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Issue Offer

Offer For Sale of 9,570,000 shares aggregating up to INR 1,301.5 Mn.

Issue Summary

Price Band (INR)	129-136
Face Value (INR)	10
Implied Market Cap (INR Mn)	5,046.14
Market Lot	110
Issue Opens on	June 3, 2024
Issue Close on	June 5, 2024
No. of share pre-issue	37,104,000
No. of share post issue	37,104,000
Listing	NSE , BSE

Issue Break-up (%)

QIB Portion	50%
NII Portion	15%
Retail Portion	35%

Book Running Lead Managers

Pantomath Capital Advisors Pvt Ltd

Registrar

Kfin Technologies Ltd

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	99.98%	74.21%
Public & Others	0.02%	25.79%

Objects of the issue

- Carry out the Offer for Sale
- Achieve benefits of listing on Stock Exchanges

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Kronox Lab Sciences Ltd is into manufacturing High purity Specialty Fine Chemicals for diversified end user industries like Pharmaceuticals, Scientific Research, Biotech, Nutraceuticals, Agrochemicals, Personal Care, Metallurgy etc. They offer a wide range of 188 products with 122 new products in pipeline including acetates, carbonates, chlorides, citrates, hypophosphates, nitrates, nitrites, phosphates, sulphates, and other ultra-pure fine chemicals. They have a diversified customer base spanning across India along with presence in 20+ countries. They have 3 manufacturing facilities in Vadodara, Gujarat with an installed capacity of 7,242 MTPA. The company has been debt free since FY23.

Investment Rationale

High-end exclusive products generating high margins: The company is into manufacturing high purity specialty chemicals with a diversified end user base. These products may have lower volumes but constitute high margins. This enables the company in mitigating the risk and generate high margins (47.73% Gross margins, 30.23% EBITDA margins and 22.6% PAT margins in 9MFY24). The company already has product portfolio of 188 products along with 122 products in R&D phase. These products are certified and produced according to standards, distinguishing the company from its peers and giving a competitive advantage over them. The company also has good control on raw materials procurement which fetches them better prices, leading to better margins. Margins in exports are much higher than Domestic market.

High entry barriers leading to strong relations with customers: Given the high quality of the products and the multi step production process, the industry of Specialty fine chemicals has high entry barriers. The approval process for products is ~2 years, due to which many customers do not tend to change their suppliers, leading to long term relations with them. The company has been constantly onboarding new customers across geographies (81 customers added in 9MFY24). Their top 10 customers constitute about 56.32% of total revenue.

Capacity Expansions plan at Dahej: The company has plans to increase their production capacity substantially. For this, they have acquired land measuring 20,471 sqmt. at Dahej. Clearance applications have been submitted which are expected to come in by June 15th. The expansion will increase the total capacity by 18,000 MTPA. The estimated cost of the project is INR 675mn with completion estimated by FY26. Expansion will be done in Phases and they plan to start production as and when each block gets completed and commissioned. They are currently operating at 72% capacity utilization.

Strategic plan for portfolio and market expansion: The company plans to further expand their customer base by expanding into new geographies and penetrating the domestic market. With already 122 new products in pipeline, they will be expanding their product portfolio with the capacity expansions planned. Due to the exclusivity of the products, the company has not faced much pressures from China and have majorly benefitted from China plus one strategy adopted globally, opening up export opportunities. Exports currently generate ~25% of total revenues. Going forward, they plan to focus on import substitution in the domestic market and expanding their export presence.

Valuation and View: Kronox Lab Sciences Ltd is well positioned in the Specialty Fine chemicals industry with a wide product portfolio and diversified end user industries. Exclusive products generating high margins and significant export presence, leads them to better performance compared to peers and maintaining their strong position against the industry headwinds. Going forward, the company has plans for major capacity expansion at their newly acquired land which will improve the product portfolio and help in reaching out to newer customers and geographies with new and existing products. At upper band price of INR 136, the company is valued at P/E of 24.46 based on FY24 EPS of INR 5.56 (annualized). We are recommending "Subscribe" for the issue.

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