India

Overweight *(Initiating coverage)*

Highlighted Companies

Cyient DLM Ltd

ADD, TP Rs880, Rs721 close

We like Cyient DLM which offers electronics solutions for mission-critical applications with high entry barriers in regulated sectors like aerospace & defence, medical technology and industrials. The company has built a healthy client base in the past with a strong parentage. Initiate coverage on the stock with an ADD rating.

Kaynes Technology

ADD, TP Rs2800, Rs2300 close

Kaynes Technology continues to focus on low-volume, high-mix business with specialized product offerings for higher margins. The proportion of higher value-added services has increased over the past few quarters. Initiate coverage on the stock with an ADD rating.

Dixon Technologies

ADD, TP Rs6165, Rs5289 close

Dixon Technologies' business model is highly scalable and profitable, with high fungibility in its products line. The company has captured a large market share across categories in the consumer electronics outsourcing space much ahead of its peers. Initiate coverage on the stock with an ADD rating.

Summary Valuation Metrics

P/E (x)	Mar22-A	Mar23-A	Mar24-F
Cyient DLM Ltd	95.7	120.1	84.0
Kaynes Technology	320.9	140.5	71.7
Dixon Technologies	164.9	123.7	80.7

P/BV (x)	Mar22-A	Mar23-A	Mar24-F
Cyient DLM Ltd	49.4	19.3	5.9
Kaynes Technology	66.1	14.0	11.7
Dixon Technologies	31.5	24.5	19.0

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India EMS

Burgeoning 'glocalization'

- India's EMS industry to post ~32% CAGR to touch US$80bn by CY26F, and its share in the global EMS market to rise from 2.2% to 7% in the same period.
- The government has come out with several policies over the last few years to boost innovation & develop best-in-class electronics manufacturing set-ups.
- India may become the most attractive country for EMS with its 'Make in India for the World' program. Initiate coverage on the sector with Overweight rating.

Transformation of India's EMS sector

India's electronic manufacturing services or EMS sector is likely to clock ~32% CAGR from US$20bn in CY21 to touch US$80bn by CY26F, the fastest growth among all countries (Source: Company's DRHP). India is likely to see a continuous strong push from the government to make the country an ideal location for electronics manufacturing.

The China +1 strategy augurs well for India

China leads the global EMS business with a share of 46.7%. Many global electronics manufacturers are now rethinking their China +1 strategy and are looking at alternate manufacturing locations for exports, creating a tremendous investment potential for countries like Vietnam, India, the Philippines, etc. Our strategist Satish Kumar also believes that **hardware is the real China+1 opportunity.** To see his report, click: Military, Money and Microorganism.

Government policies provide the necessary impetus

The Indian electronics sector is all set to transform, led by the strong government push to broaden its operations and revenue. India's government has been proactively building a base for electronics manufacturing in the country, and it has launched many incentive schemes which promote the growth of manufacturing, reduce the dependence on imports and boost exports. The government has also framed numerous policies over the last few years to increase innovation and develop best-in-class electronics manufacturing set-ups.

Initiate coverage on the sector with an Overweight rating

We expect EMS companies to report a healthy growth over the next few years led by 1) government initiatives like productivity-linked incentive or PLI scheme, 'Make in India' program, etc., 2) the China + 1 strategy, as many global original equipment manufacturers or OEMs look towards shifting from China, and 3) higher electronic content across major end-user sectors like automobile (including electric vehicles or EVs), consumer durables, industrials and defence. **We initiate coverage on the sector with an Overweight rating.**

Top picks: Our top picks in this sector include **Cyient DLM,** which offers electronics solutions for mission-critical applications with high entry barriers. We also like **Kaynes Technology,** which continues to focus on low-volume, high-mix business with specialized product offerings for higher margins. Moreover, **Dixon Technologies'** model is highly scalable and profitable, with high fungibility in its products line. The company has captured a large market share across categories in the consumer electronics outsourcing space, much ahead of its peers.

Figure 1: Companies under our coverage universe

	Rating	Mkt Cap Rs bn	CMP Rs	Target Price (Rs) Base-case	Upside (%) Base-case	Target P/E (x) Base-case	FY23 RoE
Dixon Technologies	ADD	314	5,276	6,165	17%	55	20%
Amber Enterprises	ADD	100	2,979	3,760	26%	35	8%
PG Electroplast	ADD	46	1,773	2,200	24%	30	22%
Kaynes Technology	ADD	134	2,300	2,800	22%	55	16%
Syrma SGS	ADD	108	613	700	14%	42	12%
Avalon Technologies	ADD	36	557	750	35%	40	17%
Cyient DLM	ADD	57	722	880	22%	50	23%
Elin Electronics	ADD	9	172	210	22%	17	7%
IKIO Lighting	HOLD	27	354	375	6%	24	40%

**EV/EBITDA for IKIO*

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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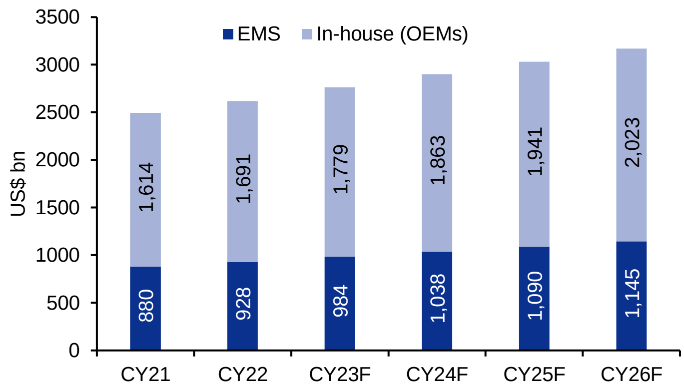
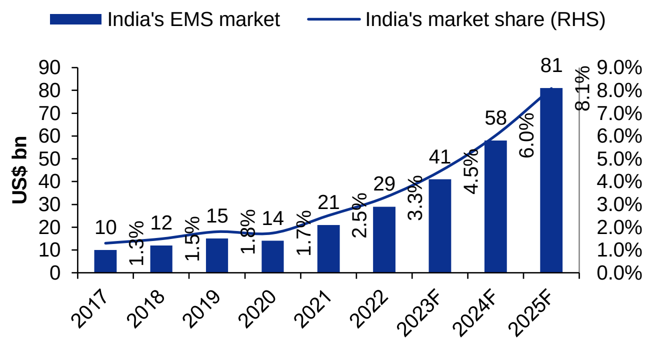
Companies

KEY CHARTS

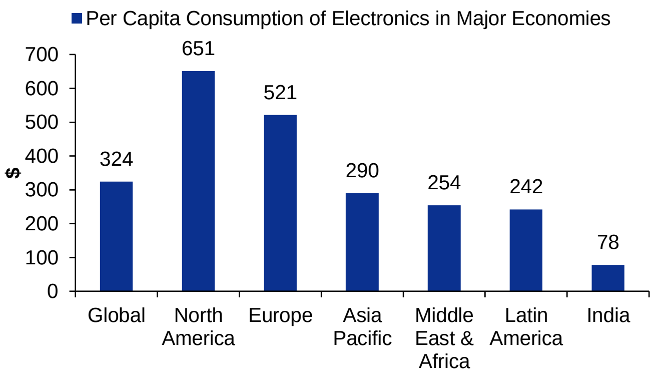
The global electronics market is likely to grow from US$2,494bn in CY21 to US$3,168bn by CY26F, registering ~5% CAGR. The global EMS market was estimated at US$880bn in CY21, which is expected to grow at a CAGR of 5.4% to touch US$1,145bn by CY26F. The growth in the sector will be driven by rising disposable income, improved acceptability of newer products, higher broadband penetration, higher appetite for next-gen technologies, emergence of e-commerce, rising demand from rural markets, etc.



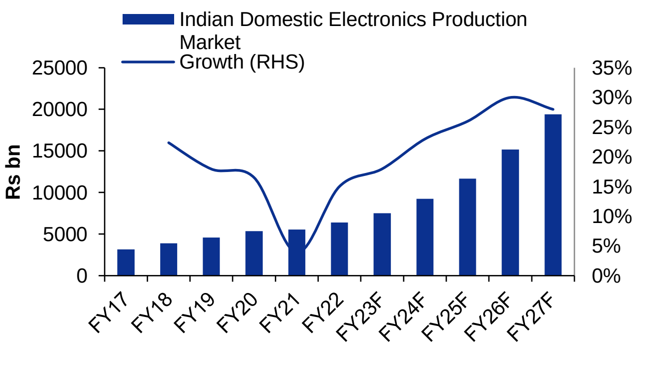
While the global EMS industry is growing at ~5%, India's EMS industry is likely to clock ~32% CAGR over CY21-CY26F from US$20bn to touch US$81bn, the fastest growth among all countries. India's EMS sector accounted for 2.2% of the global EMS market in CY22, which is likely to increase to 7% by CY26F. India is likely to see a continuous strong push from the government to make the country an ideal location for manufacturing electronics hardware.



Per capita consumption of electronics in India is at US$78, which is only 25% of the global average and has enough room to grow in the long run. Domestic electronics consumption is set to grow, led by urbanization and the adoption of electronic products in Tier-2 and Tier-3 cities. Global per capita electronic consumption is also rising, which currently stands at US$324. Per capita consumption is the highest in Western countries and is rising rapidly in major economies such as North America and Europe, driven by the growing adoption of wireless connectivity for several electronic devices.



India's electronics production increased from Rs3,173bn in FY17 to Rs6,377bn in FY22, witnessing a CAGR of 15%. Production is expected to touch Rs19,403bn by FY27F. PLI schemes for mobile phones, IT hardware and electronic components have been successful in attracting global giants while providing a fillip to domestic companies and making them national champions with global aspirations.



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Peer comparison table

Company Name	Bloomberg ticker	Rating	Market cap US$m	Closing Price Rs/share	Target Price Rs/share	Upside (%)	P/E (x)			EV/EBITDA (x)			CAGR % (FY23-26F)			FY26F
							FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	Revenue	EPS	RoE	RoCE
Dixon Technologies	DIXON IN	ADD	3,699	5,276	6,165	16.8	80.8	54.5	41.6	43.5	31.9	24.6	28%	44%	26%	29%
Amber Enterprises	AMBER IN	ADD	1,238	2,979	3,760	26.2	45.0	31.7	24.7	21.0	16.7	13.8	16%	37%	14%	15%
PG Electroplast	PGEL IN	ADD	1,515	1,773	2,200	24.1	38.3	28.4	21.0	19.8	15.3	11.9	26%	41%	14%	16%
Kaynes Technology	KAYNES IN	ADD	1,178	2,300	2,800	21.7	71.7	54.6	38.5	47.8	35.1	25.4	41%	54%	22%	25%
Syrma SGS Technology	SYRMA IN	ADD	665	613	700	14.2	65.3	44.2	31.5	38.7	25.1	17.9	37%	41%	16%	20%
Avalon Technologies	AVALON IN	ADD	468	557	750	34.6	41.2	33.4	26.8	18.7	16.1	13.2	21%	37%	17%	21%
Cyient DLM	CYIENTDL IN	ADD	581	722	880	21.9	84.1	50.8	34.4	39.6	27.5	19.0	37%	74%	14%	17%
IKIO Lighting	IKIO IN	HOLD	348	354	375	5.9	53.1	43.3	35.3	29.1	23.8	19.1	21%	16%	13%	13%
Elin Electronics	ELIN IN	ADD	102	172	210	22.0	21.5	15.7	12.5	9.6	7.4	5.6	12%	37%	11%	13%

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 3: Global peer comparison

Company Name	Bloomberg ticker	Rating	Market cap US$m	Closing Price US$/share	Target Price (Bloomberg) US$/share*	Upside (%)	P/E (x)			EV/EBITDA (x)			CAGR % (CY22-25F)	
							2023F	2024F	2025F	2023F	2024F	2025F	Revenue	EPS
Jabil Inc.	JBL US	Not Rated	16,354	105	119	13.4	12.4	11.4	10.4	5.8	5.6	5.3	4%	6%
Flex	FLEX US	Not Rated	11,876	25	32	27.8	11.0	10.3	9.3	6.0	6.1	5.7		12%
Sanmina Corp	SANM US	Not Rated	3,144	53	77	44.3	8.4	7.9						
Celestica Inc.	CLS US	Not Rated	2,914	23	24	1.8	10.3	9.3	9.2	5.6	5.3	5.1	7%	10%
Plexus Corp	PLXS US	Not Rated	2,566	91	107	17.2	16.5	15.1	12.4	9.9	8.8	7.8	10%	15%

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Investment summary

Amber Enterprises: The company is the leader in the OEM/ODM segments for branded room ACs, with a market share of 29% of the total outsourcing market. Amber Enterprises continues to remain a strong beneficiary of the recently announced PLI scheme for ACs and their components. We estimate electronics/mobility segments' revenue to clock a CAGR of ~22% and ~17%, respectively, over FY23-26F. The margin is likely to remain in the range of 6% to 7%, with an EBITDA CAGR of 16.5% over FY23-26F. We estimate the asset turn ratio to improve from 3.3x in FY23 to 3.7x in FY26F. We estimate cumulative operating cash flow of Rs12.8bn over FY24F-26F. We estimate RoE/RoCE at 15.4%/14.9%, respectively, in FY26F. We expect an EPS CAGR of a massive 37% over FY23-26F. We initiate coverage on the stock with an ADD rating and a target price of Rs3,760 based on a P/E of 35x Sep 2025F EPS. Higher insourcing by a key OEM (AC manufacturer) and supply chain dependence are the key negatives for Amber Enterprises.

Avalon Technologies: The company is continuously expanding its technological expertise in manufacturing products for diverse industries and is integrating its services to serve multiple verticals. Avalon Technologies currently has an average client relationship of eight years, which contributes 80% to sales. We estimate the communication and clean energy segments to clock a CAGR of ~34% and ~27%, respectively, over FY23-26F. Improving the sales mix towards high-margin products is likely to result in operating leverage benefits, with an EBITDA CAGR of 22% and margin expansion of 30bp to 12.2% by FY26F. We estimate the asset turn ratio to remain above 7x in FY23-26F. We estimate cumulative operating cash flow of Rs1.6bn over FY24-FY26F. We estimate RoE/RoCE at 16.9%/19.5%, respectively, in FY26F. We expect an EPS CAGR of 37% over FY23-26F. We initiate coverage on the stock with an ADD rating and a target price of Rs750 based on a P/E of 40x Sep 2025F EPS. Higher exports and supply chain dependence on imports are the key risks for Avalon Technologies.

Cyient DLM: We like Cyient DLM, which offers electronics solutions for mission-critical applications with high entry barriers and regulated sectors like aerospace & defence, medical technology and industrials. The company has built a healthy client base in the past with strong parentage. Cyient DLM has some disruptive companies in its client base, which presents optionality for its EMS business. We expect the aerospace & defence and industrial segments' revenue to clock a CAGR of ~39% and ~38%, respectively, over FY23-36F. Improving sales mix and the focus on cost leadership would result in operating leverage benefits. We estimate an EBITDA CAGR of 40% and margin to rise by 80bp to 11.3% by FY26F from 10.6%. We expect the asset turn ratio to improve from 3.3x in FY23 to ~6x in FY26F. We estimate cumulative operating cash flow of Rs5.5bn over FY24F-26F. We estimate RoE/RoCE at 13.4%/18.6%, respectively, in FY26F. We expect an EPS CAGR of a massive 74% over FY23-26F. We initiate coverage on the stock with an ADD rating and a target price of Rs880 based on a P/E of 50x Sep 2025F EPS. Exposure to the export market (~70% of revenue), and high client concentration (90%+ revenue from top 10 clients) are the key risks for Cyient DLM.

Dixon Technologies: The company's business model is highly scalable and profitable, with high fungibility in its products line. Dixon Technologies has captured a large market share across categories in the consumer electronics outsourcing space, much ahead of its peers. We estimate mobile/consumer segments to clock a CAGR of ~35% and ~23%, respectively, over FY23-26F. The EBITDA margin to stay in the 4% to 5% band while EBITDA to clock a 34% CAGR. The asset turn ratio is likely to be 10x+ during FY23-36F. We estimate cumulative operating cash flow of Rs17.2bn over FY24F-26F. We estimate RoE/RoCE at 29%/37%, respectively, in FY26F. We expect an EPS CAGR of a massive 44% over FY23-26F. We initiate coverage on the stock with an ADD rating and a target price of Rs6,165 based on a P/E of 55x Sep 2025F EPS. Dependance on discretionary spending, lower margin and supply chain dependence are the key risks for Dixon Technologies.

Elin Electronics: The company is expanding into making new products with a higher Bill of Materials ratio. AC motors, chimneys and oil-filled radiators are some of the possible options for Elin Electronics, with the company planning to launch these products by FY25F to boost its revenue. The company is exploring the option of manufacturing EV motors, which is likely to be a big growth driver. With the current gross block, Elin Electronics can generate a revenue of Rs16-18bn without incurring any incremental capex. We estimate its revenue to clock a CAGR of ~12% over FY23-26F while EBITDA and PAT to clock a CAGR of 18% and 37%, respectively, with a 100bp improvement in margin by FY26F. We estimate its asset turn ratio to improve from 2.9x to 3.7x by FY26F. We estimate cumulative operating cash flow of Rs2bn over FY24F-26F. We estimate RoE/RoCE at 11.3%/13.4%, respectively, in FY26F. We initiate coverage on the stock with an ADD rating and a target price of Rs210 based on a P/E of 17x Sep 2025F EPS. 50% revenue from a single client (Signify), weak consumer spending and supply chain dependence are the key negatives for Elin Electronics.

IKIO Lighting: The company is one of the few vertically integrated LED fixtures and lighting players focusing on the design aspect, with its entire revenue coming from ODM, rather than OEM, thus enabling it to post a higher margin. IKIO Lighting has historically witnessed a fixed asset turn ratio of 6x, and this is expected to continue once the capex starts delivering returns by FY27F. The company's foray into lighting products for commercial refrigeration and RV markets will aid its top-line. We estimate its revenue to clock a CAGR of ~21% while the EBITDA margin to decline from 21.6% in FY23 to 20.7% by FY26F, resulting in an EBITDA CAGR of 19% and PAT CAGR of 15% over FY23-FY26F. As the company is incurring significant capex, it will affect its PAT due to depreciation charges. Hence, we decided to go ahead with the EV/EBITDA valuation method. We have assigned a HOLD rating to IKIO Lighting with a target price of Rs375, valuing the stock at 24x Sep 2025F EV/EBITDA. 50% revenue from a single client (Signify), single product dependence (84% from LED lighting), huge capex and supply chain dependence are the key risks for IKIO Lighting.

Kaynes Technology: The company continues to focus on low volume, high-mix business with specialized product offerings for higher margins. The revenue visibility is on track, with the order book at Rs30bn (2.7x FY23 revenue) and margin of ~15%. We expect railway/medical segments' revenue to clock a CAGR of ~50% and ~65%, respectively, over FY23-26F. Improving the sales mix towards high-margin products is likely to result in operating leverage benefits, with an EBITDA CAGR of 44% and margin expansion of 90bp to 15.8% by FY26F. We expect the asset turn ratio to improve from 3.3x in FY23 to ~6x in FY26F. We estimate cumulative operating cash flow of Rs9.8bn over FY24F-26F. We estimate RoE/RoCE at 22.2%/26%, respectively, in FY26F. We expect an EPS CAGR of a massive 54% over FY23-26F. We initiate coverage on the stock with an ADD rating and a target price of Rs2,800 based on a P/E of 55x Sep 2025F EPS. Sustaining the high EBITDA margin of 15%+ amid high volume, onboarding new clients and low entry barriers in automotive and industrial sectors (65% of sales) are the key risks for Kaynes Technology.

PG Electroplast: The company's significant focus on cost leadership, coupled with its entry into a new product business like TV, will improve the asset turn ratio and EBITDA margin. Over the next couple of years, we expect the company to garner a sizeable market share in ACs. PG Electroplast has also planned a Rs3.2bn capex under the PLI scheme for white goods, which is its second-highest investment among contract manufacturers. We expect its product business, which has a higher margin, to contribute ~80% to the top-line by FY26F, compared to 70% in FY23. We estimate RoE/RoCE at 14.1%/15.6%, respectively, in FY26F. We expect an EPS CAGR of a massive 41% over FY23-26F. We initiate coverage on the stock with an ADD rating and a target price of Rs2,200 based on a P/E of 30x Sep 2025F EPS. Higher insourcing by a key OEM (AC manufacturer) and supply chain dependence on China are the key negatives for PG Electroplast.

Syrma SGS Technology: The company is one of the fastest-growing technology-driven engineering & design entities, with a focus on precision manufacturing. Syrma SGS Technology is looking at strategic acquisitions to increase its scale, market share and new products, and has room to improve wallet share, geographic reach and client base. We estimate the healthcare and consumer segments to clock a CAGR of ~48% and ~40%, respectively, over FY23-26F. Improving the sales mix towards high-margin products is likely to result in operating leverage benefits, with an EBITDA CAGR of 40% and margin expansion of 40bp to 9.6% by FY26F. We estimate the asset turn ratio to improve from 4.5x in FY23 to 5.5x in FY26F. We estimate cumulative operating cash flow of Rs6bn over FY24F-26F. We estimate RoE/RoCE at 16.3%/17.8%, respectively, in FY26F. We expect an EPS CAGR of 41% over FY23-26F. We initiate coverage on the stock with an ADD rating and a target price of Rs700 based on a P/E of 42x Sep 2025F EPS. Short-term contracts with clients and the dependence on China for supply of raw materials are the key risks for Syrma SGS Technology.

Valuation and risks

We have used the price-to-earnings ratio (P/E) to value stocks. The companies covered in this report have a lot of scope to gain incremental market share and grow profitably over the next decade, in our view. All these companies generate free cash flows that are enough to reinvest in the business and fund their capex needs from internal accruals. We believe these businesses will compound profits at a 44% CAGR over FY23-26F and, hence, are the best to be valued based on P/E (growth businesses) vs. the discounted cash flow (DCF) method generally used for low-growth, steady-state cash flow businesses.

Most of the companies under our coverage universe are recently listed and have a limited trading history. The industry has robust demand outlook, as indicated by company managements. We expect EMS companies to report a healthy growth over the next few years led by 1) government initiatives like productivity-linked incentive or PLI scheme, ‘Make in India’ program, etc., 2) the China + 1 strategy, as many global original equipment manufacturers or OEMs look towards shifting from China, and 3) higher electronic content across major end-user sectors like automobiles, electric vehicles or EVs, consumer durables, industrial and defence. **We initiate coverage on the sector with an Overweight rating.**

Evolution of EMS industry

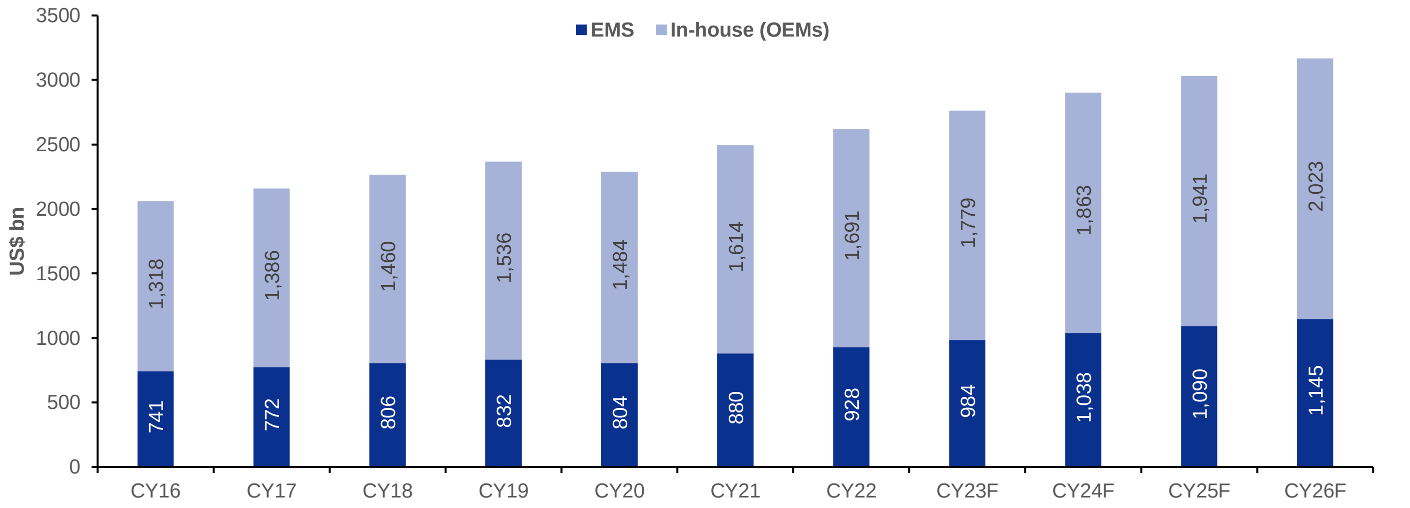
The global EMS industry is likely to witness a complete transformation over the next few years. The electronics hardware industry is the largest and fastest-growing industry in the world, with rising applications across sectors. The key segments in the electronics market include electronics design, electronic components, and electronic manufacturing services.

The global EMS market has transformed from primarily assembling components on printed circuit boards (PCBs) and box build for original equipment manufacturers or OEMs to more value-added EMS like product design and development, testing, after-sales service, marketing and product lifecycle management. This will ultimately enable OEMs to reach the end-market quickly and mainly focus on the marketing part, outsourcing the manufacturing part to EMS companies.

Global EMS market

The global electronics market is likely to grow from US$2,494bn in CY21 to US$3,168bn by CY26F, registering ~5% CAGR. The growth of the sector will be driven by rising disposable income, improved acceptability of audio and video broadcasting, higher broadband penetration, higher appetite for next-gen technologies, emergence of e-commerce, rising demand from rural markets, etc.

Figure 4: Global EMS market to clock ~5% CAGR

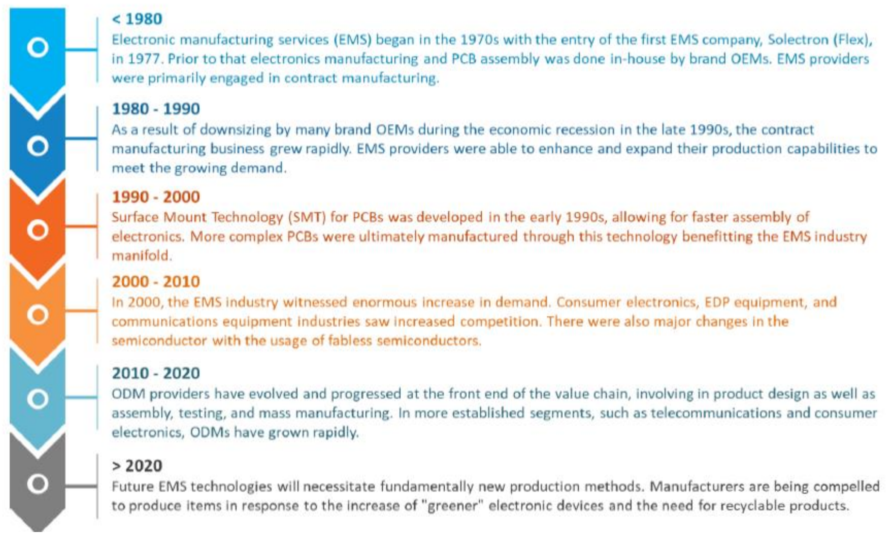


SOURCE: COMPANY REPORTS, INCRED RESEARCH

The global EMS market witnessed a steady growth on the back of higher outsourcing activity from top manufacturing brands and rising electronics content. Outsourcing helps these companies to focus on branding and marketing, with the large manufacturing portion being outsourced to specialized players having a large capacity for select product lines, which comes with economic benefits. Manufacturing outsourcing has seen a steady uptrend over the past couple of decades. With the benefits of production efficiency, reduced overheads and labour cost, and faster new product introductions, OEMs continue to collaborate with EMS companies to develop their products. In addition, OEMs are also increasingly moving their product design and development processes to their EMS partners.

Electronics manufacturing has been divided into two categories such as 1) in-house production by OEMs, and 2) completely outsourcing to EMS companies. Currently, in-house electronic manufacturers account for approximately 65% of the total electronics market, which is a significant portion. However, over the past couple of years, EMS players have also expanded their presence.

Figure 5: Evolution of EMS sector

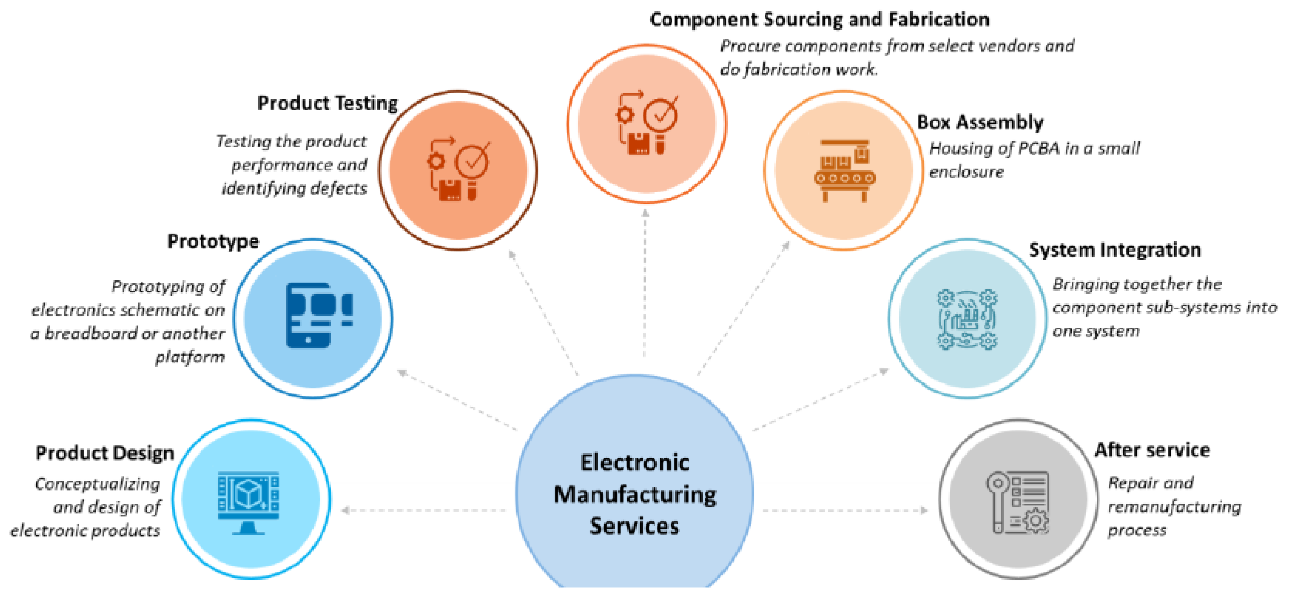


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Why there's a need for EMS companies?

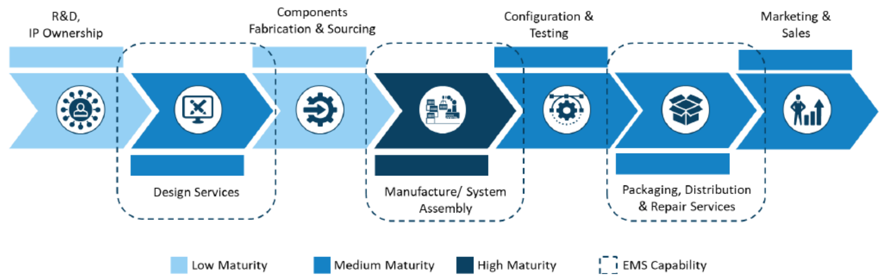
EMS companies are equipped with a gamut of services including design, assembly, manufacturing and testing of electronic components for OEMs. Constantly rising logistics and raw material costs are resulting in increased total manufacturing cost, which serves as a catalyst for OEMs to choose the original design manufacturer or ODM model to provide end-to-end solutions, including product design and after-sales support, owing to higher margins and increased visibility. An established supply chain helps in reducing the lead time, which has a substantial positive effect on the profitability of ODMs. Additionally, ODMs are willing to collaborate with OEMs on product localization and design. ODM companies have versatile capabilities in system design, plastic moulding, PCBA, software engineering, and more. Instead of investing in R&D, new entrants or Tier-II players collaborate with ODMs to select and develop specific models from existing models to enter the market. The secondary benefit for ODMs from such collaborations is the improvement in capabilities to handle fresh clients. EMS companies can be contracted at different points in the manufacturing process.

Figure 6: Services offered by EMS companies



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: EMS value chain



SOURCE: INCRED RESEARCH, COMPANY REPORTS

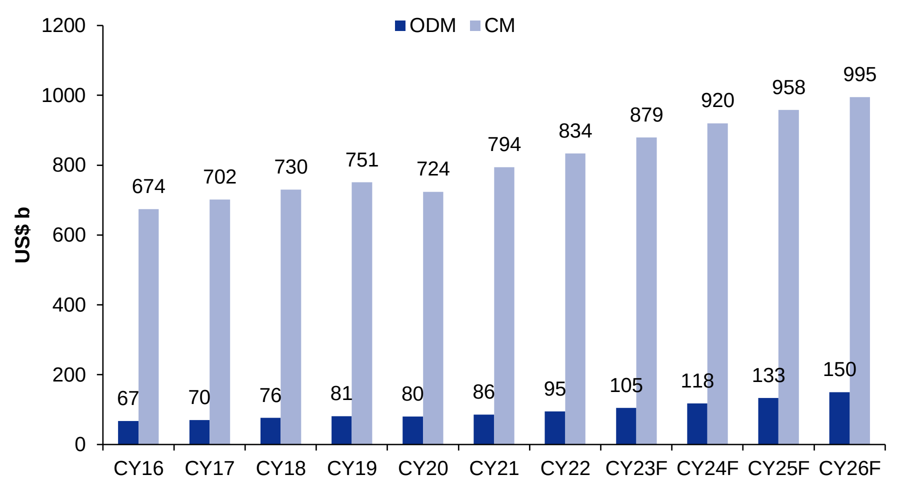
Key components of EMS

- **Design services and solutions:** Design services include multiple associated actions that occur after determining the customer's specific requirements before manufacturing or at the beginning of an assembly. The EMS company, based on inputs from OEM, creates a conceptual design and the same is shared with the OEM for inputs and approvals.
- **Prototyping:** The next step is to create a Proof of Concept (PoC) to demonstrate the concept of design functions. After this, once the design for manufacturing, design for testing, and design for servicing are established, prototypes are made to make sure that the product will serve its proposed purpose after which it is manufactured as a part of a bigger production run.
- **Testing services:** Testing is an essential element across the entire EMS value chain. EMS companies that can design test solutions, both at the PCBA level and at the end-of-line product test stage, including functional testers and fixtures, are preferred by OEMs.
- **PCB assembly:** At the heart of the electronics industry is the printed circuit board or PCB. A PCB with components mounted on is called an assembled PCB and the manufacturing process is called PCB assembly or PCBA, in short. PCB assembly is a major activity and is normally outsourced to EMS companies.
- **Box build:** In this, an OEM outsources complete product manufacturing to an EMS company, which manufactures the final product, adds the OEM's logo, and dispatches it to the OEM's warehouse for selling. This model is largely used in high-volume low-mix (HVLM) type of products such as mobiles, computer hardware and industrial segments.
- **After-sales service (repair and rework):** The demand for repair and remanufacture is not high because most electronic products do not require repair or remanufacturing and focus more on replacement. Niche verticals like aerospace and defence, railways and high-end electronics are open to accepting third-party repairs due to the high cost of equipment and redesign, which provides immense potential for this segment.

Global EMS market segmentation by ODM vs. CM

The EMS market was valued at US$880bn in CY21, divided into ODM (10%) and contract manufacturing or CM (90%). ODM is likely to clock ~12% CAGR over CY21-26F to touch US$150bn while CM to post ~5% CAGR in the same period.

Figure 8: ODM and contract manufacturing (US$bn)



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Key segments of EMS

- **High volume, low mix (HVLM):** The contract manufacturing set-up is where a few types of assemblies are produced in a large quantity. This technique generally allows changes to be kept at a minimum and the equipment utilization rate is significantly higher. Contract manufacturers are proven to be more efficient when running at a high volume and require minimal engineering intervention. Most global MNCs work in the HVLM space, catering to the needs of mobiles, computer peripherals, consumer devices and storage devices. This business requires large-scale deployment of resources and supply chain arrangements.
- **Low volume, high mix (LVHM):** Contract manufacturing typically has a very high emphasis on quality and customization, which changes according to the requirements of the customer. Considering that the products have high margins, even major changes in market dynamics do not heavily impact the production process. OEMs that prefer such solutions prefer to pay higher prices without compromising on the quality.

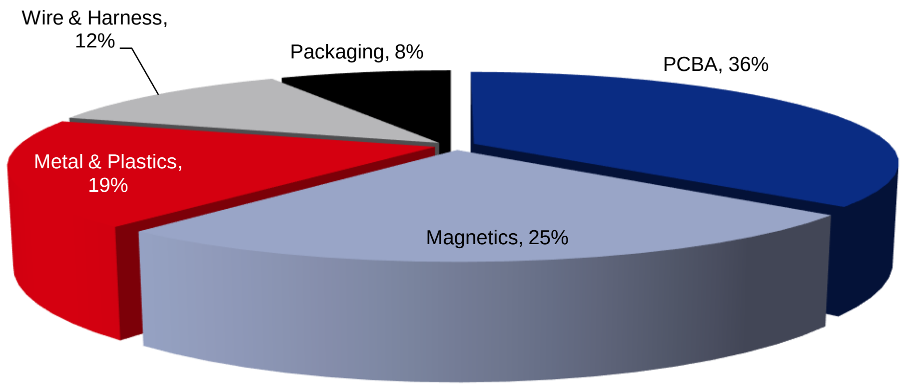
Most companies in the LVHM space cater to the needs of industrial, medical, aerospace, and defence applications. Due to the nature of the operations, the scale is limited, and they face high component costs and limited bargaining power. LVHM products involve high complexity and are safety-critical with high entry barriers. Continuously rising capex investment in the industrial, medical, and A&D sectors, which are the key contributors to LVHM, will drive this segment to grow at a faster pace than HVLM. Due to the high level of complexity in the LVHM category, the customers of an EMS company would be reluctant to source similar solutions from other competitors.

Box-build components

Box-build systems

In the box-build system, an OEM outsources the complete product to a third-party EMS company, and the EMS company makes the final finished product, affixes the OEM logo, and dispatches it to the OEM warehouse for selling. In this case, the EMS company takes care of both Bill of Materials or BOM, mechanical and electrical, assembles the final product, and does the required testing before the product is dispatched. This is largely used in high-volume low-mix types of products such as mobile phones, computer hardware, etc. A box-build system includes all the other assembly work involved in an electromechanical assembly, other than the production of the printed circuit board. The box-build system includes PCBA, cables, wires and harnesses, electromechanical components, and other electronic components specific to the product category.

Figure 9: PCBA accounts for the largest portion among box-build components



SOURCE: COMPANY REPORTS, INCRED RESEARCH

The box-build process is specific to each project and the degree of complexity varies from project to project. The most common box-build assembly processes include the installation of sub-assemblies, installation of other components, routing of cabling or wire harnesses, and fabrication of enclosures**.**

Key components of box build

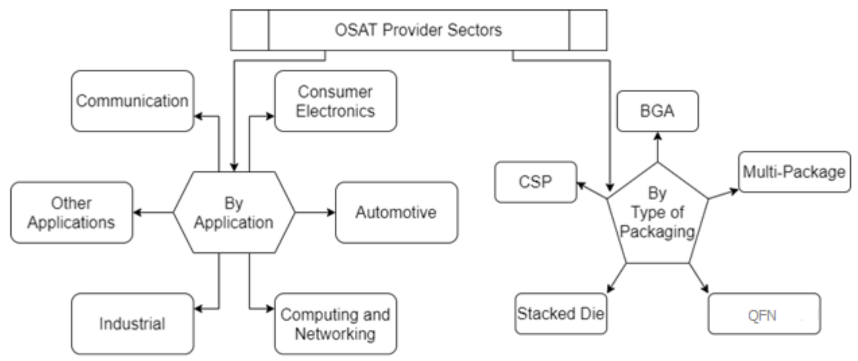
- **Electromechanical components:** Electro-mechanical components utilize an electrical signal to create a mechanical change. The electronic components market can be largely categorized as follows:
  - **Passive components**: Capacitors, resistors, wound components, and crystals.
  - **Active components**: Diodes, transistors, integrated circuits or ICs, and light-emitting diodes or LEDs.
  - **Electromechanical components:** PCBs, switches, relays, cables, and connectors.
  - **Associated components**: Optical discs, magnets, radio frequency or RF tuners, heat sinks, magnetrons, etc.
- **PCBA (printed circuit board assembly):** The PCBA is the core of an electronic device, which includes flash memory, application processor, graphics processor, and other semiconductor-based active and passive sub-components. All electronic devices derive their intelligence and functionality from the PCBA.
- **Wire harness:** A wire harness, often referred to as a cable harness or wiring assembly, is a systematic and integrated arrangement of cables within an insulated material. The purpose of the assembly is to transmit signal or electrical power. The wire harness simplifies the connection to larger components by integrating the wiring into a single unit for 'drop-in' installation.
- **Magnetics:** Comprises electrical components that use magnetism in the storage and the release of electrical charge through current. Primarily includes passive components such as transformers, inductors, motors/ generators, etc.
- **Metals & plastics:** Comprises parts of electronic devices made of sheet metal or plastic mouldings. They also include electronic packaging, which is the outer box that houses the electronic components. Sheet metal, cast metal, moulded plastic, or other materials are commonly used for the outer box.

Outsourced Semiconductor and Testing (OSAT)

Kaynes Technology is looking to enter the OSAT business with a capex of Rs37.5bn. This is a third-party service that suppliers around the world offer, which consists of semiconductor assembly, packaging and testing of integrated circuits or ICs. OSAT providers are the bridge that covers the divide between the semiconductor foundries and consumers. OSAT vendors provide testing services such as wafer test, final test and assembly service. The OSAT market is valued at US$31.6bn and is expected to touch US$49.7bn, growing at a CAGR of 7.3% over the next six years. The increased demand from the automotive sector and IoT (Internet of Things) connected devices are viewed as the main driving force in the foreseeable period.

OSAT companies are contracted by semiconductor design companies, such as Intel, AMD, Nvidia etc., to execute their designs. Intel, for instance, is both a chip designer and a foundry (wafer provider) due to the fact that it owns and operates fabs or foundries. Intel outsources its chip packaging to various OSATs for assembly and test services before it ship the chips to its customers.

Figure 10: Brief classification of OSAT market

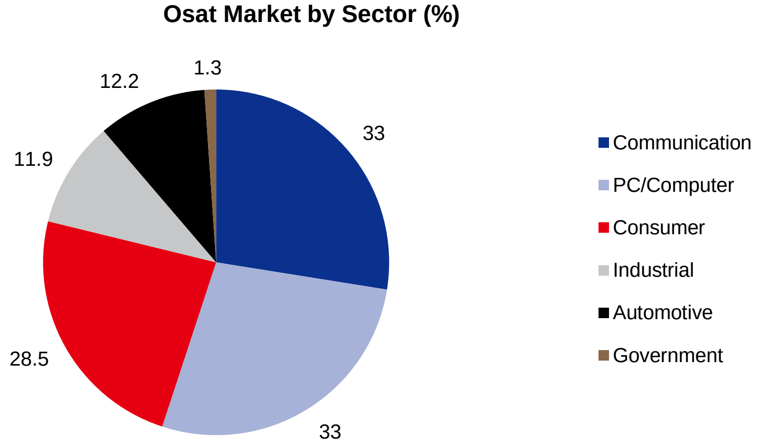


SOURCE: COMPANY REPORTS, INCRED RESEARCH

OSAT market

The OSAT market is highly competitive, with a lot of companies vying for the top spot. As of now, China is an emerging market for OSAT providers and is also the largest market globally. This is due to the fact that the local government, recognizing the potential gains, offers incentives and support for local OSAT providers, as per its ‘Made in China 2025’ plan. Advanced Semiconductor Engineering (ASE), Amkor Tech, and Jiangsu Changjiang Electronics (JCET) are the largest OSAT providers globally. The smartphone segment has been the biggest source of revenue for OSAT providers, with more than 1bn shipments per year. Recently, the market has become saturated and is in a declining phase. This segment has a very significant role for OSAT players owing to the number of current smart phone orders. Also, the introduction of 5G technology is going to bring in further profits to the market.

Figure 11: Mobile phones (communication segment) account for the largest share in OSAT market



SOURCE: COMPANY REPORTS, INCRED RESEARCH

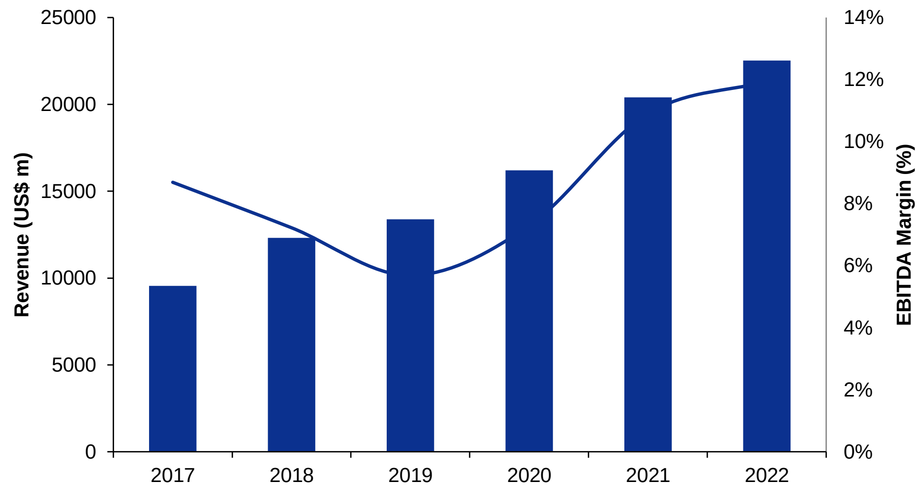
Terminologies associated with OSAT

Advanced Semiconductor Engineering (ASE) is the largest OSAT provider, with a market share of 19%. ASE provides semiconductor assembly and testing services for over 90% of electronics companies in the world. The packaging services include fan-out wafer-level packaging (FO-WLP), wafer-level chip-scale packaging (WL-CSP), flip chip, 2.5D and 3D packaging, system in package (SiP) and copper wire bonding.

- **Fan-out wafer-level packaging (FO-WLP)** is a process that enables ultra-thin, high-density packages, and has been around for several years. The fan-out technology is becoming an industry trend due to rising market demand for smaller and thinner mobile products.
- **Wafer-level chip-scale packaging (WL-CSP)** is the technology that enables the smallest available packages in the market, meeting the rising demand for smaller and faster portable consumer devices. This ultra-thin package type has been integrated into mobile devices such as smartphones. In Oct 2001, ASE began volume production of wafer-level chip-scale packages.
- **2.5D packaging** can enable hundreds of thousands of interconnects within a small package space. This packaging technology is used in applications such as high memory bandwidth, network switches, router chips and graphics cards for the gaming market. Since 2007, ASE has been working with AMD to bring 2.5D packaging technology to the market.
- **System in Package (SiP)** is the technology for bundling multiple ICs to work together inside a single package. SiP technology is being driven by market application trends in wearables, mobile devices, and Internet of Things (IoT). In 2004, ASE was one of the first companies to begin mass production of SiP technology. In Apr 2015, the company planned to double its SiP production capacity in the next three years.

InCred Equities

Figure 12: Financials of ASE Group - largest OSAT player



Global competitive landscape

The global EMS market is addressed by more than 1,000 players while the top 10 players account for 53% of the market. Hon Hai Technology (Foxconn Group) is the market leader, accounting for nearly 24% of the market in 2020 and 4.8x times larger than its nearest competitor. Pegatron, Quanta, Compal Wistron, Jabil and Flex are some of the leading players in the EMS market.

Figure 13: Global EMS players

Global	North America	Europe	APAC	Rest of the World
Foxconn	Eagle Electronics	GPV Intnl.	Shenzen Kaifa Tech.	A.A Atid Electronics Ltd
Pegatron	Segue Mfg.	Elcoteq SE	New Kinpo	Mack Technologies
Compal Electronics	EMS Integrators	Zollner Elektronik	SFO Tech.	NEOTech
Quanta	SMTC	Hengartner	Dixon Tech.	Tellumat
Wistron	Keytronic	Neways Electronics	Amber Tech	Nistec
Jabil	East West Mfg.	Teltonika	Cyient DLM	Sahasra Electronics
Flex	Express Mfg.	Incap	EMS Group	Other regional and MNCs
Inventec	Qualitel	Cicor Management	SIIX	
BYD Electronics	Computrol	Melecs EWS GmbH	Beyonics	
USI	EE Tech.	JME	Sumitronics	
Sanmina Corp.	Milwaukee	Tescom	UMC Electronics	

SOURCE: COMPANY REPORTS, INCRED RESEARCH

InCred Equities

Figure 14: Global EMS players

Company	Market Share	Services Offered	End-Users
Jabil Inc.	3.3%	• Precision Injection moulding • Radio frequency identification • Rapid prototyping services • Design service • Sustainable packaging	• Appliances; automotive • Defence & aerospace • Healthcare • Networking and telecom • Others
Flex	2.7%	• Industrial design • System architecture • Mechanical design • Embedded system design	• Communication; • enterprises & cloud • Consumer devices; automotive • Health solutions • Industrial
Sanmina Corp	0.8%	• Design and engineering • New products development • Systems manufacturing • Global services and logistics • PCB assembly & SMT	• Communication and networking • Computing & storage • Healthcare • Aerospace and defence • Industrial and automation
Celestia Inc.	0.6%	• Design and engineering • Hardware platform solutions • Aftermarket service • Supply chain	• Health tech; communication • Aerospace & defence • Consumer • Robotic
Plexus Corp	0.4%	• Design and development • Supply chain solutions • Aftermarket service • New product introduction	• Industrial • Healthcare & life science • Aerospace & defence
Team Precision	0.01%	• Design and prototype • Mass manufacturing • Logistics and warehousing	• Industrial; medical • Communication • Speciality; consumer

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 15: Global EMS players

Company	Strategy	Outlook
Jabil Inc.	Jabil is looking to establish and maintain long-term relationship. Product diversification. Utilizes customer-centric business unit. Leverages global production. Offers system assembly, direct order fulfilment. Pursues acquisition opportunities selectively.	Jabil is looking to maintain a solid operating performance led by continuation of outsourcing and increasing electronics content across a diversified set of end-markets.
Flex	Increase technology capability and expand high-margin solutions. Invest in differentiated and value-added products.	Expects to maintain strong financial discipline and continue investing in its business to sustain growth and margin expansions.
Sanmina Corp	Capitalize on a comprehensive solution. Extending technology capability. Promoting new product introduction. To penetrate diverse end-market, pursuing strategic transactions. To go for cost-saving initiatives and efficiencies.	Penetrating diverse end-markets.
Celestia Inc.	Increase penetration in end-market offerings. Selectively pursue its acquisition strategy. Improving operating performance. Develop and increase relationship with clients. Invest in developing new technology,	Increase research and design activity with a strong hardware patent portfolio to maintain the growth momentum.
Plexus Corp	Its strategy includes focusing on engineering innovative solutions and partnering with disruptive global companies.	To maintain sustainable growth by providing value-added solutions.
Team Precision	Balance the business with diversifying markets into multiple regions and serving multiple industries. Manage financial statement under changing economic conditions and maintain its growth.	Intends to create value and sustain the growth going ahead.

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 16: Revenue and margin trend of global EMS players

Company	Revenue				Gross Margin (%)				EBITDA				EBITDA Margin (%)			
US$m	2019	2020	2021	2022	2019	2020	2021	2022	2019	2020	2021	2022	2019	2020	2021	2022
Jabil Inc.	25,282	27,266	29,285	33,478	7.6%	7.1%	8.1%	7.9%	1,365	1,200	1,962	2,310	5.4%	4.4%	6.7%	6.9%
Flex	26,211	24,210	24,124	26,041	6.2%	6.3%	7.4%	7.5%	786	799	1,351	1,797	3.0%	3.3%	5.6%	6.9%
Sanmina Corp	8,234	6,960	6,757	7,890	7.2%	7.6%	8.2%	8.1%	403	341	392	481	4.9%	4.9%	5.8%	6.1%
Celestia Inc.	5,888	5,748	5,635	5,207	6.5%	7.6%	8.6%	8.6%	147	253	293	286	2.5%	4.4%	5.2%	5.5%
Plexus Corp	31,644	3,390	3,369	3,811	9.2%	9.2%	9.6%	9.1%	665	71	74	80	2.1%	2.1%	2.2%	2.1%
Team Precision	69	60	78	64	5.9%	9.1%	13.5%	15.8%	0	0	7	7	0.6%	0.3%	9.6%	10.8%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 17: Profitability and return ratios of EMS players

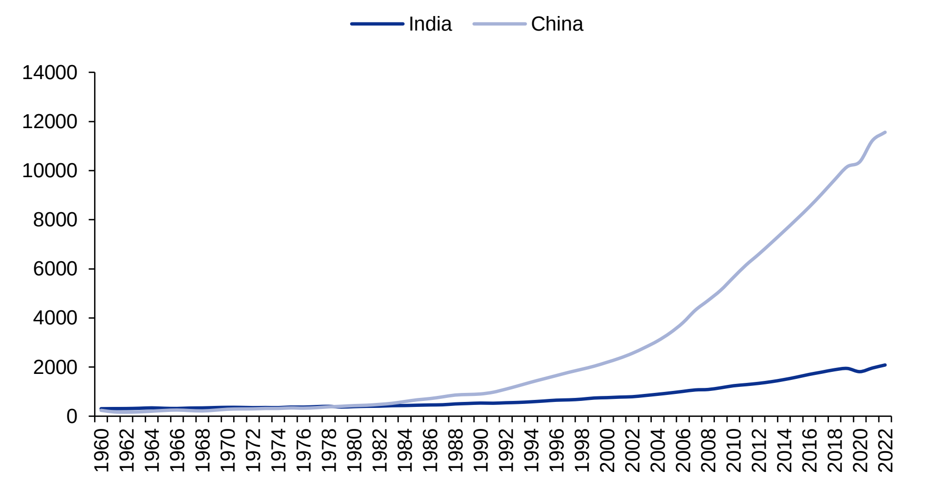
Company	Net Income				Net Margin (%)				RoE (%)				RoCE (%)			
US$m	2019	2020	2021	2022	2019	2020	2021	2022	2019	2020	2021	2022	2019	2020	2021	2022
Jabil Inc.	278	55	703	1,004	1.1%	0.2%	2.4%	3.0%	15.0%	3.0%	35.2%	43.4%	28.1%	19.0%	41.7%	42.0%
Flex	105	97	603	937	0.4%	0.4%	2.5%	3.6%	3.1%	3.0%	19.6%	24.9%	6.1%	4.7%	10.2%	12.5%
Sanmina Corp	140	139	270	252	1.7%	2.0%	4.0%	3.2%	9.1%	8.8%	15.3%	13.7%	13.6%	11.3%	14.0%	15.1%
Celestia Inc.	71	63	101	104	1.2%	1.1%	1.8%	2.0%	5.2%	4.4%	7.2%	6.8%	7.3%	6.4%	7.4%	7.7%
Plexus Corp	1,076	119	138	137	3.4%	3.5%	4.1%	3.6%	12.2%	12.8%	13.9%	13.0%	11.2%	10.9%	12.7%	10.6%
Team Precision	0	1	6	6	0.4%	0.9%	8.1%	8.8%	1.0%	2.1%	23.5%	19.7%	0.7%	1.7%	19.1%	14.8%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Comparative analysis with Jabil (Elin/Dixon/Amber/PGEL/IKIO)

Jabil is a leading EMS provider that offers a wide range of services with 100+ locations in 29 countries. Jabil has established itself as a global leader in the electronics manufacturing industry. The company's services include design engineering, manufacturing, supply chain management, and product management. Jabil was listed on stock exchanges in 1994, thus providing us the opportunity to have a look at its journey in the past 30 years.

Figure 18: Per capita GDP suggests that India is at that level where China was in 2000 (US$)

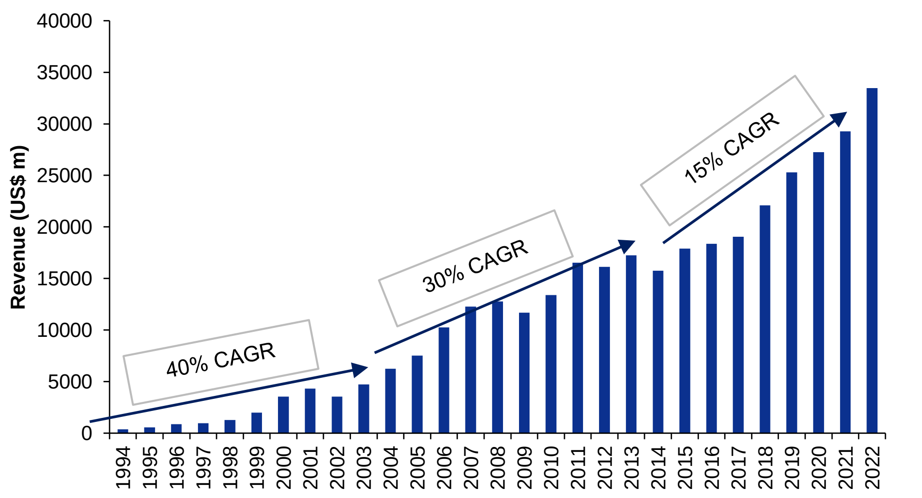


SOURCE: COMPANY REPORTS, INCRED RESEARCH

Why Jabil is the right candidate?

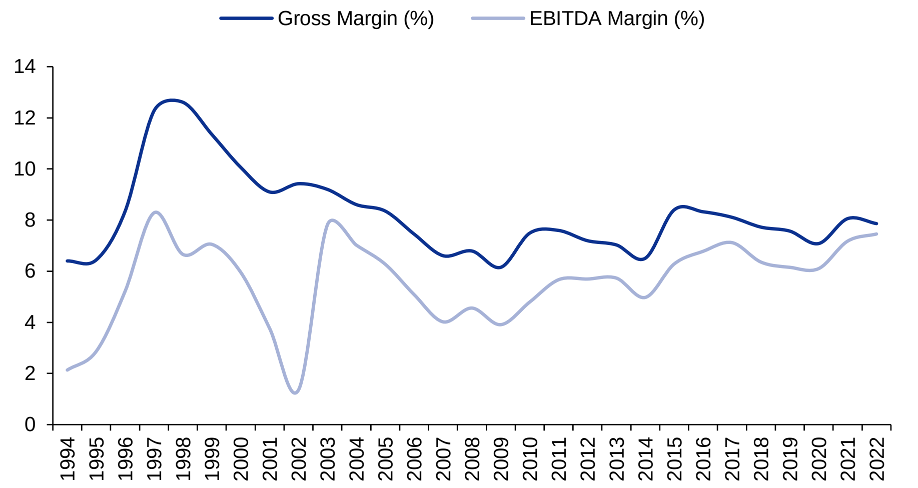
Jabil was listed on the bourses in 1995, and by 2000 it had significant revenue exposure to China, the country which will act as a benchmark for our comparison. Jabil's China division had been contributing around 50% in 2004, which is a significant number. In our coverage space, Dixon Technologies, Elin Electronics, IKIO Lighting, Amber Enterprises and PG Electroplast or PGEL are the closest in terms of comparison with Jabil, as far as their business model is concerned. Jabil's growth trajectory can be divided into three phases: **High Growth Phase** (where it had a CAGR of 40%), **Medium Growth Phase** (where it had a CAGR of 30%) and **Maturity Phase** (where it had a CAGR of 15%). Currently, Indian EMS companies lie in the high growth phase based on the per capita comparison with China and hence, they are expected to post a CAGR of close to 30% in the next 10 years.

Figure 19: Growth trajectory of Jabil



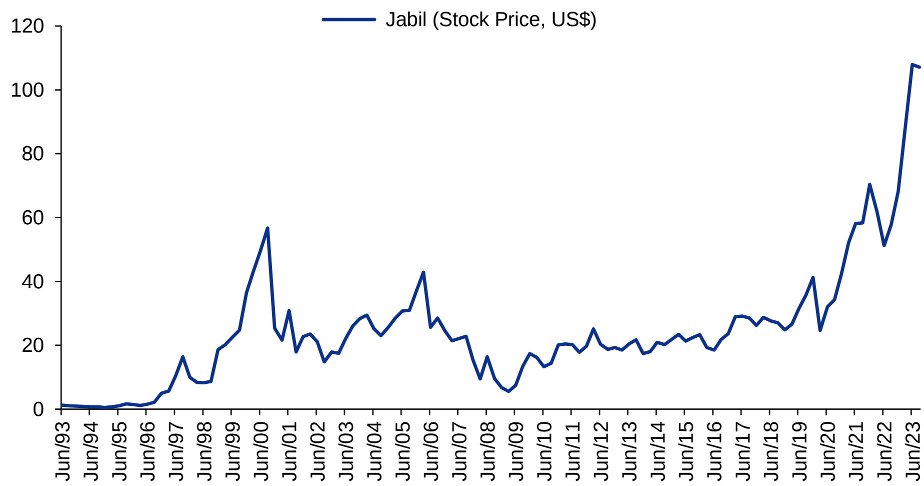
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 20: Jabil's margin has relatively stayed constant over the last 10-15 years



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 21: Stock price trend of Jabil

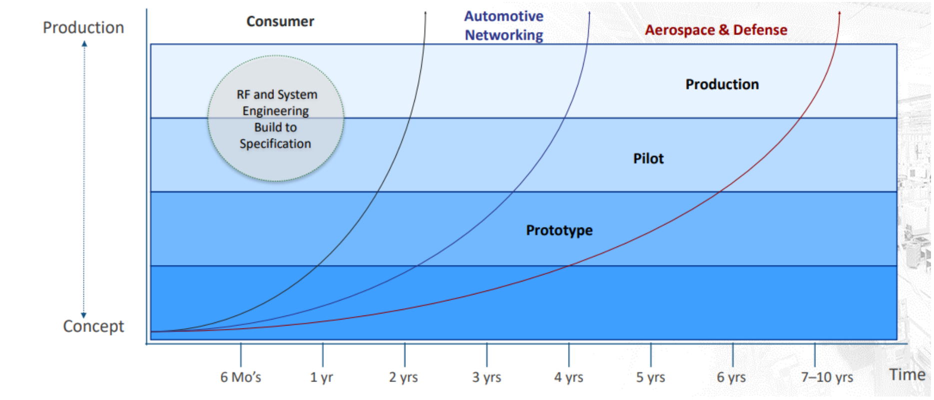


SOURCE: COMPANY REPORTS, INCRED RESEARCH, BLOOMBERG

Comparative analysis with TTM (Cyient/Avalon/Syrma/Kaynes)

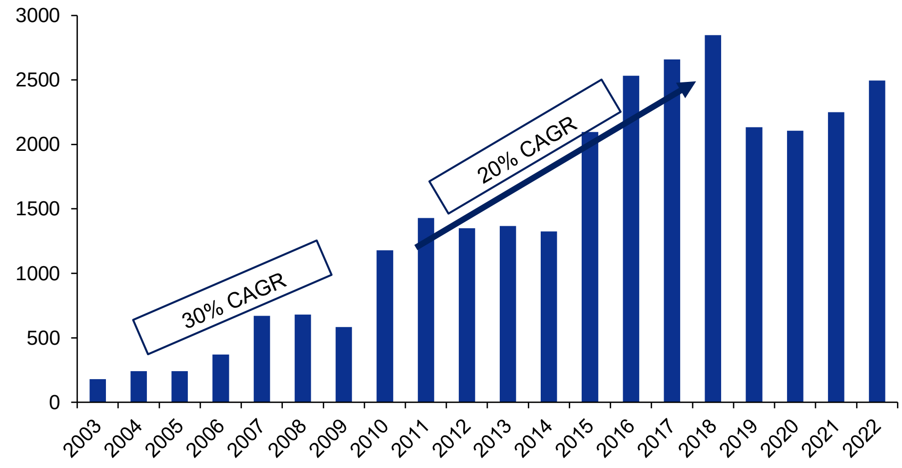
TTM Technologies is the world leader in PCB manufacturing, with an annual revenue in CY22 of US$2.49bn. It is a critical supplier to today's fastest-growing technologies such as advanced defence radar, cloud infrastructure, AI data centres, automobile technology, industrial automation, and Internet of Things. Its key revenue segments include aerospace & défence (47%), automotive (17%), medical devices (16%), data centre computing (12%) & networking (8%).

Figure 22: Aerospace & défence takes the largest customer engagement time; thus, higher A&D revenue exposure (Cyient DLM) leads to some entry barriers



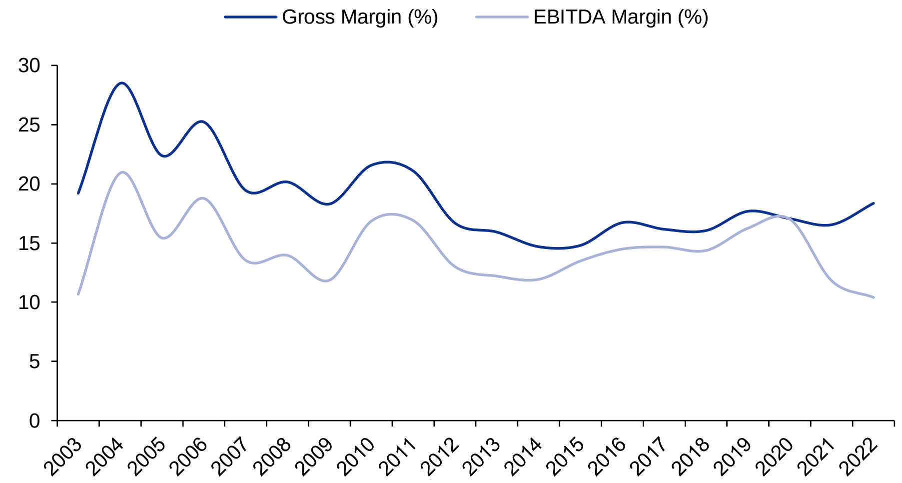
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 23: Revenue (US$m) of TTM



SOURCE: COMPANY REPORTS, INCRED RESEARCH, BLOOMBERG

Figure 24: Margin profile of TTM

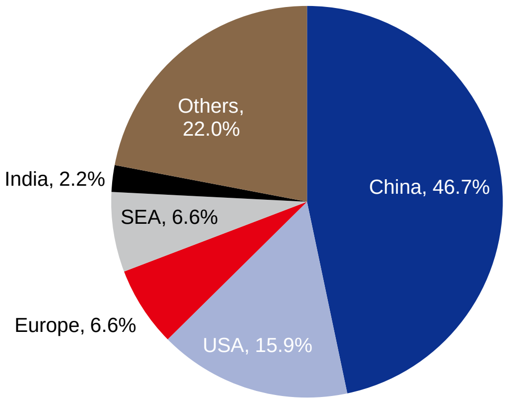


SOURCE: COMPANY REPORTS, INCRED RESEARCH, BLOOMBERG

India's EMS market to grow at the cost of China

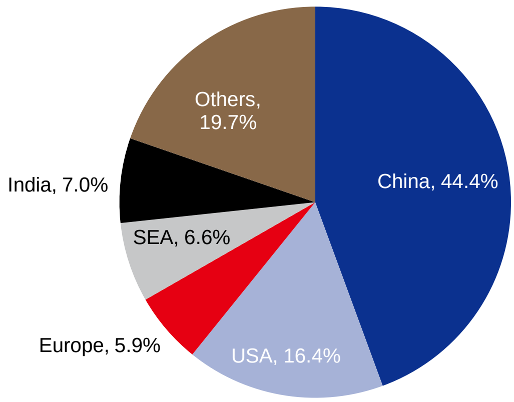
India's EMS industry is likely to clock ~32% CAGR over CY22 from US$20bn to touch US$80bn by CY26F, the fastest growth among all countries. India's EMS sector accounted for 2.2% of the global EMS market in CY22, which is likely to increase to 7% by CY26F. India is likely to see a continuous strong push from the government to make the country an ideal location for electronics manufacturing.

Figure 25: India's EMS market share to grow from 2.2% in CY22....



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 26: …to 7% in CY26F



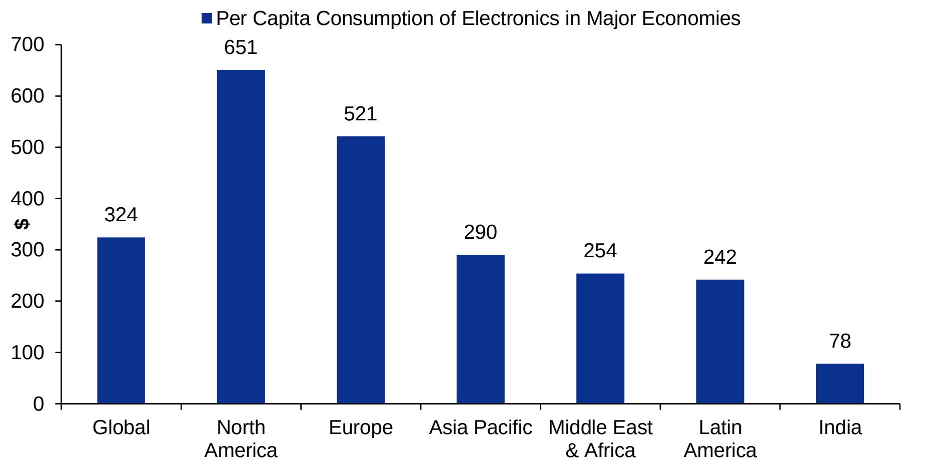
SOURCE: COMPANY REPORTS, INCRED RESEARCH

- China leads the global EMS market with a share of 46.7% in 2021 led by operational cost benefit, availability of large highly skilled manpower, infrastructure, logistical advantages, and proximity to the largest end-user base across all end-user verticals. However, many global electronics manufacturers are now reworking their China + 1 strategy and are looking for alternate manufacturing locations for exports, creating tremendous investment potential for countries like Vietnam, India, the Philippines, etc.
- North America is the leader in adopting next-generation technologies and devices. In the next five years, demand for EMS will be driven by the rise in demand for electronic devices, well-established EMS infrastructure, and evolving government policies that encourage local production. The EMS industry is poised for robust growth over the next five years. The EMS market in the US stood at around US$140bn in CY21, which is likely to grow at a CAGR of ~6% to touch US$188bn by CY26F. The electronics manufacturing industry in North America has benefited from a skilled labour force, advanced technology, and pro-business policies. In North America, the US leads this industry in terms of total market share, followed by Mexico and Canada. The US remains very attractive for the low- to medium-volume and complex electronics product manufacturing, predominantly in the medical, telecom, IT, automotive, industrial, and military/aerospace segments. The US electronics manufacturing sector is an important intermediate supplier for other key industries. Mexico is an important location for low-cost manufacturing, which results in a high proportion of its assembly revenue coming from exports.

Lower per capita electronics consumption in India

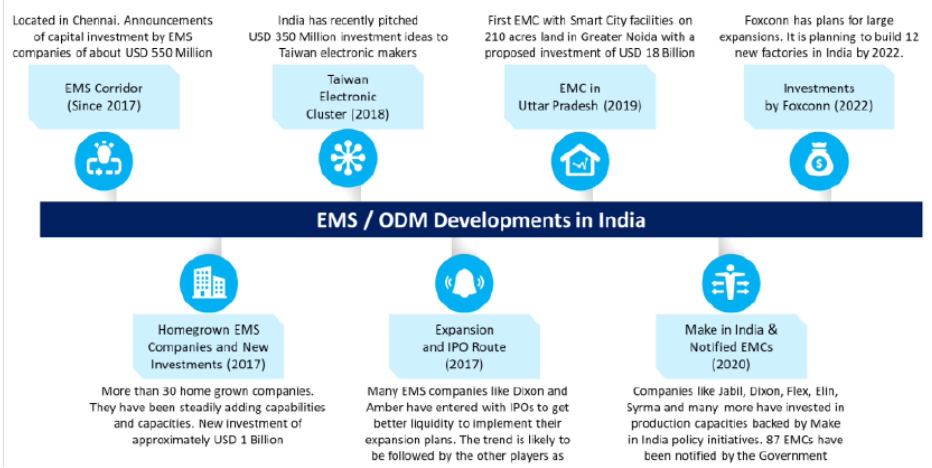
Per capita consumption of electronics in India is at US$78, only 25% of the global average, and has enough room to grow in the long run. The domestic electronics consumption is likely to grow led by urbanization and the adoption of electronic products in Tier-2 and Tier-3 cities. The global per capita electronic consumption is also rising, which currently stands at US$324. Per capita consumption is the highest in Western countries and is rising rapidly in major economies, such as North America and Europe, driven by the growing adoption of wireless connectivity for several electronic devices. Rising investments in R&D in consumer electronics and technological advancements, coupled with the growing popularity of wearable electronic devices, are driving the growth.

Figure 27: India's per capita electronics consumption stands at 25% of global average



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 28: Evolution of India's EMS industry

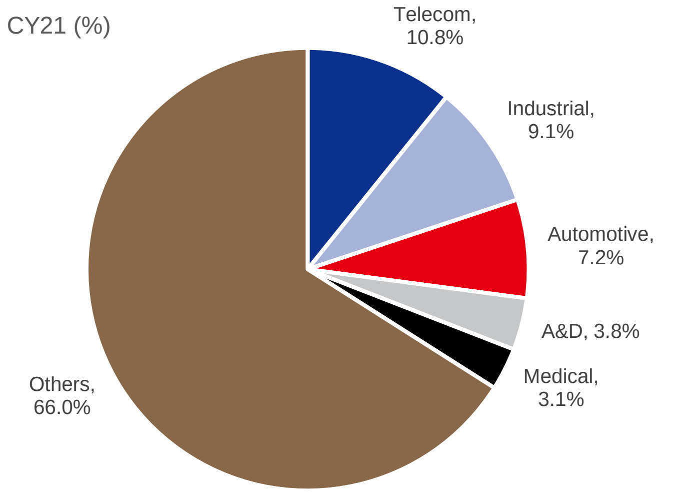


SOURCE: COMPANY REPORTS, INCRED RESEARCH

Healthy growth in end-markets

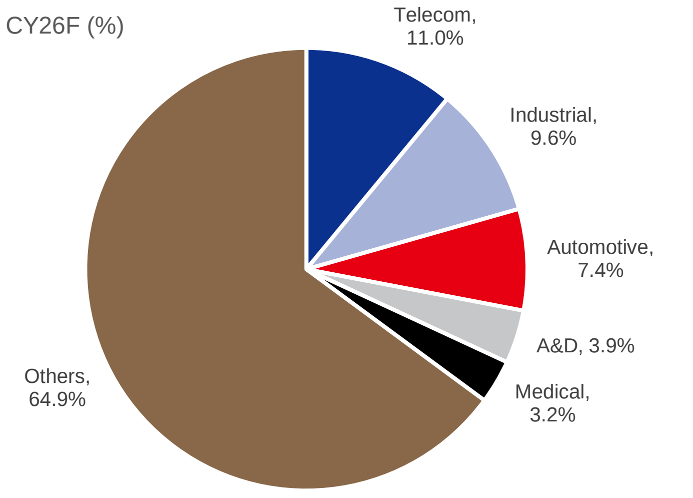
- **Aerospace and defence (A&D):** Aerospace and defence (A&D) is a relatively small but key revenue-contributing segment. EMS providers, as strategic solution partners to EMS companies, provide an average savings of 10% to 15%. The outlook for the aerospace and defence industries is optimistic. In the next few years, apart from costs, A&D OEMs will consider EMS providers' expertise in advanced technologies as a key partnership factor in boosting EMS revenue. Key trends that will drive new opportunities in this sector include digital thread and smart factory driving efficiency, defence contracts, and building advanced military capabilities, like the ongoing US government support for the National Defence Strategy may keep defence spending stable. Growth is expected in key areas like the launch industry, satellite trends, etc.

Figure 29: Industrial and automotive segments to grow faster…



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 30: …at 9.6% and 7.4%, respectively



SOURCE: INCRED RESEARCH, COMPANY REPORTS

- **Medical electronics:** It is a key revenue opportunity segment in the EMS market. Business is expected to boom in the medical device industry's EMS segment. This is largely led by advanced technologies such as the Internet of Things (IoT), wireless, and artificial intelligence (AI). The other factor is that medical device manufacturers have been asked to speed up innovations and adopt newer, more unfamiliar technologies without putting the quality into any kind of risk and without cutting corners.
- **Industrial electronics:** Industrial electronics is another important market, which is primarily divided into power and automation. Leading manufacturers are adding new applications to their portfolio by partnering with niche application providers. With the emergence of new applications, there are several opportunities for power electronic devices, such as transformers, chokes, and inductors. Many electronics applications are concerned with the control and operation of heavy machinery. The worldwide actuator market is expected to grow due to its efficient operations, low maintenance, and other factors, and a sudden surge in demand coming from the automation sector.
- **Telecom:** This segment includes telecom infrastructure and networking equipment. Wireless technology, in the last few years, has been growing tremendously. There are rapid expansions in mobile network coverage which has managed to reach even the remotest of areas. There is also an increase in demand, which eventually leads to a decrease in the charges that are levied for using the data. The rising use of satellites for connectivity is also a key factor driving this market. Also, there is a growing need for spectrum trends, intelligence, and virtualization that is propelling the market for data centres. The development of multi-tiered data centres is adding to the rising demand from OEMs in the augmented and virtual reality space. Researchers, telecom equipment vendors, and service providers are already working intensively towards 5G (fifth generation) of mobile communication, which is very likely to overcome the existing limitations of technology.
- **Automobile:** It is one of the key growth opportunity verticals for EMS providers in the next five years due to the technological transformation currently underway with autonomous car development and electric car commercialization activities. Electric vehicle or EV is one of the key growth opportunity verticals due to the technology transformation currently underway. Moreover, the growing electronics content will accelerate the growth of EMS revenue from this vertical.
- **Mobile phones and IT hardware**: Mobile phones have emerged as an important commodity in the world and the segment commands a significant share of the global EMS market. On the other hand, IT hardware, though a saturated market but the onset of the Covid-19 pandemic turned out to be

positive, specifically because of the surge in demand for computers and tablets, driven by work-from-home and study-from-home needs.

- **Consumer electronics and appliances**: The segment had a consistent performance in the last few years, which is aided by growth in advanced economies and developing countries. EMS companies have also profited from rising consumer spending and technological improvements. Rising demand for smart solutions will fuel future growth. Also, OEMs and EMS companies are progressively supplying both premium and mid-range appliances to meet the growing demand for both product categories and increase revenue.

Figure 31: India's share in various segments of the global EMS market

Sector	Global EMS (US$ bn)			Indian EMS (Rs bn)			India's Share		Comments
	2021	2026F	CAGR	FY22	FY27F	CAGR	FY22	FY27F	
Aerospace & defence	34	45	6%	37	186	38%	1.3%	5.1%	• Aerospace & defence is one of the most complex in the EMS sector. • India is ranked 19th among the world's defence products exporters. • Relaxation in FDI in this sector aids in collaborating with global peers.
Medical	27	36.5	6%	23	125	40%	1.1%	4.2%	• Increased demand for medical devices from the rise in medical tourism. • Backed by the government's commitment to facilitate growth. • Development of 'medical device parks' across states create an ecosystem.
Industrial	80	110	7%	58	155	22%	0.9%	1.7%	• India is progressing towards Industry 4.0 through government initiatives. • The rapid adoption of modern technology, backed by cost savings.
Telecom	95	126	6%	57	145	21%	0.7%	1.4%	• India is one of the largest exporters of telecom equipment. • Increased outsourcing to companies with design, logistics and after-sales service. • Data centre storage, network infrastructure (4G and 5G)-related solutions.
Automotive	63	85	6%	66	240	29%	1.3%	3.5%	• Themes such as Connected, Autonomous, Shared and Electric Vehicles. • Significantly higher usage of electronics and controls in EVs. • ADAS, EV and safety are the fast-emerging segments.
Others	581	743	5%	1379	5710	33%	2.9%	9.5%	IT, consumer, electronics, mobile phones (communications), appliances and other sectors to drive growth.
Total Market	**880**	**1,145**	**5%**	**1,620**	**6,561**	**32%**	**2.3%**	**7.1%**	

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Mega trends in global EMS market

- Technological advancements and acceptance of smart home devices.
- Greater emphasis on vehicle electrification.
- Technological upgrade of facilities.
- Product development activities.
- Accelerated demand post-Covid-19 pandemic.
- Digital thread and smart factory to drive efficiency.
- Electrification is an emerging trend in the aerospace segment.

Entry barriers in EMS industry

- Capital investment cycle.
- Presence of established players.
- Uncertain demand.
- Long approval cycle.
- Need for certification and technical know-how.

India is all set to become a manufacturing hub

- India has the potential to be one of the most attractive manufacturing destinations and support the government's objective of 'Make in India for the World'. The government and the industry need to collaborate and drive initiatives to help India figure among top 5 countries in ESDM production and top 3 in ESDM consumption. Many policy-level initiatives are likely to be implemented in a fast-track mode. The effect of policies should be measured and evaluated against the desired objectives to recheck and refine at regular intervals.
- India is rightly positioning itself to be a high-end manufacturing hub, and the incremental capital expenditure is likely to be concentrated in areas where

India needs to reduce its dependency on global supply chains. The long-term growth prospects depend on attracting consistent investments. While private capex is likely to remain healthy over the next couple of years, we feel continued public sector capex will sustain led by various government initiatives.

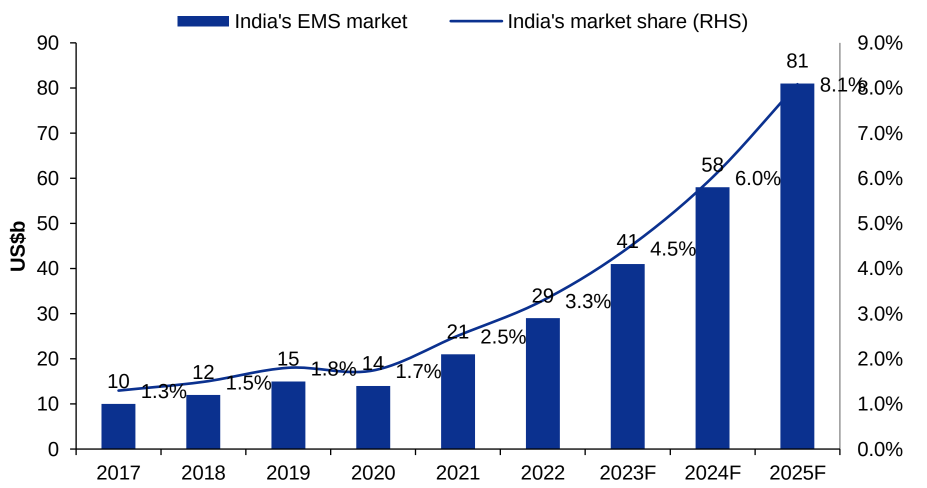
- Economic development in India is gaining support as a result of the continuous expansion of private consumption and investments in some industries following the liberalization of foreign ownership. The projected government expenditure expansion would further enhance growth by focusing on social infrastructure, making the best use of technology, digital India, Make in India program, job creation in micro, small, and medium enterprises (MSMEs), and heavy investment in infrastructure.
- India's economy continues to be strong amid high inflation. With softening commodity prices, stable consumption provides optimism for sustaining growth. Government spending on infrastructure is resulting in better capacity utilization and signs of private capex are also visible going ahead.

