



Kronox Lab Sciences Limited

SMC Ranking

★ ★ ☆ ☆ ☆ (1.5/5)

Issue Highlights

Industry	Life sciences
Offer for sale (Shares)	9,570,000
Net Offer to the Public	9,570,000
Issue Size (Rs. Cr.)	123-130
Price Band (Rs.)	129-136
Offer Date	3-Jun-24
Close Date	5-Jun-24
Face Value	10
Lot Size	110

Issue Composition

	In shares
Total Issue for Sale	9,570,000
QIB	4,785,000
NIB	1,435,500
Retail	3,349,500

About the company

Incorporated in 2008, Kronox Lab Sciences Limited is a manufacturer of high-purity speciality fine chemicals for diverse end-user industries. The company's High Purity Specialty Fine Chemicals are used in various applications such as manufacturing APIs, pharmaceutical formulations, scientific research, nutraceuticals, biotech applications, agrochemical formulations, personal care products, metal refineries, and animal health products. The company offers a wide range of over 185 products, including phosphate, sulphate, acetate, chloride, citrate, nitrates, nitrites, carbonate, EDTA derivatives, hydroxide, succinate, gluconate, and others. These products are supplied to customers in India and more than 20 countries worldwide. The company exports its products to countries such as United States, Argentina, Mexico, Australia, Egypt, Spain, Turkey, United Kingdom, Belgium, United Arab Emirates, China, among others. The company has three manufacturing facilities in Vadodara, Gujarat, close to the seaports of Mundra, Kandla, Hazira, and Nhava Sheva. As of December 31, 2023, the company is conducting research and development on 122 products. The company has served over 592 customers in the past three years. By December 31, 2023, 141 customers of the total, placed repeat orders. As of December 31, 2023, the company employees 212 people at various levels.

Strength

Wide range of products finding applications in diversified end user industries: The Company manufactures a broad range of High Purity Speciality Fine Chemicals belonging to the family of citrates, carbonates, phosphates, acetates, sulphate, EDTA derivatives, chlorides, hydroxide, bromide, nitrites, and nitrates. Its products have applications across a wide spectrum of industries like pharmaceuticals, scientific and laboratory research, nutraceuticals, biotech, agrochemicals, personal care, metallurgy and animal health. Over the years, it has expanded its product portfolio to more than 185 products. It also undertake custom manufacturing of High Purity Speciality Fine Chemicals to achieve different levels of purity as specified by the customer for their specific requirements. Custom manufactured speciality chemicals are high margin products having specialised usage in the end user industries.

Long standing relationships with customers: During the nine months periods ended December 31, 2023, December 31, 2022 and the Fiscal 2023, Fiscal 2022, Fiscal 2021, it served 353, 307, 351, 316 and 283 customers, respectively. It has served more than 592 customers in the last three financial years and during the nine months period ended December 31, 2023 of which 141 customers amounting to 23.82% of total customers placed repeat orders. Out of its total revenue from operations in the nine months periods ended December 31, 2023, December 31, 2022 and Fiscals 2023, 2022 and 2021, its top 10 customers amounted Rs. 30.61 crore, Rs. 39.71 crore, Rs. 48.44 crore, Rs. 46.20 crore and Rs. 35.18 crore contributing 45.22%, 53.58%, 50.68%, 56.18% and 56.32% respectively, and its top 20 customers amounted Rs. 39.62 crore, Rs. 49.69 crore, Rs. 62.14 crore Rs. 56.88 crore and Rs. 44.37 crore contributing 58.54%, 67.05%, 65.01%, 69.15% and 71.03%, respectively. The average tenure of its relationship with its top 20 customers is 7 years, 8 years and 9 years for Fiscals 2023, 2022 and 2021, respectively. Its wide customer base assists the company 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: It 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

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	100.00%	74.21%
QIB	0.00%	12.90%
NIB	0.00%	3.87%
Retail	0.00%	9.03%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The Objects of the Offer are to:

Carry out the Offer for Sale of up to 95,70,000 Equity Shares by the Promoter Selling Shareholders; and

Achieve the benefits of listing the Equity Shares on the Stock Exchanges. Further, the Company expects that the proposed listing of the Equity Shares will enhance the visibility and brand image, provide liquidity to its existing Shareholders, and provide a public market for Equity Shares in India.

