



IPO Note

Kross Limited

Recommendation: **APPLY!**

Company Background -

- Kross Limited was originally incorporated on May 09, 1991. The registered office is located at Jamshedpur, Jharkhand, India.
- The company is engaged in the manufacturing and supply of trailer axle and suspension assembly and a wide range of forged and precision machined high performance safety critical parts for medium and heavy commercial vehicles ("M&HCV") and farm equipment segments.
- The company supplies its products to a diversified client base which includes large original equipment manufacturers ("OEMs") manufacturing M&HCV and tractors.
- The company had 528 permanent employees and 1,661 contract employees as of June 30, 2024.

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 Expenses.

Promoters Name -

Sudhir Rai, Anita Rai, Sumeet Rai and Kunal Rai

Rationale for recommendation -

- ✓ The company has seen consistency in the growth of its top line and bottom line of the financials.
- ✓ The company's management overview is good.
- ✓ The company operates in a niche market.
- ✓ The company has performed almost at par with its peers.
- ✓ The company is utilising its net proceeds for the purchase of 35 pieces of machinery which will generate revenue.

IPO Details

Opening Date	Sep 09, 2024
Closing Date	Sep 11, 2024
Allotment Date	Sep 12, 2024
Listing Date	Sep 16, 2024
Stock Exchange	BSE, NSE
Lot Size	62 Shares
Issue Price Per Share	₹228 to ₹240
Issue Size	500.00 Cr.
Fresh Issue	250.00 Cr.
Offer for Sale	250.00 Cr
	₹ 14,880 -
Application Amt	₹ 1,93,440 (62 to 806 shares)

INDUSTRY - Automotive Industry

P/E Average - 24.85

KPI's	KPIs		
	(In Cr)		
	FY 22	FY 23	FY 24
Revenue	297.46	488.63	620.25
EBITDA	29.55	57.52	80.76
Net Profit	12.17	30.93	44.88
RoCE	22.75%	38.16%	41.49%
ROE	16.81%	30.29%	30.57%
P/E	106.67	41.96	28.92

Promoter Share Holding Pattern

Pre-Issue	Post Issue
100.00%	67.70%

Valuation Parameters

Particulars	Pre-Issue	Post Issue
EPS	8.30	6.96
BVPS	27.14	57.32
P/E	28.92	34.50
P/BV	8.84	4.19
Mkt Cap (In Cr)	1,298.23	1,548.23

Lead Managers -

Equirus Capital Private Limited

Registrar -

Kfin Technologies Limited

Business Overview -

Kross Limited has been in the industry since 1991 and has almost three decades of experience in the industry. The company is engaged in the manufacturing and supply of trailer axles and suspension and is considered one of the few players domestically with the competency to manufacture trailer axles and suspension assembly in-hours as per CRISIL.

The company has a diversified portfolio of high performance and safety critical components for the M&HCV and farm equipment segments which 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 wide variety of tractor components for the hydraulic lift arrangement, power take-off (“PTO”) shafts and front axle spindles.

Revenue Bifurcation as per the above-mentioned segment is provided below for the FY ended 2022, 2023, and 2024 –

Particulars	2022		2023		2024	
	Amt	%	Amt	%	Amt	%
M&HCV	223.09	75.00	404.35	82.75	551.21	88.87
Farm Equipment	54.65	18.37	59.27	12.13	55.96	9.02
Other Component	19.71	6.63	25.01	5.12	13.09	2.11
Total	297.4	100.0	488.6	100.0	620.2	100.0

The company is in the process of expanding its capacity and increasing its product offerings through the expansion of the existing facilities, through the addition of further production lines, which will allow them to produce a new line of parts such as the hydraulic cover for tractors and in-house machining line of hubs and brake drums.

