

Kaynes Technology Ltd

Riding on the manufacturing theme

INDIA | MID- CAP | IPO Note

9 November 2022

Kaynes is an end-to-end and IoT solutions enabled integrated EMS player, having capabilities across the spectrum of ESDM services. It provides conceptual design, process engineering, integrated manufacturing and life-cycle support for major players in the automotive, industrial, aerospace and defense, medical, railways, IoT, IT and other segments. It operates through eight strategically located facilities across India to undertake high mix and high value added products with variable and flexible volumes. It has long-standing relationships with customers in existing industry verticals and is led by experience promoters with significant experience in the ESDM industry in India. In FY22 its Revenue/EBITDA/PAT was 7.1bn/936mn/417mn with OPM of 13.3% and ROCE of 24.5%. As of Q1FY23 Kaynes has an order book of Rs 22bn+. We expect revenue/EBITDA/PAT of Rs 16.3bn/2.2bn/1.4bn in FY24.

IPO rationale: Kaynes Technology is raising Rs 8.6bn (including OFS at upper price band) through its IPO. At the upper band, on our FY24 estimates, Kaynes trades at PE of 24x.

Offer structure

- Fresh Issue at Rs 5.3bn i.e 90,28,961 (9.02Mn) shares at upper price band.
- Offer for Sale upto 55,84,664 (5.58Mn) by Promoter (2.08Mn) and Investor (3.5mn).
- Employee reservation for shares valued upto Rs 15Mn.
- **Total offer size:** 14.6Mn shares (including OFS and Fresh Issue at upper price band)

Investment arguments

- **Strong industry tailwinds:** Kaynes is well poised to take advantage of the localisation initiative in India on the back of favourable government incentives, China +1 strategy, import substitution, focus on enhancing local value addition, increasing investments by domestic and global players. All this will result in strong industry growth over 3-4 years. Target industries are expected to grow 30%+ over FY22-26.
- **Diversified customer base across industries:** Kaynes serves more than 230 customers in 21 countries (long-standing relationships with existing customers) across 7-8 industry verticals, which are all set to see exponential growth over the coming years on the back of higher focus on localisation, diversifying supply chain and China +1 strategy. Kaynes is focusing on customer acquisition, and ramping up business with existing customers.
- **Strong R&D capabilities helping in moving up the value chain:** This will help Kaynes improve its product offerings in box builds and IoT.

Going forward: (1) Improve product capabilities (2) Strengthen product portfolio (3) Increase customer base (4) Expand manufacturing capacity (5) Improve operational efficiency.

Key risks: (1) Supply chain (2) High competitive intensity and (3) High customer concentration (54% of revenues comes from top 10 customers).

Outlook and valuation: Kaynes technology is one of the leading players in PCBA in India with industry leading capacity and is poised to see exponential revenue growth in the coming years on the back of favourable government policies, import substitution and China +1 strategy. Kaynes is in a sweet spot as it caters to many industries such as automotive, industrial, railways, defense, consumer all of which are seeing significant traction in terms of localisation in India. We expect Revenue/EBITDA/PAT CAGR of 52%/53%/86% over FY22-24. It has ROE/ROCE of 21%/22% in FY22. Incremental capex planned will be towards expanding its PCBA capacity in Karnataka and Haryana in existing facilities (Mysuru and Manesar) as well as a new facility in Chamarajanagar. At the upper band of Rs 587, Kaynes would trade at an FY23/24 EV/EBITDA of 19x/15x and PE of 33x/24x. Company has a strong customer base, is adding new customers and gaining wallet share with existing customers and has a strong order book. With a constant thrust towards product innovation and R&D and higher backward integration, company will be able to achieve higher operational efficiency in the future. We recommend **SUBSCRIBE**.

SUBSCRIBE

COMPANY DATA

ISSUE OPENS	10/November/2022
ISSUE CLOSES	14/November/2022
PRE- ISSUE EQUITY SHARES	49.1mn
- LOWER BAND	Rs 559
- UPPER BAND	Rs 587
PRICE BAND	Rs 559 - 587
- FRESH ISSUE	9.02mn
- OFS	5.58mn
NO OF SHARES TO BE ISSUED	14.6mn
ISSUE SIZE	Rs 8.6bn
POST- ISSUE EQUITY SHARES	58.12mn
MKT CAP	Rs 32.5-34.1bn

Financials

Y/E Mar, Rs mn	FY22	FY23E	FY24E
Net Sales	7,062	12,001	16,336
EBIDTA	937	1596	2189
OPM (%)	13.3%	13.3%	13.4%
Net Profit	417	1,020	1,435
EPS, Rs	9	18	25
EV/EBIDTA, x	30.5	19.0	14.7
P/E	65.1	33.5	23.8
ROE, %	20.5	10.6	12.9
Debt/Equity (%)	0.8	0.0	0.0

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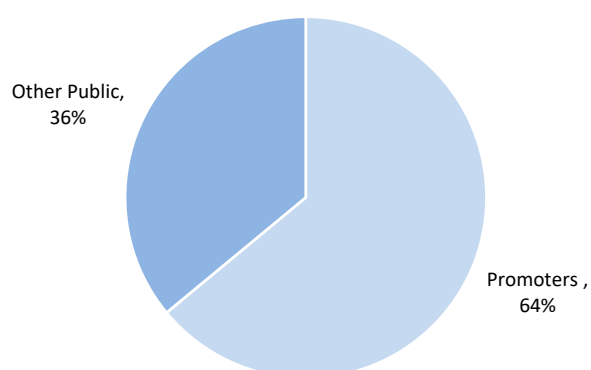
About the IPO

- Issue size: Rs 8.6bn.
- Fresh Issue of Rs 5.3bn and 5.58mn shares offered for sale (OFS) by Promoter (2.08Mn) and Investor (3.5mn).
- Market capitalisation: Rs 32.5bn-34.1bn.
- The objects of the offer are: (1) Repayment/ prepayment, in full or part, of certain borrowings availed by Company, (2) Funding capital expenditure towards expansion of its existing manufacturing facility at Mysuru, Karnataka, and at Manesar, Haryana, (3) Investment in wholly owned Subsidiary, Kaynes Electronics Manufacturing Pvt Ltd, for setting up a new facility at Chamaraajanagar, Karnataka , (4) Funding working capital requirements and general corporate purpose.

Issue details

ANCHOR BOOK	09-Nov-22
ISSUE OPENS	10-Nov-22
ISSUE CLOSES	14-Nov-22
PRE- ISSUE EQUITY SHARES	49.1Mn
- LOWER BAND	Rs 559
- UPPER BAND	Rs 587
PRICE BAND	Rs 559 – 587
- FRESH ISSUE <i>(At upper price band)</i>	9.02Mn
- OFS	5.58Mn
NO OF SHARES TO BE ISSUED*	14.6Mn
EMPLOYEE RESERVATION (Shares valued upto Rs)	Rs 15Mn
ISSUE SIZE**	Rs 8.6bn
POST- ISSUE EQUITY SHARES	58.12mn
MKT CAP	Rs 32.5-34.1bn

Shareholding pattern post-issue



Source: RHP, PhillipCapital India Research

*includes Fresh & OFS shares

** Includes Fresh Issue -Rs5.3bn and OFS at upper band Rs 3.3bn

Shareholding pattern pre & Post Issue

Name of shareholder	Pre-Offer		No. of shares offered	Post-Offer	
	No. of Equity shares	% of Eq. Share Capital		No. of Equity shares	% of Eq. Share Capital
Ramesh Kunhikannan	3,91,64,584	80%	(20,84,664)	3,70,79,920	64%
Savitha Ramesh	19,800	0%	0	19,800	0%
RK Family Trust	100	0%	0	100	0%
Total Promoter & Group Holding	3,91,84,484	80%	0	3,70,99,820	64%
Freny Firoze Irani	52,98,924	11%	(35,00,000)	17,98,924	3%
Acacia Banyan Partners	14,39,237	3%	0	14,39,237	2%
Volrado Venture Partners Fund II	8,99,523	2%	0	8,99,523	2%
Ashoka India Equity Investment Trust Plc	8,07,668	2%	0	8,07,668	1%
Others- Public	14,83,700	3%	1,46,13,625	1,60,97,325	28%
Total	4,91,13,536	100%	90,28,961	5,81,42,497	100%

Source: RHP, PhillipCapital India Research

Issue allocation

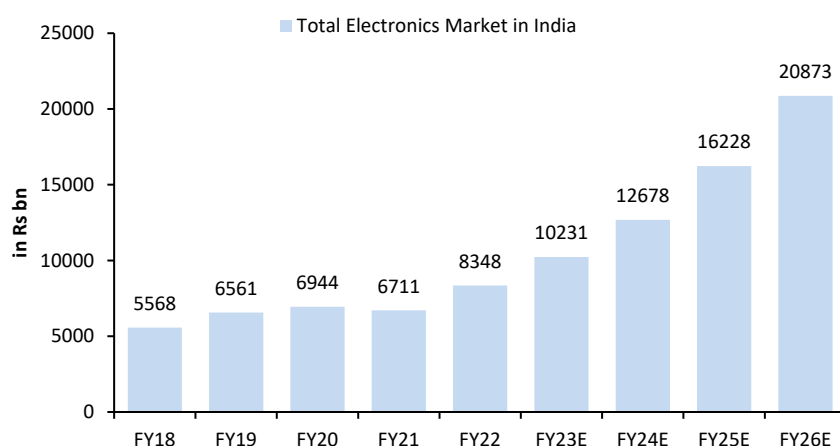
	Shares (mn)	% of net issue
QIB	7.3	50%
NIB	2.2	15%
Retail	5.1	35%
Net Issue	14.6	100%
Employees (Shares valued up to Rs)	Rs 15mn	-
Total Issue	14.6	100%

Source: RHP, PhillipCapital India Research

Industry overview

- The electronics industry in India is poised for strong growth over the coming years on low penetration levels, rising disposable incomes, increased localization to increase affordability as well as various policy initiatives taken by the government such as **PLI, PMP, and Aatmanirbhar Bharat to incentivize local manufacturing in India.**
- The total electronic market in India is c.Rs 6,711bn, including domestic production and imports, and this is likely to see a CAGR of 26% to reach Rs 20,873bn by FY26. Domestic production is c.74% of the total market in FY21, which should be c.96% of the market by FY26.

Total electronics market in India (domestic manufacturing + imports)



Source: Kaynes Technology Data, PhillipCapital India Research

- India is positioned not only as a low-cost alternative but also as a destination for high quality design work. Many MNCs have expanded their presence in India or are investing towards creating capabilities in this nation. India's demand for electronic products has increased substantially in the recent times on the back of development in the EMS segment, India is the second largest mobile phone manufacturer globally, the start-up ecosystem is evolving, the reliance on electronic imports will increase until and unless measures are taken to improve localization. (For a detailed report on electronic manufacturing in India please [Click here](#) for our GV report)
- NPE aims to make India a global hub for ESDM and has fixed some aspiring targets; manufacture 1bn mobile phones by FY25, of which 600mn mobile phones will be for export.

