BOBCAPS
TRUST | INNOVATION | EXCELLENCE

CAPITAL GOODS, POWER, DURABLES

06 March 2024

BOBCAPS Unlocking Insights Conference: Key takeaways

- **We hosted 10 corporates at our 'Unlocking Insights' Conference spanning the capital goods, power and durables sectors**
- **Corporates remain convinced of a capex upcycle despite a slight pre-election lull**
- **Thermal power capacity trends are back in focus, strong outsourcing is spurring EMS, and capex is fuelling sales of cables & wires**

Vinod Chari | Swati Jhunjhunwala
Arshia Khosla
research@bobcaps.in

We hosted 10 corporates at our five-day virtual conference with investors from 26 February to 1 March, aimed at unlocking insights in the capital goods, power and durables sectors. Participants comprised LT, KECI, AIAE, NTPC, TPWR (Not Rated), ADANI (Not Rated), POLYCAB, KEII, SYRMA and KAYNES (Not Rated). We present key conference highlights in this report.

Capex cycle remains robust: In the capital goods space, corporates such as LT and KECI expect a temporary lull in activities for tendering and at the ground level due to the upcoming general elections in Apr'24, but do not see the slowdown extending beyond 3-4 months. The outlook on domestic capex remains strong for FY25. Similarly, the key Middle East market, where a large oil company has talked of lowering future outlay, is also expected to see continued infrastructure spends. The quality of the order book is improving and all companies believe margins will expand next year as the mix changes.

Interest in thermal capacity addition rekindled: Power companies NTPC, TPWR and ADANI fielded questions on coal-based capacity additions and the scaling up of brownfield thermal capex, reflecting reviving investor interest in thermal power. While renewable energy remains in focus, we observed equal attentiveness toward new thermal projects given the above-expected peak power demand seen in FY24 to date.

Cables & wires segment continues to grow in durables space…: In the consumer durables space, the cables & wires segment continues to perform well on the back of two factors – (i) the B2B segment is witnessing strong growth due to demand arising out of the infrastructure capex cycle, and (ii) the B2C segment is benefitting from real estate demand. POLYCAB and KEII expect these trends to continue in FY25.

…**while higher outsourcing is benefitting EMS:** Electronics manufacturing services (EMS) companies such as SYRMA and KAYNES are key beneficiaries of the boom in electronics outsourcing, which is expected to continue in the medium term, with players indicating growth visibility till FY26-FY27.

Recommendation snapshot

Ticker	Price	Target	Rating
AIAE IN	3,715	4,000	HOLD
KECI IN	724	700	HOLD
KEII IN	3,382	3,120	HOLD
LT IN	3,613	4,200	BUY
SYRMA IN	529	550	HOLD

Price & Target in Rupees | Price as of 5 Mar 2024

Capital Goods

Larsen & Toubro (LT IN)

BUY | TP Rs 4,200

- **FY26 growth targets…:** In FY21, LT had targeted 18% ROE by FY26, in addition to a revenue CAGR of 13% in the projects and manufacturing business and 18% in IT services, along with 80% share of retail loans in the financial services business. The company had also aimed to exit the development projects business and return excess cash to shareholders.

- **…and progress thus far:** Three years into its growth roadmap, LT noted that its projects and manufacturing business has outdone expectations, clocking ~18% volume growth and setting off the below-anticipated single-digit growth in IT. In financial services, the share of retail lending at ~90% has surpassed management's target as well.

  Profitability per unit has been subdued with an ~8.5% EBIT margin over the past three years due to legacy jobs and commodity volatility, but overall profits have increased and ROIC has improved with respectable net working capital of ~16%. Additionally, the company has deployed excess cash to complete a buyback in Q2FY24 and sees the possibility of another buyback in the next 2-3 years.

- **Development projects business:** The development projects business, which includes a thermal power plant (Nabha Power) and the Hyderabad metro, has been slightly disappointing. That said, Nabha continues to generate cash for the company and hence management is unwilling to sell it at suboptimal returns.

