KRN HEAT EXCHANGER AND REFRIGERATION LTD

September 24, 2024

SMC Ranking

★★☆☆☆ (2/5)

Issue Highlights

Industry	Consumer Durables
Fresh Issue (Shares)	15,543,000
Net Offer to the Public	**15,543,000**
Issue Size (Rs. Cr.)	324-342
Price Band (Rs.)	209-220
Offer Date	25-Sep-24
Close Date	27-Sep-24
Face Value	10
Lot Size	65 Shares

Issue Composition

	In shares
Total Issue for Sale	15,543,000
QIB	7,771,500
NIB	2,331,450
Retail	5,440,050

Shareholding Pattern (%)

Particulars	Pre-issue	Post -issue
Promoters & promoters group	94.39%	70.79%
QIB	5.61%	16.71%
NIB		3.75%
Retail	0.00%	8.75%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

The net proceed from fresh issue is to be utilized for the following;

Invest in the wholly owned subsidiary, KRN HVAC Products Pvt Ltd for setting up a new manufacturing facility at Neemrana, Alwar, Rajasthan, and

General corporate purposes.

Book Running Lead Manager

- Holani Consultants Private Limited

Name of the registrar

- Bigshare Services Private Limited

About the company

KRN Heat Exchanger and Refrigeration Ltd is a leading manufacturer of fin and tube-type heat exchangers. The company manufactures Copper and Aluminium fins and copper tubes heat exchangers, water coils, condenser coils, and evaporator coils. It manufactures heat exchanger tubes of different shapes and sizes from 5 mm diameter to 7 mm, 9.52 mm, 12.7 mm, and 15.88 mm. All the products offered are used in the domestic, commercial, and industrial Heating, Ventilation, Air Conditioning & Refrigeration (HVAC&R) industry. Daikin Airconditioning India Pvt Ltd, Schnieder Electric IT Business India Pvt Ltd, Kirloskar Chillers Private Ltd, Blue Star Ltd, Climaventa Climate Technologies Pvt Ltd and Frigel Intelligent Cooling Systems India Pvt Ltd are some of the prestigious customers. The company also exports products overseas to countries including UAE, USA, Italy, Saudi Arabia, Norway, Czech Republic, Germany, UK, and more. Its manufacturing facility is situated in Neemrana, Rajasthan over an aggregated area of 7,800 sq. mt. The company uses the latest coil manufacturing machines including Hair Pin Bender, Fin Press Machine, CNC Tube Bender, and Vertical Expander.

Strength

Promoters exhibit strong leadership: KRN Heat Exchanger continuously strengthen its engineering expertise by providing in-house training to its workforce, to diversify and update their skill sets and keep them updated with the latest changes in manufacturing technologies and processes. The faith of the management in the workforce and their dedicated performance has enabled it to build a niche presence in the market.

Long-standing business relationships with leading clientele: KRN Heat Exchanger focuses on building sustained and long-term client relationships with its clients and constantly tries to cater to customer needs with products in demand. Its experience in automated production facilities is focused on research and development, coupled with technologically advanced, quality consistency on-time delivery and cost-competitive manufacturing technology processes has resulted in repeat orders from its key customer groups. Its long-term relationship with its customers allows it to understand and cater to their diverse requirements, including the development of new products and helps it solicit new business from potential customers in the same industry.

Effective quality control checks: KRN Heat Exchanger maintains an in-house facility for checking the quality of its manufactured products. Its products go through stringent quality control checks such as Helium Leak Test, Water Leak Test, Contamination Test, Salt Spray Testing, Burst Pressure Testing and Pressure Cyclic Testing to ensure the best quality products are supplied to its customers. Key employees of its production team hold BS EN ISO-13585 certification, which specifies the basic requirements for the qualification testing of brazers and brazing operators which is one of the key processes of manufacturing heat exchangers. KRN Heat Exchanger has a dedicated quality management team consisting of 41 employees including 25 contractual employees. The raw materials undergo a quality check, and KRN Heat Exchanger has internal procedures in place for procurement of the raw materials as the quality of the final product is dependent on them. Similarly for the quality checks of its final products, its units have dedicated personnel responsible for monitoring the parameters of equipment and strength of materials, reporting any irregularities in the manufacturing process and making adjustments accordingly. These multi-level quality checks ensure that KRN Heat Exchanger consistently provide good quality products, enhancing its brand value.

