

## Kaynes Technology India Limited

Incorporated in 2008, Kaynes Technology India Limited (KTIL) is a leading end-to-end and IoT solutions-enabled integrated electronics manufacturing company. The company having capabilities across the entire spectrum of electronics system design and manufacturing ("ESDM") services. Company operates under four different business verticals namely (1) OEM – Turnkey Solutions – Box Build (2) OEM – Turnkey Solutions – Printed Circuit Board Assemblies (3) ODM (4) Product Engineering and IoT Solutions. Company also work with its five subsidiaries, which caters to varying customer needs and demands. It has manufacturing facilities across India in the states of Karnataka, Haryana, Himachal Pradesh, Tamil Nadu, and Uttarakhand. As of June 30, 2022, company works with over 871 vendors and sources materials from various regions including North America, Europe, and Singapore as well as locally within India.

**Positives:** (a) Internet of Things ("IoT") solutions enabled integrated electronics manufacturing player with end-to-end capabilities across the Electronics System Design and Manufacturing spectrum. (b) Diversified business model with application across industry verticals. (c) Strong and consistent financial performance. (d) Experienced management team, promoters and financial investors and stakeholders.

**Investment concerns:** (a) Company is generating majority of its revenue from its top 10 customer only. (b) Increasing competition in the electronics system design and manufacturing industry. (c) Any slowdown, shutdown or disruption in its manufacturing facilities.

**Outlook & Valuation:** In terms of valuations, the post-issue P/E works out to 69x FY22 EPS (at the upper end of the issue price band) which is in line with its peers like Syrma SGS Technology Limited and Amber Enterprises India Limited. Further, Kaynes Technology India Limited has better revenue growth/PAT of CAGR of 38% and 111% respectively. As the future growth of the company is currently factored in its price, we believe this valuation is at reasonable levels. Thus, we recommend a **NEUTRAL** rating on the issue.

### Key Financials

| Y/E March (₹ cr)  | FY2020 | FY2021 | FY2022 |
|-------------------|--------|--------|--------|
| <b>Net Sales</b>  | 368.2  | 420.6  | 706.2  |
| % chg             | -      | 14.2   | 67.9   |
| <b>Net Profit</b> | 9.4    | 9.7    | 41.7   |
| % chg             | -      | 4.0    | 328.2  |
| EBITDA (%)        | 11.2   | 9.7    | 13.3   |
| <b>EPS (Rs)</b>   | 1.6    | 1.7    | 7.2    |
| P/E (x)           | 308.2  | 296.2  | 69.2   |
| P/BV (x)          | 33.1   | 24.5   | 16.8   |
| ROE (%)           | 9.1    | 7.0    | 20.6   |
| ROCE (%)          | 12.4   | 10.5   | 20.1   |
| EV/EBITDA         | 86.0   | 86.8   | 38.2   |
| EV/Sales          | 9.7    | 8.4    | 5.1    |

Source: Company RHP, Angel Research

## NEUTRAL

Issue Open: November 10, 2022  
Issue Close: November 14, 2022

### Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹ 49.1cr

Offer for Sale: ₹ 327.82cr

Fresh issue: ₹ 530cr

Post Eq. Paid up Capital: ₹ 58.1cr

Issue size (amount): ₹ 857.82cr

Price Band: ₹ 559 - ₹587

Lot Size: 25shares and in multiple thereafter

Post-issue mkt. cap: \* ₹3,275cr - \*\* ₹3,413cr

Promoters holding Pre-Issue: 79.78%

Promoters holding Post-Issue: 68.81%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

|                   |              |
|-------------------|--------------|
| QIBs              | 50% of issue |
| Non-Institutional | 15% of issue |
| Retail            | 35% of issue |

### Post Issue Shareholding Pattern

|           |       |
|-----------|-------|
| Promoters | 63.8% |
| Public    | 36.2% |

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## Company background

The Company was incorporated on March 28, 2008 at Mysore, Karnataka as a private limited company with the name 'Kaynes Technology India Private Limited' and subsequently, the name of the Company was changed to 'Kaynes Technology India Limited. They have experience in providing conceptual design, process engineering, integrated manufacturing and life-cycle support for major players in the automotive, industrial, aerospace and defence, outer-space, nuclear, medical, railways, Internet of Things ("IoT"), Information Technology ("IT") and other segments. Their operations comply with global standards and their facilities have 10 global accreditations, making them the most certified ESDM company in India.

Kaynes classify their operations under the following business verticals:

1. OEM - Turnkey Solutions -Box Build ("OEM – Box Build").
2. OEM - Turnkey Solutions - Printed Circuit Board Assemblies ("PCBAs") ("OEM – Turnkey Solutions").
3. Original Design Manufacturer ("ODM").
4. Product Engineering and IoT Solutions.

Kaynes operates 8 strategically located manufacturing facilities across India in the states of Karnataka, Haryana, Himachal Pradesh, Tamil Nadu, and Uttarakhand. In the 3 months ended June 30, 2022, they served 229 customers in 21 countries globally and multiple industry verticals such as automotive, aerospace and defense, industrial, railways, medical and IT / ITES.

