December 14, 2023

Kaynes Technology India Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	191.00	191.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
Long-term Fund-based – Packing Credit	25.00	25.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
Total	**216.00**	**216.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action takes into consideration ICRA's expectation that Kaynes Technology India Limited's (KTIL) operating profile will strengthen, going forward, with enhanced manufacturing capabilities and expectation of continued healthy growth over a diversified end-user base. The company is also expected to leverage the healthy demand being witnessed in the industry, which is reflected in the buoyant order book of the company (Rs. 3,462 crore as on September 30, 2023). ICRA further expects KTIL to maintain a healthy financial profile resulting in robust earnings growth in the near to medium term. Moreover, with a healthy cash accrual generation and proceeds from its Initial Public Offering (IPO) concluded in the previous fiscal, the company has adequate growth capital to expand its capacities and scale with limited dependence on additional debt.

ICRA has further favourably factored in KTIL's established presence and the vast experience of its promoters and management in the domestic electronic manufacturing services (EMS)/ electronics system design and manufacturing (ESDM) industry, along with its reputed clientele and strong relationships built with customers and suppliers over the years. The rating also factors in the company's ability to supply clients from diversified sectors such as automotive, industrial, aerospace and defence, medical, railways, IT and others. ICRA also notes the company's planned foray into the Outsourced Semiconductor Assembly and Test (OSAT) vertical, which when implemented will enhance KTIL's position in the semiconductor value chain, providing an impetus to its overall growth plans.

The rating, however, is constrained by the company's high working capital intensity characterised by high inventory requirements and receivable cycle. Although the receivable cycle has improved since FY2022, it remains slightly elongated. Thus, the company's funding requirements are expected to be sizeable against the backdrop of its growth plans. In addition, KTIL has sizeable capex plans in its existing business as well as the planned OSAT vertical, which remains exposed to execution and regulatory risks. Its ability to timely execute the capex and generate adequate returns in a timely manner remains a rating monitorable. The rating also factors in the company's exposure to fluctuation in foreign currency exchange rates since ~55-60% of its raw materials are imported, while exports generate ~15% of its overall revenue. However, KTIL has purchase price variance contracts in place with its major customers, which compensates the effect of foreign currency fluctuations. The ratings are further constrained by the low entry barriers in the industry in terms of investments and technical knowhow, leading to competitive intensity. The company is exposed to the risk of technological obsolescence, which remains prevalent in the EMS business.

Going forward, timely completion of the ongoing capex and the ramp up of capacity will remain critical, coupled with KTIL's ability to manage incremental working capital requirements as its scale continues to grow. In addition, developments related to the new OSAT plant will remain a monitorable for the company.

The Stable outlook reflects ICRA's belief that the company will leverage its expertise in the sector, coupled with the promoter's extensive experience to grow its scale. Additional capacities and a strong order book position will support its operating profile, going forward.

Key rating drivers and their description

Credit strengths

KTIL's established presence and extensive experience of its promoters and management in the ESDM industry – KTIL leverages the extensive experience of its promoters and management in the domestic ESDM industry, which supports its growth prospects. The company was established in 1988 and more than three decades of experience in the industry has helped it create established relationships with its customer base. KTIL, therefore, has an established network of manufacturing capabilities spread across the country, which enables it to undertake high value orders and execute the same efficiently.

Diversified end-user sectors; planned foray into OSAT segment will diversify offerings further – KTIL enjoys established relationships with reputed customers across industries. It caters to a diverse client base spread across multiple sectors, ranging from industrial, automotives and railways, to medical, aerospace and defence, etc. KTIL's established client relationships have enabled it to generate consistent repeat business, resulting in customer stickiness to a large extent. Moreover, the company's planned foray into the OSAT vertical will further diversify its revenue and client base. However, the vertical is currently in is initial stages.

Strong industry demand reflected in robust outstanding order book position – The company had an outstanding order book of ~Rs. 3,462 crore, as on September 30, 2023, providing healthy revenue visibility. The current outstanding order book includes large orders from reputed customers in the automotive, industrial and railways sectors. The industry is witnessing healthy demand and KTIL expects the same to leverage and enhance its scale. At present, it is undertaking capacity enhancement in its manufacturing plants (Mysore and Manesar) and setting up a new facility at Chamarajanagar (Karnataka) to serve its outstanding orders. The Chamrajnagar facility has already commenced operations, with the capex expected to conclude in FY2025. The company excepts to generate revenues of ~Rs. 3,000 crore from the same by FY2025-FY2026.