Key growth drivers for the EMS industry in India

- ✓ Import substitution
- ✓ Enhancing local value addition
- ✓ China +1 strategy
- ✓ Export focus on USD 5tn GDP
- ✓ Increase in investments by local and global players
- ✓ A huge workforce with relatively very low wages as compared to the global average

PCBA industry in India

PCBA is the core of every electronic device such as mobile phones, tablets, computers, routers, televisions, washing machines, refrigerators, air conditioners as well as has applications in many other industries such as automotive, railways, medical, power electronics, telecom, industrial, aerospace and defense etc. To develop India as an electronic manufacturing hub, it is imperative to bring in as many manufacturing operations as possible and PCBA is a key manufacturing activity. At the start of PCBA operations, value addition is expected to be about 3-5% and can climb to 15-20% within 3 years.

The dream of becoming the global electronics manufacturing hub cannot be realized unless the government provides support to mitigate the disabilities faced by the PCBA industry. If support of 4-6% on exports of PCBAs can be provided, by 2025-26, the cumulative PCBA export for India can be about US\$ 109 billion. Manufacturing PCBAs requires high-technology, capital-intensive SMT and other machines which need to work round the clock.

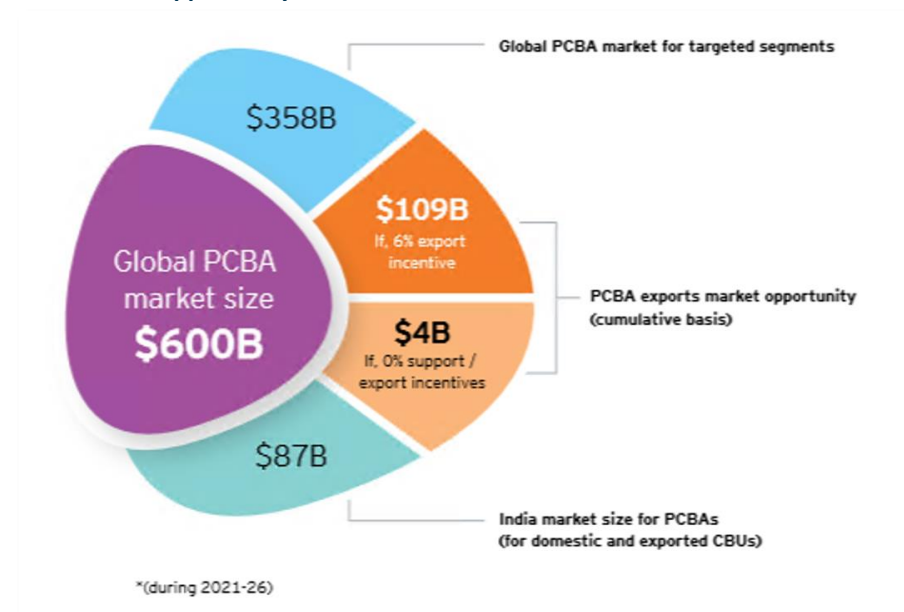
What is PCBA?

PCBA is a Printed Circuit Board (PCB) with all components mounted and soldered and has the functionality it was designed for. The PCBA is connected to other components such as displays, sensors etc. and is housed in an enclosure. It is at this point that the electronic device gets its identity, functionality and is recognized as a mobile phone, color television etc. Thus, the PCBA is the heart of any electronic device/appliance. PCBs may be single, double or multi-layered. Single layered PCB is the first generation of PCB used in simple electronic devices. As the products became complex, so did the PCBs. Multilayer PCBs are the rule rather than the exception. Smartphone PCBs can have up to sixteen layers while military electronic equipment may even have a hundred-layer PCB. Components may be mounted on one side of the PCB, referred to as single sided PCBA, or both sides of the PCB, referred to as a double sided PCBA.

Product	PCBA as a % of BoM
Mobile Phones	47
Tablets, notebooks and desktop PCs	40
Smart TVs, audio devices	20
Consumer appliances	10

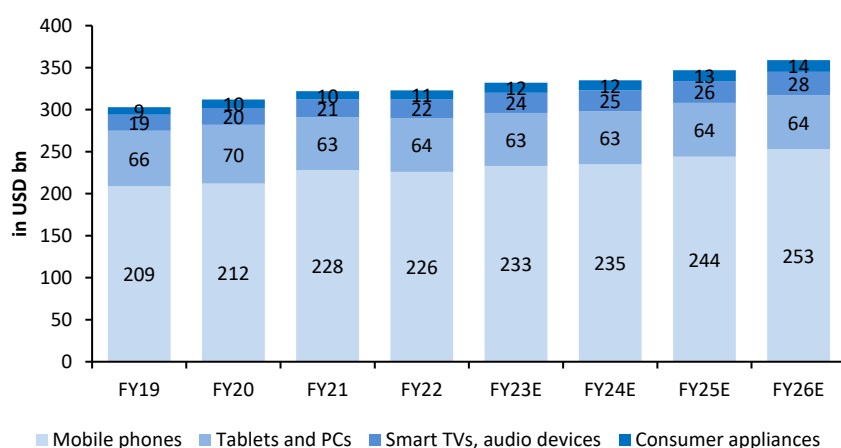
Source: Industry, PhillipCapital India Research

The business opportunity



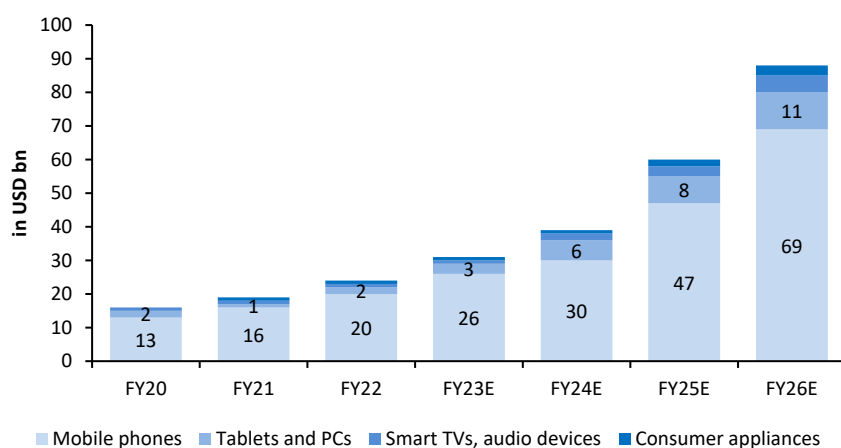
Note: This business opportunity is only for consumer electronics. Source: Industry.

Global market size for PCBA for the electronics industry



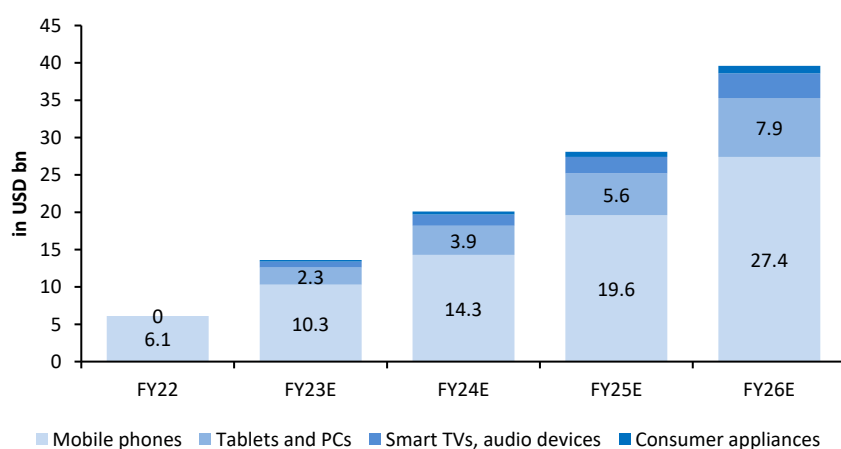
Source: PCBA reports, PhillipCapital India Research

Indian market size for PCBA for the electronics industry



Source: PCBA reports, PhillipCapital India Research

Export opportunity for PCBAs from India for the electronics industry

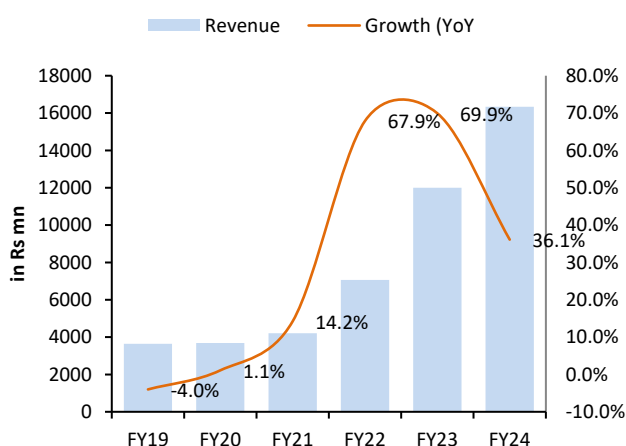


Source: PCBA reports, PhillipCapital India Research

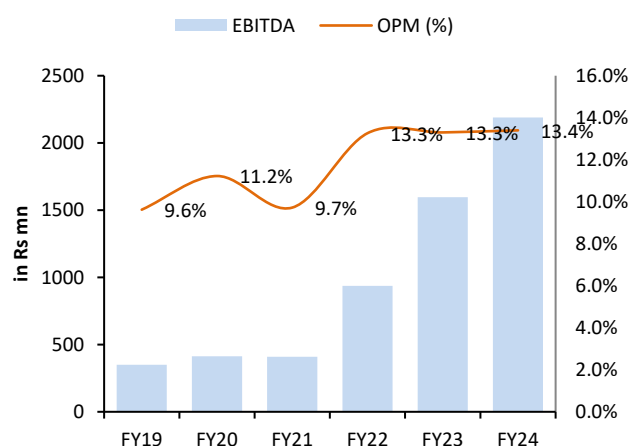
About Kaynes Technology Ltd

Kaynes is a leading end to end IoT solutions enabled EMS player, and has competencies across the entire spectrum of ESDM services. It has 3+ decades of experience in providing conceptual design, process engineering, integrated manufacturing and life-cycle support for major players in industries such as automotive, industrial, aerospace and defense, outer-space, nuclear, medical, railways, IoT and other varied segments. It undertakes a high-mix and high value addition of products across verticals with flexible volumes management. Over time, this company has evolved from an EMS provider into a design led manufacturer providing value-add EMS and ODM solutions in fields of smart devices, IoT, brushless drive technology and Gallium Nitride technology.

