

Kronox Lab Sciences Ltd

Crafting Chemistry for Tomorrow



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Kronox Lab Sciences Ltd is a renowned manufacturer of high purity speciality fine chemicals, catering to a diverse range of industries including pharmaceuticals, scientific and laboratory research, nutraceuticals, biotech, agrochemicals, personal care, metallurgy, and animal health. Originally incorporated as Kronox Lab Sciences Pvt. Ltd on November 18, 2008, in Gujarat, the company transitioned to a public limited entity on May 25, 2019, and adopted its current name..

Kronox Lab Sciences Ltd boasts a comprehensive product portfolio with over 185 chemical products spanning various chemical families such as phosphate, sulphate, acetate, chloride, citrate, nitrates, nitrites, carbonate, EDTA derivatives, hydroxide, succinate, and gluconate. The products are available in different grades and particle sizes, ranging from 10 mesh to 100 mesh. Adhering to stringent industry standards like IP, BP, EP, JP, USP, FCC, LR, AR, GR, and ACS, Kronox ensures high-quality production. The company also accommodates custom manufacturing specifications to meet specific customer requirements.

As of December 31, 2023, Kronox had 122 products in various stages of research and development, highlighting its commitment to innovation and continuous improvement. This robust R&D pipeline positions the company to address evolving market needs and expand its product offerings. Kronox operates three state-of-the-art manufacturing facilities located in Vadodara, Gujarat, covering a total area of 17,454 square meters with an aggregate installed capacity of 7,242 TPA. These facilities are strategically situated near key seaports such as Mundra, Kandla, Hazira, and Nhava Sheva, facilitating efficient logistics and distribution. The company is also in the process of establishing a new manufacturing unit at GIDC Dahej – II Industrial Estate, having acquired 20,471 square meters of land for this expansion.

Over the past three financial years, Kronox Lab Sciences Ltd has served more than 592 customers. During the nine-month period ending December 31, 2023, 141 customers, representing 23.82% of the total, placed repeat orders. The company's top 10 customers have maintained an average relationship tenure of 7 years in Fiscal 2023, and 9 years in both Fiscal 2022 and Fiscal 2021. This enduring customer loyalty underscores Kronox's reputation for quality, reliability, and customer satisfaction.

Strategically located in Gujarat, close to major seaports, Kronox is well-positioned for efficient national and international distribution. The upcoming manufacturing unit at GIDC Dahej – II Industrial Estate reflects the company's commitment to expanding its production capacity and meeting growing market demand

Industry	Chemicals
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Issue Details

Listing	BSE & NSE
Open Date	03 rd June 2024
Close Date	05 th June 2024
Price Band	INR 129-136
Face Value	INR 10
Lot Size	110 shares
Minimum Lot	1 Lot

Issue Structure

Fresh Issue	0%
OFS	100%
Issue Size (Amt)	INR 130.15 Cr
Issue Size (Shares)	9,570,000 shares
QIB Share (%)	≤ 50%
Non-Inst Share (%)	≥ 15%
Retail Share (%)	≥ 35%
Pre issue sh (nos)	37,104,000
Post issue sh (nos)	37,104,000

Shareholding (%)	Pre (%)	Post (%)
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Promoter	100	74.2
Public	0	25.8

TOTAL	100	100
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Key Financial Data (INR Cr, unless specified)

	Revenue	EBITDA	PAT	EBITDA (%)	PAT (%)	Adj EPS (₹)	BVPS (₹)	RoE (%)	RoIC (%)	P/E (X)	EV/Sales (X)	EV/EBITDA (X)
FY21	62.5	14.8	9.7	23.7	15.6	2.6	7.2	36.3	51.8	51.9	8.0	34.0
FY22	82.2	19.7	13.6	23.9	16.6	3.7	10.9	33.8	46.3	37.0	6.1	25.5
FY23	95.6	22.0	16.6	23.0	17.4	4.5	12.0	37.2	49.9	30.4	5.2	22.8

Source: Ventura Research

Industry Analysis

The chemical industry is a fundamental component of the global economy, significantly impacting various sectors such as agriculture, construction, automotive, FMCG, consumer durables, electronics, and healthcare. It is constantly evolving through technological advancements, market dynamics, and sustainability initiatives. The industry's importance is reflected in its global sales, which grew from USD 3,668 billion in 2017 to an estimated USD 5,255 billion in 2022.

