

Governance issues weigh, Growth intact ...

About the stock: Kaynes Technology India (Kaynes) is an Indian integrated electronics manufacturing company offering end-to-end solutions, from design to life-cycle support, for various sectors including Automotive, Industrial, Aerospace, Medical, and IoT. Founded in 1988 and headquartered in Mysore, it provides Electronics System Design and Manufacturing (ESDM) services and has experience with 500+ customers both domestically and in international markets.

Recent factors driving stock volatility: Kaynes stock has recently taken a hit following concerns around i) the company's accounting disclosures which made market participant nervous. For instance, under related party transaction (RPT) disclosures, company inadvertently failed to report reconciled balances between subsidiary companies. Although the reporting was missed at company's end, it seems negligence sort of error rather than anything on governance front. The overall P&L and balance sheet is not misstated. Similarly, post management's clarification on other issues, it seems sub-par disclosure created misinterpretation rather than management's malafide intention.

ii) The company has outlined a sizable capex programme over the next few years, while elevated working-capital intensity and a weak free-cash-flow profile pose risks to timely execution, impacting return ratios. Here, post spike in working capital days in H1FY26, management has indicated by FY26 end, working capital shall improve considerably which will be keenly watched by markets. The company will be discounting receivables and take aid of supply chain financing to improve the same.

iii) Q2 performance remained slightly softer on growth front which management suggests is quarterly phenomena while it maintained its FY26 / FY28 / FY30 revenue growth guidance of ~₹4500 cr / ~₹9000 cr / ~₹18000 cr. Going ahead, growth would be led by electric vehicle, aerospace, railways, non-smart meter segment within Industrials. In medium to long term, OSAT and PCB manufacturing shall support growth which shall be margin accretive.

Our view and Target Price

- We view the issues highlighted as largely disclosure-related discrepancies and instances of misinterpretation arising from limited clarity in certain disclosures. We do not see any indication of fraudulent intent, and these matters are not expected to have a financial impact. However, they do underscore the need for improved transparency and consistency in the company's reporting practices as these factors create trust issues and impact the multiple stock commands. We maintain BUY rating with a revised target price at ₹ 6,400, valuing the stock at 53x P/E on FY28E EPS.



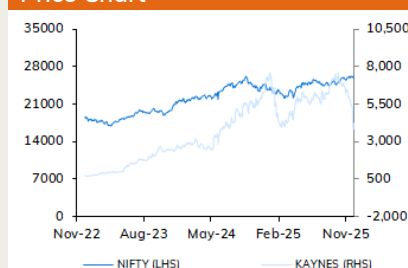
Particulars

Particular	Amount
Market Cap (₹ Crore)	29,200
H126 Debt (₹ Crore)	309
H126 Cash (₹ Crore)	1,053
EV (₹ Crore)	28,456
52 Week H/L (₹)	7,822/3,712
Equity Capital (₹ Crore)	67.0
Face Value	10

Shareholding pattern

	Dec-24	Mar-24	Jun-25	Sep-25
Promoter	57.8	57.8	53.5	53.5
FII	14.8	11.2	10.7	10.7
DII	15.0	17.0	22.4	23.7
Public	12.4	14.1	13.4	12.2

Price Chart



Key risks

- Any restraint in domestic government support measures.
- Execution delays in upcoming ventures i.e. OSAT and PCB manufacturing
- Stressed working capital days and cashflow

Research Analyst

Jaymin Trivedi
jaymin.trivedi@icicisecurities.com

Kirankumar Choudhary
Kiran.choudhary@icicisecurities.com

Key Financial Summary

(₹ crore)	FY22	FY23	FY24	FY25	3 Year CAGR (FY22-25)	FY26E	FY27E	FY28E	3 Year CAGR (FY25-28E)
Net Sales	706	1,126	1,805	2,722	56.8	4,231	6,488	8,767	47.7
EBITDA	93	168	254	411	63.8	673	1,074	1,499	53.9
EBITDA margin (%)	13.2	14.9	14.1	15.1		15.9	16.6	17.1	
Net Profit	41	95	183	293	92.4	449	663	808	40.2
EPS (₹)	53.9	16.4	28.7	45.8		67.1	99.0	120.7	
P/E(x)	80.4	264.8	151.0	94.6		64.6	43.8	35.9	
RoCE (%)	27.1	16.7	11.0	15.2		14.1	16.9	15.7	
RoE (%)	20.3	9.9	7.4	10.3		9.2	11.9	12.7	

Source: Company, ICICI Direct Research

Major Concerns raised and comments thereon

- **Discrepancies over RPT disclosures:**

Kaynes subsidiary Iskraemeco reported RPT with purchases of ~₹180 cr from Kaynes Electronics Manufacturing in FY25, also year-end payables of ~₹320 cr to Kaynes Technology and ~₹180 cr to Kaynes Electronics Manufacturing and receivables of ~₹190 cr from Kaynes Technology. However, the same didn't reflect in RPT disclosures of Kaynes Technology and Kaynes Electronics Manufacturing.

