

Kaynes Technology India | BUY



OSAT approval in place – moving up the value chain

Kaynes received the much awaited cabinet approval of INR 33bn capex out of the total planned investment of c.INR 50bn for OSAT under the India Semiconductor Mission (ISM) scheme - having total outlay of INR 760bn. The balance amount of INR 17bn are the operational and working capital requirements which are not covered under the scheme and shall be funded by internal accrual. Kaynes shall set up the unit in Gujarat's Sanand alongside CG Power (total investment – INR 76bn) and Micron (total investment – c.INR 220bn). However, Tata Electronics' OSAT unit is in Morigaon, Assam with total investment of INR 270bn. Kaynes approval is entitled to central subsidy of 50% (pari-passu) and state subsidy of c.20%.

With this approval, Kaynes has marked its entry into semiconductor value-chain. Management expects revenue to start from Q4FY26 and in FY28, can contribute revenue of c.INR 15bn (vs. JMFe of INR 8bn) and expect c.INR 30/35bn (vs. JMFe of INR 17bn) revenue by FY30. We expect Kaynes to commence OSAT revenue from FY26e and then scale up from FY28/29e.

Key pointers about the announcement:

- **Capacity:** The facility has a capacity to produce c.1.8bn chip annually (out of which 500/550mn chips shall be advanced packaged). According to our channel checks, per chip sale price for legacy chips (eg. wire bound) is c.4/10 cents, whereas for advance chips (eg. flip chip) is c.USD 1.5/2.5. However, it varies basis contract and package type.

Sr. No.	Packaging type	JMFe - Chips produced at peak capacity (in mn)	Per chip sale price in USD	Exchange rate	Potential Revenue (in INR mn)
1	Advanced	550	1.5 - 2.5	80	66,000
2	Legacy	1,250	0.04 - 0.10	80	4,000
Total (JM estimate)		1,800			70,000

As per management, advanced packaged chips to contribute c.70/75% of total OSAT revenue.

- **Customer:** Technology partner (Globetronics - Malaysia and AOI - Japan) to offtake c.25/26% of the production. According to our channel checks, Kaynes is in discussion with a lot of new customers (international + domestic both).
- **Construction:** Land has been acquired. Construction to begin within 30 days post the receipt of offer letter. Plant should operate at c.50% utilization levels to avoid negative EBITDA. According to our channel checks, Phase 1 which will commission 13 OSAT lines is expected to be completed within 9 months and Phase 2 will consist of additional c.39 OSAT lines.
- **Agreement with Technology Partners:** We expect technology partner: to provide raw materials, equipment / vendor list, however, sourcing of equipment will be from various other players like DISCO, etc. We expect, Kaynes shall announce collaboration with additional technology partner specifically for advanced packaging.

Maintain BUY with TP of INR 5,133: We expect Kaynes to see a strong growth mainly due to: (1) strong product mix and focus on adding high margin segment, (2) development of component/chips ecosystem in India leading to improving supply chains (3) on-boarding new value-added customers, (4) strong order book visibility, backward integration (bare PCB and new segments like OSAT), and (5) exploring exports opportunities. With all these positives, we expect the company's Revenue/EBITDA/PAT CAGR of c.59%/65%/50% over FY24-26 with OPM of 14.7/14.8% (management expects c.15% in FY25) in FY25/FY26 and earnings growth of c.26%/79% in FY25/FY26 (factoring OSAT and PCB revenue and margins synergies from FY26/27). At CMP, the stock trades at a PE of 67x on FY26 EPS. We value the company on SOTP basis. Based on strong financials, improved ROCE/ROE of c.16.8%/13.1% in FY26, and better working capital improvement visibility, we maintain BUY with target of INR 5,133 (earlier INR 4,935) - upside of 10% from CMP (EMS: 3,818, P/E 55x + PCB: 422, P/E 35x + OSAT: 894, P/E 45x (previously 35x)).

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	5,135
Upside/(Downside)	10.1%
Previous Price Target	4,935
Change	4%

Key Data – KAYNES IN

Current Market Price	INR4,663
Market cap (bn)	INR298.0/US\$3.6
Free Float	40%
Shares in issue (mn)	63.9
Diluted share (mn)	63.9
3-mon avg daily val (mn)	INR1,359.6/US\$16.2
52-week range	5,385/1,894
Sensex/Nifty	82,560/25,279
INR/US\$	83.9

Price Performance

%	1M	6M	12M
Absolute	7.1	55.0	134.2
Relative*	5.1	38.5	85.5

* To the BSE Sensex

JM Financial Research is also available on:
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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

OSAT Financials (JM Estimate)

Our OSAT numbers are conservative (vs. management guidance) and hence there is room for positive surprise.

