

# Kaynes Technologies

Estimate change	↔
TP change	↔
Rating change	↔

**CMP: INR2,831 TP: INR3,300 (+17%) Buy**

## Robust revenue growth, aided by strong order flows

Bloomberg	KAYNES IN
Equity Shares (m)	58
M.Cap.(INRb)/(USDb)	181 / 2.2
52-Week Range (INR)	3000 / 754
1, 6, 12 Rel. Per (%)	8/46/243
12M Avg Val (INR M)	382

- KAYNES reported strong revenue growth of 76% YoY in 3QFY24, led by strong traction in the Industrials (majorly EV) (up 3.1x YoY), Railways (up 58% YoY) and Automotive (up 35% YoY) verticals.
- Margins were adversely impacted during the quarter (EBITDA margins down 50bp YoY). This was attributed to the execution of initial orders, resulting in higher initial costs. However, margins are expected to recover from 4QFY24, led by favorable operating leverage.
- 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 INR3,300 (52x FY26E EPS).

### Financials & Valuations (INR b)

Y/E Mar	FY24E	FY25E	FY26E
Sales	17.7	24.7	32.9
EBITDA	2.6	3.8	5.3
Adj. PAT	1.6	2.6	3.7
EBITDA Margin (%)	14.5	15.5	16.1
Cons. Adj. EPS (INR)	28.3	45.1	63.4
EPS Gr. (%)	72.7	59.5	40.5
BV/Sh. (INR)	193.2	238.3	301.7

### Ratios

Net D:E	-0.2	-0.1	-0.1
RoE (%)	15.8	20.9	23.5
RoCE (%)	17.4	20.2	22.8

### Valuations

P/E (x)	100	63	45
EV/EBITDA (x)	63	43	31

### Shareholding pattern (%)

As on	Dec-23	Sep-23	Dec-22
Promoter	57.8	63.6	63.6
DII	19.1	15.6	11.4
FII	12.7	9.9	8.5
Others	10.4	15.3	16.5

Note: FII includes depository receipts

## Margins impacted by elevated costs in executing initial orders

- Consolidated revenue grew 76% YoY to INR5.1b in 3QFY24, while EBITDA grew ~70% YoY to INR699m. EBITDA margins contracted 50bp YoY to 13.7% (up 20bp QoQ), where gross margins declined 550bp YoY; other expense as a percentage of sales declined 330bp (of which, ~150bp-impact is due to re-classification of consumables from other expenses to raw materials). Adjusted PAT grew 98% YoY to INR452m.
- The order book increased to INR37.9b as of Dec'23 vs. INR34.6b/INR30b in Sep'23/Jun'23, aided by strong client additions and order inflows in IT servers, EVs, Medical devices, and railways verticals.
- For 9MFY24, revenue/EBITDA/Adj. PAT grew 53%/46%/89% YoY to INR11.7b/INR1.6b/INR1b.
- Net working capital days declined to 117days as of Dec'23 vs. 135 as of Dec'22, mainly led by a decrease in receivable days to 65 (vs. 91 in Dec'22), partly offset by higher inventory days at 120 (vs. 115).

## Highlights from the management commentary

- **Guidance:** The management has reaffirmed its revenue guidance of ~INR17-18b in FY24 and double-digit PAT margin. However, EBITDA margins is expected to remain at par with FY23 levels. EBITDA Margin improvement is expected in FY25/26.
- **Major order wins this quarter:** The company was awarded with large orders in Aerospace; two major orders in the industrial segment catering to educational robots and UPS; and one order for motor controller in the EV segment.
- **New Collaborations:** KAYNES has formed a manufacturing alliance for producing a clear glass lens through a technology partnership with an emerging disruptor in this domain. Additionally, the company has entered into an exclusive partnership with FiDO-2, a certified Microsoft-compatible biometric security solution provider.

**Valuation and view**

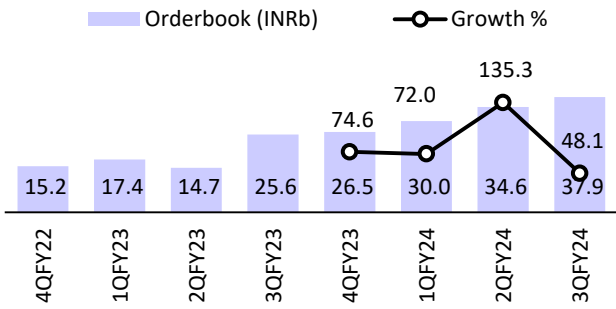
- KAYNES is a prominent end-to-end and IoT-enabled integrated electronics manufacturer, with strong order book growth (96% CAGR over FY20-23) and a higher share of Box Build (~39% in 9MFY24) and PCBA (56%).
- We estimate a CAGR of 43%/46%/57% in revenue/EBITDA/Adj. PAT over FY23-FY26, driven by a healthy 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 INR3,300 (52x FY26E EPS).

