

Electronics manufacturing player with diverse capabilities...

About the 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 company classifies its operations under four business verticals: 1) OEM turnkey solutions – box build 2) OEM turnkey solutions printed circuit board assemblies 3) ODM 4) Product engineering and IoT solutions
- Its products are primarily focused on end-use industries such as automotive, industrial, aerospace and defence, outer-space, nuclear, medical, railways, Internet of Things (IoT), IT and other segments
- Consolidated revenues grew at a CAGR of ~38% over FY20-22

Key triggers/Highlights:

- India's ESDM industry is likely to grow at a healthy CAGR of 30% from ₹ 265,400 crore in FY21 to ₹ 9,96,300 crore by FY26. The strong growth is expected to be driven by robust demand for electronic products across all industries (automotive, industrial, IT) where Kaynes is present
- Kaynes has long standing relationships with its marquee customers
- Diversified business model with a large product portfolio
- Kaynes is backed by a robust supplier network. Its suppliers are spread across North America, Europe, Singapore as well as India

What should investors do? Kaynes has capabilities across the entire spectrum of ESDM services. Its products find application in various end use industries. Consolidated revenue grew at a CAGR of 38.5% in FY20-22, driven by higher YoY revenue growth across segments. The EBITDA margin increased ~355 bps YoY to 13.3% led by higher topline growth and significant improvement in gross margin. PAT came in at ~₹ 42 crore, up 331% YoY on account of strong revenue growth and improvement in margins. At the upper price band at ₹ 587, the stock is priced at ~82x at FY22 EPS of ₹ 7.2/share (based on fully diluted post issue of equity).

- We assign **UNRATED** rating to the IPO

Key risk & concerns

- Operates in a highly competitive industry wherein some of its competitors have substantially greater financial, manufacturing or marketing resources
- Dependent on imports and third parties for the supply of raw materials
- Business is subject to seasonality effect of verticals to which it caters
- Delay in taking price revisions to impact margins



IPO Details

Issue Details

Issue Opens	10th November 2022
Issue Closes	14th November 2022
Issue Size*	₹ 858 crore
Fresh Issue	₹ 530 crore
Price Band	₹ 559-587
No. of shares on offer (in crore)	1.5
QIB (%)	50
Retail (%)	35
Non-Institutional (%)	15

*based on upper price band

Shareholding pattern (%)

	Pre-Issue	Post-Issue
Promoter Group	79.8	63.8
Public	20.2	36.2

Objects of the issue

Objects of the Issue	₹ crore
Repayment of debt	130.0
Funding Capex	98.9
Investment in wholly owned subsidiary	14.9
Funding working capital requirements	114.7
General Corporate Purposes	-
Fresh Issue	530
Offer for sale	328

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Key Financial Summary

(₹ crore)	FY20	FY21	FY22	2 Yr CAGR (FY20-22)
Net Sales	368.2	420.6	706.2	38%
EBITDA	41.3	40.9	93.7	51%
EBITDA Margin (%)	11.2	9.7	13.3	
Net Profit	9.4	9.7	41.7	111%
EPS (₹)	1.6	1.7	7.2	
P/E (x)	364.5	352.8	81.8	
RoE (%)	9.1	7.0	20.6	
RoCE (%)	13.7	12.3	22.3	

Company Background

Incorporated in March 2008, 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 company is promoted by Ramesh Kunhikannan, Savitha Ramesh and RK Family Trust. Kaynes' business is classified based on the stage of services that it provides to its customers. The company classifies its operations under four business verticals: 1) OEM turnkey solutions – box build, 2) OEM turnkey solutions printed circuit board assemblies, 3) ODM, 4) Product engineering and IoT solutions. The company's products find use in various industry verticals like automotive, industrial, aerospace, defence, outer-space & nuclear; medical, railways, IoT/IT and consumer. Kaynes serves nearly 230 customers across the world, which includes names like Agappe Diagnostics Ltd, Canyon Aero, Frauscher Sensor Technology, Hitachi Rail STS, India Japan Lighting, Siemens Rail Automation, Iskraemeco and Tonbo Imaging. The automotive, industrial and railway verticals contribute ~70% to the company's overall revenue.

