Kernex Microsystems (India) Ltd — FY 2025 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**Kernex is a high-growth railway safety technology play benefiting from the Kavach mandate, though it lacks independent execution muscle and relies heavily on consortium partners.**	—
2	**Revenue surged 868% YoY to □190.00 Cr, driven by the commercialization of Kavach (TCAS) and the transition to Kavach 4.0 standards.**	—
3	**Operating performance shifted from a □23.00 Cr loss to a □41.00 Cr profit, resulting in a 24% ROCE that is significantly padded by non-cash items.**	—
4	***Earnings quality is critically low, with PAT (50 Cr) heavily inflated by a 17.69 Cr non-cash deferred tax asset and a refusal to recognize 15.84 Cr in auditor-flagged impairments.***	—
5	***Financial health is undermined by extractive internal debt, with promoters charging the company a usurious 18% interest rate despite a low D/E ratio of 0.25x.***	—
6	***Cash conversion is poor with a CFO/PAT ratio of only 0.30, indicating that the majority of reported profits are not translating into actual liquidity.***	—
7	**The company achieved a positive Free Cash Flow of □6.00 Cr, a recovery from a negative □76.00 Cr, though liquidity is pressured by □29.76 Cr in unbilled contract assets.**	—
8	***Forensic risks are elevated due to an 8x jump in payroll advances to 9.29 Cr and the explicit disabling of audit trails for payroll and fixed assets.***	—
9	***Governance is a primary concern, marked by a 60.07% promoter pledge, 46% KMP salary hikes, and a board that is only 37.50% independent.***	—
10	***Regulatory and structural risks are high, with the stock trapped in the T2T segment and a mid-tenure auditor resignation signaling deep-seated accounting disagreements.***	—
11	**The outlook depends on the rapid rollout of Kavach and the potential to refinance debt at sub-10% rates, balanced against the risk of forced impairments wiping out 50% of PBT.**	—
12	***Investment View: Avoid; the "mirage turnaround" masks structural rot, with key monitorables being the reversal of payroll advances and a reduction in promoter pledges.***	—

1. Business overview (In Bullet Points)

- **Business Segments:** Primary focus is on the design, development, and implementation of railway safety systems, specifically the **Kavach** (Train Collision Avoidance System - TCAS).
- **Revenue Drivers:** Headline 882% revenue growth (Standalone: □189.65 Cr vs. □19.30 Cr) driven by the transition from R&D/Pilot phase to commercial execution of Indian Railways' **Kavach** rollout.
- **Cost Drivers:** Major costs include raw material consumption (electronic components), project execution/ installation expenses (jumped from □2.94 Cr to □14.66 Cr), and high finance costs (139% increase) due to working capital needs.
- **Industry Position:** Kernex holds a critical SIL-4 certified technology for **Kavach**, but operates via a Consortium-Heavy Execution Model, relying on partners like KEC International and Venkata Ramireddy Constructions (VRRC) for large-scale Tier-1 contracts.

- **Expansion Plans:** Planning to complete "testing automation" by Q2 FY26 to scale manufacturing; aiming to "in-source" critical sub-modules like MSOC and NMS by Q3 FY26.
- **Technology Pivot:** Completion of **Kavach 4.0** hardware/software, shifting to FPGA-based platforms (MIE 3.0 cards) and Moving Block technology to align with global CBTC standards.
- **Geographical Presence:** Predominantly India-focused (98.9% revenue); international presence includes a "zombie" project with Egyptian National Railways (ENR) and an impaired US subsidiary (Avant-Garde Info Systems).

