

13 December 2025

Disproportionate punishment for misdemeanor

Kaynes Technology (KAYNES IN) stock price has corrected by 41% over last three months (19% after Q2FY26 results and ~22% after corporate governance issues were raised) as concerns over cash flow generation were compounded by inconsistencies in accounting disclosures. While we believe that upholding rigorous accounting standards and comprehensive disclosures is paramount, market reaction to recent events is disproportionate to the scale of disclosure and accounting inconsistencies raised as there is no material impact on growth prospects and fundamentals relating to revenue and margins. Given the strong growth prospects of the company (FY25-FY28 revenue and PAT CAGR 47% & 49% respectively), and post the recent sharp correction, we believe the stock remains a compelling 'BUY'. We maintain our EPS target (127.7) and value the stock at 42x FY27E P/E(vs 70x earlier) with a TP of INR 5,365, converging with the recent moderation in EMS industry multiples. Key monitorable deliverables for the Kaynes hereon is the ability to turn cash flow positive and reduce working capital days, absent which the potential for downside stays alive. Our base case is that the company will be able to resolve its cash flow issues by Q4FY26.

**Differences in goodwill reporting stem from differing opinions:** Regarding the inconsistency in goodwill relating to the Iskraemeco acquisition, management clarified that the capital reserve arising from Iskraemeco of INR ~522mn has been netted off against goodwill arising from acquisition of Sensonic of ~INR 511mn, resulting in a net recognition of ~INR 10mn. The purchase consideration paid to Iskraemeco also includes recognition of intangible assets of INR 1.15bn for technical know-how. The differences in goodwill recognition stems from the differing opinion in valuing intangible assets and can be argued on both counts- for and against. The moot question is whether a sum of INR 510mn has a material impact on financials and warrants a correction of INR 153bn in the value of the firm. We believe it doesn't.

**No impact on growth; H2 sales better than H1:** In FY25 (ex of Iskraemeco acquisition), H1 accounted for 33% of sales, and H2 67%, and we expect similar trend to continue in FY26. KAYNES has seen strong growth in orderbook of 49% YoY to INR 81bn in Q2FY26 (inclusive of Iskraemeco orderbook). As such, we believe that there is no meaningful impact on EMS growth prospects for KAYNES. We expect Iskraemeco revenue to sustain at current levels in the upcoming years with the non-smart meter revenue outgrowing the smart meter revenue.

**Retain Buy with a lower TP of INR 5,365:** While we agree a growing company like KAYNES must have better disclosure policies, the accounting issues raised are not material and do not have an adverse impact on the growth outlook. We welcome the clarifications issued by the management, along with commitment to strengthen internal controls. The company currently trades at 38x FY27E P/E (10% lower than the industry average), making it the most attractive in the EMS space. We retain **Buy** but lower our TP to INR 5,365 from INR 7,670 on 42x (from 60x) September FY27E P/E (converging with recent correction in EMS industry one-year forward P/E). We expect working capital concerns to ease by Q4FY26 and overall EMS growth outlook to remain unchanged. A key risk would be working capital days not reducing as per guidance, which may result in derating for the stock.

Key financials

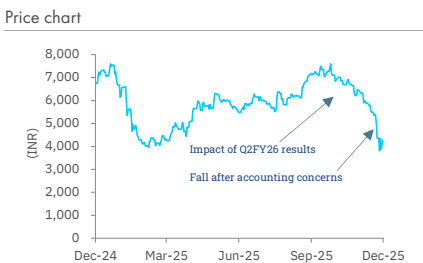
YE March (INR mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue (INR mn)	18,046	27,218	42,631	62,197	85,718
YoY (%)	60.3	50.8	56.6	45.9	37.8
EBITDA (INR mn)	2,542	4,107	6,767	10,248	14,880
EBITDA margin (%)	14.1	15.1	15.9	16.5	17.4
Adj PAT (INR mn)	1,833	2,934	4,750	6,662	9,711
YoY (%)	92.5	60.1	61.9	40.3	45.8
Fully DEPS (INR)	28.7	45.8	74.1	104.0	151.5
RoE (%)	10.6	11.0	11.0	10.7	13.6
RoCE (%)	11.8	11.2	11.3	11.3	14.7
P/E (x)	148.7	93.2	57.6	41.0	28.1
EV/EBITDA (x)	111.9	69.2	42.0	27.7	19.1

