

Industry	CMP	Recommendation	Add on dips to	Sequential Targets	Red flag or stoploss level	Time Horizon
Speciality Chemicals	Rs. 301.30	Buy at CMP and add on declines	Rs.248-260 band	Rs.362 & Rs.446	Rs.218	4-6 quarters

HDFC Scrip Code	KIRDYEEQNR
BSE Code	532967
NSE Code	KIRIINDUS
Bloomberg	KIRI IN
CMP	Rs. 301.30
Equity Capital (Rs crs)	27.8
Face Value (Rs)	10.0
Equity Share O/S (crs)	2.78
Market Cap (Rs crs)	838.5
Book Value (Rs)	144.0
Avg. 52 Wk Volumes	69926
52 Week High	377.9
52 Week Low	227.0

Shareholding Pattern % (Mar 31,2016)	
Promoters	37.7
Institutions	19.3
Non Institutions	40.0
Non-Promoter Non-Public Holdings (ESOP Trust)	3.0
Total	100.0

Fundamental Research Analyst

Arpit Bhatt

arpit.bhatt@hdfcsec.com
Technical Research Analyst

Nagaraj Shetti

nagaraj.shetti@hdfcsec.com
Company Description:

Kiri Industries Limited (KIL) is one of the largest manufacturers and exporters of wide range of Dyes, Intermediates and Chemicals from India. KIL is an accredited and certified Key Business Partner with world's top Dyestuff majors across Asia-Pacific, the EU and Americas. All initiatives taken by KIL have enabled it to set its footprint in over 50 countries across 7 continents.

Investment Rationale:

- Risk of heightened competition in Dyestuff industry from China is reducing as it keeps fighting rising pollution in various cities and manufacturing costs in China keep rising;
- Restructuring and reduction of debt of the company is improving company's long term solvency position,
- Unlocking of value of strategic investment in associate company DyStar group could yielding remarkable cashflows,
- Introduction of GST may help the company countering its competition from the unorganized sector,
- Impetus to investors' confidence because of capital infusion at premium by promoters,
- Sharp improvement in working capital management and the cash conversion cycle.

Concerns:

- High legal risk w.r.t. timing and the result of the suit filed before high court in Singapore against associate DyStar group.
- Loss in revenue and pressure on margins if the heightened competition resumes from China.
- High degree of local competition in this industry.
- The industry in which company operates deals with hazardous chemicals which tend to pose higher compliance risk.
- Management's unwillingness to discuss company affairs/lack of adequate transparency.

View and Valuation:

KIL has seen an operational turnaround on a standalone basis on account of the surging prices of the dye intermediates comprising of 69% of company's revenues due to reduction in heightened competition from Chinese players and moving up of the value chain by KIL. Apart from this turnaround in the operational performance of the company, KIL has indulged in serious debt reduction efforts which has brought down the debt of the company by around 46% in FY16 and further by 40% in FY17. Company's JV with Dystar is performing reasonably well and has contributed positively to its EPS for the past three years and is expected to continue the same with good prospects for reactive dyes and direct dyes globally. Also, the company expects to unlock the value in its associate company as a result of the suit filed in Singapore. This could be game-changing factor for company and provides immense potential for an upside.

We feel investors could buy the stock at the CMP and add on dips to Rs. 248-260 band for sequential targets of Rs.362 & Rs.446 over the next 4-6 quarters. The second target will come into picture when the suit filed by KIL in Singapore is decided in its favor.

Financial Summary:

Particulars (Rs cr)	Standalone					Standalone				
	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	221.8	253.5	-12.5%	240.6	-7.8%	781.6	887.7	964.8	1001.9	1108.1
EBITDA	37.7	33.1	14.0%	33.4	13.0%	68.6	82.3	127.6	160.3	175.6
APAT	30.3	25.2	20.2%	25.4	19.2%	-36.9	9.1	95.2	122.0	132.7
Diluted EPS (Rs)	6.70	4.87	37.7%	6.98	-4.0%	-12.9	2.9	18.4	23.5	25.6
P/E (x)						NA	105.0	16.4	12.8	11.8
Mcap/Sales (x)						0.88	0.90	0.87	1.56	1.41

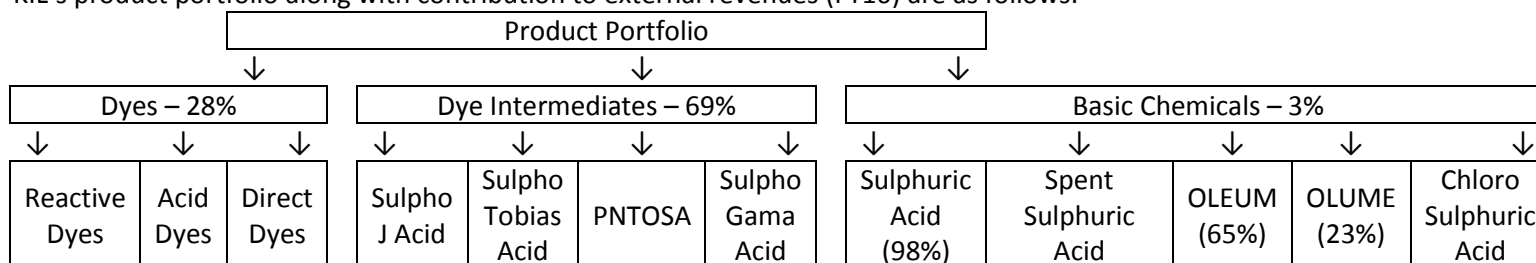
(Source: Company, HDFC sec)

Company Profile:

KIL is engaged in the business of dye, dye intermediates and basic chemicals. The company is vertically integrated across the value chain from basic chemicals to reactive dyes. Sophisticated quality control practices and procedures, modern manufacturing facilities and ERP driven enterprise management has enabled KIL to offer internationally recognized quality products and services.

Product Portfolio:

KIL's product portfolio along with contribution to external revenues (FY16) are as follows:



Thus Dye intermediate is the highest earning product segment for the company. The basic chemicals produced are majorly used up in captive consumption for further processing to manufacture dye intermediates and dyes.

