BUY

CMP: **INR 707** Target Price: **INR 820** ▲ 16%

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17 January 2026

India | Equity Research | Initiating Coverage

KRN Heat Exchanger and Refrigeration

White Goods

Beneficiary of structural tailwinds

We initiate coverage on KRN Heat Exchanger (KRN) with a **BUY** rating driven by its capacity expansion, product portfolio diversification, capex and infrastructure sector tailwinds and growth potential of heat exchangers. We note: (1) It will likely benefit from strong growth across key consumer segments, (2) Capacity expansion, under its wholly owned subsidiary, is a key driver, enabling product diversification. (3) PLI and RIPS provide margin tailwinds. Operating leverage will also aid margin expansion. (4) Acquisition of bus AC division of SRSPL may expand KRN's addressable market into automotive HVAC space. It may open up opportunities in railways HVAC offering multi-year revenue visibility, in our view. (5) Focus on customised heat exchangers, capacity expansion, and demand from data centres and railways, coupled with export orientation, places it well to capture multi-year opportunity.

We model KRN to report revenue/PAT CAGR of 49.2%/50.2% over FY25 28E. Our DCF-based target price works out to INR 820 (implying target P/E of 44x FY27E and 28x FY28E EPS). **Key risks:** Steep competition, delay/failure in launch of new products, rapid technological changes, higher commodity prices and higher customer concentration.

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HVAC sector tailwinds provide structural growth visibility

With rising localisation and 'Make in India' initiatives, domestic manufacturers like KRN are set to benefit from import substitution and demand for advanced heat exchangers. The company's expanding global footprint and participation in emerging segments like data centres and EV cooling solutions position it well for multi-year structural growth.

Capacity expansion anchors next phase of growth

The company has entered a new growth phase with its manufacturing capacity expanding from 1mn units to 6mn units annually. The utilisation level from this new facility is expected to increase from 20% in FY26 to 80% in FY28E. This will likely be supported by new customers additions, higher order inflows from railways, industrials and data centers. We believe that operating leverage from this new plant could support margin expansion.

Market Data	
Market Cap (INR)	44bn
Market Cap (USD)	484mn
Bloomberg Code	KRN IN
Reuters Code	KRNH.BO
52-week Range (INR)	1,012 /682
Free Float (%)	29.0
ADTV-3M (mn) (USD)	2.4

Price Performance (%)	3m	6m	12m
Absolute	(15.5)	(18.3)	(3.5)
Relative to Sensex	(15.6)	(19.5)	(11.9)

ESG Score	2024	2025	Change
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Financial Summary

Y/E March (INR mn)	FY25A	FY26E	FY27E	FY28E
Net Revenue	4,298	6,016	9,559	14,275
EBITDA	705	1,047	1,711	2,605
EBITDA Margin (%)	16.4	17.4	17.9	18.3
Net Profit	529	691	1,168	1,790
EPS (INR)	8.5	11.1	18.8	28.8
EPS % Chg YoY	(0.4)	30.6	69.0	53.3
P/E (x)	83.1	63.6	37.6	24.5
EV/EBITDA (x)	60.7	41.1	25.2	16.4
RoCE (%)	12.7	11.2	16.8	21.4
RoE (%)	16.8	13.0	18.6	23.1

Technological edge through in-house R&D and certification

KRN's upcoming Thermotech Research Laboratory at Neemrana underscores its commitment to technical expertise. The lab will enable in-house product validation and reduce reliance on overseas testing, thereby, improving customer responsiveness. We believe that this could also enhance global OEM credibility and pricing power, reinforcing its positioning as a technology-driven partner in HVAC component manufacturing.

Exports emerging as a key growth lever

Exports remain a key strategic priority, with the company targeting ~50% of fin-and-tube revenue from exports by FY28E. The China+1 sourcing shift, combined with cost competitiveness and customisation, enhances its export relevance. Moreover, exports provide higher margin than domestic market. We believe its export scale-up should support operating leverage and margin expansion.

Entry into bus AC strengthens railways and mobility opportunities

The acquisition of SRSPL's bus AC business provides KRN with a direct entry into automotive cooling. This will allow it to serve ~INR 10bn bus HVAC market. Importantly, this capability also supports KRN's entry into ~INR 150bn railway HVAC market, expanding its addressable market across public transports and providing a huge tailwind for the company to grow.

Government incentives and tax benefits enhance return profile

KRN benefits from PLI-linked incentives and state-level schemes such as RIPS. Its new manufacturing facility qualifies for a lower 15% tax rate. We model consolidated tax rate to be ~20% over time. We believe these incentives will likely improve cash generation, expand margins and support stronger return ratios.

Data centre adds a long cycle demand stream

India's data centre industry is expected to attract an additional USD 20–25bn by 2030. ~USD 300-500mn is expected to be in invested in heat exchangers. We envisage that data centres represent a significant adjacent growth opportunity for the company beyond traditional HVAC and industrial cooling, providing the company with multi-year top-line growth.

Initiate coverage with BUY

We have valued the company based on DCF methodology. We model KRN to generate revenue and PAT CAGRs of 49.2% and 50.2%, respectively, over FY25–28E. The company is also likely to maintain its strong return ratios (>cost of capital) over FY25-28E, in our view. At our DCF-based target price of INR 820, implied target P/E works out to 44x on FY27E and 28x on FY28E EPS.

Key risks

Raw material price volatility (copper and aluminium), extended gestation of new capacities or slower export realisation, increase in competitive pressures and slowdown in industrial capex and infrastructure spends.

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Investment Summary

Multiple growth strategies in play

We see KRN likely benefitting from multiple growth strategies such as expansion of product portfolio, customised and batch production, increasing share of exports of fin and tube heat exchangers. Railway tenders, infrastructure cooling, and bus HVAC system provide med-long term revenue visibility. Increasing demand from data centres further strengthens its top-line growth.

Exhibit 1: Potential growth facilitators of KRN

Particulars	Comments
Manufacturing facility expansion	New manufacturing facility (6 times the existing facility) for different products
Further expansion in export market	Lower lead time, batch and customised production place the company well ahead of many Chinese as well as US/European OEMs
Backward and Forward Integration	Enables the company to have better control over cost efficiencies and market power
Data centre investment	~USD 20-25bn investment is expected in India in data centres; huge tailwind for HVAC as well as heat exchangers to grow
Product portfolio expansion	Expansion of portfolio allows KRN to cater to different customers across different industries
Railway HVAC	Acquisition of SRSPL opens the gate for tenders for railways HVAC
Expanding clientele base	Addition of new customers reduces customer concentration

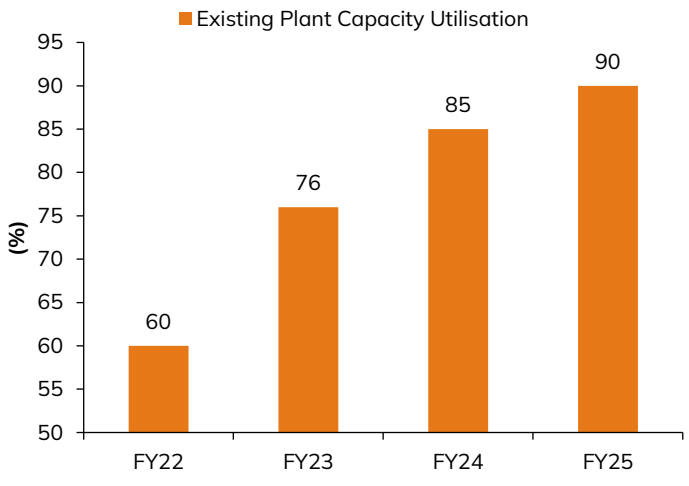
Source: Company data, I-Sec research

Capacity expansion supports growth visibility

The company has made significant enhancement in manufacturing capacities which was commissioned on 30 May'25. This increased the installed capacity from 1mn units to 6mn units annually. The capacity is expected to support rising demand from automotive, railways, industrial cooling and data centres. The expanded footprint allows the company to execute orders from OEMs and infrastructure led projects.

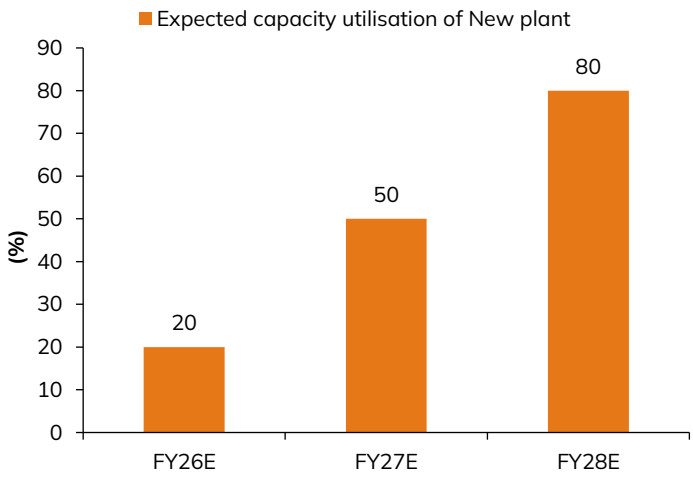
The facility is expected to operate at ~20% utilisation in FY26. Management expects this to scale to 50% in FY27E and 80% utilisation level by FY28E. This will be driven by new customer additions and higher order inflow. We believe this capacity expansion could benefit in terms of margin expansion and topline visibility led by operating leverage and government incentives.

Exhibit 2: Capacity utilisation at existing plant



Source: Company data, I-Sec research

Exhibit 3: Expected capacity utilisation of new plant



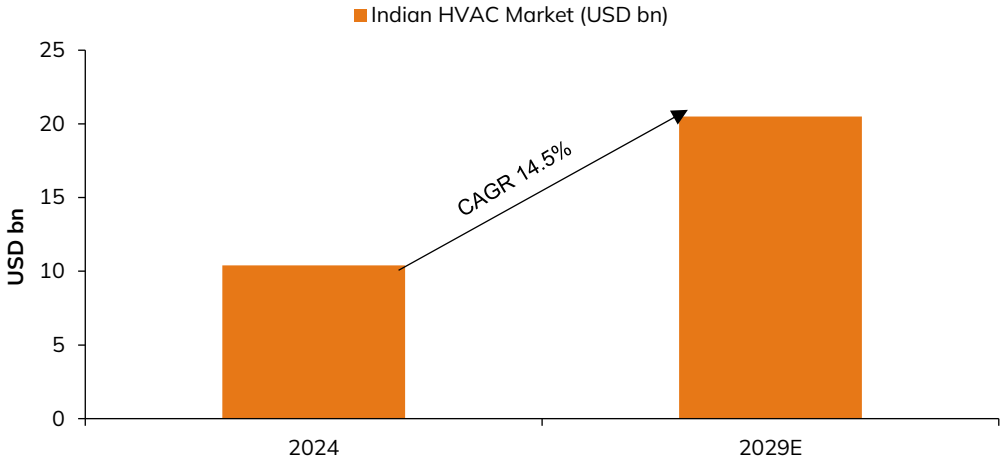
Source: Company data, I-Sec research

Indian HVAC market – entering a multi-year structural growth cycle

The Indian HVAC market is poised for structural upcycle. This is underpinned by rapid urbanisation, infrastructure development and strong policy push towards energy efficiency. The market is projected to reach USD 20.5bn by CY29, implying a robust 14.5% CAGR (source: D&B estimates). The next leg of expansion is expected to be broad-based, encompassing residential, commercial and automotive segments.

Government programmes such as Make in India, PLI for white goods, and smart cities mission are accelerating localisation and incentivising energy-efficient product adoption. We believe that this creates a compelling tailwind for the company. The increasing focus on high-efficiency heat exchangers and customised products positions the company as the preferred choice for OEMs.

Exhibit 4: Indian HVAC market growth

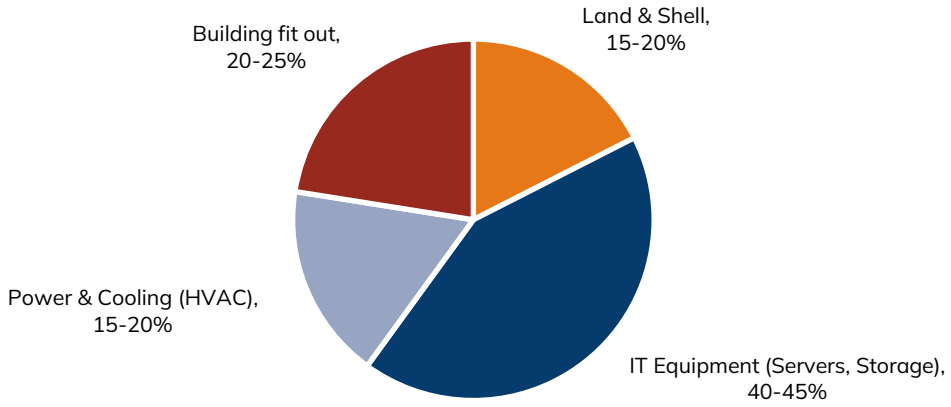


Source: RHP, I-Sec research

Investment in data centre to provide a long-term tailwind

Since 2020, India's data centre sector has received about USD 15bn in investments, and it is expected to attract additional USD 20-25 bn by 2030 (Source: IBEF, Colliers). This boom is driven by the increasing need for digital infrastructure and cloud services, especially with the rise of 5G, AI and cloud computing. HVAC systems make up about 15-20% of the total expenses of data centre. This translates to USD 3-5 bn capex on HVAC. ~10% of this HVAC spending goes towards heat exchangers. We believe ~35-45% of that capex translates to KRN's revenue aided by its capacity expansion, broad product portfolio and quality products at optimal cost. This could provide huge runaway for topline expansion for the company, in our view.

Exhibit 5: Breakup of data centre cost



Source: IBEF, I-Sec research

Valuation

We have valued the company based on DCF methodology. We model KRN to generate revenue and PAT CAGRs of 49.2% and 50.2%, respectively, over FY25–28E. The company is also likely to maintain its strong return ratios (>cost of capital) over FY25-28E, in our view. At our DCF-based target price of INR 820, implied target P/E works out to 44x on FY27E and 28x on FY28E EPS.

Exhibit 6: DCF valuation

Particulars	INR mn
Cost of Equity (%)	11.0%
Terminal growth rate (%)	5.0%
Discounted interim cash flows (INR mn)	12,678
Discounted terminal value (INR mn)	38,279
Total equity value (INR mn)	50,957
Value per share (INR)	**820**

Source: Company data, I-Sec research

Strong competitive advantages and EVA creation

KRN has created multiple competitive advantages like shorter lead time than peers, customised batch production (cost 20-25% lower than European/US OEMs), and manufacturing capacity expansion. The company has maintained long-term partnerships with global OEMs like Daikin and Schneider Electric. It has also demonstrated strong EVA creation through the years.