2. Management commentary & outlook

- Management highlights the massive sector tailwind from government railway safety mandates as the primary catalyst for the current "turnaround."
- Strategy is shifting toward "large quantity manufacturing" and automation of testing processes to handle the □500 Cr+ order book.
- The company is dismissive of auditor qualifications regarding subsidiary impairments, labeling the US-based Avant-Garde Info Systems as a "strategic cost center" and JV losses as "temporary project-cycle" issues.
- Management continues to defend the Egyptian National Railways (ENR) project despite the dismantling of 39 commissioned gates, citing "Final Handover" as being in progress.
- There is a clear intent to consolidate family control, evidenced by the elevation of Ms. Sreelakshmi Manthena to Managing Director (effective May 2025).
- The failure to dematerialize promoter holdings, keeping the stock in the **Trade-to-Trade (T2T) segment**, is attributed to "lack of response from promoters," despite promoters being the active management.
- Long-term vision involves moving toward global Communication-Based Train Control (CBTC) standards through the development of **Kavach 4.0**.
- **Management Tone:** The tone is defiant and opportunistic. Management uses "Kavach Euphoria" to mask deep-seated internal control weaknesses and is dismissive of structural insolvency in subsidiaries. There is a visible disconnect between the reported "turnaround" and the persistent governance/accounting risks flagged by auditors. (LAST bullet point).

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2025	Mar 2024
Sales	190	20
Sales Growth %	868	385
Expenses	149	42
Material Cost %	52	66
Raw material cost	94	50
Change in inventory	4	-38
Manufacturing Cost %	12	44
Employee Cost %	10	66
Other Cost %	4	41
Operating Profit	41	-23
OPM %	22	-117
Other Income	1	1
Exceptional items	0	0.02
Other income normal	1.45	1.29
Interest	7	3
Depreciation	3	2
Profit before tax	32	-27
Tax %	-54	0
Net Profit	50	-27
Minority share	0	0
Exceptional items AT	0	0
Profit excl Excep	50	-27
Profit for PE	50	-26
Profit for EPS	50	-26
Profit Growth %	290	-33
EPS (□)	29.98	-15.76
Dividend Payout %	0	0

Balance sheet (□Cr)

Line item	Mar 2025	Mar 2024
Equity Capital	17	17
Reserves	141	90
Borrowings	40	28
Long term Borrowings	0	0
Short term Borrowings	40	28
Other Borrowings	0	0
Other Liabilities	42	27
Non controlling int	-1	0
Trade Payables	20	16
Advance from Customers	1	0
Other liability items	20	11
Total Liabilities	240	161
Fixed Assets	25	24
Land	4.31	4.31
Building	38.91	38.91
Plant Machinery	19.87	16.37
Equipments	1.10	1.08
Furniture n fittings	1.44	1.29
Vehicles	2.04	1.58
Intangible Assets	0	0
Other fixed assets	1.51	1.51
Gross Block	69.18	65.05
Accumulated Depreciation	44.19	41.36
CWIP	7	2
Investments	0	0
Other Assets	208	135
Inventories	56	74
Trade receivables	24	5
Receivables over 6m	47.74	28.34
Receivables under 6m	0	0
Prov for Doubtful	-24.09	-23.30
Cash Equivalents	34	19
Loans n Advances	26	17
Other asset items	67	20
Total Assets	240	161

Cash flow statement (□Cr)

Line item	Mar 2025	Mar 2024
Cash from Operating Activity	15	-71
Profit from operations	49.30	-14.21
Receivables	-19.46	0.12
Inventory	18.11	-57.73
Payables	4.24	15.06
Loans Advances	0	0
Other WC items	-37.64	-14.36
Working capital changes	-34.75	-56.91
Cash from Investing Activity	-9	-5
Fixed assets purchased	-4.13	-2.50
Fixed assets sold	0	0.22
Capital WIP	-4.72	-2.31
Interest received	0	0
Other investing items	0	0
Cash from Financing Activity	5	64
Proceeds from shares	0	49.92
Proceeds from borrowings	12.33	17.52
Repayment of borrowings	0	-0.32
Proceeds from deposits	0	0.09
Interest paid fin	-6.92	-2.89
Application money refund	0	0
Other financing items	0	0
Net Cash Flow	11	-11
Free Cash Flow	6	-76
CFO/OP	36	311

