

One Stop Investment Avenue



GEPL
CAPITAL

IPO Note

KROSS LIMITED

Sep 09, 2024





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Details of the Issue

Price Band	₹ 228 - ₹ 240
Issue Size	₹ 500 Cr
Face Value	₹ 5
Bid Lot	62
Listing on	BSE, NSE
Post Issue Mcap	₹ 1548.23 Cr
Investment Range	₹ 14,136 - ₹ 14,880

Important Indicative Dates (2024)

Opening	09 - Sep
Closing	11 - Sep
Basis of Allotment	12 - Sep
Refund Initiation	13 - Sep
Credit to Demat	13 - Sep
Listing Date	16 - Sep

Lead Manager

Equirus Capital Private Limited

Offer Details

Offer Size	₹ 500 Cr
Fresh Issue	₹ 250 Cr
OFS	₹ 250 Cr

Type	In Rs Cr	No of Shares (Mn)		% of Issue
		Upper	Lower	
QIB	250	20.83	21.92	50
NIB	75	3.125	3.29	15
Retail	175	7.29	7.67	35
Em- ploy.	-	-	-	-
Total	500	31.245	32.88	100

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Company Profile

Established in 1991, the company is a leading manufacturer of trailer axles, suspension assemblies, and high-performance safety-critical parts for medium and heavy commercial vehicles (M&HCV) and farm equipment in India. Since initiating operations in 2019, it has experienced significant growth, becoming one of the fastest-growing entities in the organized trailer axle manufacturing sector. Leveraging over three decades of expertise, the company excels in in-house design, forging, casting, and machining. It supplies a broad range of components to major OEMs, forging long-term relationships with clients such as Ashok Leyland and Tata International. Recently, the company has expanded its export operations and integrated backward with a new casting facility. Operating five advanced manufacturing units in Jamshedpur, the company holds multiple quality certifications, including ISO 9001:2015, IATF 16949:2016, ISO 14001:2015, and ISO 45001:2018. It continues to enhance its production capacity and product offerings through ongoing facility expansions.

Business Highlights & Services

Kross Limited is a prominent manufacturer of trailer axles, suspensions, and high-performance forged and precision-machined parts for medium and heavy-duty commercial vehicles and agricultural equipment. The company has demonstrated robust growth, driven by significant investments in capital expenditure ₹271.30 million in Fiscal 2024, ₹185.95 million in Fiscal 2023, and ₹123.18 million in Fiscal 2022. To sustain this growth and further expand its capabilities, Kross Limited plans to invest ₹700.00 million from its Net Proceeds in expanding manufacturing units, including new casting lines for hydraulic covers and enhanced machining processes for hubs and brake drums. This expansion aims to improve production capacity, introduce new products, and enhance profitability through in-house machining and backward integration. The company also seeks to capitalize on emerging opportunities like axle beam extrusion and seamless tube manufacturing to reduce costs and increase efficiency. With an annual installed capacity of 60,000 trailer axle and suspension assemblies, Kross Limited is poised to meet rising market demands and expand its product offerings, including TAG axles, to cater to evolving industry needs.

The company has achieved a significant revenue growth rate of 44.40% CAGR between Fiscal 2022 and Fiscal 2024 and is now focused on expanding its international presence, despite exports contributing less than 1.50% of its revenue. Leveraging its diverse product portfolio, strong domestic market acceptance, and backward-integrated manufacturing facilities, the company aims to increase its geographical footprint and enhance profitability. Recent international orders from Leax Falun AB and a Japanese OEM illustrate its expanding market reach. To support this growth, the company plans to invest in capital expenditure for axle beam extrusion and seamless tube manufacturing to optimize raw material costs. With advanced high-precision machining facilities and automation, the company is improving operational efficiency, reducing lead times, and ensuring high product quality. Continued investments in R&D and production process enhancements are expected to lower production costs, increase capacity utilization, and achieve economies of scale, positioning the company for sustained global growth and competitive success. These strategic investments and expansions will enable the company to better serve a broader customer base and capitalize on emerging opportunities in the global market.



The company requires significant working capital to finance material purchases and manufacturing, with requirements of ₹1,463.73 million, ₹870.96 million, and ₹829.42 million as of March 31 for the years 2024, 2023, and 2022, respectively. To support growth and maintain working capital, the company plans to use ₹300.00 million from the Net Proceeds. As of June 30, 2024, outstanding borrowings were ₹1,235.54 million. To optimize its financial structure, the company will allocate ₹900.00 million from the Net Proceeds for repaying existing borrowings, aiming to reduce debt and free up internal accruals for further capital expenditures and backward integration, such as setting up a seamless tube mill.

