

Analysis of Kiri Industries.

Key Business Segment:

Kiri Industries is one of India's largest and integrated manufacturer of dyes intermediates and reactive dyes which are used in dyeing cotton fabrics, synthetic fabrics, bed-sheets, carpets etc. The company is vertically integrated across the value chain from basic chemicals to reactive dyes.

++ Basic Chemicals (3%) - Oleum/Sulphuric Acid/Chloro Sulphonic Acid

++ Dyes Intermediates (69%) - Vinyl Sulphone/H-Acid

++ Reactive Dyes (28%) - Colorants for Textiles

Current Financial Ratios:

++ Market Cap: 1272 Cr

++ ROE: 27.79%

++ Debt to Equity: 0.36

++ Promoter Holding: 44.64%

++ P/E: 11.86

++ EPS: 36.70

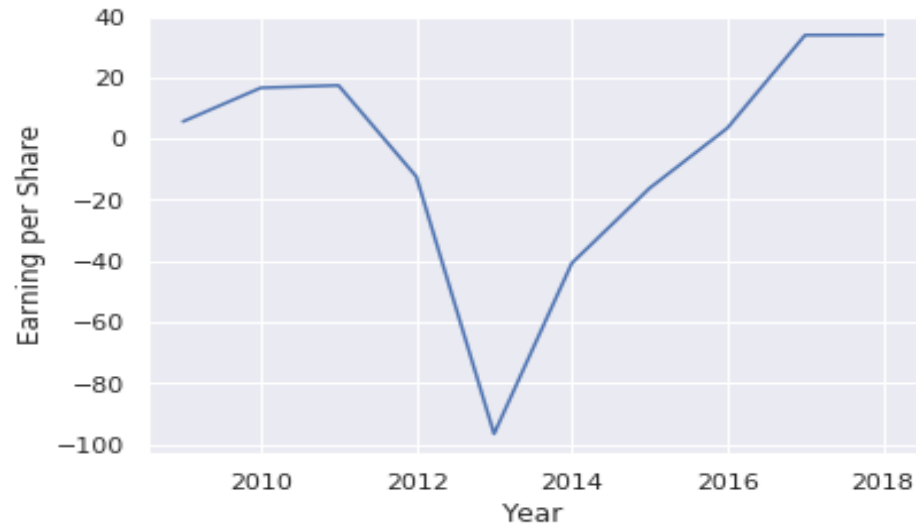
Current Dye Industry Scenario:

++ The Textile Dyes Market is projected to grow from USD 7.34 Billion in 2017 to USD 9.82 Billion by 2022, at a CAGR of 6.00% between 2017 and 2022. APAC is expected to dominate the global Textile Dyes Market during the forecast period.

++ China had approximately 78% of global supply share. The stricter regulations of the environmental protection law in China has resulted in closing of some plants there. The Chinese regulatory requirement of setting up effluent treatment plants has increased the cost of manufacturing. Both these factors have forced global customers at diversifying their procurement base. This has helped the Indian Dye industry to establish its major foot in global market.

Financial Analysis:

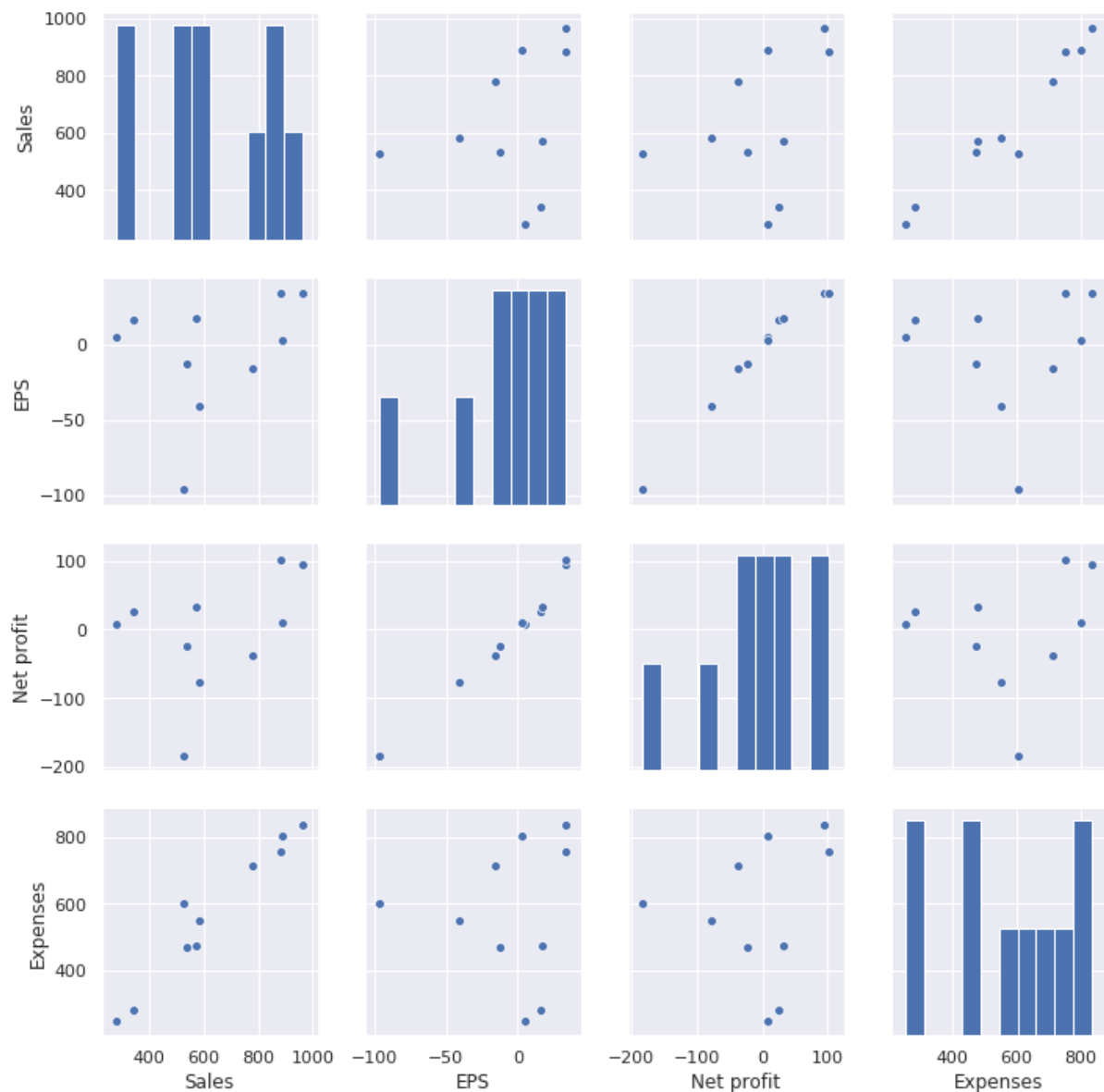
The EPS trend over a decade:



The EPS shows a downward movement from 2011 to 2013 and then has shown a rise.

The negative trending of EPS signals some major issues in the operation of the company.

Insights from the profit and loss statement:



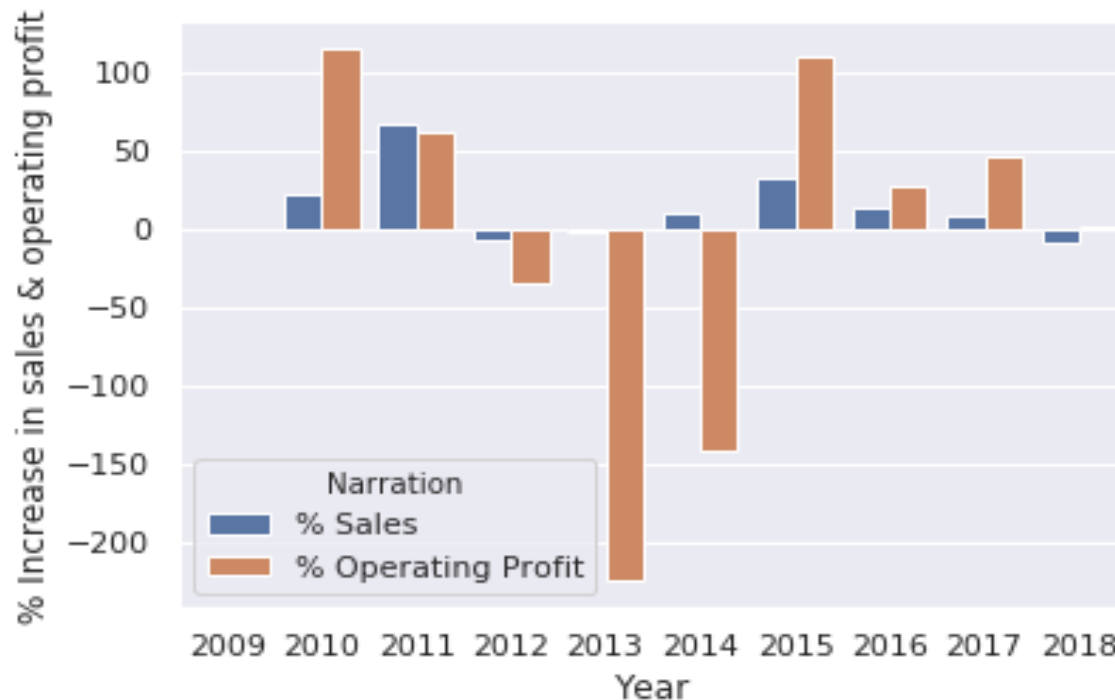
The profit and loss generally indicates the health of operations within the company.

Following observations raise few suspicions:

++ Sales vs Net profit: For approximately similar Sales ranging between 550 to 600 the Net profit sways between -200 to 10. And for comparatively smaller sales around 200 to 300 we have better profit margins.

++EPS vs Sales: The EPS is not consistently growing with increase in Sales. Rather it drops with increase in sales till sales reach around 600 and then eventually increases.

% Change in Operating Profit vs % Change in Sales:



The % change in operating profit moving from positive to negative despite no substantial change in sales indicates either something is worsening in the business operations or some new major investments have been made which have not become cash positive as per the plan.

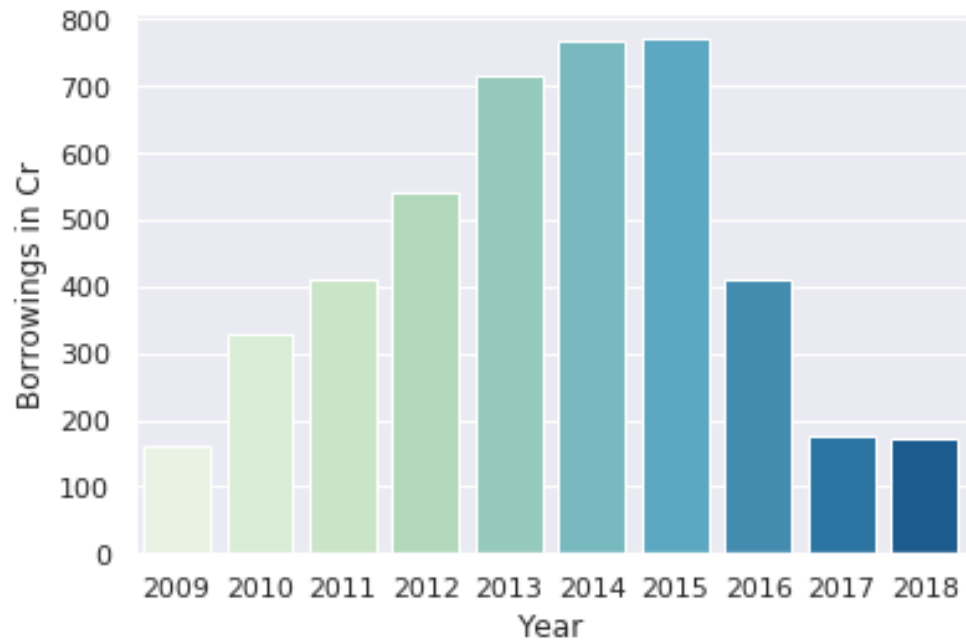
Downturn from 2011 to 2015:

++ Kiri signed a JV with Longsheng in July 2009 and a plant was set up in Dhudhwada for reactive dyes.