Key ratios

Line item	Mar 2025	Mar 2024
Debtor Days	45	94
Inventory Days	207	2,098
Days Payable	76	460
Cash Conversion Cycle	177	1,731
Working Capital Days	152	1,161
ROCE %	24	-21

3.2 Financial analysis summary

- The company achieved a massive 868% YoY surge in **Revenue** to ₹190.00 Cr, primarily driven by the execution of Indian Railways' Kavach (TCAS) contracts, which shifted the scale of operations and turned a previous Operating Profit loss of ₹23.00 Cr into a profit of ₹41.00 Cr.
- Despite the headline **Net Profit** of ₹50.00 Cr, the quality of earnings is impacted by a non-cash Deferred Tax asset recognition of ₹17.69 Cr, which turned a Profit before tax of ₹32.00 Cr into a higher PAT, resulting in a CFO / PAT ratio of only 0.30.
- **Trade Receivables** on the Balance Sheet grew to ₹24.00 Cr, but this excludes ₹29.76 Cr in Contract Assets (unbilled revenue); combined, the total dues from customers rose 961% YoY, slightly outpacing Revenue growth and leading to a ₹19.46 Cr cash outflow in the Cash Flow Statement.
- **Inventory** levels decreased to ₹56.00 Cr from ₹74.00 Cr, yet 80% of this (₹42.09 Cr) remains trapped as Work-in-Progress, indicating high project execution intensity that has not yet reached the final billing stage.
- **Operating Profit** margins improved drastically to 22.00% as Employee Cost % plummeted from 66.00% to 10.00% due to operating leverage, although Other Expenses were pressured by a new ₹4.08 Cr Provision for Warranties associated with long-term railway contracts.
- **Finance Cost** spiked 139% to ₹7.00 Cr as Short term Borrowings rose to ₹40.00 Cr to fund Working Capital; notes reveal exceptionally high interest rates, including 17.25% from SBI and 18% on loans from directors.
- **Capital Allocation** was focused on project infrastructure, with Fixed assets purchased of ₹4.13 Cr and CWIP rising to ₹7.00 Cr, while Free Cash Flow turned positive at ₹6.00 Cr, a significant recovery from the negative ₹76.00 Cr in the prior year.
- **Balance Sheet** risk is highlighted by Receivables over 6m of ₹47.74 Cr, which includes ₹20.65 Cr from KRCL under arbitration, and the fact that 60.07% of the promoter's holding is Pledged to secure bank facilities.
- **ROCE** staged a turnaround to 24.00% from -21.00%, driven by the sharp recovery in EBIT, although the Cash Conversion Cycle remains high at 177 days, reflecting the capital-intensive nature of EPC railway projects.
- A significant governance and liquidity flag is the 8x jump in **Payroll Advances** to ₹9.29 Cr and the auditor's note that the Audit Trail facility was not enabled for payroll and fixed assets throughout the year.
- **Other Assets** are heavily impacted by GST Input Tax Credit of ₹9.40 Cr, which the auditor flags as a recoverability risk, and Payroll Advances of ₹9.29 Cr, which is highly irregular for this business model.
- **Other Liabilities** are driven by a ₹4.08 Cr Provision for Warranties, representing a new recurring drag on margins (2.1% of revenue), and stagnant Trade Payables of ₹20.00 Cr.
- The overall synthesis of the dominant financial theme is a "mirage turnaround" where massive top-line growth and accounting profits are decoupled from cash generation due to aggressive revenue recognition, non-cash tax credits, and significant value extraction by promoters through high-interest debt.

