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FIRST GLOBAL

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India Research

Sector: Chemicals

Initiating Coverage

Kiri Dyes & Chemicals Ltd. *(KDCL)(KIRI.BO/KIRI.IN)*

Buy [12-mth Target Price: Rs.1,000/share

(CMP: Rs. 385.4, Mkt.Cap: Rs.7.4 bn, $ 0.2 bn (Dec. 22, '10)

Relevant Index: CNX Nifty Index: 5,984.4 (Dec. 22,'10)

The DyStar (World's largest dyes company) acquisition will be equivalent to the Jaguar-Land Rover deal for KDCL. DyStar turns profitable within just six months of its acquisition…on track to earn a PAT of US $55-65 mln in CY11, on Revenues of US $650

KDCL plans to list Dystar in CY11 itself (target:Q3, CY11), at a valuation of US $ 650-700 mln. At this valuation of Dystar, KDCL's stake in Dystar will be worth over US $225 mln…nearly 150% of KDCL's current market cap. This wide valuation disparity simply cannot last too long.

KDCL's stock appears extremely cheap, whichever way you look at it: at 5x FY12E &3x FY13E consolidated earnings and 0.8x FY12E BV & 0.6xFY13E BV. Or, at a discount of 62% to its SOTP valuation. We also wouldn't rule out a buyback by KDCL of its own stock, given the really low valuations and cash-rich position of the company. This could act as a strong near-term catalyst for an upmove in the KDCL stock

December 22, 2010

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Table of Contents

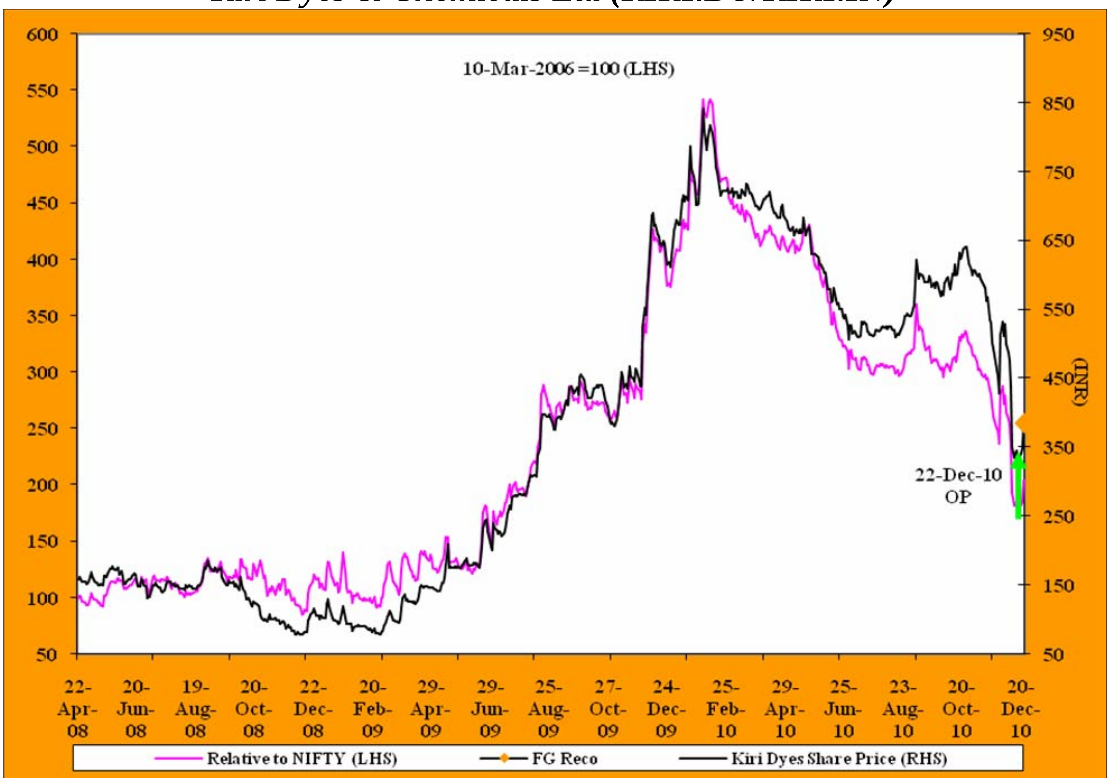
Price and Rating History Chart

Ratings Key

Positive Ratings	B = Buy	BD = Buy at Declines	OP = Outperform
	S-OP = Sector Outperform	M-OP = Market Outperform	MO-OP = Moderate Outperform
Neutral Ratings	H = Hold	MP = Market Perform	SP = Sector Perform
Negative Ratings	S = Sell	SS = Sell into Strength	UP = Underperform
	A = Avoid	MO-UP = Moderate Underperform	S-UP = Sector Underperform

ST: Short Term **MT: Medium Term** **LT: Long Term**

Kiri Dyes & Chemicals Ltd (KIRI.BO/KIRI.IN)



Represents an Upgrade

Represents a Downgrade

Represents Reiteration of Existing Rating

Details of First Global's Rating System given at the end of the report

Financial Snapshot (KDCL Consolidated)
(KDCL Standalone+37.8% consolidation of DyStar)

Key Financials

YE March (Rs. mn)	FY10P	FY11E	FY12E	FY13E
Total Revenues	**5,416****	**16,552**	**21,156**	**23,779**
Revenue Growth (Y-o-Y)		*NA*	*27.8%*	*12.4%*
EBIDTA	**674**	**1,823**	**2,736**	**4,002**
EBIDTA Growth (Y-o-Y)		*NA*	*50.1%*	*46.3%*
Net Profit	**(56)**	**813**	**1,474**	**2,492**
Net Profit Growth (Y-o-Y)		*NA*	*81.3%*	*69.0%*
Net Profit Excl. extra-ordinaries	**234**	**756**	**1,474**	**2,492**
Net Profit Growth Excl. extra-ordinaries (Y-o-Y)		*NA*	*95.1%*	*69.0%*
Shareholders Equity	**4,627**	**7,852**	**9,201**	**11,532**
Adjusted number of Diluted shares (mn)	**15**	**19**	**19**	**19**

NA – Not Applicable

Key Operating Ratios

YE March	FY10P	FY11E	FY12E	FY13E
Diluted EPS (Rs.)	**-3.7**	**42.4**	**76.9**	**129.9**
Diluted EPS Growth (Y-o-Y)		*NA*	*81.3%*	*69.0%*
Diluted EPS Excl. extra-ordinaries (Rs.)	**15.6**	**39.4**	**76.9**	**129.9**
Diluted EPS Excl. extra-ordinaries Growth (Y-o-Y)		*NA*	*95.1%*	*69.0%*
Diluted CEPS (Rs.)	4.7	65.5	100.8	159.9
EBIDTA (%)	**12.4%**	**11.0%**	**12.9%**	**16.8%**
NPM (%)	**-1.0%**	**4.9%**	**7.0%**	**10.5%**
Tax/PBT (%)	188.7%	25.1%	15.2%	14.0%
RoE (%)		**12.9%**	**17.2%**	**23.9%**
RoCE (%)		**9.2%**	**12.9%**	**17.0%**
Debt Service Coverage Ratio (x)	1.8	0.9	3.3	5.7
Book Value Per share (Rs.)	308.4	409.3	479.6	601.1
Debt/Equity (x)	1.2	0.5	0.5	0.3

NA – Not Applicable

Free Cash Flow Analysis (KDCL-Standalone)

YE March (Rs. mn)	FY10P	FY11E	FY12E	FY13E
Operating Cash Flows	-96	558	-257	960
Capex	501	1,767	787	420
Investments - Strategic	942	80	0	0
Total Free Cash Flows	-1,435	-1,227	-1,006	575

*** DyStar was acquired effective Feb 2010, as such FY10 consolidated numbers include Feb-Mar 2010 numbers of DyStar. The numbers of LKCIL (where KDCL owns 40% equity) have not been consolidated FY11 onwards, though FY10 includes 40% consolidation of LKCIL*

All the numbers (except free cash flow – which is on stand alone basis) given in the snap shot are on consolidated basis using part consolidation method.

Market Cap. and Enterprise Value Data as on Dec. 22, 2010		
Current Market Price (Rs.)		385
No. of Basic Shares (mn)		19
	Rs.bn	**US$bn**
Market Cap	**7.4**	**0.2**
Total Debt*	5.7	0.1
Cash & Cash Equivalents*	1.2	0.0
Enterprise Value	**11.9**	**0.3**

**** Debt & Cash & Cash Equivalents as of FY 10P ,INR Exchange Rate 45.12***

Valuation Ratios

YE March	FY11E	FY12E	FY13E
P/E (x)	**9.8**	**5.0**	**3.0**
P/BV (x)	0.9	0.8	0.6
P/CEPS (x)	6.2	3.8	2.4
EV/EBIDTA (x)	**4.2**	**3.3**	**1.7**
Market Cap./ Sales (x)	0.3	0.3	0.3
Net cash/Market Cap (%)	NM	NM	12.2%

NM-Not Meaningful

DuPont Model

YE March	FY10P	FY11E	FY12E	FY13E
EBIDTA/Sales (%)	12.4%	11.0%	12.9%	16.8%
Sales/Operating Assets (x)	1.2	1.6	1.6	1.6
EBIDTA/Operating Assets (%)	**14.9%**	**17.2%**	**20.5%**	**27.1%**
Operating Assets/ Net Assets(x)	0.9	0.9	0.9	0.9
Net Earnings/ EBIDTA (%)	NA	44.6%	53.9%	62.3%
Net Assets/ Equity (x)	2.2	1.9	1.8	1.7
Return on Equity (%)	**NA**	**12.9%**	**17.2%**	**23.9%**

NA-Not Applicable

Common Sized Profit & Loss Account

YE March	FY10P	FY11E	FY12E	FY13E
Total Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Less:				
Net Raw Materials	74.4%	66.8%	65.3%	60.6%
Other Operating Expenses	13.1%	22.2%	21.8%	22.5%
Total Operating Expenditure	**87.6%**	**89.0%**	**87.1%**	**83.2%**
EBIDTA	**12.4%**	**11.0%**	**12.9%**	**16.8%**
Depreciation and Amortization	2.3%	2.7%	2.2%	2.4%
Interest Paid	4.3%	2.4%	2.6%	2.3%
Non-Operating Income (Forex Gains/Losses)	0.2%	0.2%	0.1%	0.1%
Extraordinary Income	0.0%	1.1%	0.0%	0.0%
Extraordinary Expense	4.8%	0.6%	0.0%	0.0%
Profit Before Tax	**1.2%**	**6.6%**	**8.2%**	**12.2%**
Tax	2.2%	1.6%	1.2%	1.7%
Net Profit	**-1.0%**	**4.9%**	**7.0%**	**10.5%**

Financial Snapshot (KDCL Standalone)

Key Financials

YE March (Rs. mn)	FY10	FY11E	FY12E	FY13E
Total Revenues	**3,459**	**5,180**	**8,301**	**10,732**
Revenue Growth (Y-o-Y)	*23.1%*	*49.8%*	*60.3%*	*29.3%*
EBIDTA	**651**	**1,131**	**1,541**	**1,922**
EBIDTA Growth (Y-o-Y)	*12.9%*	*73.8%*	*36.2%*	*24.8%*
Forex Gains/Losses	**15**	**22**	**20**	**20**
Forex Gains/Losses Growth (Y-o-Y)	*NA*	*NA*	*NA*	*0.0%*
Profit after Tax	**250**	**500**	**718**	**917**
Profit after Tax Growth (Y-o-Y)	*198.9%*	*99.8%*	*43.6%*	*27.7%*
Profit after Tax Excl. extra-ordinaries	**246**	**534**	**718**	**917**
PAT Excl. extra-ordinaries Growth (Y-o-Y)	*(12.9%)*	*117.3%*	*34.4%*	*27.7%*
Shareholders Equity	**1,452**	**4,364**	**4,956**	**5,712**
Adjusted number of Diluted shares (mn)	**15**	**19**	**19**	**19**

NA – Not Applicable

Key Operating Ratios

YE March	FY10	FY11E	FY12E	FY13E
Diluted EPS (Rs.)	**16.7**	**26.1**	**37.4**	**47.8**
Diluted EPS Growth (Y-o-Y)	*198.9%*	*56.2%*	*43.6%*	*27.7%*
Diluted EPS Excl. extra-ordinaries (Rs.)	**16.4**	**27.8**	**37.4**	**47.8**
Diluted EPS Excl. extra-ordinaries Growth (Y-o-Y)	*-12.9%*	*69.9%*	*34.4%*	*27.7%*
Diluted CEPS (Rs.)	24.5	32.8	51.0	67.3
CEPS Excl. extra-ordinaries (Rs.)	24.2	34.6	51.0	67.3
EBIDTA (%)	**18.8%**	**21.8%**	**18.6%**	**17.9%**
NPM (%)	**7.1%**	**10.3%**	**8.6%**	**8.5%**
Tax/PBT (%)	28.2%	20.3%	20.0%	20.0%
RoE (%)	**18.3%**	**18.1%**	**15.2%**	**16.9%**
RoCE (%)	**10.2%**	**13.5%**	**12.2%**	**12.2%**
Return on Operating Assets (%)	9.9%	13.6%	12.9%	13.3%
Book Value Per share (Rs.)	96.8	227.5	258.3	297.7
Debt/Equity (x)	1.5	0.2	0.4	0.3

