

## Kronox Lab Sciences Ltd.

### Issue Detail

Price Band (Rs)	tbd
Face Value (Rs)	10.00
Issue Size (Rs)	tbd
Issue Type	Book Building
Minimum lot	tbd
Issue Opens	tbd
Issue Closes	tbd
Listing on	BSE and NSE
Sector Classification	Chemicals

### Indicative Timeline

Indicative Timeline	On or before
Finalization of Basis of Allotment	tbd
Unblocking of Funds	tbd
Credit of shares to Demat Account	tbd
Listing on exchange	tbd

### Other Detail

Book Running Lead Managers	Pantomath Capital Advisors Private Limited,
Registrar	KFin Technologies Limited

### Shareholding (%)

Particulars	Pre Issue	Post Issue
Promoters	100%	74.13%
Public	0%	25.87%
<b>Total</b>	<b>100%</b>	<b>100%</b>

### Research Desk

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## Company Background

**Kronox Lab Sciences Ltd.** was incorporated in 2008. It is engaged in manufacturing of High Purity Speciality Fine Chemicals of various grades for diversified end user industries including APIs, Formulations, Nutraceuticals, Biotech, Food, Animal Health, Scientific Research among others.

The Company presently operates from three (3) strategically located manufacturing facilities (Unit 1, 2 & 3) at Padra, Vadodara in Gujarat, in close proximity to several ports including Kandla, Mundra, Hazira and Nhava Sheva, cumulatively spread across 17454 sq. mts area with an aggregate installed capacity of 7,242 MTPA.

The Company's product portfolio includes 185+ products spanning across the family of phosphate, sulphate, acetate, chloride, citrate, nitrates, nitrites, carbonate, EDTA derivatives, hydroxide, succinate, gluconate, among others. The Company caters to customers in India and more than 20 countries globally and are manufactured in accordance with industry standards like IP, BP, EP, JP, USP, FCC, LR, AR, GR and ACS.

The Company also has an in-house research, development and testing laboratory ("RDT Laboratory") with a team of 16 members, to develop new products and test the existing products against the specified industry standards or customer specifications. It continues to expand its range of products in order to meet changing demands of the end user industries.

## Issue Details

Offer For Sale of upto 96,00,000 Equity Shares of ₹ 10 each aggregating to ₹ [●] million

## Issue Objectives

- To achieve the benefits of listing the Equity Shares on the Stock Exchanges
- Offer for sale of upto 96,00,000 equity shares aggregating upto ₹ [●] million by the promoter selling shareholders.

Source: Company DRHP

## Company at a Glance

- Manufacturer of High Purity Speciality Fine Chemicals for diverse industry application.
- 185+ Product portfolio for diverse applications across Life Sciences and Scientific segments
- 3 strategically located manufacturing facilities with proximity to several ports
- Marquee clients across industries with 26% of revenue from operations coming from export
- Experienced promoters supported by team of professionals
- Zero Debt company with Revenue Growth, Robust Margins, Asset Efficiency and Returns
- High entry and exit barriers due to long customer approval cycles and strict product standards

The company has issued bonus and has bought back shares in last 4 years optimizing the shareholder return. However any such past corporate action may not indicate future continuations

### Product Overview

Kronox 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.

Product Family	Product Sub-Group	No. of Products
Phosphate	Ammonium, Calcium, Magnesium, Potassium, Sodium, Others	36
Sulphate	Aluminium, Ammonium, Calcium, Copper, Magnesium, Nickel, Potassium, Sodium, Zinc, Manganous, Others	28
Chloride	Barium, Calcium, Copper, Magnesium, Nickel, Zinc, Manganous, Potassium, Sodium, Others	15
Acetate	Ammonium, Barium, Calcium, Copper, Lead, Magnesium, Potassium, Sodium, Zinc, Others	12
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>

Source: Company DRHP

### Key Application Segments



Source: Company DRHP

### Manufacturing Facilities

Kronox have three Manufacturing Facilities, at Vadodara located in Gujarat which cater to the domestic as well as export markets.