3.3 Contingent liabilities & commitments

- **Bank Guarantees:** ₹35.21 Cr outstanding for performance and financial obligations.
- **Tax Disputes:** Total disputed income tax demands exceed ₹12.70 Cr (including ₹7.85 Cr for AY 17-18 and ₹3.92 Cr for AY 21-22).
- **Litigation (Egypt):** Claim of USD 3.42 Lakhs and Egyptian Pounds 4.98 Lakhs regarding local agent commissions.
- **Litigation (KRCL):** ₹20.65 Cr stuck in Konkan Railway arbitration; while fully provided for, it remains a significant legacy burden.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash; □35.5 Cr gap driven by non-cash deferred tax and unbilled revenue.	—	Gap due to □17.54 Cr Deferred Tax Credit and □29.76 Cr Contract Asset build-up.
2	Receivables & channel-stuffing signal	Revenue ↑↓ — aggressive recognition risk; combined receivables and contract assets grew 961% vs 868% sales.	—	Total "amounts due from customers" growth slightly outpaces the massive revenue surge.
3	Revenue timing (unbilled / contract assets)	Revenue ↑ — unbilled revenue risk; 15.6% of revenue recognized but not yet invoiced as contract assets.	—	[Note 9/23]: Revenue recognized "Over Time"; unbilled portion poses short-term liquidity and valuation risk.
4	Revenue from related parties %	Revenue ↑ — captive growth risk; 7.2% of revenue derived from sales to Joint Ventures.	—	: Increasing reliance on VRRC-KERNEX and Kernex TCAS JVs for project execution.
5	Inventory vs revenue growth	Profit ↑ — efficient turnover; inventory decreased 24% despite 868% revenue growth as WIP cleared.	—	: WIP stands at □42.09 Cr (80% of stock), indicating high volume in final execution phase.
6	Inventory valuation method change	Neutral — consistent policy; valued at lower of cost or NRV with obsolescence provisions.	—	: Provision represents 24.7% of raw materials, indicating high electronic component obsolescence risk.
7	Exceptional items in operating profit	Neutral — negligible impact; no material exceptional items reported in the current fiscal year.	—	P&L shows no distortion from one-off gains or losses in the operating profit line.
8	Depreciation rate vs useful life policy	Profit ↑ — low charge; depreciation is only 1.5% of revenue despite intensive project execution.	—	: Audit trail facility for fixed assets was not enabled, noted as a governance gap.
9	Provision reversals boosting PAT	Profit ↑ — non-cash boost; □17.69 Cr deferred tax asset recognition significantly inflated the bottom line.	—	: Massive DTA recognized on carryforward losses; turned PBT of □32.5 Cr into PAT of □50 Cr.
10	Tax rate consistency	Profit ↑ — tax credit distortion; negative effective tax rate due to deferred tax asset recognition.	—	: MAT credit of □1.23 Cr written off; P&L profit is tax-boosted rather than tax-paying.
11	CWIP age and stalling projects	Neutral — active investment; CWIP increased to □7 Cr supporting capacity for Kavach projects.	—	Increase reflects ongoing capital expenditure to meet the 868% surge in operational scale.
12	Deferred tax asset recognition adequacy	Profit ↑ — aggressive accounting; recognition of □17.69 Cr DTA assumes high future taxable profits.	—	: Management recognized DTA on losses; reversal would hit PAT if future growth slows.
13	RPT quantum and trend	Profit ↓ — value extraction; promoters charging 18% interest on loans despite company's improved profitability.	—	: High-interest director loans and stagnant □4.22 Cr receivable from director-related entity Comptek.
14	Dividend paid vs FCF adequacy	Neutral — liquidity preservation; zero dividends paid despite positive FCF of □6 Cr.	—	Cash retained to fund working capital and high-interest debt (17.25% SBI CC limits).
15	Audit Trail Compliance	Profit ↑↓ — manual override risk; edit logs disabled for payroll, fixed assets, and consolidation.	—	High risk of manual overrides or asset misappropriation given the 8x jump in payroll advances.
16			—	Refusal to impair insolvent subsidiaries overstates PBT by nearly 50%.

#	Check	Impact	Status	Notes detail
	Subsidiary Impairment Avoidance	Profit ↑ — refusal to recognize ₹15.84 Cr impairment flagged by auditor for AGI (USA) and TCAS JV.		
17	Payroll Advance Irregularity	Profit ↓ — potential fund diversion; payroll advances jumped 8x to ₹9.29 Cr.	—	Highly irregular for a company of this size; signals potential lending misclassified as payroll.

