

Kaynes Technologies

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	KAYNES IN
Equity Shares (m)	58
M.Cap.(INRb)/(USDb)	135.6 / 1.6
52-Week Range (INR)	2966 / 625
1, 6, 12 Rel. Per (%)	5/131/-
12M Avg Val (INR M)	401

Financials & Valuations (INR b)

Y/E Mar	FY24E	FY25E	FY26E
Sales	17.2	24.1	31.8
EBITDA	2.6	3.8	5.2
Adj. PAT	1.7	2.6	3.6
EBITDA Margin (%)	15.1	15.7	16.5
Cons. Adj. EPS (INR)	28.8	44.3	61.6
EPS Gr. (%)	76.0	53.7	39.2
BV/Sh. (INR)	193.8	238.1	299.7

Ratios

Net D:E	-0.2	-0.2	-0.2
RoE (%)	16.1	20.5	22.9
RoCE (%)	17.1	19.9	22.3

Valuations

P/E (x)	81	53	38
EV/EBITDA (x)	51	35	25

Shareholding pattern (%)

As on	Sep-23	Jun-23
Promoter	63.6	63.6
DII	15.6	13.1
FII	9.9	8.0
Others	10.9	15.3

Note: FII includes depository receipts

CMP: INR2,332 TP: INR3,100 (+33%) Buy

Strong order inflow in 1H to boost revenue growth in 2H

- KAYNES reported strong revenue growth of 32% YoY in 2QFY24, led by strong traction in the Industrials (majorly EV) (up 85% YoY), Railways (up 44% YoY) and Automotive (up 25% YoY) verticals.
- Margins were under pressure during the quarter (EBITDA margins down 230bp YoY) despite having a higher mix of Box build in 2Q (45% vs. 33% in 2QFY23). It was due to the addition of several clients (majorly in Box build) in 2Q, which led to higher initial costs. But its benefits is expected to be reflect in 2H.
- We maintain our FY24/FY25/FY26 EPS estimates given strong customer additions in high-value and high-margin verticals. We retain our BUY rating on the stock with a TP of INR3,100 (50x FY26E EPS).

Margins impacted led by unfavorable operating leverage

- Consolidated revenue grew 32% YoY to INR3.6b in 2QFY24, while EBITDA grew by ~13% YoY to INR488m. EBITDA margins contracted by 230bp YoY to 13.5% (flat QoQ), where gross margins declined 210bp YoY; other expense as percentage of sales increased 60bp. Adjusted PAT grew 9% YoY to INR323m.
- The order book increased to INR34.6b as of Sep'23 vs. INR30b/INR26.5b in Jun'23/Mar'23, aided by strong client additions and order inflows in IT servers, EVs, Medical devices and railways verticals.
- For 1HFY24, revenue/EBITDA/Adj. PAT grew 39%/31%/83% YoY to INR6.6b/INR891m/INR570m.
- Net working capital days increased to 119 in 1HFY24 vs. 116 in 1HFY23, led by an increase in inventory days to 134 (vs. 108 in 1HFY23), partly offset by lower receivable days at 60 (vs. 78). The increase in inventory days was due to advance purchases for 2HFY24.

Highlights from the management commentary

- Guidance:** The management has maintained its revenue guidance of ~INR17-18b in FY24, EBITDA margins of over 15% and double-digit PAT margin.
- OSAT:** KAYNES is awaiting final government approval for its OSAT facility in Telangana. It expects to commercialize the first line by 4QFY24 and commence commercial production by FY25 end.
- IT servers:** The company has entered into Transfer of Technology (ToT) licensing with the central government for the development of Advanced Computing (C-DAC) for developing 'computing servers'. It has delivered the first batch of prototype and expects significant orders in this segment going ahead. This makes KAYNES eligible for manufacturing significantly higher orders in super computers under the Atma Nirbhar Bharat.