Figure 32: India EMS to grow at a 41% CAGR

US$bn	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023F**	**2024F**	**2025F**	**FY23-25F CAGR**
China	336	353	362	366	390	419	431	441	445	1.6%
USA	118	123	130	126	134	134	150	157	164	4.6%
Europe	49	53	55	54	55	57	58	59	59	0.9%
SEA	44	48	50	52	55	58	61	63	66	4.0%
India	10	12	15	14	21	29	41	58	81	40.6%
Others	**215**	**217**	**221**	**192**	**181**	**184**	**180**	**185**	**187**	**1.9%**

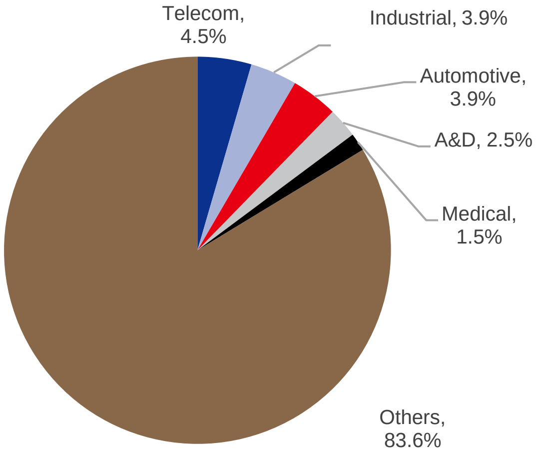
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 33: India is among the fastest-growing large economies



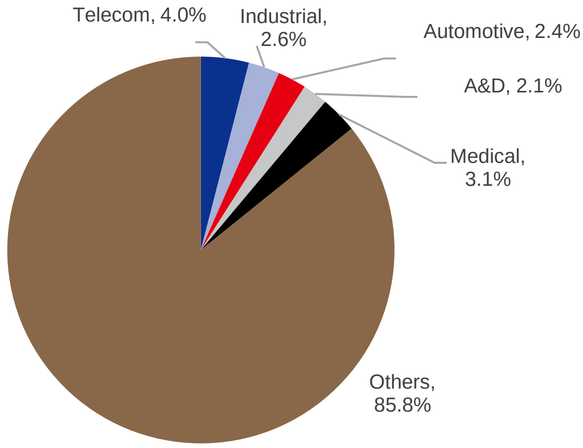
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 34: India's EMS sector mix in FY22



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 35: India's EMS sector mix likely in FY27F



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Competitive landscape

Figure 36: India is among the fastest-growing large economies

Economic Status		INDIA	CHINA	VIETNAM	MEXICO
Population (mn)		1390	1410	98.5	129
GDP (US$tn)		3.18	17.74	0.37	1.3
GDP Growth	CY21	8.7%	8.1	2.6	4.8
	CY26F	6.5%	4.9	6.7	2.1
Inflation		5.5%	0.9%	1.8%	5.7%
Manufacturing Value Added (% of GDP)		14.4%	26.2%	25.0%	18.0%
Export (US$tn)		0.42	3.36	0.34	0.5
Import (US$tn)		0.61	2.69	0.33	0.52
Manufacturing Risk Inde (Rank)		2	1	11	21
FDI Investment (US$bn)		45	334	20	32

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 37: Favourable labour force in India

Labour Market	INDIA	CHINA	VIETNAM	MEXICO
Total Labour force	471.3	793.8	56.2	57.3
Total Labour force, Female (% of total)	20.3	44.5	47.6	38.5
Labour force participation rate (% of total)	52.1	75.9	83.1	65.3
Employment	25	27	27	26
Wage and Salary worker	24.2	55.3	45.7	68.1
Average daily wages - Nominal (US$)	~5.3	~36	~9.5	~13.3
Average daily wages - Manufcturing (US$)	~6	~6.5	~3	~4.8

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 38: Manufacturing ecosystem

Manufacturing eco System	INDIA	CHINA	VIETNAM	MEXICO
Favorable Government Policies and Programs				
Developed content Eo systems				
Labour Cost				
Maturity of Tranfer				
Ease of export				

SOURCE: INCRED RESEARCH, COMPANY REPORTS

The manufacturing scenario in India has changed over the last few years. Among 190 countries, India ranked 63rd in the ease of doing business in 2021, an improvement of 79 positions in the five years between 2014 and 2020. With the recognition of the electronics sector as one of the key growth drivers of India's economy, the sector has received significant attention from the government in the last six-to-seven years through various policies, schemes, and incentives. The National Policy on Electronics (NPE) emphasized local value addition and created an enabling environment. The government's focus on manufacturing through Make in India policies attracted the interest of both global and domestic companies.

Key growth drivers for India

- Stable government leads to consistency in policies.
- Rising cost of labour in China while India is still at a lower end of this cost curve.
- Creation of National Manufacturing Zones (NMZ), Electronics Manufacturing Clusters (EMC), close coordination between the Centre and States for investment promotion.
- High domestic demand for products and services.
- Investment by EMS companies in capabilities and capacities.
- Duties and tariffs to discourage imports and encourage domestic value addition.
- Digitalization that accentuates demand for select products.

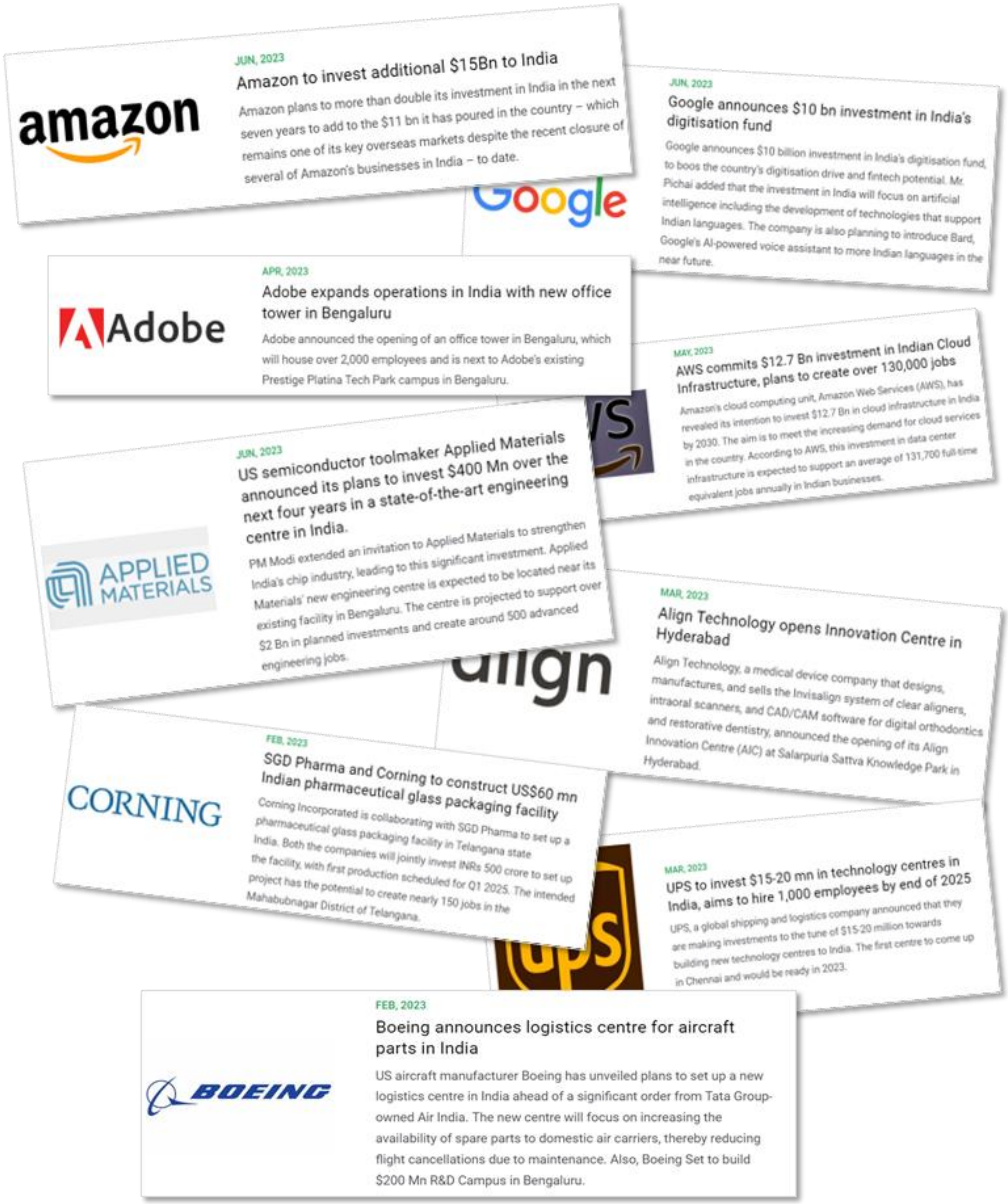
Key government schemes to promote domestic manufacturing

- The Indian electronics sector is set to transform led by strong government push to broaden the operations and revenue. The Government of India (GoI) has been proactively building a base for electronics manufacturing in the country and it has launched numerous incentive schemes which have allowed manufacturing growth, reduced the dependence on imports and promoted exports. The GoI has framed numerous policies over the last few years to increase innovation, protect intellectual property, and develop best-in-class electronics manufacturing set-ups to build a favourable environment and promote investments in manufacturing electronics hardware.
- The GoI is encouraging domestic manufacturing through supportive policies and initiatives that are likely to lead to overall development of the ecosystem, opening the gate of opportunities for companies, vendors, and distributors in the market. Incentives for local manufacturing, demand side support through government procurement, import barriers via duties, and favourable steps like Goods and Services Tax or GST that reduced the complexity of operations, are pull factors for MNCs to invest in India.

India's electronics production has more than doubled in the past five years, from Rs3,200bn in FY16 to Rs7,800bn in FY21, led by favourable incentive schemes.

Investment by major global companies in in India

Figure 39: Investments by major global companies



JUN, 2023
Amazon to invest additional $15Bn to India
Amazon plans to more than double its investment in India in the next seven years to add to the $11 bn it has poured in the country – which remains one of its key overseas markets despite the recent closure of several of Amazon's businesses in India – to date.

JUN, 2023
Google announces $10 bn investment in India's digitisation fund
Google announces $10 billion investment in India's digitisation fund, to boos the country's digitisation drive and fintech potential. Mr. Pichai added that the investment in India will focus on artificial intelligence including the development of technologies that support Indian languages. The company is also planning to introduce Bard, Google's AI-powered voice assistant to more Indian languages in the near future.

APR, 2023
Adobe expands operations in India with new office tower in Bengaluru
Adobe announced the opening of an office tower in Bengaluru, which will house over 2,000 employees and is next to Adobe's existing Prestige Platina Tech Park campus in Bengaluru.

MAY, 2023
AWS commits $12.7 Bn investment in Indian Cloud Infrastructure, plans to create over 130,000 jobs
Amazon's cloud computing unit, Amazon Web Services (AWS), has revealed its intention to invest $12.7 Bn in cloud infrastructure in India by 2030. The aim is to meet the increasing demand for cloud services in the country. According to AWS, this investment in data center infrastructure is expected to support an average of 131,700 full-time equivalent jobs annually in Indian businesses.

JUN, 2023
US semiconductor toolmaker Applied Materials announced its plans to invest $400 Mn over the next four years in a state-of-the-art engineering centre in India.
PM Modi extended an invitation to Applied Materials to strengthen India's chip industry, leading to this significant investment. Applied Materials' new engineering centre is expected to be located near its existing facility in Bengaluru. The centre is projected to support over $2 Bn in planned investments and create around 500 advanced engineering jobs.

MAR, 2023
Align Technology opens Innovation Centre in Hyderabad
Align Technology, a medical device company that designs, manufactures, and sells the Invisalign system of clear aligners, intraoral scanners, and CAD/CAM software for digital orthodontics and restorative dentistry, announced the opening of its Align Innovation Centre (AIC) at Salarpuria Sattva Knowledge Park in Hyderabad.

FEB, 2023
SGD Pharma and Corning to construct US$60 mn Indian pharmaceutical glass packaging facility
Corning Incorporated is collaborating with SGD Pharma to set up a pharmaceutical glass packaging facility in Telangana state India. Both the companies will jointly invest INRs 500 crore to set up the facility, with first production scheduled for Q1 2025. The intended project has the potential to create nearly 150 jobs in the Mahabubnagar District of Telangana.

MAR, 2023
UPS to invest $15-20 mn in technology centres in India, aims to hire 1,000 employees by end of 2025
UPS, a global shipping and logistics company announced that they are making investments to the tune of $15-20 million towards building new technology centres to India. The first centre to come up in Chennai and would be ready in 2023.

FEB, 2023
Boeing announces logistics centre for aircraft parts in India
US aircraft manufacturer Boeing has unveiled plans to set up a new logistics centre in India ahead of a significant order from Tata Group-owned Air India. The new centre will focus on increasing the availability of spare parts to domestic air carriers, thereby reducing flight cancellations due to maintenance. Also, Boeing Set to build $200 Mn R&D Campus in Bengaluru.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key growth drivers for Indian EMS companies

- **Time and cost savings to brands:** The demand for electronic products is increasing significantly compared to investment by brands in their production facilities. EMS companies provide compelling incentives to create them locally with their low-cost, rapid manufacturing turnaround, and aftermarket product support. EMS/ODM companies, with their versatile capabilities in system design, plastic moulding, PCBA, software engineering, and more importantly, manufacturing, encourage brands to increase the width of their partnership. Instead of investing in additional manufacturing facilities, brands collaborate with EMS providers to develop and manufacture specific models. The secondary benefit for EMS companies from such collaborations is the improvement of capabilities to handle fresh clients.
- **Government's focus on domestic manufacturing:** The higher growth rate in India vis-à-vis global market is led by consistent local demand for electronic products, government's focus on domestic manufacturing, and the programs like Make in India and Digital India which led to rising manufacturing investments in the country. The Make in India initiative, tax and duty support and government support through its policies have been instrumental in encouraging new investment from EMS companies. Dixon Technologies is spending ~Rs6bn under the PLI scheme to build a new facility in India to cater to domestic and global markets in the coming year. Dixon Technologies is currently positioning itself as India's largest home-grown player for electronics manufacturing.
- **BIS certification:** Importing electronics and IT products without the BIS (Bureau of Indian Standards) registration is now currently prohibited in India. India is tightening quality control for electronic products to contain rising imports of cheap electronic items, particularly from China, and boost local manufacturing under its Make in India initiative. According to a DGFT (Directorate General of Foreign Trade) notification, every company importing and selling electronic products such as mobile phones, LED lights, etc. in India is required to register with the BIS for clearance and if it fails to do so, the imported goods would be re-exported back to its origin.
- **Import substitution:** As per MeitY, electronic imports account for Rs3.8tr, which is 22% of the total electronics market in India. Top products contributing to highest electronics imports are engine control units, FPD TVs, refrigerators, set-top boxes, machine tools, CCTV cameras, notebooks, servers, storage devices, home automation modules, mobile phones, media gateways, enterprise routers, defence products, medical service items, smart cards & readers. While reducing the dependence on imports in the long run with the Atma Nirbhar Bharat mission, sourcing of electronic components will be met through local manufacturers with the help of various incentives and policies.
- **Export focus through 'Make in India' initiative**: With a larger focus on capex and R&D, Union Budget 2021, presented at the tail-end of the Covid-19 pandemic, gave a strong push to the domestic marketplace, which was highly significant for India's economic growth. In the next couple of years, high real gross domestic product or GDP growth rate is going to be a rare event in most countries as they gradually recover from the impact of the Covid-19 pandemic.

China + 1 strategy: As the Chinese electronics contract manufacturing cost structure continues to rise, OEM customers are aiming to move their electronics production to other countries having a similar price, quality, and receptiveness. There is a new urgency now to examine practical alternatives to manufacturing in China, given the tariff conflicts and the recent Covid-19 pandemic. The enormous scale of China market for end-products should also be considered.

The China+1 strategy is an attempt by many multinational companies to diversify their supply chains away from excessive dependence on China as a manufacturing hub. This strategy involves establishing additional production facilities in alternative countries, such as India, to reduce risks associated with disruptions, rising costs, and geopolitical tensions in China.

India is a potential beneficiary of the strategy due to the following reasons:

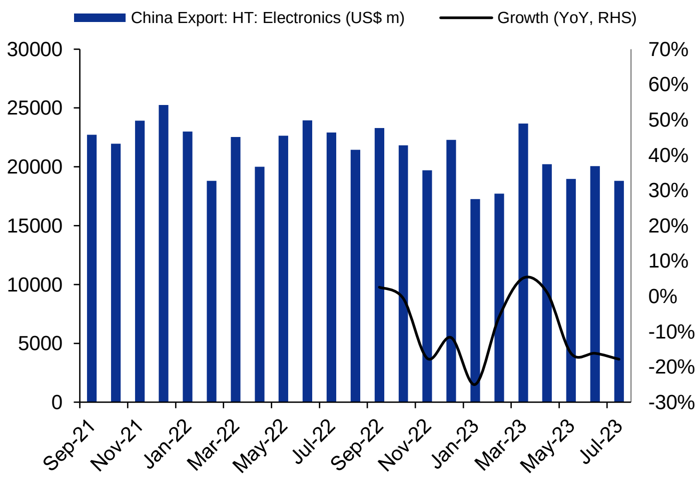
- **Reduced supply chain risks**: Companies can reduce risks associated with overreliance on a single source (China).
- **Low labour costs:** Significant advantage in terms of labour costs compared to many Western countries.
- **Improving manufacturing infrastructure:** India has made significant investments in improving its manufacturing infrastructure over the past few years like industrial parks and Special Economic Zones (SEZs) that provide an attractive environment for setting up manufacturing operations.
- **Government support:** The Indian government has launched initiatives like the PLI scheme and Electronics Manufacturing Clusters (EMCs) to incentivize and support electronics manufacturing.
- **Strategic location:** India's geographical location provides a strategic advantage for companies looking to serve both Asian and global markets.
- **Rising electronics demand**: India's rising consumer electronics demand, coupled with the government's efforts to promote electronics manufacturing, creates a conducive environment for companies to expand their operations.

Figure 40: Shift of production from China

Company	Sector	To Country / Region	Details
Apple	Electronics	India	In 2022, Apple increased iPhone production in India by 3x and it is expected to raise its manufacturing presence in India.
Intel	Electronics	US	>80% of semiconductors are produced in Asia, primarily China, Taiwan and Korea. The industry's goal by 2030F is to boost the share of chip manufacturing in the US to 30%, with Asia and Europe taking the remaining 50% and 20%, respectively.
Nike	Footwear & Apparel	Southeast Asia	Nike has moved most of its production from China. So far in 2023, factories in Vietnam/Indonesia/China manufactured ~50%/27%/18% of footwear, respectively. In FY06, China produced 35% of Nike's sneakers.
Dell	Electronics	Vietnam, Mexico	Dell aims to stop using China-made chips by 2024F and to reduce other made-in-China components. It is expected to move ~50% of its overall production out of China by 2025F.
Foxconn	Electronics	India, Vietnam, Thailand	Foxconn has announced US$1.1bn of investments in India, Vietnam and Thailand. This includes purchasing 21.5 m sq. ft. of land in India and 5.2 m. sq. ft. in northern Vietnam. It also invested US$33m in machinery from Apple in India, and a further US$41 m went into its Thailand EV joint venture, Horizon Plus.
Samsung	Electronics	India, Vietnam	Samsung has already moved forward with manufacturing high-end phones like S23 from China. It aims to start manufacturing the next-gen foldable smartphones in India as well. It had 60,000+ employees in China in 2013, but fell to less than 18,000 by 2021.
Adidas	Footwear & Apparel	Vietnam, Cambodia	Cambodia manufactured 21% of Adidas' sports clothing in 2021, followed by China with 20% and Vietnam with 15%. In 2013, China was the biggest producer at 33%, followed by Indonesia at 11% and Vietnam at 10%.
Panasonic	Electronics	Japan	Starting in 2023, Panasonic will relocate the production of some air-conditioners for the domestic market to Japan from China and raise the share of domestic production to 40% by 2024F from 10% currently.

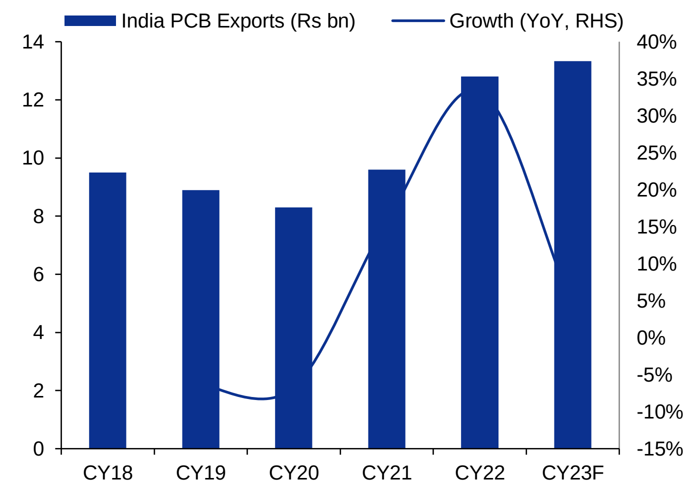
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 41: China electronics production declines by 20% YoY in Jul 2023



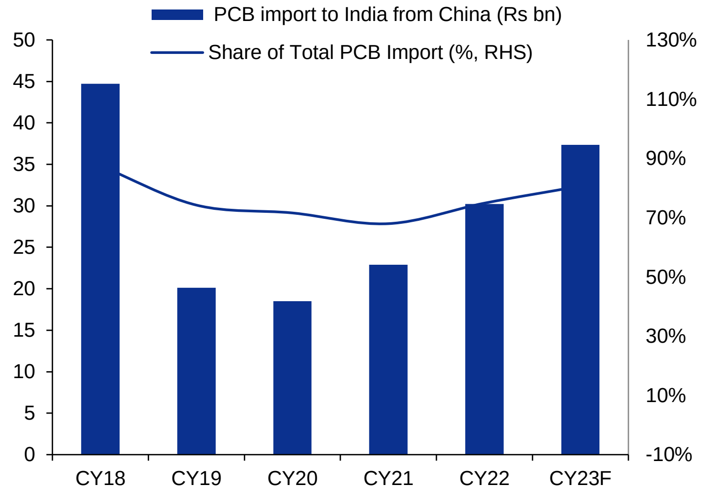
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 42: India's PCB exports grew 35% in CY22



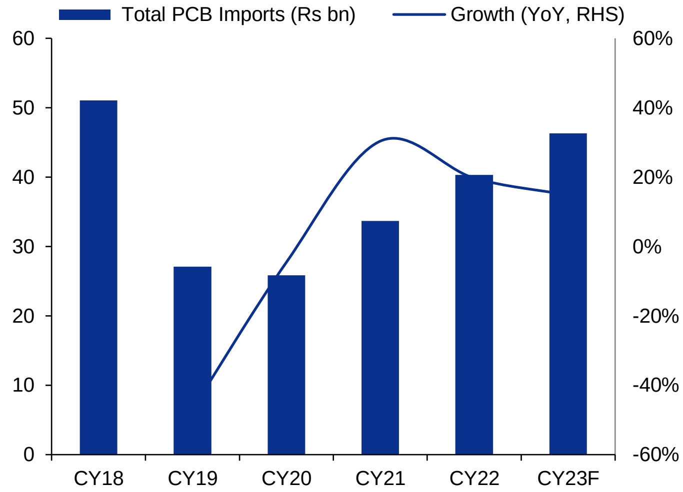
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 43: PCB imports from China decline from their peak in CY18



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 44: PCB imports to continue declining after touching their peak

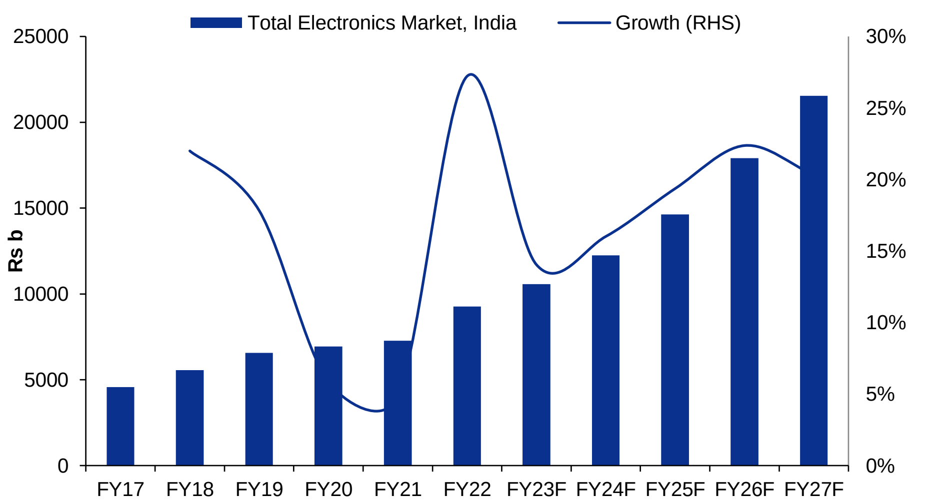


SOURCE: COMPANY REPORTS, INCRED RESEARCH

India's electronics market to grow at a 18% CAGR over FY22-27F

- India's electronic production increased from Rs4,564bn in FY17 to Rs9,263bn in FY22, witnessing a CAGR of 15%. It is expected to touch Rs21,540bn by FY27F. PLI schemes for mobile phones, IT hardware and electronic components have been successful in attracting global giants while providing a fillip to domestic companies and making them national champions with global aspirations.
- India Semiconductor Mission has been launched to enable the country's emergence as a global hub for electronics manufacturing and design. India is recognized as a global hub for IT services, having the world's third-largest start-up ecosystem with 100+ unicorns.
- Emerging technologies like 5G, Internet of Things, Advance Data Analytics, Artificial Intelligence, Cloud Computing, Augmented and Virtual Reality, 3D Printing, Robotics and Blockchain, among others, will redefine the future of technology-led transformation. Several Centres of Excellence have been set up to promote innovation in these areas. Efforts are also on to enable Indian IT professionals attain world class skills in these technologies.

Figure 45: India's electronics market to grow at 18% CAGR over FY22-27F



SOURCE: COMPANY REPORTS, INCRED RESEARCH

With the per capita disposable income and private consumption having doubled between FY12 to FY22, India has emerged as one of the largest markets for electronic products in the world. Domestic production of electronics is valued at Rs6,376bn in FY22 in which mobile phones have the largest share at 43%, followed by IT hardware (5%), consumer electronics (12%), industrial electronics (12%), electronics (8%), strategic electronics (5%), wearables & hearables (0.3%), PCBA (0.7%), auto LED lighting (3%) and electronic components (11%). India has experienced over 2x growth in domestic electronics production in six years from US$43bn in FY16-17 to US$87bn in FY21-22. In addition, the country has witnessed over 5x growth in the production of mobile phones in five years, from 58m units in FY14-15 to 310m units in FY22-23. Newer product verticals such as wearables & hearables, and smart meters along with the larger component ecosystem are steadily being manufactured in the country.

Key government incentive programmes

1. India

- **Make in India:** The Government of India announced that it will make the country a global manufacturing hub by facilitating both domestic as well as international companies to set up manufacturing bases in India. The government released special funds to boost the local manufacturing of mobile phones and electronic components. It has also introduced multiple new initiatives, including promoting foreign direct investment and implementing intellectual property rights. The Make in India initiative, a part of the 'Atmanirbhar Bharat Abhiyan' would provide an additional boost to the country's business operations by encouraging the substitution of imports of low-technology products from other countries and generating demand for local manufacturing.
- **Product-Linked Incentive (PLI) Scheme:** The scheme was announced in 2019 by the Government of India considering the incremental investment and sales of manufactured goods. Initially introduced for mobile phones, it was later expanded to IT hardware and white goods (AC and LED lighting).
- **Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (SPECS):** The aim of this scheme is to strengthen the manufacturing ecosystem of electronic components and semiconductors. Target manufacturing of electronic components and semiconductors through the scheme will help meet domestic demand, increase value addition and promote employment opportunities in this sector. Incentives of up to Rs33bn will be granted under the scheme over a period of eight years.
- **Modified Electronics Manufacturing Clusters Scheme (EMC 2.0):** The scheme is aimed to strengthen the infrastructure base for the electronics industry and deepen the electronics value chain in India. It provides financial incentives for creating quality infrastructure as well as common facilities and amenities for electronics manufacturers. Financial incentives of up to Rs38bn will be disbursed over a period of eight years.
- **Defence offset policy:** The key objective of this policy is to leverage capital acquisitions to develop the country's defence industry by 1) development of internationally competitive enterprises, 2) augmenting capacity for R&D, and 3) encouraging development of synergistic sectors like civil aerospace, and internal security. India has implemented this policy for capital goods imports of over Rs300bn. Foreign vendors are required to invest at least 30% of the value of the purchased products.
- **Semiconductors and Display Fab Ecosystem:** The scheme was launched to support companies involved in Silicon Semiconductor Fabs, Display Fabs, Compound Semiconductors/Silicon Photonics/Sensors Semiconductor Packaging (ATMP/OSAT), and Semiconductor Design (CAD). It is a comprehensive incentive program approved by the government for sustainable semiconductor and display ecosystem in India with an outlay of Rs760bn.

2. China

Semiconductor manufacturing has long been a priority for China, which has gained with the Made in China 2025 plan and achieved its goal of becoming increasingly self-sufficient in semiconductors.

A broad set of policy levers exists centrally and locally:

- **Investment incentives (land, grants, tax credits, etc.):** In China, incentives are to the extent of up to 30%-40% of a new fabrication facility's total cost of ownership, which is higher than other countries.
- **Technology transfer:** The incentives are available for both domestic and multinational companies, but often require some technology transfer.
- **Additional support:** The additional support systems that China provides, which are not typically available in other countries, are as follows:
    - Equipment is leased at preferential interest rates.
    - Companies have access to credit and loans at below-market rates.
    - The government directly invests in the equity of domestic companies. It is estimated that the extent of support extended by the Chinese government to its top four semiconductor manufacturing companies exceeds 20-30% of their revenue.

3. United States

USA Chips Act: To strengthen the country's position in semiconductor manufacturing and R&D, the US government authorized a set of programs called Creating Helpful Incentives to Produce Semiconductors (Chips). The intent of this set of programs is to restore its leadership in semiconductor manufacturing by providing incentives and encouraging investment to expand manufacturing capacity for the most advanced semiconductors which are still very much in high demand. **Key highlights of the US incentive programme:**

- A sum of US$39bn would be directed to incentivize the construction or modernization of facilities in the US for semiconductor fabrication, assembly, testing, advanced packaging, or R&D.
- Another US$11.2bn would support several R&D and infrastructure investments including the establishment of a National Semiconductor Technology Centre (NSTC), investments in advanced packaging, the creation of a Manufacturing USA Institute targeting semiconductors, and expansion of R&D in support of semiconductor and microelectronics.

ITAR Program: International Traffic in Arms Regulations (ITAR) control the export and import of defence-related articles and services on the United States Munitions List (USML). The ITAR controls end-use items, such as radar and communications systems, military encryption, and associated equipment, and parts that are incorporated into the end use item.

The company must be ITAR-certified and registered with the State Department's Directorate of Defence Trade Controls (DDTC). The US was projected to be the largest spender on defence worldwide in 2021, and this trend is expected to continue until 2032F. In 2021, the US spent US$742bn on defence. The forecast predicts an increase in defence outlay up to US$998bn in 2032F.

4. Europe

European Chips Act: The European Chips Act will help to address weaknesses in Europe's semiconductor supply chain as well as promote research and production of these chips through investments in public and private chip fabs. This will help the region respond to any future supply chain disruptions. Additionally, it will help the EU achieve its goal of reaching 20% global production of semiconductors by 2030F. The European Chips Act has three main components that will help secure the supply of semiconductors as well as reduce dependency on chipmakers outside Europe, which are as follows:

- The Act will pool resources from member states and countries associated with the existing Union programs. US$12.8bn will be made available to strengthen

R&D and innovation for prototyping, testing, and experimentation of new devices.

- A new framework will ensure the security of supply by attracting investments and enhancing production capacities such as advanced processing nodes. The fund will also allow access to finance start-ups to help mature innovations and attract investors.
- The Act will enable coordination between member states and the European Commission for monitoring the supply of semiconductors, estimating demand, and anticipating shortages. This will help monitor the value chain by gathering key intelligence from companies to map primary weaknesses and bottlenecks.

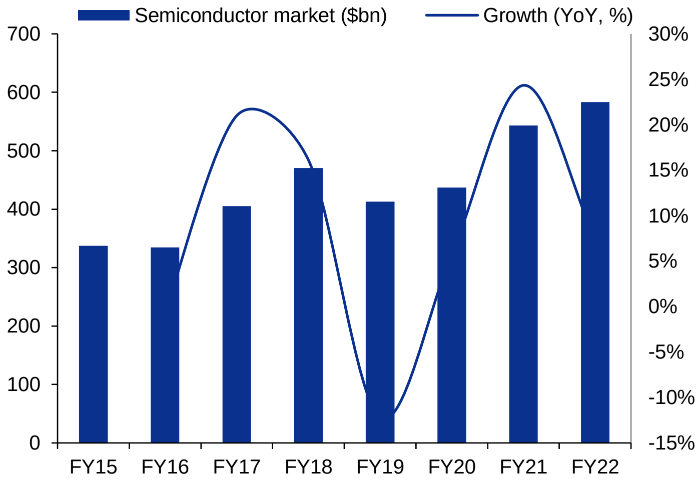
5. Southeast Asia

Southeast Asia's discretionary incentives tend to be offered at a local authority level. In Thailand, new incentives have been granted for semiconductor manufacturing, R&D, and other digital technology as the objective of the government is to take advantage of the soaring demand for products in this sector. The R&D and human resource (HR) incentives apply to companies making large investments in innovation. Eligible companies will benefit from extended tax holidays lasting up to 13 years without a corporate income-tax exemption ceiling. In other words, these companies will be given an exemption from Thailand's corporate income-tax rate of 20%. Back-end semiconductor investments, such as in wafer SORT, die bank, assembly, and integrated circuit testing qualify for tax holidays of eight years with machinery investments of at least US$45.7m, and five years for machinery investments below US$45.7m.

India to capture a big chunk of the global semiconductor market

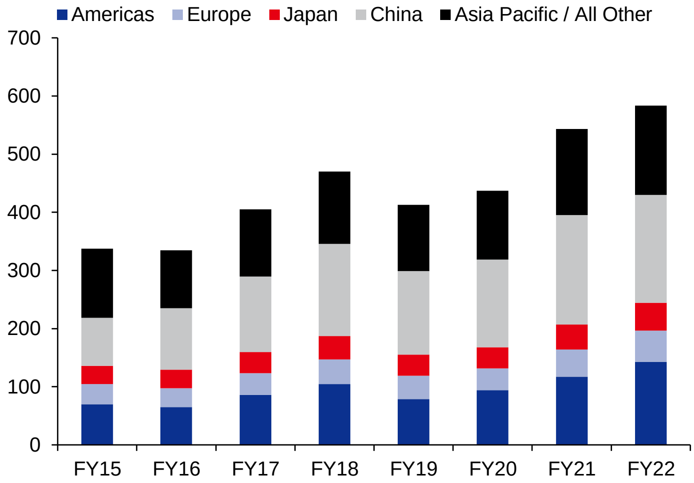
- The global semiconductor industry is likely to touch ~Rs64tr (US$754bn) by FY26F from base of ~Rs51tr in FY22, led by rising usage of semiconductor content across consumer electronics and automobiles including EV and industrial segments.
- The US is the largest provider of semiconductors globally with a 52% market share, followed by Japan at 23% and Europe at ~10%. China has a 14% share currently, which has increased from a mere 7% in 2017.
- India is poised for substantial growth in the global EMS sector, which is likely to garner ~10% share of the global semiconductor market by FY30F. This achievement can be attributed to factors such as the China+1 strategy, robust government initiatives, and the rising penetration of the electronics market.
- To foster innovation in semiconductor design, the government has allocated US$200m, as a part of the US$10bn India Semiconductor Mission initiated in 2021.
- The government has provided substantial fiscal support, amounting to ~Rs 2,550bn (US$30bn), for electronics manufacturing. Notably, Rs 850bn of this allocation is dedicated to developing the semiconductor ecosystem, encompassing areas like display, fab manufacturing, and OSAT (Outsourced Semiconductor Assembly and Test).
- Players in the semiconductor sector stand to benefit from the Indian government's incentives, receiving 50% of the project cost, up to Rs 120bn per project, for establishing compound semiconductor, silicon photonics, advanced test manufacturing and packaging (ATMP), and OSAT facilities in India.

Figure 46: Semiconductor market is valued at US$580bn



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 47: Americas region accounts for a 32% share in the semiconductor market



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 48: Semiconductor market to clock ~9% CAGR over FY22-30F

Semiconductor market (US$bn)	FY20	FY22	FY25F	FY30F
Smart phones	117	144	150	213
Personal computers	100	115	124	131
Consumer electronics	50	71	79	114
Automotive sector	40	63	93	149
Industrial electronics	51	73	93	160
Wired & wireless infra	38	53	62	82
Servers, data centres, storage	76	19	136	249

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 49: Servers, data centres to grow faster and account for 23% of the total semiconductor market by FY30F

Semiconductor market (US$bn)	FY20	FY22	FY25F	FY30F
Smart phones	25%	27%	20%	19%
Personal computer	21%	21%	17%	12%
Consumer electronics	11%	13%	11%	10%
Automotive sector	8%	12%	13%	14%
Industrial electronics	11%	14%	13%	15%
Wired & wireless infra	8%	10%	8%	7%
Servers, data centres, storage	16%	4%	18%	23%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Key risks

- **Market fragmentation:** With the strong growth potential of the EMS sector, many companies are entering this space, which is causing stiff competition. The existence of a high number of market participants in all areas results in competitive pricing, which can reduce market revenue potential, especially for high-mix, low-volume products. However, specialized sectors such as defence and medical are highly complex and expensive, and there are obvious challenges and barriers that make it difficult for new players to enter this market. High capital requirement and strict regulations are the key barriers preventing companies from entering these sectors.
- **Shrinking operating margin:** Most EMS players face the challenge of operating margin, which is relatively low. The low operating margin is viewed as an impediment to growth, considering the impact it can make on expansion plans. In the long term, as overall demand increases, market participants will be able to expand through technological investments. Thus, the impact will lower in the mid- to long-term.
- **Complex structure and delay in supply chain:** Supply chain delay causing shortage of components is likely to impact the revenue in the short term. The Russia-Ukraine war may have an impact on the supply of gases, which are essential to manufacture semiconductor chips as these are used in the lithography processes for chip production. However, overall, the impact of transformation is very low in the mid- to long-term.
- **Shortened product lifecycle and uncertain demand:** Customer preferences and interests continue to evolve at a breakneck pace. To launch the items on schedule while fulfilling quality and volume objectives, a collaborative effort across different sections is required. The industrial sector should be able to handle the rise in demand if it reaches exceptional heights. If demand falls, companies must have a strategy in place for idle raw materials or machinery.

- **Regulations and violations of IP**: Local stringent laws and trade pricing are having an influence on the EMS sector, driving OEMs to build in-house manufacturing capabilities. In addition, a rising number of cases regarding the infringement of intellectual property (IP) rights are posing a serious threat to EMS companies.

Entry barriers in EMS sector

- **Capital investment cycle:** Capital investment is one of the issues which are faced by EMS players. It takes a long time, as compared to other manufacturing industries, to realize a return on invested capital. This also acts as a barrier to entry for a new player and the capital-intensive nature of the industry makes it hard for the smaller players to achieve scale.
- **Presence of established players:** Furthermore, the players are increasingly investing in R&D and exhibiting mergers, acquisitions, and partnerships as key growth areas in production. Consumers in today's day and age are very clear about their requirements, which sometimes leads to a spike in demand for a certain product. A company is expected to be resourceful as inventory is also expected to keep up with the demand.
- **Long approval cycle:** There are challenges in the acquisition process, especially in the aerospace and defence or A&D space. The 'statement of case' for a major aircraft deal to 'acceptance of necessity' can take up a long time. Also, request for information and request for proposals and the selection and negotiation process takes three to four years, and the production or delivery takes another two to three years.
- **Certification and technical know-how**: Attaining and maintaining technical knowledge through continued training and development is an essential element in regulated industries such as A&D, medical, telecom and others. With high barriers to entry in these sectors, it is unlikely that any new competitor will enter the market.

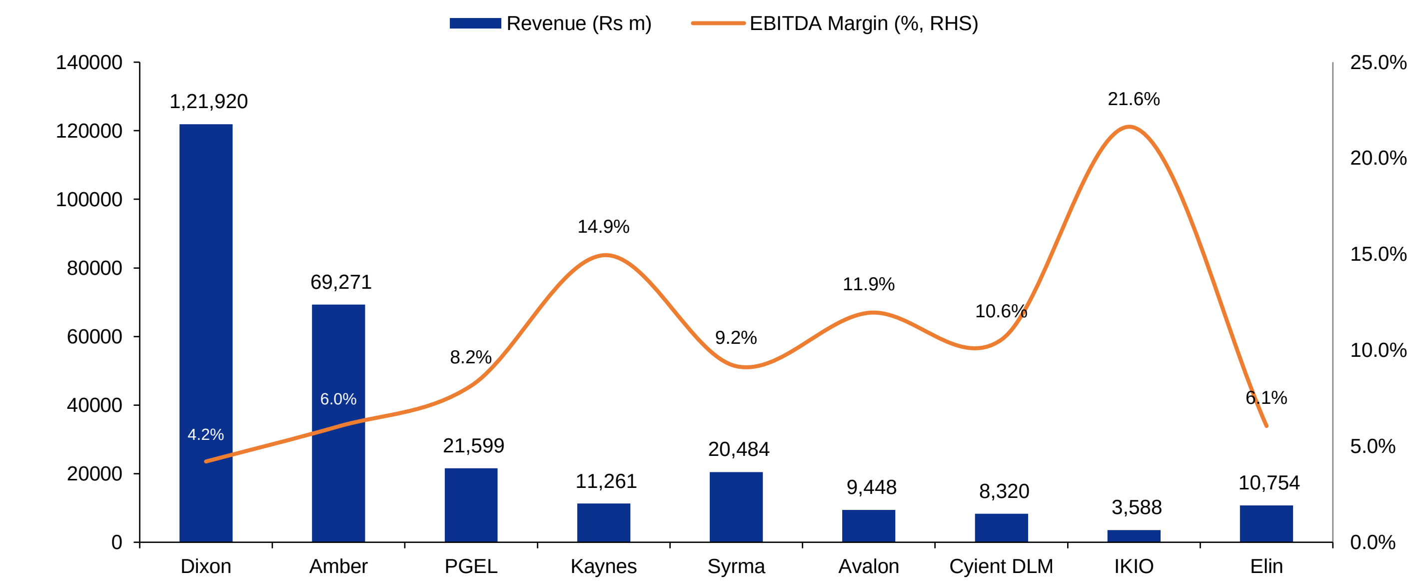
Key management commentaries

Figure 50: Managements across companies expect the healthy growth to continue

Company	Management Commentaries
Dixon	Management is looking to sustain the healthy growth over the next couple of years led by new customer addition in mobile and consumer electronics segments. The company is looking at a capex of ~Rs4bn towards mobile phones followed by refrigerators and semi-auto washing machines. The company has added Voltas Beko and Itel as its clients. Dixon would also be manufacturing Jio Bharat phones, which is a huge long-term opportunity.
Amber	Room Acs have the largest outsourcing potential with a market size of ~Rs250bn, which is likely to sustain the healthy double-digit volume growth over the next four-to-five years. Amber is transitioning rapidly into a diversified EMS player, from a RAC-focused player, with 40% of its EBITDA from non-RAC businesses. For FY24F, management has given growth guidance of 15-20% in the mobility business, 35-40% in electronics, and 20-25% in motor divisions. The RAC business is likely to grow by ~8% in FY24F.
PG Electro.	Management reiterated its revenue growth guidance of 30% for FY24F led by a 40-45% growth in the product business, which includes room ACs, washing machines and coolers contributing two-thirds to the company's revenue. The NWC cycle is likely to improve by 10-15 days gradually with the shift in sourcing from China to India. Capex guidance of Rs1.8bn, especially for RACs, to double capacity and go for backward integration.
Kaynes	Management looking at a strong 30-40% revenue CAGR over the next few years on the current order book worth Rs30bn (2.7x FY23 revenue). Revenue from new clients, at 20% of sales, to drive the growth. Aerospace and defence vertical revenue is expected to increase substantially in FY24F while IT, medical electronics and telecom are emerging verticals for Kaynes. The capex of Rs2.2bn to triple its capacity is on track while the reduction in NWC days to boost cash flow in the near term.
Syrma	Management targets a revenue of US1bn by FY28F, of which 25% of business would be from ODM, 25% RoCE and one-third of the business from exports. Capex is on track for Chennai and Hosur plants. Strong synergy following the acquisition of Johri Digital with a higher ODM mix and entry into the healthcare segment. Syrma to continue maintaining its double-digit EBITDA margin.
Avalon	India business continues to grow fast while the US revenue has been flat in 1QFY24. Management expects a 15-25% revenue growth with strong FY24F performance. Avalon is well placed to sustain its EBITDA margin and has strong opportunities across industrial and railway segments which are driving growth.
Cyient DLM	Management indicated continued momentum in the transportation and sustainability verticals, driven by higher volume. Within transportation, demand was intact in the commercial aerospace and MRO segments on strong air traffic volume. Cyient DLM is likely to maintain sustainability along with complementing the service offerings for hydrocarbon and green energy. It has given guidance of a healthy 2HFY24F performance along with new growth areas where there is some impact.
IKIO	The company has no plans to foray into any other product segments in the EMS space or in the B2C vertical. Management expects the healthy growth momentum to continue with an EBITDA margin of 22%+. Higher growth in other verticals to reduce its dependence on Signify, which contributes ~50% to its revenue. Inventory and debtor days to reduce by ~15 days. IPO proceeds of Rs2.4bn to be used for capex at its Noida facility, with ~5x asset turns and 75% capacity utilization in the coming years.
Elin	After a soft 2QFY24, management expects a healthy revival in 2HFY24F on expectations of good festive demand and the new product launch pipeline. Near-term challenges persist with mid-teen revenue growth likely in FY24F and the EBITDA margin touching 7%. The company has incurred Rs42m out of its total capex of Rs223m to set up capacity for economy-mid segment products, mainly in small appliances.

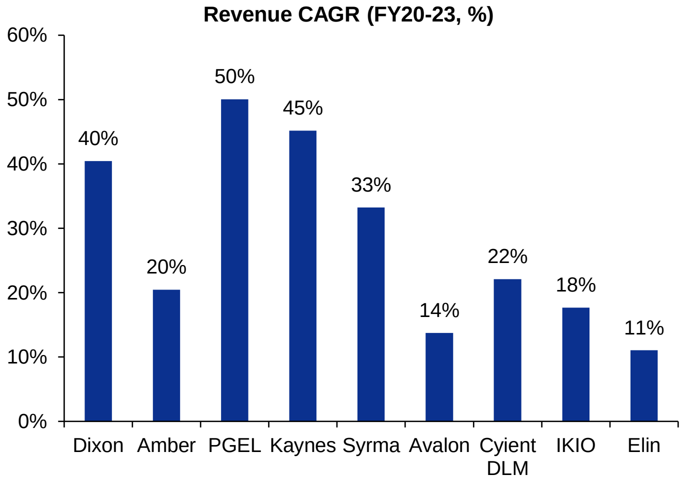
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 51: Dixon is the largest revenue contributor while IKIO has the highest margin



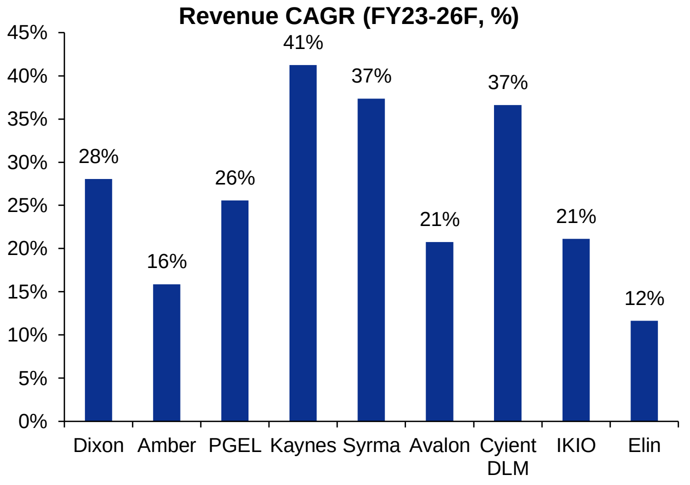
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 52: PG Electroplast registers highest revenue growth during FY18-23



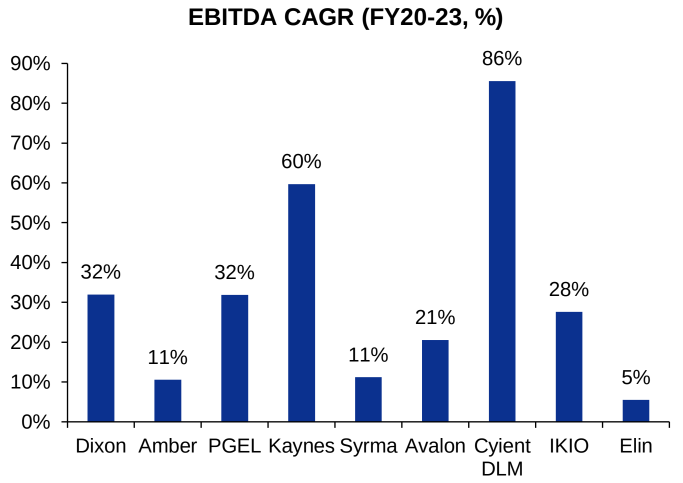
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 53: Kaynes to report a 41% revenue CAGR over FY23-26F



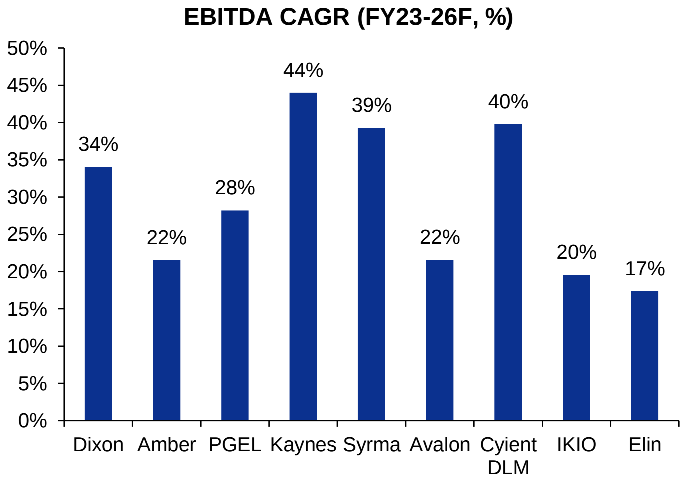
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 54: Cyient DLM posts an 86% EBITDA CAGR



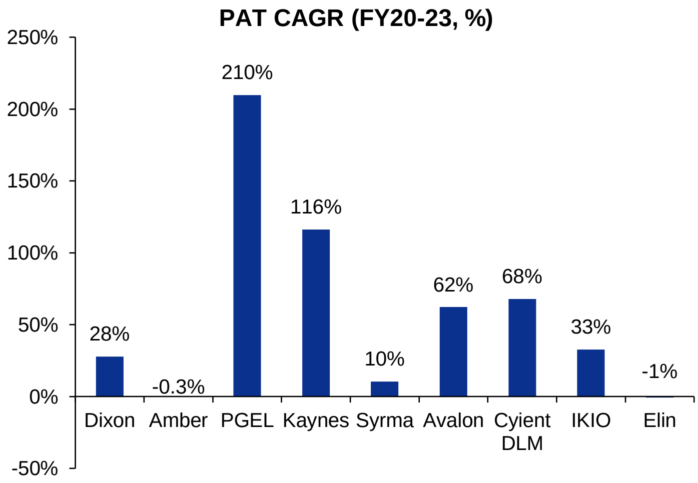
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 55: Kaynes to report 44% EBITDA CAGR over FY23-26F



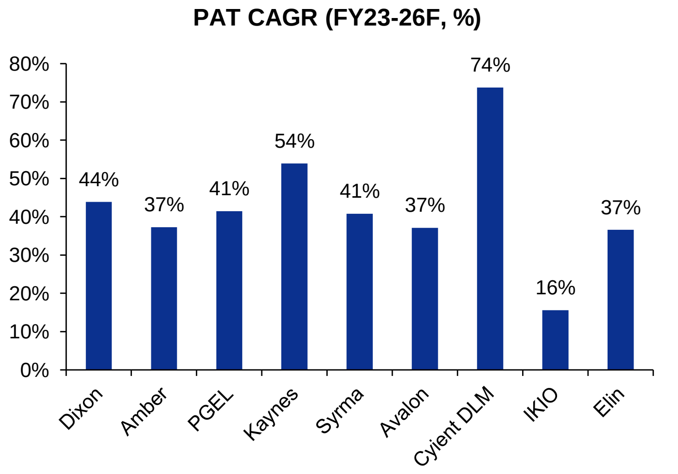
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 56: PG Electroplast posts a 210% PAT CAGR



SOURCE: COMPANY REPORTS, INCRED RESEARCH

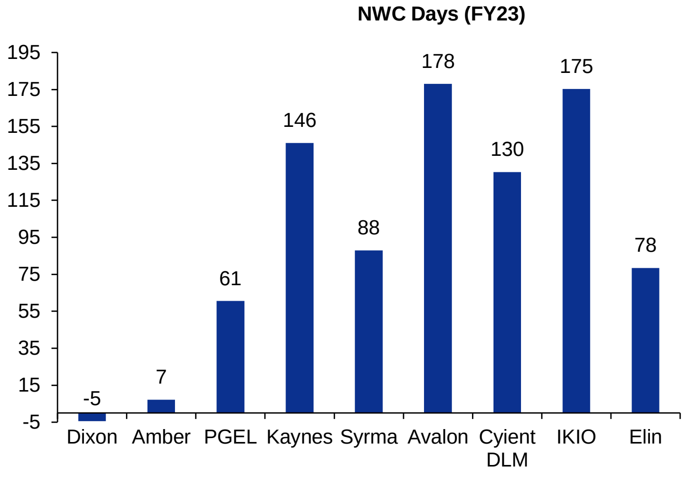
Figure 57: Cyient DLM likely to report a 74% PAT CAGR over FY23-26F



SOURCE: COMPANY REPORTS, INCRED RESEARCH

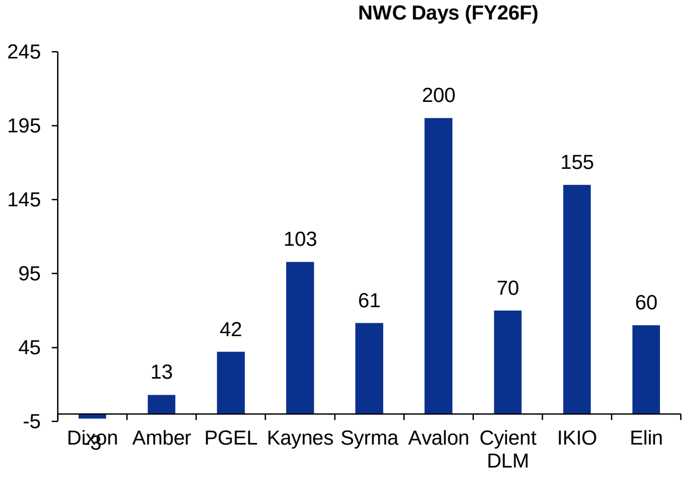
InCred Equities

Figure 58: Avalon and IKIO have the highest NWC days



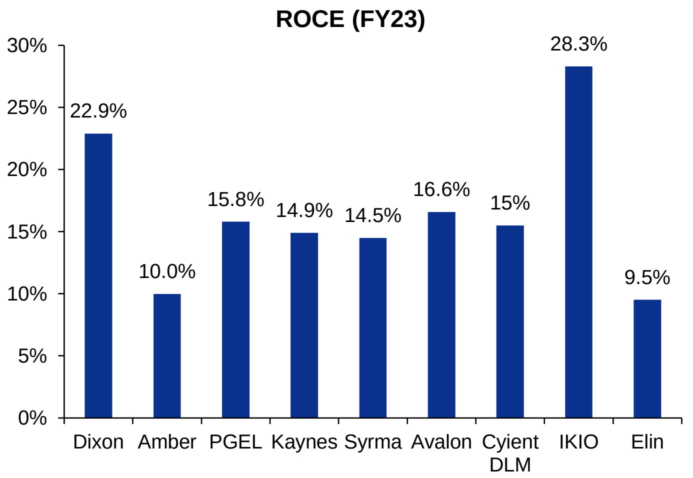
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 59: The highest NWC trend is likely to continue in FY26F as well



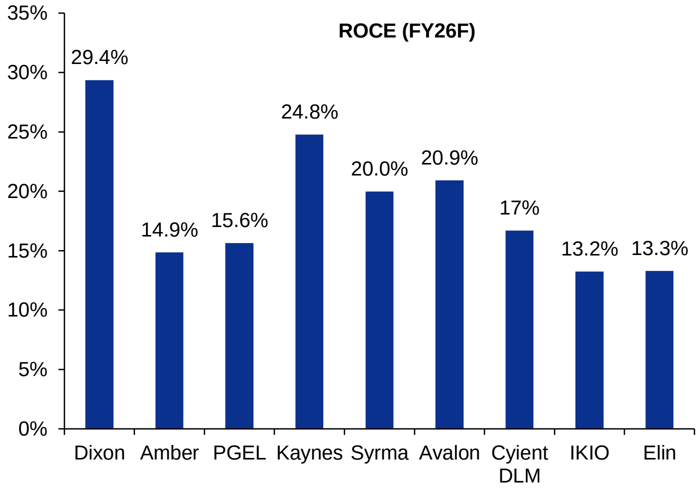
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 60: IKIO and Dixon have the highest RoCE



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 61: Dixon and Kaynes likely to have a strong RoCE in FY26F



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 62: Revenue: InCred estimates vs.consensus estimates

Rs m	Incred			Consensus			Difference		
Revenue	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Dixon Technologies	1,63,781	2,06,847	2,56,042	1,69,595	2,22,915	2,77,267	-3.4%	-7.2%	-7.7%
Amber Enterprises	80,729	93,858	1,07,792	80,146	95,475	1,08,888	0.7%	-1.7%	-1.0%
PG Electroplast	28,078	35,319	42,762	28,071	36,144	NA	0.0%	-2.3%	NA
Kaynes Technology	17,261	23,100	31,736	17,522	24,943	33,176	-1.5%	-7.4%	-4.3%
Syrma SGS Technology	28,790	39,571	53,065	28,838	39,001	53,468	-0.2%	1.5%	-0.8%
Avalon Technologies	11,707	14,043	16,643	11,253	14,149	16,257	4.0%	-0.7%	2.4%
Cyient DLM	11,639	15,771	21,215	11,608	16,885	21,229	0.3%	-6.6%	-0.1%
IKIO Lighting	4,279	5,163	6,376	NA	NA	NA	NA	NA	NA
Elin Electronics	11,906	13,281	14,961	12,368	14,223	NA	-3.7%	-6.6%	NA

SOURCES: INCRED RESEARCH, BLOOMBERG, COMPANY REPORTS

Figure 63: EBITDA: InCred estimates vs.consensus estimates

Rs m	Incred			Consensus			Difference		
EBITDA	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Dixon Technologies	7,138	9,683	12,349	7,196	9,469	11,686	-0.8%	2.3%	5.7%
Amber Enterprises	5,160	6,356	7,502	5,286	6,591	7,757	-2.4%	-3.6%	-3.3%
PG Electroplast	2,387	3,002	3,710	2,239	2,885	NA	6.6%	4.1%	
Kaynes Technology	2,666	3,640	5,025	2,646	3,776	5,091	0.8%	-3.6%	-1.3%
Syrma SGS Technology	2,373	3,650	5,073	2,669	3,862	5,364	-11.1%	-5.5%	-5.4%
Avalon Technologies	1,436	1,641	2,028	1,300	1,748	1,944	10.5%	-6.1%	4.3%
Cyient DLM	1,254	1,746	2,397	1,230	1,939	2,533	2.0%	-10.0%	-5.4%
IKIO Lighting	917	1,090	1,325	NA	NA	NA			
Elin Electronics	762	898	1,053	898	1,090	NA	-15.2%	-17.6%	

SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 64: PAT: InCred estimates vs.consensus estimates

Rs m	Incred			Consensus			Difference		
PAT	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Dixon Technologies	3,889	5,769	7,547	4,009	5,486	6,983	-3.0%	5.2%	8.1%
Amber Enterprises	2,230	3,171	4,069	2,081	2,971	3,816	7.2%	6.7%	6.6%
PG Electroplast	1,204	1,622	2,193	1,126	1,582	NA	7.0%	2.5%	NA
Kaynes Technology	1,865	2,449	3,470	1,754	2,521	3,426	6.3%	-2.8%	1.3%
Syrma SGS Technology	1,658	2,453	3,439	1,742	2,414	3,167	-4.8%	1.7%	8.6%
Avalon Technologies	884	1,090	1,357	794	1,128	1,305	11.3%	-3.3%	4.0%
Cyient DLM	680	1,127	1,664	651	1,249	1,710	4.6%	-9.7%	-2.7%
IKIO Lighting	515	631	774	NA	NA	NA	NA	NA	NA
Elin Electronics	398	544	682	495	628	NA	-19.7%	-13.3%	NA

SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 65: Margin: InCred estimates vs.consensus estimates

	Incred			Consensus			Difference		
EBITDA Margin	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Dixon Technologies	4.4%	4.7%	4.8%	4.2%	4.2%	4.2%	12 bp	43 bp	61 bp
Amber Enterprises	6.4%	6.8%	7.0%	6.6%	6.9%	7.1%	-20 bp	-13 bp	-16 bp
PG Electroplast	8.5%	8.5%	8.7%	8.0%	8.0%		52 bp	52 bp	
Kaynes Technology	15.4%	15.8%	15.8%	15.1%	15.1%	15.3%	35 bp	62 bp	49 bp
Syrma SGS Technology	8.2%	9.2%	9.6%	9.3%	9.9%	10.0%	-101 bp	-68 bp	-47 bp
Avalon Technologies	12.3%	11.7%	12.2%	11.5%	12.4%	12.0%	72 bp	-67 bp	23 bp
Cyient DLM	10.8%	11.1%	11.3%	10.6%	11.5%	11.9%	18 bp	-41 bp	-63 bp
IKIO Lighting	21.4%	21.1%	20.8%	NA	NA	NA	NA	NA	NA
Elin Electronics	6.4%	6.8%	7.0%	7.3%	7.7%	NA	-86 bp	-90 bp	NA

SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 66: Plant details – company-wise

Company	Founded in	Total Plant Area (m sqft)	Number of Plants	Client Base	Export %
Dixon Technologies	1993	4.5	21	60+	1%
Amber Enterprises	1990	0.11	27	20+	1%
PG Electroplast	2003	0.61	5	50+	0%
Kaynes Technology	1988	0.27	10	230+	15%
Syrma SGS Technology	2004	0.83	12	200+	31%
Avalon Technologies	2002	0.5	12	80+	59%
Cyient DLM	1993	0.23	3	35+	70%
IKIO Lighting	2016	0.29	4	10+	7%
Elin Electronics	1969	0.52	3	300+	0%

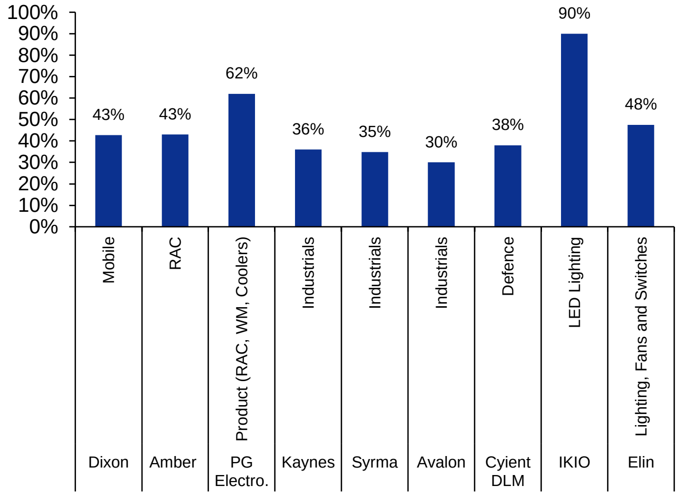
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 67: Manufacturing footprint - company-wise

Company	Plant Locations
Dixon Technologies	Noida, Dehradun, Andhra Pradesh, Ludhiana
Amber Enterprises	Haryana, Gujarat, Punjab, Rajasthan, Andhra Pradesh, Tamil Nadu, Uttar Pradesh, Uttarakhand
PG Electroplast	Greater Noida, Roorkee, Ahmednagar
Kaynes Technology	Mysuru, Bengaluru, Chennai, Manesar, Parwanoo, Selaqui
Syrma SGS Technology	Gurgaon, Manesar, Chennai, Baddi, Bawal, Bargur
Avalon Technologies	Chennai, Atlanta, Bengaluru, Fremont
Cyient DLM	Mysuru, Hyderabad, Bengaluru
IKIO Lighting	Haridwar, Noida
Elin Electronics	Ghaziabad, Baddi, Verna

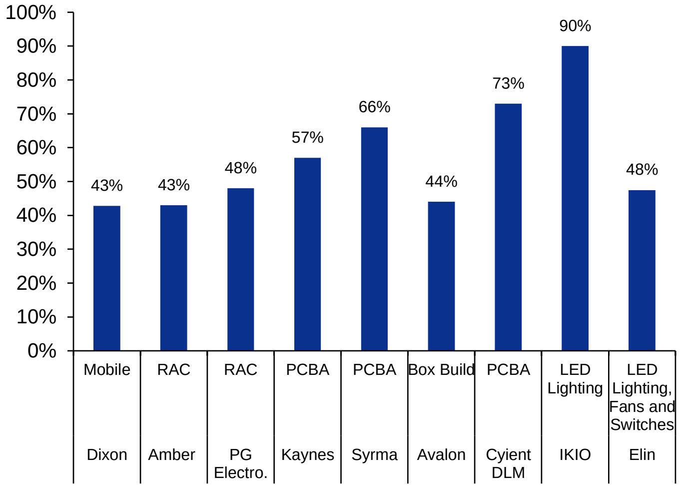
SOURCE: COMPANY REPORTS, INCRED RESEARCH, BLOOMBERG

Figure 68: Revenue from key sectors



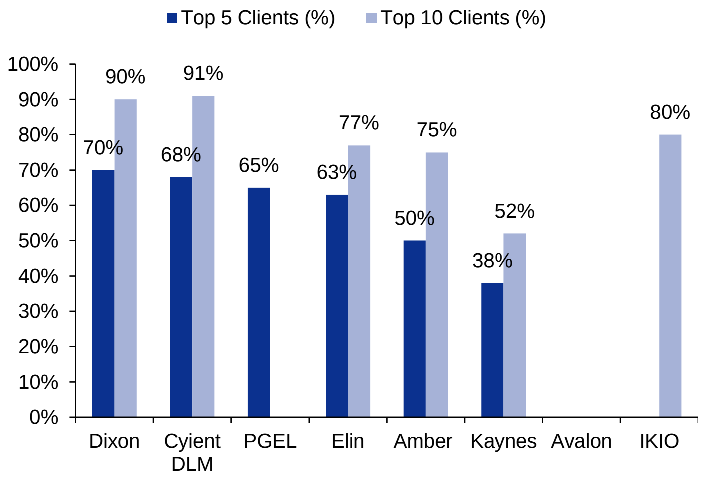
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 69: Revenue from key products



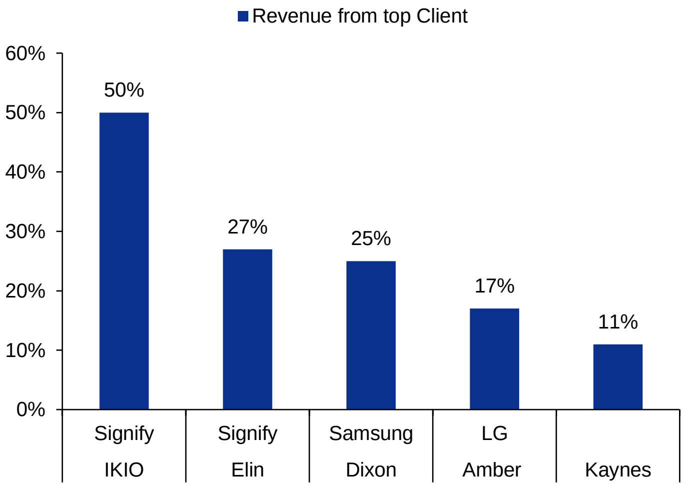
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 70: Revenue concentration



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 71: Revenue from largest client



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 72: IPO details

Rs m	Fresh Issue	OFS	Total Issue	Listing Date	Subscription (x)	Issue price (Rs)	Listing price (Rs)	Listing Gain (%)
Amber Enterprises	4,747	1,249	5,996	30-Jan-2018	165	859	1,180	37%
Avalon Technologies	3,200	5,450	8,650	18-Apr-2023	2	436	431	-1%
Cyient DLM	5,920	-	5,920	10-Jul-2023	67	265	401	51%
Dixon Technologies	600	5,393	5,993	18-Sep-2017	118	1,766	2,725	54%
Elin Electronics	1,750	3,000	4,750	30-Dec-2022	3	247	243	-2%
IKIO Lighting	3,500	2,565	6,065	16-Jun-2023	66	285	391	37%
Kaynes Technology	5,300	3,278	8,578	22-Nov-2022	34	587	775	32%
PG Electroplast	1,207	-	1,207	26-Sep-2011	1	210	200	-5%
Syrma SGS Technology	7,660	741	8,401	26-Aug-2022	33	220	262	19%

SOURCE: COMPANY REPORTS, INCRED RESEARCH, BLOOMBERG

InCred Equities

Figure 73: Key metrics

	Dixon		Amber		PGEL		IKIO		Elin	
	FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23
Financial Metrics										
Revenue	1,06,971	1,21,920	42,064	69,271	10,977	21,599	3,318	3,588	10,938	10,754
Revenue Growth (%)	66%	14%	66%	14%	56%	97%	55%	8%	27%	-2%
Gross Profit	9,178	11,713	6,767	10,593	2,137	3,954	1,396	1,285	2,781	2,787
Gross Margin (%)	8.6%	9.6%	16.1%	15.3%	19.5%	18.3%	42.1%	35.8%	25.4%	25.9%
EBITDA	3,791	5,128	2,754	4,179	751	1,760	773	775	790	651
EBITDA Margin (%)	3.5%	4.2%	6.5%	6.0%	6.8%	8.2%	23.3%	21.6%	7.2%	6.1%
PAT	1,904	2,535	1,092	1,572	1,904	2,535	506	501	391	268
PAT Margin	1.8%	2.1%	2.6%	2.3%	17.3%	11.7%	15.2%	14.0%	3.6%	2.5%
Number of Days										
Inventories	39	29	73	58	95	60	121	123	40	42
Debtors	46	51	114	93	71	74	73	74	59	67
Creditors	79	73	148	121	90	66	26	24	33	43
NWC	7	-5	11	7	63	61	226	227	76	78
Return Ratios										
RoCE	19.2%	22.9%	7.3%	10.0%	9.2%	15.8%	39.3%	29.3%	16.5%	9.5%
RoE	19.1%	19.8%	6.3%	8.2%	14.7%	21.9%	58.8%	39.9%	13.8%	6.7%
Debt Profile										
Gross Debt	4,580	1,826	10,318	13,437	4,449	6,323	1,066	1,147	1,023	778
Cash	1,823	2,292	5,626	5,594	392	396	22	23	49	997
Net worth	9,968	12,849	17,729	19,540	3,123	3,959	1,089	1,422	3,031	4,931
Debt/Equity	0.5	0.1	0.6	0.7	1.4	1.6	1.0	0.8	0.3	0.2
Capex	4,157	2,624	2,589	7,129	1,875	1,712	117	287	404	514

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 74: Key metrics

	Kaynes		Syrma		Avalon		Cyient DLM	
	FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23
Financial Metrics								
Revenue	7,062	11,261	10,197	20,484	8,407	9,447	7,205	8,320
Revenue Growth (%)	68%	59%	15%	101%	22%	12%	15%	15%
Gross Profit	2,168	3,460	2,168	3,460	2,866	3,380	1,766	1,868
Gross Margin (%)	30.7%	30.7%	21.3%	16.9%	34.1%	35.8%	24.5%	22.5%
EBITDA	937	1,683	944	1,878	975	1,128	840	878
EBITDA Margin (%)	13.3%	14.9%	9.3%	9.2%	11.6%	11.9%	11.7%	10.6%
PAT	417	952	567	1,231	675	526	398	317
PAT Margin	5.9%	8.5%	5.6%	6.0%	8.0%	5.6%	5.5%	3.8%
Number of Days								
Inventories	117	134	104	105	101	123	137	186
Debtors	102	74	97	72	77	80	79	72
Creditors	85	72	86	87	51	55	98	125
NWC	133	294	107	89	173	178	105	130
Return Ratios								
RoCE	30.9%	14.9%	15.6%	14.5%	23.9%	16.6%	20.2%	15.5%
RoE	24.4%	16.4%	13.1%	11.6%	63.8%	16.8%	69.4%	23.1%
Debt Profile								
Gross Debt	1,695	1,359	1,942	3,468	2,941	3,063	2,932	3,145
Cash	17	280	369	544	78	4,219	1,218	1,676
Net worth	2,037	9,603	5,829	15,429	887	5,370	771	1,979
Debt/Equity	0.8	0.1	0.3	0.2	3.3	0.6	3.8	1.6
Capex	490	483	554	3,106	94	212	22	-87

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 75: Segmental overview

FY23 (Rs m)	Kaynes	Syrma	Avalon	Cyient DLM	Aggregate
Order Book	**26,482**	**30,000**	**12,310**	**24,325**	**93,117**
Total Revenue (FY23)	11,260	20,483	9,446	8,320	**49,509**
Total Revenue (FY26F)	31,736	52,163	16,643	21,406	**1,21,949**
Book to Bill (x)	2.4	1.5	1.3	2.9	**1.9**
Export Revenue	1,689	6,350	5,573	4,992	**18,604**
Export % of total revenue	15%	31%	59%	60%	**38%**
Gross Profit	3,460	5,079	3,380	1,868	**13,788**
Gross Margin	30.7%	24.8%	35.8%	22.5%	**27.8%**
Industrials					
Revenue (FY23)	3,041	6,422	2,782	2,087	**14,331**
Revenue mix (FY23)	27%	31%	29%	25%	**29%**
Gross Margin	34%	30%	35%	28%	**32%**
Revenue (FY20)	1,178	3,252	1,828	1,181	**7,439**
Revenue (FY26F)	8,343	15,301	4,902	6,636	**35,182**
Revenue mix (FY26F)	26%	29%	29%	31%	**29%**
Revenue CAGR (FY20-23)	37%	25%	15%	21%	**24%**
Revenue CAGR (FY23-26F)	40%	34%	21%	47%	**35%**
Healthcare					
Revenue	676	1,633	1,230	1,353	**4,892**
Revenue mix (%)	6%	8%	13%	16%	**10%**
Gross Margin	**29%**	**54%**	**35%**	**26%**	**38%**
Revenue (FY20)	230	2,067	1,108	370	**3,775**
Revenue (FY26F)	3,041	2,971	1,335	2,727	**10,074**
Revenue mix (FY26F)	10%	6%	8%	13%	**8%**
Revenue CAGR (FY20-23)	43%	-8%	4%	54%	**9%**
Revenue CAGR (FY23-26F)	65%	22%	3%	26%	**27%**
Consumer & Comm.					
Revenue	1,013	6,597	1,028		**8,638**
Revenue mix (%)	9%	32%	11%		**17%**
Gross Margin	**30%**	**17%**	**35%**		**21%**
Revenue (FY20)	293	1,945	409		**2,647**
Revenue (FY26F)	2,996	19,346	2,477		**24,819**
Revenue mix (FY26F)	9%	37%	15%		**20%**
Revenue CAGR (FY20-23)	51%	50%	36%		**48%**
Revenue CAGR (FY23-26F)	44%	43%	34%		**42%**
Railway					
Revenue	1,351		800		**2,151**
Revenue mix (%)	12%		8%		**4%**
Gross Margin	**41%**		**39%**		**40%**
Revenue (FY20)	631		819		**1,450**
Revenue (FY26F)	4,561		1,211		**5,771**
Revenue mix (FY26F)	14%		7%		**5%**
Revenue CAGR (FY20-23)	16%		0%		**8%**
Revenue CAGR (FY23-26F)	50%		15%		**39%**
Automobile					
Revenue	4,279	4,029	700		**9,008**
Revenue mix (%)	38%	20%	7%		**18%**
Gross Margin	**24%**	**22%**			**21%**
Revenue (FY20)	747	1,332			**2,080**
Revenue (FY26F)	9,346	11,549	1,059		**21,954**
Revenue mix (FY26F)	29%	22%	6%		**18%**
Revenue CAGR (FY20-23)	79%	45%			**63%**
Revenue CAGR (FY23-26F)	30%	42%			**35%**
Aerospace and Defence					
Revenue	225		500	4,798	**5,523**
Revenue mix (%)	2%		5%	58%	**11%**
Gross Margin	26%			30%	**27%**
Revenue (FY20)	200			2,049	**2,249**
Revenue (FY26F)	682		757	9,826	**11,265**
Revenue mix (FY26F)	2%		5%	46%	**9%**
Revenue CAGR (FY20-23)	4%			33%	**35%**
Revenue CAGR (FY23-26F)	45%			27%	**27%**
IT & Others					
Revenue	676	1,802		82	**2,560**
Revenue mix (%)	6%	9%		1%	**5%**
Gross Margin	**34%**	**10%**		28%	**17%**
Revenue (FY20)	335	15		971	**1,321**
Revenue (FY26F)	2,768	2,996		2,217	**7,980**
Revenue mix (FY26F)	9%	6%		10%	**7%**
Revenue CAGR (FY20-23)	26%	390%		-56%	**25%**
Revenue CAGR (FY23-26F)	60%	18%		200%	**46%**
Clean Energy					
Revenue			2,405		**2,405**
Revenue mix (%)			25%		**5%**
Gross Margin			**36%**		**36%**
Revenue (FY20)			1,026		**1,026**
Revenue (FY26F)			4,903		**4,903**
Revenue mix (FY26F)			29%		**4%**
Revenue CAGR (FY20-23)			33%		**33%**
Revenue CAGR (FY23-26F)			27%		**27%**

SOURCE: COMPANY REPORTS, INCRED RESEARCH

1) Cyient DLM

1. Cyient DLM offers electronics solutions for mission-critical applications with high entry barriers in regulated sectors like aerospace & defence, medical technology and industrials.
2. The company has an interesting opportunity to gain further wallet share from its existing clients, thereby presenting itself with a huge growth opportunity in the coming years.
3. The company has some disruptive companies in its client base, which presents optionality for its EMS business. One of them is Nexcer, which is working on battery safety technology. These businesses, if proven successful, can generate a large delta for Cyient DLM's revenue and profitability.
   - **Key risks:** Exposure to the US market (~70% of revenue), and high client concentration (90%+ revenue from top 10 clients) are the key risks for Cyient DLM.

2) Kaynes Technology

1. The company continues to focus on low-volume, high-mix business with specialized product offerings for higher margins.
2. The revenue visibility is on track with its order book at Rs30bn (2.7x FY23 revenue) and margin of ~15%.
3. The addition of new clients supports the company's overall revenue growth. The defence segment is likely to be key growth driver for Kaynes Technology in FY24F.
   - **Key risks**: Sustaining the high EBITDA margin of 15%+ amid high volume, onboarding new clients and low entry barriers in automotive and industrial sectors (65% of sales) are the key negatives for Kaynes Technology.

3) Dixon Technologies

1. The company's business model is highly scalable and profitable, with high fungibility in its products line. Dixon Technologies has captured a large market share across categories in the consumer electronics outsourcing space.
2. Dixon Technologies is one of the largest and fastest-growing EMS players with a complete product basket and is likely to benefit from significant opportunities in the Indian EMS sector.
3. The company plans to explore EMS space through alliances and investments, focusing on cloud-based solutions.
   - **Key risks**: Dependance on discretionary spending and supply chain dependence are the key negatives for Dixon Technologies.

4) Amber Enterprises

1. The company is the leader in the OEM/ODM segment for branded room ACs, with a market share of 29% of the total outsourcing market.
2. Amber Enterprises continues to remain a strong beneficiary of the recently announced PLI scheme for ACs and their components.
3. The rising presence in the mobility and electronics segments is likely to boost the revenue growth of the company over the next few years.
   - **Key risks**: Higher insourcing by a key OEM (AC manufacturer) and supply chain dependence are the key negatives for Amber Enterprises.

5) PG Electroplast

1. The company's significant focus on cost leadership, coupled with its entry into new product business like TV, will improve the asset turn ratio and the EBITDA margin.
2. Over the next couple of years, we expect PG Electroplast to garner a sizeable market share in ACs. PG Electroplast has also planned a Rs3.21bn capex

under the PLI scheme for white goods, which is its second-highest investment among contract manufacturers.

3. We expect its product business, which has a higher margin, to contribute 82% to the top-line by FY26F, compared to 73% in FY23.
   - Higher insourcing by a key OEM (AC manufacturer) and supply chain dependence on China are the key negatives for PG Electroplast.

