

The Issue

| Type of Issue | Issue size Rs. Mn |
|----------------------------|-------------------|
| Fresh Issue | 3,415 |
| Offer for sale | - |
| Total | 3,415 |
| Post issue mkt cap* | 13,670 |
| Lot size | 65 shares |

***At Upper Price Band**
Issue Break-Up

| Reservation for | % of Issue |
|-----------------|-------------|
| QIB | 50% |
| NII | 15% |
| Retail | 35% |
| Total | 100% |

Indicative Offer Timeline
Indicative Date

| | |
|--|---------------|
| Bid/Offer Opening Date | 25 Sept, 2024 |
| Bid/Offer Closing Date | 27 Sept, 2024 |
| Finalization of the Basis of Allotment | 30 Sept, 2024 |
| Credit of shares | 01 Oct, 2024 |
| Listing Date | 03 Oct, 2024 |

Use of Proceeds
Rs. Mn

| | |
|---|-------|
| Setting up a new manufacturing facility for wholly owned subsidiary KRN HVAC Products Pvt. Ltd. | 2,425 |
| General Corporate Purpose | |

BRLM & Registrar

| | |
|------------------|--------------------|
| Manager | Holani Consultants |
| Registrar | Bigshare Services |

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Capitalizing on HVAC industry growth...

Company 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 Aluminum.
- Their product range includes condenser coils, evaporator units, evaporator coils, header/copper parts, fluid and steam coils and sheet metal parts.
- The diameter of heat exchanger tubes they produce ranges from 5mm to 15.88mm. Their products are well suited for wide range of air conditioning, heating and ventilation, refrigeration, and process cooling applications.
- Manufacturing is carried out at its consolidated manufacturing facility comprising 2 industrial plots situated in the RIICO Industrial Area, Neemrana, Rajasthan.
- The company has integrated forward with the incorporation of KRN HVAC Products, a wholly owned subsidiary to increase value-added products in its existing portfolio. Its value-added products include Bar & Plate Heat Exchanger, Oil Cooling Unit with Blower & Motor, and Roll Bond Evaporator.
- As of March 31, 2024, domestic sales contributed 85% of its revenue down from 90% in FY22, while exports contributed 15% up from ~10% in FY22. Over FY22-24, domestic sales and Exports revenue CAGR was 25.5% and 44.7% respectively.
- Considering the criticality of its products in the performance of cooling appliances, they have undergone stringent quality and checks and adhere to some of Industry's best quality product accreditations (*Refer Pg. 7*).
- Their clientele includes Daikin Airconditioning, Schnieder Electric, Kirloskar Chillers, Blue Star, Climaventa Climate Technologies and Frigel Intelligent Cooling Systems among others.

Valuation and Outlook:

At an upper price band of Rs 220, the IPO is attractively priced at a PE of ~35x on FY24 basis. There is no listed peer for the company. Over FY22-24, its Revenue/Ebitda/Apat registered a CAGR of 40.5%/85.8%/92.1% respectively. Multiple growth opportunities lie ahead for the company on account of (1) low penetration of RAC in Indian households, (2) rising demand for energy efficient HVAC system in corporate offices, QSR, warehouses and commercial vehicle space (3) export opportunity especially to USA on back of restriction levied on Chinese products and (4) ramping up of manufacturing capacity in its subsidiary KRN HVAC products Pvt Ltd, which would offer new products in the market. We like the growth prospect and find comfort in valuation at upper price band. We thereby assign a Subscribe rating to the IPO.

KRN Heat Exchanger and Refrigeration Ltd.

| Shareholding Pattern | Holding (%) | |
|----------------------------|--------------|--------------|
| | Pre Issue | Post Issue* |
| Promoters & Promoter Group | 94.4 | 70.8 |
| Others/Public | 5.6 | 29.2 |
| Total | 100.0 | 100.0 |

* At upper price band

| Issue Structure (Rs. Mn) | Floor | Cap |
|--|-------|-------|
| Net Offer—Fresh Issue | 4,100 | 3,415 |
| QIB Portion (50% of Offer) | 2,050 | 1,708 |
| Non Institutional portion (15% of Offer) | 615 | 512 |
| Retail portion (35% of Offer) | 1,435 | 1,195 |

Key Financial Summary (Rs. Mn)

| Particulars | FY22 | FY23 | FY24 |
|----------------------------|--------------|--------------|--------------|
| Revenue | 1,561 | 2,475 | 3,083 |
| EBITDA | 169 | 493 | 585 |
| <i>EBITDA margin (%)</i> | <i>10.8%</i> | <i>19.9%</i> | <i>19.0%</i> |
| Adj. PAT | 106 | 323 | 391 |
| <i>Adj. PAT margin (%)</i> | <i>6.8%</i> | <i>13.1%</i> | <i>12.7%</i> |
| EPS (Adj for issue) | 1.7 | 5.2 | 6.3 |

Comparison vs Peer

| Particulars | FY21-23 CAGR | | | EBITDA Margin | | |
|---|--------------|---------------|---------------|---------------|--------------|--------------|
| | Revenue | EBITDA | PAT | FY21 | FY22 | FY23 |
| KRN Heat Exchanger and Refrigeration | 80.7% | 201.5% | 262.0% | 7.2% | 10.8% | 19.9% |
| Alfa Laval India Pvt. Ltd. | 20.4% | 10.2% | 4.8% | 21.0% | 24.0% | 17.9% |
| Danfoss Power Solutions India Pvt. Ltd. | 13.8% | 15.9% | 28.2% | 13.9% | 15.9% | 14.3% |
| Kelvion India Pvt. Ltd. | 26.6% | NA | NA | -59.3% | 2.2% | 6.0% |
| Prijai Heat Exchangers Pvt. Ltd. | 59.8% | 144.0% | NA | 3.0% | 7.7% | 7.0% |
| Rex Heat Exchangers India Pvt. Ltd. | 76.3% | 65.8% | 144.9% | 16.0% | 19.2% | 12.4% |
| Spirotech Heat Exchangers Pvt. Ltd. | 20.5% | -14.1% | -24.4% | 22.0% | 13.9% | 11.2% |

KRN Heat Exchanger and Refrigeration Ltd.

Strengths:

- **Long-standing business relationship with leading clients:** 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.
- **Effective Quality Control Checks: Heat exchanger forms an important and critical component in HVAC industry.** Therefore, the quality of the product is crucial for clients in the industry. Their products undergo stringent quality control checks such as Helium Leak Test, Water Leak Test, Contamination Test, Salt Spray Testing, Burst Pressure Testing and Pressure Cyclic Testing to ensure the best quality products are supplied to their customers. They have a dedicated quality control management team who ensures that its products pass the multi-level checks to offer quality products and enhance brand value.
- **Established Manufacturing Facility:** 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.

Investment Rationale/Strategies:

- ⇒ **Expanding customer base:** Top 10 customers contributed over 75% of its FY24 revenue. The company intends to diversify this by deepening penetration in its existing markets and tapping new markets. This they aim to achieve by enhancing product distribution. They also intend to introduce various other allied products which will further enable them to increase their customer base.
- ⇒ **Focus on improving operational efficiency to improve returns:** 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.
- ⇒ **Enhancing existing products base and product quality:** High quality and safety complying products is the much important need of customer. Delivery of the same would ensures long-term relationship with customers. This also enables the company to understand market demand and penetration for its products. This way they would be able to introduce new product designs to cater to the requirements of existing as well as potential customers. For this purpose, they have incorporated a wholly owned subsidiary viz KRN HVAC Products Pvt. Ltd. which would facilitate them to manufacture new value-added products like Bar & Plate Heat Exchanger, Oil Cooling Unit with Blower and Motor and Roll Brand Evaporator.
- ⇒ **Increasing global footprint and augmenting growth in current geographies:** Over the last several years, the company has consistently expanded its customer network across Europe and would continue to expand in Europe and North America in future. This would also help them to diversify their high revenue dependence over top 10 customers as well as increase their market share. Their wide product portfolio and established brand presence would also enable them to engage with new customers.

