropped drastically. So on one side because of lower labors, we are not able to ramp up our production and on the other side there is no need because the sales is also lower. So that helps each other not to have pressure, but at the same time we are involved in resolving both. Demand is not in our hands. Multiple factors would affect demand. But of course labor is in our hands. So we have taken drastic steps to address the labor requirement and we have made an ambitious target that in the coming quarter Kiri's labor requirement would be reduced by at least 30% or even more permanently. Therefore, there are many automation and semi-automation measures that we are taking and using this time for and which would allow us to reduce labor permanently, for example, all of our plants together today employs unskilled labors including contractors to the extent of 1300 to 1400 people. Now we would be reducing that number to less than 1000 or probably 900 people in all plants across including JV. So there are certain steps and measures which we are implementing on urgent basis which will reduce our labor requirement permanently. The reason we did not do earlier because there was no need and to be honest we never realized that we would be short of labor. Only this COVID situation made us realize that it is possible that we may not find labor. So we are taking those corrective measures to permanently reduce our labor requirement for future.

**Karan**

**Ashika Group:** I just wanted to know, do you have any kind of dividend policy or something in mind because I noticed last time we had announced a dividend of Rs.2 but now it has fallen to 0.50?

**Manish Kiri:** I think dividend has been looked at this year more of a continuation of a token because you can see the ongoing CAPEX which has been happening for the last two years and now almost at the verge of finishing. Plus we believe that next six months would be a difficult time of the year and company should reserve the necessary cash to make sure that we manage liquidity during this year time. And those are the considerations which were taken while considering this number. I would suggest that what we are looking for in the company post receipt of Singapore funds to be on a growth trajectory to have higher potential to grow and we would utilize in that fashion.

**Moderator:** Thank you. The next question is from Mr. Jai Kishan Sharma. Please go ahead.

**Jai Kishan Sharma:**

I believe the amount which you have mentioned that would be coming from DyStar valuation stake sale. I would like to know which areas will you be targeting for the expansion growth? Now, as we have now been disengaged with DyStar collaboration with Kiri and Long Sheng, how are we to boost our engagement with the client which were effective for us while engaging with DyStar?

**Manish Kiri:**

To answer your first question, we would not need investment into the existing dyes and intermediate business for sure. So I can give you one assurance that the funds would not be required to invest in the same industry as we are today. We would be investing within chemicals frame but there are a lot more projects that specialist project team have studied during last two years and continue to study. So we will invest within chemical area. Many other specialty chemicals which India continue to import, which we would be targeting, there are huge petrochemical derivatives which are imported from China, those are being studied. So the investments would be done within chemicals but away from dyes and intermediates, more into specialty chemicals. And we are also looking at the current situation which is emerging in a way to go away from China. That is the sentiments. And even new policy announcements are blocking quite a sizeable chemicals coming into India. That again gives more opportunity to invest into those areas where India has consumption and more import quantum is still considered. Therefore, we are looking at each and every of those chemicals where we are dependent outside and where we can have consumption in India. And there are host of such chemicals if you look at the total import of India. So we are targeting those replacing Chinese import and other imports. So these are the areas where we would focus. I think to your second point, to be fair to say that Kiri and DyStar operates or have been operating in different pocket segments and 2014 onwards Kiri has not supplied a single kilo of products to DyStar, nothing. So Kiri's dependency on DyStar is not there as on today. So for Kiri, it is not going to change anything once we break out from DyStar. Kiri's client base, Kiri's customer base, Kiri's distribution networks and Kiri's storage and warehousing facilities outside India are sufficient enough to serve Kiri's own sales and growth and it is a fact that Kiri is known to each of the textile producers across the world where we do not need introduction to be given to them. So in that sense, as far as we continue to serve our existing customers and sell more of dyes to them, we would not be needing anybody support or help. At the same time, if you look at our next three years growth plans where we almost completed our new specialty intermediate plant of second phase which was to get started on 1<sup>st</sup> of April, now it will start somewhere around 1<sup>st</sup> of August. And that will serve to a different class of clientele which are probably intermediates around 26-products, we have almost eight product lines in the new facilities and that will be serving to around 60% dyes intermediates and 40% to performance chemicals and agrochemicals intermediates also. So that intermediate segment has nothing to do with DyStar. That point I am making. So it is on those plans, it is on identified products that it will produce and sell in the market are also distinctly different from DyStar.

**Jai Kishan Sharma:**

I believe we are quite optimistic with full-fledged operations. But I would like to know how we will be getting into the full-fledged usual activities seeing the COVID pandemic in near future, can I consider somewhere between Q4 for 2021?



