

Transcript

Conference Call of Kiri Industries Limited

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Presentation Session

Moderator: Good afternoon ladies and gentlemen. I am Bharathi, moderator for the conference call. We welcome you all to Q1 FY22 conference call of Kiri Industries Limited, hosted by Aditya Birla Money. This conference call may contain forward looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantee of the future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participants 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 * and then 0 on your touchstone telephone. Please note that this conference is recorded. I would now like to handover the floor to Mr. Sumeet Shah of Aditya Birla Money. Thank you and over to you sir.

Sumeet Shah: Thank you, Bharathi. And good afternoon everyone. On behalf of Aditya Birla Money Limited, we welcome you all to the Q1 FY22 earnings conference call of Kiri Industries Limited. From the management side, we have Mr. Manish Kiri, Managing Director, Mr. Jayesh Hirani, Senior Manager – Accounts and Finance and Mr. Suresh Gondalia – Company Secretary. So, without much delay, I now handover the floor to the management for opening remarks, followed by an interactive Q&A session. Thank you and over to you sir.

Manish Kiri: Thank you. Good afternoon everybody. It is a pleasure to welcome you to the earnings conference call for the first quarter of financial year 2022. I hope everyone is keeping safe, well and getting vaccinated. As you already know that most businesses were impacted in the first quarter, due to the second wave of COVID-19 pandemic and lockdown restrictions enforced subsequently. And unfortunately, Kiri's financial performance in quarter one FY2022 was also impacted for the same reason.

For Q1 FY22, the company achieved a consolidated turnover of Rs.293 crores, which was 169% higher year on year basis, but down by 19% on quarter-on-quarter basis. The EBITDA reported for the quarter was 6.86% and the net profit was 6.8 crores. The consolidated total comprehensive income was up by 257% year on year, as this also includes the share of profit of DyStar, which is an associate company of Kiri, amounting to approximately 84 crores and 16 crores from Lonsen Kiri, which is a joint venture, which is consolidated with Kiri's financials.

Kiri's standalone turnover during quarter one FY22 was approximately 200 crores which was 191% higher on a year-on-year basis and lower by 27.5% on quarter-on-quarter basis. The EBITDA during Q1 FY22 was negative 3.29 crores on standalone basis, as

compared to positive EBITDA of 26.4 crores in Q4 FY21 and negative EBITDA of 20.23 crores during quarter one FY21, last year, same quarter.

The uncertainties of business operations under partial lockdowns across India and also in certain affected countries globally in second wave during quarter one FY22 showed sharp and sudden increase in the basic chemicals and raw materials prices. In short term, because of the contractual obligations of running order book as well as because of the market prices not going up, the pass over of increased cost to customers was not fully possible. The current quarter's margins have been eroded mostly due to these reasons, in raw material cost, which could not be passed on to the customers. Another important factor which is affecting this quarter is the ongoing high legal cost on account of litigation in Singapore Court against Senda, for the valuation of DyStar and buyout of stake of Kiri by Senda and also Kiri's claim against DyStar for not treating Kiri as its preferred supplier, impacted financial results. So, legal cost on one side and raw material increases on the other side, these two are the major factors affected this quarter.

During quarter one, FY22, receivables increased as a result of partial lockdown, inventory levels climbed to some extent as did payables, which are projected to normalize in the future quarters, as COVID-19 impact fades.

Coming to Kiri's minority oppression suit, as you may have already known by now that the Singapore International Commercial Court has awarded a final valuation of 481.6 million dollars for Kiri's 37.57% stake in DyStar. Both Kiri and Senda have filed appeals against SICC order, which are dated 21st December, 2020 and 21st June, 2021 with Court of Appeal, which is the Supreme Court of Singapore. And Kiri also has filed another appeal against SICC order dated 17th March, 2021. Hearing dates in the Supreme Court are awaited. And in case of Kiri's claim against DyStar, both the parties have also filed their closing submissions in this quarter as well as cost submissions are also filed in this quarter. And now the order from SICC is awaited at any time.

Lastly, coming to future outlooks, as you may be already aware that the Indian chemical sector is on the cusp of very high growth trajectory in the coming years. Kiri's entire product range of dyes, specialty intermediates, dye intermediates and other value-added specialty chemicals is supposed to provide impetus to its order books for the exports and the domestic market in the second half of financial year 2022. It is important to highlight that this specialty intermediates plant, the first phase which has been operational since this last quarter, will be one of the main growth drivers which shall also enhance our volumes and margins of the company in the near future.

I would like to now open the floor for questions. Thank you.

Question and Answer Session

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

The first question comes from Mr. Nandhan Ambete, an Individual Investor. Please go ahead.

Nandhan Ambete: Good afternoon sir. Congratulations on the results. My one question, only one question is with respect to the accrual of this associate share of profits. So, in the presentation which has been shared on the results. It is mentioned that the profit on account of associates has been accounted only to comply with respect to the accounting standards. So, I wanted to understand the profits which the DyStar will earn or has earned after the cutoff date of the valuation date, will they be received by Kiri or how it will be accounted?