Products -

1. M&HCV Components and Assemblies - Trailer Axles and Suspensions • Axle Shafts • Coupling Flanges • Differential Spiders • Bevel Gear Assemblies • Bell Crank Assemblies • Trunion Pins • Gear Joint Assemblies • Clutch Release Forks • Steering Joints • Universal Cross • Input and Output shafts • Reaction Plate and Carrier Annulus • Planet Carrier Assembly • Rear End Spindles • ABS Pole wheels • Interaxle rings • Anti Roll bar and stabilizer bar assembly.
2. Tractor Components and Assemblies - Spindle Front axles • Control Spring Assembly • Arm rams and Hydraulic lift arms • PTO Shafts • Hydraulic Lift shafts

Product Portfolio -



Axle Shafts



Bell Crank Assembly



Differential spiders



Hydraulic life components

Manufacturing Facility -

The company operates five manufacturing facilities in Jamshedpur, Jharkhand, equipped with (i) forging presses and upsetters equipped with induction billet heaters, (ii) foundry with a high-pressure mould line, (iii) high-precision machining equipment such as turning centres, vertical and horizontal milling centres, grinding, broaching, hobbing, shaping and robotic welding, (iv) in-house cathodic electro-disposition plant (“CED Plant”), powder coating, spray painting and (v) heat treatment furnaces and induction hardening equipment.

Competition -

- **Market Competition and Geographic Landscape: High**, Competition is strong across diverse markets and product segments, though no competitor covers the full spectrum, the uncertainty of long-term developments keeps competition high.
- **Rivalry Among Existing Competitors: High**, face both domestic and international competition, where competitors may offer a broader product range, better technology, or stronger brand recognition
- **Barriers to entry: Moderate**, need for financial and technical resources and customer relationships reduces the immediate threat of new entrants.
- **Bargaining Power of Suppliers: Moderate**, some competitors can produce at lower costs, but efficient supply chain management and strategic sourcing can mitigate supplier power in most cases.
- **Bargaining Power of Buyers: High**, driven by price sensitivity, quality expectations, and the availability of alternative suppliers

Business Strategies -

- The company intends to continue to invest in creation of additional capacities, both for the existing products as well as for creation of new products.
- The company intends to enhance the capabilities in machining processes so that they can do in-house machining of hubs and brake drum and increase the share of value-added and high-margin components.
- The company seeks to pursue emerging opportunities, including axle beam extrusion and seamless tube manufacturing processes which would allow to further backward integrate the operations and reduce the dependence on external vendors.
- The company aims to continuously improve profitability by constant cost optimization, leveraging the backward integration capabilities and increasing capacity utilization.

Risk Factors -

- The company's top five customers contributed to 70.47%, 68.37%, and 66.02% for the FY ended 2022, 2023, and 2024 respectively. The loss of a major customer or reduction in demand may adversely affect the business.
- The top three suppliers of steel in each of Fiscal 2024, Fiscal 2023 and Fiscal 2022, accounted for 40.60%, 44.22% and 53.33% respectively of the overall raw material purchases.
- The company, directors, and promoters are involved in certain legal proceedings amounting to Rs. 7.67 Cr.
- The company has contingent liabilities amounting to 38.79 Cr and commitments of Rs. 9.91 Cr.

PEER ANALYSIS

Particulars	Kross Limited			Ramkrishna Forgings Limited			Jamna Auto Industries Limited			Automotive Axles Limited		
	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24
NP Margin	4.1%	6.3%	7.2%	8.5%	7.8%	8.6%	8.2%	7.2%	8.4%	5.0%	7.0%	7.4%
EBITDA Margin	9.9%	11.8%	13.0%	22.4%	21.8%	21.9%	13.5%	11.7%	13.7%	9.3%	11.3%	11.7%
RoCE	28.0%	37.1%	41.5%	17.0%	22.0%	16.3%	26.8%	28.4%	30.7%	15.8%	28.2%	25.1%
ROE	16.8%	30.3%	30.6%	291.4%	236.8%	216.5%	26.5%	31.4%	35.5%	226.8%	389.4%	285.1%
EPS (INR)	2.25	5.72	8.30	12.39	15.52	20.04	1.50	1.90	2.20	15.00	32.00	32.00
P/E	106.67	41.96	28.92	13.30	18.43	34.49	68.30	52.45	60.11	112.97	73.88	54.92

Particulars	Kross Limited			GNA Axles Limited			Talbro's Automotive Components Limited]		
	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24
NP Margin	4.1%	6.3%	7.2%	7%	8%	7%	8%	8%	13%
EBITDA Margin	9.9%	11.8%	13.0%	14%	15%	13%	15%	16%	22%
RoCE	28.0%	37.1%	41.5%	21%	25%	18%	21%	21%	27%
ROE	16.8%	30.3%	30.6%	15%	18%	12%	15%	15%	20%
EPS (INR)	2.25	5.72	8.30	20.68	30.33	23.28	7.27	3.00	5.94
P/E	106.67	41.96	28.92	6.96	4.75	6.19	19.81	48.00	24.24

Automotive Industry -

The Automotive Industry and within it the commercial vehicles and tractors industry are very closely linked to the performance of the Economy. Economic slowdowns result in reduced industrial activities and lower consumer spending, directly affecting automotive segments such as commercial vehicle and tractor sales.

