



SMC Ranking
 ★★☆☆☆ (1.5/5)

Issue Highlights

Industry	Chemical
Offer for sale (Shares)	5,584,664
Fresh Issue (Shares)	9,028,961
Net Offer to the Public	14,613,625
Issue Size (Rs. Cr.)	817-858
Price Band (Rs.)	559-587
Employee Discount	15
Offer Date	10-Nov-22
Close Date	14-Nov-22
Face Value	10
Lot Size	25

Issue Composition

	In shares
Total Issue for Sale	14,613,625
QIB	7,306,813
NIB	2,192,044
Retail	5,114,769

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	79.78%	57.79%
QIB	6.41%	17.98%
NIB	10.79%	12.88%
Retail	3.02%	11.35%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The company proposes to utilise the Net Proceeds towards funding the following objects:

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

Book Running Lead Manager

- DAM Capital Advisors Limited
- IIFL Securities Limited

Name of the registrar

- Link Intime India Private Limited

About the company

Incorporated in 2008, Kaynes Technology is a leading end-to-end and Internet of Things (IoT) solutions-enabled integrated electronics manufacturing company. The company provides 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, IoT, Information Technology ("IT") and other segments. The company is among the first companies in India to offer design-led electronics manufacturing to original equipment manufacturers ("OEMs"). The company's operations are classified under the following business verticals: OEM, ODM and Product Engineering and IoT Solutions. Kaynes Technology operates eight manufacturing facilities across India in the states of Karnataka, Haryana, Himachal Pradesh, Tamil Nadu, and Uttarakhand.

Strength

Internet of Things ("IoT") solutions enabled integrated electronics manufacturing

player: It is an Internet of Things ("IoT") solutions enabled integrated electronics manufacturing player with end-to-end capabilities across the Electronics System Design and Manufacturing spectrum. It also provides 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. The key capabilities of the company are as below:

Platform: Kaynes offers a customizable remote device and data management platform, ready to white label, making it convenient for OEMs to securely register, organize, monitor, collect and remotely manage IoT devices and all relevant data at scale.

Solutions: Kaynes offers IoT solutions in vertical applications for asset tracking, asset performance monitoring, and predictive maintenance solutions targeting industrial OEMs both in Asia Pacific region, and USA.

Devices: Kaynes has built IoT ODM products including sensors, gateways, Human Machine Interfaces (HMIs), connectivity modules targeting industrial and consumer IoT market.

Diversified business model with portfolio having applications across industry

verticals: The company has 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. Its diverse portfolio limits its exposure to downturns associated with a particular vertical. It also ensures that its revenues are consistent across periods on account of its customers serving different industry verticals with different business or industry cycles.

Percentage of Revenue from Operations (%)

Industry	FY 2020	FY 2021	FY 2022	30-Jun-22
Automotive	20.30%	23.86%	33.56%	41.30%
Industrial	31.99%	33.14%	29.80%	26.68%
Aerospace, Defence, Outer-space and Nuclear	5.43%	3.22%	2.52%	0.34%
Medical	6.24%	10.99%	10.08%	5.56%
Railways	17.13%	14.17%	10.35%	10.14%
IoT / IT and Others	10.95%	5.88%	5.32%	4.96%
Consumer	7.96%	8.74%	8.37%	11.01%

Long-standing relationships with marquee customer base: Kaynes has a diversified customer base and it served 229 customers in 21 countries across 3 continents in the 3 months ended June 30, 2022. Its customers span multiple sectors, ranging from electronics, to automotive, to healthcare, industrial and IoT. It has a balanced mix of domestic and international customers including certain Fortune 500 companies, multinational corporations and start-ups. As of June 30, 2022, the company's research and development team comprised 19 employees, including engineers, designers and other workers. The company works with over 871 vendors and sources materials from various regions including North America, Europe, and Singapore as well as locally within India, as of June 30, 2022.