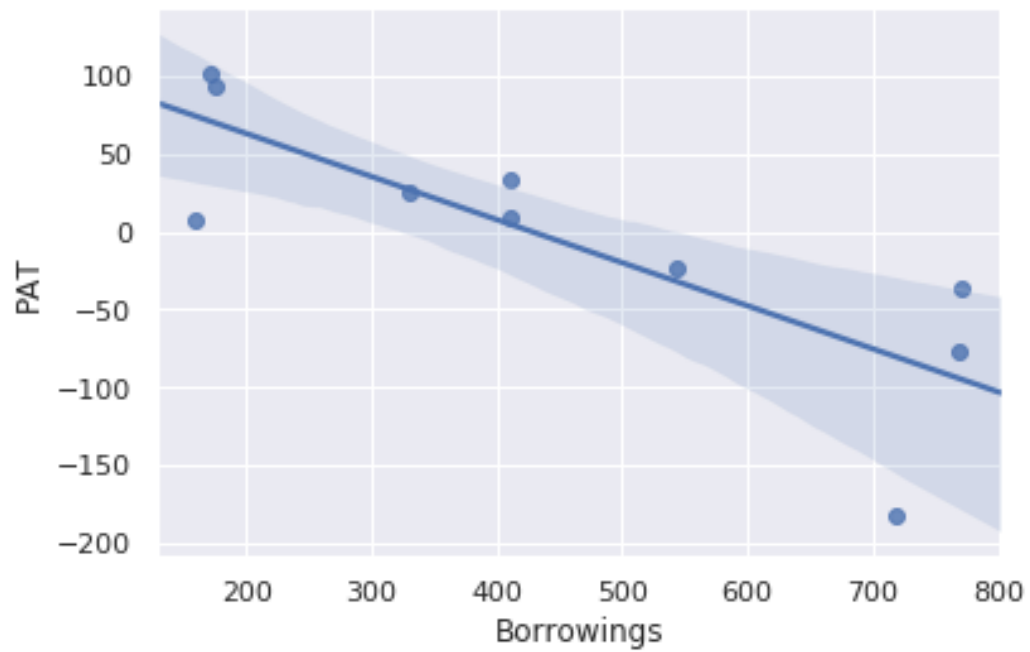
++ The JV between Longsheng(China) and Kiri(Singapore) decided to do buyout of German multinational Dystar for 1,300 crores in Feb, 2010.

++ The plan was to revive the then insolvent Dystar Chemicals by replacing the high cost German manufacturing plant with low cost base in India and China. But things didn't go as per plan and the company had their debts increased due to borrowings in form of term loans and working capital loans. The increment in borrowings and its impact on profit after tax can be understood from the visuals below.

Increment in borrowings:



The borrowing burden has a correlation co-efficient of -0.81 on the PAT:

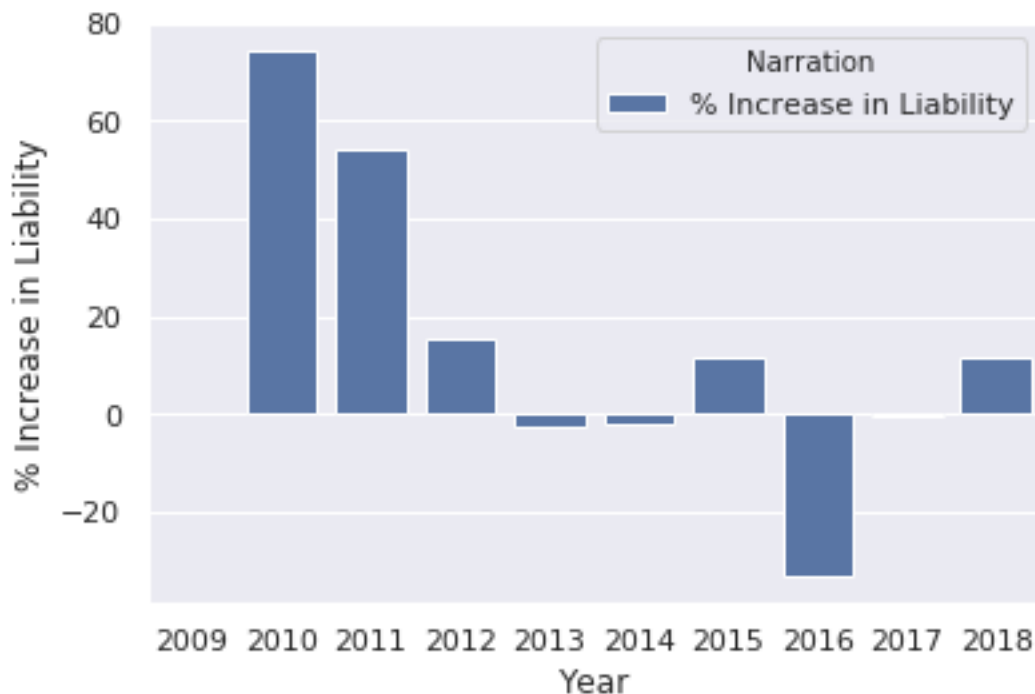


Recovery from 2015:

To survive Kiri from this debt mess, the company restored to Corporate Debt Restructuring.

++ In FY 2015-16, promoter infused around 50 crores in 2 tranches by subscribing to 37.5 lakh warrants at 135/- per share. Consequently, shareholding increased from 25 to 37%. In October 2016, board approved 35 lakhs warrant to promoters at the price of 363/- which can be converted at any time during the next 18 months. At the time of allotment, promoter has to pay 25% upfront i.e. 32 crores. Hence the promoter holding has jumped to 44%.

++ In 2016 there was considerable drop in their total borrowings and hence their liabilities dropped by nearly 45%:



++ In June 2015, Kiri Industries initiated legal proceedings in the High Court of Republic of Singapore against JV partner Longsheng to enforce its rights as a significant minority shareholder and unlock value of the company's share (37.37% stake) in DyStar. The Singapore court has given a verdict in favor of Kiri.

Factors of Unknown:

++ The Singapore court has given a verdict in favor of Kiri. Having said that, the valuation of Dystar is still pending. Hence the take away share of Kiri is still unknown. It is expected to be approximately be around INR 2000 crores on a conservative side. But no information is provided about the usage of this amount.

++ Since the proceedings happened against Longsheng, and the former having another plant of reactive dyes with Kiri in India it is unclear whether the Singapore verdict would affect the business of the Kiri-Longsheng JV; where Kiri is a 40% stakeholder.

++ Kiri has a subsidiary company Kiri Infrastructure Pvt Ltd. In 2014, China's Jiaying Kulun Chuangyun Investment Company Ltd (JKICIL) partnered with Kiri infrastructure to set up the International Trade Center (IITC) project in Ahmedabad; India. An MoU worth \$1.5 billion was signed between the two companies. The current status about this project is not known. But this diversification in business line definitely does rise a question regarding the moat of the company.

Pros:

++ The promoters have infused their own funds (around 170 crores) and have got the company into a Debt free state.

++ The dyes intermediate industry is expected to grow in India at least over the next decade.

++ Kiri has been a strong rather a lead player in this sector. Hence they have the infrastructure and the expertise to run the show.

++ The core financial ratios ROE%, P/E are better than most of the peers.

++ Filing a law suit against its long term JV partner Longsheng/Dystar to unlock its value shows their conviction to fight tough times.

Cons:

++ Balance sheet's for past 5 years shows retained earnings as negative.

++ Company has incurred huge debts possibly due to misadministration, negligence on side of forex trading and material hedging.

++ The Kiri infrastructure project is very ambitious project on a land of 500 acres in Ahmedabad, Gujarat. Not much is spoken about this project or their subsidiary.

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