  The Hyderabad metro business was expected to achieve cash breakeven by FY26 but continues to burn US$ 120mn-130mn on an annual basis and LT is uncertain of a breakeven timeframe. The company had anticipated support from the Telangana government but has received only a third of the expected sum and is awaiting the balance. LT expects to exit the metro business before 2030.

- **Thermal EPC business:** In the thermal EPC (engineering, procurement and construction) business, management is wary of accepting new orders unless margin requirements and payment terms match its expectations. The business has floundered given legacy receivables outstanding and is unlikely to be pursued aggressively. In terms of competition, BHEL has ~5x more capacity than LT.

- **Infrastructure business:** The infrastructure segment is guided to clock ~Rs 1tn in revenue by FY26, with minerals and metals at Rs 50bn-60bn, transport infrastructure at Rs 80bn-100bn, power transmission & distribution (T&D) and civil at Rs 300bn each, and water and buildings & factories (B&F) at Rs 150bn each. In the international infrastructure order book, B&F is expected to impart stability while power T&D drives growth.

- **Capacity and constraints:** LT's current order book totals ~Rs 4.7tn across businesses. Capacity enhancements are underway, and management expects to comfortably take on a ~Rs 6tn order book in the next two years. Constraints such as a shortage of engineers may arise, as was the case in the last capex cycle, but the company has made efforts to offer courses and training to institutes besides hiring from tier-2 cities to ensure a ready workforce.
- **Order mix:** Orders from the Middle East have risen in the recent past for LT due to higher oil & gas and refinery capex in Saudi Arabia. In India, public capex has ramped up over the last 4-5 years and management expects private capex to continue to spearhead growth in the coming years. LT estimates a ~45% share of international orders going forward if similar demand trends continue and does not anticipate much risk from business concentration in the Middle East.
- **Outlook:** LT's renewables business is seeing strong traction in the international market, whereas real estate is on the backburner as its other businesses are more lucrative and offer better opportunities for growth. Conventional areas are expected to grow at a relatively slower pace, while the newer areas of green hydrogen, renewable energy, data centres, airports, health infrastructure and manufacturing capex on the back of production-linked incentives (PLI) are likely to see a boom. In the data centre business, profitability is yet to be proven and trends will become clearer in coming years.

KEC International (KECI IN)

HOLD | TP Rs 700

- **Order book:** KECI has a Rs 370bn order book at present and indicated that it is witnessing some delays in conversion of L1 orders where it is the lowest bidder. The company has revenue visibility for 7-8 quarters.
- **T&D contracts:** Transmission construction contracts are generally bid out after developers such as PWGR and Sterlite Power submit their bids for TBCB tenders. The working capital cycle in these contracts is well established and contractors are decided after the TBCB results are out.
- **Power Grid orders:** Competition in PWGR construction tenders is reducing and only 4-5 players currently bid for these projects. Additionally, PWGR has stringent qualification and capacity requirements, leaving only larger players eligible to bid for contracts. KECI, LT, and Kalpataru Developers are among the few large-scale construction companies in the fray, along with smaller players such as Bajaj Electricals (BJE), Transgear Power Systems and Karamtara Engineering (6589452Z IN). KECI is confident of order wins and noted that PWGR orders have historically been more profitable for business.
- **Advantage of scale:** Smaller players are generally able to take on only 2-3 projects at a time due to constraints of lower capacity and smaller balance sheets. KECI, on the other hand, has a strong balance sheet with enough capacity to execute big-ticket orders. The company has undertaken a project as large as Rs 9bn for PWGR and a single project as big as Rs 15bn.

- **Margin guidance:** Management expects to clock EBITDA margins of 6.2-6.3% in FY24 and 7.5% in FY25, marking ~130bps YoY expansion each year.
- **Election impact:** Management believes the negative impact of India's upcoming general elections on business will be limited and visible only for the 1-2-month polling period. Additionally, ~30% of KECI's business is international in nature and hence insulated from the election impact.
- **Cables business:** Management expects to earn Rs 17bn in revenue from cables in FY24 and Rs 20bn in FY25 (vs. Rs 16bn in FY23). About 20-25% of the cables produced are used for internal consumption while 70-75% are sold to third parties. Management is confident of growing this business and is looking to expand into newer, lucrative areas such as solar cables. Internal consumption may reduce given the lower contribution of rail in KECI's overall mix.