Note: Pricing as on 12 December 2025; Source: Company, Elara Securities Estimate

Rating: Buy  
Target Price: INR 5,365  
Upside: 26%  
CMP: INR 4,266  
As on 12 December 2025

Key data	
Bloomberg	KAYNES IN
Reuters Code	KAYN.NS
Shares outstanding (mn)	67
Market cap (INR bn/USD mn)	286/3,162
EV (INR bn/USD mn)	284/3,144
ADTV 3M (INR mn/USD mn)	8,378/93
52 week high/low	7,825/3,713
Free float (%)	47

Note: as on 12 December 2025; Source: Bloomberg



Source: Bloomberg

	Q3 FY25	Q4 FY25	Q1 FY26	Q2 FY26
Shareholding (%)				
Promoter	57.8	57.8	53.5	53.5
% Pledge	0.0	0.0	0.0	0.0
FII	14.9	11.3	10.7	10.7
DII	15.0	17.0	22.4	23.7
Others	12.3	13.9	13.4	12.2

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	3.7	4.7	6.1
Kaynes Technology	(40.5)	(22.1)	(35.3)
NSE Mid-cap	2.9	3.5	3.0
NSE Small-cap	(4.4)	(5.1)	(10.5)

Source: Bloomberg

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## Financials (YE March)

<b>Income Statement (INR mn)</b>	<b>FY24</b>	<b>FY25</b>	<b>FY26E</b>	<b>FY27E</b>	<b>FY28E</b>
Total Revenue	18,046	27,218	42,631	62,197	85,718
Gross Profit	4,747	8,220	14,105	21,190	29,936
EBITDA	2,542	4,107	6,767	10,248	14,880
EBIT	2,290	3,660	5,846	8,146	12,104
Interest expense	534	1,013	1,214	840	985
Other income	559	1,070	1,464	1,438	1,343
Exceptional/ Extra-ordinary items	-	-	-	-	-
PBT	2,316	3,716	6,096	8,744	12,462
Tax	483	782	1,346	2,082	2,751
Minority interest/Associates income	-	-	-	-	-
Reported PAT	1,833	2,934	4,750	6,662	9,711
Adjusted PAT	1,833	2,934	4,750	6,662	9,711
<b>Balance Sheet (INR mn)</b>	<b>FY24</b>	<b>FY25</b>	<b>FY26E</b>	<b>FY27E</b>	<b>FY28E</b>
Shareholders' Equity	24,869	28,403	58,004	66,399	75,976
Minority Interest	16	40	-	-	-
Trade Payables	3,610	6,829	8,302	11,872	15,749
Provisions & Other Current Liabilities	803	1,912	3,007	4,241	5,525
Total Borrowings	3,061	8,755	8,139	11,403	11,437
Other long term liabilities	293	474	751	3,603	7,745
<b>Total liabilities &amp; equity</b>	<b>32,651</b>	<b>46,412</b>	<b>78,203</b>	<b>97,518</b>	<b>116,432</b>
Net Fixed Assets	3,025	8,308	11,048	20,582	25,115
Goodwill	152	141	141	141	141
Intangible assets	-	-	-	-	-
Business Investments / other NC assets	3,593	11,130	5,198	5,159	4,922
Cash, Bank Balances & treasury investments	15,256	10,563	26,213	21,347	20,653
Inventories	5,483	8,144	14,902	21,339	27,899
Sundry Debtors	3,556	5,746	10,218	14,062	18,236
Other Current Assets	1,588	2,379	10,482	14,888	19,466
<b>Total Assets</b>	<b>32,651</b>	<b>46,412</b>	<b>78,203</b>	<b>97,518</b>	<b>116,432</b>
<b>Cash Flow Statement (INR mn)</b>	<b>FY24</b>	<b>FY25</b>	<b>FY26E</b>	<b>FY27E</b>	<b>FY28E</b>
<b>Cashflow from Operations</b>	<b>702</b>	<b>3,079</b>	<b>(9,893)</b>	<b>(286)</b>	<b>3,311</b>
Capital expenditure	(3,826)	(8,594)	(257)	(11,585)	(7,059)
Acquisitions / divestitures	(11,746)	-	-	-	-
Other Business cashflow	520	-	-	-	-
<b>Free Cash Flow</b>	<b>(14,350)</b>	<b>(5,515)</b>	<b>(10,150)</b>	<b>(11,871)</b>	<b>(3,748)</b>
Cashflow from Financing	24,746	822	25,801	7,005	3,054
Net Change in Cash / treasury investments	10,396	(4,692)	15,650	(4,867)	(693)
<b>Key assumptions &amp; Ratios</b>	<b>FY24</b>	<b>FY25</b>	<b>FY26E</b>	<b>FY27E</b>	<b>FY28E</b>
Dividend per share (INR)	-	-	2.0	2.0	2.0
Book value per share (INR)	389.1	443.2	905.1	1,036.1	1,185.6
RoCE (Pre-tax) (%)	11.8	11.2	11.3	11.3	14.7
ROIC (Pre-tax) (%)	24.4	18.6	17.6	16.9	19.6
ROE (%)	10.6	11.0	11.0	10.7	13.6
Asset Turnover (x)	8.4	4.8	4.4	3.9	3.8
Net Debt to Equity (x)	(0.5)	(0.1)	(0.3)	(0.1)	(0.1)
Net Debt to EBITDA (x)	(4.8)	(0.4)	(2.7)	(1.0)	(0.6)
Interest cover (x) (EBITDA/ int exp)	4.8	4.1	5.6	12.2	15.1
Total Working capital days (WC/rev)	534.8	291.8	527.8	386.6	320.7
<b>Valuation</b>	<b>FY24</b>	<b>FY25</b>	<b>FY26E</b>	<b>FY27E</b>	<b>FY28E</b>
P/E (x)	148.7	93.2	57.6	41.0	28.1
P/Sales (x)	15.8	10.5	6.7	4.6	3.3
EV/ EBITDA (x)	111.9	69.2	42.0	27.7	19.1
EV/ OCF (x)	405.3	92.3	(28.7)	(993.1)	85.9
FCF Yield	(0.1)	0.0	0.0	0.0	0.0
Price to BV (x)	11.0	9.6	4.7	4.1	3.6
Dividend yield (%)	-	-	0.0	0.0	0.0

