

Rating: Subscribe

Issue Offer

An Offer for Sale of 10,416,667 equity shares amounting to INR 2,500 Mn, and a Fresh Issue of 10,416,667 equity shares amounting to INR 2,500 Mn.

Issue Summary

Price Band INR	228-240
Face Value INR	05
Implied Market Cap INR mn.	15,482.3
Market Lot	62
Issue Opens on	Sep 9, 2024
Issue Close on	Sep 11, 2024
No. of share pre-issue	54,092,756
No. of share post issue	64,509,423
Listing	NSE, BSE

Issue Break-up %

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

Registrar

Kfin Technologies Limited

Book Running Lead Managers

Equirus Capital Private Limited

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	88.38%	67.70%
Public & Others	11.62%	32.30%

Objects of the issue

- 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.
- General corporate purposes.

Abhishek Jain

abhishek.jain@arihantcapital.com

022-422548871

Rohan Baranwal

Founded in 1991, Kross Limited specializes in the production and supply of trailer axle and suspension assemblies, diversified with broad range of forged and precision-machined high-performance, safety-critical components for medium and heavy commercial vehicles (M&HCV) and the farm equipment sectors. Operating from five manufacturing units in Jamshedpur, the company has an annual production capacity of 60,000 trailer axle and suspension assemblies. The company is renowned for its expertise in producing essential safety components for the M&HCV segment, including axle shafts, companion flanges, anti-roll bars, stabilizer bar assemblies, suspension linkages, differential spiders, bevel gears, planet carriers, inter-axle kits, rear-end spindles, and pole wheels. Company also manufactures a many varieties of tractor parts such as components for hydraulic lift systems, power take-off (PTO) shafts, and front axle spindles.

Investment Rationale

Diverse customer base and Long standing relationship: Company has long standing relationship with several Indian and Global OEMs like Ashok Leyland Limited, Tata International DLT Private. With ability to customize to customer specifications and requirements as well consistent track record help company attract new customers such as Leax Falun AB and a Japanese OEM commercial vehicle manufacturer already commenced bulk exports to Leax Falun AB in Aug-23. Company accumulates 49.75% of its revenue from top 3 customers and 66% from top 5 customers. For its trailer axle and suspension business company has diverse network of trailer fabricators and dealers to whom company sell proprietary product. Recently company entered into exclusive agreements with three dealers, for marketing and sale of products across identified geographies.

Steady Growth Supported by Expanding Trailer Axle Segment: Company witnessed robust growth of 65% INR 2690.50 Mn in FY24 as against INR 1628.22 Mn in FY23, enabling to compete with major trailer axle manufacturers. The trailer and axle business accounts for 43.28% of total revenue from operations increasing its dependability and capturing growth opportunity. Company have manufacturing capacity was 60,000 trailer axle and suspension assemblies. They also manufactured approximately 10,145 trailer axles and suspension assemblies.

Manufacturing and Operational Efficiency: The company's backward integration in design, engineering, forging, casting, and machining ensures greater control over quality, costs, and delivery, reducing reliance on third parties and improving efficiency. Company's In-house capabilities allow to meet customer demands directly, optimizing production and quality management. To further enhance integration, it plans to use part of the capital raised for capex, increasing production capacity, expanding operations, and introducing new products. Additionally, forward integration through a sales and service network across key states strengthens its market position by offering comprehensive solutions to customers.

Enhancing Manufacturing Capabilities and Operational Efficiency: The company operates five manufacturing facilities in Jamshedpur, Jharkhand, equipped to design, develop, and produce a diverse product portfolio. These facilities utilize computer-aided design (CAD) and computer-aided manufacturing (CAM) software, along with simulation tools that enhance accuracy. With a focus on operational efficiency, automation is integrated into manufacturing processes to reduce errors and inefficiencies common in manual operations. The company also invests significantly in employee training and development, enabling scalability while leveraging its existing workforce. An amount of INR 700 Mn from the Net Proceeds is allocated for expanding manufacturing units by funding Capex for machinery and equipment. Company also enhanced its backward integration capabilities with a new casting facility at Unit V, setting up a high-pressure mould line foundry along with a machine shop.

Valuation and View : The company aims to capitalize on its diverse product portfolio, strong customer acceptance in domestic markets, and backward-integrated manufacturing capabilities to penetrate international markets. By expanding exports and widening its addressable market, this will increase its global footprint, enhancing profitability through new growth opportunities abroad. Company intend to continue to invest in creation of additional capacities, both for existing products as well as for creation of new products. At the upper price band of INR 240, the issue is priced at a P/E of 34.50x based on the FY24 EPS of INR 7.0. We have a "Subscribe" rating for the issue.

Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri E Mumbai – 400093 Tel: 91-22 42254800 Fax: 91-22 42254880	6 Lad Colony Y.N Road Indore - 452003, M.P. Tel: 0731-4217100 Fax: 91-731 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

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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