Consistent financial performance: The Company has grown from a single product to a multi-product manufacturing Company. KRN Heat Exchanger has demonstrated consistent growth in terms of revenues and profitability. The recognition of its product

quality has enabled it to penetrate the heat exchanger products market and cater to new customers in addition to its existing customer network. Increased acceptance of newer product categories due to improved designs and efficient pricing has further established its reputation.

Established Manufacturing facility: Its registered office and the manufacturing facilities are located at renowned RIICO industrial areas of Neemrana, Rajasthan. Its manufacturing unit is equipped and capable of carrying out end-to-end manufacturing activities. Its years of experience in precision engineering, strategically located production facilities, and focus on design, coupled with technologically advanced and cost-competitive manufacturing technology processes have enabled it to meet its customers' bespoke and stringent requirements. KRN Heat Exchanger has fullservice capabilities across the product cycle including product design and development, material sourcing, designing, testing and measurement infrastructure, all under one roof to meet the requirement of its global customers. The entire process is carried out under one roof. Its dynamic setup not only gives us better control over quality but also benefits us with cost advantages compared to its competitors who resort to job work for various activities in the complete manufacturing process. Its engineering expertise and technology-driven manufacturing processes have enabled us to deliver its products and provide timely solution to its customers in accordance with their designs and specifications, in a cost-effective manner without compromising on quality.

Strategy

Expanding its customer base: KRN Heat Exchanger has served a total of 112 customers during the Financial Year 2022-23 wherein its top 10 customers account for 75.94% of its revenue from operations. During FY 22-23, KRN Heat Exchanger sold its products in 17 states in India and exported its products to 9 countries. Since at present KRN Heat Exchanger have a high dependency upon its top 10 customers to generate good sales, KRN Heat Exchanger intend to focus on deepening its penetration in its existing markets and thereby increase its presence by expanding its customer network. This aims to reduce dependency on its existing customers and mitigate the risk thereof and provide it an opportunity to tap into new markets. KRN Heat Exchanger intends to cater to the increasing demand of its existing customers by enhancing the distribution of its products. Expanding its presence in additional regions will enable it to reach out to a larger market. As per this strategy, its manufacturing presence in domestic and international markets will position it to capitalize on the expected growth in demand for heat exchangers, providing significant opportunities for growth in existing market share. Further, keeping pace with the market trends, KRN Heat Exchanger have started to expand its business into various other sizes and products. The details of its increasing customer base represented through new customers onboarded by it for the financial year ended on March 31, 2024 , 2023 and 2022 is as under:

Particulars	**For the Financial Years ended on March, 31**		
	2024	**2023**	**2022**
New Domestic Customers onboarded	30	35	36
New International Customers onboarded	18	9	7
Total New Customers onboarded	**48**	**44**	**43**

Focus on increasing operational efficiencies to improve returns: Offering quality products at attractive prices is a key aspect of maintaining and expanding its Business Operations. To that end, KRN Heat Exchanger has adopted several initiatives designed to improve its cost efficiency, and as one of its primary business strategies KRN Heat Exchanger intend to continue improving its cost efficiency. KRN Heat Exchanger intend to use a variety of other manufacturing strategies, sourcing strategies and cost reduction strategies to continue to improve its operational efficiencies. For example, KRN Heat Exchanger is working on improving efficiency and manpower optimization, continually working on cost reduction including applying value analysis techniques to its products to reduce cost.

Enhancing existing products base and product quality: Offering high quality and safety complying products is of much importance for customer retention and repeat-order flow. KRN Heat Exchanger intends to have close interaction with its customers to strengthen its relationships with them and enable it to understand the market perception and demand for its products. Similarly, to increase its existing portfolio, KRN Heat Exchanger have incorporated its wholly owned subsidiary

namely KRN HVAC Products Private Limited on April 07, 2023 wherein KRN Heat Exchanger are setting up a new manufacturing facility to manufacture products that are at present not manufactured by it, using the Net Proceeds of the Issue. The company's strategy is focused on introducing new product designs to cater to the requirements of its customers as well as garnering the attention of more customers. This helps in strengthening the relationship with the existing customer network through a wide range of products while also onboarding new customers from untapped geographies. Identifying and developing new products and designs is a continuous exercise that its management team engages in as there is an immense demand in the global markets for unique designs, good quality and competitively priced products.