6) Syrma SGS Technology

1. The company is one of the fastest-growing technology-driven engineering & design companies with a focus on precision manufacturing.
2. Syrma SGS Technology has multiple levers to grow led by strengthening product profile and technological innovation, specialized facility for emerging new-age technologies and sustained investment in new infrastructure with lower operating expenses,
3. The company is looking at strategic acquisitions to increase its scale, market share and new products, and has room to improve wallet share, geographic reach and client base.
   - **Key risks**: Short-term contracts with clients and dependence on China for supply of raw materials are the key risks for Syrma SGS Technology.

7) Avalon Technologies

1. The company is continuously expanding its technological expertise in manufacturing products for diverse industries and integrating its services to serve multiple verticals.
2. Avalon Technologies currently has an average client relationship of eight years, which contributes 80% to its sales. It has a strong presence in the mobility segment, which has high entry barriers.
3. Avalon Technologies is shifting its focus to businesses like clean energy and emerging communications, which are expected to be big growth drivers.
   - **Key risks**: Higher exports and supply chain dependence on imports are the key risks for Avalon Technologies.

8) IKIO Lighting

1. The company is one of the few vertically integrated LED fixtures and lighting players focusing on the design aspect, with its entire revenue coming from ODM business.
2. Significant capex incurred by the company will increase its gross block by 7x in FY26F. The company historically had a fixed asset turn ratio of 6x, which is expected to continue once the capex starts delivering returns by FY27F.
3. IKIO Lighting's foray into making lighting products for commercial refrigeration and RV markets will aid its top-line. Currently, it has a 28% market share in the commercial refrigeration products segment, thus outlining the huge headroom for growth.
   - **Key risks**: 50% revenue from a single client (Signify), single product dependence (84% from LED lighting products), huge capex and supply chain dependence are the key negatives for IKIO Lighting.

9) Elin Electronics

1. Expanding into new products with a higher Bill of Materials ratio. AC motors, chimneys and oil-filled radiators are some of the possible options for Elin Electronics as it plans to launch these products by FY25F to boost its revenue.
2. Exploring the manufacturing EV motors, which is expected to be a big growth driver.
3. With its current gross block, Elin Electronics can generate a revenue of Rs16-18bn without incurring any incremental capex. The company aims to increase its gross asset turn ratio to 4.5x from 3x and the EBITDA margin to 7% from 3% in 1QFY24.
    - **Key risks**: 25% revenue from a single client (Signify), weak consumer spending and supply chain dependence on imports are the key negatives for Elin Electronics.

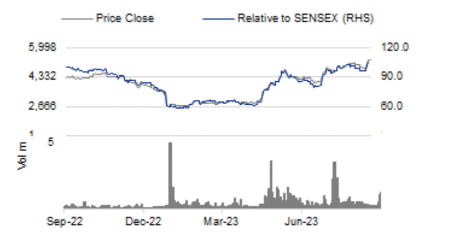
India

ADD *(Initiating coverage)*

Consensus ratings*: Buy 11 Hold 9 Sell 6

Current price:	Rs5,289
Target price:	Rs6,165
Previous target:	NA
Up/downside:	16.6%
InCred Research / Consensus:	35.3%
Reuters:	
Bloomberg:	DIXON IN
Market cap:	US$3,794m
	Rs315,052m
Average daily turnover:	US$34.8m
	Rs2889.6m
Current shares o/s:	59.6m
Free float:	26.35%

**Source: Bloomberg*



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.6	21.3	24.1
Relative (%)	6.8	19.2	8.2

Major shareholders	% held
Promoters	34.0
FII	15.0
DII	24.6

Dixon Technologies

Quality play in a multi-year super cycle

- Dixon Technologies is a quality play in the global EMS space for which a muti-year super cycle may emerge. It has multiple levers to grow and outperform.
- It has maintained flexibility across the product mix in OEM/ODM segments with high fungibility and a frugal cost structure, which may lead to long-term growth.
- We expect its revenue & PAT to clock 26% and 38% CAGR over FY23-26F, Initiate coverage with ADD rating and a TP of Rs6,165 or 55x Sep 2025F EPS.

Multiple levers in place

Dixon Technologies (Dixon) is a quality play in the global EMS space for which a multi-year super cycle is likely to emerge. We expect the healthy growth in consumer electronics outsourcing to continue and this, coupled with a significant structural shift towards the local supply chain, provides excellent growth prospects over the next decade. Dixon has multiple levers to grow and outperform the industry led by 1) strong R&D capability, 2) backward integration, 3) large capacity across products, & 4) introduction of new clients and products.

Scalable business model with rising TAM

We believe Dixon's business model is highly scalable and profitable with the high fungibility of its products line. The company has captured a large market share across categories in consumer electronics outsourcing much ahead of its peers, which gives it an early-mover advantage. The company has maintained flexibility across its mix in the OEM/ODM segments with high fungibility and a frugal cost structure, which is likely to offer long-term growth. Dixon's unique and sustainable competitive edge is reflected well in the industry, leading its growth, and helps maintain a superior cash returns structure despite low margins.

Bags new orders to make mobile phones

Dixon has a healthy FY24 order book from Motorola in the domestic as well as export markets. The company has won a large order for making 18m units of Bharat Jio mobile phones and it has forged a strategic partnership with Nokia for manufacturing 1m+ feature phones per month, which is expected to rise to 1.4m units, including exports, and also 5G smart phones from Sep 2023. The company has started manufacturing 1m units per month of ITEL feature phones from Jul 2023, the volume of which is expected to increase from 3QFY24F.

Initiate coverage on the stock with an ADD rating and TP of Rs6,165

We believe Dixon's business model is highly scalable and profitable with high fungibility in its products line. With continued focus on innovation and adoption of new technologies, there is a huge opportunity for Dixon in the coming years. Dixon plans to explore the EMS space via alliances and investments, focusing on cloud-based solutions that could redefine automotive infotainment systems and are likely to add to growth over the next few years. We expect its revenue and PAT to clock 26% and 38% CAGR, respectively, over FY23-26F. We initiate coverage on Dixon with an ADD rating and a target price of Rs6,165. Downside risks are supply chain dependence on China/other countries and macroeconomic headwinds.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	106,971	121,920	163,781	206,847	256,042
Operating EBITDA (Rsm)	3,791	5,128	7,138	9,683	12,349
Net Profit (Rsm)	1,903	2,547	3,903	5,785	7,564
Core EPS (Rs)	32.1	42.8	65.5	97.1	127.0
Core EPS Growth	17.5%	33.4%	53.2%	48.2%	30.8%
FD Core P/E (x)	164.93	123.65	80.70	54.45	41.64
DPS (Rs)	1.0	2.0	3.0	4.0	4.0
Dividend Yield	0.02%	0.04%	0.06%	0.08%	0.08%
EV/EBITDA (x)	83.53	61.34	44.22	32.41	25.00
P/FCFE (x)	281.13	339.54	494.02	104.60	49.51
Net Gearing	27.6%	(3.6%)	4.1%	(5.4%)	(21.3%)
P/BV (x)	31.49	24.51	19.00	14.24	10.70
ROE	22.0%	22.3%	26.5%	29.9%	29.3%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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Figure 76: Diversified consumer EMS player

	Dixon Technologies (Rs122bn-FY23 to Rs241bn -FY26F)				
Key Segments	Consumer Electronics	Lighting	Mobile & EMS	Home Appliances	Securities Systems
Key Products	LED TVs, AC PCBA	LED Bulb, Battens, Downlighters	Feature & Smart Phone, Settop, Products for IT, Telecom & Medical	Washing Machine	CCTV Camera, DVR
Key Clients	Xiaomi, Samsung, Panasonic, Philips	Philips, Panasonic, Wipro, Bajaj	Motorola, Samsung, Nokia, Gionee, Karbonn,	Panasonic, Samsung, Godrej, Bosch	CP Plus, Dahua and Panasoni
Revenue (Rs mn: FY23)	42,780	10,540	52,240	11,440	4,918
Revenue Mix (FY23)	35.1%	8.6%	42.8%	9.4%	4.0%
Revenue CAGR (FY18-23)	32%	6%	51%	36%	298%
EBITDA Margin (FY23)	3.1%	8.6%	3.2%	9.6%	3.0%
Revenue CAGR (23-26F)	23%	17%	35%	26%	19%
Key Investment Themes	Dixon's business model is highly scalable and profitable, with high fungibility in its products line. The company has captured a large market share across categories in the consumer electronics outsourcing space.				
	Dixon is one of the largest and fastest-growing EMS players with a complete products basket and is likely to benefit from significant opportunities in the Indian EMS sector.				
	The company plans to explore the EMS space through alliances and investments, focusing on cloud-based solutions.				
	With continued focus on innovation, there is a huge opportunity for Dixon in the coming years.				
	We expect its revenue & PAT to clock 26% and 41% CAGR, respectively, over FY23-26. Initiate coverage on the stock with an ADD rating and a target price of Rs6,165 or 55x Sep 2025F EPS.				

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Quality play in a multi-year super cycle

Levers are in place for growth

Dixon Technologies (Dixon) is the largest player in the consumer electronics and durables outsourcing in India, with a strong market share across segments. It is well-placed in the promising consumer electronics market, with comprehensive capacity expansion and a prudent capital-light model. EMS is a fastest-growing market, thanks to a shift in the supply chain, Make in India initiative and growing needs of OEM clients. Dixon's entry in the global supply chain to offer a huge scale with profitability going ahead, compared to its peers in the domestic and global markets. We believe Dixon is a quality play in the global EMS space for which a muti-year super cycle is likely to emerge. We expect the healthy growth in consumer electronics outsourcing to continue and this, coupled with a significant structural shift towards the local supply chain, to provide healthy growth over the next decade. Dixon has multiple levers to grow and outperform the industry led by 1) strong R&D capability, 2) backward integration, 3) large capacity across products, and 4) introduction of new clients and products.

Figure 77: 35% market share in LED TVs and 50% in lighting products

	LED TVs	Washing machines	Mobile Phones	Security Surveillance systems	Lighting Solutions
Products	• LED TC (24" 85") • Smart TV, monitor • PCB, LCM panel assembly	• Semi-automatic • Fully automatic (top-load)	• Feature and smart phones • PCB assembly	• Security camera • DVR	• LED TC (24" 85") • Smart TV, monitor • PCB, LCM panel assembly
Capacity (m units pa)	6m	• Semi-automatic: 2.4m • Fully automatic: 0.6	• Feature: 30m • Smart: 15m	• Security camera: 12.5m • DVR: 2.4m	• LED lamps: 300m • LED batten: 50m • LED downlighters: 18m
Market Share (Manufacturing)	35%	30%	15%	25%	50%
Key USP	• Largest LED TV capacity in India • First Indian company to get sub-licensing rights for Android and Google TV • LCM module assembly, auto insertion, SMT, PCB assembly & testing • Backward integration into polymer, metal processing and modelling	• Largest washing machine manufacturer in India • 100% ODM with 160+ models in semi-automatic and 100+ models in fully-automatic categories • Large injection moulding & sheet metal shops	• Manufacturing capabilities for 2G, 4G & 5G phones • First company to get disbursement under the PLI scheme • In-house manufacturing of components and plastic parts • Exports to North America market	• Largest manufacturer in the Indian security surveillance space • Exclusive manufacturer of CP Plus, which is a leading brand in India • Fully integrated plant in Tirupati • 50:50 joint venture with Aditya Infotech	• World's fourth-largest LED lamp manufacturer and India's largest lighting ODM player • >90% revenue from ODM • PLI beneficiary in LED lights • Lighting components • 2,000+ variants of LED bulbs • Backed by strong R&D capability, enabling the launch of low-cost innovative products

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 78: Large manufacturing set-up - from set-top boxes to refrigerators

	Set Top boxes	Hearables & Wearables	Telecom & Networking Products	IT Hardware Products	Refrigerator
Products	Set top boxes (STBs)	• TWS • Neckband	GPON ONT	Laptop	DC Refrigerator
Capacity (m units pa)	3m	10m	3m	0.5m	1.2m
USP	• Large scale manufacturing set-up • Catering to all major Indian brands	• 50:50 JV with Imagine Marketing for its flagship brand boAt to design & manufacture the product • Manufacturing TWS & neckband for boAt • To increase backward integration further	• Dixon has a 51:49 JV with the Bharti Group • Beneficiary of the PLI scheme for telecom • JV will also design and acquire IP rights	• Beneficiary under the PLI scheme for laptop • In discussion with various leading global brands for IT hardware products	• 1.2m state-of-the art capacity • Final production and launching of the product in 2QFY24F

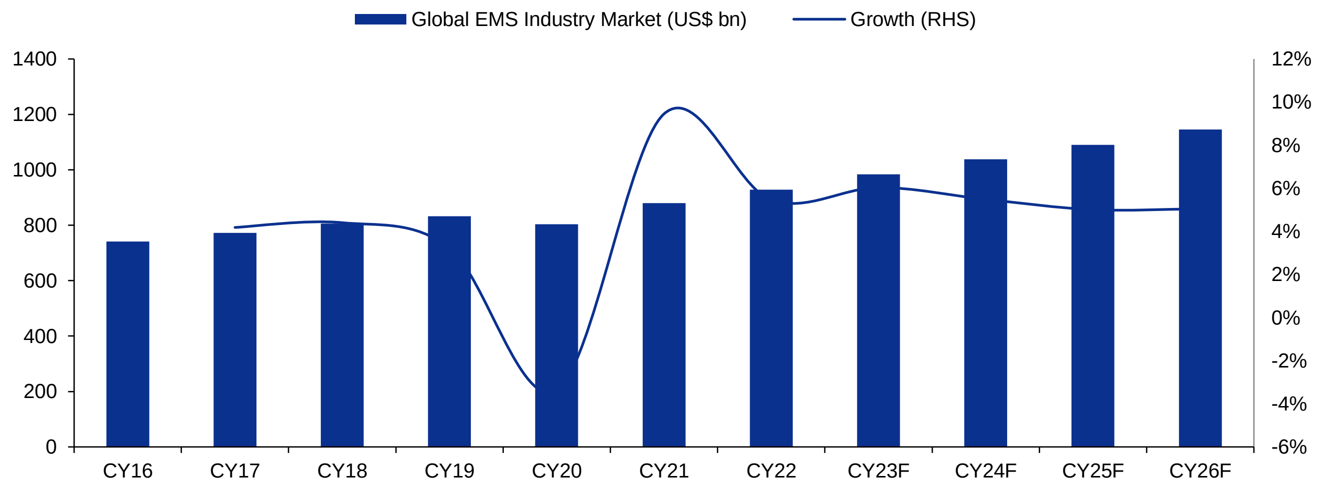
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Scalable business model with rising TAM

We believe Dixon's business model is highly scalable and profitable with high fungibility in the products line. The company has captured a large market share across categories in the consumer electronics outsourcing much ahead of peers, which gives it an early-mover advantage. The company has maintained flexibility across its mix in the OEM/ODM segments with high fungibility and a frugal cost structure, which is likely to offer long-term growth. Dixon's unique and sustainable competitive edge is reflected well in the industry, leading its growth and help maintain a superior cash returns structure despite low margin. Dixon is operating in nine key businesses, with cost competitiveness in domestic and export markets. The company has economies of scale to realize the cost benefits so as to pass them on to the customers.

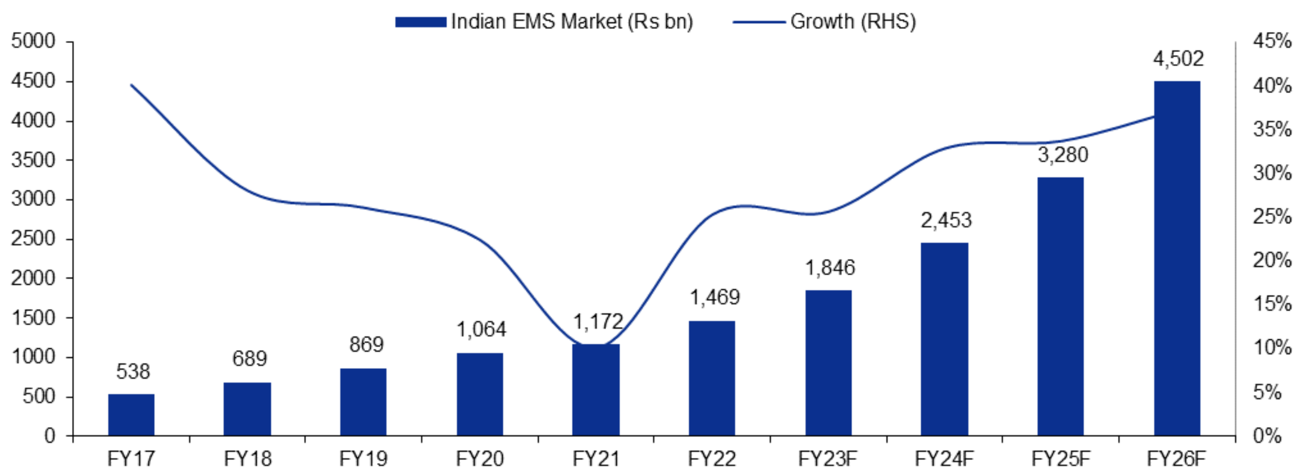
We expect the healthy growth to continue for Dixon led by government initiatives like Make in India and PLI schemes. The PLI scheme is likely to boost investment in the entire ecosystem of the EMS space, ensuring local availability of components and enabling the industry to be more self-reliant and export-oriented. India is being recognized for its R&D hubs, design & engineering services and Electronics System Design and Manufacturing (ESDM). India is gaining recognition as one of the best low-cost producers in the EMS space. Development of the local manufacturing ecosystem will strengthen the local supply chain and improve the market, reduce lead time, save forex, cut logistics costs and make electronic products more affordable in the coming years.

Figure 79: Global EMS market growing at ~5%



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 80: Indian EMS market growing at ~30%



SOURCE: COMPANY REPORTS, INCRED RESEARCH

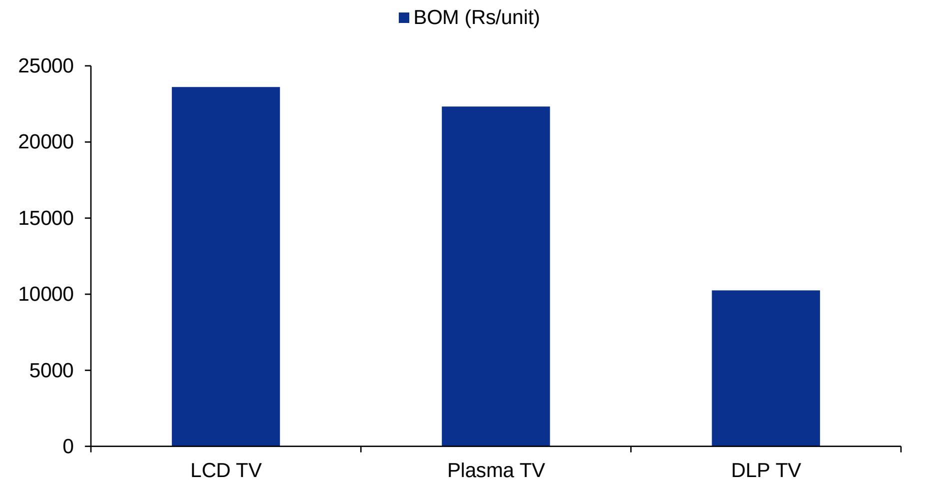
The total addressable EMS market in India is likely to clock a 32% CAGR to touch US$81bn by FY26F. The addressable market includes mobile phones, televisions, telecom & networking computer hardware, mechanics, EV and hearables in which Dixon has strong capabilities and a track record to make these products efficiently.

Strong foothold in consumer electronics

Television (TV) is one of India's fastest-growing consumer electronics products with a highest market penetration of ~65% in India. Dixon is the one of the largest LED TV manufacturers in India with an annual capacity of 6m sets, including backward integration in LCM and SMT lines, and a market share of 35%. The company has total area of more ~450,000 sq. ft. in an integrated campus at Tirupati, which is fully backward-integrated. The company has invested in an injection moulding unit in the campus, in line with its backward integration strategy.

As far as the TV market is concerned, there are mainly three types of TVs in the market, namely Plasma TVs, LCD TVs and Digital Light Processing TVs. The LED TV comes under the category of DLP TVs. Dixon has a presence in all the three categories. In fact, the Bill of Material or BoM for these three types of TVs is higher than Dixon's other business divisions.

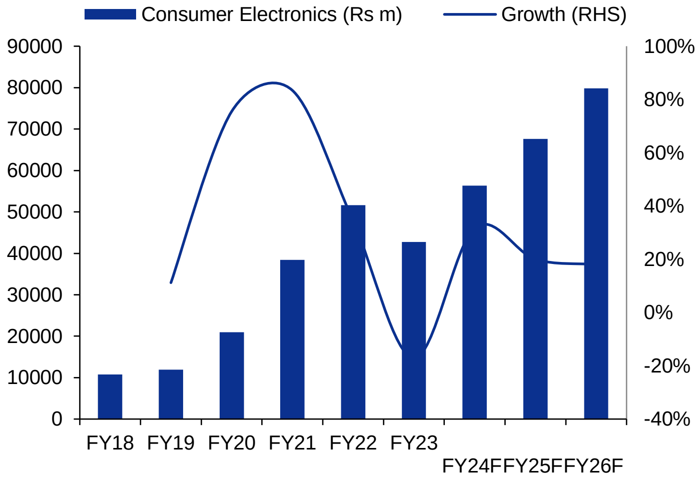
Figure 81: BoM comparison for different categories of TVs



SOURCE: COMPANY REPORTS, INCRED RESEARCH

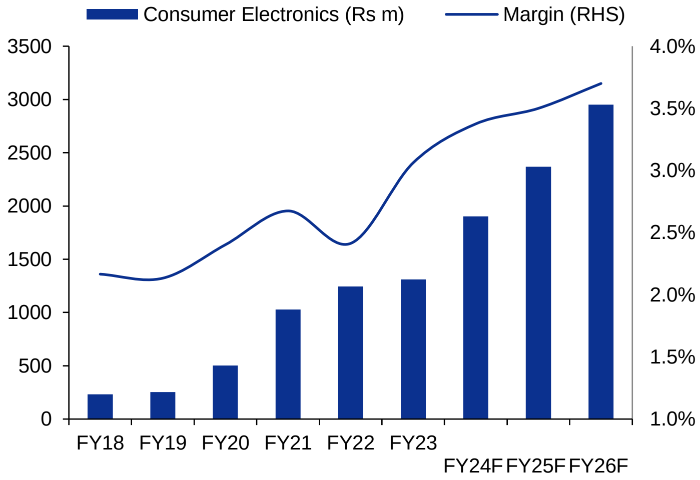
Dixon is the one of the largest LED TV manufacturers in India with an annual capacity of 6.5m units, including backward integration in LCM and SMT lines, the largest capacity in India catering to around 30% of the country's requirement. In FY23, Dixon received the ODM sub-licensing rights from Google relating to Android & Google TV. 60-65% of the Indian market is on this platform. Further, the company is looking to start injection moulding & investing in LED bar SMT line, in line with its continued focus on backward integration, to deepen the level of manufacturing in India. It is also exploring new products such as commercial displays used in public advertisement & information displays & interactive boards for use in educational institutes and offices.

Figure 82: Consumer electronics revenue to clock a 20% CAGR over FY23-26F



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 83: EBITDA margin of consumer electronics segment to expand from 3.1% in FY23 to 3.7% by FY26F



SOURCE: COMPANY REPORTS, INCRED RESEARCH

New client and product addition likely to continue

Dixon has added new ODM clients for Android and Google TV, which is likely to add further opportunities as 65% of the Indian market is on this operating system. Dixon has also tied up with Samsung for the Tizen operating system, with a combined solutions rollout in a large part of the Indian market that Dixon Orient Solutions will be able to service. It has started backward integration into injection moulding, and the commercial production has already started. The company is also exploring a new product range like commercial displays used in public advertisements and interactive boards which are likely to roll out by 4QFY24F. Over the last few quarters, it has received orders from new clients in the UAE, which help in getting its first order from Germany.

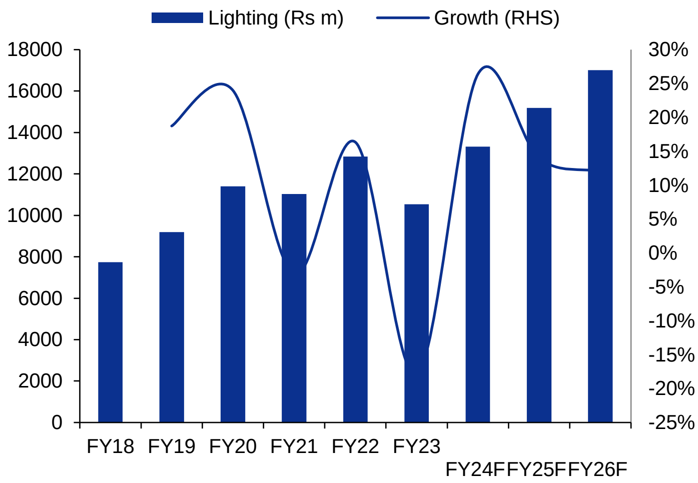
The TV market is expected to clock a 11% volume CAGR to touch 30.4m by FY26F from 20.2m in FY22. The smart TV market grew in a healthy manner in the last few years, which is likely to continue, driven by the availability of HD content and internet connectivity.

Dixon is a preferred vendor for marquee companies (both domestic and global) including Xiaomi, Samsung, Hisense, VU, Nokia, Panasonic, TCL, Lloyd, Flipkart, etc.

45% share in relatively high-margin LED lighting business

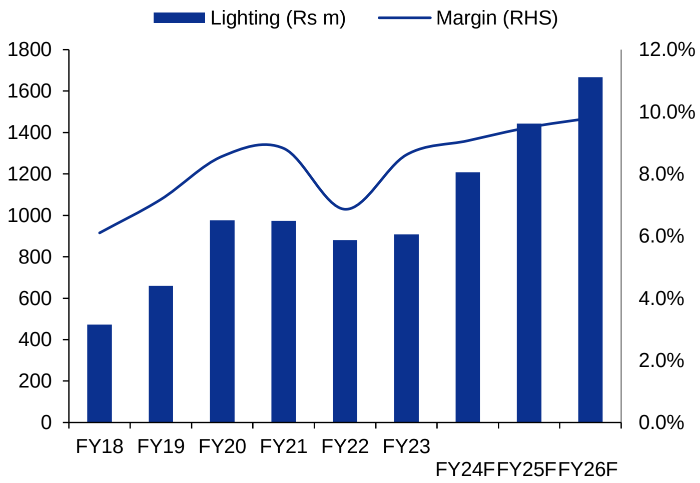
In the event of global chip shortage and rising freight costs, Dixon's vendor selection, inventory management and pre-purchases help to sustain the margin expansion despite lower sales. Being India's largest ODM player in the lighting business, it has capacity for manufacturing 300m LED bulbs, which is ~45% of the India's requirement. The batten capacity has been expanded to 50m units, and downlighter capacity increased to 18m units per year, which is almost 50% of the country's requirement. The company has a strong R&D team which is working on a cost-effective lighting solution for next-generation lighting. The lighting products segment has been approved under the PLI scheme via Dixon Technologies Solutions Pvt Ltd, which further helps in giving the company a competitive edge as it is in line with its backward integration strategy. It is also looking to invest Rs1bn every year over the next four years with a higher margin.

Figure 84: Lighting revenue to grow at a 15% CAGR



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 85: Margin to remain between 9.1% to 9.8%



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Dixon is among the top 10 global players and the No. 1 Indian player in the lighting industry, which designs LED lighting solutions ranging from 0.5W to 50W. The company enjoys the benefit of backward integration of key inputs such as sheet metal, plastic moulded and wound components, and leverages advanced technology to build a strong product portfolio at cost-effective prices to strengthen its position in the global market. It provides electrical board design, mechanical design, package design, as well as manufactures critical inputs such as plastic moulding, sheet metal, and wound components, which bolsters its position as a leading ODM.

The major customers in this segment are Signify, Panasonic, Wipro, Bajaj, Syska, Orient, Polycab, Luminous, Crompton, etc.

The Indian LED lighting market is expected to grow at a 12% CAGR to touch Rs338bn by FY26F from Rs217bn in FY22. The rising demand for energy-efficient lighting solutions, along with the introduction of cost-effective smart LED lighting solutions, is primarily driving the Indian LED lighting market.

RoE improvement

Dixon's threshold investment in FY23 under the PLI scheme for LED lighting components is in line with its backward integration strategy that will make it even more cost-competitive. The new plant for LED lighting components in Dehradun already started operations in FY23. The capital employed in the business has been reduced by Rs1.8bn in FY23 with a focus on debt management, which has resulted in improvement in the RoC to 29% in FY23 from 22% in FY22.

New client addition in home appliances business

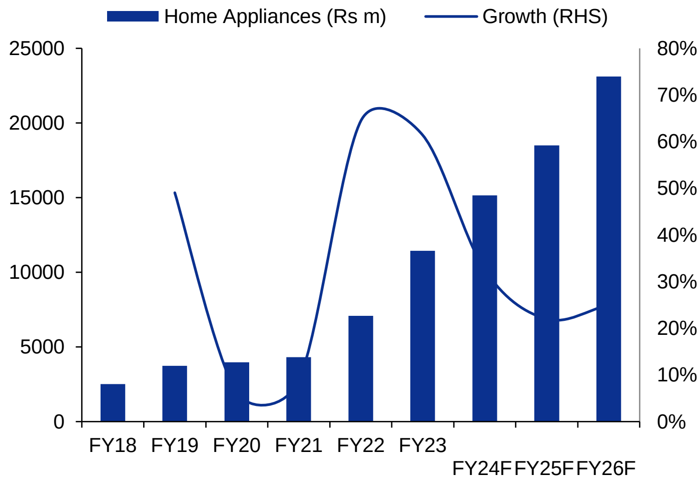
The home appliance segment is one of the fastest-growing segments in India led by the increase in working population, nuclear families, single households and work-related migration. The washing machine market is expected to clock ~5% CAGR over 2023-29F to touch US$3bn from US$2.2bn currently. The primary growth drivers for the industry are increased affordability, focus on energy-efficient products and rising digital penetration. In the semi-automatic category, the company has the largest portfolio of 160-odd models, ranging from 6kg to 14kg, with a capacity of 2.4m units annually, Also, in line with the backward integration strategy, it has set up its own tool room for in-house mould manufacturing. In the fully automatic category, Dixon has a capacity of 0.6m units with 100 variants across 6.5kg -11kg categories. With the addition of new clients, the company is looking to invest on R&D to offer the industry its latest and innovative technologies.

Figure 86: Top-loading washing machines have a higher BoM

	Rs/unit
Top cover assembly	2,350
Cabinet assembly	4,993
Suspension assembly	10,252
Motor	1,582
Front panel	317
PCB	3,164
Ball bearings	950
Drive assembly	1,424
Total	25,031

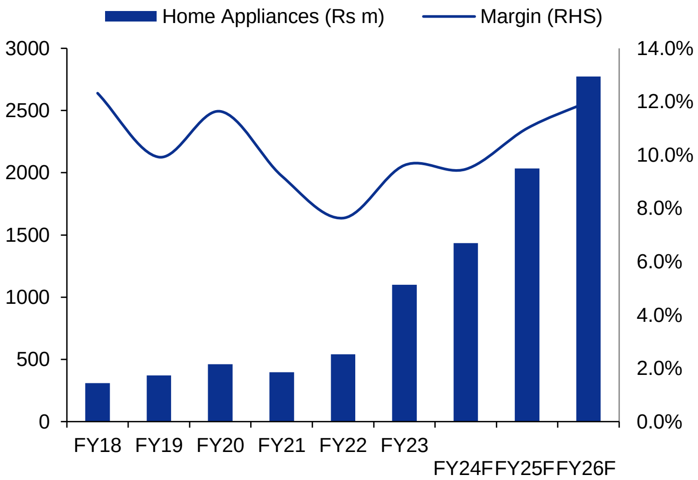
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 87: Home appliances revenue to clock a 13% CAGR



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 88: EBITDA margin at 11-12%



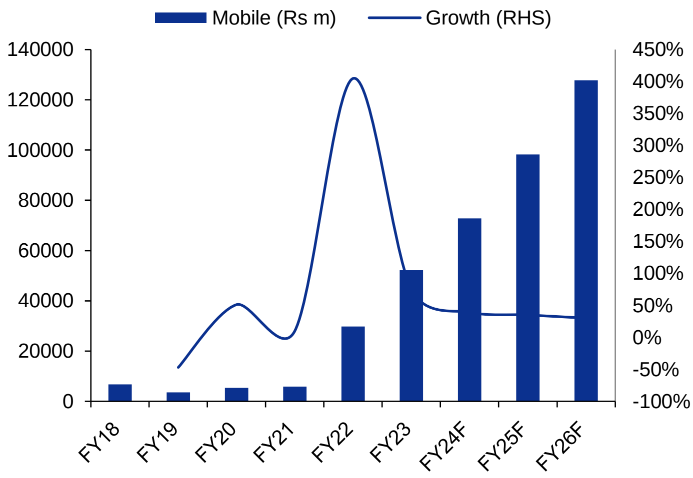
SOURCE: COMPANY REPORTS, INCRED RESEARCH

In addition to Bosch as an anchor customer of washing machines, Dixon has started manufacturing for Voltas Beko in Aug 2023, a large customer in the semi-automatic washing machine segment. Dixon is working on new models for Lloyd, Reliance & Panasonic. Dixon is looking to introduce more designs with new features in both semi & fully automatic washing machines and is increasingly investing on making this segment more R&D-driven to offer the industry its latest and innovative technologies. The major customers in this segment are Samsung, Godrej, Voltas-Beko, Panasonic, Lloyd, Flipkart, Haier, Reliance, etc.

Mobile phones to lead Dixon's growth

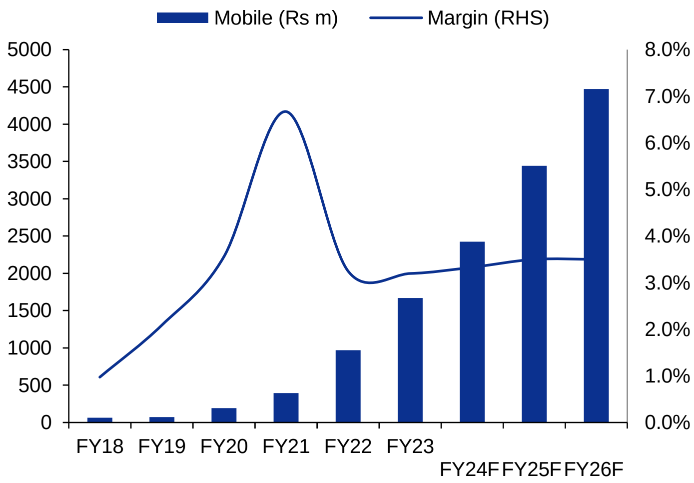
The Indian mobile phone market consists of both feature phones and smart phones. India is one of the fastest-growing smart phone markets in the world. The smart phone market is driven by the rising utility of smart phones due to the digital payment regime and IoT-related applications, availability of new features at affordable prices and rising disposable income of Indian consumers boosting smart phone adoption. India's smart phone segment is expected to grow at a CAGR of 14% over FY22-26F while the feature phone segment is likely to remain stagnant. Overall, the domestic mobile phone market is likely to grow at a CAGR of ~10% to touch 370m units by FY26F. Mobile phones account for 46% of electronics goods exports and are expected to touch U$50bn by FY26F. The mobile phone export business continues its momentum, with exports growing 100% to Rs900bn in FY23. In addition, India is now exporting smart phones to developed markets, including the UK, Italy, France, the Middle East, Japan, Germany, and Russia.

Figure 89: Mobile phone revenue to clock a 35% CAGR



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 90: Margin of ~3.5% in mobile phone business



SOURCE: COMPANY REPORTS, INCRED RESEARCH

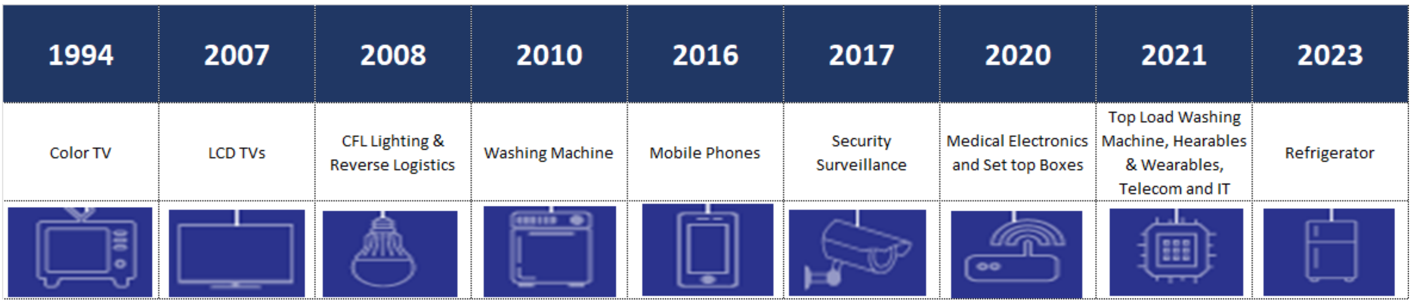
Key highlights of mobile phone segment

- Dixon has a healthy FY24 order book from Motorola in domestic as well as export markets. The company has won a large order to manufacture 18m units of Bharat Jio mobile phones.
- Dixon has forged a strategic partnership with Nokia to manufacture 1m+ feature phones per month, which is expected to rise to 1.4m feature phones per month, including exports, and also manufacture 5G smart phones from Sep 2023F.
- Started manufacturing 1m units per month of ITEL feature phones from Jul 2023, the volume of which is expected to increase from 3QFY24F and also got an order for 0.7m+ smart phones.
- Looking to start manufacturing smart phones for Xiaomi by Oct 2023F.

Dixon has demonstrated its capability to execute large orders in the past. In order to meet the increased demand from its customers and gain a large market share, the company has leased a large 3,20,000 sq. ft. facility in Noida, in addition to the existing three facilities which it just started. The major customers in this segment are Samsung, Motorola, Nokia, ITEL, Jio, Karbonn, etc.

Continues product addition

Figure 91: Dixon added refrigerators to its product list in FY23



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Profile of key clients

Figure 92: Samsung is the key client of Dixon

Samsung	• Samsung Electronics is a global technology conglomerate headquartered in Seoul, South Korea. • Founded in 1969, it has grown to become one of the world's leading technology companies, with a wide range of products and services which includes consumer electronics, mobile devices, semiconductors, appliances, and more. • Samsung contributes ~25% to the total revenue.
Motorola	• Motorola is renowned for its pioneering role in mobile communications. • Key products include smartphones and communication equipment. • Motorola has been a significant player in providing communication solutions for businesses and public safety agencies, supplying two-way radios and mission-critical communication systems. • By the year 2026F, the company aims on quadrupling its volume.
Havells	• Havells is a prominent Indian electrical equipment company founded in 1958. • Havells' key products encompass a wide spectrum of electrical solutions, such as electrical wiring accessories, lighting, fans, home appliances, cables & wires and switchgear. • The company expects an uptick in consumer demand over the next few years.
Wipro	• Wipro is one of India's leading multinational technology companies, founded in 1945. • It has a strong presence in IT services, business process outsourcing, and software development, offering a wide range of products and services which encompasses application maintenance and support, infrastructure services, cloud computing, cybersecurity, and digital transformation solutions. • It will invest over US$1bn on its artificial intelligence (AI) capabilities over the next three years.

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Key management personnel

Figure 93: Leadership positions

Name	Mr. Sunil Vachani	Mr. Atul B Lall
Designation	Executive Chairman	Managing Director and Vice Chairman
Qualification	• He holds a degree of Associate of Applied Arts in Business Administration from the American College in London. He is also the promoter of the company. • He has held positions like Chairman of Electronics and Computer Software Export Promotion Council of India and Co-Chair of the CII ICTE Committee. • He was elected as Vice President (South) of Consumer Electronics and Appliances Manufacturers Association (CEAMA), for the term 2021-23. • He recently received the Champion Award for Aatma Nirbhar Bharat.	• He holds a Master's degree in Management Studies from the Birla Institute of Technology and Science, Pilani. • With over 30 years of experience in the EMS industry, he has served as a member of the Technical Evaluation Committee for Electronic Manufacturing Services under M-SIPS (EMS) constituted by the DeitY and served as a representative of ELCINA on the Committee for Reliability of Electronic and Electrical Components and Equipment (LITD. 02) of the BIS. • He has also been elected as Vice President of Electronic Industries Association of India (ELCINA).

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Outlook and valuation

- We believe Dixon's business model is highly scalable and profitable, with high fungibility in its products line. The company has captured a large market share across categories in the consumer electronics outsourcing space, much ahead of its peers.
- Dixon is one of the largest and fastest-growing EMS players with a complete products basket and is likely to benefit from significant opportunities in the Indian EMS sector. The company plans to deepen its end-user applications, especially in IT, which constitutes around 36% of the global EMS market. Technological upgradation in 5G infrastructure is poised to open new possibilities for electronic devices, especially in the mobility and communication segments.
- The continuous focus on innovation and adoption of new technologies, we feel, provides a huge opportunity for Dixon in the coming years.
- Dixon plans to explore the EMS space through alliances and investments, focusing on cloud-based solutions that could redefine automotive infotainment systems, which are likely to add to growth over the next few years. We initiate coverage on Dixon with an ADD rating and a target price of Rs6,165, valuing the stock at 55x Sep 2025F EPS.

Figure 94: Target price of Rs6,165 at 55x Sep 2025F EPS

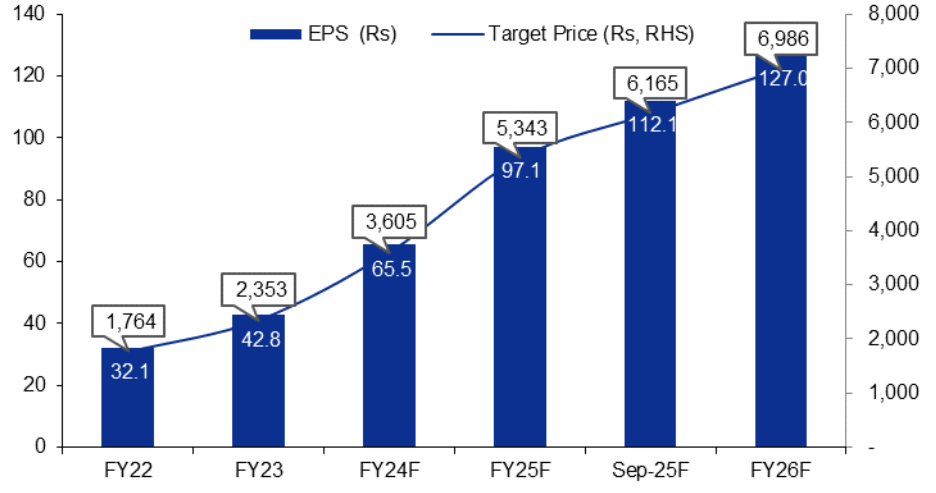
	Dixon
CMP (Rs)	**5,200**
Mean P/E	**62.4**
Target P/E (x)	**55.0**
Premium/(Discount)	**-12%**
Target (Sep-25F)	**6,165**
Target (FY26F)	**6,986**
Expected Return (%)	**18.5**

Price Sensitivity Analysis

	EPS (Rs)	Growth (%)	P/E (x)	Target P/E multiple (x) 45.0	50.0	55.0	60.0	65.0
FY22	32.1	17.5	162.1	1,443	1,603	1,764	1,924	2,084
FY23	42.8	33.4	121.6	1,925	2,139	2,353	2,567	2,781
FY24F	65.5	53.2	79.3	2,949	3,277	3,605	3,933	4,260
FY25F	97.1	48.2	53.5	4,371	4,857	5,343	5,829	6,314
Sep-2025F	112.1	15.4	46.4	5,044	5,604	6,165	6,725	7,285
FY26F	127.0	30.8	40.9	5,716	6,351	6,986	7,621	8,257

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 95: EPS to grow from Rs42.8 in FY23 to Rs127 in FY26F



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Scenario analysis

Figure 96: Scenario analysis snapshot

	Bull Case	Base Case	Bear Case
Revenue CAGR	35%	28%	13%
FY25F EBITDA Margin	4.9%	4.7%	4.0%
Sep-25F EPS (Rs)	145.7	112.1	54.8
Target P/E (x)	60.0	55.0	50.0
Target Price	8,743	6,165	2,742
Upside	68.1%	18.5%	-47.3%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Base Case: In this scenario, we expect a 28% revenue CAGR with the average EBITDA margin at 4.5% in FY23-26F, which translates into EBITDA and PAT CAGR of 34% and 44%, respectively. Assigning a 55x P/E multiple to its Sep 2025F, we arrive at a target price of Rs6,165.

Figure 97: PAT CAGR of 44% in a base-case scenario

Base-Case Scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	CAGR (%)
Total Sales	44,001	64,482	1,06,971	1,21,920	1,63,781	2,06,847	2,56,042	28%
Growth (YoY, %)		46.5%	65.9%	14.0%	34.3%	26.3%	23.8%	
EBITDA	2,231	2,866	3,791	5,128	7,138	9,683	12,349	34%
Growth (YoY, %)		28.5%	32.3%	35.3%	39.2%	35.7%	27.5%	
EBITDA Margin (%)	5.1%	4.4%	3.5%	4.2%	4.4%	4.7%	4.8%	
PAT	1,205	1,598	1,903	2,547	3,903	5,785	7,564	44%
Growth (YoY, %)		32.6%	19.1%	33.8%	53.2%	48.2%	30.8%	
PAT Margin (%)	2.7	2.5%	1.8%	2.1%	2.4%	2.8%	3.0%	
EPS (Rs)	21	27	32	43	66	97	127	44%
Growth (YoY, %)		31.0%	17.5%	33.4%	53.2%	48.2%	30.8%	

SOURCES: COMPANY REPORTS, INCRED RESEARCH

Bull Case: In this scenario, we expect a 35% revenue CAGR with the average EBITDA margin at 4.8% in FY23-26F, which translates into EBITDA and PAT CAGR of 44% and 59%, respectively. Assigning a 60x P/E multiple to its Sep 2025F EPS, we arrive at a target price of Rs8,743.

Figure 98: PAT CAGR of 59% in a bull-case scenario

Bull Case Scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	CAGR (%)
Total Sales	44,001	64,482	1,06,971	1,21,920	1,72,315	2,29,687	3,00,393	35%
Growth (YoY, %)	-	46.5%	65.9%	14.0%	41.3%	33.3%	30.8%	
EBITDA	2,231	2,866	3,791	5,128	7,940	11,326	15,239	44%
Growth (YoY, %)	0%	28.5%	32.3%	35.3%	54.9%	42.6%	34.5%	
EBITDA Margin (%)	5.1%	4.4%	3.5%	4.2%	4.6%	4.9%	5.1%	
PAT	1,205	1,598	1,903	2,547	4,725	7,153	10,202	59%
Growth (YoY, %)	0%	32.6%	19.1%	33.8%	85.5%	51.4%	42.6%	
PAT Margin (%)	2.7	2.5%	1.8%	2.1%	2.4%	2.8%	3.0%	
EPS (Rs)	20	27	32	43	79	120	171	59%
Growth (YoY, %)	0%	32.6%	19.1%	33.8%	85.5%	51.4%	42.6%	

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Bear Case: In this scenario, we expect a 13% revenue CAGR with the average EBITDA margin at 4% during FY23-26F, which translates into EBITDA and PAT CAGR of 14% and 12% respectively. Assigning a 50x P/E multiple to its Sep 2025F EPS, we arrive at a target price of Rs2,742.

Figure 99: PAT CAGR of 12% in a bear-case scenario

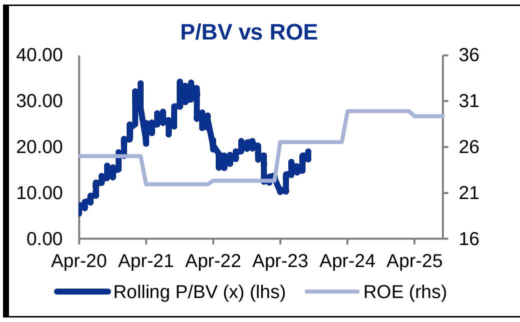
Bear Case Scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	CAGR (%)
Total Sales	44,001	64,482	1,06,971	1,21,920	1,45,493	1,61,926	1,76,149	13%
Growth (YoY, %)		46.5%	65.9%	14.0%	19.3%	11.3%	8.8%	
EBITDA	2,231	2,866	3,791	5,128	5,610	6,490	7,629	14%
Growth (YoY, %)		28.5%	32.3%	35.3%	9.4%	15.7%	17.6%	
EBITDA Margin (%)	5.1%	4.4%	3.5%	4.2%	3.9%	4.0%	4.3%	
PAT	1,205	1,598	1,903	2,547	2,537	2,935	3,597	12%
Growth (YoY, %)		32.6%	19.1%	33.8%	-0.4%	15.7%	22.5%	
PAT Margin (%)	2.7%	2.5%	1.8%	2.1%	1.7%	1.8%	2.0%	
EPS (Rs)	20	27	32	43	43	49	60	12%
Growth (YoY, %)		32.6%	19.1%	33.8%	-0.4%	15.7%	22.5%	

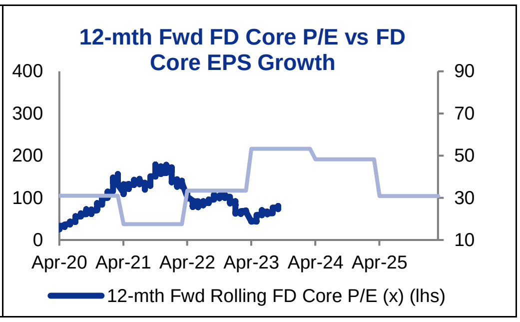
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Key downside risks

- **Weakening macroeconomic situation:** Dixon depends a lot on discretionary spending by Indian consumers, and the company has suffered in the past due to weak demand. As a result, this could be a major factor in determining whether the company will perform well or not. The Consumer Confidence Index is a major indicator that needs to be monitored for the same.
- **Supply chain dependence:** The company sources most of its raw materials from other countries and hence, any hindrance in the supply chain could affect its profitability.

BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	**106,971**	**121,920**	**163,781**	**206,847**	**256,042**
Gross Profit	**8,074**	**11,768**	**16,332**	**19,699**	**24,120**
Operating EBITDA	**3,791**	**5,128**	**7,138**	**9,683**	**12,349**
Depreciation And Amortisation	(840)	(1,146)	(1,410)	(1,386)	(1,596)
Operating EBIT	**2,952**	**3,981**	**5,727**	**8,297**	**10,753**
Financial Income/(Expense)	(442)	(606)	(577)	(676)	(831)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	38	56	117	89	164
Profit Before Tax (pre-EI)	**2,548**	**3,432**	**5,268**	**7,710**	**10,086**
Exceptional Items					
Pre-tax Profit	**2,548**	**3,432**	**5,268**	**7,710**	**10,086**
Taxation	(644)	(897)	(1,379)	(1,941)	(2,539)
Exceptional Income - post-tax					
Profit After Tax	**1,904**	**2,535**	**3,889**	**5,769**	**7,547**
Minority Interests	(1)	13	14	15	17
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**1,903**	**2,547**	**3,903**	**5,785**	**7,564**
Recurring Net Profit	1,903	2,547	3,903	5,785	7,564
Fully Diluted Recurring Net Profit	**1,903**	**2,547**	**3,903**	**5,785**	**7,564**

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	2,547	3,432	5,268	7,710	10,086
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(641)	2,764	(1,792)	(2,467)	(1,880)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	840	1,146	1,410	1,386	1,596
Other Operating Cashflow	80	130	(103)	(73)	(147)
Net Interest (Paid)/Received	442	606	577	676	831
Tax Paid	(540)	(820)	(1,379)	(1,941)	(2,539)
Cashflow From Operations	**2,728**	**7,258**	**3,981**	**5,290**	**7,948**
Capex	(4,206)	(4,612)	(4,265)	(3,415)	(3,075)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(438)	1,057	84	89	164
Cash Flow From Investing	**(4,645)**	**(3,556)**	**(4,181)**	**(3,326)**	**(2,911)**
Debt Raised/(repaid)	3,026	(2,776)	838	1,047	1,325
Proceeds From Issue Of Shares	642	336			
Shares Repurchased					
Dividends Paid	(59)	(119)	(179)	(238)	(238)
Preferred Dividends					
Other Financing Cashflow	(567)	(737)	(1,249)	(439)	(444)
Cash Flow From Financing	**3,043**	**(3,296)**	**(589)**	**370**	**643**
Total Cash Generated	1,126	406	(790)	2,334	5,679
Free Cashflow To Equity	**1,109**	**926**	**638**	**3,011**	**6,361**
Free Cashflow To Firm	**(2,359)**	**3,096**	**(777)**	**1,289**	**4,206**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	1,823	2,292	1,478	3,792	9,456
Total Debtors	13,568	17,155	20,192	26,068	32,268
Inventories	11,557	9,579	14,359	19,268	23,850
Total Other Current Assets	3,172	2,068	4,115	5,191	6,421
Total Current Assets	**30,120**	**31,093**	**40,143**	**54,320**	**71,996**
Fixed Assets	9,762	13,106	16,162	18,471	20,262
Total Investments	1,410	442	413	391	372
Intangible Assets	494	528	493	457	418
Total Other Non-Current Assets	986	1,627	2,417	3,120	3,807
Total Non-current Assets	**12,652**	**15,702**	**19,486**	**22,439**	**24,860**
Short-term Debt	1,607	374	561	841	1,262
Current Portion of Long-Term Debt					
Total Creditors	23,137	24,519	33,125	42,557	52,738
Other Current Liabilities	2,542	4,431	3,991	4,960	6,070
Total Current Liabilities	**27,286**	**29,324**	**37,677**	**48,358**	**60,071**
Total Long-term Debt	2,973	1,452	1,598	1,757	1,933
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,122	2,689	3,263	3,930	4,727
Total Non-current Liabilities	**5,096**	**4,142**	**4,861**	**5,688**	**6,660**
Total Provisions	417	482	510	585	671
Total Liabilities	**32,798**	**33,948**	**43,048**	**54,631**	**67,402**
Shareholders Equity	9,968	12,849	16,573	22,120	29,446
Minority Interests	6	3	4	4	4
Total Equity	**9,973**	**12,852**	**16,577**	**22,124**	**29,450**

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	65.9%	14.0%	34.3%	26.3%	23.8%
Operating EBITDA Growth	32.3%	35.3%	39.2%	35.7%	27.5%
Operating EBITDA Margin	3.5%	4.2%	4.4%	4.7%	4.8%
Net Cash Per Share (Rs)	(46.44)	7.82	(11.43)	20.05	105.15
BVPS (Rs)	167.95	215.77	278.31	371.45	494.48
Gross Interest Cover	6.68	6.57	9.93	12.28	12.94
Effective Tax Rate	25.3%	26.1%	26.2%	25.2%	25.2%
Net Dividend Payout Ratio	3.1%	4.7%	4.6%	4.1%	3.1%
Accounts Receivables Days	41.72	45.98	41.62	40.82	41.58
Inventory Days	35.04	35.02	29.63	32.79	33.93
Accounts Payables Days	74.25	78.96	71.35	73.80	74.99
ROIC (%)	15.9%	19.7%	20.8%	24.8%	28.5%
ROCE (%)	24.7%	26.8%	33.8%	37.8%	37.2%
Return On Average Assets	6.3%	6.7%	8.1%	9.2%	9.4%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

India

ADD *(Initiating coverage)*

Consensus ratings*:	Buy 19 Hold 6 Sell 1
Current price:	Rs2,977
Target price:	Rs3,760
Previous target:	NA
Up/downside:	26.3%
InCred Research / Consensus:	37.2%
Reuters:	
Bloomberg:	AMBER IN
Market cap:	US$1,208m
	Rs100,300m
Average daily turnover:	US$7.2m
	Rs597.0m
Current shares o/s:	33.7m
Free float:	22.82%

**Source: Bloomberg*

Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.3	35.5	29.6
Relative (%)	1.6	33.2	13.1

Major shareholders	% held
Promoters	40.3
FII	24.2
DII	12.7

Amber Enterprises

Dominant B2B player

- AEL is the leader in the OEM/ODM segment for branded RACs, with a share of 29%. It is banking on favourable tailwinds from Make in India & PLI schemes.
- We expect its revenue/EBITDA to grow at a CAGR of 16%/22%, respectively, over FY23-26F, while the margin to expand from 6% in FY23 to 7% in FY26F.
- Initiate coverage on the stock with an ADD rating and a target price of Rs3,760, valuing the stock at 35x Sep 2025F EPS, at a discount to its mean P/E of 47x.

Strong demand from OEMs

Amber Enterprises (AEL) is the leader in the OEM/ODM segment for branded room ACs or RACs, with a market share of 29% of the total outsourcing market. AEL is a play on the outsourcing opportunity, which is likely to increase as OEM players continue to focus on innovation and marketing side of the business, relying on outsourcing for manufacturing their products. We believe that further opportunities will evolve, given the fact that global players are shifting their manufacturing base outside China, coupled with the strong focus on the part of the government to enhance manufacturing.

Key beneficiary of PLI scheme

The government of India, with an aim to create a complete component ecosystem for ACs in India, launched the production-linked incentive or PLI scheme for white goods (AC and LED lights) in 2021 with an outlay of Rs62.4bn and is looking at India as an integral part of the global supply chain. The key objective of the scheme is to increase the local value addition from the current level of 25% to 75% by FY26F. The government is also focusing on removing sectoral disabilities and creating economies of scale.

RAC segment likely to clock 14% CAGR over FY23-26F

We expect the RAC and its components segment to clock a 14% CAGR over FY23-26F led by strengthening of the residential sector, and rising construction activity in the commercial realty space. There is a growth in the number of construction projects led by government spending on public infrastructure, which will further increase the demand for room ACs.

Initiate coverage with an ADD rating and target price of Rs3,760

The favourable tailwinds from Make India and PLI schemes, coupled with the company's presence in mobility and electronics segments, are likely to boost the revenue growth over the next few years. The opportunity for outsourcing is likely to increase as OEM players continue to focus on innovation and the marketing side of the business, relying on outsourcing for manufacturing their products. We initiate coverage on AEL with an ADD rating and a target price of Rs3,760, valuing the stock at 35x FY25F EPS, at a discount to its mean P/E of 47x. Weakening macroeconomic scenario and supply chain are the key downside risk.

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Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	42,064	69,271	80,729	93,858	107,792
Operating EBITDA (Rsm)	2,754	4,179	5,160	6,356	7,502
Net Profit (Rsm)	1,092	1,572	2,230	3,171	4,069
Core EPS (Rs)	32.4	46.7	66.2	94.1	120.8
Core EPS Growth	33.8%	44.0%	41.9%	42.2%	28.3%
FD Core P/E (x)	91.86	63.80	44.97	31.63	24.65
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	38.27	25.98	20.70	16.47	13.54
P/FCFE (x)	65.01	69.75	(387.50)	142.24	99.95
Net Gearing	26.5%	40.1%	28.3%	15.9%	2.9%
P/BV (x)	5.78	5.25	4.77	4.13	3.53
ROE	6.5%	8.6%	11.1%	14.0%	15.4%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

InCred Equities

Figure 100: Dominant B2B payer

	Amber Enterprises (Rs69bn-FY23 to Rs108bn-FY26F)			
Key Segments	RAC & Components	Mobility	Electronic	Motors
Key Products	Heat Exchanger, Sheet Metal, Tubing	HVAC services in railway coaches including metro rail and in buses	PCBA for ACs, washing machines, microwaves and smart watches	BLDC motors for ACs, fan coil units, VRV and coolers
Revenue (Rs m: FY23)	50,730	4,225	11,246	3,071
Revenue Mix (FY23)	73.2%	6.1%	16.2%	4.4%
Revenue CAGR (FY18-23)	22%	23%	62%	16%
Revenue CAGR (FY23-26F)	14%	17%	22%	20%
EBITDA Margin (FY23)	5.6%	23.5%	4.5%	13.5%
Key Investment Themes	Amber Enterprises (AEL) is the leader in the OEM/ODM segment for branded room ACs, with a market share of 29% of the total outsourcing market.			
	AEL continues to remain a strong beneficiary of the recently announced PLI scheme for ACs and its components.			
	The rising presence in the mobility and electronics segments is likely to boost the revenue growth of AEL over the next few years.			
	Tailwinds from Make India and PLI initiatives, coupled with the presence in mobility and electronics segments, are likely to boost the company's revenue growth in the next few years.			
	We initiate coverage on AEL with an ADD rating and a target price of Rs3,760, valuing the stock at 35x Sep 2025F EPS, at a discount to its mean P/E of 47x.			

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Key beneficiary of strong demand and key GoI schemes

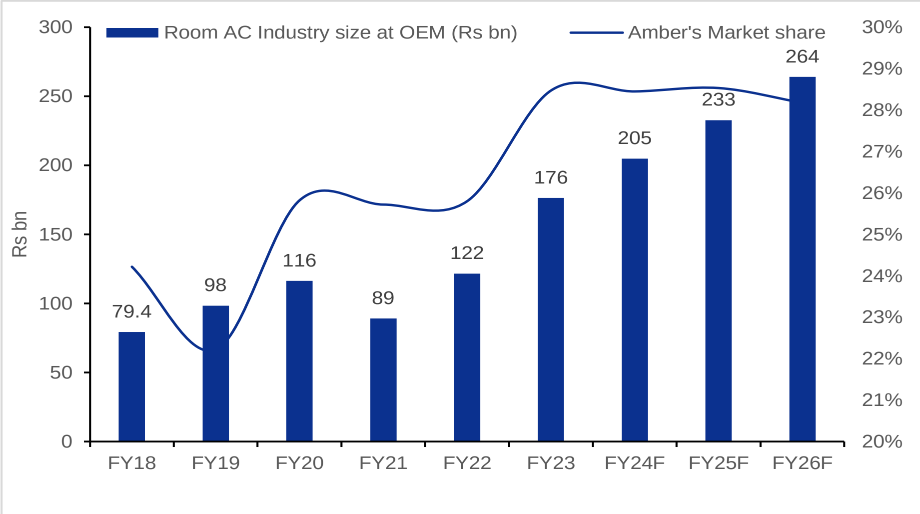
Amber Enterprises or AEL is the leader in the OEM/ODM segment for branded room ACs, with a market share of 29% of the total outsourcing market. The opportunity for outsourcing is likely to increase as OEM players continue to focus on innovation and the marketing side of the business, relying on outsourcing for manufacturing their products. We believe that business opportunities will rise further as global players shift their manufacturing base outside China, coupled with strong focus on the part of the government to enhance manufacturing through its Make in India initiative. AEL continues to remain a strong beneficiary of the recently announced PLI scheme for ACs and its components. The healthy demand outlook for the electronic outsourcing industry, enhanced capacity, increased product offerings, and customer penetration are likely to drive the growth going ahead.

Figure 101: Total AC market is pegged at Rs252bn

Room AC Overview	FY18	FY19	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F
AC market size (m units)	5.8	6.5	7.2	5.2	6.4	**8.4**	9.2	9.8	10.5
Growth (%)	16.0%	12.1%	10.8%	-27.8%	23.1%	**31.3%**	9.0%	7.0%	7.0%
AC industry size (Rs bn)	138	148	171	129	179	**252**	288	323	362
Growth (%)	15.2%	7.7%	15.6%	-24.7%	39.0%	**40.6%**	14.5%	12.1%	11.9%
AC industry size at OEM level (Rs bn)	79.4	98	116	89	122	**176**	205	233	264
% of Total	58%	66%	68%	69%	68%	**70%**	71%	72%	73%
AEL's revenue (Rs bn)	19	22	30	23	31	**50**	58	66	74
AEL's market share (%)	24.2%	22.2%	25.8%	25.7%	25.8%	**28.5%**	28.5%	28.5%	28.2%
Per unit cost	23,724	22,800	23,800	24,800	28,000	**30,000**	31,500	33,000	34,500
Growth (%)	53%	24%	18%	-23%	36%	**45%**	16%	14%	13%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 102: Amber Enterprises is the leader with a 29% market share

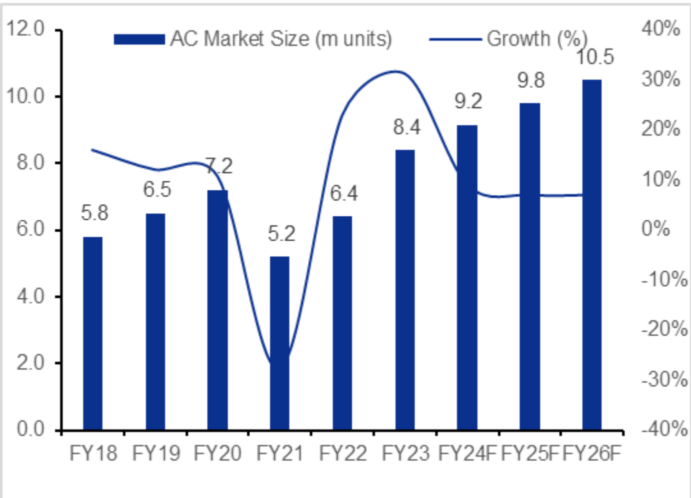


SOURCE: COMPANY REPORTS, INCRED RESEARCH

Room AC market likely to grow at 13% CAGR

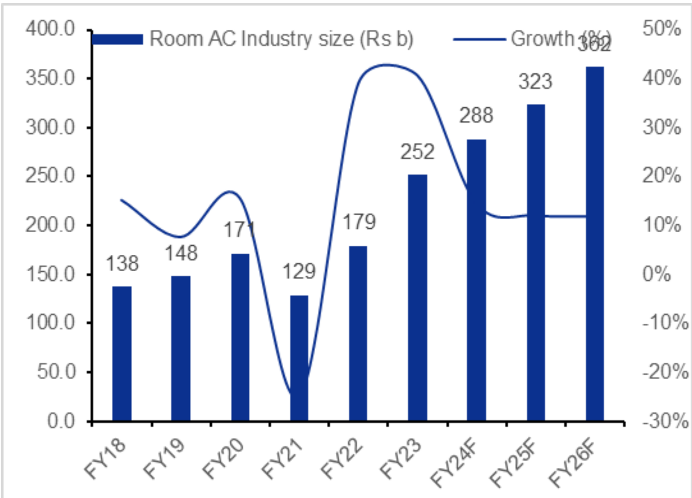
AEL is well placed to capitalize on the growing AC market led by cost-effectiveness, technological advancement, expansion of power infrastructure, as well as a shift on the part of consumers towards a more comfortable lifestyle. The company has also broadened its product range to include a variety of air-conditioning systems, thus increasing its capacity to tackle new challenges and prospects. In FY23, the total air-conditioning market grew by 41% to Rs252bn due to a healthy summer season and pent-up demand, after being affected by the Covid-19 pandemic for two straight years.

Figure 103: Total AC market in Inda is estimated at 8.5m units



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 104: India's AC market is likely to grow at a 13% CAGR



SOURCE: INCRED RESEARCH, COMPANY REPORTS

The AC industry is likely to grow at a CAGR of ~13% over FY23-FY26F led by 1) favourable demographics, 2) rising per capita income, 3) rising urbanization, 4) low penetration of Acs, 5) promising financing options, 6) availability of power, and 7) RAC penetration. The market penetration of ACs in India is at 7%-8%, much lower than the global average of about 45%.

PLI scheme of Rs62.4bn for manufacturing ACs and LED lights

The government aims to create a complete component ecosystem for ACs in India. The government launched the PLI scheme for white goods (AC and LED lights) in 2021 with an outlay of Rs62.4bn and is looking at India as an integral part of the global supply chain. The key objective of the scheme is to increase the local value addition from the current level of 25% to 75% by FY26F. The government is also focusing on removing sectoral disabilities, creating economies of scale to enhance exports, and a robust component ecosystem. AEL, being one of the prominent and large applicants under the scheme, has committed to a threshold investment of Rs4bn, driving the localization of reliable and critical components in India.

Figure 105: PLI scheme for ACs

Rs m	Year	PLI Rate	Min. Cumulative Incremental Inv.	Minimum Incremental Sales	Min. Cumulative Incremental Inv.	Minimum Incremental Sales
			Large Investment		Normal Investment	
AC (components)	FY22		1,500		500	
	FY23	6%	3,000	7,500	1,000	2,500
	FY24	6%	4,000	15,000	1,500	5,000
	FY25	5%	5,000	20,000	2,250	7,500
	FY26	5%	6,000	25,000	3,000	11,250
	FY27	4%		30,000		15,000
	FY28					
	Total		**6,000**	**97,500**	**3,000**	**41,250**
High-value intermediates of ACs	FY22		500		500	
	FY23	6%	1,250	2,500	1,000	2,500
	FY24	6%	2,000	6,250	1,500	5,000
	FY25	5%	3,000	10,000	2,000	7,500
	FY26	5%	4,000	15,000	2,500	10,000
	FY27	4%		20,000		12,500
	FY28					
	Total		**4,000**	**53,750**	**2,500**	**37,500**
High-value intermediates of ACs	FY22		200		100	
	FY23	6%	400	1,000	200	500
	FY24	6%	600	2,000	300	1,000
	FY25	5%	800	3,000	400	1,500
	FY26	5%	1,000	4,000	500	2,000
	FY27	4%		5,000		2,500
	FY28					
	Total		**1,000**	**15,000**	**500**	**7,500**

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Strategic pan-India presence

AEL has a strong and widespread footprint, with 27 manufacturing facilities and 4 R&D facilities located across India. The company has the advantage of providing in-time and cost-effective delivery to its customers. Multiple manufacturing locations also allow efficient utilization of facilities, enabling the company to effectively distribute manufacturing of products and handle simultaneous demand schedules from multiple customers in a timely manner. This strategic advantage enhances AEL's ability to meet customer needs and maintain a competitive edge in the RAC industry.

Figure 106: Pan-India presence

Amber currently has 27 factories across 9 states.

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Strong capabilities and track record

AEL's ability to manufacture a wide range of components needed for manufacturing RACs provides a competitive advantage and allows for greater control over the supply chain. The company's in-house product development, designing, tooling, validation, assembling, and testing capabilities enable it to provide high-quality and innovative solutions to customers. The backward integration of most operations and in-house processes enhance the company's efficiency and quality control measures.

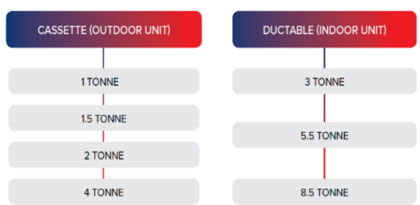
Figure 107: 1-2t RACs – bifurcation

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 108: Products offered by AEL

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 109: Products under the commercial AC segment



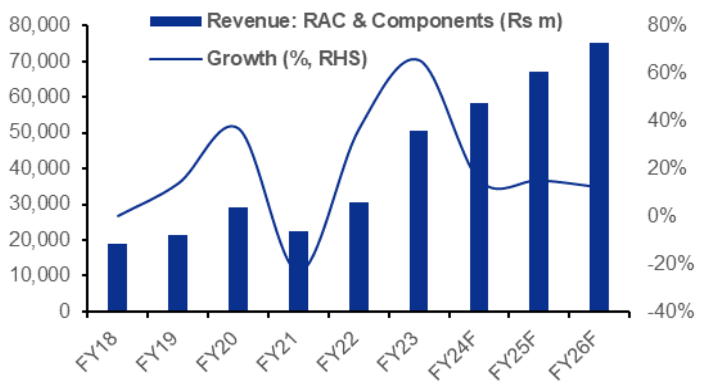
SOURCE: INCRED RESEARCH, COMPANY REPORTS

AEL is a dominant B2B player in the air-conditioning space, with a diversified range of services. It offers one-stop solutions for the AC ecosystem, leveraging product development expertise and manufacturing capabilities. Over the past few years, it has developed a strong capability to design, and manufacture complete the product range like heat exchangers, cross-flow fans, multi-flow condensers, PCBAs & motors for ACs. It supplies indoor units (IDUs) and outdoor units (ODUs) based on technical specifications provided by original equipment manufacturers or OEMs. It also supplies entire ACs, including window and split ACs, inverter ACs, case liners for refrigerators, PCBAs for refrigerators, microwaves, washing machines, water purifiers, TVs, and automobiles, along with a strategic geographical presence, which augurs well for long-term growth.

RAC segment likely to clock a 14% CAGR over FY23-26F

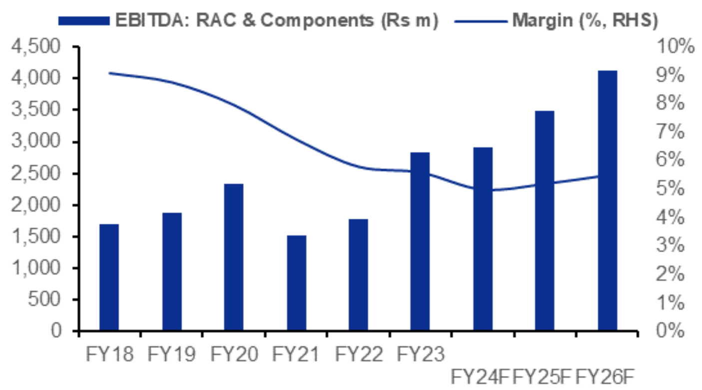
We expect the RAC and its component segment to clock a 14% CAGR over FY23-26F led by strengthening of the residential sector, and rising construction activity in the commercial realty space. The number of construction projects has increased led by government spending on public infrastructure, which has further led to increased demand for room air-conditioners in the country. The AC industry is likely to grow on the back of a change in consumers' preference including the emergence of nuclear families, single-person households, and job migration, resulting in growing demand for convenient and accessible products. This industry's growth is further fuelled by factors such as affordability, a shift towards energy efficiency, rising digital penetration, and also rising consumer aspirations.

Figure 110: RAC revenue to clock a 14% CAGR



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 111: EBITDA margin to expand from 5.6% to 6.5% in FY26F



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Capitalizing on mobility segment

Over the last few years, AEL has expanded its products and applications in the mobility segment, which has a long approval cycle in the case of railways including metro rail, bus operators, defence sector, data centres and commercial ACs. AEL has acquired Sidwal (now its wholly-owned subsidiary), which is the market leader in railway, bus, defence & telecom HVAC solutions, with an access to a large customer base. It has a proven track record of supplying over 16,000 HVAC units for main line rail coaches and over 4,000 HVAC units for metro rail coaches. The acquisition enhances the addressable market size for AEL, enabling the company to capitalize on new opportunities and provide comprehensive mobility HVAC solutions to a wide range of customers.

Figure 112: Roof-mounted ACs for main line rail coaches

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 113: Electronics and refrigeration solutions for railways

SOURCE: INCRED RESEARCH, COMPANY REPORTS

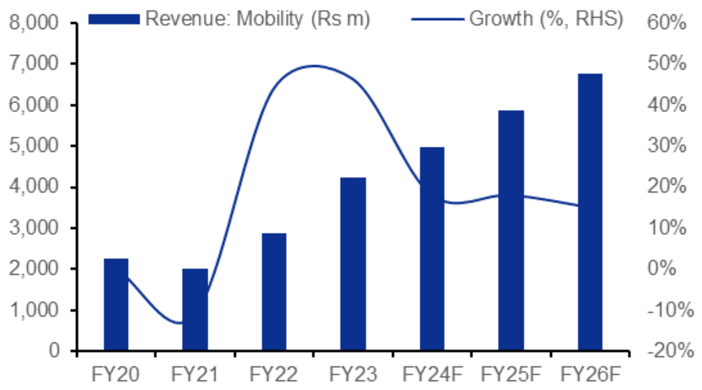
Figure 114: Applications for defence sector ACs

SOURCE: INCRED RESEARCH, COMPANY REPORTS

The company has introduced new products across industries and gained traction in ACs for metro line coaches, winning major contracts for metro rail AC projects as well. It has secured orders for the Vande Bharat Express trains and the new Regional Rapid Transit System. The company installed its products in high-speed trains like Shatabdi Express, Rajdhani Express, Gatimaan Express & Tejas Express Trains, etc.

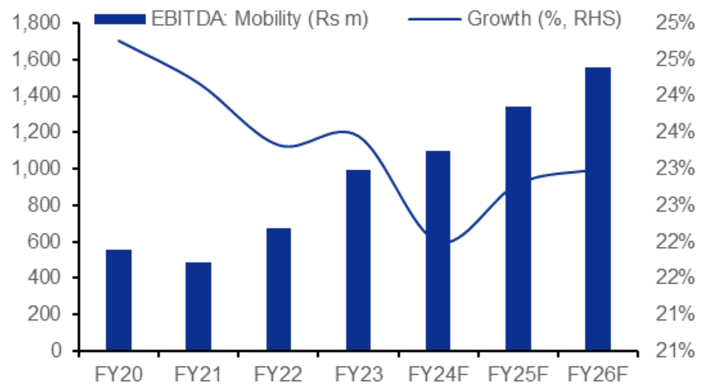
The modernization of Indian Railways is likely to create ample business opportunities for the mobility segment. All Vande Bharat trains are expected to be fully air-conditioned, creating significant opportunities for HVAC manufacturers. The Ministry of Urban Development has announced that 26 new cities will have metro rail networks, which will offer a huge opportunity for HVAC manufacturers going ahead. AEL is well-placed with a wide range of products tailored for the mobility segment and is looking to capture a higher market share.

Figure 115: Mobility segment's revenue to clock a 17% CAGR



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 116: Mobility segment enjoyed a high margin of 23.5% in FY23



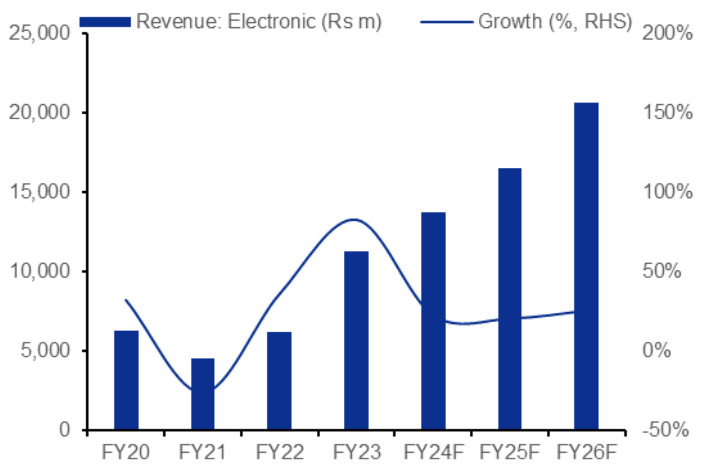
SOURCE: INCRED RESEARCH, COMPANY REPORTS

New products to drive growth in electronics division

AEL is one of the leading players in manufacturing PCBAs for the consumer durables sector. The company has a strong track record and rich experience in providing solutions to home appliances, RAC and telecom segments. In FY23, it added new customers and started manufacturing new-age applications such as smart wearable and hearable products. The company has added more products in the telecom equipment space like optical network terminal or ONT and remote radio head or RRH. The electronics market is witnessing a dynamic shift and the products are getting smarter every day, which will increase the demand for PCBAs in electronic products, enhancing the division's strength.

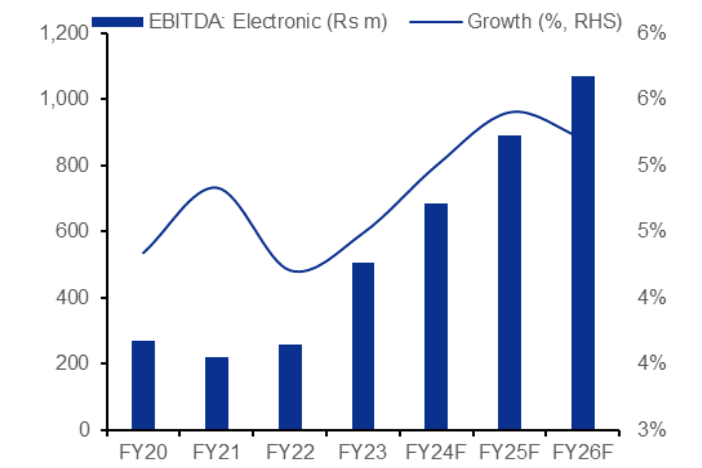
The government is focusing on building a semiconductor ecosystem to catalyse the growth of electronics manufacturing and the innovation ecosystem. Several policies, like the PLI scheme and the Modified Electronics Manufacturing Cluster (EMC 2.0) scheme, are aimed at making India self-reliant in electronics manufacturing. The government's push to high energy-efficient products has resulted in expansion of the electronic PCBA market.

Figure 117: Electronics segment revenue to clock a 22% CAGR



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 118: EBITDA margin of the electronics segment to remain at ~5%

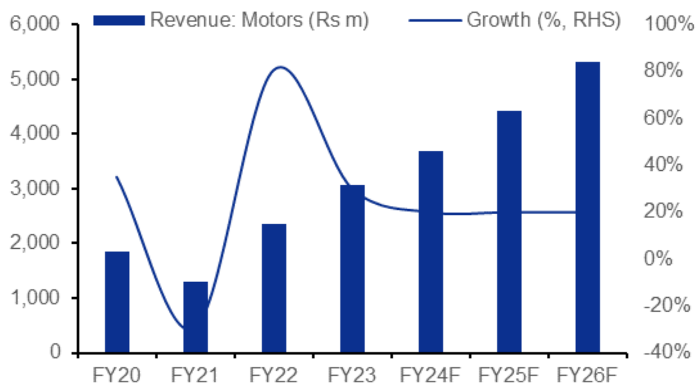


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Motor division

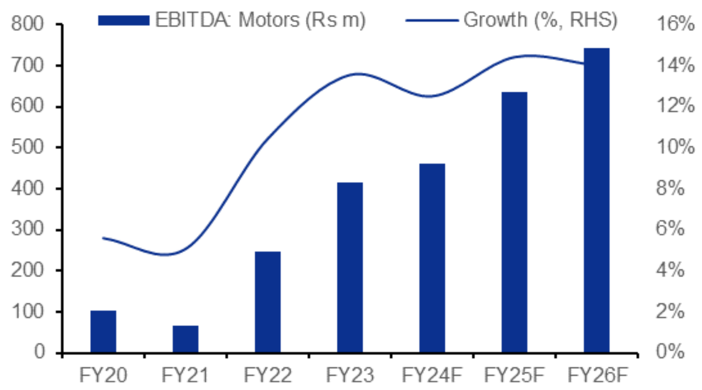
Over the last few years, AEL become a frontrunner to manufacture a wide range of motors for various HVAC products, fan coil units, and air handling unit, from being just an energy-efficient BLDC motor manufacturer for the RAC segment. The company's motors have diverse applications, such as in residential and commercial ACs, variable refrigerant volume and air coolers. In FY23, the company increased its product offerings by launching energy-efficient BLDC motors for the RAC segment, catering to both domestic and international markets. We expect the revenue of the motor segment to grow at a CAGR of 20% over FY23-26F.