Free Cash Flow Analysis

YE March (Rs. mn)	FY10	FY11E	FY12E	FY13E
Operating Cash Flows	-96	558	-257	960
Capex	501	1,767	787	420
Investments - Strategic	942	80	0	0
Total Free Cash Flows	-1,435	-1,227	-1,006	575

Market Cap. and Enterprise Value Data as on Dec. 22, 2010

Current Market Price (Rs.)		385
No. of Basic Shares (mn)		19
	Rs.bn	**US$bn**
Market Cap	**7.4**	**0.2**
Total Debt*	2.2	0.0
Cash & Cash Equivalents*	0.1	0.0
Enterprise Value	**9.5**	**0.2**

**** Debt & Cash & Cash Equivalents as of FY 10 ,INR Exchange Rate 45.12***

Valuation Ratios

YE March	FY11E	FY12E	FY13E
P/E (x)	**13.8**	**10.3**	**8.1**
P/BV (x)	1.7	1.5	1.3
P/CEPS (x)	11.1	7.6	5.7
EV/EBIDTA (x)	**5.7**	**5.4**	**4.0**
Market Cap./ Sales (x)	1.1	0.9	0.7
Net cash/ Market Cap (%)	NM	NM	NM

NM-Not Meaningful

DuPont Model

YE March	FY10	FY11E	FY12E	FY13E
EBIDTA/Sales (%)	18.8%	21.8%	18.6%	17.9%
Sales/Operating Assets (x)	0.9	0.9	1.0	1.2
EBIDTA/Operating Assets (%)	**16.9%**	**19.3%**	**19.4%**	**20.6%**
Operating Assets/ Net Assets(x)	1.0	1.0	0.9	0.9
Net Earnings/ EBIDTA (%)	37.8%	47.2%	46.6%	47.7%
Net Assets/ Equity (x)	2.9	2.0	1.8	1.9
Return on Equity (%)	**18.3%**	**18.1%**	**15.2%**	**16.9%**

Common Sized Profit & Loss Account

YE March	FY10	FY11E	FY12E	FY13E
Total Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Net	62.9%	51.8%	58.6%	57.4%
Other Operating Expenses	18.3%	26.4%	22.8%	24.7%
EBIDTA	**18.8%**	**21.8%**	**18.6%**	**17.9%**
Depreciation and Amortization	3.4%	2.5%	3.1%	3.5%
Interest Paid	5.9%	6.8%	4.9%	3.9%
Non-Operating Income (Forex Gains/Losses)	0.4%	0.4%	0.2%	0.2%
Extraordinary Income	0.2%	0.0%	0.0%	0.0%
Profit Before Tax	**10.1%**	**12.9%**	**10.8%**	**10.7%**
Tax	2.8%	2.6%	2.2%	2.1%
Net Profit	**7.2%**	**9.7%**	**8.6%**	**8.5%**
Net Profit Excl. extra-ordinaries	**7.1%**	**10.3%**	**8.6%**	**8.5%**

Top Management Team

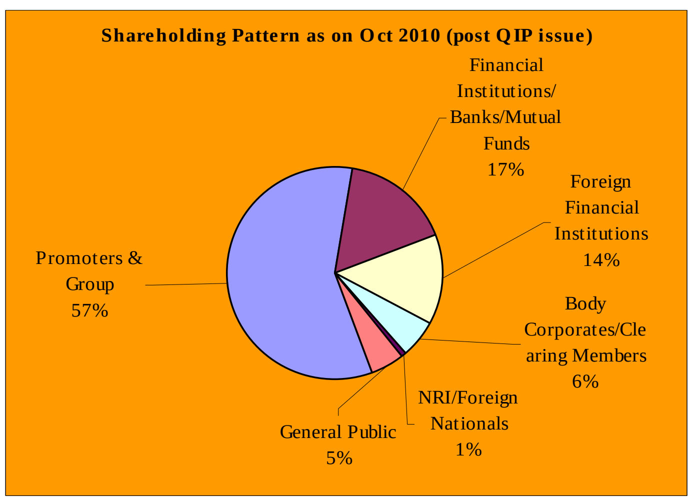
Name	Designation
Pravin A Kiri	Chairman
Manish P Kiri	Managing Director
Shankar R Patel	Whole-time Director
Yamal A Vyas	Director
Suresh S Gondalia	Company Secretary
Keyoor Bakshi	Additional Director
Ajay Patel	Additional Director

Capital Issue History

Date	Share Capital Post Issue (Rs in Mn.)	Mode of Capital Raising
5/7/98	5.5	Issued To Promoters
15/02/2000	6.5	Further Issue
29/03/2000	10	Further Issue
18/03/2001	11.5	Further Issue
25/11/2005	31.6	Bonus Issue
23/01/2006	78.2	Further Issue
15/01/2006	63.2	Bonus Issue
31/03/2006	95.2	Further Issue
8/7/06	100	Further Issue
21/01/2008	112.5	Pre-public Equity
11/4/08	562	Public Issue
1/11/2010	2,400	Issued to QIBs

Key Statistics

Industry	Chemicals
52 Week High/Low	Rs.841.7 / 331.8
CMP	Rs. 385.4
Avg. Daily Volume (20 days)	0.10 mn
Avg. Daily Value (20 days)	Rs.46.4 mn
Performance over 52 weeks:	
Kiri Dyes & Chemicals Ltd.	Down 40.1%
CNX NIFTY	Up 20.0%



Key Ratios (KDCL Consolidated)

(KDCL Standalone + 37.8% consolidation of DyStar)

YE March	FY10P	FY11E	FY12E	FY13E
Raw Material / Sales (%)	74.4%	66.8%	65.3%	60.6%
Other Income/EBT(%)	15.8%	2.4%	1.2%	0.7%
EBITDA Margin (%)	**12.4%**	**11.0%**	**12.9%**	**16.8%**
Tax / PBT (%)	188.7%	25.1%	15.2%	14.0%
Net Profit Margin (%)	-1.0%	4.9%	7.0%	10.5%
RoE (%)		**12.9%**	**17.2%**	**23.9%**
RoCE (%)		**9.2%**	**12.9%**	**17.0%**
Debt/ Equity (x)	**1.2**	**0.5**	**0.5**	**0.3**
Interest Coverage (x)	**2.9**	**4.6**	**4.9**	**7.3**
Interest / Debt (%)	8.1%	7.0%	9.0%	8.2%
Growth in Gross Block (%)		NA	39.9%	18.0%
Sales Growth (%)		NA	30.7%	13.3%
EBITDA Growth (%)		NA	50.1%	46.3%
Net Profit Growth (%)		NA	81.3%	69.0%
Debtors (Days of Net Sales)		75	74	75
Creditors (Days of Raw Materials)		61	46	49
Inventory (Days of Optg. Costs)		129	111	106
Current Ratio (x)	**3.0**	**3.1**	**2.2**	**2.3**
Net Current Assets/Capital Employed (%)	59.4%	61.4%	64.7%	68.0%
Number of Diluted Shares (mn)	15.0	19.2	19.2	19.2
Diluted EPS (Rs.)	(3.7)	42.4	76.9	129.9
Diluted CEPS (Rs.)	24.0	62.6	100.8	159.9
Book Value Per Share (Rs.)	308.4	409.3	479.6	601.1

NA – Not Applicable

Key Ratios (KDCL Standalone)

YE March	FY10	FY11E	FY12E	FY13E
Raw Material / Sales (%)	62.9%	51.8%	58.6%	57.4%
Other Income/EBT(%)	4.2%	3.2%	2.3%	1.8%
EBITDA Margin (%)	**18.8%**	**21.8%**	**18.6%**	**17.9%**
Tax / PBT (%)	28.2%	20.3%	20.0%	20.0%
Net Profit Margin (%)	7.2%	9.7%	8.6%	8.5%
RoE (%)	**18.3%**	**18.1%**	**15.2%**	**16.9%**
RoCE (%)	**10.2%**	**13.5%**	**12.2%**	**12.2%**
Debt/ Equity (x)	**1.5**	**0.2**	**0.4**	**0.3**
Interest Coverage (x)	**3.2**	**3.2**	**3.8**	**4.5**
Interest / Debt (%)	8.4%	11.9%	11.1%	8.9%
Growth in Gross Block (%)	109.9%	26.6%	60.3%	21.7%
Sales Growth (%)	16.7%	31.9%	83.3%	35.0%
EBITDA Growth (%)	12.9%	73.8%	36.2%	24.8%
Net Profit Growth (%)	198.9%	99.8%	43.6%	27.7%
Debtors (Days of net sales)	83	84	87	82
Creditors (Days of Raw Materials)	103	90	45	45
Inventory (Days of Optg. Costs)	189	145	120	100
Current Ratio (x)	**2.5**	**2.5**	**1.5**	**1.5**
Net Current Assets/Capital Employed (%)	39.4%	34.5%	46.6%	51.0%
Number of Diluted Shares (mn)	15	19	19	19
Diluted EPS (Rs.)	16.7	26.1	37.4	47.8
Diluted EPS Excl. extraordinaries (Rs.)	**16.4**	**27.8**	**37.4**	**47.8**
Diluted EPS Growth Excl. extra-ordinaries (%)	(12.9%)	69.9%	34.4%	27.7%
Diluted CEPS (Rs.)	24.2	34.6	51.0	67.3
Book Value Per Share (Rs.)	96.8	227.5	258.3	297.7

Kiri Dyes & Chemical's Business in Pictures… (FY10) (Standalone)

(All figures are in Rs. Mn except where stated otherwise. All percentages are percent of revenues, unless otherwise stated)

Total Revenues
Rs.3, 902 mn (100%)

Cost of Raw Materials (Net)
Rs.2, 668 mn (68.4%)

Other Operating Expenses
Rs.634 mn (16.2%)

Raw Materials Required
H-Acid, Vinyl Sulphone, Sulphur, Oleum, Napthalene,Soda Ash, Caustic flakes,Methanol, Acetanlide, Ethylene Oxide

EBIDTA
Rs.600 mn (15.4%)

Interest – Rs. 206mn (5.9%)
Depreciation – Rs.117mn (3.4%)
Non-Operating Income – Rs.65 mn (1.7%)
Extraordinary Income – Rs.6 mn (0.2%)

Below Operating Line

Profit Before Tax
Rs.349 mn (8.9%)

Taxes
Rs. 98 mn (2.5%)

Profit After Tax
Rs. 250 mn (6.4%)

Geography wise revenue break up

INDIA	**52.8%**
Export (47.2%)	
TURKEY	**10.6%**
BANGLADESH	**5.2%**
MEXICO	**4.4%**
U.S.A.	**4.3%**
BRAZIL	**3.2%**
SINGAPORE	**2.8%**
Others	**16.8%**

Product wise revenue break up

Reactive dyes	**64.7%**
H-Acid	**19.9%**
Vinyl Sulphone	**12.7%**
Others	**2.7%**

Products
Vatva Plant at Ahmedabad
Reactive dyes-18,000 MTPA
KDCL unit V at Vadodara
Sulphuric acid+Oleum-500 TPD,
Parkin Plant at Vadodara
H-Acid-4,200 MTPA,
Vinyl Sulphone-5,400 MTPA,
Accetanilide-12,000 MTPA

Competitors
Atul Limited
Bodal Chemicals Ltd
Unorganised players

Assets
Rs. 6,159mn
(100%)

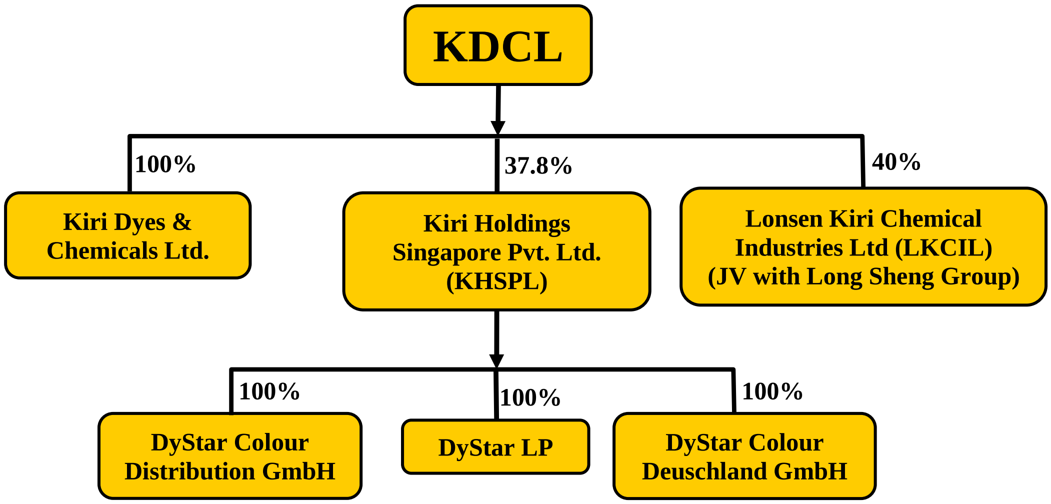
Balance Sheet
(FY 10)

Liabilities
Rs. 6,159 mn
(100%)

Fixed Assets – Rs.1, 777 mn (28.9%)
Investments – Rs. 1,183 mn (19.2%)
Inventory – Rs. 1,469 mn (23.8%)
Sundry Debtors – Rs. 659 mn (10.7%)
Cash – Rs. 119 mn (1.9%)
Other Current Assets – Rs. 953 mn (15.5%)

Debts – Rs.3, 296 mn (53.5%)
Short Term Loans-Rs.1, 557 mn (25% of total debt)
Long Term Loans-Rs.1, 738 mn (28% of total debt)
Deferred Tax Liability- Rs. 137 mn (2.2%)
Sundry Creditors – Rs. 789 mn (12.8%)
Provisions & Other Liab. – Rs. 485 mn (7.9%)
Reserves – Rs. 1,302mn (21.1%)
Equity – Rs.150 mn (2.4%)

KDCL's Group Structure



The Story…of a Global Consolidator

When Kiri Dyes and Chemicals Limited (KDCL) acquired the €797 mn revenue (over US $1 bn) DyStar (earlier headquartered at Frankfurt, Germany) through its subsidiary Kiri Holding Singapore Private Limited (KHSPL) for a low, low €49 mn, it did precisely that.And in the process, took a head-start in the consolidation game for such assets globally

Talk about injecting sex and sizzle in what is an industry as old as the hills. When Kiri Dyes and Chemicals Limited (KDCL) acquired the €797 mn revenue (over US $1 bn) DyStar (earlier headquartered at Frankfurt, Germany) through its subsidiary Kiri Holding Singapore Private Limited (KHSPL) for a low, low €49 mn, it did precisely that.And in the process, took a head-start in the consolidation game for such assets globally. The move, that came in February 2010, is quite a leap for a company that has been one of the leading players in the *Indian* dyes and chemicals industry for about over a decade.