Regular Improvement in product design and development: The Company has a dedicated in-house product design and development centre in its manufacturing facilities situated at Plot No. F-46,47,48,49 EPIP, RIICO Industrial Area, Neemrana, Rajasthan 301705. Its Design team focuses on the development of new designs of heat exchangers as per product specifications provided by its customers to enhance the efficiency of their products. Its product design and development operations are supported by a team of 8 employees. KRN Heat Exchanger intends to expand its product design and development operations to provide best of its kind heat exchangers to its customers which will help it in achieving above stated business strategies.

Increasing its global footprint and augmenting growth in current geographies: With a view to further diversify its customer base and increase its market share, KRN Heat Exchanger intend to augment its sales in the markets where KRN Heat Exchanger sell its products as well as expand into new geographies. Over the last several years, the company has consistently expanded its customer network across Europe, and this continues to be one of the core strategies of the company for the future. Having awider product portfolio and an established brand presence in existing products provides confidence to new customers to engage with company. KRN Heat Exchanger will continue to focus its efforts on selected geographies such as North America and Europe and establish a greater presence in these regions. Its growth strategy in these markets will be to create a strong local presence and foster connections, and leverage expertise with required development capabilities to exploit the growth potential offered by these markets. Its strong focus will remain on acquiring new customers, retaining existing customers and offering good quality products.

Risk factor

- The company derived 33.34%, 32.85%, and 32.28% of its revenue in FY 2024, 2023, and 2022 from a single customer, Daikin Airconditioning India Pvt. Ltd. Additionally, 72.31%, 70.87%, and 75.82% of its revenue came from its top 10 customers during the same periods. Any delays or cancellations by these key customers could significantly impact its business, operations, and financial health.
- The company lacks long-term agreements with its customers, leaving it vulnerable to financial instability and operational uncertainty if customers opt to source their needs elsewhere.
- The company heavily relies on imports from Malaysia, South Korea, Thailand, Vietnam, and China for its raw materials, with 78.17%, 79.08%, and 72.16% of purchases coming from these countries in FY 2024, 2023, and 2022.
- It doesn't not have any long-term contracts with any of its suppliers.

Peer comparison

As per RHP, there are no listed companies in India that engage in a business similar to that of the company.

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.220, the stock is priced at pre issue P/E of 26.25x on FY24 EPS of Rs.8.38. Post issue, the stock is priced at a P/E of 35x on its EPS of Rs.6.29. Looking at the P/B ratio at Rs.220 pre issue, book value of Rs. 28.24 of P/Bvx 7.79x. Post issue, book value of Rs. 76.19 of P/Bvx 2.89x.

Considering the P/E valuation, on the lower end of the price band of Rs.209, the stock is priced at pre issue P/E of 24.94x on FY24 EPS of Rs.8.38. Post issue, the stock is priced at a P/E of 33.25x on its EPS of Rs.6.29. Looking at the P/B ratio at Rs.209 pre issue, book value of Rs. 28.24 of P/Bvx 7.40x. Post issue, book value of Rs. 76.19 of P/Bvx 2.74x.

Industry Outlook

Heat exchangers transfer thermal energy from one fluid to another, while ensuring that the fluids do not mix. This process is facilitated by conduction, enabling the heat exchanger to heat or cool a substance. Heat exchangers provide a means of regulating temperature, enhancing efficiency, averting overheating, and mitigating other potential hazards, resulting in an improvement in safety standards. Being an efficient source of energy saving, heat exchangers find applications across a broad range of domestic and industrial applications such as steam power plants, chemical processing plants, food processing, HVAC systems, mining, pulp and paper, metallurgy etc. The global heat exchanger market is valued at USD 16.8 billion in 2023, with the industry experiencing a robust CAGR of 6.4% from 2019 to 2023 whereas the Indian market for heat exchanger reached USD 689 million per annum in 2023 with the annual industry turnover increasing by a CAGR of 10% between 2019 and 2023. This growth is primarily driven by the increasing global demand for sustainable, lowenergy consumption solutions that are also cost-effective.

