

**NOT
RATED**
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
- Growing order book (~Rs 26bn as of Dec'22) and new forays lend revenue visibility

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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.

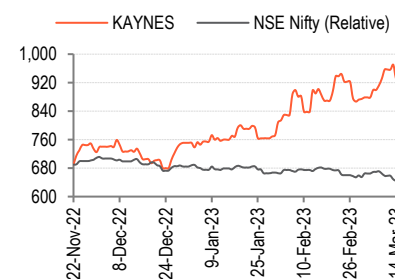
EMS sector on a roll: Per F&S estimates, India's EMS market is set to expand nearly six-fold from US\$ 14bn in FY21 to US\$ 81bn in FY26, implying a CAGR of 41%. Growth is expected to be supported by robust demand, the government's production linked incentive (PLI) scheme, import substitution, and the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

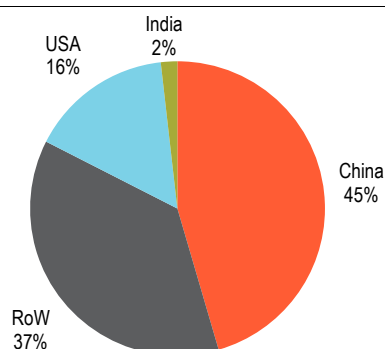
Source: NSE | Price as of 15 Mar 2023

Stock performance

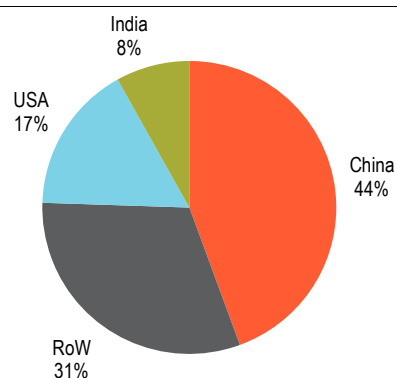


Source: NSE

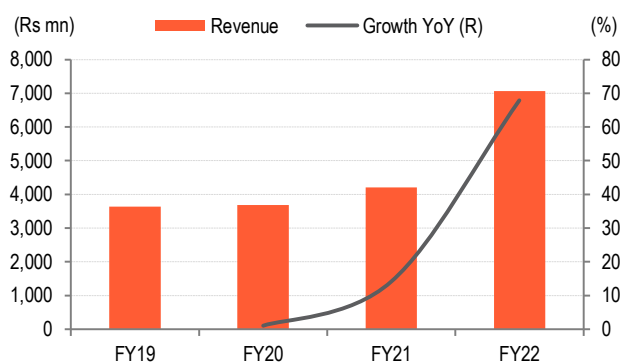


Fig 1 – EMS industry composition, 2020

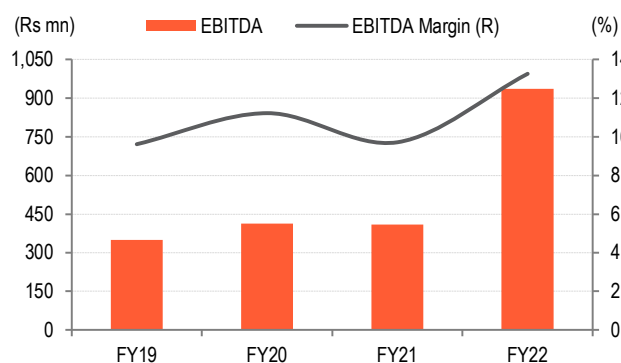
Source: Company, BOBCAPS Research

Fig 2 – Estimated EMS industry composition, 2025E

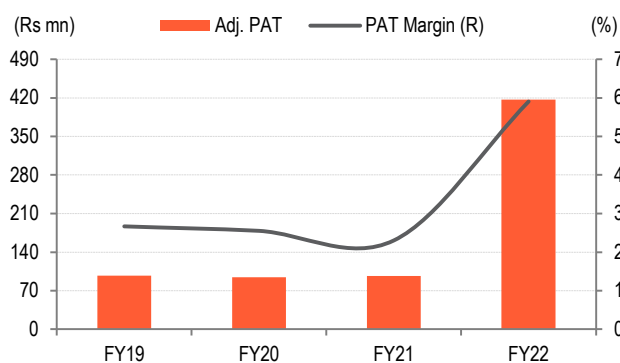
Source: Company, BOBCAPS Research

Fig 3 – KAYNES has seen a sharp rise in revenue...

