

IPO Note – KRN Heat Exchanger Ltd.

26 September 2024

Overview: -

KRN Heat Exchangers is engaged in the manufacturing of fin and tube type heat exchangers for the Heat Ventilation Air Conditioning and Refrigeration Industry (HVAC&R). Heat exchangers manufactured by them are made of non-ferrous metals primarily Copper and Aluminium. Their product range includes condenser coils, evaporator units, evaporator coils, header/copper parts, fluid and steam coils and sheet metal parts.

Competitive Strengths: - 1) Over its operating history from 2017, the company has been able to maintain long term relation with certain clients. Though any of these clients have not signed any long-term agreement with the company for its purchase, however, they have maintained their association with the company highlighting the importance and reputation gained by KRN Heat Exchanger. 2) The company's manufacturing unit is equipped and capable of carrying out end-to-end manufacturing activities. The end-to-end services comprises of full-service capabilities across the product cycle including product design and development, material sourcing, designing, testing and measurement infrastructure, all under one roof to meet the requirement of global customers. 3) Over FY22-24, the company has adopted several initiatives to improve cost efficiency, which is reflected in its improved operational profitability and margins. They would like to continue their efforts to improve operational efficiency by leveraging other manufacturing strategies, sourcing strategies and cost reduction strategies.

Key Risks: - 1) The company derives more than 33% of its revenue from Top 1 customer (Daikin). Further Top 5 customers also contribute ~55% of revenue indicating the business is heavily dependent on few customers and any slowdown or delay of orders from these customers could adversely impact the results of operations. 2) The company imports 78.2% of raw material cost with Vietnam accounting for 25.7% of imports. Any change in trade agreements with these countries might disrupt the supply chain management and hence financial of the company.

Outlook & valuation – SUBSCRIBE

We have a **SUBSCRIBE** recommendation to this issue on the back of a) healthy performance over past three years, b) the company will be the only listed company in pure play heat exchange business and c) valuation of 24.8x PE (pre-money) and 33.5x PE (post-money) on a trailing basis is reasonable considering the return ratios and capacity expansion by 6 times which is expected to commence by the end of FY25.

Financials & valuation –

Particulars	FY22	FY23	FY24
Revenue	156	247	308
EBITDA	17	49	58
EBITDA Margin (%)	10.8%	19.9%	19.0%
PAT	11	32	39
RoE	54.9%	75.9%	40.9%
RoCE	34.7%	50.5%	31.2%

Source: ABML Research, RHP, company presentation

Aditya Birla Money Ltd.

10th Floor, R - Tech Park, Nirlon Knowledge Park, Off Western Express Highway,
Goregaon (E), Mumbai - 400 063
+91 22 6225 7600

care.stocksandsecurities@adityabirlacapital.com | www.stocksandsecurities.adityabirlacapital.com

Rating	SUBSCRIBE
Issue Details	
Issue Opens	25-Sept-24
Issue Closes	27-Sept-24
Face Value (₹)	10
Price Band (₹)	209-220
Bid Lot	65
Issue Size at higher price band (₹ Cr)	342
Market cap @ upper price band (₹ cr)	1310
Listing	NSE/BSE
BRLMs	Holani Consultants Pvt Ltd
Registrar	Bigshare Services Pvt Ltd

Shareholding Pattern (%)		
	Pre-Issue	Post Issue
Promoter	94.39	70.80
Public	5.61	29.20
Issue Structure (In cr no. of shares)		
Issue size	1.55	
Break-up of net issue to public (%):		
QIB's portion	50%	
Non-Institutional portion	15%	
Retail Portion	35%	

Source: ABML Research, RHP

Analyst Details
Vinit Agarwal
022-6819 0517
vinit.agarwal@adityabirlacapital.com

Registered Office:

Indian Rayon Compound, Veraval,
Gujarat - 362 266

CIN: L65993GJ1995PLC064810

IPO Note – KRN Heat Exchanger Ltd.

26 September 2024

Disclaimer:

This document is not for public distribution and is meant solely for the personal information of the authorised recipient. No part of the information must be altered, transmitted, copied, distributed or reproduced in any form to any other person. Persons into whose possession this document may come are required to observe these restrictions. This document is for general information purposes only and does not constitute an investment advice or an offer to sell or solicitation of an offer to buy / sell any security and is not intended for distribution in countries where distribution of such material is subject to any licensing, registration or other legal requirements.

The information, opinion, views contained in this document are as per prevailing conditions and are of the date appearing on this material only and are subject to change. No reliance may be placed for any purpose whatsoever on the information contained in this document or on its completeness. Neither Aditya Birla Money Limited (ABML), its group companies, its directors, associates, employees nor any person connected with it accepts any liability or loss arising from the use of this document. The views and opinions expressed herein by the author in the document are his own and do not reflect the views of Aditya Birla Money Limited or any of its associate or group companies. The information set out herein may be subject to updation, completion, revision, verification and amendment and such information may change materially. Past performance is no guarantee and does not indicate or guide to future performance.

Nothing in this document is intended to constitute legal, tax or investment advice, or an opinion regarding the appropriateness of any investment, or a solicitation of any type. The contents in this document are intended for general information purposes only. This document or information mentioned therefore should not form the basis of and should not be relied upon in connection with making any investment. The investment may not be suited to all the categories of investors. The recipients should therefore obtain their own professional, legal, tax and financial advice and assessment of their risk profile and financial condition before considering any decision.

Aditya Birla Money Limited, its associate and group companies, its directors, associates, employees from time to time may have various interests/ positions in any of the securities of the Company(ies) mentioned therein or be engaged in any other transactions involving such securities or otherwise in other securities of the companies / organization mentioned in the document or may have other interest with respect to any recommendation and / related information and opinions. The company follows Employee Trading Policy which regulates the trading activities of the research analysts. The compensation of the research analysts is governed as per the Board approved "Research Analyst" Policy.

Aditya Birla Money Limited is acting as a Research Analyst and is registered under SEBI (Research Analyst) Regulations, 2014. SEBI Registration No. INH000002145

Aditya Birla Money Ltd.

10th Floor, R - Tech Park, Nirlon Knowledge Park, Off Western Express Highway,
Goregaon (E), Mumbai - 400 063
+91 22 6225 7600
care.stocksandsecurities@adityabirlacapital.com | www.stocksandsecurities.adityabirlacapital.com

Registered Office:

Indian Rayon Compound, Veraval,
Gujarat - 362 266

CIN: L65993GJ1995PLC064810