In revenue, we expect a CAGR of 52% over FY22-24



OPM has improved from 9.6% in FY19 to 13.3% in FY22



Source: Kaynes Technology Data, PhillipCapital India Research

The business is segmented into the below stage of services:-

- OEM – Turnkey solutions – Box Build
- OEM – Turnkey solutions – PCBA
- ODM solutions
- Product engineering and IoT solutions

Revenue break-up for the services offered by Kaynes

Segmental revenues (in Rs mn)	FY19	FY20	FY21	FY22
OEM – Turnkey solutions – Box Build	1284	942	1276	1988
as a % of overall revenues	35%	26%	30%	28%
OEM – Turnkey solutions – PCBA	1905	2290	2509	4436
as a % of overall revenues	52%	62%	60%	63%
ODM solutions	142	76	184	278
as a % of overall revenues	4%	2%	4%	4%
Product engineering and IoT solutions	312	374	237	360
as a % of overall revenues	9%	10%	6%	5%
Total	3642	3682	4206	7063

Source: Kaynes Technology Data, PhillipCapital India Research

Kaynes has served 229 customers in 21 countries and is one of the very few companies with 10 global certifications. The present order book is in excess of Rs 22bn. It started exporting sensor electric assemblies to Phoenix, Arizona in FY21 and saw strong growth momentum in aerospace, defense, power electronics. Kaynes also ventured into consumer electronics. It received approval under the PLI for white goods and PLI for telecom products.

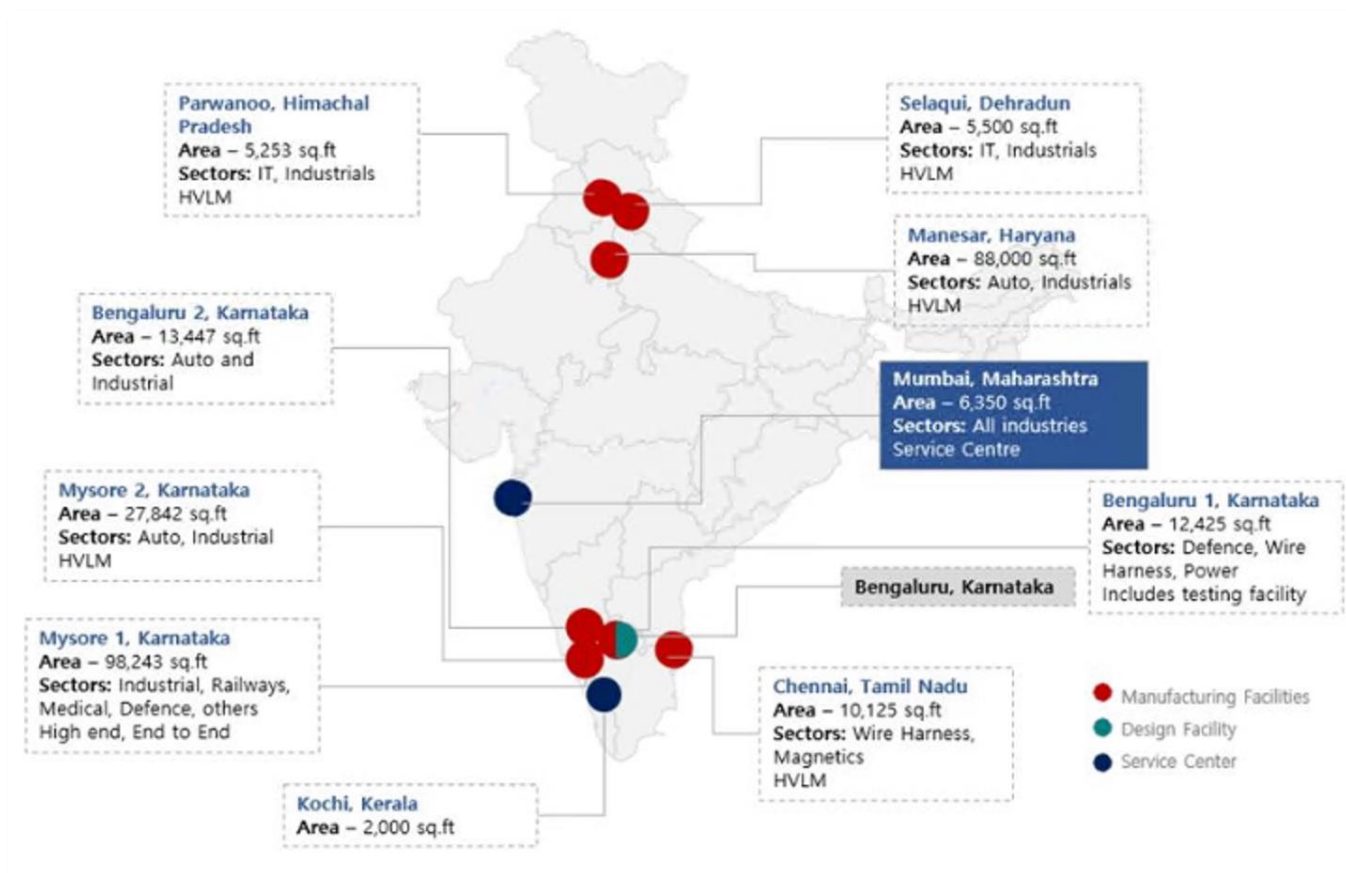
Manufacturing

Kaynes operates eight strategically located manufacturing facilities in states of Karnataka, Haryana, Himachal Pradesh, Tamil Nadu and Uttarakhand. Some of the manufacturing facilities are approved under the Electronics Hardware Technology Park Scheme of Software Technology Park in India. As of 31st December, 2021 company has the capacity to assemble 600mn components. The facilities in Manesar, Haryana, Chennai Tamil Nadu, Parwanoo, Himachal Pradesh are located in close proximity to customers which helps reduce logistics cost, increase efficiency and ensures minimal CAPEX.

Location	Industries	Area (Sq.ft)	Owned/ Leased
Mysore, Karnataka (Unit 1)	Railways, Defense and Aerospace, Medical and Industrials	126,085	Owned
Mysore, Karnataka (Unit 2)			Leased
Parwanoo, Himachal Pradesh	IT, Telecom, Industrial, Medical and Automotive	5,253	Owned
Selaqui, Uttarakhand	IT and Industrial	5,500	Leased
Bengaluru, Karnataka (Unit 1)	Automotive, Medical, IoT, IT and Industrial	12,425	Leased
Bengaluru, Karnataka (Unit 2)	Automotive and Industrial	13,447	Leased
Chennai, Tamil Nadu	Automotive, Medical and Industrial	10,125	Leased
Manesar, Haryana	Automotive, Medical and Industrial	88,000	Leased

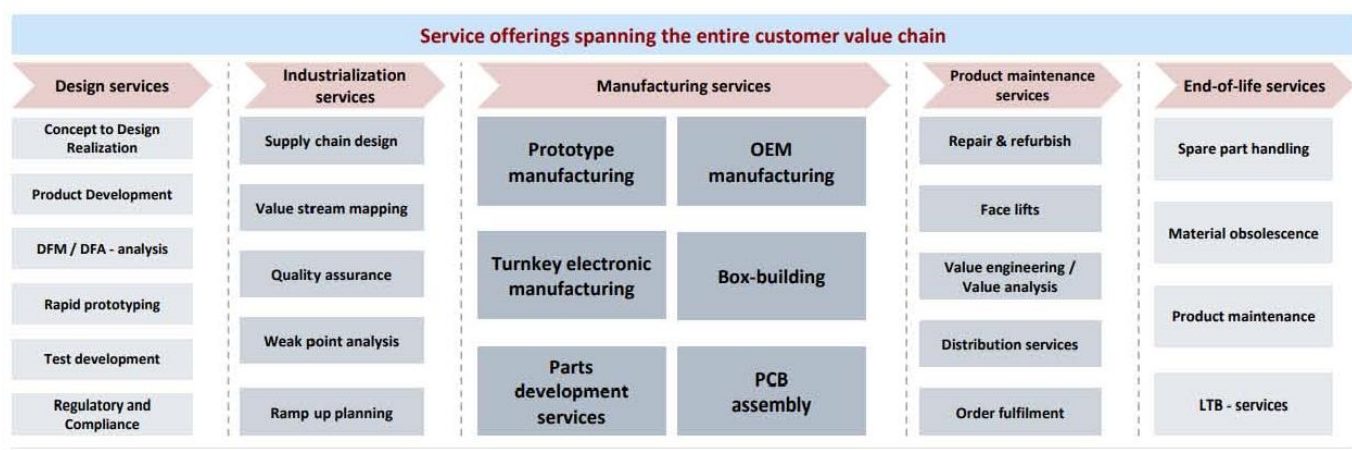
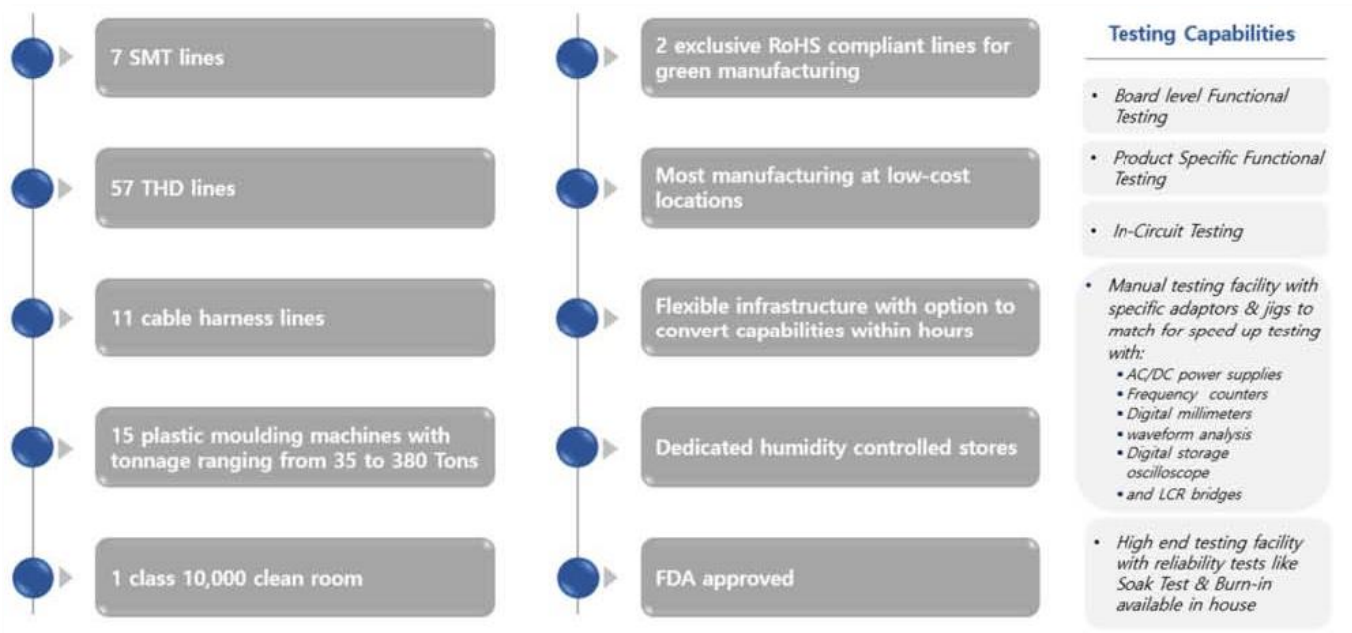
Source: Kaynes Technology Data, PhillipCapital India Research

As of December 31, 2021, the research and development team comprised 24 employees, including engineers, designers and other workers. They have a dedicated research and development facility located within the facility at Mysore, Karnataka. Kaynes has long-term relationships with a large customer base diversified across verticals and geographies. In the nine months ended December 31, 2021, it served 313 customers in 20 countries globally and multiple industry verticals such as automotive, aerospace and defence, industrial, railways, medical and IT / ITES.