Exhibit 1: Business verticals

Services Offered	Description
OEM-Turnkey Solutions-Box Build	"Build To Print" or "Build to Specifications" of complex box builds, sub-systems and products across various industry verticals
OEM-Turnkey Solutions-Printed Circuit Board Assemblies	Turnkey electronics manufacturing services of PCBAs, cable harness, magnetics and plastics ranging from prototyping to product realization including mass manufacturing
ODM	ODM services in smart metering technology, smart street lighting, brush less DC (BLDC) technology, inverter technology, gallium nitride based charging technology and providing IoT solutions for making smart consumer appliances or devices IoT connected
Product Engineering and IoT solutions	Offers conceptual design and product engineering services in industrial and consumer segments

Source: RHP, ICICI Direct Research

Exhibit 2: Vertical based product portfolio

The product portfolio is categorized by industry verticals:

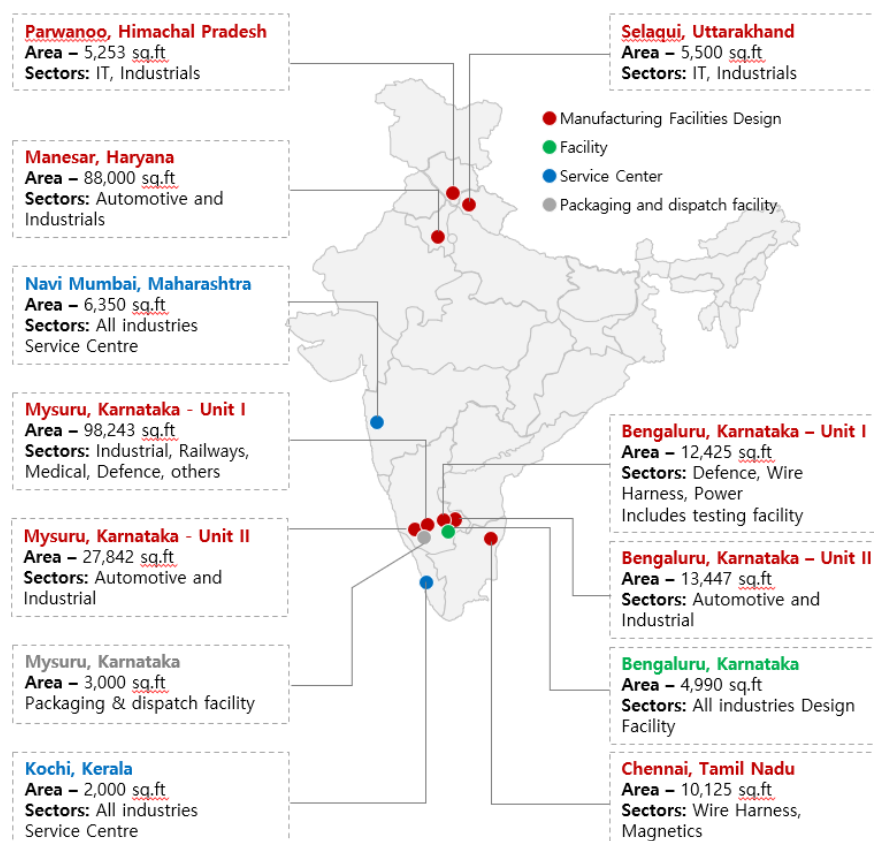
- Automotive:** Cluster PCBA, Head/Tail/DRL PCBA, Switches PCBA, BCU Master / Slave
- Industrial:** Smart Energy Meter, Street light controller, Accelerometer, Strain gauge equipment
- Aerospace, Defence, Outer-space & Nuclear:** ATE & LRU cable assemblies, Mission Critical Products, Thermal Imaging Systems, Communication Systems
- Medical:** Ventilator, Endoscopy cart & ICP sensor module, Smart glucometer, Controller - Dental Chair, Protein & clinical chemistry analyzers
- Railways:** On board cubicle, ETCS - cubicle, SDTC Cubicle, SDTC card file
- IoT, IT & others:** Bar code scanner, PLC gateway and Gateway - Asset Condition Monitoring, Vibration, diff air pressure, liquid pressure, Industrial HMI & Tablet