When the economy contracts, businesses often delay or reduce investments in new vehicles, leading to a drop in orders for forging and machining components. This contraction forces manufacturers to cut back on production, affecting their revenue streams and profitability.

Within the Economic spectrum, the tractors and commercial vehicle industry is very closely linked to the output of the agricultural and manufacturing sectors. While the Agricultural sector has a direct dependence on the normalcy of monsoon, the manufacturing sector too, is indirectly impacted by monsoon performance both on demand as well as supply side across various sub-segments of manufacturing

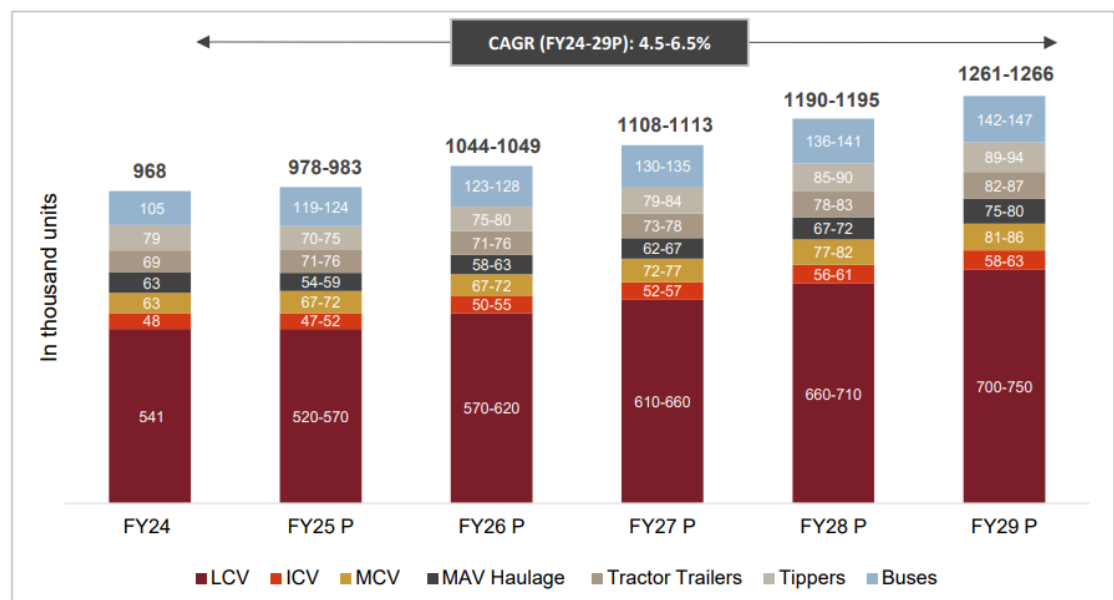
MHCVs Industry -

The MHCV industry is expected to grow significantly, with a compound annual growth rate (CAGR) of approximately 2-4% projected from fiscal year 2024 to fiscal year 2029. Long-term MHCV sales are likely to be driven by several factors, including the country's improving industrial activity, consistent agricultural output, and the government's continued emphasis on infrastructure development.

However, volume growth may be limited due to efficiencies gained from the implementation of the Goods and Services Tax (GST), the development of improved road infrastructure, and the commissioning of the dedicated goods corridor (DFC). Nonetheless, the industry remains on a promising growth trajectory in the coming years. Over the next five years (fiscal 2024-2029), industry GVA is expected to be robust, driven by the government's emphasis on "Make in India." Furthermore, infrastructure improvements and higher-than-expected corporate spending are expected to support the capex cycle after fiscal 2024.