Kaynes collaborates with its customers through the entire product life-cycle and after-sales and end-of-life services including assisting with concept creation, product development, prototyping, testing and mass manufacturing. Company possesses customised lines for box building, integration and testing, manufacturing facilities for cable forms and harnesses, plastic moulding, fabrication facilities as well as burn-in/soak-test facility.

Kaynes manufacturing setup:



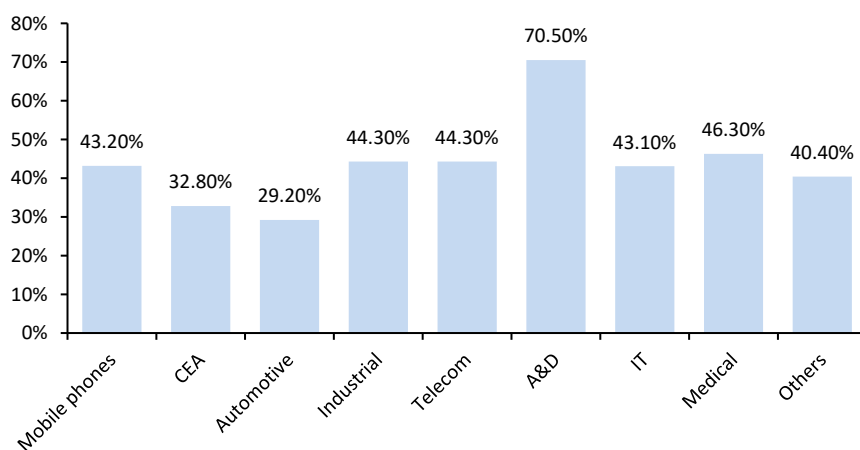
Kaynes has a diversified business portfolio having applications across industry verticals such as automotive, telecom, aerospace and defense, space, medical, IoT, railways each of which are expected to grow tremendously over the coming years. In ODM, the company is currently manufacturing Bluetooth modules, smart lighting, smart meters, wireless gateways, streetlight controllers, BLDC motor controllers, GaN chargers, biometric add-ons, industrial sensors and ECUs for steering control.

Industry-wise revenue break-up (FY19-22)

(Rs mn)	FY19	FY20	FY21	FY22
Automotive	718	747	1004	2370
as a % of overall revenues	20%	20%	24%	34%
Industrial	1160	1178	1394	2105
as a % of overall revenues	32%	32%	33%	30%
Aerospace & Defense	58	200	136	178
as a % of overall revenues	2%	5%	3%	3%
Medical	156	230	462	712
as a % of overall revenues	4%	6%	11%	10%
Railways	943	631	596	731
as a % of overall revenues	26%	17%	14%	10%
IoT	336	403	247	375
as a % of overall revenues	9%	11%	6%	5%
Consumer	271	293	368	591
as a % of overall revenues	7%	8%	9%	8%
Total	3642	3682	4206	7062

Source: Kaynes Technology Data, PhillipCapital India Research

Industries that Kaynes operates in are expected to see high CAGR growth (FY22-26E)



Source: Kaynes Technology Data, PhillipCapital India Research

In the three decades of its existence, Kaynes has formed long-standing relationships with many well-known customers across industries. The diversified customer base stands at c. 313 customers spread across 20 countries and 4 continents. Some of the customers are Agappe Diagnostics, Canyon Aero, Frauscher Sensor Technology India Private Limited, Hitachi Rail STS India Private Limited, India Japan Lighting Private Limited, Siemens Rail Automation Private Limited, Iskraemeco India Private Limited and Tonbo Imaging India Private Limited.

Industry verticals the Kaynes operates in and the customers within those industries

	Number of customers	
	Domestic	International
Automotive	67	5
Industrial	161	24
Aerospace & Defense	19	2
Medical	23	5
Railways	8	4
IoT	16	7
Consumer	6	1

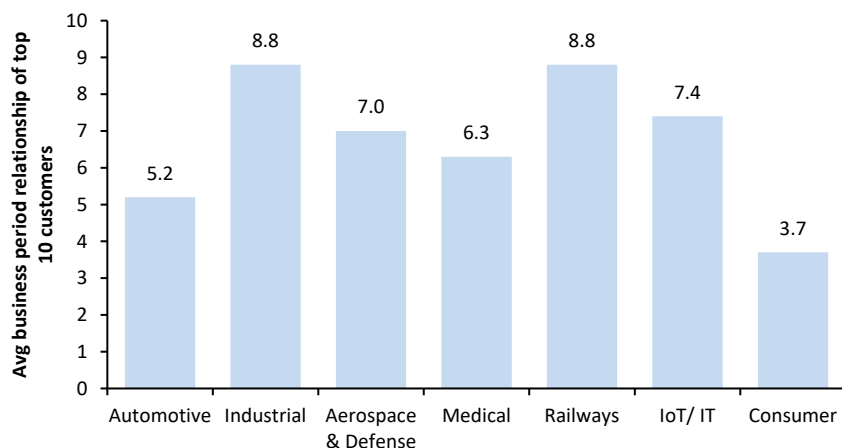
Source: Kaynes Technology Data, PhillipCapital India Research

No customer contributes more than 15% of overall revenues, thus making sure that the sales are not majorly impacted if business with any one customer stops. The top 10 customers of the company accounted for c. 59%/54%/46% of FY19/20/21 revenues.

Kaynes has long-standing relationships with the industry leaders

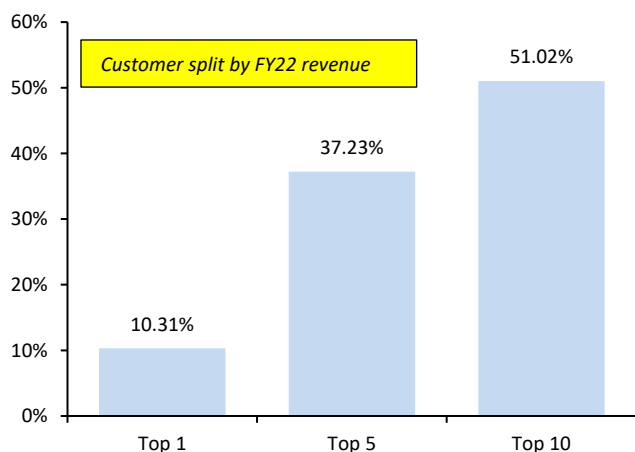
Industry	Key Customers
Industrials	Leading global mfg of electronic instruments and electromechanical devices
Railways	SIEMENS FRAUSCHER
Automotive	IHL
Medical	AGAPPE BeatO¹
A&D+ others*	TONBO imaging CANYON
IoT/IT & others	iskraemeco
Consumer	Leading players in BLDC Fans, Consumer Appliances
Non - Auto	Leading provider of global digital infrastructure

