

Company Overview

Kaynes Technologies is a leading end-to-end and IoT solutions-enabled integrated electronic manufacturing company operating in the spectrum of electronics system design and manufacturing (ESDM). The provides conceptual design, process engineering, integrated manufacturing and life-cycle support for major players in the automotive, industrial, railways, aerospace and defence, outer-space, nuclear, medical and other segments. The company's operations are classified under the four business verticals namely "OEM-Box Build", "OEM-PCBAs", ODM services in smart metering technology, smart street lighting, and BLDC technology among others. It also offers conceptual design and product engineering services in industrial and consumer segments. The company currently has eight located manufacturing facilities in the states of Karnataka, Haryana, Himachal Pradesh, Tamil Nadu, and Uttarakhand. As of June 2022, the company has served 229 customers in 21 countries. The company sources its materials from 871 vendors across various regions including North America, Europe, and Singapore as well locally within the country. The company is one of the first companies in India to offer design-led electronics manufacturing to original equipment manufacturers. The company's current order book value stands at INR 2200cr with an average customer relationship duration of 5-8 years.

Objects of the issue

The IPO proceeds will be used towards the following purposes:

- ⇒ Repayment/ prepayment, in full or part, of certain borrowings availed by the Company.
- ⇒ Funding capital expenditure towards expansion of the existing manufacturing facility at Mysore, Karnataka, and near the existing manufacturing facility at Manesar, Haryana.
- ⇒ Investment in the wholly owned Subsidiary, Kaynes Electronics Manufacturing Private Limited, for setting up a new facility at Chamarajanagar, Karnataka.
- ⇒ Funding working capital requirements of the Company.
- ⇒ General corporate purposes.

Investment Rationale

Significant Emphasis on Research and Development

The company invests significantly in its research and development to be able to address its customer's diverse needs and enhance the existing products. The company targets to introduce new and innovative products in the market with new technologies and cost optimization through value analysis and value engineering. It has established a dedicated research and development facility located within its facility at Mysuru, Karnataka. The research and development team also closes works with the customers to develop products according to their specific needs. As of 30th June 2022 the R&D team is comprised of 19 employees.

Advanced Infrastructure Systems and Processes

The company is focused on creating robust infrastructure to adhere to global standards. The company has obtained certifications for all the business verticals it operates in which helps it to service its customers with stringent quality specifications and also assists in new customer acquisitions. It also undertakes repairs and provides rehabilitation of electronic cards in railways, aerospace, defence and industrial vehicles at its servicing and maintenance unit in Navi Mumbai.

Valuation and Outlook

The global ESDM market scenario is changing rapidly with more and more OEMs are realising the capabilities of ESDM companies with the global ESDM market estimated to reach \$1000 billion by FY25 giving Kaynes Technologies to significantly expand further. The company is the largest manufacturer of LED lamp electronics and produce approx 6000 different products every month. The company witnessed 3.7 times rise in its order book value in the past 2 years with PAT margins also growing from 2.3% in FY21 to 5.9% in FY22. It has also received PLI approvals in the A/C and Telecom vertical. However the loss of any top 5 customers of the company and increasing competition in the electronics market along with consistent negative cash flows continue to be key risks. On the upper end of the price band, the issued is valued at a P/E of 65.2x based on FY22 earnings which is on the steeper side and we initiate "AVOID" recommendation to the IPO.

Issue Details

Offer Period	10 th Nov– 14 th Nov, 2022
Price Band	INR.559 to INR.587
Bid Lot	25
Listing	BSE&NSE
Issue Size (no. of shares in mn)	15.07/14.61
Issue Size (INR. in bn)	8.6
Face Value	10

Issue Structure

QIB	50%
NIB	15%
Retail	35%
	DAM Capital Advisors Limited
BRLM	IIFL Securities Limited
Registrar	Link Intime India Private Ltd

Particulars	Pre Issue %	Post Issue %
Promoter	79.78%	63.81%
Public	20.22%	36.19%
Total	100%	100%

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



Kaynes Technology India Ltd.

