KROSS LIMITED

September 05, 2024

SMC Ranking

★★☆☆☆ (2/5)

Issue Highlights

Industry	Axles
Offer for sale (Shares)	10,416,667
Fresh Issue (Shares)	10,416,667
Net Offer to the Public	**20,833,334**
Issue Size (Rs. Cr.)	475-500
Price Band (Rs.)	228-240
Offer Date	9-Sep-24
Close Date	11-Sep-24
Face Value	5
Lot Size	62 Shares

Issue Composition

	In shares
Total Issue for Sale	20,833,334
QIB	10,416,667
NIB	3,125,000
Retail	7,291,667

Shareholding Pattern (%)

Particulars	Pre-issue	Post -issue
Promoters & promoters group	100.00%	67.70%
QIB	0.00%	16.15%
NIB	0.00%	4.85%
Retail	0.00%	11.30%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

The Company proposes to utilize the Net Proceeds towards funding the following objects:

Funding of capital expenditure requirements of the Company towards the purchase of machinery and equipment;

Repayment or prepayment, in full or in part, of all or a portion of certain outstanding borrowings availed by the Company, from banks and financial institutions;

Funding working capital requirements of the Company; and

General corporate purposes

Book Running Lead Manager

- Equirus Capital Private Limited

Name of the registrar

- KFin Technologies Limited

About the company

Kross Limited, formerly known as Kross Manufacturers (India) Private Limited, established in 1991, manufactures and supplies trailer axles and suspensions and a wide range of high-performance forged and precision machined safety critical parts for medium and heavy-duty commercial vehicles (M&HCV) and agricultural equipment. The company's product portfolio includes axle shafts, companion flanges, anti-roll bars and stabilizer bar assembly, suspension linkages, differential spiders, bevel gears, planet carriers, inter-axle kits, rear-end spindles, pole wheels, and a variety of tractor components for the hydraulic lift arrangement, power take-off (PTO) shafts and front axle spindles. The company supplies its products to major original equipment manufacturers ("OEMs") that manufacture M&HCVs and tractors, as well as to domestic dealers and trailer axle and suspension manufacturers that supply OEMs in the M&HCV segment. Kross Limited has five ISO 9001:2015 certified manufacturing facilities in Jamshedpur, Jharkhand, with the capacity to manufacture forgings weighing up to 40 kg. The production facilities are equipped with (i) forging presses and upsetting lines with induction heating for billets, (ii) a foundry with a high-pressure moulding line, (iii) high precision machining machines like turning centers, vertical and horizontal milling centres, Grinding, broaching, hobbing and shaping machines as well as robot welding systems, (iv) an in-house cathodic electro dip painting system ("CED system"), powder coating and spray painting and (v) heat treatment furnaces and induction hardening systems.

Strength

Long standing relationship with large OEMs and their tier one suppliers: Long standing relationship with large OEMs and their tier one suppliers, domestic dealers and fabricators for its trailer axle and suspension business complemented by a diversified network of dealers for its trailer axle and suspension assembly business. Its proven track record and diverse product portfolio has helped us in attracting new customers such as Leax Falun AB and a Japanese OEM commercial vehicle manufacturer. The company has already commenced its bulk exports to Leax Falun AB in August 2023 with bulk supplies of Universal Joint Crosses and is in stages of validation for other critical parts. The company has been recognized by its customers as a key supplier and were awarded the Silver award in Best Performance in Business Alignment by Ashok Leyland in 2023 and Durafit Range best vendor award for demand fulfillment east (2020-21) by Tata Genuine Parts at the Vendor Impact Programme 2021.

Prominent manufacturers of trailer axles and suspension assemblies in India: The Company is widely recognized as one of the prominent manufacturers of trailer axles and suspension assemblies in India and one of the few players domestically with the competency to manufacture trailer axles and suspension assembly in-house. The company has witnessed robust growth between Fiscal 2021 and Fiscal 2024, enabling us to compete with major trailer axle manufacturers. As on date, its manufacturing capacity was 60,000 trailer axle and suspension assemblies per annum, while for the three month period ended June 30, 2024 it manufactured approximately 10,145 trailer axles and suspension assemblies.

