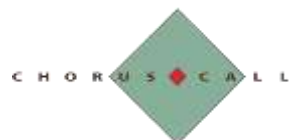




“Kaynes Technology India Limited
Q2 & H1 FY '26 Earnings Conference Call”
November 05, 2025



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MUFG – INVESTOR RELATIONS PARTNER

MODERATOR: **MR. DEEPAK AGARWAL – AXIS CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Kaynes Technology Q2 and H1 FY '26 Earnings Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there is 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 Deepak Agarwal from Axis Capital Limited. Thank you, and over to you, sir.

Deepak Agarwal: Thank you, Iqra. Good morning, everyone. On behalf of Axis Capital, I would like to welcome you all to the Q2 FY '26 Earnings con call of Kaynes Technology India Limited. We have with us the management today being represented by Mrs. Savitha Ramesh, Chairperson; Mr. Ramesh Kannan, Executive Vice Chairman; Dr. Muthukumar Narayanaswamy, Managing Director; Mr. Rajesh Sharma, Chief Executive Officer; Mr. Jairam Sampath, Whole-Time Director and Chief Financial Officer.

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 Kannan: Good morning, everyone. This is Ramesh Kannan here. On behalf of Kaynes Technology Team, I would like to welcome everyone to the earnings call for quarter 2 FY '26. Mrs. Savitha Ramesh, Chairperson of our Board; Dr. Muthukumar Narayanaswamy, our Managing Director; Mr. Jairam Sampath, our Whole-Time Director and CFO; Mr. Rajesh Sharma, our CEO; Mr. Sumit Verma, Investor Relationship; and MUFG IR, our Investor Relationship partner.

Let me begin with a brief overview of our financial performance for Q2 FY '26. Our total revenue stood at INR9,062 million, reflecting a year-on-year growth of 58%. Operational EBITDA for the quarter was INR1,480 million, registering a growth of 80% over the same period last year. This translates into an EBITDA margin of 16.3%, an -- expansion of 190 basis points year-on-year.

Profit after tax came in at INR1,214 million, representing a PAT margin of 13.4%. These results reaffirm that meaningful growth comes from the alignment of vision, strategy and disciplined execution, a balance that enables us to build capabilities, deepens partnerships and shape the future of electronics manufacturing.

As we are successfully transforming from being an electronic manufacturing service, EMS player to a fully integrated electronic system design and manufacturing, ESDM company with enhanced ownership across the product lifecycle. This integrated approach allows us to build deeper, longer-term relationships with global customers and deliver differentiated values.

This quarter was a defining one for Kaynes Semicon and for India's semiconductor ambitions. At our Sanand OSAT facility, we reached an important milestone by successfully delivering India's first commercially manufactured multichip module, IPM5 in collaboration with Alpha &

Omega Semiconductor and Mitsui & Company. This achievement is not just a technical breakthrough. It symbolizes India's coming of age in high-value semiconductor manufacturing.

Our anchor customers, AOS and L&T Semiconductor represents the trust and confidence global and domestic leaders have placed in Kaynes' capability to deliver world-class solution at scale from India. These partnerships span multiple geographies and business ecosystem underscoring our role as a bridge between global innovation and India's manufacturing strength.

Further, our strategic collaboration with Infineon marks Kaynes' entry into MEMS-based true wireless stereo packaging, strengthening our participation in the fast-growing consumer and IoT electronics segment. Together with Infineon, AOS, L&T Semiconductor and Mitsui, we are creating a powerful collaborative ecosystem that combines technology leadership, operational excellence and trusted global relationship.

Such partnerships are not just commercial alliances, they are building blocks of a new semiconductor ecosystem in India. They position Kaynes at the forefront of this transformation, enabling us to play a central role in making India a creditable, competitive and sustainable semiconductor hub of the world.

With the Sanand OSAT facility now operational and ramping up capacity, Kaynes is not only contributing to India's goal of semiconductor self-reliance, but also helping shape its journey to becoming a new global leader in advanced electronic manufacturing.

In continuation with our semiconductor journey, I did like to highlight the equally strategic progress we are making in the PCB manufacturing, the next cornerstone of India's electronics value chain. The recent government of India approval for our advanced PCB manufacturing projects, including Kaynes marks a watershed moment for nation's industrial and technological ambitions. It signifies not only policy support, but also India's readiness to lead the high-value manufacturing of critical electronic components.

Globally, the PCB market is projected to cross USD100 billion by 2030, and India's domestic market alone is expected to grow at a 20% CAGR, driven by demand from EVs, industrial automation, defense and telecom sector. Within this landscape, Kaynes' upcoming multilayer HDI PCB facility in Chennai will position us to capture a meaningful share of its growth.

