Management Discussion and Analysis Report

Global Economy

The global economy is expected to grow by approximately 2.6% in 2019. As per the World Bank, growth among emerging and developing economy is forecasted to fall to a 4 year low of 4% in 2019. The growth is constrained by sluggish investment and risks including rising trade barriers, renewed financial stress and sharper than expected slowdowns in several major economies. Current economic momentum remains weak, while heightened debt levels and subdued investment growth in developing economies are holding countries back from achieving their potential. With growth in advanced economies projected to gradually decline to about 1.7% once economic slack is eliminated, the further pickup in global activity will entirely be driven by emerging markets and developing economies.

The ongoing US-China trade war is snowballing fears about damage to global economic growth. The repercussions can be more volatile in both commodity prices and currencies. However, India is amongst few economies that stand to benefit from the trade tensions as it can tap export opportunities for sectors like garments, agriculture, distillery, automobile and machinery sector.

Indian Economy

The Indian GDP ended at 6.8% for the Financial Year 2018-2019. The decline in GDP growth is on account of multiple factors like, fallout of NBFCs, low credit growth, tight liquidity conditions, dismal growth in wages and flat exports owing to a global slowdown. Indian Manufacturing continued its downtrend growing at 3.1%. However, GDP growth rate is expected to bottom out in the coming quarters. RBI has cut key policy rates for the third time in a row this calendar year, for improving liquidity scenario. With Government continuing to roll out policies focusing on rural development, there could be some relief to the ongoing distress and signs of recovery should be visible in the second half of the financial year.

Industry Structure and Development:

The Chemicals are a vital and integral part of human life. The chemical industry is a very important constituent of the growing Indian economy and it is the mainstay of industrial and agricultural development of the country, providing several building blocks and raw materials for several industries, such as textile, paper, paint, soap and detergent, pharmaceutical, agrochemical etc. Natural Gas, Benzene, Toluene, Xylene, Naphthalene (BTXN), Ethylene, Propylene, Phosphorus, Common Salt, Sulphur, etc. are the main raw materials for the manufacture of the chemicals. The category of chemicals includes Fine and Specialty Chemicals, Agro Chemicals & Fertilizers, Basic Chemicals, Dyes and Pigments, Chemicals from Herbal and other natural resources, Paints and Coatings, Soaps and Detergents, Clean Technology tie-up, Consultancy for Waste management, Feedstock linkages, Processing, Marketing management, Safety and Environment Protection, Industrial R&D, etc.

Development in Indian Chemical Industries

India is the 3rd largest producer of chemicals in Asia by volume i.e India's Chemical Industry is one of the fastest growing in the world, currently ranked the third largest in Asia and sixth largest globally with respect to output after the US, China, Germany, Japan and Korea. The chemical industry in India is highly diversified, covering more than 80,000 commercial products. It is broadly classified into Basic chemicals, Specialty chemicals and Agrochemicals. Indian chemicals industry excluding pharmaceutical products ranks 14th in exports globally. Indian chemical industry is critical and one of the driving engines of the manufacturing sector. Indian Chemicals

& Petrochemicals Industry is growing rapidly due to the positive reforms undertaken by the Government of India in recent years which has attracted foreign companies to invest in India. The speciality chemicals market has witnessed a growth of 14% in the last five years; the market size is expected to reach USD 70 Bn by 2020.

As per data from CHEMEXCIL, the total Exports from India increased 11.02% from a year earlier to USD 32.55 Bn in March 2019, boosted by sales of organic and inorganic chemicals (16.98%).

The Indian Chemical Industry is the backbone of other industries such as agriculture, infrastructure, textiles, food processing plastic, paper etc. It also plays a major role in the growth of Indian GDP as well as to the export of India. The chemical sector has witnessed a growth of 13-14% in the last 5 years. The Government of India has allowed 100% Foreign Direct Investment in the chemical sector and recognizes chemical industry as a key growth element of the Indian economy.