Valuation and view

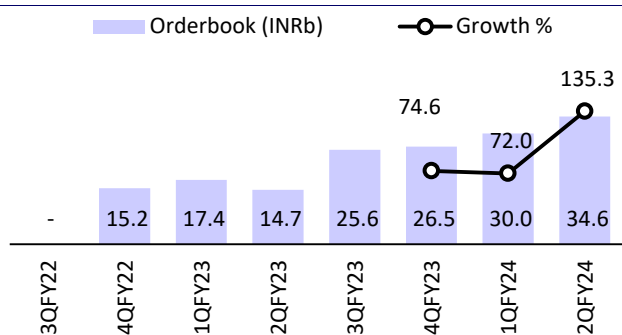
- KAYNES is a prominent end-to-end and IoT-enabled integrated electronics manufacturer, with strong order book growth (96% CAGR over FY20-23) and a higher share of Box Build (~40% in 1H FY24) and PCBA (54%).
- We estimate a CAGR of 41%/46%/56% in revenue/EBITDA/Adj. PAT over FY23-FY26, driven by a healthy order book growth trajectory (32% CAGR) and a better margin profile (increasing mix of high value order).
- We maintain our FY24/FY25/FY26 EPS estimates and retain our BUY rating on the stock with a TP of INR3,100 (50x FY26E EPS).

Consolidated - Quarterly Earning Model

Y/E March	FY23				FY24				(INRm)	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	FY23	FY24
Gross Sales	1,993	2,732	2,891	3,645	2,972	3,608	4,625	5,978	11,260	17,183
YoY Change (%)	NA	NA	57.6	52.8	49.1	32.1	60.0	64.0	59.4	52.6
Total Expenditure	1,747	2,299	2,479	3,052	2,569	3,121	3,916	4,975	9,578	14,581
EBITDA	246	432	412	593	403	488	710	1,002	1,682	2,603
Margins (%)	12.3	15.8	14.2	16.3	13.5	13.5	15.3	16.8	14.9	15.1
Depreciation	46	47	46	48	53	65	72	77	187	267
Interest	73	103	92	81	113	118	115	120	349	466
Other Income	7	7	26	74	81	90	80	70	114	321
PBT before EO expense	134	289	300	536	319	394	603	875	1,259	2,191
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0
PBT	134	289	300	536	319	394	603	875	1,259	2,191
Tax	34	79	71	124	72	71	152	220	308	515
Rate (%)	25.2	27.3	23.7	23.2	22.6	18.0	25.2	25.2	24.5	23.5
Minority Interest & Profit/Loss of Asso. Cos.	2	-2	0	0	0	0	0	0	0	0
Reported PAT	99	212	229	412	246	323	451	655	951	1,676
Adj PAT	99	212	229	412	246	323	451	655	951	1,676
YoY Change (%)	NA	NA	112.7	107.6	149.0	52.8	97.3	59.0	128.2	76.2
Margins (%)	5.0	7.7	7.9	11.3	8.3	9.0	9.8	11.0	8.4	9.8

