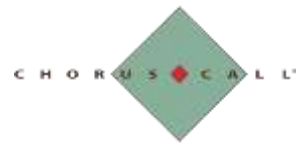




“Kaynes Technology India Limited
Business Update Conference Call”

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MODERATOR: **MR. NIKHIL KANDOI – AXIS CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Kaynes Technology Business Update Conference Call hosted by Axis Capital. As a reminder, all participant lines should be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Nikhil Kandoi. Thank you and over to you, Mr. Kandoi.

Nikhil Kandoi: Thank you, Renju. Good morning, everyone. On behalf of Axis Capital, I would like to welcome you all to the Business Update con call of Kaynes Technology India Limited. We have with us the management today, being represented by Ms. Savitha Ramesh, Chairperson, Mr. Ramesh Kannan, Executive Vice Chairman, Mr. Muthukumar Narayanaswamy, Managing Director, Mr. Jairam Sampath, Whole-Time Director and CFO.

Now, I'll hand over the floor to the management for their opening remarks, post which we'll open the floor for Q&A. Thank you and over to you, sir.

Ramesh Kunhikannan: Good morning, everyone. On behalf of Kaynes Technology team, I'd like to address certain observations that have been raised around our disclosure and accounting presentations. I wish to address all our stakeholders, shareholders directly and unambiguously.

We acknowledge that a few disclosures required clearer clarification and articulation. These were errors in reporting of disclosure in notes to accounts and not lapse of intent, governance or conduct. The management acted immediately.

We issued a detailed clarification addressing every point raised. And we have already begun strengthening our internal compliances, audit review processes and disclosure checks to ensure such instances do not reoccur. Let me reiterate this firmly that there are no governance concerns and no underlying deterioration in business.

Kaynes has always operated within a framework of strong ethics, transparency and accountability. And this remains non-negotiable. At the same time, the company continues to be deeply focused on its long-term growth roadmap.

Our OSAT initiatives is progressing well and positions India meaningfully in the global semiconductor value chain. Our high-end PCB program strengthens domestic manufacturing in a largely imported independent category. Working capital normalization measures are already underway and expected to show visible improvement going forward.

Kaynes remains a structurally strong story with significant headroom for value creation. Our growth drivers, strategic directions and execution momentum remains solidly intact. From here onwards, my team will present the detailed clarification and all observations.

Jairam Sampath: Thank you. A very good morning to all participants. Thank you for joining in so early on a Monday morning. So there were some observations made for which we have already published

some of the answers on top questions. And then I would like to just quickly focus on those which we thought we require reiteration.

So one of the first items was that Iskraemeco's high contribution revenue profit is noteworthy. So Kaynes reported FY25 revenues of 27.2 billion, 51% year-on-year increase. And he has put some exhibit.

This gentleman who has done the analysis and slightly below the guidance, I did by consideration of Iskraemeco smart metering business for six months and so on. I'm sure you have this report already available with you. So one of the first implication, now these are not facts, but these are implications made by the analysts.

It says my 28% net margin, second half FY '25, which looks high for smart metering business. Now the H2 FY '25 net margin is only 9% actually, the revenues of INR5,327 million and PAT of INR489 million. So the 28% margin cited appears incorrect.

The second question, the second observation, second implication, because he's only said this implies INR483 million loss in first half reconciled with the full year profit of INR6 million. This is context of a profitable FY '24, no evident cost drivers in first half FY '25 for such a swing. We should understand that the H1 FY '25 loss is driven by a combination of factors.

First is significantly lower revenue, which is about INR85 crores or INR851 million, while fixed costs have been remaining largely unchanged. Second thing is provision arising from Kaynes due diligence, including inventory write-offs. And third thing is broader corporate cleanup and other adjustments.

So if these questions were probably asked to us in advance, and then the implications that the analyst has actually written were stated, then we could have made this correction. But unfortunately, I think these implications were stated without full understanding of the facts. A payback period of less than six months for Iskraemeco acquisition.

Yes, the erstwhile parent was a global enterprise that chose to exit India as a part of its strategic shift to other regions. Since they were unable to set up full-fledged operations in India incurring significant losses, they were unable to commence metering delivery in large scale. Kaynes had always been a supplier partner since Iskraemeco's India entity, and hence Kaynes was able to strike a bilateral deal and negotiated the same at an attractive price.

Goodwill recognition and reserve adjustment acquisition ambiguous. Now, the word ambiguous is written by the report. There is nothing ambiguous about it, though. Kaynes, the report goes on to say Kaynes acquired Iskraemeco in Sensonic in FY 2025 on a consideration of INR883 million, recognizing a goodwill of INR1,140 million or INR114 crores. And he's put some exhibit there. We observe that the consolidated balance sheet does not show a corresponding increase in goodwill.

Instead, it reflects a net negative adjustment of some amount in net capital reserve, etc. So you've seen these comments. So she notes, so the response to this is in FY 2025, the company made

two acquisitions, namely Iskraemeco and Sensonic, which resulted in capital reserve of goodwill and goodwill respectively on these transactions after assigning values to the net identifiable, identified assets as part of the purchase price allocation exercise carried out as required under the Ind AS 103.

As far as the acquisition of Iskraemeco is concerned, the identified intangible asset customer contract was an amount of INR115 crores or INR1,150 million, which is recognized under the block technical know-how as a significant factor for design, implementation know-how, hosting, and communication package for smart meter. Further, the table below provides a detailed goodwill and intangible assets recognition. We'll be publishing this particular thing post this call.

