

Rising Star of HVAC Industry

We initiate coverage on KRN Heat Exchanger and Refrigeration (KRN) with a 'BUY' rating and a DCF-based target price of Rs. 1,111. KRN is a leading manufacturer in the HVAC&R industry, specializing in the design and production of fin and tube-type heat exchangers. The company achieved an impressive 71% EPS CAGR over FY20-FY25, driven by consistent double-digit growth in evaporators and condenser coil sales, a doubling of high-value export revenue share to 16% in FY25, and EBITDA margin expansion of over 10%. KRN is well positioned to benefit from (1) 6X capacity expansion plans (2) rising demand for Commercial AC and Data Centre; (3) PLI and RIPS schemes boosting EBITDA margins by 290bps; and (4) concessional tax rate of 17% on new capacity. We expect EPS CAGR of 72% over the next 3 years. The stock is currently trading at 72x/36x of FY26E/FY27E EPS (valuation page-2). Initiate 'BUY'.

6X Capacity Growth: Key Catalyst for Earnings Expansion

KRN is utilizing existing assets at 85% and expanding HVAC capacities to 6x of its existing facility with investments of Rs 2.4bn and guiding Rs 45.6bn revenue generation potential cumulative in the next 4 years. As per guidance, Govt. of India's PLI benefits of up to Rs 1.42bn to the new facility and Rajasthan Govt. has also provided PLI (RIPS) to this facility. Thus, the new facility is expected to fetch EBITDA margins up to 25% (including PLI + RIPS scheme). The Management has guided that consolidated EBITDA margins would be in the range of 15% to 18% in FY26E.

RIPS & PLI initiatives to boost EBITDA margins by 290 bps

KRN is expected to receive RIPS approval in the next 3 months and the HVAC facility is eligible for the 1.56% revenue-based incentive over the next 10 years. Additionally, the HVAC facility is entitled to PLI of 5%/ 4%/ % for FY26/FY27/FY28 with the maximum benefits of Rs1.42bn. Our calculations suggest that cumulative benefits (both PLI +RIPS) of ~Rs1.6bn would be EBITDA margin booster for KRN's consolidated EBITDA margins in the next 3 years, with an estimated increase of ~290bps in FY26E due to PLI and RIPS schemes.

Concessional tax rate to boost Earnings & PAT margins

KRN HVAC Pvt Ltd, a newly expanded wholly owned subsidiary, is eligible for concessional corporate tax rate of 17.16% vs. 25.17%. The new facility will start contributing 44%/75%/87% to the total consolidated revenue in FY26E/FY27E/FY28E resp. This implies decreasing overall tax rate of 21.6%/19.2%/18.2% down from the previous average of 29% over last 4 years. Additionally, Rs20mn tax rebates could also aid the FY26 earnings.

Sharp improvement in Return Ratio

Considering the gradual ramp up in the new capacity utilization over next 3 years with RIPS & PLI benefits and concessional tax rates, KRN's RoANW/RoACE is expected to post 25%/24% in FY27E vs. 17%/15% in FY25.

Key Data

Nifty	25,523
Equity / FV	Rs 622mn / Rs 10
Market Cap	Rs 58bn
	USD 67.8mn
52-Week High/Low	Rs 1,012/ 402
Avg. Volume (no)	924,700
Bloom Code	KRN IN

Stock Performance (%)

Particulars	1M	3M	12M
Absolute (%)	24	21	
Rel to NIFTY (%)	22	7	

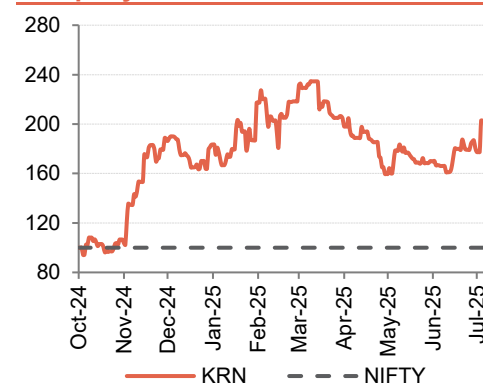
Shareholding Pattern

Particulars	Sep'24	Dec'24	Mar'25
Promoters	70.8	70.8	70.8
MF/Banks/FIs	7.5	8.2	6.3
FIs	4.1	2.0	1.2
Public / Others	17.7	19.1	21.7

Financials (Rs bn)

Particulars	FY24A	FY25A	FY26E	FY27E
Revenue	3.1	4.3	7.1	12.0
Growth (%)		39.4	65.2	69.0
EBITDA	0.6	0.7	1.1	1.9
OPM (%)	19.0	16.4	15.2	16.5
PAT	0.4	0.5	0.8	1.6
Growth (%)		35.3	51.8	103.5
EPS (Rs.)	6.3	8.5	12.9	26.3
Growth (%)		35.3	51.8	103.5
PER (x)	148.8	109.9	72.4	35.6
ROANW (%)	29.7	16.8	14.9	24.7
ROACE (%)	19.7	15.0	14.6	23.5

Company relative to NIFTY



Director Research: Yogesh Patil
+9122 40969758
yogeshp@dolatcapital.com

Research Analyst: Hiral Parekh
+912240969792
hiralp@dolatcapital.com

Inexpensive Valuation & Supernormal Growth Outlook

KRN has demonstrated a remarkable supernormal EPS CAGR of 71% over FY20-25 and projected to sustain at ~72% CAGR over FY25-28E, driven by (1) huge incremental revenue from new plant; (2) PLI and RIPS benefits; (3) concessional corporate tax rate; and (4) reduction of debt. The company is poised for growth with an expected rise in RoACE from 15% in FY25E to 24% in FY27E, along with an improvement in RoE from 17% in FY25 to 25% in FY27E. Key growth drivers include 1) Capacity expansion with 6x revenue generation potential, easing out the supply bottleneck, 2) Targeted exports increasing to 30–35% of revenues by FY27, supported by in-house R&D and 3) New verticals (refrigeration, railway), forward integration and segment diversification.

Broader Assumptions for the DCF

We have currently factored in Revenue CAGR of 47% over FY25-29E in the growth stage, along with Average EBITDA margins of 16.3% over FY26-FY29E with Cost of Capital set at 10.2% and Terminal growth rate of 6.25%. Taking these assumptions, value the stock on DCF basis with TP of Rs1,111/share and WACC assumptions of 10.2% (implies 42.3x of FY27E earnings). **We initiate coverage with a 'BUY' recommendation.** The implied P/E multiple for the target price would be 42.3x for FY27E.

Given the early stage of development and significant growth potential of the heat exchanger industry/company, we believe a DCF-based valuation is appropriate to capture the intrinsic long-term value of the business. Additionally, the absence of listed peers offering customized solutions further supports the use of an income approach.

Exhibit 1: KRN's DCF Valuation

(Rs Mn)	FY26E	FY27E	FY28E	FY29E
PAT	803	1634	2690	3126
(+) Depreciation	195	205	215	245
(+) Capex	(100)	(100)	(100)	(300)
(+) Change in WC	(248)	(508)	117	285
FCFF	650	1,231	2,922	3,356
Year	1.0	2.0	3.0	4.0
Disc FCFF	650	1,014	2,186	2,278

	Rs mn	Rs/share
EV - Continuing Business	6,128	99
EV - Terminal Value	61,738	993
EV	67,875	1,092
Net debt	1,177	19
Equity value	69,042	1,111

Source: Company, Dolat Capital

Exhibit 2: DCF Assumptions for KRN's valuation

Particulars	(%)
Risk free rate	5.8
Market premium	5.5
Unlevered beta	0.76
Levered Beta	0.80
Cost of equity	10.2
Cost of debt (net of tax)	9.4
Debt	6.7
Equity	93.3
WACC	10.2
TVg	6.25

Source: Dolat Capital

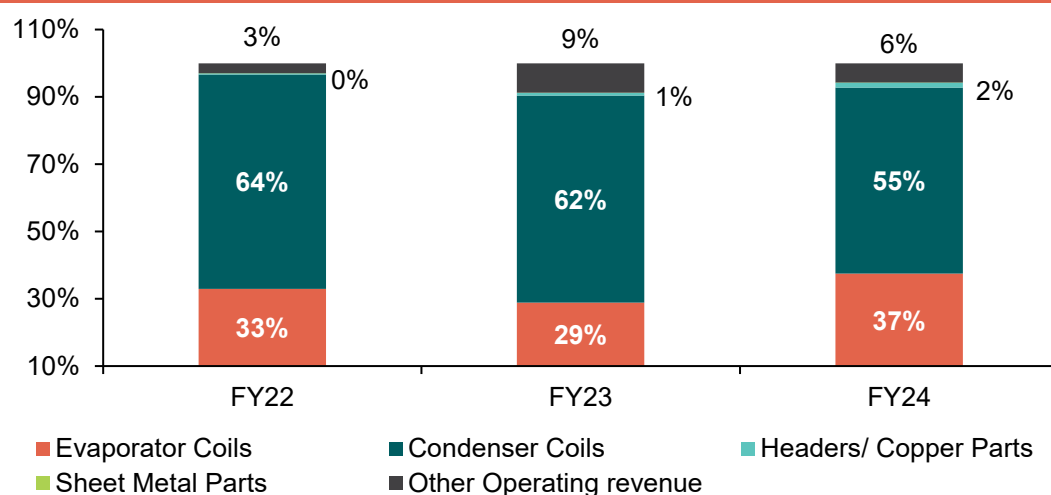
Investment Rationale

6X Capacity Growth: Key Catalyst for Earnings Expansion

KRN is currently utilizing its assets efficiently at 85% capacity and plans to expand its HVAC facilities by 6X times through a Rs 2.4 bn investment, which is projected to generate a cumulative revenue potential of Rs 45.6 bn over the next four years. According to guidance, the Government of India has allocated PLI benefits of up to Rs 1.42 bn to KRN's new facility, with additional PLI support from the Rajasthan government. Thus, the new facility is expected to fetch EBITDA margins up to 25% (including PLI + RIPS scheme). Management has guided consolidated EBITDA margin to be in the 15%-18% range in FY26E.

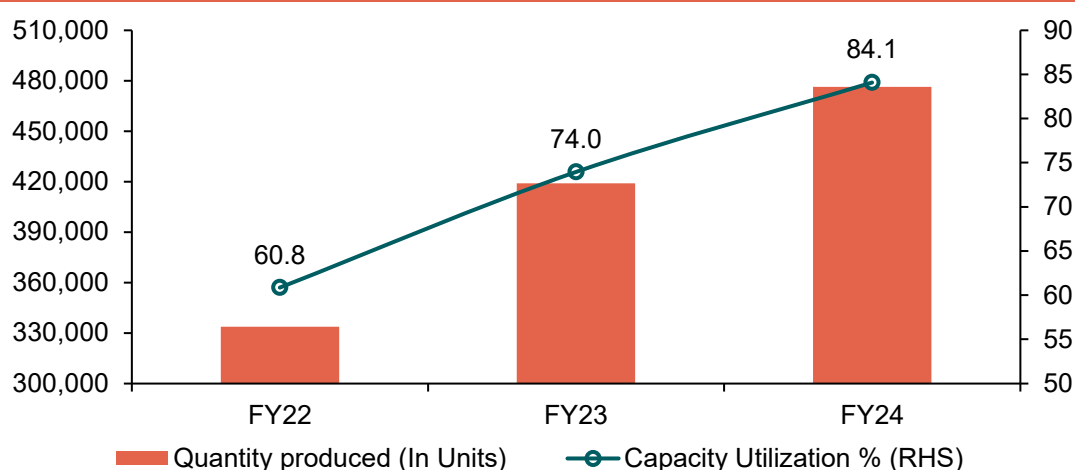
One of the key drivers for this growth is the Indian government's consideration of replacement scheme aimed at upgrading ~10% of the country's 100mn air conditioning units to more energy-efficient models. Additionally, Daikin, contributing 33% to KRN's revenue, plans to increase its room AC manufacturing capacity from 3mn to 5mn units by 2030. We believe that together, these initiatives position KRN to benefit from a booming market, setting the stage for sustained long-term growth.

Exhibit 3: Revenue mix by products: Inclined towards the value-added prod.



