

Kaynes Technology India

IT | India

IPO | 09 November 2022

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Global Diversified IoT Solutions-enabled Integrated Player

About the Company

Kaynes Technology is a leading end-to-end IoT solutions-enabled integrated electronics manufacturing company. It provides a diverse array of electronics system design and manufacturing (ESDM) services including conceptual design, process engineering, integrated manufacturing and life-cycle support for major players in the automotive, industrial, aerospace & defence, outer-space, nuclear, medical, railways, Internet of Things (IoT), IT and other segments. The company is coming out with an IPO comprising fresh issue of ~9mn shares and OFS of ~5.6mn shares, aggregating a total of Rs8.6bn.

Diverse Business Portfolio

The company is among the first companies in India to offer design-led electronics manufacturing to original equipment manufacturers (OEMs). The company operates under the following business verticals: **I) OEM - Turnkey Solutions - Box Build (OEM - Box Build), II) OEM - Turnkey Solutions - Printed Circuit Board Assemblies (PCBAs) (OEM - Turnkey Solutions), III) Original Design Manufacturer (ODM)** where the company offers ODM services in smart metering technology, smart street lighting, and brushless DC (BLDC) technology and **IV) Product Engineering and IoT Solutions** in which the company offers conceptual design and product engineering services in industrial and consumer segments.

Domestic & Global Customers

Kaynes Technology has eight manufacturing facilities across India in the states of Karnataka, Haryana, Himachal Pradesh, Tamil Nadu, and Uttarakhand. As of 1QFY23, the company served 229 customers in 21 countries globally and across multiple industry verticals such as automotive, aerospace and defence, industrial, railways, medical and IT / ITES. As of Jun '22, the company works with over 871 vendors and sources materials from Indian and various regions including North America, Europe, and Singapore. As of Jun '22, the company's research and development team comprised 19 employees, including engineers, designers and other workers.

Most Certified ESDM Company

Kaynes is an ISO 9001/14001/45001 BSCI certified and its operations comply with global standards. The company's facilities have 10 global accreditations, making them the most certified ESDM company in the country. Moreover, it is the first company in the ESDM industry to be National Aerospace and Defense Contractors Accreditation Program (NADCAP) accredited for aerospace products and is among the few Indian companies to maintain this accreditation.

Financials

During FY20-22, its revenue and EBITDA clocked CAGR of 38% and 51% respectively, while EBITDA margin expanded from 11.2% in FY20 to 13.33% in FY22. The company reported revenue of Rs7.1bn in FY22, up 68% YoY, while EBITDA grew by 129% YoY Rs937mn in FY22. PAT for FY22 stood at Rs417mn, up from Rs97mn in FY21 and Rs94mn in FY20. For 1QFY23, it reported revenue of Rs2bn, EBITDA margin of 12.3% and PAT of Rs100mn. The company's registered ROE has expanded from 9.1% in FY20 to 20.5% in FY22. The company has reduced its Net Debt/Equity ratio from 1.3x in FY20 to 0.7x in FY22.

Our View

Based on the FY22 earnings, the company is valued at 82x P/E, 38x EV/EBITDA and 5x EV/Sales. The company is IoT solutions enabled with end-to-end capabilities across the ESDM spectrum. The company aims to implement comprehensive backward integration measures by manufacturing in-house components and get into deep competencies in design of integrated circuits and chip sets. **In view of strong financials, diversified business model, long-standing relationships with marquee customers, global certifications, strong supply chain and sourcing networks, we recommend 'SUBSCRIBE' to the issue.**

IPO Details

Price Band (Rs)	Rs559-587
Face Value (Rs)	10
Issue Open/Closing Date	10-Nov-22/14-Nov-22
Fresh Issues (mn)	9.0
OFS (mn)	5.6
Total Issue (mn)	14.6
Minimum Bid Qty. (Nos)	25
Issue Size (Rs bn)*	8.6
QIB / HNI / Retail	50%/15%/35%
Implied Market Cap (Rs bn)*	34.1

*At a higher band

Object of the Issue

- ▶ Repayment of borrowings.
- ▶ Funding Capex.
- ▶ Investment in the wholly owned Subsidiary for Kaynes Electronics Manufacturing Pvt Ltd,
- ▶ Funding working capital

Key Risk

- ▶ Top 10 customers contributes 51% of revenue.
- ▶ Increasing competition in the electronics system design.
- ▶ Slowdown, shutdown or disruption in manufacturing facilities.
- ▶ Negative cash flows in the future would adversely affect cash flow requirements.
- ▶ Shortage of semiconductors from overseas market for manufacturing of products.

