



Kaynes is a leading end to end and IoT solutions enabled manufacturing players. Its revenue is generated from OEM- Turnkey solutions (PCBA) with Automotive, Industrial and Railways being the large verticals. The management highlighted that the order book would be largely from the same verticals going forward. The EBITDA Margin is in the higher end vis a vis its domestic peers with decent ROE and ROCE of 24.5% and 24.44% respectively.

The management seemed positive about the manufacturing sector in India and expects existing customer growth to be high. In terms of valuation, the P/E of the company seemed fairly valued against listed peers hence we are recommending to SUBSCRIBE for long term.



About Company

Kaynes Technology is an end to end and IoT solutions enabled integrated electronics manufacturing player, having capabilities across the entire spectrum of electronics system design and manufacturing ("ESDM") services. The business is classified based on the stage of services. 1) OEM- Turnkey Solutions- Box Build ("OEM – Box Build") and OEM- Turnkey Solutions- Printed Circuit Board Assemblies ("PCB") 2) ODM and 3) Product Engineering and IoT Solutions

Issue details

Price Band (in ₹ per share)	559-587
Issue size (in ₹ Crore)	842.18-857.82
Fresh Issue (in ₹ Crore)	530
OFS (in ₹ Crore)	312.18-327.82
Issue open date	10-11-2022
Issue close date	14-11-2022
Tentative date of Allotment	17-11-2022
Tentative date of Listing	22-11-2022
Total number of shares (lakhs)	150.66-146.14
No. of shares for QIBs (50%) (lakhs)	75.20-72.94
No. of shares for NII (15%) (lakhs)	22.56-21.88
No. of shares for retail investors (35%) (lakhs)	52.64-51.06
No. of shares for Employees (lakhs)	0.27-0.26
Employee discount in INR	NIL
Minimum order quantity	25
Face value (in ₹)	10.00
Amount for retail investors (1 lot)	13,975-14,675
Maximum number of shares for Retail investors at lower Band	350(14 Lots)
Maximum number of shares for Retail investors at upper band	325(13 Lots)
Maximum amount for retail investors at lower Band- upper band (in ₹)	1,95,650-1,90,775
Exchanges to be listed on	BSE, NSE

Akshay R. Pradhan
akshay@canmoney.in | Tel 022-43603861



Promoters

1. Ramesh Kunhikannan
2. Savitha Ramesh

Objective of the Offer

1. Sale of shares of upto 2,93,73,984 by the promoters
2. Investment in the wholly owned Subsidiary, Kaynes Electronics Manufacturing Pvt Ltd for setting up a new facility at Chamara-janagar, Karnataka
3. Funding working capital requirements of the company
4. Repayment/ prepayment in full or part of certain borrowings availed by the company
5. Funding capex towards expansion of the existing manufacturing facility at Mysore and near existing facility at Manesar, Haryana

**Brief Financials**

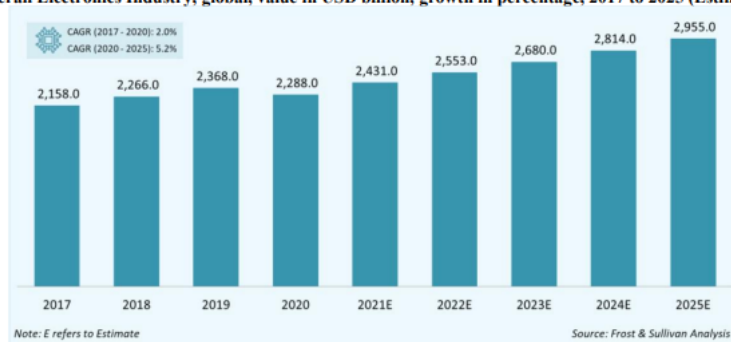
Particulars (Rs. Cr)*	JUN 22 (3M)	FY22	FY21	FY20
Share Capital	46.16	46.16	6.80	6.80
Net Worth	212.00	201.81	136.51	95.76
Revenue from Operation	199.27	706.25	420.63	368.24
PBT	13.44	59.03	10.87	11.28
PAT	10.46	41.68	9.73	9.36
Basic EPS(Rs)	2.14	9.70	2.28	2.32
NAV	45.30	43.12	29.57	23.47
P/E#	68.57^	60.52	NA	NA
P/B #	12.96	9.70	NA	NA

Source: RHP # Calculated at the upper price band, * Restated consolidated financials ^Annualised P/E