KRN Heat Exchanger and Refrigeration Ltd.

Key Risks:

- **Top Customer:** The company derives more than 33% of its revenue from Top 1 customer (Daikin Air Conditioning India Pvt Ltd.). 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.
- **Sales of Customers:** Being an OEM supplier, the company revenue is solely dependent on the sale of products by its customers. Any harm to top customers will also affect the company's financials.
- **Top Suppliers:** The company sources its 57.7% raw materials requirement from Top 5 suppliers. Any cancellation or delay or shutting down of operations on the part of suppliers will materially affect the business operations of the company.
- **Raw Materials:** The company is exposed to fluctuation in prices of its raw materials like Aluminium, Copper, Galvanize Sheet, and Stainless Steel against which no hedging policies or practices are adopted by the company. Any volatility in prices of these metals will affect the financials of the company.
- **Imports:** 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.
- **Competition from Customers:** If any customer starts developing heat exchangers in house, the company will lose major revenue source and might have to even face competition from the same.
- **Govt. Incentive & Schemes:** The company benefits from various central and state government incentives like RoDTEP, EPCG, and RIPS. Any changes, withdrawal or revocation of scheme(s) might affect the financials of the company.
- **Short Term Contracts:** There is no long-term agreement between the company and its customers. All orders are delivered on need basis and there is no commitment. If the customers choose not to source their requirement from the company, there might be impact on the business operations.
- **Geography:** All the manufacturing units of the company are situated in RIICO Industrial Area, Neemrana, Rajasthan. This exposes the company to geographical risks arising in the state or the city.
- **Inventory:** If the company is unable to correctly forecast customer requirements, it might end up with significant inventory or may end up supplying lower vs demand.
- **Quality Checks:** The company is subject to precise technical designs and specifications. Failure to meet required criteria might result in cancellation of order, loss of business and reputational damage.

KRN Heat Exchanger and Refrigeration Ltd.

Revenue from Top Clients

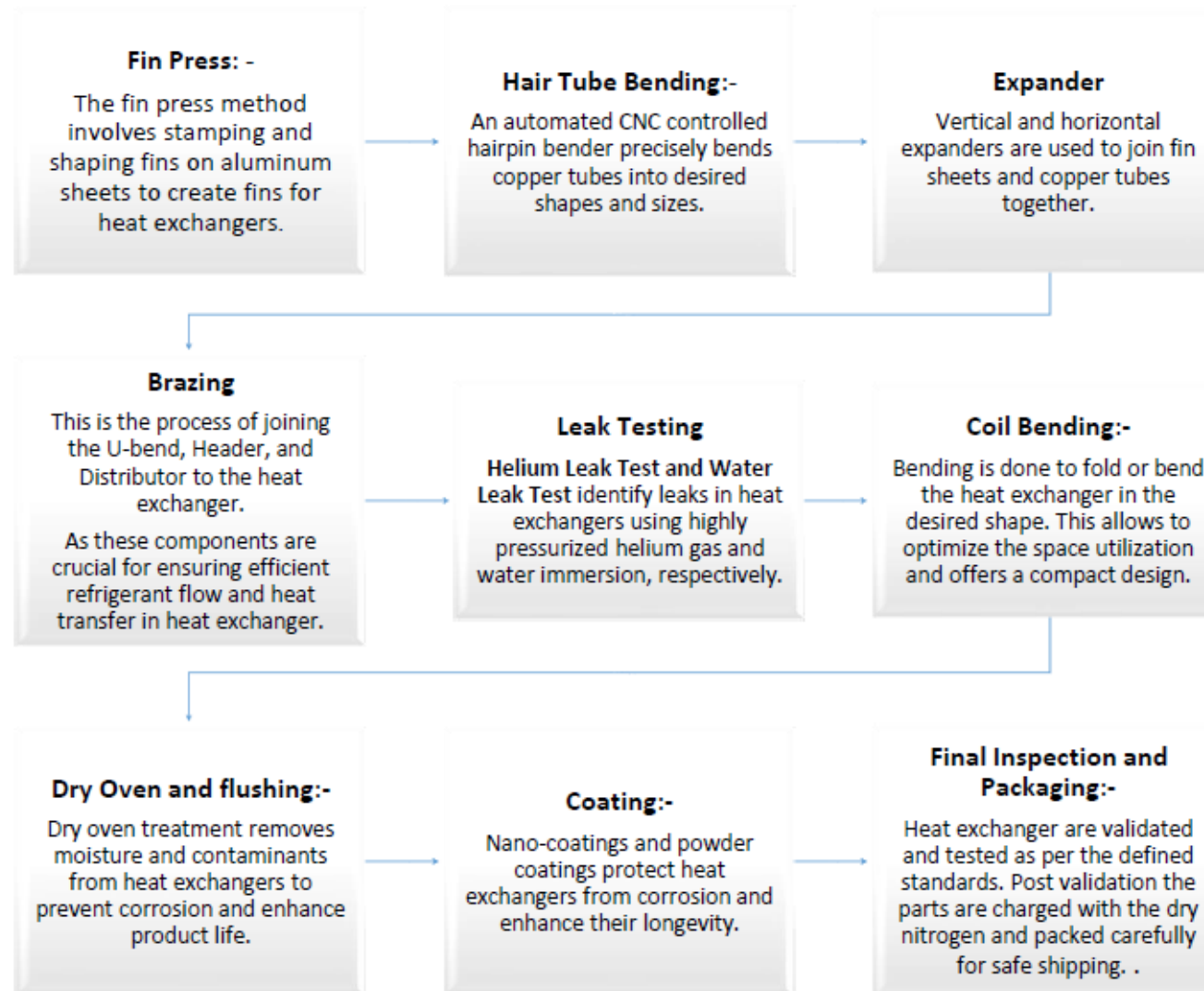
| Customers Contributions | FY22 | FY23 | FY24 |
|-------------------------|------------|------------|------------|
| Top 1 | 504 | 813 | 1,028 |
| <i>% of Revenue</i> | <i>33%</i> | <i>33%</i> | <i>32%</i> |
| Top 5 | 933 | 1,381 | 1,699 |
| <i>% of Revenue</i> | <i>55%</i> | <i>56%</i> | <i>60%</i> |
| Top 10 | 1,184 | 1,754 | 2,229 |
| <i>% of Revenue</i> | <i>72%</i> | <i>71%</i> | <i>76%</i> |

Client Association

| Client Name | Association Since |
|--|-------------------|
| Daikin Airconditioning India Pvt. Ltd. | 2018 |
| Schnieder Electric IT Business India Pvt. Ltd. | 2019 |
| Kirloskar Chillers Pvt. Ltd. | 2020 |
| Blue Star Ltd. | 2021 |
| Climaventa Climate Technologies Pvt. Ltd. | 2021 |

Key Clients



Manufacturing Process


ISO Certifications

| ISO Certifications | Validity |
|---|----------------------|
| ISO 9001:2015 in recognition of organization's Quality Management System. | 10-10-2025 |
| ISO 14001:2015 in recognition of organization's Environment Management System. | 10-10-2025 |
| ISO 45001:2018 in recognition of organization's Health and Safety Management System. | 10-10-2025 |
| IS 11329:2018 in recognition of the quality of finned type heat exchanger for room air conditioners from BIS. | 18-10-2024 |
| CE 2215001 conformity certificate Issued by Szutest, turkey for the quality assurance | 29-05-2025 |
| BS EN ISO 13134 Certificate for Brazing procedure | Valid till Cancelled |
| UL-207 for Recognized Standard for Refrigerant-Containing Components and Accessories | Valid till Cancelled |