China, one of the largest manufacturers of various chemicals is facing challenges on account of implementation of stringent environment norms in China in recent times. The structural changes in environment regulations in China have increased the capital cost and operating cost for the companies in China. The decision of China's government relating to shifting of production to the chemical park will lead to the shutdown of various smaller firms. The various steps of China's government will result in a decline in capacity utilization for the industry in China and reduction in supplies from China which in turn has improved the competitiveness of Indian chemical companies and would increase certain supplies which in turn shall impact the prices in the international chemical market. Hence, import will gradually reduce and will raise the share of exports of India.

Further with growing markets and purchasing power, the domestic industry is likely to grow at over 10-13% in the coming years. Increasing incomes and urbanization are driving the end consumption demand for paints, textiles, adhesives and construction, which has led to substantial growth opportunity for chemical companies. The chemicals industry in India is the largest consumer of its products, consuming 33% of its output. With promising growth trends in the chemicals industry, this internal consumption is also set to rise.

Indian chemical industry has the potential to grow significantly provided some of the key growth imperatives are taken care of. Securing raw materials, right product mix, research and development activities, M&A opportunities are currently the key imperatives for the chemical industry in India.

Company Overview and Sustainable Profitable Growth Strategy

KIL is the largest manufacturer and exporter of Dyes, Dyes Intermediates and Basic Chemicals with support of backward integration to manufacture from basic chemicals to dyes and Speciality Chemicals. The Company is also a total solution provider across the entire textile value chain.

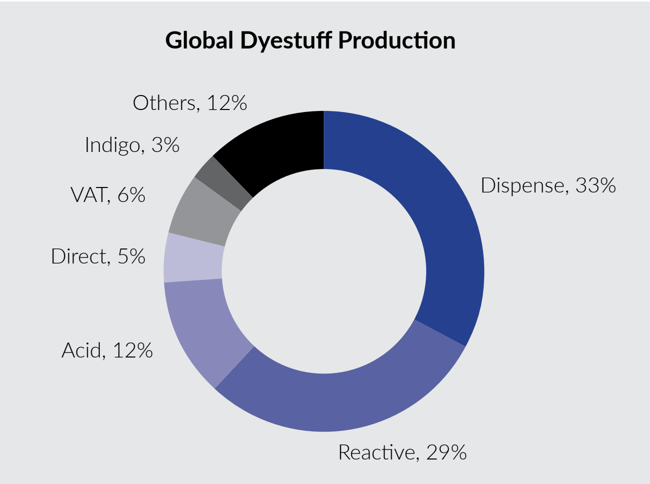
The Company's facilities are also versatile enough to allow it the flexibility to produce Reactive Dyes, Acid/Metal complex dyes and wool reactive dyes. This, in turn, has enabled the Company to meet time, quantity and quality requirement of its customers. Under the large scale facilities and fully integrated operations from the manufacturing of basic chemicals, manufacturing of dyes intermediaries and dyes, the Company derives benefits of economies of scales and quality control. This along with the Company's wide product range makes it a preferred partner for sourcing of dyes.

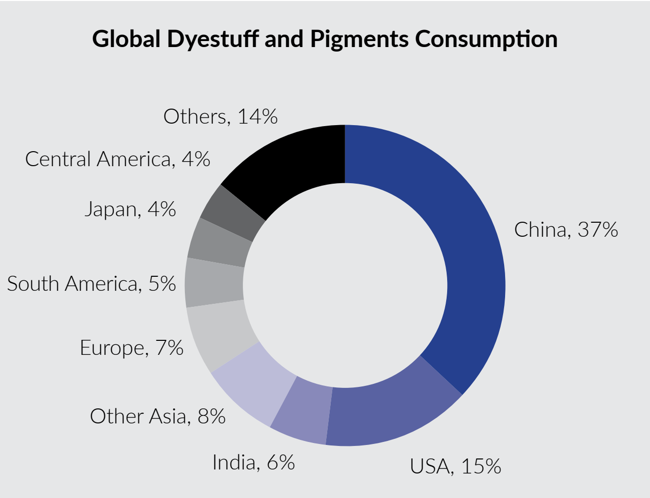
KIL's R&D activities broadly comprises of various processes for developing new products and standardizing new analytical methods. Its R&D centre focuses especially on products and technologies that improve products and processes for a better ecological profile and provide cost advantages for customers. Through the R&D centre, the Company continuously interacts with consumers to obtain feedback on its existing as well as new products to complement its new product development activities.