This expansion will not only reduce India's dependence on inputs, but also enable domestic value addition across the entire electronics chain from chip packaging to system assembly. The PCB often referred to as the backbone of electronics determines the reliability, efficiency and life of every device from a medical monitor to a satellite system. By localizing this capability, Kaynes is directly contributing to India's self-reliance and global competition in advanced electronic manufacturing.

As we stand at this inflection point, it is important to acknowledge that India's manufacturing journey has never been without challenges. There were times when global supply chains moved faster than our own, when policy and infrastructure were still catching up and when the world looked at India as a market, not yet as a manufacturing power.

But time and again, India has proven its ability to adapt, innovate and rise stronger. Today, India is not only following the global trends, we are shaping it. We are moving from being participants in the global value chain to become architects of it, powered by policy support, engineering excellence and the new generation of companies that believe in India's potential.

At Kaynes, we see the transformation not just an opportunity, but as a responsibility to prove that world-class innovation and manufacturing can thrive in India at scale with global quality standards. The India story is no longer a promise. It is a performance and its momentum is only beginning.

As we reflect on another strong quarter, it is clear that growth becomes meaningful only when guided by vision and purpose. At Kaynes, our journey is driven by a single ambition to build a globally respected technology enterprises that powers India's transformation into a deep tech and manufacturing leader.

Before I conclude, I extend my heartfelt thanks to our investors, partners, employees and customers for their trust and support.

With that, I would like to hand over the call to Dr. Muthukumar Narayanaswamy, our Managing Director, to express his vision for the company. Thank you.

Muthukumar N.:

Thank you, Mr. Ramesh, and good morning, everyone. It's really my privilege to join the Q2 earnings call on the back of yet another stellar performance by the company under the leadership of our Executive Vice Chairman, Mr. Ramesh Kannan and the Kaynes team. I wish to brief about some of the important acts, initiatives that we have undertaken to bolster performance of Kaynes Technology as an excellent organization.

Our focus will be driving the company's transition from a service-led EMS model to a product-led ESDM-driven enterprise, as indicated by our Vice Chairman. As we look ahead, our focus will be on strengthening the execution backbone of the company through enterprise-wide systems, process harmonization and transformation frameworks that enable scale, agility and consistency across every Kaynes facilities. We are entering a phase where execution excellence will define leadership and Kaynes is poised to lead from the front.

Our priorities are clear, to drive significant improvements in productivity, cost and delivery while embedding a culture of total predictive maintenance across all sites. This will not only enhance asset reliability, but will also instill mindset of ownership, discipline and continuous improvement at every level of the organization. TPM is not just a process initiative. It's a way of thinking. It's a culture that ensures operational precision and sustainability.

In parallel, we'll undertake a structure program of business process restructuring and digital transformation, redesigning the workflows, integrating systems and leveraging the data to build a truly connected enterprise. The next frontier for Kaynes lies in IoT 4.0, a low-cost automation and advanced quality management system where real-time insights drive smarter, faster and more consistent decision-making process.

As the cost of employee continues to rise, automation and data-driven optimization will be the key to maintain the competitiveness of our organization. Our approach will combine digitalization, predictive maintenance and process visibility to deliver better productivity, quality, cost, delivery, safety, morale and environmental performance, the 7 pillars of sustainable operations.

Importantly, quality today is no longer a differentiator with the base and being given taken for granted. What will set Kaynes apart is our ability to deliver quality with speed, reliability, cost efficiency and intelligence. We'll continue to invest in next-generation information systems, enabling better integration between manufacturing, supply chain and ensure agile customer delivery.

And as we advance this transformation journey, our aspiration is clear, to make Kaynes synonymous with operational excellence and execution leadership, setting the standards that others in the industry aspire to reach.

People define the strength of any organization. At Kaynes, we will focus on developing our talent pipeline and enabling more individuals to take on the leadership roles that shape the company's future. As the Chairperson and Vice Chairman continues to tell, Kaynes' focus will continue to be on customer. We'll stand as a customer-focused company.

We'll continue to focus on innovation and make sure that we constantly make improvements in every process, people and product. And of course, people are our key. So focus on customers, focus on innovation and focus on people will make this truly a world-class organization. I'm confident with our talented team, shared purpose and commitment to excel, Kaynes will continue to define the future of Indian manufacturing on the global stage.

With this, I'd like to hand over the call to Mr. Jairam Sampath to take you through the detailed financial performance. Over to you, Mr. Jairam.

Jairam Sampath:

Thank you, Dr. Muthukumar, and thanks to everyone for joining today's call. As we start the new quarter, I'm happy to share Kaynes Technology's financial results for second quarter of FY '26, and I will share with you the highlights of the same.

Our revenue stood at INR9,062 million, reflecting a year-on-year growth of about 58%. Operational EBITDA for the quarter was INR1,480 million, registering a growth of about 80% over the same period last year. This translates into an EBITDA margin of about 16.3%, an expansion of 190 basis points year-on-year.