Revenue CAGR of 47% during FY25-28E

Note: Pricing as on 12 December 2025; Source: Company, Elara Securities Estimate

## Lapse in RPT in standalone statements acknowledged

On the issue regarding reporting of related party transactions for Iskraemeco and Kaynes subsidiaries in the standalone statements, management acknowledged its oversight in reporting the disclosure. A growing company like KAYNES should have better disclosure reporting, attributing the accounting and disclosure discrepancies to a deliberate corporate governance behaviour could be an over kill especially since the corrective steps are in the offing.

## Iskraemeco margins 9% in H2FY25 and not 28% as mentioned in the report

With respect to Iskraemeco margins in FY25, KAYNES says H1FY25 saw one-time inventory write-off of INR 440mn and Other expenses of INR 60mn, which dragged margin during that period. In H2FY25, margin was 9% and not 28% as stated in the report. In H1FY26, INR 5bn sales was booked in Iskraemeco and INR 3bn is likely in H2FY26, and expects to sustain the run-rate in the upcoming years, with non-smart meter categories likely to outgrow smart meters. On a revenue of INR 8bn for FY26, it would account for 18% of KAYNES expected revenue of INR 45bn for the year. We believe that this share of sales would gradually reduce in the future as other categories outgrow this.

## R&D expenses relating to a particular project with potential revenue stream capitalized:

On the R&D front, management says research expenses include expenses, which do not relate to any particular project, while development expenses, which are capitalized and later amortized, relate to specific revenue-generating projects. Major developmental expenditure capitalized relate to the *Kavach* project.

## Receivables likely to reduce and OCF positive by Q4FY26:

KAYNES expects to eliminate INR 2.4bn worth of non-current receivables of Iskraemeco through collection and discounting by Q4FY26 and reduce overall receivable days to 90 through bill discounting and supply chain financing. Interest cost may increase up to 10%, due to discounting that may be offset through internal cost optimization. Receivable days shooting up and resultant negative OCF has been a key concern for investors since Q1. While management has assured normalization in receivables by Q4FY26 along with OCF positive cash flow in the same period, we would be closely monitoring the progress on these levels. If management is able to deliver on these issues then it may result in rerating of the stock.