Post the DyStar deal, and its successful turnaround, Kiri Dyes is now on the lookout for other, very cheaply priced, international acquisitions. One thing is clear in the minds of Kiri's management: they will buy assets that are available dirt-cheap; assets wherein margins are low, but can be raised by offshoring production; and where the acquisition size is such that Kiri doesn't have to raise any fresh equity to finance it. We would estimate that Kiri is likely to close an acquisition deal meeting the above tests, in the course of the next 3-6 months.

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The DyStar Edge: KDCL now co-owns the world's largest Dyes company

With a single agile acquisition, KDCL is set to move into a higher growth orbit. It has in its grasp DyStar's 21% share in the global dyes market, around 6,500 global customers, 226,300 MTPA of production capacity spread across 17 plants globally and a comprehensive product & services portfolio across the value-chain for a variety of end-users. ***DyStar's business is, in fact, an amalgamation of the dyes divisions of several leading global companies -- it was initially formed in 1995 by carving out the dyes divisions of Bayer AG, Hoechst AG, Mitsui and Zeneca. Subsequently, in the period 2000-2004, it acquired the dyes and textiles businesses of several top companies including Colour Solutions, Yorkshire Americas, Rotta Group, Boheme Group and Texan Lab.*** In 2004, DyStar was acquired by Platinum Equity, a US-based private equity firm. KDCL is set to benefit enormously from DyStar's strong brand power, intellectual property rights, access to patents, technology, sales and marketing network, and its favoured supplier status for leading mills, retailers and brands looking for quality dyes and chemicals.

We believe that KDCL has struck quite a bargain by acquiring DyStar at a price of €49 mn, essentially by timing the buyout well. ***DyStar had been incurring losses since 2005, primarily due to high conversion costs, employee expenses and environmental issues.***

In CY08, a decline in sales due to the global financial crisis added to the company's woes, and its loss-making German entities were forced to file for insolvency. It was at this juncture that KDCL acquired the company from the Insolvency Administrator. With low production costs as its key strength, KDCL saw a turnaround opportunity there, at a very attractive valuation

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The deal was structured as an 'Asset Purchase' transaction, which meant that the company purchased only assets and not liabilities of DyStar's German operations (obligations towards employees were also excluded). The acquisition cost, including start up cost, was funded via equity of €13.22 mn contributed by KDCL, zero-coupon bonds of €22 mn (convertible into equity) subscribed to by Well Prospering Ltd. (HongKong) and bank loans of €65 mn.

KDCL has put in place a restructuring plan for DyStar. Its moves include the transfer of dyes production from the high-cost manufacturing units at Germany to low-cost locations in Asia, particularly in India and China. ***It has re-negotiated contracts related to land and buildings, sites and energy, reduced the demolition costs of certain plants and lowered the headcount in Germany with the assistance of the courts.*** At the timing of filing the insolvency petition, DyStar had around 3,500 employees globally, out of which KDCL retained only 2,200 employees after acquiring DyStar from the insolvency administrator. Out of theses 2,200 employees, KDCL currently has 700 employees in Germany, out of which 500 employees are on short-term contracts for periods of 6, 12, 18, 23 months. After the completion of the contractual term, only 200 employees will be retained at Germany (approximately 75 in the indigo manufacturing plant, 20-30 in the technology centre, 40 in process development, and the balance in service labs and in the sales-force in Europe). ***The very structure of the acquisition and the restructuring plan (already under implementation) will go a long way in helping KDCL restore the financial viability of DyStar's operations***.

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The restructuring initiatives have already shown positive results in the form of a quick turnaround -- DyStar began generating profits post June 2010. Besides, the funds injected into DyStar post acquisition have been effectively utilized for productive purposes and for improving the company's global business. Also, the product transfer process is on track and this will further consolidate KDCL's business in the coming years.

For the purposes of our pro-forma estimates for KDCL we have taken into account only 37.8% of revenues and profits of DyStar, considering that Well Prospering Ltd. has the option to convert its zero-coupon bonds into equity.

KDCL's domestic business: A quick look

KDCL has been manufacturing reactive dyes (capacity: 18,000 MTPA), H-Acid (capacity: 4,200 MTPA), Vinyl Sulphone (capacity: 5,400 MTPA) and basic chemicals like Sulphuric Acid, Oleum etc. (combined capacity: 500 TPD). ***KDCL also operates a 40:60 joint-venture with the Long Sheng group of China, called Lonsen Kiri Chemical Industries Ltd (LKCIL), which has the capacity to produce 50,000 MTPA of reactive dyes.*** KDCL and LKCIL jointly exported 24,000 MT of reactive dyes in FY10, thus accounting for as much as 50% of India's exports of reactive dyes.

In the past few years, KDCL has been focused on investing in capacity expansion and backward integration…

…going forward, in FY11, KDCL plans to further expand its existing capacity for dyes-intermediates and set up a new manufacturing facility for a speciality dyes-intermediate, Levafix at Vadodara in Gujarat, at an aggregate estimated capex of Rs.2.5 bn

In the past few years, KDCL has been focused on investing in capacity expansion and backward integration. These projects were executed in two phases: production capacities for dyes-intermediates -- H-Acid and Vinyl Sulphone - were increased in FY07 and, thereafter, 1,80,000 MTPA of basic chemicals capacity was installed in FY09. The installation of the basic chemicals capacity was funded through a public issue of equity shares for Rs.562 mn at a face value of Rs.10 per share and a premium of Rs.140 per share. Going forward, in FY11, KDCL plans to further expand its existing capacity for dyes-intermediates and set up a new manufacturing facility for a speciality dyes-intermediate, Levafix at Vadodara in Gujarat, at an aggregate estimated capex of Rs.2.5 bn.

KDCL has been registering robust revenue and profit growth – revenues increased at a 4-year CAGR of 39% to touch Rs.3, 459 mn in FY10 and profits grew at a CAGR of 52% and came in at Rs.250 mn

Why we see KDCL being a Rs.1,000 stock in the next 12 months' time

We expect KDCL's EPS (consolidated) to grow 81.3% Y-o-Y to Rs.76.9 in FY12E. On the valuation front, the stock currently trades at a P/E of 5x FY12E earnings & 3x FY13E earnings and 0.8x FY12E BV & 0.6x FY13E BV.

KDCL appears really cheap, whether one takes the consolidated earnings approach or the SOTP method. Given the wide disparity in its intrinsic value, and its current market value, we would recommend a buyback of its stock by the company

KDCL appears really cheap, whether one takes the consolidated earnings approach or the SOTP method. Given the wide disparity in its intrinsic value, and its current market value, we would recommend a buyback of its stock by the company. The company is sitting on a large amount of cash, having just completed a Qualified Institutional Placement in October 2010, of Rs. 2,400 mln approx *(First Global's investment banking arm lead managed the QIP).* Given the overall nervousness in the Indian markets in general, and around mid-cap stocks in particular, the KDCL stock has slid 35% in the past month or so, for fundamental reasons that we are unable to fathom.

At its current valuation, KDCL is trading at least a 62% discount to its SOTP value of Rs.1,000 approx. This gap is unsustainable.

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Add to this, a listing of DyStar in 2011 (possibly by August-September 2011) at a valuation of US$650-700 mln, which will act as a huge catalyst for the KDCL stock, as the DyStar value gets unlocked and crystallised.

We see the KDCL stock as being a very strong performer in the coming months, and would recommend a Strong Buy on it, with a 12-month Target Price of Rs.1,000.

Sum of The Parts (SOTP) Valuation

Using sum of the parts valuation method, we have arrived at a price of Rs.1,001 per share for KDCL.

Sum of The Parts (Rs. per share)

	Valuation methodology P/E(x)	FY12E EPS (Rs.)	Price per share (Rs.)
KDCL (100%)	10	37.4	374
DyStar (37.8%)	15	39.5	592
LKCIL (40%)	10	3.5	35
Share value (Rs.)			**1,001**

Key assumptions

- DyStar commands a global market share of 21%, premium pricing and access to end branded customers, such as Nike, Puma, Wal-Mart, etc. Hence, we have provided a P/E multiple of 15 to DyStar.

- KDCL and LKCIL are bulk suppliers. Hence, we have considered lower multiples for valuing KDCL and LKCIL in comparison to that for DyStar.

- The full of impact of the DyStar's restructuring benefits will come into effect in FY13. Moreover, KDCL's additional capacity for producing H-Acid, Vinyl Sulphone and Levafix will become operational for the full year in FY13.

The DyStar Acquisition

In February 2010, KDCL acquired DyStar, a global market leader in dyes, dyes solutions, leather and performance chemicals and a total solutions provider to all types of colouring industries.

DyStar was incorporated in 1995 with the merger of the dyes businesses of Bayer, Hoechst, Mitshubishi and Casela textile dyes. Later, in the year 2000, the textile dyes businesses of BASF, Mitsui, and Zeneca were acquired.

In the period 2000-2007, DyStar acquired the dyes and other related business of companies such as Colour Solutions Inc, Yorkshire Americas, Rotta Group, Boehme, Texan Lab etc. In FY04, DyStar was acquired by Platinum Equities, a US-based private equity firm.

DyStar currently holds over 1500 live patents.

Insolvency petition

Losses incurred by German operations led to the filing of insolvency petition

DyStar had been posting losses since CY05 due to the high fixed conversion costs and employee costs in its plants at Germany, low levels of capacity utilization and competition from low-cost manufacturers in Asia (especially India and China).

DyStar filed an insolvency petition in 2009 as its German operations continued to incur losses and its then owner, Platinum Equity, was not ready to infuse additional capital for meeting crucial liabilities and for maintaining liquidity (cash component estimated at €100 mn) and restructuring costs (estimated at €245 mn).

Huge loss of sales during insolvency period…

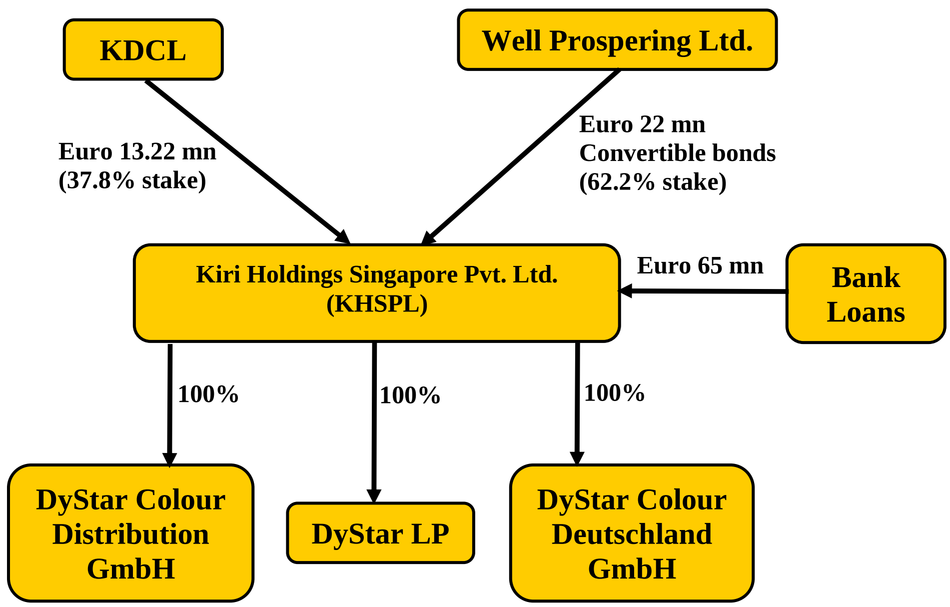
DyStar continued its manufacturing activities till the time it filed for insolvency. The substantial overheads and manufacturing expenses resulted in huge losses being incurred till September 2009. Subsequently, the company continued its marketing and sales activities by outsourcing the production of various products, including commodity dyes to Indian and Chinese companies. The company's turnover declined from about € 797 mn in CY08 to €637mn in CY09 due to loss of sales during the insolvency period.