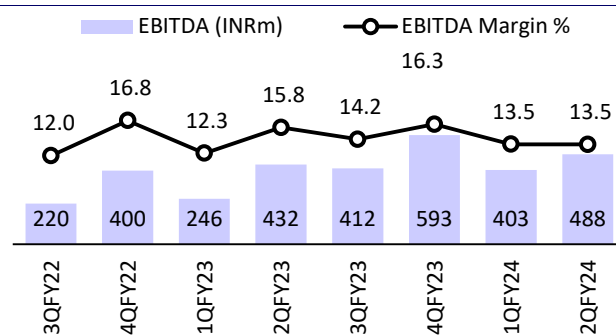
Key Exhibits

Exhibit 1: Consolidated order book trend



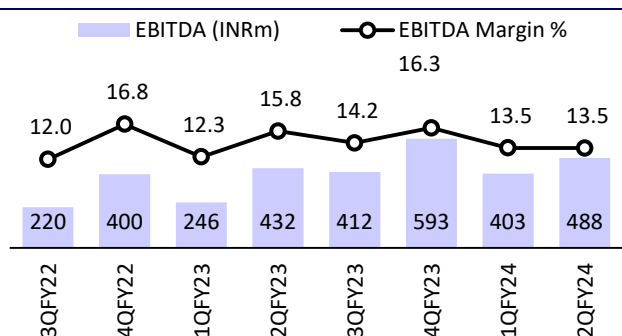
Source: Company, MOFSL

Exhibit 2: Consolidated revenue trend



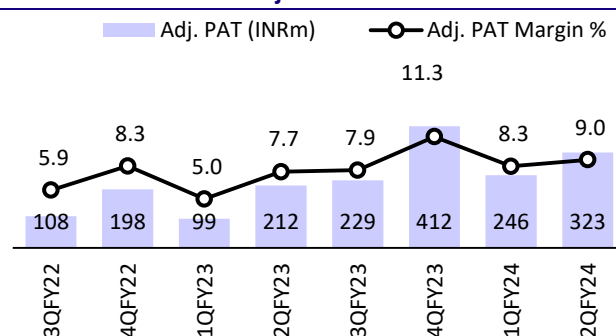
Source: Company, MOFSL

Exhibit 3: Consolidated EBITDA trend



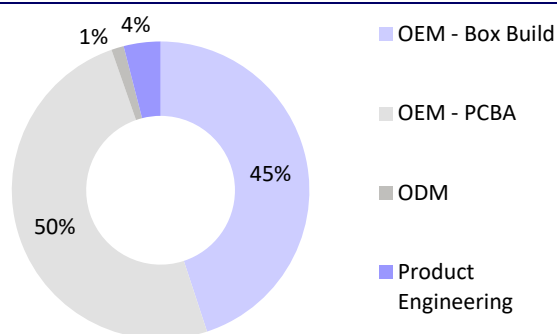
Source: Company, MOFSL

Exhibit 4: Consolidated Adj. PAT trend



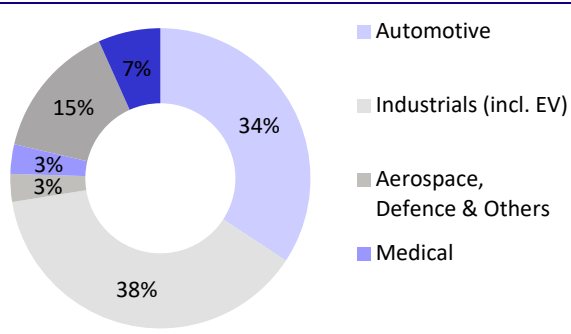
Source: Company, MOFSL

Exhibit 5: Product-wise revenue mix (2QFY24)



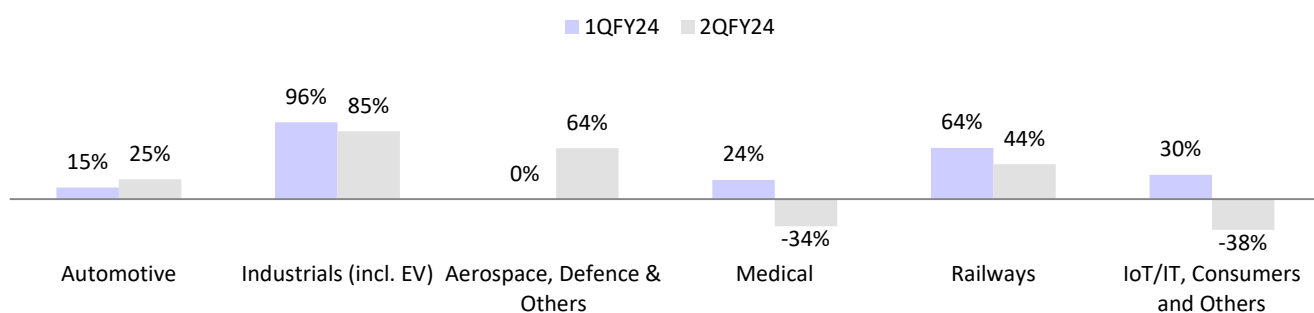
Source: Company, MOFSL

Exhibit 6: End-user industry wise revenue mix (2QFY24)



