Kiri Industries Limited

Enhancing Life with the Chemistry of Colors

Unforeseen Factors Hampers Speedy Recovery

KIL Reports Third Quarter FY 2012 earnings

February 13, 2012

From the Managing Director's Desk

Dear Stakeholders'

Amidst dull global markets, KIL declared financial performance (standalone basis) for third quarter ending on December 31, 2011. The company achieved a modest turnover of ₹12245.10Lakhs for the three months ended December 31, 2011 which was more or less the same as compared to the previous quarter, however on comparing the top line Y-O-Y basis it was down by around ten percent. The turnover for the nine months ended December 31, 2011 is ₹39248.47Lakhs as compared to ₹38611.68Lakhs for nine months ending on December 31, 2010.

During the current quarter the inflows of DEPB income discontinued. DEPB income was around 90% of other incomes, which is no more available hence it has directly affected the bottom line of the company. On the other side basic per unit input cost of power has increased to ₹6.91 per unit at Padra Site, which is up by around 25%. The Company kept tight vigil on overall costs and plugged in unwarranted expenses which supposedly helped maintain EBIDTA margins at 16.81% as compared to 16.33% Y-O-Y basis.

Inflation has proved a persistent problem. Interest rates have been raised 13times since March 2010 in an effort to slow price increases. In consequence, KIL's effective average cost of debt is now around 12%-14% which directly affects the profits of the company. The company is currently in process of reviewing options for realigning its debt portfolio and reducing its costs to the extent possible. It has called an Extra Ordinary General Meeting on February 29, 2012 for raising funds with an intention to reduce interest cost of the company.

The adverse global sentiments and moderation in capital flows kept Forex market under pressure and we saw unprecedented rupee depreciation of almost 18% from near 44-level against the US dollar to a record low of below 52-mark. KIL was not spared and it has incurred a loss of ₹621.11lakhs on the Forex counters. Experts predict that GDP would grow at 6.5% if the investment led growth does not pick up. In fact, on the grounds we do not foresee investment lead growth and hence are closely watching the investment climate to further take up expansion plans. However KIL is taking all necessary steps to ensure that its current expansion of Intermediates and power plant are completed without much delay.

DyStar is in the process of presenting its financial statements for the year ended 31st December 2011. The unaudited provisional financial statements depict a top line of USD 776.85Mn, with Gross Margin of USD 159.24Mn. After reversal of USD 3.9Mn of restructuring costs, in Germany, Earnings after Tax amount to USD 0.441Mn. In midst of lackluster global markets, DyStar achieved a reasonably good top line which fell short by just 15% as compared to its budgeted sales. Tight control on SGA expenses which were 15.6% of total revenues ensured that DyStar was not in red for the twelve months ending on 31.12. 2011. The restructuring program of DyStar is complete and the two production sites of Germany, namely Brunsbuttel and Leverkusen are shut down and the handing over process of Leverkusen site is on. Probably it would be over by end of February, hence in the current year, we shall experience the full impact of restructuring program. During CY2011 DyStar could outperform its peers because of quick implementation of its restructuring plan. I take this opportunity to congratulate the Management Team of DyStar for implementing the restructuring plan and also for creating a stage for take-off.

With our recent acquisition of SMS Chemicals, KIL has started looking into its operations from January 2012 and we plan to leverage the marketing set up of SMS Chemicals to reach out to end pockets during the quarter ending March 2012. The human resource management is currently taking shape and shall put in place by end of February 2012.

We intend to improve our inventory management during the current quarter and plug loose ends for better utilization of working capital, which again can help us in reducing our interest cost. The average business cycle has increased from 95 days to 160days. We intend to reduce the same to 120days.

The management team of KIL is striving hard to achieve its targeted Sales and recover lost grounds. Sales/Technical teams have intensified their customer contact initiatives especially in growing markets like Bangladesh and Pakistan. However, the road to recovery is quite arduous as in our opinion dark clouds are not yet gone. However we are confident of reducing our operating costs and thus give impetus to the margins. Some of the initiatives of cost reduction exercise undertaken by the company are rationalization of labour contracts, power fuel consumption, efficient sourcing of raw material. Our research and development team is working on bringing innovation in recipes to enhance productivity and implementing production processes to recycle certain by products. Continuing with our embargo to be one of finest chemical company, we are optimistic and shall swim the tide in near future.