Domestic Sales Outlook of CVs

Source: RHP



Key Management -

Key Management Persons Name -	Sudhir Rai
Age	64
Designation and No. of years of experience	Promoter, Chairman and Managing Director, associated with the company since incorporation.
Qualification	bachelor's degree in science, diploma in business administration.
Roles and Responsibility	Policy matters of the company.
Other Directorships	Tuff Seals Private Limited as a Director and is a director on the board of Tuff Seals Private Limited since 1982

Key Management Persons Name -	Anita Rai
Age	60
Designation and No. of years of experience	Promoter, Whole-time Director, associated with the company since incorporation.
Qualification	bachelor's degree in education, postgraduate certificate in logistics and supply chain management
Roles and Responsibility	store and purchase activity of the company.
Other Directorships	-

Key Management Persons Name -	Sumeet Rai
Age	36
Designation and No. of years of experience	Promoter, Whole-time Director, associated with the company since April 1, 2008.
Qualification	bachelor's degree in science in engineering (mechanical engineering)
Roles and Responsibility	plant operation of the company.
Previous Associations	-

Key Management Persons Name -	Kunal Rai
Age	32
Designation	Promoter, Whole-time Director, and CFO, associated with the company since April 8, 2014.
Qualification	bachelor's degree in science
Roles and Responsibility	Finance and commercial activities of the company.
Other Directorships	-

Independent Directors -

Sanjiv Paul – Education: Bachelor's degree in science. He was previously associated with Tata Steel Limited as vice president and Tata Metaliks Limited as managing director.

Mukesh Kumar Agarwal - He has passed the final exam of diploma in mechanical engineering. He is currently associated with RSquareinfo e-Solutions Private Limited as a Director.

Deepa Verma - She has a bachelor's degree of commerce, and diploma in personnel management and industrial relations. She was previously associated with Tata Steel as chief human resource business partner.

Gurvinder Singh Ahuja - He is a certified chartered accountant. He was previously associated with Tata Motors Limited as general manager-plant finance.

FINANCIAL SNAPSHOT

Statement of Profit and Loss

Amt in Crores

Particulars	FY 22	FY 23	FY 24
Revenue from Operations	297.46	488.63	620.25
Other Income	0.43	0.73	1.21
Total Income	297.88	489.36	621.46
Expenses			
Cost of Material Consumed	159.57	294.17	378.68
Changes in Inventories	0.72	-4.46	-22.78
Employee benefits expense	20.18	26.51	30.42
Finance Cost	8.16	12.22	14.90
Depreciation and Amortization expense	5.50	4.32	5.79
Other expenses	87.44	114.89	153.17
Total Expenses	281.57	447.65	560.17
EBITDA	29.55	57.52	80.76
EBITDA Margin	9.93%	11.77%	13.02%
Profit/(Loss) before tax	16.31	41.71	61.29
Tax Expense			
Current tax	3.95	10.08	15.49
Current tax for earlier years	0.00	0.10	0.56
Deferred Tax	0.19	0.60	0.36
Total Tax Expense	4.14	10.78	16.41
Profit/(Loss) for the year	12.17	30.93	44.88
Net Profit Margin	4.09%	6.32%	7.22%

Statement of Assets and Liabilities

Amt in Crores

Particulars	FY 22	FY 23	FY 24
EQUITY AND LIABILITIES			
1. Shareholders' funds			
Share Capital	13.52	13.52	27.05
Other Equity	58.88	88.58	119.76
Total Equity	72.40	102.11	146.81
2. Non-current liabilities			
Financial Liabilities			
(i) Borrowings	23.73	27.07	22.53
(i) Lease Liabilities	-	0.04	0.52
Provisions	4.56	4.56	4.90
Deferred tax liabilities	5.00	5.64	5.94
Total Non-current liabilities	33.28	37.31	33.88
3. Current liabilities			
Financial Liabilities			
(i) Borrowings	62.33	61.12	94.58
(ii) Lease Liabilities	-	0.03	0.28
(iii) Trade Payables	-	-	-
(a) Outstanding Dues to MSME	10.28	5.28	8.99
(b) Outstanding Dues to other than MSME	8.88	28.77	39.76
(iv) Other Current Financial Liabilities	1.39	2.88	7.92
Provisions	0.39	0.48	0.64
Current Tax Liabilities (net)	2.54	4.81	8.68
Other Current Liabilities	6.32	7.80	10.47
Total Current liabilities	92.14	111.16	171.32
Total Liabilities	125.42	148.47	205.20
Total Equity and Liabilities	197.82	250.57	352.00
ASSETS			
1. Non-current assets			
Property, Plant and Equipment	75.84	89.08	105.14
Capital work-in-progress	-	-	5.43
Right-to-use assets	-	0.07	0.78