Profit after tax came in at about INR1,214 million, representing a PAT margin of 13.4%. Our current order book for Q2 FY '26, which stands at INR80,994 million compared to INR54,228 million in Q2 of FY '25.

Also, let me take you through our robust half yearly financial performance for the first half of FY '26. The total revenue for H1 FY '26 stood at INR15,797 million, demonstrating a year-on-year growth of 47%. Operating EBITDA came in at INR2,610 million, making it an increase of

75% year-on-year and resulting in an EBITDA margin of 16.5%, an expansion of 270 basis points over last year for the first half. Profit after tax reached INR1,960 million, corresponding to a PAT margin of 12.4%.

These results underscores Kaynes' unwavering focus on maintaining industry-leading growth rates and best-in-class margins. Efficient working capital management, strategic supplier collaboration continue to drive the cash flow improvements and operational resilience, keeping us ahead in a dynamic industry.

Kaynes' journey in Q2 of FY '26 is marked by powerful synergies we continue to unlock through our backward integration into high-density interconnection PCB manufacturing and parallel integration into OSAT and semiconductor packaging. These moves not only streamline our production process and enhance the supply chain control, but also create margin accretive opportunities and deliver sustainable value to our stakeholders.

By connecting PCB and OSAT capabilities, we amplify innovation, operational efficiency and product quality, yielding cost advantages and enabling Kaynes to serve end-to-end requirements for high-growth verticals.

Inorganic expansion continues to be part of our strategic toolkit. Our integration of global businesses, especially August Electronics further adds synergy, accessing new talent pools, customer bases and high-margin markets. Kaynes is envisioning the future of the Indian EMS and ESDM industry, positioning itself not only as a leading manufacturer, but also as a core innovation partner driving technology transformation.

We are building capabilities that extend beyond traditional manufacturing to encompass embedded systems design, advanced prototyping and seamless integration across electronic systems. This forward-looking approach enables us to co-create next generation of products with customers, delivering holistic end-to-end solutions that are agile, scalable and innovation-led.

With our expanding expertise and technological depth, Kaynes is set to shape the future landscape of India's electronics sector, empowering it to be a global hub of engineering excellence and product innovation.

With this, I complete my initial remarks, and I would like to place on record my heartfelt thanks to the Axis Capital team for hosting this earnings call. I'd like to thank all the participants for committing their valuable time; on a holiday, especially; for attending this call.

So I hand it over to the team for -- to the Axis Capital team for creating the question list, and then we are all here to answer them. Thank you very much.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Deepak Krishnan from Kotak IE.

Deepak Krishnan:

This is Deepak Krishnan from Kotak. Maybe just a couple of questions from the cash flow perspective. We still see receivables are up, say, INR600 crores. And in the other current assets,

we've not seen a major decrease. So just wanted your thought process in terms of how do you see operating cash flow by the year-end and also the status of the INR300 crores smart meter receivables?

And maybe just 2 other bookkeeping questions. We've seen a substantial jump in other income this quarter and other expense going down. So we understand part of the other income is the QIP income. But other than that, are there any gains in other income or any sort of reversals in other expenses, if you can sort of clarify all these 3 points?

Jairam Sampath:

Sure, Deepak. Thank you for attending the call. So firstly, regarding the cash flow, we're completely aware. one, we made a small breakthrough of -- which we have been talking about whenever we have met you all, which is the other noncurrent assets which represents receivables not due, but to be paid over a longer timeframe by the customer.

So we have done experimentally about INR60 crores of such discounting this quarter. And we've been successfully able to do that in documentation, etc. So that's off our books right now. So we hopefully, next 6 months, we will remove the remaining old legacy receivable, which is not due and we will take it off the balance sheet. So that's one thing which will give us a good -- close to about INR300 crores of money into the system.

And if you see the operating cash flow is negative at about INR180 crores or so, could have been perhaps mitigated if we had done this exercise this quarter itself. And we are pretty confident that as the second half goes by the volumes also will increase dramatically, more than 50%, 60% of the first half volumes. And so we think that we'll be able to give you a -- significant positive OCF by the year-end.

As far as the other income is concerned, -- these are the QIP proceeds that are yielding some interest. And other expenses, there are no major things to report by. It is just a part of normal course of business. So these are the few clarifications to your questions. And...

Deepak Krishnan:

Yes, just on the copper clad laminate, if you could sort of help us with the unit economics of that? How much of that would be sort of captively used? How much are we looking to sell external...

Moderator:

Sorry to interrupt Deepak, if you have a follow-up question, please rejoin the queue.

Jairam Sampath:

Okay. We will come back to you, Deepak. Anyway, thanks for the question. Next question.

Moderator:

The next question is from the line of Saksham Mongia from Dymon Asia.

Saksham Mongia:

Sir, I have just one question. We were not able to maintain the guidance for this quarter and the same situation occurred in one of the previous quarter last fiscal year as well. So could you please share the full year guidance and what gives the company the confidence to achieve it? And also what are the strategic steps that are being taken to ensure that we meet our guidance? This is for Jairam, sir?

