

## Marching Forward Despite Obstacles

*You just have to keep driving down the road. It's going to bend and curve and you'll speed up and slow down, but the road keeps going. Ellen DeGeneres*

During the last two financial year(s) FY 2018-19 and FY 2019-20, Kiri Industries Limited (Kiri), has been strengthening its product portfolio by expanding and optimizing its manufacturing facilities to manufacture diversified range of products, which include specialty dyes intermediates of naphthalene & aniline derivatives, and disperse dyes, amongst others. **During FY2019-20, capital expenditure towards product expansion and product mix optimization program amounted to INR108.35 Crore which in the preceding year was INR 112.20 Crore.** The company envisages additional capital expenditure of around INR 15-20Crore during FY2020-21 to complete the Ongoing Capex Plan of Phase II.

During current year, the plants for specialty dyes intermediates and dyes intermediates will be fully operational. **In FY 2019-20, additional 190 employees have been employed** gradually at the manufacturing facilities of the company stabilizing the operations of new plants..

During **CY 2019** (12 months period ending on December 31, 2019), DyStar has earned profit of USD 121.41Mio before considering exceptional expenses, provisioning and write offs of USD 25.86 Mio. It is important to highlight, that the ongoing trial at the Singapore International Supreme Court (SICC) for Valuation of Kiri's stake of 37.57% in DyStar was completed on April 6, 2020, and the relevant hearings got completed, which were held in two tranches during last quarter of FY2019-20. The final hearing for oral closing and related arguments shall now be held on June 30, 2020 and July 1, 2020. The valuation of stake of Kiri in DyStar shall be crystalized on the basis of the financial position existing as on effective date of July 3, 2018 (valuation date) as per the Order of Singapore International Supreme Court (SICC). The financial performance

of DyStar post July 3, 2018 shall not be of relevance for the valuation of Kiri's stake in DyStar.

**In FY2019-20 consolidated total revenue amounted to INR 1310.68 Crore with an EBIDTA of 191.34 8Crore.**

The consolidated Net Profit of the company after adding back the disputed wrongful write-downs/exceptional provisions, expenses and claims in DyStar (Associate Company of Kiri) amounts to INR 445.33 Crore. Kiri Standalone contributed INR49.82Crore, JV Company, Lonsen Kiri Chemical Industries Limited (LKCIL) has contributed INR67.19Crore.

Kiri's standalone total revenue amounted to INR973.18 Crore with EBIDTA of 100.30 Crore in FY 2019-20. **The Standalone EBIDTA of FY2019-20 is backed with gross margins of 37.6%, an increase of 262bps Y-O-Y basis.** Covid-19 Pandemic and global meltdown during the fourth quarter impacted turnover of the company which decreased by 9% Y-O-Y basis.

**The Consolidated Basic EPS of Kiri after adding back disputed write downs/exceptional provisions in DyStar is INR135.78 and Diluted EPS is INR\_85.91. If the disputed write downs/exceptional provisions are not added back, the Consolidated Basic EPS of Kiri is INR 114.33 and Diluted EPS is INR 72.34.**

**Retained earnings of Kiri amount to INR49.82Crore for the FY2019-20. After reducing carried forward and accumulated losses amounting to INR NIL and transferring a sum of INR 61.91Lakh towards Preference Share Redemption Reserve and INR 755.74 Lakh towards payment of Equity Dividend and DDT for FY2019, a surplus of INR 116.61 Crore is available to the company for declaring dividend. The Board of Directors of the company have recommended dividend of INR 0.50 per equity share of INR10 each.**

## Consolidated Operational Performance FY2019-20

The Comparative Consolidated Operational Performance for FY 2019-20 vis-à-vis FY 2018-19 is as under:

(INR in Crore)

