January 03, 2023

Kaynes Technology India Limited: [ICRA]BBB(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	25.00	[ICRA]BBB(Stable); assigned
Total	**25.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating takes into consideration ICRA's expectation that Kaynes Technology India Limited's (KTIL) will maintain a healthy financial profile reflected healthy earnings growth in the near to medium terms. The company's strong order book will enable it to achieve a healthy revenue growth. Moreover, the recently concluded Initial Public Offer (IPO) of KTIL in November 2022, will give the company crucial growth capital to expand its capacities apart from deleveraging its balance sheet and improving its liquidity profile. ICRA has further favourably factored 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 the Internet of Things (IoT).

The rating, however, is constrained by the company's high working capital intensity characterised by an elongated receivable cycle and high inventory requirements. While the company derives majority of its revenues from the relatively lower value-added printed circuit board (PCB) assembly business as compared with other businesses like Box-build and Original Design Manufacturing (ODM), ICRA notes that the company has been expanding its product portfolio in the margin accretive box-build and ODM segment in recent years. 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, the company has purchase price variance contracts in place with major customers which compensates the effect of foreign currency fluctuations.

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 it continues to grow.

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

Established presence of the company and extensive experience of its promoters and the management in the ESDM industry – KTIL enjoys established relationships with reputed customers across industries. It caters to a diverse customer base spread across multiple sectors, ranging from electronics and automotives, to Railways, healthcare and IoT. Further, the extensive experience of its promoters and the management in the domestic ESDM industry supports its growth prospects to an extent.

Strong outstanding order book position from reputed customers leads to healthy revenue visibility – The company had an outstanding order book of Rs. 1,572.6 crore as on August 31, 2022, providing healthy revenue visibility. The current outstanding order book includes large orders from reputed customers in the automotive, industrial and railways sectors. At present, KTIL is investing in expanding its existing manufacturing capacity (Mysore and Manesar) and setting up a new facility in Chamarajanagar (Karnataka) to serve its outstanding order book.

Recent successful completion of IPO resulting in deleveraging and availability of growth capital – The company successfully concluded its IPO recently, which resulted in fresh funding of Rs. 530 crore. Earlier, the company had also raised Rs. 130 crore of pre-IPO funding. The funds will be utilised towards debt repayment of Rs. 130 crore, capex of Rs. 250 crore while the remaining amount is to be utilised towards incremental working capital requirement and general corporate purposes. While the company is well positioned to scale up its capacities with the said proceeds in the medium term, reduction in debt will result in substantial improvement in the company's capital structure and coverage indicators. Moreover, KTIL's liquidity profile has improved with moderation in the bank limit utilisation with use of proceeds for working capital requirements.

Credit challenges

High working capital intensity – KTIL's business is highly working capital intensive characterised by high debtors and inventory holding requirements. The debtor days remained high as the company offers a credit period of 90-120 days to its customers and 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. However, the company's dependence on working capital borrowings is expected to moderate with utilisation of IPO proceed, which will be partly utilised towards the funding of incremental working capital required, going forward.

High concentration towards PCB assembly business – The company derives majority of its revenues from the relatively lower value-added printed circuit board (PCB) assembly business as compared with other businesses like Box-build and Original Design Manufacturing (ODM), ICRA notes that the company has been expanding its product portfolio in the margin accretive box-build and ODM segment in recent years.

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, which provide 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 customer which compensates the effect of foreign currency fluctuations.

Significant capex plans – KTIL is expected to incur a total capex of ~Rs. 250.0 crore for setting up a new facility and expanding its existing facilities. Of the total capex, the company is expected to incur Rs. 149.3 crore to set up a new manufacturing facility at Chamarajanagar. Further, Rs. 98.9 crore will be utilised to expand its existing facility at Mysore at Rs. 46.4 crore and another facility near Manesar at Rs. 52.5 crore. The funding for the capex will be from the IPO proceeds. Going forward, timely completion and commencement of operations of the ongoing capex and the ramp up of the facility in a timely fashion to achieve the desired the returns, will be critical for future growth and sustenance of a comfortable credit metrics.

Environmental and Social Risks

Environmental considerations: Environmental risks for industry players include use of and handling of hazardous waste or materials and 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 the facilities have 10 global accreditations. KTIL has the capability to manufacture RoHS compliant products and has an environmentally friendly, "lead free" manufacturing line for PCBAs at its Mysuru Units I and II as well as its 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. 266 crore, resulting in healthy cushion in working capital limits. The working capital utilisation has come down after infusion of IPO funds. The company has modest debt repayments, going forward. The planned capex is being funded through recently raised equity.

Rating sensitivities

Positive factors – ICRA could upgrade its ratings if the company demonstrates sustained improvement in its earnings and working capital intensity. Further, diversification in its customer profile and order book will also be considered positively.

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 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.