Book Running Lead Manager

- Pantoamath Capital Advisors Pvt Limited

Name of the registrar

- Kfin Technologies Limited

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. Its manufacturing process involves multi-step production and purification processes to manufacture fine chemicals. Its processes and products are subject to, and measured against established domestic and international standards and stringent specifications of customers. As a result of more than a decade of experience of working with domestic and multinational customers across jurisdictions, it believes that it is well positioned to capitalize on its experience and expertise to obtain repeat orders from its customers.

Focus on R&D and Quality Control: Research, Development and Quality Control are pillars of its continued growth over the years. It gives equal importance to both these areas as one i.e. R&D leads to new product development required for growth of its business and profitability, whereas the other i.e. QC to achieve customer quality standards for the continued supply of products required by the end user industries. Once it has achieved development of a product in its RDT Laboratory, achieving commercial scale with the available equipment is another challenge. Product development on a commercial scale with the QC meeting customer and prescribed standards requires coordination between these functions to ensure that the new products developed are able to scale up. As on December 31, 2023, it has 122 products under various phases of research and development. It relies on the skills of its personnel employed in RDT Laboratory for its growth and continued success of our business.

Zero debt company with strong and consistent financial performance: It has a track record of operations of over a decade and has a robust balance sheet and cash flow position. It has experienced sustained growth in various financial indicators including its revenue and PAT, as well as a consistent improvement in its balance sheet position in the last three Fiscals, wherein it has seen an increase in its net worth. Its robust balance sheet, positive operating cash flows coupled with zero debt position enable it to fund its strategic initiatives, pursue opportunities for growth and better manage unanticipated cash flow variations. Its financial strength provides it a valuable competitive advantage over its competitors with access to financing, which are factors critical to its business.

Strategically located manufacturing facilities providing supply chain efficiencies: Its manufacturing infrastructure is a key growth driver for its business. Currently, it has three strategically located Manufacturing Facilities which are located in Padra, Vadodara, Gujarat, in close proximity to several ports including Kandla, Mundra, Hazira and Nhava Sheva which ensures that it has ready access to port facilities and are able expediently import its raw materials and export its products thereby providing it with a cost and logistical advantage. Its Manufacturing Facilities are in proximity to DMIC and Delhi-Mumbai Expressway and have access to rail and airport facilities. Further, its Manufacturing Facilities are located in Gujarat, where some of the major APIs, pharmaceutical formulations, nutraceuticals, biotech and other application industries are located. Its Manufacturing Facilities are located in close proximity to each other, thereby ensuring greater logistic synergies and operational efficiencies.

Strategy

Expand the product portfolio, increasing the supply of the products for the existing customers and tap new customers in existing and new geographies: It has expanded its product portfolio to more than 185 products spread across diverse applications. During nine months period ended December 31, 2023 and Fiscal 2023, company has supplied the products to more than 350 customers in India and overseas. Company had 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 the customers over the years and the repeat and increased orders received from them reiterate the commitment towards growth and increasing profitability. Company intends to focus on increasing the share of product supplies with existing customers and generating new customers for the existing and future products. Company intends to continue to leverage the existing sales team, diversified product portfolio and industry standing to establish new relationships with multinationals and domestic customers.