Jairam Sampath:

Thank you for this question. It's an important question. See, fundamentally, we look at -- ultimately, at the end of the day, what matters to us is long-term sustainable profit. And that is driven by long-term sustainable profitability of all products across all verticals and also a good healthy order book.

Yes, -- between quarters, there are some small, let's say, ups and downs in the execution of orders, which is driven more by some supply chain-related problems and so on and so forth, which we are also nailing down.

But if you look at our order inflow, see the total order stood at about INR8,000 crores or so. And the monthly order inflow has gone up compared to the first quarter, which is what defines actually the health of the business. And so an upswing in that essentially means that there is a good strong traction from the customers.

So if there are some small tweaks to be done with our supply chain and all that and make sure that we start delivery. So quarterly basis, you might see some little dips here and there, but we are pretty confident that we will hit the annual number for our profits as well as operating EBITDA and broadly reach the revenue targets also that we have mentioned.

As you know, this quarter, we have also integrated August Electronics. And I'm happy to tell you that they also have quite, as expected, a robust business with profitable customers. And as I speak to you today, one of the very large companies in the world, they are visiting our facility in Chamarajanagar to qualify us. And those of you whom I have met earlier, I have mentioned to you that we will do Industry 4.0 equipment, the RF testing equipment for these chaps.

So the business is pretty strong. Profitability is on the upswing, it is not nearly in one particular area, it is in all the areas. In fact, across the verticals, we have had gross margins sustaining up and showing up. In fact, this year, this particular quarter, we had a somewhat smaller percentage of industrial and still the total profits went up because of operating leverage. So we continue to do that. And in the second half also, you can expect this trend to continue. Next question.

Moderator:

The next question is from the line of Pranjal from Morgan Stanley.

Pranjal:

Sir, my question is on the recent projects that we have won on the bare board PCB. So if you could just kind of highlight in terms of are we looking for any technology collaboration here and what the indicative equity proportion could be with the tech partner? And any ballpark margin guidance that you could kind of elaborate in terms for the HDI capacity that we are kind of setting up?

Jairam Sampath:

Yes. So firstly, margin guidance, I cannot give you at this point in time, just the factory is just coming up. But suffice it to say that it's definitely going to be higher in terms of whatever the total consolidated margins there are. In fact, significantly higher than this. And also the approval that we have got is for the second phase of our expansion into the PCB for which we are in the process of -- we have received the government order for the , capital subsidy.

So the first phase of this particular thing, we are doing it in Chennai, Oragadam; and the second phase for the balance for which the Honorable Minister for Information Technology and Railways had issued us the government order. So that is being done down South. And we do think that -- this has been done after scrutiny of our proposal by the government, both in terms of technology as well as in terms of its ability to deliver fast. And we are happy to tell you that on both counts, it has worked very well.

We are attempting the largest scope in the PC board, especially in tune with the PCB requirements of the future, which are likely to be high-density multilayer flex boards and so on. So from that perspective, we have put together a capex for the first plant. Firstly, we will start with multilayer boards. We are attempting to do up to about 76 layer boards.

And then secondly, -- concurrently, we'll implement the flex board and then, of course, the high-density interconnection. So there are many customers. We have about 16 customers who are having strong interest. And we think that by the end of this year, the plant should be ready and at least the Phase 1 in the Oragadam area.

And once that is ready, then maybe some customers approvals also will be there, and we'll start shipping like I have communicated earlier from the month of April onwards. And we are also covered under, as you know, PLI scheme. So we'll have a clear 6 years of coverage under the PLI.

And as we get a little more confident and the capacity ramp up in the Oragadam Phase 1 plant, we will start off the Phase 2 plant. We have about 3 years' timeframe to complete that activity, and we are pretty confident that we will do that. And so with this, what happens is we hold, let's say, the distinction of being able to be self-sufficient on copper clad laminates, prepreg as well as the PC boards, especially in the high-tech area.

And as you know, Kaynes Technology is also a user of PC boards, almost 10% of our total sales money is spent on PC boards. So we hope to get some important cost down because of being able to manufacture the high-tech PCBs ourselves.

And as far as the collaborators are concerned, there are 2 ways in which we are handling this. One, the machinery manufacturers already, we have placed orders on the machines, and they are setting up the line.

So it is pretty much like we set up the line, we achieve the process parameters off-site at the machinery manufacturers premises in whichever country they are in, and then we just tranship this entire thing. So we don't do a development of the process here. We do development of process and the high-tech conditions with the experts, material science experts and machinery experts.

What we focus here right now is to do the design and all of those things. And the once we become experts in reading the customers' drawings and making sure that we can make the value additions as required, all the machinery is getting transplanted here to Oragadam in the Phase 1. And then

-- from the day 1, we are pretty confident that we'll have a very high yield and we -- capability-wise, it will not require several years to actually develop.