It was at this juncture that KDCL acquired the company from the Insolvency Administrator. With low production costs as its key strength, KDCL saw a turnaround opportunity there, at a very attractive valuation.

Acquisition Structure

In February 2010, KDCL acquired DyStar through KHSPL. At the time of acquisition, DyStar's US business was not part of the deal. Later, in October 2010, KDCL acquired DyStar's operations as well at a cost of $10 mn.

DyStar's acquisition structure



Structure of the DyStar Deal

KDCL acquired DyStar through Kiri Holdings Singapore Pvt Ltd (KHSPL). Dystar's businesses were acquired in two newly-formed companies - DyStar Colour Distribution GmbH and DyStar Colour Deutschland Gmbh.

Assets and liabilities acquired by KDCL

The deal was structured as an 'Asset Purchase' transaction which meant that the company purchased only the assets and not the liabilities of the German operations (obligations towards employees were also excluded). The German assets included DyStar's 36 subsidiaries located in 20 countries, out of which 34 had profitable operations. With the purchase of DyStar's German entities (which includes the shares of subsidiaries) KDCL acquired the assets and liabilities of all the subsidiaries as well. DyStar has18 plants across the world, out of which KDCL had acquired 16 plants from the insolvency administrator.

DyStar's business in the US was organised under DyStar LP and was not a part of the insolvency petition and hence, was not acquired by KDCL initially. Later, in October 2010, KDCL acquired DyStar's US operations at a cost of $10 mn. DyStar's US arm includes a production facility and warehouse in Reidsville, North Carolina, as well as a warehouse in Southgate, California.

Aggregate Net Asset Value of DyStar amounted to €398 mn

DyStar's assets were valued at €242 mn (including €140 mn worth of fixed assets which were carried at zero value in the balance sheets); the subsidiaries' assets and liabilities were valued at €266 mn and €110 mn respectively. The aggregate net asset value of DyStar thus amounted to €398 mn.

Funding of the acquisition

The acquisition of DyStar was funded via equity of €13.22 mn contributed by KDCL, zero-coupon bonds of €22 mn (convertible into equity) subscribed to by Well Prospering Ltd., HongKong and bank loans of €65 mn. The syndicated bank loans included secured loans from the State Bank of India, Singapore (€20 mn) Oriental bank of Commerce (€15 mn), Central bank of India (€15 mn) and EXIM Bank (€15 mn).

Well Prospering Ltd. has the option to convert bonds into equity upto 62.2% of the total equity of Kiri Holdings Singapore Ltd. – the SPV formed for acquiring the assets of DyStar.

Funding structure

Funding Requirements	**Total (Euro Mn)**
Purchase – DyStar Germany	48.92
Purchase- DyStar US	6.08
Start Up + Working Capital	40.00
Fees	5.00
Total	**100.00**
Sources of Funds	**Total (Euro Mn)**
Loans from banks	65.00
Equity - Kiri Dyes	13.23
Well Prospering Ltd. Zero Coupon Bond	22.00
Total	**100.00**

Source: KDCL

DyStar acquisition - KDCL's entry into the branded dyestuff business

DyStar's customers are retail organizations, manufacturers of brand name goods and purchasing organizations that manufacture textiles around the world. DyStar's customers include top multinational companies and the company also provides ecology solutions named "econfidence from DyStar".

Key customers

Adidas	Giordano
Danskin	Jockey
Espirit	Marks and Spencer
Raymond Group	Nike
Alok Industries	Puma
David's Bridal	Reebok
GAP	Tommy Hilfiger
Regatta	Wal-Mart

Source: company

DyStar's sales

In CY09, 72 % of DyStar's revenues came from the 'cellulose & printing' and 'synthetics & wools' segments.

Product-wise sales break- up (CY09)

	Euro mn	% of total sales
Textile solutions		
Cellulose and printing	304	48%
Synthetics and wools	150	24%
Textile auxiliaries	82	13%
Textile services	6	1%
Sub total	**542**	**85%**
Non textile		
Leather solutions	28	5%
Others	66	10%
Sub total	**94**	**15%**
Total sales	**637**	**100%**

Source: company

Asia is DyStar's biggest market, contributing 39% of total revenue.

Geography-wise sales break up (CY09)

	Sales
EMEA	
North and central Europe	12%
Turkey/Africa/Middle east	13%
South Europe	11%
APAC	
China	14%
North East Asia	9%
South Asia	9%
South East Asia	7%
Americas	
North and central America	8%
South America	9%
Co producers	8%

Source: company

Synergies from the DyStar acquisition

The synergies

DyStar's Strengths	Kiri's Strengths
• Strong brand	• Low cost production base
• Global footprint with a presence in key growth markets	• Backward integration
• Technology/Brands/IP/Patents	• Proximity to low cost sources of raw materials
• Manpower skills/ expertise	• Access to finance

- ***Comprehensive product/service portfolio***

  DyStar has a large product portfolio consisting of 1,700 colours and fibres. It enjoys a leadership position in various product lines in almost all categories of dyes. The company offers products and services across the value-chain for various segments like textiles, leather, and paper processing. It has been following a pull-through sales strategy with the help of the strong relationship it has built with well-known brands and retailers.

  Customized manufacturing
  DyStar also undertakes customized manufacturing, offering tailor-made products such as fine chemicals and intermediates for pharmaceuticals, agrochemicals, cosmetics and photography.

- ***Global Distribution Network***

DyStar has a highly effective global sales network, with sales entities in over 30 key markets and a network of agencies in 50 countries through which it services around 6,500 global customers.

Restructuring DyStar's operations

To stabilize Dystar's operations KDCL first infused €40 mn as start up capital and for working capital requirements.
After the acquisition, Kiri Holding Singapore Pvt. Limited (KHSPL) has been restructuring DyStar's operations, which has led to an improvement in its operational efficiency. The restructuring program includes:

- Shutting down the high-cost manufacturing units at Leverkusen and Brunsbuttel in Germany -- production which was taking place at these locations is in the process of being shifted to India/China as well as to other plants of KDCL, DyStar and Long Sheng.

- The unit at Cilegon, Indonesia will be shut down and products manufactured there will be shifted to India.

- Indigo production plant will continue in Germany and China as these sites are profitable and critical for the company's global indigo business (enjoying 33% share of the world market)

- Out of the 1,350 employees in Germany, KHSPL has retained about 700 employees on contract basis for tenures ranging from 6-23 months. The step has been taken with a view to ensuring smooth transfer of production to Asia. The gradual lowering of headcount is expected to bring significant reduction in costs by the end of 2011. Thereafter, only 200 employees (approximately 75 in the indigo manufacturing plant, 20- 30 in technology centre, 40 for process development and the balance for service labs including sales force of Europe) will be retained at Germany on a permanent basis.

- The company's headquarters will be shifted from Germany to Singapore, which will help save direct taxes and lower cost of logistics, procurement, supply chain, etc. It will also provide proximity to customers and manufacturing units and improve access to financing.

The restructuring initiatives are expected to help turn around DyStar's operations from CY10.

Revenue & Profit Forecast of DyStar

YE March (Euro € mn)	FY10P	FY11E	FY12E	FY13E
Total Revenues	**75**	**557**	**659**	**692**
Revenue Growth (Y-o-Y)	*NA*	*645.6%*	*18.2%*	*5.1%*
EBIDTA	**(0)**	**32**	**55**	**95**
EBIDTA Growth (Y-o-Y)	*NA*	*NA*	*72.6%*	*74.0%*
Net Profit	**(13)**	**13**	**35**	**72**
Net Profit Growth (Y-o-Y)	*NA*	*NA*	*171.2%*	*108.2%*
Net Profit Excl. extra-ordinaries	**(2)**	**10**	**35**	**72**
Net Profit Growth Excl. extra-ordinaries (Y-o-Y)	*NA*	*NA*	*232.4%*	*108.2%*
Shareholders Equity	**154**	**166**	**200**	**272**

Note – Shareholder equity includes Euro 22 mn optionally convertible bonds issued to Well Prospering Ltd.
Only two months revenues are included in FY10P.
NA – Not Applicable

Growth Drivers

The Dyestuff sector has forward and backward linkages with a variety of sectors, such as textiles, leather, paper, plastics, printing inks and foodstuffs. The textile industry accounts for the largest consumption of dyestuffs (60-65%).

Production of dyes witnessing a geographic shift to Asia due to cost efficiencies

Low production costs in Asia:

The easy availability of raw materials, a trained and skilled workforce, technically qualified managerial cadre base and low production costs have made India an attractive sourcing destination for global multi national companies (MNCs).

DyStar has shut down its two German facilities and the products will now be manufactured at KDCL's premises at Vadodara, which will result in a decline in its operating costs.

DyStar acquisition a game changer for KDCL

KDCL gains access to integrated solutions

Indian companies with increased focus on innovation, R&D, adoption of green chemistry practices, and compliance of more stringent export market regulations will help ensure greater access to export markets. Since a majority of dyestuffs are commodities, there is not much product differentiation and duplication is easy. We expect that the acquisition of DyStar to provide KDCL with technological access to overcome challenges and convert them into opportunities, thus resulting in a profitable growth. DyStar is investing in R&D in order to improve the specialty end of its portfolio. DyStar provides colour solutions and integrated solutions to customers, rather than just a colorant.

DyStar acquisition provides huge brand value & pricing power

DyStar has a highly effective global sales network, with sales entities in over 30 key markets and a network of agencies in 50 countries, through which it services around 6,500 global customers. DyStar's clients include Adidas, GAP, Giordano, Jockey, Marks and Spencer, Nike, Puma, Reebok, Russel, Tommy Hilfiger, Wal-Mart, etc. DyStar has over 1,500 live patents, environmental friendly products and a market share of 21% globally, which provides it with pricing power in various products and services.

The DyStar turnaround - the nitty-gritties

DyStar is in the process of laying off around 500 highly paid employees from its German operations in next 23 months and plans to reduce its SG&A expenses from 18% in CY08 to 15% in the coming two years. With the shifting of its manufacturing facilities from Germany to Asia, the company's logistic costs for importing raw materials is expected to decline, as the German facilities used to import raw materials from Asia. The cost cutting will lead to an improvement in DyStar's margins.

Shift in manufacturing of specialty intermediates & specialty dyes to boost margins across entire chain

KDCL is setting up a plant at Vadodara for manufacturing a specialty intermediate, named Levafix, with a capacity of 3,000 MTPA at an investment of Rs.1,154 mn, which will provide a significant boost to the company's bottomline.

Expansion of dyes intermediates capacity to boost profitability

KDCL plans to invest Rs.2.5 bn for expanding Unit IV, Vadodara, increasing the production capacities of H-Acid and Vinyl Sulphone and setting up a plant for Levafix intermediates.

KDCL is expanding the capacities of its H-Acid and Vinyl Sulphone manufacturing facilities from the current 4,200 MTPA and 5,400 MTPA to 16,200 MTPA and 23,400 MTPA respectively by June 2011. The expanded capacity will be sufficient to meet the requirements of KDCL, LKCIL and DyStar.

Foray into hydrogen peroxide business to help capitalize on supply chain through various subsidiaries

Hydrogen peroxide enjoys a strong global demand, with the textile and paper industries being the major consumers. About 80% hydrogen peroxide produced is consumed by the textile and paper industries, while the remaining is used by the pharmaceutical, effluent treatment, aseptic packing, sugar industries, etc. KDCL plans to invest around Rs.250-300 mn for setting up a 10,000 MTPA production facility for manufacturing hydrogen peroxide at Vadodara, which will be funded by internal accruals.

Rationale behind foray into hydrogen peroxide business:

KDCL has a strong and well established client base in the textile industry at the international level and its existing customers also consume hydrogen peroxide, thereby providing the company with a ready market for the product. Tightening environmental laws are forcing chemical producers to use hydrogen peroxide instead of chlorine for the treatment of waste water/effluents, which will lead to an increase in the demand for hydrogen peroxide.

Concerns

Delay in execution of dyes intermediates projects & product transfer program

In order for the deal to be successful, it is vital that the shift in the company's product transfer program to Asia is completed as per schedule. In case there is any delay, then the profitability projections will be negatively impacted. For our revenue projections, we have assumed that the company's production facilities for dyes intermediates and specialty chemicals will become operational in July 2011.

Increase in crude oil prices could adversely impact profitability

The bills of materials for dyes are largely dependent upon the raw materials derived from crude. According to the company's management, an increase of $1 in crude oil prices leads to an increase of $0.03 and $0.06 in the final product cost for DyStar and Kiri Dyes respectively. Considering that DyStar sells the products directly to end customers, the company will enjoy pricing power to pass on the increase in costs.

Exchange rate fluctuations

70% of DyStar's total revenue and 65% of its expenses are US Dollar denominated. Currently, 25% of DyStar's expenses are in Euro, which could decline, as the company's production will shift to Asia and it will no longer incur any expenses in Germany. Moreover, the company also has a loan liability of $15 mn and Euro 50 mn.