## Conference call highlights

### Goodwill issue

- ▶ Iskraemeco
  - ▶ Net assets: -INR 199mn
  - ▶ Consideration: ~INR 430mn
  - ▶ Intangible assets recognized: INR 1,150mn
  - ▶ **Net capital reserves: INR 521.5mn**
- ▶ Sensonic
  - ▶ Net assets: -INR 58mn
  - ▶ Consideration: INR 453mn
  - ▶ **Goodwill recognized: INR 511mn**
- ▶ KAYNES netted off capital reserve of Iskraemeco and goodwill of Sensonic, resulting in net disclosure of -INR 10.31mn goodwill and capital reserve instead of showing it separately.
- ▶ As per management, this is as per INDAS 103 requirements.
- ▶ Intangible assets capitalized: INR 1,150mn of intangibles include customer contracts from Iskraemeco classified as technical know-how due to design and technical package for smart meters. Around INR 275mn includes developmental expenditure and the balance includes in-house R&D for proprietary products

## Iskraemeco margin

- ▶ H2FY25 margin is 9%, not 28% as reported in the Kotak Securities report. Margin was lower, due to lower sales in H1, higher provisions for Iskraemeco due diligence and inventory write-off of INR 440mn pertaining to items not capable of revenue generation along with Other expenses of INR 60mn
- ▶ PAT of INR 489mn in H2FY25
- ▶ H1FY25 revenue of INR 850mn
- ▶ H2FY25 revenue consolidated of INR 5.3bn
- ▶ In H1FY26, INR 5bn revenue is booked to date for Iskraemeco and expects INR 3bn revenue likely in H2FY26
- ▶ Likely to collect receivables from H1 revenue in H2

## Related party transactions

- ▶ Acknowledged inconsistency in standalone reporting for one of the items to subsidiary, which was correctly reported in consolidated as Iskraemeco earlier was a customer and supplier in H1 before acquisition; in H2, it became a related party. This has been rectified

## Receivables

- ▶ Higher working capital days is not unusual in the EMS industry
- ▶ KAYNES is working to reduce receivables days to 90
- ▶ As on September 2025, ~INR 6.9bn receivables pertain to smart meters, including non-current assets portion. Management is confident that out of this, INR 2.4bn would be discounted and reduced
- ▶ Supply chain financing is through foreign banks where the interest rate is lower
- ▶ Management expects interest cost, including bill discounting to rise up to 10%; however, this would be offset through internal cost optimization
- ▶ Provisions for bad debts is not equivalent to write offs. Once amount is received from customer then balance is adjusted accordingly with provisions written back.

## R&D

- ▶ Whenever KAYNES does general research not specific to a project, it is expensed off in P&L. If it identifies a particular project with a revenue stream, that is classified as development and capitalized. When revenue cycle starts, amortization commences
- ▶ Major development expenses were for *Kavach* development

## Contingent liabilities

- ▶ Contingent liabilities majorly pertain to INR 1.9bn performance guarantee to Power Grid Corporation and INR 1.3bn guarantee for Kaynes Semicon and Iskraemeco, which is part of business requirement

## Cashflow statement asset purchases

- ▶ Assets purchased worth INR 9.5bn – INR 7.8bn PPE and CWIP after adjusting for capital advances, and INR 1.7bn of Right of Use (ROU) assets after netting off subsidy
- ▶ This is disclosed appropriately in cashflow from investing
- ▶ In the near term, it does not expect to be FCF-positive but expects to be OCF-positive, which would be utilized for asset purchase to sustain growth rate

## OSAT and PCB capex and subsidy

- ▶ OSAT and PCB capex funded through internal accruals, QIP money, debt, and subsidy
- ▶ Management does not expect any issues in receipt of capital subsidy from the government

### Growth outlook

- ▶ In the long term, management expects Iskraemeco to sustain at the current growth rate
- ▶ It expects non-smart meter categories and other categories, such as automotive, railways, aerospace and defence, to show a growth rate more than the company's current growth rate

### Mitigating steps and way forward

- ▶ Acknowledge lapse in reporting the disclosure regarding related party transactions in standalone financials, which were correctly reported in consolidated financials
- ▶ There is no lapse in governance in reporting or management
- ▶ Taking steps to ensure this issue does not recur like inducting software for contra entries
- ▶ May replace current auditors with more reputed ones