Source: Company, MOFSL

Exhibit 7: Key growth trend across end-used verticals



Source: MOFSL, Company



Highlights from the management commentary

Diversified order inflows

- KAYNES is receiving enquiries from global OEMs for Make-in-India orders. The company has received an order from a global customer for a cardio vascular device for the US market.
- It also acquired electric vehicle orders for box build directly from OEM.
- KAYNES has signed a ToT with a European OEM for super charger equipment.
- The company added new clients in servers, medical, AI, EV, industry 4.0, etc.

Datacenters servers

- As a part of its strategy to enter into complex electronic manufacturing, KAYNES has entered into ToT licensing with the Centre for Development of Advanced Computing (C-DAC) for developing 'computing servers. It has delivered the first batch of prototype and expects significant orders from this segment going ahead.
- This makes the company eligible for manufacturing significantly higher orders for computing servers under the Atma Nirbhar Bharat.
- These high-performing computing servers are India's 1st indigenous designed and developed products, and are likely to be the backbone of hyper scale datacenters for industry applications.

Medical

- KAYNES has on-boarded two clients from EU in the medical technology segment. These clients are present in developing equipment for ICU and operating theatre. Volume from these clients is expected to grow in the future.
- It expects to complete the pilot production for these order in FY24.
- KAYNES will develop an exclusive production facility in India for these clients.

Guidance

- The management expects revenue of ~INR17-18b in FY24 and EBITDA margins of over 15%.
- It has also guided for double-digit PAT margin for FY24.
- The company expects the book-to-bill ratio to be ~1.5x going ahead.
- In the long run, the management expects the CFO/EBITDA ratio to be ~35-40%.

OSAT

- KAYNES has initiated its journey toward semiconductor packaging by setting up two different units for OSAT in Telangana (Phase 1) and Karnataka (Phase 2).
- It has submitted its project of developing OSAT facility to the Telangana government and is awaiting final approval.
- The first line of the plant is expected to be commissioned by 4QFY24. It expects to complete trial production of this line by 1HFY25 and commence commercial production by FY25 end.
- The company will install total 12 lines in OSAT. The first line will be available in the next six months (as mentioned above) and then as they receive approvals from customers, they will add more lines.
- KAYNES has already entered into an MOU with three semiconductor players.

PCB Manufacturing

- KAYNES is expected to manufacture all items required for its PCB assembly business.
- It plans to produce HD8 (60-70% of the capacity) and multi-layers PCB (~30-40%).
- Currently, it is contemplating to put the PCB manufacturing plant in two states.

Capacity expansion

- The company is continuously adding new lines for capacity expansion.
- It has operationalized few lines in Chamrajnagar and has started production.
- Beta building will be completely operationalized by 3QFY24 and the third building will also be operationalizing in FY24.
- This expanded capacity is expected to support revenue growth through FY25.

Margins

- 1HFY24 witnessed lower margin due to a higher share of development projects.
- Further, the company has on-boarded new clients for the manufacturing of box build products in this quarter. It had to incur costs due to these project, the benefit of which will be reflected in upcoming quarters.
- Going ahead, the management expects margins to recover in 2HFY24 and has accordingly guided for full-year FY24 EBITDA margin of ~15%+.
- Further, the management expects margins to be in range of 18-20% after OSAT and PCB manufacturing becomes operationalized.

Others

- KAYNES currently exports its products to EU (industrial components), UK (railway signaling) and US (Industrial instrumentation).
- Exports accounted for ~15% of the order book as of 1HFY24, and should be within the similar range in 2HFY24.

Valuation and View

- KAYNES is a prominent end-to-end and IoT-enabled integrated electronics manufacturer, with strong order book growth (96% CAGR over FY20-23) and a higher share of Box Build (~40% in 1HFY24) and PCBA (54%).
- We estimate a CAGR of 41%/46%/56% in revenue/EBITDA/Adj. PAT over FY23-FY26, driven by a healthy order book growth trajectory (32% CAGR) and a better margin profile (increasing mix of high value order).
- We maintain our FY24/FY25/FY26 EPS estimates and retain our BUY rating on the stock with a TP of INR3,100 (50x FY26E EPS).