Outlook and Opportunities

Industry Outlook:
The Indian chemicals industry is projected to reach USD 304 Bn by 2025 with an annual growth rate of 15-20% and to achieve this Indian government is working on a draft chemical policy that will focus on meeting the rising demand for chemicals and reduce imports. The demand for chemical products is expected to grow at approximately 9% p.a. over the next 5 years. The industry is also targeting chemical exports of USD 18 Bn by 2020 from USD 12 Bn. Currently, the Indian chemical industry employs more than 2 Mn people.

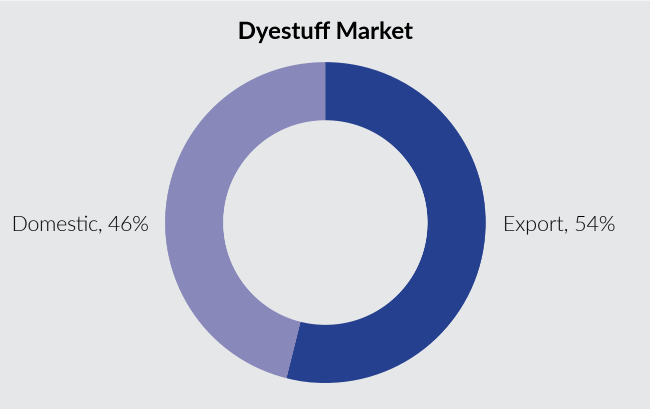
The specialty chemical industry will grow at double-digit Compounded Annual Growth Rate for multiple years. Domestic demand for speciality chemicals grew at 8-10% between fiscals 2017 and 2019 and utilisation rates of new capacities coming up will remain high over the medium term because of improving environmental compliance and cost competitiveness. As a result, the share of Indian speciality chemicals in the global supply chain is seen rising 100 basis points to 5.2% in fiscal 2022, from 4.2% last financial year.