Expand its capacity for existing products and diversifying into new products by setting up a

new manufacturing facility: As of December 31, 2023, aggregate installed capacity is 7,242 TPA across three Manufacturing Facilities. As part of growth plans and to cater to the growing demand from the existing customers and to meet requirements of new customers, company intends to establish a new manufacturing unit at GIDC Dahej – II Industrial Estate and has acquired a land admeasuring to 19,213 sq. mtrs. at GIDC - Dahej II Industrial Estate. It plans to establish its 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 the 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 Company. Once this unit is operational, total installed capacity is estimated to be around 25,242 TPA which will significantly enhance the revenues. It expects to commence the commercial production of this new unit in FY 2025-26.

Improve cost management and operational efficiencies: Company plans to enhance the profitability by continuing to improve the cost management and operational efficiencies, including: Process efficiency: Company strives to improve the production process to optimize its processes and achieve higher efficiency with the support of RDT team. Scale efficiency: Company seeks to leverage economies of scale through capacity expansion. Company incurs certain fixed overheads, including utilities, salaries and depreciation of assets in its operations. Company aims to increase capacity utilization, which can reduce fixed overheads per product, increase its profitability and improve its operating leverage. Product mix: It intends to focus on high-value, low-volume products within its product portfolio. Company also seeks to benefit from optimizing the product selection strategy. The proposed fourth unit at GIDC - Dahej II Industrial Area will further enhance the operational efficiencies with the deployment of modern and automated machinery and other facilities for the employees and management.

Risk factor

- Products are required to meet domestic and international industry standards. Deviation from these standards may face rejection from its customers.
- Products are supplied in limited quantities for specific use by application industries. Reduction in the requirement of its products may result in loss of business.
- Any failure in developing new High Purity Speciality Fine Chemicals may affect its future growth and business.
- The size of the Company is relatively small in terms of revenue from operations when compared with other industry players and listed peers. Further, it has a negligible market share in the chemical industry.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
DMCC Speciality	326.60	11.59	4.65	64.69	3.58	84.02	10	300.80	750.19
Tanfac Inds.	378.14	52.51	52.61	38.10	8.68	231.02	10	2004.35	1999.34
Neogen Chemicals	690.68	35.66	13.51	106.45	4.99	288.19	10	1438.20	3794.21
Sigachi Indust.	398.96	57.18	1.77	37.79	5.04	13.27	1	66.88	2163.41
Tatva Chintan	393.51	30.35	12.98	83.16	3.43	315.10	10	1079.40	2524.94
Kronox Lab Sciences Ltd.	89.16	17.99	4.85	28.04	8.37	16.25	10	136.00	504.61

*Peer companies financials are TTM based

**Kronox Lab Sciences Ltd. are based on TTM

Valuation

Considering the P/E valuation on the upper price band of Rs.136, EPS and P/E based on TTM are Rs.4.85 and 28.04 multiple respectively and at a lower price band of Rs. 129, P/E multiple is 26.60. Looking at the P/B ratio on the upper price band of Rs.136, book value and P/B are Rs. 16.25 and 8.37 multiple respectively and at a lower price band of Rs. 129 P/B multiple is 7.94. No change in pre and post issue EPS and Book Value as the company is not making fresh issue of capital.

Industry Outlook

The size of the Indian chemicals industry, excluding pharmaceuticals, in terms of the value of output in the year FY22 was around Rs. 9.10 lakh crores and 8.4% of the value of the output of the manufacturing sector at constant prices as against 7.9% in FY18. The chemical and chemical products except pharmaceuticals has registered a CAGR of 8.8% from FY18 to FY22. Furthermore, as per the Government of India's Department of Chemicals and Petrochemicals, India ranks 11th in the world exports of chemicals (excluding pharmaceutical products) and 6th in the world imports of chemicals (excluding pharmaceutical products). Similarly, India's imports of chemicals (excluding pharmaceutical products) reached Rs. 8.5 lakh crore indicating a 66.01% growth y-o-y in FY22, while the exports reached Rs. 4.9 lakh crore indicating a 30.12% growth y-o-y in FY22. The Indian citrate industry consumption volumes have recorded a CAGR of 4.9% from 34 thousand tonnes in CY2018 to 41 thousand tonnes in CY2022. The industry volumes are expected to grow from 41 thousand tonnes in CY2022 to 55 thousand tonnes in CY2025, implying a CAGR of 9.7%. The Indian carbonate industry volumes are expected to grow from 5.9 million tonnes in CY2022 to 7.8 million tonnes in CY2025, at a CAGR of 10.1%.