But broadly, it says net assets, I'll take column by column and then the total so that you will get to know the actual calculation. So, let's say for Iskraemeco, the net assets were minus INR198.65 million. Consideration was plus INR429.86 million. So, the total amount was plus INR628.51 million. Intangible assets recognized were INR1,150 million. So net goodwill or capital reserve in consolidation was minus INR521.49 million. The same for Sensonic was net assets were minus INR58.22 million. Consideration was INR452.95 million plus. So total amount of INR511.18 million, which flows directly to net goodwill or capital reserve in consolidation. So, when we total these two lines, the net amount for net assets is minus 256.87 million. Consideration was INR882.81 million. The total amount stands at INR1,139.69 million. Intangible assets recognized were INR1,150. We have already described earlier what these are meant for. So the net goodwill stroke capital reserve in consolidation was about minus INR 10.31 million.

In the acquisition of Iskraemeco, the difference between consideration paid and the net assets acquired was credited to capital reserve. And this was due to the fact that we recognized intangible assets, that is, customer contracts, as part of the acquisition as permitted by the paragraph 13 of the Ind AS 103, business combinations.

In the acquisition of Sensonic, there was no specific intangible asset acquired. And hence, the difference between the consideration paid and the net assets acquired was accounted as goodwill. The paragraph 17 of Ind AS 1 state that the entities shall present information including accounting policies in a manner that presents relevant, reliable, comparative information.

It was felt that there is only one applicable accounting standard for acquisition, and it would not have been relevant to present capital reserve as part of one acquisition and goodwill as part of another. Due to this, these have been netted off to present the financial statement in a relevant and reliable manner.

The second observation that has come out in the report is no corresponding value adjustment disclosed on acquisition and is cited from Exhibit number 5 or something. To that, our assertion from the company side is the comparison basically is incorrect. The payment of acquisition of subsidiaries is disclosed on a separate line item in the stand-alone financial statements only.

The consolidated financial statement, all assets and liabilities acquired are included in their respective categories during the consolidation process and reflected within the corresponding

movement in the net cash flows. And then there are some mentions of reports and significant additions in tangible assets for technical know-how in FY '25.

This is just an observation which says Kaynes capitalized INR1.8 billion, that is 6.5% of revenue as additions under technical know-how and including designs and prototypes of FY 2025. He cited some exhibits, INR141 million was R&D expense, etcetera. Balance in our view is likely to be prototyping costs. So, we can't comment on his view because this is not based on facts, but we can clarify here from our side, company's side.

Intangible assets recognized in FY '25 comprise the following. One, INR1,150 million of customer contracts arising from the Iskraemeco acquisition classified under technical know-how as the key component related to design implementation know-how, hosting and communication package for smart metering. INR260 million for development and costs related to the acquisition. And then remaining capitalization attributable to in-house R&D for the development of proprietary products. It would not be appropriate to compare intangible assets arising from a business combination with recurring R&D capitalization.

Then the report published by Kotak Securities talk about disclosures for related party transactions balance inconsistent. And as they have said, we have observed inconsistencies in disclosure made by stand-alone entities and various subsidiaries, etcetera. So, this related -- our response is as follows.

The related party transactions were appropriately eliminated and consolidated financial statements in accordance with Ind AS. The oversight pertains solely to the notes to the stand-alone financial statements in one of the companies, but the disclosure was inadvertently omitted. The underlying financial statement and schedules themselves were correct. So, there is no inconsistency actually speaking. It was just a small error of typographical nature in one of the subsidiary financials.

The disclosure has since been rectified and noted for future compliance. Transaction was recorded in both the entities. The observation on aged receivables pertain to dues between parent and subsidiary firm. Given that these are intercompany receivables and payables, the standard credit periods are strictly adhered to as these balances do not have any impact on the consolidated balance sheet as these are eliminated during the consolidation process.

Then there is a comment on rising CCC, dense OCF, cash conversion cycle, dense OCF post interest, high capex for OSAT, PCB, raise on FCF. Now he's talked about Kaynes operating costs, cash flow post interest stood negative at 0.9 billion in FY '25, primarily due to working capital requirements and he's talked about some Exhibit, etcetera. The consolidated cash conversion cycle increased by 22 days to 157 days, etcetera.

So our response is as follows. Firstly, the working capital intensity is typical to the EMS industry and multiple initiatives are underway to improve it, including collaborating with onboarding large customers into supply chain finance program, leveraging factoring and bill discounting and driving inventory optimization. The second aspect is capex requirements are long-term in nature

and are only adequately funded through equity with capital subsidies expected to start flowing for capex is already incurred.

And third one is the, our response is the net working capital cycle inventory days plus receivable minus payable days calculated as per ICAI guideline. Note that guidance note is 87 days in FY '25, up from 83 days in FY '24, increase of four days year-on-year. Traditionally, the inventory days calculated report appear to be based on cost of sales, whereas the report stated definition is based on revenue.

Then there's a comment on elevated capex plan spending, grant timelines may influence funding and capital allocation strategy. And then, of course, he's written a few things. Some of them could be facts based on published data.

Our response is as follows. First balance requirement for OSAT INR10.3 billion will be funded through QIP and spent amount of about 3.8 billion and balance internal accruals capex spread over five years and some transitory debt. Second thing is that with regard to PCB, the current plan includes only capex of 14 billion for which the balance requirement is 3.2 billion and up central government subsidy of about 3 billion.

The same will be funded through QIP and spend amount of 1.6 billion internal accruals and debt. The feasibility of planning expansion to PCB business will be evaluated after discussion with the state governments on the subsidies and after due process internally. Further, while calculating interest cost on the average borrowings, we need to consider bill discounting. The interest cost will work out approximately 10% including all bills discounted.

Then there is a comment on receivables, discounting and provisioning could impact profitability margins. And of course, he has described something that he has read from the statements. Our response is that discounting cost in the long term, smart metering receivables is already embedded in the contract pricing and bill discounting is undertaken judiciously based on the cost benefit assessment. With respect to receivables provisioning, all provisions are made strictly in accordance with the company's ECL, or expected credit loss policy.

Then he's talking about variations in cash flow statement versus asset additions. And he says Kaynes FY '25 cash flow statement report purchase of fixed assets of 9.5 billion. It does not fully reconcile the 7.7 additions of PPE, CWIP, intangibles, intangible assets under development, etcetera. After adjusting the capital advances payable to the capital goods and he's spent some two pages on this Exhibit 35, 36, etcetera.

