



IPO Note

KRN Heat Exchanger and Refrigeration Limited

Recommendation: **APPLY!**

Company Background -

- **Incorporation:** KRN Heat Exchanger and Refrigeration Limited was originally formed and incorporated on Aug 25, 2017. The registered office is located at Alwar, Rajasthan.
- **Business Activity:** The company is engaged in the business of manufacturing of fin and tube type heat exchangers for the Heat Ventilation Air Conditioning and Refrigeration Industry ("HVAC&R"). Their product range includes condenser coils, evaporator units, evaporator coils, header/copper parts, fluid and steam coils and sheet metal parts.
- **Revenue Stream:** The major revenue stream for the company includes condenser coils which contributed 55.01% and evaporator coils which contributed 37.34% for FY2024.
- **Human Resource:** The company had 553 permanent employees as of July 31, 2024.

Objects of the Issue -

- Investment in wholly owned subsidiary, KRN HVAC Products Private Limited in the form of equity for setting up a new manufacturing facility at Neemrana, Alwar, Rajasthan ("Proposed Project").
- General Corporate Purposes

Promoters Name -

Santosh Kumar Yadav, Anju Devi and Manohar Lal

Rationale for recommendation -

- ✓ The PE ratio of 35 post-issue makes it slightly highly priced.
- ✓ The top line has increased over the years and looks sustainable.
- ✓ The bottom line and profitability margins have seen sudden increase in FY2023 which should not be a concern.
- ✓ The company is expanding its business by setting up a new manufacturing unit.
- ✓ The company has decent experience in the industry.
- ✓ The management overview is decent.

IPO Details

Opening Date	Sep 25, 2024
Closing Date	Sep 27, 2024
Allotment Date	Sep 30, 2024
Listing Date	Oct 03, 2024
Stock Exchange	BSE, NSE
Lot Size	65 Shares
Issue Price Per Share	₹209 to ₹220
Issue Size	341.95 Cr.
Fresh Issue	341.95 Cr.
Offer for Sale	-
Application Amt	₹ 14,300 - ₹ 1,85,900 (65 to 845 shares)

INDUSTRY - Heat Exchanger

KPI's	KPIs (In Crores)		
	FY 22	FY 23	FY 24
Revenue	156.11	247.48	308.28
EBITDA	16.94	49.32	58.45
Net Profit	10.59	32.31	39.07
RoCE	38.76%	60.13%	33.67%
ROE	41.48%	54.24%	29.68%
P/E	91.29	29.97	25.32

Promoter Share Holding Pattern

Pre-Issue	Post Issue
94.39%	70.79%

Valuation Parameters

Particulars	Pre-Issue	Post Issue
EPS	8.69	6.29
BVPS	0.28	0.22
P/E	25.32	35.00
P/BV	771.00	1,012.42
Mkt Cap (In Cr)	1,025.50	1,367.45

Lead Managers -

Holani Consultants Private Limited

Registrar -

Bigshare Services Private Limited

Business Overview –

KRN Heat Exchanger and Refrigeration Limited manufactures fin and tube type heat exchangers for the Heat Ventilation Air Conditioning and Refrigeration Industry. Heat exchangers manufactured by them are made of non-ferrous metals primarily Copper and Aluminium. The product range includes condenser coils, evaporator units, evaporator coils, header/copper parts, fluid and steam coils and sheet metal parts.

The company’s customer base covers various parts of India and few of their prestigious customers include Daikin Airconditioning India Private Limited, Schnieder Electric IT Business India Private Limited, Kirloskar Chillers Private Limited, Blue Star Limited, Climaventa Climate Technologies Private Limited and Frigel Intelligent Cooling Systems India Private Limited.

The net proceeds of the issue will be utilized for Investment in wholly owned subsidiary, KRN HVAC Products Private Limited in the form of equity for setting up a new manufacturing facility for manufacturing bar and plate heat exchanger, oil cooling with blower, motor and roll band evaporator at Neemrana, Alwar, Rajasthan (Rs. 242.46 Cr). and remaining for general corporate purposes.