Source: RHP, ICICI Direct Research

Manufacturing footprint in North, South India

Kaynes has eight manufacturing facilities across five states viz. Karnataka, Haryana, Himachal Pradesh, Tamil Nadu and Uttarakhand. From the proceeds of the issue, the company is planning to set up a manufacturing facility at Chamarajnagar, Karnataka and undertake significant expansion at its current facility in Mysuru, Karnataka and near its existing facility at Manesar, Haryana. In addition, Kaynes is planning a brownfield expansion across its existing facilities.

Exhibit 3: Manufacturing facilities



Source: RHP, ICICI Direct Research

The below table shows the revenue contribution from each of the company's facilities in FY20-22.

Exhibit 4: Facility wise revenue contribution

(in ₹ crore)

Facility	FY20		FY21		FY22	
	Revenue	% contribution	Revenue	% contribution	Revenue	% contribution
Mysuru, Karnataka – Unit I and Unit II	253.6	68.9%	280.9	66.8%	456.8	64.7%
Parwanoo, Himachal Pradesh	21.1	5.7%	18.3	4.4%	28.8	4.1%
Selaqui, Uttarakhand	1.3	0.4%	0.5	0.1%	0.6	0.1%
Bengaluru, Karnataka – Unit I	15.7	4.3%	8.9	2.1%	19.0	2.7%
Bengaluru, Karnataka – Unit II	-	0.0%	2.2	0.5%	5.1	0.7%
Chennai, Tamil Nadu	10.5	2.9%	16.0	3.8%	41.9	5.9%
Manesar, Haryana	58.1	15.8%	66.2	15.7%	119.1	16.9%
Total Revenue from Operations from Facilities	360.3	97.9%	392.8	93.4%	671.2	95.0%
Less: Inter-Company and Inter-facility Revenues	-11.1	-3.0%	-9.9	-2.4%	-4.8	-0.7%
Net Revenue from Operations from Facilities	349.2	94.8%	382.9	91.0%	666.4	94.4%
Add: revenue from subsidiaries	19.0	5.2%	37.7	9.0%	39.9	5.6%
Total Revenue from Operations	368.2	100.0%	420.6	100.0%	706.2	100.0%