Our response is the purchase of fixed assets in the cash flow statements amounting to 9.5 billion includes 7.8 billion of PPE, CWIP, Capital WIP that is, intangibles after adjusting for capital advances and payable of capital goods. INR1.7 billion of right of use assets, ROU assets, net of subsidy. The purchase of fixed assets in the cash flow statement disclosing cash flow from investing activities. I hope this clarifies this particular question on cash flow.

Contingent liability is a net foreign exposure price. Contingent liability is increased to 5.2 billion, 18% of net worth and from FY '24 of 2.7 billion, 11% of net worth, is fairly due to

increase in bank corporate is what the report from Kotak Securities said. The key increases relate to -- from our point of view and based on our facts, the key increases relate to 1.9 billion of performance bank guarantees issued to Iskraemeco projects.

Then 1.3 billion of corporate guarantees issued to subsidiary companies, Kaynes Electronics Manufacturing Private Limited, INR1.2 billion and Iskraemeco 0.1 billion. These guarantees are necessitated by funding requirements of the subsidiaries for ongoing businesses. So, these are our major clarifications to some of those exhibits and a large report that was made.

So, some total of this is that factually speaking, there is only one small error of not mentioning in the notes to accounts of a disclosure of a related party transaction, which you've taken note of and we'll make sure that in future, such misses don't happen. Otherwise, there are absolutely no inconsistencies, ambiguities, whether intended or actual. And most of the conclusions and implications made actually are not valid.

Ramesh Kunhikannan: You can ask the questions.

Jairam Sampath: If you have any clarifications further, you can ask. We'll be publishing this in the stock exchange also, for those of you who may not have noted down fully. After some time, before the end of the day, we will publish this entire thing in the stock exchange.

Moderator: Should I go ahead and ask for questions, speakers?

Ramesh Kunhikannan: Yes.

Moderator: All right. Thank you. We will now begin the question-and-answer session. The first question comes to the line of Siddhartha Bera with Nomura. Please go ahead.

Siddhartha Bera: Yes. Hi, sir. Thanks for the opportunity and thanks for clarifying many of these queries. First question is basically, initially Ramesh sir highlighted that we are in the process of taking more steps to address and see that some of these issues don't get reported in or don't recur in the future. So if you can just highlight a few of these things, what are we planning to do to see that some of these things don't recur in the future?

Second thing to Jairam sir, will be on the receivable side. If you can sort of break up the entire receivable of close to 11 billion plus 3 billion of older receivable of 14 billion customer wise and how does the sort of smart meter order book change in terms of customers going ahead? If you can sort of talk about some of these things.

Management: Yes, yes. So firstly, we cannot actually give very detailed granular information about customer wise receivables and so on, because this has got business confidentiality linked to it. But however, broadly I can tell you that the Iskraemeco's business, which is smart meter business, has got two types of receivables.

One which is sitting in current receivables, which are of the nature of device supply and then received from device supply. The other is the nature of business caught through the contract that

we acquired from one of the customers of Iskraemeco. And some portion of those receivables sit under other non-current assets.

And we have taken some simple steps in the earnings call also we mentioned to make sure that this is not a recurring portion of receivables, but this is a part of the business that we have actually acquired. So going forward, we will make sure that before this year is over, we get rid of these receivables with appropriate financing so that it's not in our books, because these pertain to almost like the annuity type of payments, which are like home loan payments and similar to that. There is no performance link to these particular receivables, which is sitting under other non-current assets.

Now, as of September, I think the total receivables is about – yes, of the total receivables, about INR687 crores pertains to business of smart meters, which includes also the other non-current assets portion.

So, we are quite confident that INR240 crores, approximately INR240 crores of such receivables will anyway get discounted and it'll reduce the amount. There will be further billing based on our business plan. And we will endeavor to make sure that these do not cross collection periods of 90 days, etc.

So, there have been improvements. We are still working on further improvements to be done. As far as the notes to accounts missing is concerned, we have taken note of this particular activity. The reason, the cause why it happened is that Iskraemeco was earlier a customer and a supplier and see in the one portion of our last year, FY '25.

And in the second portion of the last year, it was a related party. So while this was captured in the related party transaction notes in Iskraemeco, in one of our subsidiaries, since this flip happened, somehow this probably got missed out in mentioning.

However, the accounting has been done properly. In future, we will do, for a related party transaction, we are going to use some software to make sure that the contra entries of notes to accounts are fully done. And so that we don't have this situation of any repeats. Because we have, we do have a large number of subsidiaries. And so, we'll make sure that this does not re-occur. Next question.

Siddhartha Bera:

And sir, in terms of the order book, a smart meter, how big will be the existing customer now within that. And also, in Iskraemeco FY '25 statements, there was a INR45 crores sort of overdue or more than 1 year pending receivable. If you have some more color on why it is pending and by when do you expect to recover or is there any risk of provisions in that?

Jairam Sampath:

Yes, so this INR45 crores and the reconciliation will get closed. This is not really material to the business, actually. It's more like a consolidation related activity, which probably will close it before the year end.

As far as the specific order number for this, we don't normally publish order book by customer for the sake of confidentiality. We need their consent before we can actually give this. But suffice

it to say that the percentage of total business of smart meter as a percentage of total business is trending down for the simple reason that other businesses also showing some strong growth rates in the other verticals.

So going forward, the reliance on this particular thing will certainly come down. And then, of course, it's getting replaced by equally good and worthy businesses. And so we hope that this trend continues over the next decade or so.

Ramesh Kunhikannan: We are also planning to exit from day one. When we took over this company, we wanted only to become a device manufacturer. So, we will no longer be an AMISP company. We will be only device company to various AMISPs. And our software, we will also sell it to them as a service.

