

# KRONOX

Kronox Lab Sciences Limited

## Issue Highlights

Industry	Life sciences
Offer for sale (Shares)	9,570,000
Fresh Issue (Shares)	0
<b>Net Offer to the Public</b>	<b>9,570,000</b>
Issue Size (Rs. Cr.)	123-130
Price Band (Rs.)	129-136
Offer Date	3-Jun-24
Close Date	5-Jun-24
Face Value	10
Lot Size	110

## Issue Composition

Issue Composition	In shares
Total Issue for Sale	9,570,000
QIB	4,785,000
NIB	1,435,500
Retail	3,349,500

## Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	100.00%	74.21%
QIB	0.00%	12.90%
NIB	0.00%	3.87%
Retail	0.00%	9.03%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

\*calculated on the upper price band

## Objects of the Issue

The Objects of the Offer are to:

Carry out the Offer for Sale of up to 95,70,000 Equity Shares by the Promoter Selling Shareholders; and

Achieve the benefits of listing the Equity Shares on the Stock Exchanges. Further, the Company expects that the proposed listing of the Equity Shares will enhance the visibility and brand image, provide liquidity to its existing Shareholders, and provide a public market for Equity Shares in India.

## About the company

Company manufactures High Purity Speciality Fine Chemicals for diversified end user industries. its High Purity Speciality Fine Chemicals are used mainly as (i) reacting agents and raw material in the manufacturing of Active Pharmaceutical Ingredients (APIs); (ii) excipients in pharmaceutical formulations; (iii) reagents for scientific research and laboratory testing; (iv) ingredients in nutraceuticals formulations; (v) process intermediates and fermenting agents in biotech applications; (vi) ingredients in agrochemical formulations; (vii) ingredients in personal care products; (viii) refining agents in metal refineries; and (ix) ingredients in animal health products, amongst others. Company has range of more than 185 products spanning across the family of phosphate, sulphate, acetate, chloride, citrate, nitrates, nitrites, carbonate, EDTA derivatives, hydroxide, succinate, gluconate, among others are supplied to customers in India and more than 20 countries globally. Company had set up an in-house research, development and testing laboratory ("RDT Laboratory") to develop new products and test its products against the specified industry standards or customer specifications. Company has three (3) Manufacturing Facilities situated at Vadodara in Gujarat are close to the seaports of Mundra, Kandla, Hazira and Nhava Sheva. Kronox Lab Sciences Ltd. Manufacturing Facilities are cumulatively spread across 17,454 sq. mtrs. and as on December 31, 2023, have an aggregate installed capacity of 7,242 TPA.

Product Family	Product Sub-Group	No. of Products
	Potassium, Sodium, Zinc, Others	
Nitrate and Nitrite	Barium, Calcium, Copper, Lead, Magnesium, Nickel, Potassium, Sodium, Zinc, Others	11
Citrate	Ammonium, Magnesium, Potassium, Sodium, Zinc, Others	10
Carbonate	Ammonium, Calcium, Magnesium, Potassium, Sodium, Others	9
EDTA Derivatives	Potassium, Sodium, Others	6
Hydroxide	Barium, Calcium, Magnesium, Potassium, Sodium, Others	4
Succinate and Gluconate	Sodium, Zinc, Others	3
Others	Aluminum, Ammonium, Calcium, Copper, Lead, Magnesium, Oxalic, Potassium, Sodium, Zinc, Others	54
	<b>Total</b>	<b>188</b>