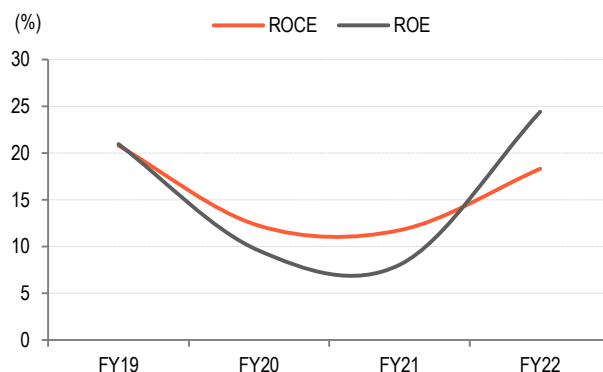
Source: Company, BOBCAPS Research

Fig 4 – ...with an improving EBITDA margin

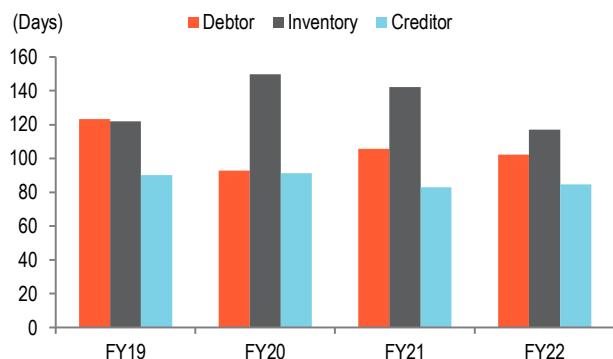
Source: Company, BOBCAPS Research

Fig 5 – Profitability has surged in FY22...

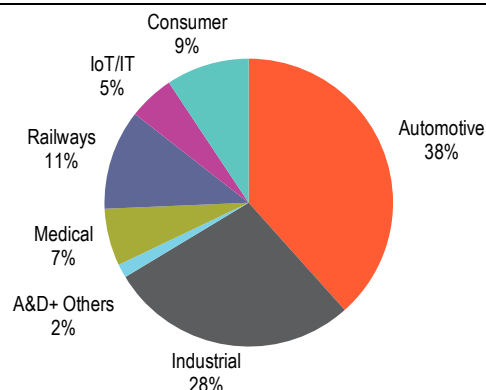
Source: Company, BOBCAPS Research

Fig 6 – ...with strong return ratios

Source: Company, BOBCAPS Research

Fig 7 – Net working capital days shows gradual improvement

Source: Company, BOBCAPS Research

Fig 8 – Revenue mix is diversified with a thrust on the automotive and industrial verticals

Source: Company, BOBCAPS Research

Fig 9 – Peer comparison (listed) – EMS Industry

Parameter	SYRMA	KAYNES	AMBER	DIXON	ELIN
Rating	BUY	NOT RATED	HOLD	BUY	NOT RATED
Sales - 3Y CAGR - FY19-FY22 (%)	53	25	15	53	10
Sales - 3Y CAGR - FY22-FY25E (%)	42	-	28	27	-
EBITDA - 3Y CAGR - FY19-FY22 (%)	43	39	9	41	11
EBITDA - 3Y CAGR - FY22-FY25E (%)	43	-	30	32	-
EBITDA margin - FY22 (%)	9.9	13.3	6.5	3.5	7.2
EBITDA margin - Last 4Y Avg. (%)	12	11	7.3	4.4	7.2
Gross margin - FY22 (%)	29.6	30.7	16.1	8.6	25.4
Gross margin - Last 4Y Avg. (%)	34.1	32.8	16.4	11.0	27.3
PAT - 3Y CAGR - FY19-FY22 (%)	52	62	6	44	10
PAT - 3Y CAGR - FY22-FY25E (%)	42	-	35	35	-
ODM as % of revenue - FY22 (%)	27.1	3.7	-	19.5	8.1
Exports - FY22 (% of revenue)	43.6	21.5	0.5	0.8	0.8**
Top-5 client contribution (%)	29.1	38.2	-	-	63.2
Current order book (Rs bn)	21.0	25.6	-	-	-
R&D expenses - FY21 (% of sales)	0.4	0.3	0.1	0.6	0.8
ROE - FY22 (%)	13.8	24.4	6.7	22	13.09
ROCE - FY22 (%)	13.4	18.3	6	19.1	12.6
Net Debt-to-Equity - FY22 (x)	0.3	0.9	0.3	0.1	0.3
Capex - FY22 (Rs bn)	0.9	0.4	4.1	4.2	0.4
Fixed Asset Turnover - FY22 (x)	3.3	6.4	3.9	11.2	5.8