4. Management & governance

A. Auditor Report & Key Audit Matters - **Audit Opinion Type:** ***Qualified*** - **KAM 1 — Revenue Recognition (EPC Contracts):** Auditor flagged the complexity of consortium arrangements where Kernex acts as the lead member. The risk involves potential overstatement of revenue if the consortium partner's share (33.14% of gross billing) is not accurately deducted. Auditor verified inter-se agreements and escrow movements to validate the "net share" recognition. - **KAM 2 — Inventory Existence & Valuation:** Auditor identified physical verification of 52.58 Cr inventory across multiple remote project sites as a high-risk area. Reliance was placed on site-in-charge confirmations and rollback procedures. - **KAM 3 — Statutory Balances:** Auditor highlighted 9.40 Cr in GST Input Tax Credit (ITC) as a recoverability risk, dependent on future tax liabilities and government portal reconciliations. - ***Audit Trail (Rule 11g):*** The auditor explicitly noted that the audit trail (edit log) facility was **NOT enabled** for payroll, fixed assets, and consolidation processes throughout the year. - ***Auditor Change:*** NSVR & Associates LLP was appointed to fill the casual vacancy caused by the resignation of PRSV & Co LLP. Mid-tenure resignations typically signal deep-seated disagreements over accounting treatments or impairment recognitions.

B. Related Party Transactions | Party | Relationship | Nature | Amount (₹Cr) | Concern | | ------- | ---------- | -------- | ---------- | --------- | | Vrrc-kernex JV | Joint Venture | Sales of Goods | 9.44 Cr | ***Revenue growth driven by internal JV transfers*** | | Kernex TCAS JV | Joint Venture | Sales of Goods | 4.20 Cr | ***Sales to JV with insufficient funds for recovery; impairment refused*** | | Avant-Garde Info Systems | 100% Subsidiary | Purchases | 3.77 Cr | ***Value leakage to impaired US subsidiary; MD paid via this entity*** | | Janardhana Reddy Vinta | Director | Interest Paid | 0.85 Cr | ***Usurious 18% interest rate on promoter debt*** | | Comptek Computer System | Director-Related | Trade Receivable | 4.22 Cr | ***Stagnant receivable from related entity*** | | Likhil Infra Pvt Ltd | JV Partner Related | Unsecured Loan | 9.95 Cr | ***High-cost ICD from entity related to JV partner*** |

C. Shareholding - **Promoters:** 29.16% (Unchanged YoY) - **Public:** 70.82% - ***Pledged Shares:*** 60.07% of Sitarama Raju Manthena's holding is pledged (4,28,297 shares). - ***T2T Segment:*** Shares remain in the Trade-to-Trade segment because promoters have failed to dematerialize their entire holding.

D. Board Composition + KMP Compensation - **Total Directors:** 8 | **Independent %:** 37.50% (Non-compliant with SEBI LODR requiring 50% for Executive Chair). - **Women Directors:** 1 (Ms. Sreelakshmi Manthena). - **Family Concentration:** The **Manthena** family (Badari, Sitarama, and Sreelakshmi) collectively drew ₹1.54 Cr. - **Compensation Analysis:** Whole-Time Directors received a **46.87% hike** (₹0.47 Cr each) despite the company being in the T2T segment and having qualified audit opinions. This significantly exceeds the median employee remuneration decrease of 4.53%. Ms. Sreelakshmi Manthena (MD) receives ₹5.00 lakhs/month from the US subsidiary (AGI), which the auditor claims is impaired.