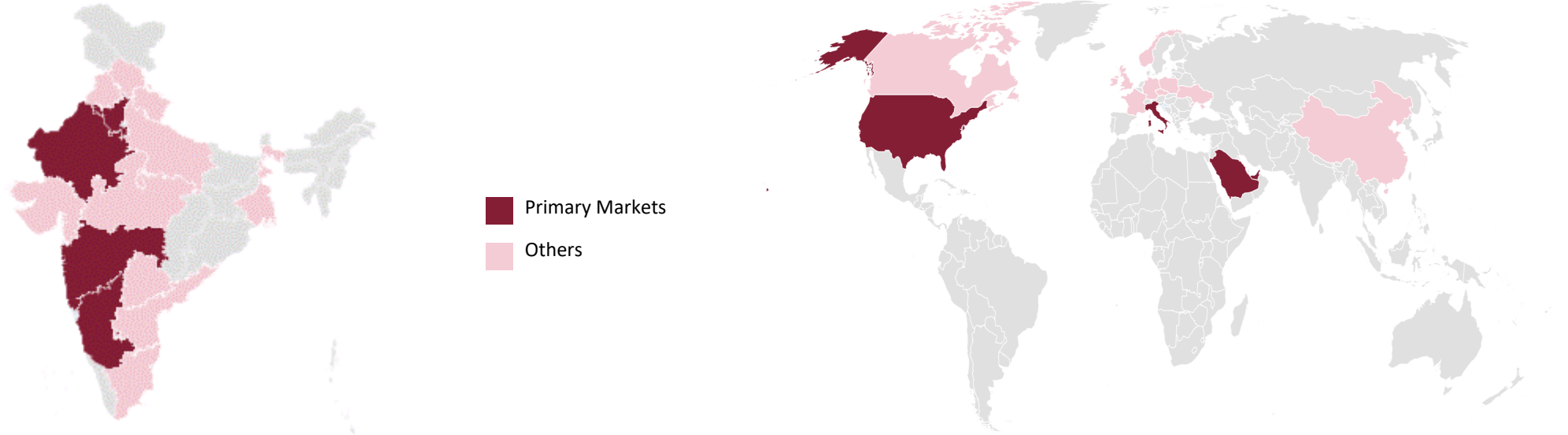
Raw Materials

| Type of Raw Material | Usage | Source |
|--------------------------|---------------------------------|------------|
| Aluminium Foil | Fin Making | Imported |
| Copper Foil | Fin Making | Indigenous |
| Copper Tube | Hair Pin and Header Making | Imported |
| Galvanise Sheet | End Plates Making | Indigenous |
| Brass Sheet/ Brass Parts | End Plates Making /Distribution | Indigenous |
| Copper Sheet | End Plates Making | Indigenous |
| Aluminium Sheet | End Plates Making | Indigenous |
| Stainless Steel | End Plates Making | Indigenous |

Imports

| Imports (Rs Mn) | FY22 | FY23 | FY24 |
|-----------------|-------|-------|-------|
| Malaysia | 3,382 | 6,534 | 8,465 |
| Vietnam | 3,661 | 3,104 | 6,462 |
| South Korea | 327 | 2,467 | 2,386 |
| Thailand | 1,859 | 2,360 | 1,271 |
| China | 771 | 2,123 | 1,080 |
| US | 0 | 22 | 2 |
| France | 0 | 0 | 0.1 |
| Italy | 0 | 0 | 0.1 |

Domestic and International Presence

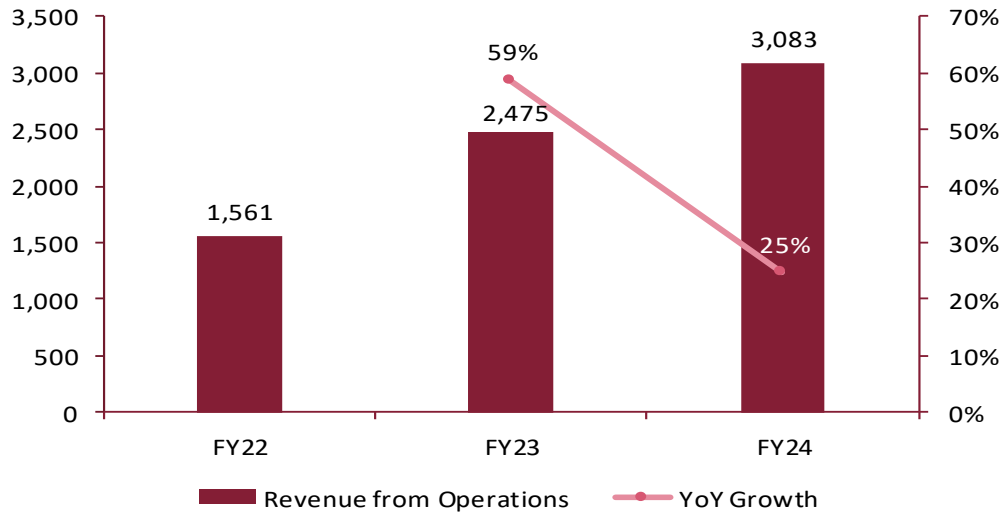


| Domestic | |
|------------------|-------------------------|
| Rajasthan | Diu Daman & Dadra Nagar |
| Maharashtra | Madhya Pradesh |
| Karnataka | Delhi |
| Haryana | Telangana |
| Uttarakhand | Tamil Nadu |
| Himachal Pradesh | Goa |
| Gujarat | Andhra Pradesh |
| Uttar Pradesh | West Bengal |
| Punjab | |

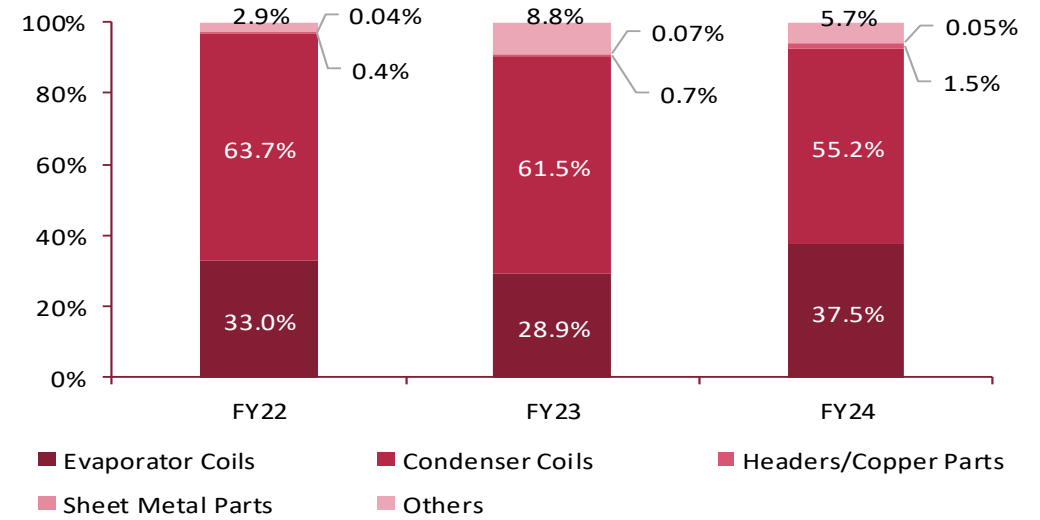
| International | |
|----------------------|---------|
| United Arab Emirates | China |
| USA | Canada |
| Italy | Ireland |
| Saudi Arabia | France |
| Norway | Croatia |
| Czech Republic | |
| Germany | |
| United Kingdom | |
| Poland | |

KRN Heat Exchanger and Refrigeration Ltd.