Diversified product portfolio: The company is a diversified player involved in manufacturing and supply of wide range of forging and machined precision components and assemblies. The company is widely recognized as a prominent manufacturer of trailer axles and suspension assembly in India and is also a prominent manufacturer of differential spiders in the M&HCV segment. The company believes that its engineering and product development capabilities have helped us expand its product Offerings by manufacturing complex and high precision products and assemblies. The company has invested in forging

and machining equipment and developed processes and techniques for producing complex components with closed tolerances. It possess a wide range of engineering and product development capabilities, including die-designing, process design, cutting tool selection and inspection and testing, enabling it to ensure manufacturing of high precision components to required designs and specifications. It currently manufactures a diverse variety of auto components and has the capacity to manufacture forged parts of up to 40 kg input weight.

Integrated manufacturing operations: It operates out of its five manufacturing facilities in Jamshedpur, Jharkhand which are equipped with capabilities to design, develop and manufacture its diverse product portfolio. Its backward integration helps it in reacting to emerging trends and develops prototypes in anticipation of the same. The company believes that its in-house design capabilities have been instrumental in its success by allowing it to work closely with customers for design and development of safety-critical components and assemblies, such as, anti-roll bars and stabiliser bars, where it along with the OEM's design team, conceptualised the design and framework of the product. With over three decades of experience, the company relies on its product development capabilities and technical knowhow to develop and deliver proprietary products such as trailer axle and suspension that have received market acceptance. Its product development team focuses on continually developing and customising its products and solutions. With its manufacturing capabilities, enabled by capital expenditure undertaken by us in the earlier years of its business, the company has the ability to provide comprehensive solutions for its customers. Its ability to manufacture high quality, intricate and safety critical products and components, may also be an entry barrier for other manufacturers that do not currently have such similar in-house engineering capabilities and production facilities.

Strategy

Expand capacities at our existing manufacturing facilities to increase manufacturing scale for its existing products and creation of new products: Due to the growth in its business and operations, its manufacturing units have been operating over 68% utilization for each of Fiscal 2024, Fiscal 2023 and Fiscal 2022. The company has in the past, invested significant amounts towards capital expenditure in order to expand its manufacturing capacities. In each of Fiscal 2024, Fiscal 2023 and Fiscal 2022, it invested Rs. 27.13 crore, Rs. 18.60 crore and Rs. 12.32 crore, representing 4.37%, 3.81% and 4.14% of its revenue from operations for the respective periods, towards capital expenditure. It also intends to enhance its capabilities in machining processes so that it can do in-house machining of hubs and brake drum and increase the share of value-added and high-margin components. From its first supply of universal joints to and Indian global OEM automobile manufacturer in the year 1996, the company has diversified into several different product segments and customers. It intends to install a new casting line which will have be capable of making bigger castings such as hydraulic lift covers for the tractor industry as compared to its existing casting line which has a box size of 710*710*250/300 mm suitable for making brake drums and hubs. The company is also investing in in-house machining capabilities for hubs and brake drums which include CNC, VMC and CNC Vertical Lathe Machine. These castings have large amounts of scrap generated during machining which can be re used in the casting process. The company believes this expansion of the in-house machining capabilities will help improve its margins and profitability.

Create manufacturing capabilities in axle beam extrusion and backward integration capabilities into the seamless tube: As a part of its growth strategy, the company seeks to pursue emerging opportunities, including axle beam extrusion and seamless tube manufacturing processes which would allow it to further backward integrate its operations and reduce its dependence on external vendors, enabling us to further reduce production costs. In order to further enhance its backward integration capabilities, it intends to utilize part of the proceeds from the Offer towards funding of capital expenditure for expansion of axle beam extrusion. Further, it may also seek to set up a seamless tube mill in future, which would allow it to improve sourcing efficiencies and control costs. The company continues to focus on further integrating its operations and benefit from economies of scale and improve operating margins. Further, these expansions may also allow it to benefit from expansion into product categories like TAG axles where the company is not currently present. Its annualized installed capacity for trailer axle and suspension assemblies is 60,000 per annum as on date.