Exhibit 7: Strong EVA creation

	FY21	FY22	FY23	FY24	FY25
RoE (%) [A]	37.8	54.9	75.9	41.5	16.8
Cost of Equity (%) [B]	11.0	11.0	11.0	11.0	11.0
Networth (INR mn) [C]	131	255	596	1,303	4,986
EVA generated [(A-B)*C]	35	112	387	397	290

Source: Company data, I-Sec research

RoE (ex-cash) superior than peers

Compared to peers, KRN's RoE (ex-cash) has been significantly higher over the years. The gap in return ratios indicates that KRN's business model generates healthy and sustainable returns. KRN benefits from its diversified product mix, long-term relationships in OEMs and operating leverage. This makes its return profile structurally superior and justifies a valuation premium.

Exhibit 8: RoE (ex-cash) superior vs. peers

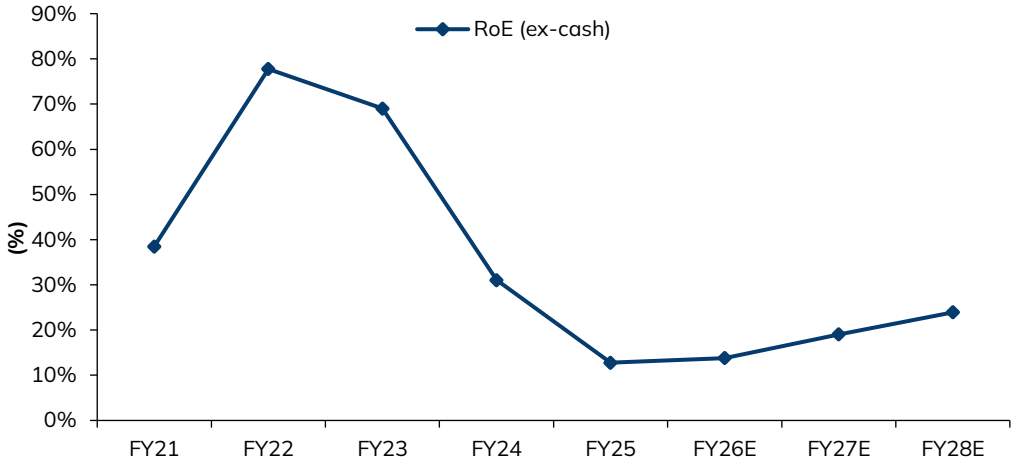
	FY21	FY22	FY23	FY24
KRN Heat Exchanger	38.5%	77.8%	69.0%	31.1%
Kevlion	-92.2%	-37.4%	-47.2%	42.6%
Spirotech	17.4%	10.1%	7.1%	14.9%
Prajai	-9.0%	13.9%	16.0%	9.1%

Source: Company data, I-Sec research

Strong return ratios adjusting for excess cash and other income (post tax)

KRN's RoE (ex-cash) declined in FY24 and FY25 due to IPO proceeds but we model it to rise by FY28E. This steady increase highlights the company's ability to generate higher core returns. The improvement is driven by operating leverage from new plant, product portfolio expansion and new orders from railways and data centres.

Exhibit 9: RoE (ex-cash) impacted in FY25 due to IPO proceeds

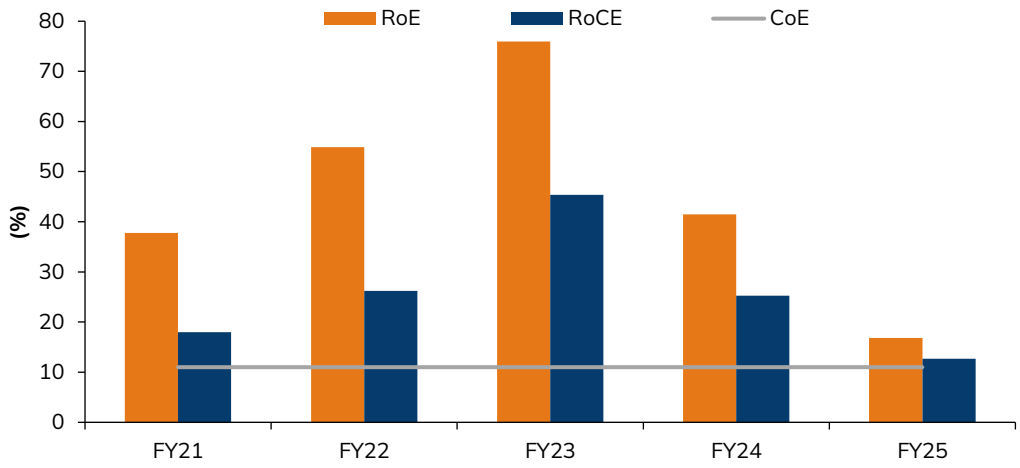


Source: Company data, I-Sec research

Return ratios materially higher than cost of equity (CoE)

KRN's return ratios are higher than its CoE. The expansion in return ratios reflects cost efficiencies from backward integration, better pricing power due to forward integration, benefits from PLI and tax savings from RIPS. While fund raise impacted its return ratios in FY25, we model the return ratios to move upwards over FY26-28E.

Exhibit 10: Return ratios higher than CoE



Source: Company data, I-Sec research

Deepening relationships with global HVAC leaders

KRN has maintained long-term relationships with OEMs like Daikin, Schneider Electric, Carrier and Voltas. This underscores the company as a trusted supplier, positioning it among global HVAC OEMs. Revenue from the top 10 customers rose from INR 1,184mn in FY22 to INR 3,160mn in FY25, a strong CAGR of 38.7%, indicating both volume traction and deeper wallet share. Daikin alone contributed more than 35% of sales in FY25, reflecting KRN's critical integration in its value chain rather than customer concentration risk.

Exhibit 11: Revenue from top 10 customers

Particulars (INR mn)	FY22	FY23	FY24	FY25
Daikin	504	813	1,028	1,574
% of sales	32.3%	32.9%	33.3%	36.5%
Top 5 customers	933	1,381	1,699	2,603
Top 10 customers	1,184	1,754	2,229	3,160

Source: Company data, I-Sec research

KRN's high credit customer base not only ensures stable cashflow but also enhances export visibility and pricing stability, a key positive for long-term margin resilience and scalability.

Below is the list of KRN's top clients:

Exhibit 12: KRN top clients

Clientele base	Associated since
Daikin Airconditioning India Private Limited	2018
Schneider Electric IT Business India Private Limited	2019
Carrier Airconditioning and Refrigeration Limited	2019
Voltas Limited	2019
Kirloskar Chillers Private Limited	2020
Knorr-Bremse India Private Limited	2020
Trosten Industries Company LLC	2020
Blue Star Limited	2021
Climaventa Climate Technologies Private Limited	2021

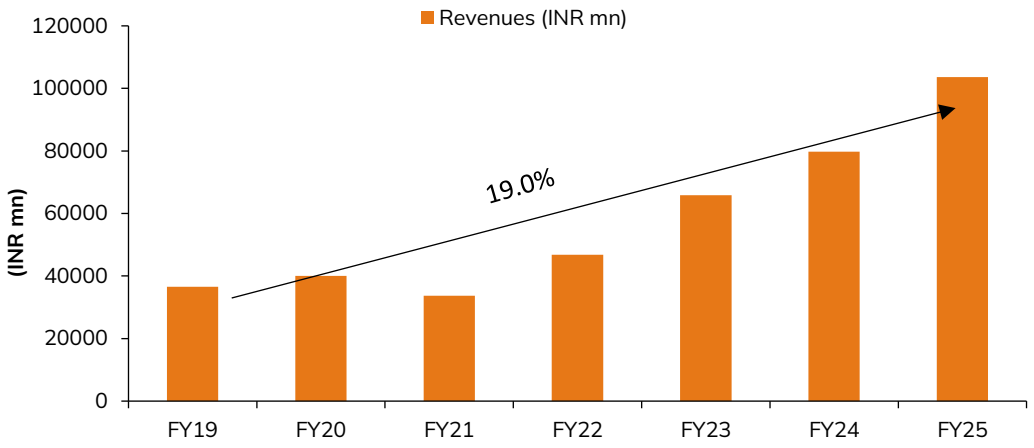
Other key clients
Mekar Air Handling Units LLC
Stulz-CHSPL (India) Private Limited
G & F Manufacturing Inc
Taco Air International Thermal Systems Private Limited
FläktGroup India Private Limited
IFB Industries Limited

Source: Company data, I-Sec research

Steady revenue growth of Daikin India

We note Daikin India revenue has grown at CAGR of 19.0% over FY19-25. We note steady growth in revenues of Daikin also drives revenue potential for KRN.

Exhibit 13: Steady revenue growth of Daikin



Source: Company data, I-Sec research

Expanding and diversifying customer base strengthens revenue visibility

KRN's customer base has grown steadily from 86 clients in FY21 to 137 in FY25, reflecting the company's success in scaling relationships across both domestic and international markets. Between FY21 and FY25, international clients increased sharply, indicating strong traction in export markets such as Europe, the Middle East and North America.

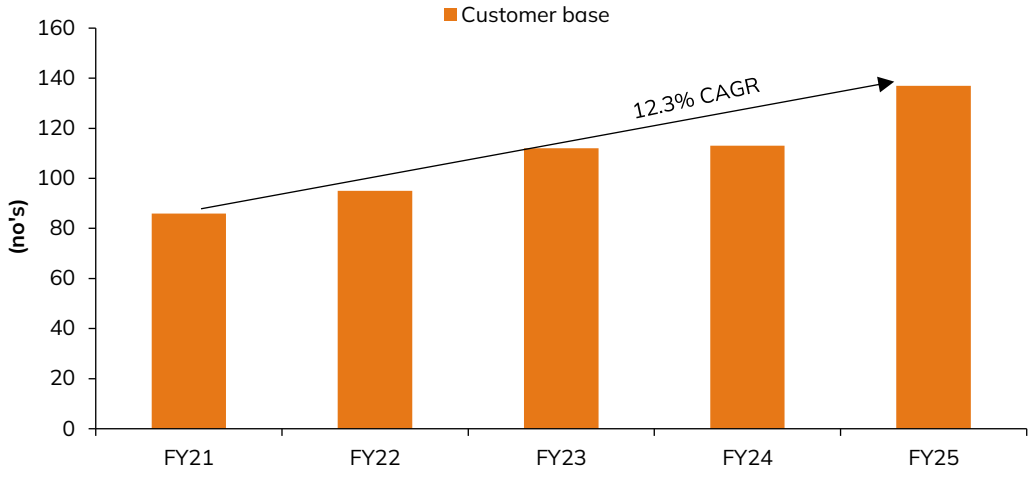
We believe this diversification, both geographically and across product categories, enhances revenue resilience, and provides multi-year revenue visibility. As newly onboarded global clients ramp up orders and Neemrana facility scales production, this wider client network could serve as a key volume and margin growth catalyst in the medium-long term in our view.

Exhibit 14: Increasing customer base

Particulars	FY21	FY22	FY23	FY24	FY25
Customer base	86	95	112	113	137
International clients	4	10	16	32	26
Domestic clients	82	85	96	81	111

Source: Company data, I-Sec research

Exhibit 15: Steady expansion of customer base



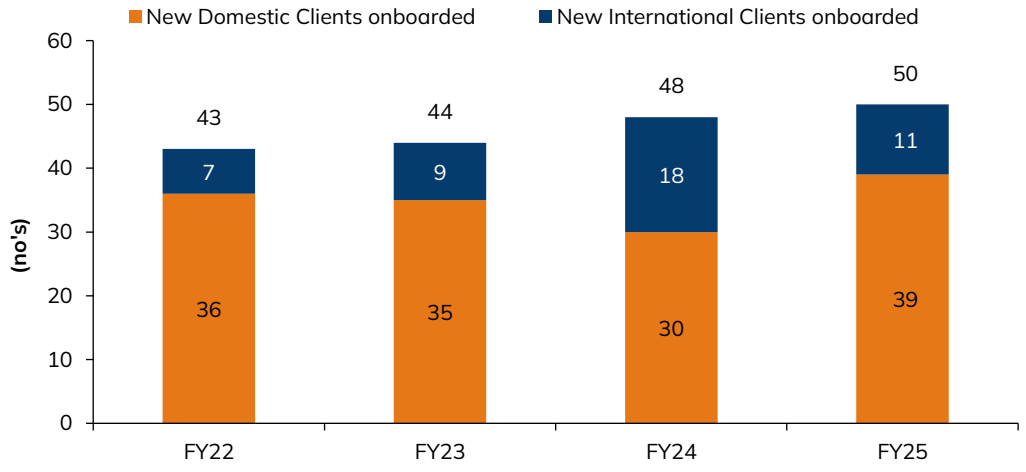
Source: Company data, I-Sec research

Shift towards high-value global clientele strengthening business mix

KRN's client onboarding trend reflects a strategic shift from volume-led domestic additions to high-value international relationships. The number of new international clients grew faster than the new domestic clients. This indicates improving product credibility and rising acceptance among international OEMs.

We believe this pivot towards global customers enhances revenue stability, diversifies risk and could support margin improvement as exports typically command better realisations.

Exhibit 16: New domestic and international customers onboarded



Source: Company data, I-Sec research

Heat exchanger – product profile

A heat exchanger facilitates the transfer of heat between two fluids. This device enables heat to move from one liquid or gas to another without requiring the fluids to combine or touch directly. They play a crucial role in managing energy throughout various industries, serving as the essential components for thermal systems involved in heating, cooling, evaporation, or condensation.

The efficiency of an industrial system often relies on the performance of its heat exchangers. For instance, in refrigeration, they reduce the energy consumption of condensers by managing fluid temperatures effectively.

Mechanism: How heat exchangers work

The core principle of a heat exchanger is thermodynamics—specifically, the transfer of thermal energy from a high-temperature medium to a low-temperature medium.

- **Fluid flow:** The device typically involves two fluids (liquids or gases). One fluid is hot, and the other is cold.
- **Separation:** These fluids usually flow through separate channels or tubes, separated by a solid wall (like metal plates or tubes) to prevent mixing.
- **Heat transfer:** Heat is transferred across the dividing wall. The hot fluid gives up its heat to the wall, which then passes it on to the cold fluid, consequently increasing the cold fluid's temperature while decreasing the hot fluid's temperature.
- **Surface area enhancement:** To make this process faster, manufacturers often attach 'fins' to the tubes. These fins increase the surface area available for heat transfer, allowing for more efficient cooling or heating within a compact space.

