



“Kaynes Technology India Limited
Q1 FY '25 Earnings Conference Call”

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MODERATOR: **MR. ANIRUDDHA JOSHI – ICICI SECURITIES**



Moderator:

Ladies and gentlemen, good day and welcome to Kaynes Technology Limited Q1 FY '25 conference call hosted by ICICI Securities. As a reminder, all participant lines will 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 has been recorded. I now hand the conference over to Mr. Aniruddha Joshi from ICICI Securities. Thank you and over to you, sir.

Aniruddha Joshi:

Yes, thanks Aditya. On behalf of ICICI Securities, we welcome you all to Q1 FY '25 results conference call of Kaynes Technology India. We have with us senior management represented by Mr. Ramesh Kannan, Founder and Managing Director, Mrs. Savitha Ramesh, Chairperson, Mr. Jairam Sampath, Whole-Time Director and Chief Financial Officer, and Mr. Rajesh Sharma, Chief Executive Officer.

Now I hand over the call to Mr. Ramesh Kannan for his initial comments on the quarterly performance. Then Mr. Jairam Sampath will take over and then we will open the floor for question-and-answer session. Thanks, and over to you, sir.

Ramesh Kannan:

Good morning, everyone. On behalf of Kaynes Technology team, I would like to welcome everyone to the earnings call for Quarter 1 2025. I have along with me Savita Ramesh, Chairperson of our Board, Jairam Sampath, Whole-Time director and CFO, Rajesh Sharma, CEO, and our Investor Relation Partners in the call. We are pleased to share our growth as a company and achievements for the quarter.

I am happy to inform you that we have been able to achieve a revenue of 5,040 million during the quarter 1 FY '25, which represents a strong growth of 70% year-on-year. The operational EBITDA margin, excluding other income for the quarter '25, was at 13.3 and PAT margin was at 10.1%. Our order book surged from INR41,152 million in quarter 4 FY '24 to INR50,386 million in quarter 1 FY '25.

Order book grew sequentially by 22% during the quarter compared to last quarter, representing substantial increase in monthly order inflow. Growth in order book is led by strong demand across all verticals, more notably industrial and EV, aerospace, outer space, and strategic electronics, along with railway segment.

Specifically, the aerospace, outer space, and strategic medical electronics vertical, we have secured a sizable customer that will significantly increase our overall revenue portfolio in the upcoming years. From a business standpoint, we have continuously endeavoured to enhance our organization and transforming into an integrated EMS company, meeting a larger portion of the needs of our clients. Our Telangana facility is almost ready and will be active very soon in order to achieve this goal in the area of smart meters.

As we move ahead in Atmanirbhar Bharat initiative by government, we are working, getting more on the traction in railways, on board electronics, train collision avoidance system. We are making significant investments in developmental activities in this area through leading

technology providers. Going forward into the future, this will further augment our valuable portfolio of business along with our other strategic initiatives by Government of India in rail safety.

We are very optimistic going forward for our revenue growth, expanding into other key verticals and will not only improve top line but augment the bottom line as well. For the financial year 2025 going ahead, we expect to have a good traction from all the different verticals, and we will meet and exceed our estimates of 30,000 million of revenue and corresponding EBITDA margin targeting at 15% for FY '25. Kaynes is constantly seeking to stay up to date with the newest technology advancements, hence eager to invest in or collaborate with such businesses.

We can better serve our current customer base and attract new important clients in India and abroad by maintaining our focus on vertical competency and implementing a continuous improvement plan in quality, delivery, and automation. We are in the final stage of obtaining government approvals for our new investments and expect the approval soon. Now the new government is informed, and budget has already announced.

We have acquired land in the state of Gujarat which will be starting our construction shortly. Meanwhile, we also activated the collaboration and the team formation on onboarding is happening parallelly for our OSAT business. We expect a positive response in the OSAT business in FY '26.

As far as our approval is concerned, it is in the final stage and is expected at any moment. Regarding the HDI Printed Circuit Board project, we are proceeding as per plan. Having set up the team, we are in the final stages of land acquisition and is indicated as indicated earlier, we expect to post revenues in Printed Circuit Board business in FY '26.

We believe that as we take the final steps towards bare board, PCB and OSAT, it will help us become a truly integrated electronic company. This is only possible because of the hard work and dedication of our entire team, and I want to take a moment to express my sincere gratitude for their contribution. I would like to sincerely thank each and every one of our excellent investors for their encouragement so far in our journey and expect continuing support in the future too.

Thank you once again and we look forward to exciting times ahead. I will now hand over the call to Jairam Sampath to take you through our financial performance. Thank you. Over to you, Jairam.

Jairam Sampath:

Thank you, Rameshji. Thank you all for joining the call today and as we start the new fiscal year, I am happy to share Kaynes Technologies financial results for the period ending Q1 2025 and share with you the highlights of the same. For the first quarter of 2025, consolidated total revenues were at INR5,040 million, representing a 70% year-on-year growth. The consolidated EBITDA for the quarter was INR699 million*, INR showing a 66% year-on-year increase. The EBITDA margin for the quarter, excluding the other income, was at about 13.3%. Our consolidated profit after tax for the quarter was INR508 million, up by about 106% and the PAT margin for the quarter stood at about 10.1%. Our current order book, which stands now at 50,386

million, that's about INR5,038 crore Indian rupee. Net working capital at the end of the June quarter was at about 121 days, which is similar to the previous year's same quarter.