Particulars	FY 2019-20	FY 2018-19	Y-O-Y
Revenue from operation	1,305.39	1,393.83	-6%
Other Income	5.29	2.68	98%
Less: Operational Expenses	1,119.33	1,162.80	-4%
EBIDTA	191.34	233.70	-18%
EBIDTA %	14.60%	16.73%	(213 bps)
Depreciation	44.40	37.56	18%
Finance Cost	4.84	5.08	-5%
Earnings Before Tax	142.11	191.06	-26%
Taxes	26.41	33.43	-21%
Other Comprehensive Income	(0.52)	(0.21)	149%
Share of Profit of Associates	259.81	6.49	
Earnings After Tax	374.99	162.92	129%
Earnings to Sales %	29%	12%	

Globally, some countries were in Lockdown for at least two months between February 2020 and May 2020, depending upon the severity of Covid-19 Pandemic. Financial performances of businesses have been negatively impacted because of the disruption of businesses due to the lockdowns. The earnings before interest, depreciation, tax and amortization (EBIDTA) has marginally reduced by 213bps during FY2019-20, mainly on account of 6% reduction in revenue which was impacted by the lockdown during the last 10 days of FY2019.20.

The earnings after tax has increased by 129% from INR162.92Crore in FY2018-19 to INR374.99Crore in FY 2019-20.

In case of DyStar, which is reflected in share of profit of associates in the consolidated financial performance, Kiri has been in disagreement and Kiri has

disputed substantial amount of US\$25.86 Million of exceptional write-downs/exceptional provisions, expenses and claims. If the said amount is added back to the Share of Profit of associate, Consolidated Net Earnings for FY 2019-20 would amount to INR 445.33Crore instead of INR374.99Crore.

The Snapshot of Consolidated Assets-Liabilities Statement is as under:

		(INR in Crore )	
		FY2019-20	FY2018-19
<b>A</b>	<b>Assets</b>		
<b>1</b>	<b>Non - Current Assets</b>		
	(a) Property, Plant and Equipment	506.16	476.89
	(b) Other Intangible assets	5.61	7.04
	(c) Capital work-in-progress	78.53	37.73
	(d) Investment in Subsidiary / Associate	1213.98	954.17
	(e) Financial Assets	14.09	13.59
	(f) Other Assets	73.54	77.89
	<b>Total Non- Current Assets</b>	<b>1891.90</b>	<b>1567.27</b>
<b>2</b>	<b>Current Assets</b>	511.87	491.03
	<b>Total Assets</b>	<b>2403.77</b>	<b>2058.34</b>
<b>B</b>	<b>Equity and Liabilities</b>		
<b>1</b>	<b>Equity &amp; Reserves</b>	<b>1933.43</b>	<b>1567.33</b>
<b>2</b>	<b>Non-Current Liabilities</b>		
	(a) Borrowings	95.96	148.76
	(b) Other Non-Current Liabilities	20.44	23.75
<b>3</b>	<b>Current Liabilities</b>	353.94	318.50
	<b>Total Equity and Liability</b>	<b>2403.77</b>	<b>2058.35</b>

- During FY2019-20, Kiri's standalone property, plant and equipment have increased by INR110.13Crore, which during the preceding year had increased by INR114.60Crore.

- The Break-up of capital expenditure towards product expansion and optimization program of Kiri (standalone) is as under:

(INR in Crore)

<i>Particulars</i>	<b>FY 19-20</b>	<b>FY 18-19</b>
Net Addition to Property Plant & Equipment	69.42	106.60
Net Addition to Capital Work in Progress	38.93	5.60
<b>Total</b>	<b>108.35</b>	<b>112.20</b>

- During FY2019-20, the paid up capital has increased on account of issue of 22,76,695 equity shares upon partial conversion of foreign currency convertible bonds.
- Installments totaling to INR 14.74 Crore were repaid regularly as per pre-agreed time schedules.