Key raw materials

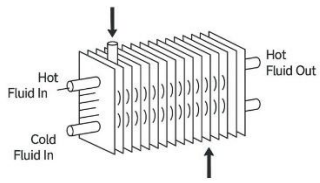
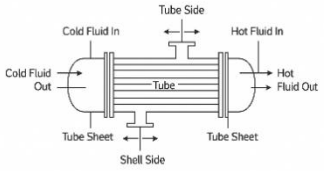
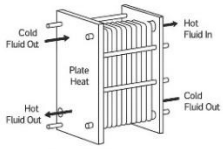
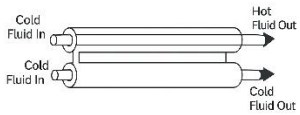
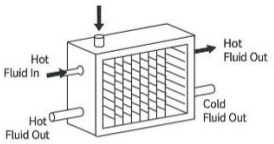
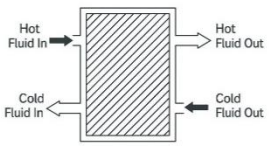
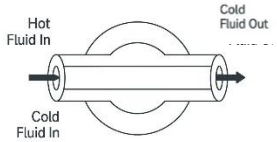
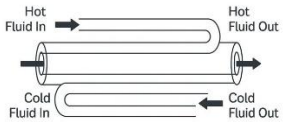
The manufacturing of heat exchangers is material-intensive, requiring metals with high thermal conductivity and corrosion resistance.

- **Copper:** Widely used for tubes due to its superior heat transfer properties.
- **Aluminium:** Commonly used for fins and plates because it is lightweight and cost-effective.
- **Stainless steel:** Critical for applications involving corrosive fluids or high hygiene standards (like food & beverage, chemicals and engineering industries).
- **Other metals:** Titanium and special alloys are used in extreme environments (e.g., marine or aggressive chemical processing).

Product classification: Types and uses

The heat exchanger market is segmented by design construction. Different industrial constraints—such as space, pressure, and fluid type—dictate the choice of heat exchangers.

Exhibit 17: Heat exchanger profile

Type of Heat Exchanger	Diagram	Sub- types	How It Work	Industries
Finned Tube/Air-Cooled Heat Exchanger		• Forced Draft Air Cooled • Induced Draft Air-Cooled • Natural Draft Air Cooled	Air passes over metal fins attached to tubes carrying refrigerant or water.	HVAC, cold rooms, industrial dryers, process cooling.
Shell-and-Tube Exchanger		• Fixed Tube Sheet • U-tube • Floating	Bundles of tubes inside a cylindrical shell; one fluid flows in tubes, another in the shell.	Chemical, refining, power plants, pharma, petrochemicals.
Plate Heat Exchanger (PHE)		• Gasketed • Brazed • Welded • Semi-welded	Thin plates arranged in layers to maximise surface area; fluids flow in alternate channels.	Food processing, dairy, pharma, HVAC, heat pumps, chemicals.
Double Pipe Exchanger		• Parallel flow • Counter flow • Straight tube • Hairpin (U-tube)	One pipe inside another; simple design for small-scale duty.	Small industrial equipment, oil heaters, lube oil cooling.
Crossflow Heat Exchanger		• Unmixed crossflow • Mixed crossflow	Fluids flow perpendicular to each other.	Automotive radiators, HVAC units.
Regenerative Heat Exchanger		• Fixed-bed • Rotatory • Matrix type	Stores heat in a medium and releases it later.	Power plants, turbines, waste heat recovery.
Coaxial (Tube-in-Tube) Heat Exchanger		• Coiled • Spooled	Transfer heat without mixing via tube wall.	Residential heat pumps, chillers.
Concentrix Tube Heat Exchanger		• Straight • Helical • Multitube	Transferring heat between two liquids flowing via inner tube and outer concentric tube	Heat pumps, geothermal systems, process industries.

Source: Company data, Industry Reports, I-Sec research

Industry-wide applications

Heat exchangers are ubiquitous capital goods, with demand closely linked to the industrial capex cycle.

1. **HVAC and refrigeration (HVAC&R)**

They are used for cold rooms, blast freezers and other processing equipment require evaporator and condenser coils.

2. **Industrial processing**

They are used in chemical reactors, boilers, furnaces, heat recovery units and distillation systems use shell-and-tube exchangers.

3. **Food & beverages**

Exchangers are used for pasteurisation, sterilisation and preservation.

4. **Oil & gas**

Used extensively for heating crude oil for processing and cooling down refined products.

5. **Power generation**

Heat exchangers cool steam, lubricants, generators and boilers in thermal and renewable power systems.

6. **Automobiles & transportation**

Radiators, intercoolers, oil coolers and battery cooling plates are heat exchangers.

7. **Data centres**

Precision cooling demands efficient coils and liquid-cooling heat exchangers, creating a new growth driver.

8. **Electric vehicles & batteries**

Battery thermal management systems depend on compact plate or aluminium heat exchangers.

9. **Pharma & biotech**

Shell-and-tube and PHEs help maintain controlled temperatures in various drug manufacturing.

Strategic importance and substitutes

While heat exchangers are efficient, alternatives exist for various other uses.

1. **Direct cooling systems** where fluids are mixed directly (not preferred due to contamination risk).
2. **Adiabatic coolers** replacing some air-cooled systems in humid climates.
3. **Liquid immersion cooling** emerging for high-density data centres.
4. **Microchannel heat exchangers** replacing traditional coils for high-efficiency HVAC systems.
5. **Heat pipes** used in electronics cooling.
6. **District cooling networks** reducing need for distributed HVAC exchangers.

However, these alternatives complement rather than replace heat exchangers in most industries. Advanced technologies like heat pipes (which uses evaporation-condensation) are alternatives in electronics cooling, but they require higher initial costs. Overall, heat exchangers are preferred for their versatility, reliability and affordability.

Why demand is structural, not cyclical?

The demand for heat exchangers is no longer just about 'keeping things cool'; it is about energy efficiency, industrial compliance and critical infrastructure. We believe the industry is entering a multi-year upcycle driven by seven structural pillars. These drivers provide long-term revenue visibility for companies like KRN.

Exhibit 18: Structural demand

Reasons for increase in demand
Growth of HVAC installations (urbanisation, climate change, rising temperatures)
Expansion of cold chain infrastructure (food, pharma, e-commerce)
Industrial capex recovery in India
Data-centre boom requiring advanced cooling
EV battery cooling technology adoption
Energy-efficiency regulations pushing for efficient exchangers
Replacement and maintenance cycle

Source: Company data, I-Sec research

Strong growth potential

Multiple growth drivers

We model KRN to benefit from multiple growth drivers such as manufacturing capacity expansion, broader product portfolio, data centre investment and expected railways tender. KRN enjoys a diversified set of levers that may support strong revenue growth and profitability over FY26–28E.

Exhibit 19: Multiple growth drivers

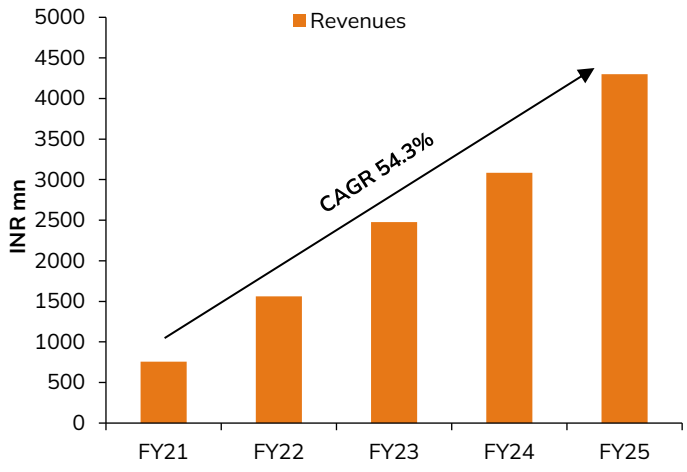
Particulars	Details
Capacity Expansion	New plant with 6x capacity of the existing plant
Strong Industry growth	Indian HVAC is expected to grow at a CAGR of ~14.5% over 2024-29
Data Centre investment	~USD 20-25bn of investment is expected in India over 5 years by 2030
Railway HVAC	Acquisition of SRSPL Bus AC division opens the entry for railways HVAC
Portfolio Expansion	Expansion of the portfolio from fin and tube heat exchanger to bar and plate and other products will allow the company to cater to different customers across various industries

Source: Company data, I-Sec research

Steady revenue and PAT growth

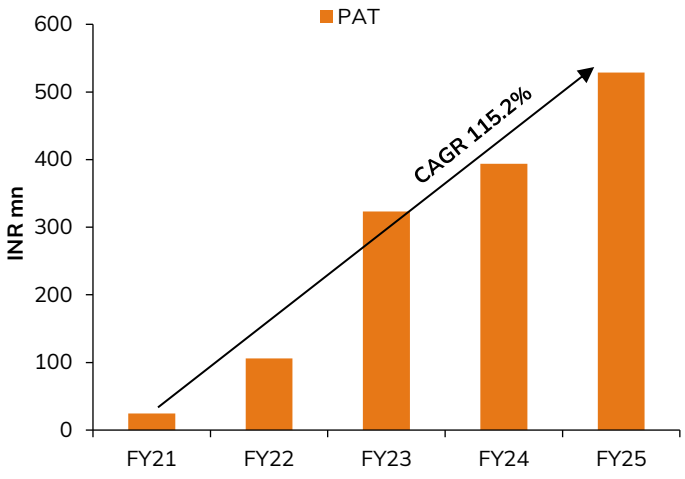
Revenue from operations grew at a CAGR of 54.3% over FY21–25. PAT from operating activities grew at a CAGR of 115.2% over the same period. We note that revenue and PAT have grown at a faster rate than industry growth rate. This is underpinned by capacity expansion, growth from data centres, rising need of cooling measures, rising urbanisation and diversified product mix. We believe KRN is poised to benefit from industry tailwinds in the medium-long term.

Exhibit 20: Strong growth in revenue...



Source: Company data, I-Sec research

Exhibit 21: ...as well as PAT



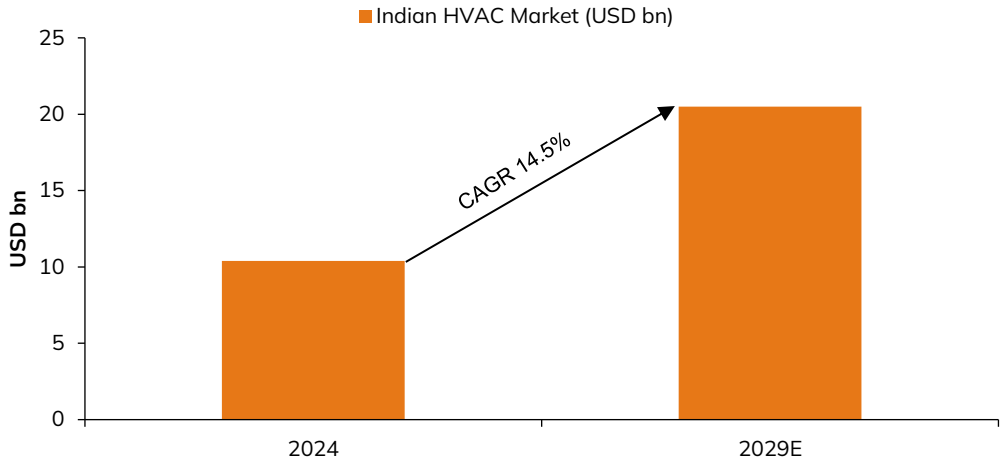
Source: Company data, I-Sec research

Indian HVAC market – entering a multi-year structural growth cycle

The Indian HVAC market is poised for structural upcycle. This is underpinned by rapid urbanisation, infrastructure development and strong policy push towards energy efficiency. The market is projected to reach USD 20.5bn by CY29, implying a robust 14.5% CAGR (source: D&B estimates). The next leg of expansion is expected to be broad-based, encompassing residential, commercial and automotive segments.

Government programmes such as Make in India, PLI for white goods, and smart cities mission are accelerating localisation and incentivising energy-efficient product adoption. We believe that this creates a compelling tailwind for the company. The increasing focus on high-efficiency heat exchangers and customised products positions the company as the preferred choice for OEMs.

Exhibit 22: Indian HVAC market growth

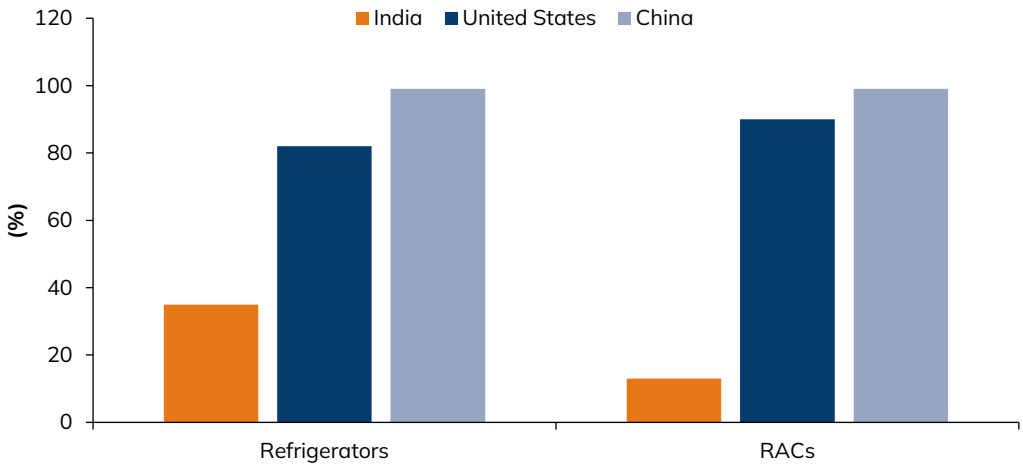


Source: RHP, I-Sec research

Steady growth in air conditioner and refrigerator markets

The penetration of white goods in India remains well below the global benchmarks, which highlights the vast untapped market in India. Air conditioner as well as refrigerators are also major consumers of heat exchangers. We believe there is steady long-term growth potential in air conditioner and refrigerators due to low penetration.

Exhibit 23: Low penetration of RAC and refrigerators in India

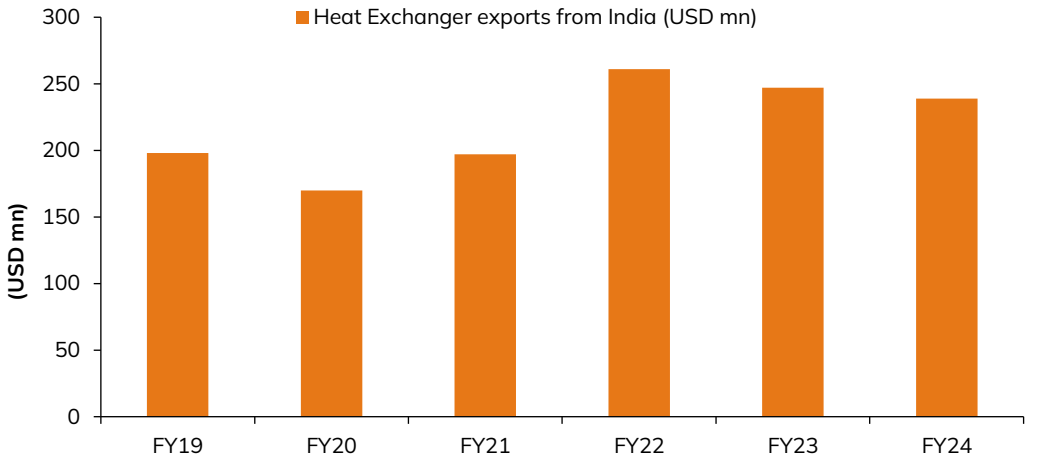


Source: LG RHP, I-Sec research

Steady growth in India's heat exchanger exports reflects global competitiveness

India's heat exchanger exports rose from USD 198mn in FY19 to USD 239mn in FY24, reflecting steady global demand despite commodity volatility and supply-chain disruptions. This resilience underscores India's growing competitiveness as a reliable, cost-efficient manufacturing base for global HVAC and industrial cooling players. With PLI incentives, localisation push and rising global diversification away from China, exports are poised to accelerate, positioning India as a key supplier in the global heat exchanger value chain.