Availability of growth capital driving capex and enhancing capabilities – The company successfully concluded its IPO in the last fiscal, which resulted in fresh funding of Rs. 625 crore (excluding pre-IPO expenses). The funds have been utilised towards debt repayment of Rs. 130 crore. Moreover, the currently ongoing capex of Rs. 250 crore is expected to conclude in FY2025. Further remaining funds are being utilised towards incremental working capital requirements and general corporate purposes. While the company is well positioned to scale up its capacities with the said proceeds in the medium term, it may require additional working capital debt to fund its increasing scale. However, KTIL's liquidity profile has improved with moderation in bank limit utilisation by using its IPO proceeds for working capital requirements, along with cash generation from its internal accruals.

Credit challenges

High working capital intensity – KTIL's business is highly working capital intensive characterised by inventory requirements and high receivable cycle. The debtor days have slightly moderated over earlier levels but remains moderately high as the company offers a credit period of 90-120 days to its customers. The year-end debtor days are further elevated owing to the company generating sizeable amount of its overall revenues in Q4 of every fiscal. Further, high inventory stocking requirements also impact the overall working capital intensity of the company as it remains high on account of several factors including healthy revenue forecast, high lead times for input components and need to cater to various industries with a diverse product mix. The company's dependence on working capital borrowings has moderated with utilisation of its IPO proceeds but is expected to increase, going forward, owing to funding requirement for incremental working capital.

Significant capex plans amid planned OSAT plant – KTIL is currently undertaking a total capex of ~Rs. 250.0 crore for setting up a new manufacturing facility and expanding its existing facilities. Of the total capex, the company is incurring Rs. 149.3 crore for its new facility at Chamarajanagar, whose first phase has already commenced operations with capex expected to be concluded by FY2025. Further, Rs. 98.9 crore is being utilised towards expansion of existing facilities at Mysore and Manesar, which are also expected to be concluded by FY2025. The capex is being funded through the IPO proceeds. Going forward, timely completion and commencement of operations of the ongoing capex and ramp up of the facilities in a timely fashion for the desired returns will be critical for future growth and sustenance of a comfortable credit metrics. In the current fiscal, the company has entered Memorandum of Understanding (MoU's) with the state governments of Karnataka and Telangana for setting up a new OSAT plant through its step-down subsidiary, Kaynes Semicon Private Limited (KSPL), which is to be funded by equity and subsidies from the Central and state governments, and the remaining by term debt. The investment is being planned in phases as it sizeable and will entail significant execution and funding risks, which ICRA will continue to monitor.

KTIL remains exposed to volatility in forex movements; mitigated to an extent by exports providing natural hedge – A major portion of KTIL's raw material requirement is imported from Singapore, China, Hong Kong, the US, and other countries owing to unavailability of the required raw materials in bulk quantities in India. The company imports 55-60% of its raw materials every year, thus exposing it to risks of forex volatility. However, some portion of its forex requirements is met through exports (to the tune of ~15% in FY2023), which provides the company with a natural hedge to a certain extent. Moreover, timely availability of the said raw material also remains critical. However, the company has purchase price variance contracts in place with major customers, which compensates the effect of foreign currency fluctuations.

Low entry barriers exposing company to risk of competition from other players – The company derives most of its revenues from the relatively lower value-added printed circuit board (PCB) assembly business compared to other businesses like Box-build and Original Design Manufacturing (ODM). Also, players in the PCB assembly segment face significant competition owing to relatively low entry barriers than the ODM business. Therefore, ICRA notes that the company has been expanding its product portfolio in the margin accretive box-build and ODM segments in recent years, to enhance its margins and ward off competitive threats to a certain extent.

Environmental and Social Risks

Environmental considerations: Environmental risks for industry players include use of and handling of hazardous waste or materials, as well as waste disposal practices. These standards expose KTIL to the risk of substantial environmental costs and liabilities, including liabilities associated with past activities. All units of KTIL are equipped with permits, licenses, and the expertise to handle such hazardous wastes and materials. KTIL's operations comply with global standards and its facilities have 10 global accreditations. KTIL has the capability to manufacture Restriction of Hazardous Substance (RoHS) compliant products and has an environmentally friendly, "lead free" manufacturing line for PCBAs at its Mysore as well as Manesar facilities.

Social considerations: KTIL is exposed to social risks, including implementation of labour rights and maintaining corporate governance. KTIL works towards bettering the quality of lives of the local communities near its manufacturing facilities. KTIL has obtained a voluntary certification under SA8000, the international standard for social accountability, which confirms its compliance with labour rights and its established social standards of corporate governance.