Kaynes has long-standing relationships with its customers

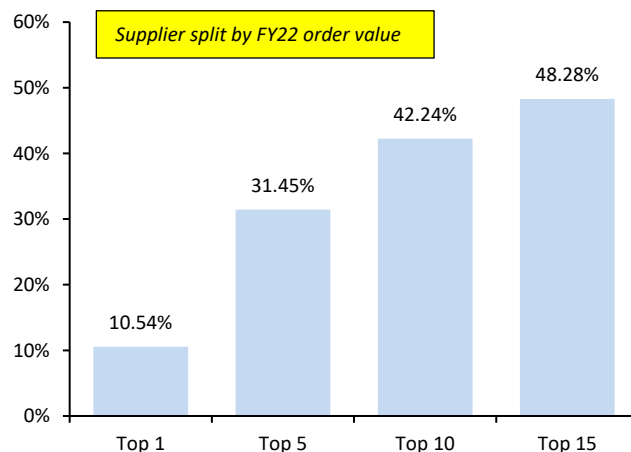


Source: Kaynes Technology Data, PhillipCapital India Research

Kaynes has low customer concentration

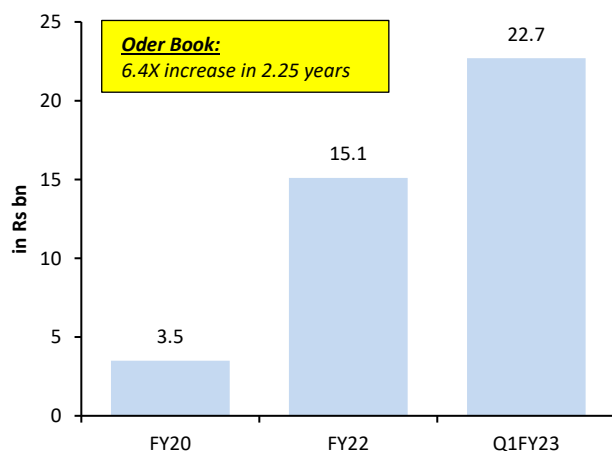


Along with low supplier concentration

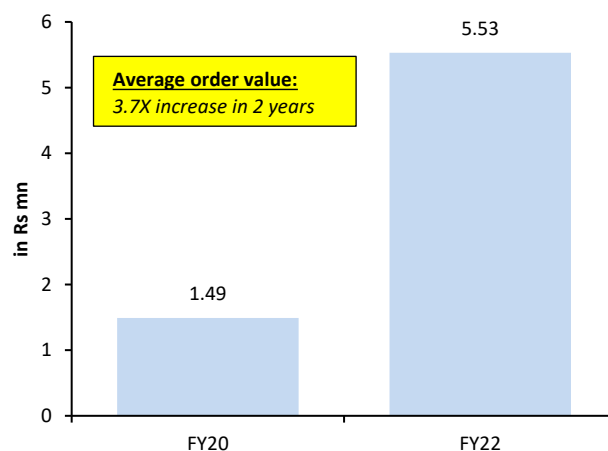


Source: Kaynes Technology Data, PhillipCapital India Research

Strong industry tailwinds has led to a jump in order book



There has been a sharp increase in average order value

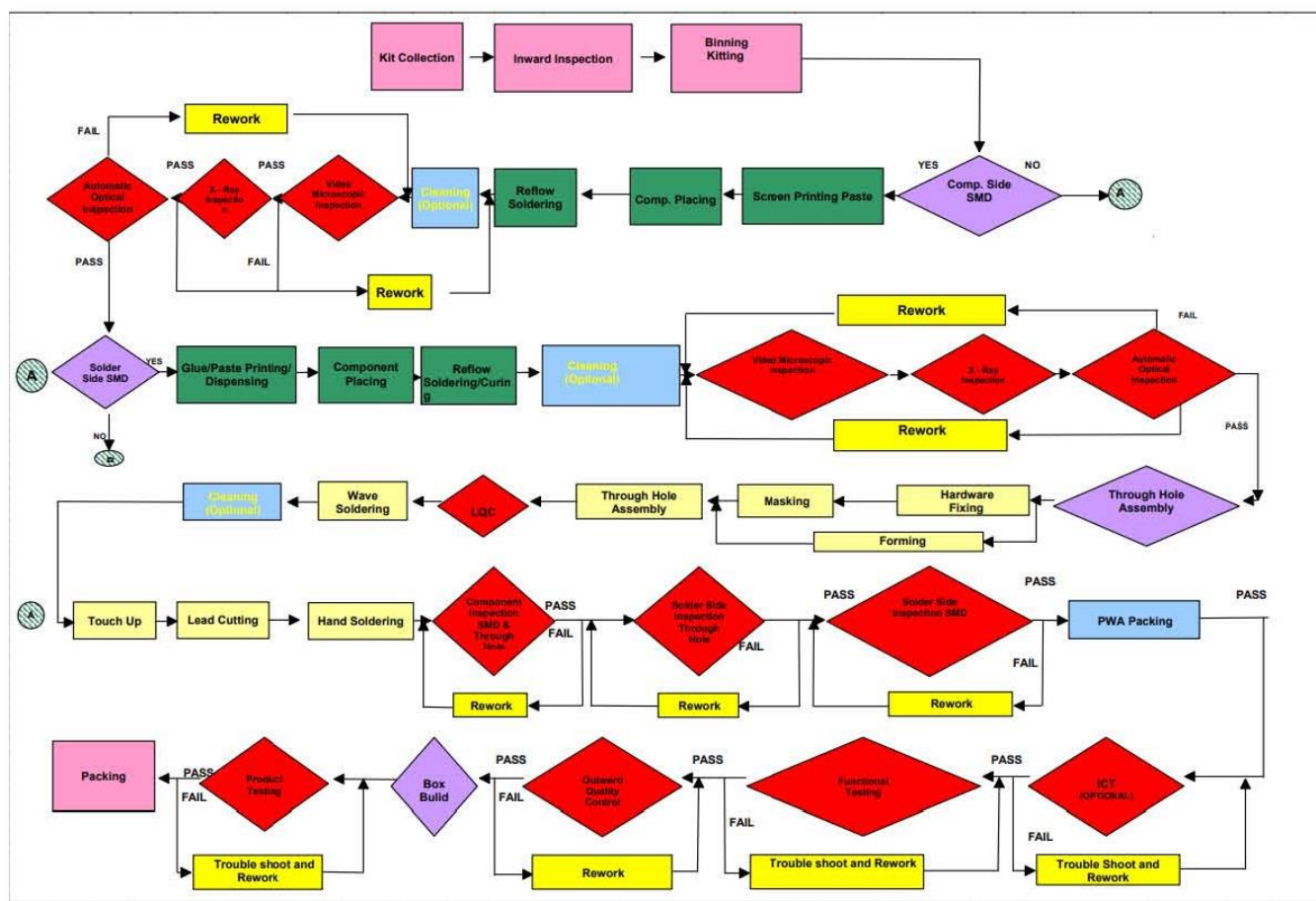


Source: Kaynes Technology Data, PhillipCapital India Research

Strategies going forward

- **Will focus on full product/ box build capabilities** – The net proceeds from the IPO will be utilised towards upgrading and expanding the existing facilities at Mysore, Karnataka and Manesar, Haryana and to set up a new facility at Chamarajanagar, Karnataka. Company has already built capabilities in BLDC motor controllers, invertors, IoT modules integration, smart energy meters and applied products such as street light controllers and biometric add-ons. It expects to grow its customer base in these areas as well as newer product categories going forward.
- **Will leverage R&D capabilities to continue to diversify product portfolio and provide value-added services** – The focus on R&D will allow the company to focus on its ODM capabilities on new business verticals like consumer electronics. Expansion strategies also include customer acquisition for smart meter ODM, appliance electronics ODM, solar panel cleaners as ODM, BLDC electric motor ODM as part of its product portfolio.
- **Focus on expansion across each vertical to capitalize on industry opportunity** –
 - **Aerospace, defense and outer space** – Company intends to set up dedicated infrastructure, skills and competencies to address complex avionics assembly and testing. This will be done by undergoing expansion by focusing on key strategic customer accounts, and emerge as a system integrator in the long run. Company has been qualified by an aerospace OEM for a long-term contract with an annual value of Rs 350mn.
 - **Automotive** – Company has established itself as a major supplier to OEMs for electronics in automotive lighting, passive entry passive start, ECU, door switches, clusters, sensors, EV electronics, convertors, battery management systems and electronic drives.
 - **Healthcare** – Company intends to tap into existing customer relationships who have presence across multiple industry segments.
 - **Industrials** - Company intends to expand its customer base in the low voltage power switchgear segment as a part of import substitution and strategically develop business in the large volume ODM electronics segment, on BLDC motor controllers and inverters in particular, various types of dispensing technology and focusing on solar energy related electronics like robotic automated AI driven solar panel cleaning machine.
 - **IoT** – Company intends to scale its business in ODM products such as street light controllers, smart meters, IoT devices and solutions.
 - **Railways** – Company intends to invest in design for the Research Design and Standards Organization of certain select product categories, enhance capabilities to strengthen its market share in signalling vertical, and explore potential strategic technological alliances either with existing clients or through strategic tie-ups, for bringing global next generation technologies into India in passenger safety, passenger comfort and internet connectivity.
 - **Consumer electronics** – Company intends to grow in areas of personal electronic devices such as consumer audio and wearables, lighting components and controls, components for consumer electronics etc. It intends to leverage the ODM capabilities in wireless technologies, BLDC motor controllers and IoT driven smart solutions.
- **Pursue inorganic growth through selective partnerships and acquisitions** - As part of its foray into the consumer electronics segment, Kaynes intends to pursue strategic acquisitions and investments and other strategic alliance partnerships within the ESDM sector that are complementary to its current and future business verticals
- **Improve operational efficiency through backward integration of manufacturing facilities** – The backward integration measures will reduce dependence on third parties for components, reduce lead time on account of synchronisation of actual requirements leading to faster utilisations of remaining components, better management of material inventory, and higher margins.

Manufacturing process



Source: Kaynes Technology Data, PhillipCapital India Research

Products manufactured by Kaynes

Automotive



Source: Kaynes Technology Data, PhillipCapital India Research

Industrial



Source: Kaynes Technology Data, PhillipCapital India Research

Aerospace, defense, outer-space and nuclear



Source: Kaynes Technology Data, PhillipCapital India Research

Medical



Source: Kaynes Technology Data, PhillipCapital India Research

Railways



Source: Kaynes Technology Data, PhillipCapital India Research

IoT and IT products



Source: Kaynes Technology Data, PhillipCapital India Research

Installed capacity and capacity utilisation

SMT components

Facility (SMT components / annum in millions)	2019			2020			2021			2022		
	Installed capacity	Actual production	Utilisation	Installed capacity	Actual production	Utilisation	Installed capacity	Actual production	Utilisation	Installed capacity	Actual production	Utilisation
Mysore, Karnataka (Unit 1 and 2)	420.7	399.9	95%	464.9	360.9	78%	458.3	377.8	82%	652.6	587.8	90%
Parwanoo, Himachal Pradesh	72.6	34.6	48%	72.6	30.8	42%	60.5	27.4	45%	72.6	26.8	37%
Manesar, Haryana	178.4	176.6	99%	178.4	100.8	56%	148.7	102.4	69%	196.2	184.0	94%

Source: Kaynes Technology Data, PhillipCapital India Research

PCB assembly

Facility (SMT components / annum in millions)	2019			2020			2021			2022		
	Capacity	Production	Utilisation	Capacity	Production	Utilisation	Capacity	Production	Utilisation	Capacity	Production	Utilisation
Mysore, Karnataka (Unit 1 and 2)	13	13	95%	14	11	78%	29	24	82%	37	33	90%
Parwanoo, Himachal Pradesh	2	1	48%	2	1	42%	2	1	45%	3	1	37%
Manesar, Haryana	2	2	99%	3	2	56%	3	2	69%	5	5	94%

Source: Kaynes Technology Data, PhillipCapital India Research

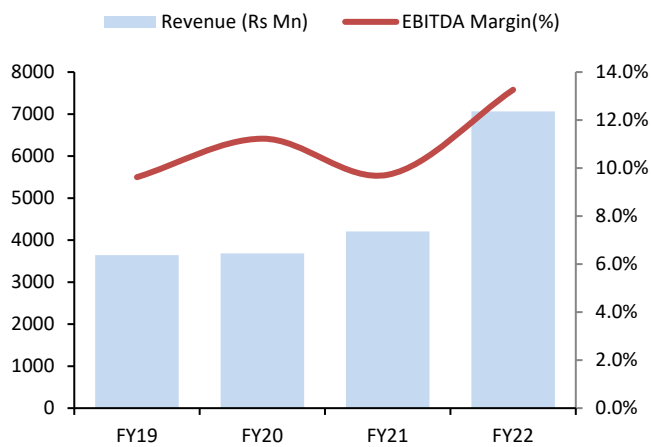
Proposed capacity expansion post the IPO

Location	Vertical	Proposed capacity (PCB assemblies per annum)
Mysuru, Karnataka (Unit 1)	Defense, Railways, Medical and Industrial	13.74
Manesar, Haryana	Automotive and Industrial	7.74
Chamarajanagar, Karnataka	Consumer electronics and smart meters	12.55

Source: Kaynes Technology Data, PhillipCapital India Research

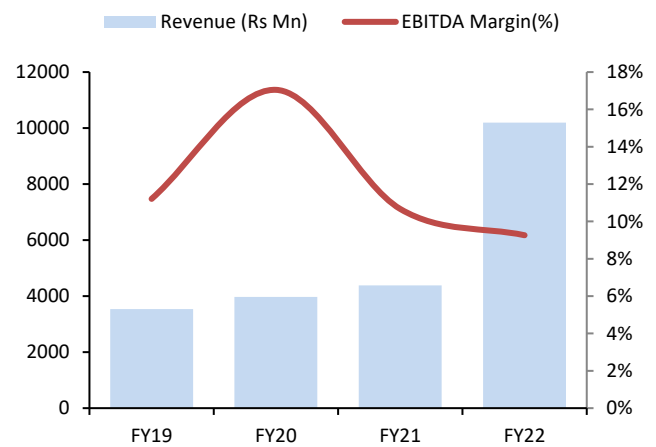
Historical financials comparison between Syrma and Kaynes