Manish Kiri: So, this is a very important point and whatever profits DyStar has been making since July 2018, Kiri has not been privy to the access of that profit, because the valuation date was 3rd July, 2018. And Kiri has had requested for the interest to be paid to Kiri, if not profit, because the transaction date on which the actual transaction of buyout would take place would be far away from the valuation date. The Court didn't award interest to Kiri for this timeframe. And that is the reason that we have filed appeal in the Supreme Court. And Supreme Court would look into the matter whether Kiri can be awarded interest at least from the date of the valuation date till the transaction takes place. So, it is in the Court right now. And let us see, what the Supreme Court decides, once the hearing takes place.

Nandhan Ambete: Sure sir, thank you. That is the only question. Thank you.

Moderator: Thank you, sir. The next question comes from Mr. Vishal Jajoo, an Individual Investor. Please go ahead.

Vishal Jajoo: Good evening team. Manish sir, first question was to understand sir, whether our industry, our basic sales of reactive dyes and all, whether they come from directly in terms of dyes industry? And if yes, then sir in this quarter, your domestic sales of overall textile dye segment has seen a massive revenue growth, because the export sales have been increased. While our revenue of export market has increased, however domestic market has remained sluggish. I know there was an impact of COVID. But, post COVID, why was (not clear) seen such a revenue drop in domestic market as far as with respect to export market, where we are gaining, increasing revenue share, but not in domestic market?

Manish Kiri: This is the quarter in which the dye sales as well as the intermediate sales, both got impacted. And main impact came from domestic market. Domestic textile market was almost on a standstill for a few months. And the sales consumption, everything was on a standstill mode. Extremely low level of activities and extremely low level of sales took place, especially in two months, April and May. June partially started recovering. July turned out to be better than expected. But, if you look at the entire quarter, the main impact as you rightly said, came because of the dip in the domestic business. However, export has also got impacted. And export of dyes also was lesser. Just to give you little more insight, the exports of reactive dyes from India takes place to various countries. But, the largest countries to which the exports happen are to Turkey and Bangladesh. 50% of, almost 40% to 50% of India's exports of dyes go to these two countries. And both the countries went through the lockdowns in this quarter. Turkey was having lockdown for almost 20-25 days. And the same situation

was there in Bangladesh too. So, export was impacted. But, relatively lesser impact in exports and higher impact in domestic market. While on the other side, the raw material prices and the raw material situation continue to remain higher. In fact, this quarter the raw materials increased significantly. Prices of Aniline, prices of Sulphur, prices of Naphthalene, host of basic chemicals and raw materials in fact increased in prices. So, on one end lower demand and not being able to increase the finished product prices, while we ended up paying higher prices on the cost of raw materials. So, that is how the overall industry situation prevailed in this quarter.

Vishal Jajoo: Sir, is there any specific reason, because in this current quarter I have seen many of the textile dyes manufacturing companies, they have shown rapid sales due to increase in exports, which Indian textile sector is facing? So, are we facing the competition of increasing raw material prices or there is China competition effect, which we are seeing due to this standstill? April month was sluggish. Otherwise, the overall sales of the textile segment are going up in dyes. So, are we facing from the raw materials issue front or we are facing issue in front of China competition?

Manish Kiri: In this quarter, April to June quarter, textile sales I think has not increased, number one. Number two, overall dyes exports has reduced. For example, in the month of May, India usually exports somewhere around 16000 to 18000 tons of dyes. Now, April-May, especially month of May, it was only 12000 tons. I am talking about India's overall exports. Similar situation was in June too. So, June, India's exports of reactive dyes reduced by another 3000 to 4000 tons. So, overall country's exports of dyes in this quarter was also down by 25%-30%. It is not like Kiri's unique case was export reduced and other competitors, the exports increased. India's overall exports also reduced in this quarter.

Vishal Jajoo: So, sir are we seeing any....recently in this quarter, have we seen any uptick in the June month and this coming, starting July-August?

Manish Kiri: This month from July onwards things have started recovering. Export also is resuming back slowly. Domestic market has opened up. Domestic textile units have started consuming dyes also. Their activities have increased. So, this quarter would be much, much better quarter as compared to last quarter. So, we are expecting at least 30% increase of business in this quarter as compared to last quarter.

Vishal Jajoo: Okay, that is good. That is good. And sir, on raw material front as you said prices of Aniline has risen sharply in this quarter. So, are you expecting this to be cooled off and eventually we would also have CP approval for Aniline? So, is management thinking of backward integration of all these dyes segment and also start manufacturing certain of your raw material in which you are facing issues currently?