Jairam Sampath: Yes, it's more like a product solution manufacturing rather than full project implementation. And we already are well on our way. And there are many orders, significant orders that we have actually received for devices too, with many customers other than Iskraemeco also.

Moderator: Thank you. Mr. Bera, please rejoin the queue for more questions. Next question comes in the line of Sameet Sinha with Macquarie. Please go ahead.

Sameet Sinha: Yes, thank you very much. So, my first question is about the organic growth rate. Can you provide some clarifications on what's the proposed, what was said in the report about the organic growth rate in the first half?

And then can you also kind of look forward and talk about how you plan on growing the business? Obviously, the metering business is probably a fixed revenue contribution every year. I think that's what Jairam you mentioned. How about the other businesses? What are the growth catalysts moving forward? And then I will have a follow-up?

Jairam Sampath: Thank you, Sameet ji. So, you're right. The metering business is more like a run-rate business. And we know that this is broadly driven by the RDSS program of the government, wherein about 250 million homes will have smart meters, etc. So, it's got a limited cycle of 10 to 12 years' timeframe. And so, we are dealing with it in the same manner.

As far as the other verticals are concerned, there is strong growth in automotive, there is strong growth in industrial other than smart meters, there is strong growth in electric vehicles. Also, now the resurgence of strong sectors like railways, electronics, as well as aerospace, outer space and defense, and also in IT field. So, we see a resurgence of growth in most of those areas to more than compensate for any reduction in the composition of business from the smart meter perspective.

Now, just a small comment compared to last year to this year. Actually, if you were to, we have done an internal match. Without disclosing what I am not supposed to disclose, but then the growth rate in other parts of business compared to FY '25 to FY '26 projected plan, the growth rate of other businesses other than Iskraemeco is fairly strong.

It's almost a little tad higher than the company's total growth rate. So from that perspective, I think we should take -- we should be happy about the conclusion that other businesses are also showing some strong performance.

Sameet Sinha: Got it. Thank you. The second question, as it relates to the various plans that you have in place, bill discounting, factoring, all of these, all of these have associated costs with them. Can you give us an idea about how do you counter this cost so that your margins don't suffer?

Jairam Sampath: Yes. So, the supply chain finance, mostly especially, let me take the first one receivable. They are funded by foreign banks with decidedly lower rate of interest than what we actually get from our banks here. So, to that extent, keeping it in our books rather than this thing, maybe there's an improvement.

The only thing is the cost line item goes from one below EBITDA to above EBITDA. So earlier, if we were to borrow in India and then pay for it, then it will be shown as an interest. Whereas if I discount it, it goes into the cost. But at the net profit level, I don't see any adverse impact of these steps that we are taking, including the ones which we are trying to do, factoring and these things. We have done the math and it's not significantly altering the financials.

Sameet Sinha: Got it. Thank you very much.

Jairam Sampath: Thank you, Sameet ji.

Moderator: Thank you. Next question comes from the line of Harinder Singh with Blackstone. Please go ahead.

Harinder Singh: Thanks for the clarification. So, I think I got answer to all the questions. Only one question is, since now you are open to sell the 20% of the promoter stake, so any plans to reduce the stake for going forward?

Jairam Sampath: At this point in time, we have not been informed by the promoters of any further dilution of the stakes or anything. Promoter stakes today, of course, we have complied with the requirements of RBI, etcetera, when SEBI, etcetera. So, promoter stakes today stand at around 52%, 53%. They continue to remain this over the horizon that we can see and there is also no requirement to do that dilution by even any fundraise of that nature, at least in the near term.

Harinder Singh: Thanks for the clarification.

Moderator: Thank you. Next question comes from the line of Keshav Lahoti with HDFC Securities. Please go ahead.

Keshav Lahoti: Hello. I thank you for the opportunity. I just wanted a bit of thought. There was a small omission as you highlighted. Any thoughts or possibly as the company is growing big, maybe possibly get some bigger auditors once the current auditor tenure ends?

Jairam Sampath: Yes. So obviously, whatever, see, including additions to the team, strengthening all our resources, etcetera, these are all things which are constantly being discussed. And we have taken

note of, it is not because of this particular report that we have to do, but as a part of growing up, we need to strengthen the partners in every age, each and every area.

This is a matter which is to be considered by our board and then appropriate decisions will be taken. We'll make sure that on this front, we don't lack, but at the same time, the entire report is based on one small error. So we just want to be mindful of the fact that the confirmation for this is to make sure that we get a software to do the contra entries of notes to accounts for the RPTs, which you have taken into account.

And whatever else measures that are required, including taking help for analytics and some of these international firms, etcetera, we will do. We are also doing it in some small way and then we will definitely increase the, let's say, engagement on that front.

Keshav Lahoti: Understood. Got it. Last question from my side. If we see your R&D expense, most of that it is capitalized. So what is that and how you -- which expense you charge in P&L and which you capitalize? And lastly, if we see your bad debt provision, that is 3.5% of sales in H1, why the bad debt has increased and should we expect any increase in bad debts in upcoming times?

Jairam Sampath: Could you repeat the first part of the question? I just missed it due to error...

Keshav Lahoti: If we see your R&D expense, so majority of it is capitalized. So how you decide what should be capitalized and what should be charged off and what it was got into?

Jairam Sampath: I will. Yes. So, Mr. Lahoti there were two questions. One question was regarding the research and development-related policies and the second part of the question was on...

Keshav Lahoti: Bad debts that was 3.5% of sales in H1 was very high?

Jairam Sampath: Okay. I will address the second part of the question first. A bad debt provision does not mean it's a bad debt written off. It's a provision for write off as per the accounting policies and the ECL that we discover. And then obviously, it's also advised by the auditors. Now, fundamentally, our efforts to collect our money continues, even after the provision is made for a particular bill.

And whenever we collect that particular relevant invoice, then we can write back that into our P&L. So, provision is not equal to write off. And in our businesses, because it's a custom-built business, the write offs, etcetera are generally very small in nature because we undertake projects and production only on the basis of what the customer wants.