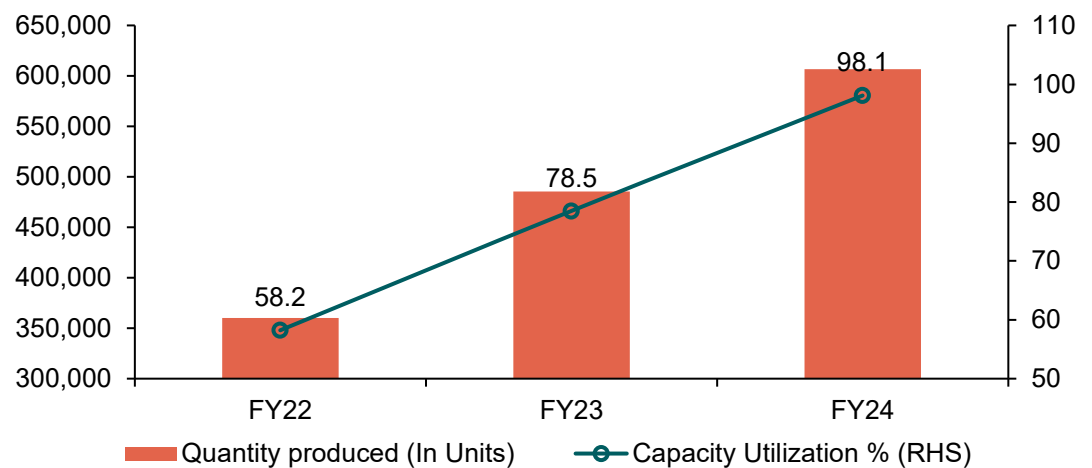
Source: Company, Dolat Capital

Exhibit 4: Sharp jump in utilization of Condenser & Evaporator Coils facility



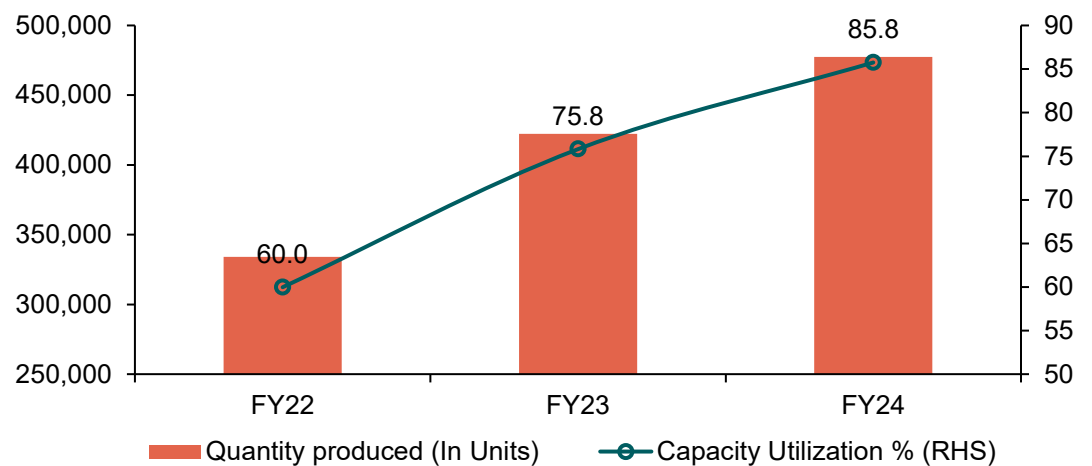
Source: Company, Dolat Capital

Exhibit 5: Sharp jump in utilization of Headers/ Copper Parts facility



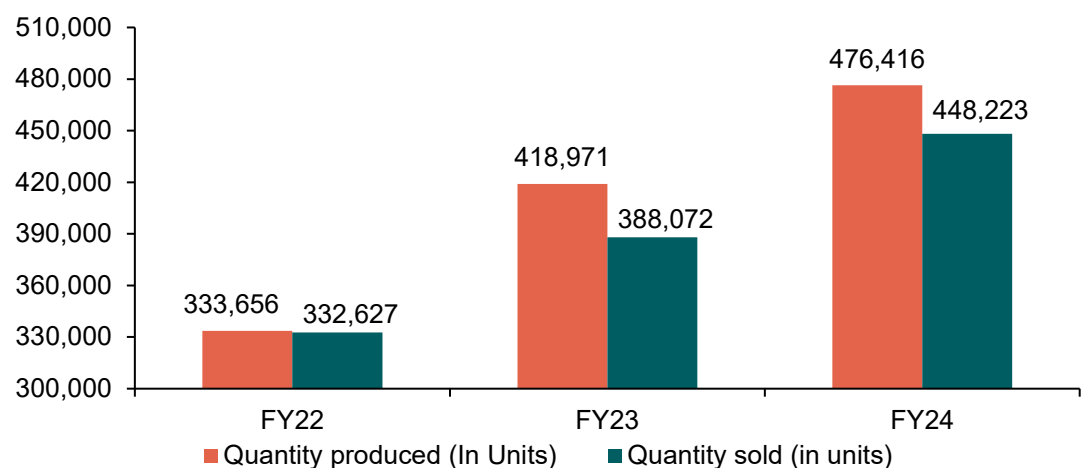
Source: Company, Dolat Capital

Exhibit 6: Sharp jump in utilization of Sheet Metal Parts facility



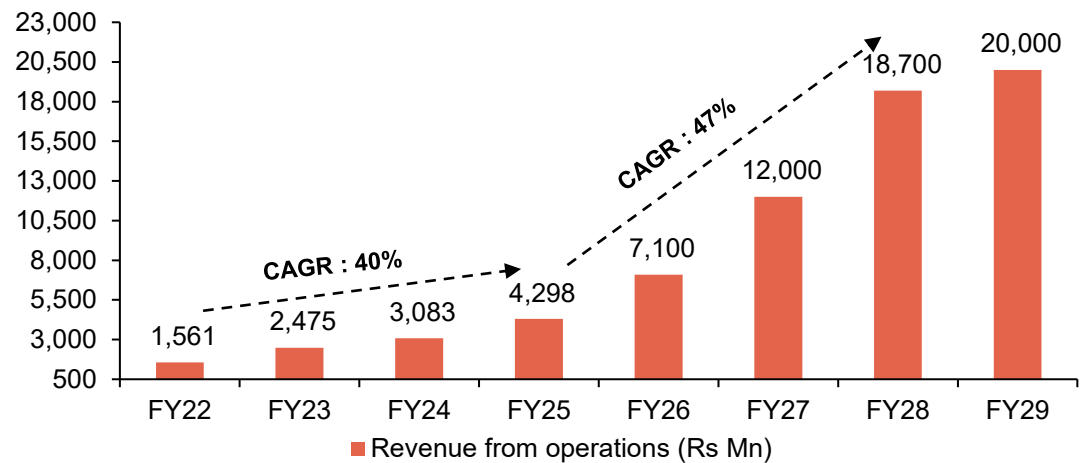
Source: Company, Dolat Capital

Exhibit 7: Production and sales volumes of Condenser and Evaporator Coils



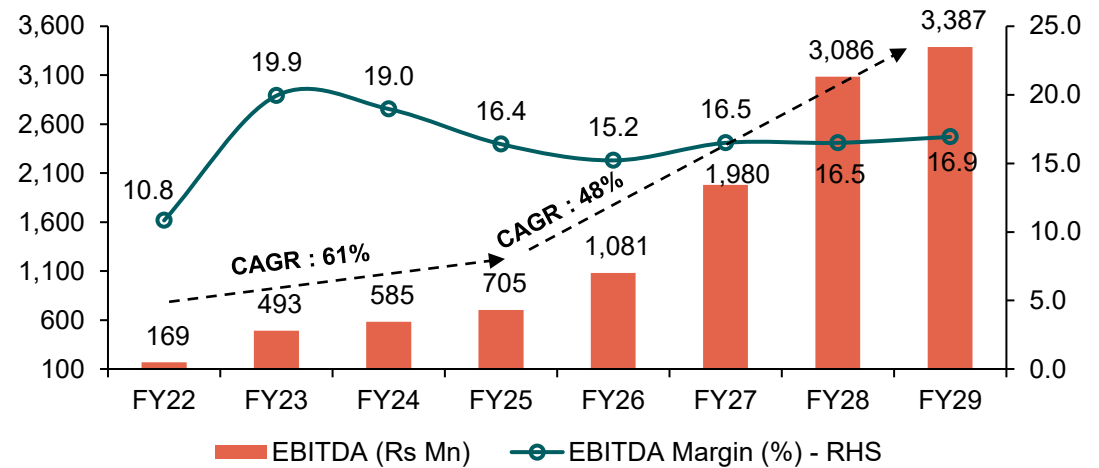
Source: Company, Dolat Capital

Exhibit 8: Revenue to clock a 47% CAGR over next 4 years vs. 40% in FY22-25



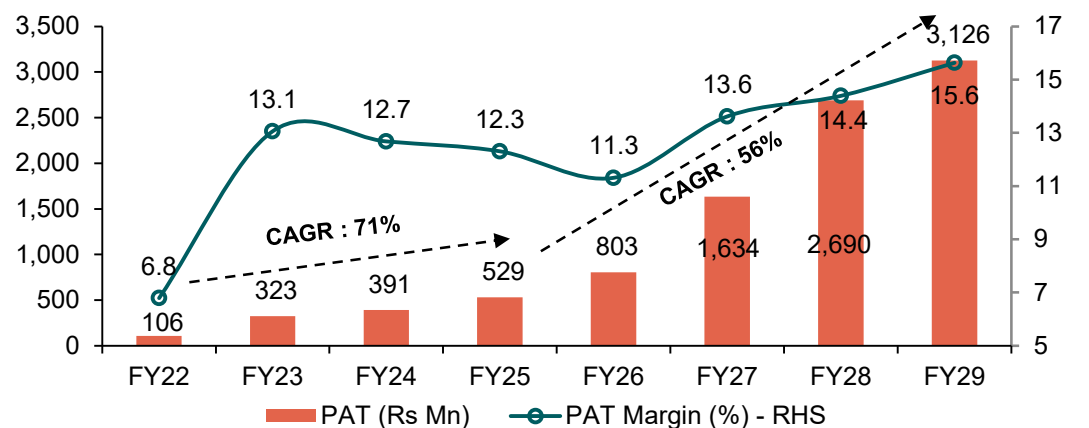
Source: Company, Dolat Capital

Exhibit 9: EBITDA CAGR of 48% with margin expansion over 4 yrs.



Source: Company, Dolat Capital

Exhibit 10: PAT CAGR of 56% with margin expansion over 4 yrs



Source: Company, Dolat Capital

De-Risking Revenue Profile and Diversifying Client Base

Despite a healthy topline CAGR of 40% over FY22-FY25, customer concentration remains elevated, with Daikin consistently contributing ~33% to revenue and the top 10 customers accounting for ~78% over FY22-FY24. However, client retention has remained strong, with repeat customers averaging ~58% during the period. To de-risk the revenue profile and reduce dependency on key accounts, the company is actively diversifying its customer base at a run rate of ~4 new customers each month and is expected to maintain the momentum across both domestic and international markets, as depicted below:

1) Unlocking OEM confidence and margin tailwinds

Based on insights from our interactions with the management and visits to KRN's primary and new HVAC manufacturing facilities, we understand that the key rationale behind the ongoing capacity expansion is to enhance the company's supply capabilities, a critical consideration for OEM customers. OEMs typically evaluate a manufacturer's ability to deliver at scale before awarding large-volume contracts, as any supply-side disruption could affect their own production schedules. A larger facility meaningfully boosts confidence in KRN's ability to fulfil higher-order volumes without bottlenecks, thereby positioning it as a preferred vendor.

Additionally, we note that the new plant is a state-of-the-art facility, equipped with imported machinery, and the shop floor has been configured in such a manner that it streamlines the operational flow, a move which is expected to materially improve manufacturing efficiency.

The expansion also includes the **introduction of new products**, which is likely to improve KRN's value addition and **support margin expansion over the medium term**.

2) Custom-built solutions for OEMs: KRN's innovation edge

KRN differentiates itself through its **strong customization capabilities**, offering tailor-made solutions based on OEM specifications while ensuring high standards of quality and reliability. Notably, the company has developed the expertise to manufacture **large-format heat exchangers up to 12 meters in length**, addressing demand from industrial-scale applications. KRN introduces ~150 new SKUs each

month, catering to the specific and niche requirements of its clients. The company's ability to adapt and customize its manufacturing processes provides a competitive edge that may be **a barrier for new entrants to replicate**.

3) Forward integration to strengthen market access

To strengthen its market positioning and improve customer access, KRN established a **wholly owned subsidiary, KRN HVAC Products Pvt. Ltd., in April 2023**. This strategic forward integration move allows the company to directly participate in **distribution and sales**, enabling **full-stack delivery** of its product portfolio while expanding its **customer reach and brand visibility and significantly improves tax efficiency**.

Prior to the setting up of its new facility, KRN had a total area of 12,000 sq mt. with a covered area of 75,000 sq. ft., which has now expanded to an area of 75,000 sq. mt. with a covered area of 600,000 sq ft. This facility is optimized for scale and precision, KRN HVAC is also positioned as the **key manufacturing and sales engine for export expansion and new-age segment penetration (railway, EVs, refrigeration)**. Based on our interaction with the management, exports are expected to contribute 30–35% of revenues by FY27. With products priced 20% to 25% lower than European peers and a faster development cycle, enabled by in-house R&D and testing labs, KRN is emerging as a reliable partner for heat exchangers in global markets.

Furthermore, as the new facility will meet substantial power requirements, 8 MW solar panels have been installed at an investment of Rs. 300mn, which is expected to be paid back in 4 years. This initiative also enhances the company's **ESG compliance**.

