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IPO Report

25th Sept '24

Snapshot

Company manufactures fin and tube type heat exchangers for the Heat Ventilation Air Conditioning and Refrigeration Industry (“HVAC&R”). Heat exchangers manufactured by company are made of non-ferrous metals primarily Copper and Aluminium. Company’s product range includes condenser coils, evaporator units, evaporator coils, header/copper parts, fluid and steam coils and sheet metal parts. Company manufacture heat exchangers of various shapes and sizes as per the requirements of the customers and/or demand in the market. The diameter of heat exchanger tubes company produce ranges from 5MM to 15.88 MM. Company’s products company well suited for wide range of air conditioning, heating and ventilation, refrigeration, and process cooling applications such as

VALUATION

Company is bringing the issue at price band of Rs 209-220 per share at p/e multiple of 27x on post issue FY24 PAT basis. Company’s promoters exhibit strong leadership and are supported by highly experienced senior management. Also, company has long-standing business relationships with leading clientele. Company has shown consistent financial performance along with established manufacturing facility. Hence ,looking after all above we recommend “Subscribe” on issue.

Price Band (Rs./Share)	209-220
Opening date of the issue	25th Sept '2024
Closing Date of the issue	27th Sept '2024
No of shares pre issue	46,613,600 Eq Shares
Issue Size	Rs 325-342 Cr
Fresh issue	15,543,000 Equity Shares
Face Value (Rs/ share)	Rs 10/share
Bid Lot	65

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 76,57,455 Eq Shares)
Non-Institutional	15% of the offer (Approx 23,87,215 Eq Shares)
Retail	35% of the offer (Approx 54,98,330 Eq Shares)
Lead managers	Holani Consultants
Registrar to the issue	Bigshare Services Ltd

WHAT WE LIKE

Long-standing business relationships with leading clientele

Company’s experience in automated production facilities is focused on research and development, coupled with technologically advanced, quality consistency on-time delivery and cost-competitive manufacturing technology processes has resulted in repeat orders from its key customer groups. Company has long association with clients like Daikin Airconditioning India Private Limited, Schnieder Electric IT Business India Private Limited, Kirloskar Chillers Private Limited, Blue Star Limited

Promoters exhibit strong leadership and are supported by highly experienced senior management

Company leverage the understanding and experience of its management to successfully oversee company’s operations and growth. Company’s founder, Promoter and Director Santosh Kumar Yadav has an experience of over 19 years in the business of manufacturing heat exchangers and refrigeration units. His responsibilities encompassed overseeing production processes, ensuring quality standards, and leading a team of engineers. Company also benefit significantly from the qualified and experienced employees and workforce who possess the technical capability to further expand company’s business and operations.

Effective quality control checks

Company’s products go through stringent quality control checks such as Helium Leak Test, Water Leak Test, Contamination Test, Salt Spray Testing, Burst Pressure Testing and Pressure Cyclic Testing to ensure the best quality products are supplied to its customers. Key employees of its production team hold BS EN ISO-13585 certification, which specifies the basic requirements for the qualification testing of brazers and brazing operators which is one of the key processes of manufacturing heat exchangers. Company have a dedicated quality management team consisting of 41 employees including 25 contractual employees.



COMPANY BACKGROUND

To enhance the longevity and corrosion resistance of heat exchangers and their components, various types of coatings such as nano coating, and powder coating are applied to the surfaces of copper tubes, brazing joints, and fin sheets. By applying these advanced coatings to heat exchangers and their components, company's products ensure that the heat exchanger operates efficiently over an extended period, reducing maintenance costs and enhancing overall performance. The protective barrier provided by these coatings ensures that the heat exchanger withstands harsh conditions and maintains its optimal functionality. Company's products are vital for the performance of cooling appliances and have undergone stringent quality and checks. Company adheres to some of the industry's best-quality product accreditations. Company's entire manufacturing operations are carried out at its consolidated manufacturing facility comprising 2 industrial plots situated in the RIICO Industrial Area, Neemrana, Rajasthan.

Company is led by its Chairman and Managing Director, Mr. Santosh Kumar Yadav. Possessing Diploma in Business Management from the Institute of Management Technology, Ghaziabad, and a Diploma in Mechanical Engineering from the Board of Technical Education, Rajasthan, he brings an unparalleled blend of academic prowess and practical experience to company. With over 19 years of rich experience in manufacturing heat exchangers and refrigeration units, he has consistently demonstrated exceptional operational skills. His commitment revolves around delivering excellent solutions to its customers, and offering customizations that comply with international standards. His most notable leadership roles include serving at Lloyd Electric & Engineering Limited for 10 years, overseeing production processes, ensuring quality standards, and leading a team of engineers. His operational skills were further exemplified during his deputation by Lloyd Electric & Engineering Limited at Luvata Czech plant in the Czech Republic for around two years starting in September 2008. During this time, he played a crucial role in implementing technical process at both the India and Czech Republic plants of LLOYD Europe.