### Exhibit 1: Valuation

(INR)	
EPS – FY26E	74.1
EPS – FY27E	104.0
Five-year average P/E (x)	61.1
Target multiple (x)	42.0
September 2027E EPS	128
<b>Target price</b>	<b>5,365</b>

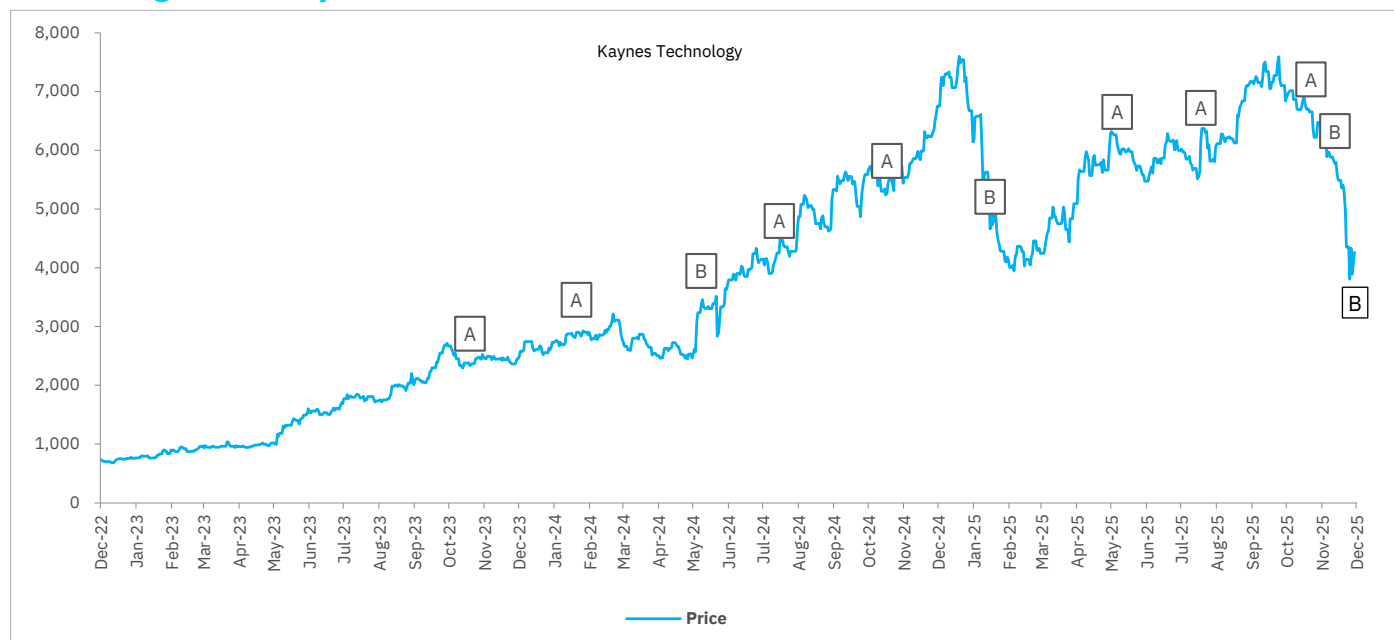
Source: Elara Securities Estimate

### Exhibit 2: Kaynes price corrected 19% post declaration of Q2 results and 26% after CG issues raised



Source: Company, Elara Securities Research

## Coverage History



Date	Rating	Target Price (INR)	Closing Price (INR)
01-Nov-2023	Accumulate	2,610	2,332
02-Feb-2024	Accumulate	3,100	2,907
21-May-2024	Buy	4,060	3,396
28-Jul-2024	Accumulate	4,600	4,250
30-Oct-2024	Accumulate	5,590	5,270
28-Jan-2025	Buy	5,790	4,661
19-May-2025	Accumulate	6,380	6,105
31-Jul-2025	Accumulate	7,100	6,172
04-Nov-2025	Accumulate	7,670	6,659
25-Nov-2025	Buy	7,670	5,778
12-Dec-2025	Buy	5,365	4,266

## Guide to Research Rating

<b>BUY (B)</b>	Absolute Return >+20%
<b>ACCUMULATE (A)</b>	Absolute Return +5% to +20%
<b>REDUCE (R)</b>	Absolute Return -5% to +5%
<b>SELL (S)</b>	Absolute Return < -5%

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