So this is the method that we are using, developing the technology with the experts and then transplanting the technology. Also in the process, we are also making sure that we do the software part of it. Sorry about the long-ish explanation, but this is a technical subject, so I didn't want to miss out on any details here.

Moderator: The next question is from the line of Naushad Chaudhary from Aditya Birla Sun Life Mutual Fund.

Naushad Chaudhary: Just one clarification, sir. This quarter, margin has gone up. But at the same time, we can see the working capital parallelly has gone up for us. And given the nature of the business, should we see this going forward, if we try to push or optimize working capital, we have to compromise on the margin as well. So this is the clarification I just wanted?

Jairam Sampath: Thank you, Naushad ji. Thank you for the question. This is the question that all of us after the call will actually be addressing 24/7, we look at this particular issue. But it's good news also because most of the inventories have been acquired during the latter half of the quarter. As you know, the order book is also kind of filling up quite fast.

So we need to make sure that because of supply chain glitches, we don't miss on delivery. So we are going a little more cautious here. We do more than required amount of inventories somewhat, and we don't curtail. But of course, we try to look at the optimization through vendor-managed inventory for which our President of Supply Chain has been tasked with this job.

And this quarter, he'll come out with a definitive plan. I've been talking about it, I think last time I met some of you and you also -- I have mentioned to you. So we have not taken any benefit of the vendor-managed inventory, which is basically the distributors keeping stock on our behalf in India so that we can rid the burden of us for at least a reasonable period of time, 2, 3 months kind of thing.

So hopefully, we'll succeed there. So we are quite pleased with this thing and the increase in inventory is a reflection of strength of the business actually at this point in time. And hopefully, by end of this year, we will bring it down to the kind of numbers that we are talking about in terms of working capital days, net working capital days.

So we have 2 items which we focus on, of course, inventory and receivables and answer to the first question from Mr. Deepak, I had mentioned to you that some small portion about INR300 crores, we'll try and get rid of by discounting and getting off the books.

And so that plus this VMI vendor managed inventory nearby, you will see a significant improvement by the end of this year on our working capital performance, which has been of concern to a lot of people saying that, are you consuming more resources than generating the cash? So we will have positive OCF, and we'll have lower net working capital by the end of this year.

- Naushad Chaudhary:** Without compromising on margin?
- Jairam Sampath:** No, no, of course, not. Of course, not. We ultimately have to make money, yes.
- Moderator:** The next question is from the line of Siddhartha Bera from Nomura.
- Siddhartha Bera:** Sir, first question is on the order book. So this close to INR8,000 crores order book, does it include any orders from the OSAT and PCB segment as well? or this is purely EMS? So first clarification on that?
- And second, sir, on the investments on the OSAT and PCB side, would you probably broadly highlight how should we expect the investments to be over the next 3 years? And by when is the subsidy element expected to be sort of received, both from center and state?
- Jairam Sampath:** Yes, Siddhartha ji, thank you for the question. See, firstly, this order book does not yet contain the orders that we have the LOIs and orders and contracts that we have executed in OSAT. Once we start commencement of operations there, we'll certainly start maintaining that and start reporting that too.
- But suffice it to say that almost 60% of the capacity is already committed by large players, and they have actually gone on record in public itself to say that. There are people like Alpha & Omega Semiconductor, Larsen & Toubro Semiconductor, also Infineon. And like I said, there is a list of another 14 people who probably want to work with us.
- We are being a little selective because as I have been explaining earlier, we want our product portfolio to be profitable. So we don't want to fill it up with just the legacy or low-end work. We want to also add a medium range of advanced packaging as well as the cutting-edge or leading-edge technology of silicon photonics, co-packaged optics and things like that.
- So that's the thing. We'll add the order book maybe by the end of the year, we'll probably talk about the order book on this business. As far as PC board is concerned, the INR1,400 crores was taken care of by the QIP 1. And then the expansion of that basically will lead to copper clad laminates and prepreg plus one more PCB factory down South near Tuticorin.
- And so for that, we are preparing the detailed project report right now because now we are clear about the government incentive and the government's capital subsidy that is coming in. So we should probably shortly have that ready.
- But it's our as a broad guidance, I can tell you that the PC board factory in Chennai will start generating cash in a couple of years' time, and that cash will be sufficient to start our equity infusion into this particular project. And with some small bridge loans, I think we should be able to complete this project unless we increase the scope further.
- That is as is government has given us approval of about INR3,700-odd crores of capex. So I think we should be able to do this on our own steam with a mix of internal generation of cash as well as some small bridge debt. And so that's how we look at it, Siddhartha ji.