Revenue from Various Industries as % of Total Revenue:

Particulars	Fiscal 2024		Fiscal 2023		Fiscal 2022	
	Amount (in ₹ million)	% of total revenue from operations	Amount (in ₹ million)	% of total revenue from operations	Amount (in ₹ million)	% of total revenue from operations
M&HCV*	5,512.06	88.87%	4,043.46	82.75%	2,230.92	75.00%
Farm Equipment	559.60	9.02%	592.73	12.13%	546.52	18.37%
Other Component/Service	130.85	2.11%	250.10	5.12%	197.11	6.63%
Total	6,202.50	100.00%	4,886.28	100.00%	2,974.55	100.00%

Revenue from Top 3, Top 5 Customers:

Particulars	Fiscal 2024		Fiscal 2023		Fiscal 2022	
	Amount (in ₹ million)	% of total revenue from operations	Amount (in ₹ million)	% of total revenue from operations	Amount (in ₹ million)	% of total revenue from operations
Top three customers	3,086.03	49.75%	2,467.77	50.50%	1,620.91	54.49%
Top five customers	4,095.19	66.02%	3,340.95	68.37%	2,096.27	70.47%

Sales Contribution of M&HCV and Farm Equipment Components:

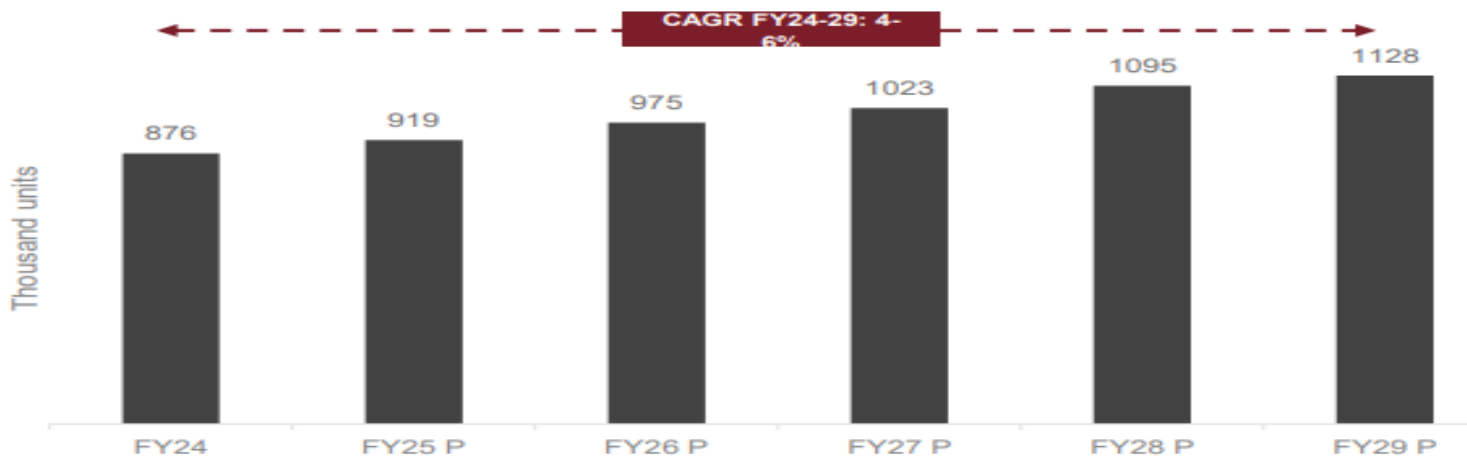
Key products	Fiscal 2024		Fiscal 2023		Fiscal 2022	
	Amount (in ₹ million)	% of total revenue from operations	Amount (in ₹ million)	% of total revenue from operations	Amount (in ₹ million)	% of total revenue from operation
Trailer axle and suspensions	2,690.50	43.38%	1,628.22	33.32%	668.96	22.49%
Axle shafts	663.45	10.70%	577.04	11.81%	387.68	13.03%
Coupling flanges	519.26	8.37%	436.89	8.94%	275.81	9.27%
Anti roll bar and stabiliser bar	510.33	8.23%	396.26	8.11%	175.13	5.89%
Bell crank assembly	282.21	4.55%	279.08	5.71%	198.54	6.67%
Trunion pin	88.86	1.43%	97.13	1.99%	81.73	2.75%
Differential spiders	104.70	1.69%	126.16	2.58%	101.41	3.41%
Tractor parts	550.78	8.88%	592.73	12.13%	546.52	18.37%