Outlook

The company is a small size company with annual revenue less than Rs. 100 crore. Moreover, the entire issue is an offer for sale, which means the company will not receive any fund from the issue. The company's focus on expanding its product portfolio, increasing supply to existing customers, and tapping into new markets demonstrates a proactive approach to driving growth. By leveraging its existing sales team, diversified product portfolio, and industry reputation, the company aims to establish new relationships with multinational and domestic customers.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	3-June-24
BID/ISSUE CLOSES ON	5-June-24
Finalisation of Basis of Allotment with the Designated Stock Exchange	6-June-24
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	7-June-24
Credit of Equity Shares to Demat Accounts of Allottees	7-June-24
Commencement of trading of the Equity Shares on the Stock Exchanges	10-June-24

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Dec-23 (9 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Revenue from operations	67.69	95.58	82.25
Total expenditure	47.23	73.58	62.55
Operating Profit	20.46	22.00	19.70
OPM%	30.22	23.01	23.95
Other Income	0.75	1.92	1.09
Total Net Income	21.21	23.92	20.79
Interest	0.00	0.09	0.41
PBDT	21.21	23.82	20.38
Depreciation	1.00	1.50	2.03
Re-stated Profit / (Loss) before exceptional items	20.21	22.33	18.36
Tax	4.74	5.71	4.73
PAT	15.47	16.62	13.63

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Dec-23	As on 31-Mar-23	As on 31-Mar-22
Non-current assets			
Property, plant and equipment	25.97	15.91	8.84
Right-of-use assets	0.00	0.00	2.46
Capital Work In progress	0.04	0.00	0.00
Investments	0.03	0.03	0.03
Other Financial Assets	0.08	3.58	0.98
Other financial assets	0.00	0.00	0.00
Deferred tax assets (net)	0.63	0.34	0.33
Non-current tax assets (net)	0.00	0.00	0.00
Other non-current assets	0.00	0.00	0.00
Total non-current assets	26.73	19.85	12.63
Current asset			
Financial Assets			
Inventories	7.17	9.17	7.51
Trade receivables	16.97	18.55	25.80
Cash and cash equivalents	1.07	2.48	0.29
Bank balances otherthan above	0.50	1.08	2.52
other financial assets	12.49	2.35	7.40
other current assets	2.02	0.54	0.64
Other financial assets	0.00	0.00	0.00
Other current assets	0.00	0.00	0.00
Total current assets	40.23	34.18	44.16
Total Assets	66.96	54.03	56.79
Non-current liabilities			
Borrowings	0.00	0.00	0.47
Lease liabilities	0.00	0.00	1.68
Other financial liabilities	0.00	0.00	0.00
Provisions	0.03	0.49	0.52
Total Non- Financial liabilities	0.03	0.49	2.67
Financial Liabilities			
Borrowings	0.00	0.00	0.17
Lease Liability	0.00	0.00	1.04
Trades Payable other than MSME	3.01	0.00	5.51
Trades Payable - MESE	2.65	2.86	6.01
Other financial liabilities	0.00	0.00	0.00
Other current liabilities	0.53	0.56	0.22
Provisions	0.37	4.95	0.61
Current tax liabilities (net)	0.09	0.64	0.21
Total Financial liabilities	6.65	9.01	13.76
Total	6.68	9.49	16.44
Net worth represented by:			
Equity Share Capital	37.10	37.10	0.24
Other equity	23.18	7.58	40.11
Net Worth	60.28	44.68	40.35