Exhibit 24: Heat exchanger exports from India



Source: RHP, I-Sec research

Product portfolio diversification expands addressable market

The company has meaningfully diversified its product portfolio to move up the value chain and address a wider set of end-use applications. Through its wholly owned subsidiary, KRN HVAC Products Private Limited, and the acquisition-led entry into Bus AC, the company is expanding into various product categories. This strategy strengthens the forward integration, in our view.

We believe that, portfolio expansion improves KRN's ability to cross-sell to existing OEM customers, enhances capacity utilisation and supports margin stability as volumes scale. In our view, this enables the company to become a solution provider rather than component supplier.

Exhibit 25: Products manufactured under its wholly owned subsidiary

Product	Application	Key Use Cases
Bar & Plate Heat Exchanger	Compact, high-efficiency heat transfer between fluids without mixing	Railway locomotives (transformer & converter oil cooling), air compressors, metro engine cooling, defence vehicles (tanks), DG sets, mining equipment
Oil Cooling Unit with Blower & Motor	Engine and transmission oil temperature regulation	Railways and locomotives, automotive cooling systems
Roll Bond Evaporator	Direct cooling in refrigeration systems	Refrigerators and freezers
Finned Tube Heat Exchanger	Air-to-fluid and fluid-to-fluid heat exchange	HVAC systems, industrial cooling, process industries
Shell & Tube Heat Exchanger	High-pressure and high-temperature applications	Power plants, refineries, chemical and industrial processes
Plate Heat Exchanger	Efficient heat transfer in compact footprint	HVAC, food & beverage, pharmaceuticals
Bus Air-Conditioning Systems (via acquisition)	Complete thermal management for passenger buses	Intercity buses, electric buses, public transport fleets
Ammonia Evaporator (Air cooling unit)	Large capacity industrial refrigeration	Cold storage, food processing and industrial refrigeration
Frost free Evaporators	Uniform cooling and defrost cycles	Used in frost-free refrigerators and deep freezers

Source: Company data, I-Sec research

Exports: The strategic pivot to global value chains

KRN has articulated an aggressive roadmap to scale its international revenue. It is aiming for exports to contribute 50% of its total fin and tube heat exchanger sales by FY28E. We note that this can be achievable, driven by the cost effectiveness compared to global OEMs (ex-China), shorter lead time and customised and batch production. We believe KRN is well positioned to capitalise on this due to a 'right-to-win' construct built on three key pillars.

Exhibit 26: Key pillars

Reasons	Comment
Geopolitical tailwinds & tariff arbitrage	The imposition of ~25% duty by the US on goods from Mexico and Canada and continued trade barriers against China have created a vacuum for Indian manufacturers. These tariff regimes position the company as a cost-effective alternative (20-25% cheaper than European and US peers).
Customised, batch production	Unlike Chinese incumbents that thrive on mass-standardised production, KRN's manufacturing setup is optimised for batch production. This allows for high customisation and shorter lead times, a critical requirement for specialised HVAC&R industry. This flexibility acts as a formidable entry barrier against players solely focused on volume.
Timely delivery and logistics	In the post-pandemic world, 'Just-in-Time' has been replaced by 'Just-in-Case'. KRN's demonstrated ability to meet strict delivery timelines has been a key factor in winning confidence from global as well as domestic OEMs.

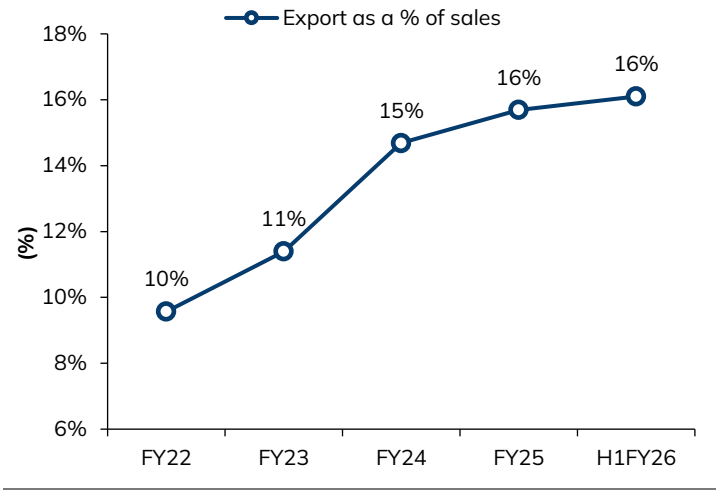
Source: Company data, I-Sec research

Steady export ramp-up enhancing margin profile

The share of exports in total sales has expanded from 5.4% in FY22 to 15.7% in H1FY26, demonstrating company's increasing presence in markets such as Europe, the Middle East and North America. This sustained growth indicates strengthening global acceptance of its products and customer stickiness.

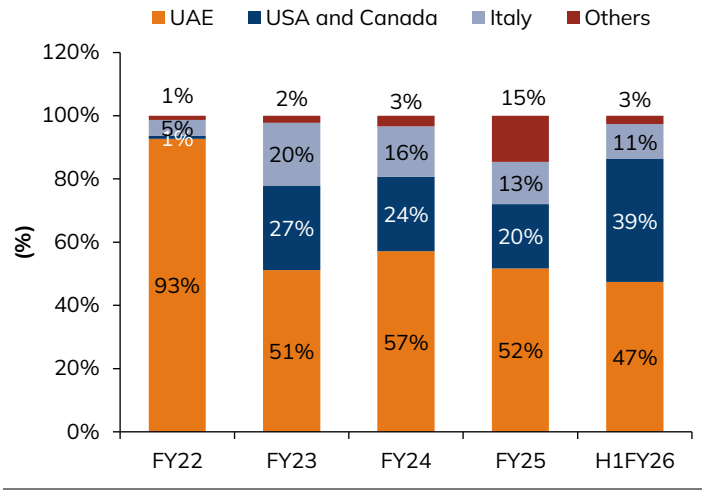
We believe that as exports will continue to scale, aided by new capacity at Neemrana and global certifications, KRN's margin profile could improve, since export orders generally yield higher realisation compared to domestic sales. We believe that the evolving mix towards high-value international business might therefore act as a medium-long term margin accretion driver for the company.

Exhibit 27: Export as a % of overall sales



Source: Company data, I-Sec research

Exhibit 28: Country wise export break-up



Source: Company data, I-Sec research

Government incentives: Boosting KRN's growth edge

The company is poised to benefit substantially from key government schemes like Production Linked Incentive (PLI) and Rajasthan Investment Promotion Scheme (RIPS). These incentives support expansion of manufacturing capabilities, reduce operational expenses and improve profitability. They are consistent with India's broader objective of promoting domestic production. The following section details each incentive and the potential advantages for KRN:

1. **Rajasthan Investment Promotion Scheme (RIPS 2024) – enhancing cost efficiency**

   - RIPS provides exemption on electricity duty, SGST reimbursement and interest subsidies and EPF/ESI contributions for ~10 years.
   - KRN qualifies for a 1.56% revenue incentive over 10 years on eligible sales from its new manufacturing capacity. Additional benefits include 15% corporate tax rate and cost savings from solar-powered 8MW setup.
   - RIPS benefits are expected to lower KRN's effective operating costs, and reduces tax expenses, thereby led to increase in EBITDA and PAT margin.

Exhibit 29: Benefits available from RIPS

Benefits available from RIPS
75% reimbursement of state taxes for 7 years from date of entitlement
10-15% incentive on asset creation, linked to job creation
100% electricity duty exemption for 7 years
Stamp duty exemption on land purchase as per state policy
Exemption from payment of 100% of land tax for 7 years
5% interest subsidy on term loan taken by the company from RBI approved financial institutions, for a period of 5 years capped at INR 2.5mn per year

Source: Company data, I-Sec research

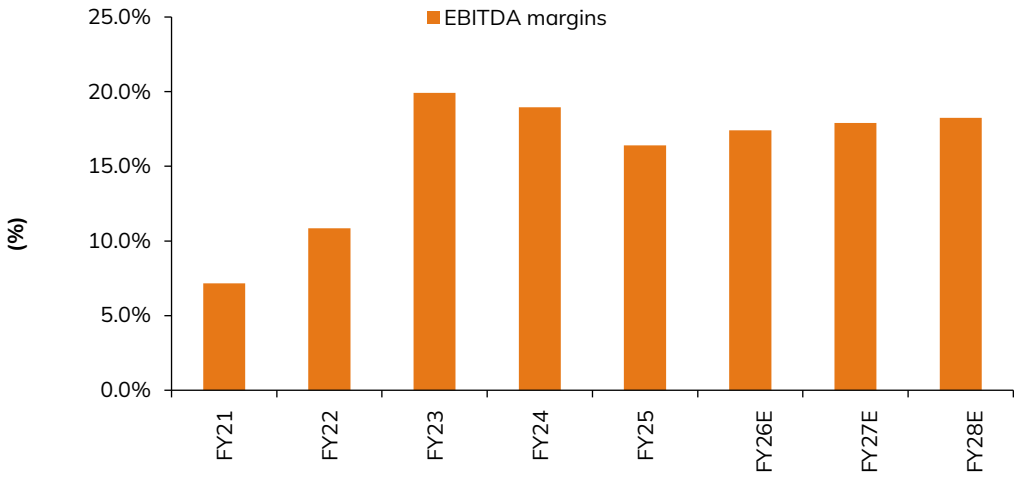
2. **Production Linked Incentive (PLI) Scheme – driving scale and margin leverage**

   - KRN's wholly-owned subsidiary, KRN HVAC Products Pvt. Ltd., has secured approval under the PLI scheme for white goods, with a sanctioned incentive of INR 1,417mn. The company received PLI approval in May'25.

- The scheme typically provides a 4-6% incentive on net incremental sales over a base year for a period of five years. This aids operating margins, effectively subsidising the pricing needed for export markets.
- This approval not only validates KRN's manufacturing capabilities but also support margin expansion, as incentives accrue proportionate to topline growth.
- As production scales up at the new Neemrana facility, these incentives might lift EBITDA margins by 150–200bps over medium term, driving structural profitability improvement.

We believe these fiscal incentives could support steady margin expansion and stronger return ratios once the new facility reaches higher utilisation levels. In essence, while PLI directly boosts earnings, RIPS indirectly strengthens margins through cost optimisation. We believe that these schemes together could create a dual tailwind for profitability improvement.

Exhibit 30: EBITDA margin to expand



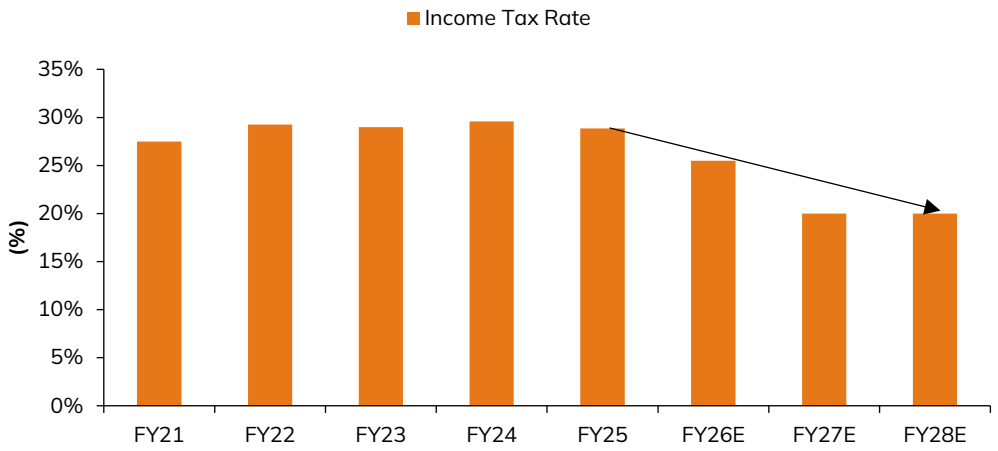
Source: Company data, I-Sec research

Effective tax rate: Leveraging 15% regime for new facility

The new manufacturing facility (housed under the wholly-owned subsidiary) has been set up under Section 115BAB of the Income Tax Act, which offers a concessional tax rate of 15% for new domestic manufacturing companies.

The new facility (6x capacity of the existing one) could drive the majority of future growth. We model company's blended effective tax rate to trend downwards. We model the consolidated effective tax rate to be ~20% by FY28 as the utilisation level improves.

Exhibit 31: Consolidated tax rate to come down to ~20%



Source: Company data, I-Sec research

The mobility cooling frontier: Entry into bus AC vertical

In a strategic shift, KRN HVAC Products Pvt. Ltd., a fully-owned subsidiary of KRN, acquired the bus AC division of Sphere Refrigeration Systems Pvt. Ltd (SRSPL). in Oct'25. This move allows KRN to tap into the INR 10bn Indian bus HVAC market, including both traditional and electric bus segments. This acquisition strengthens the company's forward integration strategy, allowing them to capture the entire value chain for bus AC systems, rather than just supplying coils to other manufacturers. This results in a larger share of the revenue per vehicle and provides direct access to original equipment manufacturers (OEMs) in the automotive industry.

We believe SRSPL's established distribution network and customer relationships, combined with KRN's cost-efficient coil manufacturing, could create immediate operational synergies.

Strong leadership of SRSPL

The leadership team from SRSPL brings over three decades of specialised experience in automotive climate systems (including stints at Ford India, Spheros Motherson, and Blue Star), benefitting KRN in both technological depth and market credibility in the mobility cooling space.