Installed Capacity (TPA)	Location	FY21	FY22	FY23	9MFY24
Unit I	Block No. 284, Village Dabhasa, Padra, Vadodara, Gujarat.	2,400	2,400	2,400	2,400
Unit II	Block No. 138, Village Ekalbara, Padra, Vadodara, Gujarat	3,744	3,744	3,744	3,744
Unit III	Block No. 353, Village Ekalbara, Padra, Vadodara, Gujarat	1,098	1,098	1,098	1,098

## Investment Rationale

- The company has Portfolio of 185+ Fine Chemicals for applications across APIs, Formulations, Nutraceuticals, Biotech, Food, Animal Health, Scientific Research, among others with ability to sell products to the Conglomerates incl. global corporations that meets domestic and international industry standards.
- It serves marquee names with long term relationships; ~26% of revenue generated from exports across North & South America, Europe, UK, among others.
- The High Purity Speciality Fine Chemicals have to pass rigorous quality procedures before being approved, with timelines ranging from months to years.
- Three manufacturing facilities located at Padra, cumulatively spread across 1.88 lakh sq ft area with an installed capacity of 7,242 MTPA.
- Company's promoters with cumulative experience of 80 years in the Chemicals segment; 50% of the Board comprises of Independent Directors.
- With context to technical skillset, to know What Not To Do- a major factor driving the high purity of chemicals.
- Robust financial performance with revenue CAGR% (FY21-FY23E) of 23.70%, EBITDA CAGR% (FY21-FY23E) of 21.90% & PAT CAGR% (FY21-FY23E) of 30.68%.

## Competitive Strengths

### **Broad range of products finding applications in diversified end user industries.**

Kronox Lab Sciences Ltd manufactures a wide range of High Purity Speciality Fine Chemicals including citrates, carbonates, phosphates, acetates, sulphate, EDTA derivatives, chlorides, hydroxide, bromide, nitrites, and nitrates. The company offer more than 185 products in portfolio due to product range expansion throughout time. Their products have applications across a wide spectrum of industries like pharmaceuticals, scientific and laboratory research, nutraceuticals, biotech, agrochemicals, personal care, metallurgy and animal health.

### **Long standing relationships with customers**

Customers are dependent on the company for delivering quality products, consistently. Their long-term relationships and ongoing active engagements with customers also allow to plan out working capital and capital expenditure, enhance the ability to benefit from increasing economies of scale with stronger purchasing power for raw materials and a lower cost base. These enduring customer relationships have also helped in expanding product offerings and geographic reach. Their wide customer base assists in reducing dependence and helps in mitigating the effects of economic and industry-specific cycles.

### **High entry and exit barriers due to long customer approval cycles and strict product standards.**

Kronox Lab Sciences Ltd. manufacture 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.

The 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. Over the years, the company has built strong relationships with customers, who recognize technical capabilities and timely deliveries and associate the company with good and consistent quality products.

Any change in vendors of customers may require significant time and costs due to regulatory filings and related issues resulting in a propensity amongst customers to continue with the same set of suppliers. Hence, customer acquisition involves a long process and gestation period is higher. Further, Manufacturing Facilities are regularly audited by customers or their external consultants to ensure that they meet their quality and process standards. Meeting these standards involves continuous process improvements, research & development and quality control checks and data analysis and reporting. As a result of more than a decade of experience of working with domestic and multinational customers across jurisdictions. They are well positioned to capitalise on their experience and expertise to obtain repeat orders from customers.

**Key Business Strategies**

**Expand product portfolio, increasing the supply of products to existing customers and tap new customers in existing and new geographies.**

Over the years, the Company has expanded the product portfolio to more than 185 products spread across diverse applications. They have consistently endeavoured to diversify their portfolio of products to cater to changing customer requirements across various segments and geographies. Their experience and expertise of more than 15 years in the industry helps to capitalize on new opportunities offered by customers. They intend to continue to strengthen existing product portfolio and diversify into new products with potential for growth and profitability within existing product groups and new applications. In addition to the above, they are also working towards new products forming a part of the family of acetate, adipate, ascorbate, aspartate, benzoate, citrate, EDTA, gluconate, glycinate, lactate, malate, orotate, propionate, sorbate and succinate, among others.

During nine months period ending December 31st 2023, they have supplied products to more than 350 customers in India and overseas and 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 customers over the years and the repeat and increased orders received from them reiterate the commitment towards growth and increasing profitability. The main intention is to focus on increasing the share of product supplies with existing customers and generating new customers for existing and future products. They also intend to continue to leverage the existing sales team, diversified product portfolio and industry standing to establish new relationships with multinationals and domestic customers. In Fiscal 2023, products were sold to more than 15 countries outside India including the United States.