However, our inventories were higher on an absolute basis as we had to make advanced purchases, keeping in mind the requirements of the upcoming quarters, as we planned to execute revenues in excess of INR30,000 million in FY '25. There was temporary pressure from receivables too with a few customers. We expect this to improve in the coming quarters.

We have planned the net working capital to come back to the expected lines as we progress during the year and will reduce significantly on an average by the end of the year on a year-on-year basis. Consequently, our net debt at the end of the quarter adjusted for unutilized proceeds was at INR5,771 million, compared to INR972 million at the end of the June quarter of FY '24. Our ROE and ROC stood at about 17.4% and 18.8% respectively for Q1 2025.

We continue to make sustained progress on our expansion and continuously adding new lines across various facilities, especially Chamarajanagar. which is in line to become truly integrated facility for EMS. Also, Telangana facility first phase will be up and running by the end of August 2024. In the new project area, the OSAT as well as HDI PC board manufacturing, we are likely to start posting revenues by the FY26.

The requisite government approvals are expected at any time now since the new government has taken over and the budget is presented. We will keep all posted on the key developments as we move ahead in the year. We have also received tremendous support from you all and hope to have the same kind of support going forward into the future.

I would also like to thank ICICI Securities for helping us to arrange this earnings call. With this, I request all participants to comment with their questions and I'll now open the floor for questions. Thank you.

*Note:Management erroneously mentioned EBITDA for the Quarter as INR 699 Million the same stands at INR 669 Million.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Bhoomika Nair from DAM Capital. Please go ahead.

Bhoomika Nair: Yes, good morning, sir, and congratulations for a good set of numbers. So just wanted to first understand this, 55% acquisition in Austria. If you can just talk about, what is it exactly? What are the revenues? What is the investment for this thing? If you can just elaborate a little bit about that.

Jairam Sampath: Good morning, Bhoomika. Thank you for attending this call on a Saturday. Unfortunately, we didn't have any other time to do this. Anyway, I thank all the other participants also to take time of their personal time and do this. So, we have just taken a board approval for proceeding with the project and some more details are being worked out and at appropriate time, we'll announce these details. It's going to be a significant project, but beyond that, we will come back to you once all the nitty-gritties are worked out, Bhoomika ji.

Bhoomika Nair:

Sure. So the other thing is, you know, we saw a very strong uptick in terms of the order intake, and you said that there was decent orders that came in from outer space, strategic medical customers, etc. Can we get some more light?

I mean, you know, is this like a multi-year contract? How large are the orders from some more details on this will really help us understand how things are moving and whether this kind of order intake that we've seen in the current quarter can continue as well going ahead. So some colour on this, what is the execution timeline, etc.

Jairam Sampath:

Sure, Bhoomika ji. See firstly the order comes in chunks, as we have discussed earlier too. So when a large order comes in obviously, the average order inflow per month goes up a tad, much higher than what we actually execute and so on. So but typically, we've got in two major, three major areas, the order inflow. One is, of course, as you correctly pointed out, aerospace, outer space and defence. The second is the industrial area, industrial Navy area.

The third is medical area. And these are multi-year contracts. Obviously, these orders, some of the orders, not all of them, but some of them exceed, probably reach up to about, for the next five years too. So like, for instance, in aerospace and other areas. So and these, going forward, the order of the day will be, yes, every once in a few quarters, we'll have large increases when the customers commit large amounts of business. And typically, in the kind of segments that we work in, the horizon, as I have explained earlier, is longer than, let's say, one year and so on and so forth.

So in any particular order, I'm happy to tell you that this order book probably will suffice for our execution this year almost. There are a few more orders we're expecting. So obviously, that will exceed the kind of targets that we have set for ourselves. So let's see how to manage that. So the horizon of the orders is longer and is getting increased day by day. And so, that's the good news.

So the order book will keep growing at similar pace. And you can expect some reasonable, after execution of all the orders, you can expect some more increase in the order book at the end of the year.

Bhoomika Nair:

So sir, of this INR5,000 crores, what is the split of a large, longer duration, multi-year kind of thing? What would be the quantum of the order book in that?

Jairam Sampath:

So no, I think the question you're asking is, are there, so we have received an order for a two-year timeframe for one of the industrial products. I'm not at liberty to tell you exactly what that product is at this point in time. But suffice it to say that this is significantly, let's say, this constitutes about 10% of the order book, where the execution is expected to be, let's say, one year later than today. So within the next one year, about 10%, another 10% will get executed later than one year, in a timeframe of two years.

Ramesh Kannan:

So what normally we do is, whatever we present here, we don't give you more than two years. But 70% of our orders, we have a window period of four to six years of life. That means the contract will be either first year to four years. It will ramp up on the second year onwards, and then it tapers down. Otherwise, it is around six, six and a half years.

Jairam Sampath: Absolutely.

Bhoomika Nair: Understood, sir. So my second question is on the OSAT business. You know, we're expecting approvals anytime we've identified the land in Gujarat, etc. If you can also talk about how is the progress of the customers, how our relationship with Globetronics, Aptos, etcetera, is kind of moving on? And what is their response to some bit of a delay that we've seen? You know, how is the work progressing with them?

Jairam Sampath: So we have also used the time, intervening time, as you know, during the last one quarter, plus a few months was there during the election time, etc. So we have used the intervening time to strengthen our relationship with the collaborators and also do a little more in terms of augmenting the team with CTOs, operations heads, and so on and so forth. We've also got some more customers in the advanced packaging area.