Key financial indicators (Audited)

KTIL Consolidated	FY2021 (A)	FY2022 (A)	Q1FY2023 (A)
Operating income	421.9	706.3	199.3
PAT	9.7	41.7	10.0
OPBDIT/OI	10.3%	13.5%	12.7%
PAT/OI	2.3%	5.9%	5.0%
Total outside liabilities/Tangible net worth (times)	2.2	2.3	2.8
Total debt/OPBDIT (times)	3.8	2.5	2.5
Interest coverage (times)	1.7	3.5	3.3

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

Status of non-cooperation with previous CRA:

CRISIL D (ISSUER NOT COOPERATING*) Rationale dated February 28, 2022
***Issuer did not cooperate; based on best-available information**

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Jan 03, 2023	Aug 09, 2021	Mar 18, 2021	Dec 03,2019
1	Fund-based Cash Credit	Long term	25.0	--	[ICRA]BBB (Stable)	-	-	-
2	Fund-based	Long term	-	-	-	[ICRA]D; ISSUER NOT COOPERATING, Withdrawn	[ICRA]D; ISSUER NOT COOPERATING	[ICRA]D; ISSUER NON COOPERATING
2	Fund-based Term Loan	Long term	-	-	-	[ICRA]D; ISSUER NOT COOPERATING, Withdrawn	[ICRA]D; ISSUER NOT COOPERATING	[ICRA]D; ISSUER NON COOPERATING
3	Interchangeable	Long term	-	-	-	[ICRA]D; ISSUER NOT COOPERATING, Withdrawn	[ICRA]D; ISSUER NOT COOPERATING	[ICRA]D; ISSUER NON COOPERATING
4	Fund-based	Short term	-	-	-	[ICRA]D; ISSUER NOT COOPERATING, Withdrawn	[ICRA]D; ISSUER NOT COOPERATING	[ICRA]D; ISSUER NON COOPERATING
5	Interchangeable	Short term	-	-	-	[ICRA]D; ISSUER NOT COOPERATING, Withdrawn	[ICRA]D; ISSUER NOT COOPERATING	[ICRA]D; ISSUER NON COOPERATING

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash 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	25.0	[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	KTIL 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

Source: KTIL annual report FY2022
Note: ICRA has taken a consolidated view of the parent (KTIL), its subsidiaries and associates while assigning the ratings.

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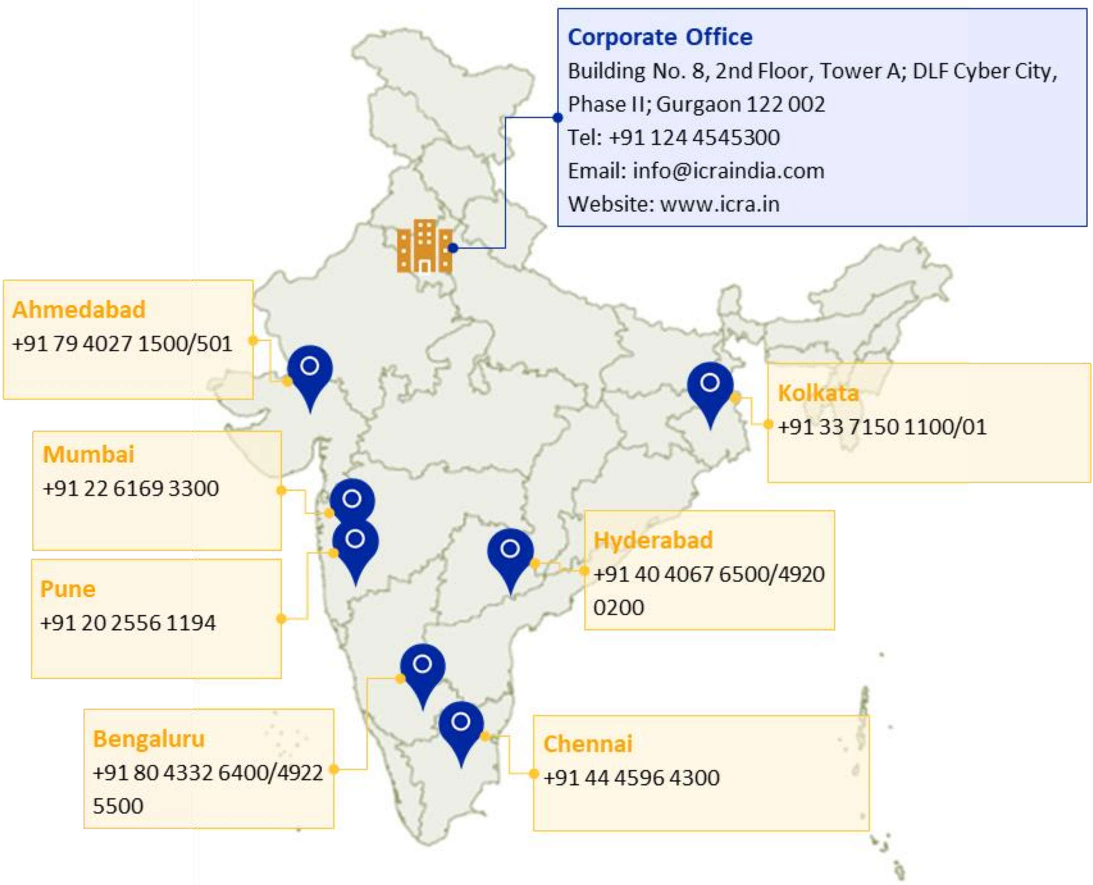

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