**Expand capacity for existing products and diversifying into new products by setting up a new manufacturing facility**

Aggregate installed capacity is 7,242 TPA across three Manufacturing Facilities as on December 31st, 2023. As part of their growth plans and to cater to the growing demand from existing customers and to meet requirements of new customers, they intend to establish a new manufacturing unit at GIDC Dahej - II Industrial Estate and have acquired a land admeasuring to 19,213 sq. mtrs. At GIDC - Dahej II Industrial Estate. Company plans to establish their 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 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 the Company. Once this unit is operational, their total installed capacity is estimated to be around 25,242 TPA which will significantly enhance revenues.

**Explore newer applications for existing products and developing new products that are in synergy with current and future operations.**

The company currently supplies products for applications in pharmaceuticals, scientific and laboratory research, nutraceuticals, biotech, agrochemicals, personal care, metallurgy and animal health among others industries. Their products are used at different stages across these applications segment as excipients, ingredients, reagents, buffering agents, fermenting agents, refining agents, among others. The Company aims to expand the sale of products to other industries where such products have applications. Going forward, they aim to market products for end-use applications in industries such as food, beverages, electronics and precision industrial product. The growth in end-use industries such as APIs, pharmaceutical formulations, agrochemical formulations, nutraceuticals, personal care, scientific research and laboratory, metal refining, animal health, biotech, beverages, food, electronics and precision industrial products, among others, will lead to an increase in demand for current and proposed products.

Some of the new products proposed to be launched are as follows:

New Products	Industry	Estimated Global Market Size CY 2022 (USD mn)	Forecast CAGR from CY 2022 to CY2025
Glycinate	Pharmaceuticals, Nutraceuticals, Scientific Research and Laboratory Testing, Food and Beverages and Animal Feed	344	7.60%
Succinate	Pharmaceuticals, Nutraceuticals, Scientific Research and Laboratory Testing and Food	144	24.60%
Gluconate	Pharmaceuticals, Nutraceuticals, Food and Beverages and Construction	698	5.70%

Source: Company DRHP

## Industry Overview

The chemical industry is an integral element of the economy and plays a critical role in nearly every facet of modern life serving numerous sectors such as agriculture, construction, automotive, FMCG, consumer durables, electronics, healthcare, etc. The chemical industry is continually evolving through technological advancements, market dynamics, and sustainability initiatives.