Particulars	FY 22	FY 23	FY 24
Other Intangible Assets	0.01	0.02	0.09
Financial Assets	-	-	-
(i) Investments	0.03	0.03	0.03
(ii) Other financial assets	6.20	6.59	3.13
Other non-current assets	2.29	3.30	3.25
Total Non-Current assets	84.37	99.09	117.85
2. Current assets			
Inventories	41.37	62.20	83.52
Financial Assets	-	-	-
(i) Investments	0.08	0.11	0.53
(ii) Trade receivables	50.35	51.81	109.84
(iii) Cash and cash equivalents	0.62	13.00	5.66
(iv) Bank balances other than (iii)	-	1.25	4.86
(v) Other financial assets	0.21	0.18	0.18
Other Current Assets	20.82	22.95	29.58
Total Current assets	113.46	151.49	234.16
Total Assets	197.82	250.57	352.00

Cash Flow Statement

Amt in Crores

Particulars	FY 22	FY 23	FY 24
Net Cash Flow from Operating Activities	17.54	41.75	8.25
Net Cash Flow from Investing Activities	-12.00	-18.80	-30.40
Net Cash Flow from Financing Activities	-5.51	-10.57	14.81

Key Ratios

Per Share Data	FY 22	FY 23	FY 24	Valuation Ratios (x)	FY 22	FY 23	FY 24
Diluted EPS	2.25	5.72	8.3	EV/EBITDA	5.34	3.06	3.14
BV per share	13.39	18.88	27.14	Market Cap / Sales	5.20	3.17	2.50
Operating Ratios				P/E	106.67	41.96	28.92
EBITDA Margins	9.93%	11.77%	13.02%	Price to Book Value	17.93	12.71	8.84
PAT Margins	4.09%	6.32%	7.22%	Solvency Ratios			
Inventory days	50.77	46.46	49.15	Debt / Equity	1.19	0.86	0.80
Debtor days	61.78	38.70	64.64	Current Ratio	1.23	1.36	1.37
Creditor days	44.00	40.20	46.97	Quick Ratio	0.78	0.80	0.88
Return Ratios				Asset Turnover	1.50	1.95	1.76
RoCE	22.75%	38.16%	41.49%	Interest Coverage Ratio	2.95	3.47	6.26
RoE	16.81%	30.29%	30.57%				

LEAD MANAGER TRACK RECORD -

The lead manager to the issue is Equirus Capital 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 –

Equirus Capital Private Limited –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	ECOS (India) Mobility & Hospitality Limited	601.20	334.00	Sep 04, 2024	492
2.	DEE Development Engineers Limited	418.01	203.00	June 26, 2024	335
3.	Capital Small Finance Bank Limited	523.07	468.00	Feb 14, 2024	296
4.	Jyoti CNC Automation Limited	1,000.00	331.00	Jan 16, 2024	1,145
5.	Happy Forgings Limited	1,008.59	850.00	Dec 27, 2023	1,226
6.	Fedbank Financial Services Limited	1,092.26	140.00	Nov 30, 2023	119
7.	Protean eGov Technologies Limited	490.33	792.00	Nov 30, 2023	2,061
8.	Zaggle Prepaid Ocean Services Limited	563.38	164.00	Sep 22, 2023	368
9.	TVS Supply Chain Solutions Limited	880.00	197.00	Aug 23, 2023	216
10.	Netweb Technologies India Limited	631.00	500.00	July 27, 2023	2,714

The company has handled 14 mandates in the past three years (including the current year).

*CMP for the above-mentioned companies is taken as of 10th Sep 2024.

As per the offer document, from the above-mentioned mandates 2 have opened at a discount and the remaining all has opened at a premium on the listing day.

Recommendation -

Kross Limited has been in the industry since 1991 and has good experience in the industry. The management overview of the company is satisfactory.

The P/E on a post-IPO is 34.50 times which makes it slightly highly priced by looking at the performance of the company and its peers. The industry average PE is 24.85 times.

The company operates in a growing industry. The company has seen a sustainable increase in both its top line and bottom line over the years. The company operates through 5 manufacturing units and has a vast geographic presence. The company is utilizing its net proceeds for the purchase of 35 new machinery which will help in the growth of the company and impact the revenues in the future. The company also intends to enter into the production of a new line of parts such as the hydraulic cover for tractors and an in-house machining line of hubs and brake drums. Slight concern towards the high valuation that the company is projecting.

Thus, we have an **APPLY** opinion to this IPO.

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