

Rating: Subscribe for Long Term

Issue Offer

Fresh Issue of 1,55,43,182 equity shares amounting to INR 3,419.5 Mn.

Issue Summary

Price Band INR	209-220
Face Value INR	10
Implied Market Cap INR mn.	13,099
Market Lot	65
Issue Opens on	Sep 25, 2024
Issue Close on	Sep 27, 2024
No. of share pre-issue	43,999,980
No. of share post issue	59,423,162
Listing	NSE, BSE

Issue Break-up %

QIB Portion	≤ 50
Retail Portion	≥ 35
NII Portion	≥ 15

Registrar

BIGSHARE SERVICES PRIVATE LTD

Book Running Lead Managers

Holani Consultants Private Ltd

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	94.39%	69.75%
Public & Others	5.61%	30.25%

Objects of the issue

- Investment in their wholly owned subsidiary KRN HVAC Products Private Ltd in the form of equity, for setting up a new manufacturing facility at Neemrana, Alwar, Rajasthan
- General corporate purposes.

KRN Heat Exchanger & Refrigeration Ltd (KHERL) manufactures fin and tube type heat exchangers for the Heat Ventilation Air Conditioning and Refrigeration Industry. Heat exchangers manufactured by it are made of non-ferrous metals primarily Copper and Aluminum. Its product range includes condenser coils, evaporator units, evaporator coils, header/copper parts, fluid and steam coils and sheet metal parts. The diameter of heat exchanger tubes it produces ranges from 5MM to 15.88 MM. Through forward integration, it is planning to venture into the distribution and sales channels which allow it to control the marketing and distribution of complete product range of heat exchangers. This enables the company to capture a greater share of the value chain and establish direct connections with end customers. By incorporating KRN HVAC Products Private Ltd, it can have greater control over the supply of HVAC industry products, enhancing customer reach and brand visibility.

Investment Rationale

Consistent Product Diversification and new products led the growth: KRN has shown consistent growth in revenues and profitability, evolving from a single-product to a multi-product manufacturing company. Their ability to penetrate new markets and gain acceptance for newer product categories showcases their adaptability and growth potential. This track record of financial performance and successful product diversification indicates the company's ability to identify market opportunities and capitalize on them effectively.

Strong Customer Relationships and Repeat Business: KRN has established long-standing relationships with leading clients by focusing on understanding and catering to diverse customer needs. Company has a customer base of over 115 customers, diversified across geographies. Single largest customer contributed 33.34%, 32.85% and 32.28% respectively, of total revenue from operations in FY24, FY23 and FY22. This approach has resulted in repeat orders from key customer groups, providing a stable revenue base and potential for future growth. The company's ability to maintain these relationships demonstrates its strong market position and customer satisfaction levels.

Quality-Focused Manufacturing Capabilities: The company's commitment to quality is evident in its stringent control measures, including in-house testing facilities. KRN's multi-level quality checks ensure consistent delivery of high-quality products, enhancing brand value and customer satisfaction. This focus on quality not only helps retain existing customers but also attracts new ones, contributing to the company's growth and market reputation.

Expansion Strategy and Global Market Penetration: The company is actively pursuing growth through various strategies, including expanding their customer base to reduce dependency on top clients, diversifying their product portfolio through a new subsidiary (KRN HVAC Products Private Ltd), increasing their global footprint (particularly in European markets), and facilitating growth in current geographies to increase market share. The company will continue to focus on key regions like North America and Europe to strengthen its presence. This strategy aims to establish a solid local footprint, build strong relationships, leverage the necessary expertise and development capabilities to tap into the growth potential of these markets. The company remains focus on acquiring new customers, retaining existing ones, and consistently delivering high-quality products.

Valuation and View : The company aims to capitalize on its diverse product portfolio coupled with efforts to ensure forward integration and a new manufacturing facility with IPO proceeds to penetrate international markets and increase its market presence. The company has prestigious clients like Daikin, Bluestar and Schneider among others. Co.'s revenue grew at a CAGR of 25% for past three years. Given the strong tailwind the Air conditioners, EMS players are seeing, KHERL is well positioned. At the upper price band of INR 220, the issue is priced at a P/E of 33.5x post issue based on the FY24 post issue EPS of INR 6.29. We are recommending "Subscribe for Long Term" for this issue.

Abhishek Jain
abhishek.jain@arihantcapital.com
022-422548871

Avi Agarwal

Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park
Building No. 10, 1st Floor
Andheri Ghatkopar Link Road
Chakala, Andheri E
Mumbai – 400093
Tel: 91-22 42254800
Fax: 91-22 42254880

Registered Office

6 Lad Colony
Y.N Road
Indore - 452003, M.P.
Tel: 0731-4217100
Fax: 91-731 3016199

Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return**Research Analyst
Registration No.****Contact****Website****Email Id**

INH000002764

SMS: 'Arihant' to 56677

www.arihantcapital.com

instresearch@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri E
Tel. 022-42254800 Fax. 022-42254880