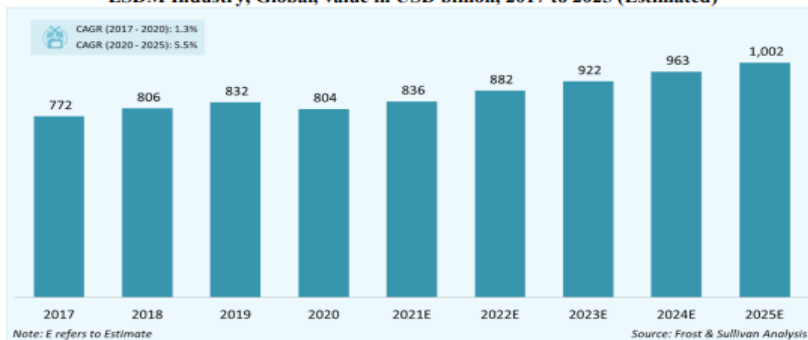
Industry Review**GLOBAL ESDM INDUSTRY OVERVIEW**

Traditionally, the global ESDM market has been dominated by the companies that manufacture electronic products, primarily through the assembling of components on printed circuit boards ("PCBs") and box builds for original equipment manufacturers ("OEMs") and OEMs used to take care of the designs. However, the scenario is changing fast and OEMs are increasingly realising the capabilities and contribution of the ESDM companies, which have resulted in their involvement expanding beyond manufacturing to encompass product design and development, testing, and after-sales services such as repair, re-manufacturing, marketing, and product lifecycle management. Some of the key design-related activities include product designing, chip designing, very large-scale integration ("VLSI"), board designing, and embedded systems.

Overall Electronics Industry, global, value in USD billion, growth in percentage, 2017 to 2025 (Estimated)

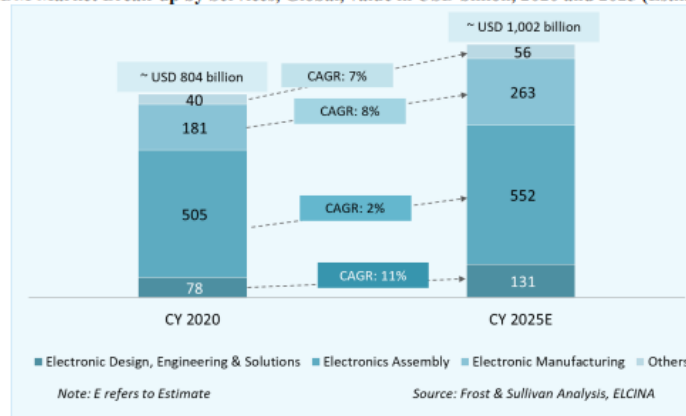


ESDM Industry, Global, value in USD billion, 2017 to 2025 (Estimated)

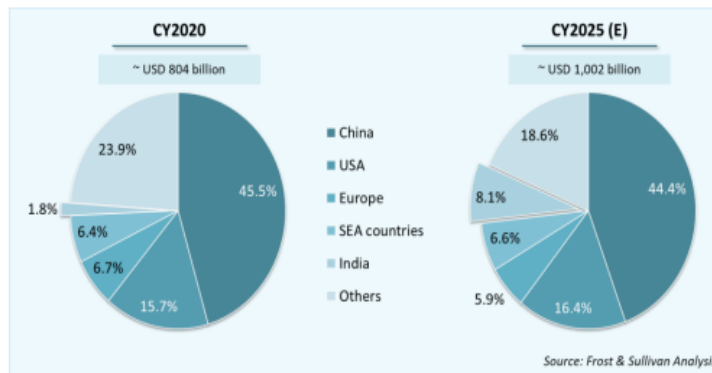


Industry Review

ESDM Market Break-up by Services, Global, value in USD billion, 2020 and 2025 (Estimated)

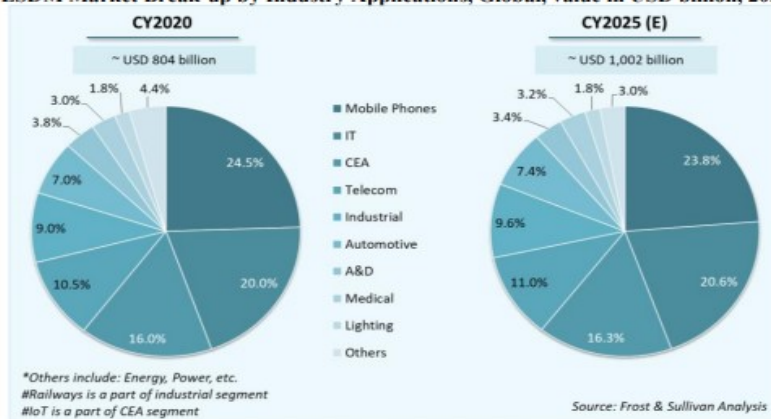


ESDM Market Break-up by Select Countries, Global, value in USD billion and percentage, 2020