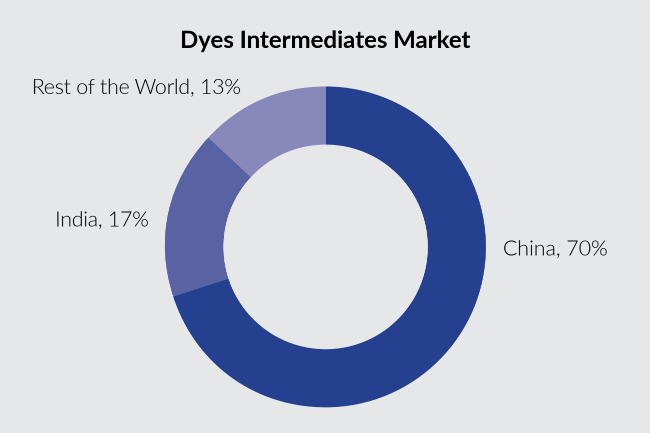


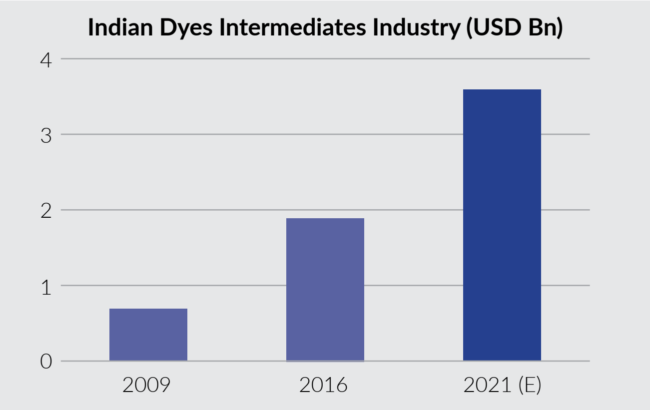


Source: Industry Government Reports

Global colours market is estimated to reach USD 38.4 Bn by the end of 2021, a growth of 5% CAGR during 2016-21, on the back of strong growth in high-value products. From the market size of USD 4.1 Bn which was expected in 2016, the Indian colours' industry is expected to grow to USD 8.4 Bn by the end of 2021 (CAGR of 14.9%) on the back of strong growth in key end-user industries, tightening of environment norms and increasing operating cost in China, rising demand for finished products from India, shift from generic/commodity to high value specialty/eco-friendly colors and a switch from small and unorganized players to large integrated players. The size of the world Dyestuff industry is estimated at USD 6.1 Bn and is increasing at around 3.5%. On the manufacturing front China has the largest capacity for dyes and is the largest manufacturer of dyes followed by India. According to the Research, the Indian dyestuff segment accounts for ~25% (USD 1.03 Bn) of the total colourant industry in India. This segment is expected to grow at higher double digit over the next few years to reach ~USD 2.45 Bn by 2021. The global dyes intermediates market is observing technological advancements. Industry players are constantly striving to develop new and better ways to manufacture dyes intermediates. Development of new manufacturing processes of dyes intermediates and applications is estimated to boost the market.







Source: Industry Government Reports

However, volatility in prices of raw material is projected to inhibit the market. The beta naphthol segment of the dyes intermediates market is anticipated to expand at a significant pace owing to increasing demand from emerging economies such as India and China. In recent times, China, to a large extent, has found to become relatively lenient with environmental compliances which have enabled some of the dyes and chemical companies in China to restart their manufacturing operations.

Domestic demand has strengthened as the benefit of structural reforms such as Goods and Services Tax (GST) and bank recapitalization, reformation in sector policy such as Petroleum, Chemicals and Petrochemical Investment Regions (PCPIRS), National Policy on Petrochemicals, Chemicals Promotion Development Scheme and so on, financial supports and 100% FDI is allowed under the automatic route in the Chemical industry, except in the case of hazardous chemicals, Export promotional council Established for MSME. The growth is expected to be accelerated by an upswing in consumption and investment.

The China USA trade war is currently not having any direct impact on the dyes and dyes intermediates industry. However, if the trade war escalates, the industry can expect volatility in the prices of key products. Also, the US sanctions on various countries are impacting the balance of payments position of such countries. In turn, countries with whom India's trading is negatively impacted, such as Iran, the exports to such countries would be negatively impacted. More than 80% of colours manufacturing units are located in Gujarat and Maharashtra, due to the dominance of the textile industry, availability of raw materials in these regions and proximity to ports. Indian Dyestuff industries were around USD 1.03 Bn in the year 2016 which is expected to maintain a higher double-digit growth and reach USD 2.45 Bn by the end of 2021.

Future Outlook:

Your company is going to add on new products to its product portfolio of Dyes and Dyes Intermediates segment. Your company is determined to broaden its product basket and to increase its global footprint by chartering its path into untapped markets. In the recent past, your company has commenced production of disperse dyes and certain types of naphthalene & aniline based intermediates which would add to its core profitability. Also, an increase in the business of Disperse Dyes shall support the company to expand its foothold and further penetrate the market in the coming two to three years.

Your company has been persistent in its technological innovation drive. Its Capex Plan(s) have been implemented to improvise and strengthen its product portfolio of Dyes, Dyes Intermediates and Specialty Chemicals.

During the past two years, your company has concentrated on innovations to strengthen its product basket of dyes and dyes intermediates. FY20 is expected to complete 12 months business cycle for certain speciality intermediates which shall enable the company to enhance its core profitability. Significant investment in expansion project(s) is envisaged in FY20 in dyes intermediates and basic chemicals. The proposed capital expenditure shall be funded from internal accruals of the company. The expansion project was undertaken in the past two years and the proposed capital expenditure in FY20 shall enable the company to achieve double-digit growth in ensuing years.