Exhibit 8: Changes to our estimates

Earnings change (INR m)	Old			New			Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	17,116	23,962	31,630	17,183	24,057	31,755	0%	0%	0%
EBITDA	2,602	3,762	5,219	2,603	3,777	5,240	0%	0%	0%
Adj. PAT	1,684	2,545	3,575	1,676	2,575	3,583	0%	1%	0%

Financials and valuations

Consolidated - Income Statement (INRm)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	3,682	4,206	7,062	11,261	17,183	24,057	31,755
Change (%)	1.1	14.2	67.9	59.4	52.6	40.0	32.0
RM Cost	2,417	2,861	4,894	7,801	12,039	16,599	21,720
Employees Cost	424	459	602	771	1,039	1,612	2,096
Other Expenses	428	477	629	1,006	1,502	2,069	2,699
Total Expenditure	3,269	3,797	6,126	9,578	14,581	20,280	26,515
% of Sales	88.8	90.3	86.7	85.1	84.9	84.3	83.5
EBITDA	413	409	937	1,683	2,603	3,777	5,240
Margin (%)	11.2	9.7	13.3	14.9	15.1	15.7	16.5
Depreciation	84	101	132	187	267	422	587
EBIT	330	308	805	1,496	2,336	3,355	4,653
Int. and Finance Charges	236	240	256	349	466	227	182
Other Income	19	40	41	114	321	313	318
PBT bef. EO Exp.	113	109	590	1,260	2,191	3,441	4,789
EO Items	0	0	0	0	0	0	0
PBT after EO Exp.	113	109	590	1,260	2,191	3,441	4,789
Total Tax	19	11	174	308	515	866	1,205
Tax Rate (%)	17.1	10.5	29.4	24.5	23.5	25.2	25.2
Minority Interest	0	0	0	0	0	0	0
Reported PAT	94	97	417	952	1,676	2,575	3,583
Adjusted PAT	94	97	417	952	1,676	2,575	3,583
Change (%)	-3.8	4.0	328.2	128.4	76.0	53.7	39.2
Margin (%)	2.5	2.3	5.9	8.5	9.8	10.7	11.3

Consolidated - Balance Sheet

(INRm)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	68	68	462	581	581	581	581
Preference Capital	0	11	4	0	0	0	0
Total Reserves	959	1,308	1,560	9,009	10,685	13,259	16,843
Net Worth	1,027	1,387	2,026	9,590	11,266	13,841	17,424
Minority Interest	6	9	11	13	13	13	13
Total Loans	1,643	1,526	1,779	1,359	1,509	1,009	1,009
Deferred Tax Liabilities	79	52	68	77	77	77	77
Capital Employed	2,755	2,974	3,884	11,039	12,865	14,940	18,523
Gross Block	930	1,181	1,544	1,925	3,410	5,207	6,766
Less: Accum. Deprn.	382	483	615	802	1,069	1,491	2,078
Net Fixed Assets	547	698	929	1,123	2,340	3,715	4,688
Goodwill on Consolidation	23	23	23	23	23	23	23
Capital WIP	119	126	83	293	1,309	1,012	952
Total Investments	16	17	15	33	33	33	33
Current Investments	0	0	0	0	0	0	0
Curr. Assets, Loans&Adv.	3,075	3,330	5,173	12,715	13,338	15,947	20,425
Inventory	1,511	1,639	2,264	4,132	4,783	6,367	8,034
Account Receivables	937	1,218	1,977	2,271	3,060	4,284	5,655
Cash and Bank Balance	123	143	216	4,860	3,949	3,131	3,879
Loans and Advances	504	331	716	1,453	1,547	2,165	2,858
Curr. Liability & Prov.	1,027	1,219	2,340	3,148	4,178	5,790	7,599
Account Payables	921	954	1,641	2,229	2,804	3,866	5,058
Other Current Liabilities	76	226	648	857	1,203	1,684	2,223
Provisions	30	39	52	62	172	241	318
Net Current Assets	2,048	2,110	2,833	9,567	9,160	10,157	12,827
Misc Expenditure	0	0	0	0	0	0	0
Appl. of Funds	2,755	2,974	3,884	11,039	12,865	14,940	18,523