Mobile phones, IT hardware, and CEA (“Consumer Electronics and Appliances”) are the key segments with a significant share of the global ESDM market. The Internet of Things (“IoT”), which is part of CEA, is gaining in popularity as the number of internet users and smart device use rises. Similarly, products such as brushless DC motors (“BLDC”), inverters and other specific product categories are also gaining importance. Another important market in which electronics are used is industrial, which is divided into a number of sub-segments. Railways are considered to be part of the industrial sector. Leading manufacturers are looking to add new applications into their portfolio by partnering with niche application providers.

ESDM Market Break-up by Industry Applications, Global, value in USD billion, 2020



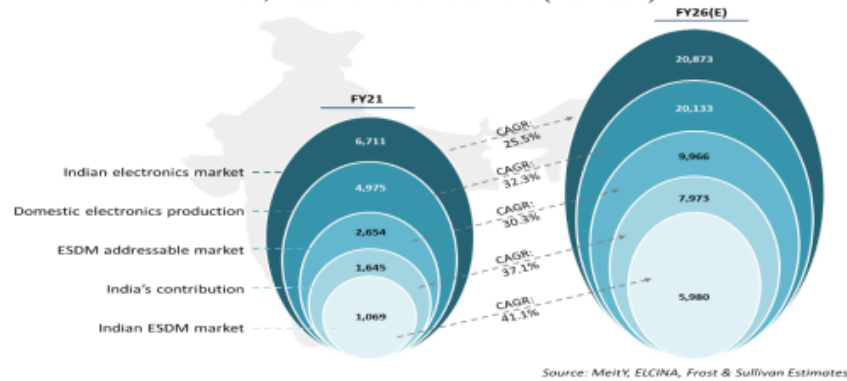


Industry Review

Overview of ESDM Industry in India

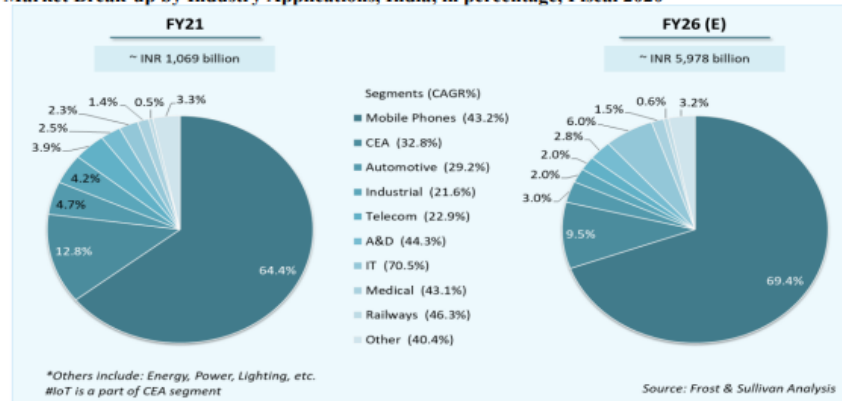
As per Electronic Industries Association of India ("ELCINA"), there are nearly 700 companies offering services related to design and manufacturing of electronics products. While most of the companies offer pure play manufacturing / assembly services (also known as EMS companies), there are specialized companies such as Kaynes which offer services across the value chain including conceptual product design, components, products and solutions (also known as ESDM companies). EMS companies offer 'Build to Print' of either PCBA only or complete Product, whereas ESDM companies leverage their conceptual 'Embedded Design' capabilities to add value in electronics manufacturing such as Kaynes.

Indian ESDM Addressable Market vs. Contribution of ESDM Companies for goods made in India, Value in ₹ Billion, Fiscal 2021 and Fiscal 2026 (Estimated)



ESDM market break-up by industry applications

ESDM Market Break-up by Industry Applications, India, in percentage, Fiscal 2020





Competitive Strengths

Diversified business model with portfolio having application across industry verticals-

They have a wide-ranging product portfolio having applications across industry verticals such as automotive, telecom, aerospace and defence, space, medical, IoT and industrial, each of which are individually growing (Source: F&S Report). Their diverse portfolio limits exposure to downturns associated with a particular vertical. It also ensures that the revenues are consistent across periods on account of customers serving different industry verticals with different business or industry cycles

Long standing relationships with marquee customer base-

They have, through their business operations, established long-term relationships with well-known customers across industries they cater to. The company has a diversified customer base and served 229 customers in 21 countries across three continents in the three months ended June 30, 2022. The customers span multiple sectors, ranging from electronics, to automotive, to healthcare, industrial and IoT. They have a balanced mix of domestic and international customers including certain Fortune 500 companies, multinational corporations and start-ups. They believe that continued success is, in part, due to their customer centric practices such as open book costing, internal and external audits, and direct shipments to end-customers.