## Book Running Lead Manager

- Pantoamath Capital Advisors Pvt Limited

## Name of the registrar

- Kfin Technologies Limited

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<b>Total</b>		<b>188</b>

### Companies Strengths

- Zero debt company with strong and consistent financial performance:** Company has a track record of operations of over a decade and have a robust balance sheet and cash flow position. Company has experienced sustained growth in various financial indicators including the revenue and PAT, as well as a consistent improvement in the balance sheet position in the last three Fiscals, wherein company have seen an increase in the net worth.
- High entry and exit barriers due to long customer approval cycles and strict product standards:** Company manufactures and market High Purity Speciality Fine Chemicals used as reacting agent in manufacturing of Active Pharmaceutical Ingredients (APIs), as excipients in pharmaceutical formulations, as nutritional ingredients in nutraceuticals formulations, as ingredients in personal care products, as reagents for scientific research and laboratory testing, as refining agents in metal refineries, as ingredients in animal health products and as fermenting agents in biotech applications, among others, for use across the global. Company's manufacturing process involves multi-step production and purification processes to manufacture fine chemicals. Further, given the nature of the application, the processes and products are subject to, and measured against established domestic and international standards and stringent specifications of customers. Company believes that we have, over the years, built strong relationships with the customers, who recognize the technical capabilities and timely deliveries and associate the Company with good and consistent quality products.
- Wide range of products finding applications in diversified end user industries:** We manufacture a broad range of High Purity Speciality Fine Chemicals belonging to the family of citrates, carbonates, phosphates, acetates, sulphate, EDTA derivatives, chlorides, hydroxide, bromide, nitrites, and nitrates. its products have applications across a wide spectrum of industries like pharmaceuticals, scientific and laboratory research, nutraceuticals, biotech, agrochemicals, personal care, metallurgy and animal health. Over the years, we have expanded its product portfolio to more than 185 products. These products are manufactured in accordance with standards like IP, BP, EP, JP, USP, FCC, LR, AR, GR and ACS.
- Strategically located manufacturing facilities providing supply chain efficiencies:** Manufacturing infrastructure is a key growth driver for the business. Currently company has three strategically located Manufacturing Facilities which are located in Padra, Vadodara, Gujarat, in close proximity to several ports including Kandla, Mundra, Hazira and Nhava Sheva

which ensures that we have ready access to port facilities and are able expediently import its raw materials and export its products thereby providing us with a cost and logistical advantage. Manufacturing Facilities are located approximately 400 kms, 450 kms, 150 kms and 440 kms from Kandla Port, Mundra Port, Hazira Port and Nhava Sheva Port, respectively.

## Strategies

- **Expand the product portfolio, increasing the supply of the products for the existing customers and tap new customers in existing and new geographies:** During nine months period ended December 31, 2023 and Fiscal 2023, company has supplied the products to more than 350 customers in India and overseas. Company had served more than 650 customers in the last five (5) financial years and during the nine months period ended December 31, 2023 of which 111 customers amounting to 16.74% of total customers placed repeat orders. Company believes that the long-standing relationships with the customers over the years and the repeat and increased orders received from them reiterate the commitment towards growth and increasing profitability. Company intends to focus on increasing the share of product supplies with existing customers and generating new customers for the existing and future products. Company intends to continue to leverage the existing sales team, diversified product portfolio and industry standing to establish new relationships with multinationals and domestic customers.
- **Expand its capacity for existing products and diversifying into new products by setting up a new manufacturing facility:** As of December 31, 2023, aggregate installed capacity is 7,242 TPA across three Manufacturing Facilities. As part of growth plans and to cater to the growing demand from the existing customers and to meet requirements of new customers, company intends to establish a new manufacturing unit at GIDC Dahej – II Industrial Estate and has acquired a land admeasuring to 19,213 sq. mtrs. at GIDC - Dahej II Industrial Estate. We plan to establish its fourth unit at this location with an estimated installed capacity of 18,000 TPA to be used to manufacture High Purity Speciality Fine Chemicals from the existing product portfolio as well as new products. The cost for establishing the new unit is estimated at ₹ 675 million which is proposed to be financed through equity and/or debt and/ or the internal accruals of Company. Once this unit is operational, total installed capacity is estimated to be around 25,242 TPA which will significantly enhance the revenues. We expect to commence the commercial production of this new unit in FY 2025-26.
- **Company plans to enhance the profitability by continuing to improve the cost management and operational efficiencies, including: Process efficiency:** Company strives to improve the production process to optimize its processes and achieve higher efficiency with the support of RDT team. Scale efficiency: Company seeks to leverage economies of scale through capacity expansion. Company incurs certain fixed overheads, including utilities, salaries and depreciation of assets in its operations. Company aims to increase capacity utilization, which can reduce fixed overheads per product, increase its profitability and improve its operating leverage. Product mix: We intend to focus on high-value, low-volume products within its product portfolio. Company also seeks to benefit from optimizing the product selection strategy. The proposed fourth unit at GIDC - Dahej II Industrial Area will further enhance the operational efficiencies with the deployment of modern and automated machinery and other facilities for the employees and management.