Via the new facility, the company is also **targeting the refrigeration segment** by producing **roll-bond evaporators and wire-on-tube condensers**, which is a volume-driven vertical. Based on our discussion with the management, the company estimates a ramp-up via bulk OEM orders and is confident that open market testing from repeat customers would generate significant revenue. The management is confident of **generating Rs.4bn of revenue** from this segment over the period **FY25-FY27**.

Notably, as the company has been **recognized by the Ministry of Railways as an approved vendor**, this new facility would produce **bar and plate heat exchangers and oil cooling radiators**. In Q4, a **prototype delivery (10 units) to Banaras Locomotive Works (BLW) has been completed**.

The company is optimistic about securing orders under the upcoming tenders, which represent a **potential market opportunity of ~Rs.12bn**. These tenders are expected to attract participation from 7–8 vendors; however, management believes their proven execution capabilities, established client relationships, and cost competitiveness position them well to win a meaningful share of these opportunities.

The subsidiary enables streamlined operations, faster product development cycles, and improved customer conversion, with **~95% of sample orders converting to final orders**, based on the understanding received from the management. Together, KRN HVAC and the parent entity create a fully integrated platform designed for operational leverage, fiscal efficiency, and global competitiveness.

Exhibit 11: KRN HVAC new Facility -75K Sq mt.



Source: Company, Dolat Capital

Exhibit 12: Fin machine for bar and plate heat exchanger



Source: Company, Dolat Capital

Exhibit 13: Full commissioning of new facility by Sept 2025; covered area – 0.6mn sq. ft.



Source: Company, Dolat Capital

Exhibit 14: U bend processing machine



Source: Company, Dolat Capital

Exhibit 15: Efficient shop floor outlay



Source: Company, Dolat Capital

Exhibit 16: Tube forming machine in header section



Source: Company, Dolat Capital

Exhibit 17: Turret punch press machine for sheet metal processing



Source: Company, Dolat Capital

RIPS & PLI to boost EBITDA margins by 290 bps

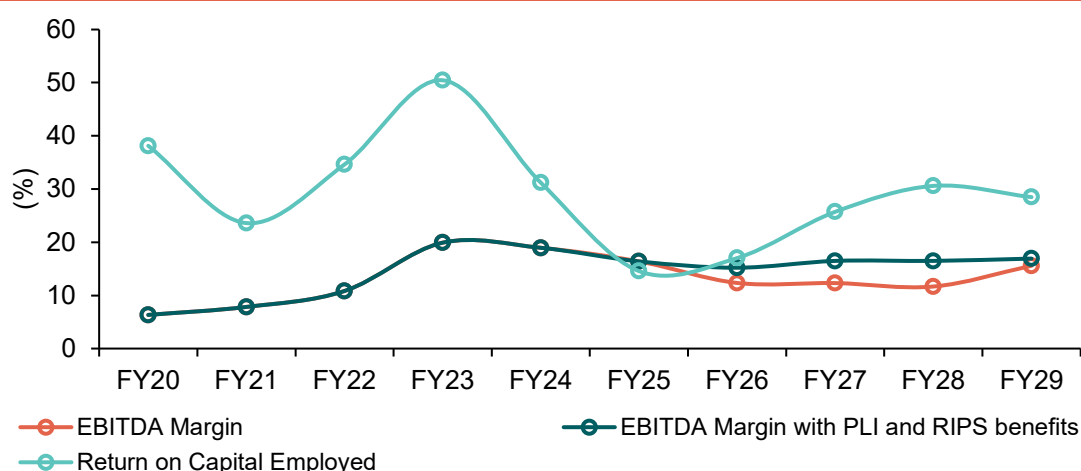
KRN is expected to receive RIPS approval in the next 3 months and the HVAC facility is eligible for the 1.56% revenue-based incentive over the next 10 years. Additionally, the HVAC facility is entitled to PLI of 5%/ 4%/ 4% for FY26/FY27/FY28 with the maximum benefits of Rs1.42bn. Our calculations suggest that cumulative benefits (both PLI + RIPS) of ~Rs1.6bn would be EBITDA margin booster for KRN's consolidated EBITDA margins in the next 3 years, with an estimated increase of ~290bps in FY26E due to PLI and RIPS schemes.

RIPS Incentive - KRN is eligible for a RIPS incentive of 1.56% on its revenue

KRN is a beneficiary under the **Rajasthan Investment Promotion Scheme (RIPS)**, which offers fiscal incentives to encourage industrial investment in the state. Under this scheme, eligible companies can receive benefits such as: (1) 75% of the State Tax due, deposited for a period of 7 years from the date of receiving the entitlement letter; (2) 10 - 15% booster on chosen Asset Creation Incentive for generating more jobs; (3) 100% exemption of electricity duty for 7 years; (4) Exemption from payment of stamp duty paid on land purchase as notified by the State; (5) Exemption from payment of 100% of Land Tax for seven years; and (6) 5% Interest Subsidy on term loan taken by company from Financial Institutions or State Financial Institutions or Banks recognized by Reserve Bank of India, for a period of 5 years subject to a maximum of Rs. 25 lakhs per year.

These incentives help lower the effective cost of setting up or expanding manufacturing units in Rajasthan, thereby improving project IRRs and accelerating payback periods. For KRN, this not only makes the expansion project more financially viable but also frees up internal accruals for future growth or margin-enhancing initiatives. The RIPS incentive is particularly critical in attracting OEM-focused manufacturers to the region by improving competitiveness and long-term cost structures. **Basis our interaction with the management, the cumulative benefit of RIPS for KRN HVAC would be 1.56% of topline revenue for 10 years, beginning post-Sept-25.**

Exhibit 18: Impact on EBITDA with RIPS and PLI



Source: Company, Dolat Capital

Central PLI Scheme - KRN benefits of Rs1.1bn

The **PLI Scheme for White Goods (Air Conditioners and LED Lights)** is part of the Government of India's broader **Production Linked Incentive (PLI) program**, aimed at boosting domestic manufacturing and reducing import dependence. The scheme incentivizes companies that manufacture **components and sub-assemblies** (e.g., compressors, heat exchangers, PCBs, LED drivers), rather than just assembling finished goods. Following are some of the characteristics of this scheme: (1) **Production-linked Incentives**: Eligible companies receive incentives ranging from **4% to 6%** on incremental sales of eligible products over the base year; (2) **Quarterly Disbursements**: Incentives are disbursed on a **quarterly basis**, enhancing liquidity and supporting working capital requirements; (3) **Investment and Sales-Linked Eligibility**: Disbursements are contingent upon achieving committed levels of **incremental investment and incremental sales**, ensuring alignment with actual manufacturing expansion; (4) **Higher Incentives for Deeper Value Addition**: Preference is given to companies engaged in **deeper value chain manufacturing**, such as critical components, over mere assembly operations; (5) **Support for Both Greenfield and Brownfield Projects**: The scheme is open to both new manufacturing setups and capacity expansions; (6) **Prioritization of Larger Investments**: Companies proposing **higher capital outlays** are given selection preference, encouraging scale and long-term commitment.

On 15th May 2025, KRN announced approval for its application under the White Goods PLI Scheme, which is expected to benefit the company by approximately 5%, 4%, and 5% of its topline revenue in FY26, FY27, and FY28, respectively, amounting to up to Rs 1.42 bn. Based on our analysis, the cumulative benefits of the PLI scheme are projected to be around Rs 1.1 bn, which will serve as a significant EBITDA margin booster for KRN on a consolidated basis.

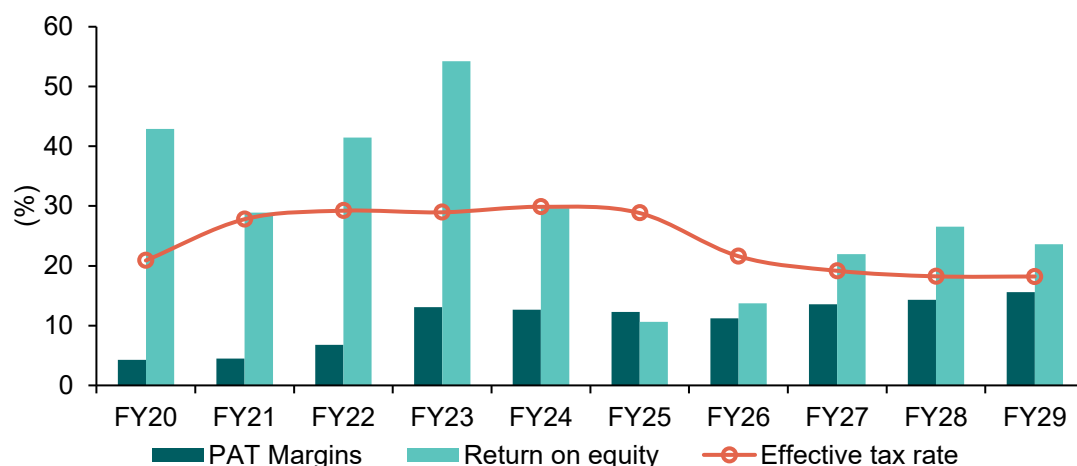
Concessional tax rate to boost Earnings & PAT margins

KRN HVAC Pvt Ltd, a newly expanded wholly owned subsidiary, is eligible for concessional corporate tax rate of 17.16% vs. 25.17%. The new facility will start contributing 44%/75%/87% to the total consolidated revenue in FY26E/FY27E/FY28E resp. This implies decreasing overall tax rate of 21.6%/19.2%/18.2% down from the previous average of 29% over last 4 years. Additionally, Rs20mn tax rebates could also aid the FY26 earnings.

KRN HVAC Pvt Ltd qualifies for the **concessional corporate tax rate** under Section **115BAB of Income Tax Act, 1961** wherein if any new company is incorporated on or after October 01, 2019, a tax rate of 15% will be levied on the income generated from the manufacturing activities and short-term capital gain from the depreciable assets. KRN HVAC, having commenced Phase 1 of its manufacturing operations prior to the March 31, 2024 deadline, benefits from a reduced effective tax rate of 17.16%.

In contrast, KRN Heat Exchangers and Refrigeration Limited remains subject to the tax rate of 25.17%. As the scale of operations increases under KRN HVAC Private Limited, the overall effective tax rate is expected to decline on a consolidated basis over the projected period, thereby supporting an improvement in the blended ROE.

Exhibit 19: Impact of concessional tax on PAT margins and ROE

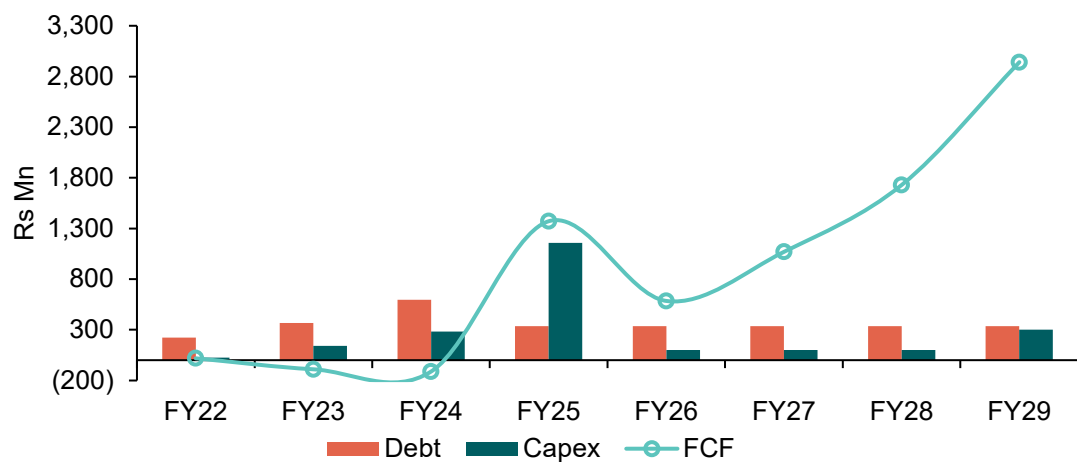


Source: Company, Dolat Capital

Significant Capex Investment Paves Way for Future Expansion

KRN has raised funds of Rs 3.41bn (gross proceeds) from the recent IPO out of which they have utilized Rs 2.35bn for the KRN HVAC (new plant facility) and partial fund has been utilized for the general corporate purpose and issue-related expense. The company is still having Rs 1.1bn of remaining proceeds. The majority of capex is already incurred, setting the base for future growth; the facility has commenced commercial production and operations on 31st May 2025. The company has been improving the production process with SAP-driven operations (migrated to SAP S/4 HANA Cloud ERP from April 1, 2025), expected to enhance transparency, control, and scalability. Management guided to invest Rs100mn/annum in the next 3 years. We believe the new HVAC facility to bring 6x revenue growth to the KRN and expand RoCE & RoIC in the next few years.