Customer segments:

The customer segments that the company caters to are:

- For Dyes - Textile manufacturers, including manufacturers of cotton fabrics, dress materials, carpets, bed-sheets etc.
- For Dye Intermediates - Various manufacturers of reactive dyes across the globe.

Manufacturing Facilities:

KIL has manufacturing facilities at two locations, both situated in the state of Gujarat, India.

- 1 Manufacturing Plant with 3 manufacturing units at Vatva, near Ahmedabad for manufacturing of dyes having a capacity of 15000 MTPA.

- 1 Manufacturing Plant with 1 manufacturing unit at Padra, Vadodra for manufacturing dye intermediates and basic chemicals. The plant has the capacity to produce 7200 MTPA of H-Acid and 18000 MTPA of Vinyl Sulphone. (Source: internet sites)

Subsidiaries / Joint Ventures / Associates:

As of FY16, KIL has a total of 4 Subsidiaries, is a partner in a joint venture and has substantial interests in 2 associate companies. The following table indicates the details with respect to KIL's subsidiaries, joint ventures and associates:

Name of the Company	Stake Held	Country	Operational
Subsidiaries			
Chemhub Trading DMCC	100%	Dubai	Operational
Kiri International (Mauritius) Pvt Ltd	100%	Mauritius	Non- Operational
Kiri Investment & Trading Singapore Pvt Ltd	100%	Singapore	Non- Operational
Synthesis International Ltd	100%	Hong Kong	Non- Operational
Joint Ventures			
Lonsen Kiri Chemical Industries	40%	India	Operational
Associates			
Kiri Infrastructure Private Limited	47.61%	India	Operational
DyStar Global Holdings (Singapore) Pte Ltd	37.57%	Singapore	Operational

Investment Rationale:
Risk of heightened competition in Dyestuff industry from China has faded as it keeps fighting rising pollution in various cities and Manufacturing costs in China keep rising:

Stricter environmental norms, requirement of setting up effluent treatment plants and increased costs has eroded the low cost advantage of Chinese dye manufacturers. A few years back, Indian dye manufacturers used to face strong competition from Chinese dye companies. However, to control pollution, the Chinese government has cracked down on some companies including dyestuff manufacturers forcing some to shut down and is sending inspectors throughout as part of crackdown on the air pollution that afflicted Beijing, Tianjin, and other major Chinese cities. China was the largest manufacturer and supplier of dye intermediates and dye stuff globally, with share in global supply in excess of ~78%. The rapid rise in labor costs as well as declining state support have also led to its diminishing cost advantage. Moreover, with frequent plant shutdowns in China, global customers are looking at diversifying their procurement base and looking at India as the next alternate source.

The Ministry of Environmental Protection (MEP) of China will formulate and revise various key standards on the environmental protection sector and raise the threshold for environmental access to promote industrial upgrading and structural optimization during the 13th Five-year Plan period (2016-2020). It will introduce various standards on environmental quality and the emission of pollutants to effectively support the administration on water, air and soil environment and the licenses on pollutants emission.

Implementation of environmental protection has added / will add to the capital and running costs discouraging new capacity additions. Further a reduction in export incentives, cut in power subsidy, imposition of export duty on dyes intermediates and dyestuffs also result in similar outcome.

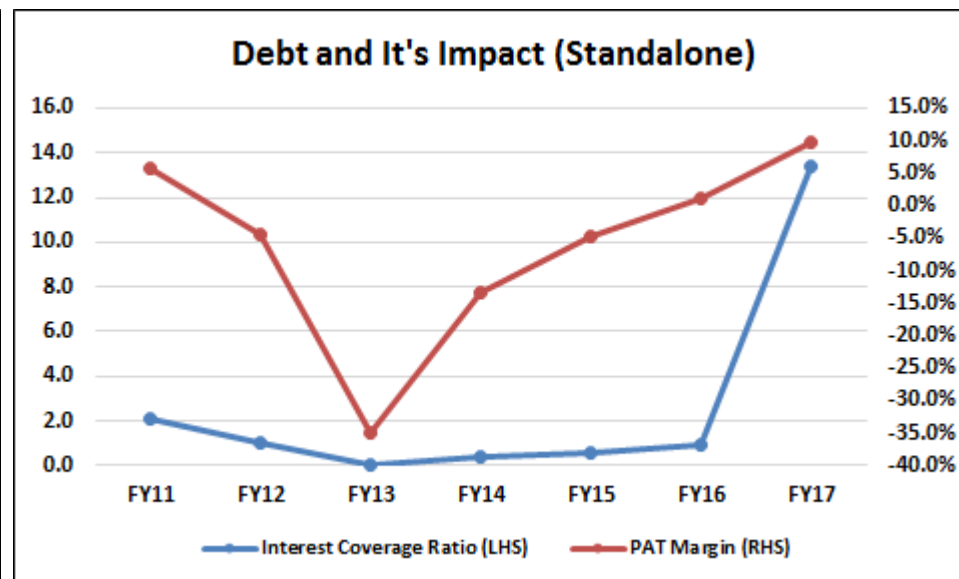
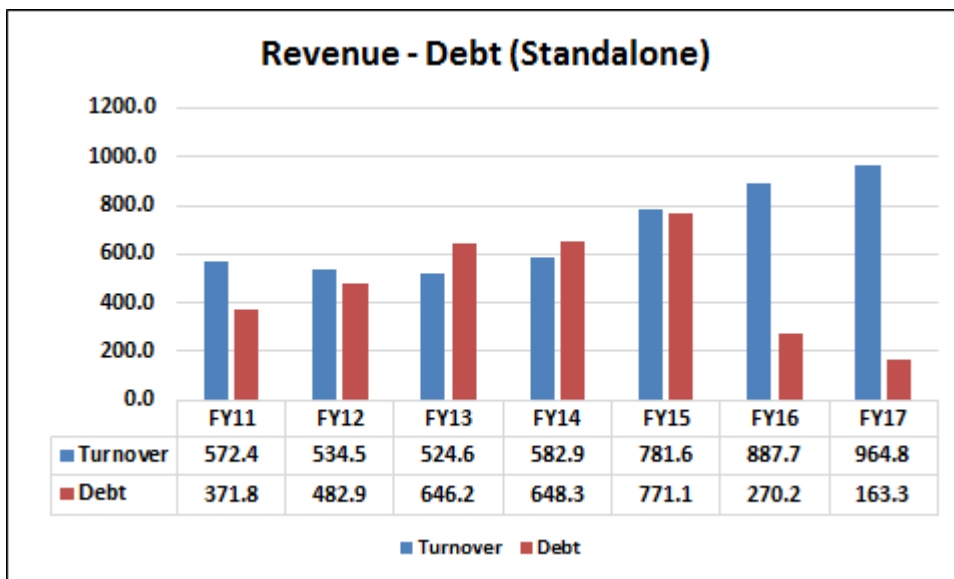
These changes in the global dye intermediates industry has had a significant positive impact on the companies in India who are engaged in the same business.