**Manish Kiri:** I think 2021 would be extremely challenging. We have presented to come back on track by December or faster is an optimistic view. In addition, I can tell you that current uncertainties I have mentioned earlier are very high. Demand is almost crashed. And you are looking at companies operating at 20%, 30%, 40% demand. Certain countries have not opened up, for example, Central America has not opened up, right, Brazil also not opened up, and Indonesia just opened. So in such a situation, it would be difficult to predict how 2021 look like. We will do our best and our current endeavor is to achieve results, which are in line, or similar to the last year and we would try to do by utilizing our new plant, which is starting essentially by changing our product mix. That would be an optimistic view I would say. Please understand, last year was a heavy legal cost, now trial being over, this year we would not...so when you see our Rs.50 crores profit, it is after a huge amount of legal cost that we are bearing. That will reduce in this year from now onwards from second quarter till fourth quarter. So that will give us some room. With that room in place and we cover our new plant up and running in August. We might be able to improve our product mix and sell more intermediates with higher capacities, which we are creating and we can endeavor and target to achieve last year. In addition, I would be very happy if we do near about that.

**Jai Kishan Sharma:** You mentioned orders are not still open in the European and the emerging markets. But are we in a consideration to meeting inventory in case of dyes and chemicals and specialties for any shock orders that we receive, I mean, post opening of the markets, I mean, there might be a surge in demand basically, so how are we going to deal with that, are we going to maintain inventories to supply it?

**Manish Kiri:** See, we have seen certain surge in demand and we are serving that right now. But to be honest, we do not see that high in demand. Actually the demand is compared to let us say lockdown before time in December, January and the current demand, we are looking at less than level of 30%, 40% of the demand. That is where we are today. And to grow from this level, the surge maybe not so fast, I think it will gradually build. That is what our data and our feedback from the customers are indicating.

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

**Pratik Kothari**

**Unique Asset Management:** Sir, my first question is regarding the last two, three years we have done some CAPEX on the disperse dyes side, on the specialty intermediates side. Second phase I think we were planning to start in April. I think you just mentioned that we are now starting it commercially in August. If you can just qualitatively talk about how has our experience been doing the CAPEX over the last two, three years what kind of contribution have we seen, any new segment that has opened for us?

**Manish Kiri:** There are two major as you rightly said. One was the disperse dyes side and second was the specialty intermediates. So on a disperse side; actually we got penetration into several markets.

We could utilize our capacity close to 50% in several months which was just post-COVID started. And on a full year basis we expect to still achieve close to Rs.250-300 crores of revenue with that. And nothing much has come. If I recall the year '19-20, hardly we have captured from disperse dyes segment close to Rs.50-60 crores. So we have a huge upside to go once the market stabilizes and once the demand revives. By the time we could sell our products in various markets, such as Central America, Brazil, Korea, Taiwan, we got feedback, some improvements took place, our quality and standards, specifications got established during this time. For the second expansion where we can on a steady state basis for a large investment which went into specialty intermediates where we can generate close to Rs.700 crores of revenue out of it, nothing has come yet in our '19-20 financial year. So it would be adding to it now. So we had done certain experiments on the first phase of the trials when the products got established but commercial orders and the commercial benefits have not come to our financials in '19-20. So that will be coming into this year. So taking that upside, that okay, we have almost more than two quarters to go on a new facility and we would be able to utilize to at least some extent of 30%, 40%, it would be good enough for us to try to make up for the loss on the other side on the regular operations and that is how we try to manage to maintain last year. So that is what the budget and that is what the business plan that we have mapped for this year.

**Pratik Kothari**

**Unique Asset Management:** All of these products will be catering to a domestic and export markets both, right, or is it specific to some import substitution, which you were talking about earlier?

**Manish Kiri:** Yes, so out of 26 products, almost 20 are import substitutes in India. At the same time, the same products are also having potential to refresh and exports. Both have been taken into consideration while setting this up.

**Pratik Kothari**

**Unique Asset Management:** Regarding China, one which we always talk about is the China Plus One strategy, second source whatever. Anything moving on that side, anything which we can see because recently there was some article which talks about Chinese government has waived off some 13% tax on the final product. I think that was for organic segment specifically and we might be facing issues in India, they are studying our markets. Anything in terms of supply/demand from China?