### **Standalone-Operational Performance For FY 2019-20**

The Comparative Standalone Operational Performance for FY 2019-20 vis-à-vis FY 2018-19 is as under:

<b>Particulars</b>	<b>INR in Crore</b>		
	<b>FY 2019-20</b>	<b>FY 2018-19</b>	<b>Y-O-Y</b>
Revenue from operation	969.04	1,061.86	-9%
Other Income	4.14	2.82	46%
Less: Operational Expenses	872.89	905.45	-4%
<b>EBIDTA</b>	<b>100.30</b>	<b>159.23</b>	
<b>EBIDTA %</b>	<b>10.35%</b>	<b>15.00%</b>	<b>(465bps)</b>
Depreciation	36.62	28.50	29%
Finance Cost	4.52	4.40	3%
<b>Earnings Before Tax</b>	<b>59.15</b>	<b>126.34</b>	<b>-53%</b>
Taxes	8.96	6.30	42%
<b>Other Comprehensive Income</b>	<b>(0.36)</b>	<b>(0.21)</b>	<b>74%</b>
<b>Earnings After Tax</b>	<b>49.82</b>	<b>119.83</b>	<b>-58%</b>
<b>Earnings to Sales %</b>	<b>5%</b>	<b>11.37%</b>	<b>(628 bps)</b>

The company faced total lockdown between March 21, 2020 and April 27, 2020, after which the plants were partially allowed to operate gradually. Initially, during May

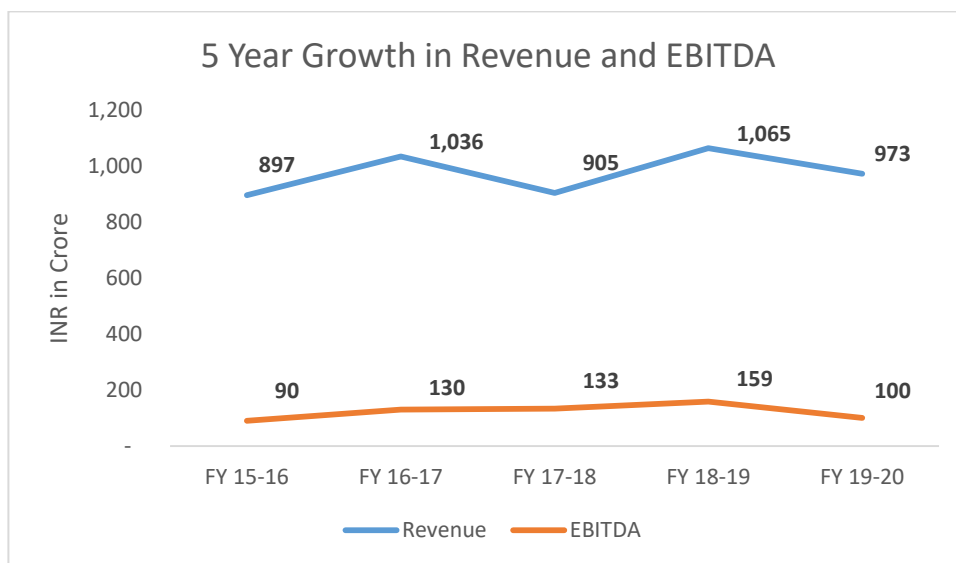
2020, the company was allowed to fulfill its export commitments by operating its dyes manufacturing facility partially, and lately since June 2020, the company has been allowed to resume normalized operations, and has been allowed to execute domestic sales also. The lockdown impacted revenues and correspondingly the fixed overheads could not be absorbed impacting EBIDTA by 469 bps Y-O-Y basis.

The revenues break-up in percentage terms amongst dyes, dyes intermediates and basic chemicals is depicted here-in-under:

<b>Segments</b>	<b>FY 19-20</b>	<b>FY 18-19</b>
<i>Dyes</i>	45%	43%
<i>Dyes Intermediates</i>	52%	54%
<i>Basic Chemical</i>	3%	3%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Export sales of Dyes are 69% of the total revenue of Dyes Segment in FY2019-20 and 64% in FY2018-19. Dyes Intermediates and Basic Chemicals are mostly sold in domestic markets.

The positive trend of growth in Revenue and EBIDTA can be vouched from the below graphical presentation during last five years:



**INR in Crore**

Particulars	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15
Revenue	973.18	1061	904	966	888	780
Cost of Material	606.97	692	557	681	664	580
GP	366.21	369	347	285	224	200
GP (%)	37.6	34.8	38.4	25.9	25.2	25.6

The above table shows the result(s) of the sales strategy of strengthening product mix and consolidating product portfolio enabling the company to increase gross profit margins to around 37-38% vis-à-vis 25-30% during previous years between 2014-15 and 2016-17.