Restructuring and Reduction of Debt:

During the 2008-2010 period, KIL had undertaken measures to grow, both organically and inorganically by expanding capacities and making strategic investments. In March 2010, it formed a JV with China-based Longsheng group and also acquired German-based DyStar from bankruptcy proceedings. These expansionary measures were to be funded and the company resorted to debts some of which were in foreign currencies. Further, KIL for bringing about a turnaround in the operations of DyStar, had tried to initiate an IPO by Q1FY13 in the international market. However, the euro zone crisis and resultant slowdown hit DyStar hard. Hence, Kiri Industries had to fund the company through term loans & working capital loans (around Rs.100 crores) raised in foreign currency in FY12. All these expansionary measures though improved company's revenue stream but company's balance sheet got over-leveraged with huge debt of about Rs.853 Crs in FY15 (Consolidated).

The company was performing at par with its peers on operational front but would be weighed down on account of the large amount of debts and the consequent interest expenses. The company in the last quarter of FY16 resorted to reduction of debt and for the same purpose the promoters infused capital in the company by means of preferential allotment. In FY 2015-16, promoters infused around Rs.50 crores in 2 tranches by subscribing to 37.5 lakh warrants at 135/- per share. Consequently their shareholding increased from 25 to 37%. In October 2016, board approved allotment of 35 lakh warrant to promoters at the price of 363/- which can be converted at any time during the next 18 months. Promoters have paid the entire application money due on said warrants to the tune of Rs.127.05 Crs which are yet to be converted into equity shares. Promoter shareholding may jump to 44.64% at the end of the process. Warrants at both instance were priced at a slight premium to the prevailing market price. As of date, the promoters have infused Rs.177.05 crores.

In exchange of promoter's fund infusion, lenders agreed to restructure the debts. By end of FY16, KIL executed agreements for settlement of all its debt. This resulted in significant reduction of the borrowing of the company from Rs. 853.13 crores in FY15 to Rs.172.29 crores, which is about 78% reduction compared over a span of two years. Hence, the company has now fully addressed its debt burden, which had been weighing down the Company's performance over the past several years. The impact for same can be witnessed as follows:



(Source: Company, HDFC sec)

The company is still striving to reduce the debt on higher generation of cash from operations and further reduce the finance costs and enjoy the benefits of good operational environment. Interest costs in Q1FY18 fell to Rs.0.24 cr vs Rs.2.67 cr in Q1FY17 and Rs. 0.94 cr in Q4FY17.

Positive Contribution from Lonsen Kiri – JV with Longsheng group:

The company had entered into a joint venture with Longsheng group to set up a jointly owned entity, Lonsen Kiri Chemical Industries Ltd (LKCIL), engaged in the activity of manufacturing and selling reactive dyes. LKCIL is based in Dudhwada village near Vadodra, in Gujarat and has a capacity of 50,000 MTA. The LKCIL plant incorporates a combination of technology and business practices from China and India. It has environment friendly features such as an effluent treatment plant and a rain-harvesting facility. The plant is designed with the expertise of both Longsheng and Kiri. This JV has been contributing to the company’s earnings since FY14. Over the years company’s revenue stream grew from Rs.43 crs in FY13 to Rs. 158.3 crs in FY17 (derived as a differential between the consolidated and standalone figure). Apart from the revenues, company’s EBITDA margins have improved from around 8.4% in FY14 to 18.5% in FY17. Even with a conservative expectation of a long term average growth rate applicable to the industry to which this JV belongs, said JV is expected to yield reasonable profits to the company, helping it derive and add some extra value to its standalone numbers.

Unlocking value in DyStar Group:

KIL had acquired substantial interest in the troubled German dye multinational company, Dystar, which was under insolvency proceedings in Germany, in February 2010 jointly with Zhejiang Longsheng Group Co. Ltd., China (which is the same company that partnered with Kiri in its Joint Venture, Lonsen Kiri Ventures for manufacturing reactive dyes in Gujarat). Dystar, earlier owned by BASF, Bayer and Hoechst in 30:35:35 proportion, was acquired by Los Angeles-based private equity firm Platinum Equity in August 2004. In September 2009, the company had to file for bankruptcy due to liquidity problems. The acquisition,

right from the beginning appeared to be a promising one as it gave access to DyStar's 16 manufacturing plants with a combined production capacity of 176,000 TPA (at that time), apart from its brand, patents, technical know-how and most importantly around 21% global market share.

KIL had worked out a turnaround plan by replacing high cost German manufacturing base with low cost manufacturing in India & China and be cash positive from 2011. However, the same could not work out to great effect and the DyStar underperformed for few years even after its acquisition by KIL and the LongSheng group.