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	79.8	67.4
Others	20.2	32.6

Key Financials

(Rs mn)	FY20	FY21	FY22
Revenue	3,682	4,206	7,062
EBITDA	413	409	937
EBITDA Margin (%)	11.2	9.7	13.3
PAT	94	97	417
PAT Margin (%)	2.5	2.3	5.9
EPS (Rs)	1.6	1.7	7.2
P/E (x)	365	351	82
EV/EBITDA (x)	85.8	86.5	38.0
EV/Sales (x)	9.6	8.4	5.0
Net Worth	1,032	1,396	2,037
RoE (%)	9.1	7.0	20.5
Gross Debt	1,438	1,395	1,695
Net Block	502	571	640
Net Asset Turnover (x)	7.3	7.4	11.0

Source: RHP

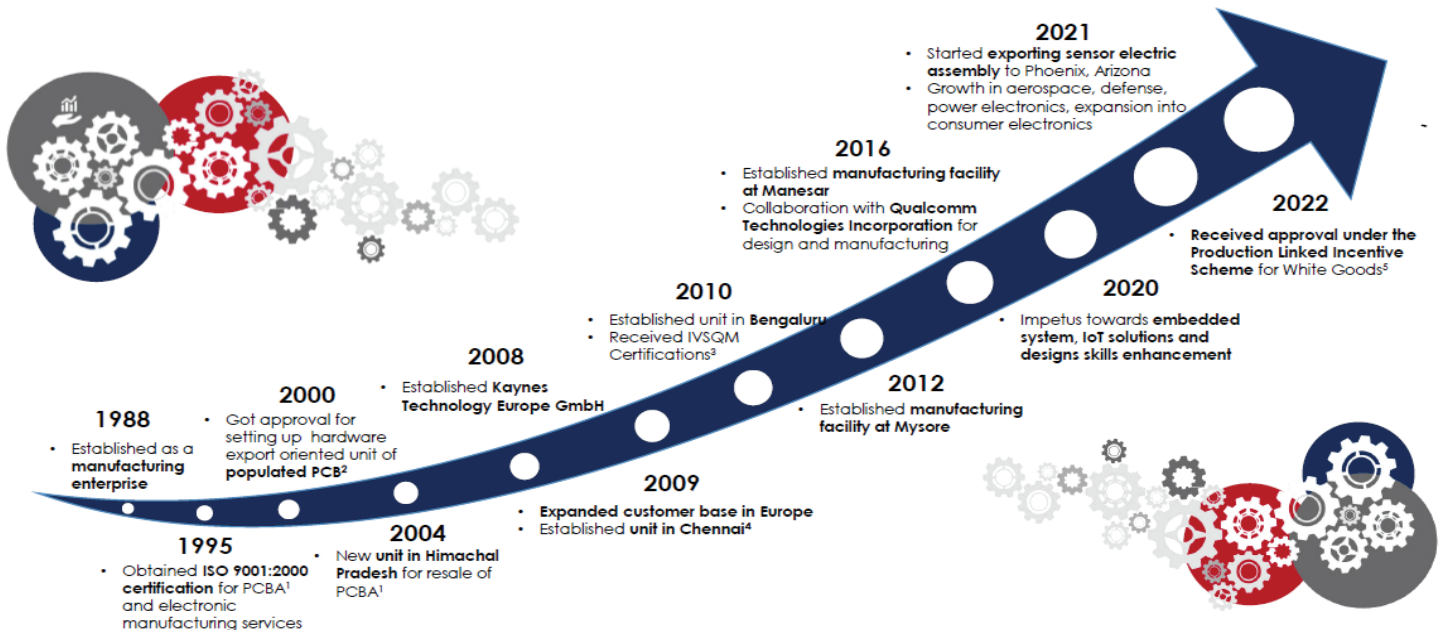
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Exhibit 1: Key Milestone



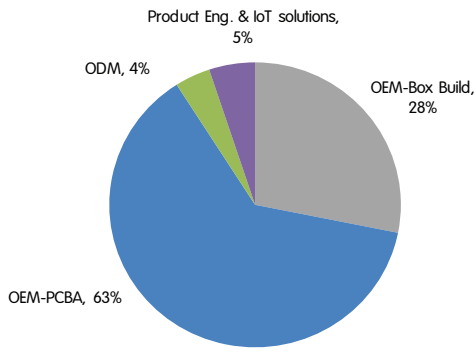
Source: RHP

Exhibit 2: Key Products

Automotive	Industrial	Aerospace, Defense, Outerspace & Nuclear	Medical	Railways	IoT / IT and others*
<p>Cluster PCBA</p>	<p>Smart Energy Meter</p>	<p>ATE & LRU cable assemblies</p>	<p>Ventilator, Endoscopy cart & ICP sensor module</p>	<p>On board cubicle</p>	<p>Bar code scanner</p>
<p>Head/Tail/DRL PCBA</p>	<p>Street light controller</p>	<p>Mission Critical Products</p>	<p>Smart glucometer</p>	<p>ETCS - cubicle</p>	<p>PLC gateway and Gateway - Asset Condition Monitoring</p>
<p>.....Switches PCBA¹</p>	<p>Accelerometer</p>	<p>Thermal Imaging Systems</p>	<p>Controller - Dental Chair</p>	<p>SDTC Cubicle</p>	<p>Vibration, diff air pressure, liquid pressure</p>
<p>BCU Master / Slave</p>	<p>Strain gauge equipment</p>	<p>Communication Systems</p>	<p>Protein & clinical chemistry analyzers</p>	<p>SDTC card file</p>	<p>Industrial HMI & Tablet</p>