As far as research and development is concerned, I just want to point out as an answer to this is that we have developed something called Kavach program, which others have probably, there are other players who had a lot of trouble in developing, but we have developed using German technology and all that.

So, in our case, what happens is, whenever we do research, that means there is no specific product that is being developed, but the engineers are just experimenting with new concepts and POCs, etcetera. Those are all generally expensed off and they are not capitalized.

Only when we identify a particular product with a revenue stream possibility, we take it as development and that is capitalized. And until the time when we start the revenue cycle, the moment revenue cycle comes, then amortization will start. So, it's a very practical way of not recognizing things which are experimental in nature and recognizing things which are actually developmental in nature.

- Keshav Lahoti:** Got it. Thank you, sir. Quite helpful.
- Moderator:** Thank you. Next question comes from the line of Vijay Sarthy T S with Subhkam ventures. Please go ahead.
- Vijay Sarthy T S:** Good morning, sir. Thanks for the opportunity and thanks for this clarification. Just one question, sir. Could you give us the breakup of consolidated PAT among subsidiaries for the second quarter and first half, sir?
- Jairam Sampath:** Breakup of consolidated PAT among subsidiaries?
- Vijay Sarthy T S:** Among subsidiaries, yes?
- Jairam Sampath:** Yes, it is there in the financials, it's published in the financials standalone for subsidiaries is already and consolidation is also published. If you want, we can reiterate that today. We'll be anyway publishing Q&A there. So, we will put that there. Not a problem. Take a bit of time for the holding subsidiaries.
- Vijay Sarthy T S:** Yes, sure. Thanks a lot. Thanks. That's it. Thank you.
- Moderator:** Thank you. Next question comes from the line of Sudheer Guntupalli with Kotak Mahindra AMC. Please go ahead.
- Sudheer Guntupalli:** Yes. Hi, team. Firstly, I missed the question by one of the previous participants on the promoter stake sale. So, Jairam, what exactly is it about and the line was not very clear?
- Jairam Sampath:** No, he asked whether promoter stake will get diluted in the future. There are two ways in which promoter stake is diluted. One, if they sell directly as a block to a third party. Two, if we raise funds into the company, then also promoter stake will get diluted. I said in both cases, there is no plan in the near term that we have contemplated.
- Sudheer Guntupalli:** Fair enough. And secondly, in the research report that we are talking about, some of the data points which were very central to building a chain of seemingly speculative interpretations, like the 28% net margin Iskraemeco in H2 FY '25, the way capitalization amount is calculated by the analyst, including that assets from acquisition, tangible assets from acquisition, borrowing cost of 17% odd that was mentioned, etcetera., all seem to be factually incorrect. So, did you guys make an attempt to reach out to the concerned analysts and maybe getting an erratum note published?
- Jairam Sampath:** Yes. So, though the one particular list of things indirectly sent to us by the concerned analyst through some known channels to us, which we answered. Of course, there was a small delay of

5 days, 10 days before we could answer because people were traveling and we needed to verify all the facts, etcetera, but then this was shared well before they published the report. And so, specifically, nobody really asked questions on any of these kinds of things.

So, as a part of Q&A, we have answered these actually. Perhaps the analyst felt that he was not satisfied, so he anyway went ahead and published it. But anyway, we have clarified it and today we'll reiterate. See, our job is to make sure that we are more transparent as a company and then we explain exactly what we meant.

And in the entire episode, if you really see, there's only one item which has caused this entire flood of speculation. So, we will make sure that next time even that small opportunity is not given. So, I don't want to, I don't wish to comment on why or there are many wrong assertions he has made.

So, I would rather focus on informing our valued investors about what exactly the facts are and then also do our businesses. So, that's the stand we have taken and we'll be publishing this Q&A so that this can be in record too.

Sudheer Guntupalli:

Fair enough. And my second question is, from a pure accounting standpoint, if I look at it, I think a booking, when an acquisition is done during purchase price allocation, booking something as intangible is a much better way and much more conservative accounting approach than a booking goodwill. Because obviously, intangible has a predetermined amortization schedule while goodwill is only tested for impairment on a periodic basis.

Now, from that standpoint, I think you have taken a more conservative approach. And also, one of the points that the previous participant mentioned that there was a receivable which is aged for more than a year. Again, if I understand it right, before Iskraemeco was acquired, this is actually a payable from our end. Is that understanding, correct? It was a payable from Kaynes' end to Iskraemeco before it was acquired. And this only reflects in terms of better payable management.

So, my question to your team is, if you have done a good job in being conservative on accounting in some aspects and in better payable management, so why is your investor relations team not so proactive in terms of clearing out these misinterpretations or misunderstandings? Ideally, they should have been much more proactive in terms of going to the market and clearing these misperceptions by the market participants. So, why is your Investor Relations team not so...

Jairam Sampath:

The point is well taken. And internally also, we were given very little time when we put out our first -- so, we have just covered some skeletal information on those six points which were conclusions in the report.

So, in future, we will probably take a day and then make sure that the detailed response is given, including those tables, etcetera, so that we can set the speculation at rest quickly. Your point is well taken. We are also internally counseling our people internally to make sure that they take these points more in a detailed fashion, seriously and more factually.

And then, where there is a rebuttal required, we should rebut. Where there is clarification required, we should clarify. And where there is an acceptance required and correction, we should do that. Point well taken, sir. We will do that.

Sudheer Guntupalli: Fair enough, Jairam. Thanks, and all the best.

Moderator: Thank you. Next question comes on the line of Indrajit Agarwal with CLSA. Please go ahead.

Indrajit Agarwal: Hi, sir. Thank you for this call. It clarifies a lot of things. Couple of questions. One is more a factual question. In 1H FY '26, how much R&D we have spent and how much of that is expense and how much is capitalized?

Jairam Sampath: Which period you are pertaining to, sir?