Finally, DyStar which had been performing weak had started to yield returns from Q1FY16. Collective efforts put in by the management of both KIL and Longsheng group had helped to successfully turnaround the operations of DyStar. KIL is over 4 fiscal years from FY14 to FY17 entitled to profit share of Rs. 82.6 crs, Rs. 197.6 crs, Rs. 170 crs and Rs.156.61 crs respectively. These are conservative numbers as KIL claims higher share of profit of Rs. 271.62 crs for FY17 after disputing Bonus & special incentives and various fees (Management and Guarantee fees) provided in the accounts of the JV. In case these are removed the share of KIL would rise by Rs. 115 crs to Rs. 271.62 Crs for FY17.

Although DyStar was making substantial profits, KIL was not paid anything out of the same. Neither there were dividend payouts nor was KIL allowed to liquidate its stake. This has led KIL's investment in the associate to be locked in. In view of same, KIL initiated legal proceedings in the High Court of Republic of Singapore against: (a) Longsheng Sub; and (b) DyStar (collectively the "Defendants") to enforce its rights as a significant minority shareholder, arising from matters including governance and intellectual property rights of DyStar, and unlocking value of the Company's shares in DyStar.

The legal proceedings were initiated by KIL in June 2015. The litigation moves from pretrial interlocutory stage (when parties seek discovery of documentary evidence) to trial. Once the trial begins on a general basis, the suits in Singapore are on an average decided within 3-4 months from initiation of hearing. Hence, once the hearing for the suit is fixed the result of same can be expected in 4 months from its initiation. However, as of now, there has been no news with respect to fixation of hearing date.

If and when the suit is decided in favor of KIL, there are two outcomes possible, either the majority shareholder would be required to buyout KIL's holding in DyStar or DyStar may be taken public. Either of these outcomes would be favorable for KIL. In the first option, the value of stake of KIL will most likely be valued on the profit earning capacity of the business. KIL in its consolidated books shows a sum of Rs.702.4 Crs receivable on account of investment in the Dystar JV (mainly representing its share in the past profits calculated on conservative basis). Even If KIL does not succeed to get its stake liquidated this is the bare minimum receivable by it from the JV.

Introduction of GST:

Introduction of GST wef July 01, 2017 is perceived and expected to benefit all the organized sector players in the industry. This will help the organized sector players to tighten their grip over the market by maintaining a cost structure more efficient than that of any unorganized local manufacturers.

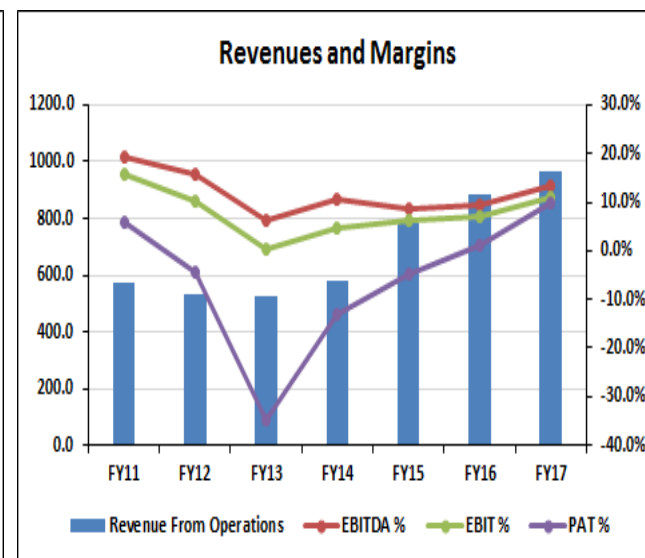
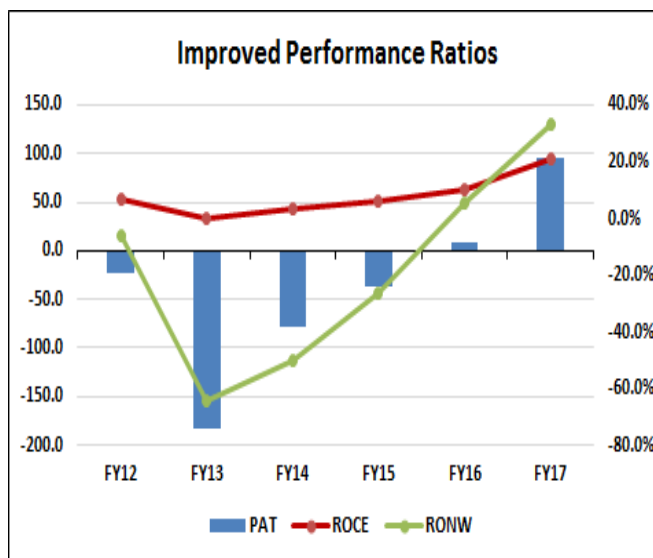
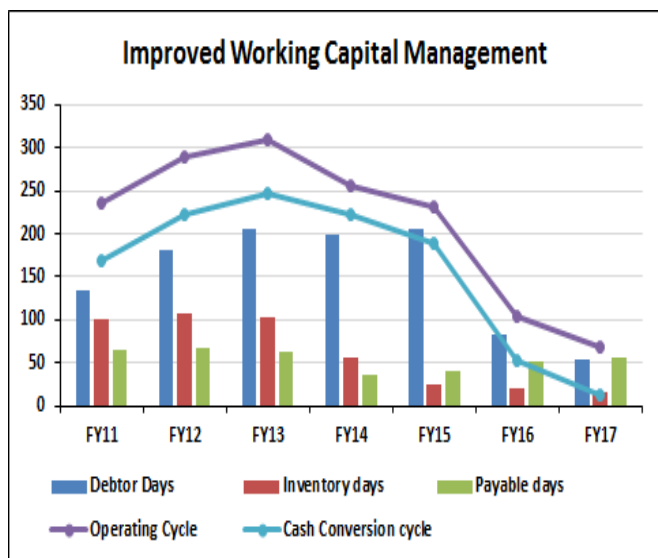
Indian Dyes and Dyestuff market is highly fragmented, with 40-50% of the market being unorganised. The recent events including GST, stricter environment norms, rising compliance needs from global clients could eventually lead to a need to consolidate, large and efficient players growing higher than the industry and smaller units closing or consolidating with large players.