Manish Kiri: Just to answer your first question, regarding the price movements of Aniline, by end of last year and to some extent, the fourth quarter of last financial year, Aniline prices started rising from around Rs.55 to Rs.60. And in April to June quarter, it went as high as Rs.210. Then it tapered down and right now it is Rs.142 to Rs.150, depending on domestic or imports. So, still if you consider Rs.60 of original price, and now the price is more than double today. So, and these prices are continuing....this quarter we forecast that it would not come down much. But, on the

other hand, dyes prices and intermediate prices might go up. And we might be able to pass on the pricing in the finished products. So, that is the price fluctuation related to Aniline. Aniline and related products, definitely is the project which was under evaluation. Company is seriously thinking about it, which involves a large investment. The company also has environment clearances in place. And once the funds availability is there, we will consider this as one of the prospective projects. But yes, that is one of the projects that is under radar.

Vishal Jajoo: And sir, is there any expectation regarding the DyStar fund? Can we expect the fund to be disbursed by the end of March 2022?

Manish Kiri: Expecting so, because now Supreme Court process is ongoing. Supreme Court filings are also taking place. And we would have more clarity in the next case management conference, which will be the case management conference of Supreme Court. And we are expecting probably by November. December is the vacation month or latest by January, we must have Supreme Court final hearing. So, once that hearing date is known, we would know the definitive timelines for closing of the legal case in Supreme Court and thereby the execution of the buyout order.

Vishal Jajoo: Okay. And sir, one last final question, sir I would just like to know, if we plan of any expansions, then what are we planning? Are we also planning for debt or we will be just planning for expansion only from the funds we receive from DyStar? So, are we also planning for taking the debt and expanding the other business segment which we were in discussions since last two to three quarters? So, what we are targeting to implement those new business line or I must say the new segment where we are thriving in. So, will this be from DyStar fund or we are also planning to kick start it early by taking few debts and if the fund comes up, then we can pay off the debt at the future time and at least we can have a start of the business as of now, one to two years down the line? What is your view on this?

Manish Kiri: Number one, it would be for the future projects and future expansions, it would definitely be equity and debt ratio, both. We have only equity. Kiri's board has also deliberated on this point. And we would have adequate debt and adequate equity and that is how we would be able to increase return on equity for the future expansions and the new projects that the company would be investing in. So, it would be both with adequate ratio, that is number one. Number two, we would not raise debt first and then like a bridge loan and then pay back. That is not what the plan sir, because the projects are large, the risks involved are more. And we would be optimizing our risk to start those large projects, sizable projects. Once we have definitive clarity on the Singapore funds, which would be used as equity. We would wait till we have those funds available. But parallely, company would or might also tie up debt. So, debt can be tied up. Financials can be, financial closure can be reached. But, actual availment of borrowing would only take place once we start implementing projects, once we have debt-equity all secured. We would not project and then half way we get stuck in the limbo. We will have absolute clarity when we start, when we are going to end, how we are going to execute and we will have tight timelines to execute the projects. We would do both at a time and not earlier than that.

Vishal Jajoo: That is great to hear. That is great to hear the clarification. So, I guess we must expect the confirmation when we will expand in the December

quarter, when we have the Singapore hearing as well. So at that time, I guess management would be fully focused on where we will be in the next project lines, we will be focusing, right?

Manish Kiri: Yes.

Vishal Jajoo: That is it from my side. Okay, Thank you sir.

Manish Kiri: Thank you.

Moderator: Thank you, sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad.

The next question comes from Mr. Abhishek, an Individual Investor. Please go ahead.

Abhishek: Thank you for the opportunity sir. I have few questions. The first question is on the first participant question. The amount what we are considering in our balance sheet from DyStar, you have shown Q1 some 83 crores. So, when the Court has given the orders that interest would not be payable and we would not be entitled for the profit also, after 2018, had it not been prudent to not consider this amount?

Manish Kiri: As Kiri continued to be a shareholder and please understand, court has not said that you would not be entitled for the profit. Let me just clarify. Today DyStar if wishes and the DyStar Board can still give dividend. Whatever earnings which is happening, Kiri's stake continues to be there and to the proportion to Kiri's stake, that profit technically belongs to Kiri till the buyout transaction takes place. Now, valuation is dated on 3rd July, 2018 and that valuation when it was determined, must have also considered the projections of the company, isn't it? So, whenever the valuers submitted value and court arrived to a number, on that particular date of valuation, it also considered how DyStar would be performing in future. Now, definitely we strongly believe that Kiri should get something, because post valuation date and till transaction date. And let us say, worst case scenario of transaction is not taking place, so Kiri cannot stop its consolidation, its share of profit which belongs to Kiri, till the date the buyout is actually executed.

Abhishek: Sir, I have a different point. What I am saying is, you are saying that when the valuation was decided, they would have taken the future cash flow into consideration and arrived on the value. So, that comprised, the value comprises of the projection what we are showing now. So, when the actual value will be given to us, then this cash flow, whatever we are showing now, will not accrue to us. And in case the court does not entitle us for the interest, then all this will be taken off from the balance sheet in the future?

Manish Kiri: So, that is the reason that this disclosure is there.

Abhishek: So, how much we have included as of now in our balance sheet or profits, this profit accrual from the DyStar?