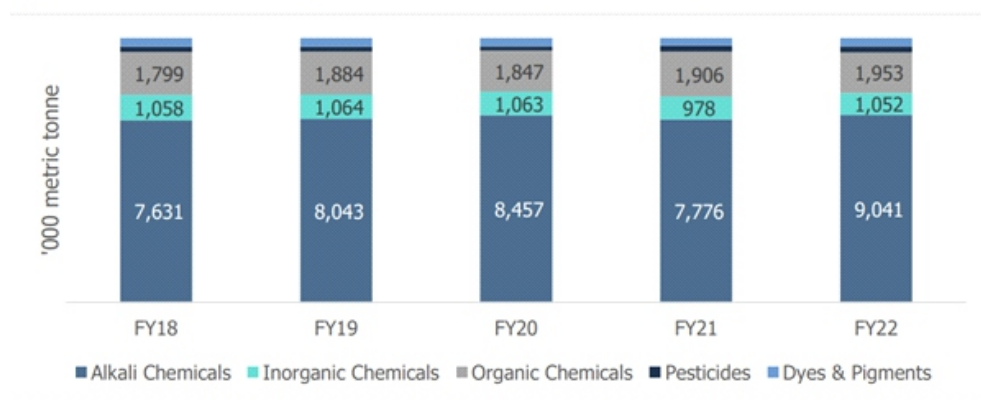
## Industry Outlook

According to the Government of India's Department of Chemicals and Petrochemicals, the chemical and chemical products sector, excluding pharmaceuticals, accounted for 1.48% of the Gross Value Added (GVA) for all economic activities in FY21. The share of this sector in the GVA of the manufacturing sector during FY21 is about 9.88%. The GVA of the chemical sector has grown at a CAGR of 6.67% during the period FY16 to FY21. 1,850 , 40.2% 635 , 13.8% 468 , 10.1% 203 , 4.4% 142 , 3.1% 111 , 2.4% 1,198 , 26.0% China Europe USA Japan South Korea India Others 8.4% 1.6% 0.5% 1.0% 2.8% 3.8% 0.5% 0.6% 5.6% 9.7% 0.0% 2.0% 4.0% 6.0% 8.0% 10.0% 12.0% China EU27

USA Japan South Korea India Taiwan Brazil Russia Saudi Arabia Average production growth p.a. 103

The size of the Indian chemicals industry, excluding pharmaceuticals, in terms of the value of output in the year FY21 was around Rs. 9.87 lakhs crores and 8.95% of the value of the output of the manufacturing sector. During the last six years, i.e., from FY16 to FY21, the real growth rate in the output of the chemical industry excluding the pharmaceuticals industry was 7.93%. Whereas growth in output value for the manufacturing sector during the same period was 5.56%. Furthermore, as per the Government of India's Department of Chemicals and Petrochemicals, India ranks 11th in the world exports of chemicals (excluding pharmaceutical products) and 6th in the world imports of chemicals (excluding pharmaceutical products). India's exports of chemicals (excluding pharmaceutical products) totalled USD 46.9 billion in CY21 accounting for about 2.36% share of world exports of chemicals (excluding pharmaceutical products). Similarly, India's imports of chemicals (excluding pharmaceutical products) reached USD 79.4 billion accounting 3.91% share of world imports of chemicals (excluding pharmaceutical products) in CY21.

