

Research Team

Issue Details

Issue Details	
Issue Size (Value in Rs. million, Upper Band)	8,575
Fresh Issue (No. of Shares in Lakhs)	90.29
Offer for Sale (No. of Shares in Lakhs)	55.80
Bid/Issue opens on	10-Nov-22
Bid/Issue closes on	14-Nov-22
Face Value	Rs.10
Price Band	Rs.559-587
Minimum Lot	25

Objects of the Issue

Offer for sale: Rs.3,276 Mn

- The company will not receive any proceeds from the issue

Fresh Issue: Rs.5,300 Mn

- Repayment of full or part of debt.
- Funding Capex, Working Capital & Investments in Subsidiaries.
- General Corporate Purposes.

Book Running Lead Managers

DAM Capital

IIFL Securities Ltd

Registrar to the Offer

Link Intime India Private Limited

Capital Structure (Million)	Aggregate Value
Authorised share Capital	1,000
Subscribed paid up Capital (Pre-Offer)	491.14
Paid up capital (Post - Offer)	581.42

Share Holding Pattern %	Pre Issue	Post Issue
Promoters & Promoter group	79.8%	63.8%
Public	20.2%	36.2%
Total	100%	100%

Financials

Particulars (Rs. In Mn)	Q1 FY23	FY22	FY21	FY20
Revenue	1,992.7	7,062.5	4,206.3	3,682.4
Operating expenses	1,747.0	6,125.8	3,797.4	3,269.1
EBITDA	245.7	936.7	408.9	413.3
Other Income	0.1	28.6	29.7	7.3
Finance Income	7.0	12.4	10.6	12.0
EBIDT	252.8	977.8	449.3	432.6
Interest	72.7	255.9	239.8	236.0
Depreciation	45.7	131.6	100.8	83.8
PBT	134.4	590.3	108.7	112.8
Tax	33.9	173.5	11.4	19.3
Consolidated PAT	100.5	416.7	97.3	93.5
Minority/other adj.	-	-	-	-
Consolidated PAT	100	417	97	94
EPS	2.1	9.7	2.3	2.3
Ratios				
EBITDAM	12.3%	13.3%	9.7%	11.2%
PATM	5.0%	5.9%	2.3%	2.5%
Sales growth		67.9%	14.2%	-

Company Description

Kaynes Technology Limited ("Kaynes") is a leading 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. They have experience in providing conceptual design, process engineering, integrated manufacturing and life-cycle support for major players in the automotive, industrial, aerospace and defence, outer-space, nuclear, medical, railways, Internet of Things ("IoT"), Information Technology ("IT") and other segments.

Kaynes is among the first companies in India to offer design-led electronics manufacturing to original equipment manufacturers ("OEMs") using their mature embedded design capabilities. Over the years, it has gained technological expertise and evolved from an electronics manufacturing services provider into a design-led manufacturer providing value-add electronics manufacturing services and original design manufacturing ("ODM") solutions in the fields of smart devices, IoT solutions, brushless drive technology, and Gallium Nitride technology. It continues to place emphasis on integrating their services to serve as an end-to-end ESDM provider.

The total domestic addressable ESDM market was Rs. 2,654bn in FY21, which is expected to grow by 30.3% CAGR between FY21-26 to reach a size of Rs. 9,963bn in FY26. The contribution from the domestic ESDM companies is expected to improve to 41.1% by FY26, compared to around 40% FY21.

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

Valuation:

Kaynes Technology is a fast-growing ESDM services company with a diversified portfolio as well as business model having applications across Automotive, Industrials, Aerospace & Defence, Medical Devices, Railways, Internet-of-Things etc. Demand across the underlying sectors is likely to remain robust and Kaynes Technology is currently at an influx of this demand with support of favourable policy initiatives like PLI, Increasing demand for consumer and industrial electronics, changes in the global manufacturing environment and a ~30% expected growth in Indian ESDM market

With an impressive 3-year CAGR Revenue/PAT growth of 38%/111% respectively coupled with industry leading operating margins and robust order book of Rs.22,663 Mn as of 30th June, 2022. Kaynes will continue to move up the value chain of EMS/ESDM sector. With the fresh issue of Rs.5,300 Mn the company plans to triple its existing capacity in coming years, reduce its debt and fund working capital requirements which further multiplies its growth prospects.

On the valuation front at the upper band of the IPO price Kaynes is demanding PE of 81.9x its TTM earnings attributable to post issue equity demanding a market cap of Rs. 34,129 million which we believe is fairly priced considering its decent historical growth, strong revenue visibility and growing demand of automation across underlying industries. We recommend 'SUBSCRIBE for long term' rating to this IPO.

Overview:

Kaynes Technology India Ltd (KAYNES) is a leading 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. It has over three decades of experience in providing conceptual design, process engineering, integrated manufacturing and life-cycle support for major players in the automotive, industrial, aerospace and defence, outer-space, nuclear, medical, railways, Internet of Things ("IoT"), Information Technology ("IT") and other segments. Their manufacturing infrastructure enables us to undertake a high-mix and high-value addition of products across industry verticals with the ability to produce such products at variable or flexible volumes. It is also among the leading companies in the ESDM space to offer optimised product realization solutions to customers in flexible volumes and higher complexity products across industry verticals.

KAYNES is among the first companies in India to offer design-led electronics manufacturing to original equipment manufacturers ("OEMs") using their mature embedded design capabilities. Over the years, it has gained technological expertise and evolved from an electronics manufacturing services provider into a design-led manufacturer providing value-add electronics manufacturing services and original design manufacturing ("ODM") solutions in the fields of smart devices, IoT solutions, brushless drive technology, and Gallium Nitride technology. It continues to place emphasis on integrating their services to serve as an end-to-end ESDM provider. Kaynes believe that its foundation, including standardisation of processes, processes incorporated at their manufacturing facilities, and continuous improvement across their key performance indicators will foster customer loyalty and generate repeat business.

Key Business Verticals:

- **OEM – Turnkey Solutions – Box Build** : Kaynes has undertaken "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**: The company has also undertake turnkey electronics manufacturing services of PCBAs, cable harness, magnetics and plastics ranging from prototyping to product realization including mass manufacturing.
- **ODM**: - It offers 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**: - KAYNES offers conceptual design and product engineering services in industrial and consumer segments. Their services include PCB cladding or electrical schematics to embedded design and submitting proof of concept to prototyping. It also provides connected product engineering and solutions. Kaynes has a portfolio of hardware, software accelerators and proprietary sensors along with cloud platform based service and solution offerings in asset tracking, remote device management and smart product development. Their digital engineering offerings leverage latest technologies including IoT, big data, machine learning, cloud and media to improve customers' efficiency. It also provide end-to-end IoT and cloud enablement solutions and offer IoT data and analytics platform and vertical IoT solutions.

