

Execution & cashflow concerns weigh...

About the stock: Kaynes Technology India (Kaynes) is an Indian integrated electronics manufacturing company offering end-to-end solutions, from design to life-cycle support, for various sectors including Automotive, Industrial, Aerospace, Medical, and IoT. Founded in 1988 and headquartered in Mysore, it provides Electronics System Design and Manufacturing (ESDM) services and has experience with 500+ customers both domestically and in international markets.

Q4FY26 performance: Kaynes reported dismal result with revenue of ₹1242 crore, up 26% YoY and 55% QoQ, significantly below the guided revenue of ~₹1700 crore. Management suggests west asia conflict has caused order deferrals and supply chain issues. Similarly, working capital days has increased sharply from 91 days in FY25 to 172 days in FY26. EBITDA margins stood at 15.6%, declining 146 bps YoY (up by 75 bps QoQ) owing to higher input cost & employee cost YoY. PAT reported at ₹91 crore, down 21% YoY, further impacted by higher finance cost and depreciation. Order book decent at ₹ 8,366 cr though execution to be watched out.

Investment Rationale

- Near-term execution challenges and working capital stress weigh:** Kaynes witnessed a weaker-than-expected FY26 performance as revenue growth moderated due to customer project deferments, geopolitical disruptions and sharp decline in volumes from a key EV customer. Additionally, smart metering business led to significant working capital stretch with receivables rising sharply owing to delays in installation, commissioning and payment realization leading to significant miss in management's earlier revenue and cash flow guidance. The company has been indicating corrective measures while output is yet to be ascertained.
- Strategic positioning across EMS, PCB and OSAT provides strong medium-term growth opportunity:** Despite current challenges, Kaynes' long-term outlook remains strong supported by a robust order book of ~₹8,000 crore+, across high-margin sectors such as industrials, railways, aerospace and automotive along with upcoming commercialization of OSAT and PCB facilities from FY27 onwards. This is expected to improve backward integration, enhance value addition and support margin expansion above mid-teen levels over the medium term.

Rating and Target Price

- Management has been setting aggressive stance while the execution has been lagging far behind which has been disappointing. The company is now guiding to grow 2x of industry rate vs absolute growth guidance earlier. Further, it has trimmed revenue guidance in bare PCB to ₹250-300 crore from earlier ~₹500 crore and in OSAT segment to ₹300-400 crore from ~₹1000 crore in first year of operation. Order book of ₹ 8000cr+ provides some cushion while we wait for execution on growth and esp. receivables front to start reflecting. Thus, recommend HOLD rating with a target price at ₹ 3,600, valuing the stock at 43x P/E on FY28E EPS.



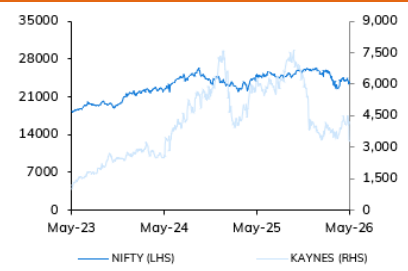
Particulars

Particular	Amount
Market Cap (₹ Crore)	21,231
FY26 Debt (₹ Crore)	913
FY26 Cash (₹ Crore)	799
EV (₹s Crore)	21,345
52 Week H/L (₹)	7705/3136
Equity Capital (₹ Crore)	67.0
Face Value	10

Shareholding pattern

	Jun-25	Sep-25	Dec-25	Mar-26
Promoter	53.5	53.5	53.5	53.5
FII	10.7	10.7	8.9	7.3
DII	22.4	23.7	16.7	15.1
Public	13.4	12.2	20.9	24.1

Price Chart



Key risks

- Any restraint in domestic government support measures.
- Better execution on cashflow and order book could surprise positively.

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Key Financial Summary

(₹ crore)	FY23	FY24	FY25	FY26	3 Year CAGR (FY23-26)	FY27E	FY28E	2 Year CAGR (FY26-28E)
Net Sales	1,126	1,805	2,722	3,626	47.7	5,082	7,083	39.8
EBITDA	168	254	411	574	50.6	778	1,137	40.7
EBITDA margin (%)	14.9	14.1	15.1	15.8		15.3	16.0	
Net Profit	95	183	293	354	55.0	402	549	24.6
EPS (₹)	16.4	28.7	45.8	54.3		61.5	83.5	
P/E(x)	193.8	110.6	69.2	58.3		51.5	37.9	
RoCE (%)	16.7	11.0	15.2	13.3		12.5	13.3	
RoE (%)	9.9	7.4	10.3	7.4		7.8	9.6	

Recent concerns:

- **Guidance miss on working capital days (WCD) & operating cash flow (OCF) improvement:** Kaynes management has been repeatedly guiding for sharp improvement in WCD at sub-90 days & positive OCF by FY26 end. The stance was maintained as recently as couple of weeks before the close of the March quarter. However, both these things didn't fell right. Working capital days has increased sharply from 91 days in FY25 to 172 days in FY26. Both these issues are largely associated with its smart metering business wherein working capital days cycle remains very high as compared to its core EMS business. However, the sanctity on guidance is the concerning factor.
- **Smart metering business being a major drag:** Smart metering business reported revenue of ₹971 crore (~25% of total revenue) with receivables outstanding at ₹1,365 crore (~89% of total outstanding receivables). As a result, this smart metering business remains a major drag leading to negative OCF. To improve the situation, Management shall focus on reducing the exposure to working capital intensive turnkey projects and shift towards product business which require lower working capital intensity. The improvement in these metrics needs to cautiously watched out.
- **Miss on revenue & limited clarity on future guidance:** Management started the year with revenue guidance of ~₹4500 crore for FY26. However, in Q3FY26, the guidance on revenue was reduced to ~₹4000-4100 crore but revenue came in at ₹3626 crore significantly lower than what management guided for. Also, during Q4 commentary, company trimmed down guidance on PCB and OSAT business to ₹250-300 crore on PCB front from earlier ~₹500 crore and ₹300-400 crore from OSAT against ~₹1000 crore in first year of operation. Also, management remained hazy over guiding for FY27 and didn't provide any absolute guidance instead shifted to "2x" of industry growth (16-18%). This frequent revision in guidance hampers confidence and credibility over management.

Concall highlights and outlook

- Management acknowledged FY26 revenue miss versus earlier guidance owing to delays in customer project execution, geopolitical disruptions and sharp decline in volumes from a key EV customer. Revenue deferment was largely timing-led with no material order cancellations.
- Company refrained from providing absolute FY27 revenue guidance and instead guided to grow at ~2x industry growth rate through deeper penetration across automotive, industrial, aerospace, railways and EV verticals.
- Order book remained healthy at ~₹8,366 crore+ with management reiterating strong demand visibility across core EMS, railways, industrial and aerospace segments.
- Segmentally, Industrial division reported revenue of ₹707 crore (up 31% YoY), Auto: ₹263 crore (up 19% YoY), IoT: ₹148 crore (up 30% YoY) while segments such as Railways contributed ₹74 crore (8% YoY), Medtech and Aerospace reported revenue of ~₹25 crore.
- Railways business including Kavach opportunity is progressing positively with approvals and trial orders underway. Management expects railway segment growth of ~20–25% in FY27 with margins above company average.
- **OSAT & PCB-** OSAT Unit-1 at Sanand is operational while Unit-2 is expected to commercialize by Q2FY27. Management guided FY27 revenue contribution of ~₹250–300 crore from OSAT business. PCB manufacturing ramp-up remains on track with management expecting FY27 revenue contribution of ~₹300–400 crore. Company indicated both PCB and OSAT capacities could be partly utilized internally for ODM/product-led offerings to improve value addition and margins.
- **Working capital:** Smart metering business emerged as the key drag on working capital and cash flows during FY26. Metering subsidiary revenue stood at ~₹971 crore while receivables increased to ~₹1,365 crore owing to delays in installation, commissioning and payment realization. Management clarified that core EMS business remained operationally strong with working capital days improving from ~83 days in FY24 to ~53 days in FY26 and standalone EMS business generating positive operating cash flow of ~₹250 crore.
- Going forward, company indicated it will avoid large turnkey AMISP contracts and instead focus on meter supply/EMS-led business model to reduce working capital intensity and improve cash conversion. Company expects meaningful normalization in working capital over next 3 quarters with management targeting ~70-80% reduction in negative operating cash flow through faster installations, collections and securitization initiatives.

Exhibit 1: Variance Analysis

	Q4FY26	Q4FY25	YoY	Q3FY26	QoQ (%)	Comments
Revenue	1,242.6	984.5	26%	804.0	55%	Although revenue growth decent, it is far below guided range of ~₹1700 cr. Management suggested revenues are impacted by factors like west asia conflict which led to supply chain issues, order deferrals as projects are closely linked to customer project readiness and approval cycles.
Other Income	41.86	20.47	105%	44.80	-7%	Interest earned on QIP funds, which is yet to be fully utilised
Total Income	1,284.5	1,005.0	28%	848.8	51%	
Gross profit	394.1	315.8	25%	277.6	42%	
Gross margin %	31.7	32.1	-36 bps	34.5	-280 bps	Gross margin marginally decline, likely owing to ongoing commodity inflation.
Operating Expenses	958.2	770.0	24%	598.1	60%	
Employee Expenses	90.8	46.6	95%	86.6	5%	
Total Expenses	1,048.9	816.6	28%	684.7	53%	Expenses well contained.
EBITDA	193.7	167.9	15%	119.3	62%	
EBIDTA %	15.6	17.1	-146 bps	14.8	75 bps	Strong margin vs peers owing to better product mix broadly maintained.
Depreciation	54.4	16.9	221%	20.4	167%	Amortisation of intangible assets done once in the year as per policy, so high depreciation in Q4. Going ahead, looking to change the policy to quarterly.
Finance cost	40.9	29.5	39%	24.9	64%	
PBT	140.3	141.9	-1%	118.9	18%	
Tax	49.0	25.7	90%	39.7	24%	
PAT	91.2	116.2	-21%	76.6	19%	Lower topline growth vs run-rate, high depreciation and moderated margin impacted profitability.