  The company is also setting up a conductor plant at its Baroda (Gujarat) facility to augment its cables business, which is expected to generate an additional Rs 5bn-6bn in revenue after becoming operational and will help expand the segment's operating margin from 6% now to 7%. Cables complement KECI's core EPC operations given the near negative working capital nature of the business.

AIA Engineering (AIAE IN)

HOLD | TP Rs 4,000

- **Mining market for high chrome media:** AIAE believes that the mining sector will be the key long-term demand driver for ferrochrome grinding media. Out of its 300,000t production volumes, AIAE supplies ~90,000t to the cement and thermal power industries while the balance is purchased by the mining sector. The company sees a potential 2mtpa market for converting forged media in mining to high chrome media. Between AIAE (~200,000t) and Magotteaux (200,000-250,000t), only 25% of this potential market is serviced, per management.
- **High chrome vs. forged media:** Although high chrome media is 15-20% more expensive than forged media, the company highlights three key advantages of the former: (1) less wear and tear which translates to cost savings of 15-20% for miners on an annual basis, (2) higher mine recovery rate (even a 0.25% recovery rate would more than make up for the higher cost), and (3) throughput improvement of 10-15% in some cases along with power cost savings of 10-15%.
- **Margin guidance:** AIAE has been conservatively guiding for a 20-22% operating margin range while consistently performing well above this range. According to management, a key reason for this conservatism is that, unlike cement, the key decisions for mines are taken at the individual mine level where several local players supply forged media and compete with AIAE on pricing.

  In the short term, margins are also a function of pass-through of fluctuations in ferrochrome prices or freight costs, which often occurs with a lag. Considering all this, the company maintains its cautious guidance range and expects margin upsides only once it reaches critical volumes.

- **Red Sea crisis:** Though the Red Sea crisis has pushed up freight costs, AIAE does not foresee a major impact as these will be passed along. However, Q4FY24 may see a minor hit due to the lag in passing through these costs.
- **M&A:** AIAE has Rs 31bn of cash mostly in fixed deposits and money market funds, earning a yield of 7-8%. It is open to using this cash for any potential acquisition that catches its interest.

Power

NTPC (NTPC IN)

BUY | TP Rs 370

- **Thermal capacity:** NTPC has 10GW of thermal capacity under construction, with another 16.8GW to be awarded over the next two years. The projects will be awarded once power purchase agreements (PPA) are signed with offtakers. All these capacities will be under the regulated tariff mechanism (RTM). Additionally, the company indicated that it has the potential to add another 10GW across its plant locations.

  NTPC's plants are 17-20 years old on average and include smaller 200-250MW units that can be replaced by ~1GW units. The company also plans to commission 4.2GW of nuclear capacities in 10 years and is confident of reaching 20GW by 2040 from 3.4GW at present. The average construction period for a nuclear plant is 8-10 years.
- **Renewable capacity:** NTPC has 3.4GW of operational renewable energy capacity, 7.8GW of under-construction capacity and 8.2GW under tendering. Now that supply chain issues have stabilised and module prices have moderated, management expects to achieve 20GW of renewable capacity by FY26 and 60GW by 2032.
- **Storage:** Pumped storage plants (PSP) offer the most economical storage option given high battery prices. The company expects to add 8GW of PSP over the next 7-8 years and is in the process of securing approvals.
- **Receivables:** Following implementation of the late payment surcharge (LPS) scheme, NTPC's receivables have improved to 35 days from 45 earlier (and >50 days during Covid). With more smart meters and rising collection efficiency, the T&D losses of power distribution companies are likely to lessen which can further lower receivables.