#### Segment-Wise Production of Major Chemicals in India (\*000 metric tonnes)



The global citrate consumption grew substantially in value, at a CAGR of 23.9% from USD 478 million in CY2018 to USD 1,126 million in CY2022. This growth was driven by increased consumption volumes and a sharp uptick in citrate prices which surged by nearly 95% between CY2018 and CY2022. The global citrate industry size is expected to decline from USD 1,126 million in CY2022 to USD 825 million in CY2025. While the industry is expected to witness 10.4% volume growth over this period, the prices are expected to decline due to normalization following a sharp increase in CY2022, leading to a decline in market size in value terms. The Indian citrate industry has grown at a CAGR of 23.8% over past five years from USD 27 million in CY2018 to USD 62 million in CY2022. The Indian citrate industry is expected to experience a revenue decline from USD 62 million in CY2022 to USD 44 million in CY2025, at a negative CAGR of approximately 10.7%, despite a volume growth of 9.7% over the same period, on account of price correction. The Indian phosphate industry volumes grew at a CAGR of 2% from 15.2 million tonnes in CY2018 to 16.5 million tonnes in CY2022. The Indian acetate industry volumes grew at a CAGR of 4.7% from 69 thousand tonnes in CY2018 to 82 thousand tonnes in CY2022. The Indian acetate industry volumes are expected to grow from 82 thousand tonnes in CY2022 to 101 thousand tonnes in CY2025, projecting a CAGR of 7.1%. The Indian sulphate industry's consumption volumes grew at a CAGR of 2.0% from 6.2 million tonnes in CY2018 to 6.7 million tonnes in CY2022. The Indian sulphate industry's consumption volumes are expected to grow from 6.7 million tonnes in CY2022 to 7.7 million tonnes in CY2025, at a CAGR of 4.8%. The Indian gluconates industry volumes have grown at a CAGR of 2% from 17.8 thousand tonnes in CY2018 to 20 thousand tonnes in CY2022. The industry volumes are expected to grow from 20 thousand tonnes in CY2022 to 24.6 thousand tonnes in CY2025, at a CAGR of 7.1%. The Indian glycinate industry volumes grew at a CAGR of 5.7% from 761 thousand tonnes in CY2018 to 949 thousand tonnes in CY2022. The Indian glycinate industry volumes are expected to grow from 949 thousand tonnes in CY2018 to 1,268 thousand tonnes in CY2025, at a CAGR of 10.1%. The Indian EDTA derivative industry's volumes have grown from 10.2 thousand tonnes in CY2018 to 12.2 thousand tonnes in CY2022, at a CAGR of 4.6%. The Indian EDTA derivative industry's volumes are expected to grow from 12.2 thousand tonnes in CY2022 to 14.8 thousand tonnes in CY2025, at a CAGR of 4.6%. Indian succinates industry volumes are expected to grow from 3.3 thousand tonnes in

CY2022 to 6.8 thousand tonnes in CY2025, at a CAGR of 27.8%. The Indian succinates industry has grown at a CAGR of 26.6% in value terms over the past five years from USD 2.5 million in CY2018 to USD 6.3 million in CY2022.

### Risk Factor

- Company's top 20 products contributed 60.49%, 70.58%, 68.62%, 69.85% and 70.04% of the revenue for the nine months period ended December 31, 2023, December 31, 2022 and the Fiscal 2023, Fiscal 2022 and Fiscal 2021, respectively. Any change in demand the products of those products could significantly affect revenues.
- Company's products are supplied in limited quantities for specific use by application industries. Any reduction in the requirement of products may result in loss of business and may affect financial performance and condition.
- The majority of sale of products is concentrated in industries viz. Pharmaceuticals and Scientific Research and Laboratory Testing. Any change in demand from these industries for products could significantly affect revenues.
- Company's products are mainly supplied to certain industries for their applications and processes. In the event of any change in application or processes, products may not be required by such customers which may lead to loss of revenues and profits.
- Company's inability to successfully expand production capacity could have an adverse effect on business, results of operations, financial condition and cash flows.

### Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
DMCC Speciality	326.60	11.59	4.65	64.69	3.58	84.02	10.00	300.80	750.19
Tanfac Inds.	378.14	52.51	52.61	38.10	8.68	231.02	10.00	2004.35	1999.34
Neogen Chemicals	690.68	35.66	13.51	106.45	4.99	288.19	10.00	1438.20	3794.21
Sigachi Indust.	398.96	57.18	1.77	37.79	5.04	13.27	1.00	66.88	2163.41
Tatva Chintan	393.51	30.35	12.98	83.16	3.43	315.10	10.00	1079.40	2524.94
Kronox Lab Sciences Ltd.	89.16	17.99	4.85	28.04	8.37	16.25	10.00	136.00	504.61

\*Peer companies financials are TTM based

\*\*Kronox Lab Sciences Ltd. are based on TTM

### Valuation

Considering the P/E valuation on the upper price band of Rs.136, EPS and P/E based on TTM are Rs.4.85 and 28.04 multiple respectively and at a lower price band of Rs. 129, P/E multiple is 26.60. Looking at the P/B ratio on the upper price band of Rs.136, book value and P/B are Rs. 16.25 and 8.37 multiple respectively and at a lower price band of Rs. 129 P/B multiple is 7.94. No change in pre and post issue EPS and Book Value as the company is not making fresh issue of capital.