Income Statement (Rs in millions)

Particulars	Q1FY23	FY22	FY21	FY20
Revenue				
Revenue from Operations	1,993	7,062	4,206	3,682
Total Revenue	1,993	7,063	4,206	3,682
Expenses				
Cost of Materials Consumed	1,585	4,931	2,823	2,603
Purchases of Stock in Trade	-	-	-	-
Change in inventory of finished and traded goods	(180)	(37)	38	(187)
Employee benefit expenses	184	602	459	424
Other expenses	158	629	477	428
Total Operating Expenses	1,747	6,126	3,797	3,269
EBITDA	246	937	409	413
Depreciation and amortisation expense	46	132	101	84
Finance income	7	12	11	12
Other income	0	29	30	7
EBIT	207	846	349	349
Finance costs	73	256	240	236
PBT	134	590	109	113
Current tax	35	153	36	20
Current tax - for earlier periods	-	-	-	(0)
Deferred Tax charge	(1)	20	(25)	0
MAT Credit reversed/(availed)	-	-	-	-
Total tax	34	174	11	19
PAT	100	417	97	94
Diluted EPS	2	9	2	2

Source: RHP, BP Equities Research

Cash Flow Statement (Rs in million)

Particulars	Q1FY23	FY22	FY21	FY20
Cash Flow from operating activities	(71)	211	277	452
Cash flow from investing activities	(70)	(445)	(241)	(99)
Cash flow from financing activities	96	272	(13)	(354)
Net increase/(decrease) in cash and cash equivalents	(46)	38	23	(1)
Cash and cash equivalents at the beginning of the period	69	31	7	8
Cash and cash equivalents at the end of the period	23	69	31	7

Source: RHP, BP Equities Research

Kaynes Technology India Ltd.

Balance Sheet (Rs in millions)

Particulars	Q1FY23	FY22	FY21	FY20
Equity and Liabilities				
Share Capital	462	462	68	68
Instruments entirely equity in nature	4	4	11	0
Other Equity	1,662	1,560	1,308	959
Non-controlling interest	13	11	9	5
Net worth	2,140	2,037	1,396	1,032
Borrowings	325	293	171	98
Lease liabilities	192	163	64	90
Deferred tax liabilities	80	68	52	79
Long term provisions	52	42	32	27
Total Non Current Liabilities	649	566	320	294
Current Liabilities				
Short term Borrowings	1,538	1,403	1,224	1,340
Lease liabilities	22	32	25	4
Trade Payables				
(a) total outstanding dues of micro enterprises and small enterprises	74	48	66	53
(b) total outstanding dues of creditors other than micro enterprises and small enterprises	2,633	1,593	888	868
Other Financial Liabilities	85	77	66	60
Short Term Provisions	11	10	7	3
Other current liabilities	308	303	186	119
Current tax liabilities	172	156	16	8
Total Current Liabilities	4,843	3,621	2,478	2,454
Total liabilities	5,493	4,187	2,798	2,749
Total Equity and Liabilities	7,633	6,224	4,194	3,781
Assets				
Property, plant and equipment	636	640	571	502
Right-of-Use assets	197	181	79	86
Capital work in Progress	46	44	10	50
Goodwill	23	23	23	23
Intangible assets	273	290	127	45
Intangible assets under development	67	39	116	70
Investments	18	15	17	16
Other Financial Assets	33	35	13	13
Loans and Deposits	58	58	31	26
Other non-current assets	68	35	15	45
Total Non current assets	1,417	1,361	1,002	877
Trade Receivables	2,322	1,977	1,217	936
Cash and cash equivalents	23	69	31	7
Other Bank Balances	151	147	112	115
Loans and deposits	29	17	18	51
Other Financial Assets	5	3	2	7
Other current assets	784	387	173	276
Total Current Asset	6,215	4,864	3,192	2,905
Total Assets	7,633	6,224	4,194	3,781

Source: RHP, BP Equities Research

Key Risks

- ⇒ The company has recorded a decline in the proportion of new customers added in the last three Fiscals. In addition, they do not have firm commitment agreements with the customers. The loss of one or more such customers or a reduction in demand for their products could adversely affect the company's business, results of operations, financial condition and cash flows.
- ⇒ Increasing competition in the electronics system design and manufacturing industry may create pressures of pricing and market share that may adversely affect the company's business, prospects, results of operations, cash flows and financial condition.
- ⇒ The company has negative cash flows and may continue having so in the future which would adversely affect their cash flow requirements

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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Corporate Office:

4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:

24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001
BP Wealth Management Pvt. Ltd.
CIN No: U67190MH2005PTC154591
BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392