**Consolidated - Quarterly Earning Model**

Y/E March	(INR m)											
	FY23				FY24				FY23	FY24	FY24E	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	%
<b>Gross Sales</b>	<b>1,993</b>	<b>2,732</b>	<b>2,891</b>	<b>3,645</b>	<b>2,972</b>	<b>3,608</b>	<b>5,093</b>	<b>5,978</b>	<b>11,260</b>	<b>17,651</b>	<b>4,915</b>	<b>4</b>
YoY Change (%)	NA	NA	57.6	52.8	49.1	32.1	76.2	64.0	59.4	56.8	70.0	
Total Expenditure	1,747	2,299	2,479	3,052	2,569	3,121	4,394	5,006	9,578	15,090	4,212	
<b>EBITDA</b>	<b>246</b>	<b>432</b>	<b>412</b>	<b>593</b>	<b>403</b>	<b>488</b>	<b>699</b>	<b>971</b>	<b>1,682</b>	<b>2,561</b>	<b>703</b>	<b>-1</b>
Margins (%)	12.3	15.8	14.2	16.3	13.5	13.5	13.7	16.3	14.9	14.5	14.3	
Depreciation	46	47	46	48	53	65	60	65	187	243	72	
Interest	73	103	92	81	113	118	148	155	349	534	115	
Other Income	7	7	26	74	81	90	94	80	114	345	80	
<b>PBT before EO expense</b>	<b>134</b>	<b>289</b>	<b>300</b>	<b>536</b>	<b>319</b>	<b>394</b>	<b>585</b>	<b>831</b>	<b>1,259</b>	<b>2,129</b>	<b>596</b>	
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
<b>PBT</b>	<b>134</b>	<b>289</b>	<b>300</b>	<b>536</b>	<b>319</b>	<b>394</b>	<b>585</b>	<b>831</b>	<b>1,259</b>	<b>2,129</b>	<b>596</b>	
Tax	34	79	71	124	72	71	133	209	308	485	150	
Rate (%)	25.2	27.3	23.7	23.2	22.6	18.0	22.7	25.2	24.5	22.8	25.2	
Minority Interest & P/L of Asso. Cos.	2	-2	0	0	0	0	0	0	0	0	0	
<b>Reported PAT</b>	<b>99</b>	<b>212</b>	<b>229</b>	<b>412</b>	<b>246</b>	<b>323</b>	<b>452</b>	<b>622</b>	<b>951</b>	<b>1,644</b>	<b>446</b>	
<b>Adj PAT</b>	<b>99</b>	<b>212</b>	<b>229</b>	<b>412</b>	<b>246</b>	<b>323</b>	<b>452</b>	<b>622</b>	<b>951</b>	<b>1,644</b>	<b>446</b>	<b>1</b>
YoY Change (%)	NA	NA	112.7	107.6	149.0	52.8	97.7	51.0	-547.7	72.8	95.1	
Margins (%)	5.0	7.7	7.9	11.3	8.3	9.0	8.9	10.4	8.4	9.3	9.1	