- Moderator:** The next question is from the line of Bhavik Mehta from JP Morgan.
- Bhavik Mehta:** One question I'm asking that is capex of around INR840 crores in 1H. So how should we think about the full year capex this year and next year? And just a clarification on that, is this a gross capex or does this include the subsidies issued by the government also this is like a net number?
- Jairam Sampath:** Yes. So the subsidiary the subsidies issued by the government for the ECMS scheme, as you know, this is about 25% and state government also gives state government number is broadly it is confidential between us and the state government because we enter into an agreement with them.
- But let me put it this way, total equity that we have to bring in is about 30% of the total capex only. And so for INR1,400 crores, we have already done the finance planning. For the remaining INR2,300-odd crores, and perhaps there could be scope increases later. So we have to bring in about INR600 crores to INR800 crores of money from an equity perspective, which we are quite confident that from year 3 onwards of our Kaynes circuits. every year, we do about, let's say, about 15% of our sale as probably the operating cash flow, if not more.
- And because these are mostly large customers, export customers and high-yielding products. So we should be able to finish our equity contribution in 2 to 3 years' timeframe at about INR250 crores, INR300 crores per annum. And so that will give us also compliance with the government's requirement that we should complete the project in, let's say, start with the next 3 years and then complete it in the next 3 years thereafter.
- So from that perspective, we don't see any challenge in terms of being able to fund this. Of course, this is all assuming that the scope remains the same, suppose if scope considerably improves, then we'll have to think about how to do this further because the demand is pretty strong.
- We have not yet completed full assessment of what customers require. Many of our customers by themselves are willing to underwrite the entire capacity. So we are continuing with a different type of an issue. But on an as-is basis, we don't have any financing issues at this point in time.
- Moderator:** The next question is from the line of Sameet Sinha from Macquarie.
- Sameet Sinha:** So I just wanted to put a near-term get a near-term perspective, you're talking about INR4,500 crores in revenue for the year. Can you talk about the interplay between the different verticals? It seems like autos were probably a little lower than what we had expected. How do you think about railway? Where does that play? We saw some new stories yesterday about some rollout of Indian Railway, Vande Bharat trains being slowed potentially. And then if you can also, in that same context, talk about smart meters and aerospace, which is supposed to be a big second half driver?
- Jairam Sampath:** Thank you. Sorry, So the post listing, our growth was driven by automotive and electric vehicles and industrial now. And as we prepare to start serving customers in aerospace, defense and also our own products in railways, so the quantum of, let's say, business in these 2 segments

will go up, the railway electronics as well as the Kavach program has already been announced by government and they cannot not do it.

So that's, as you know, 68,000 kilometers are there. And the TAM, if I were to make an estimate of TAM, it's about INR50 lakh per kilometer. So it's about INR34,000 crores of business out there. Not all of it will get done immediately. It may take 5 to 7 years' timeframe for the government to identify the priority sectors, trunk lines based on passenger movement, etc.

So we expect Kavach, our own product actually has been made and then we have supplied, it's approved and so on. So hopefully, we'll do some reasonable amount of business this year itself. And then there are other things like we are working on the railway network safety, etc. That has also made some good progress, and we'll probably get some traction there.

And also our traditional business, which is the electronic interlocking through our major clients has also seen an uptick during this quarter. So we think that, that will continue further. So we don't see any slowdown. In fact, as a percentage of total revenues, the railway percentage will be much higher this year compared to last year.

Similarly, for aerospace defense also, we have made just a small beginning in terms of getting approvals, etc. So hopefully, by the end of this year, when the final approval comes from our major customer in the U.S., so we should probably that percentage also will see an upward trend this year. And next year, it will be a significant increase.

Similar thing has happened in the IT space, wherein we are getting more orders on the high-performance computing servers. And so that is also likely to be a bigger chunk of business. And as you know, in the industrial area, we do have smart meters, but smart meters is kind of a steady run rate business.

So in terms of percentages, the other businesses, once they start picking up, the smart meter will kind of remain steady. And we do have a fairly good, let's say, order coverage in this area. So over the next 5 to 10 years' timeframe, of course, we plan to do significant amount of business in this particular area.

But suffice it to say that -- and the automotive, as you rightly pointed out, automotive sectors are sectors which let's say, they respond to the cyclicity in the market. And so -- but we have not fortunately, for us, due to the rationalization of GST and all that and that fillip that was given by the government recently, so we got benefited.

And in fact, now there is a lot of traction and there's a lot of push and most of the customers here at our doorstep trying to make us supply material. And as you know, we had acquired one of the largest, I think biggest Top 10, maybe third largest Tier 1 in the world. I had talked about it earlier on. And so, we have now very good demand from that particular company. Similarly, there are new companies with whom we work in the areas, domestic companies also.

The other advantages I want to bring to attention of people is that many of these companies are also asking us capacities for indigenous component manufacturing, starting with PC boards and

so on. So as I see, there is a dual benefit here. One, , let's say, bonding with the customer in terms of larger value addition and then also better profitability for us because we go deeper into the value chain.