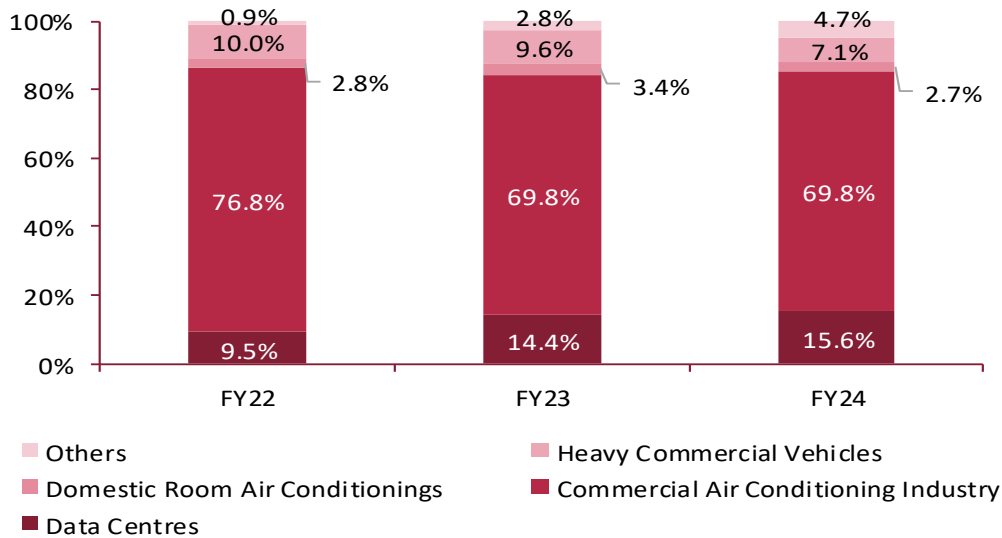
Revenue from Operations (Rs. Mn)



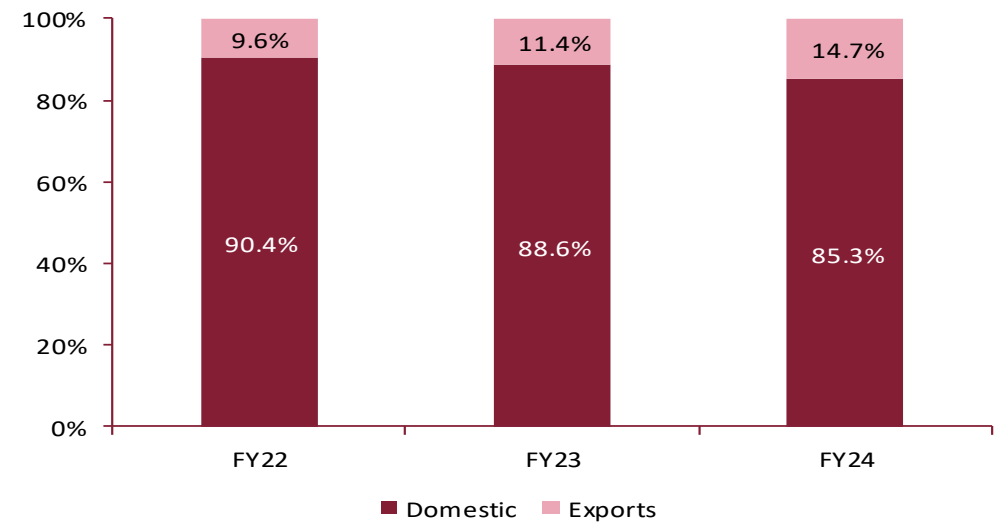
Revenue by Products



Revenue by Industry

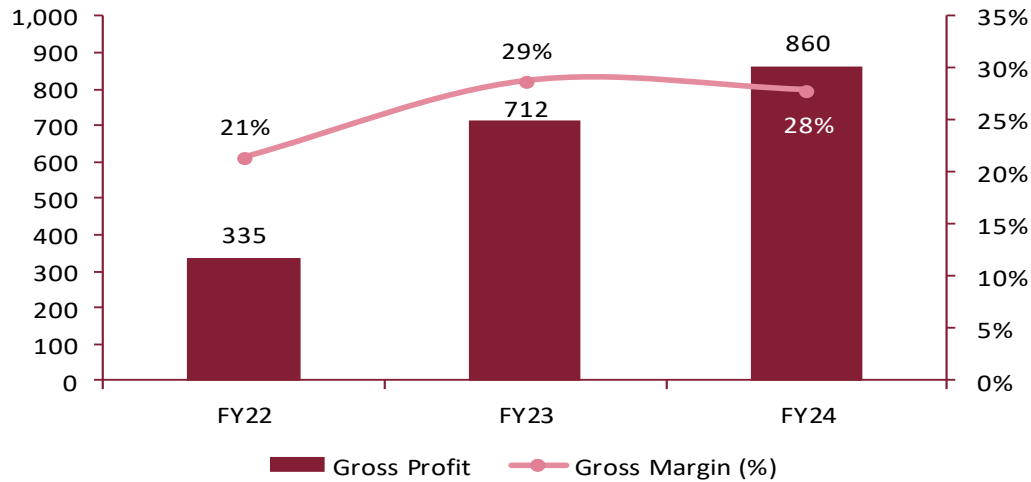


Revenue by Trade

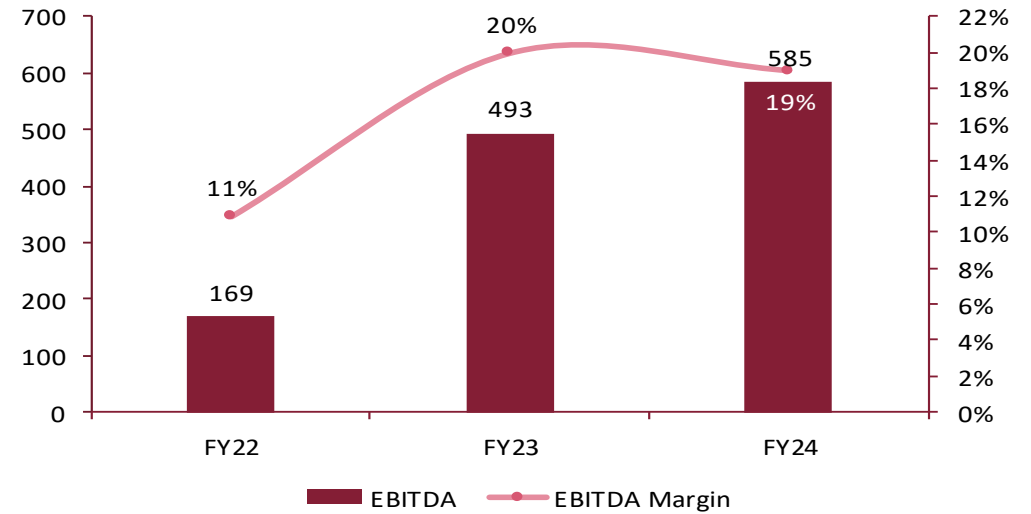


KRN Heat Exchanger and Refrigeration Ltd.

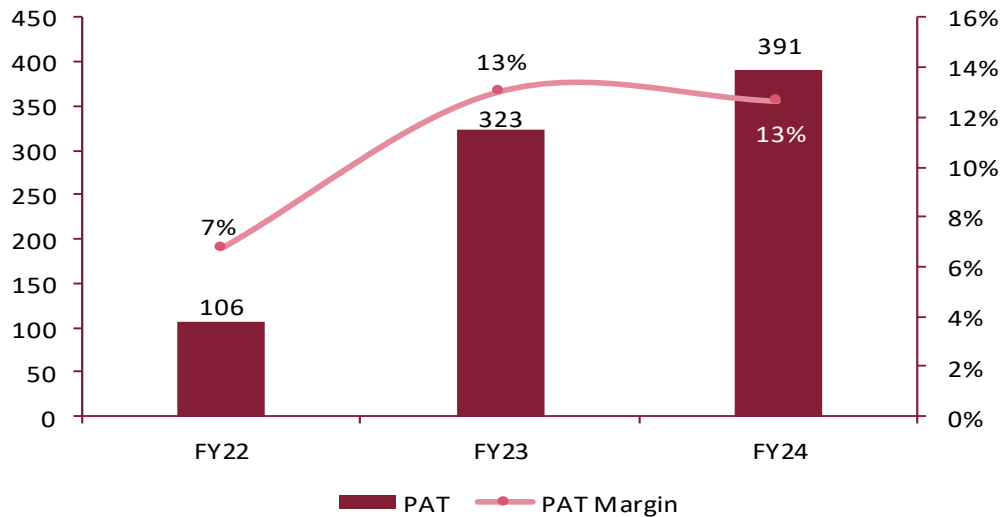
Gross Profit (Rs. Mn)