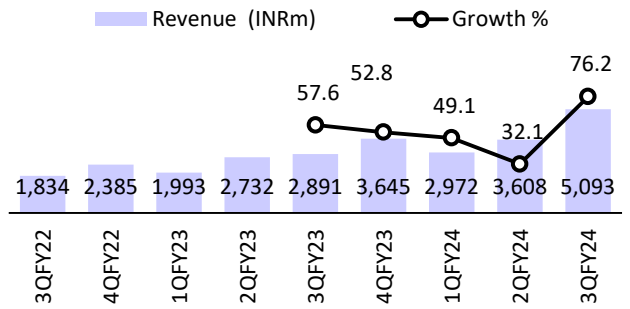
Key Exhibits

Exhibit 1: Consolidated order book trend



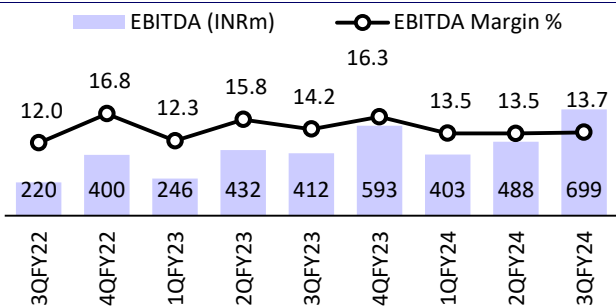
Source: Company, MOFSL

Exhibit 2: Consolidated revenue trend



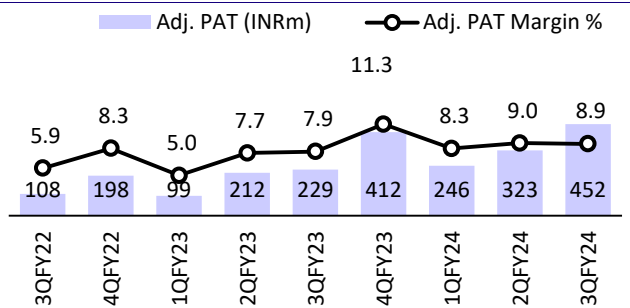
Source: Company, MOFSL

Exhibit 3: Consolidated EBITDA trend



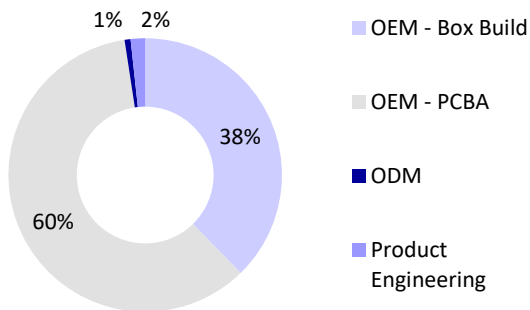
Source: Company, MOFSL

Exhibit 4: Consolidated Adj. PAT trend



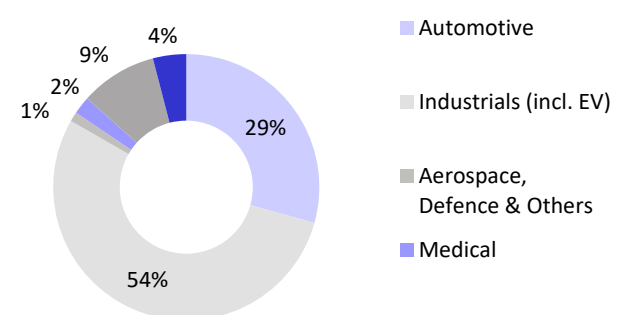
Source: Company, MOFSL

Exhibit 5: Product-wise revenue mix (3QFY24)



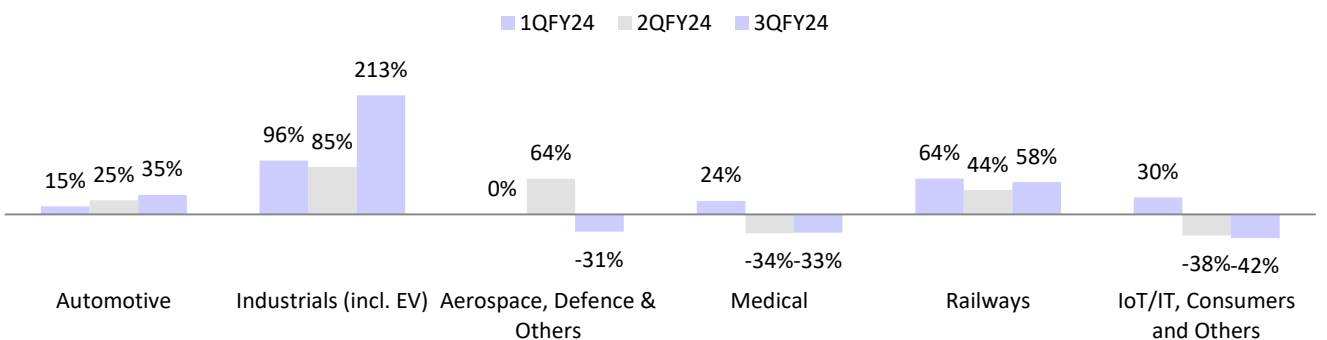
Source: Company, MOFSL

Exhibit 6: End-user industry wise revenue mix (3QFY24)