Figure 119: Motor segment revenue to clock a 20% CAGR



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 120: Motor segment's margin to remain at 13-14%



SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY24 results

- Revenue in 1QFY24 declined by 7% YoY to Rs17bn while the AC industry's revenue declined by 20-25%, mainly due to unseasonal rains in North India at the beginning of the quarter. AEL gained market share in 1QFY24.
- The electronics segment grew by 28% yoy to Rs2.7bn while the RAC and its components segment declined by 14% yoy.
- Despite lower revenue, EBITDA grew by 33% yoy to Rs1.32bn as the margin expanded by 232bp to 7.8%. The margin of the RAC and its component segment expanded by 174bp to 7.7%, mainly led by higher component sales during the quarter.
- AEL's strategy to focus on the components business bodes well, which will help in protecting it from volume decline and maintain a higher margin.
- Despite an elevated channel inventory, the RAC industry is expected to revive in 4QFY24F. The change in revenue mix, operating leverage and PLI benefits are likely to expand the company's margin in FY24F.

Figure 121: 1QFY24 results summary

Rs m	1QFY24	1QFY23	YoY	4QFY23	QoQ	FY23	FY22	YoY
Revenue	**17,020**	**18,257**	**-6.8%**	**30,026**	**-43%**	**69,271**	**42,064**	**65%**
Raw material cost	14,047	15,635	-10.2%	25,933	-46%	58,678	35,297	66%
Employee expenses	596	459	29.8%	638	-7%	2,116	1,500	41%
Other expenses	1,058	1,171	-9.6%	1,420	-25%	4,298	2,514	71%
EBITDA	**1,319**	**992**	32.9%	**2,035**	-35%	**4,179**	**2,754**	52%
EBITDA margin	*7.8%*	*5.4%*	*232*	*6.8%*	*14%*	*22.9%*	*25.8%*	
Depreciation	433	322	34.5%	388	11%	1,391	1,079	29%
EBIT	**887**	**671**	32.2%	**1,647**	-46%	**2,788**	**1,675**	66%
Other income	193	128	50.3%	187	3%	527	332	58%
Finance cost	453	211	114.7%	375	21%	1,118	464	141%
PBT	**627**	**589**	6.6%	**1,459**	-57%	**2,197**	**1,543**	42%
Taxes	161	160	0.6%	378	-57%	559	429	30%
Tax Rate	26%	27%	*-152*	26%	-1%	25%	28%	
PAT	**467**	**429**	8.8%	**1,081**	-57%	**1,638**	**1,113**	47%
Non-controlling interest	10	8	14.5%	41	-77%	66	21	208%
PAT After minority interest	457	420	8.7%	1,040	-56%	1,572	1,092	44%
Net margin	*2.7%*	*2.3%*	*38*	*3.5%*		*2.3%*	*2.6%*	
EPS (Rs)	**13.6**	**12.5**	8.7%	**30.9**	-56%	**46.7**	**32.4**	44%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Key clients' profile

Figure 122: Diversified client base

Daikin	• Daikin is a Japanese multinational company known for its expertise in air-conditioning and refrigeration technology. • The company's key products include a wide range of air-conditioning solutions such as split air-conditioners, ducted systems, VRV (Variable Refrigerant Volume) systems, and chillers. • Daikin will spend US$5.7bn on capital investments over the next three years, as it seeks to cash in on the demand for energy-efficient heating in Europe and India's growing air-conditioner market.
Hitachi	• Hitachi is a diversified Japanese conglomerate with global presence in various industries, including electronics and engineering. • In the context of air-conditioning, Hitachi offers a variety of products, including room air-conditioners, split air-conditioners, and VRF (Variable Refrigerant Flow) systems. • Hitachi India aims to contribute US$20bn to consolidated global revenue of the parent company by 2030F, with a higher double-digit profit.
Voltas	• Voltas is an Indian multinational company specializing in air-conditioning and cooling solutions. • The company's product range covers residential and commercial air-conditioning systems, including window air-conditioners, split air-conditioners, and packaged units. • Voltas is a well-established brand in India, known for its cooling expertise and durable products. • Voltas and LG are the frontrunners in the market, together sharing 31% of the total RAC market, mainly due to high brand consciousness of Indian customers.
Blue Star	• Blue Star is an Indian company that provides a comprehensive range of air-conditioning and refrigeration solutions. • Its products include window and split air-conditioners for homes, as well as central air-conditioning systems for commercial and industrial applications. • Management expects a 10-15% growth in the RAC segment in FY24F. • Blue Star has entered the residential segment and aims to achieve a market share of 15% by FY25F, from 13.5% currently.

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Key management personnel

Figure 123: Leadership positions

Name	Mr. Jasbir Singh	Mr. Daljit Singh
Designation	Chairman & CEO	Managing Director
Qualification	• He holds Bachelor's degree in Production Engineering (Industrial Production) from Karnataka University and Master's degree in Business Administration from the University of Hull, United Kingdom. • He has more than 19 years of experience in the RAC manufacturing sector. • He is also the member of Audit Committee and Corporate Social Responsibility Committee of the company.	• He holds Bachelor's degree in Electronic Engineering from Nagpur University and Master's degree in Information Technology from the Rochester Institute of Technology. • He has 17 years' experience in finance services and 10 years of experience in the RAC manufacturing sector.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Outlook & valuation

- The favourable tailwinds from Make in India and PLI initiatives, coupled with the presence in the mobility and electronics segments, are likely to boost the revenue growth of AEL over the next few years. The company has given guidance of healthy revenue growth in the electronics and motor segments led by a higher customer wallet share and product offerings.
- The opportunity for outsourcing is likely to increase as OEMs continue to focus on innovation and the marketing side of the business, relying on outsourcing for manufacturing their products.
- We believe the benefits of a structural shift towards the components business from core RAC manufacturing is likely to lead to further margin expansion.
- We expect its revenue and EBITDA to grow at a CAGR of 16% and 29%, respectively, while margins to expand from ~6% in FY23 to ~7% in FY26F. New orders with higher margins, stabilizing input prices, operating leverage and PLI benefits are likely to aid margins, in our view.
- AEL expects to outperform the RAC industry's growth rate in FY24F. We initiate coverage on the stock with an ADD rating and a target price of Rs3,760, valuing it at 35x Sep 2025F EPS, at a discount to its mean P/E of 47x.

We value AEL at 35x Sep 2025F EPS to arrive at a target price of Rs3,760 ›

Figure 124: Valuing the stock at 35x Sep 2025F EPS

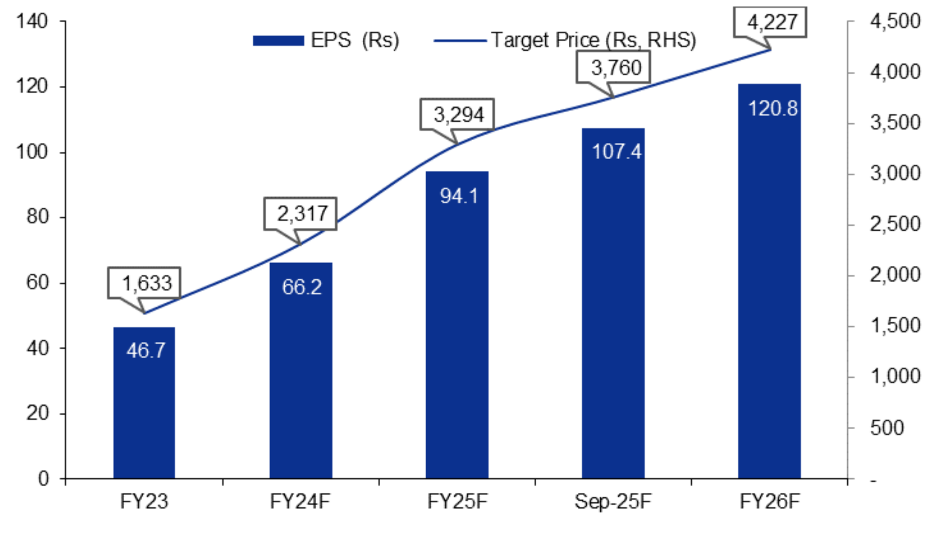
	Amber
CMP (Rs)	**2.979**
Mean P/E	**47.4**
PE (x)	**35.0**
Premium/(Discount)	**-26%**
Target (Sep-2025F)	**3,760**
Target (FY26F)	**4,227**
Expected Return (%)	**23.6**

Price Sensitivity Analysis

	EPS (Rs)	Growth (%)	P/E (x)	Target P/E multiple (x) 25.0	30.0	35.0	40.0	45.0
FY23	46.7	44.0	65.2	1,166	1,400	1,633	1,866	2,100
FY24F	66.2	41.9	46.0	1,655	1,986	2,317	2,648	2,979
FY25F	94.1	42.2	32.3	2,353	2,823	3,294	3,764	4,235
Sep-2025F	107.4	14.2	28.3	2,686	3,223	3,760	4,298	4,835
FY26F	120.8	28.3	25.2	3,019	3,623	4,227	4,831	5,435

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 125: EPS to grow from Rs46.7 in FY23 to Rs120.8 in FY26F



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Scenario analysis

Figure 126: Snapshot of scenario analysis

	Bull Case	Base Case	Bear Case
Revenue CAGR	21%	16%	4%
FY25F EBITDA Margin	7.0%	6.8%	6.0%
Sep-25F EPS (Rs)	127.3	107.4	56.1
Target P/E (x)	40.0	35.0	30.0
Target Price	5,092	3,760	1,684
Upside	67.4%	23.6%	-44.7%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Base Case: In this scenario, we expect a 16% revenue CAGR with the average EBITDA margin at 6.8% in FY23-26F, which translates into EBITDA and PAT CGR of 22% and 37%, respectively. Assigning a 35x P/E multiple to its Sep 2025F EPS, we arrive at a target price of Rs3,760.

Figure 127: PAT CAGR of 37% in a base-case scenario

Base-Case Scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	CAGR (%)
Total Sales	39,628	30,305	42,064	69,271	80,729	93,858	1,07,792	16%
Growth (YoY, %)		-23.5%	38.8%	64.7%	16.5%	16.3%	14.8%	
EBITDA	3,093	2,203	2,754	4,179	5,160	6,356	7,502	22%
Growth (YoY, %)		-28.8%	25.0%	51.8%	23.5%	23.2%	18.0%	
EBITDA Margin (%)	7.8%	7.3%	6.5%	6.0%	6.4%	6.8%	7.0%	
PAT	1,584	816	1,092	1,572	2,230	3,171	4,069	37%
Growth (YoY, %)		-48.5%	33.8%	44.0%	41.9%	42.2%	28.3%	
PAT Margin (%)	4.0	2.7%	2.6%	2.3%	2.8%	3.4%	3.8%	
EPS (Rs)	47	24	32	47	66	94	121	37%
Growth (YoY, %)		-48.5%	33.8%	44.0%	41.9%	42.2%	28.3%	

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Bull Case: In this scenario, we expect a 21% revenue CAGR with the average EBITDA margin at 7% in FY23-26F, which translates into EBITDA and PAT CAGR of 28% and 47%, respectively. Assigning a 40x P/E multiple to its Sep 2025F EPS, we arrive at a target price of Rs5,092.

Figure 128: PAT CAGR of 47% in a bull-case scenario

Bull-Case Scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	CAGR (%)
Total Sales	39,628	30,305	42,064	69,271	84,193	1,02,095	1,22,356	21%
Growth (YoY, %)	-	-23.5%	38.8%	64.7%	21.5%	21.3%	19.8%	
EBITDA	3,093	2,203	2,754	4,179	5,592	7,169	8,821	28%
Growth (YoY, %)	0%	-28.8%	25.0%	51.8%	33.8%	28.2%	23.1%	
EBITDA Margin (%)	7.8%	7.3%	6.5%	6.0%	6.6%	7.0%	7.2%	
PAT	1,584	816	1,092	1,572	2,393	3,627	4,950	47%
Growth (YoY, %)	0%	-48.5%	33.8%	44.0%	52.2%	51.6%	36.5%	
PAT Margin (%)	4.0	2.7%	2.6%	2.3%	2.8%	3.4%	3.8%	
EPS (Rs)	47	24	32	47	71	108	147	47%
Growth (YoY, %)	0%	-48.5%	33.8%	44.0%	52.2%	51.6%	36.5%	

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Bear Case: In this scenario, we expect a 4% revenue CAGR with the average EBITDA margin at 6% in FY23-26F, which translates into EBITDA and PAT CAGR of 6%, and 14%, respectively. Assigning a 30x P/E multiple to its Sep 2025F EPS, we arrive at a target price of Rs1,684.

Figure 129: PAT CAGR of 10% in a bear-case scenario

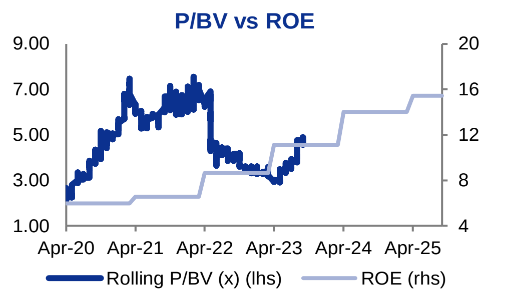
Bear-case scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	CAGR (%)
Total Sales	39,628	30,305	42,064	69,271	72,417	75,504	77,652	4%
Growth (YoY, %)		-23.5%	38.8%	64.7%	4.5%	4.3%	2.8%	
EBITDA	3,093	2,203	2,754	4,179	4,116	4,562	4,986	6%
Growth (YoY, %)		-28.8%	25.0%	51.8%	-1.5%	10.8%	9.3%	
EBITDA Margin (%)	7.8%	7.3%	6.5%	6.0%	5.7%	6.0%	6.4%	
PAT	1,584	816	1,092	1,572	1,294	1,687	2,095	10%
Growth (YoY, %)		-48.5%	33.8%	44.0%	-17.7%	30.3%	24.2%	
PAT Margin (%)	4.0%	2.7%	2.6%	2.3%	1.8%	2.2%	2.7%	
EPS (Rs)	47	24	32	47	38	50	62	10%
Growth (YoY, %)		-48.5%	33.8%	44.0%	-17.7%	30.3%	24.2%	

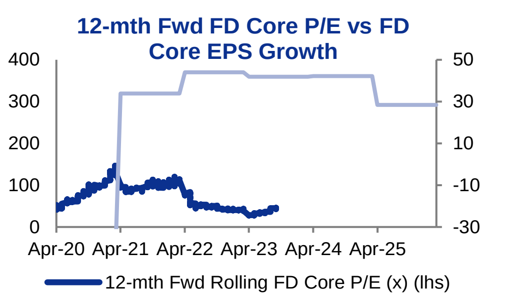
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Key downside risks ›

- **Weakening macroeconomic scenario:** AEL depends a lot on discretionary spending, like spending on room ACs. The company has suffered in the past due to weak demand. As a result, this could be a major factor in determining whether the company will perform well or not. The Consumer Confidence Index is a major indicator that needs to be monitored for the same.
- **Supply chain dependence:** The company sources most of its raw materials from other countries and hence, any hindrance in the supply chain could affect its profitability.

BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	**42,064**	**69,271**	**80,729**	**93,858**	**107,792**
Gross Profit	**6,815**	**10,021**	**13,320**	**15,487**	**17,786**
Operating EBITDA	**2,754**	**4,179**	**5,160**	**6,356**	**7,502**
Depreciation And Amortisation	(1,079)	(1,391)	(1,509)	(1,657)	(1,783)
Operating EBIT	**1,675**	**2,788**	**3,651**	**4,698**	**5,719**
Financial Income/(Expense)	(464)	(1,118)	(1,100)	(972)	(845)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	332	527	526	617	681
Profit Before Tax (pre-EI)	**1,543**	**2,197**	**3,077**	**4,343**	**5,555**
Exceptional Items					
Pre-tax Profit	**1,543**	**2,197**	**3,077**	**4,343**	**5,555**
Taxation	(429)	(559)	(775)	(1,093)	(1,398)
Exceptional Income - post-tax					
Profit After Tax	**1,113**	**1,638**	**2,303**	**3,250**	**4,157**
Minority Interests	(21)	(66)	(72)	(80)	(87)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**1,092**	**1,572**	**2,230**	**3,171**	**4,069**
Recurring Net Profit	1,092	1,572	2,230	3,171	4,069
Fully Diluted Recurring Net Profit	**1,092**	**1,572**	**2,230**	**3,171**	**4,069**

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	1,543	2,197	3,077	4,343	5,555
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(62)	(582)	(410)	(714)	(1,820)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	1,079	1,391	1,509	1,657	1,783
Other Operating Cashflow	(77)	(379)	(526)	(617)	(681)
Net Interest (Paid)/Received	464	1,118	1,100	972	845
Tax Paid	(539)	(539)	(775)	(1,093)	(1,398)
Cashflow From Operations	**2,408**	**3,205**	**3,976**	**4,548**	**4,283**
Capex	(4,137)	(6,622)	(4,261)	(2,960)	(2,460)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(2,759)	1,734	526	617	681
Cash Flow From Investing	**(6,896)**	**(4,888)**	**(3,735)**	**(2,343)**	**(1,780)**
Debt Raised/(repaid)	6,031	3,120	(500)	(1,500)	(1,500)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	(476)	(1,192)	(1,067)	(972)	(845)
Cash Flow From Financing	**5,555**	**1,928**	**(1,567)**	**(2,472)**	**(2,345)**
Total Cash Generated	1,066	246	(1,325)	(267)	159
Free Cashflow To Equity	**1,543**	**1,438**	**(259)**	**705**	**1,003**
Free Cashflow To Firm	**(4,953)**	**(2,800)**	**(858)**	**1,233**	**1,659**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	5,626	5,594	6,857	7,497	9,109
Total Debtors	13,149	17,631	22,118	25,715	29,532
Inventories	8,408	10,913	15,482	18,000	20,672
Total Other Current Assets	2,497	4,221	4,604	5,042	5,507
Total Current Assets	**29,680**	**38,360**	**49,061**	**56,254**	**64,820**
Fixed Assets	11,847	18,020	20,710	21,987	22,674
Total Investments	1,056	23			
Intangible Assets	4,487	4,698	4,760	4,786	4,776
Total Other Non-Current Assets	2,054	1,332	1,473	1,672	1,884
Total Non-current Assets	**19,444**	**24,073**	**26,943**	**28,445**	**29,335**
Short-term Debt	6,995	7,671	7,671	7,171	6,671
Current Portion of Long-Term Debt					
Total Creditors	17,021	23,039	32,319	37,575	43,154
Other Current Liabilities	2,228	3,719	4,312	5,004	5,735
Total Current Liabilities	**26,244**	**34,429**	**44,303**	**49,751**	**55,560**
Total Long-term Debt	3,323	5,766	5,266	4,266	3,266
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	660	1,497	1,485	1,485	1,485
Total Non-current Liabilities	**3,983**	**7,263**	**6,751**	**5,751**	**4,751**
Total Provisions	1,169	1,201	1,200	1,232	1,269
Total Liabilities	**31,396**	**42,893**	**52,253**	**56,734**	**61,580**
Shareholders Equity	17,342	19,088	21,021	24,271	28,428
Minority Interests	387	452	452	452	452
Total Equity	**17,729**	**19,540**	**21,473**	**24,724**	**28,881**

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	38.8%	64.7%	16.5%	16.3%	14.8%
Operating EBITDA Growth	25.0%	51.8%	23.5%	23.2%	18.0%
Operating EBITDA Margin	6.5%	6.0%	6.4%	6.8%	7.0%
Net Cash Per Share (Rs)	(139.27)	(232.76)	(180.45)	(116.94)	(24.58)
BVPS (Rs)	514.70	566.51	623.89	720.35	843.73
Gross Interest Cover	3.61	2.49	3.32	4.83	6.77
Effective Tax Rate	27.8%	25.4%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio					
Accounts Receivables Days	103.43	81.09	89.86	93.01	93.54
Inventory Days	80.62	59.51	71.46	77.97	78.41
Accounts Payables Days	156.31	123.39	149.87	162.76	163.69
ROIC (%)	5.4%	6.9%	8.4%	10.2%	11.8%
ROCE (%)	6.7%	8.9%	10.5%	13.0%	14.9%
Return On Average Assets	3.4%	4.4%	4.5%	4.9%	5.4%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

India

ADD *(Initiating coverage)*

Consensus ratings*:	Buy 3	Hold 0	Sell 0

Current price:	Rs1,776
Target price:	Rs2,200
Previous target:	NA
Up/downside:	23.9%
InCred Research / Consensus:	10.0%
Reuters:	
Bloomberg:	PGEL IN
Market cap:	US$557m
	Rs46,222m
Average daily turnover:	US$1.8m
	Rs150.9m
Current shares o/s:	26.0m
Free float:	35.0%

**Source: Bloomberg*

Price performance	1M	3M	12M
Absolute (%)	(9.1)	11.1	76.6
Relative (%)	(9.7)	9.2	54.1

Major shareholders	% held
Promoter & Promoter Group	53.6
FII	8.5
DII	13.4

PG Electroplast

Cost leadership to be a game changer

- Gradually forayed into manufacturing washing machines, room air-conditioners or RACs & coolers, from plastic moulding.
- The focus on cost leadership will boost the EBITDA margin and this, coupled with a huge capex for gaining market share, will serve as growth triggers.
- We value the stock at 30x Sep25F P/E, and initiate coverage on it with an ADD rating and a target price of Rs2,200.

Evolving as a products player

PG Electroplast or PGEL started its journey in plastic moulding, but it gradually forayed into manufacturing washing machines, room air-conditioners or RACs & coolers, and the revenue contribution from these businesses is likely to increase in the coming years. We expect its products business to contribute 82% to the top-line by FY26F, compared to 73% in FY23. This, we feel, will be further boosted by the rise in consumption fueled by the rising incomes of the growing middle-class population in India.

Cost leadership along with asset turns to boost profitability

PGEL focuses on cost effectiveness and improving efficiency. The EMS space has a lower operating margin of ~8%-10%, and lowest-cost producers are the ones who will survive eventually. PGEL fits into this space perfectly. The company's other expenses, as a percentage of sales, have been falling in the past few years vs. its closest peer Amber. PGEL continues to focus on cost leadership and hence, this trend may continue. Moreover, as the company's new capacities come on stream, we expect a further improvement in asset turns from 3.4x to 5.1x. This will also act as a trigger for top-line growth.

Capex plan to be a growth trigger

PGEL has been incurring significant capex in order to wean away market share from its competitors, particularly in the RAC segment. Its state-of-the-art plant at Ahmednagar in Pune is reminiscent of the same. We expect PGEL's gross block to double from the FY23 level in FY26F (to Rs13bn from Rs6.9bn). PGEL's recent QIP, wherein it raised a sum of Rs5bn, is focused on the same as the company looks to attain market share.

We value PGEL at 30x Sep25F EPS; initiate coverage with ADD rating

We expect PGEL to attain a 28% revenue CAGR in FY23-26F while the EBITDA margin is likely to remain at ~8% leading to an EPS of Rs93 by FY26F. Due to favorable return ratios and industry leadership in EBITDA margin, it is likely that PGEL will be valued at a premium. We have valued PGEL at 30x Sep25F EPS to arrive at our target price of Rs2,200 and assigned an ADD rating to the stock. Downside risks: Supply chain problems because of sourcing a significant part of the raw materials from China. Also, intense competition with rivals for market share will lead to a price war and hence, relatively less growth in its top-line.

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Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	10,977	21,599	28,078	35,319	42,762
Operating EBITDA (Rsm)	751	1,760	2,386	3,002	3,709
Net Profit (Rsm)	371	775	1,204	1,622	2,193
Core EPS (Rs)	14.3	29.8	46.3	62.3	84.3
Core EPS Growth	198.7%	108.7%	55.5%	34.7%	35.2%
FD Core P/E (x)	124.48	59.65	38.37	28.49	21.07
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	66.92	29.62	19.43	15.04	11.72
P/FCFE (x)	(1,338.73)	144.62	66.97	40.95	96.93
Net Gearing	129.9%	149.7%	1.5%	(7.7%)	(15.6%)
P/BV (x)	14.80	11.67	4.25	3.38	2.65
ROE	14.7%	21.9%	16.2%	13.2%	14.1%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 130: Focus on improving asset turn

	PGEL (Rs21.5bn-FY23 to Rs45bn-FY26F)				
Key Segments	**Washing Machines**	**Air-Coolers**	**Air Conditioners**	**LED TVs**	**Plastic components**
Revenue (Rs m: FY23)	2,622	382	10,400	1,610	6,360
Revenue Mix (FY23)	12%	2%	48%	7%	30%
Revenue CAGR (FY20-23)	72%	22%	135%	NA	13%
Revenue CAGR (FY23-26F)	34%	23%	29%	42%	13%
Key Investment Themes	PGEL's significant focus on cost leadership, coupled with its entry into new product business like TV, will improve the asset turn and EBITDA margin.				
	Over the next couple of years, we expect PGEL to garner a sizeable market share in ACs. PGEL has also planned a Rs3.21bn capex under the PLI scheme for white goods, which is its second-highest investment among contract manufacturers.				
	We expect its product business, which has a higher margin, to contribute 82% to the top-line by FY26F, compared to 73% in FY23.				
	PGEL likely to achieve a 28% CAGR in its top-line over FY23-26F, according to our estimate, and a 46% CAGR in PAT.				
	PGEL is banking on market share gains and rising consumption economy in India. We value PGEL at Sep 2025F EPS with a target price Rs2,200.				

SOURCE: COMPANY REPORTS, INCRED RESEARCH

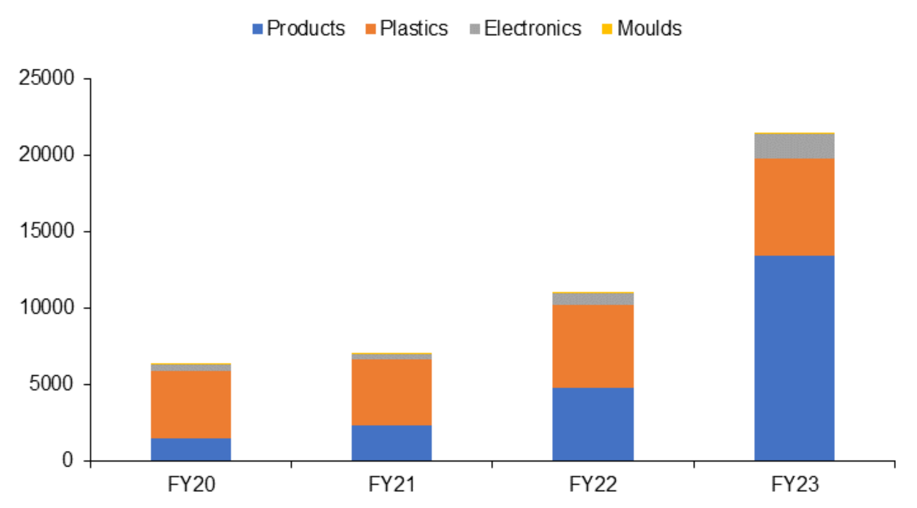
Cost leadership to be game changer

PG Electroplast, set up in 2003, is a leading electronics manufacturing services or EMS provider. It was earlier a predominant player in plastic mouldings. However, it gradually started to establish itself in other categories. The company has mainly forayed into Original Equipment Manufacturing (OEM) and Original Design Manufacturing (ODM), catering to 50+ brands. Its product portfolio includes coolers, air-conditioners, washing machines, and LED TVs. PGEL has reported a 35% revenue CAGR and a 34% EBITDA CAGR over FY16-FY23. Its revenue contribution from product business (coolers, ACs and washing machines) increased from 24% in FY20 to 63% in FY23, which is likely to increase further as the company benefits from the production-linked incentive or PLI scheme for ACs and the broader Atmanirbhar Bharat theme of the Indian government. Moreover, as the consumption-driven economic growth in India takes off, it will further capture market share in the AC business, where it is underpenetrated and currently holds around 2.4% market share.

Room air-conditioners and washing machines to be major growth drivers ›

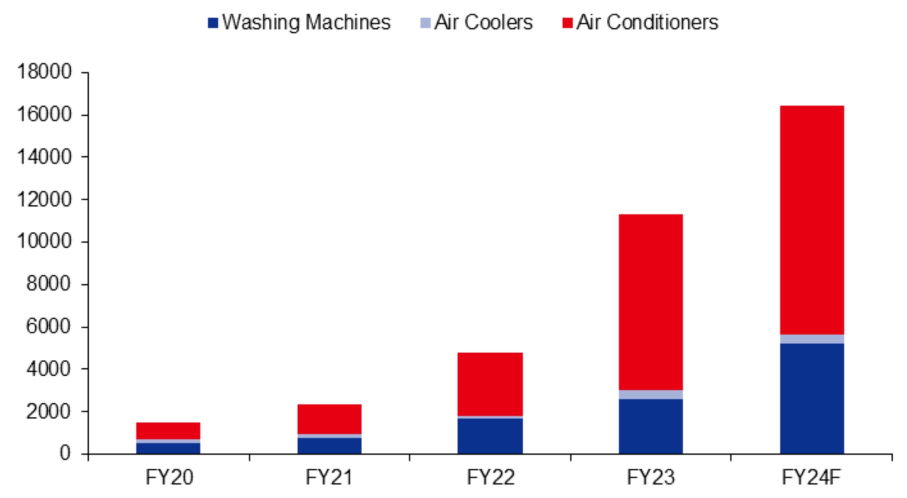
PGEL is a provider of assembly manufacturing for air-coolers, washing machines and air-conditioners, although as far as LED TVs are concerned, it just assembles their parts rather than manufacturing them. The company has built a state-of-the-art plant at Ahmednagar in Pune for assembly-related manufacturing of ACs. Going ahead, the company expects ACs and washing machines to be the biggest contributors to its top-line. The company is also setting up a backward integrated AC manufacturing plant in Rajasthan.

Figure 131: Revenue contribution (in Rsm) from different business divisions of PGEL



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 132: AC business to contribute a major portion to PGEL's revenue

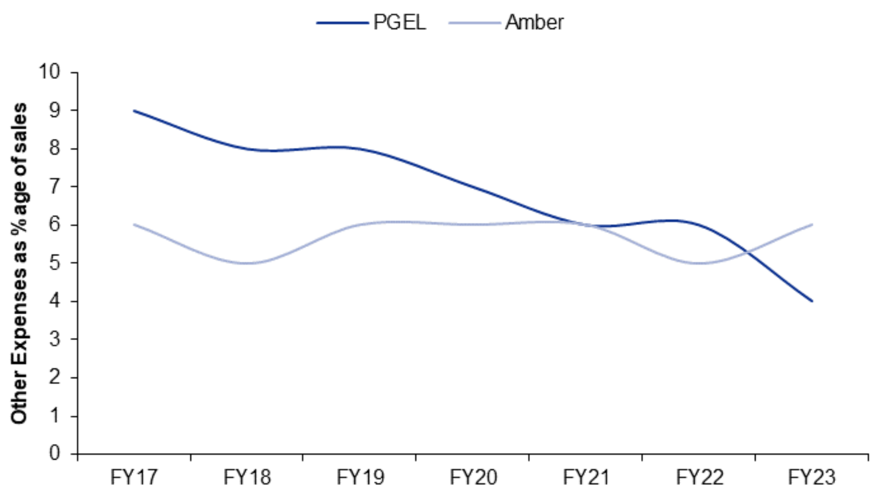


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Margin expansion with cost leadership to lead the way

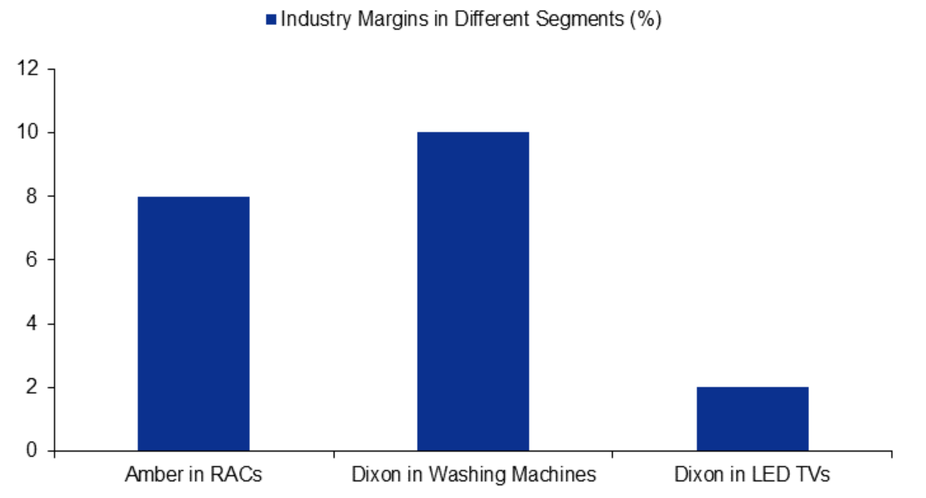
PGEL is a company which focuses a lot on cost effectiveness. In an industry where the operating margin is relatively low (around 8%-10%), the lowest-cost producers are the ones who will survive in the long run. PGEL fits the bill perfectly. Its other expenses, as a percentage of sales, have been declining year-on-year, compared to its closest peer Amber Enterprises. PGEL has given guidance that it will remain highly focused on cost leadership and hence, this trend is expected to continue.

Figure 133: Other expenses, as a percentage of sales, have been declining for PGEL



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 134: We expect PGEL to achieve a slight premium in its EBITDA margin (around 8%) due to its cost leadership compared to peers

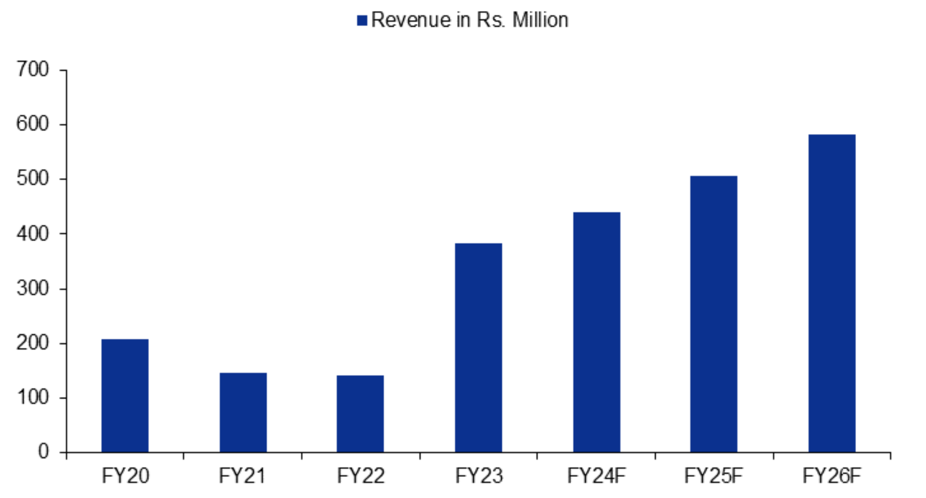


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Air-coolers: Beginning of electronics manufacturing for PGEL ›

To reduce its growing reliance on plastic mouldings, PGEL announced in FY17 that it will start offering ODM solutions. PGEL's debut product, an air-cooler, got a warm response from top national brands, which encouraged the company to launch further products in this category. Air-coolers are one of the relatively slow-growing segments compared to RACs and washing machines. Although the demand in this segment was hit due to the Covid-19 pandemic, we expect a 16% CAGR over FY24F-26F.

Figure 135: Revenue contribution from air-coolers to PGEL's top-line



SOURCE: INCRED RESEARCH, COMPANY REPORTS

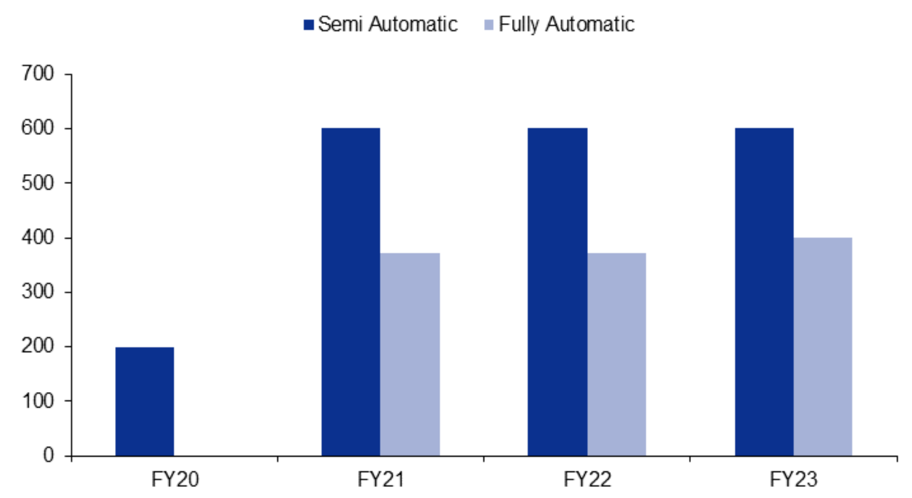
Washing machine business expansion is on the cards ›

PGEL is the second-largest player in India as far as washing machine manufacturing is concerned. At first, PGEL mostly produced plastic parts for washing machines (WMs). But under its new ODM business strategy, the company introduced its first washing machine in FY18 and its second successful model in FY19. For its semi-automatic washing machine platforms, it has enjoyed positive feedback over the past two years. In FY20, PGEL made an investment in a completely automatic washing machine platform to enhance its product line.

- At its Roorkee facility, which has a total capacity of 900,000 units (semi-automatic and fully automatic top-load washing machines), it has established significant capacity. There is currently 25,000 complete automatic washing machines and 50,000 semi-automatic washing machines capacity available per month. Semi-automatic washing machines have a domestic value addition of 80%, which represents improved access to raw materials for ODM production. In FY21–24F, PGEL plans to invest over Rs780m in washing machines.

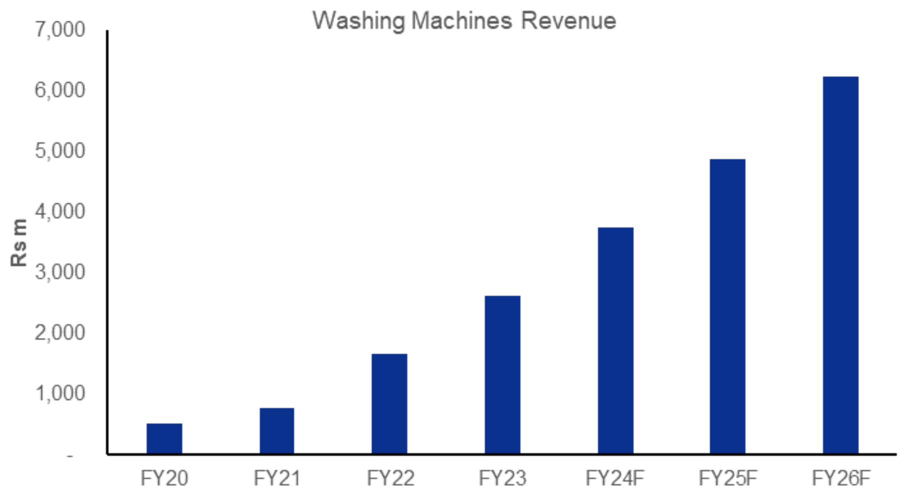
- PGEL started operations with just four washing machine clients in FY20; it now has more than 13 brands as clients. E-commerce businesses, contemporary trading partners, and national brands make up the washing machine segment's clientele. PGEL will also be expanding to the top-load washing machine category in FY24F.

Figure 136: Washing machine capacity (in thousands) of PGEL



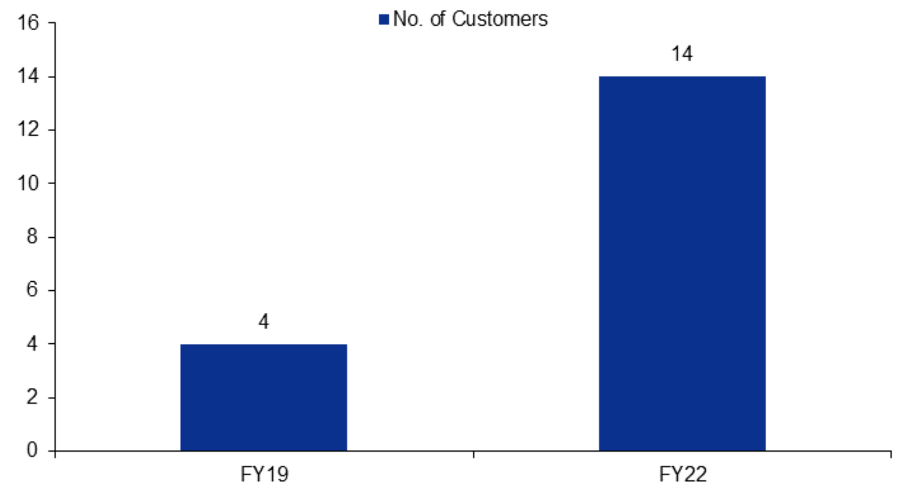
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 137: We expect a 34% revenue CAGR over FY24F-26F for washing machine division



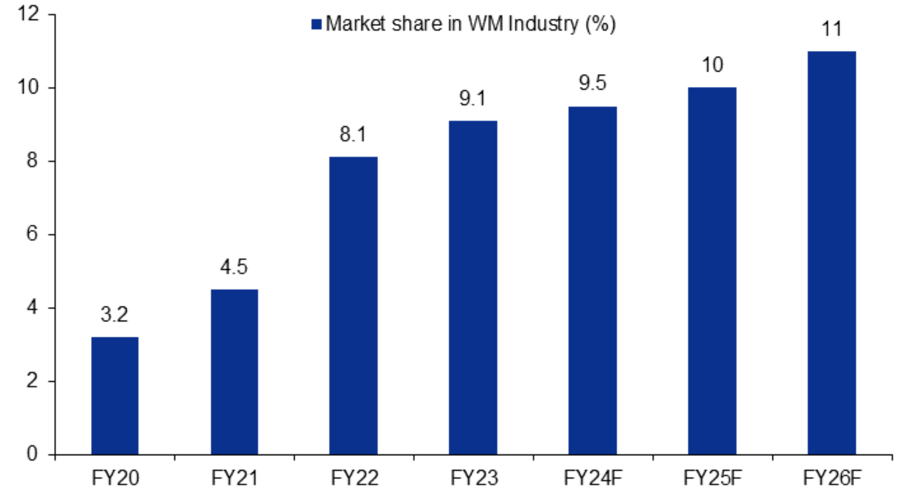
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 138: Rapid increase in the number of customers and wallet share to drive top-line growth…



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 139: …and it will also be aided by PGEL capturing market share from its competitors



SOURCE: INCRED RESEARCH, COMPANY REPORTS

All set to grab market share in air-conditioners ›

Air-conditioners are the biggest growth drivers for PGEL because of various reasons. Firstly, gas-filled air-conditioner imports are prohibited in India. As a result, brands were forced to move volume production to domestic manufacturers. PGEL has also planned Rs3.21bn capex under the PLI scheme for white goods, which is its second-highest investment among contract manufacturers. Low domestic market penetration, strategically positioned manufacturing facility, and few ODM outsourcing alternatives for RACs are some of the triggers for PGEL.

PGEL incurs significant capex in AC division

- By entering the RAC indoor unit business in FY20, PGEL made a significant advancement. A brand-new heat exchanger and assembly line were successfully commissioned.
- In FY21, through its 100% wholly-owned subsidiary, PGEL purchased a 10-acre plot close to Supa, Ahmednagar, for the purpose of constructing an integrated air-conditioning unit with capability for the first phase of manufacturing plastic-moulded components, heat-exchanger lines, system copper tubing, crossflow fans, sheet metal components, and powder-coating treatment.

- PGEL is also constructing a fully backward integrated AC manufacturing plant in Rajasthan. The total likely capex in the AC segment will be close to Rs2-2.5 bn in the coming years.
- **At present, PGEL manufactures heat exchangers, copper tubing and plastic components. It plans to start manufacturing sheet metal components, cross flow fans and control assemblies for IDU or ODU in one or two years.**

PGEL has hired a strong team for RAC, its strongest division

Mr. Naresh Kukreja will be heading PGEL's RAC business. He has more than 18 years of experience in this industry.

Figure 140: PGEL's RAC team has quality as well as experience

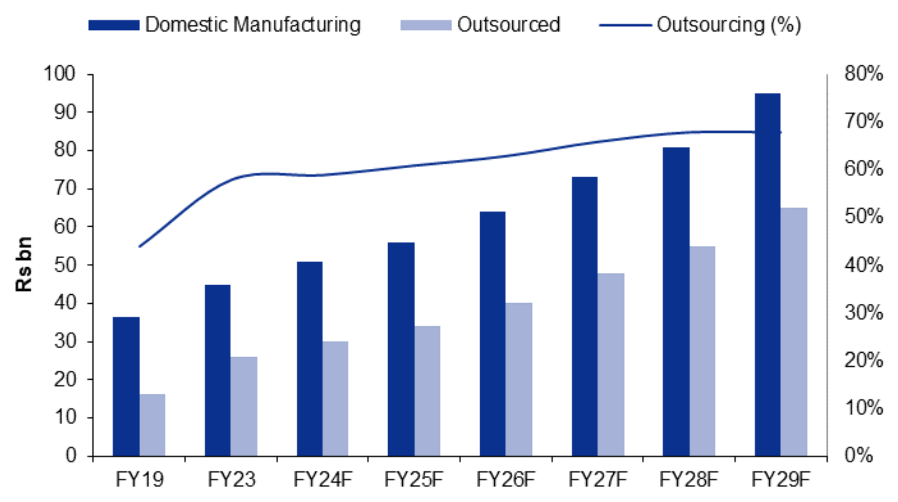
S. No	Current Profile in PGEL	Previous Organisation
1	Head of RAC Operations	Ex -VP Ops LEEL
2	Head of Production	Ex-Haier
3	Head of Moulding Ex-Kohler, Tata	Ex-Kohler, Tata
4	Head of ODU Assy	Ex-Amber
5	Head of IDU Assy	Ex-Haier
6	Head of Sheet Metal	Ex-Amber
7	Head of Paint Shop	Ex-LEEL
8	Head of Stores	Ex-Amber
9	Head of Quality	Ex-Onida
10	Head of Maintenance	Ex-LG

SOURCE: INCRED RESEARCH, COMPANY REPORTS

PLI scheme is a boon for EMS companies

Brands are more dependent on outsourcing than ODMs and vendors, as evidenced by the fact that their incentive and capex are quite small. Brands should keep sourcing central unit and parts from domestic contract manufacturers. To increase their volume share, we believe contract manufacturers will pass on the incentives to brands and customers. Contract manufacturers who have a lower base revenue, ready capacity, solid client relationships, and strategically located plants would benefit the most from this. In this regard, PGEL has applied for the PLI scheme through PG Technoplast, a wholly-owned subsidiary. The company has applied for the PLI scheme of white goods components to manufacture sheet-metal components, plastic-moulded components, heat exchangers, cross-flow fans, display panels, and PCBs. The total capex committed is Rs3.21bn over FY22-26F and the total incentive PGEL would get is ~Rs 1.98bn over the next five years (FY23-27F).

Figure 141: As the industry matures, a significant percentage of domestic manufacturing will be outsourced; we expect this ratio to be at 60% by FY29F



SOURCE: INCRED RESEARCH, COMPANY REPORTS

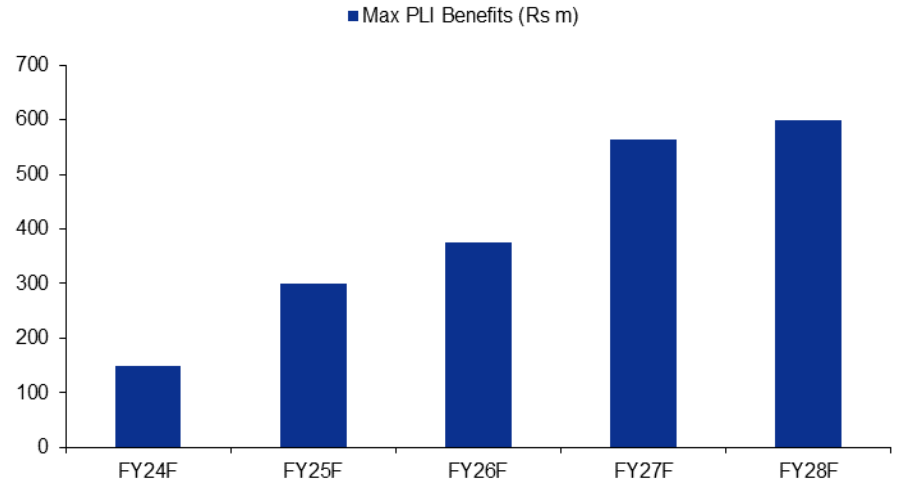
Figure 142: For players applying under the PLI scheme, there will be value chain migration to India

No. of Applicant		Control Assemblies	Motors	Cross-Flow Fans	Heat Exchangers	Sheet Metal	Plastic Moulding	LCD/LED panels
26	ALL	17	13	10	14	15	13	1
7	Brand	3	2	3	7	6	5	0
4	ODM/vendor	4	4	3	3	4	4	0
11	Vendor	6	4	0	1	2	1	0
4	ODM	4	3	4	3	3	3	1

SOURCE: INCRED RESEARCH, COMPANY REPORTS

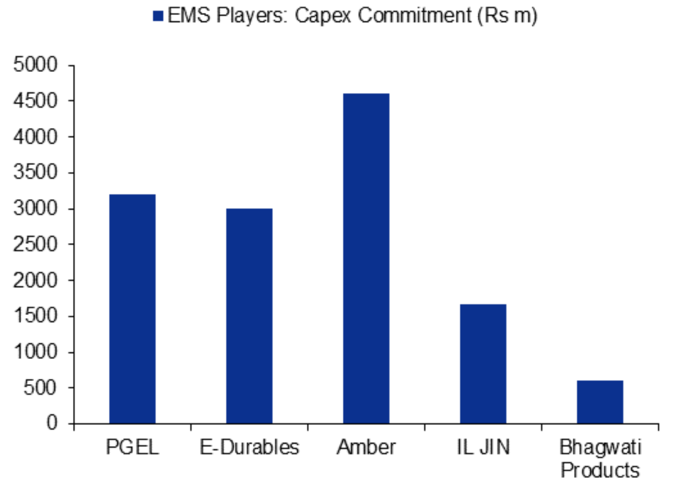
PLI scheme targets for PGEL look achievable ›

Figure 143: To get these incentives, PGEL must generate Rs22,388m as RAC revenue by FY27F/28F; currently, it garners a revenue of Rs10,807m from ACs



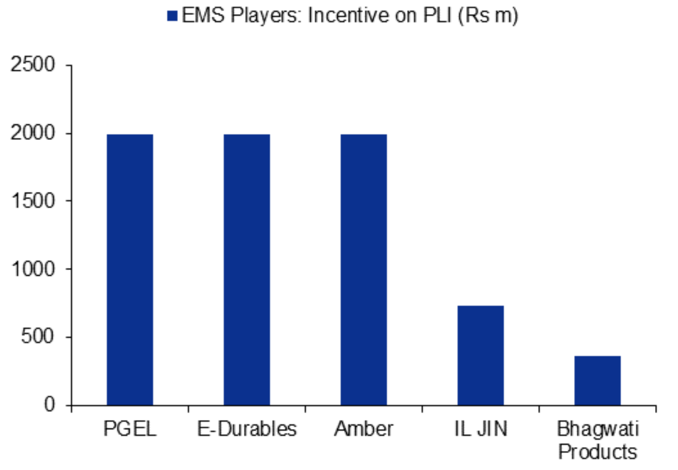
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 144: Capex commitments by different players…



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 145: …and the benefits they will derive



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Why PGEL is the player one should bet on in RAC segment ›

Over the next two-to-three years, we expect PGEL to attain a sizeable market share in ACs. Based on the advantages in manufacturing, favourable government policies like PLI, and state incentives, PGEL is likely to move up the ladder and be the second-largest player. Most of the growth is likely to come from PGTL, a fully owned subsidiary of PG Electroplast (which manufactures RACs), according to its management. On a BoM (Bill of Materials) of around Rs14,000/unit, the current value of internally-produced components comes to Rs6,000/unit. Management expects the commencement of production of PCB controllers and other items, increasing the value of internally-produced goods to roughly Rs9,000/unit. With the help of internal R&D department, suppliers, etc., it will develop PCBs. PGEL currently produces heat exchangers, plastic mouldings, and CFFs.

Figure 146: Bill of Materials for 1.5t RAC unit

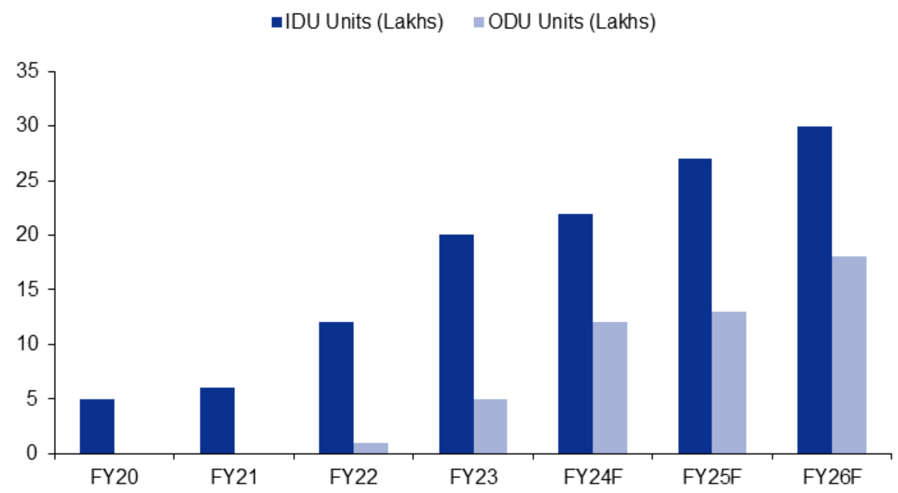
Parts	Rs/unit
Compressor	3,200
Control Unit	3,550
Motor	1,375
Cross Flow Fans (CFF)	255
Heat Exchanger (IDU-ODU)	2,850
Sheet Metal Components	1,290
Plastic Moulding	1,650
Others (Valves + Others)	150
Total	14,320
Packaging	500
Logistics+ BCD+ Margin+ Other Costs	4,080
Cost to Brands	18,900
Channel + Brand Margin	3,000
GST-28%	6,160
Total	28,060

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Increased focus on ODM manufacturing ›

Over the FY22-25F period, PGEL expects a growth in the number of clients for manufacturing RACs, which will not only result in a higher volume but also give benefits from diversification, as the company won't be overly dependent on a small number of clients for a significant portion of its revenue. With the approval of six clients, PGEL has created the ODM platform for RACs. Till last year, OEM sales made up a major portion of RAC sales. The ODM model in RACs is now receiving more attention from the company.

Figure 147: As the company matures, it will shift more of its focus to ODU manufacturing

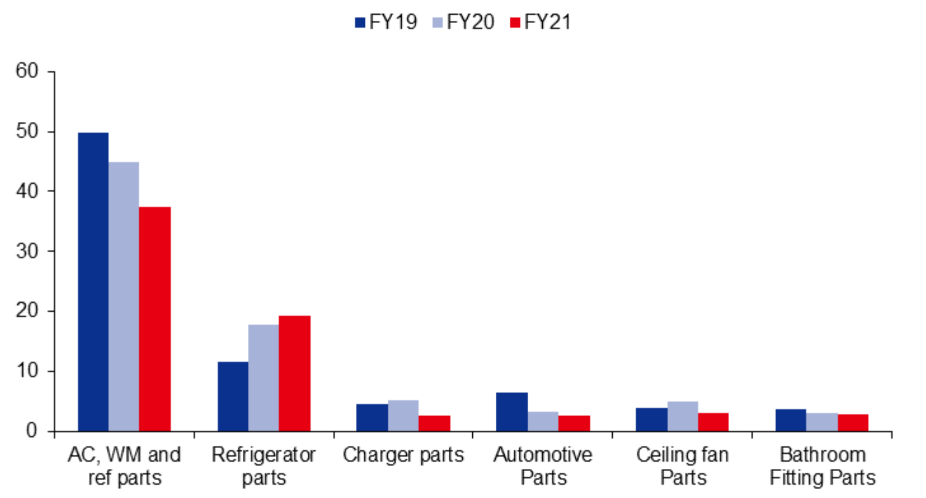


SOURCE: INCRED RESEARCH, COMPANY REPORTS

A veteran in the field of plastic moulding ›

One of India's biggest plastic moulding companies in India is PGEL. It used to get a sizable portion of its money from making plastic moulds for the consumer durables industry. Over 80% of the company's revenue in FY17 came from this business, but this percentage dropped to 61% in FY21. Approximately 65% of PGEL's revenue in FY17 came from making plastic components for electronic products alone, 11% from plastic parts for automotive components, and 4.53% from plastic parts for bathroom fixtures.

Figure 148: Plastic moulding sales mix of PGEL

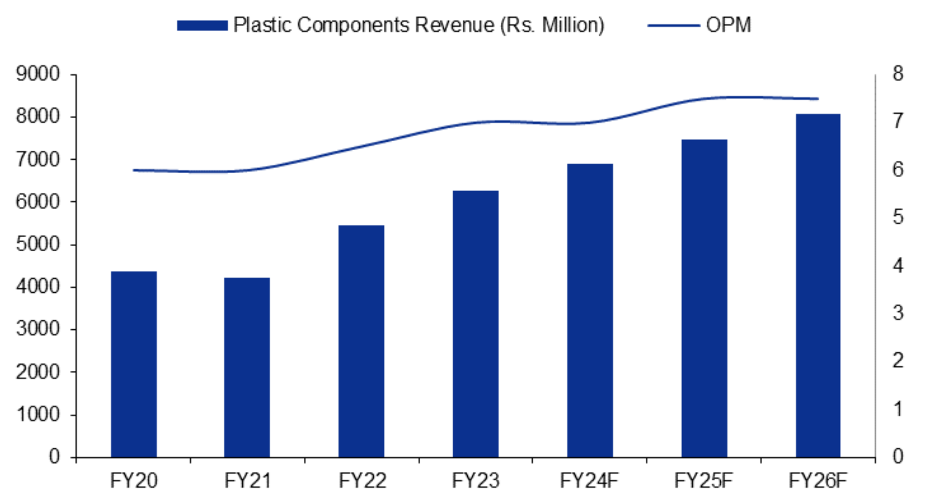


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Revenue contribution from plastic moulding business to decline ›

In FY20-21, this category was the biggest, accounting for 68%/61% of total sales. The high-margin sanitaryware market is responding well to PGEL's rapid expansion in speciality plastic moulding, even if its market share continues to decline (because of the business mix shift and strategy change). With the help of its clients, PGEL to grow by making investments in crucial technologies to produce import-substitution products for them in India. Over the course of FY21–24F, it expects plastic moulding sales to remain at the current level, but sees an improvement in operating margin due to greater execution and the focus on high-margin product categories.

Figure 149: OPM expected to improve as PGEL forays into high-margin sanitaryware components business



SOURCE: INCRED RESEARCH, COMPANY REPORTS

PGEL's ambitious capex to be the trigger for future growth ›

Figure 150: Huge capex outlay to lead future growth

	FY21	FY22	FY23
Capex (in Rs.m)	439	1,610	1,730
Product-wise capacity (in units)			
Washing machines	900,000	900,000	900,000
ACs	600,000	15,00,000	15,00,000
TVs	0	450,000	450,000

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key management personnel

Figure 151: Strong managerial profile

Name	Mr. Anurag Gupta	Mr. Vishal Gupta	Mr. Vikas Gupta
Designation	Chairman & Executive Director (Technical)	Managing Director (Finance)	Managing Director (Operations)
Qualification	• He has a Bachelor's degree in Computer Engineering and Computer Science from Bengaluru University. • He is responsible for development and implementation of procurement and monitoring of plant machinery, R&D, technical policies, quality assurance, and technological advancement.	• He secured a Bachelor of Commerce degree from Delhi University in 1993, and an MBA from the University of Pune in 1995. • He started his career with Astrotech International, one of PG promoter group's companies, in the year 1995. • He is responsible for administration, finances, compliances, and government and customer relationships, along with some focus on key operations of the company's air-conditioner business.	• He secured a Bachelor of Commerce degree from Delhi University in 1993, and an MBA from the University of Pune in 1995. • His responsibilities include administration, new business development, customer relations, managing and improving intra-organizational support services, along with some focus on the washing machine operations of the company.

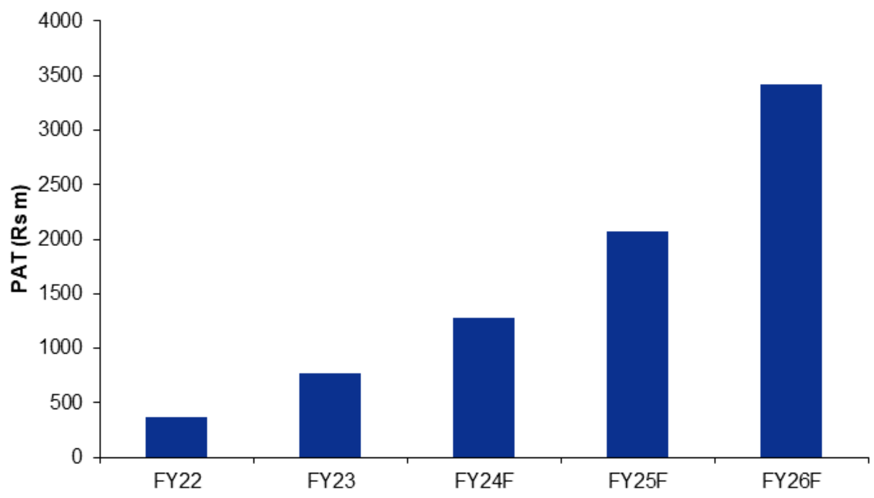
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Financials and valuation

Robust fundamentals to lead the way ›

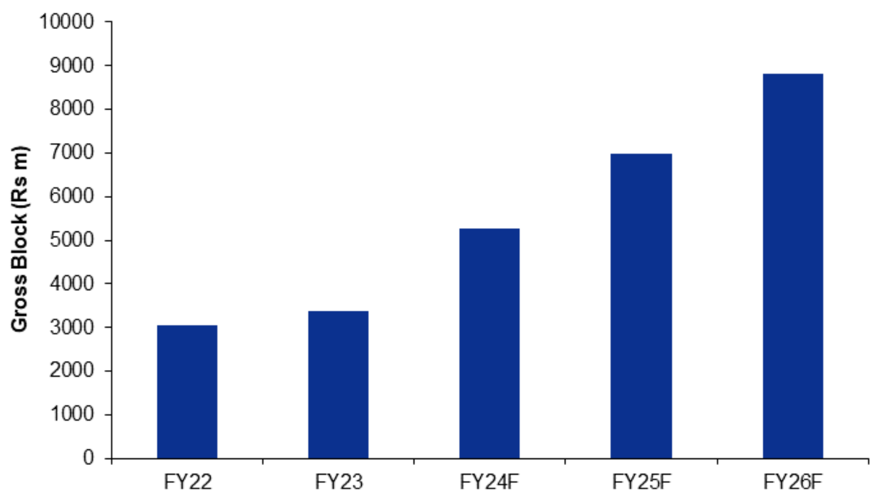
The PAT growth of PGEL for the next three years will be good, in our view, at a 40% CAGR (FY24F-26F). This will be aided by the rapid expansion in AC and WM divisions. The huge capex plan of the company will also act as a trigger for further growth.

Figure 152: PAT to register a 64% CAGR over FY24F-26F



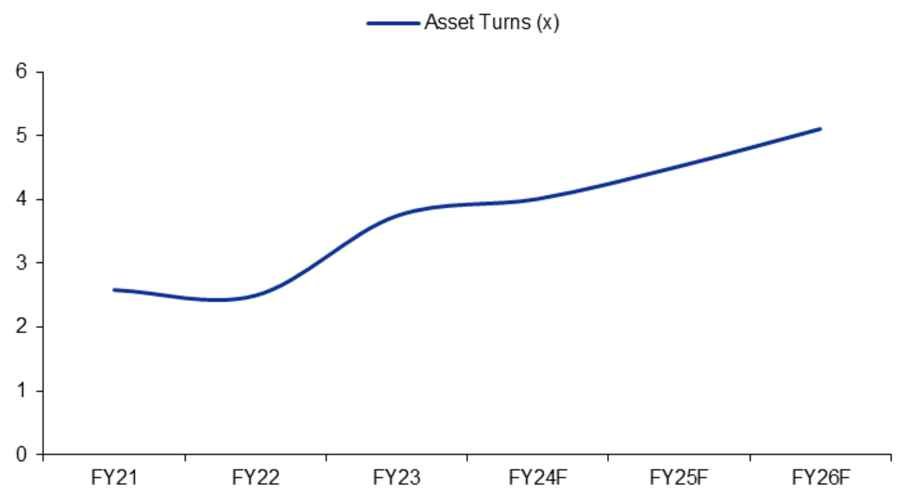
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 153: Growth in EPS to be aided by aggressive capex plan



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 154: Asset turn ratio will also improve as PGEL forays into LED TV business

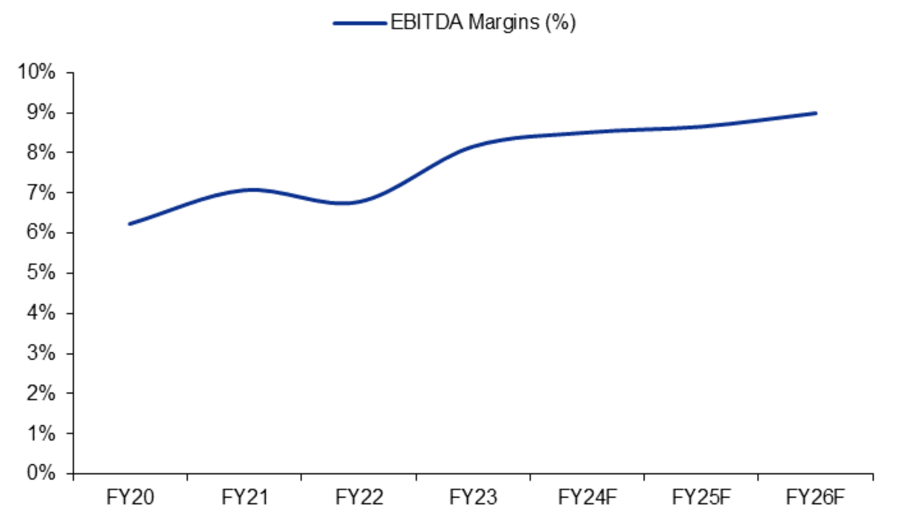


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Marginal improvement in EBITDA margin ›

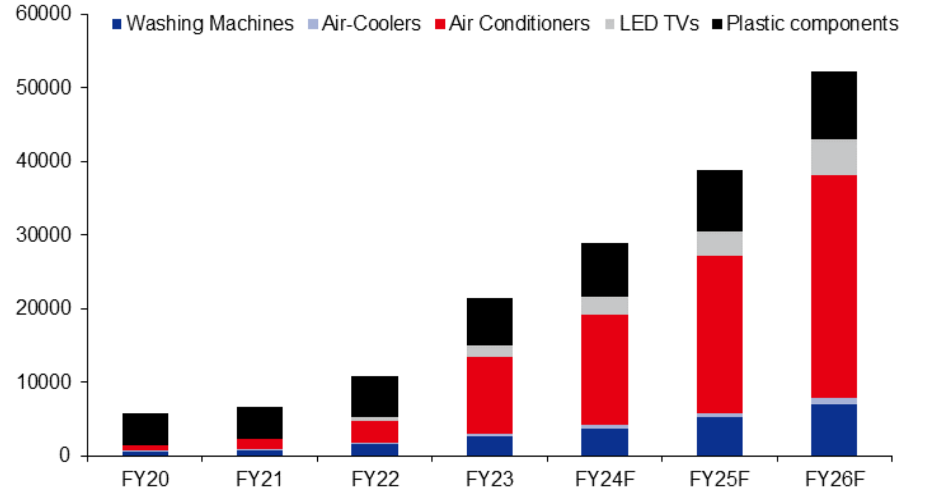
- Based on improvement in the revenue mix (going up in premium goods, high focus on ODM), increased asset sweating, and a bigger percentage of product business, the EBITDA margin is expected to increase to ~9% in FY26F from ~8% in FY23.
- Due to the following two factors, we are not factoring in a substantial margin improvement: (1) PGEL to concentrate on improving market share in air-conditioners and washing machines. (2) The addition of new industries to its portfolio will result in a lower profit margin but higher asset turnover, such as in the case of LED TV.

Figure 155: EBITDA margin to improve marginally



SOURCE: INCRED RESEARCH, COMPANY REPORTS

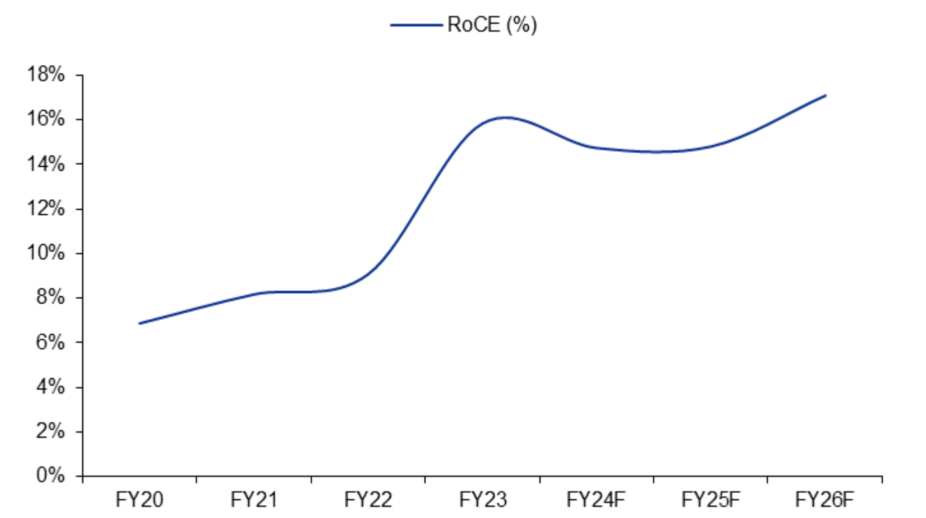
Figure 156: Revenue (Rs m) contribution growth from LED TVs will be a drag on EBITDA margin



SOURCE: INCRED RESEARCH, COMPANY REPORTS

All of this leads to improvement in RoCE ›

Figure 157: RoCE likely to show an improvement by FY26F



SOURCE: INCRED RESEARCH, COMPANY REPORTS

We have used P/E methodology to value PGEL ›

We have valued PGEL on a P/E basis as we consider it a more appropriate valuation method for commodity companies than the discounted cash flow or DCF methodologies. In our view, DCF is not a suitable valuation method because this is a very high-growth company and forecasting long-term earnings reliably is very difficult.

We value PGEL at 30x FY25F EPS ›

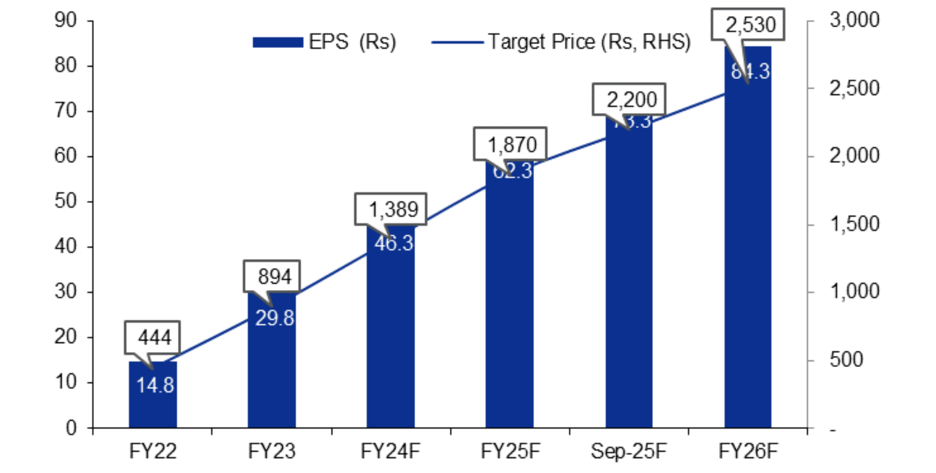
- We see PGEL expanding its top-line growth as it vies for more market share in the washing machines and AC categories. This will result in a 28% top-line CAGR over FY23-26F, resulting in an EPS of Rs93 by FY26F.
- PGEL's significant focus on cost leadership, coupled with its entry into new products businesses like TVs, will improve the asset turn and EBITDA margin. We expect the company's fixed-asset turn to touch 5.1x by FY26F, coupled with a 100bp increase in the EBITDA margin to ~9%, further improving its profitability.

Figure 158: Target price of Rs2,200

	PGEL							
CMP (Rs)	**1,773**							
Target P/E (x)	**30.0**							
Target (Sep- 2025F)	**2,200**							
Target (FY26F)	**2,530**							
Expected Return (%)	**22.6**							
Price Sensitivity Analysis								
	EPS	**Growth**	**P/E**	**Target P/E multiple (x)**				
	(Rs)	**(%)**	**(x)**	**20.0**	**25.0**	**30.0**	**35.0**	**40.0**
FY22	14.8	-45.7	121.2	296	370	444	518	592
FY23	29.8	101.2	60.2	596	745	894	1,043	1,192
FY24F	46.3	55.4	38.8	926	1,157	1,389	1,620	1,852
FY25F	62.3	34.7	28.8	1,247	1,559	1,870	2,182	2,494
Sep-2025F	73.3	17.6	24.5	1,467	1,833	2,200	2,567	2,933
FY26F	84.3	35.3	21.3	1,687	2,108	2,530	2,952	3,373

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 159: EPS to grow from Rs29.8 in FY23 to Rs84.3 in FY26F



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Scenario analysis

Figure 160: Scenario analysis

	Bull Case	Base Case	Bear Case
Revenue CAGR	31%	26%	6%
FY25F EBITDA Margin	9.5%	8.5%	6.5%
Sep-25F EPS (Rs)	96.3	73.3	30.5
Target P/E (x)	33.0	30.0	27.0
Target Price	3,178	2,200	824
Upside	77.2%	22.6%	-54.1%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Base Case: In this scenario, we expect a 26% revenue CAGR with the average EBITDA margin at 8.5% during FY23-26F, which translates into EBITDA and PAT CAGR of 28% and 41%, respectively. Assigning a 30x P/E multiple to its Sep 2025F EPS, we arrive at a target price of Rs2,200.

Figure 161: PAT CAGR of 41% in a base-case scenario

Base-Case Scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	CAGR (%)
Total Sales	6,394	7,032	10,977	21,599	28,078	35,319	42,762	26%
Growth (YoY, %)		10.0%	56.1%	96.8%	30.0%	25.8%	21.1%	
EBITDA	399	498	751	1,760	2,386	3,002	3,709	28%
Growth (YoY, %)		24.7%	51.0%	134.3%	35.6%	25.8%	23.6%	
EBITDA Margin (%)	6.2%	7.1%	6.8%	8.2%	8.5%	8.5%	8.7%	
PAT	26	116	381	775	1,204	1,622	2,193	41%
Growth (YoY, %)		344.0%	227.7%	103.6%	55.5%	34.7%	35.2%	
PAT Margin (%)	0.4%	1.7%	3.5%	3.6%	4.3%	4.6%	5.1%	
EPS (Rs)	1	4	15	30	46	62	84	41%
Growth (YoY, %)		344.0%	227.7%	103.6%	55.5%	34.7%	35.2%	

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Bull Case: In this scenario, we expect a 31% revenue CAGR with an average EBITDA margin of 9.3% during FY23-26F, which translates into EBITDA and PAT CAGR of 38%, and 55%, respectively. Assigning a 33x P/E multiple to its Sep 2025F EPS, we arrive at a target price of Rs3,178.

Figure 162: PAT CAGR of 55% in a bull-case scenario

Bull-Case Scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	CAGR (%)
Total Sales	6,394	7,032	10,977	21,599	29,158	38,135	48,078	31%
Growth (YoY, %)	-	10.0%	56.1%	96.8%	35.0%	30.8%	26.1%	
EBITDA	399	498	751	1,760	2,770	3,623	4,651	38%
Growth (YoY, %)	0%	24.7%	51.0%	134.3%	57.3%	30.8%	28.4%	
EBITDA Margin (%)	6.2%	7.1%	6.8%	8.2%	9.5%	9.5%	9.7%	
PAT	26	116	381	775	1,589	2,151	2,859	55%
Growth (YoY, %)	0%	344.0%	227.7%	103.6%	105.1%	35.4%	32.9%	
PAT Margin (%)	0.0	1.7%	3.5%	3.6%	4.3%	4.6%	5.1%	
EPS (Rs)	1	4	15	30	61	83	110	55%
Growth (YoY, %)	0%	344.0%	227.7%	103.6%	105.1%	35.4%	32.9%	

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Bear Case: In this scenario, we expect 6% revenue CAGR with an average EBITDA margin of 7% during FY23-26F, which translates into EBITDA and PAT CAGR of -2% and 0%, respectively. Assigning a 27x P/E multiple to its Sep 2025F EPS, we arrive at a target price of Rs824.

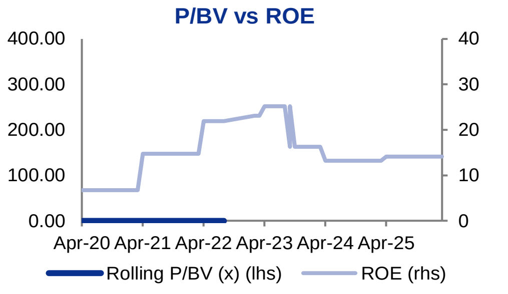
Figure 163: PAT CAGR of 0% in a bear-case scenario

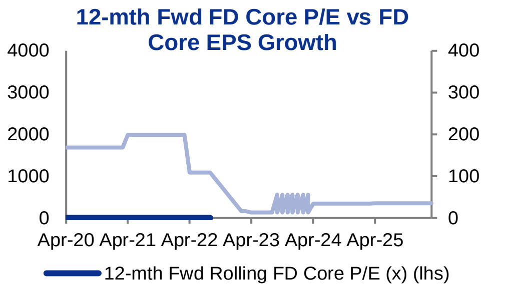
Bear-Case Scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	
Total Sales	6,394	7,032	10,977	21,599	23,759	25,133	25,403	6%
Growth (YoY, %)		10.0%	56.1%	96.8%	10.0%	5.8%	1.1%	
EBITDA	399	498	751	1,760	1,461	1,633	1,651	-2%
Growth (YoY, %)		24.7%	51.0%	134.3%	-17.0%	11.8%	1.1%	
EBITDA Margin (%)	6.2%	7.1%	6.8%	8.2%	6.2%	6.5%	6.5%	
PAT	46	124	371	775	725	806	783	0%
Growth (YoY, %)		168.7%	198.7%	108.7%	-6.4%	11.2%	-2.9%	
PAT Margin (%)	0.7%	1.8%	3.4%	3.6%	3.1%	3.2%	3.1%	
EPS (Rs)	2	5	14	30	28	31	30	0%
Growth (YoY, %)		168.7%	198.7%	108.7%	-6.4%	11.2%	-2.9%	

SOURCE: COMPANY REPORTS, INCRED RESEARCH

InCred Equities

BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	**10,977**	**21,599**	**28,078**	**35,319**	**42,762**
Gross Profit	**2,137**	**3,954**	**5,195**	**6,569**	**7,996**
Operating EBITDA	**751**	**1,760**	**2,386**	**3,002**	**3,709**
Depreciation And Amortisation	(221)	(350)	(423)	(527)	(637)
Operating EBIT	**530**	**1,411**	**1,964**	**2,476**	**3,073**
Financial Income/(Expense)	(225)	(479)	(535)	(472)	(370)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	182	44	177	159	221
Profit Before Tax (pre-EI)	**487**	**975**	**1,606**	**2,163**	**2,924**
Exceptional Items					
Pre-tax Profit	**487**	**975**	**1,606**	**2,163**	**2,924**
Taxation	(116)	(201)	(401)	(541)	(731)
Exceptional Income - post-tax					
Profit After Tax	**371**	**775**	**1,204**	**1,622**	**2,193**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**371**	**775**	**1,204**	**1,622**	**2,193**
Recurring Net Profit	371	775	1,204	1,622	2,193
Fully Diluted Recurring Net Profit	**371**	**775**	**1,204**	**1,622**	**2,193**

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	490	975	1,606	2,163	2,924
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,749)	(1,281)	116	(280)	(211)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	496	856	2,016	2,394	2,496
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(25)	(94)	(401)	(541)	(731)
Cashflow From Operations	**(788)**	**457**	**3,337**	**3,736**	**4,477**
Capex	(1,571)	(1,546)	(1,836)	(1,935)	(2,306)
Disposals Of FAs/subsidiaries	58	4			
Acq. Of Subsidiaries/investments	(97)	(188)	(47)	(43)	(45)
Other Investing Cashflow					
Cash Flow From Investing	**(1,610)**	**(1,730)**	**(1,884)**	**(1,978)**	**(2,351)**
Debt Raised/(repaid)	2,364	1,592	(763)	(629)	(1,650)
Proceeds From Issue Of Shares	441	33	5,000		
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	(242)	(505)	(585)	(542)	(450)
Cash Flow From Financing	**2,562**	**1,120**	**3,652**	**(1,171)**	**(2,100)**
Total Cash Generated	164	(152)	5,105	586	27
Free Cashflow To Equity	**(35)**	**320**	**690**	**1,128**	**477**
Free Cashflow To Firm	**(2,398)**	**(1,272)**	**1,453**	**1,757**	**2,127**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	392	396	5,392	5,978	6,005
Total Debtors	2,161	4,383	4,028	4,874	5,783
Inventories	2,860	3,534	3,762	4,568	5,334
Total Other Current Assets	668	771	1,176	1,215	1,151
Total Current Assets	**6,081**	**9,084**	**14,358**	**16,635**	**18,273**
Fixed Assets	4,452	5,785	7,250	8,674	10,361
Total Investments	91	121	168	212	257
Intangible Assets	7	12	12	12	12
Total Other Non-Current Assets	55	78	140	177	214
Total Non-current Assets	**4,605**	**5,997**	**7,571**	**9,074**	**10,844**
Short-term Debt	2,580	3,736	3,173	2,673	1,173
Current Portion of Long-Term Debt					
Total Creditors	2,692	3,900	4,223	5,489	6,741
Other Current Liabilities	201	492	562	706	855
Total Current Liabilities	**5,473**	**8,127**	**7,958**	**8,869**	**8,769**
Total Long-term Debt	1,870	2,588	2,388	2,259	2,109
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	166	342	421	530	641
Total Non-current Liabilities	**2,035**	**2,930**	**2,809**	**2,788**	**2,750**
Total Provisions	54	66	253	318	385
Total Liabilities	**7,562**	**11,122**	**11,019**	**11,975**	**11,903**
Shareholders Equity	3,123	3,959	10,872	13,680	17,416
Minority Interests					
Total Equity	**3,123**	**3,959**	**10,872**	**13,680**	**17,416**

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	56.1%	96.8%	30.0%	25.8%	21.1%
Operating EBITDA Growth	51.0%	134.3%	35.6%	25.8%	23.6%
Operating EBITDA Margin	6.8%	8.2%	8.5%	8.5%	8.7%
Net Cash Per Share (Rs)	(155.96)	(227.82)	(6.48)	40.23	104.69
BVPS (Rs)	120.04	152.18	417.86	525.82	669.39
Gross Interest Cover	2.36	2.94	3.67	5.24	8.31
Effective Tax Rate	23.9%	20.6%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	59.95	55.02	54.46	45.67	45.15
Inventory Days	78.17	66.13	58.18	52.88	51.98
Accounts Payables Days	87.23	68.18	64.78	61.66	64.20
ROIC (%)	5.4%	10.4%	12.7%	13.9%	15.1%
ROCE (%)	9.2%	15.8%	14.7%	14.1%	15.6%
Return On Average Assets	6.5%	8.8%	8.7%	8.3%	9.0%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

India

ADD *(Initiating coverage)*

Consensus ratings*: Buy 11 Hold 0 Sell 0

Current price:	Rs2,300
Target price:	Rs2,800
Previous target:	NA
Up/downside:	21.7%
InCred Research / Consensus:	23.6%
Reuters:	
Bloomberg:	KAYNES IN
Market cap:	US$1,611m
	Rs133,745m
Average daily turnover:	US$5.8m
	Rs484.8m
Current shares o/s:	58.1m
Free float:	15.35%

Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	15.7	50.1	0.0
Relative (%)	14.9	47.6	0.0

Major shareholders	% held
PROMOTERS	63.6
FII	8.0
DII	13.1

Kaynes Technology

Well-diversified high-margin EMS player

- Kaynes to provide a complete ecosystem in EMS, including OSAT - a quick turnaround to expand its consumer portfolio - offering a full-scale build service.
- Management has given a 35%-40% revenue CAGR guidance for the next few years based on a healthy pipeline and order book at Rs30bn (2.7x FY23 sales).
- Kaynes is banking on strong industry tailwinds for its entire value chain with a higher margin. Initiate coverage with a TP of Rs2,800, or 55x Sep 2025F EPS.