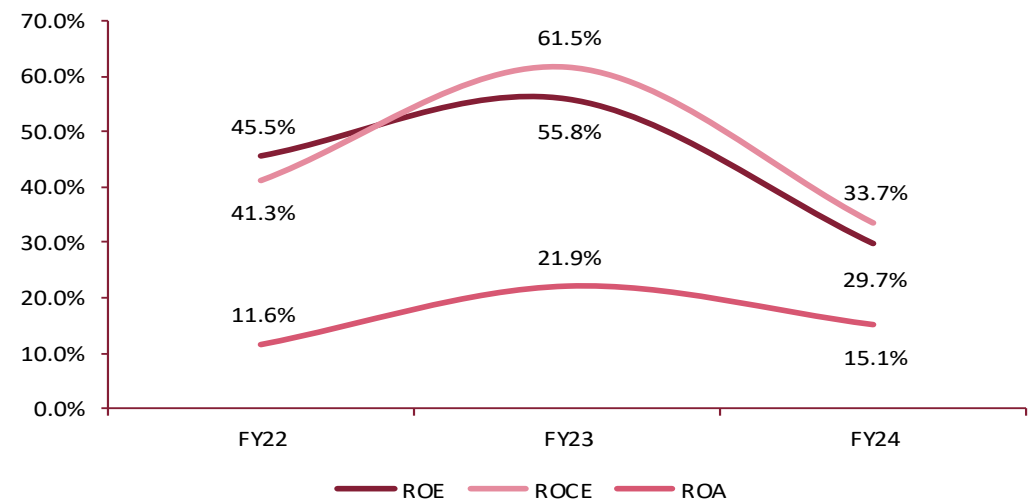
EBITDA (Rs. Mn)



Profit after Tax (Rs. Mn)

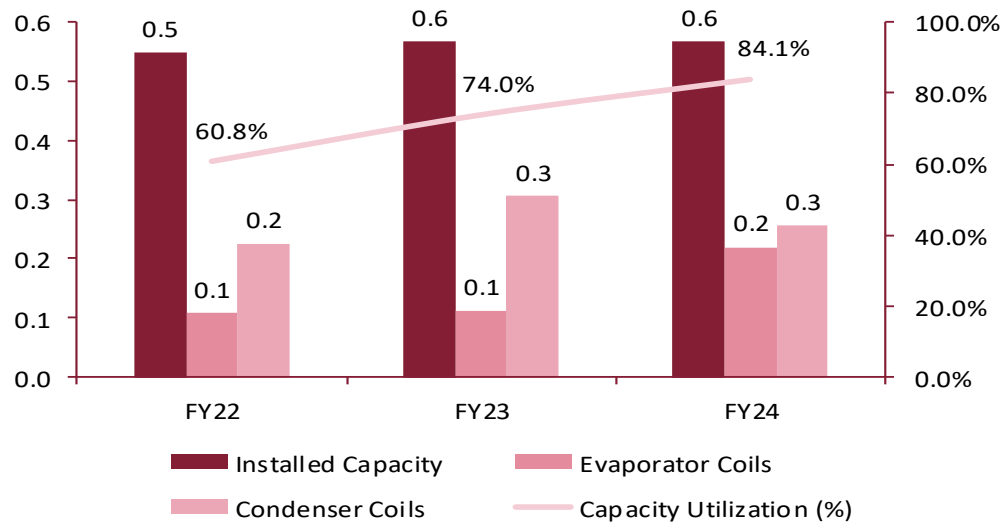


Profitability Ratios

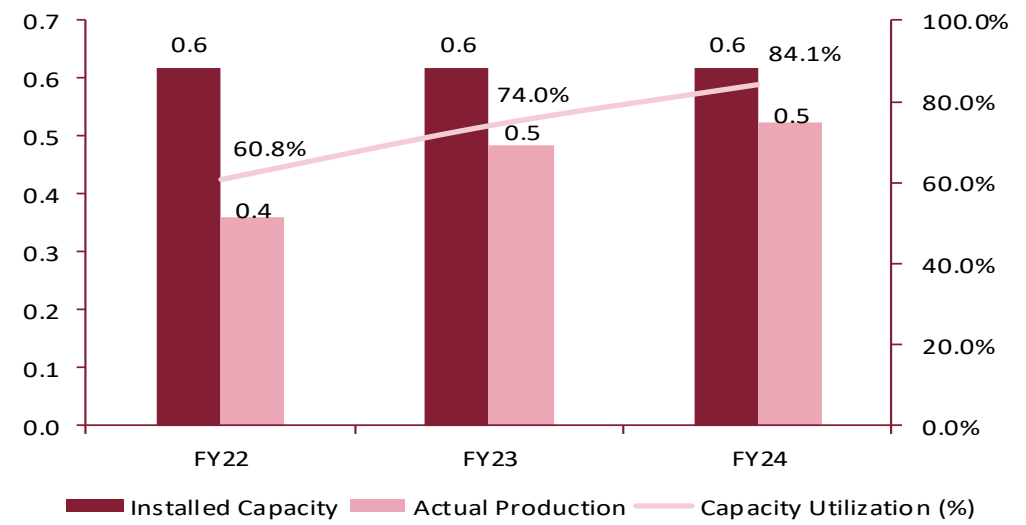


KRN Heat Exchanger and Refrigeration Ltd.

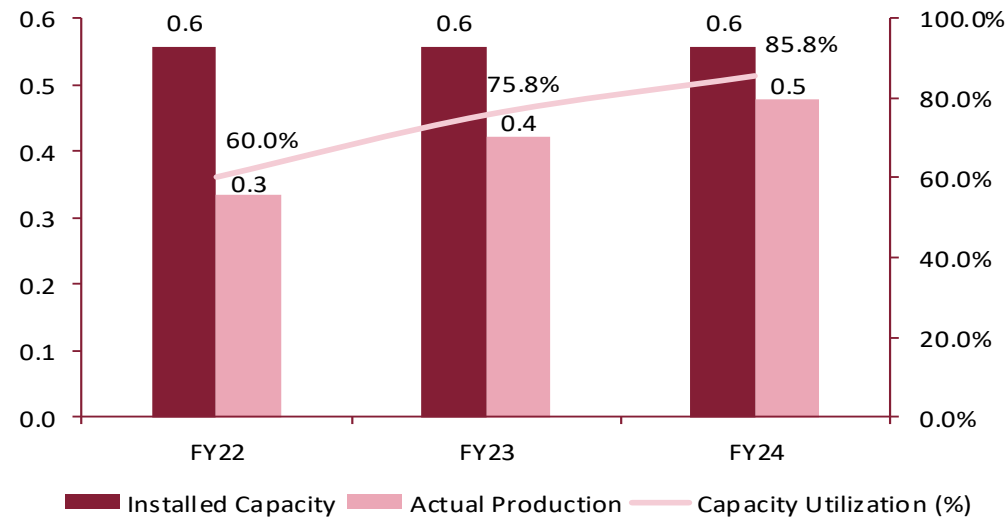
Evaporator & Condenser Coils Production (Mn)



Headers/Copper Parts Production (Mn)

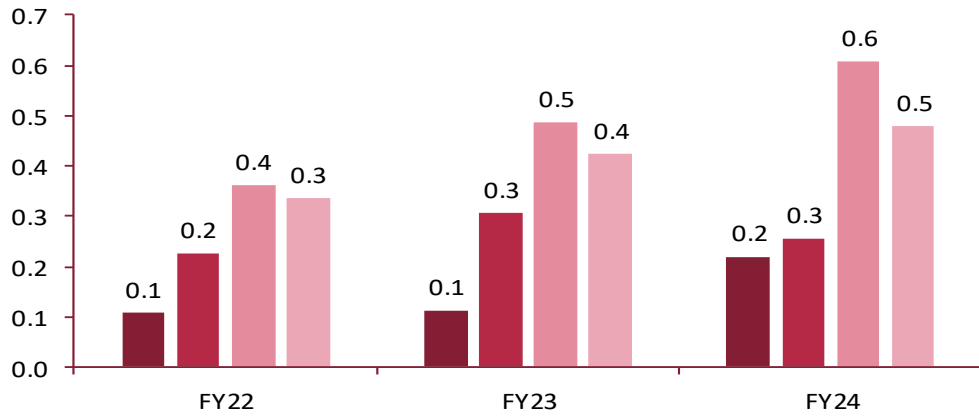


Sheet Metal Parts Production (Mn)