Expand our geographical reach through growing exports: While its revenue from operations have grown at a CAGR of 44.40% between Fiscal 2022 and Fiscal 2024, the company has been predominantly focused on domestic market with exports contributing to less than 1.50% of its revenue from operations in each of the Fiscal 2024, Fiscal 2023 and Fiscal 2022. It aims to leverage its diverse product portfolio, customer acceptance in domestic markets and backward integrated manufacturing facilities to expand into international markets. The company believes that as it increases its exports to international markets, it will be able to increase its addressable market, expand its geographical footprint and improve its profitability. Furthermore, its strategy of diversifying its revenue base and expanding its geographical footprint helps it mitigate the risks associated with economic fluctuations in any one region and its high dependence on select customers. The company has been working with a Sweden based company, Leax Falun AB and a Japanese OEM commercial vehicle manufacturer and have received purchase order for six product segments from Leax Falun AB which are universal joint cross, cross tooth flange, spline journal, tube yokes and spline sleeves. Its bulk supplies for Universal Joint crosses have already commenced since August 2023 and other parts are under validation. Similarly, for the Japanese OEM commercial vehicle manufacturer, the company has developed and submitted samples and prototypes for planet carrier, sleeve gears, input shafts, and differential spiders.

Continuing focus on reduce operating costs and improving operational efficiency: It aims to continuously improve profitability by constant cost optimization, leveraging its backward integration capabilities and increasing capacity utilization. It also constantly aims to identify opportunities to implement product improvements and dedicated research and development resources to optimize production processes. Its backward integrated manufacturing facilities in forgings, machining and castings gives it a competitive edge on pricing and quality. To further enhance its backward integration capabilities, it intends to utilize part of the proceeds from the Offer towards funding of capital expenditure for expansion of axle beam extrusion. Its manufacturing facilities are equipped with high-precision machining facilities such as heat treatment, turning centres, vertical and horizontal milling centres, CNC grinding, broaching, hobbing, shaping, and robotic welding. The company has also built R&D capabilities and technical knowhow to develop and deliver proprietary products such as trailer axle and suspension that have received market acceptance. In line with its focus on bringing in operational efficiency, its manufacturing operations involve a degree of automation, and accordingly reducing the margin of error and inefficiencies typically associated with manufacturing processes operated manually. In addition, its extensive equipment and degree of automation has helped us to maintain its cost efficiency. The company is continuously working to make its manufacturing processes more efficient by creating cells for a product family. This minimises material movement within the plant and leads to production efficiency.

Risk factor

- Its top five customers contributed a significant portion (more than 66.00% in each of the previous three Fiscals) of its revenues.
- Demand for its products is linked to growth and trends in sales of vehicles by its customers.
- The company derives a portion of its revenue from the sale of trailer axle and suspension assemblies for medium and heavy commercial vehicles (“M&HCV”).
- The company derives a substantial portion of its revenue from supply of trailer axle and suspension assembly and a wide range of forged and precision machined high performance safety critical parts for medium and commercial vehicles (“M&HCV”) and farm equipment segments.
- Its manufacturing facilities are subject to operating risks.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Talbros Auto.	799.80	113.18	13.52	25.13	3.90	87.02	2	339.75	2097.21
Ramkrishna Forg.	4067.56	343.81	19.00	51.46	6.59	148.37	2	977.65	17686.73
Kross Limited	620.25	44.88	6.96	34.50	3.90	61.51	5	240.00	1548.23

***Peer companies financials are TTM based**
****Kross Limited is based on FY24**

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.240, the stock is priced at pre issue P/E of 28.93x on FY24 EPS of Rs.8.30. Post issue, the stock is priced at a P/E of 34.50x on its EPS of Rs.6.96. Looking at the P/B ratio at Rs.240 pre issue, book value of Rs. 27.14 of P/Bvx 8.84x. Post issue, book value of Rs. 61.51 of P/Bvx 3.90x.

Considering the P/E valuation, on the lower end of the price band of Rs.228, the stock is priced at pre issue P/E of 27.48x on FY24 EPS of Rs.8.30. Post issue, the stock is priced at a P/E of 32.77x on its EPS of Rs.6.96. Looking at the P/B ratio at Rs.228 pre issue, book value of Rs. 27.14 of P/Bvx 8.84x. Post issue, book value of Rs. 61.51 of P/Bvx 3.71x.