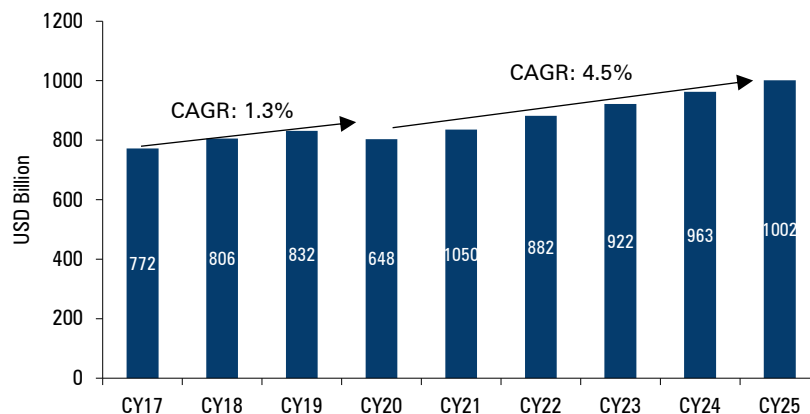
Source: RHP, ICICI Direct Research

Industry Overview

Increased demand for electronic goods to drive global ESDM industry

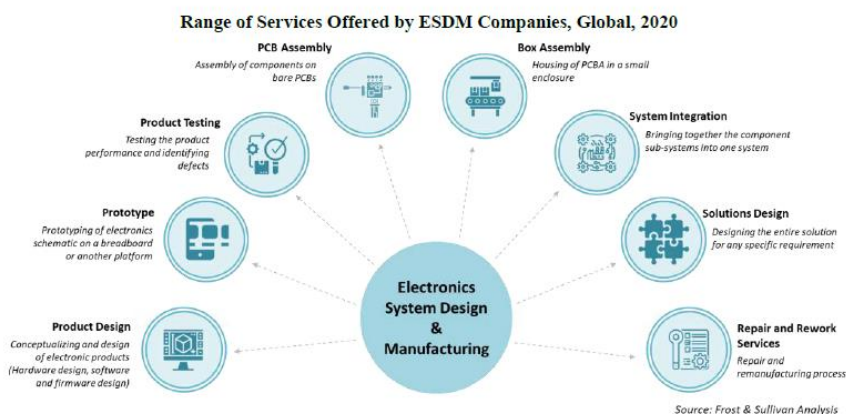
The global electronics system design & manufacturing (ESDM) industry is likely to grow at ~4.5% CAGR over CY20-25E to US\$1000 billion supported by rising demand for electronic products. The global ESDM market witnessed a period of steady growth till 2018, on the back of increased outsourcing activities from OEMs and increasing electronics content. However, in 2019, opportunities started drying up due to a decline in global automotive sales and saturation of consumer electronics sales. In addition, restrictions as a result of heightened trade tensions between the US and China also led to a decline in growth of the industry. While the industry was still coming to terms with these shocks, a bigger blow was awaiting the industry in the form of the Covid-19 pandemic. The pandemic induced lockdown created an even more complicated environment for the industry, affecting demand, supply and manufacturing activities. Despite growing demand, the ESDM industry recorded a 3.4% decline in 2020. Moving ahead, the ESDM industry is anticipated to grow rapidly over the next few years and has surpassed the pre-Covid level in CY21.

Exhibit 5: Global ESDM industry growth trend



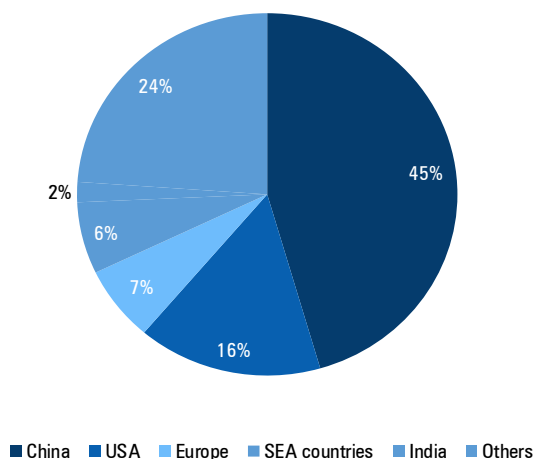
Source: RHP, ICICI Direct Research

Exhibit 6: Range of services offered by electronic manufacturing service companies



Source: RHP, ICICI Direct Research

Exhibit 7: Global ESDM market break-up by countries



Source: RHP, ICICI Direct Research

India's ESDM industry to grow at CAGR of ~30% by FY26

India's ESDM industry is likely to grow at a healthy CAGR of 30% from ₹ 2,65,400 crore in FY21 to ₹ 9,96,300 crore by FY26. However, the contribution of Indian ESDM companies is ~40%, which is valued at ₹ 1,06,900 crore in FY21, which is expected to grow at 41.1% CAGR to reach ₹ 5,97,800 crore in FY26. India is positioned as a destination for high-quality design work, not merely as a low-cost alternative. Many multinational companies have established and expanded captive centres in the country. Although it aided the economy by creating domestic infrastructure and jobs, intellectual property rights were held by global headquarters. Most OEMs prefer engaging ESDM partners for contract manufacturing but the ODM model is slowly gaining traction in India, where OEMs collaborate with ODMs on product development. Many ESDM players are gradually expanding to provide complete design services in addition to contract manufacturing.