Particulars (INR in mn)	FY25e	FY26e	FY27e	FY28e	FY29e	FY30e
Capex	11,628	16,128	21,179	26,030	28,536	31,042
Revenue	-	1,488	4,770	7,760	10,950	16,348
EBITDA	-	279	1,095	1,719	2,438	3,657
EBITDA %	NA	18.8%	23.0%	22.2%	22.3%	22.4%
PAT	(496)	(161)	300	606	1,124	1,997
PAT %	NA	-10.8%	6.3%	7.8%	10.3%	12.2%

Source: JM Financial

Management expects revenue to start from Q4FY26 and to contribute revenue of c.INR 15bn in FY28 and c.INR 30/35bn by FY30

Other important pointers:

- Chips produced in this unit will cater to a wide variety of applications which include segments such as industrial, automotive, electric vehicles, consumer electronics, telecom, mobile phones, etc.
- Kaynes aims to build a niche in the emerging areas of silicon photonics compound semiconductors.
- Global technology partners: Kaynes has three technology partners for semiconductor packaging: Globetronics from Malaysia, Aptos Technologies from Taiwan, and AOI in Japan. It has also invested in California-based Mixx Technologies.
- Agreement with Technology Partners: We expect technology partner: to provide raw materials, equipment / vendor list, however, sourcing of equipment will be from various other players like DISCO, etc. We expect Kaynes shall announce collaboration with additional technology partner specifically for advanced packaging.
- Customer: Kaynes SemiCon has signed MoU to provide advanced packaging solutions for Lightspeed Photonics.
 - "We have engaged with our equipment suppliers and are set to consign the equipment at their facilities. This will allow us to start rolling out packages for Lightspeed Photonics within four to five months," according to CEO Raghu Panicker.
- Overall Guidance: In FY25, all segments to see good traction. Expect beat on revenue guidance of INR 30bn with EBITDA margins of c.15% - on account of favourable mix (larger contribution from industrial, aerospace, outer space and strategic electronics). Target NWC of c.70/80 days. Long term: c. US\$ 1bn of revenue by FY28 - incl. atleast c.75% from EMS business and bal. 25% from OSAT + PCB business. Export contribution will increase to 20/25% from current 15% of rev.

Lightspeed Photonics, a Singapore-based fabless system development company, specializes in integrating optical interconnects with processors. This technology aims to enhance server scalability by reducing data latency, and power consumption.

Exhibit 2. Raw Material Sourcing Plan - Partnering with RM vendors to establish manufacturing facility/ecosystem in India

Raw Material	Country
Silicon Wafer	Fabs in Taiwan, Germany etc.
Lead Frame / Substrate	Singapore, Malaysia, Hong Kong, China
Backgrind / Dicing Tape	Japan
Silver Epoxy	Japan
Gold Wire, Copper Wire	Japan
Mold Compound	Japan
Plating Chemicals	Singapore

Source: JM Financial, Company

Exhibit 3. Overview of Products Offerings

Packaging Technologies	QFN packaging	FCBGA ²	Global SOT Packaging
Product Offerings	▪ QFN / QFN Stack Die	▪ BGA / BGA Stack Die / SIP ³ / FC BGA	▪ SOT
Potential target applications	▪ Programmable modules and microcomputers (computing equipment) ▪ Miniaturization of wireless devices & communication equipment	▪ Telecommunication equipment, mobiles, laptops, desktops servers etc. ▪ Automotive industry, for ADAS and infotainment functions	▪ Consumer electronics products
Potential target geographies	▪ North America, APAC, Europe	▪ North America, Europe, Asia Pacific and EMEA, South America	▪ North America, Europe, Asia Pacific and LAMEA

Source: JM Financial, Company Note: QFN – Quad Flat No-lead | 2 – Flip Chip Ball Grid Array | 3 – System in Package

"The Cabinet has approved the Kaynes Technology plant. It is a big plant that is spread over 46 acres, and production is expected to be huge. The industries to which chips from this plant will go have already been booked," said Union Minister of Electronics and IT Ashwini Vaishnaw at a press briefing, post the Cabinet meeting.