So the idea is to make sure that we use all the time to develop a good business portfolio in this area, so that once the machines are in place, we do get a good quality of business, too. So it's been used by the team, this intervening time period has been used by the team to augment the relationship with the customers, etcetera, and that part of it is going well. And as expected, and we, I think FY26 end quarter, that is the fourth quarter of FY26, we certainly will have a reasonable and reasonably significant capacity utilization and revenues.

Bhoomika Nair: Okay, sir. I'll have more questions. I'll come back in the question queue. Thank you so much.

Jairam Sampath: Thank you, Bhoomika ji.

Moderator: Thank you. Our next question is from the line of Ravi Swaminathan from Avendus Spark. Please go ahead, sir.

Ravi Swaminathan: Hi, sir. Thanks a lot for taking my question and congrats on a very good set of numbers once again. My first question is with respect to the industrial segment. Just wanted to get a sense as to how the mix is there in the industrial business with respect to smart meters and other products, and what kind of growth that we can think of with respect to this particular category over the next two to three years? Where does visibility come from in terms of growth across various sub-product categories in this space?

Jairam Sampath: Thank you. Thank you, Ravi, for joining the call and this very important question that you have asked. So see, industrial sector is right now happening sector due to certain products. Industrially, if you take lots of happening orders out there, one, of course, is smart meter, both domestical business as well as international business. So we have some excellent clients acquired in both the areas. And currently, what we have posted as order is for the domestic segment, but we are also likely to get some export orders in this area, which is significant in nature.

So over the next, let's say, two to five-year time frame, we expect probably a tad higher or almost similar growth rate at the company's level. As an overall thing I would say that all the verticals seem to be growing similarly to the company's number. Obviously, industrial may be a little

higher and something else may be trailing a little bit, but they are broadly at the same level of growth rate.

So we see the same bullishness across all the different vertical categories. So that's why we get a confidence that we will be able to kind of manage the portfolio profitability properly. So what happens in each as the quarters go from first to second third and fourth the amount of sales that is done is also like in a ratio of one, two, three, four kind of number based on last several years of study.

And so there will be in some quarters, some orders will get on boarded and so on. So that sector may look a little higher in terms of execution and all that, but broadly like last year's numbers similar percentages we expect in effect. Maybe a little more exports we can probably factor by the end of the year.

Ravi Swaminathan:

Understood, sir. And my second question is with respect to the medical equipment business. So that particular segment has been a bit of soft over the past couple of years in terms of growth and this quarter you had talked about one contract coming from the medical side. Even competitors like Syrma etc they hadn't reported good numbers beyond the point after acquiring the one company. So why is it that this particular segment is not growing as fast as the other segments? We understand that I think it carries better margins etc. How's the outlook for this particular category?

Jairam Sampath:

Yes. So while I cannot really comment on businesses of other companies, obviously, they are working with some strategy which I'm not really privy to, but as a generic comment our increase in order book in medical areas for exports and we know it's a difficult area to work because we have been in the sector for more than two decades.

And so it takes a long time for reputation to build and people to test try you with your orders, but I'm very happy to tell you that one of the world's leading medical equipment providers has qualified us both in Europe as well as in the US business. So we can expect now that to pull up the percentage of medical business.

But on the other hand I would also like to point out that these are extremely high-tech and high critical and highly complex equipment. And so it's not very easy to ramp up these businesses. The customers do take a long time before they finalize. So we are happy to tell you that we have now on boarded a very large customer. So I think for some time we will start growing the business and delivering to that customer requirement.

Ravi Swaminathan:

Understood, sir. Thanks a lot and once again congrats on a very good set of numbers.

Jairam Sampath:

Thank you, Ravi.

Moderator:

Thank you. Our next question is from the line of Deepak Krishnan from Kotak Institutional Equities. Please go ahead, sir.

Deepak Krishnan: Hi sir. I hope I am audible. I just wanted to sort of understand we have given a guidance of 15% for EBITDA margin and 1Q we are sort of flat on flat, is this a large part of increase driven by ramp up in aerospace, medical and those segments. Because at the beginning of the year you had indicated that these segments the percentage share may go up by 200, 300 basis points in the overall mix. Is that understanding, correct? Is it leverage and mix that will sort of get us to 15% EBITDA margin by year end?

Jairam Sampath: Yes, that understanding is correct the mix especially in industrial as well as the aerospace, outer space and strategic electronics that will also drive more margins positively. Of course, we don't really talk about margins by sector, but yes, the mix will favourably change is what we expect, and this is based on our understanding of quality orders that we have received.

Deepak Krishnan: Sure sir. And we just wanted to sort of understand I think Mr. Kannan also sort of indicated something on the Kavach system as well as the progress over there. In terms of our end customer is this RDSO approval already there in place and in terms of execution when are we sort of expecting Kavach to pick up? Do we have anything in orders already or we sort of expect that to come through.

And maybe just one final point it's expected how much of the overall Kavach spend is the content that you kind of contribute because it's expected that the overall Kavach system is about 5 million per kilometer, roof kilometer. So how much of that is what Kaynes does?

Ramesh Kannan: Kavach we are only investing in anticipation of order. India is going to have huge numbers and our relationship with the Tier 1 rail suppliers are also good. So we feel we can get into this business using that. And keeping that in mind we are investing this, we will be investing around INR40 crores of in R&D investment into this project. Proof of concept is what we are being done now and this should be in the market by the first quarter of 2026.