Tata Power (TPWR IN)

NOT RATED

Power business

- **Transmission:** TPWR sees strong opportunities in the transmission business and has recently won a TBCB project in Rajasthan SEZ phase-IV, part 1-part C, in the Bikaner complex. Given the diversified nature of its business, management is not keen on foregoing margins to add more projects and is targeting orders with an equity IRR of 15-16%. Additionally, the company has acquired stressed transmission assets which it intends to turn around and is open to inorganic expansion in case margin thresholds are not met in the TBCB market.

- **Distribution:** Distribution accounts for a significant portion of TPWR's business, and the company expects licensing opportunities to open up over the next few years. This business seems to be more closely correlated with the decisions of state governments than the Electricity Act itself and management is confident that states will come up with privatisation opportunities in the medium term.

- **Debt:** Crisil recently upgraded TPWR from AA (stable) to AA (positive). The company has bonds with clauses of a 25bps reduction in interest in the event of a rating upgrade and hence this benefit should kick in immediately. Additionally, spreads on loans should inch down, likely making for a 25-30bps positive impact in all.

Renewables business

- **Pipeline:** TPWR has a 4.7GW renewable project pipeline, comprising ~2GW of hybrid and ~2.5GW of solar capacities. It expects the bulk of these solar capacities to source modules from its inhouse cell and module manufacturing facility that is to be commissioned around Q2FY25.

- **Cell and module manufacturing:** TPWR will soon commission a 4GW cell and module manufacturing facility. Going forward, roughly 75% of its cell and module capacities are expected to be used inhouse, with the balance 25-30% being sold to third parties.

- **Modules:** Module prices have come down substantially over the last few quarters. In TPWR's EPC business, 50% of the overall cost pertains to modules. The company is confident of achieving a 6-7% EBITDA margin in this business despite the pricing disconnect between imported and (temporarily costlier) inhouse modules, which management believes is transient in nature.

- **Margins:** TPWR expects its cells and modules to be competitive in the Indian market as the pricing gap with imports narrows and the Approved List of Models and Manufacturers (ALMM) kicks in from April, spurring demand for Indian-made products. The ALMM is a list of models and manufacturers of solar photovoltaic (PV) modules approved by the Ministry of New and Renewable Energy. Overall, management expects to earn a ~25% EBITDA margin in its cell and modules business, with 10% and 20% being worst- and best-case scenarios.

- **Solar pumps:** TPWR has discontinued its solar pumps business given a long receivables cycle and a significant lag between project tenders and execution. It has liquidated all inventory in the business.
- **Pumped storage:** The company has two pumped storage projects in the pipeline, namely Bhivpuri (1GW, Rs 47.5bn) and Shirawata (1.8GW, Rs 82.5bn), with all approvals in place. Management expects construction on the two projects to begin in Aug'24 and Dec'24 respectively and plans to commission them by the end of 2027 and 2028 at a total capital cost of Rs 130bn.

Mundra coal plant

- **Operational performance:** TPWR's Mundra ultra mega power project (UMPP) is now operating at ~60% PLF (plant load factor) with ~75% availability, as opposed to 35-40% PLF the previous year, and is at breakeven point. Given the requirement of firm power in the country for the next decade and the government's plans to add 88GW of coal plants by 2030, TPWR believes the operational performance of plants like the Mundra UMPP is vital. Against this backdrop, management expects to resolve the issues facing this plant in due course while continuing operations under Section 11.
- **Section 11:** In 2021, the price of coal shot up four-fold to US$ 430/mt, but since the Mundra PPA was already signed, there was no choice but to shut down the plant as it had become unviable. The regulator recently permitted TPWR to supply power from Mundra UMPP at full passthrough of coal costs to the procurer under Section 11 of the Electricity Act, 2003. The company is sourcing minimal coal from its own mines overseas to reduce the extent of profit sharing of these mines. So long as the Mundra PPA remains unresolved, Section 11 is one the best solutions for the plant.
- **PPA resolution:** The PPA for Mundra has five offtakers, namely the states of Gujarat (45%), Maharashtra (19%), Punjab (12%), Rajasthan (9.5%), and Haryana (5%). As achieving resolution with all five states did not appear viable initially, TPWR decided to take up the matter with one state at a time, starting with Gujarat (the largest procurer). Discussions with Gujarat are ongoing, and Maharashtra has agreed to take on the terms agreed upon by Gujarat.
- **Coal mine divestment:** TPWR plans to divest its coal mines as part of its net carbon neutral target by 2040, but these divestment plans have been put on hold till the Mundra PPA is resolved.