Manish Kiri
Managing Director

Key Performance Numbers

The following table summarizes third quarter and nine-month results for FY 2012 and FY 2011

(₹in Lakhs)

Particulars	Three Months Ended Dec. 31, 2011	Three Months Ended Dec. 31, 2010	Three months ended Sep 30, 2011	Nine Months Ended December, 31 2011	Nine Months Ended December, 31 2010
Revenues	**12303.10**	**13673.93**	**12435.61**	**40060.75**	**39100.84**
Gross Margin	3129.27	2658.36	2409.18	9546.48	9398.89
EBITDA	2069.07	2233.20	1558.12	6909.80	7615.31
PAT	(794.74)	408.28	(715.15)	(313.39)	2251.67

Highlights of Nine Months Operations of FY 2012

- Sales for nine months of FY 2012 are ₹39248.47Lakhs, which were ₹38611.68Lakhs for the corresponding period in FY2011.
- Gross Margin for nine months of FY 2012 is ₹9546.48Lakhs, as compared to ₹9398.89Lakhs for the corresponding period in FY 2011.
- EBITDA for nine months of FY 2012 is ₹6909.80Lakhs, as compared to ₹7615.31Lakhs for the same period in FY 2011.
- Loss for nine months of FY 2012 is ₹313.39Lakhs as compared to profit of ₹2251.67Lakhs for nine months ending on December 2011. Three major reasons for the deficit are, increase in manufacturing expenses by almost 25%, employee cost by 92% and forex loss by 127%. The increase in manufacturing expense is mainly on account of increase in power and fuel cost, which is indispensible cost. With the envisaged expansion plan both the top and middle level management team was also expanded, which increased the human resource cost. And with 18% depreciation in Rupee to a dollar, the company had to bear the brunt on concluded forex transaction.

Operating Results

The results for the three months ended 31st December, 2011 and nine months ended 31st December, 2011 can be extracted as below

Unaudited Financial Results for the quarter ended 31st December, 2012.

Particulars	Quarter Ended		Nine Month Ended		Year Ended (₹ In Lakhs)
	31.12.2011 (Unaudited)	**31.12.2010 (Unaudited)**	**31.12.2011 (Unaudited)**	**31.12.2010 (Unaudited)**	**31.03.2011 (Audited)**
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1. (a) Net Sales /Income from Operations	12245.10	13493.62	39248.47	38611.68	56572.12
(b) Other Operating Income	58.00	180.31	812.28	489.16	949.43
Total Income (a+b)	**12303.10**	**13673.93**	**40060.75**	**39100.84**	**57,521.55**
2. Expenditure					
a. (Increase) / decrease in stock in trade and work in progress	370.12	(96.68)	(289.89)	(2353.75)	(1655.84)
b. Consumption of raw materials	7315.05	7871.37	24832.63	23753.69	33089.41
c. Purchase of traded goods	34.83	1666.31	1473.99	4682.50	6925.24
d. Employee cost	399.92	222.70	1112.90	579.56	817.39
e. Depreciation	788.12	458.22	2232.82	1080.27	1861.55
f. Manufacturing Expenses	1453.83	1574.58	4497.54	3619.52	5398.25
g . Other expenditure	660.28	202.46	1523.78	1204.00	1703.68
h. Total	**11022.15**	**11898.94**	**35383.77**	**32565.79**	**48,139.68**
3. Profit From operations before other Income, Interest and exceptional Items (1-2)	**1,280.95**	**1774.99**	**4676.98**	**6535.05**	**9,381.87**
4. Other Income	43.00	5.20	162.37	121.70	136.71
5. Profit before Interest and exceptional Items (3+4)	**1,323.95**	**1780.19**	**4839.35**	**6656.75**	**9,518.58**
6. Interest	1396.69	1091.56	3666.83	3212.10	4389.28
7. Profit after Interest but before exceptional Items (5-6)	**(72.74)**	**688.63**	**1172.52**	**3444.65**	**5,129.30**
8. Exceptional items	-	-	-	-	-
9. Profit (+) Loss (-) from Ordinary Activities before tax (7-8)	(72.74)	688.63	**1172.52**	**3444.65**	**5,129.30**
10. Direct Tax Expense	-	200.26	151.46	525.57	0.52
Deferred Tax Expense	103.89	16.82	411.16	261.82	539.88
Total Tax Expense	103.89	217.08	562.62	787.39	540.40
11. Net Profit (+) / Loss (-) form ordinary Activities after tax (9-10)	**(176.63)**	**471.55**	**609.90**	**2657.26**	**4,588.90**
12. Extraordinary items Including foreign exchange Loss/ (Gain)	621.11	63.27	923.29	405.59	1283.88
13. Net Profit (+) / Loss (-) for the period (11-12)	**(797.74)**	**408.28**	**(313.39)**	**2251.67**	**3,305.02**