Increasing Promoters' holding:

KIL had accumulated huge amounts debts by the end of FY15. As a security, the promoters had pledged their holdings in KIL against some of these debts which eventually were dumped into the market. This led to reduction in promoters' holding in the company over the years. In order to bring this holding to the earlier levels, company had issued by way of preferential allotment of equity shares to its promoters. Further there are 35 lakh warrants outstanding issued to promoter group which shall further raise the promoters' share in equity by an equivalent number. The current promoters' holding as of 31st March, 2017 is 34.7% which is expected to increase to 44.6% on conversion of above mentioned warrants. However, it should be noted that the promoters holding on conversion of all of FCCBs outstanding into the equity, promoters' stake shall go down to 27%.

Improving Standalone financials:

KIL had huge amounts tied up its working capital with its operating cycle ranging between 230 to 300 days over the years up to FY15. Further KIL also suffered from a reducing amount of credit extended by its creditors over the years up to FY15. However, the company witness a turnaround from FY16 due to the rising global demand for dye intermediates, its operating cycle reduced and the number of days of credit extended by the creditors also improved. Apart from this company's performance ratios and margins have improved considerably over the past three years and also company's JV and Associate i.e. its strategic investments have been yielding profits consistently to the company. The following charts display this:



(Source: Company, HDFC sec)

Expansion in facilities to lead to better revenues and margins:

The Company is implementing expansion projects for Disperse Dyes Facility, Various Intermediate Products and Zero Liquid Effluent Discharge project for betterment of environment protection. Though no further details of existing capacities, their utilisations etc are available, this plan could lead to further jump in revenues and margins when implemented.

Concerns:
Legal Risk – Suit against DyStar Group:

KIL had initiated legal proceedings in June 2015 in the High Court of Republic of Singapore against: (a) Longsheng Sub; and (b) DyStar (collectively the “Defendants”) to enforce its rights as a significant minority shareholder, arising from matters including governance and intellectual property rights of DyStar, and unlocking value of the Company’s shares in DyStar. This suit may or may not be decided in KIL’s favor and further the time-frame within which it may be decided is also not fixed. KIL may be able to unlock the investment locked in the associate only if the same is decided in KIL’s favor. Further even if the suit is decided in company’s favor there are high probability chances that defendants to this suit may appeal in the higher authority, which may further postpone KIL’s investment liquidation efforts.

Resumption of heightened competition from Chinese players:

KIL has been reaping the benefits of higher pricing power and greater market share on account of the crack-down in the Chinese dye and dyestuff manufacturing industry. The fear of losing this market presence and pricing power gained hovers over all the dye and dyestuff manufacturers in India due to the uncertainty about the timing as to when the Chinese industry which has historically been a leader in this industry will resume its normal or even below normal level of operations. This stays as one of the major risks faced by KIL for its standalone business as it may lead to loss of revenue and margins in the future.

Dilution in Equity:

KIL issued 35 lakh warrants to its promoters which could be exercised to acquire shares. KIL also has FCCBs which are convertible at maturity date for which has been pushed to 2022. All of these actions of the company have diluted the equity and further there are approx. 2.4 crs of potential equity shares outstanding which shall further dilute equity and widen the base for distribution of earnings of the company. We have assumed the fully diluted equity for our financial projections.

Particulars	No. of Shares	% Holdings Post Issues	
Number of Equity Share Outstanding as on 31st March, 2016	2,65,49,951	Promoter	Non-Promoter
Additions:		34.64%	65.36%
Warrants issued to Promoters converted at Rs.136 per share	12,94,000	Promoter	Non-Promoter
Number of Equity Share Outstanding as on 31st March, 2017	2,78,43,951	37.68%	62.32%
Potential Dilutive ES Outstanding:			
Warrants issued to Promoters at Rs.363 per share	35,00,000	Promoter	Non-Promoter
Shares to be issued to FCCBs (Series B, D, E & F)	2,04,90,262	26.99%	73.01%
Total Diluted Equity	5,18,34,213		

(Source: Company, HDFC sec)

Huge number of shares to be issued on conversion of FCCB could create pressure on the stock price even if the positive triggers play out in favour of KIL.

High degree of local competition:

Competition in the dye and dye intermediate industry is intense not being just restricted to domestic boundaries but also globally. KIL faces significant competition from other entities engaged in the Dyestuff and Chemicals business, many of which are based in the same regional market or sell in the same markets that the company caters to. In addition, the industry is highly fragmented and the Company also faces competition from local manufacturers in the unorganized sector, who may be able to cater to local demands at a lower cost. Also, there are always the chances of new players entering this sector since barriers to entry are low.

Quality/Regulatory risks:

KIL requires certain approvals, licenses, registrations and permissions for operating its business some of which Company has already obtained and/or has either made or is in the process of making the application. If Company fails to obtain these approvals/registrations/ licenses/permissions, or renewals thereof, in a timely manner, or at all, its operations would be adversely affected, having adverse effect on its business.

Hazardous waste – entailing compliance:

KIL deals in hazardous chemicals. H-acid, one of the products that KIL deals in, is the most polluting industrial effluent that generates 50 kg of waste for every one kg of usable material. It is toxic and non-biodegradable. Hence here there is huge amount of compliance risk wherein it is obvious to state that if the Company fails to comply with Environmental Laws and Regulations, the results of operations will be adversely affected.

Management's unwillingness to discuss the KIL's business/lack of transparency raises concerns:

KIL's management seems to be conservative in its approach with regards to discussing the business prospects of its entity and/or the legal disputes it is involved in. Transparency being integral to value creation, KIL's management's unwillingness to elaborate on its current businesses or future plans leads to raising the overall riskiness of this investment proposition.

Non-Dividend paying company:

KIL has seen bad days in the past wherein it suffered from heavy losses. However, in FY16 & FY17 company has earned handsome profits with good return ratios. However, these profits have not been transferred to the shareholders by the company since company has failed to declare dividends. This remains as a concern as with the debts repaid to a great extent in FY17 and handsome cash generation on a standalone basis, if the company does not pay out dividends it shall affect its return ratios and the investors may lose confidence as well.