Adani Power (ADANI IN)

NOT RATED

- **Capacity:** ADANI has a total operating capacity of 15.2GW, including 2.8GW in subsidiaries, and is setting up a 1.6GW ultra supercritical power plant. The company has clocked a 62% PLF as at 9MFY24 and indicated that it can operate at 55% without incurring losses, with steps underway to reduce this level to 35% if the need to ramp down arises.

  As much as 81% of its capacity has offtake protection and 19% is open for merchant sales. Per ADANI, 8GW of capacity is pithead, 5.8GW is coastal and 2.9GW is in the hinterland.

- **Fuel:** A total of 80% of the company's coal requirements are tied up through long-term contracts with Coal India. Additionally, its PPAs have a passthrough clause for any fuel price variation.

- **Expansion plans:** ADANI plans to add 5.5GW of capacity by FY29, which includes 3.2GW of brownfield and 2.3GW of inorganic capacity.

- **ESG:** The company has flue-gas desulfurisation (FGD) systems installed for 23% of its operational capacity, which is targeted to rise to 100% by Dec'26. Additionally, its freshwater consumption is 30% lower than mandated norms.

Consumer Durables

Polycab India (POLYCAB IN)

BUY | TP Rs 5,200

Wires & Cables (W&C)

- The W&C segment constitutes roughly 90% of POLYCAB's revenue and can be broken down into 70% contribution from cables and 30% from wires. Cables are largely a B2B business, whereas wires pertain to real estate (70%) and industrial customers (30%). Growth in wires was lower than cables during Q3FY24, but management expects a pickup over the next few quarters.

- The company does not anticipate any election-related impact on demand for W&C as these products are required only in the later stages of construction, for which approvals are already in place.

- According to management, the extra high voltage (EHV) cables industry is growing fast and has a market size of Rs 25bn that is expected to double by FY26-end. POLYCAB's EHV facility is scheduled to start production by the end of FY26, and the company aims to be one of the top 3 players in the market within 2-3 years of operation. KEII and Universal Cables command the largest market share.

Fast-Moving Electric Goods (FMEG)

- The FMEG business has slowed for multiple reasons – subdued consumer demand over the last few quarters, execution errors in POLYCAB's FMEG arm, and a change in product focus within the segment.
- Fans and lights were traditionally more in focus for the company, but both categories have become intensely competitive and now command slim margins. Therefore, the company has gradually increased its thrust on the switches and switchgears category, which is relatively less competitive and has a better margin profile.
- The company is also focused on premiumisation in the segment and is now present across price points, as opposed to its bulk exposure to mass categories earlier.
- POLYCAB had a 10% EBITDA margin target for its FMEG business by FY26, which management now expects will be deferred. It has put a new team in place for the segment that is tasked with streamlining operations over the next four quarters. Management believes these changes coupled with a likely revival in consumer demand would lend a fillip to its FMEG business.

Exports

- POLYCAB exports to 77 countries and estimates that the global W&C market is worth roughly US$ 250bn, of which its focus geography of the US accounts for ~US$ 50bn.
- US business, which constitutes ~50% of the company's exports, is undergoing restructuring as it transitions from an institutional to a distribution model, like India. Management expects this process to take some time and hence expects softness in this market for a couple of quarters.
- The Red Sea conflict has inflated freight costs 3-5x for POLYCAB. While projects already undertaken at fixed prices could see margin pressure, management indicated that newer orders will incorporate the higher expense, limiting overall cost escalation. Lead time has risen by 2-3 weeks, but the company does not foresee a demand slowdown in the affected export regions of the Middle East and Europe as the new dispatch cycle via the longer route is now in place and consumption remains robust as local cable players face capacity constraints.