Deepak Krishnan: Sure, sir. Those are all my questions and best of luck for future quarters.

Management: Yes. Thank you.

Moderator: Thank you. Our next question is from the line of Rahul Gajare from Haitong Securities. Please go-ahead sir.

Rahul Gajare: Thanks for the opportunity. And congratulations for yet another strong quarter. Now I think my question is continuing with the earlier question on the margin. Now, I didn't see that the industrial and auto had materially increased in the first quarter. Also the share of Box Build was lower. So I wanted to understand specific reason for why the margin was slightly lower in the first quarter.

And also the blended margin of the order book that you have that will be helpful. Also in the existing order book of over 5000 crores, how much of that is coming from Box Build and export I think that's the first question?

Management: So in the first quarter if you notice it is almost "an election quarter" actually. And we are glad that we got to where we actually reached. Because obviously the order book is there, but still the

offtake of some of the products which end customer is people like railways and other governmental agencies the inspection was not being done and so on and so forth. Employees were on election duty and all that, you know the whole system kind of comes to a standstill on the government side. So that was one reason. So there's a mixed variance obviously.

And within the sectors also like for instance, within the different verticals there is different margin, some are higher, some are lower. So within the verticals also there are some products that are higher margin and lower margin. So it so happened that the orders that we executed where of those where margins are a tad lower, but we have done - our operating team has done an excellent cost control job to make sure that we didn't we kind of did some austerity measures to make sure that our EBITDA was still maintained.

Going forward, the leverage will be available better because as you know the sales will increase. First quarter generally 15%, 16% of the total year, second quarter will be 25 years 25%. So you will start getting some good leverage going forward. And I think so one is the better mix which will drive gross margin and then better leverage this will drive even better EBITDA. So we are confident that this is a transient phenomenon. And so we think that we'll be fast in the second quarter end at least we'll definitely be better off.

Rahul Gajare:

And Box Build and export share in the book?

Jairam Sampath:

Yes. So the Box Build, for instance, if you take medical electronics for instance, the new orders are coming in Box Build. So Box Build is a little longer term in terms of development and approvals and all that. So you can see some increase in Box Build by end of the year especially in certain industrial as well as medical, we are going to have more share of Box Build by end of year you will have Box Build share going up and rightly as rightly pointed out it drives also the margins a little higher.

Rahul Gajare:

Sir my second question is actually the export also maybe you could just touch upon how much was export in the order book. And given that we are probably in the final leg of the OSAT approvals, etc-. I want to understand how many people will you need to run this operation at peak, and do you see an issue of skilled manpower?

Jairam Sampath:

So firstly on the export order book. See typically currently the export portion is exactly similar to what we actually do, which is around 15% kind of number. But going forward, like I said, in industrial area and some other areas like medical and also aerospace, we'll have more export orders coming in. So, let's say in the longer term, I mean, a little longer than this year's this thing, we can see exports climbing up from 15% to about 20% or so by FY'26, 20%-25% kind of time number.

Now, as far as the OSAT is concerned, typically, based on what my studies about the other companies, etcetera, an employee, let's say sales per employee hovers around, let's say, INR1.15 crores to INR1.35 crores per annum. So that's the kind of number you can take as -- so if we plan for, let's say, eventually -- with this capex we plan for, let's just assume that we do INR3,000 crores, then maybe the number of employees will be a tad lower than that, just about, let's say, 15% lower than that. So that's the kind of employee intensity.

But however, while it is by definition not a labour-intensive job, but it's very people dependent. That means highly skilled manpower is required. So, from that perspective, I think, in India, we do have an edge, provided we overcome the problems of all these ecosystem related, the things which government is actually helping. So, I think you will see the competitive advantage building in the OSAT business shortly, maybe in a matter of a couple of years' time. India also will become a reasonably good source for this.

Rahul Gajare:

Thank you very much and all the very best.

Jairam Sampath:

Thank you, Rahulji.

Moderator:

Thank you. Our next question is from the line of Hardik Rawat from IIFL Securities. Please go ahead, sir.

Hardik Rawat:

Thanks for the opportunity and congratulations team on another set of strong results. While all my segment-related questions have broadly been answered, I wanted to understand that we had -- in the 4Q call, we had given a guidance for 70 to 72 days of NWC cycle. The current NWC cycle has come in flat at about 120 days. So are we retaining that guidance? Well, I understand that this was an election quarter, which is why the intensity could have been higher, but could you just touch upon as to what's our guidance for FY'25 in terms of NWC cycle?

Jairam Sampath:

Yes. So while I'd not like to say guidance, but last year we did about 83 days of net working capital average for the year. So it will be superior to that this year. See, the first quarter is always a bit of a problem to defend the net working capital for the simple reason that first quarter is the time when we accumulate a lot of inventories for the future orders.

And this particular quarter was a quarter where the election happened. And so because of this reason, I mean, election happened, of course, the previous quarter, but I would say during this quarter we had the election as well as results coming in, etc-. So that has kind of disturbed the offtake a little bit.

So what happens if the offtake is disturbed? Inventories pile up and a little bit of receivables go up, and that basically affects the networking, so we did take some counteraction and we tried to kind of make sure that we don't onboard too much of inventory, etc-, till we got to where we are. I am quite confident by end of this year; we will reach better than what it was last year. And as we've been indicating, it will be in 70s.