## Issue details

The IPO Size for the company is ₹857.82 Cr, which include fresh offering of ₹530.00 Cr and offer for sale (OFS) aggregated upto ₹327.82 Cr.

### Pre & Post Shareholding

| No of shares            | (Pre-issue)       | %             | (Post-issue)      | %             |
|-------------------------|-------------------|---------------|-------------------|---------------|
| Promoter & Promoter Gp. | 39,184,484        | 79.78%        | 37,099,820        | 63.81%        |
| Public                  | 9,929,052         | 20.22%        | 21,042,677        | 36.19%        |
| <b>Total</b>            | <b>49,113,536</b> | <b>100.0%</b> | <b>58,142,497</b> | <b>100.0%</b> |

Source: Company, Angel Research

## Objectives of the Offer

- Repayment/ prepayment, in full or part, of certain borrowings availed by the company.
- Funding capital expenditure towards expansion of the existing manufacturing facility at Mysore, Karnataka, and near the existing manufacturing facility at Manesar, Haryana.
- Investment in the wholly owned Subsidiary, Kaynes Electronics Manufacturing Private Limited, for setting up a new facility at Chamarajanagar, Karnataka.
- Funding working capital requirements of the Company.
- General corporate purposes.

## Key Management Personnel

- **Ramesh Kunhikannan** is the Promoter and Managing Director of the company. He has been associated with the company since incorporation. He has over 33 years of experience in the electronic manufacturing services industry. He oversees the management function of the company and together with their senior management is responsible for the implementation of strategy in respect of such management function.
- **Savitha Ramesh** is the Promoter, Chairperson and Whole-time Director of the company. She has over 25 years of experience in electronic manufacturing services industry.
- **Jairam Paravastu Sampath** is the Whole-time Director and Chief Financial Officer of the company. He has been associated with the company since 2011. He has over 30 years of experience in manufacturing, operations, sales and marketing.
- **Anup Kumar Bhat** is the Independent Director of the company. He has been associated with the company since 2022. He has several years of experience and was previously associated with the Ashok Leyland.

## Financial Summary

### Income Statement (Consolidated)

| Y/E March (₹ cr)              | FY2020       | FY2021       | FY2022       |
|-------------------------------|--------------|--------------|--------------|
| <b>Total operating income</b> | 368.2        | 420.6        | 706.2        |
| % chg                         | -            | 14.2         | 67.9         |
| <b>Total Expenditure</b>      | <b>326.9</b> | <b>379.7</b> | <b>612.6</b> |
| Cost of materials consumed    | 260.34       | 282.30       | 493.11       |
| Changes in Inventories        | -18.66       | 3.82         | -3.68        |
| Employee benefits expense     | 42.43        | 45.90        | 60.24        |
| Other expenses                | 42.79        | 47.72        | 62.91        |
| <b>EBITDA</b>                 | <b>41.3</b>  | <b>40.9</b>  | <b>93.7</b>  |
| % chg                         | -            | -1.1         | 129.1        |
| (% of Net Sales)              | 11.2         | 9.7          | 13.3         |
| Depreciation & Amortization   | 8.4          | 10.1         | 13.2         |
| <b>EBIT</b>                   | <b>33.0</b>  | <b>30.8</b>  | <b>80.5</b>  |
| % chg                         | -            | -6.5         | 161.3        |
| (% of Net Sales)              | 8.9          | 7.3          | 11.4         |
| Finance costs                 | 23.6         | 24.0         | 25.6         |
| Other income                  | 1.9          | 4.0          | 4.1          |
| (% of Sales)                  | 0.5          | 1.0          | 0.6          |
| <b>Recurring PBT</b>          | <b>11.3</b>  | <b>10.9</b>  | <b>59.0</b>  |
| % chg                         | -            | -3.6         | 442.9        |
| Share of reinstated           | -            | -            | -            |
| Exceptional item              | -            | -            | -            |
| Tax                           | 1.9          | 1.1          | 17.4         |
| <b>PAT (reported)</b>         | <b>9.4</b>   | <b>9.7</b>   | <b>41.7</b>  |