Exhibit 20: Capex, FCF and Debt movement

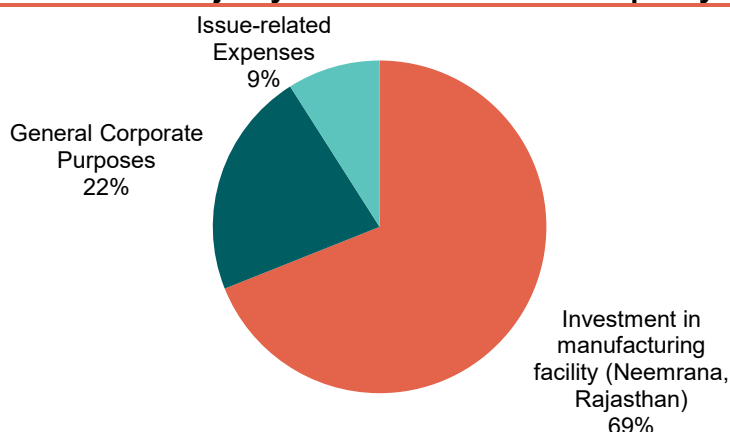


Source: Company, Dolat Capital

Strategic Deployment of IPO Proceeds and Capital Raising Roadmap

KRN raised Rs342 cr through its Sept-24 IPO, wherein the proceeds were allocated across various strategic areas to support the company's growth and operational needs.

Exhibit 21: Utilization of majority of IPO funds towards capacity expansion



Source: Company, Dolat Capital

Basis the monitoring agency's report, the utilization of proceeds is as under:

Exhibit 22: Utilization Head of IPO proceeds

Particulars	Amount Proposed (Rs. Cr)	Utilised (Rs. Cr)	Unutilised (Rs. Cr)
Investment in manufacturing facility (Neemrana, Rajasthan)	236	127	109
General Corporate Purposes	75	75	-
Issue-related Expenses	31	30	1
Total	342	232	110

Source: Company, Dolat Capital

The proceeds of Rs.236 cr. earmarked for establishing the company's new manufacturing facility are utilized by 54% (overall utilization of proceeds is 68%) and faces a delay in the implementation schedule due to construction related restrictions imposed under the GRAP (Graded Response Action Plan) notification issued by the Commission for Air Quality Management (CAQM) in Delhi-NCR. As of Jun-26, following the utilization of Rs.127 cr, the company has formally notified the commencement of commercial operations from this new facility.

New Facility expected to be commissioned on Sept-25

Based on our discussions with the management, the new facility is expected to be completed by Sept-25. The capacity added via this facility would support up to 6x of revenue generation. **When placing orders for critical components like heat exchangers, large OEMs typically conduct facility visits and process audits to assess the company's production capabilities.** Their evaluation focuses on **ensuring uninterrupted supply**, operational efficiency, and whether any potential bottlenecks could disrupt their own manufacturing processes.

Gradual Utilization of New Facility with No Major Capex in FY26

No major capex is expected to be incurred during FY26, with the planned investments expected to commence from FY27 onwards. Accordingly, the **revenue contribution from these initiatives will likely materialize from FY27**. Management guided only 20–25% utilization expected from the new KRN HVAC facility in the initial quarters (FY26); on a consol level, the impact expected is short-term due to underutilization. For FY27, the management has guided for a 45-50% utilization of the new facility.

The company has been receiving orders at rising rates with few OEMs being on-boarded, which will lead to the new plant utilization level to 50% in FY27 and 85%-95% in FY28. New capacity will allow the revenue generation of 6x from the current levels. Gross margins to sustain at ~25% in the coming quarters, reverting to 24% for at least the next two quarters. Employee Costs are expected to increase 5–6% annually until scalability is achieved at the new facility.

Q1FY26 Preview

Strong Start: Revenue Expected to Rise ~7% Sequentially

KRN's Q4FY25 margins were squeezed due to seasonal low-margin product sales, low-margin raw material sales to OEMs, and higher employee costs from training for the new plant. Despite these challenges, the company has reported increasing order inflows and has guided a healthy 7% sequential revenue growth in Q1FY26, thereby indicating positive business momentum and potential margin recovery going forward.

Exhibit 23: Increase in order inflow to drive growth sequentially

Particular (Rs Cr)	Q1FY26E	Q4FY25A	Q1FY25A	QoQ (%)	YoY (%)
Revenue	140.71	131.50	95.78	7.0	46.9
EBITDA	21.11	18.89	17.70	11.8	19.3
EBIT	19.70	17.71	16.58	11.2	18.8
PAT	16.18	14.87	11.97	8.8	35.2

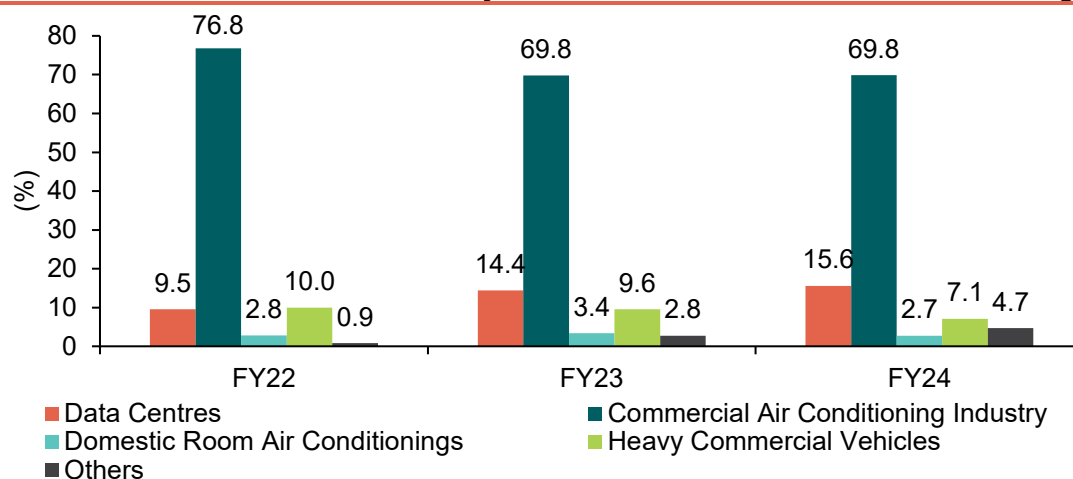
Source: Company, Dolat Capital

Financial Analysis

Unpacking the topline

KRN's consolidated revenue is primarily driven by condenser and evaporator coils. Given the company's primary focus is on the commercial air conditioning industry, it is insulated against the cyclical nature of HVAC&R industry. Notably, revenue contribution from data centers has steadily increased from 10% in FY22 to 16% in FY24.

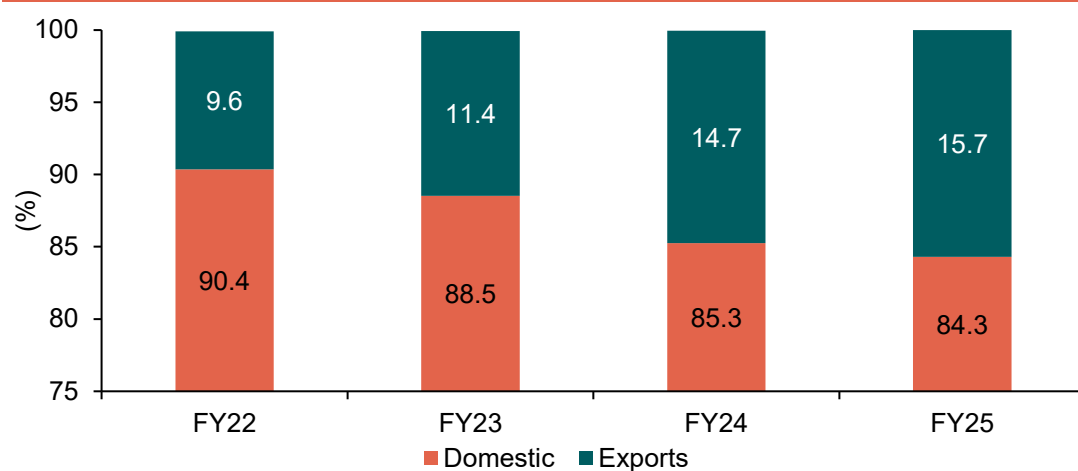
Exhibit 24: Revenue Contribution by End-Use Sector; data center share rising



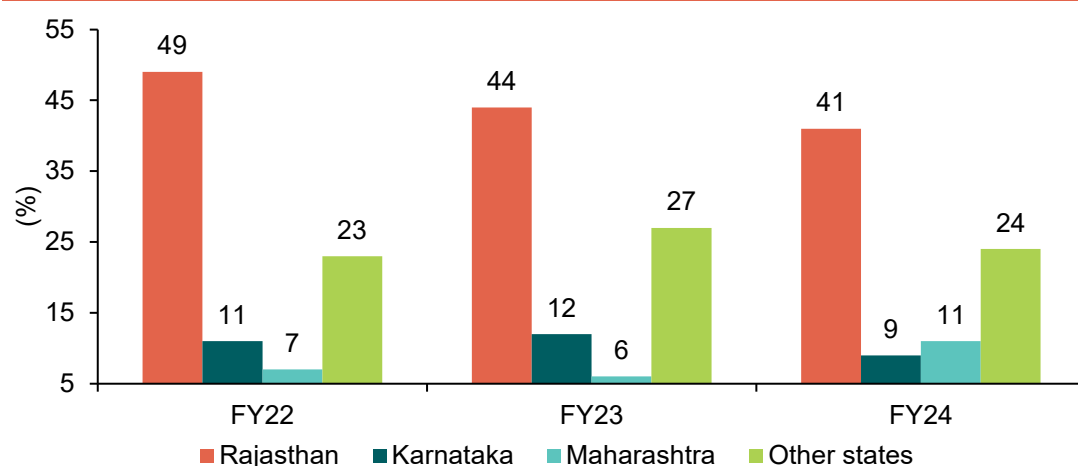
Source: Company, Dolat Capital

KRN currently derives a significant portion of its revenue from the **domestic HVAC&R industry**, with a notable **geographic concentration in Rajasthan**. However, management has articulated a clear strategic intent to **diversify geographically** and **increase the share of exports to 50%**, driven by the **higher margin profile of international markets**. Key export offerings include **fan coil units**, **heat pumps for swimming pools**, and **heat exchangers for truck refrigeration and bus air-conditioning**, positioning KRN to tap into demand across global mobility and residential segments.

Exhibit 25: Diversifying geographically; export revenue on rise



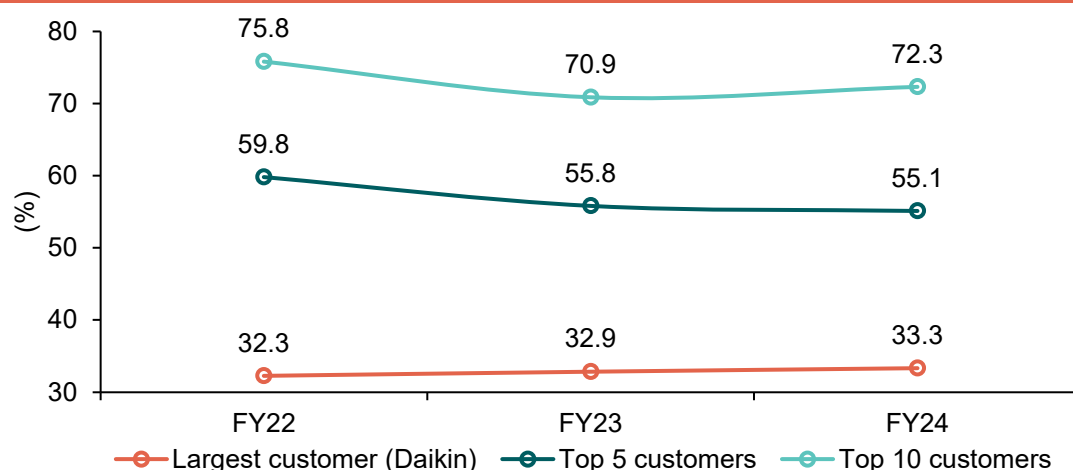
Source: Company, Dolat Capital

Exhibit 26: State-wise contribution of domestic revenue; expanding in south

Source: Company, Dolat Capital

Exports have seen a steady uptick, rising from 10% of revenue from operations in FY22 to 15% in FY24. On the domestic front, **revenue contribution from Maharashtra has increased notably**, expanding from 6.7% in FY22 to 11.0% in FY24, indicating improving geographic diversification.