China leads the global chemical sales with a dominant 44% share, followed by Europe (27 nations) with 14% (USD 736 billion), the USA with 11.2% (USD 589 billion), Japan with 4.2% (USD 221 billion), and South Korea with 2.5% (USD 131 billion). India ranks sixth with an expected contribution of USD 111 billion, accounting for approximately 2.1% of global chemical sales in 2022. Other top countries include Taiwan, Brazil, and Russia, with shares of 1.9%, 2.6%, and 1.7%, respectively.

China's significant share is supported by its average annual chemical production growth rate, which is projected to be 6.9% over the decade from 2012 to 2022, the highest among the leading countries. India's average growth rate in chemical production is expected to be 3.8% during the same period, which, although lower than Saudi Arabia, China, and Russia, surpasses that of South Korea (2.8%), Europe (1.6%), Brazil (0.6%), Japan (1.0%), and the USA (0.5%). This trend indicates that emerging countries are outpacing industrial economies in chemical production, as noted by CEFIC.

In India, the chemical industry's output value, excluding pharmaceuticals, was around Rs. 9.10 lakh crores in FY22, representing 8.4% of the manufacturing sector's output value at constant prices, up from 7.9% in FY18. The chemical and chemical products sector, excluding pharmaceuticals, recorded a CAGR of 8.8% from FY18 to FY22. According to the Government of India's Department of Chemicals and Petrochemicals, India ranks 11th in global chemical exports (excluding pharmaceuticals) and 6th in global chemical imports (excluding pharmaceuticals). In FY22, India's imports of chemicals (excluding pharmaceuticals) reached Rs. 8.5 lakh crores, a 66.01% year-on-year growth, while exports reached Rs. 4.9 lakh crores, marking a 30.12% year-on-year growth.

The Indian chemical industry is broadly categorized into five segments:

1. Alkali Chemicals: Includes products like soda ash, caustic soda, and liquid chlorine.
2. Inorganic Chemicals: Includes products like carbon black, calcium carbonate, and hydrogen peroxide.
3. Organic Chemicals: Includes products like ethyl acetate, chloro methanes, and formaldehyde.
4. Pesticides and Insecticides: Includes products like mancozeb, 2,4-D, acephate, and profenofos technical.
5. Dyes and Pigments: Includes products like reactive dyes, organic pigments, and dispersed dyes.

The production of major chemicals in India grew at a CAGR of 4.61%, increasing from 11,069 thousand metric tonnes in FY18 to 12,743 thousand metric tonnes in FY22. This growth was primarily driven by a 4.3% CAGR in the production of alkali chemicals, which accounted for about 71% of the total major chemical output in 2021-22.

Growth Strategy

- **Expanding Manufacturing Capacity** - To meet growing demand, Kronox plans to establish a new manufacturing unit at GIDC Dahej – II Industrial Estate, having acquired 19,213 sq. meters of land. This fourth unit, with an estimated installed capacity of 18,000 TPA, will produce high purity specialty fine chemicals from both the existing and new product portfolios. The project, estimated at ₹675 million, will be financed through equity, debt, and internal accruals. Once operational, the total installed capacity will reach approximately 25,242 TPA, significantly boosting revenue.
- **Exploring New Applications and Develop Synergistic Products** - Kronox currently supplies products for pharmaceuticals, scientific research, nutraceuticals, biotech, agrochemicals, personal care, metallurgy, and animal health industries. The company aims to expand into other industries such as food, beverages, electronics, and precision industrial products. Their products, used as excipients, ingredients, reagents, buffering agents, fermenting agents, and refining agents, will see increased demand in these new applications. Kronox plans to leverage its strong customer relationships, technical capabilities, and timely delivery to penetrate these markets
- **Focusing on Import Substitution and Increase Exports**- Kronox has a global footprint, exporting to over 20 countries. For the nine months ending December 31, 2023, exports accounted for 25.07% of revenue, driven by the China-Plus-One strategy. As companies minimize dependency on China, Kronox stands to benefit from increased export opportunities. India's strategic location, large domestic market, and skilled manpower position it as an attractive option for global supply chain diversification. Kronox plans to capitalize on this trend by enhancing export operations and reducing reliance on imports
- **Improving Cost Management and Operational Efficiencies** - Kronox is committed to enhancing profitability through improved cost management and operational efficiencies. The company aims to optimize production processes, increase capacity utilization, and focus on high-value, low-volume products. Leveraging economies of scale, they plan to reduce fixed overheads per product, increase profitability, and improve operating leverage. By continuously refining their product selection strategy and production processes, Kronox seeks to maintain its competitive edge and drive sustainable growth
- **Expand Product Portfolio and Market Reach** - Kronox Lab Sciences Ltd. aims to continue diversifying its product portfolio, which currently exceeds 185 products across diverse applications. With over 15 years of industry expertise, the company plans to strengthen its existing product lines and introduce new products with high growth and profitability potential. The new product range will include acetate, adipate, ascorbate, aspartate, benzoate, citrate, EDTA, gluconate, glycinate, lactate, malate, orotate, propionate, sorbate, and succinate, among others. During the nine months ending December 31, 2023, Kronox supplied products to over 350 customers globally, with more than 650 customers served in the last five financial years. The company intends to increase product supply to existing customers while acquiring new customers in both current and new geographies