Your Company is keeping a vigil on macro as well as microeconomic indicators for converting adversities into opportunities in the most dynamic and volatile business environment. The focal point of KIL is to achieve sustainable growth for increasing the intrinsic value of the investment of its stakeholders.

Threats, Risks and Concerns

Risks and opportunities are an inherent feature of any business. The Company's Directors and management bear this in mind while taking all business decisions. The Company has developed a set of processes and systems to asses and minimizes risks without losing opportunities while ensuring enhancement in stakeholders' value. The Company believes in early identification of risks and devising strategies to counter them and minimize their impact on operations.

Risk management policy strengthens your Company's efforts to remain a competitive and sustainable company, enhancing its operational effectiveness and creating wealth for its employees, shareholders and stakeholders in pursuance of its strategy. Your Company has constituted a Risk Management Committee. Some of the risks that the Company is exposed to are financial risk, production risk, raw material and commodity price risk, Human resources risk. The Company has a proper system to mitigate the said risks. However, the following major factors may hamper business operations and growth of the Company:

a) Volatility in prices of raw material especially crude oil and transportation cost can adversely affect the business operations and can thin out the margin of the Company.
b) The Company is doing business with various countries, therefore, our business operations and growth are dependent upon the political, economic, regulatory and social environment of such countries.
c) The Company is a leading exporter therefore; the volatility in foreign exchange rates may affect our margin.
d) Any regulatory change in the government policies, local environmental regulations and changes in duties and tax, increase in the interest rate due to inflation pressure may affect our business operations, financial performance and future growth.
e) Irregular supply of raw materials can also affect the business of the Company.

Management Discussion and Analysis Report (Contd.)

Internal Control System and their adequacy:

The Company follows Internal Control Systems which are covering all business aspects to provide reasonable assurance that all assets are safeguarded, transactions are authorized, recorded and reported properly. The Company generally adheres to rules, policy, statutes and laws ensuring that statutory compliances are thoroughly followed. All resources are put to optimal use and adequately protected against any loss.

The Company's Audit Committee reviews and takes suitable actions for any deviation, observation or recommendation suggested by the Internal Auditor, who is an independent auditor mandated to conduct an internal audit. The Company also adheres to environment protection laws. The employees of the Company follows the Code of Conduct devised for conducting the business of the Company. Your Company's internal control systems commensurate with the size and nature of business operations.

Moreover, the Company has appointed independent Internal Auditors and they periodically test the efficacy of the prevailing Internal Control System and the Statutory Auditor of our Company has conducted audit of the Internal Financial Control System with reference to financial statement and the operating effectiveness of such controls as at March 31, 2019, under Section 143(3)(i) of the Companies Act, 2013 and same reviewed by the Audit Committee.

Financial Performance of the Company

A. Standalone Financial Performance:

i) **Total Revenue:**
During the Financial Year 2018-19, total revenue of the Company has increased by 18% from INR 904.59 Crore to INR 1,064.69 Crore as compared to the previous Financial Year 2017-18.

ii) **Expenditure:**
An increase in total revenue has also resulted in increase of the total expenditure of the Company by 18% from INR 797.88 Crore to INR 938.35 Crore as compared to the previous Financial Year 2017-18.

iii) **Employee benefits expenses:**
The Employee benefits expenses increased by 5% from INR 32.49 Crore to INR 34.28 Crore as compared to the previous Financial Year 2017-18.

iv) **Finance Cost:**
The finance cost increased from INR 1.65 Crore to INR 4.39 Crore as compared to the previous Financial Year 2017-18, which mainly consist finance charges for letter of credit.

v) **Operational & other Expenses:**
The Operational & other expenses increased by 17% from INR 771.18 Crore to INR 905.45 Crore as compared to the previous Financial Year 2017-18.

vi) **Net Profit:**
The Net Profit increased by 17% from INR 102.60 Crore to INR 119.83 Crore as compared to the previous Financial Year 2017-18.

