

One Stop Investment Avenue



**GEPL
CAPITAL**

IPO Note

**KNR HEAT
EXCHANGERS AND
REFRIGERATIONS LIMITED**

Sep 25, 2024

KRN HEAT
EXCHANGERS





Sep 25, 2024

Details of the Issue

Price Band	₹ 209 - ₹ 220
Issue Size	₹ 341.95 Cr
Face Value	₹ 10
Bid Lot	65
Listing on	BSE, NSE
Post Issue Mcap	₹ 1,309.51 Cr
Investment Range	₹ 13,585 - ₹ 14,300

Important Indicative Dates (2024)

Opening	25 - Sep
Closing	27 - Sep
Basis of Allotment	30 - Sep
Refund Initiation	01 - Oct
Credit to Demat	01 - Oct
Listing Date	03 - Oct

Lead Manager

Holani Consultants Private Limited

Offer Details

Offer Size	₹ 410 Cr
Fresh Issue	₹ 410 Cr
OFS	-

Type	In Rs Cr	No of Shares (Mn)		% of Issue
		Upper	Lower	
QIB	205	16	16.94	50
NIB	61.5	4.80	5.08	15
Retail	143.5	11.21	11.85	35
Em- ploy.	-	-	-	-
Total	410	32.03	33.88	100

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Company Profile

KRN Heat Exchanger and Refrigeration Ltd manufactures fin and tube-type heat exchangers, primarily using copper and aluminum. Their products, including condenser coils, evaporator coils, and water coils, are used in the HVAC&R industry for domestic, commercial, and industrial applications. KRN offers heat exchangers in various sizes, with tube diameters ranging from 5 mm to 15.88 mm. Major customers include Daikin, Blue Star, Kirloskar Chillers, and Schneider Electric, and the company exports to countries like the USA, UK, UAE, and Germany. Their Neemrana facility spans 7,800 sq. mt. and uses advanced manufacturing machines like CNC Tube Benders and Fin Press Machines.

Business Highlights & Services

KNR is in the business of manufacturing aluminium and copper fin - copper tube condenser and evaporator coils used by OEMs in heating, ventilation, air conditioning, and refrigeration (HVAC&R) industry. The coils are used in heating equipment, ventilation equipment, and cooling or air-conditioning equipment used in domestic, commercial, and industrial HVAC systems to control the temperature, humidity, and purity of the air. The product portfolio includes evaporator coils, condenser coils, fluid and steam coils, condensing units, copper headers parts, sheet metal parts.

The company has served 112 customers in FY 2022-23, with the top 10 accounting for 75.94% of revenue. To reduce dependency, it aims to deepen market penetration and expand its customer base. With products sold in 17 states in India and exported to 9 countries, the company plans further expansion to tap new markets and meet rising demand. Positioned for growth in the heat exchanger market, it is expanding into new product lines and sizes. A dedicated R&D team of 8 employees focuses on innovative heat exchanger designs to enhance efficiency. The company's manufacturing presence in Neemrana, Rajasthan, supports its growth strategy both domestically and internationally.

The company focuses on offering high-quality products at competitive prices, driving both growth and operational efficiency. Over the past 3 years, improvements in cost efficiency have positively impacted financial performance. The company plans to enhance operational efficiency through manufacturing, sourcing, and cost-reduction strategies, including manpower optimization and value analysis. A new subsidiary, KRN HVAC Products, established in April 2023, will expand product offerings and manufacturing capabilities. The company is committed to strengthening customer relationships and continually innovating with new designs to attract both existing and new customers across untapped markets, addressing global demand for unique and affordable products. To diversify the customer base and enhance market share, the company plans to increase sales in existing markets while expanding into new geographies, particularly in Europe and North America. Over the years, it have successfully built a robust customer network in Europe, which remains a core growth strategy. wide product portfolio and established brand presence instill confidence in potential customers, facilitating engagement. It aim to strengthen the local presence in key regions by fostering connections and leveraging the development capabilities to capitalize on growth opportunities. Its primary focus will be on acquiring new customers, retaining existing ones, and delivering high-quality products, positioning the company for sustained growth in international markets.