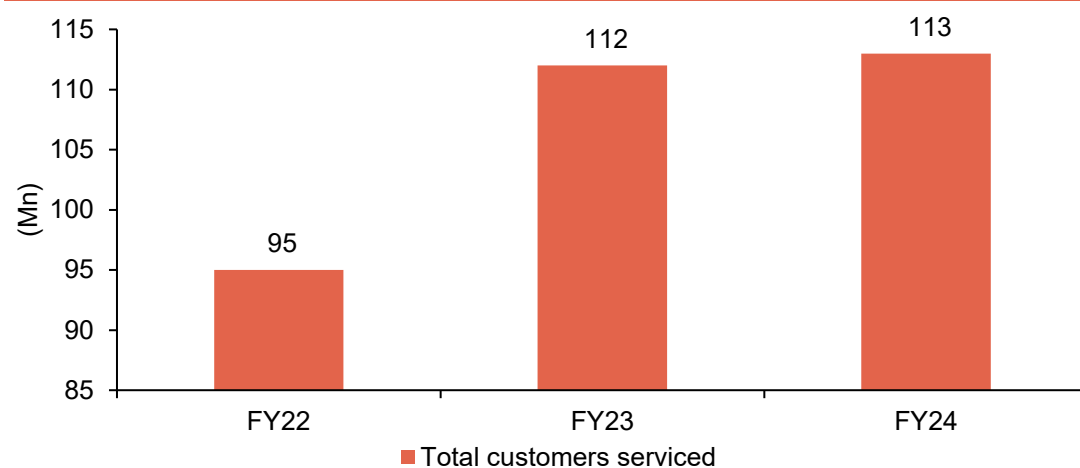
With over 70% of its revenue derived from the commercial air conditioning segment, the company serves as a key component supplier to leading OEMs, including Daikin Airconditioning India Pvt. Ltd., Schneider Electric Business India Pvt. Ltd., Voltas Ltd., Blue Star Ltd., and Carrier Airconditioning & Refrigeration Ltd. This strong OEM linkage underscores its entrenched positioning in the HVAC value chain and provides visibility on recurring demand.

Exhibit 27: Steady Client Contributions Amid Rapid Revenue Growth

Source: Company, Dolat Capital

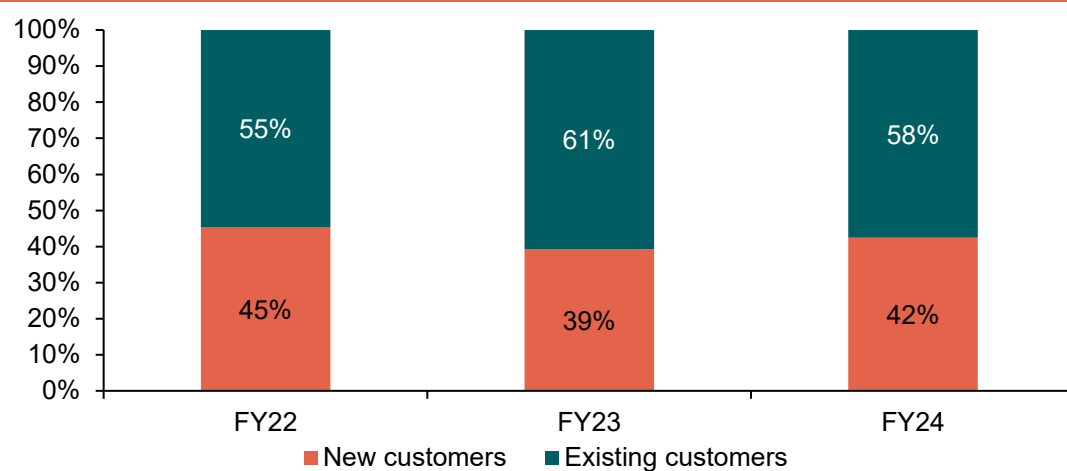
Despite a healthy topline expansion of 59% in FY23 and 25% in FY24, **customer concentration remains elevated, with Daikin consistently contributing ~33% to revenue and the top 10 customers accounting for ~78% over FY22–FY24.** However, client retention has remained strong, with repeat customers averaging ~58% during the period. **To de-risk the revenue profile and reduce dependency on key accounts, the company is actively diversifying its customer base at the run rate of ~4 new customers each month** and is expected to maintain the momentum across both domestic and international markets, as depicted below.

Exhibit 28: Broader customer base reduces dependency risk



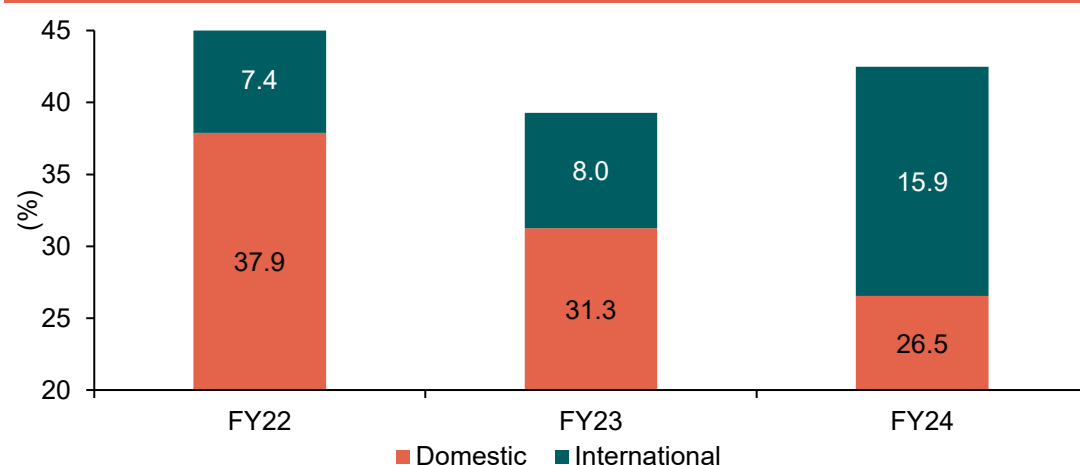
Source: Company, Dolat Capital

Exhibit 29: Consistent revenue from existing customers highlights stickiness

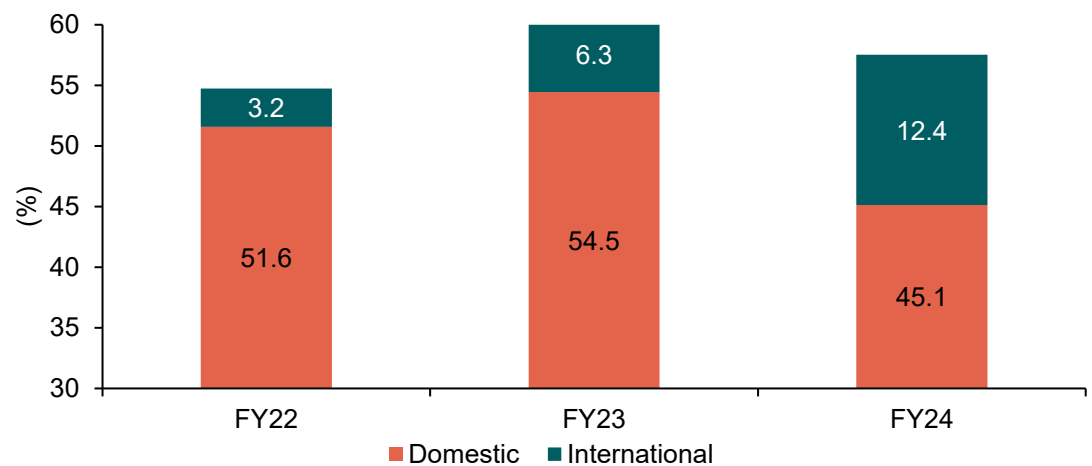


Source: Company, Dolat Capital

Exhibit 30: Increasing share of international customers within new customers



Source: Company, Dolat Capital

Exhibit 31: Increasing International Clients Share among existing customers


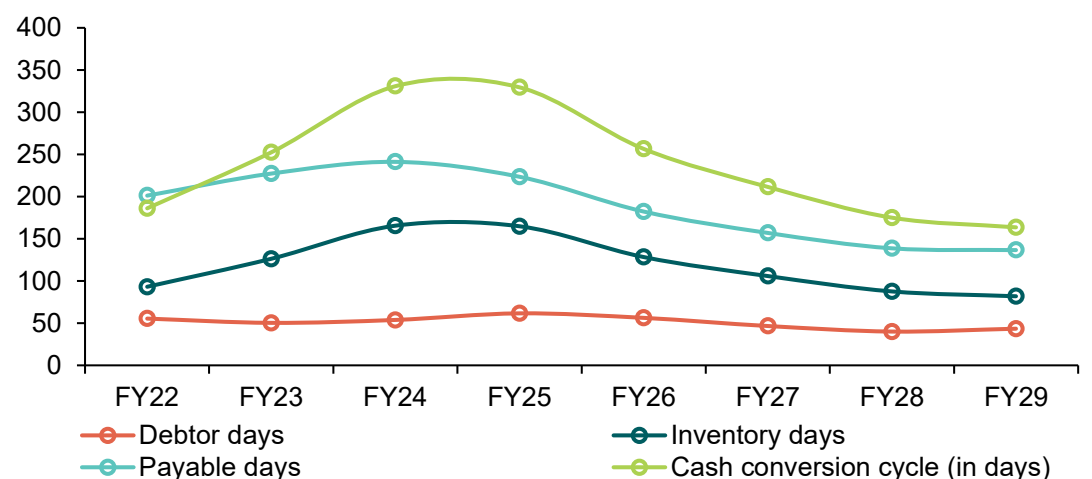
Source: Company, Dolat Capital

Fund raising supported capex and reduced D/E

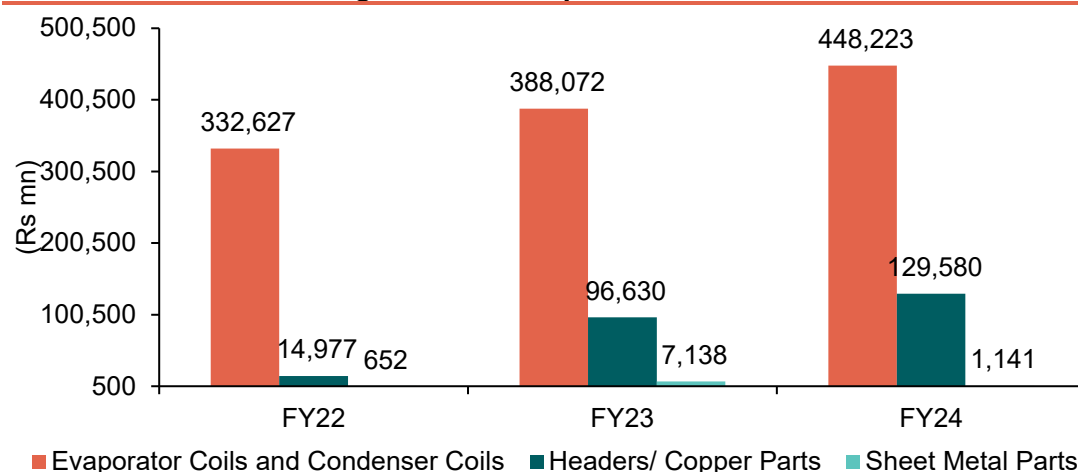
The company has significantly reduced its debt position during FY25 with a decline of 82% in long-term borrowings and a 38% reduction in short-term borrowings compared to the previous year. Recent fund raising helped to mitigate debt to equity to 0.1x in FY25 from 1.2x in FY21.

Debtor days expected to decline

Debtor days average at 59 days (FY21-FY25) as against 74 days in FY21 reflecting better credit control and alignment with high-quality OEM clients. Further normalization in debtor days is expected as export market demand stabilizes and prototype engagements/ one-off orders convert into purchase orders, this will lead to more predictable billing cycles.

Exhibit 32: Gradual improvement of working capital days


Source: Company, Dolat Capital

Exhibit 33: Sales volume growth across products

Source: Company, Dolat Capital

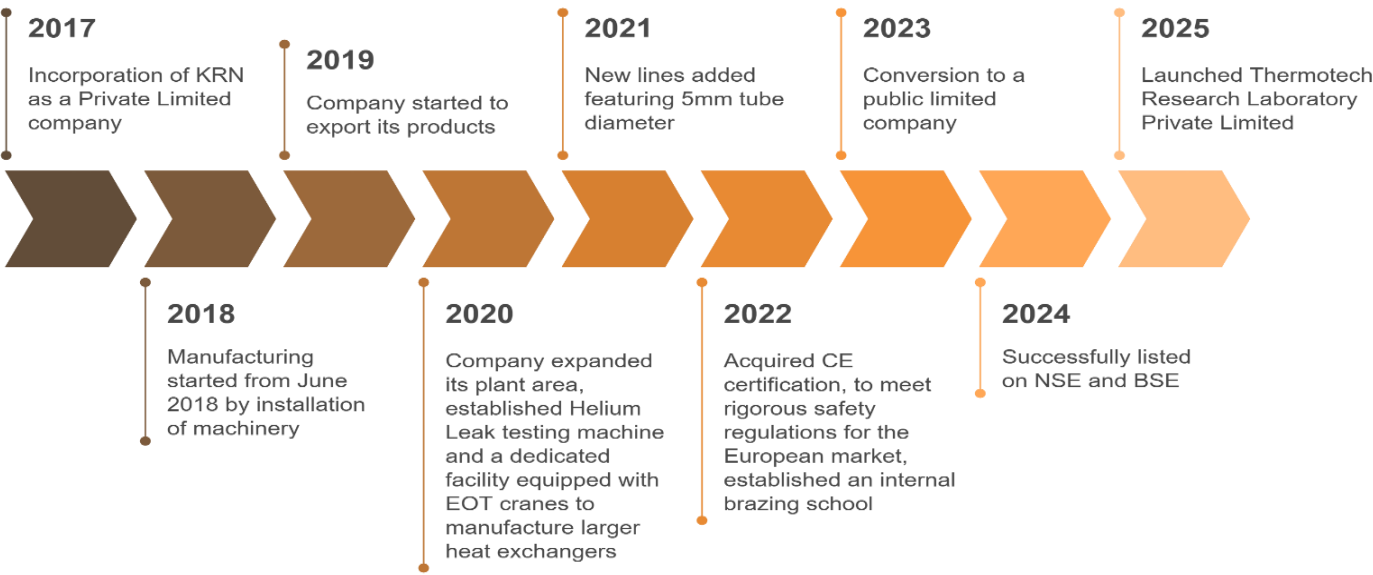
Key Risks

- The company's revenue model relies heavily on short-term purchase orders within a B2B framework, lacking long-term customer commitments, which makes it vulnerable to fluctuations in demand from a few key high-margin clients, which significantly affect the performance.
- On average (FY22-FY24) 88% of material was imported; hence, timely access, favorable pricing, and failure by any supplier to meet design or delivery expectations leading to production delays remain a key concern.
- The company has faced a significant inventory build-up over the past three financial years, primarily due to challenges in accurately estimating demand, which may lead to increased holding costs and potential obsolescence risks.