Outlook

KRN Heat Exchanger and Refrigeration Ltd has rapidly established itself as a prominent manufacturer of fin and tube heat exchangers, a widely used product. In just seven years, the company has achieved this growth through its commitment to quality and customization. Export sales, characterized by high-volume orders and increased profitability, have played pivotal roles in strengthening KRN's financial performance. To further expand its market reach and product offerings, KRN is investing in a new manufacturing facility in Neemrana, Alwar. This facility will focus on producing bar and plate heat exchangers, oil cooling units with blowers and motors, and roll band evaporators. The expansion is expected to increase production capacity by six times, enabling KRN to enter new markets and industries. Long-term investors may find this growth potential attractive.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	25-September-24
BID/ISSUE CLOSES ON	27-September-24
Finalisation of Basis of Allotment with the Designated Stock Exchange	30-September-24
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	01-October-24
Credit of Equity Shares to Demat Accounts of Allottees	01-October-24
Commencement of trading of the Equity Shares on the Stock Exchanges	03-October-24

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Mar-24 (12 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Revenue from operations	308.28	247.48	156.11
Total expenditure	249.83	198.16	139.18
Operating Profit	**58.45**	**49.32**	**16.94**
OPM%	18.96	19.93	10.85
Other Income	5.26	2.40	2.11
Total Net Income	**63.71**	**51.72**	**19.05**
Interest	3.99	3.05	1.54
PBDT	**59.72**	**48.67**	**17.50**
Depreciation	3.99	3.17	2.54
Profit before tax	**55.73**	**45.50**	**14.97**
Tax	16.67	13.18	4.38
PAT	**39.07**	**32.31**	**10.59**

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Mar-24	As on 31-Mar-23	As on 31-Mar-22
Non-current assets			
Property, plant and equipment	51.82	32.15	21.32
Right of Use of Assets	29.88	0.00	0.00
Capital work-in-progress	4.45	0.00	0.00
Financial Assets			
Other financial assets	1.49	0.73	0.39
Other non-current assets	0.00	0.11	0.11
Total non-current assets	**87.64**	**32.98**	**21.82**
Current asset			
Inventories	84.41	55.08	21.31
Financial Assets			
Trade receivables	52.44	38.66	29.79
Cash and cash equivalents	10.31	7.46	5.36
Other bank balances	5.69	8.05	8.83
Loans	0.53	1.01	0.55
Other financial assets	0.14	0.18	0.07
Other current assets	16.30	2.47	5.07
OtherTax assets(Net)	0.90	2.88	0.00
Total current assets	**170.72**	**115.77**	**70.98**
Total Assets	**258.36**	**148.76**	**92.79**
Non-current liabilities			
Financial liabilities			
Long-term Borrowings	12.97	16.54	11.01
Long-term Lease liabilities	16.36	0.00	0.00
Long-term provisions	0.69	0.35	0.26
Deferred Tax liabilities	0.10	0.29	0.36
Total Non-current liabilities	**30.13**	**17.18**	**11.62**
Current liabilities			
Financial Liabilities			
Short Term Borrowings	46.72	20.11	11.12
Short Term Lease liabilities	10.91	0.00	0.00
Trades Payable - MSME	30.90	44.80	37.04
Trades Payable - MESE	5.70	4.61	3.16
Short-term provisions	1.25	0.97	0.68
Other current liabilities	1.11	1.52	3.01
Current Tax liabilities	0.00	0.00	0.64
Total Financial liabilities	**96.59**	**72.01**	**55.64**
Total	**126.72**	**89.19**	**67.26**
Net worth represented by:			
Equity Share Capital	46.14	44.00	4.40
Other equity	85.51	15.57	21.13
Net Worth	**131.65**	**59.57**	**25.53**

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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