Wide product portfolio range

We like Kaynes Technology India (Kaynes), which is one of the leading full-service IoT solutions-based integrated electronics manufacturing companies offering a wide range of electronics systems design and manufacturing (ESDM) services. Going ahead, the company is prepared to provide a complete ecosystem in the EMS space, including OSAT.

Capex likely to peak in FY24F

Kaynes is looking at incurring a capex of Rs2.6bn on its existing facilities in Mysuru, Manesar, Bengaluru and Chennai. The company is also planning to invest Rs1.5bn in Kaynes Electronics for setting up a new plant at Chamarajanagar in Karnataka, with the first phase set to be up and running by 2QFY24F. As of FY23-end, the asset turn stood at 6.2x and the revenue line potential was Rs27bn.

Entry into OSAT business

Kaynes is making a move towards outsourcing semiconductor assembly testing (OSAT), which is in line with its current business model. The company intends to concentrate on a limited number of packages and product categories, such as power devices for major global chip manufacturers, with automotive and EV as the key vertical to enter.

Margin expansion likely to continue

Kaynes' EBITDA margin rose from 9.6% in FY18 to 14.9% in FY23, mainly led by the aerospace & defence segment. Automotive & industrials are the fastest-growing segments, with lower margins. Kaynes has given EBITDA margin guidance of 15% for FY24F by cutting raw material cost via negotiations, alternative sourcing, manufacturing re-engineering & ramping up margin on operating leverage. It enjoys a high margin vs. peers.

Outlook and valuation

Kaynes' revenue visibility is on track with an order book of Rs30bn (2.7x FY23 revenue), with a margin of ~15%. Management has given guidance of ~40% revenue CAGR over the next few years, based on a healthy pipeline of opportunities. Kaynes is banking on strong industry tailwinds, coupled with its focus on the entire ecosystem and higher margins. We initiate coverage on Kaynes with an ADD rating and a target price of Rs2,800, valuing the stock at 55x Sep 2025F EPS. Supply chain problems and macroeconomic headwinds are key downside risks.

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Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	7,062	11,261	17,261	23,100	31,736
Operating EBITDA (Rsm)	937	1,683	2,666	3,640	5,025
Net Profit (Rsm)	417	952	1,865	2,449	3,470
Core EPS (Rs)	7.2	16.4	32.1	42.1	59.7
Core EPS Growth	328.3%	128.4%	95.9%	31.3%	41.7%
FD Core P/E (x)	320.87	140.49	71.71	54.60	38.54
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	144.42	77.39	49.47	36.35	26.27
P/FCFE (x)	(1,672.65)	(23.81)	41.88	(751.32)	236.85
Net Gearing	75.2%	(36.5%)	(16.2%)	(10.2%)	(10.0%)
P/BV (x)	66.02	13.95	11.68	9.62	7.70
ROE	24.4%	16.4%	17.7%	19.3%	22.2%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 164: Diversified EMS player

	Kaynes (Rs11.2bn-FY23 to Rs24.5bn-FY26F)					
Key Segments	Automotive	Industrial	Railways	Medical	Aerospace and Defence	IoT,IT and others
Key Products	PCBA, BCU master/Slave	Smart Meter, Street light controller	AFTC, Interlocking	Ventilators, Endoscopy cart, Glucose meter	Airdata sensor, Thermal Imag., Mission Critical	EvalKits, Sensors, PLC & hot Gateway
Key Clients	India Japan lighting	Leading global electronic Cos	Siemens, Hitachi	Agappe, BeatO	Tonbo, Canyon	Iskraemeco
Revenue (Rs m: FY23)	4,279	3,041	1,351	676	225	676
Revenue Mix (FY23)	38%	27%	12%	6%	2%	6%
Revenue CAGR (FY18-23)	45%	22%	0%	36%	8%	23%
Revenue CAGR (FY23-26F)	30%	40%	50%	65%	45%	60%
EBITDA Margin (FY23)	23.9%	33.9%	40.6%	26.4%	56.2%	33.8%

Key Investment Themes

- Kaynes continues to focus on low-volume high-mix business, with specialized product offerings for higher margins.
- The revenue visibility is on track, with the order book at Rs30bn (2.7x FY23 revenue) and the margin at ~15%.
- The addition of new clients will support overall revenue growth. The defence segment is likely to be key growth driver for Kaynes in FY24F.
- The company has given revenue growth guidance of 35-40%, with the EBITDA margin at 15% in FY24F by reducing raw material costs through alternative sourcing and ramping up margins.
- Kaynes is banking on strong industry tailwinds, with the focus on the entire ecosystem. We initiate coverage on Kaynes with a target price of Rs2,800, valuing the stock at 55x Sep 2025F EPS.

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Well-diversified EMS player

Wide-range product portfolio

We like Kaynes Technology India (Kaynes), which is one of the leading full-service IoT solutions-based integrated electronics manufacturing companies offering a broad range of ESDM services. Going ahead, the company is prepared to provide a complete ecosystem in the EMS space, including, faster turnaround time, intricate prototypes, defect-free production, and modernized facilities to expand its consumer portfolio and offer a full-scale build service.

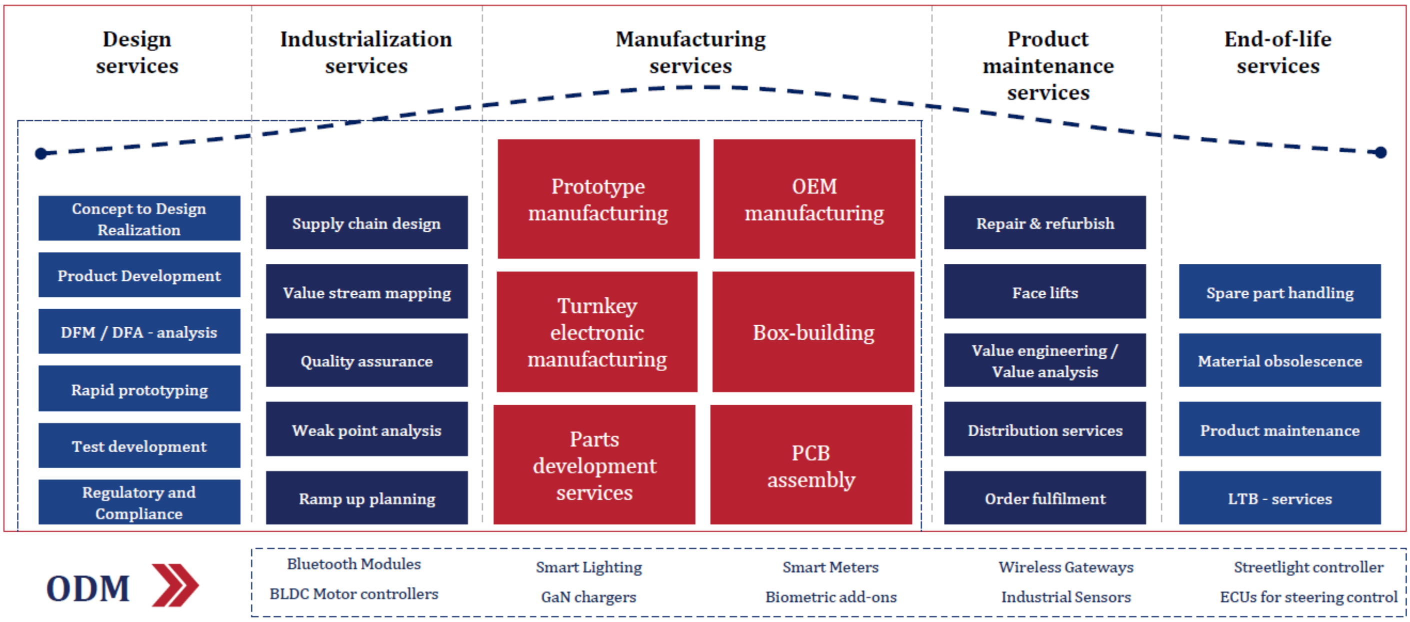
Kaynes is well diversified across sectors, thereby limiting its exposure to a single sector and maintaining a consistent industry growth cycle. The company is utilizing its internal design and R&D capabilities, continually investing in infrastructure, and implementing customized strategies for each industry to take advantage of such opportunities.

Figure 165: Automotive segment contributes 38% to Kaynes' revenue, growing at a 45% CAGR

Key Sector	Automotive	Industrial & EV	Railways	Medical	Aerospace, Outerspace & Strategic electronics	IoT / IT and others
Revenue (FY23)	4,279	3,041	1,351	676	1,014	901
Revenue Mix (FY23)	38%	27%	12%	6%	9%	8%
Gross Margin (FY23)	24%	34%	41%	30%	29%	26%
CAGR (FY18-23)	45%	22%	0%	36%	8%	23%
Products	Cluster PCBA Head/Tail/Fog/DRL PCBA Switches PCBA BCU Master / Slave	Smart Energy Meter Street light controller BMS, BMU, VCU and TGU Precision Bridge and Strain	AFTC & Interlocking Westrace High Level Assy SDTC cubicle SDMI	Ventilator, Endoscopy cart & Data Logger Glucose Meter Controller - Dental Chair Protein & chemical analyzers	Air Data Sensor Mission Critical Products Thermal Imaging Systems Communication Electronics	Eval Kits PLC & IIOT gateway Sensors Industrial Reader, HMI & Tablet

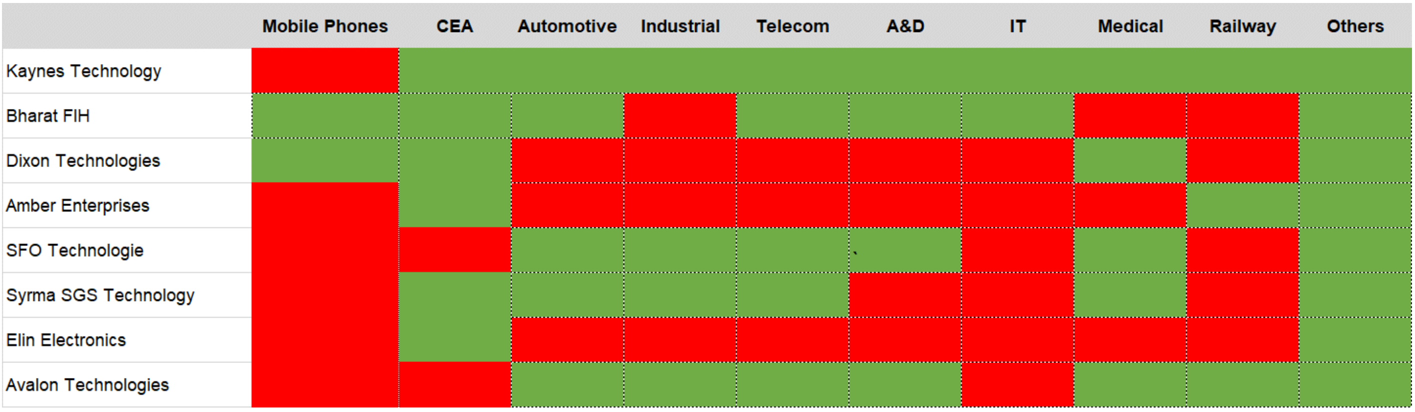
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 166: Service offerings across the value chain



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 167: Service offerings across the value chain vs. peers

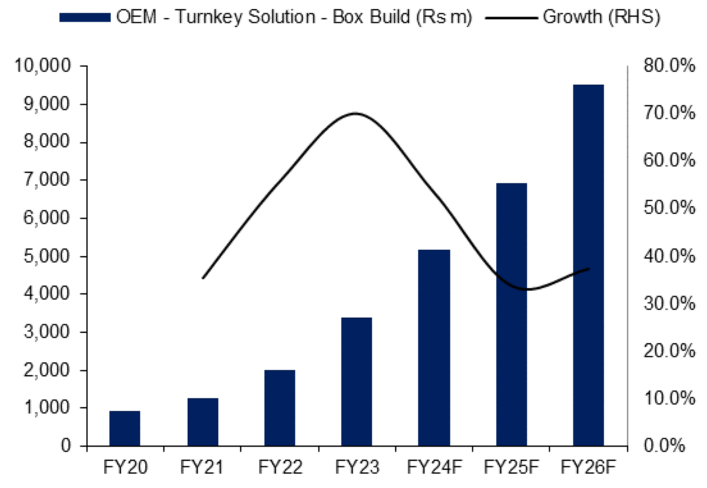


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Diverse business portfolio

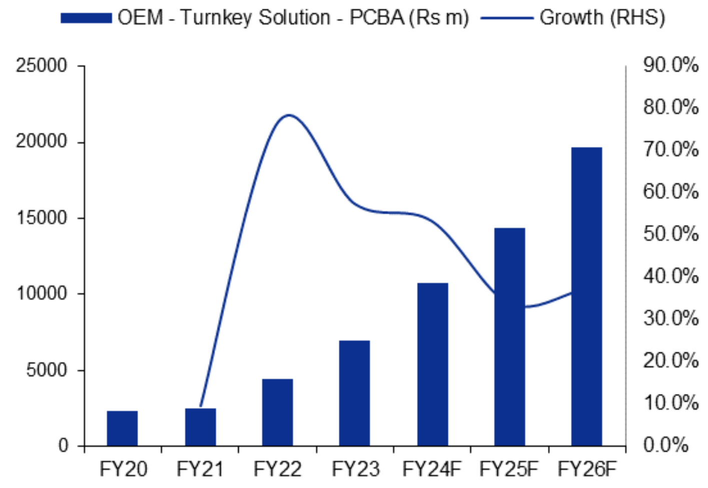
Kaynes is one of the early entrants in the EMS space to offer OEM design-led services in India. Its business segments include 1) OEM turnkey solutions - box build, 2) OEM turnkey solutions - PCBA, 3) ODM solutions, 4) product engineering and IoT solutions. Kaynes offers turnkey solutions for smart street lighting, BLDC (brushless DC) technology, and product engineering and IoT solutions, which include conceptual design & product engineering in the industrial & consumer segments.

Figure 168: Box build contributes 30% to overall sales



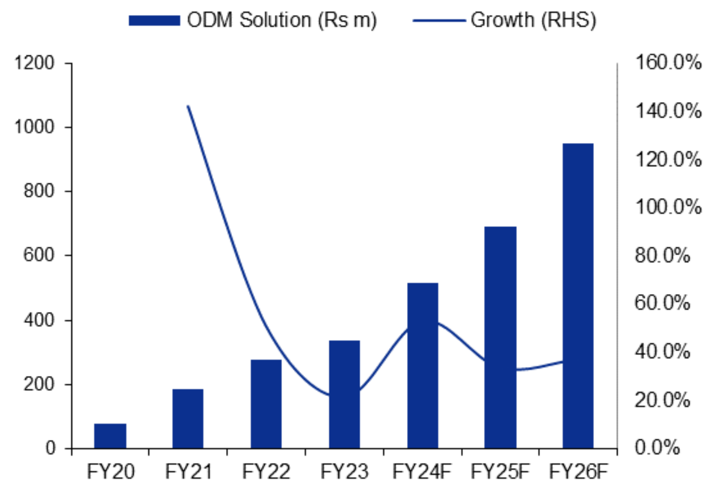
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 169: PCBA is the largest segment, accounting for 60% of total sales



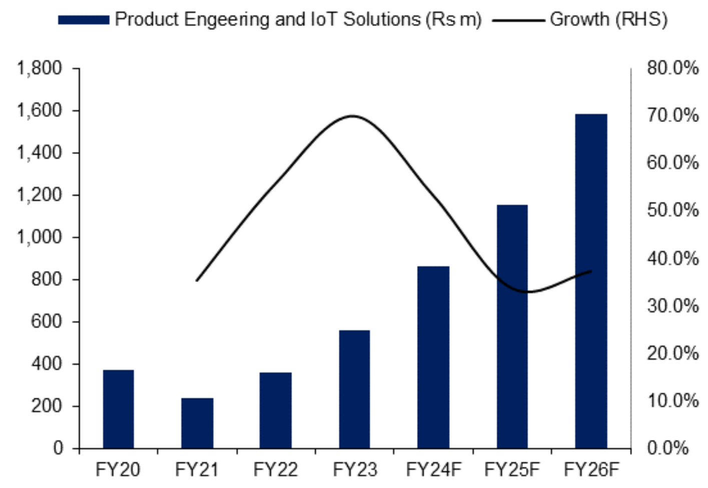
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 170: ODM solutions contribute 3% to sales



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 171: Product engineering solutions contribute 5% to sales



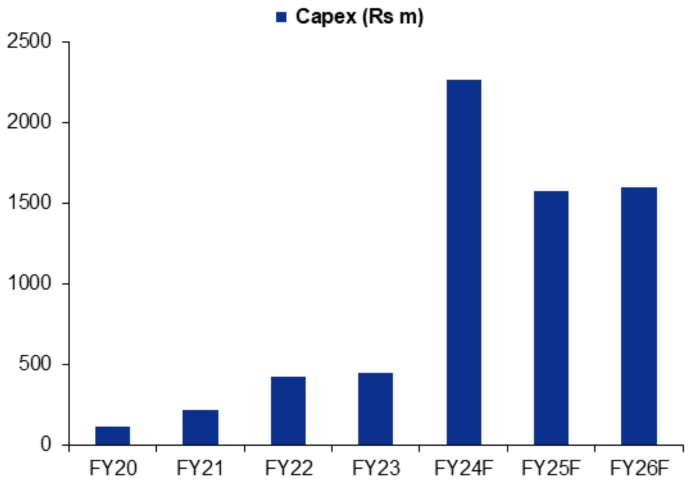
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Through its subsidiary Kemsys, Kaynes offers canvas-to-cloud Industrial Internet of Things (IIoT) solutions. The value proposition is to help original equipment manufacturers or OEMs to convert their legacy goods into smart systems by combining a variety of connectivity, software, microprocessor, and sensor technologies. Kaynes' USP is its in-house IoT IPs and tools, which speed up time-to-market and de-risk the product development lifecycle of customers. Currently, the company has a specialized facility with a team of 49 skilled engineers and employees under Kemsys, a subsidiary. It offers a range of cloud platform-based services and solutions, including ODM product design, IoT data and analytics platforms, and vertical IoT solutions. The company also has a portfolio of hardware and software accelerators. Overall, the execution timeline is 18 months across sectors, with the automotive sector enjoying a short conversion cycle of six-to-nine months while for the aerospace sector its 24 months, for the industrial sector its 12 months, and for the railway sector it is 18-24 months.

Capacity expansion to continue

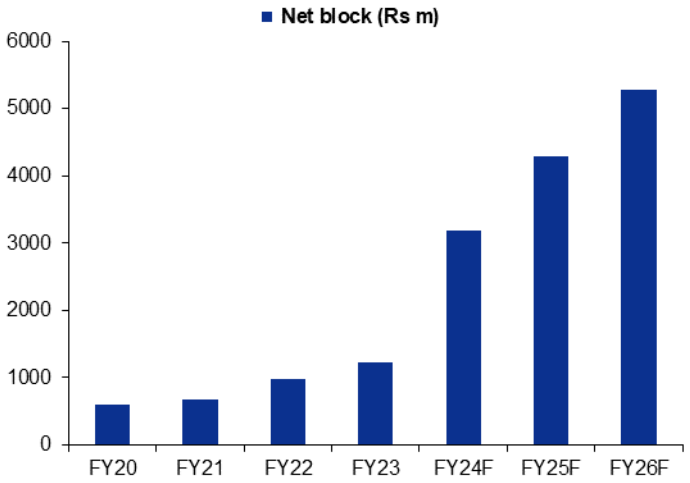
Kaynes is looking to incur a capex of Rs2.6bn on its existing facilities in Mysuru, Manesar, Bengaluru and Chennai, and it has got 120,000 sq. ft. of built-up space in Manesar that should be up and running in the next few quarters. It is also planning to invest Rs1.5bn in Kaynes Electronics Manufacturing Pvt Ltd. for setting up a new plant at Chamarajanagar in Karnataka, with the first phase set to be up and running by 2QFY24F. India is making great strides to become a global centre for e-system design and production, and Kaynes is well-placed to capitalize on this opportunity. As of FY23-end, the asset turn ratio stood at 6.2x, at a revenue of Rs11.3bn with revenue potential of Rs27bn. The building in Manesar is being constructed, with the first phase almost complete. For the PCBA business, it has received approval from the government.

Figure 172: Major capex planned in FY24F with IPO funds



SOURCES: COMPANY REPORTS, INCRED RESEARCH

Figure 173: Capex likely to normalize in FY25F



SOURCES: COMPANY REPORTS, INCRED RESEARCH

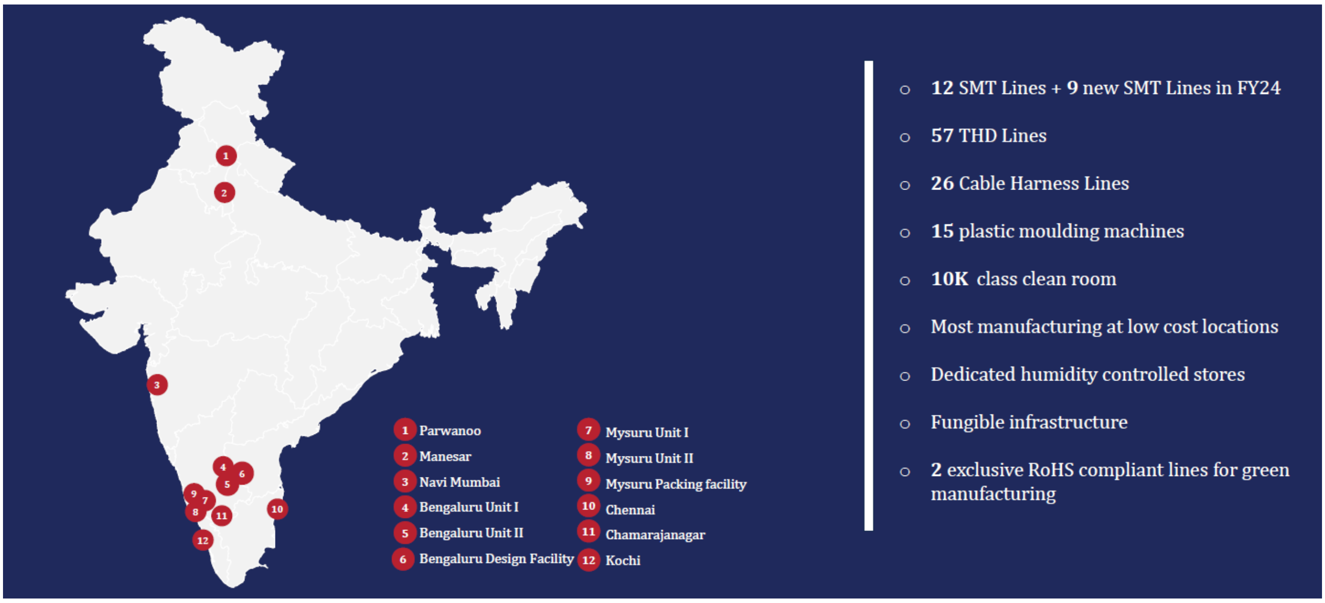
Foray into OSAT business

Kaynes is making a move towards outsourcing semiconductor assembly testing (OSAT), which is in line with its current business model. The company intends to concentrate on a limited number of packages and product categories, such as power devices for major global chip manufacturers, with automotive and electric vehicle (EV) as a key vertical to enter. Additionally, Kaynes is looking to provide more comprehensive offerings in this nascent sector, which is supported by government initiatives, and is likely to be one of the first players to enter this market.

The total invest outlay is expected to be Rs37.5bn, of which Rs22.5bn would be the subsidy provided by the Karnataka government, with the remaining to be invested by Kaynes. The company has given guidance of investing Rs10bn from its internal accruals. The land acquisition is likely to be completed by the end of Sep 2023F, and a trial line would commence operations within the next six months.

Kaynes has eight manufacturing facilities in India spread across Karnataka, Haryana, Himachal Pradesh, Tamil Nadu, and Uttarakhand. As of 1QFY24-end, the company serves 350 customers in 26 countries globally and across multiple industry verticals such as automotive, aerospace and defence, industrial, railways, medical and IT/ITES. As of Jun 2022-end, the company works with over 871 vendors and sources materials from Indian and various regions including North America, Europe, and Singapore. As of Jun 2023-end, the company's R&D team comprised 75 people.

Figure 174: Manufacturing presence



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Most certified ESDM company

Kaynes is ISO 9001/14001/45001 BVCI certified company and its operations comply with global standards. The company's facilities have 10 global accreditations, making it the most certified ESDM company in India. Moreover, it is the first company in the ESDM space to be National Aerospace and Defence Contractors Accreditation Program (NADCAP) accredited for aerospace products and is among the few Indian companies to maintain this accreditation.

Figure 175: Key global certifications

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 176: Key clients across industries

Industry	Key Customers
Industrial	Leading global mfg of electronic instruments and electromechanical devices
Railways	SIEMENS, FRAUSCHER, HITACHI
Automotive	
Medical	AGAPPE, BeatO
Aerospace+ Others[1]	Tonbo imaging, CANYON
IoT / IT and others	iskraemeco
Consumer	Leading players in BLDC Fans, Consumer Appliances

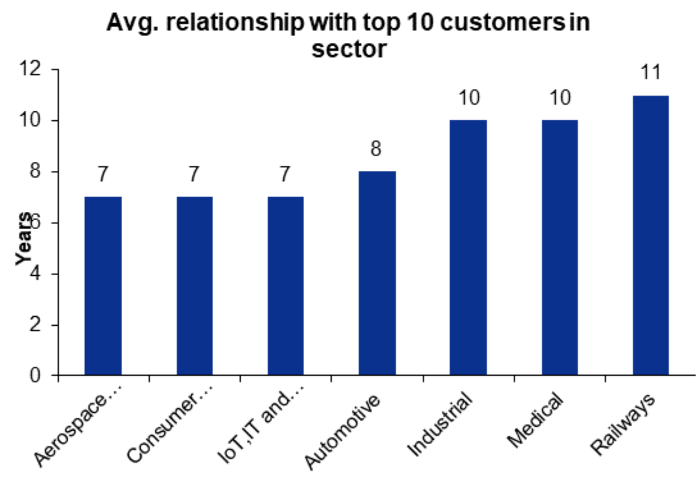
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Over the past few years, Kaynes has been focusing on building strong manufacturing systems and procedures. These systems and procedures are certified by top certification bodies around the world with high quality standards which help in onboarding new clients. Kaynes has qualified as a 'Green' partner for one customer and has been accredited for electronic assembly for spacecraft applications by the Indian Space Research Organisation or ISRO. It has also received certification of military airworthiness documents and CEMILAC (for instrumentation electronics repair) for avionics repair.

Long-standing relationship with marquee clients

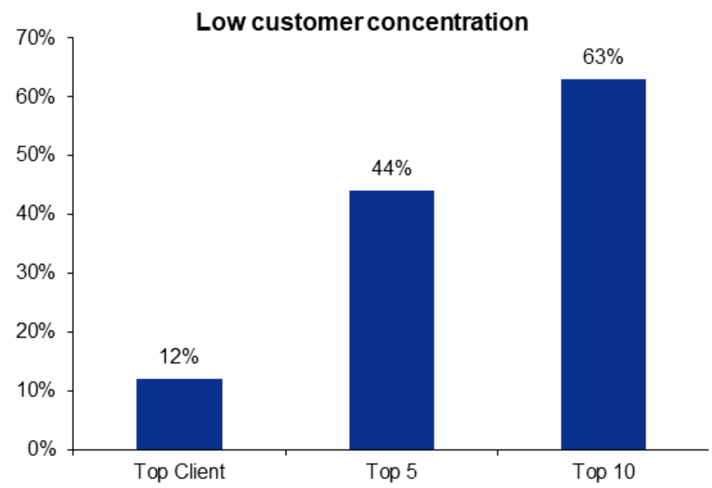
Over the past few years, Kaynes has established long-term relationships with 350 clients spread across various sectors in 26 countries. It also has a balanced mix of domestic and international customers, including certain Fortune 500 companies, MNCs and start-ups. The clients have open-book costing for orders and direct shipment to clients is likely to benefit. The company has low customer concentration with limited revenue from top clients. None of the clients contributed to over 15% of the company's revenue in the last three years.

Figure 177: Long-term relationship with clients



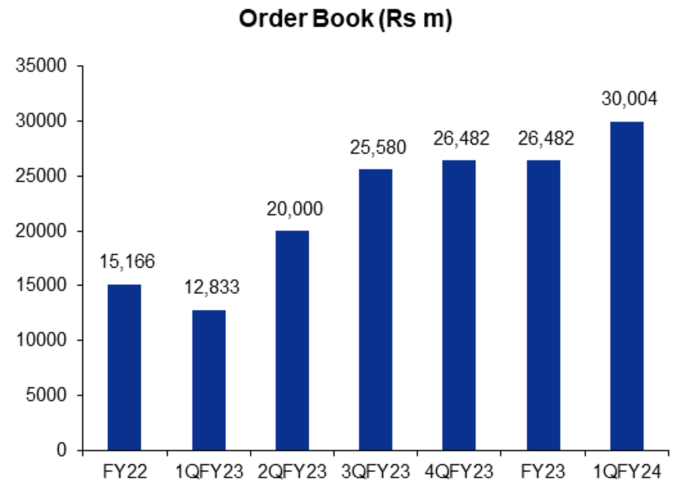
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 178: Top 10 clients contribute 63% to sales



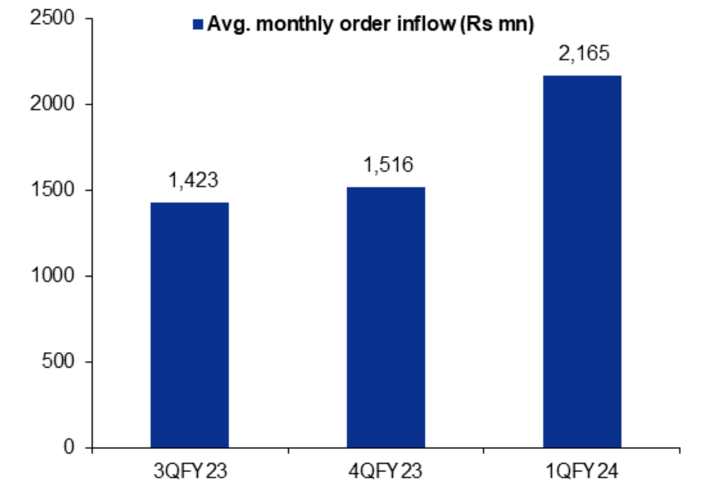
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 179: Order book worth Rs30bn or 2.7x FY23 sales



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 180: Monthly average order inflow increased to Rs2.2bn in 1QFY24



SOURCE: INCRED RESEARCH, COMPANY REPORTS

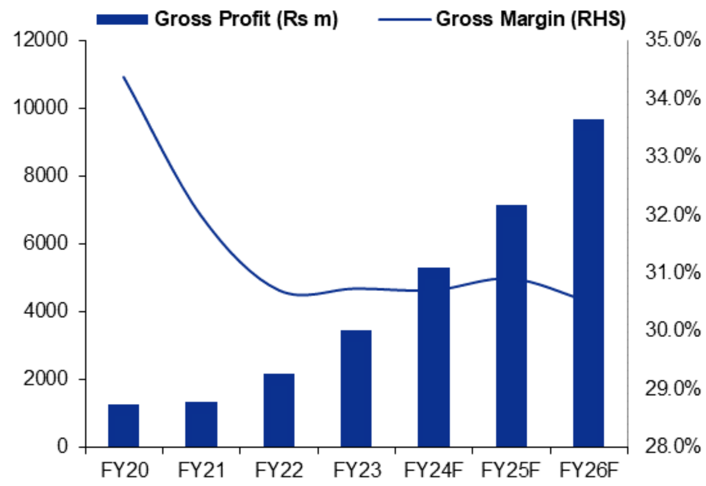
Kaynes is expanding its capacity for the railways, supported by the latter's substantial capital expenditure plan to modernize the current infrastructure as well as the addition of new lines. Currently, Kaynes is present in mainline rail and metro rail line signalling, as well as on-board equipment such as rack wiring etc. In the area of railway signalling, Kaynes has acquired a major multinational corporation client, and is relying on the government's strong commitment to refurbish the existing signalling systems in 3,000 stations that were equipped with the systems prevalent a few decades ago. Currently, Kaynes holds a market share of 80%.

Margin expansion to continue

The company's EBITDA margin improved from 9.6% in FY18 to 14.9% in FY23, mainly led by high-margin segments, like railways, aerospace and defence. Automotive and industrials are the fastest-growing segments, with lower margins and dependent on volume. The company has given EBITDA margin guidance of ~15% for FY24F by reducing raw material cost through negotiations, alternative sourcing, manufacturing re-engineering and ramping up margins on operating leverage. In 1QFY24, its EBITDA margin increased by 123bp yoy to 13.5%.

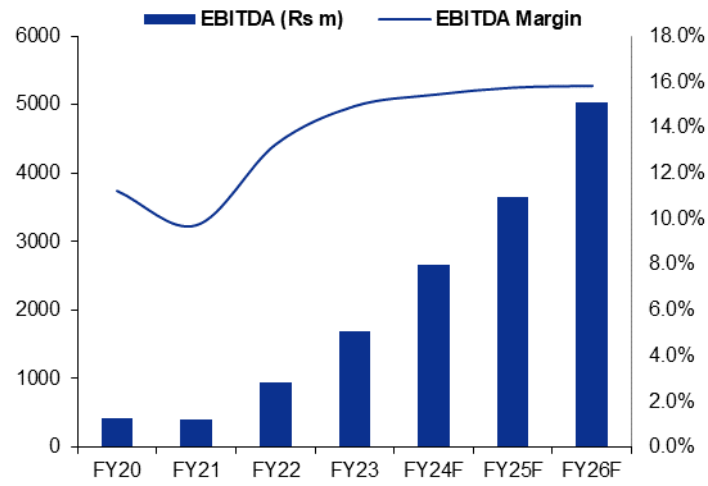
Kaynes enjoys a high margin compared to its peers as it works in high mix, low-to-medium volume, high-tech sector of electronics manufacturing. The contribution of consumer products in the business is miniscule as most of the business is driven by electronics.

Figure 181: Gross margin of 30.7% in FY23



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 182: EBITDA margin to remain above 15%



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Kaynes has a low volume and high variety in hi-tech segments like railway signalling, aerospace, defence and industrial. The higher margins are also supported by value engineering, and we expect the higher margins to sustain led by low volume production, high complexity and high entry barriers. The IC engine-based automotive sector is primarily electronics-dependent but is less complex compared to the electric vehicle or EV space because it is performing oscillatory function, with the main functions of the engine etc. being mechanical in nature. However, in the case of an EV, the entire vehicle runs on electronics. EV is an upcoming sector with strong traction from its clients, and currently the exposure to EV is ~10%-15% of the total automotive business in FY23, which is likely to increase, given strong EV demand.

Figure 183: Diversified client base

India Japan Lighting	• The company manufactures headlamps, rear combination lamps and various other small lamps for automotive applications. • It has introduced state-of-the-art clear plastic lens, multi-focal reflector headlamp with auto levelling mechanism, PES head lamps, GDHL lamps, etc. Kaynes supplies cluster PCBAs, electronics for automotive lighting, passenger entry-exit, electronic control units, switches for steering control, etc.
Tonbo Imaging	• Tonbo Imaging is an Indian technology company specializing in advanced imaging and sensor systems and its core expertise lies in the development of cutting-edge thermal imaging, night vision, and intelligent vision systems. • Major products supplied are electronics for navigation and sensors, airborne radio communication systems, thermal imaging systems and line replaceable unit for power supplies, etc.
Siemens Rail Automation	• Siemens Rail Automation is a division of Siemens Mobility, a global leader in transportation and mobility solutions. • The solutions encompass train control, signalling, electrification, and digitalization technologies that improve the safety, efficiency, and reliability of rail networks worldwide. • Major products supplied are audio frequency track circuits, short-distance track circuits, cubicles, electronics for interlocking, axel counters, and passenger information systems.

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Key management personnel

Figure 184: Top leadership

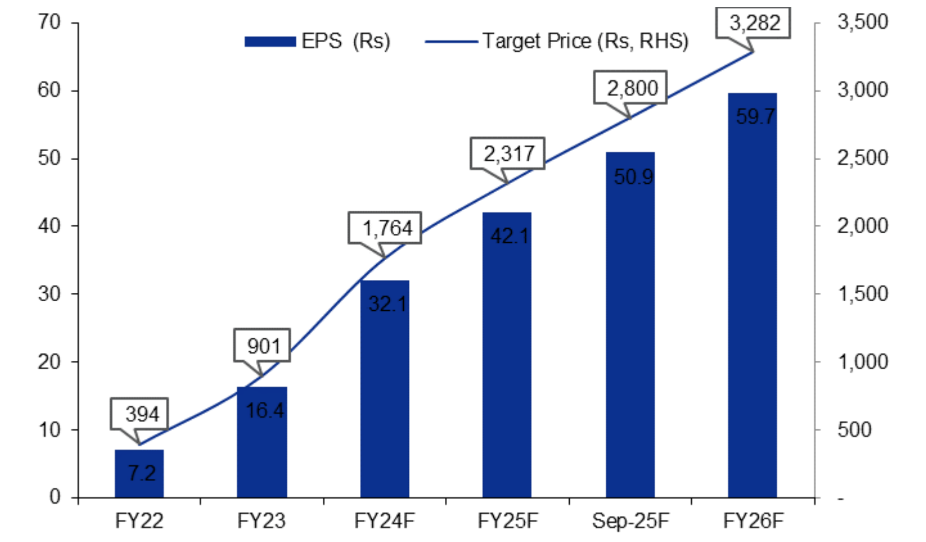
Name	Savitha Ramesh	Ramesh Kannan	Jairam P Sampath
Designation	Chairperson of the board	Managing Director	Whole-Time Director & CFO
Qualification	• She holds a Bachelor's degree in Commerce from the University of Madras. • She has approx. 25 years of experience in the electronics manufacturing services industry. • She is responsible for the overall implementation of the process and controls across the company.	• He holds a bachelor's degree in electrical engineering from National Institute of Engineering, Mysuru. • He has 33 years of experience in the electronics manufacturing services industry.	• He holds a bachelor's degree in mechanical engineering from the Indian Institute of Technology, Madras and a post graduate diploma in management from the Indian Institute of Management, Ahmedabad. • He has over 30 years of experience in manufacturing, operations, finance and sales & marketing.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Outlook and valuation

- Kaynes continues to focus on low-volume, high-mix business with specialized product offerings for higher margins. The proportion of high value-added services has increased over the past few quarters.
- The revenue visibility is on track with the order book at Rs30bn (2.7x FY23 revenue), with a margin of ~15%. Management has given guidance of a 40% revenue CAGR over the next few years, based on healthy a pipeline of opportunities.
- The addition of new clients to support overall revenue growth. The defence segment is likely to be key growth driver for Kaynes in FY24F. The company has received approval for two production-linked incentive or PLI schemes for white goods and telecom, and it has applied for a PLI in IT products as well.
- For FY23, net working capital or NWC days reduced to 99 days from 121 days in FY20, supported by lower receivable at 69 days. RoE and RoCE expanded to 24.9% and 24.2% in FY23 from 10.5% and 14.4%, respectively, in FY20.
- Net debt declined to Rs473m in FY23 from Rs1.3bn in FY20 while the asset turn ratio increased to 6.2x in FY23 from 4x in FY20.
- Kaynes is banking on strong industry tailwinds, coupled with its focus on the entire customer value chain and higher margins. We initiate coverage on Kaynes with a target price of Rs2,800, valuing the stock at 55x Sep 2025F EPS.

Figure 185: Target price of Rs2,800 in a base-case scenario



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Scenario analysis

Figure 186: 40% revenue CAGR likely in a base-case scenario

	Bull Case	Base Case	Bear Case
Revenue CAGR	46%	41%	26%
FY25F EBITDA Margin	16.8%	15.8%	13.4%
Sep-25F EPS (Rs)	59.1	50.9	28.9
Target P/E (x)	60.0	55.0	50.0
Target Price	3,548	2,800	1,445
Upside	54.3%	21.7%	-37.2%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Base Case: In this scenario, we expect a 40% revenue CAGR with the average EBITDA margin at 15.2% in FY23-26F, which translates into EBITDA and PAT CAGR of 44% and 54%, respectively. Assigning a 55x P/E multiple to its Sep 2025F EPS, we arrive at a target price of Rs2,800.

Figure 187: PAT CAGR of 54% in a base-case scenario

Base-Case Scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	CAGR (%)
Total Sales	3,682	4,206	7,062	11,261	17,261	23,100	31,736	41%
Growth (YoY, %)		14.2%	67.9%	59.4%	53.3%	33.8%	37.4%	
EBITDA	413	409	937	1,683	2,666	3,640	5,025	44%
Growth (YoY, %)		-1.1%	129.1%	79.7%	58.4%	36.5%	38.0%	
EBITDA Margin (%)	11.2%	9.7%	13.3%	14.9%	15.4%	15.8%	15.8%	
PAT	93	97	417	952	1,865	2,449	3,470	54%
Growth (YoY, %)		4.5%	328.3%	128.4%	95.9%	31.3%	41.7%	
PAT Margin (%)	2.5	2.3%	5.9%	8.5%	10.8%	10.6%	10.9%	
EPS (Rs)	2	2	7	16	32	42	60	54%
Growth (YoY, %)		4.5%	328.3%	128.4%	95.9%	31.3%	41.7%	

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Bull Case: In this scenario, we expect a 46% revenue CAGR with the average EBITDA margin at 16% in FY23-26F, which translates into EBITDA and PAT CAGR of 52% and 62%, respectively. Assigning a 60x P/E multiple to its Sep 2025F EPS, we arrive at a target price of Rs3,548.

Figure 188: PAT CAGR of 62% in a bull-case scenario

Bull-Case Scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	CAGR (%)
Total Sales	3,682	4,206	7,062	11,261	17,824	24,745	35,233	46%
Growth (YoY, %)	-	14.2%	67.9%	59.4%	58.3%	38.8%	42.4%	
EBITDA	413	409	937	1,683	2,931	4,147	5,931	52%
Growth (YoY, %)	0%	-1.1%	129.1%	79.7%	74.2%	41.5%	43.0%	
EBITDA Margin (%)	11.2%	9.7%	13.3%	14.9%	16.4%	16.8%	16.8%	
PAT	93	97	417	952	2,028	2,806	4,068	62%
Growth (YoY, %)	0%	4.5%	328.3%	128.4%	113.0%	38.4%	45.0%	
PAT Margin (%)	2.5	2.3%	5.9%	8.5%	10.8%	10.6%	10.9%	
EPS (Rs)	2	2	7	16	35	48	70	62%
Growth (YoY, %)	0%	4.5%	328.3%	128.4%	113.0%	38.4%	45.0%	

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Bear Case: In this scenario, we expect a 26% revenue CAGR with the average EBITDA margin at 13.8% in FY23-26F, which translates into EBITDA and PAT CAGR of 23% and 25%, respectively. Assigning a 50x P/E multiple to its Sep 2025F EPS, we arrive at a target price of Rs1,445.

Figure 189: PAT CAGR of 25% in a bear-case scenario

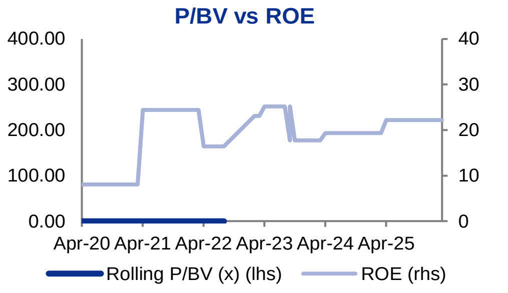
Bear-Case Scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	
Total Sales	3,682	4,206	7,062	11,261	15,572	18,504	22,646	26%
Growth (YoY, %)		14.2%	67.9%	59.4%	38.3%	18.8%	22.4%	
EBITDA	413	409	937	1,683	2,016	2,488	3,116	23%
Growth (YoY, %)		-1.1%	129.1%	79.7%	19.8%	23.4%	25.2%	
EBITDA Margin (%)	11.2%	9.7%	13.3%	14.9%	12.9%	13.4%	13.8%	
PAT	93	97	417	952	1,288	1,489	1,871	25%
Growth (YoY, %)		4.5%	328.3%	128.4%	35.3%	15.6%	25.6%	
PAT Margin (%)	2.5%	2.3%	5.9%	8.5%	8.3%	8.0%	8.3%	
EPS (Rs)	2	2	7	16	22	26	32	25%
Growth (YoY, %)		4.5%	328.3%	128.4%	35.3%	15.6%	25.6%	

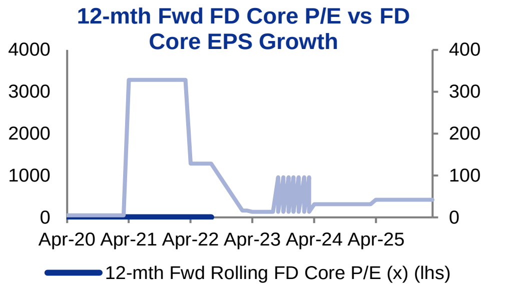
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Key downside risks

- **Supply chain risks:** Kaynes sources most of its raw materials from foreign countries including China and Vietnam. This is a significant supply chain risk as it exposes the company to various geopolitical and logistical problems. If the supply chain breaks down in future, that could be a big downside risk.
- **Macroeconomic headwinds:** Companies like Cyient DLM, Syrma and Kaynes gain a significant portion of their topline from exports. As a result, they are also susceptible to macroeconomic headwinds prevailing currently in the US and Europe. With the rate hike cycle making loans expensive, the continuation of this trend could act as an impediment to demand in the coming quarters.

BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	**7,062**	**11,261**	**17,261**	**23,100**	**31,736**
Gross Profit	**2,168**	**3,460**	**5,299**	**7,138**	**9,680**
Operating EBITDA	**937**	**1,683**	**2,666**	**3,640**	**5,025**
Depreciation And Amortisation	(132)	(187)	(302)	(472)	(607)
Operating EBIT	**805**	**1,496**	**2,364**	**3,168**	**4,418**
Financial Income/(Expense)	(256)	(349)	(272)	(269)	(264)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	41	114	269	202	238
Profit Before Tax (pre-EI)	**590**	**1,260**	**2,361**	**3,101**	**4,392**
Exceptional Items					
Pre-tax Profit	**590**	**1,260**	**2,361**	**3,101**	**4,392**
Taxation	(174)	(308)	(496)	(651)	(922)
Exceptional Income - post-tax					
Profit After Tax	**417**	**952**	**1,865**	**2,449**	**3,470**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**417**	**952**	**1,865**	**2,449**	**3,470**
Recurring Net Profit	417	952	1,865	2,449	3,470
Fully Diluted Recurring Net Profit	**417**	**952**	**1,865**	**2,449**	**3,470**

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	590	1,260	2,361	3,101	4,392
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(743)	(1,626)	(1,590)	(1,824)	(2,206)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	132	187	302	472	607
Other Operating Cashflow	9	14			
Net Interest (Paid)/Received	245	251	272	269	264
Tax Paid	(22)	(503)	(496)	(651)	(922)
Cashflow From Operations	**211**	**(416)**	**849**	**1,367**	**2,135**
Capex	(388)	(492)	(2,000)	(1,400)	(1,300)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(33)	(4,453)	320	276	306
Other Investing Cashflow	(170)	82	4,038	(407)	(563)
Cash Flow From Investing	**(592)**	**(4,864)**	**2,358**	**(1,531)**	**(1,557)**
Debt Raised/(repaid)	301	(336)	(14)	(13)	(13)
Proceeds From Issue Of Shares	228	6,600			
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	(256)	(720)	(272)	(269)	(264)
Cash Flow From Financing	**272**	**5,543**	**(285)**	**(283)**	**(277)**
Total Cash Generated	(108)	263	2,922	(447)	301
Free Cashflow To Equity	**(80)**	**(5,616)**	**3,194**	**(178)**	**565**
Free Cashflow To Firm	**(626)**	**(5,531)**	**2,935**	**(434)**	**314**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	164	4,860	3,203	2,756	3,056
Total Debtors	1,977	2,270	3,533	5,000	6,793
Inventories	2,264	4,132	5,464	6,998	8,855
Total Other Current Assets	407	1,045	1,627	2,303	3,128
Total Current Assets	**4,812**	**12,307**	**13,827**	**17,056**	**21,833**
Fixed Assets	1,110	1,405	3,304	4,387	5,362
Total Investments	15	33	33	33	33
Intangible Assets	23	23	23	23	23
Total Other Non-Current Assets	212	418	444	428	413
Total Non-current Assets	**1,361**	**1,880**	**3,804**	**4,871**	**5,831**
Short-term Debt	1,403	1,209	1,196	1,185	1,173
Current Portion of Long-Term Debt					
Total Creditors	1,641	2,229	3,431	4,833	6,553
Other Current Liabilities	568	703	1,082	1,524	2,066
Total Current Liabilities	**3,611**	**4,140**	**5,709**	**7,542**	**9,792**
Total Long-term Debt	293	150	149	147	146
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	231	231	227	222	218
Total Non-current Liabilities	**524**	**382**	**376**	**370**	**364**
Total Provisions	52	62	78	97	121
Total Liabilities	**4,187**	**4,584**	**6,163**	**8,009**	**10,276**
Shareholders Equity	2,026	9,590	11,455	13,905	17,375
Minority Interests	11	13	13	13	13
Total Equity	**2,037**	**9,603**	**11,468**	**13,918**	**17,388**

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	67.9%	59.4%	53.3%	33.8%	37.4%
Operating EBITDA Growth	129.1%	79.7%	58.4%	36.5%	38.0%
Operating EBITDA Margin	13.3%	14.9%	15.4%	15.8%	15.8%
Net Cash Per Share (Rs)	(26.34)	60.21	31.95	24.49	29.89
BVPS (Rs)	34.84	164.95	197.02	239.15	298.83
Gross Interest Cover	3.15	4.28	8.70	11.77	16.75
Effective Tax Rate	29.4%	24.5%	21.0%	21.0%	21.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	82.55	68.83	61.36	67.42	67.82
Inventory Days	145.52	149.62	146.39	142.47	131.16
Accounts Payables Days	96.76	90.52	86.35	94.48	94.21
ROIC (%)	15.9%	17.6%	17.9%	18.5%	20.7%
ROCE (%)	25.2%	20.4%	19.9%	22.6%	26.0%
Return On Average Assets	11.7%	11.9%	13.0%	13.4%	14.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

India

ADD *(Initiating coverage)*

Consensus ratings*:	Buy 11	Hold 0	Sell 0

Current price:	Rs612
Target price:	Rs700
Previous target:	NA
Up/downside:	14.4%
InCred Research / Consensus:	9.0%
Reuters:	
Bloomberg:	SYRMA IN
Market cap:	US$1,302m
	Rs108,126m
Average daily turnover:	US$6.4m
	Rs528.0m
Current shares o/s:	176.8m
Free float:	43.46%

*Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	10.4	38.0	119.6
Relative (%)	9.7	35.7	91.6

Major shareholders	% held
PROMOTERS	47.3
FII	9.3
DII	9.2

Syrma SGS Technology

Well-placed in high-mix EMS business

- Syrma is one of the fastest-growing tech-driven engineering & design entities with a focus on precision manufacturing and has many levers for growth.
- We expect the company to clock revenue and earnings CAGR of 37% and 39%, respectively, over FY23-26F, with good margin expansion & return ratios.
- We initiate coverage on the stock with an ADD rating and a target price of Rs700, valuing the stock at 42x Sep 2025F EPS.

Integrated player with high volume and a flexible product mix

Syrma SGS Technology (Syrma) is one of the fastest-growing technology-driven engineering & design companies with a focus on precision manufacturing. The company has multiple levers to grow such as 1) a healthy TAM of ~Rs1,000bn, 2) strengthening product profile and technological innovations, 3) specialized facility for emerging new-age technologies, 4) sustained investment in new infrastructure with lower operating expenses, 5) strategic acquisitions to increase scale, market share and new products, and 6) room to improve wallet share, geographic reach, and client base.

Well-placed to capture growth opportunities

With a long-standing track record in the EMS space and an experienced leadership, Syrma is well-placed for the early advantage of technological developments in the EMS space, enabling it to promptly address evolving client needs. India is likely to witness huge demand from the global market as it shifts manufacturing from China, in which Syrma has a strong forte to cater to this demand in the electronics manufacturing landscape. The rising need for electronic equipment across products, driven by the push for e-mobility, energy efficiency, connected health and 5G, we feel, presents ample opportunities for Syrma.

Blend of timely acquisitions provide synergies

Syrma has been active in the M&A space to utilize its cash in an effective manner, expand market share and widen geographical footprint. Syrma acquired SGS Tekniks in Sep 2021, which provided further headroom for growth with no overlap of clients and geographies. It acquired Perfect ID in Oct 2021 to manufacture RFID label tags and passive inlay tags. Syrma plans to acquire a 51% stake in Johari Digital, which is likely to help the company to enter the lucrative medical devices segment.

Initiate coverage with an ADD rating and target price of Rs700

Syrma has a comprehensive EMS portfolio, ranging from product design & prototyping to PCB assembly. Syrma has seen significant traction in new orders with its order book at Rs35bn, thus providing improved revenue visibility. We expect Syrma to clock revenue and earnings CAGR of 37% and 41%, respectively, over FY23-26F with expansion in margin & return ratios. We initiate coverage on Syrma with an ADD rating and a target price of Rs700, valuing the stock at 42x Sep 2025F EPS. Short-term contracts and dependence on China for raw materials are key downside risks.

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Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	10,197	20,484	28,790	39,571	53,065
Operating EBITDA (Rsm)	944	1,878	2,373	3,650	5,073
Net Profit (Rsm)	567	1,231	1,658	2,453	3,439
Core EPS (Rs)	3.2	7.0	9.4	13.9	19.5
Core EPS Growth	(13.5%)	117.3%	34.7%	47.9%	40.2%
FD Core P/E (x)	190.80	87.82	65.20	44.07	31.45
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	116.30	59.15	46.31	30.08	21.44
P/FCFE (x)	(35.78)	(12.99)	(608.64)	76.77	47.25
Net Gearing	27.0%	19.0%	10.2%	8.5%	2.8%
P/BV (x)	18.90	7.02	6.34	5.54	4.71
ROE	13.9%	11.7%	10.2%	13.4%	16.2%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 190: Integrated high-mix EMS player

	Syrma (Rs20.4bn-FY23 to Rs53bn-FY26F)				
Key Segments	**Automotive**	**Consumer**	**Healthcare**	**Industrial**	**IT & Railway**
Revenue Mix (FY23)	20%	32%	8%	31%	9%
Revenue CAGR (FY20-23)	45%	50%	-8%	25%	390%
Key Products	PCBA	RRW-ZAC	RFID	Magnetics	
Revenue Mix (FY23)	84%	0%	15%	1%	
Segment Revenue CAGR (FY23-26F)	39%	42%	48%	34%	18%

Key Investment Themes

- Syrma is one of the fastest-growing technology-driven engineering & design companies, with a focus on precision manufacturing.
- It has multiple levers to grow, led by strengthening product profile and technological innovation, specialized facility for emerging new-age technologies and sustained investment in new infrastructure with lower expenses.
- The company is looking at strategic acquisitions to increase scale, market share and new products, and has room to improve wallet share, geographic reach and client base.
- The company has seen significant traction in new orders, with its order book at Rs35bn, thus providing improved revenue visibility.
- We initiate coverage on Syrma with an ADD rating and a target price of Rs700, valuing the stock at 42x Sep 2025F EPS.

SOURCE: COMPANY REPORTS, INCRED RESEARCH

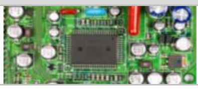
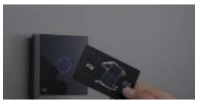
Integrated player with higher mix, flexible volume

Comprehensive EMS portfolio

We like Syrma, which is one of the fastest-growing technology-driven engineering & design companies, with a focus on precision manufacturing. The company has multiple levers to grow led by 1) a healthy TAM of ~Rs1,000bn, 2) strengthening product profile and technological innovation, 3) specialized facility for emerging new-age technologies, 4) sustained investment in new infrastructure with lower operating expenses, 5) strategic acquisitions to increase scale, market share and new products, and 6) room to improve wallet share, geographic reach and client base.

The company has a comprehensive EMS portfolio, ranging from product design & prototyping to PCB assembly, which has a 40% share in box build. The company also provides customized end-to-end solutions such as RFID tags & inlays, high-frequency magnetic components, repair, rework & auto tester development. The company caters to the needs of industrial appliances, automotive, healthcare, consumer products & information technology industries.

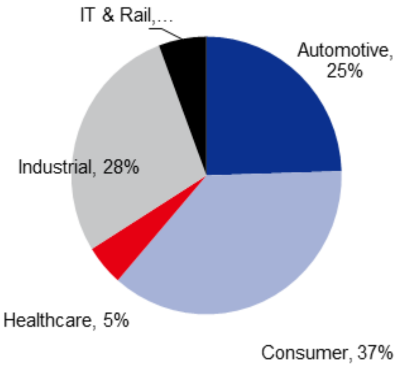
Figure 191: PCBA and box build are the main business segments of Syrma, contributing 84% to its sales

Segments	% of Sales	Products		Installed Capacity	End-User Industry	Revenue CAGR (FY15-23)
PCBA	84%	Printed circuit board assembly; box build		10,000m components; 3.6m assemblies	Automotive, medical, industrial, IT, defence and consumer products.	31%
RFID	15%	RFID tags, readers, custom software		300m tags	Auto, healthcare, public transport. Aaadhar card shipping, healthcare, manufacturing, retail and fintech.	38%
Magnetics	1%	Magnetic components, frequency transformers, chokes, coils, inductors, magnetic filters		6m coils	Automotive, industrial appliances, consumer appliances & healthcare.	-7%
Others		Dynamic random-access memory, USB flash drive		2m modules	Used in computers, laptops and data storage.	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

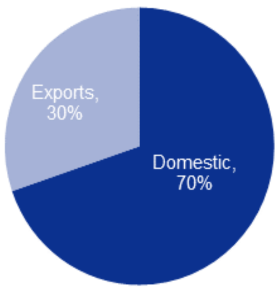
The company has a strong track record of technological innovation with leading clients. In the last few years, Syrma has become an integrated player for solution delivery to OEMs - from the first product concept stage through to volume production, concept co-creation and product realization. Syrma plays a key role in higher-mix, flexible volume product management and is present in most industry verticals. It is also one of the top PCBA manufacturers in India, and figures among the leading global manufacturers of custom RFID tags.

Figure 192: Consumer sector contributes 37% to sales in FY23



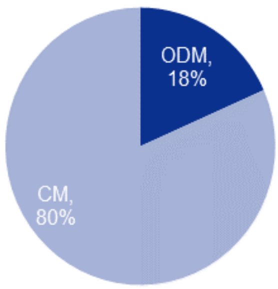
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 193: Export revenue declines to 30% in FY23



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 194: Contract manufacturing contributes 18% to sales



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Timely product launches

Over the past few years, Syrma has identified key opportunities and evolving needs proactively on a timely basis - from manufacturing high-precision coils for hard disk in 2005 and USB drives in 2008 to set-top boxes in 2008 and advent of 3G technology of GSM antennae. Subsequently, it introduced 4G technology to manufacture 4G LTE antennae in 2016. It currently manufactures modules for the 5G technology infrastructure. Syrma started catering to the automotive end-user industry with the manufacture of hall sensor PCBAs in 2007 and progressed to manufacturing vehicle tracking systems and toll management systems in 2009, beacons for vehicles in 2012 and 4W lighting system boards in 2021.

Figure 195: Display controller

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 196: Battery management system

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 197: Set-top box

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Following the opportunities in EV, it has commenced manufacturing of controllers of EV battery management systems in 2020. For consumer product industries, it started manufacturing of automatic dimmers for homes in 2010, and since then, proceeded to boiler management PCBA units in 2013, energy-efficient electronic inverters and home appliance control PCBAs in 2014, controller units for air-conditioners in 2015, and manufacturing induction cooktop components in 2016.

For the healthcare industry, it manufactured direct digital dental X-ray FGPA controllers in 2007 and progressed to manufacturing PCBAs for X-ray machines in 2014, PCBAs for smart canes for visually challenged people in 2015, augmented reality equipment for ophthalmological applications in 2018, and PCBAs for baby-case CPAP ventilators in 2020.

Figure 198: Smart meter

SOURCES INCRED RESEARCH, COMPANY REPORTS

Figure 199: Industrial cleaning and printing

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 200: Digital X-ray

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 201: Exports decline to 30%; consumer and industrial products account for 65% of sales

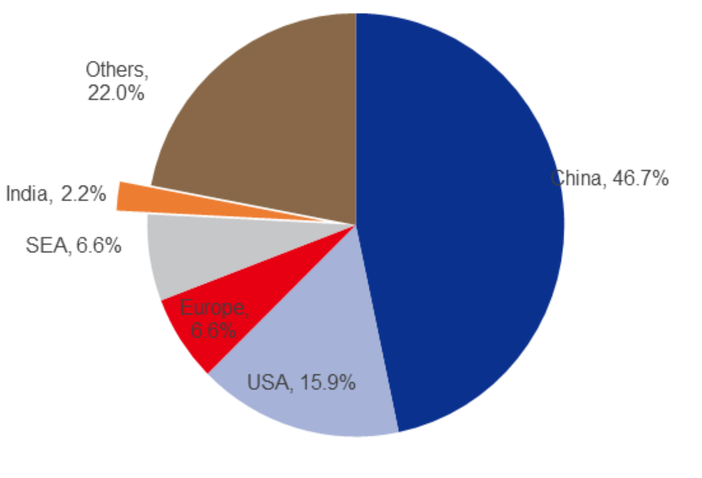
Revenue Mix	FY20	FY21	FY22	FY23
By Geography				
Domestic	57%	46%	46%	70%
Exports	43%	54%	54%	30%
By Sectors				
Automotive	20%	22%	23%	25%
Consumer	32%	37%	36%	37%
Healthcare	8%	5%	5%	5%
Industrial	31%	30%	30%	28%
IT & Rail	9%	7%	8%	6%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Strong industry tailwinds

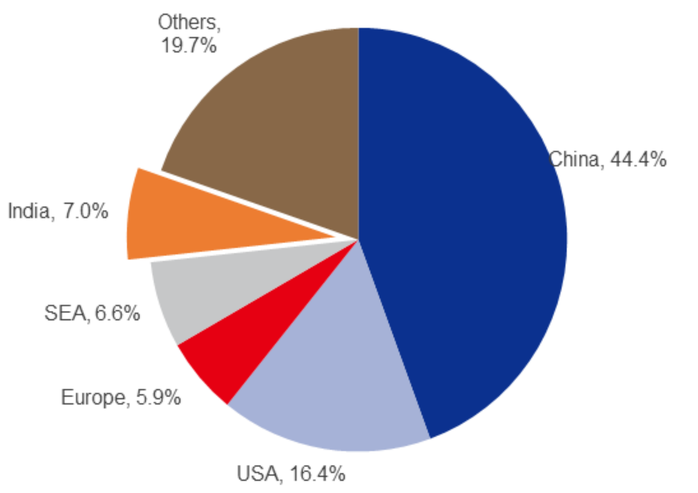
- The PCBA is the core of an electronic device, and all electronic devices derive intelligence and functionality from it. PCBA has the largest share of the total box build at ~40%. Building PCBA manufacturing capabilities is going to be key to India's aim to become the world's premier electronics manufacturing hub. Investing in PCBA is crucial for maintaining the domestic manufacturing momentum and for India's efforts to reduce its dependence on China as well as its trade deficit. Local demand for magnetics, which primarily consists of passive components, appears to be rising, mostly due to the adoption of high-end technology devices. Technological advances such as the deployment of 5G/4G/LTE networks and Internet of Things (IoT), as well as government policies and incentives, we feel, will drive the growth of overall electromechanical components market in India.

Figure 202: India's share in EMS to increase from 2.2% currently...



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 203: ...to 7% by CY26F



SOURCE: INCRED RESEARCH, COMPANY REPORTS

- Geopolitical developments, especially the China+1 strategy, have forced global companies to look for alternative manufacturing locations, especially India. With its robust manufacturing capacities, skilled labour force and improved infrastructure, India is becoming an attractive option for global companies. This shift in sourcing pattern provides new opportunities for EMS companies in India. In addition, the Indian government's focus on local manufacturing and initiatives such as the Make in India and the PLI scheme are driving the EMS industry forward. These policies are promoting domestic growth as well as foreign institutional investors or FIIs' investment in the industry, creating a conducive environment for the growth and development of EMS companies.
- The EMS industry is witnessing a transformative growth led by rapid expansion of the global electric vehicle (EV) market. According to the International Energy Agency, the number of electric cars on the roads is projected to touch 145m by 2030F. Syrma is likely to leverage this demand, with its expertise in designing and manufacturing electronic components. Additionally, increasingly favourable regulatory environments worldwide promote clean energy and reduce carbon emissions, creating a surge in the production of EVs. Consequently, opportunities are opening for EMS companies to collaborate with traditional automobile makers transitioning to EVs. Moreover, technological advancements, particularly in battery technology, are evolving the EV landscape, necessitating specialized electronic components and systems.

Well-placed to capture growth opportunities

With a long-standing track record in the EMS space and an experienced leadership, Syrma is well-placed for deriving an early advantage in technological developments in the EMS sector, enabling it to promptly address the evolving client needs. We believe Syrma is well-placed to capture industry tailwinds with its strong presence in the domestic and global markets. India is likely to witness a huge demand from the global market which plans to shift manufacturing from China, in which Syrma has a strong forte to cater to this demand in the electronics manufacturing landscape. India's favourable economic environment, government support and skills set augur well for Syrma. The rising need for electronic equipment across products, driven by the push for e-mobility, smart metering, energy efficiency, connected health and 5G, present ample opportunities for Syrma in the coming years.

Leveraging on global sourcing capabilities

Syrma has diversified its product portfolio with technology advancement over the past few years. It is leveraging on global sourcing capabilities and long-standing relationship with vendors to lower the cost of raw materials and explore alternative components with a faster turnaround. Syrma follows the concept co-creation initiative, which enables it to design products from the concept phase, preliminary prototypes and trials. Syrma collaborates with the engineering team of clients to understand their overall requirements, and once the design and quality aspects are approved, it helps them to seamlessly transition to volume manufacturing at its high-speed fully integrated manufacturing facilities.

Integration of advanced electronics

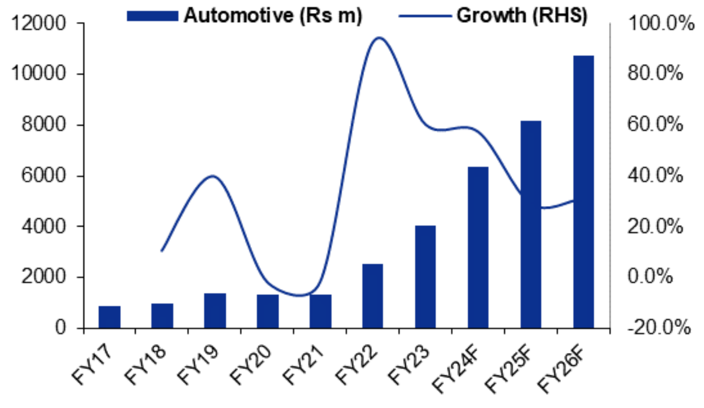
The current trend of incorporating electronics into a wide variety of products, such as automobiles, consumer goods, and industrial machinery has resulted in a highly-growth-oriented EMS industry. The rising demand for automation, increased efficiency, and ease of access to advanced electronics augur well for the EMS sector. In the automotive industry, electronic components are essential for features such as ADAS and infotainment while the industrial sector is powered by automation and Internet of Things (IoT) applications. Syrma, which is leading the way in the digitalization of these sectors, is likely to benefit in the coming years with its expertise in the design, development, and manufacture of these components that are quite essential for industry transformation.

Syrma has a presence in diverse sectors including automotive, industrial, healthcare, railways & IT and is strategically positioned to capitalize on these opportunities for growth and innovation and is capable of navigating the trends like the rise in IoT devices, global electric vehicle or EV revolution and strong opportunities in the medical technology or med-tech segment.

Syrma is well-placed with rising opportunities across sectors

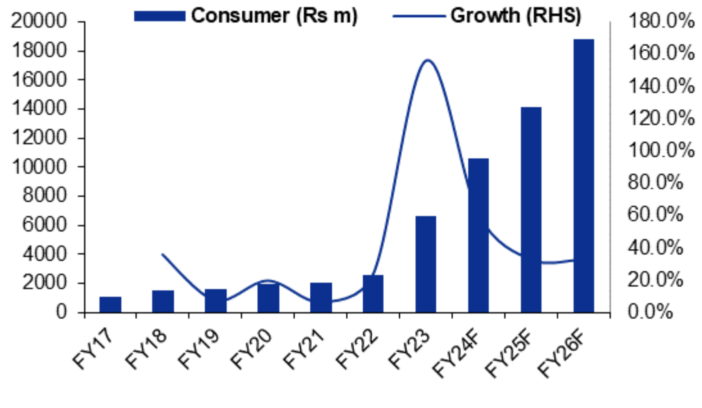
- **Automotive segment:** The industry is evolving towards technology as well as tackling environmental issues. EVs have been introduced as a clean energy initiative, as they have low emission and have come a long way to become an integral part of OEMs' business strategies. Automotive companies are creating separate EV business units to be prepared for the likely EV boom in future. India is expected to aggressively push itself towards electrification, especially in the automotive and transportation sectors. Syrma's revenue from the automotive segment grew at a CAGR of 33% over FY18-23, and we expect automotive revenue to clock a 39% CAGR over FY23-26F led by strong growth of the sector, coupled with rising opportunities in automotive & EV light controllers, dashboard & infotainment and battery management systems.

Figure 204: Automotive segment's revenue to grow at a 39% CAGR



SOURCE: INCRED RESEARCH, COMPANY REPORTS

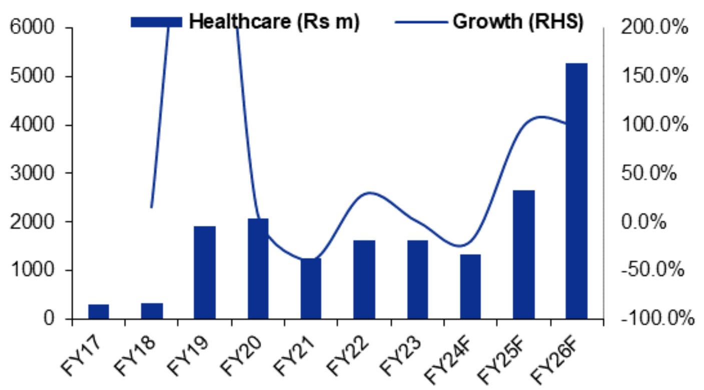
Figure 205: Consumer segment's revenue to grow at a 42% CAGR



SOURCE: INCRED RESEARCH, COMPANY REPORTS

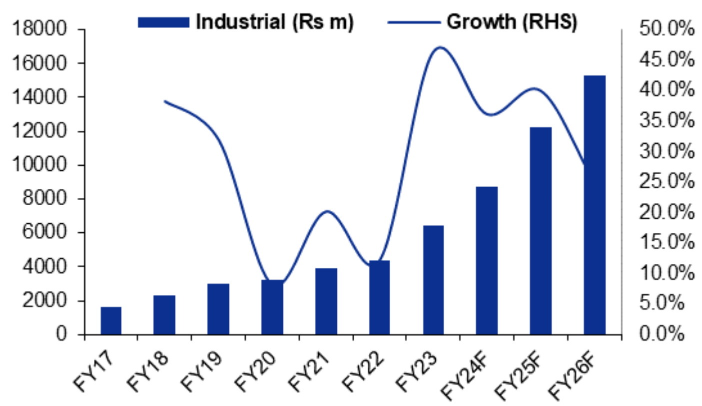
- **Consumer segment:** The consumer electronics industry in India is on the verge of good growth led by rising purchasing power, better access to quality products at affordable prices and low market penetration. Advanced technology has lined the gateway for multi-functional devices like smart watches and smart phones. The key positive factors for the consumer segment include the government's policies and regulatory frameworks, such as the easing of licence restrictions and the permission for 51% foreign direct investment or FDI in multi-brand retail and 100% FDI in single-brand retail. The advent of IoT and artificial intelligence or AI in the consumer appliances segment opens a wide array of possibilities, given the massive size. The consumer segment's revenue has grown at a CAGR of 35% over FY18-23 and we expect it to clock a 42% CAGR over FY23-26F.

Figure 206: Healthcare revenue to grow at a 48% CAGR



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 207: Industrial revenue to grow at a 34% CAGR



SOURCE: INCRED RESEARCH, COMPANY REPORTS

- **Medical electronics or med-tech segment**

  The EMS market for medical devices in India is expected to clock a 43% CAGR to touch ~Rs82bn by FY26F. Large MNCs and SMEs exist in India's medical device industry, which are expanding faster. Around 65% of Indian manufacturers are domestic operators in the consumables sector, catering mostly to domestic consumption with little exports. We expect the healthcare business to clock a 48% CAGR over FY23-26F, after reporting a 37% CAGR over FY18-23.

- **IT segment**

  The digitialization programs like Digital India will continue to drive the growth of the information technology or IT sector. Key products in the IT segment include notebooks, servers, storage devices and tablets. These top products have a major portion of the market in terms of volume. AI-enabled printed circuit board designs & engineering processes bring further flexibility and create a new generation of products like connected objects, smart-home devices, and IoT devices. PCBs for connected devices have been modernized to add the AI feature. The EMS market for IT business is expected to clock a 39% CAGR to touch Rs109bn by FY26F.

- **Aerospace & defence (A&D) segment**

  India is among the leading players in the aerospace and defence market globally. India needs to reduce its dependence on imports and modernize its aerospace & defence capital equipment base. As the aerospace & defence industry advances, the crucial impact is in terms of greater capability in platforms and a substantial portion of this comes from electronics. Hence. electronics in the Indian aerospace & defence industrial plan is the crucial centrepiece that needs to be addressed.

Strong relationships with marquee clients

The varied applications of its product portfolio have helped Syrma to build strong relationships and it is focusing on strengthening the client base across industries. The company's products have helped it to build a wide customer base across many end-user industries. The wide customer base across sectors cuts the dependence on any particular sector, thereby providing a hedge against market volatility. Syrma has added significant clients over the past few years. The company exports its products to over 24 countries, including the US, Germany, Austria, and the UK. It has a subsidiary in Germany which handles international operations. The strong customer base build-up over the past few years, we feel, will lead to strong revenue visibility in the coming years and help to expand its market share, develop new products and foray into new markets.

Figure 208: Key clients across sectors

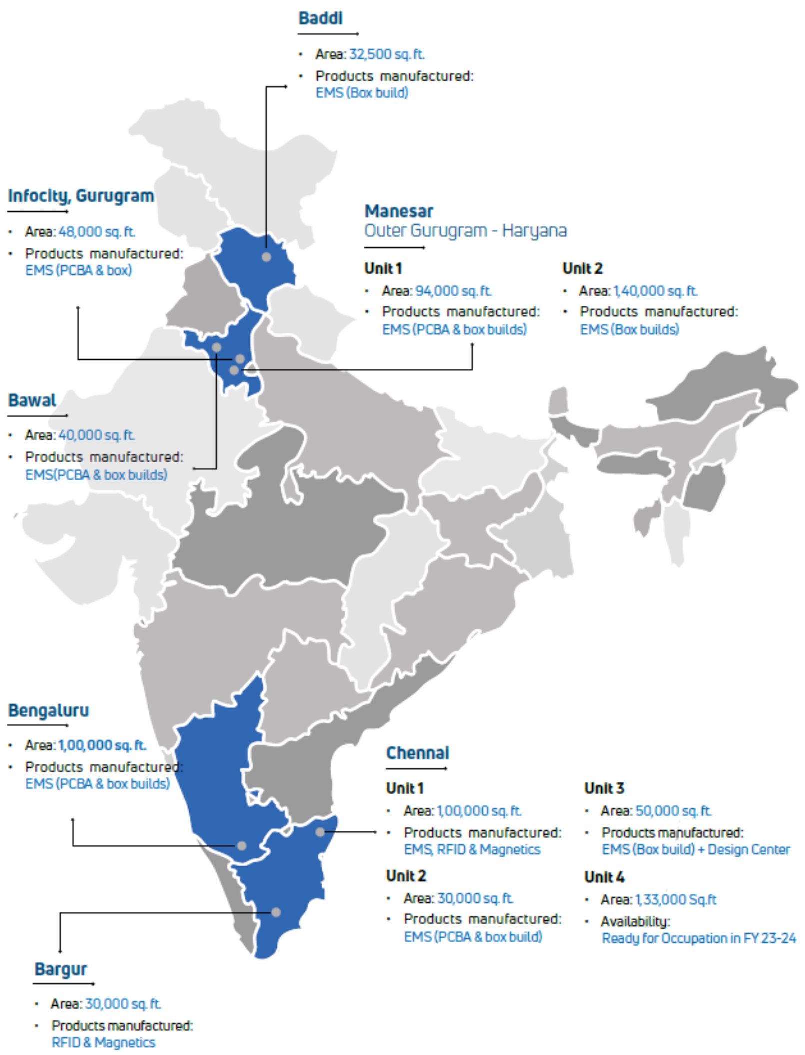
Sector	Key clients	Sector	Key clients
Industrial	Total Power Europe	Consumer	Eureka Forbes
	CyanConnode		Ao Smith
	Schneider Electric		Bosch
	Pheonix Contact		HUL
	Landis + GYR		OSRAM
Automotive	TVS		Atomberg
	KAGA Electronics	Healthcare	Philips
Railway	Kyosan	Others	Laptop and locomotive companies

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Strategically-located manufacturing units

Syrma currently operates through 12 strategically-located manufacturing facilities in North India (Himachal Pradesh, Haryana & Uttar Pradesh) and South India (Tamil Nadu & Karnataka). The manufacturing facilities in Tamil Nadu are located at a special economic zone while the manufacturing facility in Haryana has been set up under the Electronic Hardware Technology Park Scheme, which allows certain tax and other benefits in respect of the products manufactured at the facility. Its manufacturing plants are strategically located in Tamil Nadu, Karnataka and Haryana, which cater to export requirements. In addition to the existing manufacturing, and engineering and design service offerings, Syrma also started 'Zone of Autonomous Creation' in 2018 at Chennai in Tamil Nadu pursuant to which it provides quick prototyping services where a design concept is provided and helps create an early form of the final product. It has a dedicated line for PCB assembly with an autonomous team that has procurement, process, quality, and new product introduction (NPI) engineers independent of manufacturing facilities.

Figure 209: Presence in North India and South India



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Strong R&D focus

Syrma is focused on technological innovation through its R&D capabilities. It has three dedicated R&D facilities located at Chennai, Gurgaon and Germany with 106 full-time employees. It has independent quality control department which ensures quality across operations, including vendor quality, incoming supply quality control, process quality and outgoing (finished product) quality.

The manufacturing facilities have accreditations including the ISO 9001:2015, IATF 16949:2016, ISO 13485: 2016, AS 9100D, ISO 14001:2015, ANSI/ESD S20.20-2014 and ISO 45001:2018 certifications for quality management, environment and health & safety system.

Syrma has a wide product portfolio with applications across diverse end-user industries. The products are primarily focused on ODMs and OEMs serving end-user industries including the automotive, healthcare, IT, industrial appliances, energy management, water purification, power supply and consumer products industries.

A blend of timely acquisitions offers synergies

Syrma has been active in the M&A space to utilize its cash in an effective manner, expand market share and widen the geographical footprint.

- SGS Tekniks

  Syrma acquired SGS Tekniks in Sep 2021, which provides further headroom for growth with no overlap of clients and geographies. After this acquisition, Syrma has increased its manufacturing capacity, in-house R&D capabilities and expanded the existing supplier network. The acquisition also helped to consolidate component purchases and aided the improvement in procurement costs. The acquisition has opened opportunities for cross-selling RFID and magnetic products to the existing customers of SGS Tekniks.