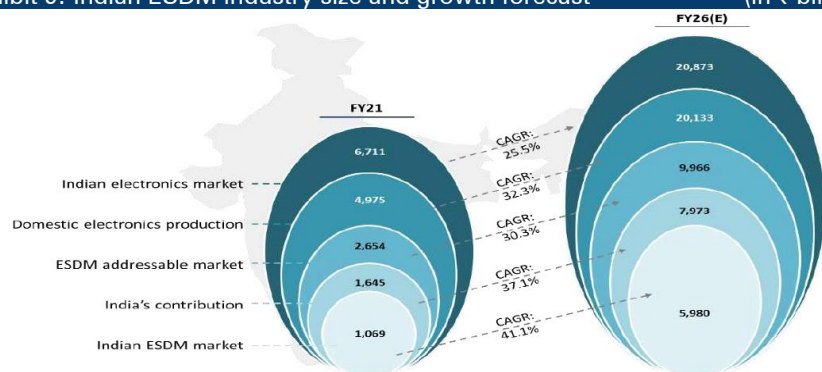
Increasing demand for consumer and industrial electronics has driven the Indian ESDM sector into the forefront. Domestic electronics production in India received a lot of attention from both industry and the government, owing to the necessity for import substitution. Favourable policy initiatives in recent years as well as changes in the global manufacturing environment, have drawn attention to India as a preferred destination for electronics manufacturing investments. The Indian ESDM industry has benefited from a greater focus on manufacturing and overall growth in usage of electronics in many aspects of life. Domestic demand for mobile phones, PCs, consumer electronics, medical products, strategic and automotive electronics offer huge growth potential.

Exhibit 8: Indian ESDM Industry



Source: RHP, ICICI Direct Research

Exhibit 9: Indian ESDM industry size and growth forecast (in ₹ billion)



Source: MeitY, ELCINA, Frost & Sullivan Estimates

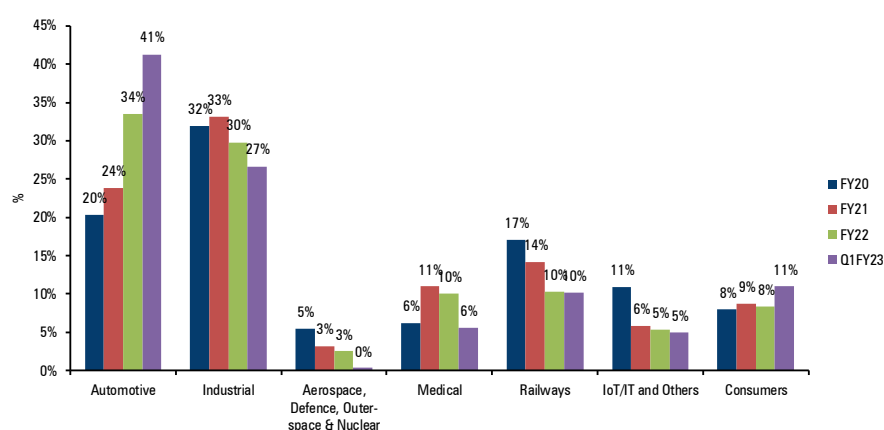
Source: RHP, ICICI Direct Research

Investment Rationale

Diversified business model with portfolio having applications across industry verticals

Kaynes has a wide-ranging product portfolio having applications across industry verticals like automotive, telecom, aerospace and defence, space, medical, IoT and industrial. The company's diverse portfolio limits its exposure to downturns associated with a particular vertical. It also ensures that the company's revenues are consistent across periods on account of its customers serving different industry verticals with different business or industry cycles. As of FY22, the automotive industry contributes ~34% to revenues, followed by industrial and railways vertical. Overall, automotive, industrial and railways vertical contribute ~75% to the company's topline.

Exhibit 10: Industry wise revenue contribution



Source: RHP, ICICI Direct Research

Established relationships with marquee customers across various verticals

Through its business operations, Kaynes has established long-term relationships with well-known customers across industries it caters to. It has a diversified customer base and served 229 customers in 21 countries across three continents in the three months ended June 30, 2022. The company's customers span across multiple sectors, ranging from electronics, to automotive, to healthcare, industrial and IoT.