Manish Kiri: So, DyStar accrual you would see from our financials, annual report or quarterly results. And those numbers are already there. Post July 3rd numbers are there and before are also there. So, those numbers are there.

Abhishek: Okay. So, whenever that valuation, say 500 million will arrive, so we will determine the amount what we have already considered in our balance sheet and the remaining amount will be shown, right?

Manish Kiri: No, the accounting would not work like that. We would continue to consolidate. We have to wet it heavily, till buyout takes place. And on the buyout, it would be against the original investment of Kiri. For example, 2010, Kiri invested close to 100 crores. And this would be accounted as the capital gain on sale of shares. Whatever Kiri accrued, accounted for till that date would remain in the balance sheet of Kiri.

Abhishek: No, this point is correct sir. What I am saying is, say 500 million and I don't know the exact figure, say, 100 million of DyStar, 400 million is the amount, capital gain.

Manish Kiri: It was precisely 100 crores. It was about 100 crores and this would be coming 3600 crores, that is the delta.

Abhishek: Correct. So, this amount what we are showing, like 83 crores we have shown, this amount is not coming to us.

Manish Kiri: Coming to us, what you are mentioning, is in the form of liquidity. You are referring to liquidity. So, accounting is not done on the basis of liquidity. Liquidity is the subject to the decision, to the board. Your accrued profit is yours. That comes to you as a liquidity. For example, tomorrow when Supreme Court examines the whole issue and Supreme Court realizes that DyStar continued to make profits in all these three years, where Kiri as a minority shareholder has been oppressed and has been deprived of earnings for three and a half years. So, it is up to the Court to recognize the fact that Kiri's three years, the date from the valuation and the date of transaction, Kiri has accrued this kind of money, but not paid to Kiri, because of dividend not given to Kiri. So, Kiri has been deprived of liquidity. And that liquidity not giving Kiri, not giving that liquidity to Kiri is also part of the continuing minority operations, that is what Kiri has claimed. But, it is up to the court to do a justice here, because it is possible that there is no precedence in the courts, where your valuation date and your transaction date, both the dates are too far from each other. So, it is also test case for Singapore Supreme Court to decide. But, do we conclude that this profit is not belonging to Kiri, even if Kiri continues to be the shareholder? Is it right to do it? I don't think so.

Abhishek: No sir, what I am saying is, since this money is not at all coming, so we should have parked this figure somewhere else, not in the profit and loss statement actually.

Manish Kiri: Where can you park? Which are the places you can park it?

Abhishek: To be very frank, I am not an accounting expert. So, maybe long-term asset, we should have shown.

Manish Kiri: I don't think so. Whatever accounting has been done, has been done prudently, wherever it has to be shown, wherever it has to be parked. And company has no intent to misrepresent anything to you. Let me clarify that. Whatever has been accounted for is true and correct. Whatever has been disclosed is also true and correct. Whatever belongs to Kiri is also true and correct.

Abhishek: Right sir.

Moderator: Thank you Abhishek sir. You may join the queue for your further questions. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. And participants are kindly requested to restrict with two questions in the initial round and may join the queue for further questions.

The next question comes from Mr. Suyesh Sarovi from First Capital Market. Please go ahead.

Suyesh Sarovi: Good afternoon sir. Sir, my question is what is the quantum of the legal expense that we have incurred in this quarter?

Manish Kiri: Let me give you that number. If we had not incurred legal expense in this quarter, our EBITDA would have been 4½%. So, that means that our legal expense is north of 12 crores.

Suyesh Sarovi: North of 12 crores. And this run rate will be there for the next three quarters for this year, because we expect the money to come by March 2022?

Manish Kiri: Yes, at least till Supreme Court work is going on, the expenses are going to continue. And you are right. I am sure till December it would continue. But, if the hearing comes earlier in November, then last quarter it would go down. But, if hearing extends to January, then we would see also legal expenses at a similar level in the last quarter too. So, this year on a safer side, we can say that we will have to incur these expenses.

Suyesh Sarovi: Okay. And any idea on the date for hearing for Supreme Court? By when can we expect to get a date?

Manish Kiri: I think we should have clarity in our next case management conference. So, case management conference from Supreme Court is expected to take place, based on our lawyer's advice in this month, in August. So, by August we should know. And the moment we learn the date of Supreme Court hearing, it would be just one day hearing. We will immediately announce. But, looking at the activities currently, I can tell you that earliest it would be November based on the current status and the latest, it would be January, because December is the closing month, looking at the other submission timelines.

Suyesh Sarovi: Okay. And sir last concall you had said that, we would be enforcing the order in the meantime, the order that you got from the SICC. So, are we taking some concrete steps for that?

Manish Kiri: Yeah, the steps are already ongoing as we speak. So, the enforcement actions are already going on. Till now, Senda has not got a stay by the way. And stay is not there on the SICCC order. So, we are following up. Lawyers are sending the necessary legal notices. And that enforcement is already on.

Suyesh Sarovi: So, we can expect, if we ask the Court for enforcement, then can we expect money to come in before the Supreme Court hears the matter?