Strong Manufacturing Presence

Kaynes operates 8 strategically located manufacturing facilities across India in the states of Karnataka, Haryana, Himachal Pradesh, Tamil Nadu, and Uttarakhand. Their facilities are located in proximity to their customers, allowing them to service their requirements efficiently and cost-effectively. Certain of their manufacturing facilities are approved under the Electronics Hardware Technology Park Scheme of Software Technology Park of India, Bengaluru that offers incentives similar to a special economic zone. As of June 30, 2022, they had a combined capacity to assemble over 150 crore components for the period and have an exclusive line for 'Green Manufacturing' their manufacturing infrastructure also includes 1 design facility and 2 service centers.

Their Mysuru, Karnataka – Unit – I facility is approved under Electronics Hardware Technology Park Scheme of Software Technology Park of India, Bengaluru their manufacturing facility at Chennai, Tamil Nadu is approved under 100% EOU Scheme of Madras Export Processing Zone, Chennai, both such schemes offer incentives similar to a special economic zone. Being a part of the ESDM Cluster of Reliability Lab, they benefit from access to electro-magnetic interference testing and electromagnetic compatibility testing, component testing, reliability testing, and environmental testing laboratories. They have capability in manufacturing RoHS compliant products and have set up an environmentally friendly and exclusive "lead free" manufacturing line for PCBAs. They also have the capability to make engineering changes through component engineering to convert a product into being RoHS compliant. As of June 30, 2022, their manufacturing infrastructure includes 269,000 square feet of electrostatic discharge free facilities with 7 robotics surface mount lines.

As of 31st March 2022, Kaynes average capacity utilization in SMT Components & Assembly plants stood at 73.6% and PCB Assembly plants clocked similar levels utilization of 73.7% as of 31st March 2022.

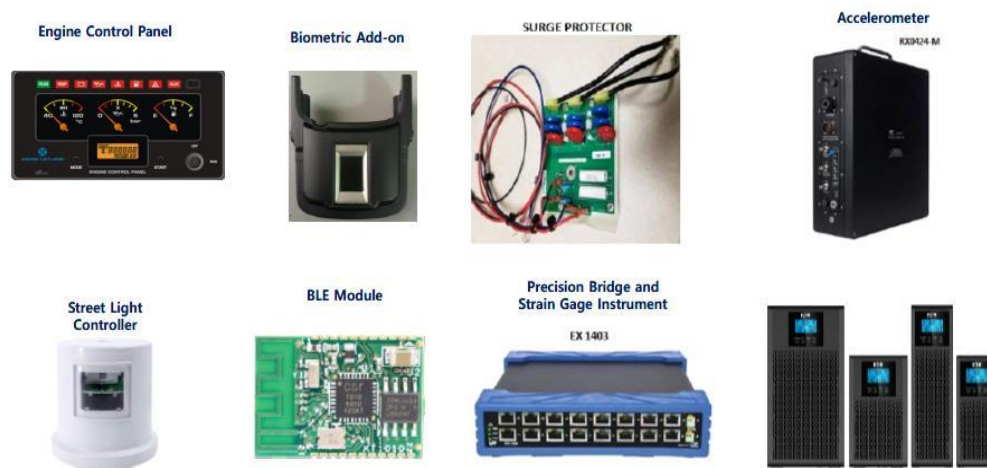
Services	Fiscal						Three months ended June 30, 2022	
	2020		2021		2022			
	Amount (₹ million)	Percentage of Revenue from Operations (%)	Amount (₹ million)	Percentage of Revenue from Operations (%)	Amount (₹ million)	Percentage of Revenue from Operations (%)	Amount (₹ million)	Percentage of Sale of Food Products (%)
OEM-Turnkey Solutions-Box Build	942.1	25.6%	1,276.3	30.3%	1,988.2	28.2%	468.7	23.5%
OEM-Turnkey Solutions-Printed Circuit Board Assemblies	2290.0	62.2%	2,509.1	59.7%	4,436.2	62.8%	1327.0	66.6%
ODM	76.2	2.1%	184.2	4.4%	278.0	3.9%	99.0	5.0%
Product Engineering and IoT Solutions	374.1	10.2%	236.7	5.6%	360.1	5.1%	98.0	4.9%
Total	3682.4	100.0%	4,206.3	100.0%	7,062.5	100.0%	1992.7	100.0%

The company is present in following sectors:

Automotive



Industrial



Aerospace, Defence, Outer-space and Nuclear



Medical



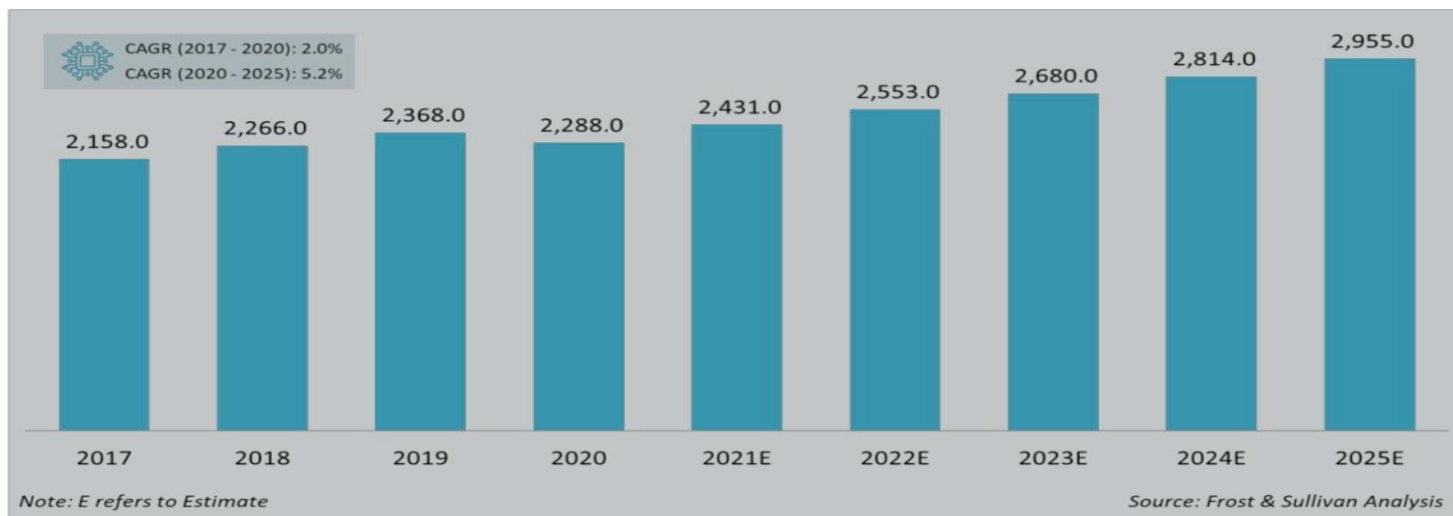
Railways



Industry Overview:

Overview of Electronic System Design and Manufacturing ("ESDM") Industry

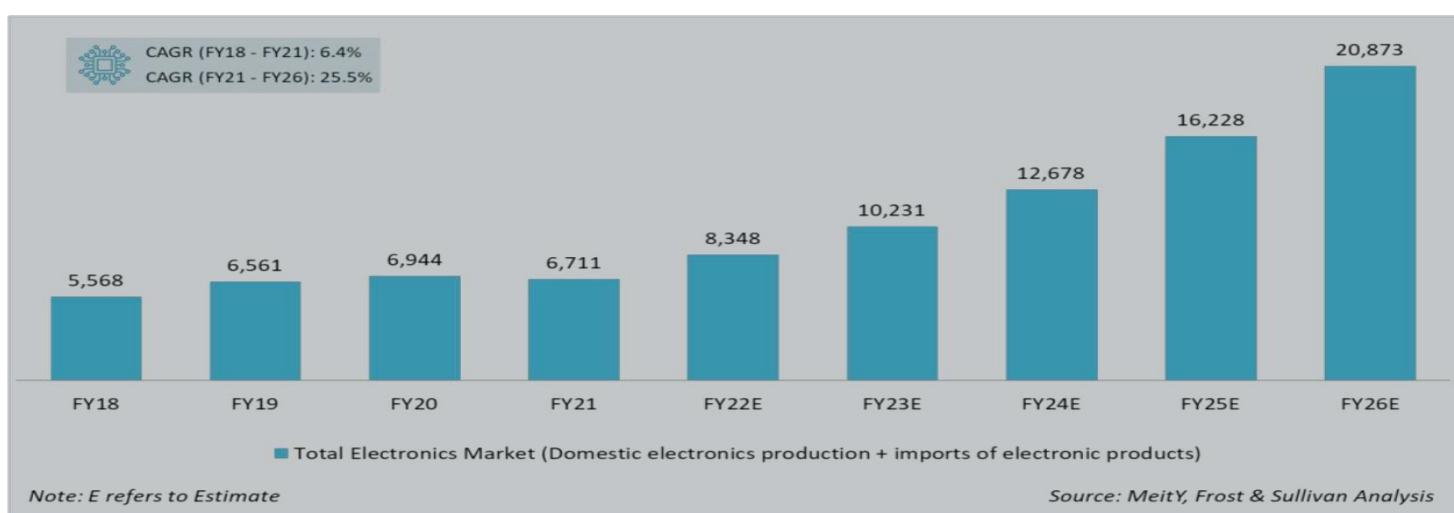
Traditionally, the global ESDM market has been dominated by the companies that manufacture electronic products, primarily through the assembling of components on printed circuit boards ("PCBs") and box builds for original equipment manufacturers ("OEMs") and OEMs used to take care of the designs. However, 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)**Global ESDM Industry and Outlook**

The global ESDM market was estimated at USD 804 billion in 2020 and is expected to reach USD 1,002 billion in 2025 at a growth rate of 4.5%. The global ESDM market witnessed a period of steady growth till 2018, riding on the wave of increased outsourcing activities from OEMs and increasing electronics content. However, in 2019, the opportunities started stagnating due to a multitude of factors, firstly, due to decline in global automotive sales and saturation of consumer electronics sales, and secondly, due to supply chain restrictions as a result of heightened trade tensions between the US and China. While the industry was still coming to terms with these shocks, a bigger blow was waiting for 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.

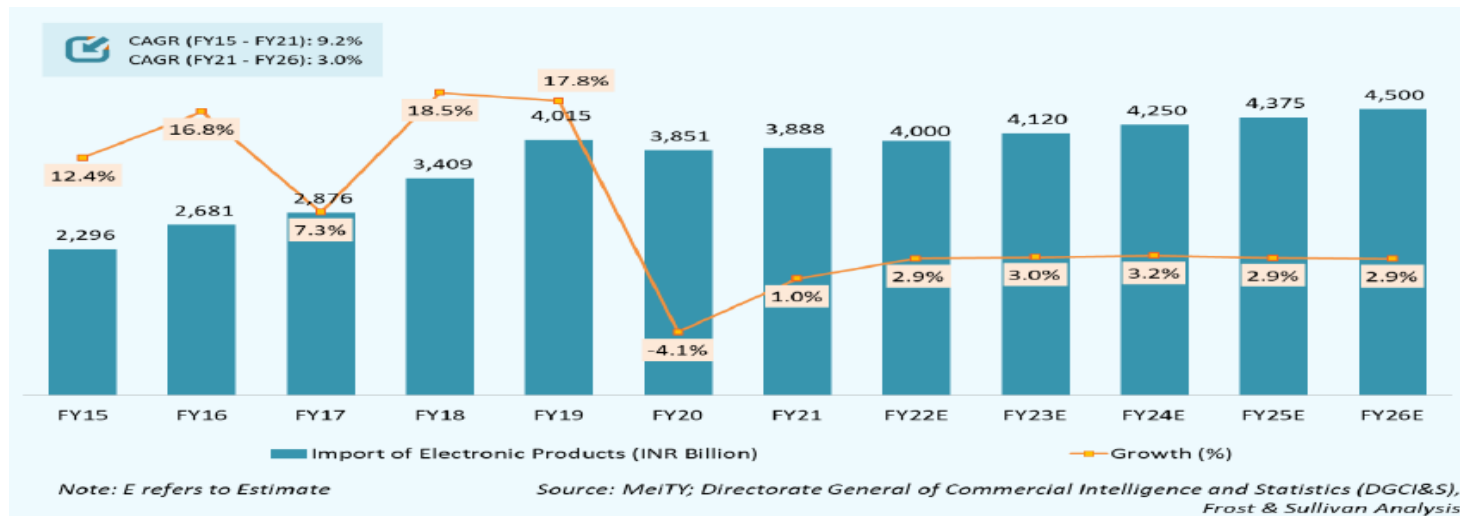
OVERVIEW OF INDIAN ELECTRONICS INDUSTRY**Indian Electronics Market - Historical Trends and Outlook**