View and Valuation:**Standalone Valuation of KIL:**

KIL has seen an operational turnaround on a standalone basis on account of the surging prices of the dye intermediates comprising of 69% of company's revenues due to reduction in heightened competition from Chinese players and moving up of the value chain by KIL. Apart from this turnaround in the operational performance of the company, KIL has indulged in serious debt reduction efforts which has brought down the debt of the company by around 46% in FY16 and further by 40% in FY17.

Company's JV with Dystar is performing reasonably well and has contributed positively to its EPS for the past three years and is expected to continue the same with good prospects for reactive dyes and direct dyes globally. Also, the company expects to unlock the value in its associate company as a result of the suit filed in Singapore. This could be game-changing factor for company and provides immense potential for an upside.

We feel investors could buy the stock at the CMP and add on dips to Rs. 248-260 band for sequential targets of Rs.362 & Rs.446 over the next 4-6 quarters. The second target will come into picture when the suit filed by KIL in Singapore is decided in its favor.

Peer Comparison Chart:

Name of Peer Company	Equity Capital	FV	No. of Shares	Fundamental Values			Market Cap	TTM Price Multiples		
				Earnings	Net Worth	Sales		P/E	P/BV	P/Sales
Bodal Chemicals Ltd	21.8	2.0	10.9	128.0	359.3	1171.0	1800.2	14.1	5.0	1.5
Aksharchem (India) Ltd	7.3	10.0	0.7	51.9	133.8	259.7	514.4	9.9	3.8	2.0
Shree Pushkar Chemicals	30.2	10.0	3.0	31.4	193.6	322.4	619.5	19.7	3.2	1.9
Sudarshan Chemicals	13.9	2.0	6.9	80.5	395.5	1245.1	2564.7	31.9	6.5	2.1
Kiri Industries Ltd	27.8	10.0	2.8	102.3	400.9	932.1	838.4	8.2	2.1	0.9

(Source: Company, HDFC sec)

We are valuing KIL's standalone business using the trailing P/E prevailing in the industry after discounting it appropriately for the lack of transparency, huge dilution pending and uncertainty over the outcome of the legal dispute. We have assumed a trailing P/E applicable to the company of about 10x as against the industry average of about 18x.

Valuation of stake in LKCIL:

With growing revenue streams and expanding margins, LKCIL is expected to continue its positive contribution to KIL. The rough projections for LKCIL's performance would be as follows:

Particulars (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	223.6	162.4	158.3	161.5	165.5
EBITDA	31.0	31.5	29.3	29.3	29.8
APAT	22.7	19.3	15.0	18.7	19.5
Diluted EPS (Rs)	8.0	6.1	2.9	3.6	3.8

(Source: Company, HDFC sec)

LKCIL is engaged in the business of manufacturing of reactive dyes. This industry currently enjoys a P/E of about 13.5x – 15x of its TTM earnings. However, considering the fact that KIL's disturbed relationship with Longsheng group may disturb company's operations at its other JV with same party, we have discounted said P/E and valued LKCIL's business at Rs.29 per share of KIL (10.0x FY17 Earnings).

Valuation of stake in DyStar Group:

As we have mentioned earlier, if and when the suit filed against DyStar and LongSheng group in the Singapore high court is decided in KIL's favor, KIL shall be able to unlock the value in store in form of its stake in the associate company.

To value stake in Dystar, we have taken two scenarios – one if the case is lost by KIL and the other if it is won by KIL. In both cases we have taken conservative valuations. In the first case, we have assumed that KIL would be able to receive only the profits due to it till FY19 and applied discounting @15% p.a. to it.

In the second case, to value the holdings in DyStar, we assume the company to grow at about 1% which is the rate at which the conservative global dye and dyestuff industry growth rate. Assuming the same, the Dystar’s profit for FY19E would be approx. Rs.425.2 crs of which KIL’s share will be around Rs.159.8 Crs (this figure seems conservative considering that KIL’s share in Q1FY18 was Rs.69.2 cr – the current super profit situation in DyStar may not last into FY19 when we could see some normalcy returning). Now on applying a conservative P/E of 10 (whereas the P/E in Dye and Dyestuff industry globally is 13x – 16x in general) to these earnings, the KIL’s holding in DyStar group would be worth Rs.1597.6 crs (10x P/E FY19E).

However, it is only fair to assume that the dispute and settlement with DyStar group and Longsheng group may take about 2 years to be resolved and this entails a gestation period before which KIL can unlock value. Hence, we derive the present value of said recovery two years from now, again discounting at a conservative rate of about 15% p.a., would be Rs. 1208 Crs. Thus, on a per share basis, company’s shares should gain by approx. Rs. 233.

SOTP valuation:

Particulars	EPS FY17	P/E applied	Per share Value 1	Per share Value 2
Standalone	18.4	10.0	184.0	184
Stake in Lonsen Kiri JV	2.9	10.0	29.0	29
Stake in Dystar JV (if case is lost and only receivables till FY19 are received with appropriate discounting)			149.0	0.0
Stake in Dystar JV (if case is won and stake is sold on 10.0x P/E basis based on FY19 earnings after applying appropriate discounting)			0.0	233.0
		Total :	362.0	446.0

(All calculations based on fully diluted equity)

Conclusion:

We feel investors could buy the stock at the CMP and add on dips to Rs. 248-260 band for sequential targets of Rs.362 & Rs.446 over the next 4-6 quarters. The second target will come into picture when the suit filed by KIL in Singapore is decided in its favor.