Manish Kiri: Because, Kiri has also gone to appeal, so the issue here which is that, both the parties are in appeal. And that may change the approach little bit on the soft side. You understand what I mean.

Suyesh Sarovi: Right. Because, you have also taken a stand towards appeal of the earlier order, so you also may not be inclined towards that.

Manish Kiri: We also have taken a stance that we don't accept 481. According to Kiri, maybe it is 700-800, whatever it comes to.

Suyesh Sarovi: Are we also being reimbursed for legal cost that have been incurred in the past?

Manish Kiri: So, legal cost already has been awarded to Kiri till July 3rd, 2018. And Kiri has already submitted. And the last cost submission even for this valuation trial, one round already has been done. And the last submissions are on August 18th. So, cost submissions should also get completed on August 18th and subsequent to that we would get cost order as a separate order from SICCC, with the amount, with the amount awarded to Kiri.

Suyesh Sarovi: Okay. Thank you, sir. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. And participants are kindly requested to restrict with two questions in the initial round and may join the queue for further questions.

The next question comes from Mr. Naushad Chaudhry from Systematix Shares. Please go ahead.

Naushad Chaudhry: Hi. Thanks for the opportunity. Just one question I have. Sir, just wanted to understand, given the optimism which you are building in around domestic textile industry, I wanted to understand, now we are talking after this opening up of, post second lockdown. Has there been any change in terms of costs when you deal with the clients? Is there any optimism you on the ground are also experiencing from the domestic client? Specifically for the textile industry, what has been your experience, if you can share that?

Manish Kiri: Sure. We have regular interactions with customers, as well as industry players. And everyone is expecting a robust growth, significant growth, along with textiles. So, when textile exports have been now one of the key focus areas for the Government, at the same time, from our exports of dyes, we also see very positive messages. Hopefully in the next two quarters, we might see increase in overall business hopefully if COVID-19 related issues do not disturb the situation again. At the

same time, we see and there is a fear of uncertainty everywhere. And it would be correct to say that, it is very difficult in today's time to precisely predict or forecast customer demands and the market demands for anyone. Even though there is optimism, even though the expectations of increase of business is there, at the same time, we experience uncertainty too. So, let us see how actual performance happens, how actual sales and demands and the exports of India increases and then we try to better understand what pace we can grow in the next few years.

Naushad Chaudhry: Okay. And just follow up to this, given your past experiences in the textile industry and whatever the Government has planned to double, triple or multifold the capacities and if there is a higher growth in the textile industry, let us say for the next five years. Let us assume if the industry is growing at 10% or 12%. Would it be fair to assume that our industry would also grow in the similar line or slightly higher than that percentage?

Manish Kiri: Absolutely. It would be at least similar or slightly higher for export part. But, whatever rate at which textile grows, dyes industry will also grow complementary at the same percentage, at the same level and because it goes parallel. Whatever we are able to increase in terms of exports, to again counter and provide an alternate to China, that growth will be incremental to the domestic growth. So, let us hope that even export growth also goes up. And Chinese textile exports have been facing lot of challenges, including sanctions of use of cotton, which you must have read in the news. And that would provide other countries to capture orders and to capture market of textile processing. And hopefully we should be able to follow that move. And we should be able to cater to those textile processing customers, who get that business diverted from China. That is where the growth will take place.

Moderator: Thank you, sir. The next question comes from Mr. V P Rajesh from Banyan Capital Advisors. Please go ahead.

Moderator: Yes Mr. Rajesh, please go ahead with your question.

V P Rajesh: Okay. Hi Manish. My first question is on the DyStar, just on this issue of the profits that we are booking, all these will be reversed based on the judgment that we get, isn't it correct?

Manish Kiri: The judgment we already have in place, in which we are awarded. Now, when the actual transaction takes place, and when the actual shares are sold and whatever Kiri gains at that time, that gain would not be compensating. You mean to say that since July 2018, whatever profit Kiri has consolidated in DyStar books, we would have to reverse that consolidation, that is what your question is?

V P Rajesh: Yes. I am just trying to understand.

Manish Kiri: I don't think so, because it would not be possible from even accounting perspective too. And we will have to continue to consolidate, continue till the shares are actually sold. Whether we get liquidity on that consolidation, is a separate part. But, that profit continues to belong to Kiri, till Kiri holds shares of that.

V P Rajesh: Right, understood. And the second related question is that, in the Supreme Court where you are doing the appeal, are you also claiming that these profits belong to Kiri and therefore we should be getting some compensation for all these profits from 2018 onwards, is that part of the solution also?

Manish Kiri: Yes, exactly, that is there in our submission. So, we are telling Supreme Court that we have been deprived of these earnings all these years, because transaction date is away from the valuation date. And we should be compensated with something. Either you give us in the form of the interest on the valuation number or anything, because during this time, the oppressor is benefiting at the cost of minority shareholder. So, you would be pocketing all this money, oppressing the minority shareholder and then enjoying that. How can that be justified? I hope I am clear in the arguments that we are, I am trying to explain to you which we are in length reporting in the Supreme Court submissions.