Management Report as of 31st December, 2011

Business Trends and Economic Environment

Economic Environment - Until at least the middle of the next decade, global growth is likely to slow to approximately 3 percent per year on average–a rate somewhat below the average of the last two decades. A recovery in advanced economies will be more than offset by a gradual slowdown in emerging ones as they mature, with the net result that global growth will slow. But the biggest risk ahead for the global economy is not this slower overall growth in output but a slowdown in average output per capita, which will determine how fast living standards can be supported and raised. In 2012 emerging economies will slow in growth by 0.7 percentage points on average, going from 6.3 percent growth in 2011 to 5.6 percent in 2012, partly as a result of slower export growth and partly because several of them have been growing above trend. *source: The Conference Board.*

The results of last two quarters and persistent negative feedback of the experts has been an enabler for the management to use available resources more efficiently and ensure the costs are under control to regain lost ground and end the year with a positive note. Since demand persists to be on the lower side, the company is working on three prone strategy of reduction in interest cost, control controllable costs, and increase productivity by better working capital management.

Sales - Year on Year sales for the quarter depicts a 9% decline. The second consecutive quarter remains flat for the entire dyes and dyestuff industry, on account of unprecedented decline in demand. KIL achieved 5084MT of volume of dyes sales in the reporting quarter. The prices of Reactive Dyes remained flat as compared to the previous quarter and were range bound of USD 3.1per kg to USD 2.80 per kg. In case of Vinyl Sulphone,(VS) prices remained volatile and were 4% low as compared to the immediate preceding quarter.

During the current quarter the company has been getting good orders and order book shows positive signs of recovery. However, overall market sentiments still continue to be bearish hence the management prefers not to build castles in the air by predicting sales for the quarter ending March 2012.

Gross Profit- The gross margins from our operations amount to ₹3129.27Lakhs, an increase of almost 18% which is mainly on account of reduction in raw material prices and providing of technical services. In the coming quarters we expect to maintain the gross margins of 25% to gross revenues.

EBITDA and EBIT before exceptional - The company earned an EBITDA of ₹2069.07Lakhs as compared to ₹2233.20Lakhs during third quarter of previous year and 32% higher EBITDA as compared to the preceding quarter. The margins could improve on account of reduction in manufacturing costs, and earning better margins of 25% as compared to 19% in the preceding quarter.

Our operations during third quarter resulted in EBIT of ₹1280.95Lakhs as compared to

₹796.85Lakhs during the preceding quarter.

Financial expenses – The financial expenses amounted to ₹1,396.69Lakhs as compared to ₹1340.55Lakhs in the previous quarter. Financial expense rose mainly on account of increase in interest rate and increase in working capital.

Profit after tax - During third quarter there is a net deficit of ₹797.74Lakhs of which ₹621.11Lakhs pertain to losses on account of derivative contracts.