F. Capital Allocation & Capex | Action | FY current (₹Cr) | FY prior (₹Cr) | % of CFO | Signal | | ------- | ---------- | -------- | ---------- | --------- | | Interest Payments | 6.92 Cr | 2.89 Cr | 47.56% | — | | Working Capital Investment | 34.75 Cr | 56.91 Cr | 238.83% | — | | Capex | 4.13 Cr | 2.50 Cr | 28.38% | — | | Net Debt Change | 12.00 Cr | 17.20 Cr | 82.47% | — |

CAPEX Analytical Notes: - **CFO Coverage of Capex:** 3.52x. While CFO covers the small capex, it fails to cover the combined burden of interest and working capital expansion. - **Nature of Capex:** Primarily R&D for

Kavach 4.0 and upgrading vibration/environmental test facilities. - **Capex Deployment Efficiency:** Revenue grew 868% while Gross Block grew only 6.3%, indicating the business is scaling through project execution (EPC) rather than heavy asset deployment. - **Key Takeaways:** The primary "investment" is in **Work-in-Progress (₹42.09 Cr)** and Contract Assets (₹29.76 Cr), which represent 37% of total assets and carry significant execution/billing risk.

H. Risks - ***Inventory Obsolescence:*** 3.44 Cr provision for slow-moving stock (24.7% of RM). Potential write-down if Kavach 4.0 renders old components unusable. (High Impact) - ***Litigation (KRCL):*** 20.65 Cr stuck in Konkan Railway arbitration. Loss of 8.6% of Total Assets if arbitration fails. (High Impact) - ***Tax Demands:*** 12.70 Cr in disputed income tax demands. Cash outflow equivalent to 87% of current CFO. (Medium Impact) - ***Concentration:*** Extreme reliance on Indian Railways/Consortiums. Revenue collapse if government capex cycles pivot. (High Impact) - ***Audit Trail Failure:*** Edit logs disabled for payroll and fixed assets. High risk of manual overrides or asset misappropriation. (High Impact) - ***Promoter Pledge:*** 60.07% of lead promoter's holding pledged. Forced selling risk could trigger equity price collapse. (High Impact)

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	3	→	868% Revenue growth; Consortium dependency	Strong sector tailwinds but lacks independent execution muscle and has high customer concentration.
Financial health	2	↑	D/E 0.25x; Interest 18%; CFO < PAT	Low leverage is offset by usurious interest rates and poor cash conversion (CFO/PAT 0.30).
Earnings quality	1	↓	₹17.69 Cr DTA; ₹15.84 Cr refused impairment	Profits are heavily padded by non-cash tax credits and the refusal to recognize subsidiary losses.
Management & governance	1	↓	60% Pledge; T2T segment; 46% KMP hikes	Extractive remuneration, high pledge, and non-compliance with audit trail/board independence rules.
Capital allocation & earnings visibility	2	→	ROCE 24% (tax-padded); ₹29.76 Cr Contract Assets	High visibility via order book but value-destructive interest rates and unbilled revenue risks.

Business positives (for this company this year) * **Massive Revenue Growth:** 868% YoY surge to **₹190.00 Cr** driven by Kavach commercialization. * **Operating Turnaround:** Shifted from **₹23.00 Cr** loss to ₹41.00 Cr operating profit. * **Positive Free Cash Flow:** Generated **₹6.00 Cr** FCF, a significant recovery from negative ₹76.00 Cr. * **Technology Readiness:** Completion of **Kavach 4.0** hardware/software to meet new standards.

Business negatives / concerns (for this company this year) * **Poor Earnings Quality:** **₹17.69 Cr** of PAT is a non-cash Deferred Tax Asset; CFO/PAT is only 0.30. * **Audit Qualifications:** Refusal to recognize **₹15.84 Cr** in impairments flagged by auditors. * **Governance Red Flags: 60.07%** promoter pledge and stock trapped in T2T segment due to non-dematerialization. * **Extractive RPTs:** Promoters charging **18% interest** on loans while taking 46% salary hikes. * **Forensic Risk: 8x jump** in payroll advances to ₹9.29 Cr with disabled audit trails.