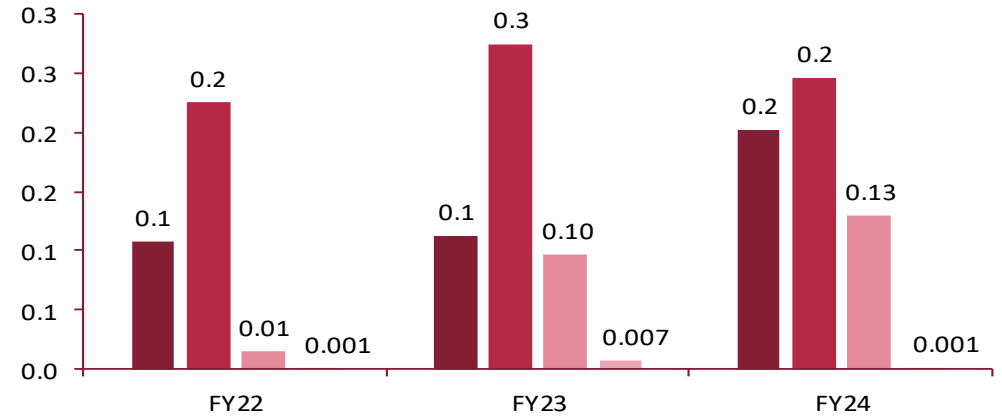
KRN Heat Exchanger and Refrigeration Ltd.

Quantity Produced (Mn Units)



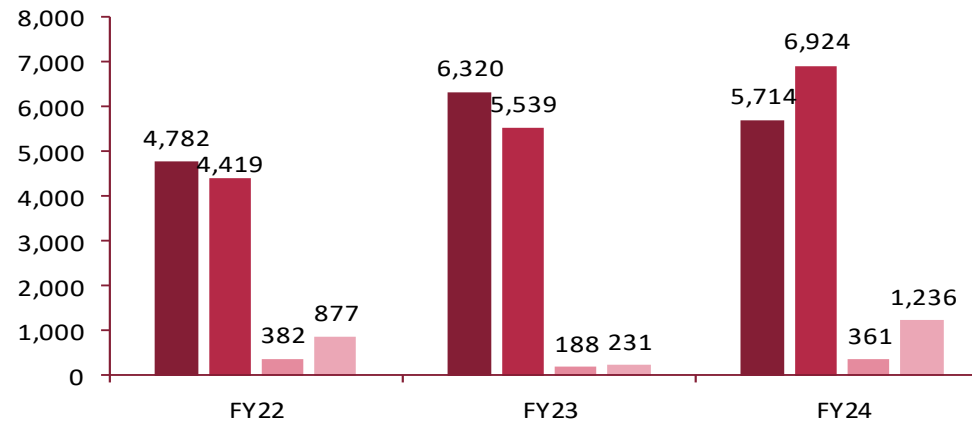
■ Evaporator Coils ■ Condenser Coils ■ Headers/Copper Parts ■ Sheet Metal Parts

Quantity Sold (Mn Units)



■ Evaporator Coils ■ Condenser Coils ■ Headers/Copper Parts ■ Sheet Metal Parts

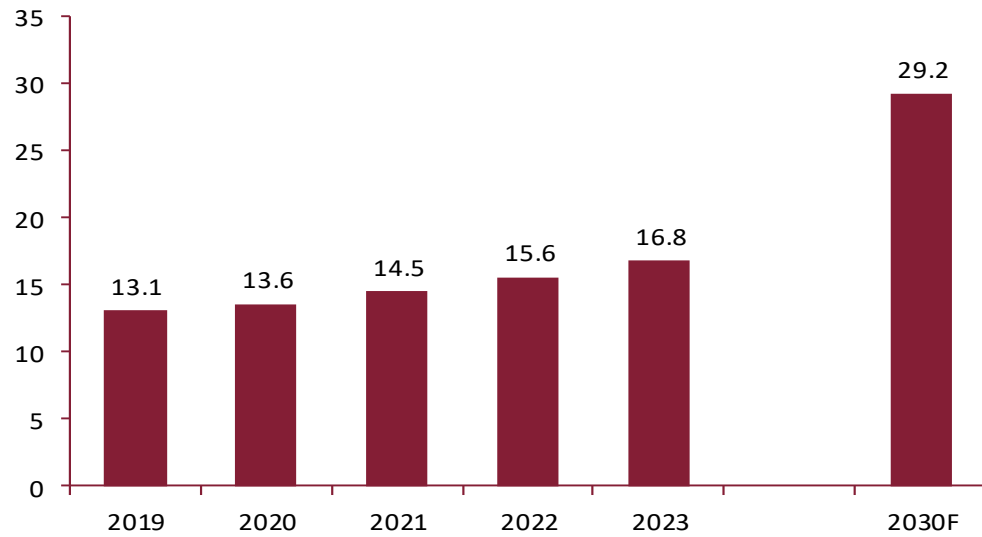
Average Realization per Unit (Rs)



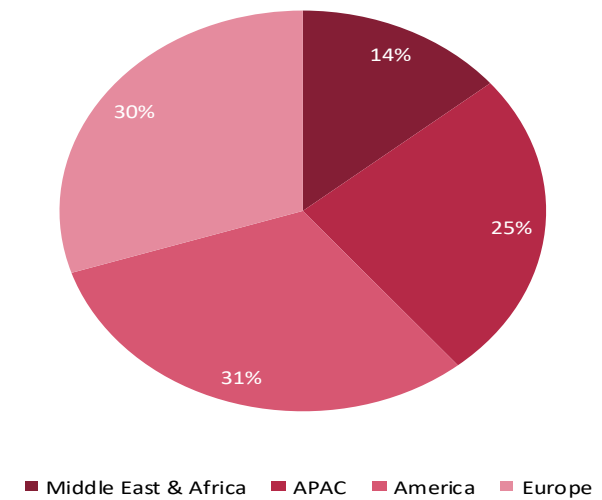
■ Evaporator Coils ■ Condenser Coils ■ Headers/Copper Parts ■ Sheet Metal Parts

Industry Overview

Global Heat Exchanger Market (USD Bn)