V P Rajesh: Yes, it is very clear. There is value of money and therefore you are asking that that value should accrue to the Kiri shareholders and that is crystal clear. My second question is that once the money comes, are we still thinking about some kind of buyback or special dividend aside from the large CAPEX that we are planning to get into specialty chemicals?

Manish Kiri: Yes. That would also be one of the objectives, correct.

V P Rajesh: Okay. And then on the business front you are saying that the business is coming back. So, what the guidance you gave in the last call, does that still stand or are you thinking of changing that, given the results of the Q1 basically?

Manish Kiri: The experience of Q1 and the impact of second quarter was more than what we could predict, to be honest with you. Now, for the rest of the year, we would have to revise our forecast. And we would have to give guidance which would not hold valid, what we thought at the end of the year, financial year 2021. So, we will have to taper down our expectations for the whole year.

V P Rajesh: Okay. So, what would be the growth this year then?

Manish Kiri: If we look at the next three quarters, we would try to at least achieve, for example, our internal expectations is 260 crores to 270 crores in this quarter and then touch to 290 or 300 in the remaining two quarters. Again, this is all predictions based on we do not get hit with another problem of COVID wave. So, with that we should end up the year with at least 900 crores, possibly touching 1000. So, that would be the top line. And EBITDA, even if we achieve in the next three quarters, on a standalone basis, post legal expenses, another big impact in our EBITDA comparison with other peer companies would be the significant legal cost. And that legal cost has an impact of somewhere around 4% to 6%, depending on the quarter. That is how the legal cost is impacting our EBITDA. So, post the legal cost, even if we achieve between 8% to 10% on 1000 crores sales, that is what we may end up with on a standalone basis.

V P Rajesh: I got it. I will get back in the queue for more questions.

Manish Kiri: Thank you.

Moderator: Thank you, sir. The next question comes from Mr. Karan Asli from Maximal Capital. Please go ahead.

Karan Asli: Hi sir. Thanks for the opportunity. I have a question regarding the volume and realization for Q1 across basic chemicals, dye intermediaries and dyes. The volume and realization for Q1 across basic chemicals, intermediaries and dyes.

Manish Kiri: So.....just one second. If we compare quarter on quarter, for dyes it was 2111 tons which was quarter on quarter basis; volume wise it was down by 37%. Volume wise if you look at dyes intermediates, which was down by 35% and the volume was 5644 tons. But I am talking about earlier quarters. Compared to earlier quarters it was down. Of course if you compare last year same quarter, which was completely lockdown, actually the volumes are much higher compared to last year's same quarter. If we compare good quarters which was the last quarter of the last financial year, then dyes volume down by 37% and Intermediates volume down by 35%.

Karan Asli: Got it sir. Any idea about the realization? How it has played out in the first quarter?

Manish Kiri: So the average Dye's realization was Rs. 259, while average Intermediate realization was Rs.325. If I give you the realization on the key intermediates for example, vinyl sulfone realization was Rs.257, H. Acid realization was Rs.371. But sometimes the realization in terms of sales price may not give you a correct picture because the raw materials as I explained earlier went up drastically. So there is a significant increase from the raw material side which impacted the margins and an experienced shrinkage of margins.

Karan Asli: Got it. And what will be the main reason for this increase in raw materials? Was there any supply shortage or was it just a normal market process?

Manish Kiri: I think mainly driven by the supply shortages, non-import from China because of products like Aniline, sulphur...import is a significant portion even as of today in India. Hence Aniline didn't arrive for months and months. 65% of our requirements are fulfilled by imports, the domestic consumption. So that was one factor. Second is huge freight cost. Freight cost, import and export freight cost, internationally have been like a madness and those higher freight cost also impacted the price increases. A few products like sulphur became a worldwide shortage, not only India was short; so international price was significantly high. Second factor which is reflecting all these price increase is increase in crude oil and increase in benzene prices. So Benzene touched almost 1100\$ per ton which was considerably higher price even for Benzene which can impact directly the price of Aniline and other intermediates which is based on benzene. So these are the factors which impacted the raw material increases.

Karan Asli: Understood sir. Sir you had mentioned that the entire pass over was not possible in the first quarter, but since then have you been able to kind of adjust the prices according to the increase in raw materials?

Manish Kiri: Yes, yes. Now, from July onwards we are able to pass on some of this increases and at the same time, cost of certain raw materials have also gone down. So as I mentioned earlier, Aniline increased as high as Rs.210 which is now

tapered down to Rs.140 to Rs.150. On the other side, the prices of vinyl sulfone got improved. Similarly, prices of H. Acid also improved from Rs.340-Rs.350 to now Rs.360 to Rs.370. So some passing on is taking place but at the same time certain raw materials also came down, so that will help in this quarter.

Karan Asli: Sure. What would be the capex that you planned over this year and the next?