Exhibit 32: Brief promoter profile of Sphere Refrigeration Systems Pvt Ltd

Name	Designation	Past experience	Educational qualification
Sandeep Singh	Founder & Director	Over 25 years of experience in Auto HVAC and refrigeration; led sales and service operations across the Asia-Pacific region; previously associated with Ford India and Spheros Motherson.	Diploma in Automobile Engineering; Postgraduate in Business Administration
Pramod Verma	Director & Founding Member	More than 30 years of experience in HVAC and refrigeration; worked with Cryopump, Blue Star, Caryaire, and Spheros Motherson; strong background in technical and strategic business management.	Degree in Mechanical Engineering; Executive Master's in International Business
Sukhdev Singh	Founding Member	Over 36 years of experience in HVAC and refrigeration industry; held leadership roles at Sanden, Spheros, Zanotti, and Bergstrom; expert in design innovation and production excellence.	Graduate in Automobile Engineering

Source: Company data, I-Sec research

The railway play: From components to systems

Acquisition of SRSPL would enable KRN's entry into the railway AC space, as accumulating experience with 500 buses qualifies KRN for complete railway HVAC tenders. While currently focused on bus ACs, this acquisition is a strategic stepping stone into the railway HVAC market.

- **Strategic link**: The technology for bus and railway HVACs overlaps significantly. By proving its capabilities in the bus segment and securing vendor approvals, KRN is positioning itself to bid for large railway HVAC tenders.
- **Vendor approval**: KRN's subsidiary has already received the approval as a vendor for Indian Railways. This 'license to bid' is a high entry barrier that protects incumbents, and KRN's entry here signals a shift from a component player to a critical systems supplier.

We view this diversification as a de-risking strategy. The mobility sector (railways + buses) operates on a different cycle than real estate-linked commercial HVAC. By entering this space, KRN adds a non-cyclical, government-capex-driven revenue stream. We estimate the bus AC division to contribute meaningfully to the topline, with railway contracts providing a potential high upside.

Exhibit 33: Bus and railway HVAC market

Segment	Market Size	Key Growth Drivers
Bus HVAC	INR 10bn	• Electrification (E-Buses): PM-eBus Sewa scheme targets deploying 10,000 e-buses. • E-buses require AC for battery thermal management, unlike optional AC in diesel buses. • Premiumisation: Rising demand for inter-city luxury coaches.
Railway HVAC	INR 150bn	• Vande Bharat & Metro Expansion: Indian Railways' aggressive push for air-conditioned rolling stock (Vande Bharat trains, Amrit Bharat) and new metro lines. • Replacement demand: Aging fleet of various railways like requiring HVAC fitting.

Source: Company data, Industry Reports, I-Sec research

Backward and forward integration strengthen control and margin stability

KRN has steadily deepened backward integration across critical manufacturing processes such as tube formings, fin production, coil assembly, brazing and in-house testing. This reduces dependence on external vendors for its core components. This integration shortens lead times, improves quality, consistency, and enhances cost control, particularly in a business where copper and aluminium are major cost drivers.

Simultaneously, KRN is moving forward into application-specific solutions, such as bus AC modules, export market products, and complex HVAC systems. This allows them to better meet the needs of OEMs and move beyond simply supplying basic components.

This integrated approach boosts operational efficiency and supports higher profit margins, particularly through increased exports. Ultimately, we believe that this combined backward and forward integration strategy strengthens KRN's profit margins and solidifies its position as a scalable heat exchanger player.

Exhibit 34: Backward and forward integration

Integration Type	Products/Solutions	In-house process	Strategic Rationale	Benefit to the company
Backward Integration	Fin manufacturing	In-house fin punching and forming	Reduces dependence on third-party fin suppliers; improves consistency	Better quality control; lower unit costs at scale
	Tube forming & bending	In-house tube processing and bending	Ensures precision and reduces rejection rates	Improves yields and operating efficiency
	Brazing & welding	Controlled brazing and welding processes	Critical for leak-proof and durable exchangers	Enhances product reliability; lowers warranty risk
	Coil assembly	Complete coil assembly done internally	Faster turnaround and customisation	Shorter lead times; supports batch production
	Testing & quality checks	Pressure testing, leak testing, performance validation	Mandatory for OEM qualification and exports	Improves approval success; increases customer trust
	Tooling & fixtures	In-house tooling for customised designs	Reduces reliance on external tool vendors	Faster product development; lower capex per variant
Forward Integration	Custom-engineered solutions	Design-to-spec heat exchanger assemblies	Moves beyond standard components	Higher realisations; stronger differentiation
	Mobility cooling (Bus AC)	Integrated AC modules and assemblies	Entry into transport HVAC	Access to higher-growth end-markets
	Export-focused products	Export-grade coils meeting global standards	Supports China+1 sourcing strategy	Better margins; repeat international orders
	Application-specific solutions	Products tailored for data centres, railways, industrial use	Embeds KRN in customer design cycle	Higher switching costs; long-term revenue visibility

Source: Company data, I-Sec research

Thermotech Research Lab to strengthen technical credibility

KRN's upcoming Thermotech Research Laboratory at Neemrana marks a key step in building in-house testing and certification capability. With AHRI accreditation already secured for select products, the lab will enable faster validation, improved quality assurance and quicker turnaround for OEM clients.

This move enhances company's export credibility and technical independence. This reduces reliance on third-party labs, and supports faster product innovation, positioning the company as a technology-driven solutions partner in the global HVAC space.

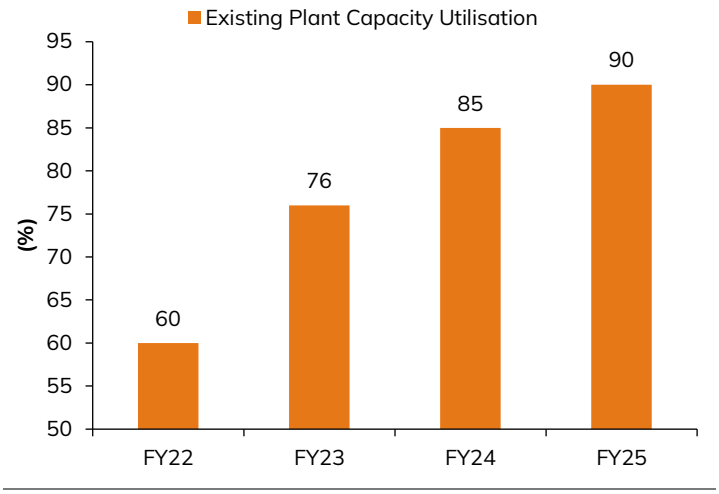
Capacity utilisation: The operating leverage trigger

KRN's existing Neemrana facility operated at robust utilisation levels of 85-90% in FY25, with evaporators and condenser coils at 84.1%, headers/copper parts at 84.5%, and sheet metal components at 85.8%, reflecting strong domestic HVAC demand and efficient operations.

The new capacity, which is 6 times the existing one, commissioned on 30 May '25, is expected to operate at ~20% utilisation in FY26. Management expects this to scale to 50% in FY27E and 80% utilisation by FY28E. This will be driven by new customers and order inflow. We believe this capacity expansion could benefit in terms of margin expansion and topline visibility led by operating leverage and government incentives.

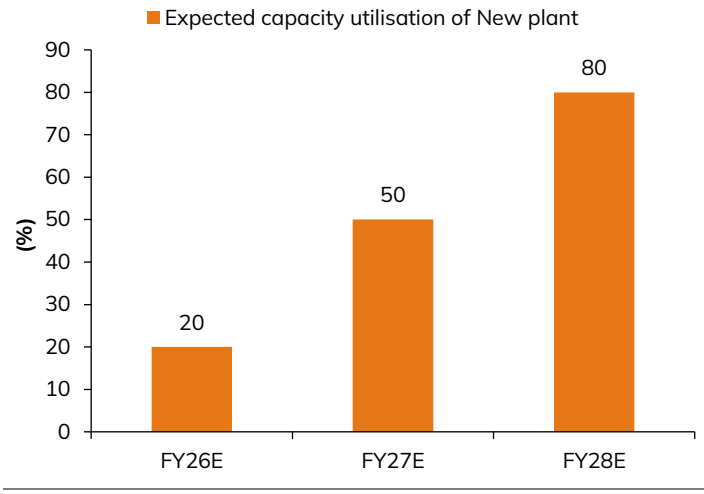
- **Existing facility:** The existing unit could continue to operate at over 90% utilisation levels.
- **New facility (growth driver):** The new plant is designed for new product lines (bar & plate heat exchangers, oil coolers, bus AC and other products). Company expects the utilisation from this new plant to increase to 80% (from 20% currently) by FY28E.

Exhibit 35: Capacity utilisation at existing plant



Source: Company data, I-Sec research

Exhibit 36: Expected capacity utilisation of new plant

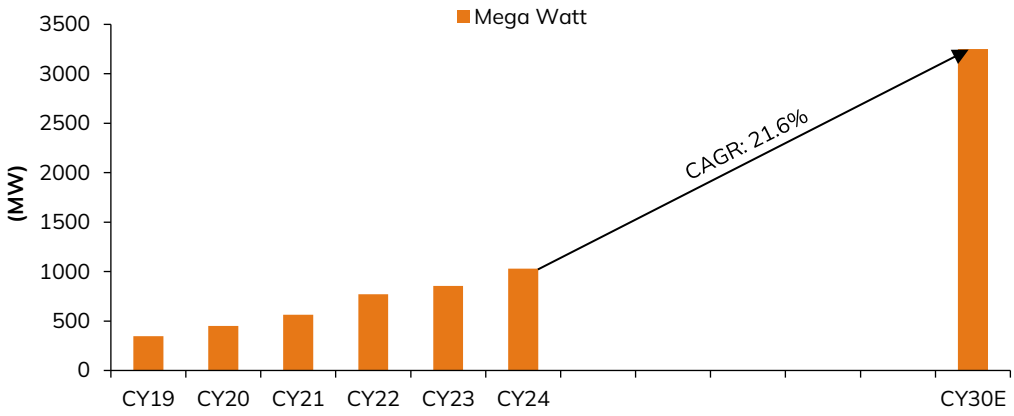


Source: Company data, I-Sec research

Data centres are a major growth driver

Over the past ten years, India's data center capacity has seen substantial growth, increasing from ~ 500MW in 2019 to around 1,030 MW in 2024, implying a ~24% CAGR, driven by cloud services adoption, expansion of digital payments, 5G/6G rollout and data localisation norms. Growth is expected to accelerate further, with capacity projected to reach ~3.0–3.5 GW by 2030, at a CAGR of ~22% from 2024-30. This is supported by investments from hyperscalers, and implementation of multi-cloud strategies. This sharp expansion structurally increases demand for precision cooling and HVAC systems, making data centres a high-growth, long-cycle end market for heat exchanger manufacturers.

Exhibit 37: Data centre capacity (MW)



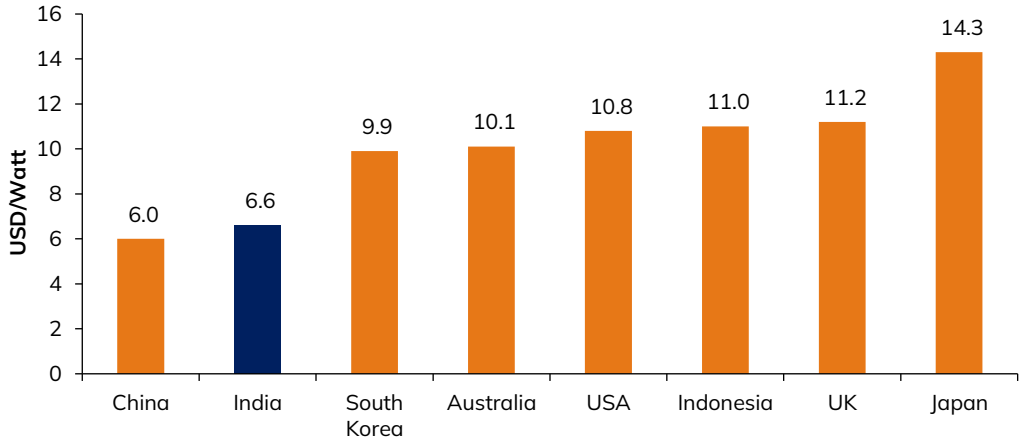
Source: IBEF, I-Sec research

Competitive capex cost makes India a preferred data centre destination

India's data centre ecosystem benefits from one of the lowest setup costs globally, with an average capex of USD 6.6/Watt, considerably well below developed markets. This cost effectiveness positions India as a high-growth hub for hyperscale and colocation facilities, supported by enhancements in infrastructure, governmental incentives, and increasing cloud service adoption.

Higher capex in data centres means increased demand of heat exchangers due to cooling requirements. This allows KRN to cater to huge demand from data centres and will enable to have a multi-year topline visibility.

Exhibit 38: Capex cost for data centres across countries (USD/W)



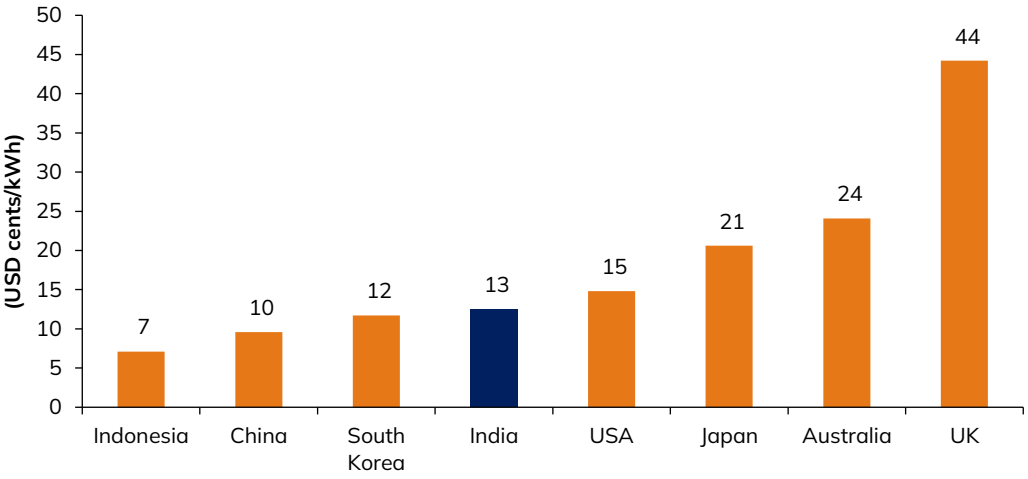
Source: Turner & Townsend, I-Sec research

Low electricity cost enhances operating attractiveness for data centres in India

The feasibility of data centers is heavily influenced by power availability and cost. India offers comparatively low electricity rates ~ at USD 13cents per kWh, significantly lower than major developed markets. This cost advantage makes India an attractive and economical choice for hyperscalers, stimulating a consistent flow of new projects in major urban centers.

The sustained growth in this energy-intensive sector directly supports demand for high-efficiency cooling systems and thermal management equipment.