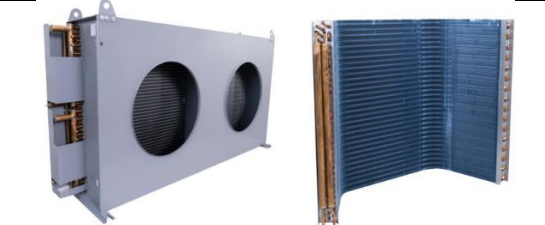


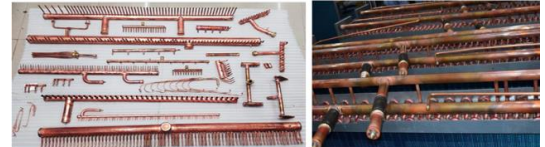

Manufacturing Unit and Capacity Utilization:

The company has 2 manufacturing units located at Neemrana, Alwar, Rajasthan. The capacity utilization remained at 84.09% for evaporators & condenser coils, 84.53% for headers/ copper parts and 85.77% for sheet metal parts for FY2024.

Subsidiary –

The company incorporated a wholly owned subsidiary “KRN HVAC Products Private Limited” and this company will focus on certain types of heat exchangers like bar & plate heat exchanger, oil cooling unit with blower & motor and roll bond evaporators that are currently not manufactured by the company.

Product Portfolio –

Product	Description and Uses	Image
Evaporator Coils	Extract heat from air and transfer it to refrigerant, resulting in cooling. They are used in air conditioners, rooftops, showcasing units, fan coils, dryers etc.	
Condenser Coils	Release heat to the environment, causing refrigerant to condense. They are used in various heating, ventilation, and air conditioning (HVAC) systems, as well as refrigeration units.	
Fluid and Stream Coils	Fluid coils transfer heat between air and water in HVAC systems. And, steam coils transfer heat from steam to air or extract heat from air using chilled water.	
Condensing Units and Air-cooling Units	These cool refrigerant by using a compressor, condenser, and fan.	
Headers/ Coppers Parts	The use of CNC technology allows for precise and consistent bending, forming, and punching of tubes, resulting in headers with accurate dimensions and minimal imperfections.	
Sheet Metal Parts	They manufacture standard and custom sheet metal components for HVAC systems using hydraulic and CNC machines.	

Revenue Bifurcation -

(Amt in Cr.)

Particulars	FY 2022		FY 2023		FY 2024	
	Amt	%	Amt	%	Amt	%
Evaporator Coils	51.44	32.95	71.53	28.73	115.59	37.34
Condenser Coils	99.47	63.71	152.27	61.16	170.30	55.01
Headers/ Copper Parts	0.57	0.37	1.82	0.73	4.68	1.51
Sheet Metal Parts	0.06	0.04	1.65	0.66	1.41	0.46
Others*	4.58	2.93	21.70	8.72	17.58	5.68
Total Finished Goods Sold	156.11	100.00	248.97	100.00	309.55	100.00

*Others includes sale of other HVAC parts like Tubing, Copper Pipes, rework of coils and HVAC parts etc.

Competition -

- Market Competition:** The industry involves manufacturing of coils used in air conditioners and refrigerators and this needs technical expertise. Thus, the company faces few competitors in the market. The key metrics for competition includes quality, technical ability, performance record, sustainable relationship with existing clients and vendors, use of technically upgraded plant and machinery, timely delivery, and reliability.
- Geographic Competition:** The company faces competition in regional, national, and international players from large and small players.
- Barriers to entry:** Moderate barriers to entry.
- Threat of Substitutes:** Moderate threat of substitutes.
- Bargaining power of Suppliers:** The bargaining power is high with the suppliers.
- Bargaining Power of Buyers:** The bargaining power is high with the customers.

Business Strategies -

- The company intends expand their customer base and aims to reduce dependency on existing customers and mitigate the risk thereof and provide an opportunity to tap into new markets.
- The company intends to diversify their product portfolio and is using the net proceeds of the issue for setting up a new manufacturing unit to produce new products.

Risk Factors -

The company's majority sales are derived from top 10 customers which accounted to 72.31%, 70.87% and 75.82% for FY 2024, 2023 and 2022 respectively and derived 33.34%, 32.85% and 32.28% for FY2024, 2023 and 2022 from Daikin Air Conditioning India Private Limited alone.