Exhibit 11: Major customers across verticals and products supplied to them

Segment	Customer	Major products supplied
Automotive	India Japan Lighting Private Limited	Cluster PCBAs, all types of electronics for automotive lighting, passenger entry passenger exit, electronic control units, switches for steering control, doors, windows, HVAC and lumbar support.
Industrial	Leading global manufacturer of electronic instruments and electromechanical devices	Engine control panels, biometric add-ons, surge protectors, accelerometers, street light controller, BLE modules, precision bridges, test equipment, temperature controllers, switch gear electronics, instrumentation, power electronics, control systems, energy metering and controls, process control electronics, machinery electronics, security and surveillance systems, BLDC motor controllers, HVAC system electronic and alternate energy electronics
Aerospace, Defence and Nuclear	Tonbo Imaging Private Limited and Canyon Aero	Electronics for navigation and sensors, airborne radio communication systems, thermal imaging systems and line replaceable unit for power supplies
Medical	Agappe Diagnostics Limited and Health ARX Technologies Private Limited	Ventilators, respirators, controller units for dental chairs, smart glucometers, single and multiple-bed patient management systems, endoscopy carts, fetal monitoring systems, X-ray machines with display, tube sealers, incubators and agitators, Specific protein analyzers and clinical chemistry analyzers, foreign body extractors and diagnostic devices
Railways	Siemens Rail Automation Private Limited, Hitachi Rail STS India Private Limited and Frauscher Sensor Technology India Private Ltd	Audio frequency track circuits, short distance track circuits, cubicles, electronics for interlocking, axel counters, passenger information systems
IoT / IT and Others	Iskraemeco India Private Limited	Bar code scanners, industrial tablets, industrial human machine interface, programmable logic controller gateways, gateway – asset condition monitoring, artificial intelligence IIoT gateway, magnetics, relays, plastic moulding, high complex and high mix PCBAs, printer electronics, robotics, development kits, infotainment systems, streetlight controllers, vending and dispensing machines, industrial display electronics, semi-conductors based products, IoT solutions, IoT modules and remote asset management
Consumer	Leading owner of consumer audio accessories	Wired headsets, wireless headsets, accessories, true wireless stereo, smart watches and Bluetooth speakers
Non-Automotive	Leading provider of global digital infrastructure	PCBAs, high end test instruments, integrated circuit card readers, BLE modules, streetlights, energy meters, controllers, and night vision cameras

Source: RHP, ICICI Direct Research

Exhibit 12: Number of customers across verticals

Industry Vertical	Number of Customers (Fiscal 2022)		Number of Customers (for the 3 months ended June 30, 2022)		Average period of business relationship of top 10 customers (years)*
	Domestic	International	Domestic	International	
Automotive	67	5	45	2	5.20
Industrial	179	29	105	21	8.78
Aerospace and Defence, Outer-space and Nuclear	23	2	10	2	7.00
Medical	23	6	15	5	6.30
Railways	10	5	13	1	8.80
IoT / IT and Others	16	7	6	5	7.44
Consumer	6	1	6	0	3.67

Source: RHP, ICICI Direct Research *Average period of business relationship is determined based on the length of relationship of top 10 customers in each vertical.

The table above outlines the number of customers across verticals. Some of these customers are present across multiple verticals. Kaynes has an order book of ~₹ 2200 crore as of June 30, 2022, which is serviceable in ~1.5 years. Total 75% of this order book comprises orders from automotive, industrial and railway verticals.

Expansion plans from proceeds of issue

Kaynes plans to utilise ~₹ 150 crore from the proceeds of the issue towards its wholly owned subsidiary, Kaynes Electronics Manufacturing Pvt Ltd, in order to set up a new manufacturing facility at Chamaraajanagar, Karnataka. The proposed investment by the company will be undertaken to set up a new manufacturing facility to carry out electronic manufacturing services. This will also allow it to better serve its existing customers, assist it in addressing the business requirements of customers, and allow it to expand into new business verticals, in particular, to address the growing consumer electronics and smart meters. In addition, the company also plans to undertake expansion at its current facility at Mysuru, Karnataka – Unit - I and near its existing facility at Manesar, Haryana.