Kaynes revenue delivered CAGR+25% over FY19-22



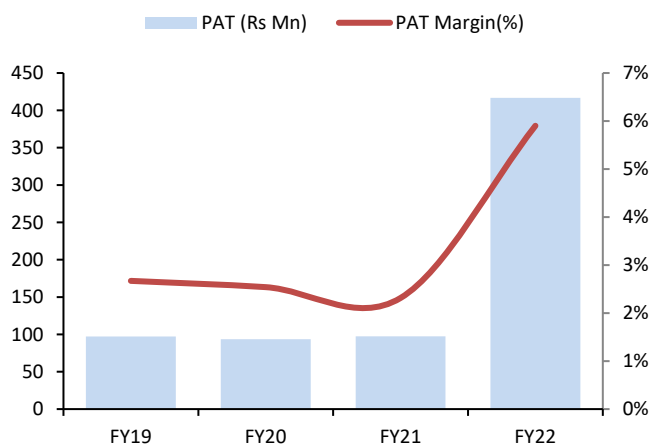
Source: Company Data, PhillipCapital India Research

Syrma revenue delivered CAGR +42% over FY19-22



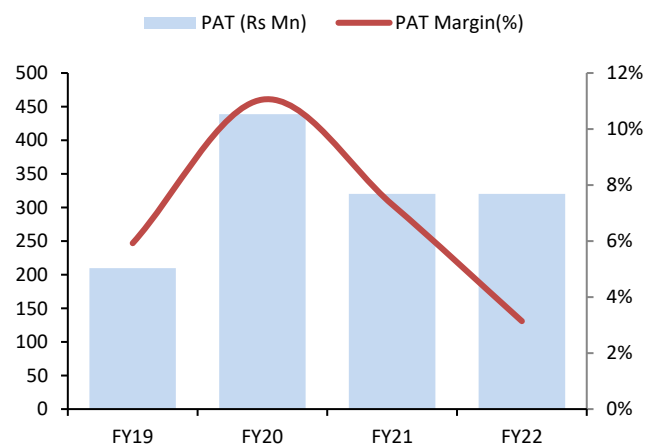
Source: Company Data, PhillipCapital India Research

Kaynes PAT Margins **expanded** by 323bps over FY19



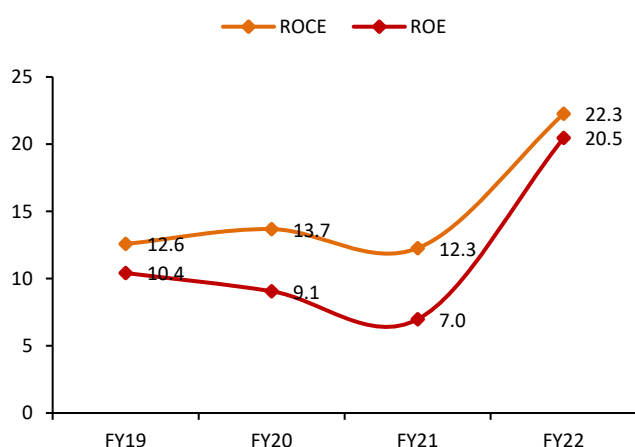
Source: Company Data, PhillipCapital India Research

Syrma margins **contracted** by 278bps over FY19



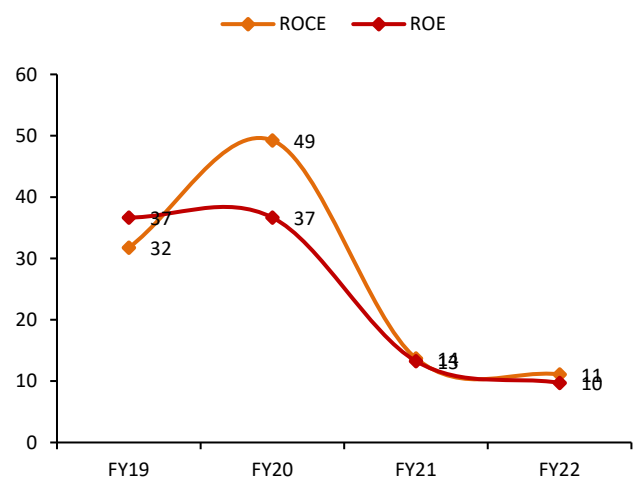
Source: Company Data, PhillipCapital India Research

Kaynes started witnessing improvement in ROE&ROCE post covid



Source: Company Data, PhillipCapital India Research

Syrma has long way to improve its ROE & ROCE



Source: Company Data, PhillipCapital India Research

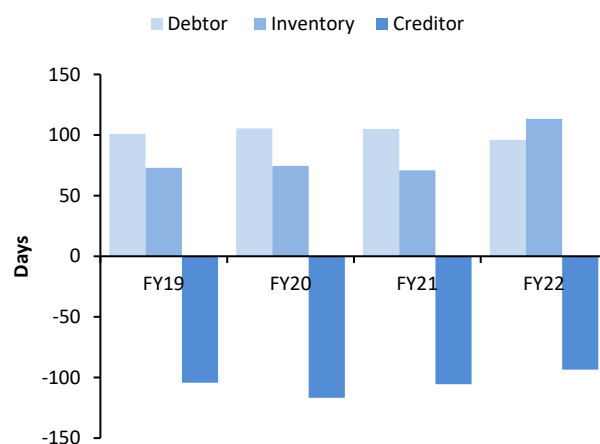
Note: Syrma FY19 and FY20 is standalone

Kaynes had net working capital days of 137 days in FY22



Source: Company Data, PhillipCapital India Research

Syrma had net working capital days of 116 days in FY22



Source: Company Data, PhillipCapital India Research

Annexure – 1

Experienced board of directors and KMPs

Person	Designation	Description
Ramesh Kunhikannan	MD & Promoter	33+ years of experience in EMS. Associated with the company since inception. Bachelor of Electrical Engineering from NIE, Mysore
Savitha Ramesh	Chairperson	25+ years of experience in EMS. Associated with the company since inception. B.Com from University of Madras
Jairam Paravastu Sampath	CFO	30+ years of experience in EMS. Associated with the company since 2011. B.Tech from IIT Madras and PGDM from IIM Ahemdabad.
Rajesh Sharma	CEO	15+ years of experience in accounting and finance. Bachelor's degree from the University of Bangalore and an associate member of the ICAI of India
Sajan Anandaraman	Head of commercial and corporate affairs	20+ years of experience across multiple verticals in Kaynes. Bachelor's degree in electronical and electronics engineering from University of Calicut

Source: Kaynes Technology Data, PhillipCapital India Research

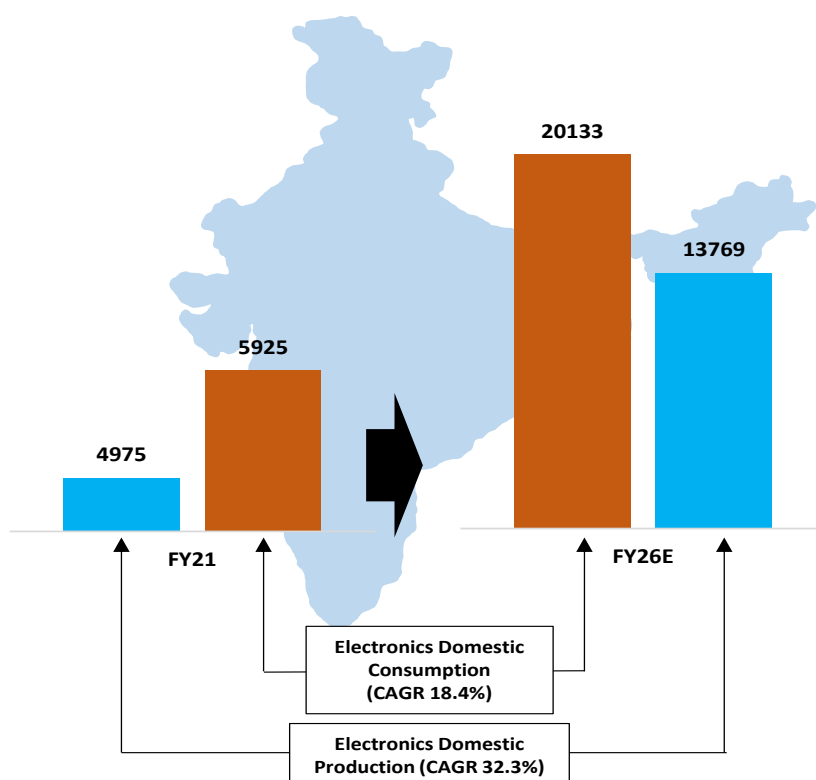
Annexure 2

Overview of electronics industry in India

- **Electronics consumption** – Electronics consumption market in India is estimated at Rs 5,925bn in FY21 and is likely to grow at 18% to reach Rs 13,796bn by FY26. India's electronics can be sub-divided to various segments such as mobile phones, consumer electronics, telecom, and networking products, IT hardware and automotive.

Key drivers that are assisting the rapid expansion of the industry

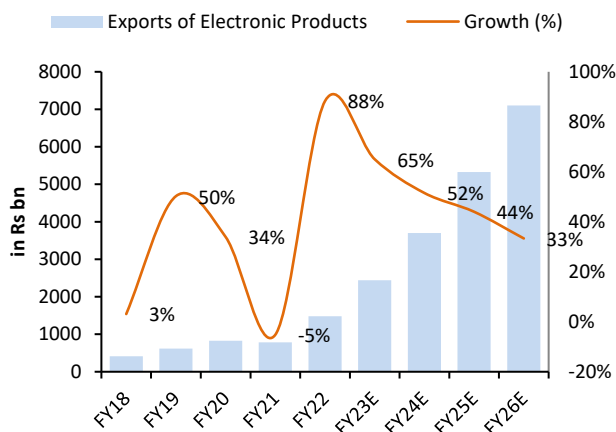
- Increasing penetration of consumer electronics in semi-urban and rural areas
- A shift in lifestyle among the Gen Y population
- Adoption of smart devices, etc.