Global certifications for each industry vertical catered to and multiple facilities across India with advanced Infrastructure: Its systems and processes are also certified by global certification bodies that help it to serve its customers stringent quality specifications and assists in new customer acquisition. It is 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 it to be seen by potential customers as a MACE approved supplier for electronic assemblies. Further, it has 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. It also received the Certification of Military Airworthiness documents or CEMILAC for instrumentation electronics repair, which enables it to perform avionics repair. It is 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. As of June 30, 2022, it operates various facilities comprising eight manufacturing facilities, one design facility, two service centers and one packaging and dispatch facility across located in Karnataka, Haryana, Himachal Pradesh, Tamil Nadu, Uttarakhand, Kerala and Maharashtra. its facilities at Manesar, Haryana, Chennai, Tamil Nadu and Parwanoo, Himachal Pradesh are strategically located in close proximity to its customers which in it experience helps reduce logistics costs, increase its efficiency and ensure minimal capital expenditures. Major automotive OEMs are located in Gurgaon, Haryana and Chennai, Tamil Nadu. This helps in reducing the logistics time and supports its clients in its operations to the OEM. Its Mysuru, Karnataka – Unit – I facility is approved under Electronics Hardware Technology Park Scheme of Software Technology Park of India, Bengaluru, its manufacturing facility at Chennai, Tamil Nadu is approved under 100% Export Oriented Unit Scheme of Madras Export Processing Zone, Chennai, both such schemes offer incentives similar to a special economic zone. As of June 30, 2022, its manufacturing infrastructure includes 269,000 square feet of electrostatic discharge free facilities with seven robotics surface mount lines which possess the ability to populate more than 1,50 Crore components, 57 through-hole devices ("THD") and exclusive clearance lines, class 10,000 cleanrooms, humidity controlled component stores, flying probes, in-circuit testers, X-ray machines, automatic optical testing machines and walk-in thermal cycling chambers.

Strong supply chain and sourcing network: It possesses a mature and reliable supply chain network. It has long-term relationships with its vendors within India and outside India, which has led to improvement in credit terms over the years. As of June 30, 2022, it 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 10.80 years, as of June 30, 2022.

Strategy

Focus on full product / box build capabilities: As an ESDM player Kaynes 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. To fulfill this aspect of integrated manufacturing, its new plant at Chamarajanagar, Karnataka is being prepared with integrated inhouse and onsite infrastructure with specialized skills to do complete product or Box Build.

Leverage the research and development capabilities: Kaynes intends to leverage on its experience and capabilities of its in-house design and research and development team to further its ODM capabilities. ODM services allow it to design and develop a product for a customer as per stated specifications and features. The Company’s expansion strategies also include customer acquisition for smart meter ODM, appliance electronics ODM, solar panel cleaners as ODM, BLDC electric motor ODM as part of its diversified product portfolio.

Focus on expansion across each vertical to capitalize on industry opportunity: Kaynes intends to undertake vertical-focused expansion, to expand its business. As on June 30, 2022, the company had an order book of Rs. 226.62 crore, with orders from several customers across business verticals. Currently, it is involved in several projects in its different business verticals like smartmeters, automotive lighting, electronic control units, hand-held diagnostic hardware, IOT driven smart solutions, dispensing solutions and avionic electronics.

Expand manufacturing capacity at the existing facilities and set-up additional strategically located facilities: In order to support its growth strategy across India, Kaynes intends to set up an additional manufacturing facility at Chamarajnagar, Karnataka and undertake significant expansion at its current facility at Mysuru, Karnataka – Unit - I and near its existing facility at Manesar, Haryana. The company also intends to expand its existing manufacturing facilities to increase its manufacturing capacity.

Further improve operational efficiency through backward integration of manufacturing facilities: In order to improve the operational efficiency, Kaynes intends 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. The company has received approval under the Production Linked Incentive Scheme for White Goods (Air Conditioner and LED Lights whereby it has committed to make an investment of Rs. 50 crore.

Pursue inorganic growth through selective partnerships and 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, it intends to pursue strategic acquisitions and investments and other strategic alliance partnerships within the ESDM sector that are complementary to its current and future business verticals.

Risk factor

- The company’s Top 10 customers revenue account for significant revenues for over 60% and in case of loss of any such customers, the company will get impacted.
- There is an increasing competition in the electronics system design and manufacturing industry.
- It had negative operating cash flows in the past and continue to have negative cash flows in the future too.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Dixon Technology Limited	12747.84	232.30	39.15	115.71	24.18	187.32	2.00	4529.95	26881.60
Amber Enterprises Limited	5487.15	128.41	38.11	52.81	3.79	531.04	10.00	2012.75	6781.71
Kaynes Technology Limited**	706.25	41.67	7.17	81.89	4.75	123.57	10.00	587.00	3412.96

* Peer companies financials are TTM based.

** FY22 Financials

Valuation

Considering the P/E valuation on the upper end of the price band of Rs. 587, the stock is priced at pre issue P/E of 69.18x on its FY22 EPS of Rs. 8.49. Post issue, the stock is priced at a P/E of 81.89x on its EPS of Rs. 7.17. Looking at the P/B ratio at Rs. 587 the stock is priced at P/B ratio of 14.15x on the pre issue book value of Rs.41.48 and on the post issue book value of Rs. 123.57 the P/B comes out to 4.75x.