**Manish Kiri:** Sure, there are three factors we should be watchful from China. Now, because of their economic pressure, they have relaxed themselves in terms of monitoring or having stringent environmental compliances what we used to see earlier. So, there are many reports that show that they have become bit relaxed and given freedom to their units. Number two, the supply is much more than the demand from China side. So they are flooding market which have also reflected the prices. Right, so if you look at the Chinese prices for example of Vinyl Sulfone, H Acid that were the indicators earlier and our price have to fall in line with them. H Acid price have now gone as low as \$4.4 and VS price has gone to just \$2.2. That \$2.2 price of Vinyl Sulfone

is the lowest price in more than 10-years which we see from China. So there is a change in China situation, this is point number two in terms of actual supplies. Number three, you rightly mentioned about the tax policies of China. What Chinese policy has been is not to give refund of VAT for the exports of dyes, pigments and others out of China. So that was indirect export tax which was imposed. And that indirect export tax was giving an advantage to India and in some of the products it is going away, just to give you example on intermediate side, out of 30% they have started giving refund back to 8%, 9% or 10%. On dyes side, there is no refund, which is given right now, but we are watching this and we should continue to follow because that is another critical factor that would affect the prices in the market. In certain pigments, they have now started giving refunds of export out of China because China is under pressure to export their products, their domestic demand has reduced, they are facing lot of problems from the US and others which we all know about and because of that they are trying to boost their export and that is resulting into changing their VAT refund policy in China which I just refer to. So that is the third factor. All these three factors are important and we have to follow them to see how we can adjust our strategies.

**Pratik Kothari**

**Unique Asset Management:** But sir in the same context, given the oversupplies from China largely may be due to lower demand and the way they have slashed their prices, the government is supporting, how do we or India's stand in terms of this China Plus One strategy when the price difference is too high?

**Manish Kiri:**

India is also equally cost comparative in terms of raw material costs especially I would say in terms of reactive dyes. Credit to our government that certain positive steps are taken in very recent times. So just a few days ago, there is a notification that for all majority of the dyes like disperse, acid, reactive dyes, for Indian market there has to be 60%, 70% Indian content which means that essentially you are blocking import to support Indian manufacturers. That would give you protection from them if there is unnecessary and undue dumping. So that is the major potential that we have. Second, on host of chemicals including recent ones which is aniline the antidumping duty has been imposed from China. Again that is an opportunity for India to become self-reliant if they are blocked. So Indian side is also taking steps to countermeasure from the policy perspective. While from the business perspective for our energy cost, for our cost of production, for our environment compliance cost, they are almost more or less in par with Chinese costs. So only energy cost we are a little bit higher but that is being compensated by the lower labor cost compared to China till now I am talking about. So whenever we have compared the cost on equivalent basis, especially for dyes and intermediates side, we have been quite parallel. So that is a parallel ground to compete and I am confident that there are certain intermediates in this industry which like we have started our new plant, others will start, you will see gradual reduction of import of China. So there are certain intermediates like J Acid, like K Acid, like Tobias Acid, those intermediates production in India will ramp up and the current reliance on China would gradually go down. This will definitely happen in a shorter time than a longer time.

**Pratik Kothari**

**Unique Asset Management:** Sir, we talked about huge legal expense sitting currently on our books. If you can quantify that number for the year?

**Manish Kiri:** See, that number is again submitted and it is part of the court submissions. So just to give you an indication, if that number is taken out, our EBITDA would be same as last quarter's EBITDA. I think that would give you a sense on an absolute number... I give you indirect answer because please understand this cost was in 2015 has been running in millions of dollars and till 3rd July 2018 all expense cost and all legal cost of Kiri has already been awarded by SICC as well as Supreme Court to be paid in full and in next few weeks you will see Kiri filing those claims in the court. Therefore, we are very near about to even claim these significant costs. So, we will be taking the task to realize that that cost to be recovered under the court order as soon as possible.

**Pratik Kothari**

**Unique Asset Management:** It has been about a month or two since we have partially resumed the operations. So how is demand panning out for export market and even India --is June better than May, July better than June, any month-on-month, any color if you can give on those lines?

**Manish Kiri:** I think May was too bad, May was only a struggling time, the entire month of May where labor was not there. To give you the realistic number, almost 1300 labors we required, we hardly had 90, that was the extent. Now, we have ramped up to almost all the sites today we have at least 500 to 600 people together almost 50% number we have reached in the month of June. At the same time demand has also opened up in month of June and the sales is gradually increasing in June and we hope that July would be a little bit better than that, but yes, month-on-month it is increasing in fact.

**Pratik Kothari**

**Unique Asset Management:** Sir, FY'20 versus FY'19, would our volume number be similar?

**Manish Kiri:** FY'20 versus FY'19, volume wise everywhere we had growth. The impact of 2020 versus 2019 was the impact of reduction of prices. So that was the only impact that reduced the profit, raw materials went down but prices went down even further than the deduction of the cost. So the impact that you see is purely the impact of margin contraction and price reduction. On the volume side, we have actually grown and in certain sectors, we have increased by 2%, 3% like that.

**Moderator:** Thank you. We have next question from Mr. Vishal. Please go ahead.

**Vishal:** My question is regarding DyStar's profit post July 2018. As per our understanding the valuation is fixed as on the financials of DyStar on July 2018. So the profits earned by DyStar post that

would not be considered in the valuation. And as per our understanding, we have not received any dividends from DyStar as such. So how do we see the cash realization of the profits owned by DyStar?