Source: Company, MOFSL

Exhibit 7: Key growth trends across end-used verticals



Source: MOFSL, Company



## Highlights from the management commentary

### Diversified order inflows and collaborations

- Major order wins this quarter: The company won large orders in Aerospace; two major orders in the industrial segment catering to educational robots and UPS; and an order for motor controller in the EV segment.
- New Collaborations: KAYNES has formed a manufacturing alliance for producing a clear glass lens through a technology partnership with an emerging disruptor in this domain. Additionally, the company has entered into an exclusive partnership with FiDO-2, a certified Microsoft-compatible biometric security solution provider.
- FiDO-2 is a phishing proof password less authentication protocol, defined by the FiDo alliance and the Worldwide Web consortium. The technology has already been approved by the public financial management system under the Ministry of Defense, Ministry of Finance. These collaborations will help the company position itself as a single-stop solution provider, ensuring a strong presence in the complex product landscape and solidifying its position as an industry leader with a favorable margin profile.
- KAYNES become the first company to deliver 4th gen CKD server board for global OEM.
- The company in this quarter has done acquisition of Digicom Electronics. Digicom has a couple of SMT lines and a complex product profile. With this acquisition, KAYNES will be able to target complex and technologically advanced product profile in the North American market too.
- KAYNES also invested a significant stake in the US startup working in Silicon Photonics.
- Kaynes is expecting additional orders from Railways and Aerospace segment. These orders will be executed in FY25.

### Capacities and funding's

- Existing ESDM business- IPO money raised by the company is sufficient for the existing ESDM business to register a CAGR of 45% over the next few years. The company will invest the entire IPO proceeds by the end of FY25.
- OSAT/PCB – The company is on schedule for the project and in two years' time, it will start commercial production, i.e., by mid-FY26. However, full-fledged revenue is expected to flow in from FY27/28. The company plans to utilize some part of the PCB capacity for captive use.

### OSAT

- The company has started construction work of the OSAT plant in Telangana; however, the company have not yet received the subsidy approval from the government.
- The company has spent INR460m for land in Telangana for OSAT purposes, including the construction of a shed, which was not expensive. The company will not spend more than INR1b on land and building for this project. The management is confident of getting the subsidy/announcement of subsidy before the election.
- In the worst case scenario, if the subsidy is delayed, the building erected by the company can be used for other businesses of the company.

- Once the plant is commissioned, the company will start with regular semiconductors assembly, i.e., starting with certain packages, which are very popularly used in most of the industrial and critical applications. And then quickly move on to the second stage, to what is known as advanced packaging and compound semiconductors, etc.
- In the second stage, KAYNES will require a lot of technology partnerships, and it has already announced a couple of them.

### Guidance

- The management reaffirmed its revenue guidance of ~INR17-18b in FY24, while EBITDA margins is expected to be at par with FY23 levels. PAT guidance remains the same for FY24.
- The management indicated that 17% EBITDA margins is possible in a quarter if the company executes railways and aerospace orders.
- Export mix in this quarter is ~15-20% (similar for both Orderbook and revenue) and is expected to go up to ~25% in FY25, driven by new orders from railway and aerospace.

### Railway

- **Kavach-** The company is working with the government agency to develop this product. It is expected to take ~6-12 month before showcasing the product to the government. The commercial activity will happen after 1-1.5years.
- The company is focusing on developing a ODM kind of solution under Kavach so that KAYNES can make this product for other companies/organization apart from the Indian railways.
- Base margins for railway orders are ~11% initially and post stabilizing, it can increase by 2-3%.

### 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 (~39% in 9MFY24) and PCBA (56%).
- We estimate a CAGR of 43%/46%/57% 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 INR3,300 (52x 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	17,400	24,360	32,155	17,651	24,711	32,866	1%	1%	2%
EBITDA	2,556	3,824	5,306	2,561	3,830	5,291	0%	0%	0%
Adj. PAT	1,641	2,613	3,636	1,644	2,621	3,684	0%	0%	1%