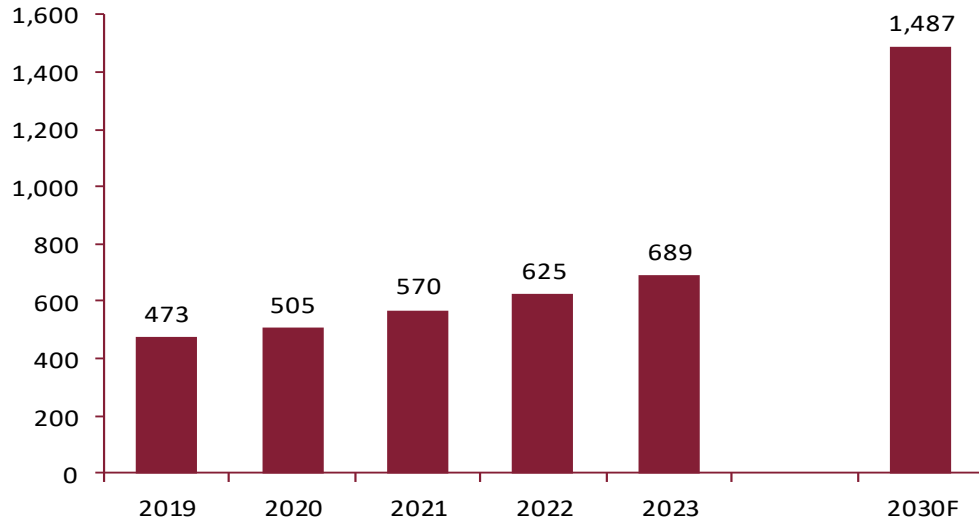


Global Heat Exchanger Market: Geographical Pattern

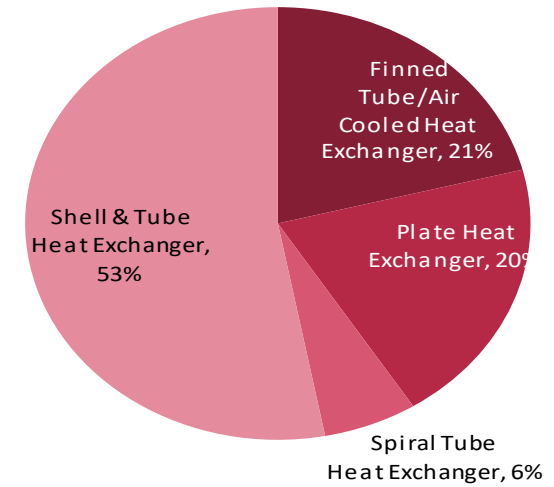


Industry Overview

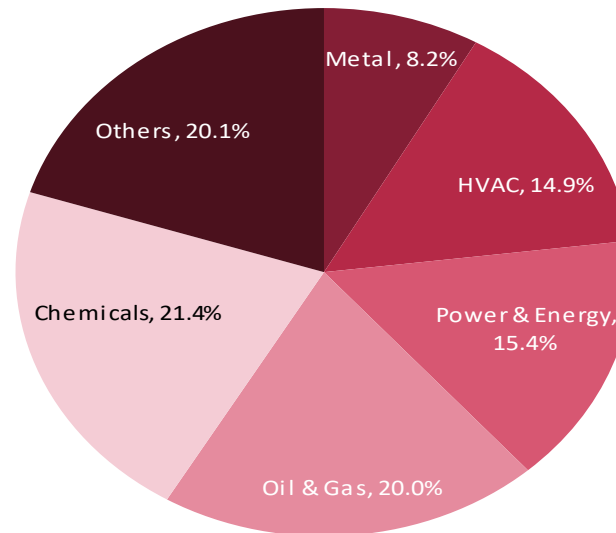
India Heat Exchanger Market (USD Mn)



Indian Heat Exchanger Market: By Product Type

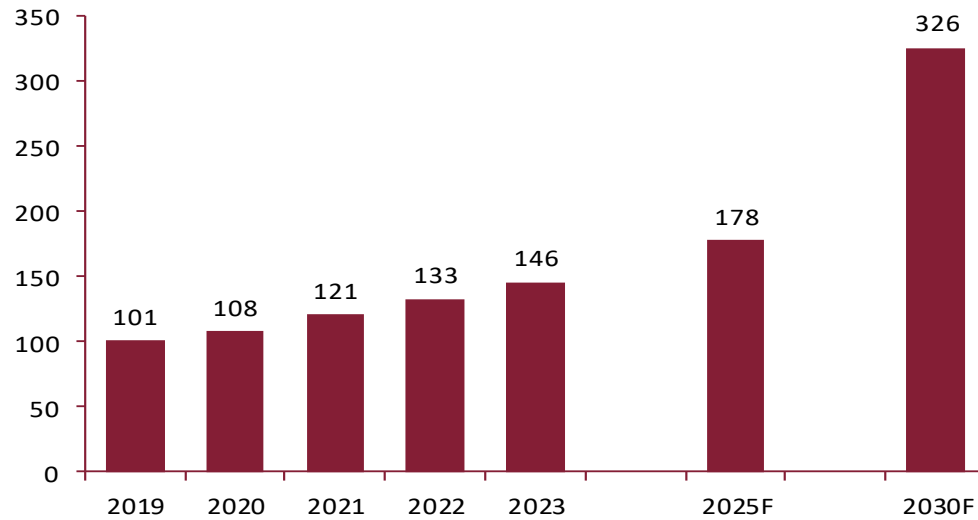


Indian Heat Exchanger Market: By End Use Consumer Industries

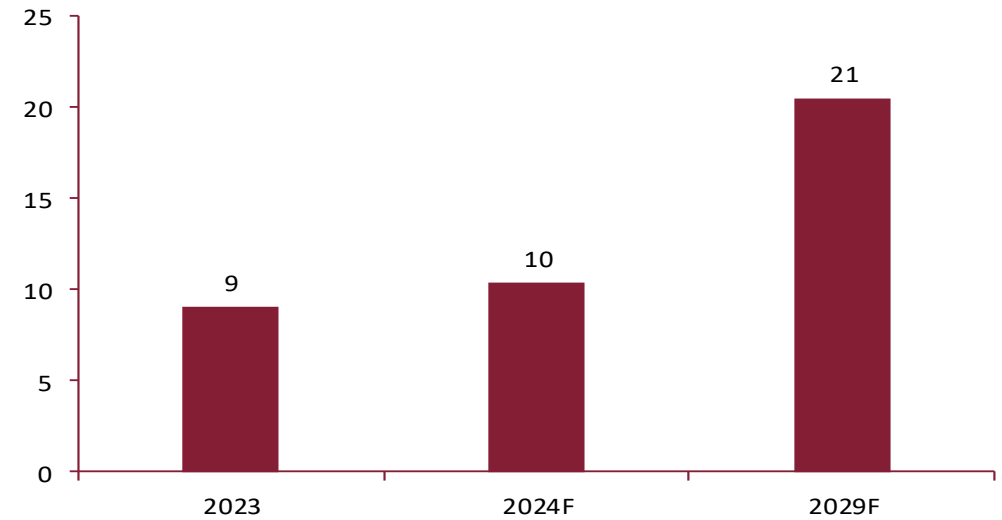


Industry Overview

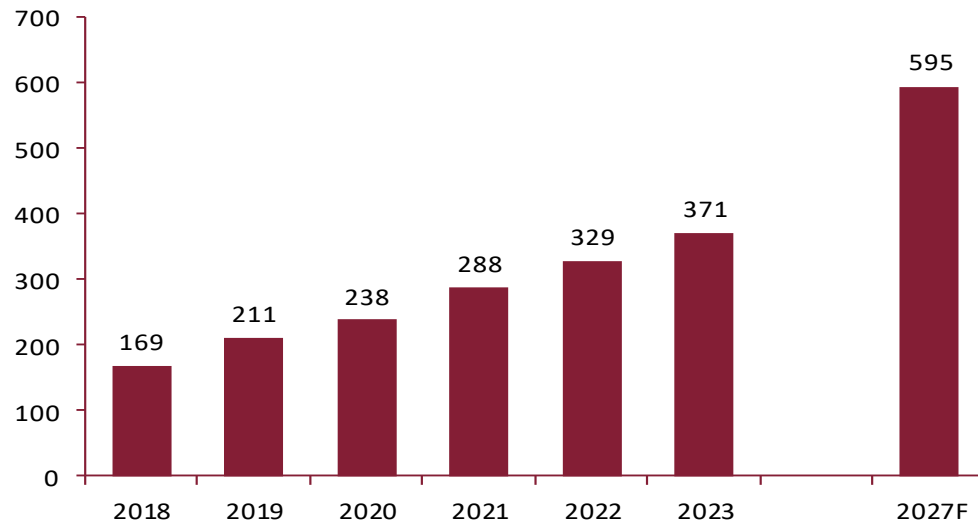
Indian Finned Tube Heat Exchanger Market (USD Mn)