### Conclusion

The Kronox Lab Sciences Ltd. report provides a comprehensive overview of the company's strengths, strategies, and growth prospects in the chemical industry. As a zero-debt company with a strong financial performance and consistent growth in revenue and profitability, the company stands out as a reliable player in the market. The company's focus on expanding its product portfolio, increasing supply to existing customers, and tapping into new markets demonstrates a proactive approach to driving growth.

Kronox plans to establish a new manufacturing facility at GIDC Dahej – II Industrial Estate reflects its commitment to meeting growing demand and diversifying its product offerings. By leveraging its existing sales team, diversified product portfolio, and industry reputation, the company aims to establish new relationships with multinational and domestic customers, further expanding its market presence.

The company's wide range of high-quality products, spanning various industries such as pharmaceuticals, nutraceuticals, biotech, and more, positions Kronox Lab Sciences Ltd. as a versatile player in the market. With a focus on cost management, operational efficiencies, and product mix optimization, Kronox Lab Sciences Ltd. is poised to enhance profitability and drive sustainable growth in the coming years.

In conclusion, Kronox Lab Sciences Ltd. emerges as a promising player in the chemical industry, with a solid foundation, strategic growth initiatives, and a commitment to innovation and quality. By capitalizing on its strengths, expanding its capacity, and improving operational efficiencies, the company is well-positioned to capitalize on the opportunities presented by the evolving market landscape and achieve long-term success.

**An Indicative timetable in respect of the Issue is set out below:**

<b>EVENT</b>	<b>INDICATIVE DATE (On or about)</b>
BID/ISSUE OPENS ON	Monday, June 3, 2024
BID/ISSUE CLOSES ON	Wednesday, June 5 2024
Finalisation of Basis of Allotment with the Designated Stock Exchange	Thursday, June 6 2024
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	Thursday, June 7 2024
Credit of Equity Shares to demat accounts of Allottees	Thursday, June 7 2024
Commencement of trading of the Equity Shares on the Stock Exchanges	Monday, June 10, 2024

## Product wise Revenue Distribution

	For nine months period ended December 31, 2023		For nine months period ended December 31, 2022		Fiscal 2023		Fiscal 2022		Fiscal 2021	
Application/ Industry	Amount % of	Revenue	Amount % of	Revenue	Amount % of	Revenue	Amount % of	Revenue	Amount % of	Revenue
Pharmaceuticals	305.46	45.13	286.96	38.72	389.78	40.78	337.24	41.00	339.86	54.41
Scientific Research and Laboratory Testing	179.65	26.54	231.43	31.23	279.23	29.21	267.63	32.54	146.17	23.40
Nutraceuticals	160.54	23.72	191.51	25.85	245.22	25.66	174.77	21.25	113.88	18.23
Others*	31.21	4.61	31.13	4.20	41.55	4.35	42.83	5.21	24.70	3.95
Total	676.86	100.00	741.03	100.00	955.78	100.00	822.47	100.00	624.60	100.00

## Financial performance on the consolidated front

Particulars	For the nine months period ended as on December 31, 2023	For the nine months period ended as on December 31, 2022	For the Financial Year ended / as on March 31, 2023	For the Financial Year ended / as on March 31, 2022	For the Financial Year ended / as on March 31, 2021
Revenue from Operations	676.86	741.03	955.78	822.47	624.60
EBITDA	204.60	178.83	219.96	196.97	148.03
EBITDA Margin (%)	30.23	24.13	23.01	23.95	23.70
Profit After Tax for the Year	154.69	140.91	166.17	136.27	97.30
PAT Margin (%) (3)	22.60	18.57	17.04	16.35	15.39
EPS (Basic & Diluted) (4)	4.17	3.61	4.30	3.49	2.40
Total Borrowings	-	-	-	6.42	0.13
Net worth	602.82	546.01	446.79	403.53	268.14
ROE (%) (5)	25.66	25.81	37.19	33.77	36.29
ROCE (%) (6)	33.15	33.50	49.86	46.27	51.78
Debt - Equity Ratio (7)	-	-	-	0.02	Negligible
Fixed Assets Turnover Ratio	2.61	4.62	6.01	9.30	10.87
Net Cash from/ (used in) Operating Activities	153.12	174.72	196.65	90.20	113.14
Net Cash from/ (used in) Investing Activities	(173.00)	(145.86)	(55.17)	(75.99)	(29.56)
Net Cash from/ (used in) Financing Activities	-	(8.95)	(133.96)	(6.66)	(70.95)
Revenue CAGR (Fiscal 2021 to 2023) (%)	23.70				
EBITDA CAGR (Fiscal 2021 to 2023) (%)	21.90				
PAT CAGR (Fiscal 2021 to 2023) (%)	30.68				