On the lower end of the price band of Rs.559 the stock is priced at pre issue P/E of 65.88x on its FY22 EPS of Rs. 8.49. Post issue, the stock is priced at a P/E of 77.99x on its EPS of Rs. 7.17. Looking at the P/B ratio at Rs.559, the stock is priced at P/B ratio of 13.48x on the pre issue book value of Rs. 41.48 and on the post issue book value of Rs. 123.57, the P/B comes out to 4.52x.

Industry 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 Rs. 6,711 billion (USD 91 billion) in Fiscal 2021, which is expected to grow at a CAGR of 25.5% to reach Rs. 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 Rs. 4,975 billion (USD 67 billion), and is expected to grow to approximately 96% by Fiscal 2026, valued at Rs. 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.

Outlook

The company has global certifications for each industry vertical catered to and multiple facilities across India with advanced infrastructure. It has generated strong revenue growth in the last 3 years. However, the company's Top 10 customers revenue account for significant revenues for over 60% and in case of loss of any such customers, the company will get impacted. A long term investors may opt the issue.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	10-November-22
BID/ISSUE CLOSES ON	14-November-22
Finalisation of Basis of Allotment with the Designated Stock Exchange	17-November-22
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	18-November-22
Credit of Equity Shares to demat accounts of Allottees	21-November-22
Commencement of trading of the Equity Shares on the Stock Exchanges	22-November-22

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Jun-22 (3 Months)	Period ended 31-Mar-22 (12 Months)	Period ended 31-Mar-21 (12 Months)
Revenue from operations	199.27	706.25	420.63
Total expenditure	174.70	612.58	379.74
Operating Profit	24.57	93.67	40.89
OPM%	12.33	13.26	9.72
Other Income and Finance Income	0.71	4.11	4.04
PBDIT	25.28	97.78	44.93
Depreciation	4.57	13.16	10.08
PBIT	20.71	84.61	34.85
Interest	7.27	25.59	23.98
Restated Profit before tax	13.44	59.03	10.87
Tax	3.39	17.35	1.14
Profit & Loss before Share of Post-acquisition Profit of Associate	10.05	41.67	9.73

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Jun-22	As on 31-Mar-22	As on 31-Mar-21
Non-current assets			
Property, plant and equipment	63.62	63.96	57.07
Capital Work-in-progress	4.56	4.42	1.01
Intangible assets	27.25	28.97	12.69
Intangible assets under development	6.72	3.91	11.62
Right of use assets	19.66	18.06	7.86
Goodwill	2.34	2.34	2.34
Investment financial assets	1.77	1.52	1.69
Financial assets - loans and deposits	5.77	5.83	3.15
other Financial assets	3.27	3.53	1.30
Other non current assets	6.78	3.52	1.45
Total non-current assets	141.74	136.06	100.17
Current assets			
Inventories	290.10	226.38	163.87
Bank balances other than cash	15.10	14.72	11.21
Trade receivables	232.19	197.73	121.75
Cash and cash equivalents	2.31	6.87	3.05
Other financial assets	0.49	0.27	0.20
Loans Financial assets	2.88	1.69	1.82
Other current assets	78.44	38.70	17.31
Total current assets	621.52	486.37	319.20
Total Assets	763.26	622.42	419.37
Non-current liabilities			
Financial liabilities			
Borrowings	32.55	29.28	17.09
Lease liabilities	19.17	16.34	6.44
Deferred tax liabilities	8.03	6.78	5.24
Long Term Provisions	5.18	4.18	3.20
Total financial liabilities	64.93	56.56	31.96
Current liabilities			
Borrowings	153.83	140.27	122.38
Lease Liabilities	2.25	3.20	2.54
Total outstanding dues of creditors of micro enterprises and small enterprises	7.43	4.79	6.63
Total outstanding dues of creditors other than micro enterprises and small enterprises	263.26	159.26	88.80
Other Financial liabilities	8.45	7.73	6.59
Other current liabilities	30.82	30.33	18.58
Short term Provisions	1.11	1.01	0.67
Current tax liabilities	17.18	15.55	1.65
Total current liabilities	484.33	362.14	247.84
Total	549.26	418.70	279.80
NET Worth	214.01	203.72	139.56
Net worth represented by:			
Share capital	46.16	46.16	6.80
Instruments Entirely equity in nature	0.38	0.38	1.08
Non - Controlling Interest	1.29	1.13	0.91
Other equity	166.19	156.05	130.78
Net Worth	214.01	203.72	139.56

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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