Exhibit 13: Proposed capacity expansion

Locations	Verticals	Area (sq.ft.)	Proposed Capacity (PCB Assemblies per annum)
Mysuru, Karnataka - Unit I	Defence, Railways, Medical and Industrial	98,243	13.74 million
Manesar, Haryana	Automotive and Industrial	88,000	7.74 million
Chamarajanagar, Karnataka	Consumer electronics and smart meters	2,00,000	12.55 million
Total additional capacity			34.04 million

Source: RHP, ICICI Direct Research

Backed by robust supplier network

Kaynes has a mature and reliable supply chain network. It has long-term relationships with its 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. Its top 10 suppliers have an average relationship period of over ~11 years.

The company does not rely on a single source or vendor for components and has alternative sources for vendors for each component category. This offers it the leverage to ensure availability of materials and negotiate better credit terms at cost effective rates.

Pursue inorganic growth through strategic acquisitions

Kaynes intends to pursue inorganic growth opportunities through selective strategic acquisitions to complement the scale of its operations and growth in recent periods. As part of its foray into the consumer electronics segment, Kaynes intends to pursue strategic acquisitions, investments and other strategic alliance partnerships within the ESDM sector that are complementary to its current and future business verticals. These partnerships are likely complement its existing marketing approach, expand into newer geographies such as the US, Middle East and North Africa by addressing additional business verticals and augment its coverage of electronic product servicing into the consumer segment. The company's extensive industry experience and insights enable it to identify suitable target companies for acquisition and effectively evaluate and execute potential opportunities.

Government incentives under PLI scheme

Kaynes has received approval under the Production Linked Incentive (PLI) Scheme for white goods (air conditioner and LED lights whereby the company has committed to make an investment of ₹ 50 crore. In addition, its subsidiary, Kaynes International Design and Manufacturing Pvt Ltd has submitted an application under the scheme design led manufacturing of telecom and networking equipment, which is under consideration.

Key Risks

Operates in highly competitive industry

Kaynes faces competition from larger electronics companies such as Bharat FIH, Dixon Technologies, Amber Enterprises, SFO Technologies, Syrma SGS Technology, etc. If its competitors develop and implement methodologies that yield greater efficiency and productivity, they may be able to offer services and solutions similar to Kaynes at lower prices without adversely affecting their profit margins. If Kaynes is unable to provide its customers with superior services and solutions at competitive prices or successfully market those services to current and prospective customers, its business, results of operations and financial condition may suffer.

Dependent on imports, third parties for supply of raw materials

Kaynes relies on the constant supply of semiconductors from overseas market for manufacturing its products. The imported raw materials accounted for 64.46% of the company's total purchases of raw materials in FY22. The availability of semiconductors is dependent on the global supply chain and shortages of semiconductors can be caused by, among other things, variations in the supply of semiconductor material, import duties, currency exchange rates, natural disasters, changing economic conditions, or other geographic and political events.

Kaynes' business subject to seasonality

A few customer businesses in the company's industrial segment are subject to seasonality. The company's sales are generally highest in the fourth quarter. Certain of its products used in fans such as BLDC motor controllers and switch gear electronics are typically sold in the peak summer months in India. This happens during the first quarter of a fiscal year and is mapped with the fourth quarter manufacturing of the previous year, which may not be comparable. Certain end-use industry verticals that the company serves witness seasonality. This, in turn, impacts its sales. However, no fixed trend of seasonality is ascertainable for its operations on an overall basis.

Delay in revising price may impact margins

Kaynes business is highly impacted by volatility in prices of raw materials and input costs. In addition, to be at par with competition, the company will have to calibrate its pricing accordingly. Any delay in taking price hikes will negatively impact the company's margins and operational performance, in turn.