- **Domestic electronics production** – India has the potential to be one of the most attractive manufacturing destinations and support the objective of **“Make-in-India for the world”** (in line with our sector view as highlighted in our GV). The Indian government has taken a series of steps towards attaining this goal such as M-SIPS, PLI, Make-in-India etc. **In FY21, the electronics production in India contributed 2.5% to the GDP – which should increase to 6.8% by FY26.**

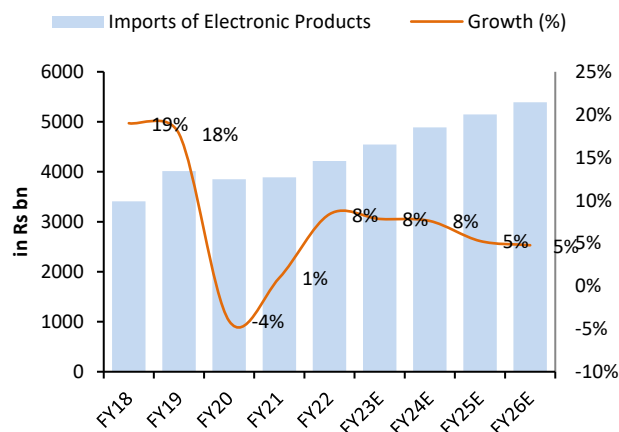
- Electronics imports** – The total import value of electronics in India is estimated at Rs 2,296bn in FY15 and Rs 3,851bn in FY20. China and Hong Kong accounted for nearly 70% of India's imports in FY20. The top-three imported products in India are laptops and desktops, FPD televisions, and storage devices. Most of the components used in building notebooks and laptops are imported as SKD units from China and Thailand.

Electronics – exports trend (FY18-26)



Source: Industry reports, Kaynes Technology Data, PhillipCapital India Research

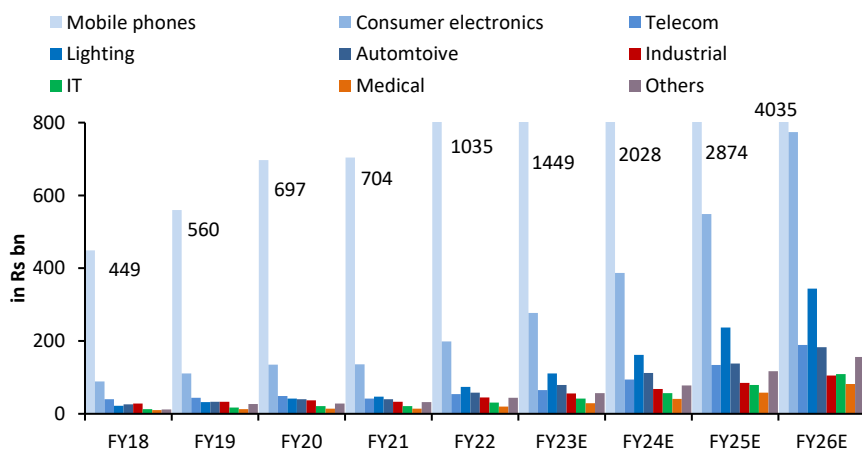
Electronics – import trend (FY18-26)



Source: Industry reports, Kaynes Technology Data, PhillipCapital India Research

- Electronics exports** – The total export value of electronics was Rs 383bn in FY15 and Rs 829bn in FY20. The export market should see a substantial CAGR of 55% in the next five years. The top-3 products in the exports category are mobile phones, engine control units, and industrial machinery. **Globally, India ranks second in mobile phone manufacturing, which involves design, assembly, and manufacturing processes.**

EMS market break up by industry applications in India (FY18-26)



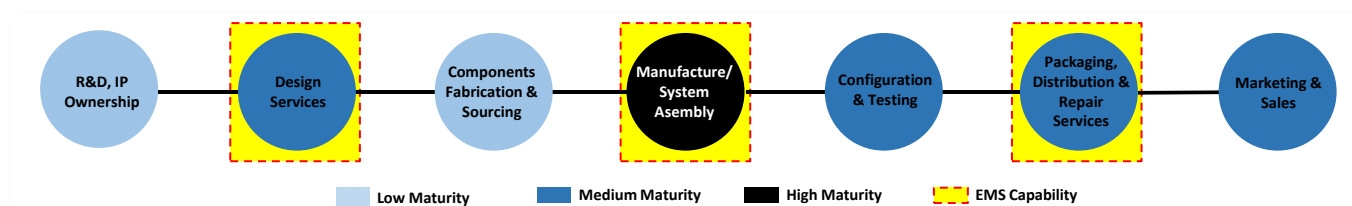
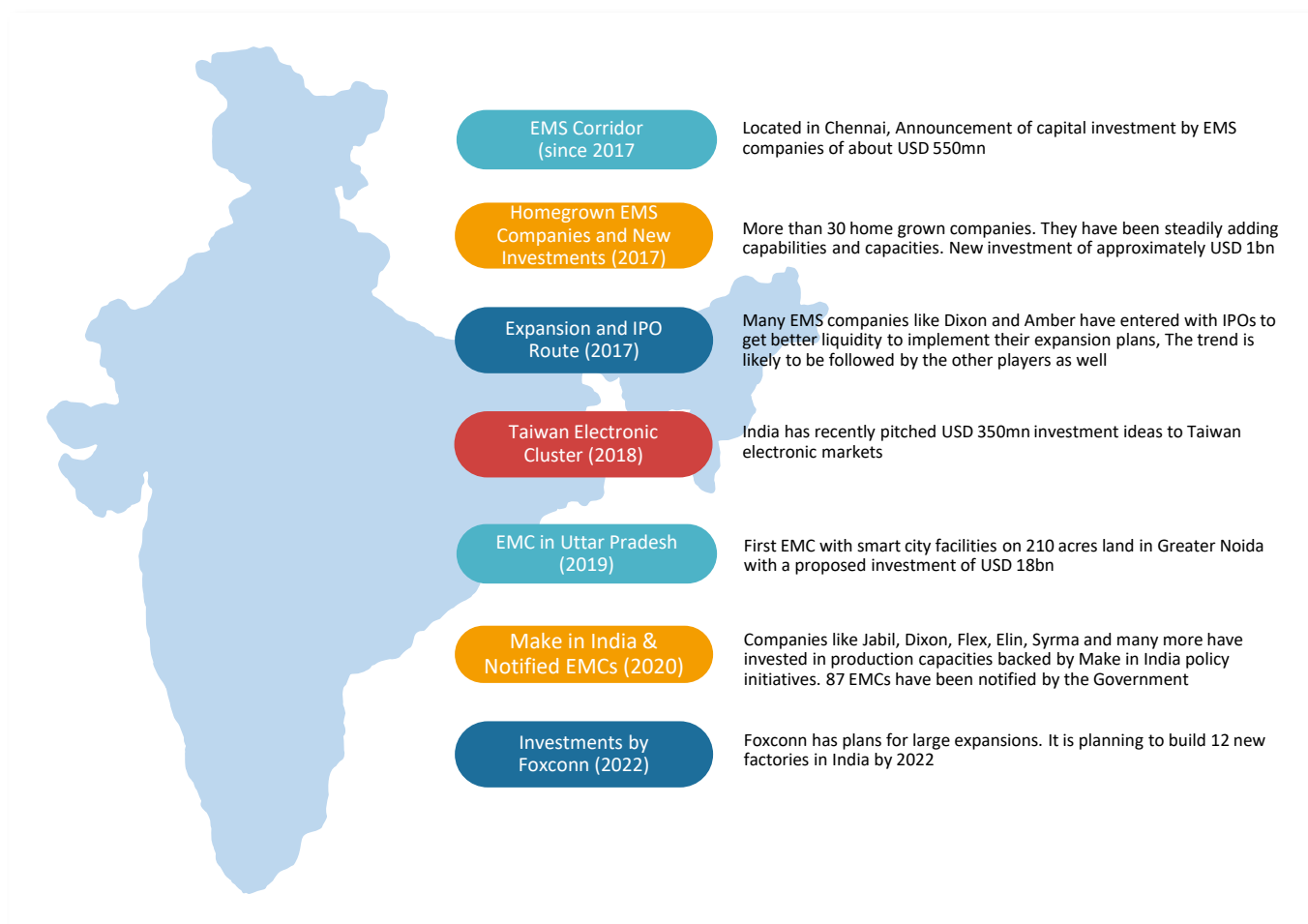
Source: Kaynes Technology Data, PhillipCapital India Research

Policy initiatives taken by India towards incentivizing localization in India

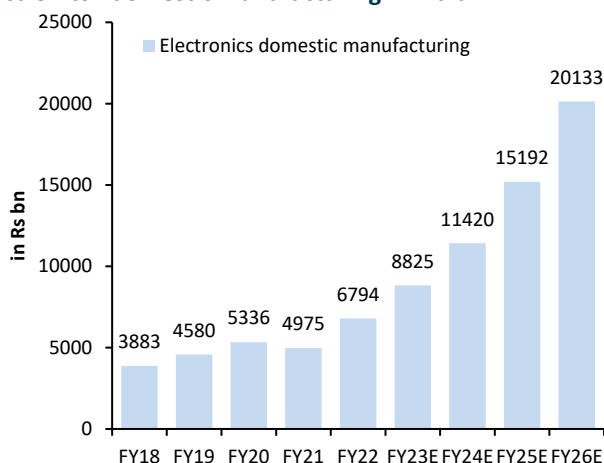
- Production linked incentive (PLI) scheme
- Scheme for promotion of manufacturing of electronic components and semiconductors
- Merchandise exports from India scheme
- Modified electronic manufacturing clusters scheme (EMC 2.0)

EMS industry in India

The total addressable EMS market in India was **valued at Rs 2,654bn in FY21 and is expected to grow to Rs 9,963bn in FY26, registering a CAGR of 30.3%**. However, the contribution of Indian EMS companies is around 40%, is Rs 1,069bn, which should see a CAGR of 41% to reach Rs 5,978bn by FY26. EMS companies can offer end-to-end services right from design, assembly, production, testing to after sales. There are more than 30 organized companies in the EMS industry but the commercial semiconductor fabrication operation is almost non-existent. EMS companies have matured from being mere contract manufacturers to end-to-end support partners today.

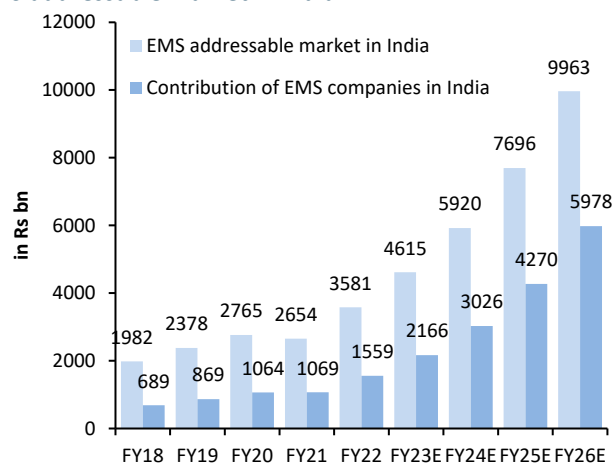


Electronics - domestic manufacturing in India



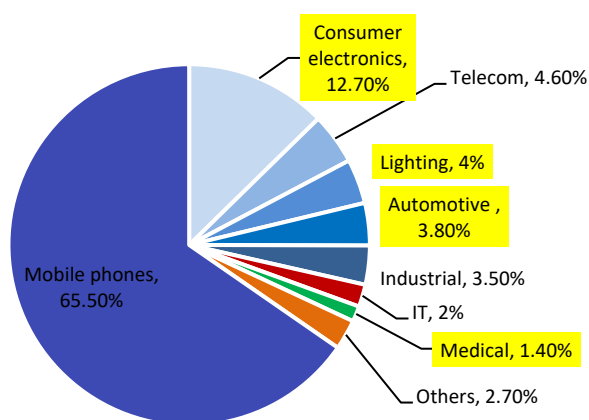
Source: Industry reports, Kaynes Technology Data, PhillipCapital India Research

EMS addressable market in India



Source: Industry reports, Kaynes Technology Data, PhillipCapital India Research

EMS market break up by industry applications in India.