Indrajit Agarwal: 1H FY '26. So, for the half year...

Jairam Sampath: First half FY '26, sir. We will have to pull out those statements. And we were only prepared for answers to the FY '25 numbers. So, we will pull that out and give it to you, sir. It is not very majorly different from our trend, actually. And there are a lot of ongoing ODM projects, etcetera, wherein, like I said, once the research phase is over and then we get into a targeted development of the product, the solution, then we start capitalizing those. And we will probably come to -- we will publish this information, sir. Just give us some time.

Ramesh Kunhikannan: ODM is a part of our main core business, EMS. So, this will be a continuous activity. We have to give solutions, upgrades to people. That becomes a major business for the next four to five years. So, in our EMS, our type of industry in aerospace, defense, railways...

Jairam Sampath: Industry, so on.

Ramesh Kunhikannan: This will continue, and then we need to do that. If you see, this company has come out in an 11-month period and full-fledged Kavach. And we have got approval as well as we have got orders from the railways.

Jairam Sampath: So, we will publish this number separately. It is part of the chart of accounts that we have published, but we will point it out and give it to you.

Indrajit Agarwal: Sure, this is helpful. Second, on the overall internal control issue, again in March, we had some scrutiny from SEBI on some disclosure of SDD, etcetera. So, how are we? Because we are now a large company with a sizable market cap, sizable top line, much more ambitious growth going ahead.

So, do you think there is something that structurally needs to change, one, in the way you manage things, and second, in the way you communicate things, as the previous participant mentioned? So, is it more of a structural reform that you need, or what we are doing currently, we will continue to work with?

Ramesh Kunhikannan: I fully understand what you are saying. Structurally, we are continuously working and improving, because we started as a small company, and from there we grew up, and then continuously we are growing. Our pace of growth is very high.

EMS is a deeply involved type of industry, but world over it is, all are in billions of dollars. So, we also need to scale up. Having said that, structurally, we will take somebody's advice and we'll start working with people to structurally improve, as well as we will also get into our communication a little better. If this has taught us a lesson, we will get there.

Indrajit Agarwal: Thank you. That's all from my side.

Moderator: Thank you. Next question comes from the line of Achal Lohade with Nuvama Wealth Management Limited. Please go ahead.

Achal Lohade: Good morning, sir. Thank you for the opportunity. Just two questions. First, if you could clarify, with respect to receivables, Iskraemeco is our 100% subsidiary. So, I don't see a challenge in terms of disclosing what exactly their revenue and the profits were for the first half of FY '26, and how much is the receivable as of 30th September 2025. If you could talk about that, and then I'll ask a follow-up question, sir.

Jairam Sampath: Well, we had answered this question. I think the very first question was on this topic. We can tell you, H1 receivables, how much is Iskraemeco and, smart meter. So, the Iskraemeco current receivables plus, there are certain receivables which are beyond, not due within the year, but due after the year, including that is about INR687 crores of the total receivables.

Out of which, we had also talked about making sure that this approximately INR240 crores which pertains to these other non-current assets, we'll try and get it discounted off our books. And the remaining one, whatever gets added will get added, and then collection cycle also, we're trying to see to it that from the current slightly elevated numbers, with some efficiency improvements in installations and all that.

And also, I think the overall RDSS program performance is also improving. So, we will try and collect it within a reasonable amount of time, not later than what we already have on our books.

Achal Lohade: Understood. And what about the first half of FY '26 in terms of revenue and profit?

Jairam Sampath: Yes, we had talked about it, sir. As of end of September, the total receivables, including other non-current assets, INR687. Revenues will be of the order of about INR500-odd crores in the first half. Exact number, I'm not able to disclose that to you. And then, of course, in the second half, we also plan some execution, which will be of the nature of about INR300-odd crores. So, these are the numbers as far as the smart metering business is concerned.

Mind you, this contains not only the erstwhile contracts of Iskraemeco, but also the newer ones which we have received as non- AMISPs business, which is the device and solutions.

Achal Lohade: So, just to clarify, INR500 crores odd is recognized in first half, and another INR300 crores would happen in second half. Have I understood right, sir?

- Jairam Sampath:** Yes, this is approximately correct. I'm not able to give you sharp answers...
- Achal Lohade:** Yes, broadly. And this INR500 crores, whatever revenue is booked in first half will get collected in the second half. Would that be a fair assessment? I'm coming to the next question with respect to receivables. Obviously, by 31st March, 26th? Yes, sir.
- Jairam Sampath:** Yes, sir. Our endeavor is to collect that. There would be a small portion of it. We will – will probably go into the other non-current assets because this is still a bulk of the revenues pertaining to the revenue from the previous contract that we got on our hand after acquisition. So, you're right.
- Broadly, that's the direction for all the current receivables, and that there could be a quantum of INR100 crores-INR200-odd crores, which we may have to do some documentation before we can, say, quote, unquote, collect it in our books. So, you're right. Directionally, we should do that. Maybe about INR100 crores-INR200 crores would still require some work from our side.
- Achal Lohade:** Got it. And second question, would there be a free cash flow generation out of your EMS business over the next couple of years, given the kind of growth rate that we are talking about, the asset turns, what this EMS business requires? Is it fair to say that most of the cash generated will get consummated for the EMS capex itself? Or next 2 years?
- Jairam Sampath:** Yes. So, from EMS business, we don't contemplate that there'll be any free cash flow, operating cash flow for sure. Then there'll be investing activities, which will basically lead to assets adding. So, part of the efficiency improvement we will do by adding, I know, improving our asset turns in the EMS business itself by debottlenecking and by starting off clients which are already onboarded and client-specific assets which have been made.
- In addition to that, we'll also add, because we slated for a fairly reasonable amount of growth. If you take last several 4 years CAGR, the next few years CAGR also will be thereabouts. So, that would, at some point in time, by the next year or so, we'll have to add the assets. And that will come from our EMS business itself. So, OCF positive, yes. FCF, I'm not sure in the near-term that will happen because we'll have to reinvest for growth.
- Moderator:** Thank you. Mr. Lohade, please rejoin the queue for more questions. Next question comes in the line of Renu Baid Pugalia with IIFL Capital. Please go ahead.
- Renu Baid Pugalia:** Yes, hi. Good morning, team. I have three questions. First, in Iskraemeco, while you did highlight the performance of first half. Overall fiscal '25, which is a gross margin, looked fairly elevated or soft because of the impairment that has taken. So, can you quantify what was the impairment done by the erstwhile management before the acquisition was closed, which has deflated the gross margins for full year to just about 10% in Iskraemeco?
- Second, you did suggest in the previous question that you can have revenues from Iskraemeco business would just be about INR300 crores, while overall revenue growth will accelerate. So, from a general investor concern on growth in core EMS, can you highlight that after 42 billion