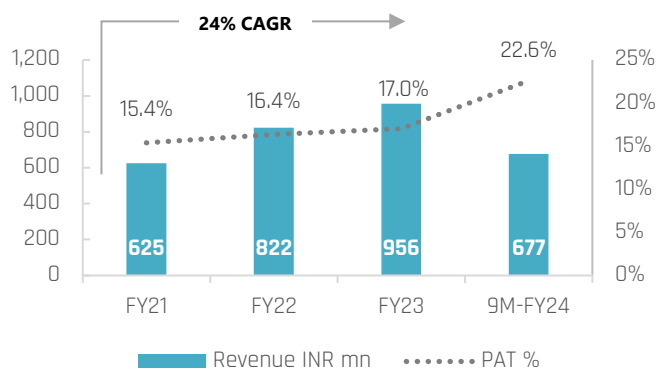
## Growth Drivers

Industry	Growth Prospects and Drivers
Pharmaceuticals	The Indian pharmaceutical industry has demonstrated a CAGR of approximately 8% from FY17 to FY23 resulting in a market size of approximately USD 50 billion. Indian pharmaceutical market is expected to grow to a market size of approximately USD 57 billion by FY25. The domestic demand for pharmaceuticals will be driven by enhanced access to healthcare facilities and the rising per capita income. Additionally, the exports are likely to increase, given the production-linked incentive (PLI) for pharmaceuticals announced by the government.
Biotech	India's biotech industry is experiencing robust growth, driven by its strategic focus on biopharmaceuticals and agricultural biotechnology. In the field of biopharmaceuticals, the country has made significant strides in research, development, and manufacturing, positioning itself as a key player on the global stage.
Active Pharmaceutical Ingredients (APIs)	India, the third-largest global API producer, commands an 8% share and manufactures 500+ different APIs, contributing 57% to the WHO prequalified list. With a projected CAGR of 13.7% over the next four years as per Invest India, the Indian API market is expected to benefit from a robust domestic market, advanced chemical industry, skilled workforce, and competitive operational costs.
Nutraceuticals / Dietary Supplements	The Indian dietary supplements consumption has grown significantly in the past few years. This is attributable to sedentary & stressful lifestyles, difficulty in maintaining balanced diets due to hectic schedules, deteriorating soil quality, increasing consumption of junk food, etc. The increasing awareness of the benefits of dietary supplements and the penetration of healthcare facilities have led to the emergence of this trend. Overall, the consumption of dietary supplements is expected to continue its growth trajectory in India, driven by an expanding consumer base and increasing affordability due to growth in per capita income.
Scientific and Laboratory Research	India's scientific and laboratory research market is undergoing substantial expansion, fuelled by a surge in investments in Research and Development (R&D) activities. This trend reflects a broader commitment to fostering a robust research ecosystem, positioning India as a key player in the global scientific community and contributing to advancements across various scientific disciplines.
Personal Care	The Indian personal care market is experiencing significant growth driven by two key factors, rising disposable income and urbanization. As more consumers in urban areas experience an increase in income, there is a corresponding surge in their purchasing power and a growing inclination toward personal care products.
Animal Health	India's animal health market is witnessing robust growth, propelled by two primary factors, the steady rise in pet ownership and a dedicated emphasis on enhancing animal healthcare within both the pet care and livestock sectors.
Metallurgy	Growth in manufacturing, coupled with initiatives that promote domestic production and industrialization, propels the metallurgy market. "Make in India" specifically encourages indigenous manufacturing, attracting investments, and fostering the development of the metallurgical sector as a crucial component of the country's economic expansion and self-sufficiency goals.
Food and Beverages	Domestic food & beverage consumption is on the rise, driven by the rising population, the increasing per capita income, and consumer spending. The Indian F&B industry is expected to witness robust growth in the near-medium term supplemented by a young population, rising consumer spending, growing penetration of restaurants, Quick Service Restaurants (QSRs) in Tier 2 and Tier 3 cities, and the advent of user-friendly delivery apps and tech-enabled networks. Furthermore, the increasing tendency to dine out in India's cities among all economic classes, and not restricting dining out to special occasions, will further support the industry.
Electronics	India's electronics market is experiencing notable growth, primarily driven by a surge in consumer electronics consumption and strategic government initiatives like "Digital India." The increasing adoption of digital technologies and the rising internet penetration have fuelled the demand for electronic devices and component.
Precision Industrial Products	The precision industrial products market in India is propelled by the surging demand for high-precision components from the manufacturing sector.

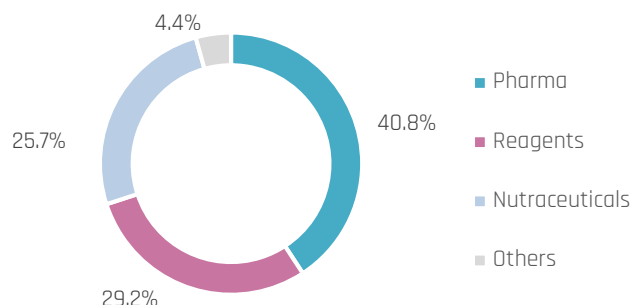
Source: Company DRHP

**Story in Charts** (Values in Mn.)

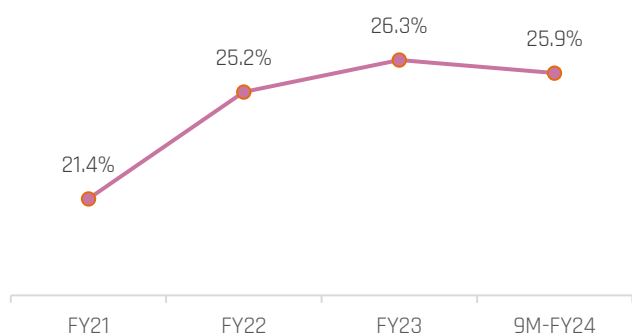
**Exhibit 1: Revenue Growth**



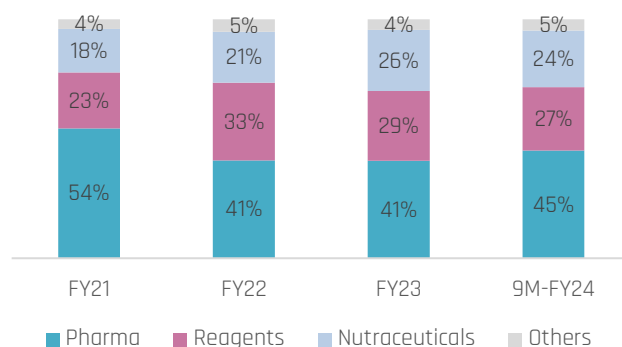
**Exhibit 2: End Application Mix (FY23)**