Competition could pull down realization & market share

DyStar is a branded player in the dyes business. The company has managed to increase its monthly run rate from Euro 32 mn in February 2010 to Euro 44 mn in September 2010, due to its strong brand and customer loyalty.

Decline in demand & premiums held by DyStar on its products & services could prove regressive

The textile industry is growing at the rate of 4% per annum. As such, we can assume that the dyes industry will grow at a similar rate. DyStar has restructured its operations and hence, we expect the company to grab some market share from its competitors (Huntsman and Clariant), who are currently bleeding in their dyes business, due to high labour cost and overheads.

The revenue projections for Kiri Dyes and Lonsen Kiri Chemical Industries Ltd. depend upon the demand from DyStar, as its expanded capacity will be used for outsourcing. In case there are any extreme events, such as a financial meltdown, then there is likely to be a decline in the demand for dyes.

DyStar commands premium prices. In case of erosion in the premium, the company's profitability could be adversely impacted.

Industry Highlights

Global market for dyes, dyes-intermediates and pigments

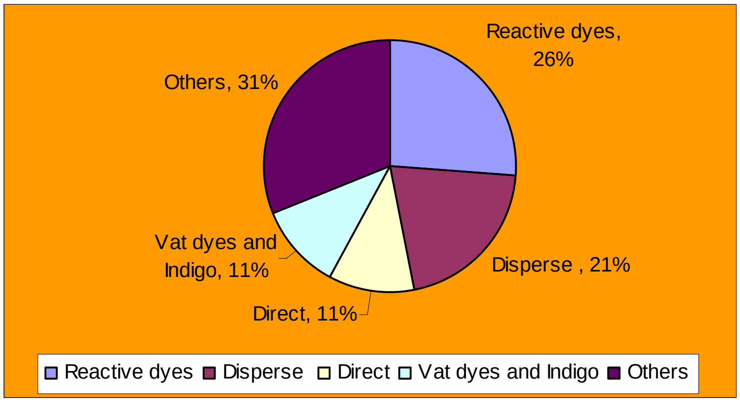
Asia is the largest market for dyes, dyes- intermediates and pigments

The size of the global market for dyes, dyes- intermediates and pigments is estimated at $23 bn. Asia is the largest market for dyes with a 44% share of aggregate global sales, followed by the US which has a 24% share and the balance 32% is accounted for by Europe and countries in other parts of the world.

Reactive and disperse dyes account for a 26% and 21% share in the global market

Reactive dyes account for around 26% of the global dyes market, disperse dyes account for 21%, direct & vat dyes and indigo have an 11% share each and other types of dyes have a 31% share.

Market uses of Dyes



Source: Kiri and DyStar presentation

The Indian dyes industry

India enjoys abundant supply of basic raw materials and has built up on technical services, marketing capabilities and production in bulk quantities in order to face the global competition, particularly from China, and increase its share of exports. The quality of dyes manufactured in India meets the standards set by international customers.

India has a 6% share in global production of dyes and dyes- intermediates

According to a report by Mott MacDonald, the Indian dyes and dyes-intermediates industry has witnessed impressive growth in the last six decades. India currently has a 6% share in global dyes production

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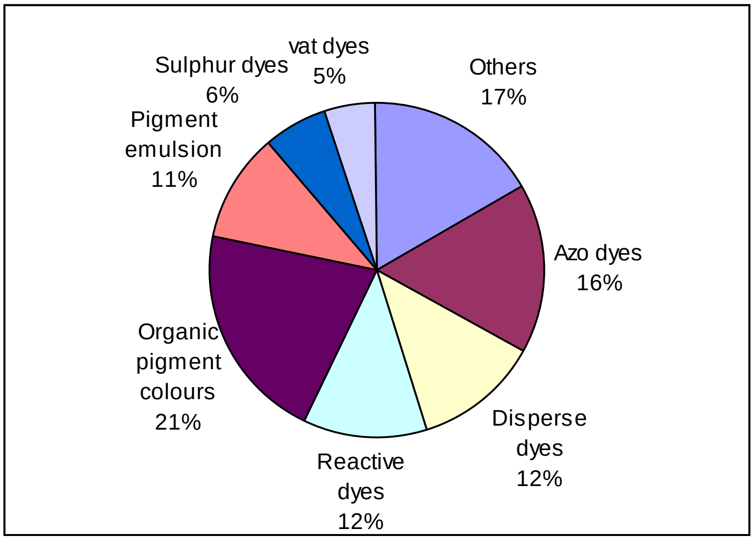
The 50 dyestuff manufacturers in the organized sector and as many as 900 units in the small-scale sector, have an estimated aggregate installed capacity of over 1,70,000 tonne per annum. The two Western states - Maharashtra and Gujarat - account for over 90% of the country's dyestuff production.

Positive economic outlook and shifting of capacities to South Asia to drive growth

The dyestuff industry is expected to register robust growth of 7-8% in the medium term primarily due to the overall positive economic outlook and the shifting of manufacturing capacities to the South Asian region (India & China). ***Going forward, we expect the share of India and China in the global dyes, dyes-intermediates and pigments industry to increase.***

Indian dyestuff industry (Capacity)



Source: Mott MacDonald report

Textile Dyes

Textile industry accounts for 65%-75% of total demand

The textile industry is the largest consumer of dyes and pigments, with an estimated share of 65-75% of total demand.

Textile industry expected to grow at a CAGR of 3.9% in the period 2007-12

According to a report by Pricewaterhouse Coopers (PwC), in the period 2003-2007, the global textile market grew at a CAGR of 2.9% to $319 bn, driven by demand from developing countries. Synthetic fibres form the largest segment of the global textile market with a 41% market share, followed by cottons with a 38% share.

The market for textiles is expected to grow at a CAGR of 3.9% in the period 2007-2012.

Asia accounts for 62% of global textile sales

Textile manufacturing has, in recent years, witnessed a shift to Asian countries due to huge demand, , low cost of production and proximity to consumers and customers.

- ***Asia is the largest textile market accounting for 62% of global sales, followed by Europe and America.***

- ***Asia also has a 70% share in global cotton textile consumption and a 75% share in synthetic textile consumption.***

- ***China has a 40% share in global cotton demand and 50% share in global demand for synthetic fibre.***

With Asia now a major textile production hub, it is also generating huge demand for dyes.

…and a large share of dyes consumption

Production of dyes is also witnessing a geographic shift, similar to textiles. Manufacturing units are relocating to Asia primarily because of huge demand in the region, proximity to consumers, cost efficiencies in manufacturing and lower labour costs as compared to the Western countries including the European Union and USA. China is, by far, the world's largest consumer and the fastest growing market for dyes, dyes-intermediates and pigments. India is also witnessing rapid growth in demand for dyes.

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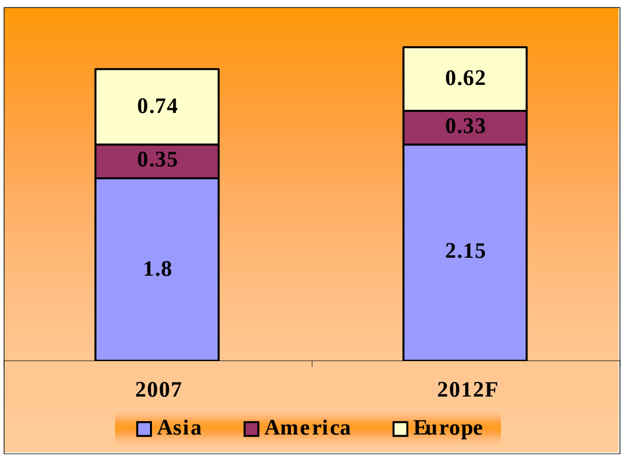
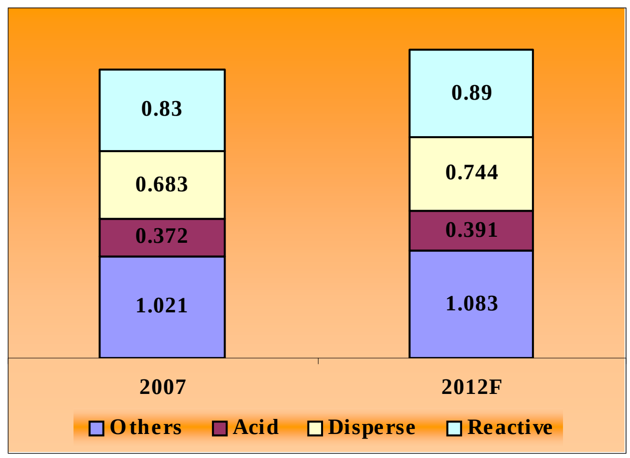
Global consumption of textile dyes





(Source: Kiri and DyStar presentation)

Company Background

KDCL's promoters

KDCL has been promoted by Mr. Pravin Kiri and Mr. Manish Kiri. The chairman of the company, Mr.Pravin Kiri has 40 years of experience in the dyestuff and chemical industry. He is a science graduate who started his career in the year of 1966 as a partner in Jai Chemical Industry (Kharawala Group) and was in charge of technical matters. In 1998, he set up "Kiri Dyes and Chemicals Private Limited". He is in charge of manufacturing, operational strategy, quality control and research & development. Mr. Manish Kiri, Managing Director, has been fostering relationships with growing number of global companies.

Production capacity

In the initial years of its operations, KDCL first set up a facility to manufacture 12,000 MTPA of reactive dyes at Vatva in Ahmedabad. The capacity at this plant was expanded to 18,000 MTPA over a period of time

The two-stage backward integration has helped the company in cost reduction and quality control improvements

The company subsequently decided to integrate backwards and manufacture dyes intermediates (aniline and naphthalene based) such as Vinyl Sulphone, H-acid, Acetanilide and basic chemicals such as sulphuric acid, oleum, chloro-sulphuric acid, etc. The two-stage backward integration has helped the company in cost reduction and quality control improvements.

<u>KDCL has emerged as a prominent manufacturer of reactive black dyes globally since low production costs have given the company a long-term competitive advantage in the export markets.</u>

LKCIL: A 40:60 joint-venture between KDCL & Long Sheng group

KDCL has invested Rs.220 mn in LKCIL, a joint-venture with the Long Sheng group of China. The project, in which the Long Sheng group has invested Rs.330 mn in the form of equity, has a manufacturing capacity of 50,000 MTPA for reactive dyes. The unit commenced operations in FY09. With this venture, the KDCL group became the largest producer of dyes in India.

The dyes intermediates required for manufacturing reactive dyes at LKCIL's plant are being supplied by KDCL from its facility located at Padra in Vadodara. KDCL is a preferred supplier for LKCIL and its ability to supply intermediates will be further strengthened by its planned capacity expansion.

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Aggregate production capacity (KDCL & LKCIL)

Plant	Products	Capacity	Location
KDCL Unit I, II, III,	Reactive dyes	18,000 MTPA	Vatva, Ahmedabad
KDCL Unit V	Sulphuric acid		Padra, Vadodara
	Oleum 23	1, 80, 000 MTPA	
	Oleum 65		
	Chloro Sulphonic acid		
KDCL Unit IV	H –Acid	4,200 MTPA	Padra, Vadodara
	Vinyl sulphone	5,400 MTPA	
	Acetanilide	12,000 MTPA	
LKCIL (40% stake)	Reactive dyes	50,000 MTPA	Padra, Vadodara

Source: company

Top ten customers

KDCL's prime customers have been leading multinational players in the dyes and chemicals industry, such as DyStar, Clariant, Setas Kimyasan, etc. In FY10, the company's top ten customers accounted for 59% of its export turnover.

Top ten customers

Company	Country / Region	% Of total export Turnover in FY10
Dystar	Global/India	29.02%
Kyung in Synthetic Corporation	Korea	5.50%
Clariant Chemicals (India)	India	5.39%
Setas KimyaSan AS	Turkey	5.20%
Orient Chem Tex Ltd	Bangladesh	3.14%
Hemka Tekstil Ltd	Turkey	2.71%
Setas Chemicals H.K. Limited	Turkey	2.58%
INT International	Taiwan	2.20%
Shaily Dyes and Intermediates	India	1.87%
Shanghai Colva Dyestuff international Co. Ltd	China	1.42%
Total		**59.03%**

Source: company

Business Highlights

Aggressive expansion plans

In order to take advantage of growth opportunities, KDCL is aggressively expanding capacities. In the last quarter of FY10, new production capacities for basic chemicals (sulphuric acid, oleum, choro-sulphonic acid) became operational. The proposed expanded capacity of the dyes-intermediate plants is expected to begin operations in FY12 and the output will be used for catering to the requirements of the KDCL group, the Lonsheng Group and DyStar.

Expected production of dyes, intermediates and chemicals (KDCL Standalone)

Production	Unit	FY11E	FY12E	FY13E
Reactive dyes	MTPA	16,200	16,200	16,200
Intermediates				
Vinyl Sulphone	MTPA	4,860	16,380	21,060
H - Acid	MTPA	3,780	11,340	14,580
Acetanlide		10,200	10,800	10,800
Levafix Intermediates	MTPA	--	1,200	2,700
Basic Chemicals				
Sulphuric Acid	MTPA	83,160	83,160	83,160
Oleum - 23	MTPA	14,850	20,790	20,790
Oleum - 65	MTPA	20,790	14,850	14,850
Chloro Sulphonic acid	MTPA	29,700	29,700	29,700

Export focus

Major export markets include Asia (Bangladesh, Korea, Taiwan, Singapore), Turkey, Central and South Americas

Currently, India exports around 48, 000 MTPA of reactive dyes, out of which KDCL and LKCIL together account for 24,000 MTPA (i.e., a share of approximately 50%). KDCL also purchases reactive dyes from the market to meet the needs of its overseas customers.