vii) **Non-Current Liabilities:**
The non-current liabilities have decreased by 16% from INR 198.66 Crore to INR 166.18 Crore as compared to the previous Financial Year 2017-18.

viii) **Current Liabilities:**
The current liabilities have increased from INR 150.75 Crore to INR 267.34 Crore as compared to the previous Financial Year 2017-18.

ix) **Non Current Assets:**
The non-current assets have increased by 25% from INR 555.44 Crore to INR 692.19 Crore as compared to the previous Financial Year 2017-18.

x) **Current Assets:**
The current assets have increased by 22% from INR 304.88 Crore to INR 372.07 Crore as compared to the previous Financial Year 2017-18.

B. Consolidated Financial Performance:

i) **Total Revenue:**
The total revenue has increased by 23% from INR 1136.76 Crore to INR 1,396.50 Crore as compared to the previous Financial Year 2017-18.

ii) **Total Expense:**
The total expenses have increased by 22% from INR 991.79 Crore to INR 1205.45 Crore as compared to the previous Financial Year 2017-18.

iii) **Net profit:**
In the Current Financial Year, the Company has recorded net profit (before other comprehensive income) of INR 164.12 Crore as compared to INR 358.02 Crore of the preceding financial year 2017-18.

iv) **Non Current Liabilities:**
The non-current liabilities have decreased by 15% from INR 204.14 Crore to INR 172.51 Crore as compared to the preceding Financial Year 2017-18.

v) **Current Liabilities:**
The current liabilities have increased from INR 215.57 Crore to INR 318.51 Crore as compared to the preceding Financial Year 2017-18.

Management Discussion and Analysis Report (Contd.)

vi) Non Current Assets:

The non-current assets have increased from INR 1428.56 Crore to INR 1567.32 Crore as compared to the preceding Financial Year 2017-18.

vii) Current Assets:

The current assets have increased from INR 395.85 Crore to INR 491.03 Crore as compared to the preceding Financial Year 2017-18.

Our Employees are fundamental and most valuable assets of the Company. The Company has encouraging working environments that motivate our employee at all level. The company has undertaken various initiatives and implemented policies which are drawn up to engage our employees, especially the younger generation, and ensure a healthy balance between business needs and individual aspirations. To motivate, incentivise and reward employees, your Company has instituted employee stock options plan.

Material Development in Human Resources

The following table sets forth key financial ratios with brief explanation on changes, where relevant.

Key Financial Ratios	FY 2018-19	FY 2017-18	Reason for Significant Change, if any
Debtors Turnover Ratio	5.01	4.88	Not Required
Inventory Turnover Ratio	9.81	15.57	Looking to the fluctuation in the prices of the key raw materials, the company has stocked key raw materials at competitive prices to allow hindrance free production cycle keeping minimum fluctuation in the raw material cost of the finished products. As a result, Inventory turnover ratio has been reduced.
Interest Coverage Ratio	29.74	65.51	The interest cost is increased on account of interest on vehicle loan and ICD. As a result, Interest coverage ratio has been reduced.
Current Ratio	1.39	2.02	Proportionate increase in current liability is higher than the increase in current assets mainly on account of advance received from customers for long term supply contract. As a result, Current ratio has been reduced.
Debt Equity Ratio	0.26	0.34	Not Required
Operating Profit Margin	12.58%	12.62%	Not Required
Net Profit Margin	11.30%	11.60%	Not Required
Details of any change in Return on Net Worth	19.03%	20.07%	Not Required

Cautionary statement:

Certain statements made in this Report relating to the Company's outlook, estimates, predictions etc. may constitute "forward looking statements" within the meaning of applicable laws and regulations. Actual results may differ from such estimates, whether express or implied. Several factors that could make a difference to Company's operations include climatic conditions and economic conditions affecting demand and supply, changes in Government regulation tax regimes, natural calamities, etc. over which the Company does not have any direct control.

For and on behalf of Board of Directors

Date: August 12, 2019
Place: Ahmedabad

Pravin Kiri
Chairman