Management Response: Management admitted that these disclosures were inadvertently omitted in standalone financial statements which has been duly rectified and noted for future compliance.

We believe that company missed these disclosures due to clerical errors and there didn't lie any fraudulent intentions behind it as these errors doesn't directly or indirectly impact company's financial statements. All other financial metrics remain as it is.

- **Ambiguity over goodwill recognition:**

Kaynes in its notes to account pertaining to financial statement mentioned goodwill of ~₹62.8 crore and ₹51.1 crore occurring on account of acquisition of Iskraemeco India Pvt Ltd and Sensonic Group respectively. However, while recording goodwill in financials, company showcased capital reserve adjustment of ~₹1.03 crore.

Management Response: Company acquired Iskraemeco for ₹42.9 crore and Sensonic group for ₹45.3 crore against net liabilities of ₹19.8 crores and ₹10.8 crore respectively. Further with context to Iskraemeco, the company recognised previously unrecognised intangible assets of ~₹115 crores pertaining to customer contract which is in line with the guidelines issued by ICAI under IND AS 103.

Kaynes duly reported goodwill taking into consideration of fair value of customer contracts however inadvertently omitted to report the impact of fair value adjustment in notes to accounts (note no. 41 of consolidated financial statements). This shall not have any impact on company's profit or loss statement or reported balance sheet as the company has duly complied with IND AS 103 for business combination.

- **Significant additions in Intangible assets.**

Company capitalized ~₹180 crore (6.5% of revenue), as additions under technical know-how including designs and prototypes in FY25.

Management response: Intangible assets recognized in FY25 comprises of ₹115 crores of customer acquisition contracts arising out of Iskraemeco's acquisition classified under technical know-how and ~₹26 crores for development and cost related to acquisition and balance ~₹39 crores capitalised for in-house R&D expenses as per relevant IND AS.

In our view, material amount of total intangible asset capitalised i.e. ~₹115 crore related to customer contract pertaining to Iskrameco's acquisition is in line with IND AS 103 and shall not have any further impact on company's financials.

- **Iskraemeco's high contribution in H2FY25 to Kaynes' overall revenue and profitability:**

Iskraemeco's reported net margins of ~28% which seemed high for smart metering business & payback period of less than 6 months for Iskrameco's acquisition.

Management response: Company clarified 28% net profit margin is not correct while Iskrameco earned 9% net margin in H2 which is in sync with industry standards. Further in context to payback period within 6 months company stated it was presented an attractive opportunity in distress times. Iskrameco chose to exit India as a part of strategic shift and as Kaynes was a supplier partner to Iskrameco since its entry to India, it was able to strike a bilateral deal and execute the deal at an attractive price.

- **Huge capex lined up and concerns over cashflows**

Kaynes has announced huge capex plans of ~₹8500 crore over next ~4 years for OSAT and PCB manufacturing wherein in 1st phase the company is investing ~₹3,300 crores for OSAT and ₹1,400 crore for PCB manufacturing. Besides, company's current working capital days remains quite high. This combined with huge underlying capex might pose risk over company's financial health leading to higher funding requirement.

Management response: Capex requirements are long term in nature and shall be adequately funded by subsidy and internal accruals. However subsidy timelines and capex plan spending may influence funding and capital allocation timelines. For 1st phase funding, QIP had already been raised and no additional funding will be required. For further capex of 2nd phase, such as in HDI and copper clad laminates, the investment will likely be done post capacity ramp up of 1st phase of PCB manufacturing. Further the company is making consistent efforts to improve its working capital days and is also considering routes of bill discounting which shall support in improving free cash flow for the company.

Overall, Kaynes is expected to incur huge capex which if not managed properly might pose risk and might deteriorate company's financial health. Along-side, improvement in working capital days needs to be closely watched out. We are factoring the capex requirement for the 2nd phase in FY27 & FY28 while the larger business benefit of the same is likely to be reflected post FY28.