Financial summary

Exhibit 14: Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21	FY22
Revenue	368.2	420.6	706.2
Growth (%)		14.2	67.9
Raw material expense	241.7	286.1	489.4
Employee expenses	42.4	45.9	60.2
Other expenses	42.8	47.7	62.9
Total Operating Exp	326.9	379.7	612.6
EBITDA	41.3	40.9	93.7
Growth (%)		-1.1	129.1
Depreciation	8.4	10.1	13.2
Interest	23.6	24.0	25.6
Other Income	1.9	4.0	4.1
PBT	11.3	10.9	59.0
Total Tax	1.9	1.1	17.4
PAT	9.4	9.7	41.7

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement ₹ crore

(Year-end March)	FY20	FY21	FY22
Profit after Tax	9.4	9.7	41.7
Add: Depreciation	8.4	10.1	13.2
Add: Interest Paid	23.6	24.0	25.6
(Inc)/dec in Current Assets	-278.2	-26.8	-159.8
Inc/(dec) in CL and Provisions	113.8	12.4	96.7
Others	0.0	0.0	0.0
CF from operating activities	-123.1	29.3	17.3
(Inc)/dec in Investments	-1.6	-0.1	0.2
(Inc)/dec in Fixed Assets	-68.1	-21.1	-39.7
Others	-8.5	-4.1	2.8
CF from investing activities	-78.2	-25.3	-36.7
Issue/(Buy back) of Equity	6.8	0.0	39.4
Inc/(dec) in loan funds	143.8	-4.4	30.1
Dividend paid & dividend tax	0.0	0.0	0.0
Others	62.8	2.6	-42.5
CF from financing activities	213.4	-1.8	27.0
Net Cash flow	12.2	2.3	7.6
Opening Cash	0.0	12.3	14.3
Closing Cash	12.3	14.3	21.6

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet ₹ crore

(Year-end March)	FY20	FY21	FY22
Liabilities			
Equity Capital	6.8	6.8	46.2
Reserve and Surplus	95.9	130.8	156.0
Total Shareholders funds	102.7	138.7	202.6
Total Debt	143.8	139.5	169.5
Other non current liabilities	0.0	0.0	0.0
Total Liabilities	264.4	293.3	399.6
Assets			
Gross Block	91.6	114.2	147.3
Less: Acc Depreciation	36.8	44.4	54.4
Total Fixed Assets	59.7	70.8	97.4
Investments	0.0	0.0	0.0
Inventory	151.1	163.9	226.4
Debtors	93.6	121.7	197.7
Loans and Advances	5.1	1.8	1.7
Other Current Assets	28.3	17.5	39.0
Cash	12.3	14.3	21.6
Total Current Assets	290.5	319.2	486.4
Creditors	92.1	95.4	164.1
Provisions	3.0	3.9	5.2
Other current liabilities	18.7	26.8	53.6
Total Current Liabilities	113.8	126.1	222.9
Net Current Assets	176.7	193.1	263.5
Other Non Current	24.0	25.4	34.8
Total Assets	264.4	293.3	399.6

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios ₹ crore

(Year-end March)	FY20	FY21	FY22
Per share data (₹)			
EPS	1.6	1.7	7.2
Cash EPS	3.1	3.4	9.4
BV	17.7	23.9	34.9
DPS	0.0	0.0	0.0
Operating Ratios (%)			
EBITDA Margin	11.2	9.7	13.3
PAT Margin	2.5	2.3	5.9
Asset Turnover	1.4	1.5	1.9
Inventory Days	149.8	142.2	117.0
Debtor Days	92.8	105.6	102.2
Creditor Days	91.3	82.8	84.8
Return Ratios (%)			
RoE	9.1	7.0	20.6
RoCE	13.7	12.3	22.3
RoIC	14.2	11.4	21.1
Valuation Ratios (x)			
P/E	364.5	352.8	81.8
EV / EBITDA	0.0	0.0	38.0
EV / Net Sales	0.0	0.0	5.0
Market Cap / Sales	0.0	0.0	4.8
Price to Book Value	33.2	24.6	16.8
Solvency Ratios			
Debt / Equity	1.4	1.0	0.8
Current Ratio	2.7	2.9	2.6
Quick Ratio	1.3	1.3	1.3

Source: Company, ICICI Direct Research

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