The company is largely dependent on limited suppliers for their raw materials which accounted to 77.99%, 78.48% and 70.07% for FY2024, 2023 and 2022 respectively.

The company is heavily dependent on import purchases for raw materials from Malaysia, South Korea, Thailand, Vietnam and China which accounted to 78.17%, 79.08% and 72.16% for FY2024, 2023 and 2022 respectively.

The company has filed 1 outstanding cases regarding civil matter amounting to Rs. 0.14 Cr. and there are 3 outstanding cases against the company for tax matters amounting to Rs. 0.08 Cr.

The directors have 2 cases against them regarding tax matters amounting to Rs. 0.30 lakhs.

The company has contingent liabilities amounting to Rs. 21.90 Cr.

PEER ANALYSIS

The company believes they do not have any listed company in India and abroad that engages in a similar business to the company and thus not possible to provide an industry comparison as per its offer document.

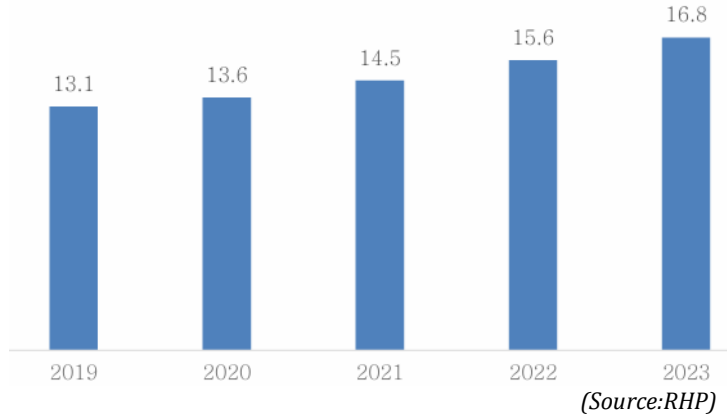
Recommendation: **APPLY**

INDUSTRY OVERVIEW –

Global Heat Exchanger Market -

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. This growth is primarily driven by the increasing global demand for sustainable, low-energy consumption solutions that are also cost-effective.

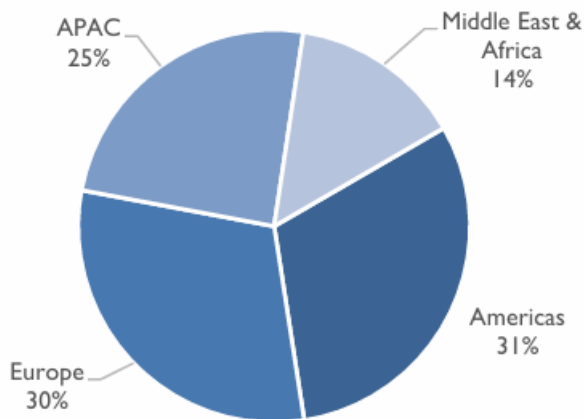
Global Heat Exchanger Market



Between 2019 and 2023, the APAC heat exchanger market witnessed a compounded annual growth rate of 7.3%, higher than the growth that was registered in Americas and Europe.

Global Heat Exchanger Market: Geographical Pattern

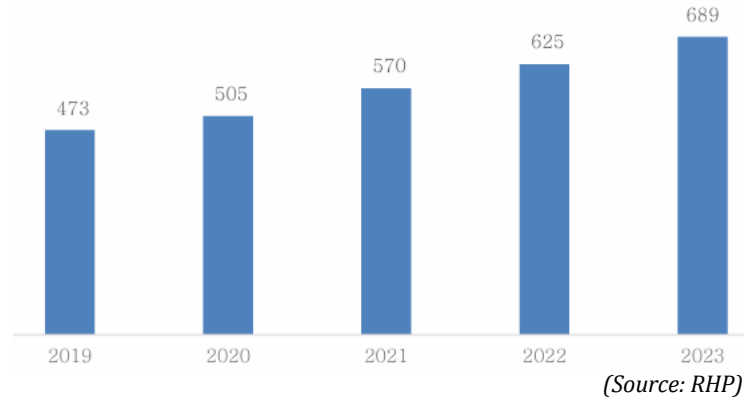
(Source:RHP)



Heat Exchanger Market in India –

The Indian market for heat exchanges reached USD 689 million per annum in 2023, the annual industry turnover increasing by a CAGR of 10% between 2019 and 2023.