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★★
EXCELLENT	★★★★★

E-mail: researchfeedback@smcindiaonline.com



Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park, A Wing 401/402,
4th Floor, Graham Firth Steel Compound,
Off Western Express Highway, Jay Coach Signal,
Goreagon (East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-28805606

Kolkata Office:
18, Rabindra Sarani,
Poddar Court, Gate No.-4, 5th Floor, Kolkata-700001
Tel: 91-33-39847000, Fax: 91-33-39847004

Investments in securities market are subject to market risks, read all the related documents carefully before investing. Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. The securities quoted are for illustration only and are not recommendatory. SMC is a SEBI registered Research Analyst having registration number INH100001849. CIN : L74899DL1994PLC063609.

SMC Global Securities Ltd. (hereinafter referred to as "SMC") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services and related activities. SMC is a registered member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited, MSEI (Metropolitan Stock Exchange of India Ltd) and M/s SMC Comtrade Ltd is a registered member of National Commodity and Derivative Exchange Limited and Multi Commodity Exchanges of India and other commodity exchanges in India. SMC is also registered as a Depository Participant with CDSL and NSDL. SMC's other associates are registered as Merchant Bankers, Portfolio Managers, NBFC with SEBI and Reserve Bank of India. It also has registration with AMFI as a Mutual Fund Distributor.

SMC is a SEBI registered Research Analyst having registration number INH100001849. SMC or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities market. SMC or its associates or its Research Analyst or his relatives do not hold any financial interest in the subject company interest at the time of publication of this Report. SMC or its associates or its Research Analyst or his relatives do not hold any actual/beneficial ownership of more than 1% (one percent) in the subject company, at the end of the month immediately preceding the date of publication of this Report. SMC or its associates its Research Analyst or his relatives does not have any material conflict of interest at the time of publication of this Report.

SMC or its associates/analyst has not received any compensation from the subject company covered by the Research Analyst during the past twelve months. The subject company has not been a client of SMC during the past twelve months. SMC or its associates has not received any compensation or other benefits from the subject company covered by analyst or third party in connection with the present Research Report. The Research Analyst has not served as an officer, director or employee of the subject company covered by him/her and SMC has not been engaged in the market making activity for the subject company covered by the Research Analyst in this report.

The views expressed by the Research Analyst in this Report are based solely on information available publicly available/internal data/ other reliable sources believed to be true. SMC does not represent/ provide any warranty expressly or impliedly to the accuracy, contents or views expressed herein and investors are advised to independently evaluate the market conditions/risks involved before making any investment decision. The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the subject company.

Disclaimer: This Research Report is for the personal information of the authorized recipient and doesn't construe to be any investment, legal or taxation advice to the investor. It is only for private circulation and use. The Research Report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. No action is solicited on the basis of the contents of this Research Report. The Research Report should not be reproduced or redistributed to any other person(s) in any form without prior written permission of the SMC. The contents of this material are general and are neither comprehensive nor inclusive. Neither SMC nor any of its affiliates, associates, representatives, directors or employees shall be responsible for any loss or damage that may arise to any person due to any action taken on the basis of this Research Report. It does not constitute personal recommendations or take into account the particular investment objectives, financial situations or needs of an individual client or a corporate/s or any entity/s. All investments involve risk and past performance doesn't guarantee future results. The value of, and income from investments may vary because of the changes in the macro and micro factors given at a certain period of time. The person should use his/her own judgment while taking investment decisions. Please note that SMC its affiliates, Research Analyst, officers, directors, and employees, including persons involved in the preparation or issuance of this Research Report: (a) from time to time, may have long or short positions in, and buy or sell the securities thereof, of the subject company(ies) mentioned here in; or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company(ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender/borrower to such subject company(ies); or (c) may have any other potential conflict of interest with respect to any recommendation and related information and opinions. All disputes shall be subject to the exclusive jurisdiction of Delhi High court.