Financial Summary

Exhibit 1: Profit and loss statement

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	1,805	2,722	4,231	6,488	8,767
% Growth	60.3	50.8	55.5	53.3	35.1
Other income	56	107	110	89	40
Total Revenue	1,861	2,829	4,341	6,578	8,808
Employee Expenses	103	178	304	493	688
Other expenses	1,448	2,133	3,255	4,921	6,581
Total Operating Expenditure	1,550	2,311	3,558	5,414	7,269
Operating Profit (EBITDA)	254	411	673	1,074	1,499
% Growth	51.1	61.6	63.9	59.6	39.5
Interest	53	101	99	123	212
PBDT	201	309	574	952	1,286
Depreciation	25	45	81	152	242
PBT before Exceptional Items	176	265	493	800	1,044
Total Tax	48	78	154	227	277
PAT before MI	183	293	449	663	808
% Growth	92.8	60.2	53.1	47.6	21.9
EPS	28.7	45.8	67.1	99.0	120.7

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E	FY28E
Profit after Tax	183	293	449	663	808
Depreciation	25	45	81	152	242
Interest	53	101	99	123	212
Cash Flow before WC changes	262	439	629	937	1,262
(Inc)/dec in Current Assets	-359	-950	-829	-1,023	-1,103
Inc/(dec) in CL and Provisions	149	440	510	523	600
Net CF from Operating activities	52	-71	310	436	759
(Purchase)/Sale of Fixed Assets	-274	-858	-1,000	-2,000	-2,000
Others	-133	-3	-21	-26	-4
Net CF from Investing activities	-407	-861	-1,021	-2,026	-2,004
Dividend	-	-	-	-	-
Others	1,460	542	1,501	406	1,398
Net CF from Financing Activities	1,460	542	1,501	406	1,398
Net Cash flow	1,104	-391	789	-1,184	154
Opening Cash/Cash Equivalent	486	1,526	1,056	1,650	281
Closing Cash/ Cash Equivalent	1,526	1,056	1,650	281	268

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E	FY28E
Equity Capital	64	64	67	67	67
Reserve and Surplus	2,423	2,776	4,822	5,485	6,293
Total Shareholders funds	2,487	2,840	4,889	5,552	6,360
Minority Interest	2	4	4	4	4
Total Debt	323	903	903	1,431	3,042
Other liabilities	6	10	15	22	29
Total Liabilities	2,817	3,757	5,811	7,009	9,435
Gross Block	328	626	1,617	3,608	5,896
Acc: Depreciation	68	122	203	354	596
Net Block	259	504	1,415	3,254	5,301
Capital WIP	77	300	309	319	30
Total Fixed Assets	336	805	1,724	3,572	5,331
Non Current Assets	343	1,153	1,117	1,189	1,244
Inventory	548	814	1,173	1,709	2,271
Debtors	356	575	1,159	1,600	2,090
Other Current Assets	157	238	376	562	730
Cash	1,526	1,056	1,650	281	268
Total Current Assets	2,587	2,683	4,359	4,152	5,358
Current Liabilities	448	884	1,389	1,905	2,498
Net Current Assets (Ex Cash)	3,664	2,856	4,620	2,528	3,128
Total Assets	2,817	3,757	5,811	7,009	9,435

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E	FY28E
Per Share Data					
EPS	28.7	45.8	67.1	99.0	120.7
Cash per Share	238.7	164.8	246.5	42.0	40.0
BV	389.1	443.2	730.2	829.2	949.9
Dividend per share	-	-	-	-	-
Operating Ratios (%)					
EBITDA Margin	14.1	15.1	15.9	16.6	17.1
PAT Margin	10.2	10.8	10.6	10.2	9.2
Return Ratios (%)					
RoE	7.4	10.3	9.2	11.9	12.7
RoCE	11.0	15.2	14.1	16.9	15.7
Valuation Ratios (x)					
EV / EBITDA	104.2	67.2	42.0	28.1	21.2
P/E	151.0	94.6	64.6	43.8	35.9
Market Cap / Sales	14.9	9.8	6.7	4.4	3.3
Price to Book Value	11.1	9.8	5.9	5.2	4.6
Workin Capital Management Ratios					
Inventory Days	107.6	105.1	98.6	94.8	94.1
Debtors Days	69.8	74.1	97.5	88.8	86.6
Creditors Days	70.8	88.1	97.3	91.0	90.9
Asset turnover	5.7	4.5	2.7	1.8	1.5
Solvency Ratios (x)					
Debt / Equity	0.1	0.3	0.2	0.3	0.5
Current Ratio	2.1	1.6	1.7	1.8	1.8
Quick Ratio	0.8	0.7	0.8	0.9	0.8

Source: Company, ICICI Direct Research

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Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Jeetu Jawrani Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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