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KDCL's major export markets are Turkey in Europe; Bangladesh, Korea and Taiwan in Asia; Central and South Americas and the USA. The company has established a strong network of distributors and agents in around 30 countries.

Revenue break-up by geography (FY10-KDCL Standalone)

Country	% share
INDIA	52.8%
EXPORT (47.2%)	
TURKEY	10.6%
BANGLADESH	5.2%
MEXICO	4.4%
U.S.A.	4.3%
BRAZIL	3.2%
SINGAPORE	2.8%
Others	16.8%

Source: company

Developed markets to outsource dyes production

South Asia is emerging as the manufacturing hub for dyes due to the region's low cost of production and we expect this trend to gain strength, going forward. Developed countries are expected to increasingly outsource production of dyes as well as finished goods to the region.

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Global market for dyes set to grow at 4-5% annually…

The global market for dyes is expected to grow at a rate of 4-5% annually. In order to achieve robust growth and to capture increasing market share manufacturers need to focus on expanding their sales network and ensuring consistency in supply & quality. ***KDCL's integrated manufacturing base and economies of scale help achieve supply efficiencies. According to management, by consistently adhering to specifications, ensuring quality and timely delivery, KDCL has been able to enhance customer satisfaction and this is expected to emerge as a key factor in driving growth in the future.***

Financial Highlights

Revenue and EBIDTA margins – KDCL standalone

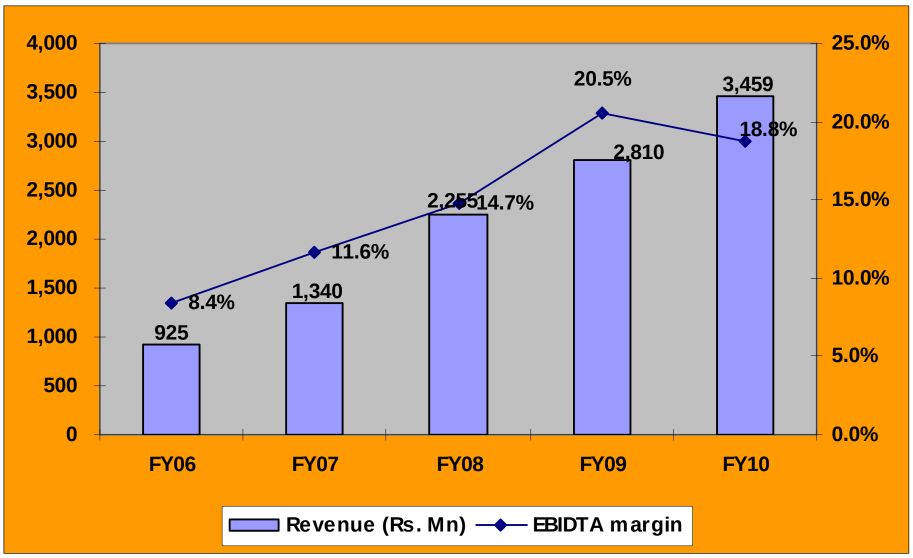
Revenues to grow at a CAGR of 45.9% in the period FY10-FY13

Over the last four years, KDCL's turnover and profitability have risen at a CAGR of 39% and 52% to Rs. 3,459 mn and Rs.250 mn respectively.

Considerable scope for margin expansion…

KDCL's margins are likely to be favourably impacted by the use of basic chemicals, raw materials and dyes-intermediates manufactured in-house. The use of power generated at its co-generation at its 3.3 MW power plant, which runs on the steam (by-product) generated during the manufacture of sulphuric acid, will also have a favourable margin impact.

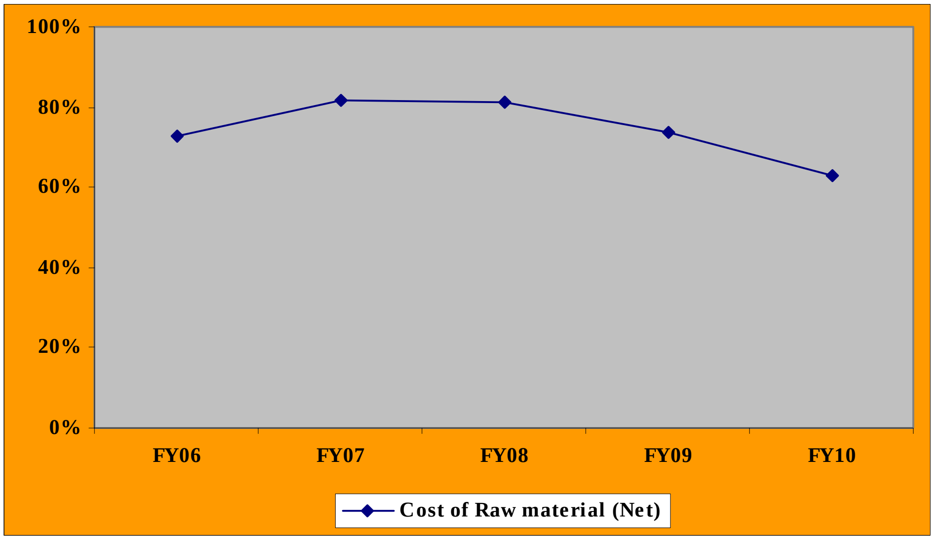
Revenue and EBIDTA margin of KDCL (Standalone)



Cost benefits from backward integration

KDCL's raw material costs declined from 81.2% (of sales) in FY08 to about 63% in FY10 due to investments in backward integration. In-house production of intermediate products (vinyl sulphone and H-Acid) has helped a great deal in reining in costs.

Cost of raw material (% of sales)(Standalone)



The company will continue to reap significant cost benefits from backward integration, which will add to its competitive strength in the industry

In FY10, KDCL set up a 500 TPD (1,80,000 MTPA)plant to manufacture Sulphuric Acid, Oleum, and Chloro Sulphonic Acid (raised Rs.562 mn through an IPO to fund its investments). The plant, which became operational in the last quarter of FY 10, can manufacture the three products in different quantities, as per the company's requirements and market demand. The company will continue to reap significant cost benefits from backward integration, which will add to its competitive strength in the industry.

Capex

Capex of Rs. 2.5 bn to be incurred to expand capacity for production of dyes intermediates, including levafix intermediates

KDCL plans to invest Rs.2.5 bn on expanding Unit IV, Vadodara, increasing production capacities of H-Acid and Vinyl Sulphone and setting up a plant for Levafix intermediates.

KDCL has raised resources through the issue of equity (QIP) for funding its proposed capacity expansion plans.

Capacity Expansion Plans(KDCL Standalone)

Intermediates	Existing Capacity (MTPA)	Proposed Capacity(MTPA)
H Acid	4,200	16,200
Vinyl Sulphone	5,400	23,400
Levafix	-	3,000

Source: Company

Capacity Expansion(KDCL Standalone): Project Cost

Amount (Rs.mn)

Item	Dyes Intermediates	Levafix Intermediates	Total
Land including development	12	11	23
Building:	201	163	364
Plant & Machinery	995	844	1,839
Electrification	7	7	14
Furniture & Fixtures	10	7	17
Vehicles	9	6	15
Office Equipments	16	13	29
Misc. Fixed Assets	4	4	8
Preliminary and Pre-operative expenses	63	54	116
Contingency (4% of project cost)	53	44	97
Total Cost	**1,368**	**1,154**	**2,522**

Source: Company

Note- Both these projects are scheduled to be completed by March 31, 2011. However, for our estimates, we have considered the project completion date as June 30, 2011.

The capex for Hydrogen Peroxide project will be in addition to above.

Funding requirements & plans

The total funding requirements for the period FY11-12 is estimated to be Rs.4 bn, out of which Rs.2.5 bn will be towards Capex for setting up dyes intermediate facilities and Rs.1.3 bn for the repayment of existing loans. The company has raised Rs.2.4 bn by way of QIP, while the balance Rs.1.69 bn will be raised through banks. The company has already tied up for a loan of Rs.1.12 bn from Punjab National Bank.

Funding requirement (Rs. mn)(KDCL Standalone)

(Rs. mn)	FY11E	FY12E	Total
Application of Funds			
Capex for Dyes Intermediate	1,026	342	1,368
Capex for Levafix Intermediates	739	415	1,154
Investment in LKCIL	80	0	80
Other Corporate Purpose	138	0	138
Repayment of Loans			
DyStar acquisition Loans	802	0	802
Other Loans	557	0	557
Total	**3,343**	**756**	**4,099**
Sources of Funds			
New Equity (QIP)	2,400	0	2,400
Loans from Banks	943	756	1,699
Total	**3,343**	**756**	**4,099**

Source: company

Debt to equity ratio

At the end of FY10, KDCL (standalone) had a debt of Rs.3,296 mn, which also included a working capital loan of Rs.1,109 mn. In first half of FY11, KDCL repaid debt of Rs. 871 mn. On a consolidated basis, we expect a debt of Rs.7,749 mn and a debt equity ratio of 0.5 for FY11.

Key Financial Indicators (Consolidated)

DyStar's turnover is likely to come in at an estimated Euro 692 mn in FY13E. The premium prices enjoyed by DyStar's brands, coupled with savings from backward integration and low manpower costs, will help drive its margins. DyStar is expected to return to profitability in CY10 itself. ***KDCL will, therefore, soon have a transformed business within its fold, which will significantly strengthen its topline and bottomline.***

The premium prices enjoyed by DyStar's brands, coupled with savings from backward integration and low manpower costs, will help drive its margins. DyStar is expected to return to profitability in CY10 itself

KDCL's turnover is expected to rise significantly, considering DyStar's global sales and the new opportunities to supply large quantities of dyes intermediates to Lonsheng, LKCIL and Dystar.

For our proforma estimates we have only taken into account 37.8% of revenues and profits of DyStar, considering that Well Prospering has the option to convert its bonds into equity.

Key financials (Kiri Standalone + 37.8% DyStar)

YE March (Rs. Mn)	Total Revenue			EBIDTA			Net Profit		
	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
KDCL	**5,180**	**8,301**	**10,732**	**1,131**	**1,541**	**1,922**	**534**	**718**	**917**
Growth (Y-o-Y)		60.3%	29.3%		36.2%	24.8%		34.4%	27.7%
Margin (%)				21.8%	18.6%	17.9%	10.3%	8.6%	8.5%
Dystar	**12,217**	**14,438**	**15,169**	**692**	**1,195**	**2,079**	**279**	**756**	**1,575**
Growth (Y-o-Y)		18.2%	5.1%		72.6%	74.0%		171.2%	108.2%
Margin (%)				5.7%	8.3%	13.7%	2.3%	5.2%	10.4%
Inter-Company Sales	**(844)**	**(1,583)**	**(2,122)**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**16,552**	**21,156**	**23,779**	**1,823**	**2,736**	**4,002**	**813**	**1,474**	**2,492**
Growth (Y-o-Y)		27.8%	12.4%		50.1%	46.3%		81.3%	69.0%
Margin (%)				11.0%	12.9%	16.8%	4.9%	7.0%	10.5%

** Net profit of KDCL for FY11 is after considering the forex losses of Rs. 59 mn*
Source: Company, FG estimates *NA – Not Applicable*

Operating cash flow

Cash flow (KDCL - Standalone)

YE March Rs. mn	FY10	FY11E	FY12E	FY13E
EBITA	**534**	**1,001**	**1,281**	**1,549**
Less: Adjusted Taxes	151	203	256	310
NOPLAT	**383**	**798**	**1,025**	**1,239**
Plus: Depreciation	117	130	260	373
Gross Cash flow	**500**	**928**	**1,284**	**1,612**
Less: Increase in Working Capital	596	375	1,536	652
Operating Cash flow	**(96)**	**552**	**(251)**	**960**

Annexure

KDCL- Assumptions

Sales Assumptions Quantity

Sales Assumptions (Quantity)		FY11E	FY12E	FY13E
Basic Chemicals				
Sulphuric Acid	MTPA	33,961	60,480	80,640
Oleum - 23	MTPA	12,096	14,400	15,300
Oleum - 65	MTPA	16,128	20,160	22,680
Chloro Sulphonic acid	MTPA	14,829	27,000	32,400
Intermediates				
Vinyl Sulphone	MTPA	2,636	7,830	15,210
H - Acid	MTPA	2,435	7,313	9,720
Acetanilide	MTPA	5,183	6,000	7,200
Reactive dyes				
Reactive dyes	MTPA	14,115	14,940	16,200
Levafix	MTPA	0	900	2,700

Average Selling Price

Average Selling Price		FY11E	FY12E	FY13E
Basic Chemicals				
Sulphuric Acid	INR/MT	3,136	3,345	3,445
Oleum - 23	INR/MT	4,023	4,291	4,419
Oleum - 65	INR/MT	4,684	4,996	5,146
Chloro Sulphonic acid	INR/MT	7,285	7,770	8,003
Intermediates				
Vinyl Sulphone	INR/MT	131,135	138,188	139,851
H - Acid	INR/MT	223,545	235,636	238,390
Acetanilide	INR/MT	63,933	68,183	70,221
Reactive dyes				
Levafix Price	EUR/kg	-	7	7