Income tax (IT) search

- The tax department conducted a search on all POLYCAB premises, including warehouses, manufacturing plants and corporate offices in India, over 22-30 December 2023. Business operations were affected for the first 2-3 days, after which the investigation was limited to the head office only.
- The IT department has not yet released an update on the search conducted, and the investigation team has a two-month timeframe (from 22 Dec 2023) to submit an appraisal report to the tax assessment team, which will have another 12 months to release a final report based upon the appraisal report and POLYCAB's defense.
- This process is expected to conclude by end-FY25, after which POLYCAB will either be required to pay a penalty for any wrongdoing proven or challenge the same in the High Court or Supreme Court.

KEI Industries (KEII IN)

HOLD | TP Rs 3,120

Domestic B2B institutional segment

- KEII's domestic B2B institutional segment forms 33% of revenue (9MFY24) and caters to demand for low- and medium-voltage cables. It earns a 10-10.5% EBITDA margin and has a diversified customer base that includes government and private EPC players for infrastructure projects such as roads, railways, ports and airports, as well as residential and other real estate customers.

- This segment has high entry barriers and stringent prequalification requirements. KEII commands 12-14% market share and has POLYCAB and Universal Cables as key competitors, apart from 20-25 smaller regional players.

- The segment has a Rs 18bn order book with an execution period of 3-4 months and average receivable cycle of 2.5 months.

International B2B segment

- The international B2B segment forms 10% of revenue and has an 11% EBITDA margin that KEII aims to take to 15-16% in the medium term. The product line comprises low- and medium-voltage cables along with EHV and specialty cables.

- KEII exports to ~65 countries in total, with a focus on Australia, the Middle East South Africa, Bangladesh and Nepal. It recently added the US and Europe to it export portfolio.

- While this segment has a receivable cycle of 2.5 months, letters of credit are provided by customers, enabling healthy cash flows.

Retail segment

- KEII expects its retail segment to form 47% of the revenue mix in FY24 and is targeting a 50% share for FY25. Products comprise house wires (60% of segmental revenue) and low- and medium-voltage cables and wires (40%).

- House wires are guided to grow at ~25% annually given the low base. This product faces competition from players such as HAVL, FNXP, POLYCAB, RR Kabel and VGRD.

- The segment has a receivables cycle of two months and A&P spends total Rs 350mn-400mn p.a.

EHV segment

- The EHV segment contributes 7% of revenue and its turnover includes the value of cables (80%) and of laying them (20%). The segment has a higher EBITDA margin of 15% given lower competition.

- KEII's customers here comprise state transmission utilities (50%) and private players (50%), with the receivables cycle at 4.5 months.

- EHV cables are a ~Rs 25bn industry, within which KEII and Universal Cables account for an estimated Rs 6bn and Rs 6bn-7bn respectively, with the balance met by imports.

EPC segment

- EPC makes up 5% of revenue and has a 12% EBITDA margin. Management expects the segment's contribution to become negligible in the next 2-3 years as KEII focuses on the retail business.
- The segment consists of the supply of cables (25-30%) and EPC services (~70%).

Capex

- KEII is undertaking capex toward two brownfield expansion projects (Rs 1.1bn each) and one greenfield plant (Rs 17bn).
- The brownfield capacities are expected to come online during FY25 at Pathredi (Haryana) and Silvassa. Pathredi is due to become operational from the end of June and will enhance KEII's low-voltage revenue potential by Rs 8bn-9bn. Silvassa will have incremental revenue potential of Rs 4bn for house wires.
- Greenfield capex of Rs 17bn has been earmarked for the Sanand (Gujarat) plant, with an outlay of ~Rs 5bn per year over the next three years. This plant will incorporate KEII's entire product range, including low-, medium- and extra-high voltage cables and wires. Low-voltage production is expected to commence by Mar'25 and EHV by Oct'25.
- Management expects to borrow Rs 4bn-5bn for greenfield capex, with the balance coming from internal accruals.