About the Company

KRN Heat Exchanger & Refrigeration Ltd (KRN), established in 2017 and recently listed on October 3rd, 2024, is a Rajasthan-based manufacturer specializing in customized fin and tube heat exchangers for the HVAC&R industry. The diverse product portfolio includes condenser coils, evaporator units, fluid and steam coils, and sheet metal parts, with tube diameters ranging from 5mm to 15.88mm. Serving a wide array of applications, from residential and commercial HVAC systems, data center and precision cooling, to automotive, defense, and process cooling, the company also supplies components for refrigeration, beverage coolers, vending machines, and white goods like washing machines and dryers, positioning itself as a versatile player in the cooling and refrigeration sector.

Exhibit 34: KRN Heat Exchanger Journey from Inception to Expansion



Source: Company, Dolat Capital

HVAC products

The company specializes in the manufacturing of **fin-and-tube type heat exchangers**, primarily used by OEMs across the **Heating, Ventilation, Air Conditioning & Refrigeration (HVAC&R)** industry. Heat exchangers transfer heat between fluids without mixing them, using conduction. They help regulate temperature, improve efficiency, prevent overheating, and enhance safety. These exchangers are primarily built using **non-ferrous metals such as copper and aluminum**, aligning with industry preferences for high thermal conductivity and corrosion resistance.

Leadership and Shareholding Dynamics

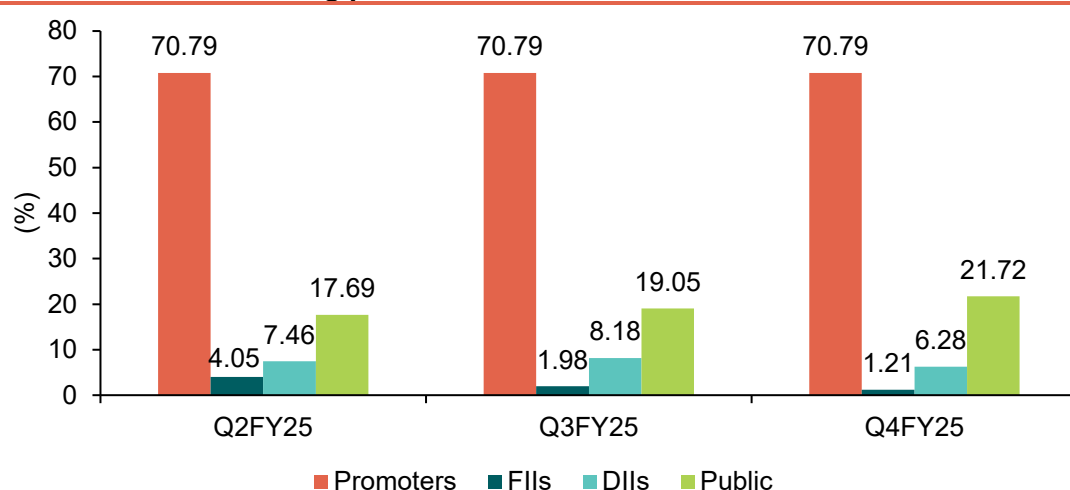
KRN's shareholding structure remains tightly held, with the **promoter group controlling ~70.8% of the equity**. Within this, **Mr. Santosh Kumar Yadav holds a 32.7% stake**, while **Mrs. Anju Devi holds 38.1%**.

Exhibit 35: Experienced minds behind the momentum

Name	Designation	Associated since	Qualifications and experience
Mr. Santosh Kumar Yadav	Chairman & Managing Director	Since incorporation	Diploma from IMT Ghaziabad and a diploma in Mechanical Engineering. 19 years of experience in the business of manufacturing heat exchangers and refrigeration units.
Mrs. Anju Devi	Whole-Time Director	Since incorporation	Resident consultant at Lloyd Electric and Engineering Limited for 2 years from April 2012 to March 2014.
Mr. Manohar Lal	Non- Executive Director	Since 14 March 2023	Served in the Indian Army for 21 years
Mr. Srinivasa Rao Anasingaraju	Independent Director	Since 20 March 2024	CS, CMA, Insolvency Professional under IBC, Bcom, Mcom and Bachelors in Law, with 22 years experience of professional experience.
Mr. Ketan Sharma	Independent Director	Since 20 March 2024	Chartered Accountant, partner at Deepti Jain & Co. with a professional experience of 10 years.
Mrs. Meenakshi Sharma	Independent Director	Since June 2025	Dual postgraduate degree - M.Com. (Accounts) and MBA (Finance)
Mr. Deepak Batheja	Independent Director	Since 20 March 2024	Founder of M/s Batheja and Co Chartered Accountants with a professional experience of 10 years

Source: Company, Dolat Capital

Exhibit 36: Shareholding pattern



Source: Company, Dolat Capital

Multi-segment product portfolio

The company's product portfolio spans a wide range of heat exchangers, designed to meet diverse requirements across industrial, commercial, and infrastructure segments as detailed below:

Exhibit 37: Multi-segment product portfolio

Entity	Product	Use case
KRN Heat Exchanger and Refrigeration	Evaporator coils	Cooling systems in HVAC (close control ACs, rooftops, fan coils), refrigeration units, dryers, showcasing units
	Condenser Coils	HVAC systems, refrigeration units, condensing units, chillers (domestic and commercial)
	Fluid and Steam Coils	HVAC Air Handling Units (AHUs), industrial heating/cooling, power plants, food storage, military installations
	Condensing Units and Air-Cooling Units	Custom refrigeration systems across various industries
	Headers / Copper Parts and Sheet Metal Parts	HVAC component manufacturing for evaporators, condensers, and condensing units
KRN HVAC Products Private	Bar & Plate Heat Exchanger	Railway locomotives (transformers and converter oil coolers) and metro trains (engine and transmission oil cooling units)
		Industrial equipment and diesel engines/DG sets
		Defense Vehicles, heavy-duty & off-highway vehicles
		Oil rigs and mining equipment for cooling applications
	Oil Cooling Unit with Blower & Motor	Locomotives/railways and automotive vehicles
	Roll Bond Evaporator	In refrigerators as an evaporator/freezer

Source:

Strategic Expansion: In-House Testing Lab to Boost Global Competitiveness

KRN has incorporated a wholly owned subsidiary in Q4FY25 - Thermotech Research Laboratories Private Limited, based in Rajasthan, to enable **in-house product validation for parameters like performance, airflow, and pressure drop**, significantly reducing lead times and reliance on customer-end testing. The company has already signed an MoU with AHRI and plans to operate the facility as a third-party laboratory for performance testing across global standards - American, European, and Asian. The new lab will allow KRN to **test and certify its products before delivery**, providing OEMs with ready-to-use, performance-validated solutions, thereby improving customer trust and accelerating product adoption.

Further, the facility will support **retrofitting opportunities for legacy models**. KRN intends to test existing models of OEMs and **propose upgraded heat exchanger solutions** using smaller tube diameters, delivering cost efficiencies and performance improvements without burdening OEM R&D resources. This is particularly valuable for **European and North American clients**, where R&D bandwidth and manpower are often constrained, thus creating a potential lever for market share gains. While the direct revenue contribution from this laboratory is expected to be minimal (Rs. 1–1.5 crore in FY26), the indirect benefit, such as **faster turnaround times for OEMs, is likely to drive recurring revenue** through improved customer stickiness and repeat orders.

Industry Snapshot

The global fin and tube heat exchanger market is **valued at ~USD20 bn in 2025 and is expected to grow at a healthy CAGR of 5.3% between 2025 and 2032**. The growth is driven by rising demand for energy-efficient and cost-effective solutions, as industries across sectors look to cut energy costs and improve process efficiency. However, the global landscape is shifting as manufacturing, and industrial activities increasingly move from developed markets to emerging economies like China and India. **This transition has positioned the Asia-Pacific region as a key market for heat exchangers.**

This has led to increased focus on better thermal designs and innovation in heat exchanger systems, especially as companies move toward more sustainable operations. With the broader shift towards Industry 4.0, the role of heat exchangers in enabling efficient, low-emission processes is becoming even more critical.

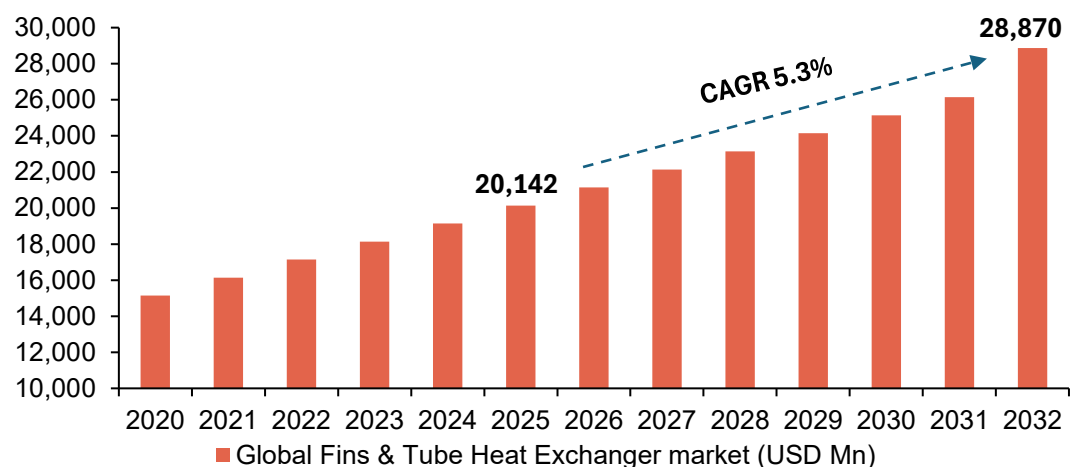
Multiple Key growth drivers

The finned-tube heat exchanger market is growing at a robust pace, with annual growth rates of ~6–8% projected through 2030. Key growth drivers include (1) Industrial expansion & HVAC boom in emerging economies; (2) Energy-efficiency regulations, low-carbon initiatives in EU & U.S. pushing high-performance exchangers; (3) Tech/material advances: use of high-conductivity alloys, corrosion-resistant coatings, CFD-based designs, additive manufacturing, and digital monitoring; and (4) Rise in renewables & EV thermal management, heat exchangers in solar plants and battery cooling systems are fueling growth.

