



## The Trick Is To Spot Them At The Larval Stage

### Kiri Industries

# ADD COLOUR TO YOUR PORTFOLIO WITH KIRI DYE

Our Tiny Treasure for the month of November 16 is Kiri Industries Ltd. Kiri Industries is a fully integrated dyes, intermediates and chemical company. Dyes are used for dyeing cotton, cellulosic, wool, silk, leather and synthetic fibres. Dye Intermediates are raw material for dyes and mainly includes H-Acid and Vinyl Sulphone. The company has further backward integration to manufacture raw materials like sulphuric acid, oleum and chlorosulphonic acid for dye intermediates. It supplies dyes to textile manufacturing companies and dye intermediates to manufacturers of reactive dyes across the world.

Kiri Industries Ltd., (KIL) has grown at 13% CAGR over last five years coupling with deleveraging process, rise in prices for dye intermediates and notable acquisitions of Singapore based DyStar and Lonsen Kiri Ventures in Gujarat. KIL earns 50% of revenue by exporting to Asia, South Asia, America, Europe as well as Middle East. Textile industry with finished products from Asia and Middle East has major chunk of 60% in export pie while rest 40% is from America, Europe and Middle East.

**Outlook :** We expect KIL's revenue to grow by ~25% in FY17 to around Rs 1300 cr reaping benefit from spike up in prices for H-acid and vinyl sulphone and garnering more market share due to shut down of Chinese peer, Hubei Chuyuan. We also expect it to reach Rs 1500-1600cr by FY18, majorly due to increase in prices and increase in volume by 5-7%. We also see stronger bottomline going forward as KIL plans to pay off remaining debt by end of FY17. We see around 25% upside in scrip from current level.

#### Reaping benefit from price increase and problem in China

KIL is unlocking value from shut down of Chinese peer, Hubei Chuyuan over stringent environmental norms. Hubei has been global leader in dyes and dye intermediate with 30% market share which eventually results in shot up in prices for H-Acid from Rs 300- 360 per kg to Rs 900-1000 per Kg and for Vinyl Sulphone from Rs 160-180 per Kg to around Rs 400 per Kg. This proved to be very profitable for the company to boost revenue. Hubei expects to take more than 6-8 months to commence its business with one unit at a time.

**Last lap of deleveraging strengthens PAT:** KIL significantly reduced its debt from Rs 787cr in FY15 to Rs 236 cr as of now. It had D/E ratio of 3.92x in FY14 which improved to 0.29x in H1FY17. Going forward KIL expects to pay off Rs 150-200cr of debt by

BSE Code : 532967

Time Duration : 1 year

CMP : ₹276 (as on 24 November, 2016)

Target Price : ₹350

FY17. We can see finance cost reduce to Rs 10 cr in FY17 from Rs 73 cr in FY16 which will give stronger PAT in FY17 and EPS of ~Rs 114.

**Subsidiary business to boost net profit :** KIL's Singapore based 40% subsidiary DyStar aids company to cater global dye markets. DyStar has combined facility of 176,000 TPA, which has added around Rs 170-200cr in net profit of KIL. DyStar helps Kiri to strengthen its global wing with ~22% share in global markets.

**Improved receivables :** KIL deals in very competitive industry sector with high credit period to sustain in low entry barrier business model. Still Kiri has improved its receivables from 341 days in FY12 to 117 days in FY16, which eventually improved debtors turnover ratio to 3.11x in FY16 from 1.07x in FY12.

**Financial Performance:** H1FY17- Kiri recorded revenue growth of 21.12% to Rs 567cr YoY. EBITDA rose up by 44.56% to Rs 82.68cr YoY. EBITDA and PAT margin expanded by 243bps /1059bps to 14.47% and 10.57% respectively in H1FY17 vs H1FY16. PAT of the company stands at Rs 60.34cr in H1FY17 vs Rs 3.56cr in H1FY16 due to improved finance cost.

Q2FY17- Kiri has recorded flat growth to Rs 277cr in Q2FY17. EBITDA grew by 38.21% to Rs 39.72cr due to decline in raw material cost and other expenses. EBITDA and PAT margin expanded by 390bps/ 1012 bps to 14.25%/ 10.18% YoY respectively. PAT ballooned to Rs 28.37cr in Q2FY17 vs Rs 0.17cr in Q2FY16 on a yearly basis.

**Valuation:** Kiri with FY17E EPS of Rs 114 is trading at FY17 P/E of 2.43x which looks undervalued. Considering future growth prospectus of Kiri, we recommend to BUY this scrip in the range of Rs 250- 290 (CMP- 276) with target of Rs 350.

#### Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201609	201606	Q on Q Var%	201509	Y on Y Var%
Net Sales	277.89	289.30	-3.94	276.91	0.35
Total Expenditure	238.94	249.59	-4.27	249.04	-4.06
PBIDT (Excl OI)	39.72	42.96	-7.54	28.74	38.21
PAT	28.37	31.98	-11.29	0.17	16204.02
PBIDTM% (Excl OI)	14.25	14.68	-2.93	10.35	37.68
PBIDTM%	14.46	14.91	-3.02	10.54	37.19
PATM%	10.18	10.93	-6.86	0.06	16866.67
Adj. EPS(Rs)	31.15	29.09	7.08	16.45	89.36

**CONFIDENTIALITY NOTICE :** Information contained in this report is intended for the subscribers of this product only. Unauthorized forwarding, printing, copying, distribution, or using the information in a searchable, machine-readable database is strictly prohibited and may be unlawful. **Disclaimer:** The recommendations are purely a view point and there is no guarantee on the returns. Hence all the clients (paid or unpaid) are requested to apply their prudence before acting on any of the recommendations. Neither DSJ Pvt. Ltd. nor any of its promoters, members, or employees shall be held responsible for any losses incurred (if any) by acting on the recommendations.