Syrma SGS Technology (SYRMA IN)

HOLD | TP Rs 550

- **EMS potential:** SYRMA pegs the Indian EMS market at ~US$ 1bn (ex-DIXON), while revenues for global players such as Flex and Jabil are in the US$ 30bn-40bn range. Management sees substantial long-term potential for the EMS business and expects the market to ramp up as global companies enter India.
- **Orders and margins:** The company has a strong Rs 4.8bn order book as of Dec'24 that carries revenue visibility for 12-15 months. On the margin front, a change in product mix towards the consumer segment as opposed to original design manufacturing (ODM) has been behind the lower operating margins in FY24 thus far.

  ODM currently contributes ~20% of SYRMA's revenue and is guided to improve to ~22% in FY25. The company aims to take this proportion to 25% in the long run, at which level margin gains will become more tangible. Management maintains its EBITDA margin guidance of 7-7.5% for FY24 (vs. 9.2% in FY23).

- **Capacity:** Manufacturing capacity is being doubled to 6.3mn components from 3.2mn which could help the company achieve its guided growth trajectory. The Bawal (Haryana) facility has already begun production and incremental capacity at this unit is due to be commissioned in June-July this year. Per management, existing Pune capacity has revenue potential of Rs 8bn-10bn.
- **Long-term plans:** Management is targeting a long-term revenue mix of one-third contribution from exports and a quarter from ODM across segments. Original equipment manufacturing (OEM) has a shorter turnaround time, but ODM has higher margins and hence the company believes a 25% ODM proportion will be ideal. ROCE is a key internal metric for SYRMA, which is targeted at 25%, and the primary determinant are margins and working capital.

Kaynes Technologies (KAYNES IN)

NOT RATED

- **Guidance:** KAYNES expects to end FY24 with a ~14% EBITDA margin as the fourth quarter typically forms 35-40% of revenue and is seeing an improving mix. FY24 PAT is guided at Rs 1.6bn-1.7bn on sales of ~Rs 18bn. Long-term, the company is guiding for revenue of Rs 90bn in FY28, comprising Rs 20bn from its new businesses of outsourced semiconductor assembly and testing (OSAT) and HD-printed circuit boards (PCB) along with Rs 70bn from regular OEM/ODM.
- **Revenue drivers:** Management expects the automotive, industrial and rail segments to be key revenue contributors to its FY28 target. In the longer term, it expects to expand the topline by Rs 15bn-20bn every year. Key drivers would include automation, rising penetration of electronics in electric vehicles and other machines, Make-in-India initiatives, and the growing shift of global manufacturing to India.
- **Margins:** The company earns the highest gross margins in aerospace and rail (45%), followed by the medical (35%), industrial and EV (30-33%), and IT/telecom (28%) verticals, with automotive yielding the lowest margin of 22%.
- **Order book:** The current order book totals Rs 38bn with a monthly inflow run-rate of Rs 2.8bn.
- **Capex:** KAYNES is undertaking capex of Rs 15bn in two phases for its OSAT facility, toward which the government has approved a 75% subsidy. It is also investing Rs 7.3bn in HD-PCB, where it is eligible for a 45% subsidy. These units are scheduled to come up by end-H1FY26, and FY27 will be the first full year of revenue.

NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA ("US") OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.

Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**
Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
Brand Name: **BOBCAPS**
Trade Name: **www.barodaetrade.com**
CIN: **U65999MH1996GOI098009**

Logo:

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.
Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOB Capital Markets Limited (BOBCAPS).

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company, except for Research Analysts Vinod Chari having 55 shares of Larsen & Toubro (LT IN) and Swati Jhunjhunwala having 20 shares of Tata Power (TPWR IN). BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company or third party in the past 12 months in connection with research report/activities. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Other disclaimers

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an "as is" basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS's judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the "Losses") which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

Distribution into the United Kingdom ("UK"):

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd ("**MSL**") who is authorised and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom (MSL and its affiliates are collectively referred to as **"MAYBANK"**). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK's legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the "Order"), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as "relevant persons").

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

No distribution into the US:

This report will not be distributed in the US and no US person may rely on this communication.

Other jurisdictions:

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.