Investment Rationale

Diversified Product Portfolio & Strong Customer Base: Kronox offers a wide range of high-purity fine chemicals (185+) catering to diverse end-user industries like pharmaceuticals, nutraceuticals, and scientific research. They boast long-standing relationships with a large customer base (over 592 in the last 3 years), with repeat orders from a significant portion (23.82% in the last 9 months).

High Entry Barriers & Focus on Quality: The company's stringent quality control procedures and adherence to international standards create high entry barriers for competitors. Their focus on R&D ensures product innovation and meeting customer requirements, further strengthening their market position.

Robust Financial Performance: Kronox demonstrates consistent financial growth with a CAGR of 23.70% in revenue and 30.68% in PAT from FY21 to FY23E. Additionally, their zero-debt position and positive cash flow provide financial stability for future growth.

Strategically Located Manufacturing Facilities: The company's three manufacturing facilities near major ports offer logistical advantages for raw material import and product export. Their proximity to key industry hubs allows them to efficiently serve a wide range of customers.

Experienced Management Team: The company benefits from the extensive experience of its promoters and senior management team, particularly in the chemicals sector. This expertise positions them well to navigate industry challenges and capitalize on future opportunities.

Growth Potential: The high-purity fine chemicals market is expected to experience steady growth due to rising demand from various industries. Kronox's diverse product portfolio, strong customer base, and focus on quality position them to capitalize on this growth potential.

Key Concerns

- **Quality Standards Adherence:** Any failure to meet both domestic and international industry standards could lead to product rejection by customers, potentially tarnishing the company's reputation.
- **Execution Risk in Expansion Strategy:** If Kronox fails to effectively execute its strategy for business expansion or increasing production capacity, it could significantly impact its business and future prospects
- **Dependency on Specific Industries:** Since Kronox's products are tailored for specific applications in various industries, a decrease in demand from these sectors could result in a loss of business, negatively affecting its financial performance and overall condition.
- **Revenue Concentration in Top Products:** The fact that the top 20 products contribute a significant portion of Kronox's revenue poses a risk. Any fluctuations or changes in demand for these products could have a notable impact on the company's revenue stream.

Issue Structure and Offer Details

The Kronox Lab Sciences IPO is a book-built offering worth Rs 130.15 crores. The entirety of the issue, consisting of 0.96 crore shares, is an offer for sale.

Issue Structure		
Investor Category	Allocation	No. of shares offered
QIB	Not more than 50% of the Offer	47,85,000
NII	Not less than 15% of the Offer	14,35,500
Retail	Not more than 35% of the Offer	33,49,500