## Annexure

### Consolidated Financials

#### Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Dec-23 (9 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Revenue from operations	67.69	95.58	82.25
Total expenditure	47.23	73.58	62.55
<b>Operating Profit</b>	<b>20.46</b>	<b>22.00</b>	<b>19.70</b>
OPM%	3.02	2.30	2.39
Other Income	0.75	1.92	1.09
<b>Total Net Income</b>	<b>21.21</b>	<b>23.92</b>	<b>20.79</b>
Interest	0.00	0.09	0.41
<b>PBDT</b>	<b>21.21</b>	<b>23.82</b>	<b>20.38</b>
Depreciation	1.00	1.50	2.03
<b>Re-stated Profit / (Loss) before exceptional items</b>	<b>20.21</b>	<b>22.33</b>	<b>18.36</b>
Tax	4.74	5.71	4.73
<b>PAT</b>	<b>15.47</b>	<b>16.62</b>	<b>13.63</b>

**Balance sheet is on next page**



## Balance Sheet

Rs. in Cr.

Particulars	As on 31-Dec-23	As on 31-Mar-23	As on 31-Mar-22
<b>Non-current assets</b>			
Property, plant and equipment	25.97	15.91	8.84
Right-of-use assets	0.00	0.00	2.46
Capital Work In progress	0.04	0.00	0.00
Investments	0.03	0.03	0.03
Other Financial Assets	0.08	3.58	0.98
Other financial assets	0.00	0.00	0.00
Deferred tax assets (net)	0.63	0.34	0.33
Non-current tax assets (net)	0.00	0.00	0.00
Other non-current assets	0.00	0.00	0.00
<b>Total non-current assets</b>	<b>26.73</b>	<b>19.85</b>	<b>12.63</b>
<b>Current asset</b>			
<b>Financial Assets</b>			
Inventories	7.17	9.17	7.51
Trade receivables	16.97	18.55	25.80
Cash and cash equivalents	1.07	2.48	0.29
Bank balances otherthan above	0.50	1.08	2.52
other financial assets	12.49	2.35	7.40
other current assets	2.02	0.54	0.64
Other financial assets	0.00	0.00	0.00
Other current assets	0.00	0.00	0.00
<b>Total current assets</b>	<b>40.23</b>	<b>34.18</b>	<b>44.16</b>
<b>Total Assets</b>	<b>66.96</b>	<b>54.03</b>	<b>56.79</b>
<b>Non-current liabilities</b>			
Borrowings	0.00	0.00	0.47
Lease liabilities	0.00	0.00	1.68
Other financial liabilities	0.00	0.00	0.00
Provisions	0.03	0.49	0.52
<b>Total Non- Financial liabilities</b>	<b>0.03</b>	<b>0.49</b>	<b>2.67</b>
<b>Financial Liabilities</b>			
Borrowings	0.00	0.00	0.17
Lease Liability	0.00	0.00	1.04
Trades Payable other than MSME	3.01	0.00	5.51
Trades Payable - MESE	2.65	2.86	6.01
Other financial liabilities	0.00	0.00	0.00
Other current liabilities	0.53	0.56	0.22
Provisions	0.37	4.95	0.61
Current tax liabilities (net)	0.09	0.64	0.21
<b>Total Financial liabilities</b>	<b>6.65</b>	<b>9.01</b>	<b>13.76</b>
<b>Total</b>	<b>6.68</b>	<b>9.49</b>	<b>16.44</b>
Net worth represented by:			
Equity Share Capital	37.10	37.10	0.24
Other equity	23.18	7.58	40.11
<b>Net Worth</b>	<b>60.28</b>	<b>44.68</b>	<b>40.35</b>

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