Capacity Utilization at 3 Manufacturing Facilities:

Facility	Product	Fiscal 2024			Fiscal 2023			Fiscal 2022		
		Installed Capacity (in number of units)	Production (in number of units)	Capacity Utilization (%)	Installed Capacity (in number of units)	Production (in number of units)	Capacity Utilization (%)	Installed Capacity (in number of units)	Production (in number of units)	Capacity Utilization (%)
Unit I	Coupling Flanges	780,000	654,731	83.94%	750,000	593,623	79.15%	576,000	432,180	75.03%
	Differential Spiders	260,000	181,632	69.86%	260,000	216,224	83.16%	228,000	192,982	84.64%
Unit III	Axle Shafts	270,000	221,771	82.14%	240,000	195,050	81.27%	216,000	172,330	79.78%
Unit IV	Trailer Axle & Suspension	60,000	40,929	68.22%	30,500	26,479	86.82%	15,000	13,190	87.93%
	Bell	42,000	33,051	78.69%	38,400	32,612	84.93%	28,000	23,726	84.74%

Total Sales From Tractor Industry:



Peers Comparison

Name of the company	Face Value (₹)	Total Income (₹ Cr)	EPS	NAV (₹)	P/E	RoNW(%)
Kross Ltd	5	620	8.30	27.14	NA	30.57%
Peers Group						
Ramkrishna Forgings Ltd	2	3955	20.09	148.48	46.55	12.72%
Jamna Auto Industries Ltd	1	2427	5.15	22.64	24.30	22.74%
Automotive Axles Ltd	10	2229	109.95	579.63	17.05	18.97%
GNA Axles Ltd	10	1506	23.28	186.69	17.32	12.47%
Talbro Automotive Components Ltd	2	778	17.82	87.02	19.03	20.47



Companies Competitive Strength :

- Long standing relationship with large OEMs and their tier one suppliers, domestic dealers and fabricators for trailer axle and suspension business complemented by a diversified network of dealers for trailer axle and suspension assembly business Cost Effectiveness of FIBCs.
- They are widely recognized as one of the prominent manufacturers of trailer axles and suspension assemblies in India and one of the few players domestically with the competency to manufacture trailer axles and suspension assembly in-house Integrated Manufacturing Facility.
- Diversified product portfolio with a focus on continuous value addition.
- Integrated manufacturing operations coupled with in-house product and process design capabilities which offer scale, flexibility and comprehensive solutions.
- Experienced Promoters supported by a management and execution team with proven track record.
- Track record of sustained growth and robust financial performance in the last three financial years.

Key Strategies Implemented by Company

- Expand capacities at existing manufacturing facilities to increase manufacturing scale for existing products and creation of new products.
- Create manufacturing capabilities in axle beam extrusion and backward integration capabilities into the seamless tube.
- Expand the geographical reach through growing exports.
- Continuing focus on reduce operating costs and improving operational efficiency.
- Improve the financial profile

Particular (INR in Cr)	FY24	FY23	FY22
Equity Capital	27	14	14
Reserves and Surplus	120	89	59
Net Worth	147	102	72
Revenue	620	489	297
Growth (%)	27%	65%	
EBITDA	81	57	30
EBITDAM (%)	13%	12%	10%
PAT	45	31	12
PATM (%)	7%	6%	4%
ROCE (%)	28%	28%	15%
ROE (%)	31%	30%	17%

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 34X. Thus the issue appears to be fairly priced compared to peers.
- Kross Limited manufactures and supplies trailer axles, suspension assemblies, and high-performance parts for medium and heavy commercial vehicles (M&HCV) and farm equipment. In FY24, 88.89% of revenue came from the M&HCV segment, which is expected to grow at a 4-6% CAGR, offering substantial growth opportunities for the company. Revenue and PAT have increased at CAGRs of 28% and 55%, respectively, reflecting strong financial performance. The company's ROE and ROCE for FY24 are 31% and 28%, respectively. With plans to use raised funds to reduce debt, Kross Limited aims to lower borrowing costs and boost PAT growth, positioning itself well for future expansion. Hence, we recommend an "Subscribe" rating for the issue.



Notes

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