Hardik Rawat:

Got it. My second question is with regards to the other income. Now, other income continues to be elevated on the back of your IPO proceeds being unutilized. So how do we see this evolving over the current fiscal, the utilization of funds and how do we see the other income panning out over the next couple of quarters?

Jairam Sampath:

So, I think it is like this. See, obviously, we had objects specified for this thing, QIP . So, since the approval was pending and now it's about to happen this year, obviously, we'll utilize a lot of capex and so on. This capex is planned over two to three years' timeframe. To that extent, proportionately, we'll consume this capex and obviously, these and all these things will get

converted into equipment. So from that perspective, your other income -- but anyway, the EBITDA that we've talked about, operational EBITDA is excluding the other income, the 13.3%. Just wanted to bring that to your notice.

Hardik Rawat:

Okay. Thank you so much. I'll get back in the queue.

Jairam Sampath:

Thank you, Hardikji.

Moderator:

Thank you. Our next question is from the line of Sonali Salgaonkar from Jefferies. Please go ahead.

Sonali Salgaonkar:

Sir, good afternoon and thank you for the opportunity. Congratulations on a great set of numbers. Sir, my first question is regarding your capex guidance. Is there any change to that FY'25-'26 capex?

Jairam Sampath:

Yes. So, as we had declared earlier, we have new capexes, one in the OSAT business, the other in the PC board business. So, it remains exactly similar to what we had planned earlier. It is just that the implementation timeline got delayed by a couple of months because of the election and election results and all that. Otherwise, the capex plan exactly remains the same because there are a lot of back work to be done before we can make any changes. So, these are the two priority projects with us. One is OSAT, the other one is the PC board project. And obviously, we still have some small amount left in the IPO proceeds to complete our capex implementation in Chamarajanagar and Mysore and Manesar plants.

Sonali Salgaonkar:

Understood. Sir, my second question is on OSAT. I understand that you are awaiting the final approval from the government side. But when you start the operations, what kind of revenues/EBITDA incremental to your core business do you expect from FY'26?

Jairam Sampath:

Yes. So, see, all I can tell you at this point in time is it will be margin accretive to the existing business. Now exactly what, will depend on exactly what orders we receive. And though we have broad MOUs with four customers and so on and so forth, we still have to show them the plant before they can assign a particular product category to us. So, more details shortly, maybe you have to give us a couple of quarters more when we start doing the POC. So, at that point in time, we can work. But all I can say is it will be margin accretive eventually compared to the EMS business.

Sonali Salgaonkar:

And any sense on the incremental revenues?

Jairam Sampath:

Incremental revenues typically in this business, the asset turnover is about 1 to 1.2 or in the best-case scenario, 1.3 or so. So depending on the capexes and the increase in the capacity utilization, we can compute that. And let's say FY'30, we would have done all of this INR3,000 crores of capex in OSAT. So, we should definitely have revenues in excess of INR3,000 crores, maybe 20% more than that, you know, maybe INR3,500 crores by FY'30.

Sonali Salgaonkar:

Understood, sir. That's all from my side. Thank you.

Jairam Sampath:

Thank you, Sonaliji.

Moderator: Thank you. Our next question is from the line of Kaushik Mohan from Ashika Institutional Equities. Please go ahead.

Kaushik Mohan: Hi, sir. Morning. Sir, I just wanted to understand your OSAT business. In one of the interviews, I think one of your managers told that in coming days, like we can see a separate listing for OSAT. Can I understand on the broader terms, how large this OSAT business can be, and how are we geared up for entire thing?

Jairam Sampath: Hi, Kaushikji. Nice hearing your voice. See the thing is, as a company, we have not decided about any listing, etc. Our stand is very simple. Kaynes Technology is the holding company, and all other subsidiaries' results get consolidated into it.

As far as business is concerned, the OSAT business takes anywhere between two to five years for it to start yielding, let's say, 80% capacity utilizations and so on. So, like I said, our OSAT capex is about INR3,000 crores. So by FY'30, we can expect about INR3,500 crores revenues in this. And my estimate is that the margins will be better than our existing business.

But exactly what depends on what kind of products we onboard, and that will depend on customer's decision as to what range of products they want to do with us. But our target is that 25% of business will be in legacy area, legacy semicon assembly area. 75% business, we want to do it in the advanced packaging area. So it looks like this target is achievable. But the only thing is you've got to give it time for implementation of the first POC line, and then do the other approval from customers and so on and so forth.

Kaushik Mohan: Got it. Thanks, sir. And, sir, my second question is on we have spoken about catching \$1 billion on top line by FY'28 as a target. So do we have any contribution of OSAT in these numbers, or this is a separate number?

Jairam Sampath: No, this is a consolidated number. \$1 billion is including OSAT and PC board.

Kaushik Mohan: Okay. So, approximately, what can be the OSAT contribution in this, any backup calculations?

Jairam Sampath: So, this is just an estimate at this point in time. Like I said, OSAT depends on -- we definitely will do consolidated \$1 billion, which is like anywhere between INR8,500 crores to INR9,000 crores kind of number, depending on what the exchange rate is likely to be at that point in time. I would say bulk of the sales will be from the EMS business only. So, it can be close to about 70%-75% will be EMS business at the minimum and the remaining will be new businesses like OSAT and PC board.

Kaushik Mohan: Got it. And how about our capacity utilizations in the current plan, sir?