kind of revenue guidance that we have seen in second half, which other segments in EMS do you expect ramp up?

Some more color in terms of how has been the performance for autos, aerospace, defense, IT, rail, EVs will be helpful. And lastly, on OSAT, can you give us a milestone while update in terms of while we have done the investment from our end, how is the capital subsidy from central government expected over the next 12 months till we expect the full-fledged commissioning of our OSAT facilities?

Jairam Sampath:

Thank you, Renuji. I think quite good questions. So, firstly, the Iskraemeco's first half last year, first half meaning I'm just calling it half, but the first portion of standalone financial last year, we had instructed them to take a write-off of inventory which are not usable in the new generation of products, etcetera.

They had done a lot of experimentation over 3-4 years' timeframe, so that led to about INR44 crores of write-off of inventory on their books. And these are not pertaining to current businesses, but these are pertaining to items which they have acquired to do different types of design. As you know, with the acquisition of Iskraemeco, we got our own design solution for smart meters.

And of course, there was a small quantum about other expenses, roughly about INR6 crores. So this put together was about INR50 crores, whereas they did business of about INR85 crores. So in that business, they actually made a turn that profit of two, but then this was minus 50 plus two, so it became minus 48.

The second half, obviously, without this burden, the company could turn around a good profit, I think around INR530-odd crores of the sale after consolidation, revenues after consolidation. And then we did turn around about INR49-odd crores of profits in that. So the net for the year stood at whatever number it did.

The second thing is the relative impact of, let's say, in the short run of any particular vertical. I'll broadly take this question. Firstly, as of now, you'll be happy to note that in the second half, out of the remaining amount that we are going to do, guidance, Iskraemeco is not going to be significantly higher.

In fact, in terms of percentage, it will keep coming lower. And this is how it happens. Actually, if you see about 3 years ago, our growth was led by automotive sector generally, then for some time, there was electric vehicles that grew the business. At some point in time, the business has grown by, let's say, smart metering business.

And then this year, the notable segments are there is a good growth in automotive. There's good growth in other industrial, other than smart meter. There is good growth in electric vehicles too. A few marquee customers, I can't disclose the name, but very good marquee customers have been acquired. And they have also kind of put new plans, increasing their volumes, etcetera.

Then there is railway -- one major resurgence of railways, we call it. 4 years ago, railway used to be about 30% of our business. And then over time, of course, it is dependent on a lot of other factors. But we kept on our work with the result that we have now developed probably countries, one of the most comprehensive coverage programs.

So, we have got approval and orders, etcetera. And then, of course, the last one is aerospace, which we have acquired a sizable amount of orders from one of the OEMs abroad. And this is increasing also from their own statements in the media. Also, you can find out that they are, and our facilities also kind of completely come to completion and it's approved also. So, second half, you can see fairly good growth with respect to these areas.

Now, as far as the question on OSAT is concerned, we'll be happy to note that we have acquired three clients. They all of them have themselves come out and given press statements, actually, because we are not allowed to talk about it unless we get consent. But they have, so these are Alpha Omega Semiconductor, Infineon, and the Larsen and Toubro's business takeover of one portion of Fujitsu General's Semiconductor business.

And all three of them, one of them, we were the first in the country to actually ship out the chipsets, even though we got this thing the last, the approvals the last. And so, the samples have been shipped out, so in some sense, technically, the commercial production has started. But of course, we are focusing on trying to get the sample approval from all of these customers before we do a significant amount of business.

So, this year, while we did put a small target on us for revenues, but I'm not very sure whether we'll be pursuing the target more than pursuing approval from these three customers, because the approval from these three customers will help us to do good revenues, starting from FY '27 onwards.

Now, as far as the flow of subsidy, etcetera, is concerned, whatever little we have spent, and wherever there was dues from the government have been fulfilled within one week's time. Like, for instance, we got the land related discount subsidies within one week of approval from the central government.

So, from the central government side, there is absolutely no delay. From our side, we had redone the list of collaborators to reflect the correct reality, and that has been done. So anytime soon, we'll start getting the, whatever capex we have done from our side, eligible capex, and that we'll get reimbursements.

And then, pari passu basis, escrow account will be opened. So, we don't foresee any trouble. Just for your information, we also put together a small team with a very qualified person to head this particular subsidy management process within the company, so that it does not get, since the subsidies are in thousands of crores, so we don't want it to be locked in the regular routine activities. So we are making sure that there is a specific team working on it for documentation, for complying with the requirements of the subsidy, etcetera.