Electronics is one of the fastest growing industries in the country. The total electronics market (which includes domestic electronics production and imports of electronic finished goods) in India is valued at ₹ 6,711 billion (USD 91 billion) in Fiscal 2021, which is expected to grow at a CAGR of 25.5% to reach ₹ 20,873 billion (USD 282 billion) in Fiscal 2026. Domestic production accounts for approximately 74% of the total electronics market in Fiscal 2021, valued at ₹ 4,975 billion (USD 67 billion), and is expected to grow to approximately 96% by Fiscal 2026, valued at ₹ 20,133 billion (USD 272 billion), owing to various government initiatives and the development of India's electronic ecosystem. Also, the global landscape of electronic design and manufacturing is changing significantly, and revised cost structures have shifted the attention of multinational companies to India. At present, the Indian government is attempting to enhance manufacturing capabilities across multiple electronics sectors and to establish the missing links in order to make the Indian electronics sector globally competitive. India is positioned as a destination for high-quality design work as well as a cost-competitive alternative. Many multinational corporations have established or expanded captive centres in India. Increasing penetration of consumer electronics in semi-urban and rural markets, a shift in lifestyle among the Gen Y population, and the adoption of smart devices are some of the key drivers that are assisting the rapid expansion of this industry.

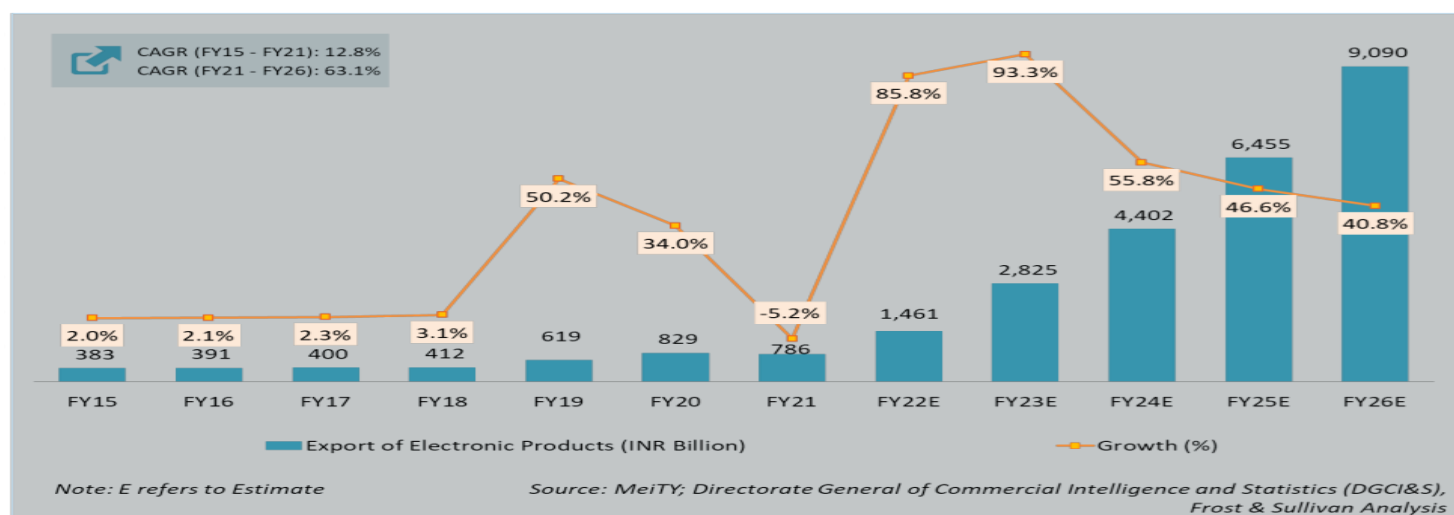


Import of Electronic products in India

The total import value of electronics products was ₹ 2,296 billion (USD 38 billion) in Fiscal 2015 and ₹ 3,851 billion (USD 54 billion) in Fiscal 2020. The import value decreased by 4.1% in Fiscal 2020 compared to Fiscal 2019, when it was valued at ₹ 3,888 billion. In Fiscal 2020, China and Hong Kong accounted for approximately 70% of India's total electronic imports. The majority of semiconductor demand is now fulfilled by imports from the United States, Japan, and Taiwan. The goal is developing electronics manufacturing clusters ("EMCs") around the country to provide world-class infrastructure and facilities in order to minimise reliance on imports.

Export of Electronic products in India

The total export value of electronic products in Fiscal 2015 was ₹ 383 billion (USD 6 billion) and in Fiscal 2020 it was ₹ 829 billion (USD 12 billion). The value of exports increased by 34% in Fiscal 2020 compared to Fiscal 2019, which was worth ₹ 619 billion (USD 9 billion). The export market is expected to grow substantially in next five years at a CAGR of 63%, owing to various government initiatives such as PLI scheme, Atmanirbhar Bharat which facilitates the domestic manufacturing.

**OVERVIEW OF INDIAN ESDM INDUSTRY****Indian ESDM Industry Size and Growth Forecast:**

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.

Market participants have been categorized under three categories namely, global companies, large Indian companies and mid/small Indian companies. Major global companies present in the Indian market are Bharat FIH, Flex, Wistron, Pegatron, Jabil etc. Large Indian companies include Kaynes, Dixon, Amber, SFO, Syrma SGS, Elin, and Centum among others and mid-size Indian companies include companies such as Avalon, VVDN, Rangsons and others. Mobile phones, Consumer electronics and industrial electronics contribute to more than 75% of the total ESDM market in India.