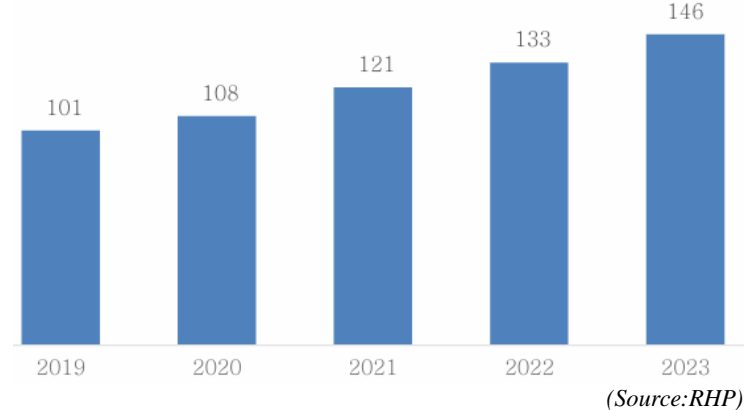
Indian Heat Exchanger Market



Indian Finned Tube Heat Exchanger Market –

In 2023, finned tube heat exchanger segment realized an annual revenue of USD 146 million, increasing by a CAGR of nearly 10.7% between 2020 and 2023.

Indian Finned Tube Heat Exchanger Market

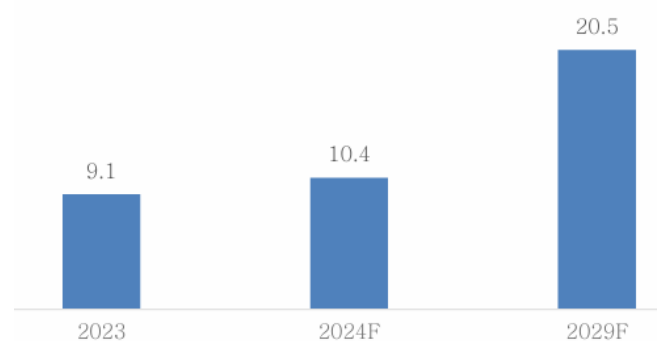


Indian HVAC Market -

Indian HVAC market generated an annual turnover of approximately USD 9.1 billion in 2023 and it is expected to grow by a CAGR of 14.5% till 2029 to reach USD 20.5 billion.

Indian HVAC Market

(Source:RHP)



Key Management -

- The overall management of the company is decent.
- The promoter has good and relevant experience.
- There is an evidence of dual chairmanship, which is not favourable.
- The management is condensed.



Key Management Persons Name -	Santosh Kumar Yadav
Age	43
Designation and No. of years of experience	Promoter, Chairman and Managing Director, 19+ years of experience in the business of manufacturing heat exchangers and refrigeration units
Qualification	Diploma in Business Management and Diploma in Mechanical Engineering
Responsibility	He mentors, guides and provides perspective to the Board and Management of the Company for strategic planning
Other Directorships	KRNCOILS Private Limited and KRN HVAC Products Private Limited

Key Management Persons Name -	Anju Devi
Age	41
Designation and No. of years of experience	Promoter and Whole-Time Director, 2 years of experience in consultancy services
Qualification	Cleared secondary examination
Responsibility	Human Resource Management
Other Directorship	KRNCOILS Private Limited and KRN HVAC Products Private Limited

Key Management Persons Name -	Manohar Lal
Age	46
Designation and No. of years of experience	Promoter and Non-Executive Director, 21+ years of experience in Indian Army
Qualification	Cleared secondary examination
Other Directorships	-

Key Management Persons Name -	CS Srinivasa Rao Anasingaraju
Age	51
Designation and No. of years of experience	Independent Director, 22+ years of experience
Qualification	B. Com degree, M. Com degree, Bachelor's in law, Cost Accountant and Company Secretary, Registered Insolvency Professional, Postgraduate diploma in Personnel Management Industrial Relations and Labour Welfare
Previous Associations	R.R Bio Energies Limited, PTC Software (India) Pvt Ltd., E2E SerWiz Solutions Limited and Quick Heal Technologies Limited

Key Management Persons Name -	CA Ketan Sharma
Age	37
Designation and No. of years of experience	Independent Director, 10 years of experience
Qualification	Bachelor's in computer science, Chartered Accountant
Other Ventures	Deepti Jain & Co.