- **Perfect ID**

Syrma acquired Perfect ID in Oct 2021, with infrastructure and know-how for the manufacture of RFID label tags and passive inlay tags, in addition to the existing capabilities for the manufacture of RFID hard tags.

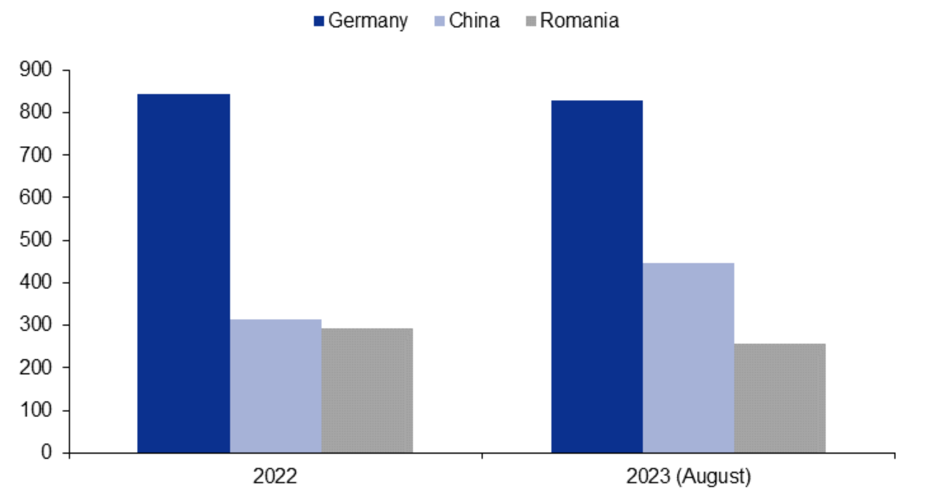
- **Johari Digital Healthcare**

Syrma is looking to acquire a 51% stake in Johari Digital Healthcare (Johari) at a cost of Rs2.3bn and additional consideration of up to Rs280m based on milestones. The acquisition is likely to help Syrma to enter the lucrative medical devices segment, which is a fragmented and fast-growing market with high demand for quality and innovation. Johari has a strong presence as an end-to-end design-focused manufacturer of electro-medical devices, with its focus on therapeutic areas such as anesthetics, diagnostics, physiotherapy and life sciences. Its facility is FDA/MDSAP compliant with highest quality and safety standards and meeting the regulatory requirements of the US, Australia, Canada, Brazil and Japan. It also has 15 FDA approvals in place for its various products. This acquisition will enhance Syrma's capabilities and offerings in the electro-medical devices segment and create business synergies across multiple areas. Its management expects the acquisition to be EPS- accretive.

Syrma exports its products to industry leaders

Syrma has been exporting its products to some of the largest players in the global electronics industry. Syrma's top three export countries include Germany, China and Romania, and they have accounted for a major chunk of the company's exports for the last three years.

Figure 210: Revenue contribution from the top three export partners (Rsm)

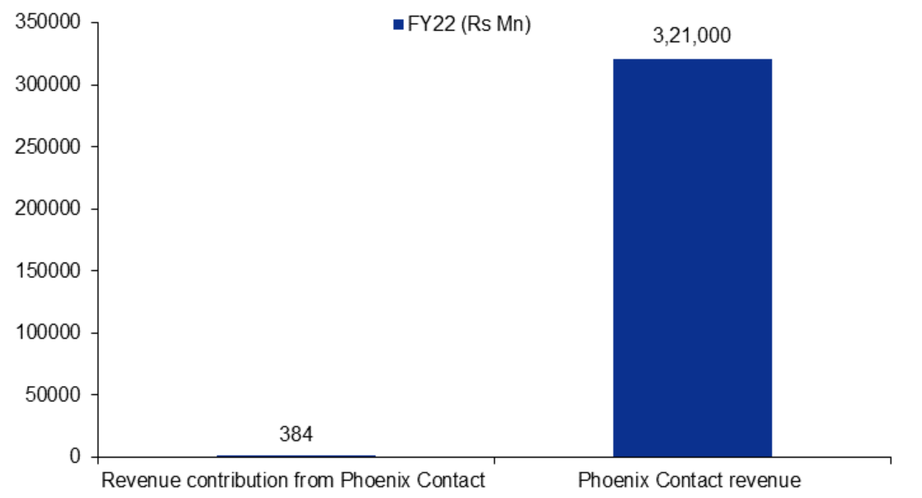


SOURCES: COMPANY REPORTS, INCRED RESEARCH

Caters to the needs of Phoenix Contact - an industry giant

Phoenix Contact is an industry giant as far as electronics manufacturing is concerned. It was awarded the German Innovation Award for 2023, a prestigious accolade, given that Germany has always been a powerhouse for industry innovation. Phoenix Contact is into green energy electronics. To cite an example, the company provides solutions for controlling and monitoring hydrogen electrolysis plants. These include, for example, water treatment, electrolyte handling, gas and liquid tanks, and cooling systems. Furthermore, the company also monitors and automates compressors. Moreover, currently combined heat and power plants already generate electricity and heat from natural gas. This natural gas can also be replaced by green fuels. This makes this efficient, high-efficiency process even more climate-friendly. Another way of converting green energy sources into electrical energy is hydrogen fuel cells, which are increasingly finding their way into vehicle technology and other applications. Phoenix Contact supports both these concepts with automation and digitalization solutions, with its open automation platforms.

Figure 211: Wallet share with Phoenix Contact



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 212: Diversified client base

TVS Motor	• TVS Motor Company is one of India's prominent two-wheeler manufacturers known for producing a wide range of motorcycles, scooters, and mopeds. • TVS Motor has a strong presence in both domestic and international markets. • TVS Motor's capex and investments in FY24F will be to the tune of Rs18bn. The company is aiming to double its EV sales to 40% of its portfolio by FY25F.
A. O. Smith India Water Products	• A. O. Smith is a leader in water technology and innovation known for its expertise in manufacturing water-heating equipment and water purification solutions. • Its products include high-efficiency water heaters, water treatment systems, and water purification products, designed to improve the quality of water in homes and businesses.
Bosch	• Bosch is a globally recognized multinational engineering and technology company based in Germany and has a diversified business portfolio that includes automotive components, industrial technology, consumer goods, energy and building technology. • The company is known for its automotive solutions, including powertrain technology, safety systems, and IoT-enabled devices. • The company aims to invest Rs15bn in India over the next four years. • With rising demand for SiC chips, it plans to acquire the US-based chipmaker, TSI Semiconductors.
Hindustan Unilever	• Hindustan Unilever is one of India's leading fast-moving consumer goods (FMCG) companies, renowned for its diverse range of household brands encompassing personal care, home care, food and beverages, and more. • Some of the company's well-known brands include Dove, Surf Excel, and Knorr.

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Key management personnel

Figure 213: Experienced managerial team

Name	Sandeep Tandon	Jasbir Singh Gujral	Satendra Singh
Designation	**Executive Chairman**	**Managing Director**	**CEO**
Qualification	• He holds a Bachelor of Science degree in Electrical Engineering from the Andrew and Erna Viterbi School of Engineering, University of Southern California. • He has completed the YPO Presidents' Program from the Harvard Business School. • He has 18+ years of experience in the electronics manufacturing sector. He has previously been associated with Celetronix Inc., USA.	• He is a member of the Institute of Chartered Accountants of India and has over 39 years of experience in the electronics manufacturing sector. • He is one of the founding promoters of SGS Tekniks Manufacturing Pvt Ltd, a wholly-owned subsidiary of Syrma SGS. • He has been associated with companies like, Metro Milk Products, Eltek Sgs, Sgs Tekniks Manufacturing, and Valere Power India.	• He holds a master's degree in manufacturing management from BITS Pilani, and has completed Advanced Management Program from IIM Bangalore, and several executive leadership programs at Nokia. • He has also served as director-operations at Flextronics, where he led the P&L as Flex's business head in India.

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Outlook and valuation

- Syrma has a comprehensive EMS portfolio, ranging from product design & prototyping to PCB assembly, which has a 40% share in box build, contributing 80% to total sales of the company. The company has a well-diversified business model spread across industries with no single customer accounting for more than 10% of its revenue.
- The contribution of export revenue declined to 30% in FY23 from 54% in FY22 mainly due to inventory right-sizing, which is likely to report a healthy growth in the coming years.
- The company has seen significant traction in new orders, with its order book at Rs35bn, thus providing improved revenue visibility. We expect the company to clock revenue and earnings CAGR of 37% and 40%, respectively, over FY23-26F with expansion in margin and return ratios.
- We initiate coverage on Syrma with an ADD rating and a target price of Rs700, valuing the stock at 42x Sep 2025F EPS.

Figure 214: Target price of Rs700 at 42x Sep 2025F EPS

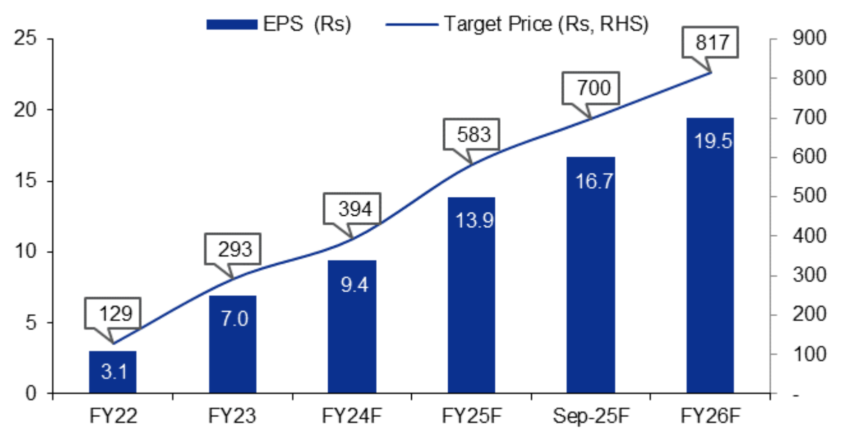
	Syrma SGS
CMP (Rs)	**613**
Mean P/E	**NA**
Target P/E (x)	**42.0**
Premium/(Discount)	**NA**
Target Price (Sep-2025F) Rs	**700**
Target (FY26F) Rs	**817**
Expected Return (%)	**14.2**

Price Sensitivity Analysis

	EPS (Rs)	Growth (%)	P/E (x)	Target P/E multiple (x) 32.0	37.0	42.0	47.0	52.0
FY22	3.1	-88.8	200.2	98	113	129	144	159
FY23	7.0	127.4	88.0	223	258	293	327	362
FY24F	9.4	34.7	65.3	300	347	394	441	488
FY25F	13.9	47.9	44.2	444	514	583	652	722
Sep-25F	16.7		36.8	533	617	700	783	867
FY26F	19.5	40.2	31.5	622	720	817	914	1,011

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 215: EPS to grow from Rs7 in FY23 to Rs19.5 in FY26F



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Scenario analysis

Figure 216: Scenario analysis

	Bull Case	Base Case	Bear Case
Revenue CAGR	42%	37%	24%
FY25F EBITDA Margin	10.2%	9.2%	7.9%
Sep-25F EPS (Rs)	19.7	16.7	10.3
Target P/E (x)	47.0	42.0	37.0
Target Price (Rs)	925	700	379
Upside	50.8%	14.2%	-38.1%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Base Case: In this scenario, we expect a 37% revenue CAGR with an average EBITDA margin at 9% during FY23-26F, which translates into EBITDA and PAT CAGR of 39%, and 41%, respectively. Assigning a 42x P/E multiple to its Sep 2025F EPS, we arrive at a target price of Rs700.

Figure 217: PAT CAGR of 41% in a base-case scenario

Base-Case Scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	CAGR (%)
Total Sales	8,657	8,874	10,197	20,484	28,790	39,571	53,065	37%
Growth (YoY, %)		2.5%	14.9%	100.9%	40.6%	37.4%	34.1%	
EBITDA	1,366	999	944	1,878	2,373	3,650	5,073	39%
Growth (YoY, %)		-26.9%	-5.5%	98.9%	26.4%	53.8%	39.0%	
EBITDA Margin (%)	15.8%	11.3%	9.3%	9.2%	8.2%	9.2%	9.6%	
PAT	971	657	541	1,231	1,658	2,453	3,439	41%
Growth (YoY, %)		-32.4%	-17.5%	127.4%	34.7%	47.9%	40.2%	
PAT Margin (%)	11.2	7.4%	5.3%	6.0%	5.8%	6.2%	6.5%	
EPS (Rs)	5.5	3.7	3.1	7.0	9.4	13.9	19.5	41%
Growth (YoY, %)		-32.4%	-17.5%	127.4%	34.7%	47.9%	40.2%	

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Bull Case: In this scenario, we expect a 42% revenue CAGR with the average EBITDA margin at 9.8% during FY23-26F, which translates into EBITDA and PAT CAGR of 49%, and 50%, respectively. Assigning a 47x P/E multiple to its Sep 2025F EPS, we arrive at a target price of Rs925.

Figure 218: PAT CAGR of 50% in a bull-case scenario

Bull-Case Scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	CAGR (%)
Total Sales	8,657	8,874	10,197	20,484	29,814	42,470	59,075	42%
Growth (YoY, %)	-	2.5%	14.9%	100.9%	45.6%	42.4%	39.1%	
EBITDA	1,366	999	944	1,878	2,756	4,342	6,239	49%
Growth (YoY, %)	0%	-26.9%	-5.5%	98.9%	46.8%	57.6%	43.7%	
EBITDA Margin (%)	15.8%	11.3%	9.3%	9.2%	9.2%	10.2%	10.6%	
PAT	971	657	541	1,231	1,649	2,765	4,183	50%
Growth (YoY, %)	0%	-32.4%	-17.5%	127.4%	33.9%	67.7%	51.3%	
PAT Margin (%)	11.2	7.4%	5.3%	6.0%	5.8%	6.2%	6.5%	
EPS (Rs)	5.5	3.7	3.1	7.0	9.3	15.6	23.7	50%
Growth (YoY, %)	0%	-32.4%	-17.5%	127.4%	33.9%	67.7%	51.3%	

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Bear Case: In this scenario, we expect a 24% revenue CAGR with the average EBITDA margin at 8.1% during FY23-26F, which translates into EBITDA and PAT CAGR of 20%, and 18%, respectively. Assigning a 37x P/E multiple to its Sep 2025F EPS, we arrive at a target price of Rs379.

Figure 219: PAT CAGR of 18% in a bear-case scenario

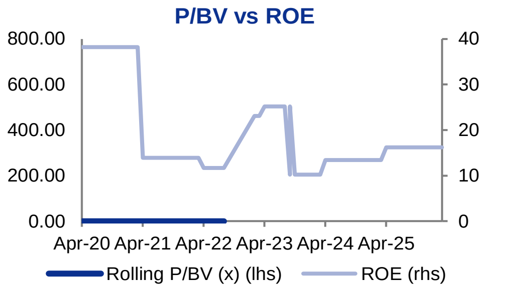
Bear-Case Scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	CAGR (%)
Total Sales	8,657	8,874	10,197	20,484	26,127	32,515	39,375	24%
Growth (YoY, %)		2.5%	14.9%	100.9%	27.6%	24.4%	21.1%	
EBITDA	1,366	999	944	1,878	1,814	2,576	3,253	20%
Growth (YoY, %)		-26.9%	-5.5%	98.9%	-3.4%	42.0%	26.2%	
EBITDA Margin (%)	15.8%	11.3%	9.3%	9.2%	6.9%	7.9%	8.3%	
PAT	971	657	541	1,231	1,186	1,617	2,007	18%
Growth (YoY, %)		-32.4%	-17.5%	127.4%	-3.7%	36.4%	24.1%	
PAT Margin (%)	11.2%	7.4%	5.3%	6.0%	4.5%	5.0%	5.1%	
EPS (Rs)	5.5	3.7	3.1	7.0	6.7	9.1	11.4	18%
Growth (YoY, %)		-32.4%	-17.5%	127.4%	-3.7%	36.4%	24.1%	

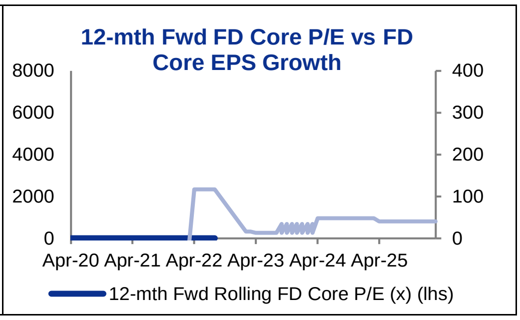
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Key downside risks

- **Short-term contracts with clients:** Syrma's customers do not make long-term commitments and may cancel or change their production requirements. Such cancellations or changes may adversely affect the financial condition, cash flow and results of operations.
- **Dependence on China for supply of raw materials:** Syrma is heavily dependent on China for the supply of its raw materials, and it could impact the functioning of the company if any geopolitical risk arises.

BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	**10,197**	**20,484**	**28,790**	**39,571**	**53,065**
Gross Profit	**3,012**	**5,079**	**6,754**	**9,418**	**12,736**
Operating EBITDA	**944**	**1,878**	**2,373**	**3,650**	**5,073**
Depreciation And Amortisation	(194)	(312)	(485)	(604)	(704)
Operating EBIT	**750**	**1,566**	**1,888**	**3,046**	**4,370**
Financial Income/(Expense)	(64)	(216)	(237)	(240)	(229)
Pretax Income/(Loss) from Assoc.	25				
Non-Operating Income/(Expense)	123	437	652	602	635
Profit Before Tax (pre-EI)	**834**	**1,787**	**2,303**	**3,408**	**4,776**
Exceptional Items					
Pre-tax Profit	**834**	**1,787**	**2,303**	**3,408**	**4,776**
Taxation	(268)	(556)	(645)	(954)	(1,337)
Exceptional Income - post-tax					
Profit After Tax	**567**	**1,231**	**1,658**	**2,453**	**3,439**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**567**	**1,231**	**1,658**	**2,453**	**3,439**
Recurring Net Profit	567	1,231	1,658	2,453	3,439
Fully Diluted Recurring Net Profit	**567**	**1,231**	**1,658**	**2,453**	**3,439**

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	809	1,787	2,303	3,408	4,776
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(659)	(2,299)	(471)	(1,613)	(1,919)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	194	312	485	604	704
Other Operating Cashflow	(31)	(321)			
Net Interest (Paid)/Received	64	216	237	240	229
Tax Paid	(232)	(397)	(645)	(954)	(1,337)
Cashflow From Operations	**145**	**(703)**	**1,910**	**1,684**	**2,453**
Capex	(817)	(1,110)	(2,500)	(1,350)	(1,200)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(3,120)	(8,035)	381	1,224	1,185
Cash Flow From Investing	**(3,936)**	**(9,145)**	**(2,119)**	**(126)**	**(15)**
Debt Raised/(repaid)	769	1,523	32	(150)	(150)
Proceeds From Issue Of Shares	2,715	8,760			
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	103	(316)	(237)	(240)	(229)
Cash Flow From Financing	**3,587**	**9,967**	**(205)**	**(390)**	**(379)**
Total Cash Generated	(204)	120	(415)	1,169	2,059
Free Cashflow To Equity	**(3,022)**	**(8,325)**	**(178)**	**1,409**	**2,288**
Free Cashflow To Firm	**(3,855)**	**(10,063)**	**(446)**	**1,319**	**2,209**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	369	544	1,749	1,693	2,567
Total Debtors	2,722	4,032	4,387	5,806	7,487
Inventories	2,913	5,874	6,750	8,803	11,421
Total Other Current Assets	645	1,032	1,242	1,723	2,334
Total Current Assets	**6,650**	**11,483**	**14,128**	**18,025**	**23,809**
Fixed Assets	1,487	4,127	6,142	6,887	7,384
Total Investments	51	60	60	60	60
Intangible Assets	1,197	1,218	1,218	1,218	1,218
Total Other Non-Current Assets	534	7,779	5,779	5,779	5,779
Total Non-current Assets	**3,269**	**13,184**	**13,199**	**13,944**	**14,441**
Short-term Debt	1,903	2,599	2,500	2,350	2,200
Current Portion of Long-Term Debt					
Total Creditors	2,405	4,881	5,551	7,344	9,656
Other Current Liabilities	845	962	1,164	1,612	2,170
Total Current Liabilities	**5,153**	**8,442**	**9,215**	**11,306**	**14,026**
Total Long-term Debt	39	870	1,000	1,000	1,000
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	252	284	284	284	284
Total Non-current Liabilities	**291**	**1,154**	**1,284**	**1,284**	**1,284**
Total Provisions	269	387	485	583	705
Total Liabilities	**5,713**	**9,983**	**10,984**	**13,173**	**16,015**
Shareholders Equity	5,721	15,403	17,061	19,515	22,953
Minority Interests	108	26	26	26	26
Total Equity	**5,829**	**15,429**	**17,087**	**19,541**	**22,979**

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	14.9%	100.9%	40.6%	37.4%	34.1%
Operating EBITDA Growth	(5.5%)	98.9%	26.4%	53.8%	39.0%
Operating EBITDA Margin	9.3%	9.2%	8.2%	9.2%	9.6%
Net Cash Per Share (Rs)	(8.90)	(16.54)	(9.90)	(9.37)	(3.58)
BVPS (Rs)	32.36	87.13	96.51	110.39	129.84
Gross Interest Cover	11.77	7.25	7.97	12.70	19.06
Effective Tax Rate	32.1%	31.1%	28.0%	28.0%	28.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	71.61	60.18	53.37	47.01	45.72
Inventory Days	93.56	104.10	104.55	94.13	91.52
Accounts Payables Days	90.24	86.31	86.39	78.04	76.93
ROIC (%)	9.0%	6.4%	7.5%	10.7%	13.7%
ROCE (%)	13.9%	11.6%	9.5%	13.9%	17.7%
Return On Average Assets	8.4%	8.1%	7.1%	8.9%	10.3%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

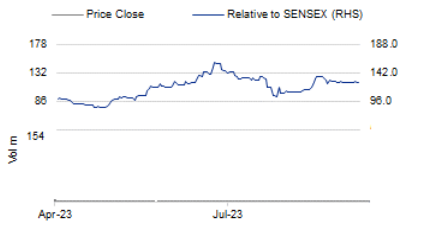
India

ADD *(Initiating coverage)*

Consensus ratings*:	Buy 6	Hold 0	Sell 0

Current price:	Rs555
Target price:	Rs750
Previous target:	NA
Up/downside:	35.1%
InCred Research / Consensus:	7.9%
Reuters:	
Bloomberg:	AVALON IN
Market cap:	US$438m
	Rs36,366m
Average daily turnover:	US$4.2m
	Rs348.4m
Current shares o/s:	65.3m
Free float:	19.71%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	15.3	3.9	0.0
Relative (%)	14.5	2.1	0.0

Major shareholders	% held
PROMOTERS	51.2
FII	12.5
DII	16.6

Avalon Technologies

Vertically integrated player with high exports

- Avalon has leveraged its building capabilities and diversified its product offerings to become a vertically-integrated EMS player.
- Avalon's focus has shifted towards high-growth areas like clean energy and emerging communications, which enjoy high margins.
- Avalon to deleverage further for improving profitability and return ratios. We initiate coverage on the stock with an ADD rating and a target price of Rs750.

Value proposition for box-build solutions

From a pure printed circuit board or PCB assembler in 1999, Avalon Technologies (Avalon) has leveraged its building capabilities and diversified its product offerings to become vertically integrated. Avalon is highly vertically integrated in the EMS industry, offering one-stop services - from PCB design and analysis to new product development. The company focuses on new product development to build long-term customer relationships. Avalon is continuously expanding its technological expertise in manufacturing for diverse industries and integrating its services to serve multiple verticals.

Focus on high-growth clean energy, communication verticals

Avalon's focus has shifted towards high-growth areas like clean energy and emerging communications, which are likely to drive the growth over the next three years. The company is looking at high-margin products that need precision engineering and expertise to innovate and deliver flexible manufacturing plans. Solar, electric vehicles and hydrogen are the key components of clean energy while telecom, satellite and digital infrastructure constitute the emerging communications space.

High entry barriers in railway, aerospace and power sectors

The average relationship with clients in the case of Avalon is eight years currently, and these clients contribute 80% to its sales. The sector has high entry barriers, given the depth and nature of the engagement with clients as the cost, time and effort for transition is high, especially for long lifecycle industries such as power, railways, aerospace, medical equipment, etc. There is a long lead time for customer acquisition, onboarding, prototyping, OEM approvals and production, coupled with criticality and requirement of highly reliable anti-collision signaling systems in the case of railways.

Initiate coverage on the stock with an ADD rating and TP of Rs750

Avalon has developed a global manufacturing footprint which leverages local manufacturing capabilities to provide localized services to global clients. With new orders, stable input prices and operating leverage, Avalon is looking to further reduce its debt, which should help improve profitability and return ratios. We initiate coverage on Avalon with an ADD rating and a target price of Rs750, valuing the stock at 40x Sep 2025F EPS. Higher reliance on exports and supply chain dependence on imports are the key downside risks

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Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	8,407	9,447	11,707	14,043	16,643
Operating EBITDA (Rsm)	975	1,128	1,436	1,641	2,028
Net Profit (Rsm)	675	525	884	1,090	1,357
Core EPS (Rs)	7.9	8.0	13.5	16.7	20.8
Core EPS Growth	124.0%	1.6%	68.3%	23.4%	24.4%
FD Core P/E (x)	53.76	69.04	41.03	33.26	26.73
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	40.11	31.12	24.18	20.86	17.03
P/FCFE (x)	276.41	(131.29)	(21.33)	51.56	(111.94)
Net Gearing	322.8%	(21.5%)	(24.4%)	(27.8%)	(19.8%)
P/BV (x)	40.89	6.75	5.80	4.94	4.17
ROE	69.6%	16.8%	15.2%	16.0%	16.9%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 220: Shifting focus towards clean energy

	Avalon (Rs9.4bn-FY23 to Rs16.6bn -FY26F)				
Key Segments	**Clean Energy**	**Mobility**	**Industrial**	**Communication**	**Medical & Others**
Revenue Mix (FY23)	26%	20%	29%	12%	12%
Revenue CAGR (FY20-23)	33%	-1%	15%	36%	4%
Revenue CAGR (FY23-26F)	27%	15%	21%	34%	3%
Key Products	**PCB**	**Box-build**	**Cables**	**Metal**	**Design**
Revenue Mix Products (FY23)	28%	54%	9%	4%	2%
Key Investment Themes	Avalon is continuously expanding its technological expertise in manufacturing for diverse industries and integrating its services to serve multiple verticals.				
	Avalon currently has an average client relationship of eight years, which contributes 80% of sales. It has strong presence in Mobility segment which has high entry barriers.				
	Avalon is shifting its focus to businesses like clean energy and emerging communications, which are expected to be big growth drivers.				
	With new orders, stable input prices and operating leverage, the company is looking to further reduce its debt, which should help improve its profitability and return ratios.				
	We initiate coverage on Avalon with an ADD rating and a target price of Rs750, valuing the stock at 40x Sep 2025F EPS.				

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Vertically integrated player with high exports

Value proposition for box-build solutions

Avalon provides a complete package including PCB design assembly, wire harness, sheet metal fabrication, plastic injection moulding, magnetics, and electro-mechanical integration to offer a full box-build solution. Avalon offers one-stop services - from PCB design and analysis to new product development. The company focuses on new product development to build long-term customer relationships. Avalon is growing its technological expertise to serve different industries. The company ensures efficient distribution by placing client centres at manufacturing facilities with dedicated lines.

Figure 221: Expanded service offerings

	Phase 1		Phase 2			Phase 3		
	1995	1999	2007	2009	2010	2011	2016	2023 IPO
	Seinna Corp invested in San Jose	Avalon incorporated in Chennai	Expansion in manufacturing in US	Acquired design capabilities	Entry into Aerospace	Entry into Railway	ATS established to enhance Box build	
Client Preference								
Sectors	Power, Communication		Power, Communication, Aerospace, Industrials			Mobility, Industrials, Medical and Others, Clean Energy, Communication		
Capabilities	PCB Assembly		PCB Assembly, Metal Cables, In-house design			PCB Assembly, Metals, Cable, In-house design, Plastics, Magnetics, Systems Integration		

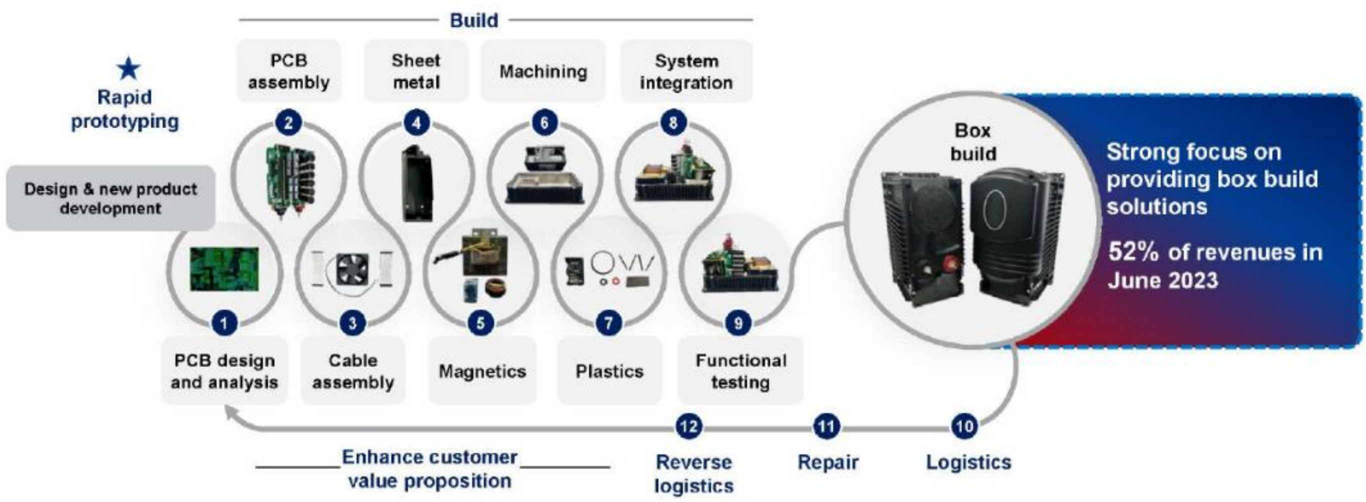
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Since its inception in 1999 as a pure-play PCB assembler, Avalon has leveraged its building capabilities and diversified its product offerings to become vertically integrated. Avalon is highly vertically integrated in the EMS industry. The company also provides design and new product development services, resulting in complete service offerings. It has a distinct customer base for each capability area. As one of the top players in the higher mix, adaptable volume product manufacturing industry, it is present across multiple verticals with an emphasis on comprehensive integrated solutions and substantial engineering content. It offers services to a wide range of industries including power, clean energy, rail, road, aerospace, and medical devices. Avalon has also diversified into products in areas like electric mobility and satellite communications, as well as telematics used in industries like clean and emerging communications, which are likely to be high-growth sectors in the coming years.

Figure 222: Services - from design to delivery

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 223: End-to-end service provider in EMS space

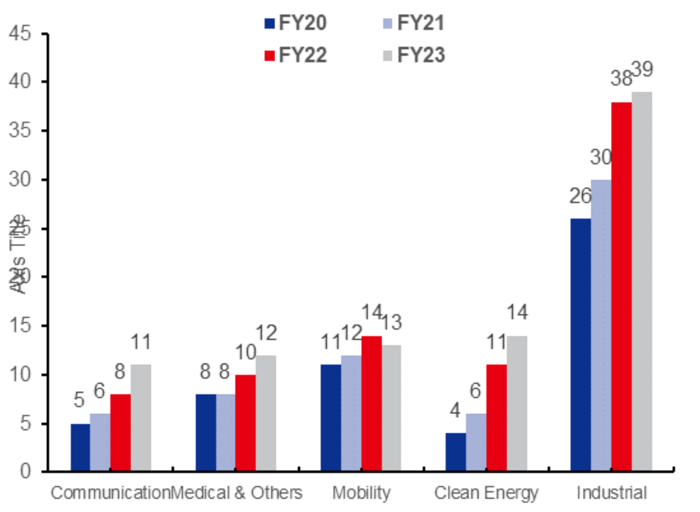


SOURCE: COMPANY REPORTS, INCRED RESEARCH

High entry barriers in railway, aerospace and power sectors

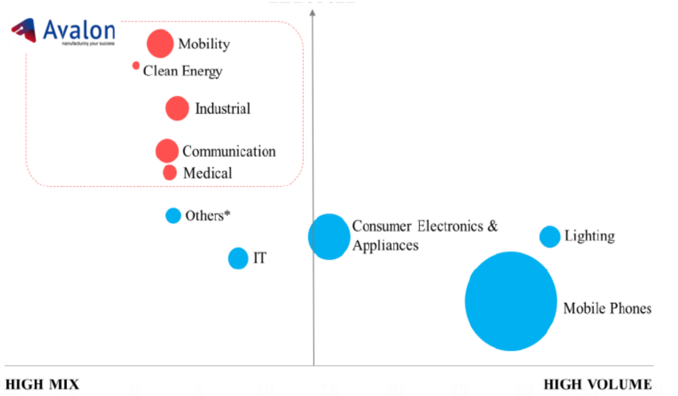
Avalon currently has an average client relationship of eight years, and these clients account for 80% of its sales. The industry has high entry barriers due to the deep nature of client engagement as it involves high cost, time, and effort required for the transition, especially in long lifecycle sectors such as power, railways, aeronautics, medical equipment, etc. There is a long lead time for the customer acquisition process, onboarding process, prototyping process, OEM approval process and production process, coupled with the importance and need for high reliability anti-collision signaling systems in the case of railways.

Figure 224: Rising client base



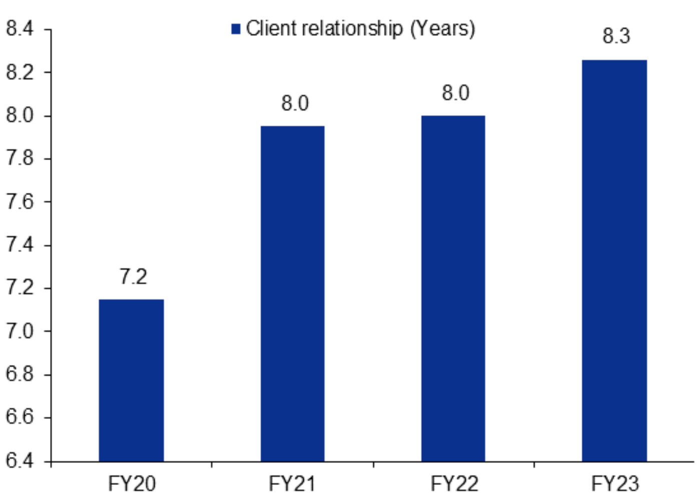
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 225: Presence in high-mix segments



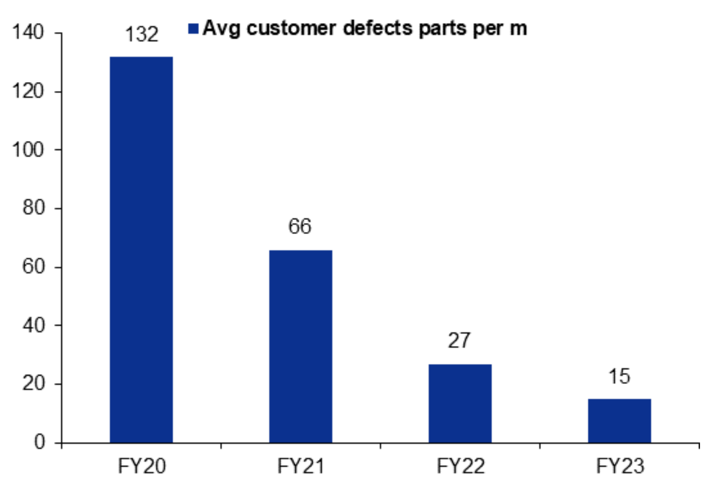
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 226: Rising client base



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 227: Product defects ratio on the decline



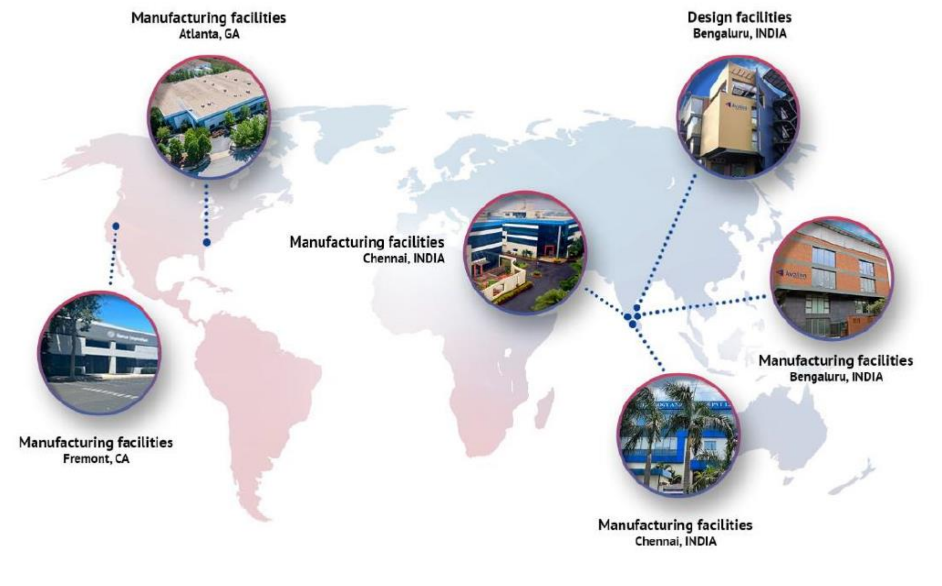
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Strong manufacturing capabilities

Avalon operates 66 production lines, including 11 SMT lines, 12 THT lines and 43 assembly lines. Currently, the company operates two shifts and has sufficient buffer capacity to increase the production and manage any spike in order volume. Avalon's manufacturing facilities have secured a few international quality certifications including ISO 9001-2015, ISO 949:2016, ISO AS 9100D, and ISO 13485: 2016. Avalon has a proven track record of delivering its products on time with cost-time, quality, and scale efficiency in its manufacturing processes.

Avalon continues to grow with higher productivity as its global manufacturing footprint allows leveraging local manufacturing capabilities to deliver localized solutions to global customers, as it has manufacturing facilities in India as well as in the US. The company has leveraged global cost arbitrage through manufacturing facilities based in India for the global marketplace. The Indo-US manufacturing footprint gives its customers the ability to purchase directly from India through operations in the US, or through a hybrid model that takes advantage of the combined strengths of the US and India operations.

Figure 228: 12 manufacturing facilities in India and the US



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Avalon currently operates 12 manufacturing facilities spread across India and the US. The company has 10 manufacturing facilities in India, 8 in Chennai and 2 in Bengaluru. Avalon has two manufacturing facilities in the US, located at Atlanta and California. The Chennai facility is in a Special Economic Zone (SEZ), which can import raw materials without any duty if it exports the finished products. The company is currently constructing a 13th manufacturing facility in Chennai.

Figure 229: Capacity utilization to increase

Particulars	FY20	FY21	FY22	1HFY23
PCBA				
PCBA SMT Lines (nos)	8	9	10	11
Production capacity (m components)	244	279	366	322
Production (m components)	181	139	234	192
Utilization (%)	74.2%	49.8%	63.9%	59.6%
Sheet metal fabrication facilities				
Production capacity (m parts)	2.7	2.3	2.7	1.8
Production (m parts)	1.7	1.2	1.6	0.8
Utilization (%)	62.0%	55.0%	60.0%	46.0%
Cable and wire harness assembly facilities				
Production capacity (m lead wires cut)	17.2	15.1	17.2	11.5
Production (m lead wires cut)	7.8	8.8	10.2	6.9
Utilization (%)	45.3%	58.3%	59.3%	60.0%
Magnetic facilities				
Production capacity ('000 transformers)	25	26	34	26
Production ('000 transformers)	13	12	22	18
Utilization (%)	55.0%	47.0%	64.0%	69.0%
Moulded plastic facilities				
Production capacity (m parts)	1.0	1.0	1.0	0.7
Production (m parts)	0.4	0.4	0.5	0.2
Utilization (%)	39.0%	38.0%	53.0%	22.0%
Total weightage avg. utilization	**67.0%**	**52.0%**	**63.0%**	**59.0%**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 230: Global certifications in place

Division	Certification Standard	Certification Body	Validity
ATS, Chennai (magnetics)	ISO 9001:2015	TUV SUD	9 Sep 2024
ATS Bengaluru, (PCBA)	ISO 9001:2015	TUV SUD	9 Sep 2024
	ANSI/ESD S20.20-2014	NQA	2 Jul 2023
ATS, Chennai (metal, plastics, powder coating)	ISO 9001:2015	TUV SUD	18 Aug 2024
	AS 9100D	TUV SUD	18 Aug 2024
Avalon, Chennai (PCBA)	ISO 9001:2015	TUV SUD	6 Jun 2024
	IATF 16949:2016	TUV SUD	26 May 2024
Avalon, Chennai (cable)	ISO 9001:2015	TUV SUD	23 Aug 2023
	IATF 16949:2016	TUV SUD	26 May 2024
	AS 9100D	TUV SUD	18 Aug 2024
ABV Electronics Inc. (Fremont, CA, USA) *	ISO 9001:2015	DNV	17 Apr 2024
ABV Electronics Inc. Suwanee, GA, USA) *	ISO 9001:2015	DNV	6 Apr 2024
ABV Electronics Inc. Suwanee, GA, USA) *	ISO 13485:2016	DNV	6 Apr 2024

SOURCE: INCRED RESEARCH, COMPANY REPORTS

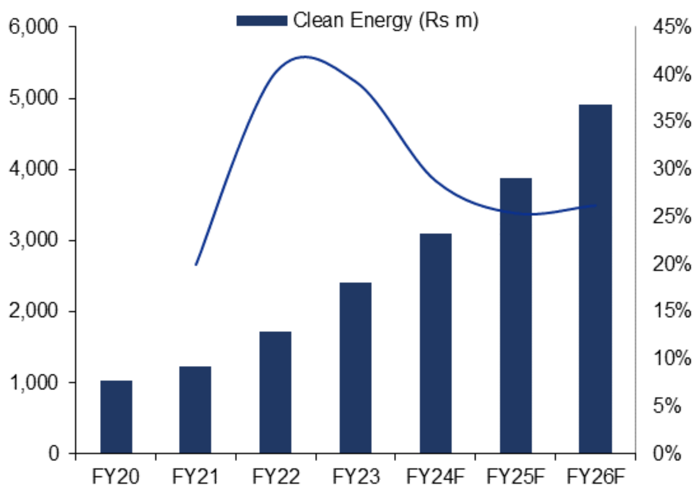
Clean energy and emerging communications businesses to drive growth

Avalon is shifting its focus to businesses like clean energy and emerging communications, which are expected to be big growth drivers over the next three years. It is looking at high-margin products that require precision engineering, know-how to stay ahead of the curve, and flexible manufacturing strategies. Clean energy is made up of solar, electric vehicles, and hydrogen while emerging communications is made up of telecom, satellites, and digital infrastructure.

Europe and the US have announced plans to become carbon-neutral by 2050F, and China and India are on track to be carbon-neutral by 2060F and 2070F, respectively. This shift to carbon neutrality has led to an increase in the need for safer, more energy-efficient energy solutions. Energy storage and distribution (EMS) companies are helping to make these products, such as battery management systems and solar inverters and chargers, that use renewable energy sources.

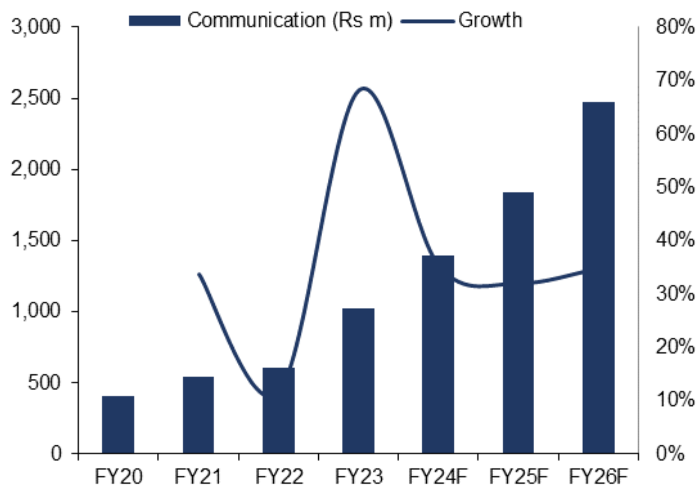
Avalon has made some big strides in the clean energy and communication technology segments in the last one year. The clean energy segment has seen a 33% CAGR in revenue during the last three years, and we expect this segment to report a 27% CAGR over FY23-26F led by strong growth in EV, solar and hydrogen verticals. The communications segment, on the other hand, has witnessed a 34% yoy growth and is likely to post a 34% CAGR over FY23-26F.

Figure 231: Revenue of clean energy segment to clock a 27% CAGR over FY23-36F



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 232: Revenue of communications segment to clock a 34% CAGR over FY23-36F



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key clients' profile

Figure 233: Diversified client base

Kyosan	• Kyosan Electric Manufacturing is a Japanese company with a focus on developing and manufacturing electrical and electronic systems, primarily for the transportation sector. • The solutions contribute to safe and efficient operation of rail networks, ensuring the well-being of passengers and the reliability of transportation systems.
Collins Aerospace	• Collins Aerospace is a prominent global aerospace and defence technology company delivering advanced aerospace and defence solutions. • The company specializes in avionics, aircraft interior, and other critical systems that enhance the safety, efficiency, and connectivity of aircraft. • It will invest US$200m to expand R&D in India.
Zonar Systems	• Zonar Systems is an American technology company focused on providing fleet management solutions for commercial vehicles. • The company specializes in developing telematics, electronic logging devices (ELDs), and other technologies to improve the safety, efficiency, and compliance of commercial fleets.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key management personnel

Figure 234: Experienced management

Name	T.P Imbichammed	Kunhamed Bicha	Bhaskar Srinivasan
Designation	Chairman Emeritus	Chairman and Managing Director	President
Qualification	• Mr. Imbichammed has been pivotal in the establishment of Avalon and has served as its guiding light for over three decades. • A distinguished philanthropist, he holds a mechanical engineering degree from the University of Kerala.	• He holds a bachelor's degree in mechanical engineering from PSG College of Technology and a master's degree in science (industrial engineering) from Wichita State University. • He has been associated with the company since its incorporation.	• He holds a bachelor's degree in mechanical engineering from Annamalai University, a master's degree in business administration from Cochin University of Science and Technology and a master's degree in science (industrial engineering) from Wichita State University.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Outlook & valuation

- Avalon is investing in high-growth areas like clean energy and emerging communications, which should help it to grow in the coming years. Make India and the production-linked incentive or PLI benefits, apart from the presence in mobility and electronics segments, which are all expected to help revenue growth.
- Over the last four years, Avalon's revenue has grown by 14%, EBITDA has risen by 21%, and PAT has increased by 62%, thanks to lower interest cost. We expect the company's revenue and EBITDA to grow at a CAGR of 21%, and its margin to expand from 11.9% in FY23 to 12.2% by FY26F.
- New orders, stable input prices, and operating leverage are likely to help margins, and the company is looking to further reduce its debt, which should help improve the profitability and return ratios.
- Avalon intends to deleverage further, which should further boost profitability and improve return ratios. We initiate coverage on Avalon with an ADD rating and a target price of Rs750, valuing the stock at 40x Sep 2025F EPS.

Figure 235: Target price of Rs750 at 40x Sep 2025F EPS

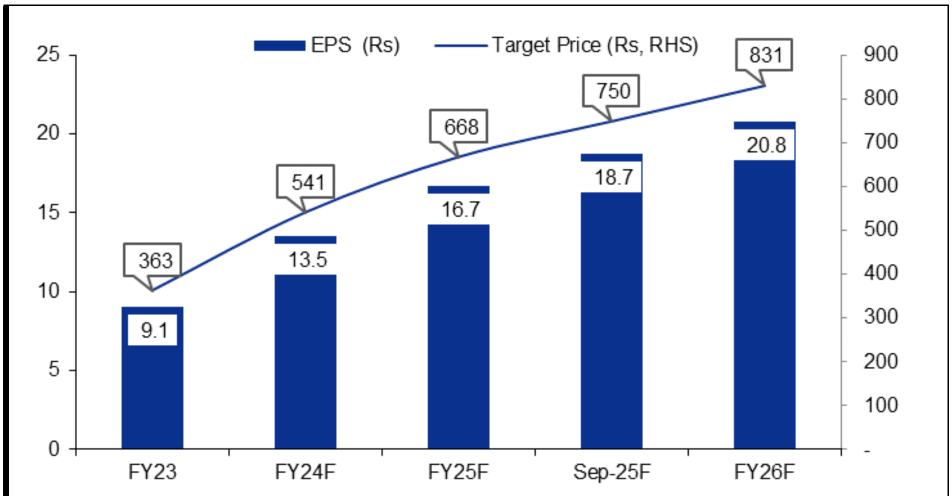
	Avalon
CMP (Rs)	557
Mean P/E	NA
Target P/E (x)	40.0
Premium/(Discount)	
Target Price (Sep 2025F) Rs	750
Target Price (FY26F) Rs	831
Expected Return (%)	34.6

Price Sensitivity Analysis

	EPS (Rs)	Growth (%)	P/E (x)	Target P/E multiple (x) 30.0	35.0	40.0	45.0	50.0
FY23	9.1	6.7	61.5	272	317	363	408	453
FY24F	13.5	49.3	41.1	406	474	541	609	677
FY25F	16.7	23.4	33.4	501	585	668	752	835
Sep 2025F	18.7	12.2	29.7	562	656	750	843	937
FY26F	20.8	24.4	26.8	623	727	831	935	1,039

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 236: EPS to grow from Rs9.1 in FY23 to ~Rs20.8 in FY26F



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Scenario analysis

Figure 237: Scenario analysis

	Bull Case	Base Case	Bear Case
Revenue CAGR	26%	21%	9%
FY25F EBITDA Margin	12.7%	11.7%	11.3%
Sep-25F EPS (Rs)	23.9	18.7	16.8
Target P/E (x)	45.0	40.0	35.0
Target Price	1,078	750	586
Upside	93.6%	34.6%	5.3%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Base Case: In this scenario, we expect a 21% revenue CAGR with the average EBITDA margin at 12% in FY23-26F, which translates into EBITDA and PAT CAGR of 22%, and 37%, respectively. Assigning a 40x P/E multiple to its Sep 2025F EPS, we arrive at a target price of Rs750.

Figure 238: PAT CAGR of 37% in a base-case scenario

Base-case scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	CAGR (%)
Total Sales	6,418	6,902	8,407	9,447	11,707	14,043	16,643	21%
Growth (YoY, %)		7.5%	21.8%	12.4%	23.9%	20.0%	18.5%	
EBITDA	644	659	975	1,128	1,436	1,641	2,028	22%
Growth (YoY, %)		2.3%	48.1%	15.7%	27.3%	14.2%	23.6%	
EBITDA Margin (%)	10.0%	9.5%	11.6%	11.9%	12.3%	11.7%	12.2%	
PAT	123	228	475	525	884	1,090	1,357	37%
Growth (YoY, %)		86.1%	108.0%	10.7%	68.3%	23.4%	24.4%	
PAT Margin (%)	1.9	3.3%	5.6%	5.6%	7.5%	7.8%	8.2%	
EPS (Rs)	1.9	3.5	7.3	8.0	13.5	16.7	20.8	37%
Growth (YoY, %)		86.1%	108.0%	10.7%	68.3%	23.4%	24.4%	

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Bull Case: In this scenario, we expect a 26% revenue CAGR with the average EBITDA margin at 12.8% in FY23-26F, which translates into EBITDA and PAT CAGR of 30% and 50%, respectively. Assigning a 45x P/E multiple to its Sep 2025F EPS, we arrive at a target price of Rs1,078.

Figure 239: PAT CAGR of 50% in a bull-case scenario

Bull-case scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	CAGR (%)
Total Sales	6,418	6,902	8,407	9,447	12,180	15,219	18,798	26%
Growth (YoY, %)	-	7.5%	21.8%	12.4%	28.9%	25.0%	23.5%	
EBITDA	644	659	975	1,128	1,616	1,930	2,478	30%
Growth (YoY, %)	0%	2.3%	48.1%	15.7%	43.3%	19.4%	28.4%	
EBITDA Margin (%)	10.0%	9.5%	11.6%	11.9%	13.3%	12.7%	13.2%	
PAT	123	228	475	525	1,112	1,370	1,757	50%
Growth (YoY, %)	0%	86.1%	108.0%	10.7%	111.8%	23.1%	28.2%	
PAT Margin (%)	1.9	3.3%	5.6%	5.6%	7.5%	7.8%	8.2%	
EPS (Rs)	1.9	3.5	7.3	8.0	17.0	21.0	26.9	50%
Growth (YoY, %)	0%	86.1%	108.0%	10.7%	111.8%	23.1%	28.2%	

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Bear Case: In this scenario, we expect a 9% revenue CAGR with the average EBITDA margin at 11.2% in FY23-26F, which translates into EBITDA and PAT CAGR of 5% and 15%, respectively. Assigning a 35x P/E multiple to its Sep 2025F EPS, we arrive at a target price of Rs586.

Figure 240: PAT CAGR of 15% in a bear-case scenario

Bear-case scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	CAGR (%)
Total Sales	6,418	6,902	8,407	9,447	10,290	11,315	12,278	9%

Growth (YoY, %)		7.5%	21.8%	12.4%	8.9%	10.0%	8.5%	
EBITDA	644	659	975	1,128	1,126	1,275	1,312	5%
Growth (YoY, %)		2.3%	48.1%	15.7%	-0.2%	13.3%	2.9%	
EBITDA Margin (%)	10.0%	9.5%	11.6%	11.9%	10.9%	11.3%	10.7%	
PAT	152	286	656	727	921	1,087	1,101	15%
Growth (YoY, %)		87.5%	129.8%	10.8%	26.7%	18.1%	1.3%	
PAT Margin (%)	2.4%	4.1%	7.8%	7.7%	9.0%	9.6%	9.0%	
EPS (Rs)	2.3	4.4	10.0	11.1	14.1	16.7	16.9	15%
Growth (YoY, %)		87.5%	129.8%	10.8%	26.7%	18.1%	1.3%	

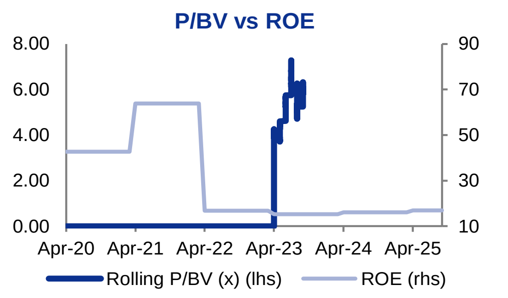
SOURCE: COMPANY REPORTS, INCRED RESEARCH

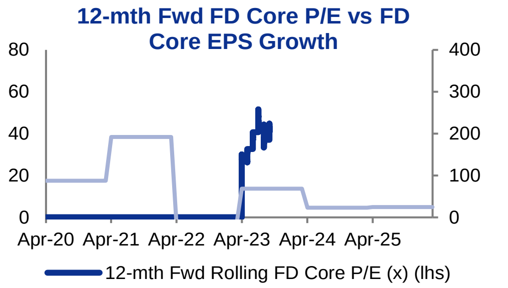
Key downside risks

- **Dependence on exports**: Avalon is heavily dependent on exports for its top-line growth. With the prevailing macroeconomic headwinds in the US and Europe, this could be an impediment to the company's top-line growth going ahead.
- **Supply chain dependence:** Avalon's dependence on China and Vietnam for its raw material sourcing is a big risk, as far as its supply chain is concerned. With the geopolitical risks coming to the fore between India and China, coupled with the ongoing trade wars between the US and China, this could be a risk going ahead.

InCred Equities

BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	**8,407**	**9,447**	**11,707**	**14,043**	**16,643**
Gross Profit	**2,866**	**3,380**	**4,215**	**5,084**	**6,158**
Operating EBITDA	**975**	**1,128**	**1,436**	**1,641**	**2,028**
Depreciation And Amortisation	(180)	(197)	(211)	(241)	(258)
Operating EBIT	**795**	**932**	**1,226**	**1,400**	**1,770**
Financial Income/(Expense)	(248)	(348)	(181)	(91)	(100)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	109	144	183	206	214
Profit Before Tax (pre-EI)	**656**	**727**	**1,228**	**1,515**	**1,885**
Exceptional Items	200				
Pre-tax Profit	**856**	**727**	**1,228**	**1,515**	**1,885**
Taxation	(182)	(202)	(344)	(424)	(528)
Exceptional Income - post-tax					
Profit After Tax	**675**	**525**	**884**	**1,090**	**1,357**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**675**	**525**	**884**	**1,090**	**1,357**
Recurring Net Profit	517	525	884	1,090	1,357
Fully Diluted Recurring Net Profit	**517**	**525**	**884**	**1,090**	**1,357**

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	856	727	1,228	1,515	1,885
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(805)	(1,125)	(479)	(519)	(1,790)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	180	197	211	241	258
Other Operating Cashflow	(158)	13			
Net Interest (Paid)/Received	209	244	181	91	100
Tax Paid	(125)	(189)	(344)	(424)	(528)
Cashflow From Operations	**157**	**(133)**	**797**	**904**	**(75)**
Capex	(177)	(273)	(400)	(300)	(280)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(6)	2	3	3	3
Cash Flow From Investing	**(184)**	**(271)**	**(397)**	**(297)**	**(277)**
Debt Raised/(repaid)	158	128	(2,100)	96	28
Proceeds From Issue Of Shares		798			
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	(367)	3,616	(31)	(93)	39
Cash Flow From Financing	**(208)**	**4,542**	**(2,131)**	**3**	**67**
Total Cash Generated	(235)	4,138	(1,732)	610	(285)
Free Cashflow To Equity	**131**	**(276)**	**(1,700)**	**703**	**(324)**
Free Cashflow To Firm	**(236)**	**(648)**	**219**	**516**	**(452)**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	78	4,219	2,487	3,097	2,812
Total Debtors	1,774	2,062	2,443	2,998	4,473
Inventories	2,330	3,179	3,692	4,441	5,850
Total Other Current Assets	298	673	782	882	1,248
Total Current Assets	**4,479**	**10,133**	**9,405**	**11,419**	**14,383**
Fixed Assets	913	1,062	1,121	1,179	1,178
Total Investments	53	53	53	53	61
Intangible Assets	6	24	5	5	4
Total Other Non-Current Assets	420	527	527	527	342
Total Non-current Assets	**1,391**	**1,667**	**1,706**	**1,765**	**1,584**
Short-term Debt	2,199	2,407	707	777	777
Current Portion of Long-Term Debt					
Total Creditors	1,185	1,418	1,655	1,988	2,591
Other Current Liabilities	595	1,521	1,808	2,361	3,218
Total Current Liabilities	**3,979**	**5,345**	**4,170**	**5,126**	**6,586**
Total Long-term Debt	742	656	256	282	310
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	188	302	302	302	241
Total Non-current Liabilities	**930**	**958**	**558**	**583**	**551**
Total Provisions	97	130	130	130	130
Total Liabilities	**5,006**	**6,433**	**4,858**	**5,839**	**7,266**
Shareholders Equity	887	5,370	6,254	7,345	8,701
Minority Interests					
Total Equity	**887**	**5,370**	**6,254**	**7,345**	**8,701**

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	21.8%	12.4%	23.9%	20.0%	18.5%
Operating EBITDA Growth	47.5%	15.7%	27.3%	14.2%	23.6%
Operating EBITDA Margin	11.6%	11.9%	12.3%	11.7%	12.2%
Net Cash Per Share (Rs)	(43.85)	17.71	23.35	31.22	26.42
BVPS (Rs)	13.58	82.25	95.78	112.48	133.26
Gross Interest Cover	3.20	2.68	6.77	15.38	17.69
Effective Tax Rate	21.2%	27.8%	28.0%	28.0%	28.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	77.99	74.10	70.23	70.72	81.93
Inventory Days	124.75	165.72	167.37	165.68	179.13
Accounts Payables Days	81.00	78.29	74.85	74.21	79.69
ROIC (%)	15.0%	15.2%	17.9%	18.4%	18.2%
ROCE (%)	21.6%	15.2%	15.7%	17.9%	19.5%
Return On Average Assets	12.0%	8.9%	8.9%	9.5%	9.8%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

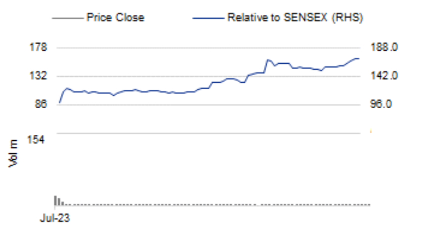
India

ADD *(Initiating coverage)*

Consensus ratings*:	Buy 2	Hold 0	Sell 0

Current price:	Rs721
Target price:	Rs880
Previous target:	NA
Up/downside:	22.1%
InCred Research / Consensus:	22.2%
Reuters:	
Bloomberg:	CYIENTDL IN
Market cap:	US$688m
	Rs57,148m
Average daily turnover:	US$0.0m
	Rs0.0m
Current shares o/s:	79.3m
Free float:	14.15%

Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	29.4	0.0	0.0
Relative (%)	28.6	0.0	0.0

Major shareholders	% held
Promoters	66.7
FIIs	7.2
DIIs	12.0

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Cyient DLM Ltd

A promising player in defence EMS space

- Rising wallet share from its unique clientele, including Israel aerospace firms, coupled with rising revenue from the defence sector act as growth catalysts.
- Entry into the clean energy sector with Nexcer, an EV battery safety technology start-up, also presents an interesting optionality going ahead.
- We value Cyient DLM at 50x Sep25F EPS and initiate coverage on it with an ADD rating and a target price of Rs880.

Rising defence industry orders to aid growth

Cyient DLM's revenue from the defence industry increased to 58% in FY23 from 29% in FY19 as the company has developed the expertise in manufacturing complex defence systems for the Israel Aerospace Industry (IAI) and Rafael (Dassault Systems), which jointly developed the Iron Dome Air Defence system for Israel. The average order ticket size from IAI is Rs160m, suggesting the high degree of complexity associated with these products. They also present a large revenue pie for Cyient DLM to capture, keeping in mind that IAI and Rafale are developing other modern air defence systems including David's Sling and Arrow.

Niche clientele offers a huge opportunity

Apart from the defence industry, Cyient DLM has also a very strong client base in other categories as well. Cyient DLM's average relationship with a client is around 8-10 years, giving it a definite edge. Industry giants like ABB, Honeywell and Thales Avionics are some of its marquee clients. Moreover, its entry into the clean energy sector with Nexcer, an electric vehicle or EV battery safety technology start-up, also presents an interesting optionality going ahead.

Improving EBITDA margin to aid profitability

We expect Cyient DLM's EBITDA margin to increase from 10.6% in FY23 to 11.5% in FY26F led by improvement in the product mix from Build-2-Print (B2P) to Build-2-Specification (B2S). In a B2P process, a client shares a detailed product specification/ drawing that has been created by its internal team. The EMS manufacturer is then accountable for manufacturing the product according to those drawings, whereas in a (B2S) process the products are built as per the client's need, function, or size requirement, thereby resulting in a higher EBITDA margin.

We value Cyient DLM at 50x Sep25F EPS; initiate coverage with ADD

Cyient DLM is likely to register a 37% topline growth over FY23-26F with good margins coupled with ~74% PAT CAGR. We assign an ADD rating to Cyient DLM with a target price of Rs880, valuing the stock at 50x Sep25F EPS. Downside risk: A worsening macroeconomic environment with the hike in interest rates by the US Federal Reserve, as Cyient DLM has 70% revenue exposure to export markets and supply chain risks because of higher dependence on imports for sourcing raw materials.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	7,205	8,320	11,639	15,771	21,215
Operating EBITDA (Rsm)	840	878	1,254	1,746	2,397
Net Profit (Rsm)	398	317	680	1,127	1,664
Core EPS (Rs)	7.5	6.0	8.6	14.2	21.0
Core EPS Growth	237.2%	(20.3%)	43.0%	65.6%	47.6%
FD Core P/E (x)	95.73	120.06	83.97	50.70	34.34
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	47.37	45.07	40.60	28.22	19.54
P/FCFE (x)	50.67	(45.29)	11,906.81	70.05	38.54
Net Gearing	222.3%	74.2%	(64.5%)	(73.0%)	(82.6%)
P/BV (x)	49.40	19.25	5.92	5.30	4.59
ROE	69.4%	23.1%	11.7%	11.0%	14.3%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 241: EMS payer in defence and industrial sectors

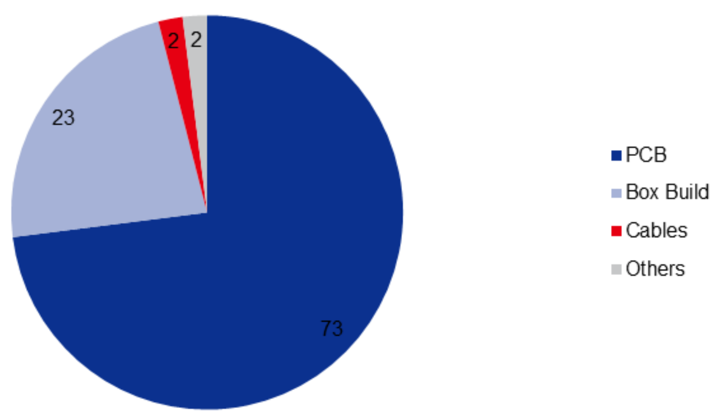
	Cyient DLM (Rs8bn-FY23 to Rs24bn-FY26F)			
Key Segments	Aerospace & defence	Medical technology	Industrials	Others
Key Products	PCBA- RF Radars, PCBA+/ Boxbuild, Box Build- testers	PCBA, Switches	PCBA, Switches, Sensor pad	
Key Clients	Bharat Electronics, Thales, Rafale	Molbio, GE Healthcare, Collins aerospace	Motorola, Samsung, Nokia, Gionee, Karbonn,	
Revenue (Rs m: FY23)	4,798	1,353	2,087	82
Revenue Mix (FY23)	58%	16%	25%	1%
Revenue CAGR (FY18-23)	36%	31%	18%	-54%
Revenue CAGR (FY23-26F)	39%	26%	38%	28%
Key Investment Themes	Cyient DLM offers electronics solutions for mission-critical applications with high entry barriers for regulated industries like aerospace & defence, medical technology and industrial sectors.			
	The company has an interesting opportunity to gain further wallet share from its existing clients, thereby presenting itself with a huge growth opportunity in the coming years.			
	It counts some disruptive companies among its client base, which presents optionality for its EMS business. One of them is Nexcer, which is working on battery safety technology. These businesses, if successful, can generate a large delta for Cyient DLM's revenue and profitability.			
	With a strong order pipeline and an equally strong current order book of ~Rs24bn, the company is expected to register a 40% topline growth over FY23-26F.			
	Cyient DLM is focusing on increasing its wallet share with niche clients to achieve growth. We value Cyient DLM at 50x Sep 2025F EPS to arrive at a target price of Rs880.			

SOURCE: COMPANY REPORTS, INCRED RESEARCH

A promising player in defence EMS space

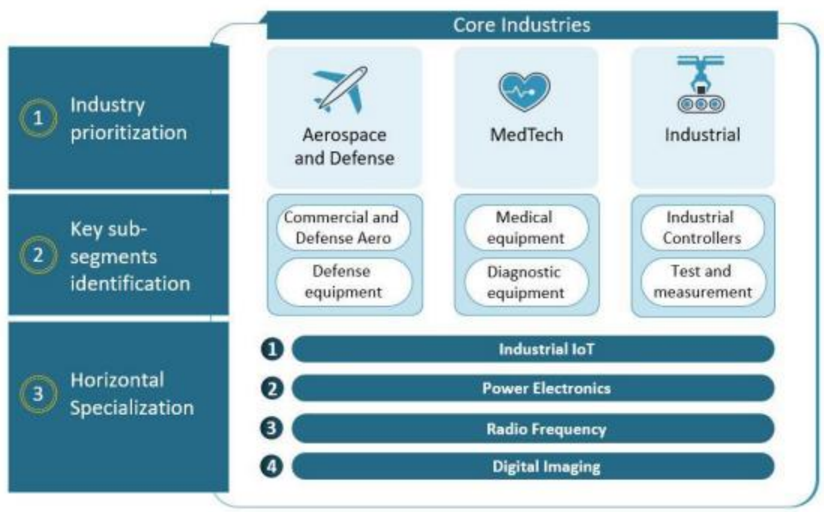
Cyient DLM is striving to be a global player with 70% export revenue. The company has multibillion-dollar companies among its foreign clients including Rafale (Dassault Systems), Honeywell Automation and ABB. Cyient DLM enjoys long-term relationships with its clients, which presents significant barriers to entry for its competitors. It is one of the few Indian companies which export their products to Israel (a country known for its hi-tech defence industry). In fact, ABB contributed 22% to the revenue of the company in FY23. Cyient DLM is an EMS manufacturer catering to sectors such as aerospace, defence, healthcare and industrial. It manufactures printed circuit boards (PCB), box build & cables and has facilities in Mysuru (manufacturing box build and PCB), Bengaluru (manufacturing high-precision instruments), and Hyderabad (manufacturing box build and PCB). Almost 90% of its revenue currently comes from the Mysuru facility.

Figure 242: Product-wise revenue breakup (in % terms) – PCBs account for a major portion of the company's sales



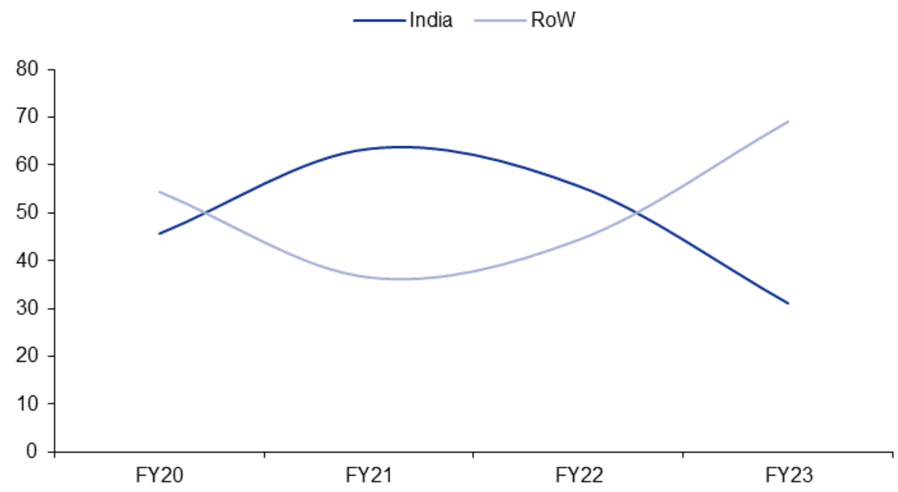
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 243: Industry landscape for Cyient DLM



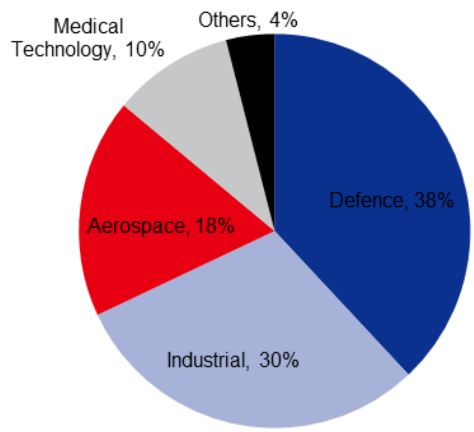
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 244: Revenue break-up (in % terms) from India and Rest of the World (%); Cyient DLM's export share is rising, and the uptrend is likely to continue with its client base increasing



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 245: Revenue break-up by industry (in % terms); currently, defence sector is the largest contributor to Cyient DLM's topline

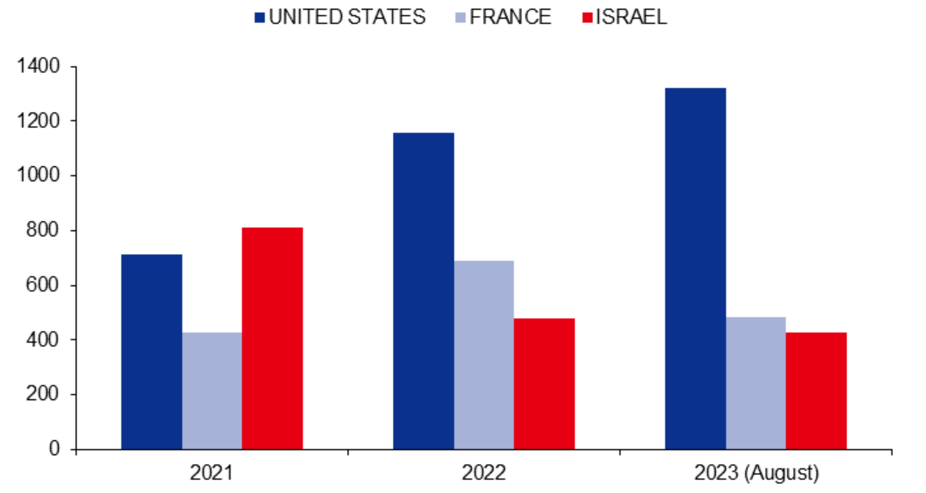


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Riding on defence industry uptrend ›

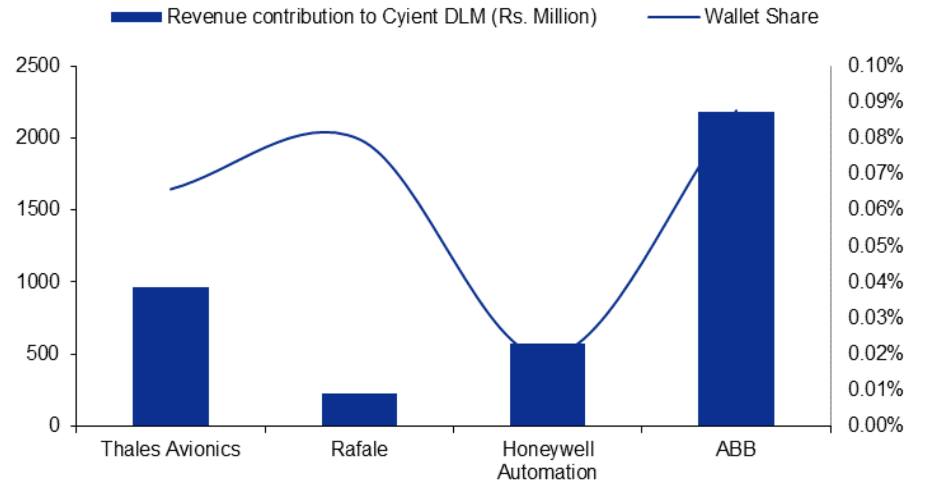
Cyient DLM is mainly an export-oriented business, as the export contribution to its top-line is almost 70%. On analyzing its export data, we find that the US and Israel are largest contributors to its top-line. Most importantly, Rafale (Dassault Systems) imports from Cyient DLM, which is an achievement in itself, as it is one of the best players in the industry. It also presents an interesting optionality for Cyient DLM as Rafale has a top-line of US$3.1bn and currently it contributes only US$5m to Cyient DLM's topline. Similarly, clients in other geographies like Honeywell Automation, ABB and Thales Avionics provide an excellent opportunity for Cyient DLM to increase its wallet share.

Figure 246: Revenue contribution (Rs m) by the largest three export partners



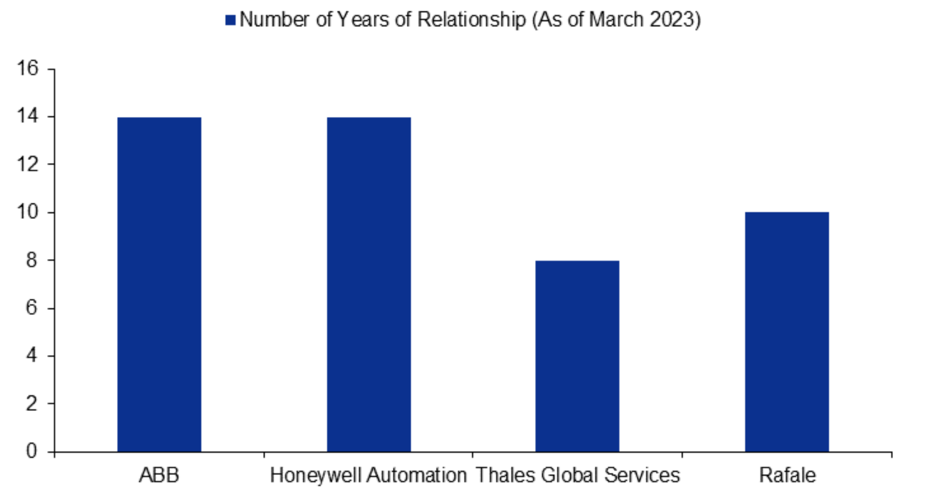
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 247: Cyient DLM has a lot of scope for growth with its existing foreign clients as they are all giants in their respective industries



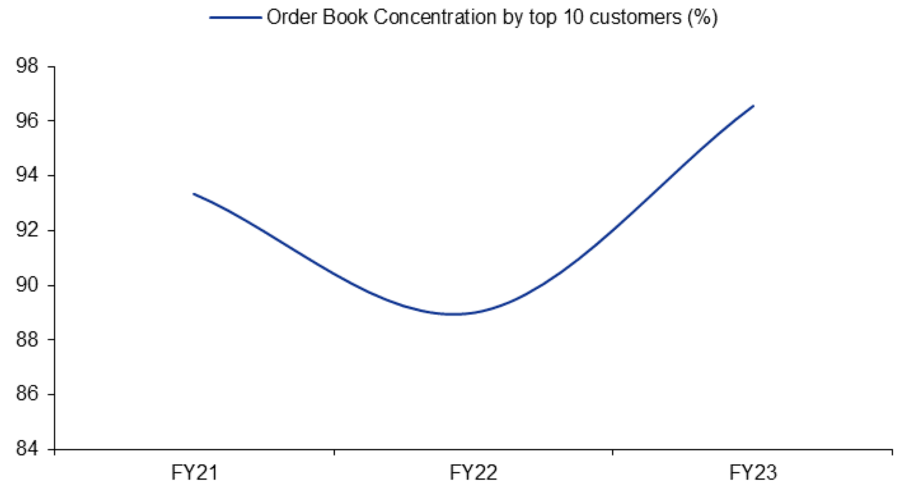
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 248: Cyient DLM's long-term relationship with clients also gives it a definite edge



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 249: However, client concentration could be a downside risk

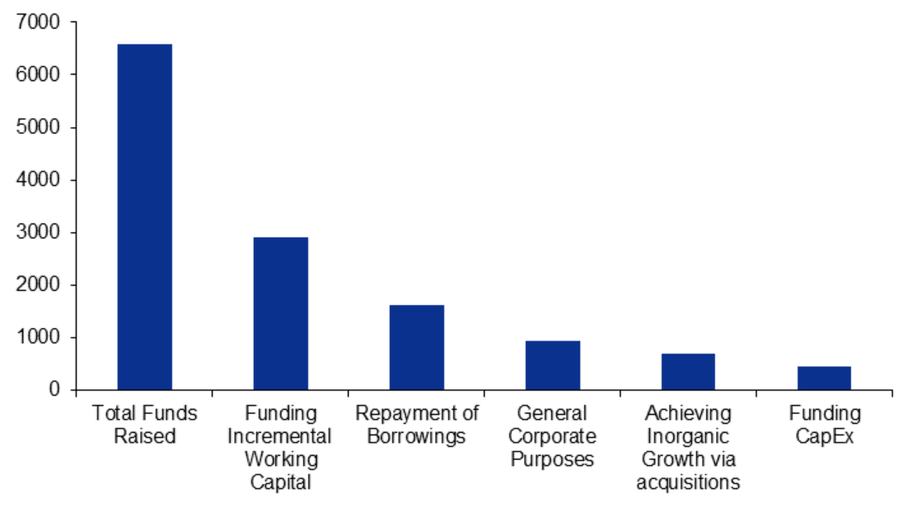


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Where will the IPO proceeds go?

Cyient DLM listed on the bourses on 10 Jul 2023. The IPO for Rs6bn comprised entirely of a fresh issue of shares. There was no offer for sale component in the IPO. Hence, while the fresh share issue component infused fresh funds into the company, it was also EPS-dilutive. The stock listed at a premium of ~52% to the IPO price, at Rs403, and was subscribed by more than 67x, indicating the investors' interest in the company.