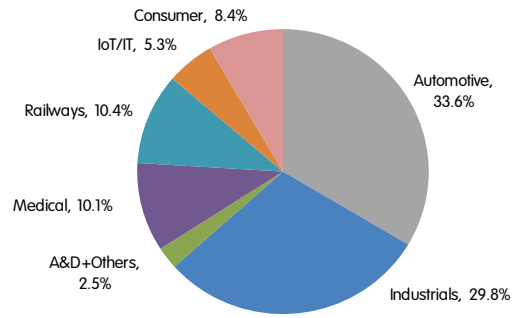
Source: RHP

Exhibit 3: Segmental Revenue (FY22)



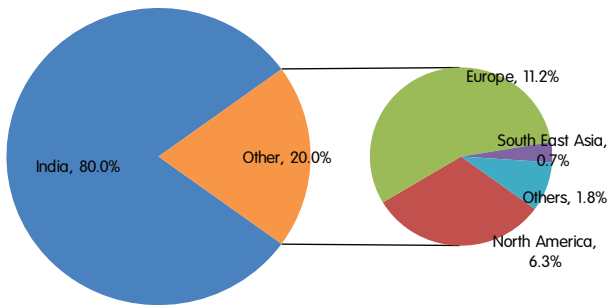
Source: RHP

Exhibit 4: Revenue Verticals (FY22)



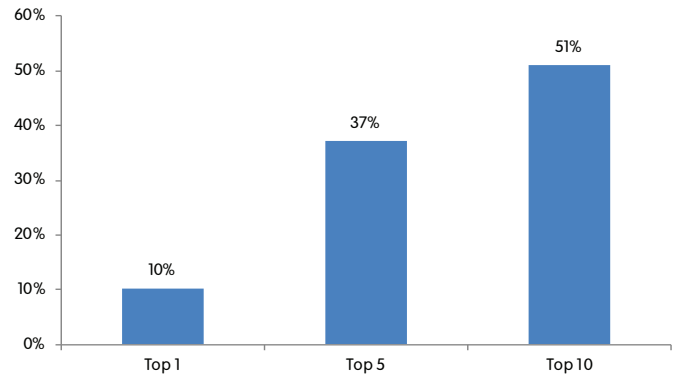
Source: RHP

Exhibit 5: Geographical Revenue (FY22)



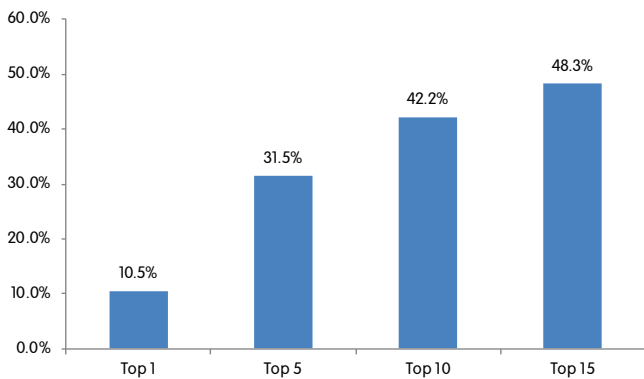
Source: RHP

Exhibit 6: Revenue Split by Clients (FY22)



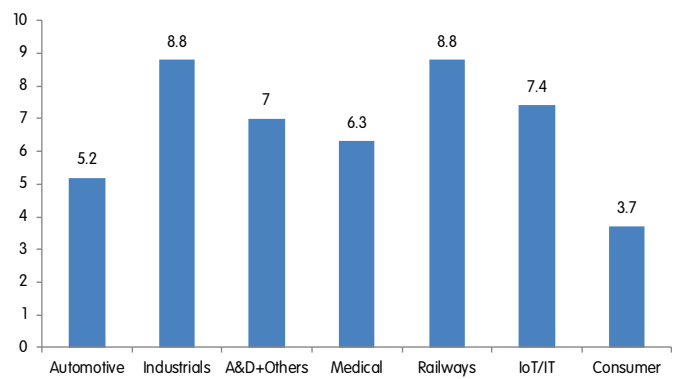
Source: RHP

Exhibit 7: Supplier Split by Order Value (FY22)