Key Management Persons Name -	CA Deepak Batheja
Age	41
Designation and No. of years of experience	Independent Director, 10 years of experience in auditing, company law matters and direct taxation as well as indirect tax matters
Qualification	Bachelor of Commerce, Chartered Accountant
Other Ventures	M/s Batheja and Company Chartered Accountants

FINANCIAL SNAPSHOT**Statement of Profit and Loss**

Amt in Crores

Particulars	FY 22	FY 23	FY 24
Revenue from Operations	156.11	247.48	308.28
Other Income	2.11	2.40	5.26
Total Income	158.23	249.88	313.54
Expenses			
Cost of Material Consumed	124.65	184.90	226.83
Changes in Inventories of finished goods, work-in-progress	-2.01	-8.61	-4.58
Employee Benefit Expenses	6.07	9.28	13.10
Finance Cost	1.54	3.05	3.99
Depreciation and amortisation expense	2.54	3.17	3.99
Other expenses	10.47	12.60	14.47
Total Expenses	143.26	204.39	257.81
EBITDA	16.94	49.32	58.45
EBITDA Margin	10.85%	19.93%	18.96%
Profit/(Loss) before tax	14.97	45.50	55.73
Tax Expense			
Current tax	4.34	13.26	16.83
Deferred Tax	0.04	-0.07	-0.16
Total Tax	4.38	13.18	16.67
Profit/(Loss) for the year	10.59	32.31	39.07
Net Profit Margin	6.78%	13.06%	12.67%

Statement of Assets and Liabilities

Amt in Crores

Particulars	FY 22	FY 23	FY 24
EQUITY AND LIABILITIES			
1. Shareholders' funds			
Share Capital	4.40	44.00	46.14
Other equity	21.13	15.57	85.51
Total Shareholder's Fund	25.53	59.57	131.65
Minority Interest	0.0005	-	-
Total Equity	25.53	59.57	131.65
2. Non-current liabilities			
Financial Liabilities			
Borrowings	11.01	16.54	12.97
Lease Liabilities	-	-	16.36
Provisions	0.26	0.35	0.69
Deferred Tax Liabilities (net)	0.36	0.29	0.10
Total Non-current liabilities	11.62	17.18	30.13
3. Current liabilities			
Financial Liabilities			
Borrowings	11.12	20.11	46.72
Lease Liabilities	-	-	10.91
Trade Payables			
(i) Total outstanding dues of MSME	37.04	44.80	30.90
(ii) Total outstanding dues of creditors other than MSME	3.16	4.61	5.70
Other current liabilities	3.01	1.52	1.11
Provisions	0.68	0.97	1.25
Current Tax Liabilities (net)	0.64	-	-
Total Current liabilities	55.64	72.01	96.59
Total Liabilities	67.26	89.19	126.72
Total Equity and Liabilities	92.79	148.76	258.36
ASSETS			
1. Non-current assets			

Recommendation: **APPLY**

Particulars	FY 22	FY 23	FY 24
Property, Plant & Equipment	21.32	32.15	51.82
Capital Work-In-Progress	-	-	4.45
Right of Use Assets	-	-	29.88
Financial Assets			
Other financial assets	0.39	0.73	1.49
Other Non-current Assets	0.11	0.11	-
Total Non-Current assets	21.82	32.98	87.64
2. Current assets			
Inventories	21.31	55.08	84.41
Financial Assets			
Trade Receivables	29.79	38.66	52.44
Cash & Cash equivalents	5.36	7.46	10.31
Bank balances other than cash	8.83	8.05	5.69
Loans	0.55	1.01	0.53
Other financials assets	0.07	0.18	0.14
Other Current Assets	5.07	2.47	16.30
Other Tax Assets (net)	-	2.88	0.90
Total Current assets	70.98	115.77	170.72
Total Assets	92.79	148.76	258.36

Cash Flow Statement

Amt in Crores

Particulars	FY 22	FY 23	FY 24
Net Cash Flow from Operating Activities	4.48	5.07	2.76
Net Cash Flow from Investing Activities	-2.72	-13.99	-66.36
Net Cash Flow from Financing Activities	3.38	11.01	66.46