Strong supply chain and sourcing network-

They possess a mature and reliable supply chain network. They have long-term relationships with vendors within India and outside India, that has led to improvement in credit terms over the years. As of June 30, 2022, the company works with over 871 vendors and source materials from various regions including North America, Europe, Singapore as well as locally within India. The top 10 suppliers have an average relationship period of over 10.80 years, as of June 30, 2022. They do not rely on a single source or vendor for components, instead, have alternative sources for vendors for each component category. This offers them leverage to ensure availability of materials and negotiate better credit terms at cost effective rates. They utilise specialized dealers for niche verticals. For example, for railway projects, there are only a select few vendors who have the requisite sourcing network to supply the required components to them. In such verticals, they foster good relationships with these suppliers for them to get the required components without any disruption or issues. They also possess the technical expertise to re-engineer components that are difficult to source, or components that are on the verge of becoming obsolete or has been discontinued by the various vendors.

Risk Factors

Dependence on top customers-

Their business is dependent on the sale of products of their customers. The top 10 customers accounted for 53.61%, 46.03%, 51.02% and 62.81% of the revenue from operations in Fiscal 2020, 2021 and 2022, and the three months ended June 30, 2022, respectively. Revenue contribution from the top 1, top 5 and top 10 customers has fluctuated in the last three Fiscals. Further, there has been a decline in the proportion of new customers they have added in the last three Fiscals. In addition, they do not have firm commitment agreements with their customers. The loss of one or more such customers or a reduction in demand for their products could adversely affect the business, results of operations, financial condition and cash flows.

Pressure on market share and margin-

Increasing competition in the electronics system design and manufacturing industry may create pressures of pricing and market share that may adversely affect company's business, prospects, results of operations, cash flows and financial condition.

Risk of input material shortage-

They rely on the constant supply of semiconductors from overseas market for manufacturing of their products. The imported raw materials accounted for 64.46% of total purchases of raw materials in Fiscal 2022. Any shortage or issues in timely availability of semiconductors or any particular semiconductor components required for the manufacturing of products or fluctuations in the exchange rate between the Rupee and other currencies, could affect the business, financial condition, results of operations and prospects.

**Peer Comparison**

Name of the Company	Total Income (Crores)	FV	Basic EPS	NAV	P/E *	P/B*	ROE	ROCE
Kaynes Technology India Ltd.	710.35	10.00	9.70	43.12	60.52	13.61	24.50%	24.44%
Syrma SGS Technology Ltd.	1284.37	10.00	5.25	51.20	54.92	5.63	12.60%	15.30%
Dixon Technologies Ltd.	10700.89	2.00	32.31	169.30	140.22	26.76	19.10%	20.50%
Amber Enterprise India Ltd.	4239.63	10.00	32.41	526.20	62.12	3.83	6.30%	7.00%

**P/E & P/B ratio based on closing market price as on Nov 9th, 2022, At the upper price band of IPO, financial details consolidated audited results as on FY22.*



Our View

Kaynes is a leading end to end and IoT solutions enabled manufacturing players . Its revenue is generated from OEM- Turnkey solutions (PCBA) with Automotive, Industrial and Railways being the large verticals. The management highlighted that the order book would be largely from the same verticals going forward. The EBITDA Margin is in the higher end vis a vis its domestic peers with decent ROE and ROCE of 24.5% and 24.44% respectively. The management seemed positive about the manufacturing sector in India and expects existing customer growth to be high. In terms of valuation, the P/E of the company seemed fairly valued against listed peers hence we are recommending to SUBSCRIBE for long term.

Source– Company, RHP, CBSL



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Research Desk

Canara Bank Securities Ltd

SEBI: RESEARCH ANALYST REGISTRATION: INH000001253

BSE: INB 011280238, BSE F&O: INF 011280238

NSE: INB 23180232, F&O: INF 231280232, CDS: 231280232

Maker Chambers III, 7th floor,

Nariman Point, Mumbai 400021

**Contact No. : 1800220369/18001031369, 022 - 22802441/42,
43603841/42**

Email id: researchdesk@canmoney.in Website: www.canmoney.in