Source: Company, Angel Research

**Balance Sheet (Consolidated)**

| Y/E March (₹ cr)                | FY2020       | FY2021       | FY2022       |
|---------------------------------|--------------|--------------|--------------|
| <b>SOURCES OF FUNDS</b>         |              |              |              |
| Equity Share Capital            | 6.8          | 6.8          | 46.2         |
| Other equity (Retained Earning) | 95.9         | 131.9        | 156.4        |
| <b>Shareholders' Funds</b>      | <b>102.7</b> | <b>138.7</b> | <b>202.6</b> |
| <b>Non-Controlling interest</b> | <b>0.5</b>   | <b>0.9</b>   | <b>1.1</b>   |
| <b>Total Loans</b>              | <b>143.8</b> | <b>139.5</b> | <b>169.5</b> |
| Other liabilities               | 19.6         | 14.9         | 27.3         |
| <b>Total Liabilities</b>        | <b>266.7</b> | <b>293.9</b> | <b>400.5</b> |
| <b>APPLICATION OF FUNDS</b>     |              |              |              |
| Property, plant and equipment   | 50.2         | 57.1         | 64.0         |
| Capital work-in-progress        | 5.0          | 1.0          | 4.4          |
| Intangible assets               | 4.5          | 12.7         | 29.0         |
| Intangible under development    | 7.0          | 11.6         | 3.9          |
| Rights-of-Use Assets            | 8.6          | 7.9          | 18.1         |
| Goodwill                        | 2.3          | 2.3          | 2.3          |
| Current Assets                  | 290.5        | 319.2        | 486.4        |
| Inventories                     | 151.1        | 163.9        | 226.4        |
| Trade receivables               | 93.6         | 121.7        | 197.7        |
| CCE                             | 0.7          | 3.1          | 6.9          |
| Bank balances other than CCE    | 11.5         | 11.2         | 14.7         |
| Loans and deposits              | 5.1          | 1.8          | 1.7          |
| Other financial assets          | 0.7          | 0.2          | 0.3          |
| Other current assets            | 27.6         | 17.3         | 38.7         |
| Current Liability               | 111.4        | 125.5        | 221.9        |
| <b>Net Current Assets</b>       | <b>179.0</b> | <b>193.7</b> | <b>264.5</b> |
| Other Non-Current Asset         | 10.0         | 7.6          | 14.4         |
| <b>Total Assets</b>             | <b>266.7</b> | <b>293.9</b> | <b>400.5</b> |

Source: Company, Angel Research

### Cashflow Statement (Consolidated)

| Y/E March (₹cr)                                | FY2020       | FY2021       | FY2022       |
|--|--------------|--------------|--------------|
| Operating profit                               | 42.7         | 44.2         | 96.7         |
| Net changes in working capital                 | 4.4          | -13.7        | -74.2        |
| Cash generated from operations                 | 47.1         | 30.5         | 22.5         |
| Direct taxes paid (net of refunds)             | -1.9         | -2.8         | -1.4         |
| <b>Net cash flow from operating activities</b> | <b>45.2</b>  | <b>27.7</b>  | <b>21.1</b>  |
| Purchase of fixed assets                       | -31.2        | -25.0        | -42.2        |
| Interest Received                              | 0.8          | 0.7          | 1.1          |
| Others   | 20.5         | 0.2          | -3.3         |
| <b>Cash Flow from Investing</b>                | <b>-9.9</b>  | <b>-24.1</b> | <b>-44.5</b> |
| Proceeds from borrowings                       | 7.9          | -11.7        | 17.9         |
| Repayment from borrowings                      | -19.8        | 7.3          | 12.2         |
| Interest expense                               | -23.6        | -24.0        | -25.6        |
| Others*  | 0.0          | 27.0         | 22.8         |
| <b>Cash Flow from Financing</b>                | <b>-35.4</b> | <b>-1.3</b>  | <b>27.2</b>  |
| Inc./ (Dec.) in Cash                           | -0.1         | 2.3          | 3.8          |
| <b>Opening Cash balances</b>                   | <b>0.8</b>   | <b>0.7</b>   | <b>3.1</b>   |
| <b>Closing Cash balances</b>                   | <b>0.7</b>   | <b>3.1</b>   | <b>6.9</b>   |

Source: Company, Angel Research

### Key Ratios

| Y/E March                    | FY2020 | FY2021 | FY2022 |
|------------------------------|--------|--------|--------|
| <b>Valuation Ratio (x)</b>   |        |        |        |
| P/E (on FDEPS)               | 308.2  | 296.2  | 69.2   |
| P/BV                         | 33.1   | 24.5   | 16.8   |
| EV/Sales                     | 9.7    | 8.4    | 5.1    |
| EV/EBITDA                    | 86.0   | 86.8   | 38.2   |
| <b>Per Share Data (Rs)</b>   |        |        |        |
| EPS (Basic)                  | 1.9    | 2.0    | 8.5    |
| EPS (fully diluted)          | 1.6    | 1.7    | 7.2    |
| Book Value                   | 17.8   | 24.0   | 35.0   |
| <b>Returns (%)</b>           |        |        |        |
| ROE                          | 9.1    | 7.0    | 20.6   |
| ROCE                         | 12.4   | 10.5   | 20.1   |
| <b>Turnover ratios (x)</b>   |        |        |        |
| Receivables (days)           | 92.8   | 105.6  | 102.2  |
| Inventory (days)             | 149.8  | 142.2  | 117.0  |
| Payables (days)              | 91.3   | 82.8   | 84.8   |
| Working capital cycle (days) | 151.3  | 165.0  | 134.4  |

Source: Company, Angel Research;

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