## Financials and valuations

Consolidated - Income Statement							(INRm)
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Total Income from Operations</b>	<b>3,682</b>	<b>4,206</b>	<b>7,062</b>	<b>11,261</b>	<b>17,651</b>	<b>24,711</b>	<b>32,866</b>
Change (%)	1.1	14.2	67.9	59.4	56.7	40.0	33.0
RM Cost	2,417	2,861	4,894	7,801	12,919	17,866	23,664
Employees Cost	424	459	602	771	968	1,359	1,775
Other Expenses	428	477	629	1,006	1,204	1,656	2,136
<b>Total Expenditure</b>	<b>3,269</b>	<b>3,797</b>	<b>6,126</b>	<b>9,578</b>	<b>15,090</b>	<b>20,881</b>	<b>27,575</b>
% of Sales	88.8	90.3	86.7	85.1	85.5	84.5	83.9
<b>EBITDA</b>	<b>413</b>	<b>409</b>	<b>937</b>	<b>1,683</b>	<b>2,561</b>	<b>3,830</b>	<b>5,291</b>
Margin (%)	11.2	9.7	13.3	14.9	14.5	15.5	16.1
Depreciation	84	101	132	187	243	422	587
<b>EBIT</b>	<b>330</b>	<b>308</b>	<b>805</b>	<b>1,496</b>	<b>2,318</b>	<b>3,408</b>	<b>4,705</b>
Int. and Finance Charges	236	240	256	349	534	227	177
Other Income	19	40	41	114	345	321	394
<b>PBT bef. EO Exp.</b>	<b>113</b>	<b>109</b>	<b>590</b>	<b>1,260</b>	<b>2,129</b>	<b>3,503</b>	<b>4,923</b>
EO Items	0	0	0	0	0	0	0
<b>PBT after EO Exp.</b>	<b>113</b>	<b>109</b>	<b>590</b>	<b>1,260</b>	<b>2,129</b>	<b>3,503</b>	<b>4,923</b>
Total Tax	19	11	174	308	485	882	1,239
Tax Rate (%)	17.1	10.5	29.4	24.5	22.8	25.2	25.2
Minority Interest	0	0	0	0	0	0	0
<b>Reported PAT</b>	<b>94</b>	<b>97</b>	<b>417</b>	<b>952</b>	<b>1,644</b>	<b>2,621</b>	<b>3,684</b>
<b>Adjusted PAT</b>	<b>94</b>	<b>97</b>	<b>417</b>	<b>952</b>	<b>1,644</b>	<b>2,621</b>	<b>3,684</b>
Change (%)	-3.8	4.0	328.2	128.4	72.7	59.5	40.5
Margin (%)	2.5	2.3	5.9	8.5	9.3	10.6	11.2

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	10,653	13,274	16,957
<b>Net Worth</b>	<b>1,027</b>	<b>1,387</b>	<b>2,026</b>	<b>9,590</b>	<b>11,234</b>	<b>13,855</b>	<b>17,539</b>
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
<b>Capital Employed</b>	<b>2,755</b>	<b>2,974</b>	<b>3,884</b>	<b>11,039</b>	<b>12,833</b>	<b>14,954</b>	<b>18,638</b>
Gross Block	930	1,181	1,544	1,925	3,410	5,207	6,766
Less: Accum. Deprn.	382	483	615	802	1,045	1,467	2,054
<b>Net Fixed Assets</b>	<b>547</b>	<b>698</b>	<b>929</b>	<b>1,123</b>	<b>2,365</b>	<b>3,740</b>	<b>4,712</b>
Goodwill on Consolidation	23	23	23	23	23	23	23
Capital WIP	119	126	83	293	1,309	1,012	952
<b>Total Investments</b>	<b>16</b>	<b>17</b>	<b>15</b>	<b>33</b>	<b>33</b>	<b>33</b>	<b>33</b>
Current Investments	0	0	0	0	0	0	0
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>3,075</b>	<b>3,330</b>	<b>5,173</b>	<b>12,715</b>	<b>13,524</b>	<b>16,284</b>	<b>21,057</b>
Inventory	1,511	1,639	2,264	4,132	5,132	6,853	8,752
Account Receivables	937	1,218	1,977	2,271	3,143	4,401	5,853
Cash and Bank Balance	123	143	216	4,860	3,660	2,807	3,494
Loans and Advances	504	331	716	1,453	1,589	2,224	2,958
<b>Curr. Liability &amp; Prov.</b>	<b>1,027</b>	<b>1,219</b>	<b>2,340</b>	<b>3,148</b>	<b>4,421</b>	<b>6,138</b>	<b>8,140</b>
Account Payables	921	954	1,641	2,229	3,008	4,161	5,511
Other Current Liabilities	76	226	648	857	1,236	1,730	2,301
Provisions	30	39	52	62	177	247	329
<b>Net Current Assets</b>	<b>2,048</b>	<b>2,110</b>	<b>2,833</b>	<b>9,567</b>	<b>9,103</b>	<b>10,147</b>	<b>12,917</b>
Misc Expenditure	0	0	0	0	0	0	0
<b>Appl. of Funds</b>	<b>2,755</b>	<b>2,974</b>	<b>3,884</b>	<b>11,039</b>	<b>12,833</b>	<b>14,954</b>	<b>18,638</b>