So as we go forward, we expect automotive to grow at the rate of growth of our company's growth rate, which will be anywhere around 50% plus/minus, you can take. Similarly, industrial will also grow, but in the industrial segment, there are other segments other than merely the industrial and EV, there are other things than the smart meters, etc. So they will also start growing. We have started getting orders in those areas, too.

But suffice it to say that I think that will also remain a primary sector, around 40%-ish of our total. Similarly, our automotive is about 26% of our total. And we hope to get into 2-digit number for railways, electronics and then, of course, for the aerospace, defense, we will come nearer to this 10% number in a couple of years' timeframe.

We already are about 12% in the IT and IoT and space. And of course, we are also doing some high-end consumer work, which is not the appliances of like the TVs, etc., but something else, something a little different, which is more high-tech for export markets.

So we think that this portfolio is reforming itself back to the original number so that the combined profitability or the blended profitability will also get an upward trend in addition to getting operating leverages. So we are pretty confident that we should be able to match not only revenue growth, but also the profit.

Moderator:

The next question is from the line of Akhilesh Bhandari from North Rock Capital.

Akhilesh Bhandari:

So firstly, on the receivable part. So even if I adjust for the INR300 crores of the financing, which you're looking to do, on a trailing 12-month basis, still the receivable days would have increased by around 15 to 20 days. So even ex of that, we are seeing a receivable increase. So any thoughts on this, please?

Jairam Sampath:

You're right. There is a skew of billing towards the end of the quarter typically. And it's like 1, 2, 3, so is the billing within a quarter and then 1, 2, 3, 4 is within the year for the respective quarters. These are affected by 2 things. One is cyclicity of business and orders, etc., and also push by our customers.

So everybody wants to achieve quarter end numbers and so on. So a lot of business gets done in the last month. So we are trying to work on 2 fronts. One front is, of course, taking care of the older numbers so that we free up some cash.

And then the second one is we are also working with the customers themselves for some kind of an invoice assignment and discounting so that the burden of the customer and company comes down. That means the moment we deliver, we would like to collect that. So this also helps us in terms of making sure that all monies are collected and there are no troubles.

So we are aware of this. We are trying to get rid of this extra 10, 15 days. But there will still be cyclicality always quarter end, especially as we go forward, the March end will be probably pretty strong billing. So you will see this a little bit of trend for the next couple of years or so.

But having said all of that, we still want to bring down the net working capital. So we'll make sure that we will have financing solutions, plus also we'll make sure that the vendors chip in so that we can control the inventory. So that as a bucket inventory receivables can be controlled. And then payables, I think we are maximum whatever we can extract is there.

We don't want to do an additional, let's say, extraction of number of days from our suppliers because, as you know, price sensitivity comes into picture. So whereas many of our peer group companies, etc., they all talk about 6 months payables, etc., but we don't do that.

So yes, so we are sure that even though there are these increases in receivables, we will compensate by reducing inventory. And by the end of the year, we will make sure that we get to a lower number than even FY '25 number, much lower number in terms of net working capital days.

Moderator:

The next question is from the line of Aditya Bhartia from Investec.

Aditya Bhartia:

Sir, just following up on the question on receivables. So I understand that the receivables that we are seeing on the balance sheet are not including this INR300 crores, INR350 crores of deferred receivables because that's residing in other noncurrent assets. In that context, there's been almost like INR550 crores, INR600 crores of increase in receivables, even higher than the revenue increase that we have seen.

So just wanted to get your take on that? And how should we think about it going forward? And also just a related question that in the cash flow, we can see that there appears to be a provision for doubtful debts of around INR55-odd crores. So what is that in respect of? And if we adjust for it, then margins look even better. So how should we think about margins as well?

Jairam Sampath:

So see, about receivables, I gave a kind of detailed qualitative approach to the previous question itself. So like I said, the last month of any quarter is a bit heavy. So what happens is most of the customers give us 60 days and plus 60 to 90 days kind of payment term. Some are 30 days, of course. So 30 to 90 days payment term.

And so the profile of customers we are billing in the last month of the quarter is towards 90 days, then you will have a larger than usual amount of receivables coming in. But 2 methods we are using. One method is, like I said, all the new customers which are coming in, which are larger customers, whether it's a large Tier 1 or large U.S. customer or something, they have already designated bank

Jairam Sampath:

Okay. So like I said, all the large customers and large businesses going forward, we will make sure that discounted with the customers' bank or customers' financing agency. So we have registered with JPMorgan, we have registered with other banks, etc. And hopefully, by the time

FY '26 is completed, I think we will have onboard at least 20%, 30% of very large customers whose receivables will probably not stretch up.

So one is and then second is, of course, the legacy receivable of which is receivable but not due, which is sitting on other noncurrent assets. We are trying to make sure that we have found a method now. So we should probably by end of the year discount it off and get it off the balance sheet.