Liquidity position: Adequate

The company's liquidity profile remains adequate with average utilisation of fund-based limits of ~50-55% against limits of Rs. 333 crore (excluding factoring limits) for the previous 12 months ending September 30, 2023, resulting in healthy cushion in working capital limits. This apart, it has available working capital limits to the tune of ~Rs. 66 crore, which is expected to provide additional funding support in case of any increase in working capital requirements. The company has modest debt repayments, going forward. The planned capex is being funded through recently raised equity. The liquidity is further supported by free cash available with the company, but most of it is earmarked for funding its capex requirements.

Rating sensitivities

Positive factors – ICRA could upgrade its ratings if the company demonstrates a significant and sustained improvement in its earnings supported by adequate ramp up of new capacities resulting in improved return and credit metrics on a sustained basis.

Negative factors – Negative pressure on the ratings could arise if there is any material deterioration in the company's revenues or margins on a sustained basis. Specific credit metric that ICRA will monitor for a rating downgrade will be TD/OPBIDTA higher than 2.5 times on a sustained basis. Further, deterioration in its working capital cycle impacting its liquidity position on a sustained basis could result in a downgrade as well.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of KTIL.

About the company

Kaynes Technology India Limited provides ESDM services to clients across various industries. The company is primarily engaged in contract designing and manufacturing of PCB assemblies, circuits boards and electronic components. Established in 1988 as a sole proprietorship with a single unit at Mysore, KTIL was converted into a private limited company in 2008. In recent years, the company has diversified its product portfolio and expanded beyond manufacturing to encompass product design and development, testing, and after-sales services such as repair, re-manufacturing, marketing, and product lifecycle management.

The company has ample manufacturing capabilities spreads across the country. It is further enhancing its capacities at its existing facilities in Mysore and Manesar, while setting up a new facility at Chamarajanagar.

Key financial indicators (audited/unaudited)

KTIL Consolidated	FY2022	FY2023	H1 FY2024*
Operating income	706.3	1,126.2	658.0
PAT	41.7	95.2	57.0
OPBDIT/OI	13.5%	15.1%	13.5%
PAT/OI	5.9%	8.5%	8.7%
Total outside liabilities/Tangible net worth (times)	2.3	0.5	-
Total debt/OPBDIT (times)	2.5	1.2	-
Interest coverage (times)	3.5	4.7	3.9

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Unaudited*

Status of non-cooperation with previous CRA:

IND BB+/A4+; (ISSUER NOT COOPERATING*) Rationale dated May 02, 2023
***Issuer did not cooperate**

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Dec 14, 2023	Jan 24, 2023	Jan 03, 2023	Aug 09, 2021	Mar 18, 2021
1	**Fund-based Cash Credit**	Long term	191.00	--	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	--	--
2	**Fund-based Packing Credit**	Long term	25.00	--	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	--	--	--
3	**Fund-based**	Long term	-	--	--	--	--	[ICRA]D; ISSUER NOT COOPERATING, Withdrawn	[ICRA]D; ISSUER NOT COOPERATING
4	**Fund-based Term Loan**	Long term	--	--	--	--	--	[ICRA]D; ISSUER NOT COOPERATING, Withdrawn	[ICRA]D; ISSUER NOT COOPERATING
5	**Interchangeable**	Long term	--	--	--	--	--	[ICRA]D; ISSUER NOT COOPERATING, Withdrawn	[ICRA]D; ISSUER NOT COOPERATING
6	**Fund-based**	Short term	--	--	--	--	--	[ICRA]D; ISSUER NOT COOPERATING, Withdrawn	[ICRA]D; ISSUER NOT COOPERATING
7	**Interchangeable**	Short term	--	--	--	--	--	[ICRA]D; ISSUER NOT COOPERATING, Withdrawn	[ICRA]D; ISSUER NOT COOPERATING

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Long-term fund-based – Packing Credit	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term fund-based – Cash Credit	NA	NA	NA	191.00	[ICRA]BBB+ (Stable)
NA	Long-term fund-based – Packing Credit	NA	NA	NA	25.00	[ICRA]BBB+ (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Kaynes International Design & Manufacturing Private Limited	95.20%	Full Consolidation
Kemsys Technologies Private Limited	100.00%	Full Consolidation
Kaynes Embedded Systems Private Limited	60.00%	Full Consolidation
Kaynes Technology Europe GmbH	60.00%	Full Consolidation
Kaynes Electronics Manufacturing Private Limited	100.00%	Full Consolidation

Source: Company, as on September 30, 2023; Note: ICRA has taken a consolidated view of the parent (KTIL) and its subsidiaries while assigning the ratings

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About ICRA Limited:

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