Product Portfolio Details:

Sr. No	Application	Sub Category	Use Case	Our Product
1	Air Conditioning	Residential AC		
2	Air Conditioning	Cassette type HVAC		
3	Air Conditioning	Fan Coil Unit FCU		
4	Air Conditioning	Commercial HVAC		
5	Air Conditioning	Data Centre Cooling		
5	Air Conditioning	Data Centre Cooling		
6	Air Conditioning	Precision Air Conditioning		
7	Air Conditioning	Railway/Metro HVAC		
8	Air Conditioning	Automotive HVAC		
9	Air Conditioning	Defence Air Conditioning		
10	Refrigeration	Commercial Refrigeration		
11	Refrigeration	Water Coolers		
12	Refrigeration	Chest Freezers		
13	Refrigeration	Beverage Coolers		
14	Refrigeration	Vending Machines		
15	Process cooling	Civil and Construction		
16	White goods	Cloth Dryer/Washing M/c		
17	Others	Dry air cooler		
18	Others	Swimming pool heat pump		
19	Others	Medical Equipment		

Product wise revenue

(₹ in lakhs)

SN	Product	FY 23-24 (Consolidated)		FY 22-23 (Standalone)		FY 21-22 (Standalone)	
		Amount	% of total revenue	Amount	% of total revenue	Amount	% of total revenue
1	Evaporator Coils	11,558.70	37.49%	7,153.35	28.90%	5,144.01	32.95%
2	Condenser Coils	17,029.57	55.24%	15,226.80	61.53%	9,946.54	63.71%
3	Headers/ Copper Parts	467.81	1.52%	181.69	0.73%	57.19	0.37%
4	Sheet Metal Parts	14.10	0.05%	16.50	0.07%	5.72	0.04%
5	Other Operating Revenue*	1,758.13	5.70%	2,169.74	8.77%	458.00	2.93%
Total Revenue		30,828.31	100.00%	24,748.08	100%	15,611.46	100%



Export Revenue

(₹ in Lakhs)

Continents	For the Financial Years ended on March 31					
	2023-24		2022-23		2021-22	
	Total Revenue	% of total export revenue	Total Revenue	% of total revenue	Total Revenue	% of total revenue
Europe	791.43	17.48%	621.18	22.03%	95.53	6.40%
North America	1,065.97	23.55%	753.75	26.73%	13.83	0.93%
Asia*	2,669.24	58.97%	1,445.33	51.25%	1,384.27	92.68%
Total Export Revenue	4,526.64	100.00%	2,820.26	100.00%	1,493.63	100.00%
Total Revenue	30,828.31	100%	24,748.08	100%	15,611.46	100%

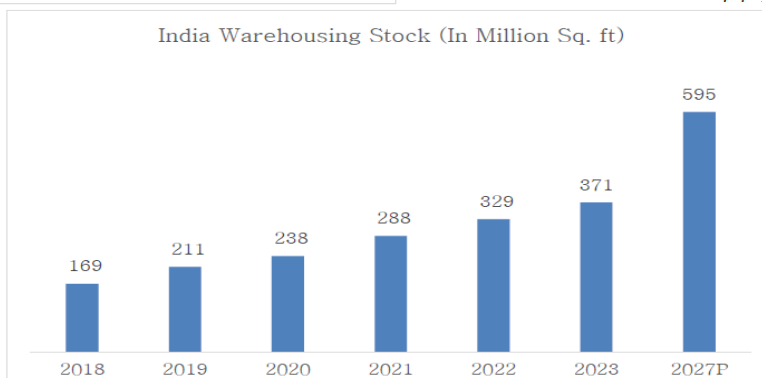
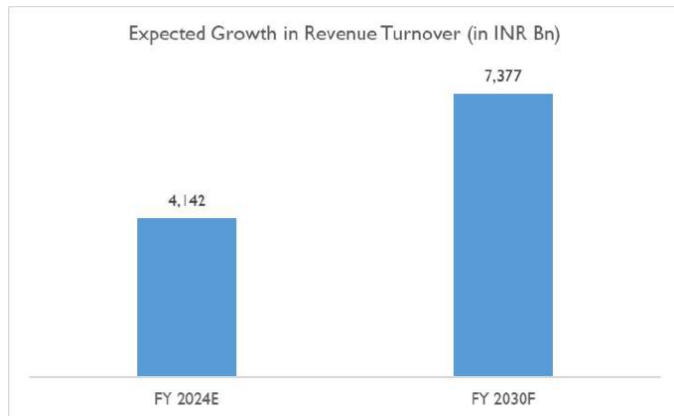
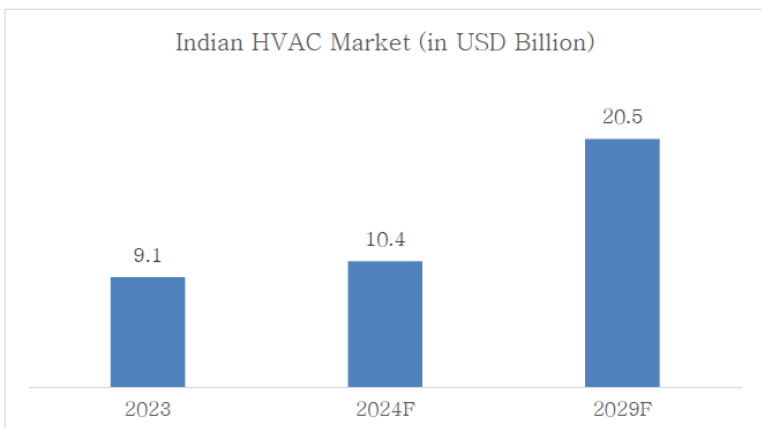
Revenue by customer