Financial Summary

Exhibit 2: Profit and loss statement				
	₹ crore			
(Year-end March)	FY25	FY26	FY27E	FY28E
Revenue	2,722	3,626	5,082	7,083
% Growth	50.8	33.2	40.1	39.4
Other income	107	157	85	50
Total Revenue	2,829	3,783	5,167	7,133
Employee Expenses	178	314	447	588
Other expenses	2,133	2,739	3,857	5,359
Total Operating Expenditure	2,311	3,052	4,304	5,946
Operating Profit (EBITDA)	411	574	778	1,137
% Growth	61.6	39.8	35.5	46.1
Interest	101	117	157	206
PBDT	309	457	621	930
Depreciation	45	107	157	235
PBT before Exceptional Items	265	350	464	696
Total Tax	78	140	137	186
PAT	293	364	412	559
% Growth	60.2	20.6	13.5	36.7
EPS	45.8	54.3	61.5	83.5

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement				
	₹ crore			
(Year-end March)	FY25	FY26	FY27E	FY28E
Profit after Tax	293	354	402	549
Depreciation	45	107	157	235
Interest	101	117	157	206
Cash Flow before WC changes	439	578	716	990
(Inc)/dec in Current Assets	-950	-1,335	-669	-834
Inc/(dec) in CL and Provisions	440	325	502	493
Net CF from Operating activities	-71	-433	548	649
(Purchase)/Sale of Fixed Assets	-858	-974	-1,572	-1,576
Others	-3	-127	-42	-4
Net CF from Investing activities	-861	-1,101	-1,614	-1,580
Dividend	-	-	-	-
Others	542	1,458	655	981
Net CF from Financing Activities	542	1,458	655	981
Net Cash flow	-391	-76	-411	50
Opening Cash/Cash Equivalent	1,526	1,056	799	181
Closing Cash/ Cash Equivalent	1,056	799	181	74

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet				
	₹ crore			
(Year-end March)	FY25	FY26	FY27E	FY28E
Equity Capital	64	67	67	67
Reserve and Surplus	2,776	4,681	5,093	5,652
Total Shareholders funds	2,840	4,748	5,160	5,719
Minority Interest	4	14	23	31
Total Debt	903	913	1,706	2,874
Other liabilities	10	17	24	32
Total Liabilities	3,757	5,692	6,913	8,656
Gross Block	626	1,339	2,908	4,696
Acc: Depreciation	122	229	386	621
Net Block	504	1,110	2,522	4,076
Capital WIP	300	372	319	30
Total Fixed Assets	805	1,482	2,841	4,106
Non Curr. Assets (Incl. Intangible)	1,153	1,565	1,697	1,847
Inventory	814	1,103	1,456	1,894
Debtors	575	1,528	1,810	2,135
Other Current Assets	238	418	625	783
Cash	1,056	799	181	74
Total Current Assets	2,683	3,847	4,072	4,886
Current Liabilities	884	1,202	1,696	2,182
Net Current Assets (Ex Cash)	2,856	3,444	2,557	2,778
Total Assets	3,757	5,692	6,913	8,656

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
(Year-end March)	FY25	FY26	FY27E	FY28E
Per Share Data				
EPS	45.8	54.3	61.5	83.5
Cash per Share	164.8	119.3	27.0	11.1
BV	443.2	709.2	770.7	854.2
Dividend per share	-	-	-	-
Operating Ratios (%)				
EBITDA Margin	15.1	15.8	15.3	16.0
PAT Margin	10.8	10.0	8.1	7.9
Return Ratios (%)				
RoE	10.3	7.4	7.8	9.6
RoCE	15.2	13.3	12.5	13.3
Valuation Ratios (x)				
EV / EBITDA	49.1	37.2	29.2	21.1
P/E	69.2	58.3	51.5	37.9
Market Cap / Sales	7.2	5.6	4.1	3.0
Price to Book Value	7.2	4.5	4.1	3.7
Workin Capital Management Ratios				
Inventory Days	105.1	106.4	102.8	96.9
Debtors Days	74.1	147.4	127.9	109.2
Creditors Days	88.1	82.1	91.3	87.9
Asset turnover	4.5	2.8	1.8	1.5
Solvency Ratios (x)				
Debt / Equity	0.3	0.2	0.3	0.5
Current Ratio	1.6	2.2	2.0	1.9
Quick Ratio	0.7	1.3	1.1	1.0

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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