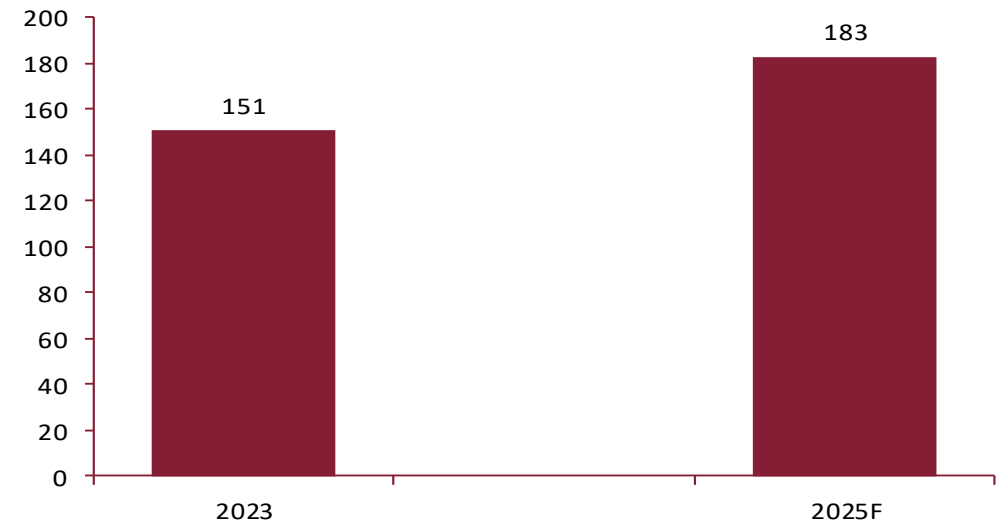
Indian HVAC Market (USD Bn)



India Warehousing Stock (Mn sq. ft.)

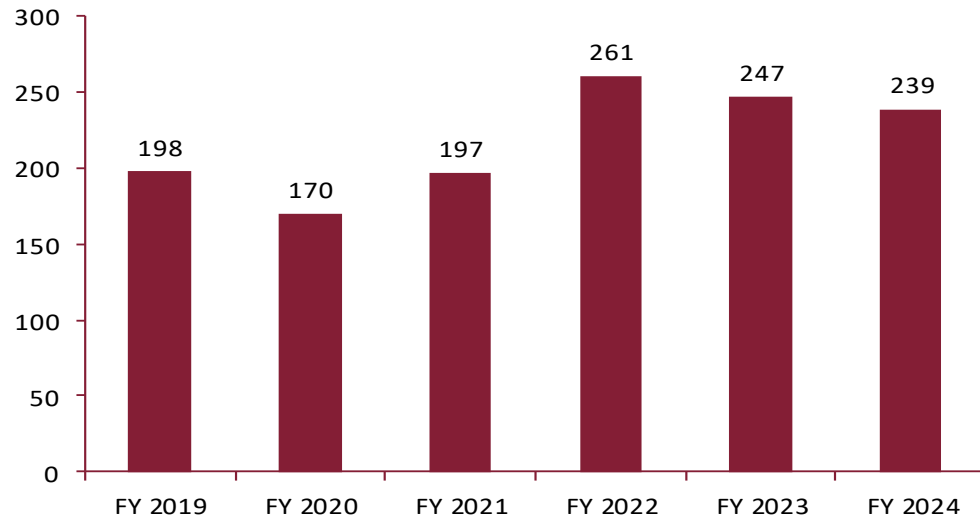


Total Data Centres Available in India

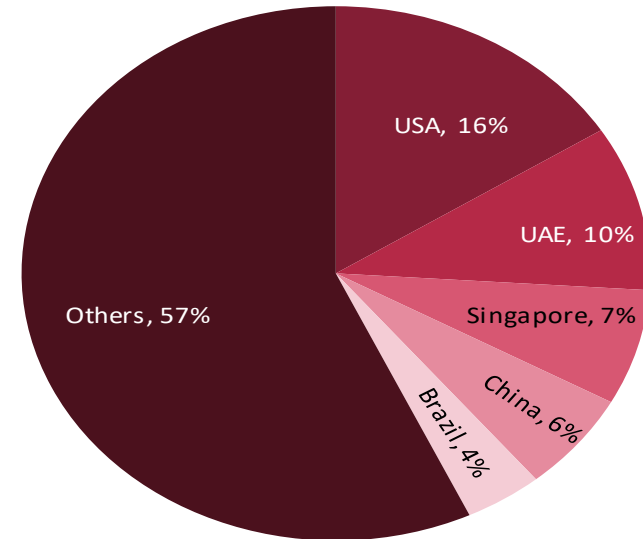


Industry Overview

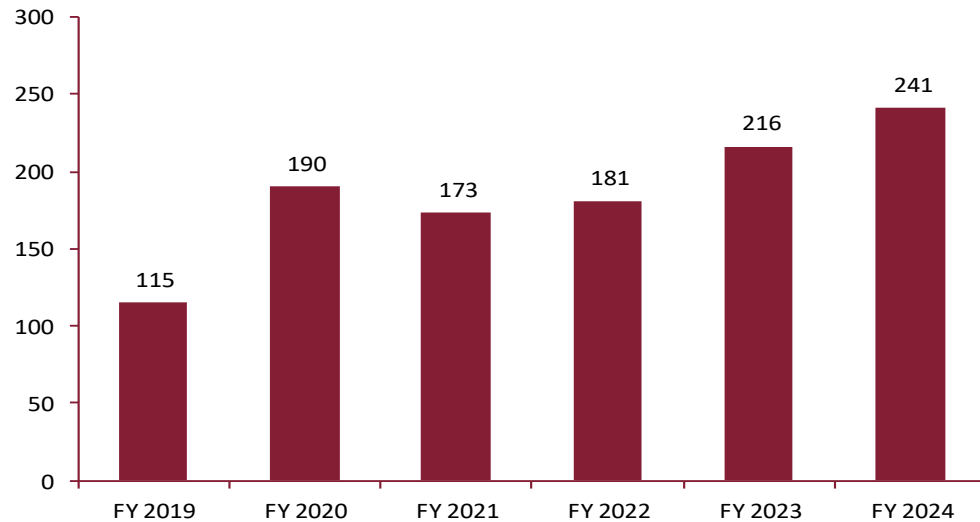
Heat Exchanger Exports from India (USD Mn)



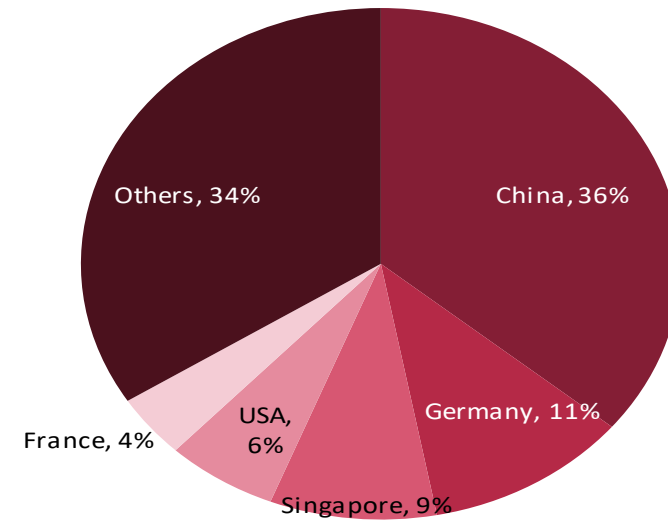
Heat Exchanger Exports from India: Key Export Markets



Heat Exchanger Imports to India (USD Mn)



Heat Exchanger Imports to India: Key Exporters



INDSEC Rating Distribution

BUY : Expected total return of over 15% within the next 12-18 months.

HOLD : Expected total return between 0% to 15% within the next 12-18 months.

SELL : Expected total return is negative within the next 12-18 months.

NEUTRAL: No investment opinion, stock under review.

DISCLOSURE

DISCLOSURE

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- There are no pending material litigations or legal proceedings, findings of inspections or investigations for which action has been taken or initiated by any regulatory authority against the Company or its Directors, principal officers or employees or any person directly or indirectly connected with the Company.

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- ISFL has not received any compensation for investment banking or merchant banking or brokerage services or any other service from the subject company (ies) in the past twelve months;
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