Jairam Sampath: So, the capacity utilization typically goes through a cycle of low, let's say 40%-50% and then it goes peaks at about 80%-90% when we onboard capacity. So, currently, with the new plant coming up in Hyderabad, so we will have probably capacity utilization reasonably under control. But by the end of the year, we think we will reach more like 80%-90% capacity, 80% capacity utilization, maybe 70%-80%.

And then, of course, first quarter, we have to augment capacities. The Chamarajanagar facilities, Gama building will come up. We are also having plants in Pune and up north in Jammu. So, those capacities will also fire up. So, hopefully, we will be able to manage this. So, end of the year, we'll have maybe 70% utilization. And then, of course, we'll have to add such capacities to cater to the additional business for the next year.

Kaushik Mohan:

Got it. And, sir, how about our smart meter business? How big is this opportunity? Because now I see that the government is very cautious on not losing the electricity. And also, there are a lot of reports telling that the focus is going on to hydrogen side to create electricity and different forms of electricity like it might be rooftop solar or it might be wind energy or anything. So, and smart meters plays a very big vital role on this play. So, can I understand where are we getting the clients and what is this entire division will look like?

Jairam Sampath:

See, in this smart meter space, broadly out of 250 million units that were planned to be implemented about 10 million units have been already implemented. So, it's a very large, let's say, use case that has been done. Of course, there were a few queries here and there some users said no, etcetera.

Obviously, when you put 1 crore meters, there will be at least a few thousands of people who will protest etc. But broadly, the information from our customers is that this entire thing is working system is working. And so, another 240 million meters at the minimum will be there. Then of course, we are also -- it's a similar technology. So, we do have access to customers who would be also looking at other metering whether it's water whether it's gas and so on and so forth. So, it's an exciting area.

So, with a good, let's say, a business horizon for next at least 5 to 10 years' timeframe. So, 240 million, you can put roughly whatever is the kind of price of a meter anywhere between 2,000 to 5,000 rupees depending on the single case or three cases, etc. So, it's a large amount of business that is coming in and the government talking about a plank. They are promoting only India, Design India made products. And there is also a good export possibilities in this area.

Kaushik Mohan:

So, how much money are we locking up for this business in our balance sheet?

Jairam Sampath:

This is an EMS kind of thing. Obviously, there's an additional capex for plastics, etc, but nothing significant. This also has an asset balance of anywhere between 6 to 8 and maybe nearer to 8 because this will be a product focused activity. So, it is probably less asset intensive than our existing business itself.

Kaushik Mohan:

Got it. So, how about the competition? Because the competition is also very strong in this business, right? Is it sustainable with that internal target of 15% margin that we speak about?

Jairam Sampath:

Yes, sir. So, two of the best service solution and service providers are our customers in this area. So, we think that we'll have a significant and steady market share. So, these are proven solution providers across the world. They are global players who are working in India. So, we are confident that at least to the extent that we do the business, it will be a stable business.

- Kaushik Mohan:** Sure. Thanks, sir. I'll get back in the queue. It was helpful.
- Moderator:** Thank you. Our next question is from the line of Indrajit Agarwal from CLSA. Please go ahead.
- Indrajit Agarwal:** Thank you for the opportunity. A couple of questions. First, on the subsidy on OSAT. So, I just want to understand how does it work? Is it like the government spends life for life or you spend majority of that in the government then reimburses at a later date?
- Jairam Sampath:** Yes. So, there are two subsidies in OSAT. So, one is central government subsidy. The second is state government subsidy. Both are in the nature of cash subsidies. They are not in kind. That's the first thing. The second thing is both are linked to a certain class of, let's say, total class of investment. Maybe the land is excluded from it. Land, we get a special subsidy separately from the state government. If we are approved OSAT plan, they give us 50% off on the land.
- As far as the remaining capex is concerned that is the total capex minus the land, they give us – central government gives us 50% subsidy. That 50% subsidy is issued on a pari-passu basis. That would mean that the moment company invests, let's say, X amount of rupees the government also provides the same amount of rupees, and this can be then used to purchase capex. So, this is pari-passu . As far as state government is concerned, similar method works but the only thing is they await the commencement of operations. That means, which would mean that at least the first couple of lines have to be operational and the company has to start doing some invoicing.
- So, we have taken a period of two years for this purpose like, let's say, FY '26, but we are confident that much before that we will probably start doing it that we start enjoying the state government subsidy. State government subsidy is anywhere between 20% and 25% of the total capex and this is contingent on getting approval from the central government subsidy.
- Indrajit Agarwal:** And there is no tax implication of this, right? So, independent of the tax.
- Jairam Sampath:** There is no implication of government subsidy. No, there's no implication of tax in this. The only thing is that they want us to work for a period of five years make sure that the assets are productive, and we start doing business, and we onboard some good technology, which then the government can talk about and so on. So, they have been actually very supportive in this and helping us. They are also giving us some contracts, etc, to improve our program.
- Indrajit Agarwal:** Sure, this is helpful. And second question is on Kavach. So, I understand the proof of concept is still to be done but ultimately, your contract will not be with the government, right? It will be with an ETC player who will have a contract, and you will be a subcontractor. Is that correct? Or you can direct your contract to the government?
- Jairam Sampath:** Yes. So, while we have not worked out the actual modality, but see, typically, all railway contracts, they say development and manufacturing, okay? They don't really speak. So, the key to supply to somebody like railways is approval from their side. So, what we are doing is we are working with the technology provider, and making a cost-effective solution for Kavach , and getting it approved by RDSO.