DyStar Global Holdings (Singapore) PTE Limited (*formerly known as Kiri Holding Singapore PTE Limited*)

– Unaudited Financial results under IFRS for Calendar Year 2011

DyStar - P&L				
in USD '000	Dec 2011	Dec 2011	deviation	
	Act	budget	Abs	in %
Net sales	**776,857**	**911,810**	**-134,952**	***-14.8%***
Material cost	-415,363	-459,248	43,885	*-9.6%*
Conversion cost	-139,907	-164,775	24,868	*-15.1%*
COGS services	-8,510	-10,592	2,083	*-19.7%*
Cost of production	-563,780	-634,616	70,836	*-11.2%*
Commission expenses	-19,348	-23,225	3,877	*-16.7%*
Freight and duties	-34,485	-39,483	4,998	*-12.7%*
Gross margin	**159,244**	**214,486**	**-55,242**	***-25.8%***
SGA	-121,449	-130,444	8,995	*-6.9%*
Research and development	-11,053	-11,993	0,939	*-7.8%*
PTD	-11,908	-9,284	-2,624	*28.3%*
Debtors write downs	-1,691	-2,626	0,936	*-35.6%*
Other income / expenses	0,162	-2,857	3,020	*-105.7%*
EBIT running	**13,306**	**57,283**	**-43,976**	***-76.8%***
Restructuring	3,933	-	3,933	
Transformation	-0,281	-3,141	2,859	*-91.0%*
Other income / expense non running	16,709	-	16,709	
EBIT	**33,667**	**54,142**	**-20,475**	***-37.8%***
in % revenue	4.3%	5.9%	-1.6%	*-27.0%*
Interest income/expenses	-15,809	-12,842	-2,967	*23.1%*
Pension interest	-0,085	-0,073	-0,012	*16.9%*
Exchange rate differences	-9,213	-	-9,213	
Translation differences	-0,007	-	-0,007	
Other	-3,205	-	-3,205	
Financial result	**-28,320**	**-12,915**	**-15,405**	***119.3%***
EBT	**5,347**	**41,227**	**-35,880**	***-87.0%***
Tax	-6,737	-10,366	3,628	*-35.0%*
Deferred Tax	1,831	-5,976	7,807	*-130.6%*
EAT	**0,441**	**24,885**	**-24,444**	***-98.2%***
in % revenue	0.1%	2.7%	-2.7%	*-97.9%*

Notes to the Financial Statements DyStar Global Holdings

Sales: At the beginning of the year, i.e. Jan 2011, DyStar's sales budget was to achieve a turnover of USD 91.18Mn, at the beginning of the year (Jan 2011), when the global market was upbeat, however during the course of the year, things changed drastically and with a 14.8% deviation, the year ended with sale of USD 77.68Mn.

Material Costs: The material costs are 53.5% of sales, which are at least 3% higher than the budgeted material cost. The increase was compensated by reduction in COGS services costs.

Conversion Costs: Conversion Costs amounted to USD 14Mn, which in percentage terms, are almost similar to budgeted conversion costs to sales. In real terms the deviation was -15% to budgeted costs, which provided some cushion for maintaining gross margins.

Gross Margin: DyStar earned gross margins of 20.5% to sales against budgeted margin of 23.5%. The total gross Margin for CY2011 is USD 15.92Mn. One of the main reasons of maintaining reasonable margin is increasing prices of final products to end customer. The brand DyStar could fetch prices and maintain margins of 20 odd percent. Maintaining reasonably good margins and increasing the sales as compared to previous calendar year, has been a remarkable achievement.

Selling General and Administrative expenses: More commonly known as SGA expenses, which are more of fixed in nature, have been under tight control, and are low by 7% as compared to the budgeted amount of USD 13.04Mn. Restructuring program could show results in reduction of Administration costs and logistics costs, thus supporting the bottom line.

Restructuring Costs: The restructuring program is almost complete and certain reversals have been credited to the profit and loss account.

Earnings Before Interest and Tax (EBIT): In December, there was a refund of the deposit for court proceeding fees (in connection with the Insolvency Settlement) for DyStar Global Holdings (Singapore) of USD0.9Mn. There was also a reversal of prior years interest accrued (USD 0.4Mn) which became obsolete after the settlement with the Insolvency Administrators. Other income for YTD Dec 2011 primarily comprised a settlement gain from the Administrator with a net P&L impact of USD 15.3Mn in November.

Earnings After Tax (EAT): Forex losses for December of USD 2.3m primarily pertain to unrealized losses for Germany USD 1.0m and Kiri Holding USD 1.2Mn.YTD Financial impact was behind budget primarily due to Exchange losses (USD 9.2Mn) and higher interest expenses (USD 6.2Mn). Thus in conclusion the year end was break even.

Forward Looking Statements