November 22, 2024

# Kaynes Technology India Limited: Rating upgraded to [ICRA]A- from[ICRA]BBB+; Outlook revised to Positive from Stable

## 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]A-(Positive); upgraded from [ICRA]BBB+ (Stable); Outlook revised to Positive from Stable |
| Long-term Fund-based – Packing Credit | 25.00 | 25.00 | [ICRA]A-(Positive); upgraded from [ICRA]BBB+ (Stable); Outlook revised to Positive from Stable |
| **Total** | **216.00** | **216.00** | |

**Instrument details are provided in Annexure-I*

## Rationale

The rating upgrade and revision in the outlook take into consideration ICRA's expectation that Kaynes Technology India Limited (KTIL) will demonstrate continued healthy growth over a diversified end-user base, supported by favourable industry prospects and enhanced manufacturing capabilities. This is evidenced by the company's buoyant order book (Rs. 5,422 crore as on September 30, 2024). ICRA further expects KTIL to maintain a healthy financial profile, resulting in robust earnings growth in the near-to-medium term. Moreover, the company has adequate growth capital to expand its capacities with limited dependence on additional debt with healthy cash accrual generation and proceeds from its qualified institutional placement (QIP) concluded in the previous fiscal.

ICRA also notes the company's planned foray into the outsourced semiconductor assembly and test (OSAT) and printer circuit board (PCB) manufacturing vertical. Once operational, these initiatives are expected to strengthen KTIL's position in the semiconductor value chain, providing an impetus to its overall growth plans. Besides, the recent acquisition of Iskramaeco India Private Limited (IIPL) provides another revenue source for the company going forward, which augurs well for future growth.

ICRA continues to consider 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) industries. The company also benefits from its reputed clientele, strong relationships with customers and suppliers over the years and a diverse client base spanning across automotive, industrial, aerospace and defence, medical, railways, IT and others.

The rating, however, is constrained by the company's high working capital intensity. Although it reduced to 41.3% in FY2024 from 44.9% in FY2023, it remains elevated. ICRA expects the working capital intensity to remain elevated due to sizeable funding requirements against its growth plans.

In addition, KTIL has sizeable capex plans for setting up new facilities for its OSAT and PCB verticals, which remain exposed to execution and regulatory risks. Its ability to execute the capex in a timely manner and generate adequate returns from the same remains a rating monitorable. The timely receipt of subsidies towards funding the project will remain critical. 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 account for only ~10% of its overall revenue. However, KTIL has purchase price variance contracts in place with its major customers, which compensates for the effect of foreign currency fluctuations to a certain extent. The rating is further constrained by the low entry barriers in the industry in terms of investments and technical knowhow, leading to high competitive intensity. The company is exposed to the risk of technological obsolescence, which remains prevalent in the EMS business.

Going forward, the 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 operations expand.

The Positive 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 and earnings, backed by a robust order book. Additional capacities and an expanding client base will also 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 across the country, enabling it to undertake high-value orders and executes them efficiently.

**Diversified end-user sectors; planned foray into OSAT and PCB segment will diversify offerings further –** KTIL enjoys established relationships with reputed customers across industries. It caters to a diverse client base across multiple sectors, such as industrial, automotive and railways, to medical, aerospace and defence, etc. KTIL's established client relationships enabled it to generate consistent repeat business, resulting in customer stickiness to a large extent.

KTIL's proposed capex towards OSAT and PCB projects, coupled with the recent acquisition of IIPL are expected to bring additional sources of revenue. The OSAT plant has been moved to Gujarat from Telangana, for which Government approval has already been received, along with the commencement of the capex for the same. The site for the PCB plant is being identified as of now. The recent acquisition of IIPL will provide another revenue source for the company and increase KTIL's presence in the smart metres segment.

**Strong industry demand reflected in robust outstanding order book position –** The company had an outstanding order book of ~Rs. 5,422 crore, as on September 30, 2024, 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. The Chamarajnagar facility has already commenced operations, for which the capex has been concluded in the current fiscal. Also, the ongoing expansion in the existing facilities of Mysore, Manesar and Pune will enable the company to cater to its base ESDM business.

**Proceeds from equity raised in FY2024 expected to be utilised towards capability and capacity enhancement –** The company has ample growth capital through equity proceeds raised via the QIP route in December 2023. The raised equity is earmarked for capex in OSAT and PCB operations. The balance funding of these projects is expected through the Central and state government subsidies and term debt. In addition to the progress of capital expenditure, the timely receipt of subsidies will be critical in determining the trajectory of the company's debt metrics and credit profile in the medium-to-long term.

### Credit challenges

**High working capital intensity –** KTIL's business is highly working capital-intensive, characterised by increased inventory requirements and a long receivable cycle. The debtor days slightly moderated in FY2024 over earlier levels but remains relatively higher as the company offers a credit period of 90-120 days to its customers. The year-end debtor days are further elevated, as the company generates a sizeable amount of its overall revenues in Q4 of every fiscal year. Further, increased inventory stocking requirements on account of several factors, including healthy revenue forecast, high lead times for input components and the requirement to cater to various industries with a diverse product mix also result in the high working capital intensity. Receivables greater than six months reduced to FY2024 from FY2023. Going forward, the incremental working capital requirements amid the expected healthy growth and large planned capex as well as its impact on the company's overall debt levels will be a key rating monitorable.