Industry Outlook

In fiscal year 2024, the M&HCV segment exhibited a de-growth of 3% over the fiscal year 2023. In fiscal year 2023, MHCV sales recorded a growth of 40%, this recovery brought MHCV sales to approximately 90% of the level recorded in fiscal year 2019, a notable milestone. The resurgence in economic activities across various sectors played a pivotal role in driving this recovery. Tractor trailers were the fastest-growing category in the MHCV segment, witnessing a growth of 71% CAGR between fiscals 2021 and 2024, followed by the MCV haulage and MAV haulage segments at 50% CAGR and 32% CAGR, respectively. Tippers grew at 14% CAGR, whereas ICVs clocked 1% growth during the same period.

Outlook

Kross Limited produces a diverse range of high-performance, critical safety components for tractors, trailer axles, and commercial vehicles. The company is currently expanding its capacity and broadening its product offerings by upgrading existing facilities and adding new production lines. Kross Limited has established a strong market position in manufacturing trailer axles, suspensions, and precision-machined parts for commercial vehicles and agricultural equipment, which is reflected in its impressive financial performance. Between FY23 and FY24, the company's revenue increased by 27%, and its profit after tax surged by 45%. Key strengths of the company include its well-diversified product portfolio, long-standing relationships with major OEMs, and integrated manufacturing capabilities. However, potential risks include the company's reliance on a few key customers and the concentration of its manufacturing facilities in Jamshedpur, which could lead to operational disruptions. For long-term investors, the IPO presents a promising opportunity.

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

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	09-September-24
BID/ISSUE CLOSES ON	11-September-24
Finalisation of Basis of Allotment with the Designated Stock Exchange	12-September-24
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	13-September-24
Credit of Equity Shares to Demat Accounts of Allottees	13-September-24
Commencement of trading of the Equity Shares on the Stock Exchanges	16-September-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	620.25	488.63	297.46
Total expenditure	539.49	431.11	267.91
Operating Profit	**80.76**	**57.52**	**29.55**
OPM%	13.02	11.77	9.93
Other Income	1.21	0.73	0.43
Total Net Income	**81.97**	**58.25**	**29.97**
Interest	14.90	12.22	8.16
PBDT	**67.08**	**46.03**	**21.81**
Depreciation	5.79	4.32	5.50
Restated Profit before tax	**61.29**	**41.71**	**16.31**
Tax	16.41	10.78	4.14
PAT	**44.88**	**30.93**	**12.17**

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	105.14	89.08	75.84
Capital work-in-progress	5.43	0.00	0.00
Right of Use of Assets	0.78	0.07	0.00
Other Intangible Assets	0.09	0.02	0.01
Financial Assets			
Investments	0.03	0.03	0.03
Other financial assets	3.13	6.59	6.20
Other Non Current Assets	3.25	3.30	2.29
Total non-current assets	**117.85**	**99.09**	**84.37**
Current asset			
Inventories	83.52	62.20	41.37
Financial Assets			
Investment	0.53	0.11	0.08
Trade receivables	109.84	51.81	50.35
Cash and cash equivalents	5.66	13.00	0.62
Other bank balances	4.86	1.25	0.00
Other financial assets	0.18	0.18	0.21
Other current assets	29.59	22.95	20.82
Total current assets	**234.16**	**151.49**	**113.46**
Total Assets	**352.01**	**250.57**	**197.82**
Non-current liabilities			
Borrowings	22.53	27.07	23.73
Lease liabilities	0.52	0.04	0.00
Long-term provisions	4.90	4.56	4.56
Deferred tax liabilities (Net)	5.94	5.64	5.00
Total Non- Financial liabilities	**33.88**	**37.31**	**33.28**
Current liabilities			
Financial Liabilities			
Borrowings	94.58	61.12	62.33
Lease liabilities	0.28	0.03	0.00
Trades Payable - MSME	8.99	5.28	10.28
Trades Payable - MESE	39.76	28.77	8.88
Other financial liabilities	7.92	2.88	1.39
Short-term provisions	0.64	0.48	0.39
Current tax liabilities (Net)	8.68	4.81	2.54
Other current liabilities	10.47	7.80	6.32
Total Financial liabilities	**171.32**	**111.16**	**92.14**
Total	**205.20**	**148.47**	**125.42**
Net worth represented by:			
Equity Share Capital	27.05	13.52	13.52
Other equity	119.76	88.58	58.88
Net Worth	**146.81**	**102.11**	**72.40**

RANKING METHODOLOGY

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

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