Figure 250: Utilization of IPO proceeds (Rs m)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

A deep dive into aerospace and defence industry

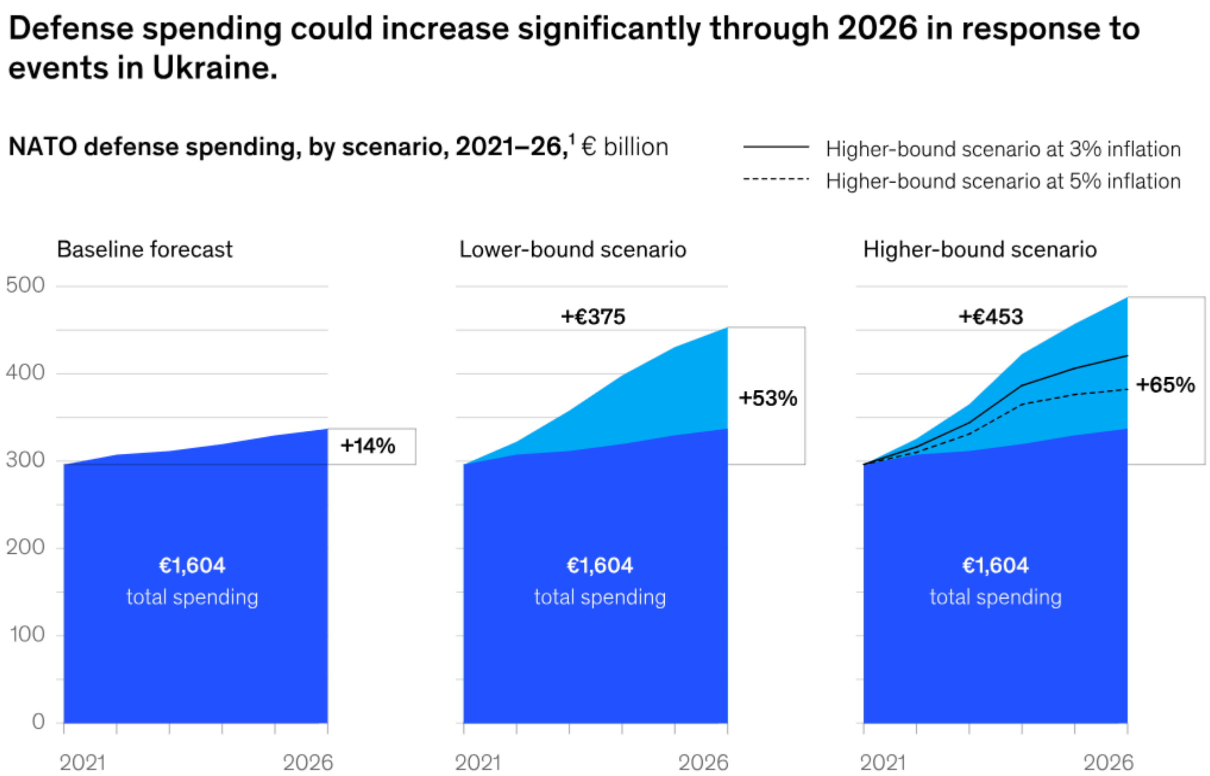
The aerospace and defence or A&D industry typically encompasses civil aviation, defence aviation and defence equipment. The global A&D industry, which was estimated at US$720bn in 2021, is expected to grow at ~6% CAGR to become a US$960bn market by 2026F. Leading commercial aerospace companies such as Boeing, Raytheon, Collins and SpaceX, as well as emerging drone start-ups, will also provide growth in the mid- to long-term. Meanwhile, the defence sector is steady, reporting modest growth in the US and significant growth in Europe, with global military expenditure hitting an all-time high of US$2.1tr in 2021. Unlike commercial aviation, the defence-end market was unaffected by the Covid-19 pandemic, and adding to that the ongoing Russia-Ukraine war has given a boost to this sector. India's defence capital expenditure is constantly growing, which is evident from the annual defence budget, rising to Rs5,250bn in FY23 from

Rs4,780bn in FY22. Besides, there is increased demand for large aircraft from Indian carriers like Indigo, SpiceJet, Tata, etc.

Cyient DLM's key offerings in the defence and aerospace area include:

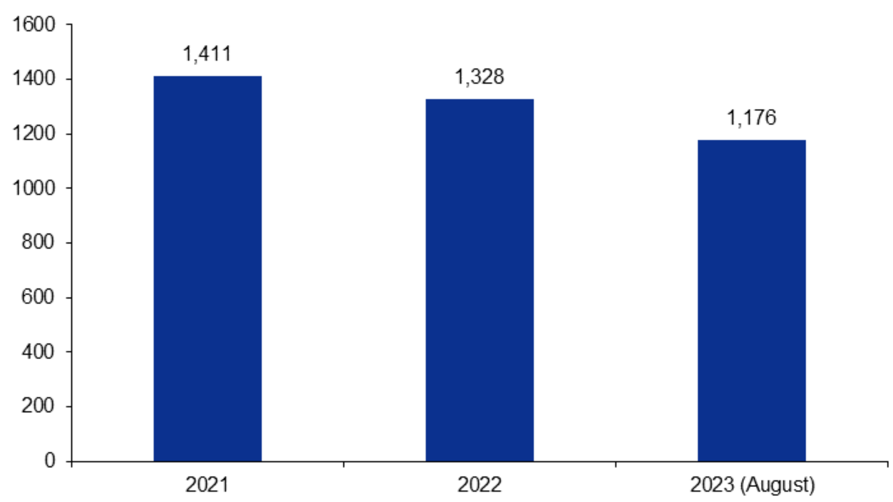
- Cockpit Display Unit (used in flight instrument systems and used to show flight data).
- Flight Management System (an aircraft computer that has multiple functions, right from pre-engine offset to take-off landing to engine shutdown).
- Surveillance Radar System (designed typically to provide details on the location of aircraft over long and short ranges).
- Communication/ Navigation System (used by flights to communicate mid-air).

Figure 251: Russia-Ukraine war could act as a tipping point, as far as defence spending for European nations is concerned



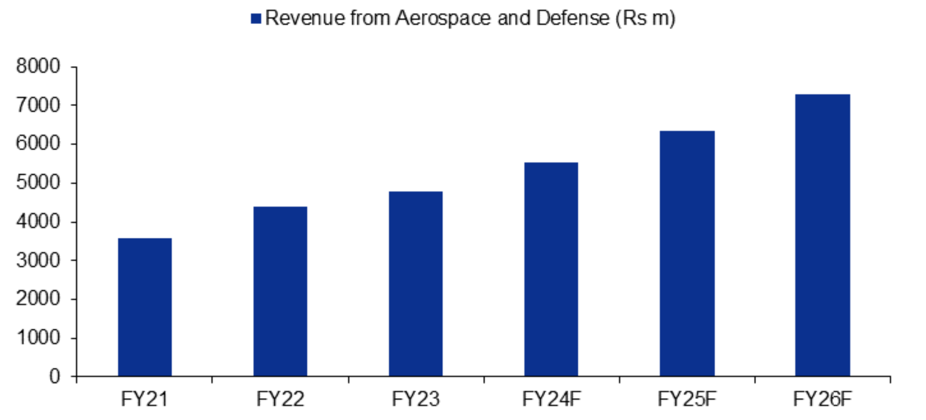
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 252: Cyient DLM's European exposure (Rs m), coupled with long-term relationship with its clients



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 253: Revenue from aerospace and defence sector is expected to increase significantly



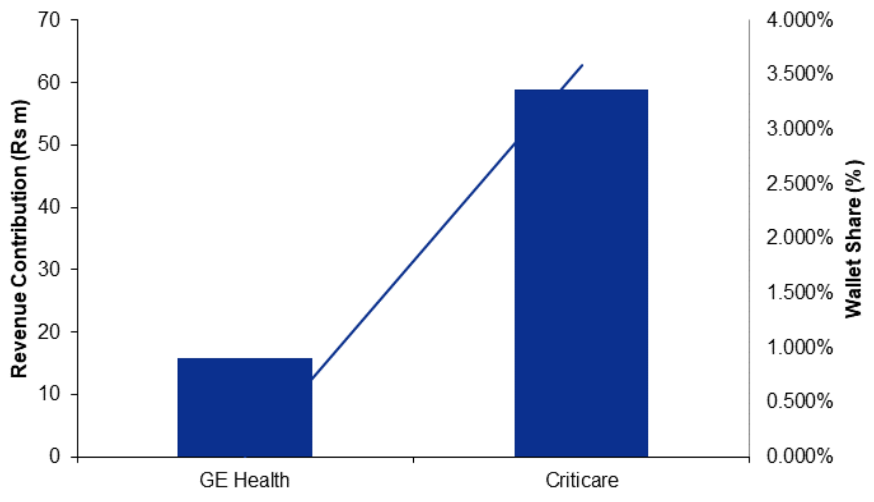
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Medical electronics

As the healthcare sector adapts to the changes induced by the Covid-19 pandemic, it is undergoing a major transformation in terms of technology adoption, new product development, and care delivery approach. The global med-tech OEMs are investing heavily in R&D and launching new devices to cater to post-pandemic-related demands. Major demand generators include MRI, X-ray, ultrasound machinery, etc. and patient aids, including hearing aids and pacemakers, etc. In line with the global trend, the Indian healthcare sector is also incessantly growing due to its strengthening coverage, services, and rising investment by public and private players. The medical tourism and luxury healthcare markets are among India's fastest-growing industries, which create significant demand for specialized, high-tech medical equipment. **Cyient DLM's key offerings in medical electronics include:**

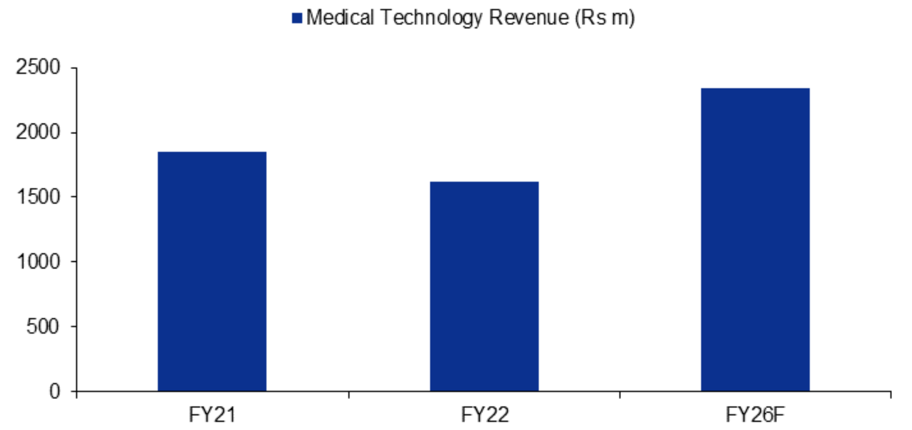
- Patient care monitoring equipment (involves the use of equipment to continually monitor a patient's vital indicators via a medical monitor collecting health data).
- Diagnostic equipment (for diagnostic imaging include X-ray, MRI scan, CT scan, ultrasonography, among others).

Figure 254: GE Healthcare and Criticare are among the clients of Cyient DLM; given that GE Healthcare is a major player in the healthcare sector, it presents a lot of headroom for Cyient DLM's growth



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 255: Cyient DLM's top-line growth from medical devices



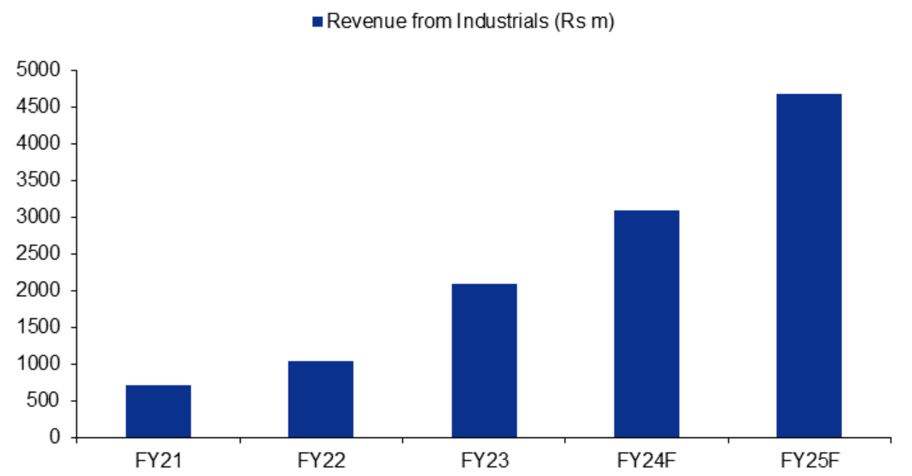
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Industrial electronics

Industrial electronics generally refers to the use of electronics for power and control systems, outside the field of communications. Industrial electronics plays an important role in improving efficiency and productivity of multiple industries such as manufacturing, energy, transportation, chemicals, mining, and agriculture. The rapid adoption of modern technology, backed by cost optimization features, is driving the growth of this market. The demand for factory automation solutions in India is likely to surge with the increase in domestic manufacturing and an emphasis on increased process efficiency. Industrial automation is currently focused on promoting Industry 4.0, or the digitization of industry with IoT-based solutions for smart manufacturing. **Cyient DLM's key offerings in industrial electronics include:**

- Building technology/clean energy products
- Flow measurement and analysis units (the process of assessing fluids in a plant or the industry)
- Room and plant controllers.

Figure 256: Revenue from the industrials sector is expected to grow at a CAGR of 30% over the next three years

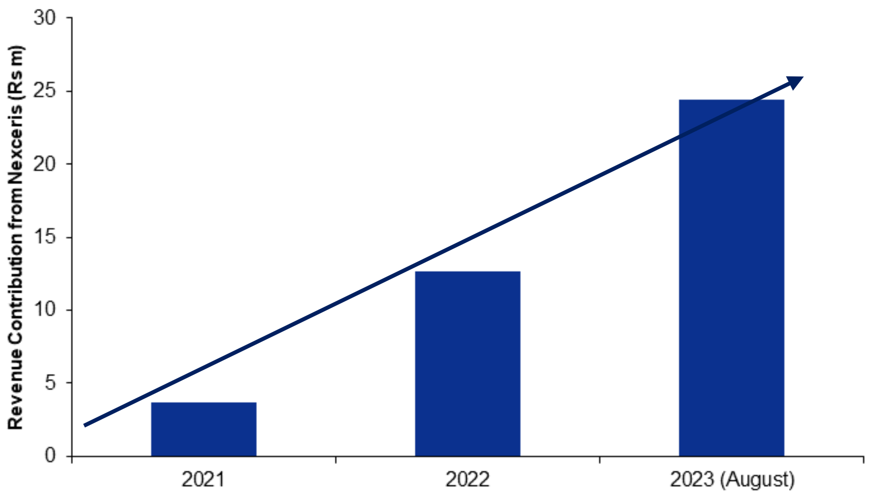


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Honeywell & Nexceris: Interesting options for Cyient DLM

Nexceris is actively innovating efficient energy storage and production solutions for clean energy transition. Nexceris has developed Tamer lithium-ion gas detection solutions to increase electric vehicle safety. Honeywell has inked a new partnership with Nexceris for the same. The partnership will culminate in new sensor-based solutions as the two companies plan to develop a new system that can prevent conditions leading to thermal runaway in EV batteries, which can cause fires when extremely high temperatures are reached. The sensors will detect gases produced from excessive temperatures in lithium-ion batteries. The detection systems could allow for early intervention and help avoid costly property damage and safety issues. Nexceris created lithium-ion Tamer devices to make batteries safer. Nexceris has regularly tested and analyzed battery systems since the company was established in 2010, co-operating with designers, regulators, and other specialists to enhance battery safety. Nexceris' technologies have also been utilized in the National Aeronautics and Space Agency or NASA's development of solid oxide cells for lunar applications. It is interesting to note that both Honeywell and Nexceris are the clients of Cyient DLM. Their presence in groundbreaking EV technology and Nexceris' continuous innovation in the same presents excellent options for Cyient DLM going ahead.

Figure 257: Nexceris' revenue contribution could grow multi-fold in the coming years due to its presence in groundbreaking tech for EVs



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key clients' profile

Figure 258: Diversified client base

Honeywell	• Honeywell is a multinational conglomerate known for its diverse range of technology solutions, including aerospace systems, building technologies, and performance materials, serving industries like aviation, manufacturing, and energy. • The company contributes 9% to the overall revenue from operations. • The company aims to double its business in India from US$1bn currently, with a growth rate of 15-18%.
Thales	• Thales, a global technology leader, specializes in defence, aerospace, transportation, and digital security solutions, providing cutting-edge technologies for critical infrastructure and security. • The company contributes 13% to Cyient DLM's revenue.
ABB	• ABB is a pioneering multinational corporation in robotics, electrification, and automation, offering solutions for industries such as utilities, transportation, and industrial automation. ABB Inc. contributes 22% to the revenue of Cyient DLM. • ABB India is expected to incur a capex of~ Rs10bn in India over the next five years.
BEL	• Bharat Electronics (BEL), an Indian government-owned company, focuses on the design, development, and manufacturing of advanced electronics and defence systems, contributing significantly to India's defence and security capabilities. • The company's revenue contribution stands at ~11%.

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Key management profile

Figure 259: Strong management team

Name	Rajendra Velagapudi	Krishna Bodanapu	BVR Mohan Reddy
Designation	Managing Director	Non-Executive Chairman	Non-Executive Director
Qualification	• He holds a master's degree in automobile engineering from Madras Institute of Technology and a master's degree in design from Cranfield University, UK. • He has hands-on experience in design and analysis of powertrain systems for commercial and off-highway equipment. • He is responsible for manufacturing operations, primarily focusing on growing existing DLM businesses and creating new opportunities in emerging sectors.	• He holds a bachelor's degree in electrical engineering from Purdue University and a master's degree in business administration from Kellogg School of Management, Northwestern University. • He is responsible for providing strategic direction to the company and creating long-term value for stakeholders.	• He holds postgraduate degrees in engineering from IIT Kanpur and University of Michigan, USA. • He is the recipient of honorary doctorates from JNTU Hyderabad, JNTU Kakinada, Andhra University, and KL University. • He acts as a sounding board, mentor, and critic in the spirit of enabling sustainable growth, especially in matters related to strategy, values, policy, CSR and government relations.

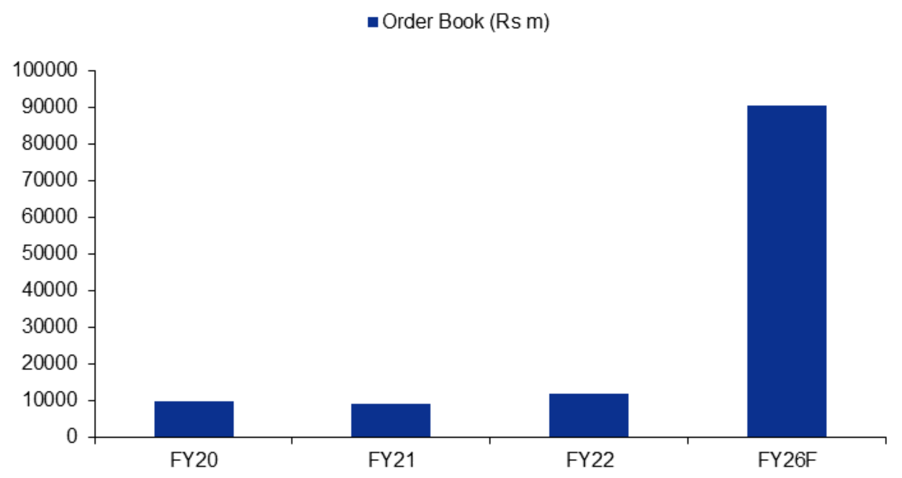
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Financials and valuation

Robust order book to aid growth ›

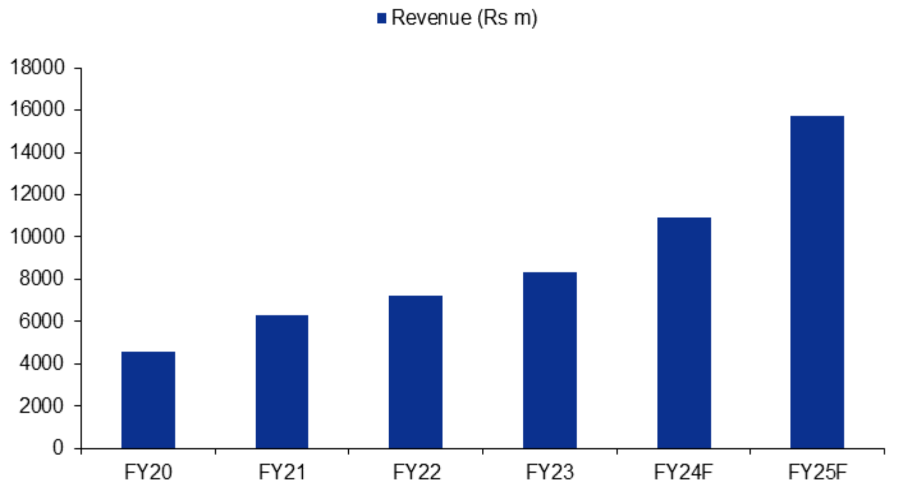
We expect Cyient DLM to maintain its robust order book, as it tries to increase wallet share from its existing clients. Rafale, Honeywell and ABB are world leaders in their respective industries and still a lot of wallet share needs to be captured by Cyient DLM. This will, in turn, also boost Cyient DLM's top-line, aiding a 30% CAGR over FY24F-26F.

Figure 260: Cyient DLM's order book is expected to treble by FY26F…



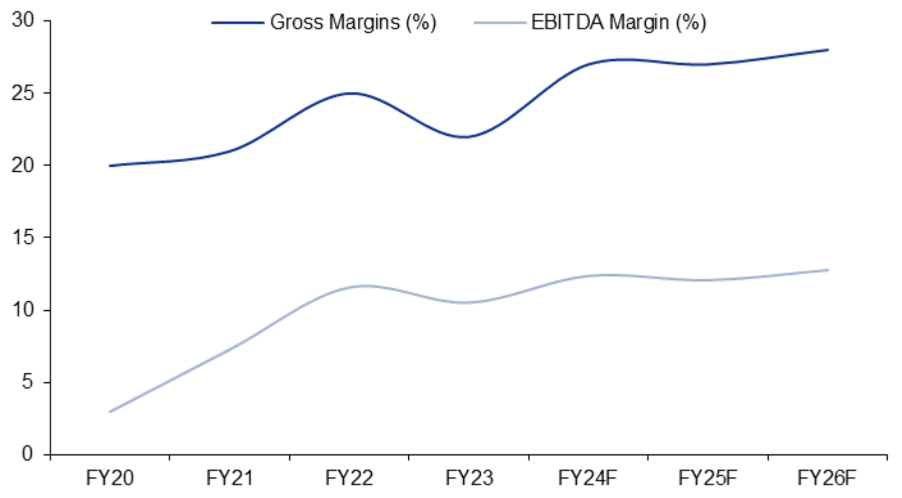
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 261: …which is likely to aid top-line growth…



SOURCE: INCRED RESEARCH, COMPANY REPORTS

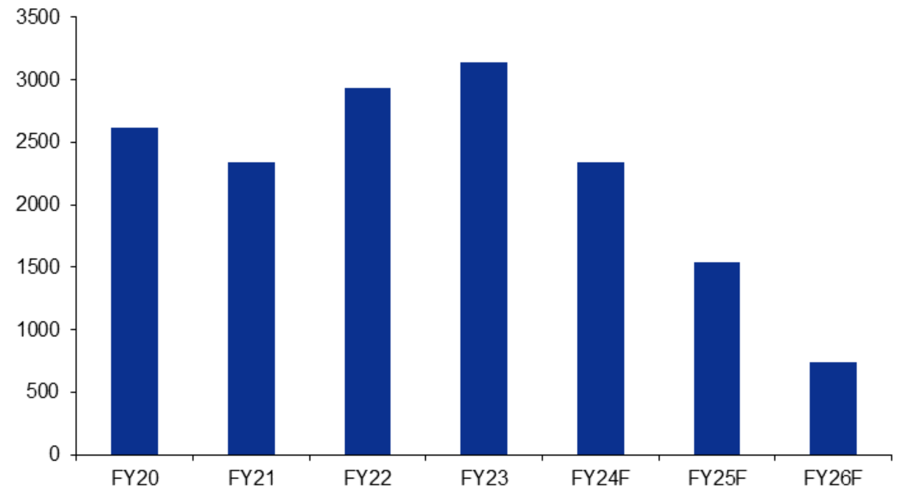
Figure 262: …coupled with expansion in gross & EBITDA margins due to complexity of PCBA business



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Utilization of IPO funds leads to lower debt on the balance sheet

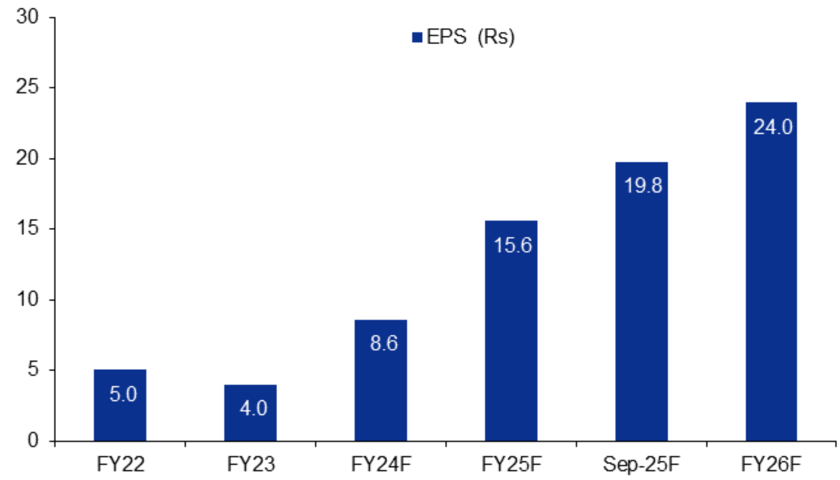
Figure 263: As Cyient DLM uses its IPO funds, the debt on its balance sheet will decrease (Rs m)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Cyient DLM's EPS likely to multiply by 5x by FY26F

Figure 264: Rapid growth in EPS likely in the coming quarters



SOURCE: INCRED RESEARCH, COMPANY REPORTS

We have used P/E method to value Cyient DLM

We have valued Cyient DLM on a P/E basis, as we consider it a more appropriate valuation method for commodity companies than the discounted cash flow or DCF or P/BV methodologies. In our view, DCF is not a suitable valuation method because Cyient DLM is a high-growth company and forecasting its long-term earnings reliably is very difficult.

Figure 265: Target price valuation

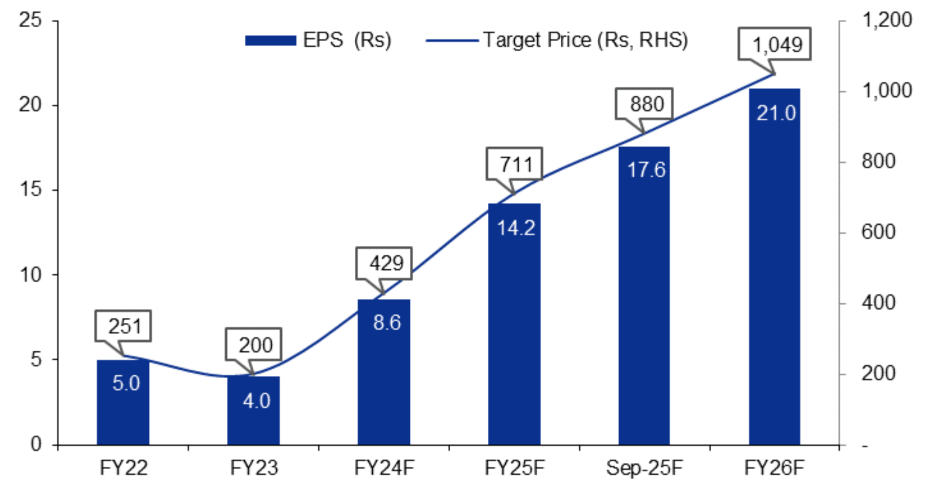
	Cyient DLM							
CMP (Rs)	722							
Mean P/E	NA							
P/E (x)	50.0							
Premium/(Discount)	NA							
Target Price (Sep-2025F) Rs	880							
Target Price (FY26F) Rs	1,049							
Expected Return (%)	21.9							
Price Sensitivity Analysis								
	EPS	Growth	P/E	Target P/E multiple (x)				
	(Rs)	(%)	(x)	40.0	45.0	50.0	55.0	60.0
FY22	5.0	-81.6	143.9	201	226	251	276	301
FY23	4.0	-20.3	180.4	160	180	200	220	240
FY24F	8.6	114.4	84.1	343	386	429	472	515
FY25F	14.2	65.6	50.8	568	640	711	782	853
Sep 2025F	17.6	23.8	41.0	704	792	880	968	1,056
FY26F	21.0	47.7	34.4	839	944	1,049	1,154	1,259

SOURCE: INCRED RESEARCH, COMPANY REPORTS

We have valued Cyient DLM at 50x Sep 2025F earnings

- Cyient DLM is a high-growth company as it caters to niche sectors like aerospace and defence, medical electronics, and industrials. To gain a customer's wallet share in these categories is a daunting task, as the relationship requires a long gestation period of more than 10 years. As a result, Cyient DLM has an interesting opportunity to gain further wallet share from its existing clients, thereby presenting itself with a huge growth opportunity in the coming years.
- Cyient DLM counts some disruptive companies among its client base, which presents an optionality for its EMS business. One of them is Nexcer, which is working on battery safety technology. These businesses, if proven successful, can generate a large delta for Cyient DLM's revenue and profitability.

Figure 266: EPS likely to grow from Rs4 in FY23 to Rs21 in FY26F



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Scenario analysis

Figure 267: Scenario analysis

	Bull Case	Base Case	Bear Case
Revenue CAGR	42%	37%	17%
FY25F EBITDA Margin	12.1%	11.1%	8.8%
Sep-25F EPS (Rs)	25.7	17.6	12.6
Target P/E (x)	55.0	50.0	45.0
Target Price	1,413	880	566
Upside	95.7%	21.9%	-21.7%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Base Case: In this scenario, we expect a 37% revenue CAGR with the average EBITDA margin at 11% in FY23-26F, which translates into EBITDA and PAT CAGR of 40%, and 74%, respectively. Assigning a 50x P/E multiple to its Sep 2025F EPS of Rs15, we arrive at a target price of Rs880.

Figure 268: PAT CAGR of 74% in a base-case scenario

Base-Case Scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	CAGR (%)
Total Sales	4,571	6,280	7,205	8,320	11,639	15,771	21,215	37%
Growth (YoY, %)		37.4%	14.7%	15.5%	39.9%	35.5%	34.5%	
EBITDA	137	459	840	878	1,254	1,746	2,397	40%
Growth (YoY, %)		234.6%	82.9%	4.5%	42.9%	39.2%	37.3%	
EBITDA Margin (%)	3.0%	7.3%	11.7%	10.6%	10.8%	11.1%	11.3%	
PAT	(67)	118	398	317	680	1,127	1,664	74%
Growth (YoY, %)		-275.8%	237.2%	-20.3%	114.4%	65.6%	47.6%	
PAT Margin (%)	(1.5)	1.9%	5.5%	3.8%	5.8%	7.1%	7.8%	
EPS (Rs)	(1)	1	5	4	9	14	21	74%
Growth (YoY, %)		-275.8%	237.2%	-20.3%	114.4%	65.6%	47.6%	

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Bull Case: In this scenario, we expect a revenue CAGR of 42% with the average EBITDA margin at 11.8% in FY23-26F, which translates into EBITDA and PAT CAGR of 49% and 95%, respectively. Assigning a 55x P/E multiple to its Sep 2025F EPS, we arrive at a target price of Rs1,413.

Figure 269: PAT CAGR of 95% in a bull-case scenario

Bull-Case Scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	CAGR (%)
Total Sales	4,571	6,280	7,205	8,320	12,055	16,938	23,631	42%
Growth (YoY, %)	-	37.4%	14.7%	15.5%	44.9%	40.5%	39.5%	
EBITDA	137	459	840	878	1,419	2,044	2,907	49%
Growth (YoY, %)	0%	234.6%	82.9%	4.5%	61.7%	44.0%	42.2%	
EBITDA Margin (%)	3.0%	7.3%	11.7%	10.6%	11.8%	12.1%	12.3%	
PAT	(67)	118	398	317	1,235	1,701	2,370	95%
Growth (YoY, %)	0%	-275.8%	237.2%	-20.3%	289.1%	37.8%	39.3%	
PAT Margin (%)	(1.5)	1.9%	5.5%	3.8%	5.8%	7.1%	7.8%	
EPS (Rs)	(1)	1	5	4	16	21	30	95%
Growth (YoY, %)	0%	-275.8%	237.2%	-20.3%	289.1%	37.8%	39.3%	

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Bear Case: In this scenario, we expect a 17% revenue CAGR with the average EBITDA margin at 9.3% in FY23-26F, which translates into EBITDA and PAT CAGR of 11% and 50%, respectively. Assigning a 45x P/E multiple to its Sep 2025F EPS, we arrive at a target price of Rs566.

Figure 270: PAT CAGR of 50% in a bear-case scenario

Bear-Case Scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	
Total Sales	4,571	6,280	7,205	8,320	9,975	11,522	13,194	17%
Growth (YoY, %)		37.4%	14.7%	15.5%	19.9%	15.5%	14.5%	
EBITDA	137	459	840	878	853	1,011	1,196	11%
Growth (YoY, %)		234.6%	82.9%	4.5%	-2.8%	18.5%	18.3%	
EBITDA Margin (%)	3.0%	7.3%	11.7%	10.6%	8.6%	8.8%	9.1%	
PAT	(67)	118	398	317	798	916	1,078	50%
Growth (YoY, %)		-275.8%	237.2%	-20.3%	151.6%	14.7%	17.6%	
PAT Margin (%)	-1.5%	1.9%	5.5%	3.8%	8.0%	8.0%	8.2%	
EPS (Rs)	(1)	1	5	4	10	12	14	50%
Growth (YoY, %)		-275.8%	237.2%	-20.3%	151.6%	14.7%	17.6%	

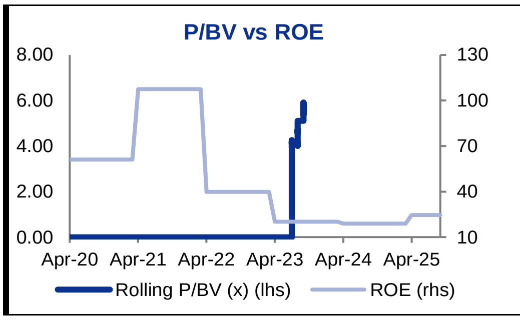
SOURCE: COMPANY REPORTS, INCRED RESEARCH

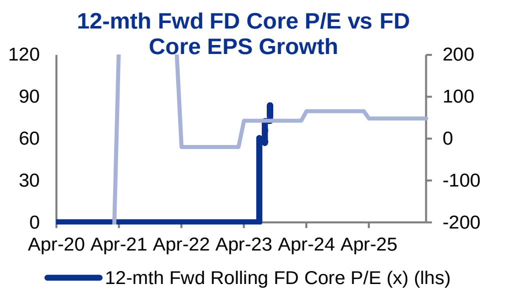
Downside risks ›

The key downside risks for Cyient DLM includes its exposure to the US market (~70% of revenue) and the prevailing macroeconomic situation there. If the Federal Reserve's rate hike cycle continues, it will impact Cyient DLM. This is because the company's US clients are paying for the loans on their balance sheet, ultimately impacting Cyient DLM's top-line.

InCred Equities

BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	**7,205**	**8,320**	**11,639**	**15,771**	**21,215**
Gross Profit	**1,766**	**1,868**	**2,793**	**3,754**	**5,092**
Operating EBITDA	**840**	**878**	**1,254**	**1,746**	**2,397**
Depreciation And Amortisation	(193)	(194)	(221)	(243)	(265)
Operating EBIT	**648**	**684**	**1,033**	**1,502**	**2,132**
Financial Income/(Expense)	(220)	(315)	(294)	(238)	(188)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	80	63	186	269	320
Profit Before Tax (pre-EI)	**507**	**432**	**926**	**1,533**	**2,264**
Exceptional Items					
Pre-tax Profit	**507**	**432**	**926**	**1,533**	**2,264**
Taxation	109	114	245	406	600
Exceptional Income - post-tax					
Profit After Tax	**398**	**317**	**680**	**1,127**	**1,664**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**398**	**317**	**680**	**1,127**	**1,664**
Recurring Net Profit	398	317	680	1,127	1,664
Fully Diluted Recurring Net Profit	**398**	**317**	**680**	**1,127**	**1,664**

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	591	511	1,146	1,776	2,529
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(329)	(229)	15	559	767
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	158	140			
Other Operating Cashflow					
Net Interest (Paid)/Received	175	267	108	(31)	(132)
Tax Paid	(109)	(168)	(245)	(406)	(600)
Cashflow From Operations	**485**	**521**	**1,024**	**1,898**	**2,565**
Capex	(84)	(76)	(220)	(282)	(282)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(240)	(1,343)			
Cash Flow From Investing	**(324)**	**(1,419)**	**(220)**	**(282)**	**(282)**
Debt Raised/(repaid)	591	57	(800)	(800)	(800)
Proceeds From Issue Of Shares		889	7,000		
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	(130)	(205)	(108)	31	132
Cash Flow From Financing	**461**	**740**	**6,092**	**(769)**	**(668)**
Total Cash Generated	622	(158)	6,896	847	1,615
Free Cashflow To Equity	**752**	**(841)**	**4**	**816**	**1,483**
Free Cashflow To Firm	**(13)**	**(1,165)**	**696**	**1,647**	**2,415**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	1,218	1,676	8,572	9,419	11,034
Total Debtors	1,552	1,653	2,615	3,543	4,766
Inventories	2,696	4,251	3,827	4,321	4,940
Total Other Current Assets	475	896	797	1,080	1,453
Total Current Assets	**5,941**	**8,475**	**15,811**	**18,363**	**22,193**
Fixed Assets	1,756	1,593	1,592	1,631	1,647
Total Investments	3	895	895	895	895
Intangible Assets					
Total Other Non-Current Assets	69	84	84	84	84
Total Non-current Assets	**1,829**	**2,572**	**2,571**	**2,610**	**2,626**
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	1,925	2,853	3,029	4,105	5,522
Other Current Liabilities	2,141	3,070	3,348	4,537	6,103
Total Current Liabilities	**4,066**	**5,923**	**6,378**	**8,642**	**11,624**
Total Long-term Debt	2,932	3,145	2,345	1,545	745
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	**2,932**	**3,145**	**2,345**	**1,545**	**745**
Total Provisions					
Total Liabilities	**6,998**	**9,068**	**8,723**	**10,187**	**12,369**
Shareholders Equity	771	1,979	9,659	10,786	12,450
Minority Interests					
Total Equity	**771**	**1,979**	**9,659**	**10,786**	**12,450**

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	14.7%	15.5%	39.9%	35.5%	34.5%
Operating EBITDA Growth	82.9%	4.5%	42.9%	39.2%	37.3%
Operating EBITDA Margin	11.7%	10.6%	10.8%	11.1%	11.3%
Net Cash Per Share (Rs)	(32.42)	(27.79)	78.53	99.30	129.75
BVPS (Rs)	14.59	37.43	121.81	136.02	157.01
Gross Interest Cover	2.95	2.17	3.52	6.31	11.35
Effective Tax Rate					
Net Dividend Payout Ratio					
Accounts Receivables Days	95.92	68.89	65.36	69.52	69.74
Inventory Days	142.59	196.48	166.65	123.73	104.83
Accounts Payables Days	128.33	135.13	121.35	108.34	108.96
ROIC (%)	19.5%	20.0%	30.5%	55.7%	125.9%
ROCE (%)	20.2%	15.5%	12.1%	12.3%	16.7%
Return On Average Assets	11.0%	8.3%	9.5%	10.8%	13.1%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

India

ADD *(Initiating coverage)*

Consensus ratings*:	Buy 1	Hold 0	Sell 0

Current price:	Rs173
Target price:	Rs210
Previous target:	NA
Up/downside:	21.4%
InCred Research / Consensus:	-11.0%
Reuters:	
Bloomberg:	ELIN IN
Market cap:	US$103m
	Rs8,566m
Average daily turnover:	US$0.8m
	Rs65.2m
Current shares o/s:	38.6m
Free float:	33.20%

Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.0	0.3	0.0
Relative (%)	4.3	(1.4)	0.0

Major shareholders	% held
Promoter & Promoter Group	55.8
FII	6.2
Insurance Companies	4.8

Elin Electronics

All set for a rerating

- Elin Electronics is an EMS manufacturer of LED lighting, small appliances and fractional horse power motors, among others.
- Of late, Elin has faced macro headwinds but its entry into higher-BoM products, coupled with discretionary spending improving, makes it a rerating candidate.
- We value the stock at 17x Sep25F P/E, and initiate coverage on it with an ADD rating and a target price of Rs210.

Improving macroeconomic scenario to aid growth

Elin Electronics has faced macroeconomic headwinds in the past, as a result of which the company faced declining sales volume. However, with the economic situation now improving, with inflation under control and the consumer confidence index showing an uptrend, things are expected to improve by the end of FY24F for the company.

Foray into Bill of Materials (BoM) products may revive the top-line

Elin Electronics currently gets most of its revenue from the lighting segment. However, it is planning to launch several new products whose Bill of Materials or BoM is higher than that of its existing product portfolio. The revenue model of EMS companies is a percentage of a product's BoM and hence, a higher BoM led to higher revenue growth. Products like AC motors, chimneys and oil-filled radiators are some of the possible options for Elin Electronics, and as the company launches these products according to its timeline (latest by FY25F), it will boost the revenue. Elin Electronics is also exploring the possibility of manufacturing EV motors and if that happens, it will be an interesting optionality for the business. Also, the government's recent push towards energy-efficient electrical equipment is an added benefit. Like it was seen in the case of fans, the government banned the use of non-starred fans from 1 Jan 2023. Hence, the demand for BLDC fans rose, whose BOM is higher than that of normal fans, which is another positive for the company.

Improving EBITDA margin and asset turns to boost return ratios

With the current gross block, it can generate revenue of Rs16-18bn without doing any incremental capex. As and when it ramps up production, this will improve gross asset turns to 4.5x from 3x and the EBITDA margin to 7% from 3% in 1QFY24 which, in turn, is likely to improve the RoCE and RoE

We value the stock at 17x Sep25F EPS; assign ADD rating

We expect Elin Electronics to achieve a 12% revenue CAGR over FY23-26F while the EBITDA margin to improve from 6.1% in FY23 to 7.1% in FY26F,leading to an EPS of Rs13.3 by FY26F. We initiate coverage on the stock with an ADD rating and value it at 17x Sep25F EPS to arrive at a target price of Rs210. Key downside risks include macroeconomic headwinds affecting the discretionary spending by Indian consumers and supply chain problems because of increased dependence on imports for raw materials.

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Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	10,938	10,754	11,906	13,281	14,961
Operating EBITDA (Rsm)	790	651	762	898	1,053
Net Profit (Rsm)	391	268	398	544	681
Core EPS (Rs)	7.9	5.4	8.0	11.0	13.7
Core EPS Growth	12.3%	(31.5%)	48.4%	36.9%	25.2%
FD Core P/E (x)	21.91	32.00	21.56	15.75	12.58
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	12.08	12.84	10.15	7.89	6.05
P/FCFE (x)	71.24	(5.40)	(157.76)	16.38	15.97
Net Gearing	32.1%	(4.4%)	(15.8%)	(25.4%)	(33.6%)
P/BV (x)	2.83	1.74	1.61	1.46	1.31
ROE	13.8%	6.7%	7.7%	9.7%	11.0%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 271: Small EMS player

	Elin (Rs10.7bn-FY23 to Rs15bn-FY26F)			
Key Segments	**LED Lighting, Fans and Switches**	**Small Appliances**	**Fractional Horsepower Motors**	**Other EMS**
Revenue Mix (FY23)	33%	23%	18%	3%
Revenue CAGR (FY20-23)	7%	9%	18%	7%
Revenue CAGR	14%	14%	13%	5%
Key Products	Lighting, Flashlights, Switches	Kitchen & Home Care, Personal care	Consumer Durable, Fans	
Key Investment Themes	Expanding into new products having a higher Bill of Materials ratio. AC motors, chimneys and oil-filled radiators are some of the possible options for Elin Electronics. The company plans to launch these products by FY25F to boost its revenue.			
	Exploring the manufacturing of EV motors, which is expected to be big growth driver.			
	With current gross block, Elin Electronics can generate a revenue of Rs16-18bn without incurring any incremental capex. The company aims to increase its gross asset turn ratio to 4.5x from 3x and the EBITDA margin to 7% from 3% in 1QFY24.			
	We value the stock at 17x Sep 2025F EPS, and initiate coverage on it with an ADD rating and a target price of Rs210.			

SOURCE: COMPANY REPORTS, INCRED RESEARCH

All set for a rerating

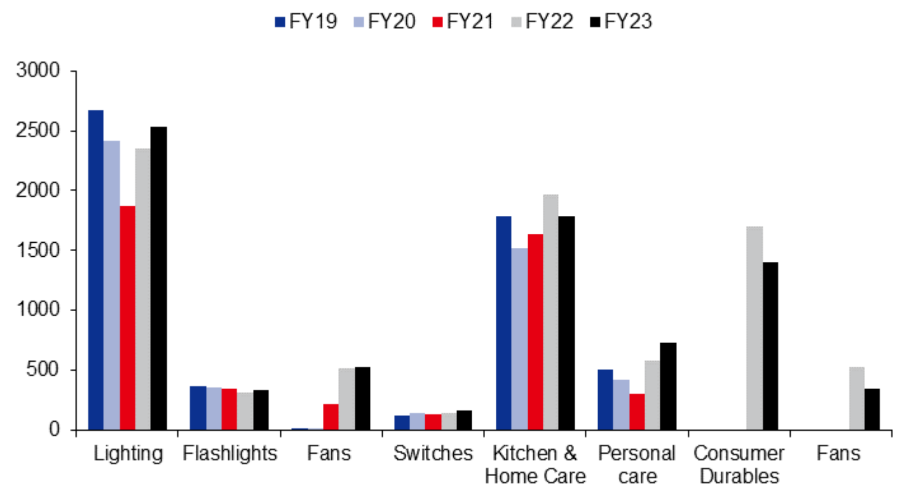
Elin Electronics is an EMS company manufacturing fractional horse-power motors and lights, fans, and small/kitchen appliances in India. It has a R&D unit in Ghaziabad and works with both OEM and ODM business models. Three of its production sites are strategically positioned at Verna in Goa, Baddi in Himachal Pradesh and Ghaziabad in Uttar Pradesh. What makes Elin Electronics unique is its presence across market leaders in every segment that it operates in. To cite an example, in small appliances, it counts Philips as its customer, a brand leader. Similarly, in LED lighting and flashlight, it has Signify and Eveready as its clients, both of them brand leaders. Finally, for BLDC fans it has Crompton as its client. Catering to market leaders provides dual advantages: it provides revenue visibility coupled with client stickiness. For Elin Electronics, its top 10 customers account for 75% of its market share. The company has EMS and non-EMS divisions, of which ~80% revenue comes from the EMS division. Its non-EMS division makes precision components and medical cartridges.

Figure 272: Small appliances market and Elin's position

	Total Domestic Market (Rs bn)					Domestic Production (Rs bn)			Domestic Production by EMS (Rs bn)			EMS Share of Production		Elin's Market Position
Segment	FY21	FY26F	CAGR (%)	Brand Leader	Customer of Elin	FY21	FY26F	CAGR (%)	FY21	FY26F	CAGR (%)	FY21	FY26F	
Small Appliances	73	99	6.3%	Philips	Yes	47	83	11.7%	18	43	19%	37%	52%	10.7% (Top 5)
Small Electric Motors (FHP)	23	41	12.4%	NA	NA	17	36	16.0%	NA	NA	NA	NA	NA	12% (Market Leader)
LED Lighting	125	359	23.5%	Signify	Yes	77	319	35.2%	35	229	46%	45%	72%	7.2% (Top 2)
Flashlights	5	7	6.7%	Eveready	Yes									
Fans	121	222	12.9%	Crompton	Yes	115	219	13.7%	40	103	21%	35%	47%	0.6% (New Entrant)

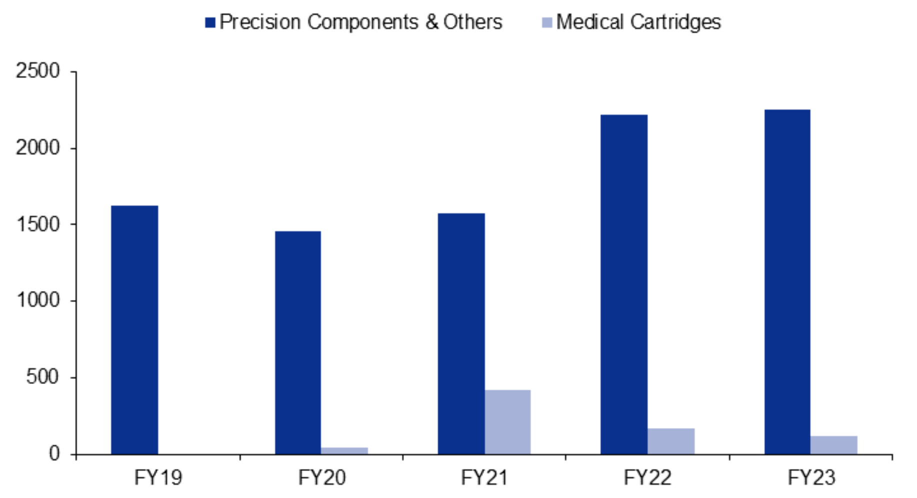
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 273: Revenue break-up of EMS segment - most of the revenue is from the lighting business (Rsmn)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 274: Revenue from non-EMS segment (Rs m)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 275: Elin Electronics has client concentration risk because it caters mainly to the needs of market leaders

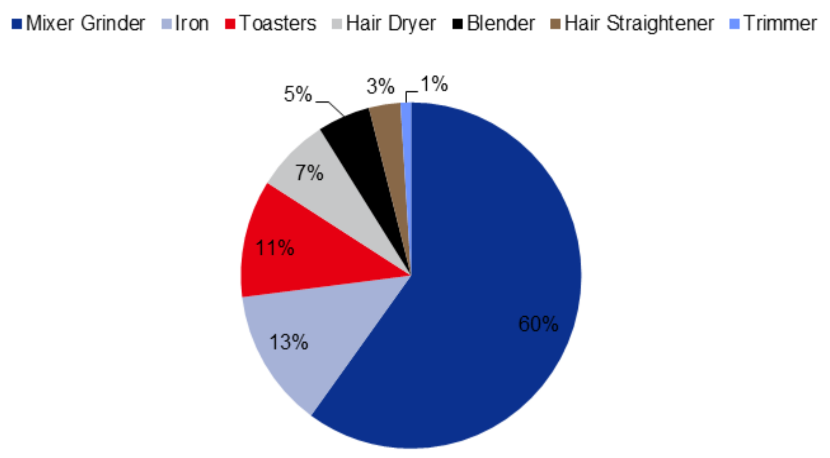
Rs m	FY20	FY21	FY22	6MFY23
Largest Customer	2,600	2,236	2954	1,624
% of Revenue	33	26	27	27
Top 5	5,423	5,427	6,912	3,955
% of Revenue	69	63	63	65
Top 10	6,348	6,718	8,437	4,898
% of Revenue	81	78	77	81

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Small appliances - new product launches to aid growth

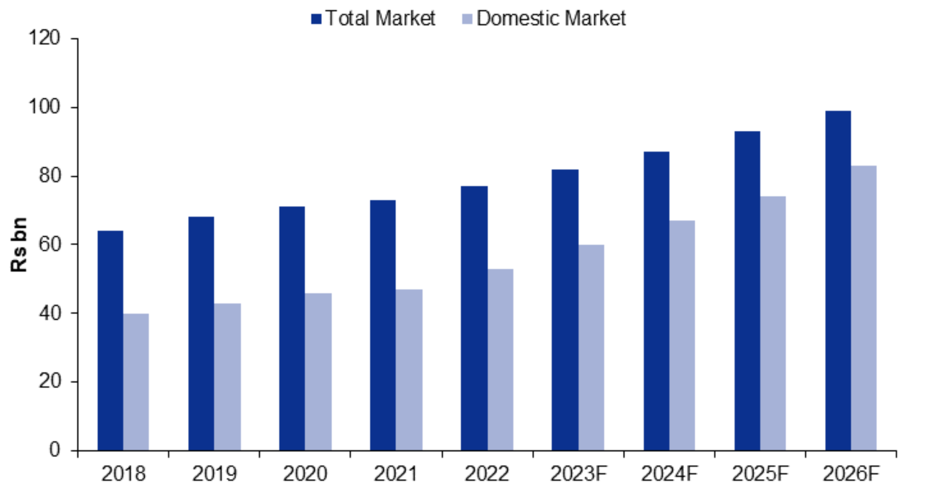
In the small appliances division, Elin Electronics manufactures kitchen & home care and personal care products. Mixer-grinders and irons account for a major part of the small appliances division. Elin Electronics also forayed into manufacturing trimmers in FY23 and will be launching another model of its trimmers by 3QFY24F. Other products in this category include toasters, hand blenders, hair dryers and hair straighteners. In this product category, the company is likely to launch at least six new products by FY25F, which are expected to drive its revenue. The industry is likely to clock a 12% CAGR over FY23-28F.

Figure 276: Small appliances market break-up (total market size is Rs73bn)



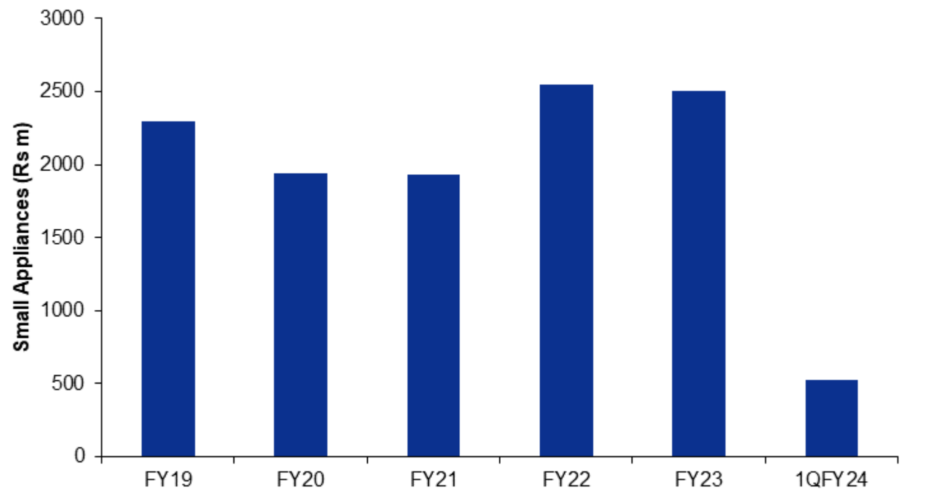
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 277: Total domestic market for small appliances is expected to register a CAGR of 12% over the next five years (FY22-26F)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 278: Most of the revenue comes from kitchen and home care items in small appliances division



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 279: New product launches in small appliances division

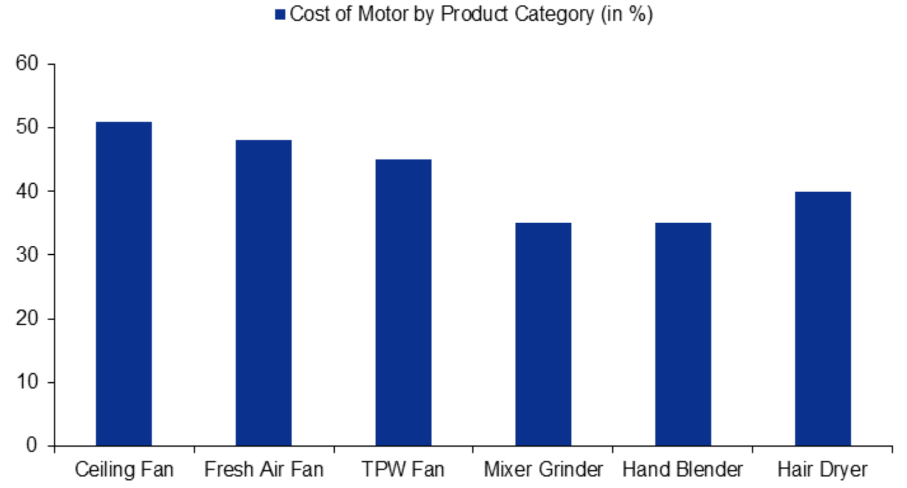
Description	Category	Current Status
Heated Hair Brush	Small Appliances	Launch in 3QFY24F
Electric Sterilizer	Small Appliances	Launch in 3QFY24F
Trimmer 3000	Small Appliances	Launch in FY25F
Oil Filled Radiator	Small Appliances	Launch in 3QFY24F
Chimney	Small Appliances	Launch in FY25F
OTG Cables	Small Appliances	Launch in 4QFY24F

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Small electric motors- Elin Electronics is the market leader in this category ›

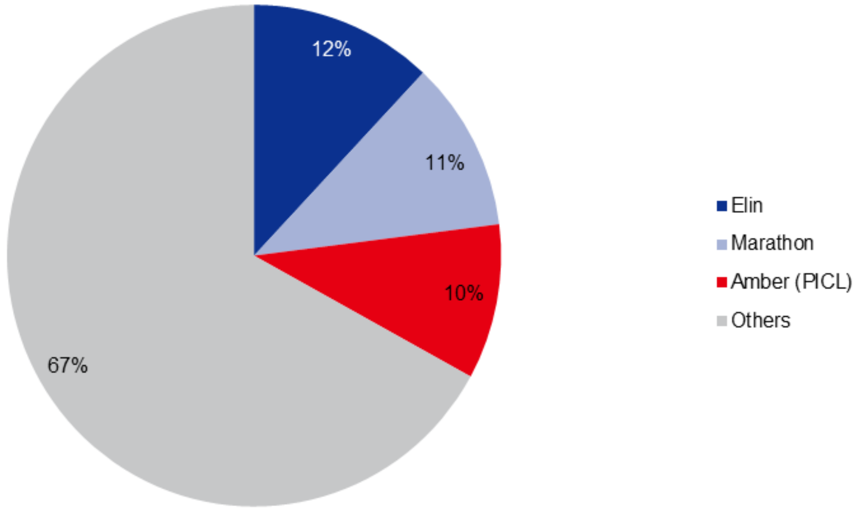
Small electric motors or fractional horse-power (FHP) motors' power rating is less than 1HP and can operate either on direct current (DC) or alternating current (AC). FHP motors are primarily used in low-voltage power applications; especially in small appliances such as electric fans, mixer-grinders, and juicer-mixers. India's motor market is highly price competitive. However, the customers are willing to pay for value-added services that help them optimize operational cost in the long run. Elin Electronics sells products in this category under two divisions - consumer durables and fans - with most of the top-line coming from the consumer durable division (72% of the total category in FY23).

Figure 280: Ceiling fans and fresh air fans have the highest motor cost and Elin Electronics is already present in this category



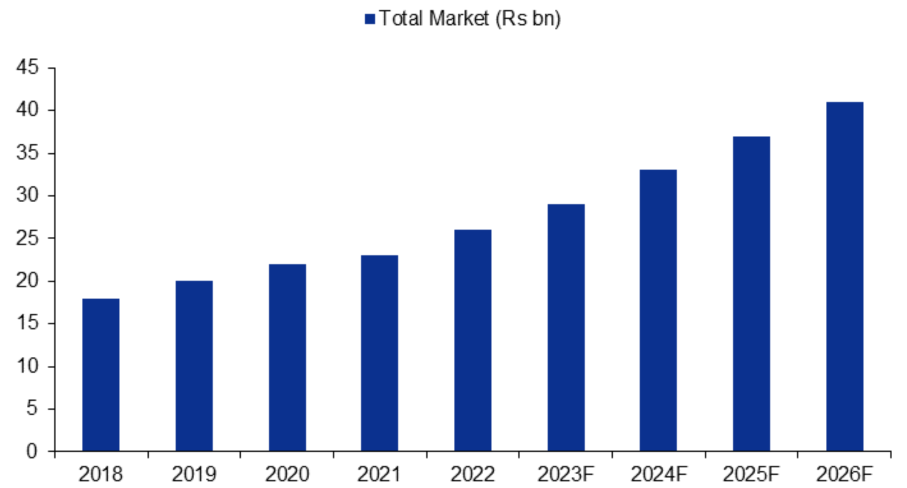
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 281: Elin Electronics is the market leader in fractional horse-power (FHP) motors category



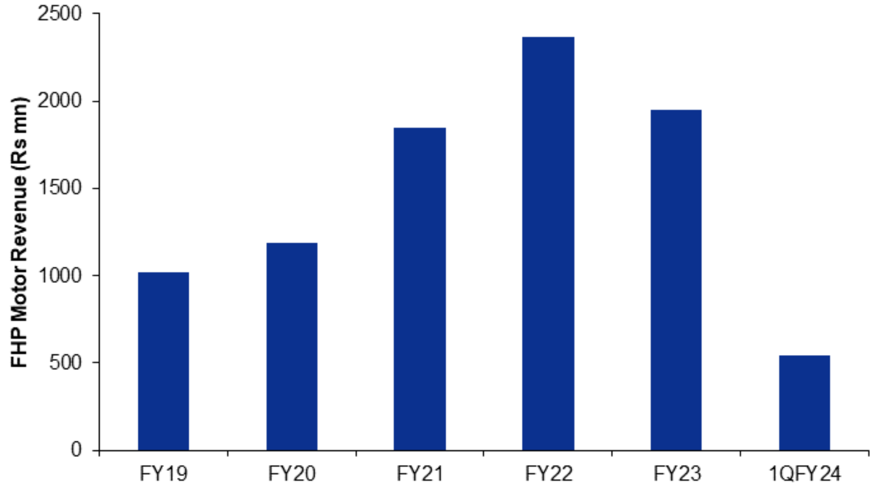
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 282: The FHP motor segment in India is expected to register a CAGR of 16%, thus making it the fastest-growing segment



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 283: FHP motor revenue declined in FY23 because of the fall in consumer demand, but is expected to bounce back in 2HFY24F

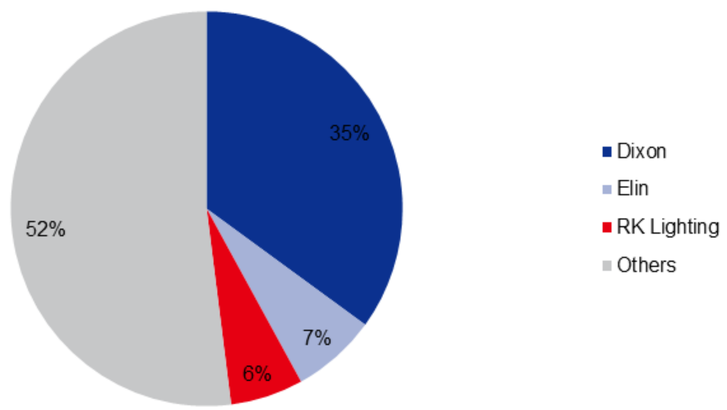


SOURCE: INCRED RESEARCH, COMPANY REPORTS

LED lighting and flash lights - largest contributor to top-line

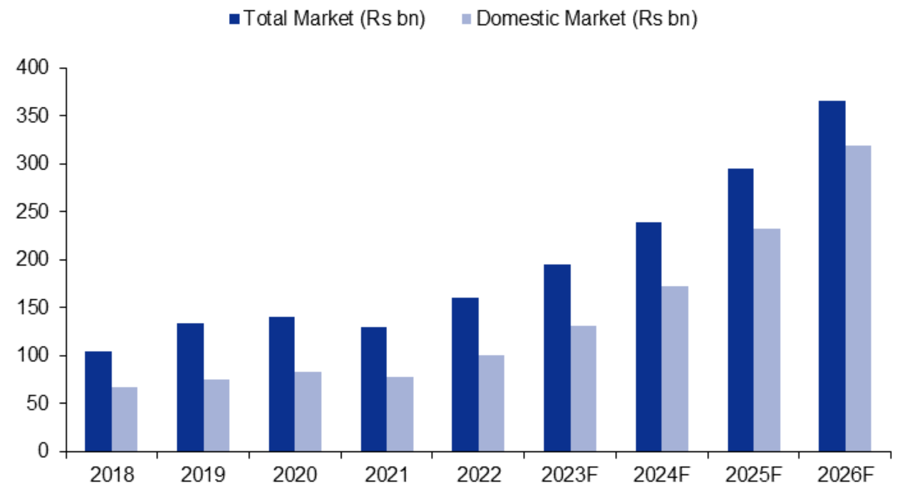
After halogen lamps, CFL, and incandescent bulbs dominated the lighting business in India for a century, now LED lights have taken over. In 1993, LED lighting was first made available in India. Since then, it has completely dominated the market, resulting in tremendous development in both the government and commercial sectors. Initiatives to improve energy efficiency are currently picking up steam in India. LED lighting product producers are improving their skills across many activity streams as local demand grows. Vendors are given pricing power with component supplies through EESL initiatives like UJALA and SLNP, which enables them to significantly lower product costs. In the foreseeable future, the largest usage will be in the street lighting segment. In the Indian market, pure-play LED lighting business is a dominant force. This segment is the largest contributor to Elin Electronics' top-line, contributing 33% in FY23.

Figure 284: Market share break-up in LED lighting and flash lighting (%); Dixon Technologies is the market leader followed by Elin Electronics



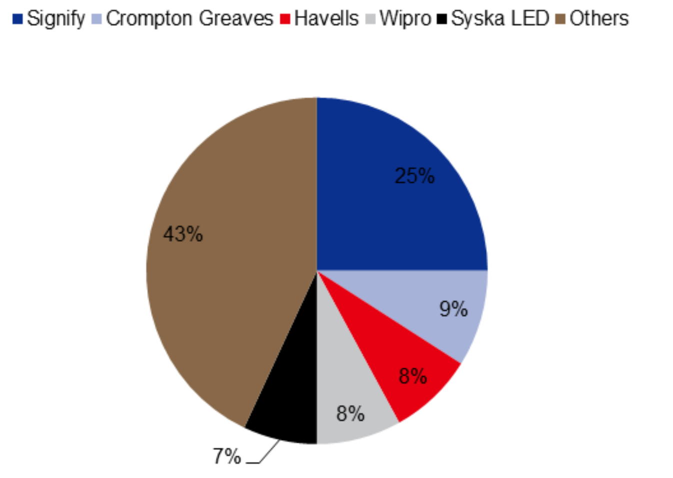
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 285: LED light and flash light businesses are estimated to register a CAGR of 35% over FY23-28F



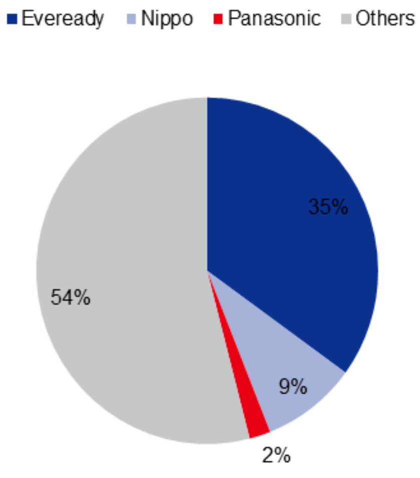
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 286: Market share break-up for LED lights (%); Signify, the market leader, is a customer of Elin Electronics



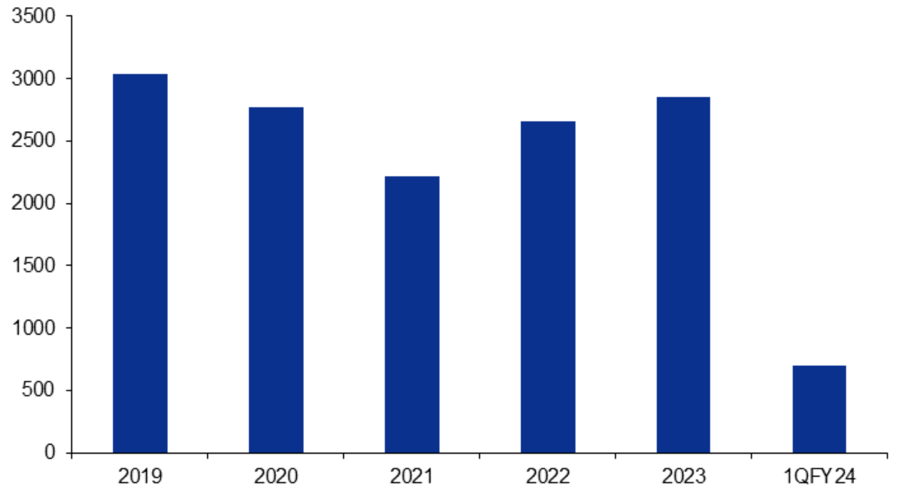
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 287: Market share break-up for flash lights (%); Eveready, the market leader, is a customer of Elin Electronics



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 288: Elin Electronics' lighting and flash light revenue (Rs m)

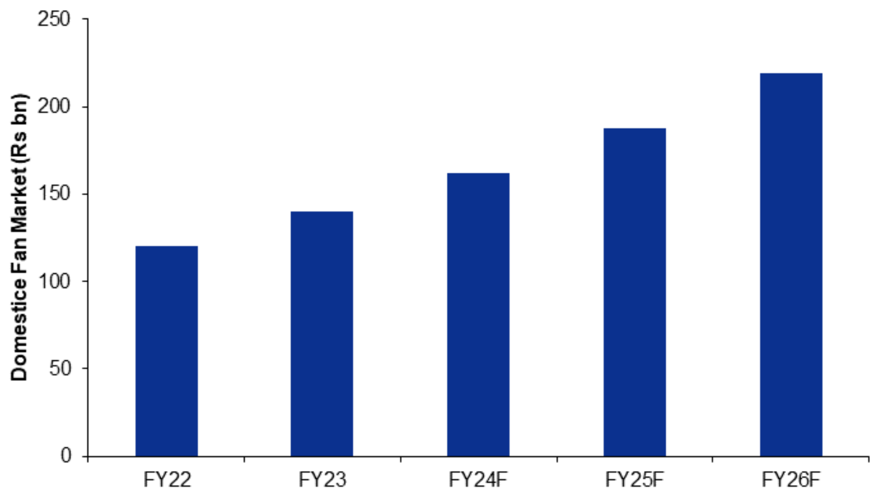


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Fan and switches division is all set to launch new products

The Indian market for fans has tremendous growth potential in the coming years. From Rs121bn in FY21 to Rs222bn likely in FY26F, the market is set to grow at ~13% CAGR. Increased disposable income has resulted in shorter product replacement cycles and altered lifestyles, leading to faster replacement of consumer durables. The upper middle class is rapidly replacing fans as it wants a better lifestyle and more beautiful décor. Until recently, the replacement cycle was eight-to-nine years. Replacement cycle in urban areas for ceiling and TPW fans has been reduced to five-to-six years. The demand for premium fans is likely to rise by 15-20% in the next three-to-five years, driven by the urge to enhance lifestyle and décor.

Figure 289: Domestic market for fans is expected to register a 13.7% CAGR



SOURCE: INCRED RESEARCH, COMPANY REPORTS

The shift from non-starred fans to BLDC fans

Ceiling fans consume about 50-80W of electricity while BLDC (brush-less direct current) fans consume less energy, without compromising much on the air delivery. The motor in BLDC fans have a permanent magnet instead of electromagnets found in a conventional induction motor. The BLDC motor has important advantages over an induction motor like low electricity consumption, less noise generation and a better lifespan. Consequently, BLDC ceiling fans are also getting popular as these consume 25-35W of energy, which is about 50-70% less than regular fans. Also, as there is no heating of the motor, the life of a BLDC fan is also likely to be much higher than ordinary fans. This shift towards BLDC fans has also been brought on due to new energy regulations introduced by the India government, according to which it is mandatory for every fan to be rated between 1 to 5 stars, and the sales of unrated fans has been banned. A normal fan without a star rating consumes 75W of electricity but for 1 star-rated fan, the power consumption cannot be more than 52W, resulting in a minimum 30% energy savings.

Figure 290: Energy consumption of a regular fan viz-a-viz 5-star BLDC fan

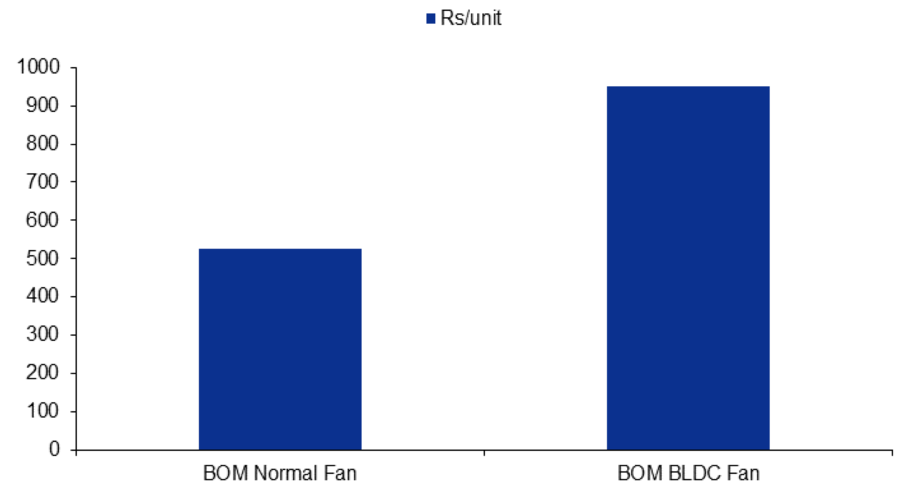
Type of Fan	Power Consumption in Watt	Daily Electricity Consumption (Unit)	Yearly Electricity Consumption (Unit)	Yearly Costs (assuming Rs. 6/unit)
Regular Fan	75	1.125	410.625	Rs. 2,463.75
BLDC Fan	30	0.45	164.25	Rs. 985.5

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BoM for BLDC and non-BLDC fans

BLDC fans are typically expensive than non-BLDC fans mainly due to the cost of the motor controller (a motor controller is a device that can coordinate the performance of the electric motor in a predetermined manner). Please note that induction motors and BLDC motors have similar raw material cost, excluding the BLDC motor controller. This is primarily because the extra cost of permanent magnets in a BLDC motor is compensated by the reduction in cost due to less copper and steel. A BLDC motor controller is estimated to cost between Rs300-700 in India. The same controller would cost between US$3.2 to US$22.5 in the US. This is the incremental difference between the BoM of a BLDC fan vs. non-BLDC fan.

Figure 291: BoM for a BLDC fan is higher than the BoM of a normal fan, indicating a higher top-line for Elin Electronics



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 292: Indicative BoM for normal fans

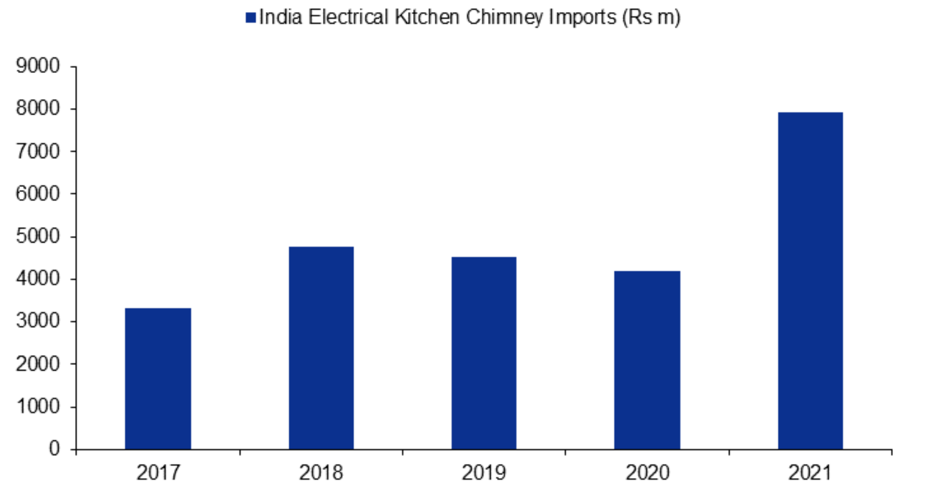
Item	Quantity	Cost (Rs)
Raw Material Cost		445
Silicon Stampings	1.1 kg	
Copper Wire for Winding	0.3kg	
Shaft	1 No.	
End Shields	2.2 kg	
Bearings	2 Nos.	
Rotor Die Casting	1 No.	
Canopies	2 Nos.	
Capacitor	1 No.	
Fan Blades	3 Nos.	
Labour Cost		45
Packing Cost		35
Total BoM		525

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Foray into chimney, oil-filled radiator and air-conditioner businesses ❯

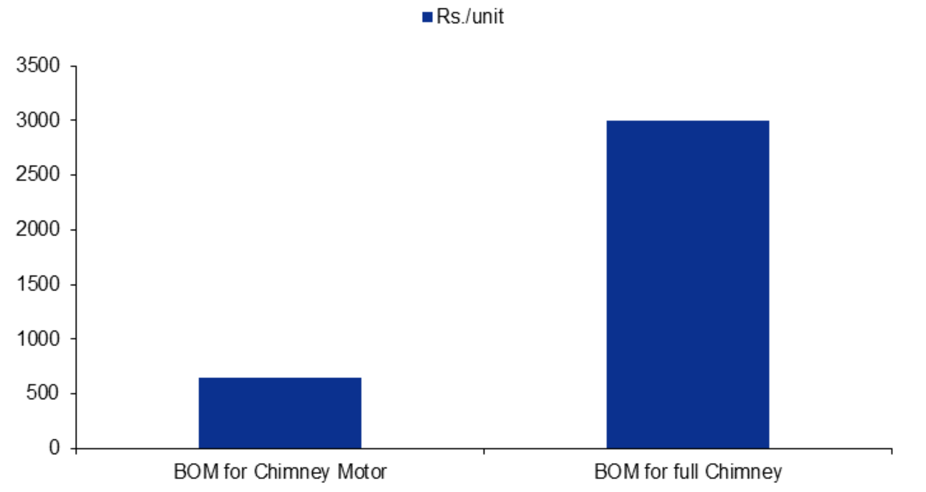
- **Chimney:** Elin Electronics plans to make the entire chimney for multinational companies by FY25F. This will be a significant development as the BoM for the entire chimney will be a lot higher than the BoM for the chimney motor. Please note that Elin Electronics currently manufactures chimney motors and has an annual capacity of ~50,000 units. Moreover, with the Indian government increasing the duty on chimney imports from 7.5% to 15%, this presents a lucrative opportunity for the company.

Figure 293: Opportunity in kitchen chimney business for local players



SOURCE: INCRED RESEARCH, COMPANY REPORTS

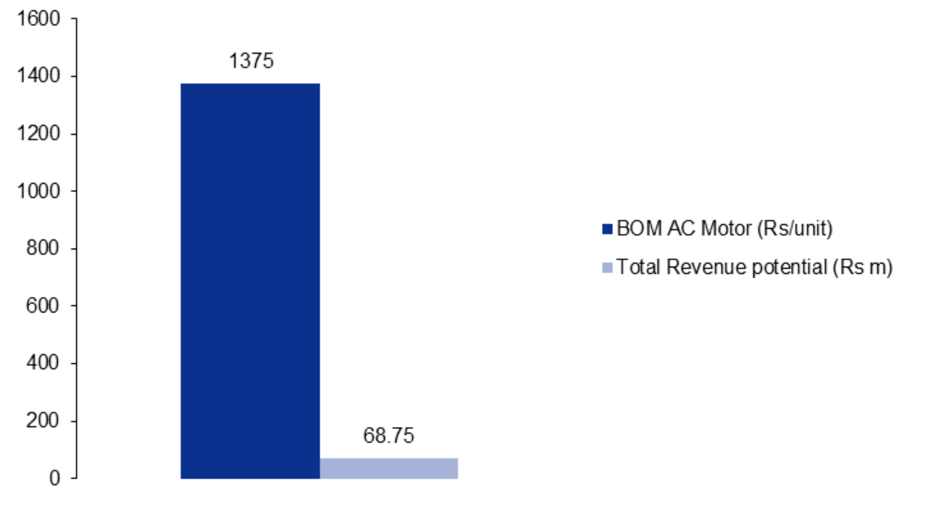
Figure 294: The BoM for a full chimney is considerably higher than the BoM of chimney motor



SOURCE: INCRED RESEARCH, COMPANY REPORTS

- **Oil-filled radiator:** An oil heater, also known as an oil-filled heater, oil-filled radiator, or column heater, is a common form of convection heater used in domestic heating. Although filled with oil, it is electrically heated and does not involve burning any oil fuel; the oil is used as a heat reservoir (buffer).
- **AC outdoor unit:** Elin Electronics will also start manufacturing motors for room air-conditioner or RAC outdoor units. It currently has a 50,000-unit capacity for the same. However, there are other established players like PG Electroplast and Amber Enterprises in this business and hence, this could be a tough market to crack for new entrants. Moreover, PG Electroplast ramping up its capacity to gain market share could be a warning sign for Elin Electronics.

Figure 295: Foray into RAC outdoor unit business could boost the top-line for Elin Electronics, but it will face stiff competition



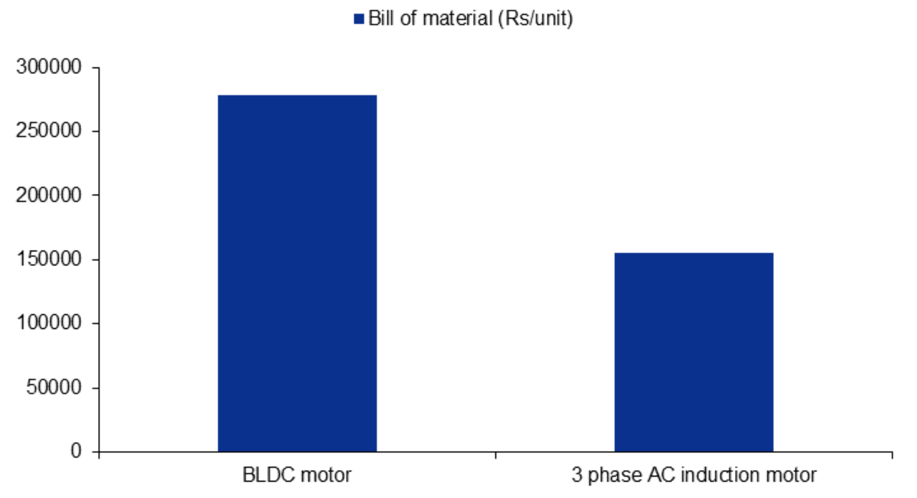
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Manufacturing EV motors is an interesting optionality

Elin Electronics is also looking to manufacture electric vehicle or EV motors in the near term, which is likely to present an interesting optionality. EV motor comprises a complex battery powering a motor, which then powers the wheels of a car or a bike.

- **BLDC motor**: Like the BLDC motor used in fans, and already manufactured by Elin Electronics, it is cheaper to maintain compared to a traditional DC motor, and also it also gives the vehicles a high starting torque and high efficiency, making it a great choice for EVs. There are two types of BLDC motors vis-a-vis outrunner type BLDC motor, which powers electric bicycles, electric scooters, etc. TVS Iqube is a popular example of BLDC outrunner motor. The next in line is the runner type BLDC motor, which is slightly bulkier and is used in an EV three-wheeler.
- **PMSM** (Permanent Magnet Synchronous Motor): PMSM is the perfect choice for higher power ratings and higher torque. These motors are the best choice for heavy vehicles like cars and buses and are widely used for that purpose only. Nexon EV uses this motor.
- **Three-phase AC induction motor:** This is a recent technology, and it eliminates the need for a permanent magnet in the motor, making it significantly cheaper. This technology is being implemented by major manufacturers, with the frontrunner being Tesla with its model S. **Interestingly, Indian Railways is also switching from DC motors to three-phase AC induction motors as the latter are cheaper, easy to maintain and can withstand harsh conditions.**

Figure 296: Both the options (BLDC motor and three-phase AC induction motor) present an interesting optionality if Elin Electronics forays into EV motor business



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key clients' profile

Figure 297: Sygnify is a major client of Elin Electronics

Sygnify	• Signify contributes ~27% to Elin's total revenue, with key products like LED lighting and fans. • To promote sustainable lighting, Signify recently launched its first-ever 'Philips Solar Light Hub' in India.
Philips	• Philips is a renowned multinational conglomerate known for its cutting-edge products in areas such as healthcare equipment, personal care appliances, lighting systems, and home electronics. • The company is a major customer of Elin Electronics for small appliances and fractional horsepower motors. It contributes 21% to the revenue.
Havells	• Havells is a key customer for fractional horsepower motors and contributes 11% to the revenue.
Eveready	• Eveready is an established Indian company primarily focused on the battery and flashlight industry. • The company is known for its batteries, flashlights, and portable lighting solutions. • The company contributes 3% to Elin Electronics' revenue, primarily through LED lighting and fan sales.