**Sizeable capex plans amid planned OSAT and PCB projects; significant execution and persist –** The company plans to incur significant capex for setting up OSAT and PCB verticals over the next four fiscal years. The total project cost for OSAT and PCB projects stood at ~Rs. 3,300 crore and ~Rs. 1,400 crore, respectively. The first phase of the projects are expected to be completed by FY2029, and the investment for this phase would be ~Rs. 1,300 crore and ~Rs. 700 crore, respectively. The equity raised through QIP is expected to fund the initial requirement, and the subsequent funding would be through Central and state government subsidies and term debt. However, these projects are exposed to execution risks, given the limited ecosystem in India for such domains.

**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 the unavailability of the required raw materials in bulk quantities in India. The company imports 55-60% of its raw materials, thus exposing it to risks of forex volatility. However, the company derives some portion of its revenue from exports (~10% in FY2024), which provides a natural hedge to a certain extent. Moreover, the timely availability of raw materials also remains critical. Nonetheless, the company has purchase price variance contracts in place with major customers, which compensate the effect of foreign currency fluctuations to a certain extent.

**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 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 the relatively low entry barriers to the ODM business. 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.

## Liquidity position: Adequate

The company's liquidity profile remains adequate with average utilisation of fund-based limits of ~67% against limits of Rs. 770 crore (excluding factoring limits) for the 12 months ending October 2024, resulting in moderate cushion in working capital limits. The limits have been enhanced from Rs 470 crore to Rs 770 crore from September 2024 onwards. KTIL has modest debt repayments of Rs. 4.27 crore and Rs. 7.80 crore in FY2025 and FY2026, respectively. The liquidity is further supported by free cash available with the company of Rs. 1,216 crore as on September 30, 2024, which includes funds earmarked to fund its ongoing capex requirements.

## Rating sensitivities

**Positive factors –** ICRA could upgrade KTIL's ratings if it demonstrates a healthy improvement in its revenues and cash flows while maintaining the return indicators and credit metrics on a sustained basis.

**Negative factors –** The rating could witness a downward revision in case of any adverse impact on the company's revenues and/ or earnings leading to deterioration in debt protection metrics on a sustained basis. Further, higher working capital requirement leading to an adverse impact on the liquidity position of the company on a sustained basis will also be a negative trigger. The rating pressure may also arise in case of any material cost and time overruns for the ongoing projects, impacting the company's credit profile on a sustained basis. Specific credit metrics for downgrade include total debt/OPBITDA increasing over 2.3 times on a sustained basis.

## 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 (KTIL) offers ESDM services to clients across various industries. The company is primarily involved in contract designing and manufacturing of PCB assemblies, circuit 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 spread across the country. It has further enhanced its capacities at its existing facilities in Mysore and Manesar and has set up a new facility at Chamarajanagar. Besides, the company is also setting up OSAT and PCB manufacturing plants.

### Key financial indicators (audited/prov.)

| KTIL Consolidated | FY2023 | FY2024 | 6MFY2025 (Prov.) |
|---|---|---|---|
| **Operating income** | 1,126.1 | 1,804.6 | 1,076.1 |
| **PAT** | 95.2 | 183.3 | 111.0 |
| **OPBDIT/OI** | 15.1% | 14.2% | 13.8% |
| **PAT/OI** | 8.5% | 10.2% | 10.3% |
| **Total outside liabilities/Tangible net worth (times)** | 0.5 | 0.4 | 0.5 |
| **Total debt/OPBDIT (times)** | 1.2 | 1.7 | 2.3 |
| **Interest coverage (times)** | 4.7 | 4.6 | 3.3 |

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore, PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for past three years

| | Instrument | Current rating (FY2025) | | | Chronology of rating history for the past 3 years | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Date & rating in FY2025 | Date & rating in FY2024 | Date & rating in FY2023 | | Date & rating in FY2022 |
| | | | | Nov 22, 2024 | Dec 14, 2023 | Jan 24, 2023 | Jan 03, 2023 | Aug 09, 2021 |
| **1** | **Fund-based Cash Credit** | Long term | 191.00 | [ICRA]A-(Positive) | [ICRA]BBB+ (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | -- |
| **2** | **Fund-based Packing Credit** | Long term | 25.00 | [ICRA]A-(Positive) | [ICRA]BBB+ (Stable) | [ICRA]BBB (Stable) | -- | -- |
| **3** | **Fund-based** | Long term | - | | -- | -- | -- | [ICRA]D; ISSUER NOT COOPERATING, Withdrawn |
| **4** | **Fund-based Term Loan** | Long term | -- | | -- | -- | -- | [ICRA]D; ISSUER NOT COOPERATING, Withdrawn |
| **5** | **Interchangeable** | Long term | -- | | -- | -- | -- | [ICRA]D; ISSUER NOT COOPERATING, Withdrawn |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 6 | **Fund-based** | Short term | -- | | -- | -- | -- | [ICRA]D; ISSUER NOT COOPERATING, Withdrawn |
| 7 | **Interchangeable** | Short term | -- | | -- | -- | -- | [ICRA]D; ISSUER NOT COOPERATING, Withdrawn |

## 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]A- (Positive) |
| **NA** | **Long-term fund-based – Packing Credit** | NA | NA | NA | 25.00 | [ICRA]A- (Positive) |

*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 Technology India Limited** | 100.00% | Full Consolidation |
| **Kaynes International Design & Manufacturing Private Limited** | 95.21% | 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 |
| **Kaynes Semicon Private Limited** | 100.00% | Full Consolidation |
| **Kaynes Circuits India Private Limited** | 100.00% | Full Consolidation |
| **Kaynes Mechatronics Private Limited** | 100.00% | Full Consolidation |
| **Digicom Electronics Inc** | 100.00% | Full Consolidation |

*Source: Company*

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

# ICRA Limited


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