As Manager of Operations, Mr. Yadav showcased his strategic planning and coordination skills. His responsibilities encompassed formulating monthly production plans for various shops such as the coil shop, header shop, sheet metal & return bend shop. In addition, he also coordinated with the sales team, planned container stuffing for export, and designed corrugated boxes for packing. His role also involved day-to-day planning aimed at achieving organizational goals, process monitoring, planning, and improvement, and line balancing according to load and priority. To expand the business of Company and to reap the benefits of forward integration, Company has incorporated a wholly owned subsidiary of Company, namely KRN HVAC Products Private Limited to increase value-added products in its existing portfolio. KRN HVAC Products Private Limited will focus on manufacturing certain types of heat exchangers that are currently not manufactured by Company .

Through this forward integration, company is planning to venture into the distribution and sells channels which allow it to control the marketing and distribution of complete product range of heat exchangers. This enables it to capture a greater share of the value chain and establish direct connections with end customers. By incorporating KRN HVAC Products Private Limited, Company can have greater control over the supply of HVAC industry products, enhancing customer reach and brand visibility.

Company has a wide customer base covering various parts of India as well as across the world. Company's prestigious customers, including Daikin Airconditioning India Private Limited, Schnieder Electric IT Business India Private Limited, Kirloskar Chillers Private Limited, Blue Star Limited, Climaventa Climate Technologies Private Limited and Frigel Intelligent Cooling Systems India Private Limited among others, attest to its commitment to delivering top-notch products and outstanding services. Over the last 3 Financial Years, its revenue from operations has increased at a CAGR of 25.46% out of which its export sales have increased at a CAGR of 44.71%



INVESTMENT RATIONALE

<p><i>Established Manufacturing facility</i></p>	<p>Company’s registered office and the manufacturing facilities are located at renowned RIICO industrial areas of Neemrana, Rajasthan. Company’s manufacturing unit is equipped and capable of carrying out end-to-end manufacturing activities. Company’s years of experience in precision engineering, strategically located production facilities, and focus on design, coupled with technologically advanced and cost-competitive manufacturing technology processes have enabled company to meet its customers’ bespoke and stringent requirements. Company have full service capabilities across the product cycle including product design and development, material sourcing, designing, testing and measurement infrastructure, all under one roof to meet the requirement of its global customers. The entire process is carried out under one roof. Company’s dynamic setup not only gives company better control over quality but also benefits company with cost advantages compared to its competitors who resort to job work for various activities in the complete manufacturing process. Company’s engineering expertise and technology-driven manufacturing processes have enabled company to deliver its products and provide timely solution to its customers in accordance with their designs and specifications, in a cost-effective manner without compromising on quality.</p>
<p><i>Consistent financial performance</i></p>	<p>Company has grown from a single product to a multi-product manufacturing Company. Company have demonstrated consistent growth in terms of revenues and profitability. The recognition of company’s product quality has enabled it to penetrate the heat exchanger products market and cater to new customers in addition to its existing customer network. Increased acceptance of newer product categories due to improved designs and efficient pricing has further established its reputation.</p>
<p><i>Effective quality control checks</i></p>	<p>Company maintain an in-house facility for checking the quality of its manufactured products. Company’s products go through stringent quality control checks such as Helium Leak Test, Water Leak Test, Contamination Test, Salt Spray Testing, Burst Pressure Testing and Pressure Cyclic Testing to ensure the best quality products are supplied to its customers. Key employees of its production team hold BS EN ISO-13585 certification, which specifies the basic requirements for the qualification testing of brazers and brazing operators which is one of the key processes of manufacturing heat exchangers. Company have a dedicated quality management team consisting of 41 employees including 25 contractual employees. The raw materials undergo a quality check, and company have internal procedures in place for procurement of the raw materials as the quality of the final product is dependent on them. Similarly for the quality checks of company’s final products, company’s units have dedicated personnel responsible for monitoring the parameters of equipment and strength of materials, reporting any irregularities in the manufacturing process and making adjustments accordingly. These multi-level quality checks ensure that company consistently provide good quality products, enhancing its brand value.</p>



OBJECTS OF OFFER

Company proposes to utilize the Net Proceeds of the Fresh Issue towards funding the following objects:

- Investment in its wholly owned subsidiary KRN HVAC Products Private Limited in the form of equity, for setting up a new manufacturing facility at Neemrana, Alwar, Rajasthan (“Proposed Project”); and
- General corporate purposes.

RISKS

Company’s revenue from operations has significantly increased from ₹ 15,611.46 Lakhs in FY 2021-22 to ₹ 24,748.08 Lakhs in FY 2022-23 resulting in growth of over 58% (YOY). Similarly, revenue from operations has further increased from ₹ 24,748.08 Lakhs in FY 2022-23 to ₹ 30,828.31 Lakhs in FY 2023-24 leading to growth of 24% (YOY). Company’s revenue from operations from last three Financial Years are increasing by Compounded Annual Growth Rate (CAGR) of 25.46%. If company is unable to sustain or manage its growth rate its business operations and results of operations may be adversely affected, and this rate of growth may not be achievable in the future.