Other Recent Key Updates on Kaynes:

1. Inauguration of a new facility in Hyderabad for EMS business in August '24.
 - Mainly for power distribution equipment including smart meters.
 - Was already operational. Expect full capacity utilization in next 2/3 months. Will generate c.INR 4bn in revenue in FY25 and is expected to double in FY26.
2. Execution of JV for acquisition of 54% stake in existing JV of Sensonic Austria.
 - Kaynes Holding Pte. Ltd., a wholly owned subsidiary of Kaynes shall subscribe to 54% of the share capital of Sensonic GmbH for a total consideration of Euro 5,100,000 (c.INR 500mn) and additional financial assistance of Euro 15,000,000 (c.INR 1.5bn) to Sensonic GmbH, in one or more tranches, upon request from Sensonic GmbH.
 - Sensonic is a railway solution company that enables users to monitor entire track and fibre optic networks. The company sales geography wise majorly comes from Europe, USA, UK and India. This JV has been focusing a lot on R&D and is expected to commercialize its product/ tech in coming years.
 - In FY24, Kaynes had done a revenue of INR c.2bn (47% YoY) with closing order book of c.INR 4.5bn (JMFe) of in railway segment - **majorly an export business for Kaynes.**
 - Outlook: We believe this will inch up its railway safety and signalling order book in export markets.

Noteworthy updates on India's semiconductor incentive:

- With the addition of Kaynes Semicon's facility, the cumulative daily capacity of India's four semiconductor plants currently under construction will reach a remarkable 7 crore chips.
- Currently, there are more proposals to set up semiconductor units with the government. This includes INR 780bn fabrication plant proposed by Israel's Tower Semiconductor, and INR 40bn assembly plant by Zoho.
- According to The Indian Express, after having committed nearly all of the \$10 billion in subsidies under its ambitious semiconductor manufacturing incentive policy, the government has prepared a blueprint for the second phase of the scheme.
 - It could increase the outlay of the programme to \$15 billion, offer capital support for raw materials and gases used in chip manufacturing, and reduce subsidies for assembly and testing plants.
 - In an internal note prepared with the projections for the renewal of the scheme, the government has also decided to reduce the capex subsidy for OSAT from the current 50% to 30% for conventional packaging technologies, and 40% for advanced packaging technologies.
 - The government also does not want to support technology transfer costs under the new incentive scheme, it is understood. This means that companies partnering with others for using their chip manufacturing technology may have to pay out of their own pocket.
- It is also learnt that Micron Technology's ATMP plant in Gujarat's Sanand is running 133 days behind schedule, due to the company's inability to hire sufficient construction headcount.
- The Tatas have sought that the requirement for PSMC to demonstrate capability to manufacture 28 nanometre chips should be exempted - the government is considering the company's request, but has not come to a conclusion yet.