Quarterly Financials-

Rs in Cr	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)	FY17	FY16	YoY (%)
Revenue from Operation	221.8	253.5	10.2%	240.6	5.4%	964.8	887.7	8.7%
Raw Material Consumed	140.7	163.4	-13.9%	152.8	-7.9%	636.6	656.9	-3.1%
Purchase of Stock in Trade	8.3	6.9	20.3%	9.6	-13.6%	21.1	13.4	57.8%
Change in Inventories	-5.8	15.1	-138.5%	-0.8	615.3%	23.5	-5.7	-511.9%
Employee Expenses	6.8	5.2	30.9%	6.8	0.2%	24.1	32.1	-25.1%
Other Expenses	34.1	29.8	14.4%	38.8	-12.1%	132.0	108.6	21.5%
Total Expenditure	184.1	220.4	-16.5%	207.2	-11.1%	837.3	805.4	4.0%
EBITDA	37.7	33.1	14.0%	33.4	13.0%	127.6	82.3	54.9%
Depreciation	5.8	5.4	7.2%	6.0	-3.1%	22.3	20.4	9.6%
EBIT	31.9	27.6	15.4%	27.4	16.6%	105.2	62.0	69.8%
Interest	0.2	2.7	-90.9%	0.9	-74.0%	8.0	67.2	-88.1%
Other Income	0.1	0.5	-79.9%	1.4	-92.5%	2.0	7.9	-74.6%
Profit before Tax	31.8	25.5	24.5%	27.8	14.1%	99.2	2.7	3557.8%
Tax Expenses	1.4	0.3	100.0%	2.3	-36.9%	3.9	-1.7	100.0%
Reported Profit After Tax	30.3	25.2	20.2%	25.5	18.7%	95.3	4.4	2078.4%
Extra-ordinary Items	0.0	0.0	0.0%	-0.1	0.0%	-0.1	4.7	-102.1%
Adjusted Profit After Extra-ordinary item	30.3	25.2	20.2%	25.6	18.3%	95.4	9.1	951.9%
Basic EPS	10.90	9.06	20.3%	9.14	19.3%	34.2	3.6	850.1%
Diluted EPS	6.70	4.87	37.7%	6.98	-4.0%	18.4	2.9	540.2%

(Source: Company, HDFC sec)

**Financials – Standalone
Income Statement**

Particulars, Rs in Cr	FY15	FY16	FY17	FY18E	FY19E
Rev from Ops	781.6	887.7	964.8	1001.9	1108.1
RM Consumed	530.9	656.9	636.6	636.2	689.8
Purchase of Stock	21.4	13.4	21.1	20.0	22.2
Changes in Inven	27.6	-5.7	23.5	-2.0	13.9
Employee Expense	25.6	32.1	24.1	32.1	36.6
Other Expenses	107.3	108.6	132.0	155.3	170.1
Total Expenses	712.9	805.4	837.3	841.6	932.4
EBITDA	68.6	82.3	127.6	160.3	175.6
Depreciation	20.2	20.4	22.3	23.9	24.5
EBIT	48.4	62.0	105.2	136.4	151.1
Interest	84.4	67.2	10.0	8.0	3.2
Other Income	2.3	7.9	2.0	1.2	1.5

Cash Flow

Particulars, Rs in Cr	FY15	FY16	FY17	FY18E	FY19E
EBT	-33.7	7.4	99.1	134.4	149.8
Depreciation	20.2	20.4	22.3	23.9	24.5
Int /Div paid	84.4	67.2	8.0	3.2	2.8
Other Adj	-2.3	-127.5	-150.0	-86.5	-131.0
(Inc)/Dec in W Cap	-155.4	234.9	238.4	-24.1	-61.9
Tax Paid	-3.2	1.7	-3.9	-12.4	-17.1
Operating CF	-90.0	204.0	214.0	38.6	-32.9
CAPEX	-43.6	-41.5	-83.0	-33.0	-51.0
Sale of FA	0.1	0.0	0.0	0.0	0.0
Change in Invest.	-2.6	-2.0	-1.3	-5.2	-7.3
Others	2.3	3.6	-69.0	68.0	59.0
Investing CF	-43.9	-40.0	-153.3	29.8	0.7

Profit before Tax	-33.7	2.7	97.2	129.6	149.4
Tax Expenses	3.2	-1.7	3.9	12.4	17.1
PAT	-36.9	4.4	93.4	117.2	132.3
Extra-ordinary Items	0.0	4.7	-0.1	0.0	0.0
Net Profit Adj	-36.9	9.1	93.3	117.2	132.3
Basic EPS	-17.8	3.6	34.2	43.8	47.7
Diluted EPS	-12.9	2.9	18.4	23.5	25.6

Inc/(Dec) in Share cap	32.4	37.0	176.0	151.7	0.0
Share App Money	51.0	-33.4	-48.9	-127.1	0.0
Inc/(Dec) in Debt	129.3	-99.5	-106.9	-137.0	-5.3
Divi and Int Paid	-84.4	-67.2	-8.0	-3.2	-2.8
Others	0.0	0.0	-69.7	50.5	46.6
Financing CF	128.2	-163.0	-57.6	-65.1	38.5
Net Cash Flow	-5.7	1.0	3.1	3.2	6.4
Opening Balance	6.2	0.5	1.5	4.6	7.8
Closing Balance	0.5	1.5	4.6	7.8	14.2

(Source: Company, HDFC sec)

Balance Sheet

Particulars, Rs in Cr	FY15	FY16	FY17	FY18E	FY19E
LIABILITIES					
Share Capital	27.1	30.9	32.2	56.2	56.2
Reserves and Surplus	88.0	130.2	241.7	491.5	624.2
Warrants O/s	51.0	17.6	127.1	0.0	0.0
Share App Money	0.0	0.0	0.0	0.0	0.0
Shareholders' Funds:	166.1	178.7	400.9	547.6	680.4
Long Term Borrowings	734.6	268.9	161.8	25.0	20.0
Deferred Tax Liabilities [Net]	24.2	22.5	26.4	27.0	26.0
Long Term Provisions	0.3	4.9	7.3	5.2	4.8
Non-Current Liabilities:	759.1	296.3	195.5	57.2	50.8
S T Borrowings	36.5	1.3	1.5	1.3	1.0
Tr Payables	88.7	123.7	149.0	153.7	163.9
Other Curr Liabilities	117.5	167.5	21.0	15.0	11.0
S T Provisions	1.4	0.9	1.2	1.3	1.3
Current Liabilities:	244.1	293.4	172.7	171.3	177.2
Total	1169.2	768.5	769.2	776.1	908.4
ASSETS:					
Fixed Assets:	395.2	280.0	340.9	347.0	364.6
Non-Curr Invest	172.4	174.4	171.2	155.0	185.0
L T Loans and Adv	22.8	13.1	23.0	12.0	22.0
Other Non-Curr Assets	1.3	0.8	0.0	1.2	1.4
Non-Current Assets:	591.8	468.3	535.1	515.2	573.0
Current Investments	0.0	0.0	3.2	2.8	4.3