Exhibit 39: Electricity cost (USD cents/kWh)

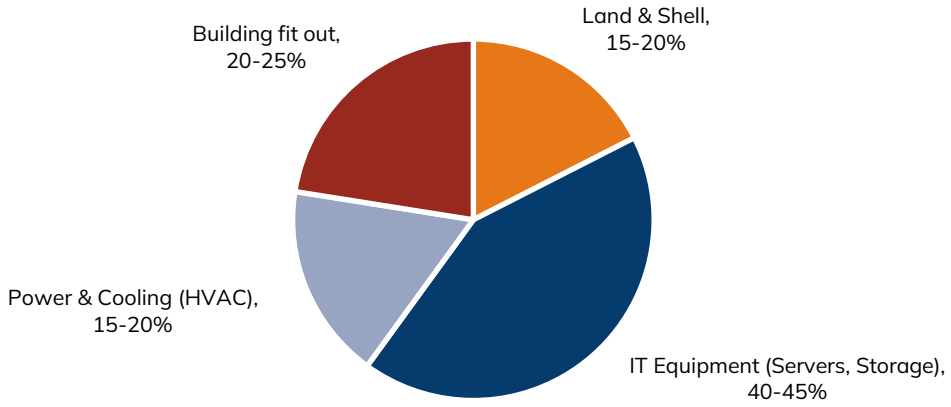


Source: Global Petrol Prices, I-Sec research

Investment in data centre could provide a long-term tailwind

India's data centre industry has seen ~USD 15bn of cumulative investment since 2020 and is expected to attract an additional USD 20–25bn by 2030 (Source: IBEF, Colliers), reflecting rapid growth in digital infrastructure and cloud demand. HVAC and cooling systems claim 15-20% of total costs. This translates to USD 3-5bn in overall HVAC capex. Nearly 10% of HVAC capex is required in heat exchangers. We believe ~40-45% of that capex directly translates to KRN's revenue supported by its capacity expansion, diversified product range and ability to deliver quality product at lower cost. This further supports the topline expansion for the company.

Exhibit 40: Breakup of data centre cost



Source: IBEF, Colliers, I-Sec research

KRN's strategic upside from data centres

For KRN, data centres represent a significant adjacent growth opportunity beyond traditional HVAC and industrial cooling. Heat exchangers, coils, condensers and associated thermal components are core to data centre cooling infrastructure. As India becomes a preferred destination for hyperscale and enterprise data centres, incremental cooling demand will likely expand. This structural wave supports not only higher volumes but also premium, engineered cooling products, which should strengthen KRN's medium-long term growth visibility.

Exhibit 41: Expected revenue of KRN from data centres in five years

Particulars	Amount
Data Centre investment in India in 5 years (A)	~USD 25bn
Investment required in HVAC (B) (20%*A)	~USD 5bn
Investment required in heat exchangers (C) (10%*B)	~USD 500mn
KRN's potential revenue from Data centres (D) (40%*C)	**~USD 200mn**

Source: Industry reports, I-Sec research

Google and other hyperscalers' commitments highlight India's data centre boom

Global hyperscalers are undertaking long-term data centre investments in India. Google plans to invest roughly USD 15bn (over 2026-30) to build a large AI data centre hub in Visakhapatnam, Andhra Pradesh, over the next five years (Source: PIB). Microsoft has also announced a USD 17.5bn (over 2026-29) infrastructure investment, including significant data centre expansion. These considerable commitments are instrumental in fostering ecosystem growth, including the development of domestic supply chains for critical components. AWS has also committed USD 7bn for cloud data centre infrastructure in Telangana over 14 years, highlighting the magnitude of private investment.

Data centre cooling needs are usually constant and crucial for performance, necessitating reliable, high-quality coils, condensers, and related thermal assemblies. KRN's engineering and manufacturing expertise is a good fit for these areas. The ongoing commitments from hyperscalers positions India as a strategic growth hub not only for data capacity, but also for high-value opportunities. In our view, it will positively impact KRN's revenue and profit margins over the next decade.

Peer group comparison

Most peers in the heat exchanger space are either product specific or application specific, limiting overlap across end markets. KRN stands out with a diversified portfolio spanning HVAC, railways, mobility, industrials and data centres. This allows the company to be a diversified player vs. peers in terms of product portfolio, reduces dependence on any single segment and enables participation across multiple structural growth drivers.

Exhibit 42: Peer group comparison

Company Name	Product Portfolio	Industries Served	Manufacturing Locations
KRN Heat Exchanger & Refrigeration Ltd	Fin-and-tube coils (evaporators, condensers), headers/manifolds, sheet metal components; expanding to bar-and-plate, microchannel exchangers, complete HVAC systems, bus AC units, refrigeration components	HVAC&R, data centres, transport (bus/railway), automotive and Industrials	Neemrana, Rajasthan (EPIP RIICO Industrial Area)
Alfa Laval India Pvt Ltd	Plate heat exchangers, shell-and-tube, finned tube. It also sells decanters, boilers, separators and other related industrial equipment	Food & beverage, energy/oil & gas, marine, chemicals, pharmaceuticals	Pune and Satara
Rex Heat Exchangers Pvt Ltd	Shell-and-tube, U-tube bundles, air-cooled exchangers, aftercoolers, oil coolers, pressure vessels	Chemical, petrochemical, oil & gas, refrigeration, power	Vadodara, Gujarat
Danfoss Power Solutions India Pvt Ltd	Hydraulic pumps/valves, electrification components, fluid conveyance (incl. heat exchangers for power systems)	Industrial machinery, mobile equipment, marine, off-highway vehicles	Pune (Talegaon, Wagholi), Chennai, Mumbai, Vadodara, others
Kelvion India Pvt Ltd	Shell-and-tube, plate, finned-tube, brazed, air-cooled condensers, dry coolers	Petrochemicals, oil & gas, HVAC and food & beverage industries	Pune (Nighoje/Khed/Chakan), Vadodara
Prijai Heat Exchangers Pvt Ltd	Condensers, cooling coils, air-cooled condensing units, copper fittings, system tubing, HVAC coils	Refrigeration, air conditioners, HVAC	Thane, Dadra (DNH), Navi Mumbai (MIDC Rabale)
Spirotech Heat Exchangers Pvt Ltd	Static heat exchangers	HVAC, heating/cooling systems, house appliances	Bhiwandi

Source: Company data, Industry reports, I-Sec research

Peer group comparison of financials

Exhibit 43: Peer group comparison

	FY21	FY22	FY23	FY24	CAGR (%)
Revenue from operations (INR mn)					
KRN Heat exchangers	758	1,561	2,475	3,083	59.6%
Kevlion	1,815	3,261	2,908	3,104	19.6%
Spirotech	3,002	4,257	4,358	4,122	11.1%
Prajai	734	1,314	1,875	2,137	42.8%
EBITDA (INR mn)					
KRN Heat exchangers	54	169	493	585	120.9%
Kevlion	(641)	73	176	293	177.0%
Spirotech	667	593	492	863	8.9%
Prajai	23	102	131	126	76.8%
EBITDA Margin (%)					
KRN Heat exchangers	7.2	10.8	19.9	19.0	38.4%
Kevlion	(35.3)	2.3	6.1	9.4	164.4%
Spirotech	22.2	13.9	11.3	20.9	-2.0%
Prajai	3.1	7.7	7.0	5.9	23.8%
PAT (INR mn)					
KRN Heat exchangers	25	106	323	394	151.9%
Kevlion	(871)	(75)	(202)	220	163.2%
Spirotech	427	319	244	513	6.3%
Prajai	(14)	42	54	45	248.1%
PAT Margin (%)					
KRN Heat exchangers	3.3	6.8	13.1	12.8	
Kevlion	(48.0)	(2.3)	(6.9)	7.1	
Spirotech	14.2	7.5	5.6	12.4	
Prajai	(1.9)	3.2	2.9	2.1	
ROE (%)					
KRN Heat exchangers	37.8	54.9	75.9	41.5	
Kevlion	(73.2)	(7.1)	(19.0)	18.8	
Spirotech	16.1	10.5	7.4	13.9	
Prajai	(6.3)	16.2	17.4	12.5	

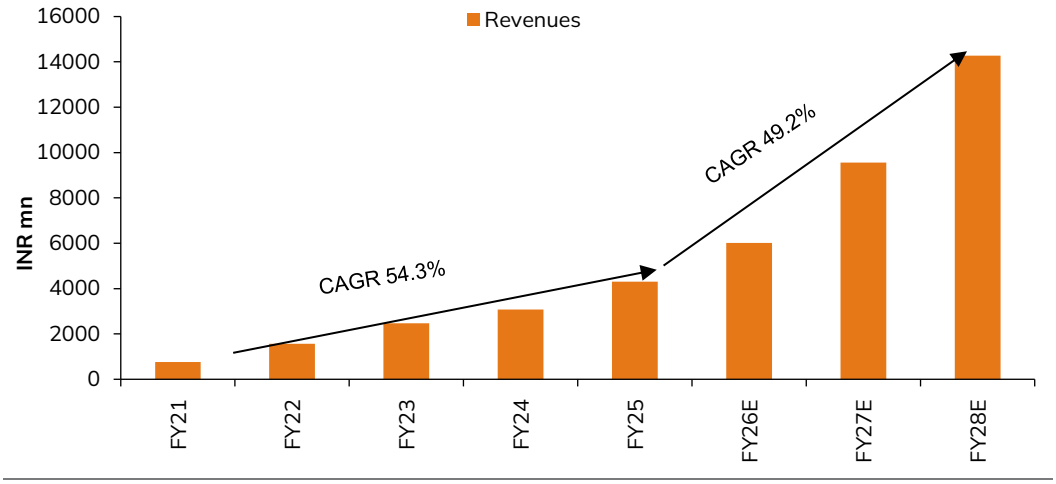
Source: Company's Data, I-Sec research

Financial overview

Revenue and growth rates

We model key growth drivers to be: (1) Export momentum across HVAC, industrial cooling and data centre segments, (2) capacity expansion and product diversification, (3) government incentives under PLI and RIPS, and (4) strong OEM relationships ensuring repeat business.

Exhibit 44: Revenue and growth rates

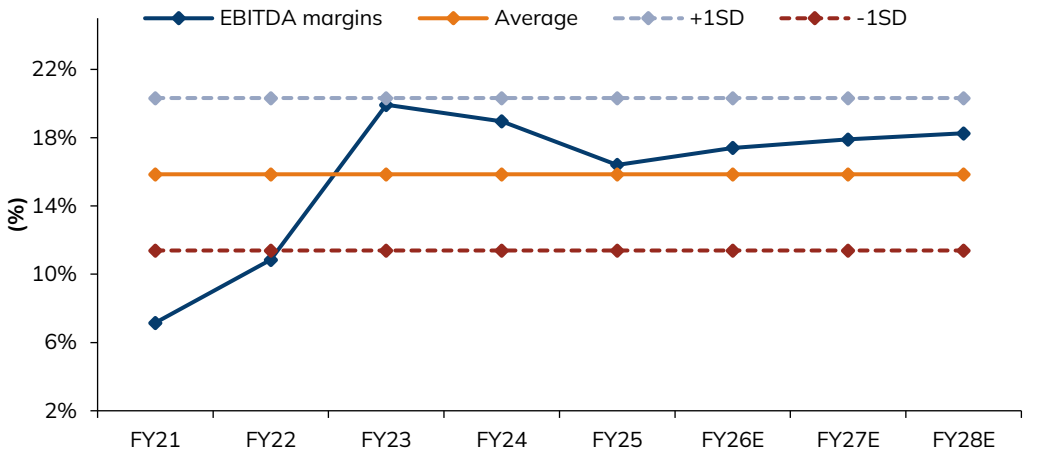


Source: Company data, I-Sec research

EBITDA margin to stabilise with improving product mix

We expect EBITDA margin to increase above historical average as utilisation level and export contribution rises. Additionally, scale benefits from higher volumes and operational leverage are likely to aid margin recovery in coming years.

Exhibit 45: EBITDA margin to stabilise above long-term average

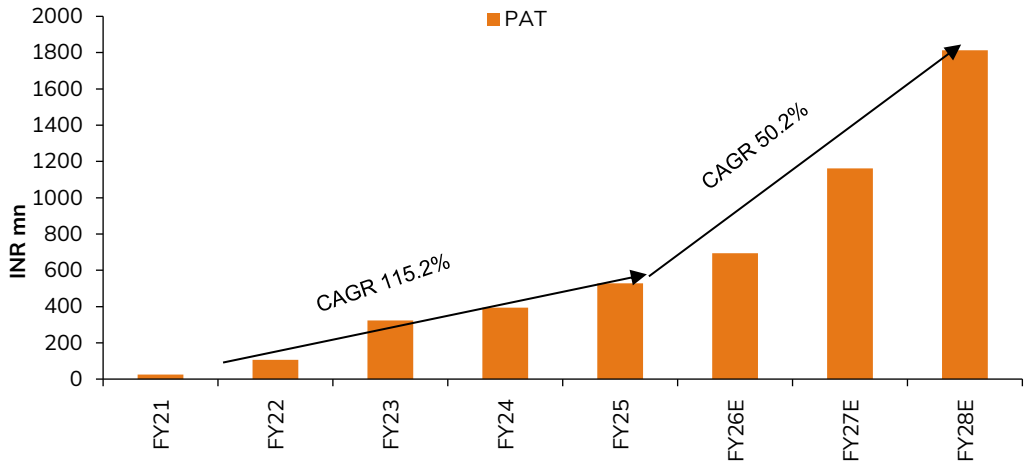


Source: Company data, I-Sec research

Strong PAT growth

We model PAT growth for KRN to remain strong, supported by robust topline expansion and improving operating efficiency. We model PAT growth to outpace revenue growth.

Exhibit 46: PAT growth

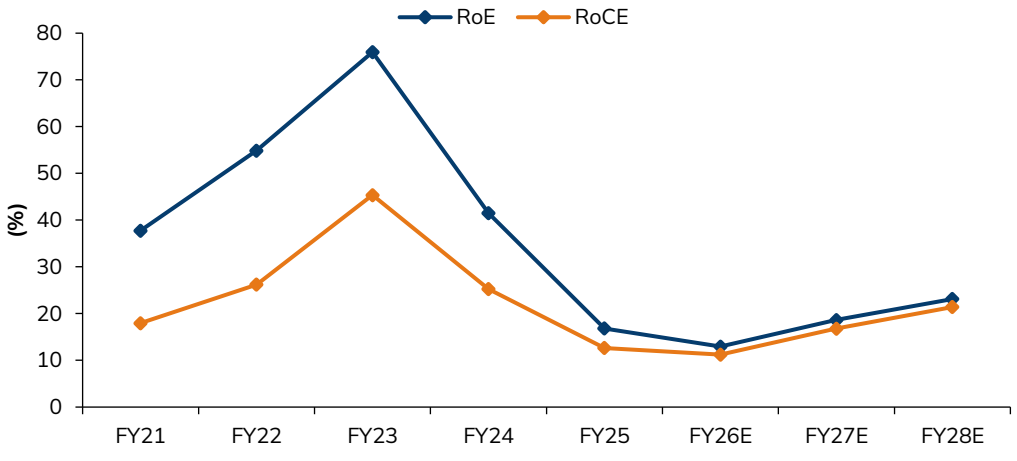


Source: Company data, I-Sec research

RoE and RoCE

KRN's return ratios saw a sharp decline in FY24 and FY25 due to equity infusion post IPO and high working capital days. However, the company has maintained the return ratios at more than cost of capital. We model them to grow steadily, too, led by PAT margin expansion. RoE could be driven by high turnover rather than leverage.