There are two options. One, of course, we can directly supply, or the other is through other OEMs. We have all the key OEMs already working with us. And the third option is somebody else's Kavach design also we can manufacture. So, we do have [RFQ's] in all the three areas.

So, maybe the first step for us is to demonstrate that we have a Kavach product, which we will do, like Rameshji said in his opening remarks, we will do probably by the end of this year or early next year. And after that, then we will do this business split between these three different methods, you know?

Indrajit Agarwal: So, are your existing railway contractors or customers the same as the Kavach customers, or there will be different set of customers for the OEMs?

Jairam Sampath: They will be similar, because the railway ecosystem is such that the tenders are picked up by implementation contractors who have trained staff. So, they align with one of the big major OEMs, in the signalling system. And these are very same people who will actually implement probably the coverage program also. So, it will be the same ecosystem.

Indrajit Agarwal: Sure. Thank you. This is helpful. That's all from my side and all that. Thank you.

Jairam Sampath: Thank you so much, Indrajit.

Moderator: Thank you. Our next question is from the line of Karan Sanwal from Niveshaay. Please go ahead.

Karan Sanwal: Yes. So, I wanted to understand, from the product that we manufacture, what would be the major components in terms of, percentage value, which is sourced from the domestic market currently, buyer PCBs, transformers, resistors, if you could highlight the major components?

Management: So, you are talking about, currently, you are talking about our existing EMS business, correct?

Karan Sanwal: Yes.

Jairam Sampath: Yes. So, basically, in existing EMS business, if you say, roughly 60% of the entire materials are generally imported, 40% is locally manufactured.

Karan Sanwal: Okay. And what would be the major components in those 40%?

Management: So, Karanji, what I was...

Management: Did we get dropped?

Jairam Sampath: No. I will repeat that.

Karan Sanwal: Okay.

Jairam Sampath: Yes. So, he was asking about the import from the EMS business, and I was explaining the, some of the things, like, PC Boards will get indigenized, and some of the OSATs also will probably source will become India, but, again, continue to be imported, because it will go to the global supply chain, which they are also outside of India. And so, yes.

So, roughly about 60% is imported. Out of that, maybe 10% of sales will probably get indigenized into India, and the remaining 50% will continue to be imported from outside of India.

Karan Sanwal: Okay. And also, if you could state the gross debt level and the average interest cost for the as on date?

Jairam Sampath: I didn't get your question, but can you just repeat it slowly?

Karan Sanwal: Yes. I was asking about gross debt level and the average interest cost?

Jairam Sampath: Okay. Gross debt level. So, like I said, this is a temporary thing. We do have a little bit of increase in inventories, and also, a couple of customers, there was a delay in payments, but we have now figured out how to get that organized. So, going forward, that will come down.

Karan Sanwal: Okay. That's it from my side. Thank you.

Jairam Sampath: Thank you, Karanji.

Moderator: Thank you. Our next question is from the line of Rajesh Vora from JAINMAY VENTURE. Please go ahead.

Rajesh Vora: Good afternoon, gentlemen. Congrats on a strong first quarter. Rameshji, the US \$1 billion revenue aspirational target coming nearer, when are we expecting that to hit?

Jairam Sampath: Yes, Rajeshji, thank you for joining this call, especially on a Saturday. So, this \$1 billion is our aspirational target as of FY'28, sir. And like I said, I was explaining the 75% to 80% will be our existing EMS business. Remaining will be augmented by new businesses in OSAT as well as the PC board area.

Rajesh Vora: At that level, Jayaramji, it would be, the margin would be higher than where we are today. As you stated, OSAT and PCB will have a higher margin.

Jairam Sampath: Yes, sir. By that point, we would have probably worked on the high-density interconnection boards and also the advanced packaging. So we are expecting the new businesses to be value accretive and margin accretive also. So, you are right. It will be, the total consolidated numbers should have higher margins than just the EMS business.

Rajesh Vora: Right. And my second question is, I remember having, discussing with you and Rameshji about Danaher Corp, which is, I believe, one of your customers. And it has a very good basket of products on the medical devices side. And they've done very well over the years on acquisition side as well. So, are we accumulating anything from that company? or any other EMS company?

Jairam Sampath: Sir, you asked about whether we are getting some business from this medical device company that we have onboarded as a client. Is that the question, sir?

Rajesh Vora: No. I'm saying Danaher Corp, is that one of your clients?

Jairam Sampath: Yes, one of their subsidiaries is a client of ours. And yes, we are seeing some little uptake in this, but too early to declare victory, sir. But yes, we are qualified by the Danaher Group company. So, as and when their outsourcing spend increases, we will be the beneficiaries.

Rajesh Vora: Yes. And my second part of the question, Jairamji, was about, do we, are we benchmarking our company on any other global EMS or something like Danaher Corp, or is it something that we should be thinking about?

Jairam Sampath: Yes, sir. So, in terms of benchmarking, sir, we have an internal process of what we call best in class. That means, in terms of product portfolio, we should be like somebody like, without prejudice, I would say somebody like a Plexus Corporation, right? They have very cool products, full-built products they make, etc. In terms of margins, we should be like some of the smaller organizations which do EMS across the world in aerospace and all that. These are high margin and protected markets.