Regional distribution of Fins & Tubes for the heat exchanger industry

- 1) Asia-Pacific: ~35% share; fastest growth due to industrialization in China & India
- 2) North America: ~25–28%; driven by energy standards and HVAC demand
- 3) Europe: ~22–30%; with solid presence in extruded tubes
- 4) Latin America, Middle East & Africa combined: ~15–20% share

Exhibit 38: Global Fins & Tube Heat Exchanger market to clock 5.3% CAGR



Source: Metastat, Dolat Capital

Driving energy efficiency: Heat Exchangers in HVAC applications

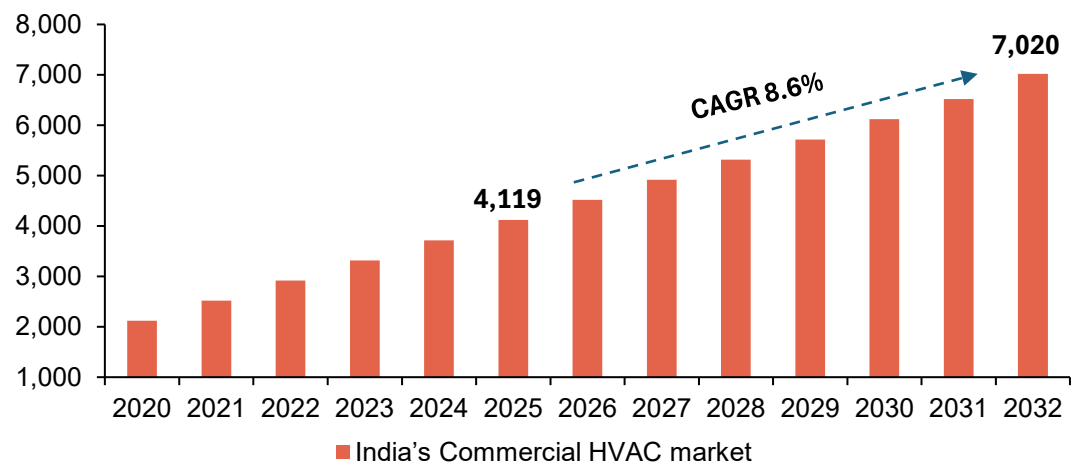
Heat exchangers play a critical role in HVAC systems, enabling functions such as heating, cooling, heat recovery, dehumidification, and moisture control. With growing emphasis on energy-efficient infrastructure, the use of heat exchangers has gained prominence as a key solution for reducing energy consumption and curbing greenhouse gas emissions. **As a result, heat exchangers are now widely used across HVAC applications, from residential systems to large-scale commercial and industrial setups.**

Daikin Industries, a global leader in HVAC systems, **is intensifying its localization efforts in India** by exploring partnerships and ramping up domestic production of R32 refrigerant gas. **The focus on R32, a more environmentally friendly refrigerant, may necessitate the development of advanced heat exchangers compatible with this gas, driving innovation in the sector.** This strategic move aligns with India's push for self-reliance in manufacturing and aims to reduce dependence on imports. **Daikin generates 33% of the revenue for KRN;** as Daikin expands its manufacturing footprint in India, the demand for locally sourced components, including heat exchangers, is expected to rise.

Indian HVAC Market

India's **Commercial HVAC&R** market is poised for substantial expansion, reflecting the broader trends of infrastructure growth, climate control awareness, and energy efficiency in the country. As of 2025, the market is valued at USD 4.1 bn and is expected to grow at a CAGR of 8.6% over the period from 2025 to 2032. By 2032, the market is projected to reach a value of approximately USD 7 bn.

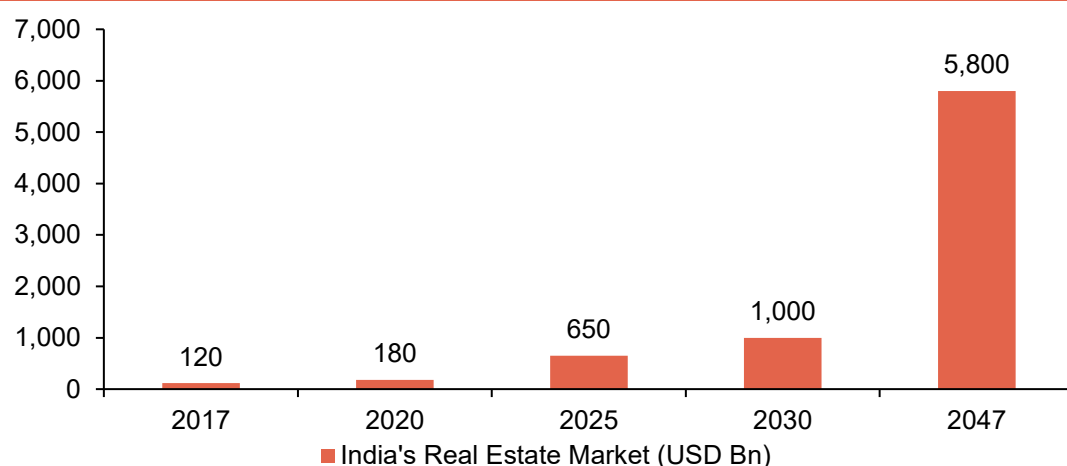
Exhibit 39: India's Commercial HVAC market to clock 8.6% CAGR - 2025-32



Source: Metastat, Dolat Capital

Growth is driven by multiple factors:

- **Urbanization and Infrastructure Development:** Rapid expansion of commercial spaces such as **office buildings, malls, hospitals, and data centers** is increasing the demand for large-scale, energy-efficient HVAC systems.
- **Growth of real estate in India:** The Indian real estate market is projected to experience a substantial increase, potentially reaching a value of **USD5-7 trn by the year 2047, with the possibility of surpassing USD10 trn.**

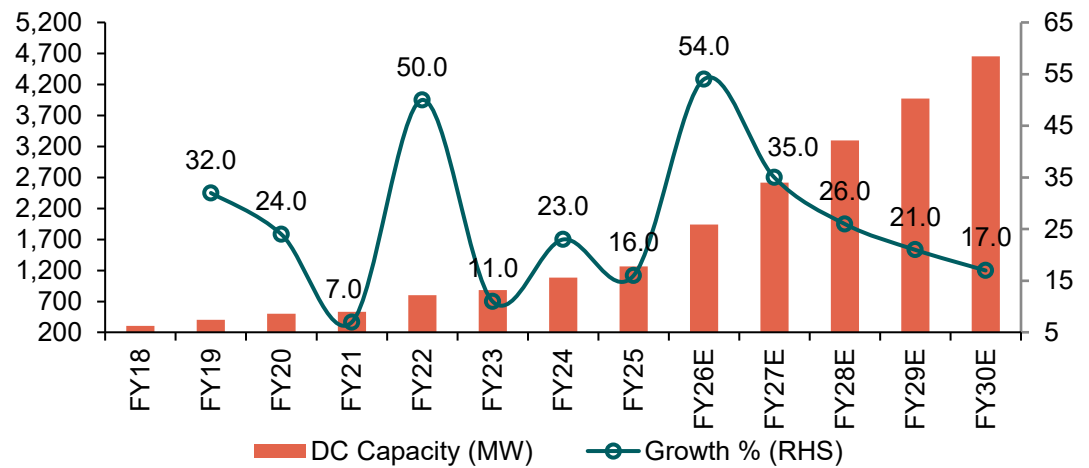
Exhibit 40: Unprecedented Growth Expected in the Real Estate Market

Source: IBEF, Dolat Capital

- **Pharma Boom:** India's pharma sector, the 3rd largest globally by volume, is **growing at a 10% CAGR to reach Rs. 7.4trn by FY30**. HVAC and heat exchangers are critical for maintaining sterile, temperature-controlled environments to meet global regulatory standards.
- **Rising Processed Food Demand:** **Projected to reach USD 505 bn by 2027**, the F&B industry relies heavily on HVAC systems for air quality and refrigeration. Rising processed food demand and export growth are driving the adoption of efficient heat exchangers.
- **Chem and petchem scale-up:** **Expected to hit USD 1 trn by 2040**, the chemical sector needs heat exchangers for process cooling, energy efficiency, and solvent recovery. HVAC systems also ensure workers' safety in hazardous environments.
- **Cold chain and warehousing:** **Cold storage demand outpaces supply by 10x**, HVAC systems and heat exchangers are essential for maintaining cold chain efficiency across food and pharma.

Data Centers are a major growth driver for KRN & HVAC

Data centers use ~40% of their electricity for cooling. As hyperscale and co-location models expand, driven by players like AWS and Adani, demand for precision HVAC and thermal systems is rising sharply. As of FY24-25, India's data centre capacity reached 1,263 MW, marking a 16% YoY growth from 1,085 MW in the previous year. The sector has experienced robust growth from just 307 MW in FY17-18, reflecting more than a 4x increase over eight years. Looking ahead, India is projected to add over 3.4 GW of new capacity between 2025 and 2030, taking the total to 4.65 GW by FY29-30.

Exhibit 41: India's DC Capacity of Data Centers projected till FY30


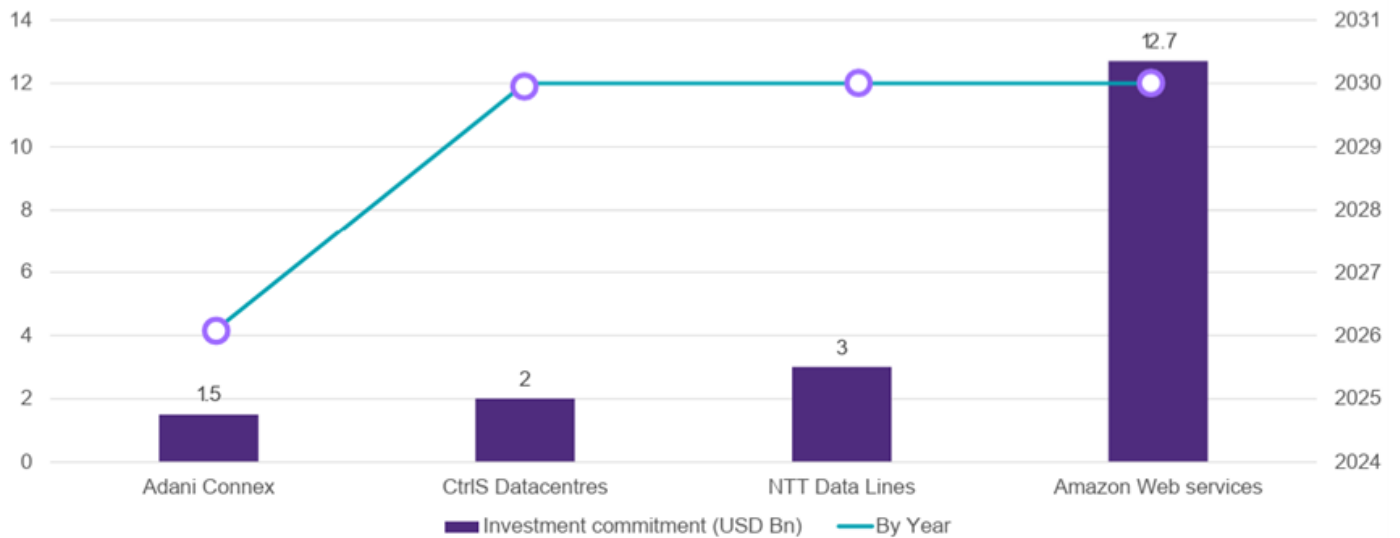
Source: Collier, Dolat Capital

Exhibit 42: Table: DC Capacities added in different cities projected till FY30

City	Supply (2020-2025)	Share	New supply (2025-2030)	Share
	MW		MW	
Bengaluru	19	2	175	5
Chennai	234	27	425	13
Delhi-NCR	130	15	225	7
Hyderabad	32	4	1100	32
Kolkata	43	5	40	1
Mumbai	378	44	1100	32
Pune	23	3	325	10
Total	859		3390	