Exhibit 47: Return ratios



Source: Company data, I-Sec research

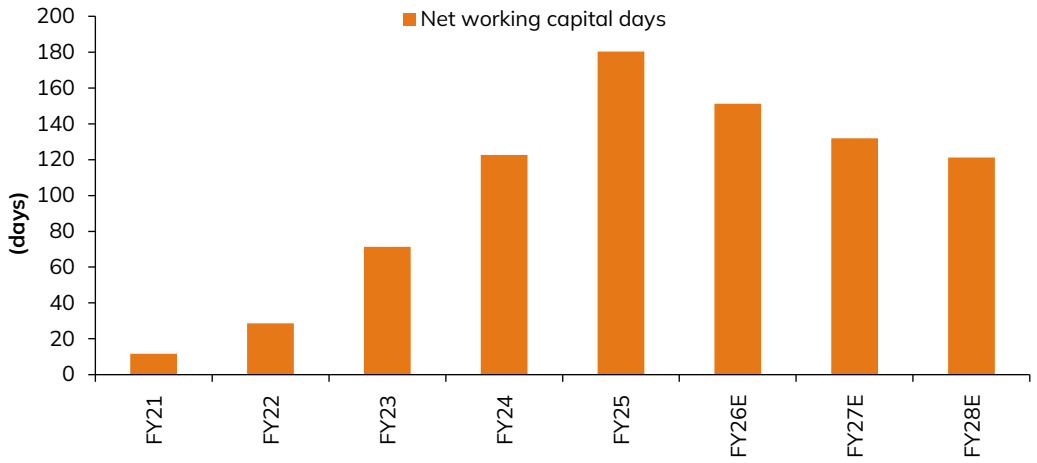
Key reasons behind the decline

- Post-IPO equity base expansion
- Ongoing capex phase – returns yet to normalise
- Depreciation and training costs during ramp-up

Net working capital days

Net working capital days stood at ~180 days in FY25. We model net working capital days to trend downwards over FY25–28E, reflecting improved operational efficiency and strong cash conversion.

Exhibit 48: Net working capital days

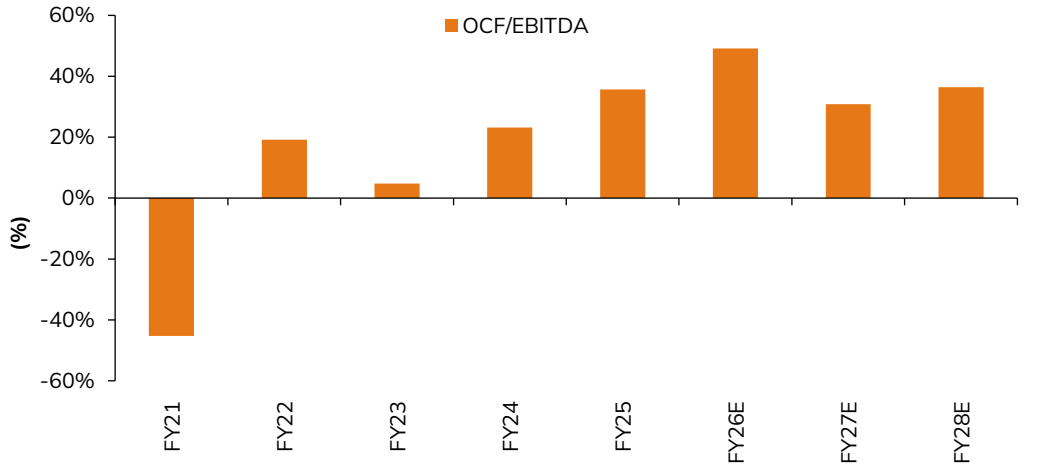


Source: Company data, I-Sec research

Healthy cashflow generation

We model OCF/EBITDA to increase over FY26–28E led by strong revenue and EBITDA growth. This stems from KRN's strong earnings quality, disciplined working capital management and efficient capex allocation.

Exhibit 49: OCF/EBITDA



Source: Company data, I-Sec research

Valuation

DCF valuation

We have valued the company as per the DCF methodology. We model KRN to generate revenue and PAT CAGRs of 49.2% and 50.2%, respectively, over FY25–28E. The company is also likely to maintain its strong return ratios (>cost of capital) over FY25-28E, in our view. At our DCF-based target price of INR 820, implied target P/E works out to 44x on FY27E and 28x on FY28E EPS.

Exhibit 50: DCF valuation

Particulars	INR mn
Cost of Equity (%)	11.0%
Terminal growth rate (%)	5.0%
Discounted interim cash flows (INR mn)	12,678
Discounted terminal value (INR mn)	38,279
Total equity value (INR mn)	50,957
Value per share (INR)	**820**

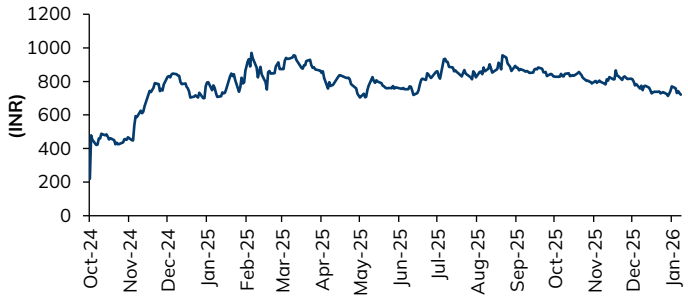
Source: Company data, I-Sec research

Exhibit 51: Shareholding pattern

%	Mar'25	Jun'25	Sep'25
Promoters	70.8	70.8	70.8
Institutional investors	7.5	8.4	11.7
MFs and other	2.2	2.0	2.2
Banks/ FIs	4.1	4.0	4.0
Insurance Cos.	0.0	0.0	0.0
FIIs	1.2	2.4	5.5
Others	21.7	20.8	17.5

Source: Bloomberg, I-Sec research

Exhibit 52: Price chart

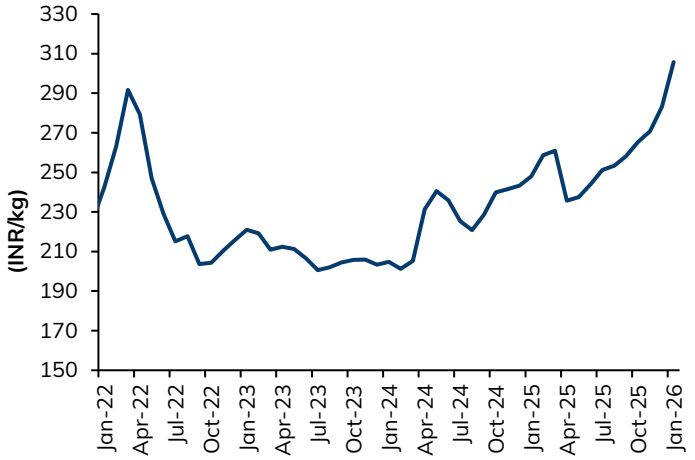


Source: Bloomberg, I-Sec research

Key risks

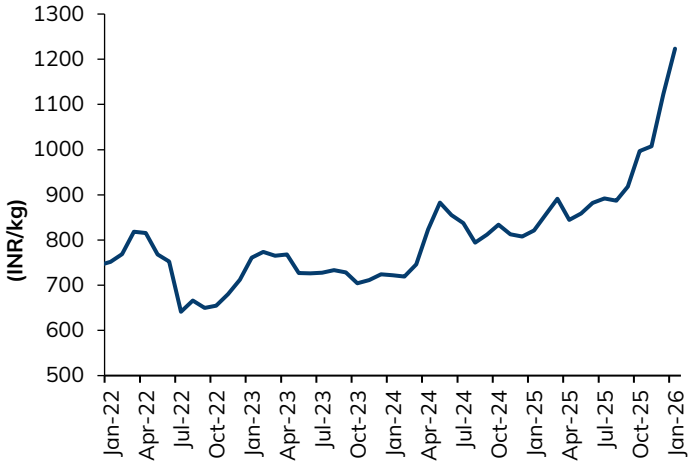
- **Dependence on key clients:** KRN derives a significant portion of its revenue from a few marquee customers such as Daikin, accounting for more than 35% of sales in FY25. It derives more than 60% of sales from top 5 customers in FY25. Any slowdown or change in procurement strategy by these clients could impact its order flow and revenue visibility.
- **Volatility in raw material prices:** Copper and aluminium are major raw materials for the company. Any fluctuations in global commodity prices or supply disruptions could pressure gross margins despite localisation efforts.

Exhibit 53: Rising aluminium prices...



Source: Bloomberg, I-Sec research

Exhibit 54: ... as well as copper prices



Source: Bloomberg, I-Sec research

- **Any regulation change related to imports may impact performance:** The company imports more than 75% of the total raw materials from Malaysia, Vietnam, South Korea, Thailand and China. Any change in government policies regarding import of the goods or any supplier related issues may impact the sourcing and thereby impact the overall performance of the company.
- **Execution risk in capacity expansion:** With multiple capacity expansion and diversification projects underway, any delay in order inflow or cost overruns could impact the utilisation levels and could affect near-term profitability and cashflow.
- **Export concentration risk:** Exports form a growing share of revenue. Adverse regulatory changes, geopolitical disruptions or currency volatility could impact competitiveness and export margins.
- **Competitive intensity and pricing pressure:** The HVAC components industry is witnessing increasing competition from both domestic and global players, which could limit pricing power and affect KRN's profitability in the medium term.
- **Slowdown in economy and industrial capex:** While Indian economy is in midst of capex and infrastructure investments, we believe any slowdown may derail the need of heat exchangers. It may adversely affect KRN's growth rates.
- **Reduction in tax benefits to impact in medium-long term:** The company currently benefits from PLI, lower income tax and state incentives at Rajasthan. As these incentives will be over in medium-long term, it may hurt the DCF value.

Company overview

KRN Heat Exchanger and Refrigeration Limited, incorporated in 2017, is engaged in the designing and manufacturing of heat exchangers and cooling solutions used across the HVAC&R industry. It caters to both domestic and international OEMs.

The company offers a diversified range of products including evaporator and condenser coils, steam coils, oil coolers and sub-assemblies, primarily made from copper and aluminium. With a manufacturing facility located at Neemrana, Rajasthan, KRN has established strong relationships with leading clients such as Daikin, Schneider Electric, Voltas, Carrier and Blue Star.

To meet the rising demand and support export growth, the company has set up a new plant under its wholly-owned subsidiary, KRN HVAC Products Private Limited, at Neemrana, which became operational in H1FY26. KRN exports to key markets including the UAE, Canada, Italy, and the United States. It reported consolidated revenue of INR 4,298mn and PAT of INR 529mn in FY25, with exports contributing ~16% of total revenue.

Business operations overview

The company operates its business primarily through its standalone operations of KRN Heat Exchanger and Refrigeration Limited and its wholly-owned subsidiary, KRN HVAC Products Private Limited.

Standalone operations (KRN Heat Exchanger and Refrigeration Limited)

This segment focuses on manufacturing and sale of heat exchangers and related components, including evaporator coils, condenser coils, steam coils, oil coolers and sub-assemblies. The company primarily sells fin and tube heat exchangers. The products are supplied mainly to domestic OEMs in the HVAC&R industry, and also exported to markets such as the UAE, Canada, Italy, and the United States. The company's manufacturing facility is equipped with in-house fabrication, brazing, coating and quality testing capabilities to ensure compliance with international standards.

Subsidiary operations (KRN HVAC Products Private Limited):

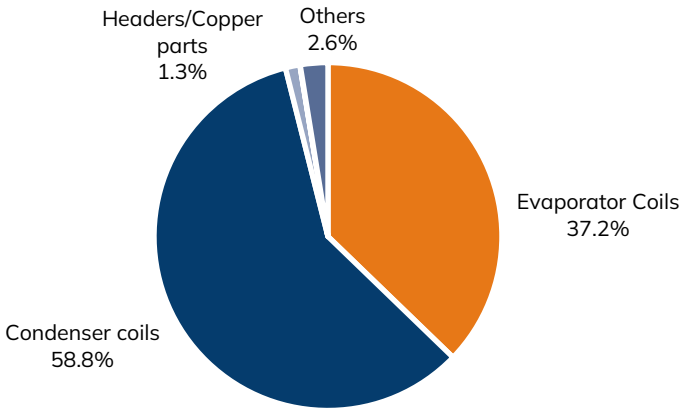
The subsidiary represents the company's expansion and capacity augmentation initiative through its Neemrana, Rajasthan facility, which commenced operations in H1FY26. The subsidiary manufactures products like oil cooler heat exchangers, bar and plate heat exchangers, complete HVAC systems, microchannels and tubings, sheet metals and other products. The subsidiary acquired bus AC division of SRSPL, which will allow it to cater to automotive HVAC space.

The company plans to gradually diversify its product range through this subsidiary, leveraging new technologies and process efficiencies to meet the growing demand in India and overseas markets.

Product wise revenue breakup

The company generates majority of its revenue from evaporator and condenser coils which contribute more than 95% of its revenue. These products are widely used by OEMs in HVAC&R industry.

Exhibit 55: Product wise revenue breakup of the company (FY25)

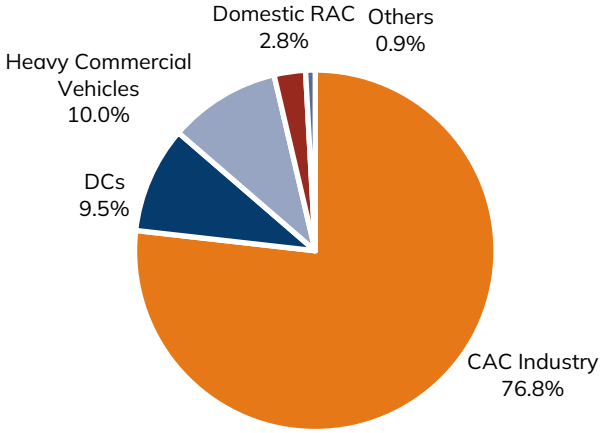


Source: Company data, I-Sec research

Revenue breakup on the basis of end user industry

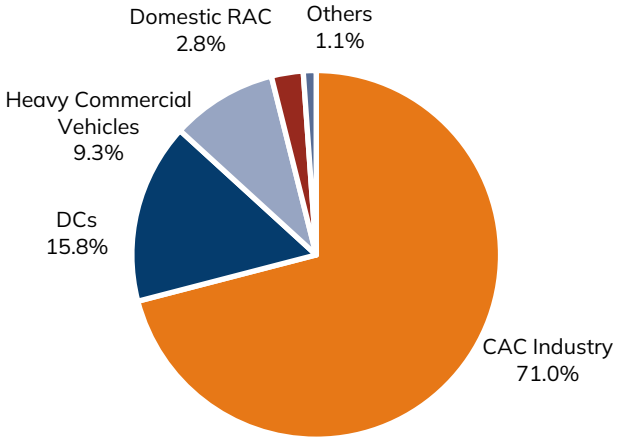
KRN generates maximum share of revenue from commercial AC industry. This is driven by sustained private and government led infrastructure capex. The CAC segment continues to anchor revenue, driven by sustained infrastructure and cooling demand. The data centre vertical emerged as the fastest-growing segment, growing form 9.5% in FY22 to 15.8% in FY25; we model it to increase further by FY28E, aided by India's accelerating data centre investment.