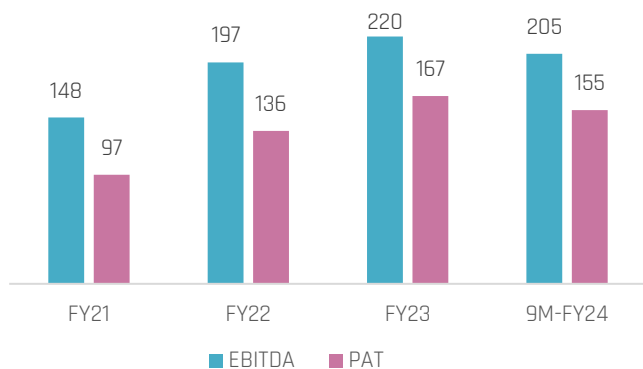
**Exhibit 3: Exports as % of revenue**



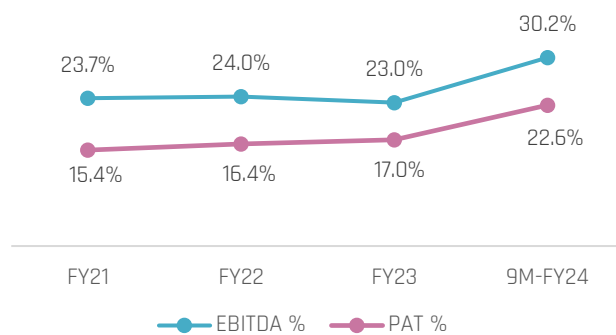
**Exhibit 4: Segmental Revenue**



**Exhibit 5: EBITDA and PAT (₹ mn)**



**Exhibit 6: EBITDA % and PAT %**



Source: Company, ACMIIL Retail Research

### Financial Snapshot (Consolidated)

Particulars (in Mn)	FY21	FY22	FY23	9MFY24
Revenue from Operations	624.6	822.47	955.78	676.85
EBITDA	148.03	196.97	219.96	204.6
EBITDA Margin (%)	23.7	23.95	23.01	30.23
Profit After Tax for the Year	97.3	136.27	166.17	154.69
PAT Margin (%)	15.39	16.35	17.04	22.6
EPS (Basic & Diluted)	2.4	3.49	4.3	4.17
Total Borrowings	0.13	6.42	-	-
Net worth	268.14	403.53	446.79	602.82
ROE (%)	36.29	33.77	37.19	25.66
ROCE (%)	51.78	46.27	49.86	33.15
Debt - Equity Ratio	Negligible	0.02	-	-
Fixed Assets Turnover Ratio	10.87	9.3	6.01	2.61

Note: \*EPS, ROCE, ROE and Fixed Asset Turnover Ratio for the 9MFY24 have not been annualized.

### Peer Analysis:

Particulars (in mn)	Market cap	Revenue	EBITDA	PAT	EBITDA%	PAT%	PE	ROCE	ROE
Kronox Lab Sciences Ltd.	[●]	956	220	166	23.0%	17.0%	[●]	49.9%	37.2%
Tatva Chintan Pharma Chem Ltd.	37942	4236	608	455	14.3%	10.7%	83.4	8.0%	8.8%
Tanfac Industries Ltd.	26378	3750	762	561	20.3%	15.0%	47	40.7%	30.5%
Neogen Chemicals Ltd.	39524	6862	1116	501	16.3%	7.3%	79	11.5%	10.4%
Sigachi Industries Ltd.	16324	3021	587	435	19.4%	14.4%	37.5	17.1%	16.2%
DMCC Speciality Chemical Ltd.	7669	3846	340	69	8.8%	1.8%	111.8	5.5%	3.5%

Note: All financial numbers for peers are on consolidated basis for the financial year 2022-23.

### Risks and Concerns

- The Company's products are required to meet domestic and international industry standards. In the event of any deviation from these standards, products may face rejection from the customers, which may affect the reputation of the Company
- The Company may not be able to achieve the level of purity required by the customer and fail to supply the required product.
- The products of the Company 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
- The products of the Company are supplied in limited quantities for specific use by application industries. Any reduction in the requirement may result in loss of business and may affect financial performance and condition
- Top 20 products contribute to majority of revenues. Any change in demand of those products could significantly affect the revenues.

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