Overall scorecard summary Kernex Microsystems presents a "mirage turnaround" where explosive top-line growth masks deep structural and governance rot. While the company is a beneficiary of the Kavach safety mandate, its financial strength is undermined by usurious internal debt and a heavy reliance on non-cash tax credits to report profits. Governance is poor, characterized by high promoter pledges, extractive compensation,

and a defiant stance toward auditor-flagged impairments. The business is on a stable-to-deteriorating trajectory regarding quality, as the "Kavach Euphoria" is being used to bypass standard financial discipline.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Final line: "Total: 3/10 — Governance Rating: 1"

Part c: investor verdict

Thesis: A high-growth technology play in railway safety marred by extractive management, aggressive accounting, and severe governance deficits.

Overall stance: Avoid

Rationale: The 868% revenue growth is decoupled from cash flow, and the refusal to recognize impairments suggests the balance sheet is fragile. Re-evaluate when: CFO/PAT exceeds 0.80 AND promoter pledge drops below 20% AND audit qualifications are removed. BULL CASE: Rapid Kavach rollout leads to ₹1,000 Cr+ revenue with 20%+ clean PAT margins and debt refinancing at <10%. BEAR CASE: Auditor resignation or forced impairment of ₹15.84 Cr wipes out 50% of PBT, coupled with margin calls on pledged shares. Key monitorable: Payroll Advances: ₹9.29 Cr → watch for reversal or further spike.

7. Year-over-year analysis

7.1 Changes

Metric / theme	Summary a status	Summary b status	Forensic takeaway
Revenue & Margin Trajectory	□20 Cr Revenue; -117% OPM	□190 Cr Revenue; 22% OPM	Massive top-line growth has finally triggered operating leverage, though the bottom line remains heavily distorted by non-cash tax credits.
Earnings Quality	Operational losses; zero tax	PAT inflated by □17.69 Cr Deferred Tax Asset (DTA)	The transition to profitability is lower quality than it appears, as over 35% of net profit stems from accounting entries rather than cash inflows.
Working Capital Risk	Massive inventory build-up (□74 Cr)	Surge in unbilled "Contract Assets" (□29.76 Cr)	Liquidity risk has migrated from physical inventory to unbilled revenue, which now represents a significant and growing portion of the balance sheet.
Forensic Red Flags	Inventory verification failure (□38 Cr)	8x spike in payroll advances (□9.29 Cr)	Forensic risk has evolved from asset existence concerns to potential fund diversion through highly irregular and unmonitored payroll-related advances.
Management Tone	Survivalist and distressed	Defiant and opportunistic	Management has adopted a dismissive posture toward recurring auditor qualifications, using the "Kavach Euphoria" to mask structural governance failures.
Cash Flow Profile	Negative □76 Cr FCF	Positive □6 Cr FCF	While the company has achieved technical free cash flow positivity, it remains insufficient to service high-interest promoter debt and disputed tax demands.

7.2 Persistent patterns

- **Usurious Related Party Debt:** Management consistently extracts value through 18% interest rates on promoter loans, significantly exceeding market rates for a company with improving credit metrics.
- **Audit Trail Non-Compliance: The edit log facility remains intentionally disabled for payroll and fixed assets across both periods, creating a permanent environment for manual overrides and potential fraud.**
- **High Promoter Pledging: The lead promoter continues to maintain a 60.07% pledge on his holdings, signaling persistent personal liquidity stress or external financing constraints.**
- **Administrative Governance Failure: The chronic failure to dematerialize promoter holdings keeps the stock trapped in the Trade-to-Trade (T2T) segment, reflecting a total disregard for minority shareholder liquidity.**
- **Extractive Remuneration Behavior:** The Manthena family consistently awards themselves double-digit salary hikes (32% to 46%) regardless of whether the company is booking deep losses or accounting-driven profits.
- **Konkan Railway (KRCL) Arbitration Stasis:** The □20.65 Cr stuck in arbitration remains a stagnant, high-risk asset that continues to threaten the integrity of the balance sheet.
- **Consortium Dependency:** The business model remains structurally reliant on external partners for Tier-1 contract execution, limiting Kernex's independent scaling capacity.
- **Qualified Audit Opinions: The statutory auditor continues to issue qualified opinions regarding the refusal to recognize impairments in insolvent subsidiaries and joint ventures.**