

FIRST LIGHT

17 March 2023

RESEARCH

KAYNES TECHNOLOGY | NOT RATED

Expanding footprint

PHARMACEUTICALS

Acute therapies propel IPM growth in February

SUMMARY

KAYNES TECHNOLOGY

- Budding electronics manufacturer that is expanding capacity to tap into India's EMS boom
- Operates at an industry-leading EBITDA margin profile of 12-14% aided by strategic selection of end user industries
- Growing order book (~Rs 26bn as of Dec'22) and new forays lend revenue visibility

[Click here](#) for the full report.

PHARMACEUTICALS

- IPM grew 6.7% YoY in Feb'23 (MAT) led by gastro, cardiac and pain therapies; anti-infectives, respiratory and VMN sales lagged the market
- Growth for the month rebounded to 24% YoY (vs. 3.5% in Jan'23) primarily on account of acute therapy sales and low base
- SUNP and ERIS remain our top picks in the sector

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Daily macro indicators

Ticker	14-Mar	15-Mar	Chg (%)
US 10Y yield (%)	3.69	3.45	(23bps)
India 10Y yield (%)	7.37	7.34	(3bps)
USD/INR	82.49	82.60	(0.1)
Brent Crude (US\$/bbl)	77.5	73.7	(4.9)
Dow	32,155	31,875	(0.9)
Hang Seng	19,248	19,540	1.5
Sensex	57,900	57,556	(0.6)
India FII (US\$ mn)	13-Mar	14-Mar	Chg (\$ mn)
FII-D	38.6	94.6	56.0
FII-E	367.3	(268.2)	(635.5)

Source: Bank of Baroda Economics Research

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KAYNES TECHNOLOGY

| Consumer Durables

| 16 March 2023

Expanding footprint

- **Budding electronics manufacturer that is expanding capacity to tap into India's EMS boom**
- **Operates at an industry-leading EBITDA margin profile of 12-14% aided by strategic selection of end user industries**
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We interacted with the management of Kaynes Technology (KAYNES IN, Not Rated). Key takeaways:

Budding EMS player: KAYNES is an integrated electronics manufacturing services (EMS) player that caters to diverse verticals via a high-mix, flexi-volume model. Amongst the verticals, printed circuit board assembly (PCBA: 64% of revenue) and box build (27%) are major topline drivers for the company while original design manufacturing (ODM: 4%) and internet of things solutions (IoT: 5%) are ancillary business verticals. The industrial segment (~28% of revenue) is witnessing strong order inflow traction.

Strong guidance backed by high order book: KAYNES has a well-diversified order book totalling Rs 25.6bn as of Dec'22. Revenue stood at Rs 7.6bn in 9MFY23, equaling its FY22 run rate, and management aims to close FY23 at Rs 12bn. Judicious selection of end-user industries aids above-industry margins for the company (14.3% in 9MFY23), and KAYNES aims to maintain its edge, guiding for a print of 14.5% by FY25. Besides strengthening capabilities in existing verticals, the company plans to scale up growth in its newer verticals of aerospace and defense.

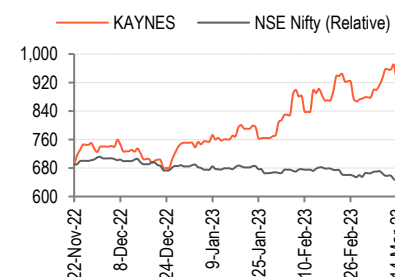
EMS sector on a roll: Per F&S estimates, India's EMS market is set to expand nearly six-fold from US\$ 14bn in FY21 to US\$ 81bn in FY26, implying a CAGR of 41%. Growth is expected to be supported by robust demand, the government's production linked incentive (PLI) scheme, import substitution, and the global China-Plus-One shift.

Capacity addition on the cards: The boom in demand has prompted most EMS players to ramp up capacities. KAYNES too is in the midst of brownfield capacity addition at its Mysore (Karnataka) and Manesar (Haryana) plants with a budget of ~Rs 1bn. In addition, it is building a greenfield facility at Chamarajanagar (Karnataka) for ~Rs 1.5bn and aims to commence with some capacity as early as Q1FY24 (~25,000sq ft). The focus is to expand capabilities in box build and PCBAs.

Ticker/Price	KAYNES IN/Rs 975
Market cap	US\$708.4mn
Free float	36%
52wk high/low	Rs 993/Rs 667
Promoter/FPI/DII	64%/9%/17%

Source: NSE | Price as of 15 Mar 2023

Stock performance



Source: NSE



PHARMACEUTICALS

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IPM Feb'23 MAT growth at 6.7%: Indian pharma market (IPM) growth rebounded to 24% YoY in Feb'23 on (vs. 3.5% YoY in Jan'23) with support from anti-infective and respiratory therapies, as per IQVIA sales data. This extraordinary growth is unlikely to sustain in coming months as the flu season abates. Contributors to the uptick in MAT growth of 6.7% were price-led growth (+5.4%) and new introductions (+2.3%), whereas volumes declined 1% YoY on a high base (+10.4% in Feb'22). Chronic (+8.7%) outpaced acute (+5.2%) therapies on MAT basis while lagging in terms of growth for the month of February (+19% vs. +28% YoY for acute business).

Broad-based growth; acute business shines: Unlike Jan'23, the IPM showed broad-based growth of 24% YoY in February across the respiratory (+55% YoY), anti-infective (+51%), pain (+26%), gastrointestinal (+24%), and dermatology (12%) segments. Anti-infective/respiratory therapies, which declined 3%/7% in the previous month, posted the highest uptick in Feb'23. Among the top 10 chronic therapies, cardiac/antidiabetic/CNS grew 17%/13%/16%. On MAT Feb'23 basis, all therapies in the top 10 outperformed IPM growth, barring anti-infectives (+3%), respiratory (+5%), VMN (vitamins, minerals, nutrients: +3%) and dermatology (+6%). Gynaecology (+16%) and gastrointestinal (+12%) sales led the way on MAT basis.

ALKEM, AJP and CIPLA steered 3M growth: For the three-month period of Dec-Feb'23, IPM grew 12.9% YoY driven primarily by acute therapies, wherein anti-infectives/respiratory/gynaecology grew the fastest at 20%/18%/14% while VMN, anti-diabetic and dermatology lagged the IPM at 8%/9%/9%. From among our coverage universe, IQVIA data indicates that except for DRRD (+6.4%), all companies grew in double digits, though LPC (+11%) and ERIS (11%) underperformed IPM growth. ALKEM and AJP were in the lead with increases of +19% each. CIPLA (+16%), ALPM (+13%) and SUNP (+13%) also performed well.

Top picks: **CIPLA** (BUY, TP Rs 1,250) and **ERIS** (BUY, Rs 810) remain our top picks in the pharma sector.

Recommendation snapshot

Ticker	Price	Target	Rating
AJP IN	1,197	1,470	HOLD
ALKEM IN	3,155	3,000	SELL
ALPM IN	487	615	HOLD
CIPLA IN	883	1,250	BUY
DRRD IN	4,384	4,700	HOLD
ERIS IN	586	810	BUY
LPC IN	666	700	HOLD
SUNP IN	967	1,100	HOLD

Price & Target in Rupees | Price as of 16 Mar 2023



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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.

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