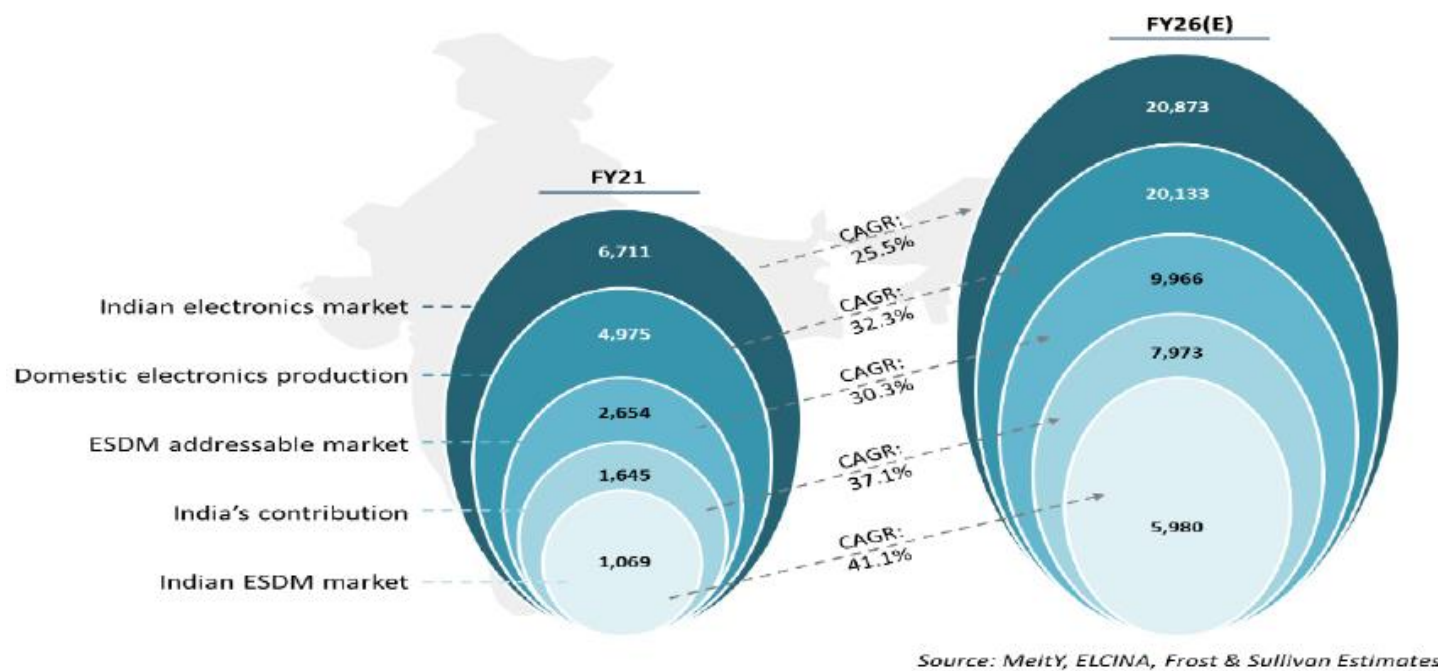
Industry structure of ESDM market in India



The total addressable ESDM market in India was valued at ₹2,654 billion (USD 36 Billion) in Fiscal 2021, and is expected to grow to ₹ 9,963 Billion (USD 135 Billion) in Fiscal 2026 with a CAGR of 30.3%. However, the contribution of Indian ESDM companies is around 40%, which is valued at ₹ 1,069 Billion (USD 14 Billion) in Fiscal 2021, which is expected to grow at 41.1% CAGR to reach ₹ 5,978 Billion (USD 81 Billion) by Fiscal 2026. 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.

Increasing demand for consumer and industrial electronics has driven the Indian ESDM sector into the forefront. Domestic electronics production in India has 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.

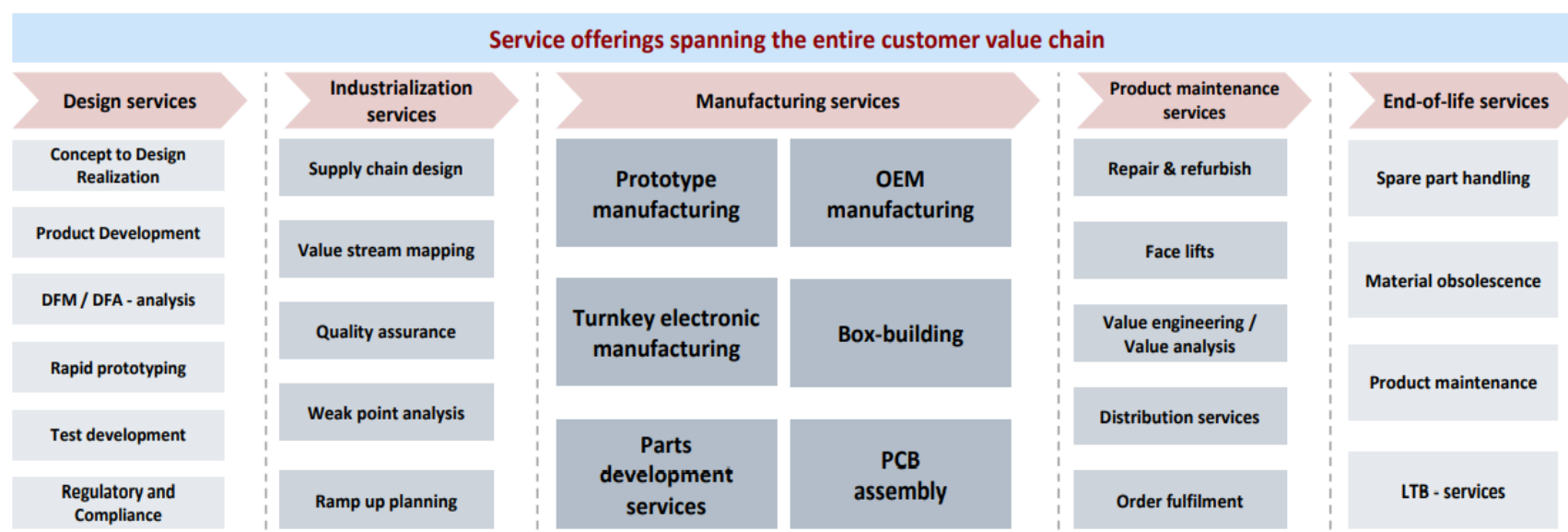
Indian ESDM Addressable Market vs. Contribution of ESDM Companies for goods made in India:



Strengths:

➤ **Internet of Things ("IoT") solutions enabled integrated electronics manufacturing player with end-to-end capabilities across the Electronics System Design and Manufacturing spectrum**

Kaynes is a leading end-to-end and IoT solutions enabled integrated electronics manufacturing player, having capabilities across the entire spectrum of ESDM services. It is engaged in concept co-creation with their customers followed by product realization and life-cycle support. Kaynes also provide various value-added services such as obsolescence management, warehousing support, value engineering and value analysis, last time buy services that include purchase of electronic components that are either being discontinued or have been discontinued in larger quantities than immediately required for manufacturing continuity, regulatory and compliance and DFM / DFA analysis. Their ODM capabilities include hardware, software and firmware design, mechanical design, product integration and testing, amongst others. The company has also evolved to offer customers in-house developed IoT technology consisting of hardware, software, and firmware design and tools which accelerate time-to-market and de-risk our customer's product development lifecycle. Kaynes has developed designs for miniaturized Bluetooth modules, smart lighting with embedded Bluetooth, ceiling fans and remotes with embedded Bluetooth, various industrial sensors, wireless gateways with Bluetooth, Wi-Fi and 4G, streetlight controller working on wireless area network ("WAN") technology, smart meters compliance 4G WAN and connected vending machines.



➤ **Diversified business model with portfolio having applications 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. Their diverse portfolio limits our exposure to downturns associated with a particular vertical. It also ensures that our revenues are consistent across periods on account of their customers serving different industry verticals with different business or industry cycles. As of FY22 Automotive, Industrial, Aerospace, Medical, Railways, IOT, Consumers contributed 33.6%/29.8%/2.5%/10.1%/10.4%/5.3%/8.4% respectively.

Industry	Fiscal						Three months ended June 30, 2022	
	2020		2021		2022		Amount (₹ million)	Percentage of Sale of Food Products (%)
	Amount (₹ million)	Percentage of Revenue from Operations (%)	Amount (₹ million)	Percentage of Revenue from Operations (%)	Amount (₹ million)	Percentage of Revenue from Operations (%)		
Automotive	747.4	20.3%	1,003.6	23.9%	2,370.4	33.6%	823.0	41.3%
Industrial	1178.1	32.0%	1,393.8	33.1%	2,104.8	29.8%	531.7	26.7%
Aerospace, Defence, Outer-space and Nuclear	200.0	5.4%	135.5	3.2%	177.7	2.5%	6.8	0.3%
Medical	229.7	6.2%	462.2	11.0%	711.7	10.1%	110.8	5.6%
Railways	630.9	17.1%	596.0	14.2%	731.1	10.4%	202.1	10.1%
IoT/IT and others	403.1	11.0%	247.3	5.9%	375.4	5.3%	98.8	5.0%
Consumer	293.2	8.0%	367.8	8.7%	591.4	8.4%	219.4	11.0%
TOTAL	3682.4	100.0%	4,206.3	100.0%	7,062.5	100.0%	1,992.7	100%

➤ **Long-standing relationships with marquee customer base**

They have, through our three decades of business operations, established long-term relationships with well-known customers across industries we cater to. They have a diversified customer base and we served 313 customers in 20 countries across four continents in the nine months December 31, 2021. Their 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 their 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. Their customers include Agappe Diagnostics Limited, Canyon Aero (formerly Cobham Aerospace Communications) ("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.

They have low customer revenue concentration and their reliance on any single customer is limited. No customer contributed to over 15% of our revenue from operations in the last three Fiscals and in the nine months ended December 31, 2021. In Fiscal 2019, 2020 and 2021 and in the nine months ended December 31, 2021, our top 10 customers generated ₹ 2,141.12 million, ₹1,974.20 million, ₹ 1,936.20 million and ₹ 2,428.47 million, of our revenue from operations, respectively and accounted for 58.78%, 53.61%, 46.03% and 51.92%, respectively, of their revenue from operations in such periods. The value of each customer order has been increasing from an average order size of ₹ 1.49 million in Fiscal 2020 to an average order size of ₹ 5.53 million in Fiscal 2022, at a CAGR of 92.44%.

➤ **Global certifications for each industry vertical catered to and multiple facilities across India with advanced infrastructure**

Their systems and processes are also certified by global certification bodies that helps us to serve our customers stringent quality specifications and assists in new customer acquisition. For further information regarding our certifications, see " - Certifications" on page 186. They are also part of the Maruti Center For Excellence ("MACE") and have been consistently participating and getting approved as part of the Supplier Excellence Programme. This allows us to be seen by potential customers as a MACE approved supplier for electronic assemblies. Further, they have qualified as a "Green" partner for a certain customer and accredited for electronic assemblies for space craft applications from U.R. Rao Satellite Centre, ISRO. We have also received the Certification of Military Airworthiness documents or CEMILAC for instrumentation electronics repair, which enables us to perform avionics repair. We are also certified by the Center for Design and Development of Chittaranjan Locomotive Works of the Indian Railways for the repair and rehabilitation of three phase locomotives.

➤ **Strong supply chain and sourcing network**

They possess a mature and reliable supply chain network. We have long-term relationships with our vendors within India and outside India, that has led to improvement in credit terms over the years. As of December 31, 2021, we work with over 1,146 vendors and source materials from various regions including North America, Europe, Singapore as well as locally within India. Their top 10 suppliers have an average relationship period of over 11.20 years, as of December 31, 2021.

➤ **Track record of consistent financial performance**

They have been delivering consistent financial performance, despite the impact of the COVID-19 pandemic on their business operations. Their revenue from operations has grown at a CAGR of 7.46% from ₹ 3,642.31 million in Fiscal 2019 to ₹ 4,206.27 million in Fiscal 2021 and was ₹ 4,677.75 million in the nine months ended December 31, 2021, while their EBITDA has grown at a CAGR of 8.01% from ₹ 350.48 million as of March 31, 2019 to ₹ 408.91 million as of March 31, 2021 and was ₹ 536.54 million in the nine months ended December 31, 2021.