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Key management profile

Figure 298: Top leadership

Name	Mr. M.L. Sethia	Mr. Kamal Sethia	Mr. Sanjeev Sethia	Mr. Sumit Sethia
Designation	Chairman	Managing Director	Whole-Time Director	Whole-Time Director
Qualification	• He has master's degree in arts from Ladnun, Rajasthan. • He has vast experience in overall management and financial matters of the company. • Also, he has an experience of more than 62 years in manufacturing business line of the company.	• He is a commerce graduate from Delhi University. • He is the member of Audit Committee, Stakeholders Relationship Committee and Chairman of Risk Management Committee of the company. • He has vast experience in overall management and financial matters of the company. • Also, has an experience of more than 43 years in manufacturing business line of the company.	• He has a BS in electrical engineering degree from USA. • He is the member of Risk Management Committee of the company. • He has an experience of more than 26 years in manufacturing business line of the company.	• He is a commerce graduate from Calcutta University. • He has management expertise. • He has an experience of more than 23 years in manufacturing business line of the company.

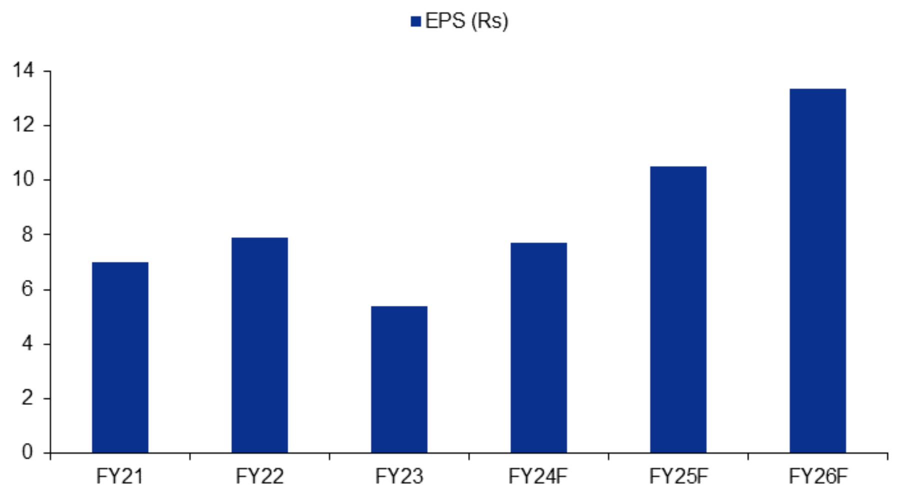
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Valuation is at its peak

New product launches to drive growth ›

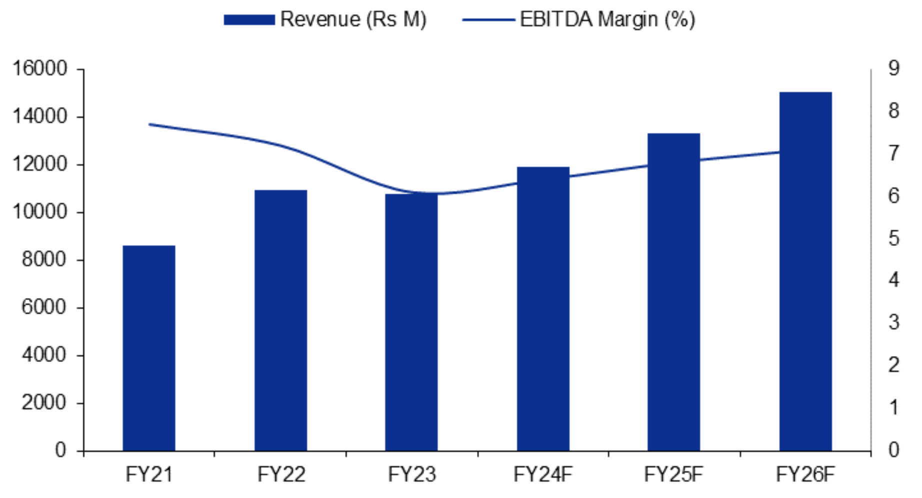
We expect Elin Electronics to clock a 37% PAT CAGR over FY23-26F aided by new product launches and a foray into the products having a higher bill of materials (BoM) than its existing portfolio. This, coupled with improving macroeconomic scenario, in the form of improving Consumer Confidence Index, we feel, should lead to healthy growth, making Elin Electronics an ideal rerating candidate.

Figure 299: EPS likely to register a 37% CAGR over FY23-26F…



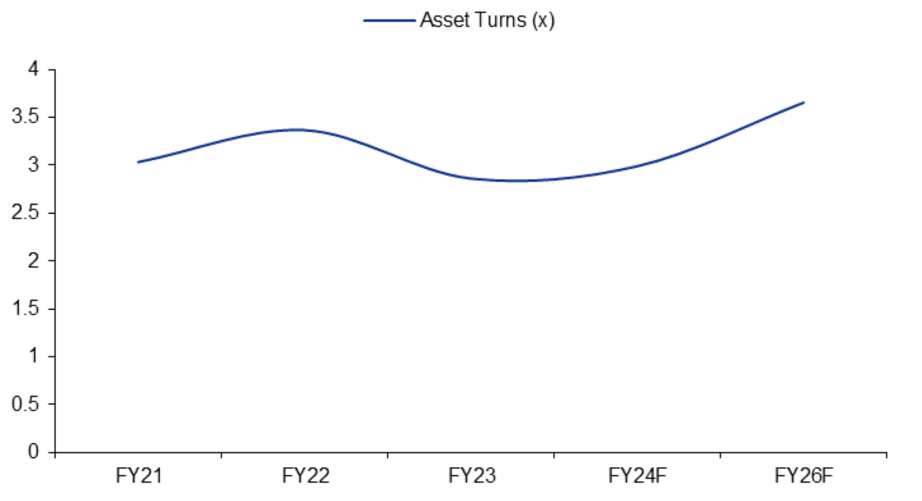
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 300: ---and this will be aided by top-line and EBITDA margin improving



SOURCE: INCRED RESEARCH, COMPANY REPORTS

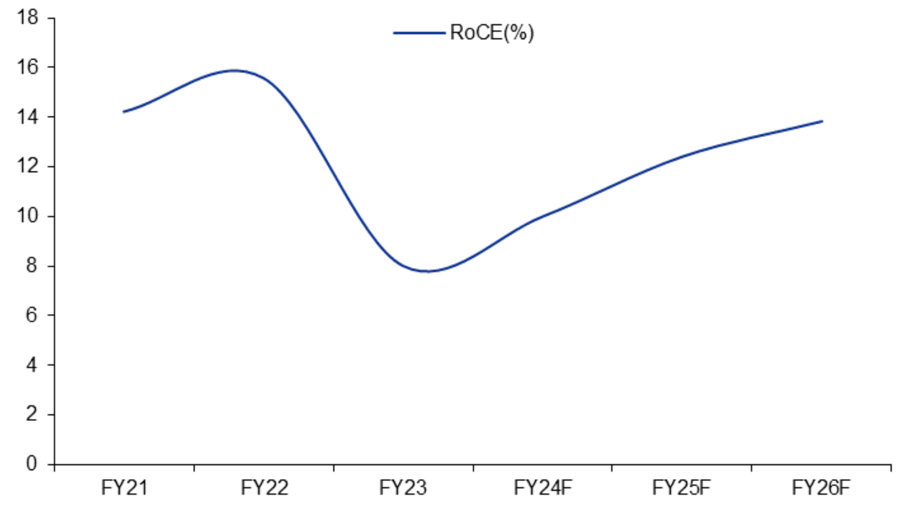
Figure 301: The increase in top-line also improves gross asset turn ratio



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Foray into higher BoM business improves return ratios ›

Figure 302: Improvement in RoCE



SOURCES: INCRED RESEARCH, COMPANY REPORTS

We have used P/E methodology to value Elin Electronics ›

We have valued Elin Electronics on a P/E basis, as we consider it a more appropriate valuation method for commodity companies than the discounted cash flow or DCF methodologies. In our view, DCF is not a suitable valuation method because this is a high-growth company and forecasting long-term earnings reliably is very difficult.

We value the stock at 17x Sep 2025F EPS ›

- We see Elin Electronics expanding its top-line as it launches new products, and the macroeconomic situation improves. This, along with the upcoming festival season, will keep the demand robust and help the company to achieve a top-line CAGR of 12% over FY23-26F.
- Improving return ratios, coupled with better asset turn ratio and RoCE, we believe, will help to improve the company's profitability, thus improving its margins.

Figure 303: Target price of Rs210

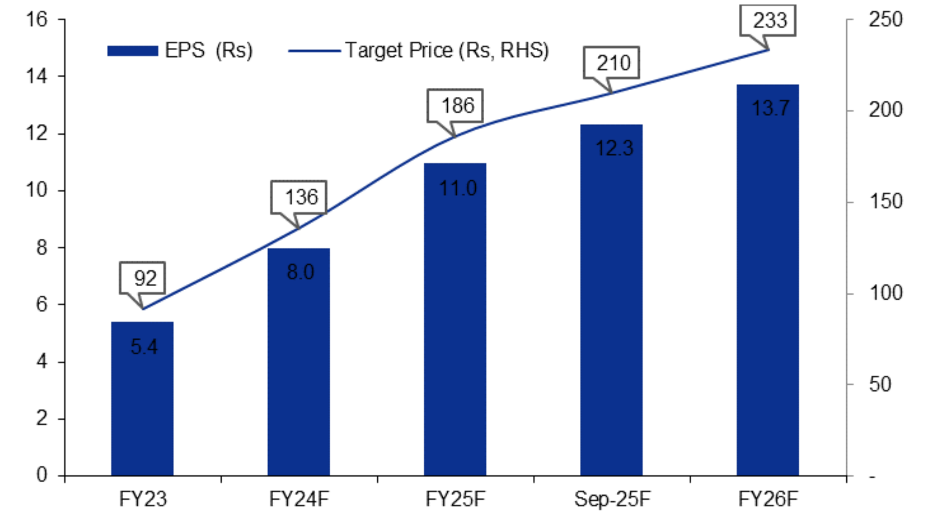
	Elin
CMP (Rs)	172
Mean P/E	NA
Target P/E (x)	17.0
Premium/(Discount)	NA
Target Price (Sep 2025F) Rs	210
Target Price (FY26F) Rs	233
Expected Return (%)	22.0

Price Sensitivity Analysis

	EPS (Rs)	Growth (%)	P/E (x)	Target P/E multiple (x) 7.0	12.0	17.0	22.0	27.0
FY23	5.4	-31.5	31.9	38	65	92	119	146
FY24F	8.0	48.4	21.5	56	96	136	176	216
FY25F	11.0	36.9	15.7	77	131	186	241	296
Sep 2025F	12.3	12.7	13.9	86	148	210	272	333
FY26F	13.7	25.4	12.5	96	165	233	302	371

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 304: EPS to grow from Rs5.4 in FY23 to Rs13.7 in FY26F



Scenario analysis

Figure 305: Snapshot of scenario analysis

	Bull Case	Base Case	Bear Case
Revenue CAGR	17%	12%	-8%
FY25F EBITDA Margin	7.8%	6.8%	4.4%
Sep 2025F EPS (Rs)	18.2	12.3	4.8
Target P/E (x)	19.0	17.0	15.0
Target Price (Rs)	346	210	72
Upside	101.4%	21.9%	-58.0%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Base Case: In this scenario, we expect a revenue CAGR of 12%, with the average EBITDA margin at 6.8% in FY23-26F, which translates into EBITDA and PAT CAGR of 17% and 37%, respectively. Assigning a 17x P/E multiple to its Sep 2025F EPS, we arrive at a target price of Rs210.

Figure 306: PAT CAGR of 37% in a base-case scenario

Base-Case Scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	CAGR (%)
Total Sales	7,856	8,624	10,938	10,754	11,906	13,281	14,961	12%
Growth (YoY, %)		9.8%	26.8%	-1.7%	10.7%	11.5%	12.7%	
EBITDA	554	665	790	651	762	898	1,053	17%
Growth (YoY, %)		19.9%	18.9%	-17.6%	17.0%	17.9%	17.3%	
EBITDA Margin (%)	7.1%	7.7%	7.2%	6.1%	6.4%	6.8%	7.0%	
PAT	275	348	391	268	398	544	681	37%
Growth (YoY, %)		26.8%	12.3%	-31.5%	48.4%	36.9%	25.2%	
PAT Margin (%)	3.5%	4.0%	3.6%	2.5%	3.3%	4.1%	4.6%	
EPS (Rs)	6	7	8	5	8	11	14	37%
Growth (YoY, %)		26.8%	12.3%	-31.5%	48.4%	36.9%	25.2%	

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Bull Case: In this scenario, we expect a 17% revenue CAGR, with the average EBITDA margin at 7.8% in FY23-26F, which translates into EBITDA and PAT CAGR of 28% and 56%, respectively. Assigning a 19x P/E multiple to its Sep 2025F EPS, we arrive at a target price of Rs346.

Figure 307: PAT CAGR of 56% in a bull-case scenario

Bull-Case Scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	CAGR (%)
Total Sales	7,856	8,624	10,938	10,754	12,444	14,502	17,063	17%
Growth (YoY, %)	-	9.8%	26.8%	-1.7%	15.7%	16.5%	17.7%	
EBITDA	554	665	790	651	920	1,125	1,371	28%
Growth (YoY, %)	0%	19.9%	18.9%	-17.6%	41.4%	22.3%	21.9%	
EBITDA Margin (%)	7.1%	7.7%	7.2%	6.1%	7.4%	7.8%	8.0%	
PAT	275	348	391	268	607	793	1,013	56%
Growth (YoY, %)	0%	26.8%	12.3%	-31.5%	126.4%	30.8%	27.7%	
PAT Margin (%)	0.0	4.0%	3.6%	2.5%	3.3%	4.1%	4.6%	
EPS (Rs)	6	7	8	5	12	16	20	56%
Growth (YoY, %)	0%	26.8%	12.3%	-31.5%	126.4%	30.8%	27.7%	

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Bear Case: In this scenario, we expect an -8% CAGR in revenue, with the average EBITDA margin at 4.8% in FY23-26F, which translates into EBITDA and PAT CAGR of -15% and -1%, respectively. Assigning a 15x P/E multiple to its FY25F EPS of Rs5, we arrive at a target price of Rs72.

Figure 308: PAT CAGR of -1% in a bear-case scenario

Bear-Case scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	CAGR (%)
Total Sales	7,856	8,624	10,938	10,754	9,762	8,943	8,310	-8%
Growth (YoY, %)		9.8%	26.8%	-1.7%	-9.2%	-8.4%	-7.1%	
EBITDA	554	665	790	651	396	394	397	-15%
Growth (YoY, %)		19.9%	18.9%	-17.6%	-39.2%	-0.5%	0.8%	
EBITDA Margin (%)	7.1%	7.7%	7.2%	6.1%	4.1%	4.4%	4.8%	
PAT	275	348	391	268	189	221	260	-1%
Growth (YoY, %)		26.8%	12.3%	-31.5%	-29.5%	17.1%	17.5%	
PAT Margin (%)	3.5%	4.0%	3.6%	2.5%	1.9%	2.5%	3.1%	
EPS (Rs)	6	7	8	5	4	4	5	-1%
Growth (YoY, %)		26.8%	12.3%	-31.5%	-29.5%	17.1%	17.5%	

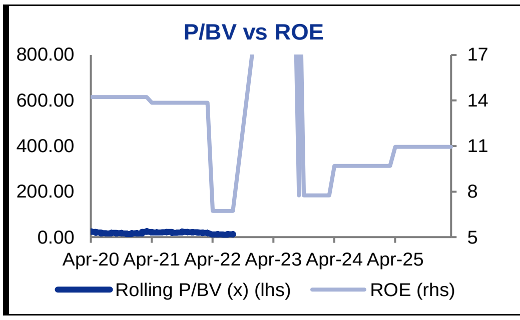
SOURCE: COMPANY REPORTS, INCRED RESEARCH

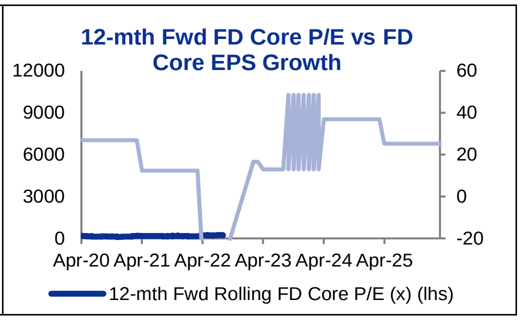
Key downside risks

- **Weakening macroeconomic situation:** Elin Electronics depends a lot on discretionary spending by Indian consumers, and the company has suffered in the past due to weak demand. As a result, this could be a major factor in determining whether the company will perform well or not. The Consumer Confidence Index is a major indicator that will have to be monitored for the same.
- **Supply chain dependence:** The company sources most of its raw materials from other countries and hence, any hindrance in the supply chain could affect its profitability.

InCred Equities

BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	**10,938**	**10,754**	**11,906**	**13,281**	**14,961**
Gross Profit	**2,781**	**2,787**	**3,072**	**3,453**	**3,890**
Operating EBITDA	**790**	**651**	**762**	**898**	**1,053**
Depreciation And Amortisation	(144)	(186)	(199)	(202)	(205)
Operating EBIT	**647**	**465**	**562**	**695**	**847**
Financial Income/(Expense)	(127)	(131)	(87)	(43)	(23)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	9	23	55	74	84
Profit Before Tax (pre-EI)	**529**	**357**	**530**	**726**	**909**
Exceptional Items					
Pre-tax Profit	**529**	**357**	**530**	**726**	**909**
Taxation	(137)	(89)	(133)	(181)	(227)
Exceptional Income - post-tax					
Profit After Tax	**391**	**268**	**398**	**544**	**681**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**391**	**268**	**398**	**544**	**681**
Recurring Net Profit	391	268	398	544	681
Fully Diluted Recurring Net Profit	**391**	**268**	**398**	**544**	**681**

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	529	357	530	726	909
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(130)	78	(59)	46	(129)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	144	186	199	202	205
Other Operating Cashflow	118	109	32	(30)	(61)
Net Interest (Paid)/Received					
Tax Paid	(148)	(107)	(133)	(181)	(227)
Cashflow From Operations	**513**	**623**	**570**	**762**	**697**
Capex	(424)	(513)	(225)	(60)	(60)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	146	(1,454)			
Cash Flow From Investing	**(278)**	**(1,967)**	**(225)**	**(60)**	**(60)**
Debt Raised/(repaid)	(114)	(245)	(400)	(179)	(100)
Proceeds From Issue Of Shares		1,750			
Shares Repurchased					
Dividends Paid		(41)			
Preferred Dividends					
Other Financing Cashflow	(127)	(157)	(87)	(43)	(23)
Cash Flow From Financing	**(241)**	**1,308**	**(486)**	**(222)**	**(123)**
Total Cash Generated	(7)	(36)	(141)	480	514
Free Cashflow To Equity	**120**	**(1,589)**	**(54)**	**523**	**537**
Free Cashflow To Firm	**235**	**(1,344)**	**345**	**702**	**637**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	49	997	1,223	1,692	2,306
Total Debtors	1,774	1,976	1,893	2,003	2,256
Inventories	1,197	1,234	1,331	1,454	1,638
Total Other Current Assets	201	405	258	295	276
Total Current Assets	**3,221**	**4,612**	**4,705**	**5,443**	**6,476**
Fixed Assets	1,876	2,310	2,335	2,193	2,047
Total Investments	19	359	238	332	314
Intangible Assets	5	15	15	15	15
Total Other Non-Current Assets	206	46	266	348	437
Total Non-current Assets	**2,106**	**2,730**	**2,854**	**2,888**	**2,814**
Short-term Debt	684	383	379	200	100
Current Portion of Long-Term Debt					
Total Creditors	992	1,269	1,374	1,666	1,867
Other Current Liabilities	177	245	214	239	329
Total Current Liabilities	**1,853**	**1,896**	**1,967**	**2,105**	**2,296**
Total Long-term Debt	340	396			
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	**340**	**396**			
Total Provisions	92	104	237	324	406
Total Liabilities	**2,284**	**2,396**	**2,204**	**2,429**	**2,702**
Shareholders Equity	3,031	4,931	5,338	5,882	6,563
Minority Interests					
Total Equity	**3,031**	**4,931**	**5,338**	**5,882**	**6,563**

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	26.8%	(1.7%)	10.7%	11.5%	12.7%
Operating EBITDA Growth	18.9%	(17.6%)	17.0%	17.9%	17.3%
Operating EBITDA Margin	7.2%	6.1%	6.4%	6.8%	7.0%
Net Cash Per Share (Rs)	(19.60)	4.39	16.98	30.02	44.39
BVPS (Rs)	60.98	99.21	107.40	118.35	132.06
Gross Interest Cover	5.09	3.56	6.48	16.02	37.67
Effective Tax Rate	26.0%	24.9%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	60.07	63.60	59.26	53.50	51.91
Inventory Days	52.51	55.69	53.00	51.72	50.97
Accounts Payables Days	45.60	51.80	54.60	56.45	58.24
ROIC (%)	11.8%	7.8%	9.3%	11.8%	14.2%
ROCE (%)	16.5%	9.5%	9.8%	11.8%	13.3%
Return On Average Assets	9.3%	5.8%	6.2%	7.3%	7.9%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

InCred Equities

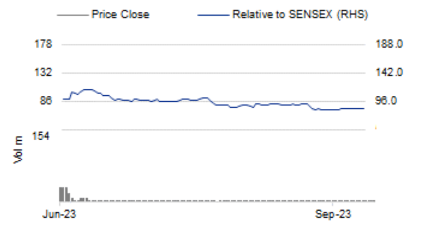
INITIATION

India

HOLD *(Initiating coverage)*

Consensus ratings*:	Buy 0 Hold 0 Sell 0
Current price:	Rs355
Target price:	Rs375
Previous target:	NA
Up/downside:	5.6%
InCred Research / Consensus:	5.7%
Reuters:	
Bloomberg:	IKIO IN
Market cap:	US$330m
	Rs27,408m
Average daily turnover:	US$3.1m
	Rs255.4m
Current shares o/s:	77.3m
Free float:	38.00%

Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(7.0)	(20.9)	0.0
Relative (%)	(7.6)	(22.3)	0.0

Major shareholders	% held
Promoter & Promoter Group	72.5
FII	5.1
DII	7.2

IKIO Lighting

Margin leader in lighting products

- IKIO Lighting is an EMS player manufacturing lighting products for different end-users, ranging from LED lights for homes to commercial refrigeration.
- The highest EBITDA margin (close to 22%) due to backward integration along with a huge capex makes IKIO Lighting one of the top bets in this sector. However, maintaining the current margins could be an issue
- We value the stock at 24x FY25F EV/EBITDA and initiate coverage on it with a HOLD rating and a target price of Rs375.

LED lighting business to drive growth

The LED lighting market is valued at Rs220bn and may clock a 12% CAGR over FY23-26F led by a rebound in the realty sector, rising demand for energy-efficient lighting solutions, and government support for initiatives like smart cities. The government's push for domestic LED light manufacturing via the production-linked incentive or PLI scheme for white goods launched in Apr 2021 and brands adopting the China+1 strategy to cut the dependence on imports are expected to support the lighting EMS segment.

Sustaining EBITDA Margin could be a challenge

IKIO Lighting's (IKIO) efficient manufacturing practices, coupled with backward integration, enables it to post the highest EBITDA margin vs. its peers (22% vs. ~10% for Elin Electronics & ~4% for Dixon Technologies). This is due to increased automation adopted by IKIO in its manufacturing, right from surface-mounted machines to the assembly lines. However, maintaining this EBITDA Margin could be a problem.

Huge capex-led growth on the cards

IKIO's gross block is expected to increase to Rs3.1bn by FY26F from Rs43m in FY23. Factoring in an asset turn of 5x, this is expected to bring an incremental revenue of Rs16bn once the new capex plan moves towards the production stage. This underlines a huge upside for the topline by FY27F-28F, underlining our conviction in the company.

Entry into high-margin commercial refrigeration, and RV markets

IKIO's foray into lighting products for commercial refrigeration and RV markets will aid its topline. Currently, it has a 28% market share in the commercial refrigeration products segment, thus outlining a huge headroom for growth. As far as its RV segment is concerned, IKIO has just started its operations in this segment. However, it is setting up a sales office in the US to streamline operations, underlining its rising focus on this segment.

We value the stock at 24x Sep2025F EV/EBITDA; assign HOLD rating

IKIO may post a 21% topline growth over FY23-26F while the margin is likely to decline from 21.6% to 20.4% in FY26F. We have assigned a HOLD rating to IKIO with a target price of Rs375, valuing the stock at 24x Sep 2025F EV/EBITDA. Downside risks: Client concentration risk as IKIO generates 50% of its revenue from a single client, Signify. There is also a supply chain risk because the company sources a significant chunk of its raw materials from China. Upside risk: The company has a potential to capture the RV market

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	3,318	3,588	4,279	5,163	6,376
Operating EBITDA (Rsm)	773	775	917	1,090	1,325
Net Profit (Rsm)	505	500	515	631	774
Core EPS (Rs)	20.2	7.7	6.7	8.2	10.0
Core EPS Growth	0.0%	(61.9%)	(13.4%)	22.5%	22.6%
FD Core P/E (x)	17.55	46.08	53.19	43.43	35.41
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	12.94	31.31	29.59	24.22	19.42
P/FCFE (x)	35.43	190.58	(18.68)	28.75	27.24
Net Gearing	104.7%	84.7%	(5.1%)	(17.5%)	(26.5%)
P/BV (x)	8.14	16.22	5.21	4.79	4.34
ROE	58.8%	39.9%	15.4%	11.5%	12.9%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Analyst(s)

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Figure 309: A major player in the lighting segment

	IKIO (Rs3.5bn-FY23 to Rs7.3bn-FY26F)		
Key Segments	**LED Lighting**	**Commercial Refrigeration**	**Others**
Key Products	LED Lighting	Refrigeration Lighting	ABS Pipes for RV, Solar Panels for RVs, Lithium Ion Batteries for RV
Revenue (Rs m: FY23)	3,191	105	448
Revenue Mix (FY23)	89%	3%	12%
Revenue CAGR (FY20-23)	19%	-14%	18%
Revenue CAGR (FY23-26F)	21%	19%	23%
Key Clients	Signify (Philips)	Forest River (for RVs)	

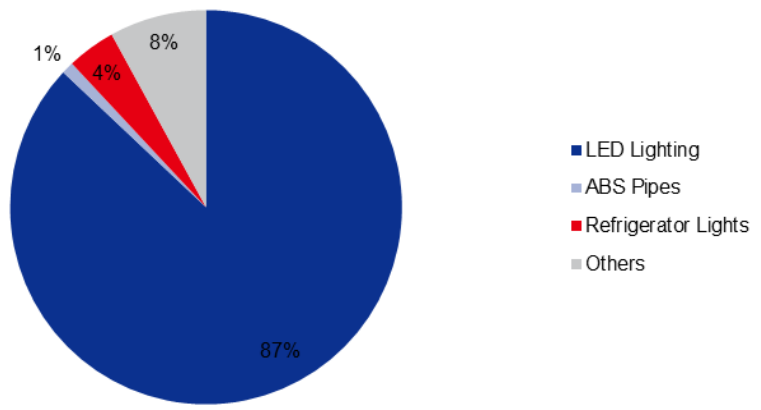
Key Investment Themes
IKIO is one of the few vertically integrated LED fixtures and lighting players focusing on the design aspect, with its entire revenue coming from ODM business.
Significant capex incurred by the company will increase its gross block by 7x in FY26F. The company historically had a fixed-assets turn ratio of 6x, which is expected to continue once the capex starts delivering returns by FY27F.
IKIO's foray into lighting products for commercial refrigeration and RV markets will aid its top-line. Currently, it has a 28% market share in the commercial refrigeration products segment, thus outlining a huge headroom for growth.
IKIO is likely to register a 27% topline growth over FY23-26F, with the EBITDA margin at 21%.
We assign HOLD rating to the stock with a target price of Rs375, valuing it at 24x FY25F EV/EBITDA.

SOURCE: COMPANY REPORTS, INCRED RESEARCH

A pure play on ODM business

IKIO is one of the few vertically integrated LED fixtures and lighting players focusing on the design aspect, with its entire revenue coming from ODM, rather than OEM, thus enabling it to post a higher margin. LED lighting, refrigerator lights, acrylonitrile butadiene styrene (ABS) pipes, and other items are the company's main business verticals. LED lighting contributes 87% to its revenue followed by refrigeration light section (4% of revenue). ABS pipe, a substitute for polyvinyl chloride (PVC) pipe, is also produced by IKIO (1.5% of revenue). IKIO produces and assembles fan regulators, light strips, and mouldings under the Others category (7.5% of revenue). IKIO is primarily focused on original design manufacturing (ODM) business by managing the complete value chain of LED light manufacturing, in contrast to other electrical manufacturing services companies in India. Consequently, it also enjoys a higher EBITDA margin compared to peers. The company offers lighting solutions (lights, drivers, and controls) to manufacturers of commercial refrigeration equipment. The plumbing systems of recreational vehicles (RVs) utilize ABS pipes. The company's principal clients include Rlux RV, Western Refrigeration, Panasonic Life Solutions, and Signify (formerly Philips). However, the company has a significant client concentration risk as almost 50% of its revenue comes from a single client (Signify).

Figure 310: Revenue break-up of IKIO – most of the revenue comes from lighting division



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 311: Product segmentation – it can be clearly seen that IKIO remains a pure-play ODM player

Key segments	Fan regulators & MCB switches	High-end home decorative LED lights	Customized LED lighting solutions for branded retail	LED lighting for industrial applications	Refrigerator products,	Recreational vehicles
Major products	Rotary switches, fans, regulators, MCB switches	Decorative down-lighter LED strips, spots, rechargeable lights	Downlighter LED strips, linear lights, spot lights, track lights	Backlit panel high bay, shoe box, stadium lights, UFO lights	Interior LED lights, IPS stabilizers	LED lights, solar panel ABS pipes
Business model	ODM	ODM	Own brand	ODM	ODM	Own brand
Key customers	Anchor, Panasonic, Legrand, Honeywell	Philips (Signify)	Various large, branded retail stores		Western Refrigeration, Frigo Glass	Rlux RV Znergy

SOURCE: INCRED RESEARCH, COMPANY REPORTS

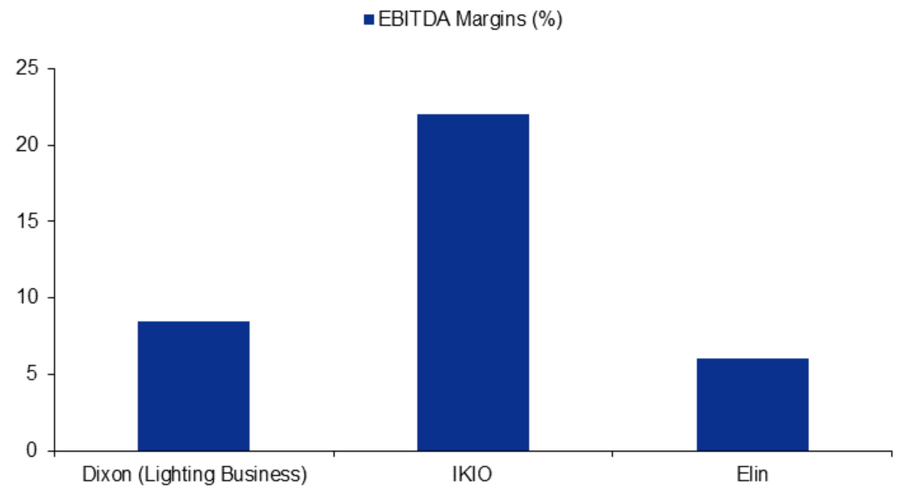
Enjoys a higher EBITDA margin compared to peers ›

IKIO enjoys a higher EBITDA margin compared to its peers, mainly because of vertical integration of the supply chain. **Key initiatives in the backward integration by IKIO include:**

- Automatic surface-mounted machines to place diodes and other components on circuit boards.
- Automatic metal cutting and shaping machines.

- Automatic powder coating on fixtures.
- Injection moulding, including machinery, moulds, and tools.
- LED assembly lines, manual insertion, checking and final packing.

Figure 312: IKIO enjoys a higher EBITDA margin compared to its peers



SOURCE: INCRED RESEARCH, COMPANY REPORTS

R&D is an important tool in its armoury

The three main categories of IKIO's LED lighting products are: a) original design and manufacturing (ODM) options for high-end decorative lighting for Signify (previously Philips); b) production and supply of customized LED indoor lighting solutions for major retailers, and c) customized LED lighting solutions for industrial and commercial applications in USA.

IKIO provides IPS stabilizers, fan motor controllers, and interior LED lighting components (lights, drivers, and controllers) for commercial refrigeration. It manufactures solar panels, ABS pipes, LED lights, and similar accessories for recreational vehicles.

In contrast to its competitors, it engages in R&D, concentrating on product design, tool and mould design, electrical circuit design, and prototypes. It creates and validates client OEM designs and transforms them into products by enhancing, advising on, and testing them.

The R&D team to offer automated manufacturing solutions, save production costs, and help clients by offering design and engineering assistance. Concept drawing, design improvement, creating extra features, and testing are all priorities. This makes it possible for the company to meet a variety of demands, develop new goods, improve existing items with cutting-edge technology, and reduce costs via value analysis and engineering.

Figure 313: IKIO's manufacturing plants

Location	Products	Installed capacity (m)	Utilization (%)
SIDCUL, Haridwar	LED bulbs	18	54.3
	Regulators & switches	2.25	81.5
FITP facility, Noida	Regulators & switches	19.5	76.44
RLPL facility, Noida	Refrigerator LED lighting & drivers	2.5	59.3
REPL facility (SEZ)	LED light products & ABS pipe RVs	0.13	70.6

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 314: Plant-wise manufacturing capacity

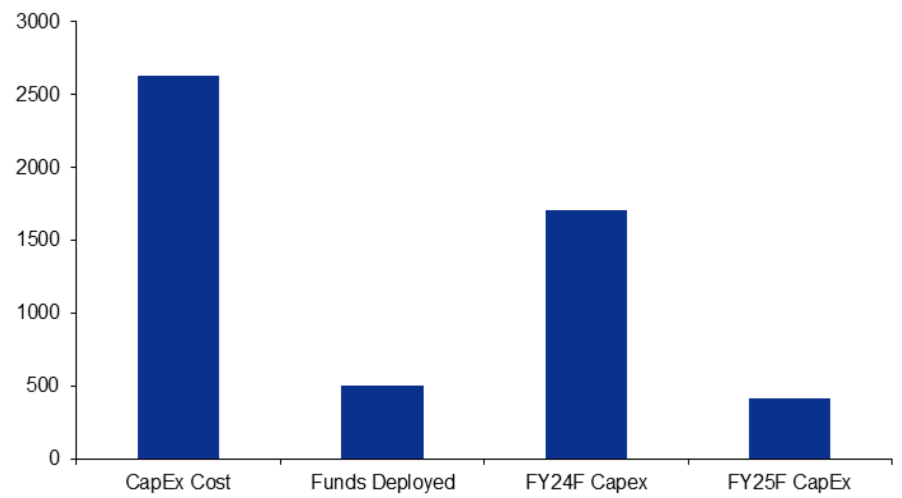
Location	SIDCUL, Haridwar	Noida	Noida	Noida
Area (sq.ft.)	62,500	80,000	1,12,000	57,000
Product Lines	1. High-end home décor LED lighting 2. Fan regulators & accessories 3. Parts & sub-assembly of MCB switches	1. In-house facilities: i) Metal cutting ii) CNC machining iii) Extrusion / injection iv) Powder coating 2. Rotary switches	1. LED lighting for retail stores 2. LED modules & drivers 3. Refrigerator LED lighting & drivers 4. IPS stabilizers	1. Export of customized LED lighting & drivers for Industrial & Commercial applications 2. LED lights, solar panels, ABS pipes for RVs
Key Machinery & Assembly Processes	1. SMT lines 2. Automated insertion lines 3. Manual insertion lines 4. Parts & sub-assembly of MCB switches 5. LED strip light suit 6. Plastic injection 7. Complete tool room	1. Metal-cutting machines 2. CNC lathes 3. Tools & moulds 4. Die casting 5. Injection moulding & extrusion lines 6. Surface grinding 7. Automated powder coating	1. SMT lines 2. Product assembly lines 3. Test equipment	1. SMT lines, product assembly lines 2. ABS extrusion machine 3. R&D labs

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Incurs capex to achieve growth

In addition to its existing four manufacturing facilities, IKIO is building a new facility at its Noida plant. It will comprise three blocks totaling 500,000 sq. ft. (Block I of 200,000 sq. ft., Block II of 200,000 sq. ft. and Block III of 100,000 sq. ft), over the next 24 to 30 months. Civil construction work in Block I of 200,000 sq. ft. is nearing completion and the orders for some machineries have been placed. Block I is expected to be operational by the end of 3QFY24F. The total proposed area of 500,000 sq. ft. is in addition to the ~300,000 sq. ft. of total area at the company's existing four units combined.

Figure 315: Capex plan (Rs m)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

In which areas the IPO proceeds will be deployed?

IKIO listed on the stock exchanges on 16 Jun 2023. The total size of the IPO was Rs6bn, comprising a fresh issue of equity shares worth Rs3.5bn and an offer-for-sale (OFS) of shares amounting to Rs2.5bn. The company is looking to utilize the proceeds from the IPO for debt repayment and investment in its wholly-owned subsidiary, IKIO Solutions.

Figure 316: Utilization of IPO proceeds

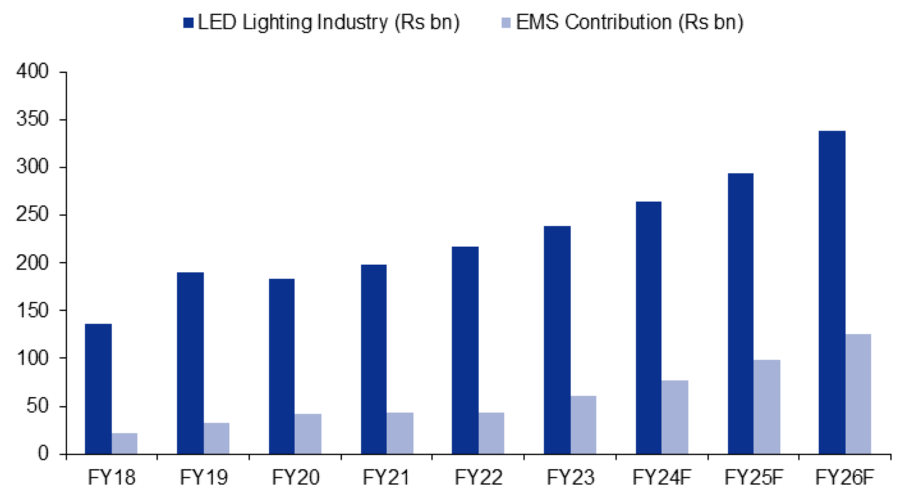
Objects of IPO (Rs m)	Available for Deployment	Actual Deployment	Balance for Deployment	Status
Repayment of debt	500	500	-	Completed
Investment in new facility	2,123	21	2,102	In progress
General corporate purpose	634	135	499	In progress
Total	**3,258**	**656**	**2,600**	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

LED lighting is the bread and butter business for IKIO

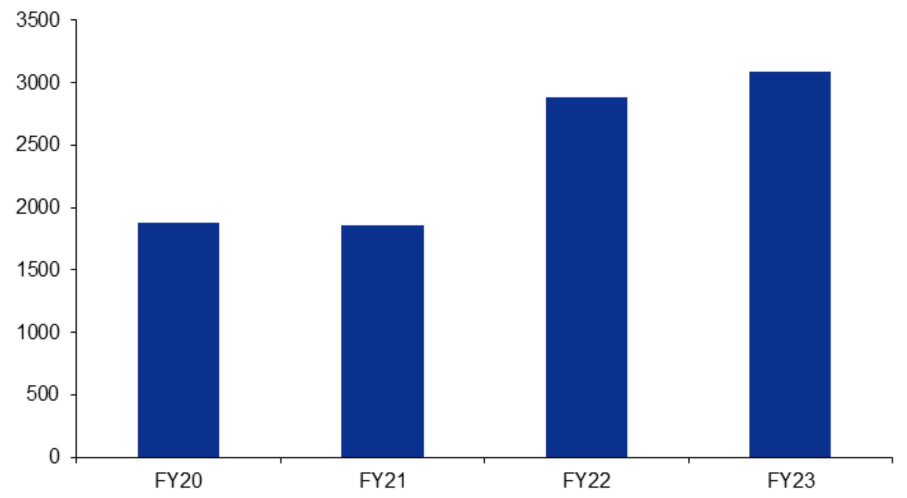
The LED lighting market is valued at Rs220bn and is likely to clock a 12% CAGR over FY23-26F led by a rebound in the realty sector, rising demand for energy-efficient lighting solutions, and government support for different infrastructure initiatives like smart cities. The government's push for domestic LED light manufacturing through the PLI scheme for white goods launched in Apr 2021 to develop manufacturing value chain, and brands adopting China + 1 strategy to reduce dependence on imports are expected to support the lighting EMS segment, which is currently estimated at Rs48bn (22% of the lighting industry), to grow at a higher rate of 27% over FY23-26F.

Figure 317: The LED lighting industry is expected to show an uptrend going ahead



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 318: Revenue contribution from LED lighting division (Rs m)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Premiumization in lighting segment to aid growth

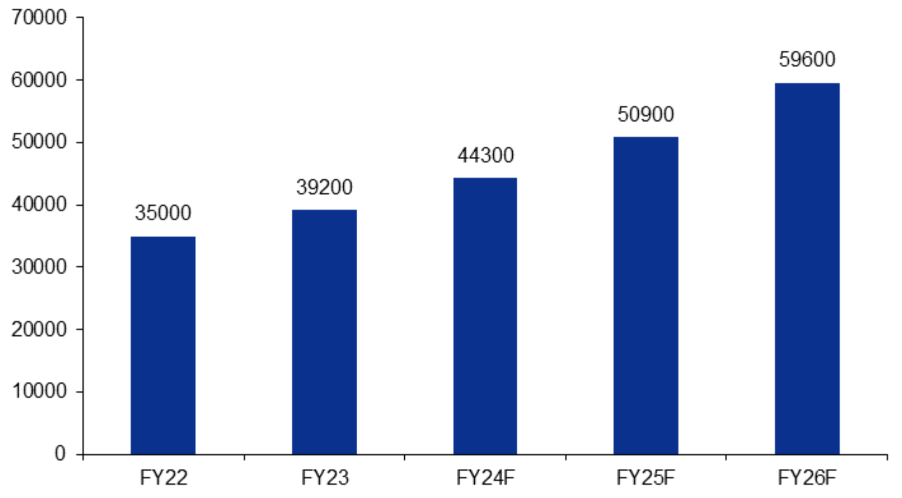
The domestic high-end housing and decorative lighting market is worth Rs35bn, which includes designer lamps, luminaires, and lighting fixtures. The segment is poised to grow with rising living standards, and a rise in middle-class households in which high-end decorative lighting is likely to play a key role, especially in metro cities. The growing relevance of decorative lights is because it provides a visual appeal for homes, stores, malls, hotels, etc. and is expected to drive the industry's overall CAGR to more than 14% over FY22–26F.

The decorating lighting industry is further classified into two categories such as 1) functional decorative lights, and 2) true blue decorative lights.

- 60% of the home and decorative lighting market comes under the functional ornamental lights category. Almost all practical decorative lighting in this category uses LEDs; the traditional retrofit solutions are no longer offered for sale. The market for practical decorative lighting used to have a sizeable contribution from the unorganized segment till recently. Every major retailer in the country would have import agreements with Chinese suppliers for products that were privately branded under the shop's name. This arrangement has now significantly diminished. Branded companies like Signify, Syska, Havells, Crompton, and Wipro now control the functional decorative lighting industry.

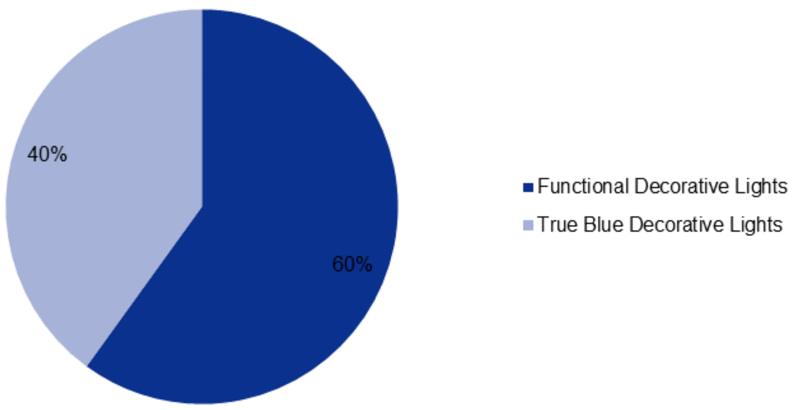
- 40% of the market for residential and decorative lighting is made up of true-blue decorative lighting. Decorative lighting can either focus on a particular space or offer broad illumination for the entire space. It often comes in appealing designs and hues that go well with the room's decor. A few manufacturers compete in the fragmented market for genuine ornamental lighting. Usha, Signify, Havells, and Jaquar Lightings are among the companies vying for attention in this area. The remaining portion of the market is unorganized because buyers favour designs above brands.

Figure 319: The home and decorative lighting segment (Rs m) is expected to register a CAGR of 14% for the next few years



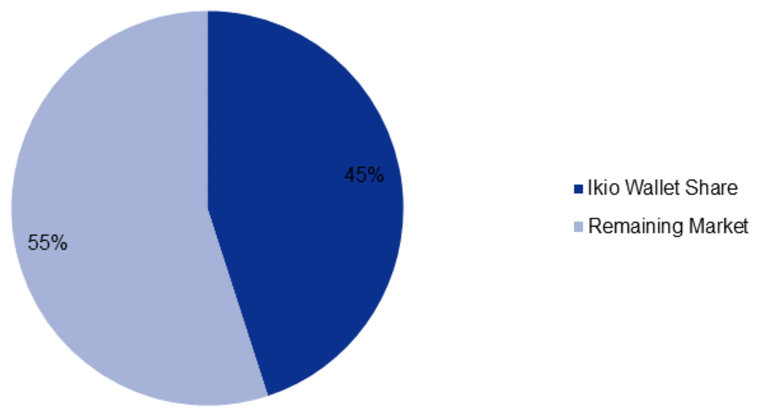
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 320: Home and decorative lighting market break-up



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 321: IKIO has around 45% share in India's home and decorative lighting market



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Expansion into high-margin commercial refrigeration market

Commercial refrigeration market in India is highly fragmented with the presence of many regional and local suppliers. Large players in the past have taken the initiative to organize the market for certain product categories. The largest 8 out of 10 national players enjoy a 65-70% market share due to their very good presence in the high-volume categories, such as visi cooler and deep freezer. However, the remaining 35-40% market is highly fragmented, with the presence of more than 100 players across regions and cities. As per a Frost & Sullivan analysis, Voltas is the market leader in the Indian commercial refrigeration market. Blue Star, Western, Rockwell, Celfrost, Elanpro, Haier etc. are the other leading players in this market.

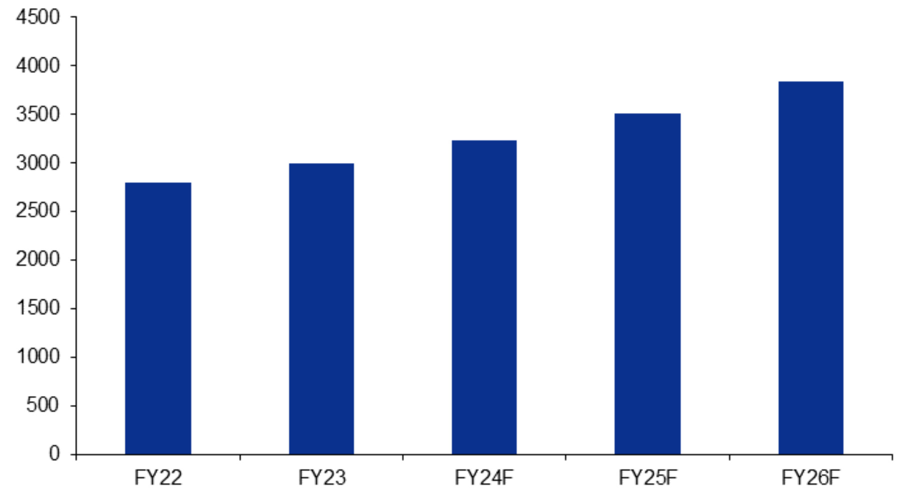
The supply chain of commercial refrigeration products is highly complex in nature as there are multi-layer distributions. Other than suppliers and channels, a third party, also known as institutional buyers (companies like Coke, Pepsi, Amul, Nestle, etc.), is an important stakeholder in the Indian commercial refrigeration market value chain. These companies also buy products in large volumes from suppliers or channels and redistribute the products to the end-users.

Figure 322: Different products under the commercial refrigeration category

Deep freezer	LED bulbs & strip lights used inside the freezer.
Water dispenser	Small red/yellow LED bulbs outside the freezer when plugged in. UV-LED light is installed in the cold-water tank to kill the bacteria.
Visi cooler	Visi cooler comes with a back-lit canopy with a LED tube.
Water iooler	LED bulb lighting is used in the cooler to indicate whether the machine is running. When the water has been chilled, usually a small LED bulb flashes.
Chest cooler	LED bulb & strip lights are used either on the ceiling door of the cooler or inside when one opens the cooler, along with tiny LED bulbs outside the cooler.
Chocolate cooler	LED compact strip lighting is used across the cooler.
Freezer on wheels	LED bulb & strip lights inside the freezer and LED bulbs on the top of the walking freezer with small red/yellow LED bulbs.
Display cabinet coolers	Fitted with LED strip lights all around the cabinet to show the product offerings in an appealing manner.
Under-counter storage	LED puck lighting, under-cabinet lighting - used on the ceiling of the cabinets.
Multi decks	Below lower shelf, on the sides.

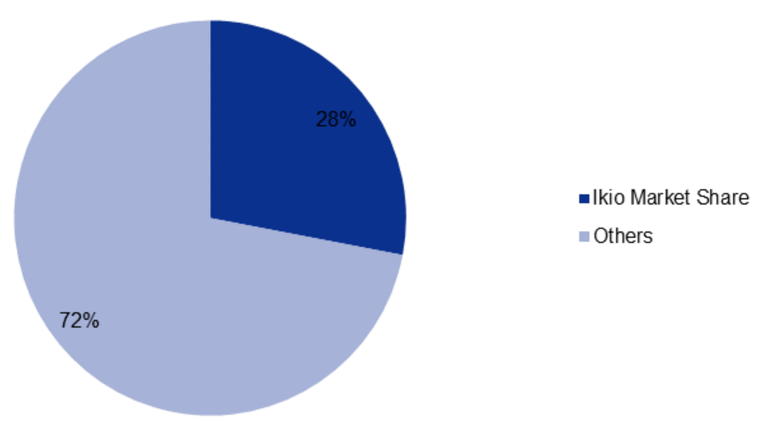
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 323: Total commercial refrigeration lighting solutions market (Rs m)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 324: IKIO has a 28% market share in the commercial refrigeration market; it earned a revenue of Rs780m from this market in FY22



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Creating a niche for itself in recreational vehicle market ›

A recreation vehicle (RV) is designed as a temporary living space for travel, camping, and seasonal use. RVs may have their own motor power (motorhomes) and are mounted (truck campers) or towed by another vehicle (travel trailers, fifth-wheel trailers, folding camping trailers). These RVs typically retail in the range of ~US$5,000 for towable models (folding camping trailers) to US$500,000 or more for motorhomes (Type A motorhomes). The variety of options available in the RV space allows them to appeal to a wide range of consumer preferences and income levels. In addition to their recreational use, RVs may also be used for many commercial and other purposes such as mobile offices, medical clinics, bathrooms, laundries, food trucks, etc. They can also be used for temporary shelter for aid workers and contractors or for families that have lost their homes.

Types of recreational vehicles ›

Based on vehicles, the market is bifurcated into motorhomes and towable RVs. There is a rapidly growing market for towable RVs due to their affordability and low cost over motorized RVs. It is observed that the gasoline segment's growth rate is propelled by its higher RPM advantage in passenger vehicles. There is a preference towards gasoline as it is more combustible than diesel, and therefore enhances the engine power significantly.

Figure 325: Different types of recreational vehicles

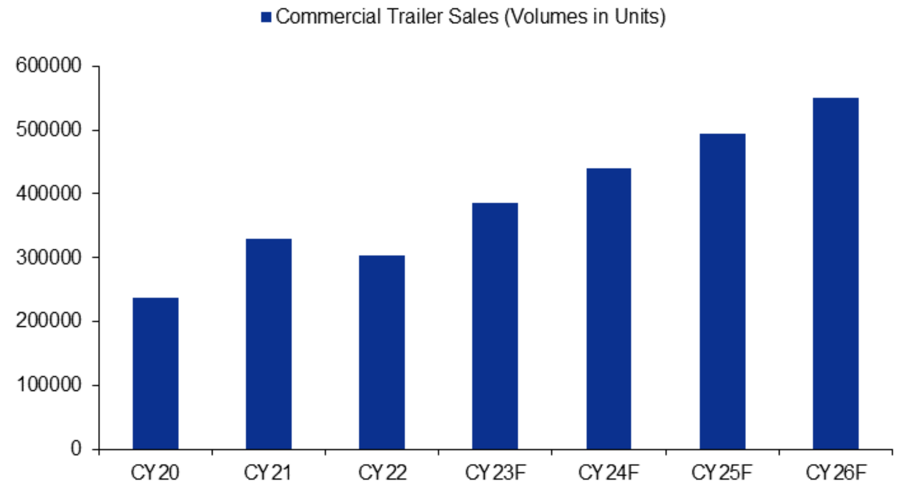
RV Type	Conventional travel trailer	Fifth wheeler	Truck camper	Class B motorhome	Class C motorhome	Class A motorhome
Approx % of annual sales	55%	19%	3%	4%	9%	7%
Approx % of the installed base	38%	20%	5%	7%	12%	10%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Target segment for IKIO - commercial trailer vehicle ›

The focus for IKIO remains on the commercial trailer segment, which accounted for ~55% of the total recreational vehicle market's sales in CY21. The total sales of commercial trailers in USA stood at ~.330,000 units in CY21, growing at ~40% between CY20 and CY21.Trailers are entry-level RVs and are by far the least expensive way to get a recreational vehicle (RV). Typically, owners of these commercial trailers often have a sports utility vehicle (SUV) or truck to haul them around. They are much cheaper and simpler to own than any other RV in the market and they are also quite versatile and come in a wide range of designs, sizes, and prices. People are also preferring commercial trailers as they can continue to use their primary vehicle that hauls these trailers around and not use them solely as a coach. They are also easier to manoeuver, especially when one is navigating around downtown roads that are usually narrow or even going through a drive-through.

Figure 326: Projected sales of commercial trailer vehicles



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 327: Product portfolio of IKIO in RV segment

ABS pipes	**1. An ABS or acrylonitirle butadiene styrene pipe is generally used for indoor or outdoor plumbing, mainly as a drain, waste, or vent pipe as well as sewer pipe and for electrical wire insulation.** **2. ABS is more flexible and impact-resistant than PVC and it also performs better in colder and hotter temperatures than PVC, which turns brittle.**
Solar panels	1. A solar panel set-up can be cost-effective, environmentally friendly, and a convenient way to use electricity on the go. 2. A solar panel system generally requires little to no maintenance and provides a dependable source of electricity when the sun is shining.
Charge controllers	1. The solar charge controller is a critical component in the RV solar system. The controller maintains the life of the battery by preventing overcharging. 2. When the batteries are low, the controller provides a full flow of current from the solar panels to replenish the batteries.
Switches	RV lighting switches, RV dimmer switches, slide-out switches, RV water heater control, RV multi-purpose switch faceplates, RV switch indicator lights, and RV battery switches.
Interior lights	RVs internal light mainly includes ceiling dome bulb, dinette lights, simple pin-up lights, recessed lights, map lights, and puck lights.
Exterior lights	Exterior LED lights are a great way to brighten up the night wherever one may have decided to park. They also help give clarity to unfamiliar surroundings.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 328: Sygnify is the major client

Sygnify	• Signify is a global leader in lighting technology, formerly known as Philips Lighting. • The company specializes in innovative lighting solutions that encompass smart lighting systems, LED lighting products, and connected lighting services. The company contributes ~50% to IKIO's total revenue. • To promote sustainable lighting, Signify recently launched its first-ever 'Philips Solar Light Hub' in India.

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Key management profile

Figure 329: Strong management

Name	Mr. Hardeep Singh	Mrs. Surmeet Kaur	Mr. Sanjeet Singh
Designation	Chairman and Managing Director	Whole-time Director	Whole-time Director
Qualification	• He has overall experience of more than two decades in the manufacturing of television kits, electronic components, and LED lighting. • He has been instrumental in establishing the LED lighting business with Signify (Philips) and expanding the business to a diversified customer base.	• She is a graduate of the University of Delhi. She has been associated with the company since its inception. • Under her able leadership, IKIO has built a strong base of dedicated employees and has focused on various welfare programs and initiatives for the well-being of the employees.	• He holds a bachelor's degree in commerce from University of Delhi. • He oversees the overall operations of the company.

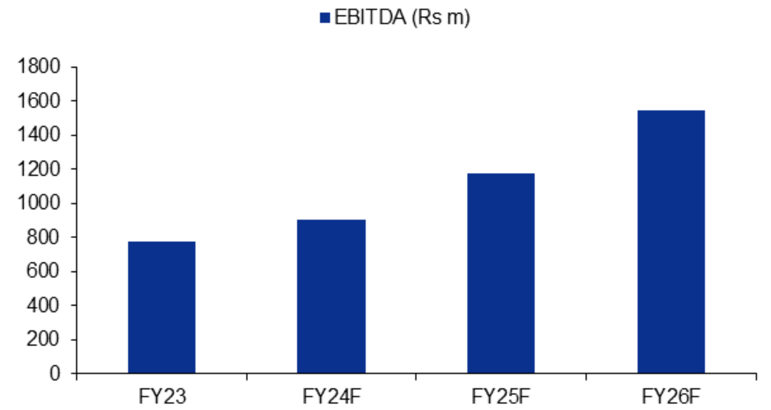
SOURCES: INCRED RESEARCH, COMPANY REPORTS

A peek into IKIO's valuation

Focusing on capex-led growth ›

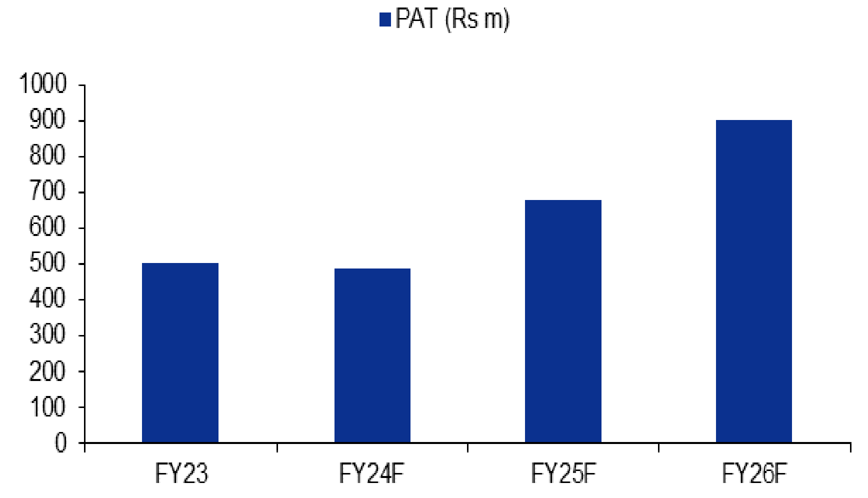
The EBITDA growth rate of IKIO for the next three years is exceptional, in our view, at a 21% CAGR (FY23-26F). At the same time, we believe the company's EPS will be slightly depressed because of huge capex, thus leading to higher depreciation. IKIO's gross block is likely to increase to Rs3,115m by FY26F from Rs43m in FY23. Factoring in an asset turn ratio of 5x, this is expected to bring an incremental revenue of Rs15,575m, once the new capex plan proceeds towards the production stage. This underlines a huge upside for top-line by FY27F-28F, underlining our high conviction on the company.

Figure 330: IKIO's EBITDA is expected to register a 21% CAGR over FY23-26F



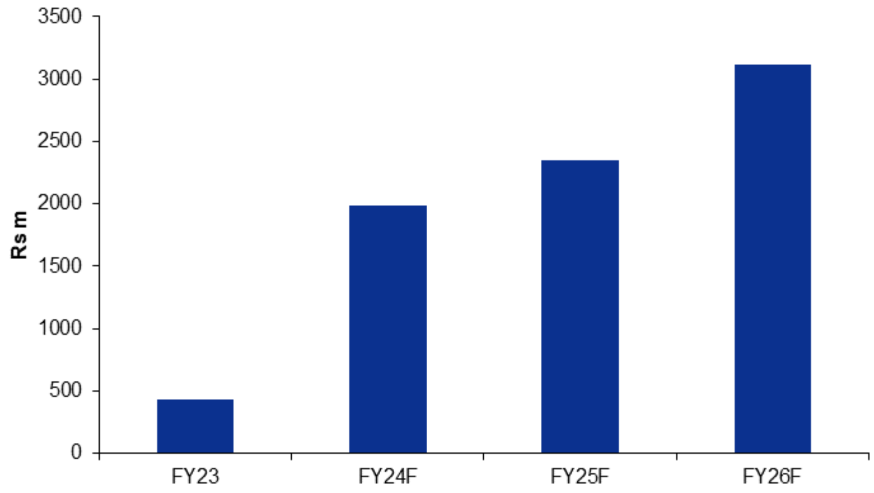
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 331: However, PAT is expected to remain depressed due to huge capex



SOURCE: INCRED RESEARCH, COMPANY REPORTS

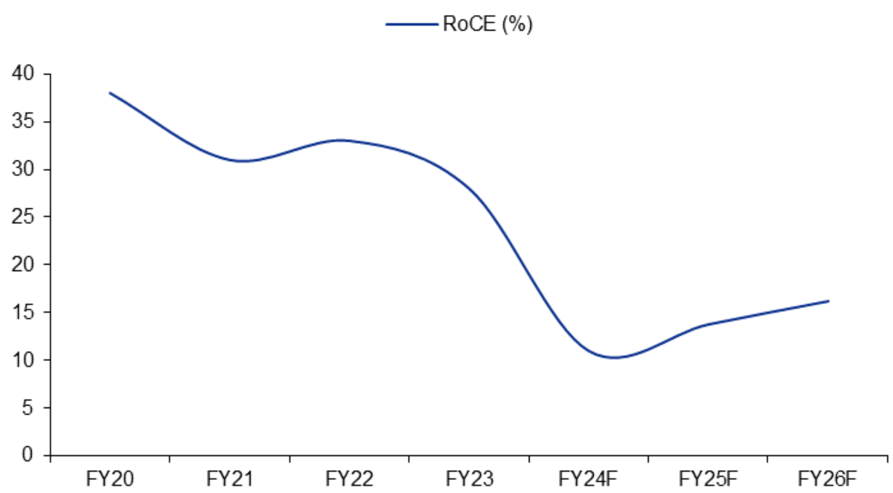
Figure 332: IKIO's gross block to increase by up to 7x by FY26F



SOURCE: INCRED RESEARCH, COMPANY REPORTS

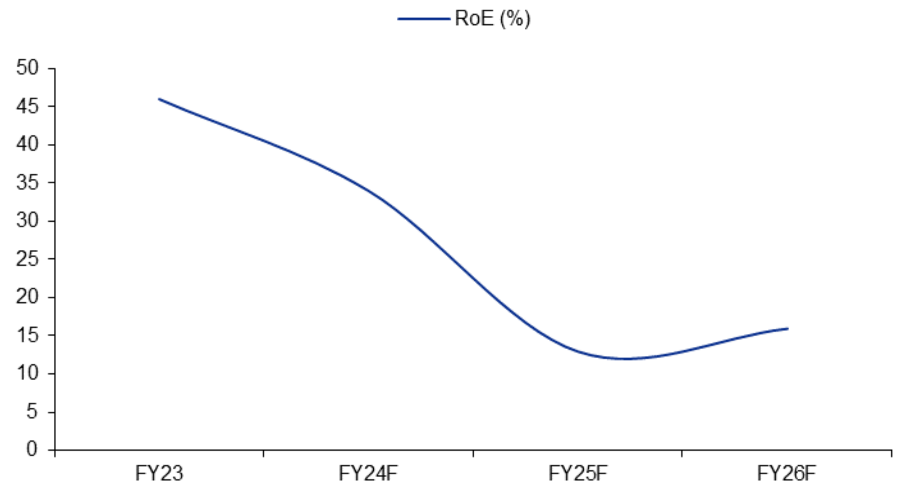
Return ratios to improve once operating leverage kicks in

Figure 333: RoCE to start improving post-FY26F when new capex moves to the production stage



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 334: Similarly, RoE is also expected to remain depressed in the near term

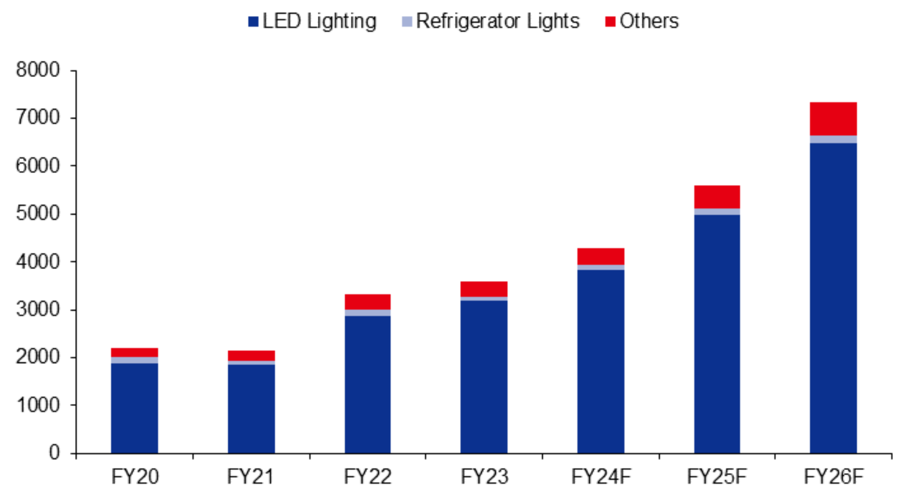


SOURCE: INCRED RESEARCH, COMPANY REPORTS

IKIO is expected to register a healthy topline growth

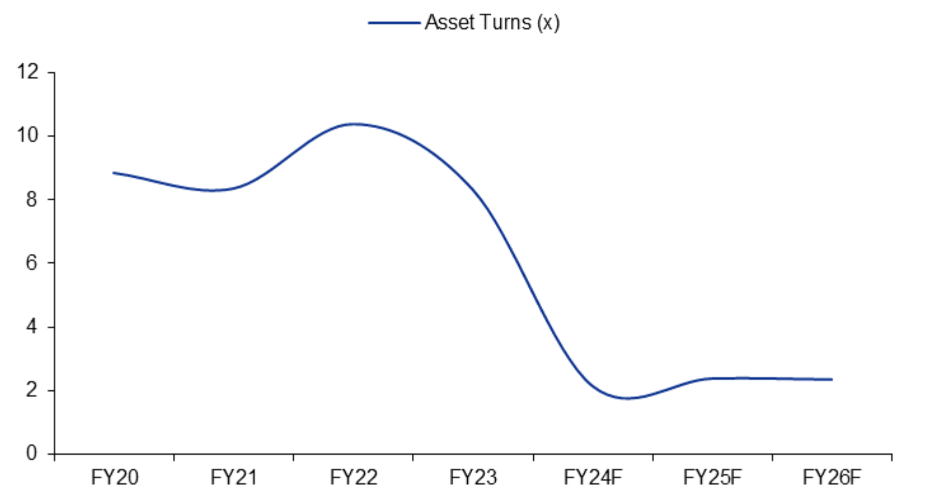
IKIO has mainly three segments - LED lighting, commercial refrigeration products, and RV products which is still at a nascent stage. As far as LED lighting is concerned, this segment is expected to register a CAGR of 21% over FY23-26F, and the commercial refrigeration products segment is expected to grow at a CAGR of 19% over the similar period. Its RV products business faces some macroeconomic headwinds in FY24F, but we expect the situation to improve by FY25F after which this segment is set to register a 23% CAGR over a lower base.

Figure 335: Revenue (Rs m) is expected to register a 21% CAGR over FY23-26F



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 336: Asset turn ratio to contract in the near term because of upcoming capex



SOURCE: INCRED RESEARCH, COMPANY REPORTS

We have used EV/EBITDA to value IKIO

We have valued IKIO on an EV/EBITDA basis as we consider it a more appropriate valuation method for commodity companies than the discounted cash flow or DCF or P/E methodologies. In our view, DCF is not a suitable valuation method because IKIO is a very high-growth company and forecasting its long-term earnings reliably is very difficult. Moreover, as the company is incurring significant capex, it will affect its PAT due to depreciation charges. Hence, we decided to go ahead with the EV/EBITDA valuation method.

We value IKIO at 24x Sep25F EV/EBITDA

- We see IKIO expanding its top-line growth as it targets new markets in the US. Moreover, the local sales office, which the company has set up in the US for better operations, will aid the company in targeting customers more efficiently, thereby helping to boost its topline.
- Significant capex incurred by the company will increase its gross block by 7x in FY26F. The company has historically witnessed fixed-assets turn ratio of 6x, and it is expected to continue once the capex starts delivering returns by FY27F. Rising premiumization in the domestic market will aid the demand for the company's products in the lighting industry.

Figure 337: Target price of 375

	IKIO
CMP (Rs)	354
EV/EBITDA (x)	24
EV (Rs m)	27,357
Target Price (Sep 2025F) Rs	375
Target Price (FY26F) Rs	411
Expected Return (%)	5.9

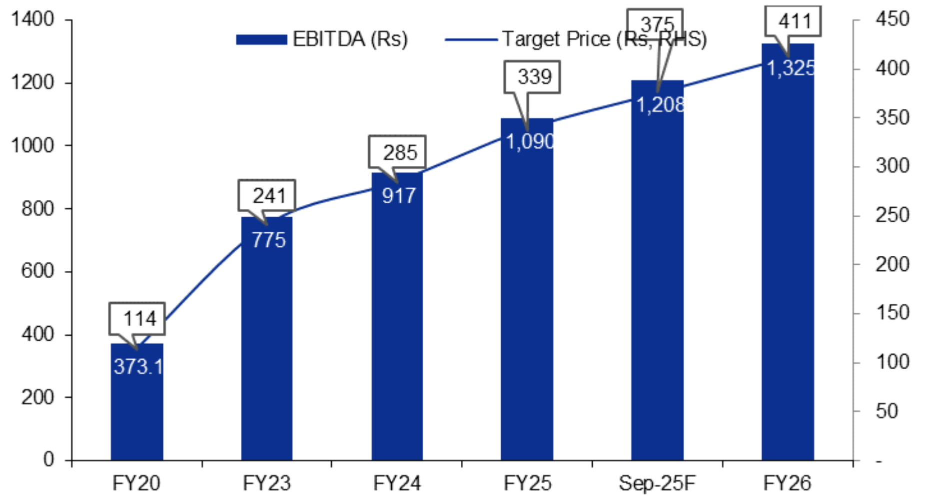
Price Sensitivity Analysis

	EBITDA (Rs)	Growth (%)	EV/EBITDA (x)	Target EV/EBITDA multiple (x) 14.0	19.0	24.0	29.0	34.0
FY23	775	0.2	35.3	140	190	241	291	341
FY24F	917	18.4	29.8	166	225	285	344	403
FY25F	1,090	18.9	25.1	197	268	339	409	480
Sep 2025F	1,208		22.7	219	297	375	453	531
FY26F	1,325	21.5	20.6	240	326	411	497	583

SOURCE: INCRED RESEARCH, COMPANY REPORTS

InCred Equities

Figure 338: EBITDA likely to grow from Rs775m in FY23 to ~Rs1.4bn in FY26F



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Scenario analysis

Figure 339: Scenario analysis

	Bull Case	Base Case	Bear Case
Revenue CAGR	28%	21%	6%
FY25F EBITDA Margin	23.1%	21.1%	20.4%
Sep25F EBITDA	1,528	1,208	835
Target EV/EBITDA (x)	27.0	24.0	21.0
Target Price (Rs)	534	375	227
Upside	50.8%	5.9%	-35.9%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Base Case: In this scenario, we expect a 21% revenue CAGR, with an average EBITDA margin of 21.4% during FY23-26F, which translates into EBITDA and PAT CAGR of 20% and 16%, respectively. Assigning a 24x EV/EBITDA multiple to its Sep 2025F EBITDA, we arrive at a target price of Rs375.

Figure 340: PAT CAGR of 16% in a base-case scenario

Base-Case Scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	CAGR (%)
Total Sales	2,202	2,134	3,318	3,588	4,279	5,163	6,376	21%
Growth (YoY, %)		-3.1%	55.5%	8.1%	19.3%	20.7%	23.5%	
EBITDA	373	478	773	775	917	1,090	1,325	20%
Growth (YoY, %)		28.2%	61.7%	0.2%	18.4%	18.9%	21.5%	
EBITDA Margin (%)	16.9%	22.4%	23.3%	21.6%	21.4%	21.1%	20.8%	
PAT	214	288	506	501	515	631	774	16%
Growth (YoY, %)		34.6%	75.4%	-0.9%	2.8%	22.5%	22.6%	
PAT Margin (%)	10%	13.5%	15.2%	14.0%	12.0%	12.2%	12.1%	
EPS (Rs)	3	4	7	6	7	8	10	16%
Growth (YoY, %)				-0.9%	2.8%	22.5%	22.6%	

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Bull Case: In this scenario, we expect a 28% revenue CAGR, with an average EBITDA margin of 23.6% during FY23-26F, which translates into EBITDA and PAT CAGR of 30%, and 25%, respectively. Assigning a 35x EV/EBITDA multiple to its FY25F EBITDA, we arrive at a target price of Rs534.

Figure 341: PAT CAGR of 25% in a bull-case scenario

Bull-Case Scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	CAGR (%)
Total Sales	2,202	2,134	3,318	3,588	4,530	5,784	7,547	28%
Growth (YoY, %)	-	-3.1%	55.5%	8.1%	26.3%	27.7%	30.5%	
EBITDA	373	478	773	775	1,062	1,337	1,719	30%
Growth (YoY, %)	0%	28.2%	61.7%	0.2%	37.0%	25.9%	28.6%	
EBITDA Margin (%)	16.9%	22.4%	23.3%	21.6%	23.4%	23.1%	22.8%	
PAT	214	288	506	501	549	740	972	25%
Growth (YoY, %)	0%	34.6%	75.4%	-0.9%	9.6%	34.7%	31.3%	
PAT Margin (%)	0.1	13.5%	15.2%	14.0%	12.0%	12.2%	12.1%	
EPS (Rs)	4	5	9	8	9	12	16	25%
Growth (YoY, %)	0%	34.6%	75.4%	-0.9%	9.6%	34.7%	31.3%	

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Bear Case: In this scenario, we expect a 6% revenue CAGR, with the average EBITDA margin at 21.1% during FY23-26F, which translates into EBITDA and PAT CAGR of 4%, and -7%, respectively. Assigning a 25x EV/EBITDA multiple to its FY25F EBITDA, we arrive at a target price of Rs227.

Figure 342: PAT CAGR of -7% in a bear-case scenario

Bear-Case Scenario	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F	CAGR (%)
Total Sales	2,202	2,134	3,318	3,588	3,740	3,953	4,288	6%
Growth (YoY, %)		-3.1%	55.5%	8.1%	4.3%	5.7%	8.5%	
EBITDA	373	478	773	775	770	808	863	4%
Growth (YoY, %)		28.2%	61.7%	0.2%	-0.6%	4.9%	6.8%	
EBITDA Margin (%)	16.9%	22.4%	23.3%	21.6%	20.6%	20.4%	20.1%	
PAT	214	288	506	501	391	409	408	-7%
Growth (YoY, %)		34.6%	75.4%	-0.9%	-22.1%	4.7%	-0.1%	
PAT Margin (%)	9.7%	13.5%	15.2%	14.0%	10.4%	10.3%	9.5%	
EPS (Rs)	4	5	9	8	7	7	7	-7%
Growth (YoY, %)		34.6%	75.4%	-0.9%	-22.1%	4.7%	-0.1%	

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Key downside risks

- **High customer concentration:** IKIO receives about 50% of its entire income from Signify, just one client. Additionally, the company has not entered into any long-term agreements with any of its clients. IKIO's ability to develop its business therefore rests on the success and performance of its primary client. We think any hiccup, order cancellation, or delay in pricing adjustments may have a major negative effect on IKIO's bottom-line.
- **Dependence on a single-product category:** Approximately 84% of IKIO's overall income comes from LED lighting. While the company has broadened its product offerings to include ABS pipes, refrigerator lights, and other items, we believe the revenue share of the LED lighting product category will remain relatively high in the near term. As a result, the company may witness major volatility or a fall in revenue and operating margin if it is unable to increase sales volume in the LED lighting category and preserve relationships with its important clients.

High dependency on imports for raw materials: Around 55% of the raw materials used by the company are imported from suppliers in China, Singapore, Hong Kong, and Taiwan. Any restrictions on the import of raw materials or components may hurt the company's ability to provide finished goods to its consumers. Additionally, any rise in the export tariff would result in higher expenditure, which may impact the business and operational performance. Additionally, the company may need to adjust its pricing to keep up with competition. The company's profitability and operational performance will suffer from any delay in implementing price hikes.

BY THE NUMBERS

Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	**3,318**	**3,588**	**4,279**	**5,163**	**6,376**
Gross Profit	**1,396**	**1,285**	**1,609**	**1,962**	**2,436**
Operating EBITDA	**773**	**775**	**917**	**1,090**	**1,325**
Depreciation And Amortisation	(51)	(58)	(186)	(223)	(279)
Operating EBIT	**722**	**717**	**731**	**867**	**1,046**
Financial Income/(Expense)	(49)	(90)	(107)	(115)	(132)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	22	32	82	113	145
Profit Before Tax (pre-EI)	**695**	**658**	**706**	**864**	**1,060**
Exceptional Items					
Pre-tax Profit	**695**	**658**	**706**	**864**	**1,060**
Taxation	(190)	(158)	(191)	(233)	(286)
Exceptional Income - post-tax					
Profit After Tax	**505**	**500**	**515**	**631**	**774**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**505**	**500**	**515**	**631**	**774**
Recurring Net Profit	505	500	515	631	774
Fully Diluted Recurring Net Profit	**505**	**500**	**515**	**631**	**774**

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	743	697	810	975	1,193
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(791)	(25)	65	(121)	(311)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	49	85	107	115	132
Tax Paid	(156)	(190)	(191)	(233)	(286)
Cashflow From Operations	**(155)**	**568**	**792**	**736**	**728**
Capex	(92)	(194)	(2,416)		(70)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow		(305)	82	113	145
Cash Flow From Investing	**(92)**	**(499)**	**(2,334)**	**113**	**75**
Debt Raised/(repaid)	372	14	192	104	203
Proceeds From Issue Of Shares	(42)	24	3,500		
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	(94)	(92)	(129)	(174)	(200)
Cash Flow From Financing	**236**	**(53)**	**3,563**	**(70)**	**3**
Total Cash Generated	(11)	16	2,021	779	806
Free Cashflow To Equity	**125**	**84**	**(1,351)**	**953**	**1,006**
Free Cashflow To Firm	**(296)**	**(16)**	**(1,650)**	**734**	**672**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	22	23	2,044	2,823	3,629
Total Debtors	665	727	703	849	1,048
Inventories	1,098	1,206	1,243	1,316	1,565
Total Other Current Assets	160	227	244	292	358
Total Current Assets	**1,945**	**2,184**	**4,235**	**5,280**	**6,601**
Fixed Assets	348	582	2,677	2,361	2,060
Total Investments	5	7	7	7	7
Intangible Assets	1	6	6	6	6
Total Other Non-Current Assets	349	331	673	590	507
Total Non-current Assets	**704**	**926**	**3,363**	**2,964**	**2,580**
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	232	241	293	395	540
Other Current Liabilities	143	193	237	279	338
Total Current Liabilities	**376**	**434**	**529**	**674**	**878**
Total Long-term Debt	1,066	1,147	1,339	1,443	1,646
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	96	80	438	379	311
Total Non-current Liabilities	**1,161**	**1,228**	**1,776**	**1,822**	**1,956**
Total Provisions	23	27	27	27	27
Total Liabilities	**1,560**	**1,688**	**2,333**	**2,523**	**2,861**
Shareholders Equity	1,089	1,422	5,264	5,720	6,319
Minority Interests					
Total Equity	**1,089**	**1,422**	**5,264**	**5,720**	**6,319**

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	55.5%	8.1%	19.3%	20.7%	23.5%
Operating EBITDA Growth	61.7%	0.2%	18.4%	18.9%	21.5%
Operating EBITDA Margin	23.3%	21.6%	21.4%	21.1%	20.8%
Net Cash Per Share (Rs)	(45.57)	(18.53)	3.46	12.95	21.65
BVPS (Rs)	43.54	21.87	68.12	74.01	81.77
Gross Interest Cover	14.69	7.93	6.82	7.51	7.95
Effective Tax Rate	27.3%	24.0%	27.0%	27.0%	27.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	48.75	65.40	61.00	54.86	54.29
Inventory Days	159.16	182.61	167.46	145.89	133.43
Accounts Payables Days	43.98	37.47	36.45	39.18	43.28
ROIC (%)	24.1%	20.3%	10.9%	13.7%	16.8%
ROCE (%)	39.3%	29.3%	15.1%	11.9%	13.2%
Return On Average Assets	24.7%	19.7%	11.1%	9.1%	10.0%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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