Installed Capacity

Installed Capacity		FY11E	FY12E	FY13E
Reactive dyes	MTPA	18,000	18,000	18,000
Intermediates				
Vinyl Sulphone	MTPA	5,400	23,400	23,400
H - Acid	MTPA	4,200	16,200	16,200
Acetanilide	MTPA	12,000	12,000	12,000
Basic Chemicals				
Sulphuric Acid	TPD	280	280	280
Oleum - 23	TPD	50	70	70
Oleum - 65	TPD	70	70	70
Chloro Sulphonic acid	TPD	100	100	100
Levafix	MTPA		3,000	3,000

DyStar Assumptions

Quantity

QUANTITY (MTPA)	CY10E	CY11E	CY12E	CY13E
Reactive Dyes	31,869	34,418	37,172	40,145
Annual Growth		8.00%	8.00%	8.00%
Vat Dyes	2,792	2,932	3,078	3,232
Annual Growth		5.00%	5.00%	5.00%
Denim Dyes	21,879	22,973	24,121	25,327
Annual Growth		5.00%	5.00%	5.00%
Print	2,732	2,868	3,012	3,162
Annual Growth		5.00%	5.00%	5.00%
Pigments	4,834	5,075	5,329	5,595
Annual Growth		5.00%	5.00%	5.00%
Disperse	13,726	14,412	15,132	15,889
Annual Growth		5.00%	5.00%	5.00%
WoPa	5,479	5,753	6,041	6,343
Annual Growth		5.00%	5.00%	5.00%
Auxiliaries	39,900	41,895	43,990	46,189
Annual Growth		5.00%	5.00%	5.00%

Average Selling Price

AVERAGE SELLING PRICE (EUR/kg)	CY10E	CY11E	CY12E	CY13E
Reactive Dyes	5.76	5.76	5.76	5.53
Annual Growth		0.0%	0.0%	-4.0%
Vat Dyes	17.03	17.03	17.03	17.03
Annual Growth		0.0%	0.0%	0.0%
Denim Dyes	2.65	2.65	2.65	2.65
Annual Growth		0.0%	0.0%	0.0%
Print	7.57	7.57	7.57	7.57
Annual Growth		0.0%	0.0%	0.0%
Pigments	5.01	5.01	5.01	5.01
Annual Growth		0.0%	0.0%	0.0%
Disperse	7.73	7.42	7.12	7.12
Annual Growth		-4.0%	-4.0%	0.0%
WoPa	9.02	9.02	9.02	9.02
Annual Growth		0.0%	0.0%	0.0%
Auxiliaries	1.62	1.62	1.62	1.62
Annual Growth		0.0%	0.0%	0.0%

Tax Rate	CY10E	CY11E	CY12E	CY13E
Income Tax	10%	10%	10%	10%

Quarterly Result Analysis (Standalone)

YE March (Rs. mn)	Q2 FY11	Q2 FY10	*Y-o-Y change %*	Q1 FY11	*Q-o-Q change %*	6M FY11	6M FY10	*Y-o-Y change %*
Total Revenue	**819**	**711**	***15.1%***	**803**	***2.0%***	**1,622**	**1,439**	***12.7%***
Less:								
Net Raw Material consumed	483	342	*41.4%*	341	*41.6%*	825	768	*7.4%*
Personnel	21	6	*257.7%*	6	*257.1%*	27	10	*183.3%*
Other Operating Expenses	20	19	*6.4%*	150	*(86.9%)*	169	76	*124.0%*
Selling & Distribution Expenses	136	160	*(15.2%)*	136	*(0.3%)*	272	287	*(5.0%)*
Total Expenditure	**660**	**527**	***25.4%***	**633**	***4.3%***	**1,294**	**1,140**	***13.5%***
EBIDTA	**158**	**185**	***(14.2%)***	**169**	***(6.5%)***	**328**	**299**	***9.5%***
Less: Depreciation	20	9	*116.4%*	11	*73.6%*	31	17	*83.9%*
Less: Interest	47	45	*3.2%*	61	*(24.2%)*	108	85	*27.5%*
Add: Other income	1	0	*104.7%*	2	*(60.2%)*	3	12	*(74.1%)*
Less: Extraordinary Expense	0	0		0		0	22	
Profit Before Extra-ordinary items & Tax	**93**	**131**	*(29.0%)*	**99**	***(6.0%)***	**192**	**188**	***2.1%***
Profit Before Tax Excl. extra-ordinaries	**93**	**131**	*(29.0%)*	**99**	***(6.0%)***	**192**	**210**	***(8.5%)***
Less: Total Tax	5	8	*(39.4%)*	3	*65.3%*	8	11	*(30.2%)*
Extraordinary Items (net)	(41)	(95)		(3)		(44)	(95)	
Profit After Tax	**47**	**28**	***69.2%***	**93**	***(49.1%)***	**140**	**82**	***71.3%***
Profit After Tax Excl. extra-ordinaries	**88**	**123**	***(28.3%)***	**96**		**184**	**197**	***(6.7%)***
Adjusted number of Shares Outstanding (mn)	15	15		15		15	15	
Reported EPS (Rs.)	**3.14**	**1.86**	***69.2%***	**6.18**	***(49.1%)***	**9.3**	**5.4**	***71.3%***
Proforma EPS (Rs.)	**5.86**	**8.17**	***(28.3%)***	**6.39**	***(8.2%)***	**12.3**	**13.1**	***(6.7%)***
Margin Analysis								
EBIDTA Margin	19.4%	26.0%		21.1%		20.2%	20.8%	
Proforma NPM	10.7%	17.2%		11.9%		11.3%	13.7%	
Effective Tax Rate	5.4%	6.3%		3.1%		4.2%	6.1%	
Cost Analysis								
RM/Net Sales	59.0%	48.1%		42.5%		50.9%	53.4%	
Personnel/Net Sales	2.6%	0.8%		0.7%		1.7%	0.7%	
Other Op. Expenses./Net Sales	2.4%	2.6%		18.6%		10.4%	5.3%	

- The sulphuric Acid plant of KDCL became operational in Q4FY10. In Q2FY11, due to commercialization of Sulphuric Acid plant and increase in realization of products, the revenues of KDCL were up by 57.3% Y-o-Y to Rs. 1,263 mn. The commercialization of Sulphuric Acid plant also resulted in increase in depreciation and interest expense (due to increase in working capital requirement).

Earnings Model (KDCL Standalone)

YE March Rs.mn	Q1 FY10	Q2 FY10	Q3 FY10	Q4 FY10	FY10	Q1 FY11	Q2 FY11	Q3 FY11E	Q4 FY11E	FY11E	FY12E	FY13E
Gross Sales	**775**	**801**	**809**	**1,023**	**3,409**	**1,278**	**1,234**	**1,312**	**1,325**	**5,149**	**8,301**	**10,732**
Excise	0	0	0	0	0	0	0	0	0	0		
Net Sales	**775**	**801**	**809**	**1,023**	**3,409**	**1,278**	**1,234**	**1,312**	**1,325**	**5,149**	**8,301**	**10,732**
Other Operating Income	15	2	9	21	47	2	29	0	0	31	0	0
Total Revenue	**790**	**803**	**819**	**1,044**	**3,456**	**1,280**	**1,263**	**1,312**	**1,325**	**5,180**	**8,301**	**10,732**
Less:												
Net Raw Material	384	341	483	424	1,633	791	572	867	662	2,682	4,868	6,163
Personnel	6	6	21	20	53	17	18	20	20	75	95	125
Administrative Expenses	107	150	20	222	499	61	240	197	199	697	968	1,395
Selling & Distribution Expenses	124	136	136	185	581	166	139	144	146	595	830	1,127
Total Cost	**621**	**633**	**660**	**851**	**2,766**	**1,035**	**970**	**1,018**	**1,027**	**4,049**	**6,761**	**8,809**
EBIDTA	**169**	**169**	**158**	**193**	**690**	**245**	**293**	**294**	**298**	**1,131**	**1,541**	**1,922**
Interest Paid	53	61	47	68	229	110	102	69	71	352	404	423
Less: Depreciation	11	11	20	80	122	30	32	34	34	130	260	373
Non-operating Income	2	2	1	4	9	4	7	5	5	22	20	20
Profit Before Tax	**107**	**99**	**93**	**49**	**348**	**109**	**167**	**196**	**198**	**670**	**897**	**1,146**
Profit Before Tax Excl. extra-ordinaries	**107**	**99**	**93**	**49**	**348**	**109**	**167**	**196**	**198**	**670**	**897**	**1,146**
Tax	3	3	5	96	107	16	41	39	40	136	179	229
Extraordinary Items	-66	-3	-41	114	4	(19)	(15)	0	0	(34)	0	0
Profit After Tax	**38**	**93**	**47**	**67**	**244**	**73**	**111**	**157**	**158**	**500**	**718**	**917**
Profit After Tax Excl. extra-ordinaries	**104**	**96**	**88**	**-48**	**240**	**92**	**126**	**157**	**158**	**534**	**718**	**917**
No. of Shares (Diluted) (mn)	15	15	15	15	15	15	15	19	19	19	19	19
Basic EPS (Rs.)	**2.5**	**6.2**	**3.1**	**4.4**	**16.3**	**4.9**	**7.4**	**8.2**	**8.3**	**26.1**	**37.4**	**47.8**
Diluted EPS (Rs.)	**6.9**	**6.4**	**5.9**	**-3.2**	**16.0**	**6.2**	**8.4**	**8.2**	**8.3**	**27.8**	**37.4**	**47.8**
Margins												
EBIDTA Margin (%)	21.4%	21.1%	19.4%	18.5%	20.0%	19.1%	23.2%	22.4%	22.5%	21.8%	18.6%	17.9%
PBT Margin (%)	13.6%	12.3%	11.4%	4.7%	10.1%	8.5%	13.2%	15.0%	15.0%	12.9%	10.8%	10.7%
NPM (%)	4.8%	11.5%	5.8%	6.4%	7.1%	5.7%	8.8%	12.0%	12.0%	9.7%	8.6%	8.5%
NPM Excl. extra-ordinaries (%)	13.2%	11.9%	10.7%	-4.6%	7.0%	7.2%	10.0%	12.0%	12.0%	10.3%	8.6%	8.5%
Effective Tax Rate (%)	3.0%	3.1%	5.4%	197.9%	30.9%	15.0%	24.4%	20.0%	20.0%	20.3%	20.0%	20.0%

Financials (KDCL Consolidated)

Profit & Loss A/c
(KDCL Standalone + 37.8% consolidation of DyStar)

YE March (Rs. mn)	FY10P	FY11E	FY12E	FY13E
Net Sales	**4,773**	**15,183**	**19,840**	**22,476**
Other Operating Income	122	31	0	0
Revenue (Trading)	521	1,339	1,316	1,303
Total Revenue	**5,416**	**16,552**	**21,156**	**23,779**
Less:				
Net Raw Materials	4,030	11,062	13,816	14,417
Other Operating Expenses	712	3,667	4,604	5,360
Total Operating Expenditure	**4,742**	**14,729**	**18,420**	**19,777**
EBIDTA	**674**	**1,823**	**2,736**	**4,002**
Less: Depreciation	127	444	459	576
EBIT	**547**	**1,379**	**2,277**	**3,426**
Interest Paid	232	396	558	549
Non-operating Income (Forex Gains/Losses)	10	26	20	20
Extraordinary Income	0	182	0	0
Extraordinary Expense	262	106	0	0
Profit Before tax	**63**	**1,085**	**1,739**	**2,897**
Tax	119	272	264	405
Net Profit	**(56)**	**813**	**1,474**	**2,492**
Net Profit Excl. extra-ordinaries	**234**	**756**	**1,474**	**2,492**

Commonsized Profit & Loss A/c
(KDCL Standalone + 37.8% consolidation of DyStar)

YE March	FY10P	FY11E	FY12E	FY13E
Total Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Less:				
Net Raw Materials	74.4%	66.8%	65.3%	60.6%
Other Operating Expenses	13.1%	22.2%	21.8%	22.5%
Total Operating Expenditure	**87.6%**	**89.0%**	**87.1%**	**83.2%**
EBIDTA	**12.4%**	**11.0%**	**12.9%**	**16.8%**
Less: Depreciation	2.3%	2.7%	2.2%	2.4%
EBIT	**10.1%**	**8.3%**	**10.8%**	**14.4%**
Interest Paid	4.3%	2.4%	2.6%	2.3%
Non-operating Income (Forex Gains/Losses)	0.2%	0.2%	0.1%	0.1%
Extraordinary Income	0.0%	1.1%	0.0%	0.0%
Extraordinary Expense	4.8%	0.6%	0.0%	0.0%
Profit Before tax	**1.2%**	**6.6%**	**8.2%**	**12.2%**
Tax	2.2%	1.6%	1.2%	1.7%
Net Profit	**-1.0%**	**4.9%**	**7.0%**	**10.5%**
Net Profit Excl. extra-ordinaries	**4.3%**	**4.6%**	**7.0%**	**10.5%**

Balance Sheet
(KDCL Standalone + 37.8% consolidation of DyStar)