Key Strategies going ahead:

➤ **Focus on full product/box build capabilities**

As an ESDM player catering to OEMs through in-house build of test fixtures, provide product reliability at closer proximity with faster turn-around time, delivering complex prototypes in shorter lead times and setting-up product or box build manufacturing with zero defects will ensure more customers with larger revenue share. In addition as an integrated manufacturing player, providing almost all the services in-house from electronics to tooling, sheet metal, magnetics, cable harness, test benches will increase the share of box build which we believe will positively impact revenue and margins. To fulfil this aspect of integrated manufacturing, their new plant at Chamarajanagar, Karnataka is being prepared with integrated inhouse and onsite infrastructure with specialized skills to do complete product or Box Build. As an ODM, they are responsible for products they manufacture, from initial design stage and subsequently all the aspects of manufacturing, including planning and sourcing of raw materials and components. Although, the ODM model of business requires additional investment in research and development as well as working capital, it results in higher margins, recurring business with high customer retention, as compared to the OEM model.

➤ **Leverage our research and development capabilities to continue to diversify product portfolio and provide value-added services**

As an ODM, they have the ability to provide product design and development services and even whole product lifecycle services. They intend to leverage on their experience and capabilities of their in-house design and research and development team to further their ODM capabilities. ODM services allows them to design and develop a product for a customer as per stated specifications and features and thereby develop and control supply chain along with the manufacturing process. They believe, this results in deeper customer relationship with constant improvement in product features and introduction of newer variants. They are increasing their product design competency in their chosen areas of technological competency and trying to introduce newer applications with increased focus in developing collaboration with chip manufacturers and building stronger team with skills in embedded hardware design, firmware and software.

➤ **Focus on expansion across each vertical to capitalize on industry opportunity**

They intend to undertake vertical-focused expansion, to expand their business using different strategies for their different business verticals. *Aerospace, Defence and Outer-Space:* The aerospace segment appears promising because of the increasing trend in the budget allocation, modernization and the procurement of state of the art electronic equipment and technology. They intend to set up dedicated infrastructure, skills and competencies to address complex avionics assembly and testing. This will be done by undergoing expansion in this segment by focusing on key strategic customer accounts, and by focusing on building specific original equipment manufacturing relationships to get full box build and emerge as a system integrator in the long run. This will allow them to increase their wallet share and move up the value chain to manufacture incrementally complex products for space electronics. To this end they have been qualified by an aerospace OEM for a long-term contract with an annual value of ₹ 350.00 million and on final qualification, they would be a part of approved global suppliers eligible for major global contracts. In addition we are approved for repair and maintenance of electronics cards for Dornier fixed wing aircrafts.

Automotive: They have been partnering in the programme with Maruti Centre for Excellence since Fiscal 2017 and have been certified as a 'Green Supplier' and have been able to accelerate their growth in the automotive segment. Automotive is one of the key growth opportunity verticals for ESDM providers in the next five years, due to the technology transformation currently underway with autonomous cars development and electric car commercialization activities. Moreover, the rapidly growing electronics content will accelerate the growth of ESDM revenue from this vertical.

Healthcare: They have been associated with number of medical start-ups where the biggest challenge is taking the idea from a concept stage to complete product realization. In their experience, not many companies in India offer these services as it involves early engagement, design, engineering, supply chain, reliability, test and manufacturing support. India has developed into a key centre for high-end diagnostic services as a result of large capital expenditure, therefore serving a large population.

Industrials: They intend to enhance our presence in the smart energy meter segment, through ODM products with strategic customers. They have a relationship with a number of customers in the power electronics and instrumentation segment which they can leverage to gain higher wallet share in the smart energy meter segment. They also intend to expand our customer base in the low voltage power switchgear segment as a part of import substitution and strategically develop their 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: The adoption of IoT solutions for digital utilities and Smart Cities, as well as industries like manufacturing, and automotive, will fuel demand for industrial IoT applications in the future. The IoT market in India is expected to continue expanding at a CAGR of 16% from 2021 to reach ₹ 135 billion in 2026, backed by strong connectivity and coverage, rising internet penetration, surge in smart applications adoption, new business models, and government initiatives. They intend to expand our ODM products under their current KPTR, KemPaas and KemSight platforms, build capabilities across communication technologies and develop communication modules for smart meters.

Railways: There are currently a number of global OEMs in signalling innovations and the Indian market is controlled by global OEMs. They are the market leader in this vertical, working with most of the major global OEM. They are also approved by Chittaranjan Locomotive Works for restoration of three phase locomotive electronics and are one of the few companies approved by Research Design and Standards Organisation and metro rail authorities for onsite factory acceptance testing. They intend to tap into installation and maintenance of electronics equipment, branch out to traction electronics, on-board electronics, rolling stock lighting and information systems. They intend to invest in design for the Research Design and Standards Organization of certain select product categories, enhance capabilities to strengthen our market share in signalling vertical, and explore potential strategic technological alliances either with their 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: They intend to grow the consumer electronics and appliances segment in the areas of personal electronic devices such as consumer audio and wearables, lighting components and controls, components for consumer appliances, which require electronics solutions to make the device energy efficient and connected, home security and surveillance, communication modules as a connected technology for providing indigenous solutions for various applications, IT accessories to provide locally designed and manufactured product for brands to increase local manufacturing component and connected devices and platforms.

➤ **Continue to expand our customer base to focus on large customers**

Over the last three Fiscals and in the nine months ended December 31, 2021, they have been able to consistently grow their customer base. In Fiscal 2019, 2020 and 2021 and in the nine months ended December 31, 2021, we served 306, 283, 292 and 313 customers, respectively, across our different business verticals. With the growing customer demand for their products, they intend to capitalize on this strong industry tailwind by continuing to grow their customer base. Their expansion of customer base is generally four-pronged. They intend to acquire customers that can provide higher value business, to increase the wallet share with their existing customers through a combined means of marketing strategies and capacity enhancement of their manufacturing facilities to improve their services to their customers, and to attract customers who can provide to them higher margins.

➤ **Expand manufacturing capacity at our existing facilities and set-up additional strategically located facilities**

As of December 31, 2021, they have eight manufacturing facilities located in Karnataka, Haryana, Himachal Pradesh, Tamil Nadu, and Uttarakhand. For further information, see "Our Business - Manufacturing Facilities" on page 183. In order to support their growth strategy across India, they intend to set up an additional manufacturing facility at Chamarajanagar, Karnataka and undertake significant expansion at their current facility at Mysore and near their existing facility at Manesar. They also intend to expand their existing manufacturing facilities to increase their manufacturing capacity.