Number of shares based on a higher price band of INR 136

Source: Company Reports

Kronox Lab Sciences Ltd financial summary and analysis

Fig in INR Cr (unless specified)	FY21	FY22	FY23	Fig in INR Cr (unless specified)	FY21	FY22	FY23
Income Statement				Per share data & Yields			
Revenue	62.5	82.2	95.6	Adjusted EPS (INR)	2.6	3.7	4.5
<i>YoY Growth (%)</i>		<i>31.7</i>	<i>16.2</i>	Adjusted Cash EPS (INR)	3.2	4.2	4.9
Raw Material Cost	34.4	47.4	54.9	Adjusted BVPS (INR)	7.2	10.9	12.0
<i>RM Cost to Sales (%)</i>	<i>55.1</i>	<i>57.6</i>	<i>57.4</i>	Adjusted CFO per share (INR)	3.0	2.4	5.3
Employee Cost	1.5	1.6	1.9	CFO Yield (%)	2.2	1.8	3.9
<i>Employee Cost to Sales (%)</i>	<i>2.4</i>	<i>2.0</i>	<i>2.0</i>	Adjusted FCF per share (INR)	(4.7)	1.1	2.8
Other Expenses	11.8	13.5	16.8	FCF Yield (%)	(3.5)	0.8	2.0
<i>Other Exp to Sales (%)</i>	<i>18.8</i>	<i>16.4</i>	<i>17.6</i>				
EBITDA	14.8	19.7	22.0	Solvency Ratio (X)			
<i>Margin (%)</i>	<i>23.7</i>	<i>23.9</i>	<i>23.0</i>	Total Debt to Equity	0.0	0.0	0.0
<i>YoY Growth (%)</i>		<i>33.1</i>	<i>11.7</i>	Net Debt to Equity	(0.1)	(0.1)	(0.1)
Depreciation & Amortization	2.0	2.0	1.5	Net Debt to EBITDA	(0.1)	(0.1)	(0.2)
EBIT	12.8	17.7	20.5				
<i>Margin (%)</i>	<i>20.5</i>	<i>21.5</i>	<i>21.4</i>	Return Ratios (%)			
<i>YoY Growth (%)</i>		<i>37.7</i>	<i>16.0</i>	Return on Equity	36.3	33.8	37.2
Other Income	0.8	1.1	1.9	Return on Capital Employed	35.2	32.0	34.1
Finance Cost	0.4	0.4	0.1	Return on Invested Capital	51.8	46.3	49.9
Interest Coverage (X)	33.6	43.6	220.4				
Exceptional Item	0.0	0.0	0.0	Working Capital Ratios			
PBT	13.2	18.4	22.3	Payable Days (Nos)	38	51	30
<i>Margin (%)</i>	<i>21.2</i>	<i>22.3</i>	<i>23.4</i>	Inventory Days (Nos)	32	33	35
<i>YoY Growth (%)</i>		<i>38.8</i>	<i>21.6</i>	Receivable Days (Nos)	90	115	71
Tax Expense	3.5	4.7	5.7	Net Working Capital Days (Nos)	84	97	76
<i>Tax Rate (%)</i>	<i>26.4</i>	<i>25.8</i>	<i>25.6</i>	Net Working Capital to Sales (%)	23.0	26.5	20.8
PAT	9.7	13.6	16.6				
<i>Margin (%)</i>	<i>15.6</i>	<i>16.6</i>	<i>17.4</i>	Valuation (X)			
<i>YoY Growth (%)</i>		<i>40.1</i>	<i>21.9</i>	P/E	51.9	37.0	30.4
Min Int/Sh of Assoc	0.0	0.0	0.0	P/BV	18.8	12.5	11.3
Net Profit	9.7	13.6	16.6	EV/EBITDA	34.0	25.5	22.8
<i>Margin (%)</i>	<i>15.6</i>	<i>16.6</i>	<i>17.4</i>	EV/Sales	8.0	6.1	5.2
<i>YoY Growth (%)</i>		<i>40.1</i>	<i>21.9</i>				
Balance Sheet				Cash Flow Statement			
Share Capital	0.2	0.2	37.1	PBT	13.2	18.4	22.3
Total Reserves	26.6	40.1	7.6	Adjustments	28.9	2.8	1.2
Shareholders Fund	26.8	40.4	44.7	Change in Working Capital	(27.3)	(7.4)	1.9
Long Term Borrowings	0.0	0.5	0.0	Less: Tax Paid	(3.5)	(4.7)	(5.7)
Deferred Tax Assets / Liabilities	(0.2)	(0.3)	(0.3)	Cash Flow from Operations	11.3	9.0	19.7
Other Long Term Liabilities	2.7	1.7	0.0	Net Capital Expenditure	(1.7)	(3.8)	(8.4)
Long Term Trade Payables	0.0	0.0	0.0	Change in Investments	(1.3)	(3.8)	2.9
Long Term Provisions	0.2	0.5	0.5	Cash Flow from Investing	(3.0)	(7.6)	(5.5)
Total Liabilities	29.5	42.7	44.8	Change in Borrowings	(0.8)	(0.3)	(0.8)
Net Block	9.2	11.3	15.9	Less: Finance Cost	(0.4)	(0.4)	(0.1)
Capital Work in Progress	0.4	0.0	0.0	Proceeds from Equity	0.0	0.0	0.0
Intangible assets under developmer	0.0	0.0	0.0	Buyback of Shares	(5.9)	0.0	(12.5)
Non Current Investments	0.0	0.0	0.0	Dividend Paid	0.0	0.0	0.0
Long Term Loans & Advances	1.6	1.0	0.1	Cash flow from Financing	(7.1)	(0.7)	(13.4)
Other Non Current Assets	0.0	0.0	3.5	Net Cash Flow	1.3	0.8	0.8
Net Current Assets	18.3	30.4	25.3	Forex Effect	0.0	0.0	0.0
Total Assets	29.5	42.7	44.8	Opening Balance of Cash	2.7	2.1	2.8
				Closing Balance of Cash	2.1	2.8	3.6

Source: Ventura Research

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