YE March(Rs. mn)	FY10P	FY11E	FY12E	FY13E
Liabilities				
Equity Capital	150	192	192	192
Reserves & Surplus	4,477	7,661	9,009	11,340
Equity	**4,627**	**7,852**	**9,201**	**11,532**
Preference Share Capital	0	0	0	0
Net Worth	**4,627**	**7,852**	**9,201**	**11,532**
Minority Interest	26	27	32	42
Net Deferred tax liability/(Asset)	0	269	269	269
Working Capital Loan	0	1,551	2,559	2,931
Other Loans	5,714	3,989	4,353	3,573
Capital Employed	**10,367**	**13,688**	**16,414**	**18,346**
Assets				
Gross Block	3,880	4,349	6,087	7,183
Less: Depreciation	127	571	1,030	1,606
Net Block	**3,753**	**3,778**	**5,056**	**5,576**
Capital WIP	103	1,236	474	47
Investments	**125**	**125**	**125**	**125**
Intangible Assets	160	145	138	130
Others - A	66	0	0	0
Current Assets				
Inventories	4,040	5,209	5,604	5,746
Sundry Debtors	2,162	3,130	4,032	4,621
Cash and Bank Balance	1,229	2,071	2,778	4,267
Other Current Assets	1,758	1,938	2,112	2,465
Total Current Assets	**9,190**	**12,349**	**14,525**	**17,099**
Less: Current Liabilities & Provisions				
Sundry Creditors	1,594	2,467	2,303	2,680
Provisions	223	337	372	543
Other Current Liabilities	1,214	1,141	1,229	1,409
Total Current Liabilities & Provisions	**3,031**	**3,945**	**3,904**	**4,631**
Miscellaneous Assets	1	0	0	0
Capital Applied	**10,367**	**13,688**	**16,414**	**18,346**

Commonsized Balance Sheet
(KDCL Standalone + 37.8% consolidation of DyStar)

YE March	FY10P	FY11E	FY12E	FY13E
Liabilities				
Equity Capital	1.4%	1.4%	1.2%	1.0%
Reserves & Surplus	43.2%	56.0%	54.9%	61.8%
Equity	**44.6%**	**57.4%**	**56.1%**	**62.9%**
Preference Share Capital	0.0%	0.0%	0.0%	0.0%
Net Worth	**44.6%**	**57.4%**	**56.1%**	**62.9%**
Minority Interest	0.3%	0.2%	0.2%	0.2%
Net Deferred tax liability/(Asset)	0.0%	2.0%	1.6%	1.5%
Working Capital Loan	0.0%	11.3%	15.6%	16.0%
Other Loans	55.1%	29.1%	26.5%	19.5%
Capital Employed	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Assets				
Gross Block	37.4%	31.8%	37.1%	39.2%
Less: Depreciation	1.2%	4.2%	6.3%	8.8%
Net Block	**36.2%**	**27.6%**	**30.8%**	**30.4%**
Capital WIP	1.0%	9.0%	2.9%	0.3%
Investments	**1.2%**	**0.9%**	**0.8%**	**0.7%**
Intangible Assets	1.5%	1.1%	0.8%	0.7%
Others - A	0.6%	0.0%	0.0%	0.0%
Current Assets				
Inventories	39.0%	38.1%	34.1%	31.3%
Sundry Debtors	20.9%	22.9%	24.6%	25.2%
Cash and Bank Balance	11.9%	15.1%	16.9%	23.3%
Other Current Assets	17.0%	14.2%	12.9%	13.4%
Total Current Assets	**88.7%**	**90.2%**	**88.5%**	**93.2%**
Less:Current Liabilities & Provisions				
Sundry Creditors	15.4%	18.0%	14.0%	14.6%
Provisions	2.1%	2.5%	2.3%	3.0%
Other Current Liabilities	11.7%	8.3%	7.5%	7.7%
Total Current Liabilities & Provisions	**29.2%**	**28.8%**	**23.8%**	**25.2%**
Miscellaneous Assets	0.0%	0.0%	0.0%	0.0%
Capital Applied	**100.0%**	**100.0%**	**100.0%**	**100.0%**

KDCL (Standalone)

Profit & Loss A/c

YE March (Rs. mn)	FY10	FY11E	FY12E	FY13E
Net Sales	**2,888**	**3,810**	**6,985**	**9,429**
Other Operating Income	50	31	0	0
Revenue (Trading)	521	1,339	1,316	1,303
Total Revenue	**3,459**	**5,180**	**8,301**	**10,732**
Less:				
Net	**2,174**	**2,682**	**4,868**	**6,163**
Other Operating Expenses	634	1,367	1,893	2,647
Total Operating Expenditure	**2,808**	**4,049**	**6,761**	**8,809**
EBIDTA	**651**	**1,131**	**1,541**	**1,922**
Less: Depreciation	117	130	260	373
EBIT	**534**	**1,001**	**1,281**	**1,549**
Interest Paid	206	352	404	423
Non-operating Income (Forex Gains/Losses)	15	22	20	20
Extraordinary Income	6	0	0	0
Profit Before tax	**349**	**670**	**897**	**1,146**
Tax	98	136	179	229
Extraordinary Items	0	(34)	0	0
Net Profit	**250**	**500**	**718**	**917**
Net Profit Excl. extra-ordinaries	**246**	**534**	**718**	**917**

Commonsized Profit & Loss A/c

YE March	FY10	FY11E	FY12E	FY13E
Total Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Less:				
Net	**62.9%**	**51.8%**	**58.6%**	**57.4%**
Other Operating Expenses	18.3%	26.4%	22.8%	24.7%
Total Operating Expenditure	**81.2%**	**78.2%**	**81.4%**	**82.1%**
EBIDTA	**18.8%**	**21.8%**	**18.6%**	**17.9%**
Less: Depreciation	3.4%	2.5%	3.1%	3.5%
EBIT	**15.4%**	**19.3%**	**15.4%**	**14.4%**
Interest Paid	5.9%	6.8%	4.9%	3.9%
Non-operating Income (Forex Gains/Losses)	0.4%	0.4%	0.2%	0.2%
Extraordinary Income	0.2%	0.0%	0.0%	0.0%
Profit Before tax	**10.1%**	**12.9%**	**10.8%**	**10.7%**
Tax	2.8%	2.6%	2.2%	2.1%
Extraordinary Items	0.0%	-0.7%	0.0%	0.0%
Net Profit	**7.2%**	**9.7%**	**8.6%**	**8.5%**
Net Profit Excl. extra-ordinaries	**7.1%**	**10.3%**	**8.6%**	**8.5%**

Balance Sheet

YE March(Rs. mn)	FY10	FY11E	FY12E	FY13E
Liabilities				
Equity Capital	150	192	192	192
Reserves & Surplus	1,302	4,173	4,764	5,520
Equity	**1,452**	**4,364**	**4,956**	**5,712**
Preference Share Capital	0	0	0	0
Net Worth	**1,452**	**4,364**	**4,956**	**5,712**
Net Deferred tax liability/(Asset)	137	137	137	137
Working Capital Loan	1,109	1,551	2,559	2,931
Other Loans	**2,187**	**1,090**	**2,084**	**1,932**
Capital Employed	**4,885**	**7,142**	**9,737**	**10,712**
Assets				
Gross Block	1,990	2,519	4,037	4,914
Less: Depreciation	213	341	571	974
Net Block	**1,777**	**2,178**	**3,467**	**3,940**
Capital WIP	0	1,236	474	47
Investments	**1,183**	**1,263**	**1,263**	**1,263**
Current Assets				
Inventories	1,455	1,830	2,223	2,414
Sundry Debtors	659	874	1,658	2,127
Cash and Bank Balance	119	398	1,121	1,555
Other Current Assets	967	971	1,106	1,418
Total Current Assets	**3,199**	**4,074**	**6,107**	**7,514**
Less: Current Liabilities & Provisions				
Sundry Creditors	789	998	834	1,086
Provisions	115	224	305	390
Other Current Liabilities	371	386	435	575
Total Current Liabilities & Provisions	**1,274**	**1,608**	**1,574**	**2,051**
Capital Applied	**4,885**	**7,142**	**9,737**	**10,712**

Commonsized Balance Sheet

YE March	FY10	FY11E	FY12E	FY13E
Liabilities				
Equity Capital	3.1%	2.7%	2.0%	1.8%
Reserves & Surplus	26.7%	58.4%	48.9%	51.5%
Equity	**29.7%**	**61.1%**	**50.9%**	**53.3%**
Preference Share Capital	0.0%	0.0%	0.0%	0.0%
Net Worth	**29.7%**	**61.1%**	**50.9%**	**53.3%**
Net Deferred tax liability/(Asset)	2.8%	1.9%	1.4%	1.3%
Working Capital Loan	22.7%	21.7%	26.3%	27.4%
Other Loans	44.8%	15.3%	21.4%	18.0%
Capital Employed	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Assets				
Gross Block	40.7%	35.3%	41.5%	45.9%
Less: Depreciation	4.4%	4.8%	5.9%	9.1%
Net Block	36.4%	30.5%	35.6%	36.8%
Capital WIP	0.0%	17.3%	4.9%	0.4%
Investments	**24.2%**	**17.7%**	**13.0%**	**11.8%**
Current Assets				
Inventories	29.8%	25.6%	22.8%	22.5%
Sundry Debtors	13.5%	12.2%	17.0%	19.9%
Cash and Bank Balance	2.4%	5.6%	11.5%	14.5%
Other Current Assets	19.8%	13.6%	11.4%	13.2%
Total Current Assets	**65.5%**	**57.0%**	**62.7%**	**70.1%**
Less: Current Liabilities & Provisions				
Sundry Creditors	16.2%	14.0%	8.6%	10.1%
Provisions	2.3%	3.1%	3.1%	3.6%
Other Current Liabilities	7.6%	5.4%	4.5%	5.4%
Total Current Liabilities & Provisions	**26.1%**	**22.5%**	**16.2%**	**19.2%**
Capital Applied	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Free Cash Flow
(KDCL - Standalone)

YE March (Rs. mn)	FY10	FY11E	FY12E	FY13E
EBITA	**534**	**1,001**	**1,281**	**1,549**
Less: Adjusted Taxes	151	203	256	310
NOPLAT	**383**	**798**	**1,025**	**1,239**
Plus: Depreciation	117	130	260	373
Gross Cashflow	**500**	**928**	**1,284**	**1,612**
Less: Increase in Working Capital	596	369	1,542	652
Operating Cashflow	**(96)**	**558**	**(257)**	**960**
Less: Net Capex	501	1,767	787	420
Less: Increase in Net Other Assets	(98)	(61)	(38)	(35)
FCF From Operation	**(498)**	**(1,147)**	**(1,006)**	**575**
Less: Inc./(Dec.) in Investment	942	80	0	0
FCF after Investment	**(1,439)**	**(1,227)**	**(1,006)**	**575**
Plus: Gain/(loss) on Extraordinary Items	4	0	0	0
Plus: Foreign currency Translation Effect				
Total FCF	**(1,435)**	**(1,227)**	**(1,006)**	**575**

IMPORTANT DISCLOSURES

Price Target

Price targets (if any) are derived from a subjective and/or quantitative analysis of financial and non financial data of the concerned company using a combination of P/E, P/Sales, earnings growth, Discounted Cash Flow (DCF) and its stock price history

The risk factors that may impede achievement of the price target/investment thesis are -

1) **Government policy changes.**

2) **Change in business environment.**

3) **Change in macro economic factors.**

4) **Competitive dynamics.**

6) **Technological changes and how the different players adjust.**

First Global's Rating System

Our rating system consists of three categories of ratings: Positive, Neutral and Negative. Within each of these categories, the rating may be absolute or relative. When assigning an absolute rating, the price target, if any, and the time period for the achievement of this price target, are given in the report. Similarly when assigning a relative rating, it will be with respect to certain market/sector index and for a certain period of time, both of which are specified in the report.

Rating in this report is relative to: CNX Nifty Index

Positive Ratings

(i) Buy (B) *– This rating means that we expect the stock price to move up and achieve our specified price target, if any, over the specified time period.*

(ii) Buy at Declines (BD) *– This rating means that we expect the stock to provide a better (lower) entry price and then move up and achieve our specified price target, if any, over the specified time period.*

(iii) Outperform (OP) *– This is a relative rating, which means that we expect the stock price to outperform the specified market/sector index over the specified time period.*

Neutral Ratings

(i) Hold (H) *– This rating means that we expect no substantial move in the stock price over the specified time period.*

(ii) Marketperform (MP) *– This is a relative rating, which means that we expect the stock price to perform in line with the performance of the specified market/sector index over the specified time period.*

Negative Ratings

(i) Sell (S) *– This rating means that we expect the stock price to go down and achieve our specified price target, if any, over the specified time period.*

(ii) Sell into Strength (SS) *– This rating means that we expect the stock to provide a better (higher) exit price in the short term, by going up. Thereafter, we expect it to move down and achieve our specified price target, if any, over the specified time period.*

(iii) Underperform (UP) *– This is a relative rating, which means that we expect the stock price to underperform the specified market/sector index over the specified time period.*

(iv) Avoid (A) *– This rating means that the valuation concerns and/or the risks and uncertainties related to the stock are such that we do not recommend considering the stock for investment purposes.*

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