Manish Kiri: Right now capex is very minimum, put on hold currently. Only thing which we will try to complete in the next quarters might be the second phase of our specialty intermediate plant and very little investment is left for that but I would say that for this year, capex is almost on hold.

Karan Asli: Okay, got it. That's it from my side, thank you.

Moderator: Thank you sir. Next question comes from Ashish Koti an individual investor. Please go ahead.

Ashish Koti: Good afternoon sir, Ashish here. I want to ask a few things. One is with regards to...this rise in raw material prices. That would be applicable across the counters across manufacturers across the world sir?

Manish Kiri: Yes which is true, these prices are totally impacted.

Ashish Koti: So in that sense that would not directly impact from the competitiveness per se?

Manish Kiri: It impacts when the demand is low and everyone wants to sell their products. So if demand is normalized, it usually does not impact not finished product side, but all impact is temporary till you pass on to your finished products. But when your demand is less, then everyone wants to sell their production and that would impact your sales price and impact the margin.

Ashish Koti: If you were to compare our company Kiri with Sudarshan, Vidhi, Bhageria, Dynamic or Akshar or a couple of them, where are we in terms of sales profitability?

Manish Kiri: So for example, if you take Sudarshan, it is not in the category of the products of Kiri, there is not even a single product which is common between Kiri and Sudarshan. Sudarshan, Kiri, Bhageria, Akshar Chem because Sudarshan is in the pigment business of color industry. Pigments since driving factors for the demand of pigments are different from driving factors for dyes. For example, driving factors for Sudarshan for pigments are paint, ink and plastics, which are different from textiles and textiles, 65% to 70% of dyes used in textiles. So driving factors for other companies are different, number one. Number two, the comparable factors between Kiri, Bhageria, Akshar Chem are all in the same industry. Bhageria and Akhsan Chem are not into dyes in the finished end, Kiri is more integrated to the end- user level. They are more into intermediates than into dyes. Number two, the same industry comparable. When you compare margins or intermediates and margins on integrated companies, they could be somewhat different but in line. Besides dyes, Kiri, you have to consider the legal expenses which other companies do not have. So post legal expenses the

EBITDA margins would be more or less parallel, maybe a few percentage here and there from the business operations perspective. But when you compare them with other exceptional items like profits from solar plants and things like that, then things would be different.

Ashish Koti: Okay, are we planning to get into higher value-end business?

Manish Kiri: We are planning to get into various intermediates. What we are planning to do is to improve our product mix on more of an intermediate levels, an addition of new intermediates, new products, non-textile industry related....like performance chemicals. Some of the intermediates we just started are for agro-chemicals, so those are the places where we are already growing, we have invested for, we have to capitalize on our already investment which have taken place and which are getting completed and we will do so.

Ashish Koti: Those results will be reflective only in FY23?

Manish Kiri: Some will come in FY22.

Ashish Koti: Right sir, thank you.

Moderator: Thank you sir. Next question comes from Sanjay Mahajan an individual investor. Please go ahead.

Sanjay Mahajan: Good afternoon sir. Manishji first of all I missed to congratulate you on the last call. I had seen most of your public communication including one with the Valorem and I should say, you walked the talk and hats off to you. And the most strongest quality that an entrepreneur needs is the great, that's the top quality and it has been already demonstrated by you by trying to fight out this big battle with DyStar but as an individual my concern comes from the standalone number. So if I see the data from 2007 till date, our revenues looks to be on a stagnant level. So what are the management plan irrespective of the DyStar case to strengthen this business? How are we positioning ourselves for any of the unseen calamity regarding DyStar? Because on the standalone if I look at the business, whatever you have been doing, I don't have any doubt on the management, but I have concerns regarding the segments which they have invested with you.

Manish Kiri: Yes, and your concerns are right concerns and our focus besides DyStar case is to improve our standalone performance and our standalone product portfolio. That is the prime priority for the management. Now to address that, we have been investing in the last two, two-and-a-half years actually. Unfortunately, post COVID we could take benefit, but today by the end of this financial year company would have enough assets, company would have invested for these two new buildings and the specialty intermediate facilities when we are able to penetrate those products in the markets with market support, in the next year or two, we can increase our top line as high as 1800 to 2000 crores, only on the existing investments. So our next objective is to improve standalone performance to increase our profitability on a standalone basis and with more intermediate in the product basket, we would see less uncertainty with some of the diversified products, not only for the textile industry also used in other industry. The idea is to de-risk ourselves and not totally linked with textiles and dyes but also to

add all these products we already started and to get that reflected into our financial performance. The key is that our quarterly revenue increases from 250 to 270 to 300, 350 and 400 with existing investments only without any more new investments. Now the plan is to get this reflected into the numbers in this year and next year.

Sanjay Mahajan: Okay and in continuation of the same thing, in the last concall you had mentioned we are strengthening our core team on the board wherein ex-GNFC and ex-Deepak Nitrite individuals are also roped in for our future plans. So is this for the current business or for the future businesses?

Manish Kiri: For the future businesses. For the current businesses we have further strengthened. There are new hires have also taken place and we are strengthening the management bandwidth for the future projects for the businesses we will enter into which will be non-dyes and intermediate business.