Key Ratios

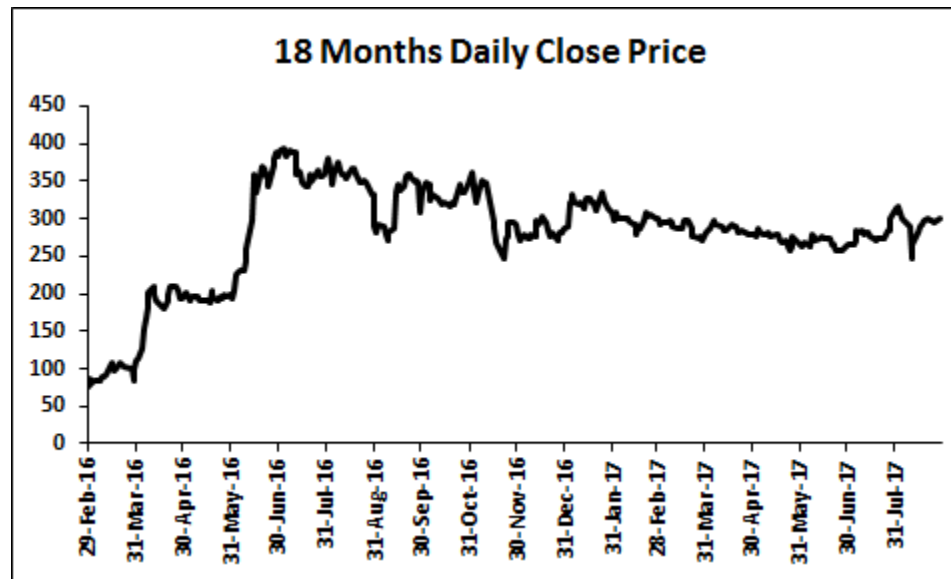
Particulars	FY15	FY16	FY17	FY18E	FY19E
No of Shares	2.3	2.7	2.8	5.2	5.2
EV	1455.3	1068.6	1033.9	1706.8	1656.8
Basic EPS	-17.8	3.6	34.2	43.8	47.7
Cash EPS	-8.0	11.7	42.2	52.4	56.5
Diluted EPS	-12.9	2.9	18.4	23.5	25.6
BVPS(Rs.)	73.1	67.3	64.2	77.4	105.6
PE(x)	NA	105.0	16.4	12.8	11.8
P/BV (x)	4.1	4.5	4.7	3.9	2.9
Mcap/Sales(x)	0.9	0.9	0.9	1.6	1.4
EV/EBITDA	21.2	13.0	8.1	10.6	9.4
EBITDAM (%)	8.8%	9.3%	13.2%	16.0%	15.9%
EBITM (%)	6.2%	7.0%	10.9%	13.6%	13.6%
PATM (%)	-4.7%	1.0%	9.9%	12.2%	12.0%
ROCE (%)	6.0%	10.1%	27.1%	32.2%	30.7%
RONW (%)	-24.0%	6.5%	55.2%	30.4%	28.0%
Current Ratio	2.4	1.0	1.4	1.5	1.9
Quick Ratio	2.1	0.9	1.1	1.3	1.6

Inventories	53.9	50.4	40.3	45.3	57.7
Trade Receivables	441.2	202.8	138.7	145.5	173.0
Cash and Bank	0.5	1.5	4.6	7.8	14.2
S T Loans and Adv	79.7	43.5	47.2	57.5	83.2
Other Curr Assets	2.2	1.9	0.7	2.0	2.9
Current Assets:	577.5	300.1	234.7	260.9	335.3
Total	1169.2	768.5	769.8	776.1	908.3

Debt-Equity	4.6	2.3	0.9	0.1	0.0
Int Coverage Ratio	0.6	0.9	13.1	42.6	54.0

(Source: Company, HDFC sec)

18 Months Price Chart



(Source: Company, HDFC sec)

Technical view:

Kiri Industries (CMP Rs.301.10)



Kiri Industries Ltd - weekly timeframe

Observation:

Kiri Industries Ltd as per weekly timeframe is indicating a larger consolidation movement and the stock price is now making attempt to stage upside breakout of the consolidation.

The stock price has been moving into narrow band over the last 12-13 months (green dashed converging trend lines) and the recent sharp decline of mid of August has led to sharp come back of bulls.

The stock price is now making attempt to stage upside breakout of the larger consolidation pattern in the last couple of weeks, but the upside momentum is yet to pick up.

The chart pattern of the last couple of weeks could possibly lead to minor dips in the stock price for near term, which could give us an opportunity for adding at the lower levels.

Weekly 8 period momentum oscillator like MACD is showing positive indication (MACD line moving above its signal line) at the equilibrium (zero line). This pattern of momentum oscillator is signaling that the strength of upside momentum is still intact and could pick up soon.

The overall positive chart set up in Kiri Industries Ltd is showing an opportunity to create long positions. One may look to buy this stock at the CMP (Rs.301.10) and look to add more on the dips around Rs.260-248 levels. The sequential upside targets to be watched is around Rs.365 (corresponding to closing highs of Nov 2016) and the next Rs.440 levels (corresponding to lows of August 2010) in the next 4-6 quarters. Keep a daily closing stoploss at Rs.218.

Fundamental Research Analyst: Arpit Bhatt (arpit.bhatt@hdfcsec.com), Technical Research Analyst :Nagaraj Shetti (nagaraj.shetti@hdfcsec.com)

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066
 Website: www.hdfcsec.com Email: hdfcsecresearch@hdfcsec.com.

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