## Financials and valuations

### Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Basic (INR)</b>							
<b>EPS</b>	<b>13.8</b>	<b>14.3</b>	<b>9.0</b>	<b>16.4</b>	<b>28.3</b>	<b>45.1</b>	<b>63.4</b>
Cash EPS	26.1	29.1	11.9	19.6	32.4	52.3	73.4
BV/Share	151.0	203.9	43.9	164.9	193.2	238.3	301.7
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
<b>Valuation (x)</b>							
P/E	205.8	197.8	313.5	172.9	100.1	62.8	44.7
Cash P/E	108.5	97.2	238.3	144.5	87.3	54.1	38.5
P/BV	18.7	13.9	64.5	17.2	14.7	11.9	9.4
EV/Sales	5.6	4.9	18.7	14.3	9.2	6.6	4.9
EV/EBITDA	50.3	50.5	141.2	95.7	63.4	42.5	30.6
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	-20.0	-7.7	8.1
<b>Return Ratios (%)</b>							
RoE	9.1	8.1	24.4	16.4	15.8	20.9	23.5
RoCE	10.8	11.2	17.8	16.5	17.4	20.2	22.8
RoIC	10.9	10.7	18.2	24.0	26.2	26.9	27.9
<b>Working Capital Ratios</b>							
Fixed Asset Turnover (x)	4.0	3.6	4.6	5.9	5.2	4.7	4.9
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
<b>Leverage Ratio (x)</b>							
Current Ratio	3.0	2.7	2.2	4.0	3.1	2.7	2.6
Interest Cover Ratio	1.4	1.3	3.1	4.3	4.3	15.0	26.6
Net Debt/Equity	1.5	1.0	0.8	-0.4	-0.2	-0.1	-0.1

### Consolidated - Cash Flow Statement

(INRm)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	113	109	590	1,260	2,129	3,503	4,923
Depreciation	84	101	132	187	243	422	587
Interest & Finance Charges	228	233	-11	-100	189	-95	-218
Direct Taxes Paid	-19	-28	-22	-503	-485	-882	-1,239
(Inc)/Dec in WC	44	-137	-743	-1,629	-736	-1,897	-2,083
<b>CF from Operations</b>	<b>451</b>	<b>277</b>	<b>-53</b>	<b>-784</b>	<b>1,339</b>	<b>1,052</b>	<b>1,969</b>
Others	2	0	265	365	0	0	0
<b>CF from Operating incl EO</b>	<b>452</b>	<b>277</b>	<b>211</b>	<b>-419</b>	<b>1,339</b>	<b>1,052</b>	<b>1,969</b>
(Inc)/Dec in FA	-312	-250	-422	-581	-2,500	-1,500	-1,500
<b>Free Cash Flow</b>	<b>140</b>	<b>27</b>	<b>-211</b>	<b>-1,001</b>	<b>-1,161</b>	<b>-448</b>	<b>469</b>
(Pur)/Sale of Investments	205	2	-33	0	0	0	0
Others	8	7	11	-4,352	345	321	394
<b>CF from Investments</b>	<b>-99</b>	<b>-241</b>	<b>-445</b>	<b>-4,933</b>	<b>-2,155</b>	<b>-1,179</b>	<b>-1,106</b>
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	-534	-227	-177
Dividend Paid	0	0	0	0	0	0	0
Others	0	-6	0	-371	0	0	0
<b>CF from Fin. Activity</b>	<b>-354</b>	<b>-19</b>	<b>272</b>	<b>5,543</b>	<b>-384</b>	<b>-727</b>	<b>-177</b>
<b>Inc/Dec of Cash</b>	<b>-1</b>	<b>17</b>	<b>38</b>	<b>191</b>	<b>-1,200</b>	<b>-853</b>	<b>687</b>
Opening Balance	8	126	143	216	4,860	3,660	2,807
Other cash & cash equivalent	115	0	35	4,453	0	0	0
<b>Closing Balance</b>	<b>123</b>	<b>143</b>	<b>216</b>	<b>4,860</b>	<b>3,660</b>	<b>2,807</b>	<b>3,494</b>

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NOTES



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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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