When I say protected markets, we are niche players who are very difficult to replace. We have developed intrinsic technology. So, we conceive us to be an integrated EMS player with doing some technology, high-tech products, doing complete value chain for the customer, which would include, of course, blocks build.

And in certain set of our customers, we would like to do what you call the silicon assembly also through our OSAT. And we would also like to do the PC board, which is especially the high-density PC board, so that we become a preferred supplier of people seeking highly complex and highly technology-oriented products, which we believe that the entire electronic assembly is moving in that direction. So, in future, you will see two different types of electronics.

One will be this commercial electronic that will also be high-tech, so there will be high volume. We may not be getting there, the commercial and consumer kind of thing. The other is industrial type of thing, which will be high-tech. So, we think that we will be a good supplier of this high-tech. And volumes may not be necessarily high, but they will be all complex and critical products with new generation of silicon, etc, where in some cases, we'll get some opportunity for silicon assembly also.

Rajesh Vora: Lovely. Makes sense, Jairamji. Thank you very much and wish you all the very best for a billion-dollar target. Thank you.

Jairam Sampath: Thank you, Rajeshji. Thank you so much.

Moderator: Thank you. Our next question is from the line of Nikhil Kale from Invesco. Please go ahead.

Nikhil Kale: Yes, hi. Good afternoon, everyone. Thank you for the opportunity. Congrats on a very good set of numbers. So, Jairamji, first question is on the PCB business. So, like you highlighted on the OSAT, we are looking at maybe like a INR3,500-odd crore kind of a target for FY '30. What could be the potential top line that we can achieve on the PCB business? So, I will just maybe talk about that.

Jairam Sampath: Yes, Nikhilji, thank you for this question. So, the PC Board, originally, we said phase one maybe will be about INR730 crores, but we are now working with state governments to get a little higher subsidy too. So, eventually, by FY '30, I think we would probably have a capex of about excess of INR1,200 to INR1,400 crores.

So, here also you can expect a top line of anywhere between, depending on capacity utilization, anywhere between INR1,000 to INR1,500 crores by FY '30. So, this will be roughly 40% of the business of OSAT itself. OSAT will be, anywhere between INR3,000 to INR3,500 crores, this will be about INR1,000 to INR2,500 crores by FY '30.

Nikhil Kale: Got it. So, by FY '30, broadly INR4,500, INR5,000-odd crore from the new businesses. And safe to say that the PAT margins on these businesses would be similar, maybe would be better than the legacy?

Jairam Sampath: Yes, it will be higher than our US business.

Nikhil Kale: Yes. Got it. And just a second question was on the order book. I think at the start of the call, you mentioned that there are some new orders that you've got where the execution time frame is slightly higher. You talked about a 10% kind of a number. So, just wanted to clarify this. So, out of INR5,000-odd crore, broadly maybe INR500, INR600-odd crore is something which will get executed over two years and the remaining will get executed over the next 12 to 15 months. Is this understanding, correct?

Jairam Sampath: Not really. What I'm saying is, I was talking about the orders added. So, I was trying to explain. I think the question was sudden increase in the order inflow. What does it mean? Does it mean that this year will go beyond 3,000? I was trying to explain that those order inflows are pertaining to some executions which are not in this year. But broadly, 60% to 70% of the order book gets typically executed in the year. So, you can take anywhere, let's say INR5,000 crore is the order book at the end of June. So, 70% of that, 60% of that is about 3,000. We already run 500. So, obviously, we have good coverage.

In fact, there will be a challenge in terms of actually completing the entire thing because of capacity and all related things. So, roughly about 60% at any given point in time for the next 60% to 70% for the next 12 months kind of time frame. So yes, obviously, most of the orders that we'll execute this year are already there with us. Some customers will give six months to a year order. They will keep coming in. And yes, so we will try and make sure that we satisfy the customer to the best possible extent.

Nikhil Kale: Okay, got it. And just last question on the working capital cycle. I think in the past, we've spoken about that we are in discussions with our vendors to maybe set up warehouses in India or maybe suppliers from local kind of regions. So, any progress on that? Because, I mean, the way the order book has been ramping up, we'll constantly be in this phase wherein we'll have to kind of order more inventory for our future orders. So, then how do you kind of look at working capital kind of coming down? So, these initiatives will be important, right?



Jairam Sampath: Yes. So, the near shoring of inventory is one activity. We couldn't do too much progress last three quarters, last three months, because I think everybody is watching the budget and provisions for providing some benefit in that area. We expect that in another couple of months' time government will also initiate some policies on logistics. So, it'll make it easier for people to near shore inventory. On the other hand, just based on our own stream, we have got positive response from most of the suppliers.

So, we'll try and do something this year where the locally people keep some stocks for us to relieve some of the burden. So, we are working in that direction. More on it maybe by quarter three or so. The remaining improvements that we do in this thing will be based on efficiency improvements and also making sure the shortages are not there and so on and also working in factoring agencies for making sure that the refusals are under control.

Nikhil Kale: Okay. Thank you. Thank you so much.

Jairam Sampath: Thank you, Nikhil.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. I now end the conference over to management for closing comments.

Jairam Sampath: So, are there any more questions?

Management: No, last question.

Management: That's complete. All right. Thank you very much for attending this on a Saturday. We appreciate the interest shown, probably one of the best attendances on a holiday for an earnings call. And next time around we'll keep it on a working day so that we don't inconvenience you too much. Thank you so much. Bye-bye.

Management: Thank you.

Moderator: Thank you. On behalf of ICICI securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.