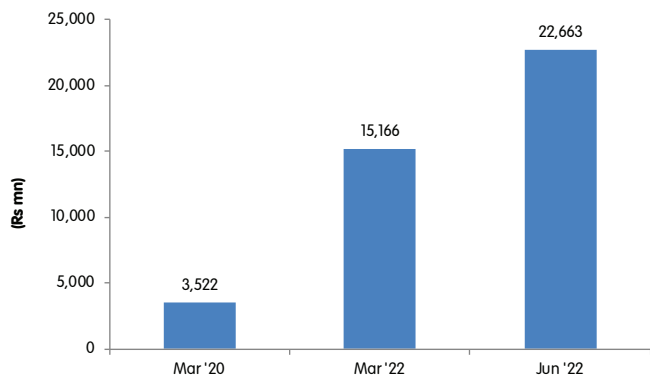
Source: RHP

Exhibit 8: Average Relationship of Top 10 Customers in Each Vertical (Years)



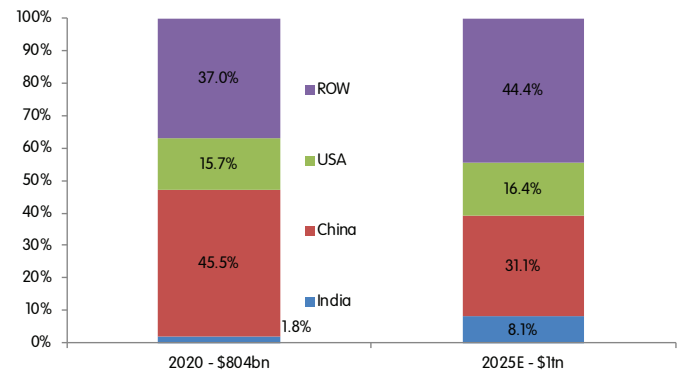
Source: RHP

Exhibit 9: Order Book



Source: RHP

Exhibit 10: ESDM – A Global Trillion Dollar Industry by 2025



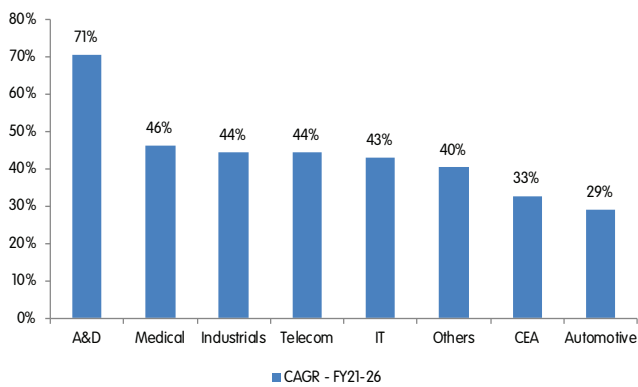
Source: RHP, F&S report

Exhibit 11: Catering to Multiple Industry Verticals

	Mobile Phones	CEA	Automotive	Industrial	Telecom	A&D	IT	Medical	Railway	Others
Kaynes Technology India Ltd	YES	NO	NO	NO	NO	NO	NO	NO	NO	NO
Bharat FIH Ltd	NO	NO	NO	YES	NO	NO	NO	YES	YES	NO
Dixon Technologies India Ltd	NO	NO	YES	YES	YES	YES	YES	NO	YES	NO
Amber Enterprises India Ltd	YES	NO	YES	YES	YES	YES	YES	YES	NO	NO
SFO Technologies Ltd	YES	YES	NO	NO	NO	NO	YES	NO	YES	NO
Syrra SGS Technology Ltd	YES	NO	NO	NO	NO	YES	YES	NO	YES	NO
Elin Electronics Ltd	YES	NO	YES	YES	YES	YES	YES	YES	YES	NO
Avalon Technologies Pvt Ltd	NO	YES	NO	NO	NO	NO	YES	NO	NO	NO

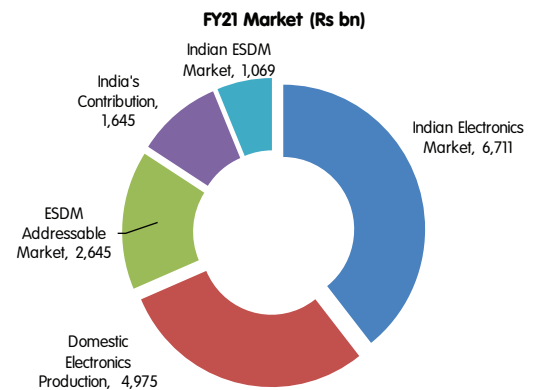
Source: RHP; YES NO

Exhibit 12: ESDM Market Growth



Source: RHP, F&S report

Exhibit 13: India ESDM Market



Source: RHP, F&S report

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