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)							
EPS	13.8	14.3	9.0	16.4	28.8	44.3	61.6
Cash EPS	26.1	29.1	11.9	19.6	33.4	51.5	71.7
BV/Share	151.0	203.9	43.9	164.9	193.8	238.1	299.7
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)							
P/E	169.3	162.8	258.0	142.3	80.8	52.6	37.8
Cash P/E	89.3	80.0	196.1	118.9	69.7	45.2	32.5
P/BV	15.4	11.4	53.1	14.1	12.0	9.8	7.8
EV/Sales	4.7	4.1	15.4	11.7	7.7	5.5	4.2
EV/EBITDA	42.0	42.1	116.5	78.4	51.1	35.3	25.3
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	20.6	4.0	-4.6	-17.2	-15.8	-6.9	10.5
Return Ratios (%)							
RoE	9.1	8.1	24.4	16.4	16.1	20.5	22.9
RoCE	10.8	11.2	17.8	16.5	17.1	19.9	22.3
RoIC	10.9	10.7	18.2	24.0	26.6	27.4	28.5
Working Capital Ratios							
Fixed Asset Turnover (x)	4.0	3.6	4.6	5.9	5.0	4.6	4.7
Asset Turnover (x)	1.0	1.0	1.1	0.8	1.0	1.2	1.2
Inventory (Days)	205	201	146	150	145	140	135
Debtor (Days)	106	93	83	69	65	65	65
Creditor (Days)	136	120	97	91	85	85	85
Leverage Ratio (x)							
Current Ratio	3.0	2.7	2.2	4.0	3.2	2.8	2.7
Interest Cover Ratio	1.4	1.3	3.1	4.3	5.0	14.8	25.6
Net Debt/Equity	1.5	1.0	0.8	-0.4	-0.2	-0.2	-0.2

Consolidated - Cash Flow Statement

(INRm)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	113	109	590	1,260	2,191	3,441	4,789
Depreciation	84	101	132	187	267	422	587
Interest & Finance Charges	228	233	-11	-100	145	-86	-136
Direct Taxes Paid	-19	-28	-22	-503	-515	-866	-1,205
(Inc)/Dec in WC	44	-137	-743	-1,629	-504	-1,815	-1,922
CF from Operations	451	277	-53	-784	1,584	1,096	2,112
Others	2	0	265	365	0	0	0
CF from Operating incl EO	452	277	211	-419	1,584	1,096	2,112
(Inc)/Dec in FA	-312	-250	-422	-581	-2,500	-1,500	-1,500
Free Cash Flow	140	27	-211	-1,001	-916	-404	612
(Pur)/Sale of Investments	205	2	-33	0	0	0	0
Others	8	7	11	-4,352	321	313	318
CF from Investments	-99	-241	-445	-4,933	-2,179	-1,187	-1,182
Issue of Shares	0	270	228	6,600	0	0	0
Inc/(Dec) in Debt	-118	-44	301	-336	150	-500	0
Interest Paid	-236	-240	-256	-349	-466	-227	-182
Dividend Paid	0	0	0	0	0	0	0
Others	0	-6	0	-371	0	0	0
CF from Fin. Activity	-354	-19	272	5,543	-316	-727	-182
Inc/Dec of Cash	-1	17	38	191	-911	-818	748
Opening Balance	8	126	143	216	4,860	3,949	3,131
Other cash & cash equivalent	115	0	35	4,453	0	0	0
Closing Balance	123	143	216	4,860	3,949	3,131	3,879

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NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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