During the current year Finance Cost has increased on account of increase in finance charges pertaining to discounting of LCs and other bank charges.

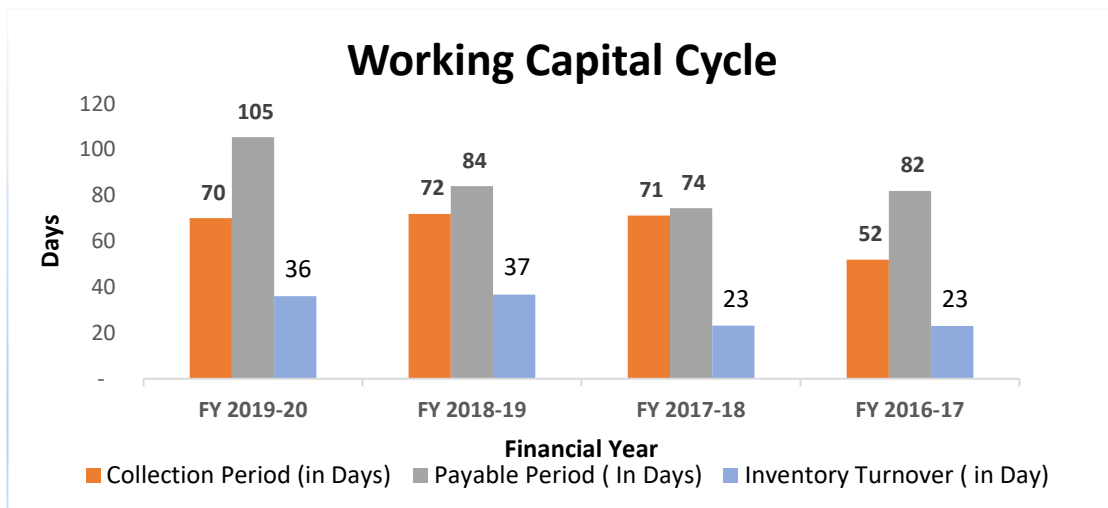
Operational expenses of in FY2019-20 amounting to INR872.89Crore include a significant amount of Legal & Professional fees related to the Singapore courts legal costs.

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## **Standalone- Working Capital Cycle:**

The Working Capital Cycle has been under tight vigil and the average cycle has been controlled where the collection period of account receivable has remained consistent. The trade payables period has been around 105 days whereas the collection of receivables has been around 70 days in FY2019-20. The company is holding inventory of around 36days during FY2019-20.

The graphical presentation of Working Capital Cycle for the four years indicate that the company has been consistently utilizing working capital judiciously.



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## Update on Kiri's Minority Oppression Suit in the matter of DyStar

Singapore International Commercial Court (SICC) vide its order dated 8 January, 2019, had directed the valuation process to value Kiri's 37.57% stake in DyStar. The trial for valuation of Kiri's stake has been completed in two tranches during nine days hearing between February 26, 2020 and March 2, 2020 and between March 31, 2020 and April 6, 2020. The final hearing for oral closing and related arguments are now fixed to be conducted in two days on 30 June 2020 and 1 July 2020.

The SICC had delivered their judgment against the Company and Manish Kiri for payment of total damages to USD 678,480.50, which was about half of the original claim amount, and cost of S\$245,877.52 to DyStar in DyStar's claim for violation of non-compete clause of Share Subscription and Shareholders Agreement ("SSSA") with respect to solicitation of DyStar's customer(s) in Morocco and Sri Lanka on March 3, 2020. The Company has filed an appeal with Court of Appeal against the said order dated March 3, 2020. The appeal is expected to hear by Court of Appeal sometime in September 2020.

Very recently, DyStar has initiated a new suit against the Company and Mr. Manish Kiri for alleged violation of SSSA with respect to competition by the Company with DyStar through solicitation of customers of DyStar in Bangladesh, Pakistan, Iran and Brazil. The Company has filed defense and also filed counterclaim on June 8, 2020 against the claim of DyStar. The customers which are alleged by Dystar in their new claim, have been in business with the Company prior to execution of SSSA i.e. 31 January 2010. Hence, Kiri Management does not foresee any payment of damages to DyStar.