**Manish Kiri:** You are right. Number one, whatever profit DyStar earns after July 2018 is not primary for Kiri at all. Kiri will not have that benefit whether there is a bumper profit or bumper loss Kiri has nothing to do. Whatever you see for a consolidation is our statutory requirement to consolidate and that gives you an indication of how DyStar is operating today. That is the only indication. Kiri is not beneficiary. Only Kiri is entitled by out order is that Kiri shares are to be bought by Long Sheng, Zhejiang subsidiary, that a valuation which will come now which was dated July 2018. Now post that what Kiri has requested court and court has already dealt in the legal process in the arguments is to award interest to Kiri. So what Kiri would be entitled for is the interest. Now Kiri has requested that the interest is to be paid to Kiri from the date of the filing the suit which is June 2015. Now another option for the court is to award interest to Kiri from the judgment date which is July 3, 2018. So depending on what court considers and the interest rate in Singapore, it is 5.33% so either we will get 2.5-years interest on that valuation number or if court consider Kiri's request and we might have almost 5.5 years interest at 5.33%. That is the only thing which Kiri would be entitled to receive from DyStar, nothing more than that.

**Vishal:** And sir secondly my question was regarding the dilutive security that we have, that is the foreign currency conversion bonds. If you could through some light on that because we understand the conversion price is at throw away prices, it is I think almost Rs.12 which is a substantial discount to the current market price?

**Manish Kiri:** As I have also mentioned earlier, you should look at our total equity as 5.17 or something crore shares whatever you see, that is a fully diluted basis that you should consider. Now that FCCB was I believe going back to 2011 and 2012 when we were going through the CDR process long back. So it has come since that time and then it was restructured. So in between when Kiri had done restructuring with the other lenders, that was also restructured and cut to one-third. So that was negotiated and agreed upon at that time. Post that what I learned in last six months to a year that it has also changed hands. So maybe sold to someone and now there are three or four bond holders who hold that. It would be converted at some point in time but you have to take that as fully diluted shares.

**Vishal:** These FCCBs are not related to promoter entities in anyway?

**Manish Kiri:** Nothing at all.

**Vishal:** Because the only area of concern was after the dilution, the promoter stake in the company would have come down significantly, that would just be a...?

**Manish Kiri:** Yes, that was the reason that there was a debate because promoters also want to increase the stake and at the same time promoters also have limitations on their own funds and there was

a discussion that if we have proceeds come in, what if there could be a buy back or something like that by the company. So we look at different avenues, but, yes, so I would share that view what you just expressed. See, that is a part that consents to promoters too, but at the same time value enhancement if it is quite high and if there is an opportunity for the company to buyback, if Kiri's board finds it appropriate, we would be happy to do that... and, of course, promoters can never participate.

**Vishal:** A recent report I read, India had imposed anti-dumping duties on China on the chemical aniline which I believe is one of the raw materials in the process of dye manufacturing. So I believe that is the raw material for our company as well. So, do we import aniline from China, will be impacted by this antidumping duties or do we source it locally from India?

**Manish Kiri:** See till now aniline, Kiri has always sourced locally. There is only one company which is GNFC and Kiri has been number one or number two customer of GNFC for years. Occasionally, Kiri has imported but not from China. Kiri has a supply associate from Europe and antidumping duty does not apply to the supply from Europe. But one should consider that India is not self-sufficient for aniline as on today. So India's production of aniline is close to 150,000 tons per year, not only for dyes intermediate, but aniline also used in rubber chemicals and many other applications and India's production is less than 50,000 tons as on today. So India still has a big gap to import and besides China there are other countries from where India can import, but that will effect into overall aniline prices in India would go up. And that will reflect into increase of the prices of intermediates in which aniline is used. So, those intermediate prices as well as dyes prices in India would also require to go up till India becomes self-reliant on aniline which means in other words there is a room that somebody put up a plant at least equivalent to consumption of India, then also it can quantify minimum 100,000 tons aniline plant becomes viable in India now based on that. That is another side of it.

**Vishal:** And I do believe sir that our company is actually looking forward to doing something in this area because I had come across a feasibility report of our company in Dahej that we are looking at this possibility, right?

**Manish Kiri:** Kiri has environment clearance in place for aniline as we speak at our land in Dahej.

**Moderator:** Thank you. Now I am handing over the call for closing remarks to Mr. Manish Kiri. You may go ahead sir now.

**Manish Kiri:** Thank you very much all of you for participating in today's call. I wish all of you best in health, your families, remain safe and we will talk again next quarter.

**Moderator:** That does conclude our conference for today. Thank you for participating. You may all disconnect now.