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Sales	7,062	11,261	18,046	30,411	45,413	
Sales Growth	67.9%	59.4%	60.3%	68.5%	49.3%	
Other Operating Income	0	0	0	0	0	
Total Revenue	7,062	11,261	18,046	30,411	45,413	
Cost of Goods Sold/Op. Exp	4,894	7,801	13,299	22,207	32,453	
Personnel Cost	0	0	0	0	0	
Other Expenses	1,230	1,777	2,284	3,727	6,232	
EBITDA	938	1,683	2,462	4,477	6,728	
EBITDA Margin	13.3%	14.9%	13.6%	14.7%	14.8%	
EBITDA Growth	87.0%	79.5%	46.3%	81.8%	50.3%	
Depn. & Amort.	132	187	251	2,014	2,554	
EBIT	806	1,496	2,211	2,463	4,175	
Other Income	41	114	614	1,394	1,600	
Finance Cost	256	349	534	735	643	
PBT before Excep. & Forex	591	1,260	2,292	3,123	5,132	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	591	1,260	2,292	3,123	5,132	
Taxes	174	308	483	840	1,050	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	418	952	1,809	2,283	4,082	
Adjusted Net Profit	418	952	1,809	2,283	4,082	
Net Margin	5.9%	8.5%	10.0%	7.5%	9.0%	
Diluted Share Cap. (mn)	46.2	58.1	63.9	63.9	63.9	
Diluted EPS (INR)	9.0	16.4	28.3	35.7	63.9	
Diluted EPS Growth	98.2%	81.1%	72.8%	26.2%	78.8%	
Total Dividend + Tax	0	0	0	0	0	
Dividend Per Share (INR)	0.0	0.0	0.0	0.0	0.0	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Shareholders' Fund	2,026	9,590	24,845	27,128	31,210	
Share Capital	462	581	639	639	639	
Reserves & Surplus	1,564	9,009	24,206	26,489	30,571	
Preference Share Capital	0	0	0	0	0	
Minority Interest	11	13	16	16	16	
Total Loans	1,695	1,359	3,061	3,061	3,061	
Def. Tax Liab. / Assets (-)	68	77	43	43	43	
Total - Equity & Liab.	3,800	11,039	27,964	30,247	34,329	
Net Fixed Assets	1,217	1,610	5,839	22,045	26,141	
Gross Fixed Assets	1,685	2,056	5,936	24,271	30,920	
Intangible Assets	23	23	152	152	152	
Less: Depn. & Amort.	575	763	1,014	3,143	5,696	
Capital WIP	83	293	766	766	766	
Investments	15	33	1,318	1,318	1,318	
Current Assets	4,992	12,544	25,909	19,723	26,872	
Inventories	2,264	4,132	5,483	8,109	12,276	
Sundry Debtors	1,977	2,271	3,556	4,899	7,333	
Cash & Bank Balances	216	4,860	14,132	3,976	4,526	
Loans & Advances	0	0	0	0	0	
Other Current Assets	535	1,282	2,738	2,738	2,738	
Current Liab. & Prov.	2,424	3,148	5,101	12,840	20,003	
Current Liabilities	1,641	2,229	3,610	5,744	8,495	
Provisions & Others	783	919	1,491	7,096	11,507	
Net Current Assets	2,569	9,396	20,808	6,883	6,870	
Total - Assets	3,800	11,039	27,964	30,246	34,328	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Profit before Tax	591	1,260	2,292	3,123	5,132	
Depn. & Amort.	132	187	251	2,014	2,554	
Net Interest Exp. / Inc. (-)	254	265	-81	-659	-957	
Inc (-) / Dec in WCap.	-742	-1,629	-2,636	-1,836	-3,849	
Others	-2	0	0	0	0	
Taxes Paid	-22	-503	-483	-840	-1,050	
Operating Cash Flow	211	-419	-656	1,801	1,829	
Capex	-422	-581	-3,879	-18,335	-6,649	
Free Cash Flow	-212	-1,001	-4,535	-16,534	-4,820	
Inc (-) / Dec in Investments	0	0	0	0	0	
Others	-23	-4,352	1,111	7,113	6,012	
Investing Cash Flow	-445	-4,933	-2,768	-11,222	-637	
Inc / Dec (-) in Capital	228	6,600	13,448	0	0	
Dividend + Tax thereon	0	0	0	0	0	
Inc / Dec (-) in Loans	301	-336	1,702	0	0	
Others	-256	-720	-534	-735	-643	
Financing Cash Flow	272	5,543	14,616	-735	-643	
Inc / Dec (-) in Cash	38	191	11,192	-10,155	549	
Opening Cash Balance	178	2,215	2,940	14,132	3,976	
Closing Cash Balance	216	4,860	14,132	3,976	4,526	

Source: Company, JM Financial

Dupont Analysis		FY22A	FY23A	FY24A	FY25E	FY26E
Y/E March						
Net Margin		5.9%	8.5%	10.0%	7.5%	9.0%
Asset Turnover (x)		2.1	1.5	0.9	1.0	1.4
Leverage Factor (x)		1.9	1.3	1.1	1.1	1.1
RoE		24.5%	16.4%	10.5%	8.8%	14.0%

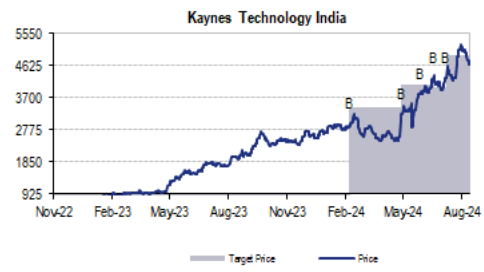
Key Ratios		FY22A	FY23A	FY24A	FY25E	FY26E
Y/E March						
BV/Share (INR)		43.8	164.9	388.7	424.4	488.3
ROIC		18.6%	23.6%	18.8%	9.6%	12.4%
ROE		24.5%	16.4%	10.5%	8.8%	14.0%
Net Debt/Equity (x)		0.7	-0.4	-0.5	-0.1	-0.1
P/E (x)		515.7	284.8	164.8	130.6	73.0
P/B (x)		106.3	28.3	12.0	11.0	9.5
EV/EBITDA (x)		319.8	175.2	116.2	66.2	43.9
EV/Sales (x)		42.5	26.2	15.9	9.7	6.5
Debtor days		102	74	72	59	59
Inventory days		117	134	111	97	99
Creditor days		98	85	85	81	80

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
27-Feb-24	Buy	3,410	
18-May-24	Buy	4,060	19.1
17-Jun-24	Buy	4,060	0.0
7-Jul-24	Buy	3,995	-1.6
27-Jul-24	Buy	4,935	23.5

Recommendation History



APPENDIX I

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Rating	Meaning
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* REITs refers to Real Estate Investment Trusts.

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