So these are the 2 methods we are making sure that we and on the improvement front, what happens is if we ship to the customer evenly, so that has something to do with improvements in terms of our ability to ship evenly. So even within a month, first week to fourth week, there is an increase, right?

So we are trying to see whether from day 1, we can ship material, which is, let's say, required by the customer rather than wait for the end of the month. So these kinds of things will probably reduce our receivables and also inventory directly by about 5 to 10 days net.

And in addition to that, of course, the other methods of VMI plus a customer-led bank discount and then, of course, factoring of our books. So these 3, 4 methods we have to make sure that by the end of the year, you will probably see some reasonable improvement in this front.

Aditya Bhartia: Sure, sir. And provision for doubtful debt that we are having of INR55 crores?

Jairam Sampath: Yes. So what was the question on the provision? I missed that

Aditya Bhartia: So sir, on the cash flow side, in the cash flow statement, we can see that there is a provision of doubtful debts of around INR55-odd crores that we have created in this first half. So I wanted to understand what is that in respect of? And if we adjust that, then it means that margins could have possibly been higher by even another 3%-odd? So just wanted to get your perspective on margins as well?

Jairam Sampath: Yes, yes. No, no. Obviously, the conclusions are right. They are arithmetically correct. But the fundamental thing is the provision is driven by accounting policies, okay? Whereas just because we provide for it doesn't mean that we don't go and collect it. So we have done a lot of old collections and so on, too, though we may have provided for it and so on. But our auditors will have us provide for debts which are aged and for some reason, uncollected debts, etc. So that's the thing.

And going forward, we'll reduce this also. See, the improvement in receivables means that essentially current collections should be highest and the old collection should not be there at all. Old collections should have been collected. So that's possible, like I said, through systemic method. One method is, of course, you improve the evenness of billing.

The second method is you make sure that you discount it with the customers' agency because then there is nothing it just goes off the books. He received the material, he pays us the money. Of course, we have to provide for some little cost of that in our costing, which we are able to do.

And third is, of course, some of these things odd cases like the other one, which was there, we have to approach some financing agencies and which we have done. We have done about INR60 crores of such, such discounting and it is off the books right now. So similarly, we will do that for the remaining "legacy" which is receivables not due, but sitting in other noncurrent assets. So that also we will do.

So yes, you are right. I mean, it's like an accounting treatment, let me put it this way. So once we collect anyway, we write back the provision. So instead of getting the profit today, we'll get the profit tomorrow. There's no loss because of that.

Aditya Bhartia: I completely understand that.

Moderator: The next question is from the line of Nirransh Jain from BNP Paribas.

Nirransh Jain: Sir, one clarification. So the document said that we have fully utilized the INR850 crores QIP proceeds for the debt repayment. But sir, why is it not getting reflected in our debt reduction in the balance sheet and cash flow? And secondly, I wanted to check on the revenue guidance. Do we still hold at \$1 billion revenue guidance by FY '28 and \$2 billion by FY '30? And if you can give a rough breakup of this incremental \$1 billion we expect over 2 years in FY '29 and '30?

Jairam Sampath: Yes. The second question is easier to answer. There is good traction and there is good momentum in the business. So \$1 billion by FY '28, certainly visibility is there, and we are sure we'll do it. And you and I will discuss of course, the profile, etc., I can't tell you without I mean, there are lots of confidential agreements, etc., but you can look at the way in which the order inflow is there. So, we really think that yes,

Jairam Sampath: Okay. And so that's the first second question. The first question is whether debt reduction, etc., what has happened, etc., why it's not reflecting. I can probably write you, Nirransh, the full math and share it and it's all there actually, but I just probably need to point out point to you exactly where it is and so on.

So there is a reduction in debt. And of course, the increase in debt is corresponding to the increase in inventory. That's what we are saying that we will make sure that the inventory increase does not happen at our end, but we ask the supplier to keep it so that we don't have to borrow and fund it. So that's something that we are working with our President of Supply Chain, and he has promised that this year-end, we will have a significant amount of material being kept by suppliers. But otherwise, there's nothing untoward, we will probably send you a calculation on this, not a problem at all.

Moderator: Ladies and gentlemen, due to time constraints, this was the last question for today. I now hand the conference over to the management for closing comments.

Jairam Sampath: Yes. Thank you very much. Very nice questions. And so we'll get back to you. You can always call us me, Sumit. And if there are some substantive issues, questions, some calculations, we can always share with you. Of course, those in the published domain only I can share. So we'll try and explain to you through data which you already have.

Thank you, everybody, for taking time off during the holiday time and look forward to meeting all of you sometime during this quarter. Thank you. Bye-bye.

Ramesh Kannan: Thank you.

Moderator: Thank you very much, sir. On behalf of Kaynes Technology, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.