Key Ratios

Per Share Data	FY 22	FY 23	FY 24	Valuation Ratios (x)	FY 22	FY 23	FY 24
Diluted EPS	2.41	7.34	8.69	EV/EBITDA	1.98	1.64	3.00
BV per share	0.58	0.14	0.29	Market Cap / Sales	875.92	552.55	443.57
Operating Ratios				P/E	91.29	29.97	25.32
EBITDA Margins	10.85%	19.93%	18.96%	Price to Book Value	379.15	1,624.98	771.00
PAT Margins	6.78%	13.06%	12.67%	Solvency Ratios			
Inventory days	49.82	81.24	99.93	Debt / Equity	0.87	0.62	0.45
Debtor days	69.65	57.02	62.09	Current Ratio	1.28	1.61	1.77
Creditor days	105.63	85.85	53.11	Quick Ratio	0.89	0.84	0.89
Return Ratios				Asset Turnover	1.68	1.66	1.19
RoCE	38.76%	60.13%	33.67%	Interest Coverage Ratio	9.33	15.11	13.66
RoE	41.48%	54.24%	29.68%				

INTERPRETATION –

- The top line has increased over the years (by 59% in FY2023 and by 25% in FY2024). The increase in FY2023 was due to increase in demand after covid-19 and rise in demand in real estate where their products are mostly used. Also their customer base and exports increased. For FY2024, the increase was due to increase in capacity utilization and sales of evaporator and condenser coils increased.
- The net profit had seen a sudden increase in FY2023 by 205% and by 21% in FY 2024.
- The PAT margin and EBITDA margin have also seen a sudden increase in FY2023 as revenue increased and slight dip can be seen in FY2024.
- The RoCE and ROE have seen a slight dip in FY 2024.
- The PE ratio has improved over the years.

LEAD MANAGER TRACK RECORD -

The lead manager to the issue is Holani Consultants Private Limited. A table has been set below highlighting the details of the IPO of the last companies handled by the Lead Manager in recent times –

Holani Consultants Private Limited –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Brace Port Logistics Limited	24.41	80.00	Aug 26, 2024	103.35
2.	Rajputana Industries Limited	23.88	38.00	Aug 06, 2024	85.50
3.	Signoria Creation Limited	9.28	65.00	Mar 19, 2024	144.00
4.	Purv Flexipack Limited	40.21	71.00	Mar 05, 2024	161.00
5.	Motisons Jewellers Limited	151.09	55.00	Dec 26, 2023	287.30
6.	Goyal Salt Limited	18.62	38.00	Oct 11, 2023	191.20
7.	Infollion Research Services Limited	21.45	82.00	Jun 08, 2023	281.00
8.	Shera Energy Limited	35.20	57.00	Feb 17, 2023	176.10
9.	Insolation Energy Limited	22.16	38.00	Oct 10, 2022	3,723.10
10.	Cool Caps Industries Limited	11.63	38.00	Mar 24, 2022	404.85

The company has handled 9 mandates in the past three years (including the current year).

*CMP for the above-mentioned companies is taken as of 23rd Sep 2024.

As per the offer document, the above-mentioned mandates Cool Caps Industries Limited has opened at a discount and the remaining all have opened at a premium on the listing day.

Recommendation -

KRN Heat Exchanger and Refrigeration Limited has been in the industry since 2017 and has decent experience in the industry. The management overview of the company is decent.

The P/E on a post-IPO basis is around 35 times which makes it slightly highly priced.

The company's top line has increased over the years and looks sustainable. The bottom line and profitability margins have seen a sudden increase in FY2023 which should not be a major concern as the company recovered their revenue after Covid-19 as demand increased. Also, they had incorporated the subsidiary company in FY2023 which might be another reason for their exponential growth.

The heat exchanger industry is growing and the company has few competitors and has made its presence in the industry.

The company is raising funds through IPO for Investment in wholly owned subsidiary, KRN HVAC Products Private Limited in the form of equity for setting up a new manufacturing facility at Neemrana, Alwar, Rajasthan ("Proposed Project"), which will help them improve their top line in the long run.

Thus, investors can **APPLY** to this IPO.

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