(₹ in Lakhs)

Particular	For the Financial Year ended on March 31,					
	2024 (Consolidated)		2023 (Standalone)		2022 (Standalone)	
	Amount	% of revenue from operations	Amount	% of revenue from operations	Amount	% of revenue from operations
Largest customer Daikin Airconditioning India Private Limited	10,279.22	33.34%	8,130.92	32.85%	5,039.40	32.28%
Top 5 customers	16,993.50	55.12%	13,814.21	55.82%	9,334.00	59.79%
Top 10 customers	22,293.56	72.31%	17,540.09	70.87%	11,835.45	75.82%

Industry Outlook

The Indian heat exchanger market reached USD 689 million in 2023, growing at a CAGR of 10% from 2019 to 2023. The industry faced a slowdown during the Covid-19 pandemic, with revenue growth dropping to 6% in 2020. However, demand rebounded with an average annual growth of 11% from 2021 to 2023, driven by rapid industrialization, urbanization, and infrastructure development. The widespread use of heat exchangers across various sectors means that increased industrial activity and positive economic sentiment enhance demand. Additionally, a growing focus on energy efficiency and reducing carbon emissions positions heat exchangers as crucial for optimizing energy consumption and supporting India’s sustainable development goals.





Companies Competitive Strength :

- Promoters exhibit strong leadership and are supported by highly experienced senior management.
- Long-standing business relationships with leading clientele.
- Effective quality control checks.
- Consistent financial performance.
- Established Manufacturing facility

Key Strategies Implemented by Company

- Expanding the customer base.
- Focus on increasing operational efficiencies to improve returns.
- Enhancing existing products base and product quality.
- Regular Improvement in product design and development.
- Increasing the global footprint and augmenting growth in current geographies.

Particular (INR in Cr)	FY24	FY23	FY22
Equity Capital	46	44	4
Reserves and Surplus	86	16	21
Net Worth	132	60	26
Revenue	308	248	156
Growth (%)	25%	59%	
EBITDA	59	49	17
EBITDAM (%)	19%	20%	11%
PAT	39	32	11
PATM (%)	13%	13%	7%
ROCE (%)	31%	51%	35%
ROE (%)	41%	76%	55%

Valuations and Recommendation:

- Based on annualized FY24 earnings to post-IPO paid-up equity capital of the company, The issue is priced at a P/E of 33.58X. Thus the issue appears to be fairly priced compared to earning and growth of the business.
- KRN is a leading manufacturer of fin and tube heat exchangers, offering a diverse portfolio of copper and aluminium products. The company enjoys a strong customer base and long-term relationships with industry leaders such as Dakin, Schneider Electric, and Blue Star. With a solid domestic presence, KRN is strategically expanding its reach into international markets while enhancing operational efficiency. Over the past 3 years, KRN has demonstrated impressive revenue and PAT growth of 25% and 50%, respectively, with stable margins. The company has significant growth potential due to low penetration of room air conditioners (RAC) in Indian households, rising demand for energy-efficient HVAC systems, export opportunities to the USA amid Chinese restrictions, and increased manufacturing capacity. Hence, we recommend a “Subscribe” rating for the issue.



Notes

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