Source: Company, BOBCAPS Research | **FY21

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21A	FY22A
Total revenue	3,642	3,682	4,206	7,062
COGS	2,417	2,417	2,861	4,894
Employee Expense	434	424	459	602
Other expense	441	428	477	629
EBITDA	350	413	409	937
EBITDA margin (%)	9.6	11.2	9.7	13.3
Depreciation	51	84	101	132
EBIT	299	330	308	805
Net interest inc./(exp.)	176	224	229	243
Other inc./(exp.)	12	7	30	29
Exceptional items				
EBT	136	113	109	590
Income taxes	38	19	11	174
Extraordinary items	-	-	-	-
Min. int./Inc. from assoc.	-	-	-	-
Reported net profit	97	94	97	417
Adjustments	-	-	-	-
Adjusted net profit	97	94	97	417

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21A	FY22A
Accounts payables	899	921	954	1,641
Other current liabilities	143	190	275	546
Provisions	-	-	-	-
Debt funds	1,556	1,532	1,484	1,891
Other liabilities	100	106	84	110
Minority Interest	7	5	9	11
Equity capital	68	68	79	465
Reserves & Surplus	859	959	1,308	1,560
Total liab. and equities	3,633	3,781	4,194	6,224
Cash and cash eq.	324	123	143	216
Accounts receivables	1,230	936	1,217	1,977
Inventories	1,218	1,511	1,639	2,264
Other current assets	232	334	193	407
Investments	21	16	17	15
Net fixed assets	526	726	915	1,172
CWIP	22	50	10	44
Other assets	61	84	59	129
Total assets	3,633	3,781	4,194	6,224

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21A	FY22A
Cash flow from	(76)	452	277	211
Capital expenditures	(105)	(312)	(250)	(422)
Change in investments	(310)	205	2	(33)
Other investing cash flows	6	8	7	11
Cash flow from investing	(409)	(99)	(241)	(445)
Equities issued/Others	-	-	270	228
Debt raised/repaid	673	(118)	(44)	301
Other financing cash flows	(187)	(236)	(240)	(256)
Cash flow from	486	(354)	(13)	272
Chg in cash & cash eq.	1	(1)	23	38

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21A	FY22A
Reported EPS	1.7	1.6	1.7	7.2
Adjusted EPS	1.7	1.6	1.7	7.2
Dividend per share	0.0	0.0	0.0	0.0
Book value per share	16.0	17.7	23.8	34.8

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21A	FY22A
EV/Sales	16.0	15.8	13.9	8.3
EV/EBITDA	166.5	141.2	142.7	62.3
Adjusted P/E	582.5	605.8	582.2	135.9
P/BV	61.1	55.2	40.9	28.0

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21A	FY22A
Tax burden (Net profit/PBT)	0.7	0.8	0.9	0.7
Interest burden (PBT/EBIT)	0.5	0.3	0.4	0.7
EBIT margin (EBIT/Revenue)	0.1	0.1	0.1	0.1
Asset turnover (Rev./Avg TA)	6.9	5.1	4.6	6.0
Leverage (Avg TA/Avg Equity)	1.1	0.7	0.8	0.7
Adjusted ROAE	21.0	9.6	8.1	24.4

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21A	FY22A
YoY growth (%)				
Revenue	-	1.1	14.2	67.9
EBITDA	-	17.9	(1.1)	129.1
Adjusted EPS	-	(3.8)	4.0	328.3
Profitability & Return ratios (%)				
EBITDA margin	9.6	11.2	9.7	13.3
EBIT margin	8.2	8.9	7.3	11.4
Adjusted profit margin	2.7	2.5	2.3	5.9
Adjusted ROAE	21.0	9.6	8.1	24.4
ROCE	12.0	12.9	10.7	20.6
Working capital days (days)				
Receivables	123	93	106	102
Inventory	122	150	142	117
Payables	90	91	83	85
Ratios (x)				
Gross asset turnover	6.9	5.1	4.6	6.0
Current ratio	2.9	2.6	2.6	2.2
Net interest coverage ratio	1.7	1.5	1.3	3.3
Adjusted debt/equity	1.7	1.5	1.1	0.9

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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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

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