Source:RHP

INDUSTRY OVERVIEW

Indian Heat Exchanger Industry

The Indian market for heat exchanges reached USD 689 million per annum in 2023, the annual industry turnover increasing by a CAGR of 10% between 2019 and 2023. The heat exchanger industry too was impacted by the spread of the Covid-19 pandemic, as annual revenue growth in the industry slowed to 6% in 2020. Demand has recovered in the subsequent years, helping the industry grow its revenue by an average of 11% per annum in 2021, 2022 and 2023.

Indian HVAC Market Indian HVAC market generated an annual turnover of approximately USD 9.1 billion in 2023 and it is expected to grow by a CAGR of 14.5% till 2029 to reach USD 20.5 billion. Traditionally, commercial, and industrial applications used to lead the HVAC industry in the country. However, beginning 2000 the usage of HVAC system in residential segment, and mobile / transport application has started becoming mainstream. Substantial increase in income levels and aspirational changes drove HVAC demand in residential / retail consumer segment. Meanwhile in traditional industrial and commercial segments, the rapid expansion in office space as well as industrialization ensured the demand for HVAC remain strong.

The HVAC market in India experienced a shift towards energy-efficient systems, driven by rising energy costs and environmental concerns. The government's initiatives to promote energy efficiency, such as the Energy Conservation Building Code (ECBC) and the Standards and Labelling (S&L) program, played a crucial role in driving the adoption of energy-efficient HVAC systems. Additionally, there is a growing awareness of indoor air quality and the need for improved ventilation and air purification, leading to increased demand for HVAC systems that can address these concerns. The industry is witnessing a shift towards technologically advanced HVAC solutions, including smart controls, remote monitoring, and energy management systems, providing enhanced comfort and energy efficiency. The sectors that employ HVAC systems most in India include commercial buildings, hospitals, hospitality (hotels and restaurants), retail spaces, educational institutions, and industrial facilities. These sectors require efficient HVAC systems to maintain comfortable and healthy indoor environments for occupants. The Indian government's focus on infrastructure development, smart cities, and sustainable building practices further boosts the demand for HVAC systems. Initiatives like Make in India, promoting domestic manufacturing, have also contributed to the growth of the HVAC industry by encouraging local production and reducing dependency on imports.

Emerging Trends & Challenges in Indian Heat Exchanger Industry Trends

- **Hybrid heat exchangers:** There is also the growing trend of adopting hybrid heat exchangers which are more efficient and flexible than the traditional models. These are based on a multiflexible configuration platform and designed to operate under extreme conditions where other heat exchanger technologies can fail or reduce operational efficiency. They are designed for easy cleaning as the fouling medium can flow through the tube side, which is accessible for mechanical cleaning. Heavy-duty or customized heat exchangers are generally utilized by large industrial consumers whereas portable heat exchangers generally cater to the residential or small commercial establishments.
- **Better energy efficient models:** With a growing emphasis on energy conservation and sustainability, heat exchangers have seen advancements in energy efficiency. This includes improved designs, better fluid dynamics, and the integration of advanced heat transfer technologies to minimize energy consumption and optimize heat recovery. Further, technological advancements such as tube inserts in heat exchangers and advances to improve energy efficiency, life cycle cost, durability, compactness and other features will complement the growth of the market.
- **Advancement heat exchanger design & technology:** The heat exchanger market in India is witnessing significant growth, primarily driven by technological advancements that have transformed traditional designs into highly efficient systems. Modern heat exchangers now incorporate advanced fluid dynamics and modular designs, providing flexibility, scalability, and ease of maintenance. These innovations optimize flow paths and maximize heat recovery, significantly improving energy efficiency. Material advancements, such as the use of new alloys and composites, have enhanced corrosion resistance and heat transfer properties, making heat exchangers more durable and effective in various industrial applications.
- **Modular heat exchanger:** Such designs have gained popularity due to their flexibility and ease of installation. Modular units can be combined and customized to suit specific heat transfer requirements, enabling scalability and easier maintenance.
- **Usage of new materials:** Advancements in materials science, including the use of new alloys and composites materials that offer greater corrosion resistance, higher strength, and better heat transfer properties.



Consolidated Financials

(Rs in Mn)

Financials	FY22	FY23	FY24
Total Revenue (A)	15611.46	24748.09	30828.31
Total Expenditure (B)	13917.9	19816.33	24983.07
EBIDTA	1693.56	4931.76	5845.24
EBIDTA Margin	10.85	19.93	18.96
Other Income	211.07	240.43	525.81
Depreciation	253.53	317.14	399.05
EBIT	1651.10	4855.05	5972.00
Interest	154.38	305.37	398.58
PBT	1496.72	4549.68	5573.42
Share of profit in Asso	0.00	0.00	0.00
PBIT	1496.72	4549.68	5573.42
Exceptional	0.00	0.00	0.00
PBT	1496.72	4549.68	5573.42
Tax	437.68	1318.32	1666.56
PAT	1059.04	3231.36	3906.86
NPM	6.78	13.06	12.67
ROE%	41.48	54.24	29.68
EPS	2.41	7.34	8.69
Eq Cap	440.00	4,400.00	4,613.66
Net Worth	2,281.08	5,879.09	13,164.71

(Source: RHP)



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