Exhibit 56: Revenue breakup by end user (FY22)



Source: Company data, I-Sec research

Exhibit 57: Revenue breakup by end user (FY25)



Source: Company data, I-Sec research

Product portfolio of KRN and its subsidiary

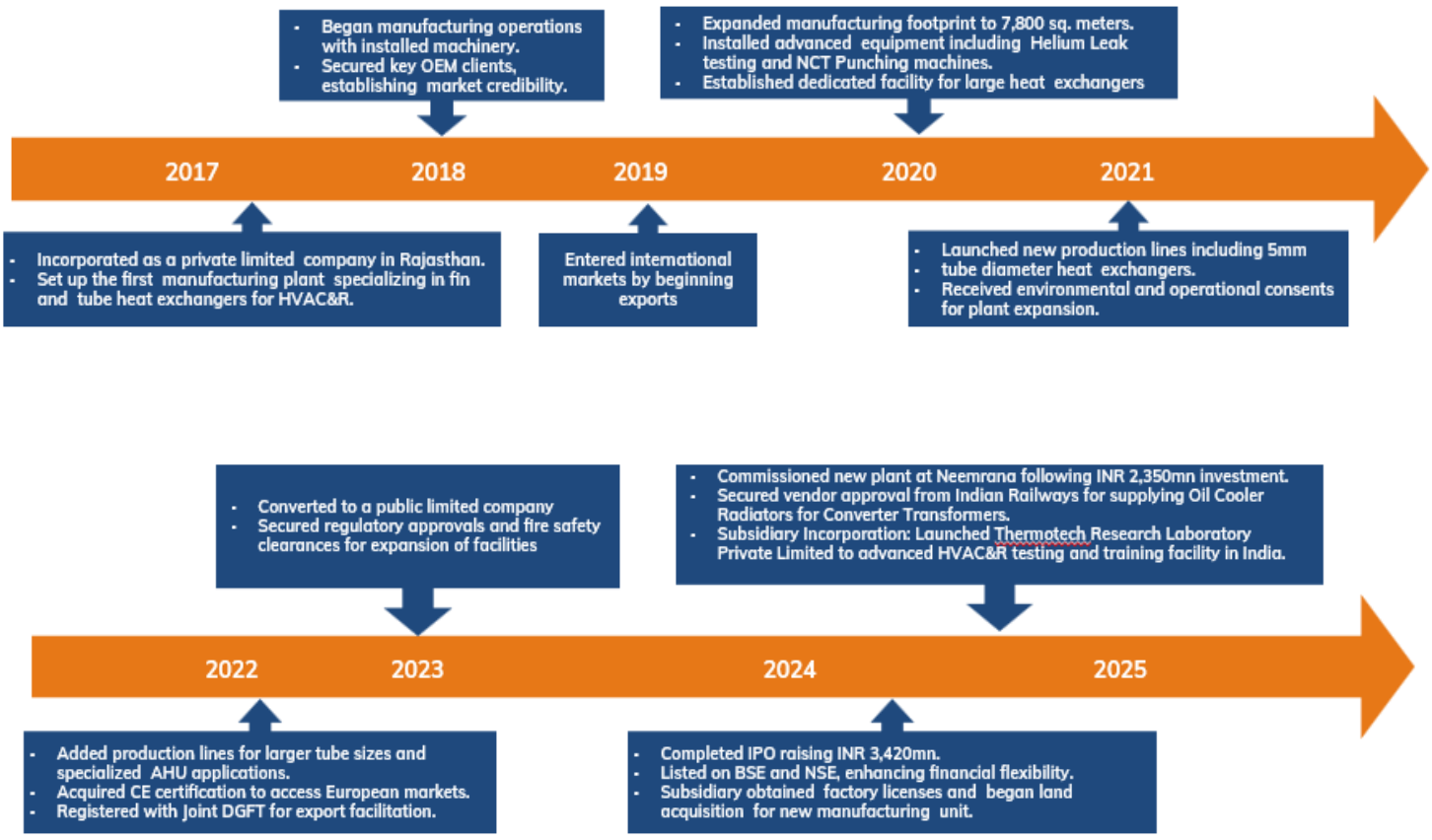
Exhibit 58: KRN Heat Exchanger and Refrigeration products

Name of subsidiary	Product	Use case
KRN Heat Exchanger and Refrigeration ltd	Evaporator Coil	• Cold rooms • Commercial freezers • Food & dairy storage
	Condenser Coil	• HVAC systems • Transport refrigeration • Heat recovery systems
	Fluid & Steam Coil	• Air handling units • Process heaters • Hospitals/labs • Industrial HVAC
	Condensing Units & Air-cooling units	• Display cabinets • Ice-cream freezers • Pharma coolers
	Headers/Copper Parts	• HVAC systems • Multi-circuit coils • OEM assemblies
	Sheet Metal Parts	• Equipment housing • Mounting frames • Support structure
KRN HVAC Products Private Limited	Oil Cooling Unit with Blower & Motor	• Railways • Automotive cooling units • Locomotives
	Bar and Plate Heat Exchanger	• Automotive • Aerospace • Railways • Power Generation
	Ammonia Evaporator	• Cold storage • Food processing • Industrial refrigeration
	Finned Tubes	• Industrials • Boilers and process equipment
	Micro Channels	• Automotive • Renewable Energy applications
	Sheet Metals	• Frost-free refrigerators and deep freezers. • HVAC enclosures • Housings • Ducts, Panels and cabinets
	Tubings	• Evaporators and condensers • HVAC piping • Refrigeration system •
	Dry Coolers (Flat bed, H type, V type)	• Data Centres • Power Plants • Industrial Cooling • Commercial HVAC
	Adiabatic Coolers	• Industrial Cooling in water scarce regions • Data Centres • Industrial Cooling
	LT HT remote radiator	• Defence • Heavy Industrial Machinery • Industrial Engines • Locomotives • Mining
	Wire-on-tube Condensers	• Freezers and other cooling appliances
	Roll Bond Evaporators	• Domestic and International refrigeration systems
	Frost-free Evaporators	• Frost-free refrigerators and deep freezers.

Source: Company data, I-Sec research

Brief timeline of the company

Exhibit 59: Timeline of the company



Source: Company data, I-Sec research

Promoters and management

The company is led by a seasoned and well-balanced management team combining deep technical expertise, operational excellence and disciplined leadership. The promoters bring decades of experience across manufacturing, engineering and organisational management, while the independent directors add financial, legal and governance strength. Together, they form a capable leadership group that has guided KRN's consistent growth, strategic diversification and strong execution track record.

Exhibit 60: Brief profile of directors

Name	Designation	Association with the company and past experience	Educational qualification
Santosh Kumar Yadav	Promoter, Chairman & Managing Director	Promoter of the company with over 19 years' experience in manufacturing heat exchangers and refrigeration units. Formerly head of operations at Lloyd Electric and Engineering Limited.	Diploma in Business Management (IMT Ghaziabad, Distance Learning) and Diploma in Mechanical Engineering (Board of Technical Education, Rajasthan).
Anju Devi	Promoter & Whole Time Director	With the company since inception. Consultancy services at Lloyd Electric (2012–2014). Oversees HR management for the last 6 years.	Secondary Examination, Board of Secondary Education, Rajasthan (2001).
Manohar Lal	Promoter & Non-Executive Director	Joined as Non-Executive Director in 2023. Served in the Indian Army for 21 years. Known for leadership and futuristic approach.	Secondary Examination, Board of Secondary Education, Rajasthan (1995).
CS Srinivasa Rao Anasingaraju	Independent Director	Joined in 2024. Over 22 years of experience in finance, law, and insolvency. Worked with R.R Bio Energies, PTC Software, E2E Serwiz, and Quick Heal Technologies.	B.Com, M.Com (Nagarjuna University); LLB (Osmania University); Cost Accountant (ICWAI) & Company Secretary (ICSI); PG Diploma in Personnel Management, Industrial Relations & Labour Welfare.
CA Ketan Sharma	Independent Director	Joined in 2024. Chartered Accountant running a partnership firm 'Deepti Jain & Co.' providing audit, tax, and advisory services; 10 years of experience.	B.Sc. in Computer Science (Pondicherry University); Chartered Accountant (ICAI).
CA Deepak Batheja	Independent Director	Joined in 2024. Chartered Accountant and founder of 'M/s Batheja & Co.', with 10 years' experience in auditing, taxation and company law matters.	B.Com (Mohan Lal Sukhadia University, Udaipur); LLB (University of Rajasthan); Chartered Accountant (ICAI).
Meenakshi Sharma	Independent Director	Joined in 2025, appointed as the director on the board of the company	Dual postgraduate degrees-M.Com (Accounts) and MBA (Finance)

Source: Company data, I-Sec research

Financial Summary

Exhibit 61: Profit & Loss

(INR mn, year ending March)

	FY25A	FY26E	FY27E	FY28E
Net Sales	**4,298**	**6,016**	**9,559**	**14,275**
Operating Expenses	3,593	4,969	7,848	11,670
EBITDA	**705**	**1,047**	**1,711**	**2,605**
EBITDA Margin (%)	16.4	17.4	17.9	18.3
Depreciation & Amortization	46	191	325	440
EBIT	659	855	1,386	2,165
Interest expenditure	34	31	31	31
Other Non-operating Income	119	103	104	104
Recurring PBT	**743**	**927**	**1,460**	**2,238**
Profit / (Loss) from Associates	**-**	**-**	**-**	**-**
Less: Taxes	214	236	292	448
PAT	529	691	1,168	1,790
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	**529**	**691**	**1,168**	**1,790**
Net Income (Adjusted)	**529**	**691**	**1,168**	**1,790**

Source Company data, I-Sec research

Exhibit 62: Balance sheet

(INR mn, year ending March)

	FY25A	FY26E	FY27E	FY28E
Total Current Assets	4,255	4,686	6,149	8,539
of which cash & cash eqv.	1,512	1,226	1,154	1,502
Total Current Liabilities & Provisions	620	969	1,539	2,298
Net Current Assets	**3,635**	**3,717**	**4,610**	**6,240**
Investments	-	-	-	-
Net Fixed Assets	873	2,304	2,580	2,739
ROU Assets	-	-	-	-
Capital Work-in-Progress	823	-	-	-
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	**5,331**	**6,022**	**7,189**	**8,980**
Liabilities				
Borrowings	**345**	**345**	**345**	**345**
Deferred Tax Liability	**-**	**-**	**-**	**-**
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	622	622	622	622
Reserves & Surplus	4,365	5,056	6,223	8,013
Total Net Worth	**4,986**	**5,677**	**6,845**	**8,635**
Minority Interest	-	-	-	-
Total Liabilities	**5,331**	**6,022**	**7,189**	**8,980**

Source Company data, I-Sec research

Exhibit 63: Quarterly trend

(INR mn, year ending March)

	Dec 24	Mar 25	June 25	Sept 25
Net Sales	1,115	1,315	1,153	1,521
% growth (YOY)	69.8%	60.4%	20.4%	66.9%
EBITDA	158	189	176	303
Margin %	14.2	14.4	15.3	19.9
Other Income	49	43	36	24
Extraordinaries	-	-	-	-
Adjusted Net Profit	137	149	124	180

Source Company data, I-Sec research

Exhibit 64: Cashflow statement

(INR mn, year ending March)

	FY25A	FY26E	FY27E	FY28E
Operating Cashflow	**252**	**514**	**529**	**948**
Working Capital Changes	(338)	(368)	(964)	(1,283)
Capital Commitments	(861)	(800)	(600)	(600)
Free Cashflow	**(608)**	**(286)**	**(71)**	**348**
Other investing cashflow	**(2,003)**	**-**	**-**	**-**
Cashflow from Investing Activities	(2,864)	(800)	(600)	(600)
Issue of Share Capital	3,142	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(530)	-	-	-
Dividend paid	-	-	-	-
Others	-	-	-	-
Cash flow from Financing Activities	2,612	-	-	-
Chg. in Cash & Bank balance	**0**	**(286)**	**(71)**	**348**
Closing cash & balance	103	1,226	1,154	1,502

Source Company data, I-Sec research

Exhibit 65: Key ratios

(Year ending March)

	FY25A	FY26E	FY27E	FY28E
Per Share Data (INR)				
Reported EPS	8.5	11.1	18.8	28.8
Adjusted EPS (Diluted)	8.5	11.1	18.8	28.8
Cash EPS	9.3	14.2	24.0	35.9
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	80.2	91.3	110.1	138.9
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	39.4	40.0	58.9	49.3
EBITDA	20.6	48.5	63.5	52.3
EPS (INR)	(0.4)	30.6	69.0	53.3
Valuation Ratios (x)				
P/E	83.1	63.6	37.6	24.5
P/CEPS	76.4	49.8	29.4	19.7
P/BV	8.8	7.7	6.4	5.1
EV / EBITDA	60.7	41.1	25.2	16.4
P / Sales	10.2	7.3	4.6	3.1
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	25.8	27.8	28.3	28.8
EBITDA Margins (%)	16.4	17.4	17.9	18.3
Effective Tax Rate (%)	28.9	25.5	20.0	20.0
Net Profit Margins (%)	12.3	11.5	12.2	12.5
NWC / Total Assets (%)	39.8	41.4	48.1	52.8
Net Debt / Equity (x)	(0.2)	(0.2)	(0.1)	(0.1)
Net Debt / EBITDA (x)	(1.7)	(0.8)	(0.5)	(0.4)
Profitability Ratios				
RoCE (%)	12.7	11.2	16.8	21.4
RoE (%)	16.8	13.0	18.6	23.1
RoIC (%)	16.4	14.8	20.5	25.6
Fixed Asset Turnover (x)	4.3	3.2	3.2	4.0
Inventory Turnover Days	95	95	100	98
Receivables Days	92	89	94	92
Payables Days	58	64	67	66

Source Company data, I-Sec research

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