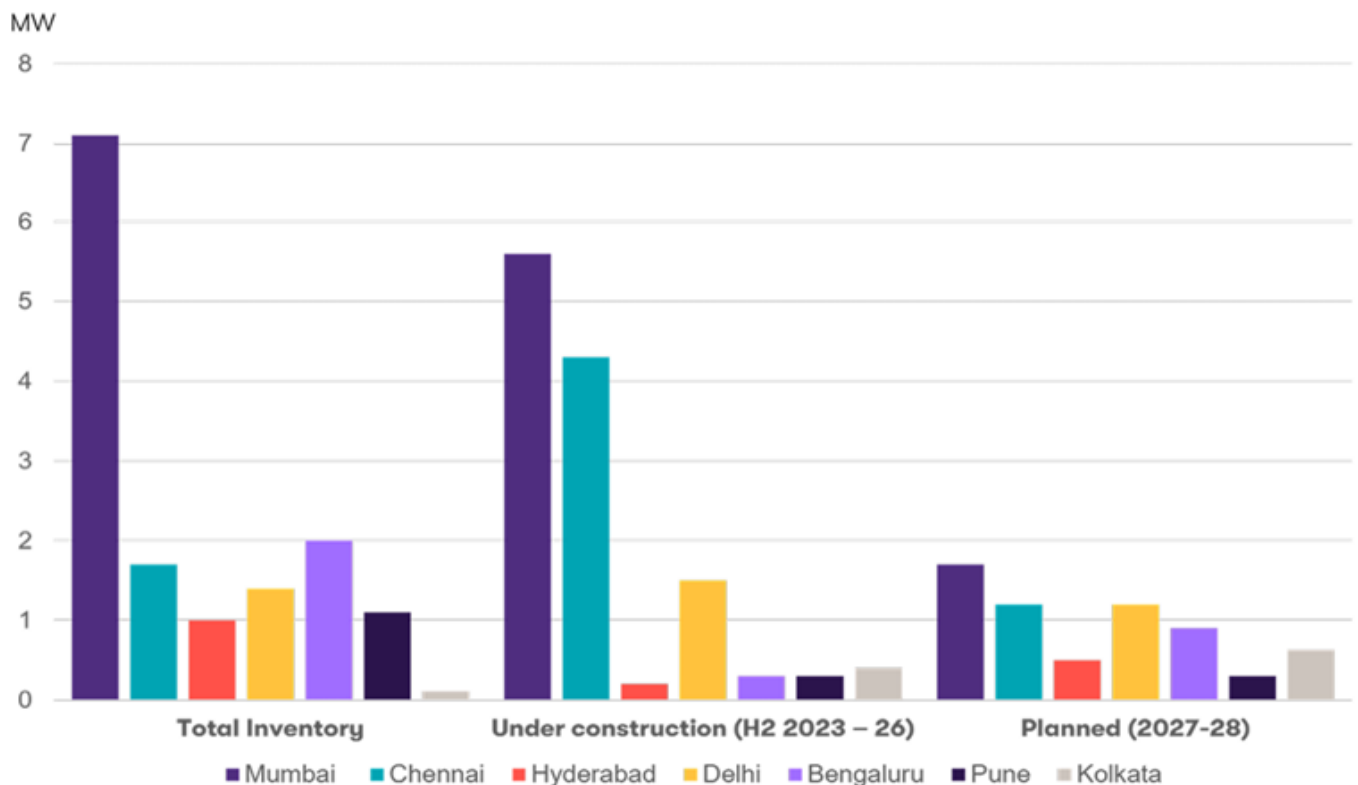
Source: Collier

Exhibit 43: Investment commitment of major players



Source: JLL, Dolat Capital

Exhibit 44: Inventory of datacenters across key tier 1 cities



Source: JLL, Dolat Capital

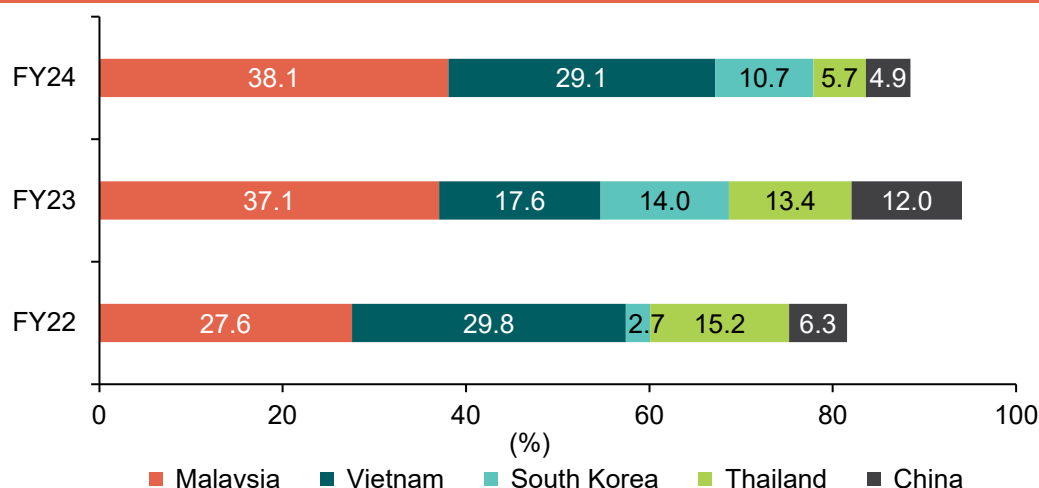
- Transportation infrastructure:** India's massive infra push (₹69 lakh crore pipeline) includes rapid expansion of airports, railways, and metros. HVAC systems are vital for passenger comfort and cargo management, boosting demand for heat exchangers.

- **Sustainability Regulations:** *Regulatory focus on energy efficiency* and sustainability is pushing for the adoption of advanced HVAC technologies, particularly those with better cooling efficiency and lower environmental impact.
- **Climate Change and Temperature Extremes:** Rising temperatures and humidity levels across Indian cities are contributing to greater year-round HVAC usage in commercial establishments.
- **Growing Demand for After-Sales Services:** With greater HVAC installations, demand for maintenance, retrofitting, and performance optimization services are also rising, further fueling industry revenues.

80% of the raw material is sourced from overseas

KRN uses copper and aluminum as its major raw materials and adheres to a strict quality check; therefore, they import almost 80% of the raw materials from overseas vendors per the requisite specification. It follows a cost-plus margin model (margin varying based on the specifications of the heat exchanger for a particular use-case). Due to BIS regulations, OEM partners have been facing disruptions in raw material procurement. This could be witnessed in Q4, when KRN made sales of raw material to OEM partners at a thin margin.

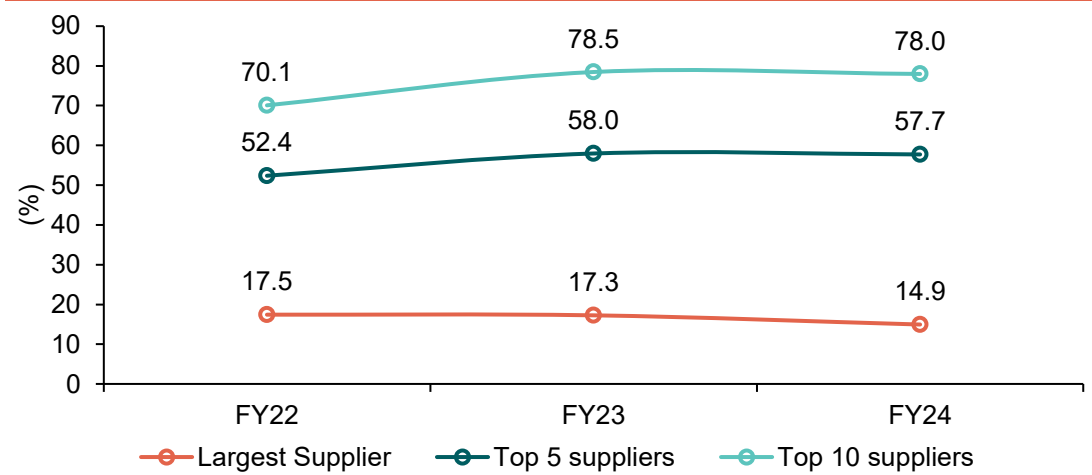
Exhibit 45: Material sourcing geographic split



Source: Company, Dolat Capital

Domestic raw material source is in pipeline

However, the domestic supplier ecosystem is expected to stabilize by the end of H1FY26. To strengthen operational control, transparency, and scalability, the company **successfully transitioned to SAP S/4HANA Cloud ERP effective April 1, 2025**. The modules include production planning, maintenance, and dispatch. This upgrade is expected to improve raw material procurement, track plant efficiency and improve controls on inventory management, among other operational efficiencies.

Exhibit 46: Geographic split of raw material sourced

Source: Company, Dolat Capital

Financial Performance

Profit and Loss Account

(Rs Mn)	FY24A	FY25A	FY26E	FY27E
Revenue	3,083	4,298	7,100	12,000
Total Expense	2,498	3,593	6,020	10,020
COGS	2,280	3,189	5,465	9,052
Employees Cost	131	211	267	481
Other expenses	87	193	287	487
EBIDTA	585	705	1,081	1,980
Depreciation	40	46	195	205
EBIT	545	659	885	1,775
Interest	40	34	40	40
Other Income	53	119	179	286
EBT	557	743	1,024	2,021
Tax	167	214	221	387
RPAT	391	529	803	1,634
APAT	391	529	803	1,634

Balance Sheet

(Rs Mn)	FY24A	FY25A	FY26E	FY27E
Sources of Funds				
Equity Capital	461	622	622	622
Reserves & Surplus	855	4,365	5,167	6,801
Net Worth	1,316	4,986	5,789	7,423
Total Debt	597	335	335	335
Net Deferred Tax Liability	273	0	120	260
Total Capital Employed	2,186	5,321	6,244	8,017

Applications of Funds

Net Block	518	852	1,580	1,474
CWIP	44	823	0	0
Investments	299	0	0	0
Current Assets, Loans & Advances	1,722	4,276	5,618	8,069
Current Investments	0	0	0	0
Inventories	844	959	1,198	1,736
Receivables	524	930	1,264	1,808
Cash and Bank Balances	160	1,512	2,279	3,649
Loans and Advances	0	0	0	0
Other Current Assets	194	877	877	877
Less: Current Liabilities & Provisions	398	630	956	1,530
Payables	366	553	879	1,453
<i>Other Current Liabilities</i>	<i>32</i>	<i>77</i>	<i>77</i>	<i>77</i>
sub total				
Net Current Assets	1,325	3,646	4,662	6,539
Total Assets	2,186	5,321	6,244	8,017

E – Estimates

Important Ratios

Particulars	FY24A	FY25A	FY26E	FY27E
(A) Margins (%)				
Gross Profit Margin	26.0	25.8	23.0	24.6
EBIDTA Margin	19.0	16.4	15.2	16.5
EBIT Margin	17.7	15.3	12.5	14.8
Tax rate	29.9	28.9	21.6	19.2
Net Profit Margin	12.7	12.3	11.3	13.6
(B) As Percentage of Net Sales (%)				
COGS	74.0	74.2	77.0	75.4
Employee	4.3	4.9	3.8	4.0
Other	2.8	4.5	4.0	4.1
(C) Measure of Financial Status				
Gross Debt / Equity	0.5	0.1	0.1	0.0
Interest Coverage	13.7	19.3	22.0	44.2
Inventory days	100	81	62	53
Debtors days	62	79	65	55
Average Cost of Debt	6.7	7.3	12.0	12.0
Payable days	43	47	45	44
Working Capital days	157	310	240	199
FA T/O	5.9	5.0	4.5	8.1
(D) Measures of Investment				
AEPS (Rs)	6.3	8.5	12.9	26.3
CEPS (Rs)	6.9	9.3	16.1	29.6
DPS (Rs)	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0
BVPS (Rs)	21.2	80.2	93.1	119.4
RoANW (%)	29.7	16.8	14.9	24.7
RoACE (%)	19.7	15.0	14.6	23.5
RoAIC (%)	26.9	22.6	22.8	42.6
(E) Valuation Ratios				
CMP (Rs)	935	935	935	935
Mcap (Rs Mn)	58,116	58,116	58,116	58,116
EV	58,553	56,939	56,172	54,802
MCap/ Sales	18.9	13.5	8.2	4.8
EV/Sales	19.0	13.2	7.9	4.6
P/E	148.8	109.9	72.4	35.6
EV/EBITDA	100.2	80.8	52.0	27.7
P/BV	44.1	11.7	10.0	7.8
Dividend Yield (%)	0.0	0.0	0.0	0.0
(F) Growth Rate (%)				
Revenue		39.4	65.2	69.0
EBITDA		20.6	53.2	83.2
EBIT		21.0	34.4	100.5
PBT		33.4	37.8	97.4
APAT		35.3	51.8	103.5
EPS		35.3	51.8	103.5

E – Estimates

Cash Flow

Particulars	FY24A	FY25A	FY26E	FY27E
Profit before tax	559	743	803	1,634
Depreciation & w.o.	40	46	195	205
Net Interest Exp	34	(37)	(179)	(286)
Direct taxes paid	(149)	(216)	0	0
Change in Working Capital	(344)	(338)	(326)	(574)
Non Cash	29	16	0	0
(A) CF from Operating Activities	169	214	493	979
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(582)	(860)	95	105
Free Cash Flow	(412)	(645)	588	1,084
(Inc.)/ Dec. in Investments	0	0	0	0
Other	(60)	(1,933)	0	0
(B) CF from Investing Activities	(642)	(2,793)	95	105
Issue of Equity/ Preference	306	160	0	0
Inc./(Dec.) in Debt	230	(262)	0	0
Interest exp net	(40)	(34)	0	0
Dividend Paid (Incl. Tax)	0	0	0	0
Other	5	2,714	0	0
(C) CF from Financing	501	2,578	179	286
Net Change in Cash	29	0	767	1,370
Opening Cash balances	75	103	1,512	2,279
Closing Cash balances	103	103	2,279	3,649

E – Estimates

Notes

Dolat Rating Matrix

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Dolat Team

Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
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CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	Director - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	Director - Equity Sales & Corporate Access	kapil@dolatcapital.com	+9122 4096 9735
Jubbin Shah	Director - Equity Sales	jubbins@dolatcapital.com	+9122 4096 9779
Nikhil Thacker	Director - Equity Sales	nikhilt@dolatcapital.com	+9122 4096 9700
Pratik Shroff	AVP - Equity Sales	pratiks@dolatcapital.com	+9122 4096 9621
Rajeev Lala	AVP - Equity Sales	rajeevl@dolatcapital.com	+9122 4096 9767
Equity Trading	Designation	E-mail	
P. Sridhar	Director and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	Director - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	Director - Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Director - Sales Trading	kartikm@dolatcapital.com	+9122 4096 9715
Nishit Sariya	VP - Derivatives Sales Trading	nishits@dolatcapital.com	+9122 4096 9765
Monali Jobanputra	Co - Head Asia Derivatives	monalij@dolatcapital.com	+9122 6176 4841
Bhavin Mehta	Director Research - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Analyst(s) Certification

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Regd. office: 1401-1409, Dalal Street Commercial, Block 53 (Bldg. No.53E) Zone-5, Road-5E, Gift City, Sector 9, Gandhinagar-382355 Gujarat, India.

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