➤ **Further improve operational efficiency through backward integration of manufacturing facilities**

In order to improve our operational efficiency, they intend to implement comprehensive backward integration measures by manufacturing in-house components like bare printed circuit boards and get into deep competencies in design of integrated circuits, chip sets and system on chips to leverage complete backward integration for supporting component development. They believe these backward integration measures will allow them to reduce their dependence on third party components, reduce lead time on account of synchronization of actual requirements leading to faster utilization of remaining components, better management of our material inventory, and contribute to higher margins. They are also looking to participate in the Design Linked Incentive scheme of the Government of India. With backward integration, they will have greater control on the manufacturing process, quality standards and benefit from cost efficiencies. As a result, we expect to fulfil our customers' needs in a timely manner, increase our sales per customer and improve our working capital and supply chain processes.

➤ **Pursue inorganic growth through selective partnerships and acquisitions**

They intend to pursue inorganic growth opportunities through selective strategic acquisitions to complement the scale of their operations and growth in recent periods. As part of their foray into the consumer electronics segment, they intend to pursue strategic acquisitions and investments and other strategic alliance partnerships within the ESDM sector that are complementary to their current and future business verticals. They believe that these partnerships will complement their existing marketing approach, expand into newer geographies such as the United States and Middle East and North Africa by addressing additional business verticals and augment their coverage of electronic product servicing into the consumer segment. Their extensive industry experience and insights enables them to identify suitable target companies for acquisition and effectively evaluate and execute potential opportunities. Their senior management along with external experts evaluate potential inorganic opportunities and assists us in evaluating each potential acquisition in determining how their business model or solution will integrate with their existing product portfolio, and how both the companies can mutually benefit from such potential investments or acquisitions.

Key Risks:

- High dependence on Top 10 customers (As of 30th June, 2022 63% of revenues).
- The imported raw materials accounted for 64.46% of Kaynes total purchases of raw materials in Fiscal 2022, any unavailability of key raw materials like semi-conductors may significantly impact its operations.
- Any slowdown/disruption/delay in execution of capacity expansion projects may impact revenue growth of the company.
- Unfavourable Government policies & regulations.

KEY PERFORMANCE INDICATORS:

The following table sets forth certain key performance indicators for the periods indicated:

(₹ million, except percentages)

Particulars	As of/ for the years ended March 31,			As of/ for the three months ended June 30, 2022
	2020	2021	2022	
OEM – Turnkey Solutions – Box Build	942.1	1276.3	1988.2	468.7
OEM – Turnkey Solutions – Printed Circuit Board Assemblies	2290.0	2509.1	4436.2	1327.0
ODM	76.2	184.2	278.0	99.0
Product Engineering and IoT solution	374.1	236.7	360.1	98.0
Total	3,682.4	4,206.3	7,062.5	1,992.7
Revenue from Operations	3,682.4	4,206.3	7,062.5	1,992.7
Gross Margin	34.4%	32.0%	30.7%	29.5%
EBITDA	413.3	408.9	936.7	245.7
EBITDA Margin	11.2%	9.7%	13.3%	12.3%
Profit After Tax for the Year / Period	93.6	97.3	416.8	100.5
PAT Margin	2.5%	2.3%	5.9%	5.0%
ROE	10.5%	8.1%	24.5%	4.8%
ROCE	14.4%	13.5%	24.4%	5.5%
Net Worth	957.6	1365.1	2018.2	2120.0
Debt / Equity	1.5	1.0	0.8	0.9

Kaynes clocked highest operating margins among its peers:

Name of key listed ESDM company	Revenues			EBITDA			EBITDA Margin (%)		
	Fiscal			Fiscal			Fiscal		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
	(million, except percentages)								
Kaynes Technology India Limited	3,682	4,206	7,062	413	409	937	11.2%	9.7%	13.3%
Dixon Technologies India Limited	44,001.2	64,481.7	1,06,970.8	2,230.6	2,865.9	3,791.1	5.1%	4.4%	3.5%
Amber Enterprises India Limited	39,627.9	30,305.2	42,064.0	3,092.7	2,202.9	2,753.8	7.8%	7.3%	6.5%
Syma SGS Technology Limited	8,656.5	8,874.0	12,666.5	1,365.6	999.1	1,259.8	15.8%	11.3%	9.9%

Valuation:

Kaynes Technology is a fast-growing ESDM services company with a diversified portfolio as well as business model having applications across Automotive, Industrials, Aerospace & Defence, Medical Devices, Railways, Internet-of-Things etc. Demand across the underlying sectors is likely to remain robust and Kaynes Technology is currently at an influx of this demand with support of favourable policy initiatives like PLI, Increasing demand for consumer and industrial electronics, changes in the global manufacturing environment and a ~30% expected growth in Indian ESDM market

With an impressive 3-year CAGR Revenue/PAT growth of 38%/111% respectively coupled with industry leading operating margins and robust order book of Rs.22,663 Mn as of 30th June, 2022 Kaynes will continue to move up the value chain of EMS/ESDM sector. With the fresh issue of Rs.5,300 Mn the company plans to triple its existing capacity in coming years, reduce its debt and fund working capital requirements which further multiplies its growth prospects.

Peer Comparison:

Name of the company	Total Income for the year end March 2022 (₹ in million)	Face value (₹ per share)	PE	EPS for Fiscal Year 22		NAV (Rs per share)	Return on average net worth (%)
				Basic	Diluted		
Kaynes Technology India Ltd	Rs.7,104	Rs.10	81.9	Rs.9.7	Rs.8.9	43.1	20.5
PEER GROUP							
Syrma SGS Technology Ltd	Rs.12,844	Rs.10	63.6	Rs.5.3	Rs.5.2	51.2	13.6
Dixon Technologies Ltd	Rs.1,07,009	Rs.2	137.5	Rs.32.3	Rs.32	169.3	21.9
Amber Enterprises Ltd	Rs.42,396	Rs.10	61.7	Rs.32.4	Rs.32	526	6.4

On the valuation front at the upper band of the IPO price Kaynes is demanding PE of 81.9x its TTM earnings attributable to post issue equity demanding a market cap of Rs. 34,129 million which we believe is fairly priced considering its decent historical growth, strong revenue visibility and growing demand of automation across underlying industries. We recommend 'SUBSCRIBE for Long term' rating to this IPO.

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Ratings Guide (12 months)	Buy	Hold	Sell
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Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

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