- Renu Baid Pugalia:** So at least from your end, because of a likely lag in the daily of capital subsidy from central government, there would be no bloat on the working capital, or no bloat on the leverage on books, or delay of the project. It will be managed within the given timeline?
- Jairam Sampath:** Yes, yes, yes. And also, see, one of the things that we must note is that in the DPR, we normally don't take too much of credit terms from suppliers, but most of the capex suppliers do give credit. So, we will manage that judiciously to make sure that we not fall short of money, and there'll be no, let's say, reliance on our parent entity for doing the OSAT project. Other than the fact that, of course, the corporate related activities, other than that, money-wise, I think they are self-sufficient.
- Moderator:** Thank you. Ms. Pugalia, please reject the queue for more questions. Next question comes on the line of Manikantha Garre with Franklin Templeton India. Please go ahead.
- Manikantha Garre:** Thanks for the opportunity. Just a clarification and another question. In answer to the previous participant, you mentioned about the inventory write-off clarity from the inventory that was taken in H1 of Iskraemeco '25. In your commentary to one of the questions you mentioned, there are drawbacks.
- Moderator:** Sorry for interfering. Your voice is breaking. Can you just come in the range and talk?
- Manikantha Garre:** How is it now? Yes, sir. So what I was trying to check was on the H1 FY '25 write-offs that you have already clarified on, you gave a number. But to one of the questions, there are some broader corporate cleanups as well. Could you also quantify that? And secondly, related to this, if I look at Iskraemeco's standalone P&L, all these one-offs are not mentioned in the P&L. I don't see any number as the exceptional items. Would you have any color on that? That's the first question.
- Jairam Sampath:** Sure. So fundamentally, like I said, this is provision for write-off and not really write-off. And second thing is, I think in the Iskraemeco's books, we are talking about the old receivables of about some INR45 odd crores.
- That is more a reconciliation with our company, which is happening. Once the reconciliation results are there, then we'll reflect it in the individual standalone as well as consolidated numbers. But we don't expect any major negative impact on a consolidated basis. but then there would be some inter-subsidiary related transactions that we may have to recognize.
- Manikantha Garre:** Sorry, sir. I was asking about H1 FY '25 Iskraemeco numbers, where you mentioned about inventory write-offs and corporate cleanup. Firstly, these are not mentioned in Iskraemeco's P&L, FY '25 P&L. I don't see -- any number as the exceptional item.
- Jairam Sampath:** Yes, that's because we acquired the company. It happened when the company was outside this. So as per accounting standards, we have made all the disclosures required. And I've also abundantly clarified that in the call, we'll put out as an FAQ too, so that it's factual in nature.
- Manikantha Garre:** Right, sir. And if I have to assume that the....

- Jairam Sampath:** The inventory write-off will be found in the COGS line, sir. That's why the cost of goods sold has increased and the profits have come down.
- Manikantha Garre:** Got it. And secondly, on the receivables for Iskraemeco in FY '25, there is an aging schedule that was given. I would assume that the less than six months is pertaining to H2, and six months to one year is pertaining to H1. I'm just trying to understand with such huge difference in revenues for H1 and H2 of Iskraemeco financials, why the receivables difference is not showing that much variance? See Iskraemeco H1 is significantly lower than H2.
- Jairam Sampath:** No Broadly, I will tell you. Broadly, I'll tell you numbers my friend, Senthil can quantify.
- Senthil:** See broadly, the first half, whatever receivables are there pertaining to things that have happened in the past. Now, this is not necessarily one half or one period's result.
- And so when we acquired the company, we got a balance sheet while acquisition of the company and then we just consolidated that into our total standalone for Iskraemeco for the last year. Second half, I mean, it's not really half but a second portion of the year, which is where we purportedly did about INR532 odd crores of business.
- So that contains all the itemized details and they are pertaining only to the current business. The previous ones would have a lot of items that need to be reconciled actually. And so that's why you may not see a like-to-like comparison in the receivable profile with reference to the business profile.
- Manikantha Garre:** Right, sir. And when have you moved from AMISP to completely providing product as a solution?
- Ramesh Kunhikannan:** No, no, no. We are working on AMISP model.
- Jairam Sampath:** Sir, we have already an existing contract with PGCIL. Bulk of it has been already done. Close to about 60-70% of that is completed. There is a small portion remaining. This is contractual in nature. We cannot get away from it.
- But all the other ones are all based on our EMS type of model wherein there is a definitive period for payment. It is not extended beyond one year. So other than PGCIL contract, all other contracts are all non-AMISP, which you can say that after we have taken over many new orders that have come in all from non-PGCIL book direction is all non-AMISP type of.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraints, we have reached the end of question-and-answer session. I would now like to hand the conference over to the management for closing comments.
- Jairam Sampath:** Yes, sir. So I would like to thank all the participants who take a time on early morning. And I'll request our Executive Vice Chairman, Mr. Ramesh Kannan, to just make some closing remarks, so that we can close the session.

Ramesh Kunhikannan: Actually, our plan is to more and more concentrate on our main business that is EMS. We have worked very hard in the last eight months and we have acquired a lot of aerospace customers, defense customers. We have got railway new products. Earlier, we were only in signaling in railway.

Today, we have got into rolling stock. Then Kavach, we have added. So, our main concentration will never move out from EMS, and we are committed to that. And this will help us to get more and more orders and march towards our mission on whatever guidance we have given you in the past.

Regarding structural improvement, we have added more people on the taxation side, more people on finance, manufacturing, and brought more leadership into the company. And we are committed. We'll also re-examine, revisit our structural as well as communication models. And we will improve from this. This, I thought I should add as a total thing. Since our auditor, Mr. Mohan Lavi, is also there in the call. Mr. Mohan, you would like to add something?

Mohan Lavi: No, sir. Generally, I think I agreed with most of the points mentioned, nothing specific. But just to assure all of you all that, yes, we are seized of the note which has been given and the company has proactively taken measures to actually strengthen their internal control process.

In fact, most of the data will now flow from the ERP system itself so that manual intervention is minimized. So, I'm sure that going forward, we will be able to sort of get into a better transparency, better disclosure, and ensure that things are all correct.

Ramesh Kunhikannan: Thank you, Mr. Mohan, and thank you all parties interested in Kaynes as well as invested in Kaynes, our stakeholders. Thank you very much.

Jairam Sampath: Thank you very much.

Moderator: Thank you. On behalf of Kaynes Technology India Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.