## Industry Outlook

The global textile dyes market was valued at over USD 8 billion in 2018 is projected to grow from USD 8.2 billion in 2019 to USD 10.9 billion by 2024, at a CAGR of 5.9%. The market is witnessing a high growth due to the growing use of textile dyes. Low-cost of manufacturing in APAC countries and good demand for textile dyes in the region in medium to long term would be the driving force for the global textile dyes market. The demand for textile dyes is mostly dependent on the growth of the textile industry. The textile industry is expected to witness healthy growth in the long run and is well composed to achieve a rising growth curve for quality fabric. The prospering textile industry in Asia-Pacific and in recent times in the Middle East & Africa on account of the availability of skilled and low-cost labor, favorable macroeconomic conditions, and abundant availability of natural resources (for fabric manufacturing such as cotton and jute) are further expected to boost demand for textile dyes in the textile industry in general. The increasing use of functional textiles in the production of protective textiles, industrial textiles, medical textiles, household textiles, sportswear, and upholstery is expected to boost the demand for textile dyes in the coming years. Furthermore, new waterless dyeing technologies are being developed and slowly being adopted commercially to reduce the vast quantities of pollution generated due to textile dyeing. It is said that this is further contributing to sustainable textile dyeing and provide lucrative opportunities in the coming decade.

Covid-19 Pandemic has impacted global businesses during the recent past between February-June 2020. Experts suggest baseline forecast envisions of 5.2 percent contraction in global GDP in 2020, using market exchange rate weights—the governments to counter the downturn with fiscal and monetary policy support should help economies to overcome the impact. The negative impact is expected to remain for the coming two quarters, but experts feel that the curve could flatten by December 2020 and businesses could move northwards, in CY2021.

## Future Outlook

During the past two years Kiri has concentrated on innovations and expansions to strengthen its product basket of dyes and dyes intermediates. The proficiency of Kiri in manufacturing certain dyes and specialty dyes intermediates has enabled Kiri to enhance its core profitability enabling the company to retain its margins in Post Covid markets in Steady State situation.

Kiri's business operations were under lockdown between March 21, 2020 and April 27, 2020 because of the pronouncement of nationwide lockdown by Government of India. Thereafter on partial unlocking, until June 8, 2020, Company could fulfill, to certain extent, its export obligations only. The plants of the company have been operational since April 27, 2020, however have not been able to achieve suboptimal level until June 29, 2020. Operations of the plants are slowly ramping up meeting challenges related to labor, supply-chain, market demands, etc. Domestic sales could commence only after June 9, 2020. The company expects to achieve pre-covid operational capabilities by end of December 2020.

In the interim, slowdown in the key downstream industries like textile, leather, paper, packaging, etc. due to lockdown have a ripple effect on dyes and dyes intermediate in the short term. Raw Material prices have remained volatile recently, primarily driven by factors such as crude prices, supply-demand gaps, China-India Border tension, etc.

With targeting long-terms goals, the company is keeping a close tab on the current situation and is in the process of developing a strong organizational immune system to efficiently use its core capabilities, and established value chain to maintain margins and grow its business and enhance intrinsic value for its stake holders.

## Forward Looking Statements

*This document contains forward-looking statements which may be identified by their use of words like “plans,” “expects,” “will,” “anticipates,” “believes,” “intends,” “projects,” “estimates” or other words of similar meaning. All statements that address expectations or projections about the future, including, but not limited to, statements about the strategy for growth, product development, market position, expenditures, and financial results, are forward looking statements. Forward-looking statements are based on certain assumptions and expectations of future events. The companies referred to in this presentation cannot guarantee that these assumptions and expectations are accurate or will be realized. The actual results, performance or achievements, could thus differ materially from those projected in any such forward-looking statements. These companies assume no responsibility to publicly amend, modify or revise any forward looking statements, on the basis of any subsequent developments, information or events, or otherwise.*