Sanjay Mahajan: Okay and sir, last question regarding the FCCBs conversions. Do the management intend to increase their stake as and when there is a possibility....?

Manish Kiri: Undoubtedly. Management could definitely try to increase their stake, absolutely. One of the priority items at promoter's levels.

Sanjay Mahajan: Wish you all the best sir and we are very happy and have full faith in your leadership. Thank you.

Manish Kiri: Thank you.

Moderator: Thank you sir. Next we have a follow up question from Suyesh Sarovi from First Capital Market. Please go ahead.

Suyesh Sarovi: Sir, my question is regarding China. You had mentioned that China is becoming uncompetitive regarding India....as compared to India in Dyes and dye intermediaries. So has that situation changed post COVID or is it same that you were saying three quarters back?

Manish Kiri: I think the situation....let me elaborate a little bit. The reason India is more competitive and continue to be more competitive compared to China, the factor which goes in is the differential policy and tax policy in China. For China to export dyes and majority of the intermediates, either they do not give refund of VAT or Chinese government for some intermediates give partial refund of VAT. That means that China has already in practice today indirect export tax and that is what is making our prices and our industry to capture more export market in the countries other than China. So that competitiveness continues because of this main factor which I explained to you. Number two, China also went through some of the demand slowness and Chinese reduced their prices of dyes and intermediates in the last quarter as well as this quarter also and that is one of the factors that would affect our prices too. For example when China offers H. Acid price of 4.8\$ in international market, as well as to India, we cannot go above it. That puts a cap on our price increasing ability. You imagine the situation where our industry Kiri as well as others will have to import Aniline from China with anti-dumping duty because the domestic production is only 30%, 35% and then after paying that anti-dumping duty, we will have to compete against China in the finished product

which is vinyl sulfone and match their pricing. So there are certain factors where we also need to improve in future to be self-reliant if we want to have even more comparativeness against China which will happen over the years. Currently we will have to on one side depend on some materials from China on the other side compete also with China.

Suyesh Sarovi: Okay got it. Thank you.

Moderator: Thank you sir. Next we have a follow up question from V P Rajesh from Banyan Capital Advisors. Please go ahead.

V P Rajesh: Hi just on the EBITDA margin side, you were saying that the guidance for this year will be around 7% or 8% and on the last call we were talking about 14% kind of EBITDA margin. If you can explain why this significant delta because I assume even in 14% you were taking some of the legal costs etc into account.

Manish Kiri: Right. The unprecedented increase of the raw material prices that we have seen in the first quarter of this financial year has changed dynamics and the optimism and that is the reason we had to recast ourselves. At that time it was not expected that the acetic acid price will raise to for example Rs.100; Aniline to Rs.200 and if you look at sulphur, it is still going on Rs.20, Rs.21 which was Rs.7. So one single factor which has impacted EBITDA forecast is the hike of raw materials and hike in freight, especially international freight. Today if you want to send a container to Brazil or Central America or to the US you are talking about \$10,000 to \$13,000 per container and you would see that in some of the import items like naphthalene, naphthalene is \$900 a ton and you would be paying \$150 or \$200 a ton of the freight. So freight portion is also eating away a couple of percentage of EBITDA. So raw material price hike and freight, uncertainty in freight and the increase in international freight have impacted our forecast and that's the reason that we are revising. Again, if situation changes, if the raw material prices go back to the original levels, we might see some positiveness but we don't see it happening in the next quarter. Hence we continue to revise it.

V P Rajesh: Got it. Thank you for your comprehensive answer, I appreciate it.

Moderator: Thank you sir. Next we have a follow up question from Mr. Abhishek an individual investor. Please go ahead.

Abhishek: Thank you for the opportunity again sir, just one question. How many times one can appeal in the court? Like we had order from SICC but the Company and Senda has again gone and filed an appeal against it. So how many times can it be done?

Manish Kiri: Appeal can be done only one time for one order. Appeal cannot be done two times for one order. So for example we have now valuation order in place and actually valuation final order came on 21st of June. Earlier there were two interim orders that we received from the court. So starting from December 2020, once this final order is in place now, this appeal would be a one appeal and the last appeal. There is no other order that can be subject to appeal. And all these interim orders appeal questions will be clubbed into one final hearing now because it all relates to valuation order.

Abhishek: Okay so this will be the last appeal.

Manish Kiri: Yes, no further appeal after this.

Abhishek: Thank you very much sir.

Moderator: Thank you sir. Ladies and gentlemen that would be the last question for the day. Now, I hand over the floor to the management for closing comments.

Manish Kiri: Thank you all for participating in today's conference call. We will see you in the next quarter. I wish all of you to be safe and healthy. Thank you.

Moderator: Thank you sir. Ladies and gentlemen on behalf of Aditya Birla Money, this concludes the conference call for today. Thank you for your participation and you may all disconnect your lines now. Thank you and have a good pleasant evening.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.