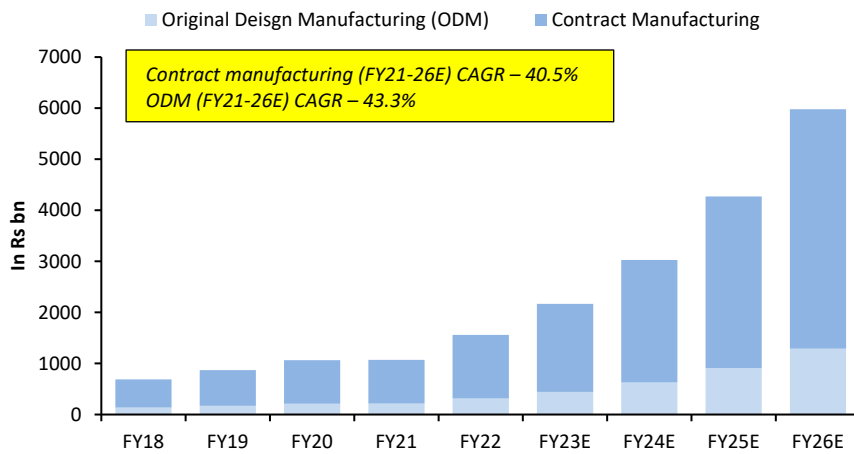


Source: Kaynes Technology Data, PhillipCapital India Research

Overview of the EMS industry in India

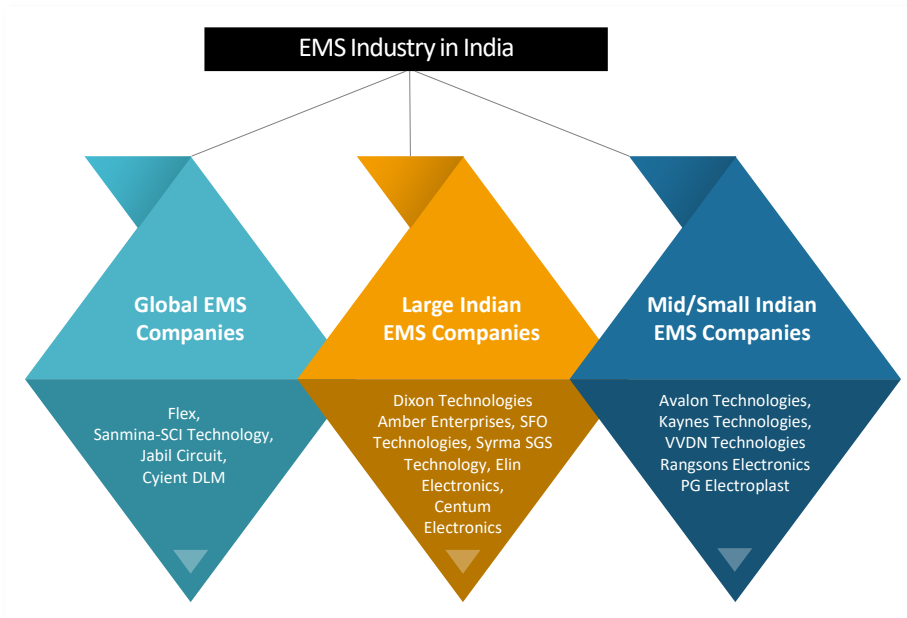
- There are nearly 700 EMS companies in India, ranging from large to mid-size to small-sized players. Mobile phones, consumer electronics, and industrial electronics contribute to more than 75% of the total EMS market in India.
- Embracing the ODM model of partnership, coupled with venturing into new product segments is propelling OEMs to pursue the ODM model.
- **ODM model** – EMS companies design products as per the specifications provided by the OEMs. They source components, carry out fabrication and assembly, test the final product and undertake logistics and after-sales services. This is a high margin business and comes at a premium for good designs.
- **EMS model** – Under this model, OEM provides design and specifications to the EMS companies. EMS companies source components, manufacture and/or assemble components and supply the finished products to OEMs. Increasingly, OEMs are preferring to engage on ODM basis.

ODM vs. contract manufacturing in India



Source: Kaynes Technology Data, PhillipCapital India Research

Top EMS companies in India



Source: Kaynes Technology Data, PhillipCapital India Research

Financials

Income Statement

Rs mn	FY21	FY22	FY23E	FY24E
Revenue from Operations	4,206	7,062	12,001	16,336
yoy (%)	14.2%	67.9%	69.9%	36.1%
Expenditure:	3,797	6,126	10,405	14,147
Cost of Raw Materials Consumed	2823	4931.07	8221	11141
Purchases of Stock in Trade	38.2	-36.77	-	-
Power & Fuel	0	0	0	0
Employee Benefit Expense	459	602.35	1140	1552
as % of Sales	10.9%	8.5%	9.5%	9.5%
yoy (%)	8.2%	31.2%	89.3%	36.1%
Other Expenses	477.15	629.13	1044	1454
as % of Sales	12.6%	10.3%	10.0%	10.3%
Operating Profit	409	937	1596	2189
OPM (%)	9.7%	13.3%	13.3%	13.40%
Gross Margin (%)	32.0%	30.7%	50.0%	31.8%
+ Other Income	40.4	41.05	50	50
EBITDA	449	978	1,646	2,239
- Depreciation and Amortisation Expense	100.8	131.62	175	234
as % of Gross Block	8.1%	7.8%	6.5%	5.0%
EBIT	349	846	1,472	2,005
Less: Finance Costs	239.79	255.87	103	79
as % of Total debt	17.2%	15.1%	26.0%	20.0%
Less: Exceptional Items	-	-	-	-
EBT	108.8	590	1,369	1,926
Less: Tax Expense:	11	174	349	491
Current Tax	11.4	153		
Tax pertaining to previous period/years	0	20		
Deferred Tax (net)				
Tax Rate (%)	10.5%	29.4%	25.5%	25.5%
Profit After Tax	97	417	1,020	1,435

Source: Company, PhillipCapital India Research

Cash Flow

Rs mn	FY21	FY22	FY23E	FY24E
Profit Before Tax	109	590	1,369	1,926
Adjustment For:				
Depreciation and Amortisation Expense	100.8	132	175	234
Finance Costs	239.8	255.87	103	79
Profit on sale of fixed assets	0	0		
Interest Income	-6.7	-10.56	(50)	(50)
Unrealised Exchange loss/ (gain) (net)	-0.1	0	0	0
Others				
Operating Profit before Working Capital Changes	443	967	1,596	2,189
Increase/(Decrease) in Working Capital:	(137)	(742)	(1,534)	(1,446)
Inventories	(128)	(625)	(1,494)	(1,351)
Trade Receivables	(281)	(760)	(1,290)	(1,134)
Loans and advances	161	(291)	-	-
Trade Payables	111	921	1,250	1,039
Provisions (current and non-current)	-	13		
Income Tax Paid	-28.1	-14.06	(349)	(491)
Net Cash Flow from Operating Activities	277	211	(287)	252
Cash Flow from Investing Activities				
Capital Expenditure (including capital advances, net of payables on purchase of property, plant and equipment and intangible assets)	-250	-422.44	(1,000)	(2,000)
Purchase/ Sale of investments	2.4	-33.42	0	0
Interest Income	6.7	10.59	50.0	50.0
Other				
Net Cash Flow from Investing Activities	(241)	(445)	(950)	(1,950)

Source: Company, PhillipCapital India Research

Balance Sheet

Rs mn	FY21	FY22	FY23E	FY24E
Equity Share Capital	68	462	581	581
Non-controlling interest	9	11	11	11
Other Equity	1308	1560	9,064	10,499
Fresh Issue	0	0		
Other	11	4	4	4
Networth	1,395.7	2,037	9,661	11,095
Non Current Liabilities				
Financial Liabilities:	1,395	1,695	395	395
Secured loans	171	293	293	293
Unsecured loans	1224	1403	103	103
Deferred Tax Liabilities (Net)	52	68	68	68
CAPITAL EMPLOYED	2,843	3,800	10,124	11,558
Non Current Assets				
Gross block	1245	1685	2685	4685
Accumulated depreciation	469	575	750	984
Net block	776	1,110	1,935	3,701
Capital work in progress	126	83	83	83
Goodwill	23	23	23	23
Fixed assets	926	1,217	2,042	3,808
Current Assets	3,251	4,992	11,740	12,449
Inventories	1639	2264	3757	5108
Financial Assets:	0	0		
Trade Receivables	1218	1977	3267	4402
Cash and Bank	143	216	4,181	2,403
Other Financial Assets	65	113	113	113
Other Current Assets	188	422	422	422
Current Liabilities	1,351	2,424	3,674	4,713
Financial Liabilities:				
Trade Payables:	954	1641	2890	3930
Other Financial Liabilities	156	273	273	273
Provisions	39	52	52	52
Other Current Liabilities	202	459	459	459
Net Current Assets	1,900	2,569	8,067	7,736
Investments	17	15	15	15
Trade				
Non-trade	17	15	15	15
TOTAL ASSETS	2,843	3,800	10,124	11,558

Source: Company, PhillipCapital India Research

Ratios

	FY21	FY22	FY23E	FY24E
ROACE (%)	12.26	22	15	17
ROANW (%)	7.0	20.5	10.6	12.9
Sales/Total Assets (x)	1.48	1.86	1.19	1.41
Sales/Net Block (x)	5.42	6.36	6.20	4.41
Debt:Equity (x)	1.0	0.8	0.0	0.0
Net Debt:Equity (x)	0.90	0.73	(0.39)	(0.18)
Current Ratio (x)	2.41	2.06	3.20	2.64
Quick ratio (x)	1.19	1.13	2.17	1.56
Working Capital (INRm)	1,900	2,569	8,067	7,736
Working capital/Sales (%)	45%	36%	67%	47%
Interest Cover (x)	2	3	13	22
Debtors (days)	104	101	98	97
Inventory (days)	155	133	130	130
Creditors (days)	90	96	100	100
Working Capital (days)	169	137	128	127
EV/Sales (x)	6.1	4.0	2.5	2.0
EV/EBIDT (x)	62.7	30.5	19.0	14.7
P/E (x)	253	65.1	33.5	23.8

Source: Company, PhillipCapital India Research

Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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