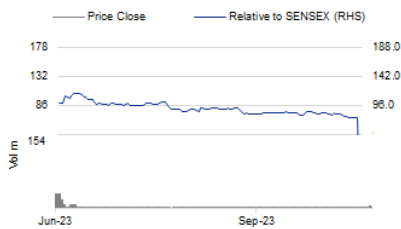


India

REDUCE (previously HOLD)

Consensus ratings*:	Buy 0	Hold 1	Sell 0
Current price:	Rs338		
Target price:	Rs297		
Previous target:	Rs375		
Up/downside:	-12.1%		
InCred Research / Consensus:	-20.8%		
Reuters:	IKIO.NS		
Bloomberg:	IKIO IN		
Market cap:	US\$360m		
	Rs26,144m		
Average daily turnover:	US\$0.0m		
	Rs0.0m		
Current shares o/s:	77.3m		
Free float:	28.0%		

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.5)	(16.8)	0.0
Relative (%)	(4.0)	(15.5)	0.0

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

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IKIO Lighting

Concerns over sales growth & margins

- IKIO Lighting posted a 2QFY24 topline of Rs1,179m (up 8.8% QoQ), EBITDA of Rs267m (up 17.5% QoQ), with margins at 22.7% (up 167 bp QoQ).
- PAT was at Rs182m (up 31% QoQ). The main area of concern is decreasing topline growth (4% YoY on a standalone basis) in the lighting segment.
- There's not much TAM to capture in the lighting segment. Retain our earnings estimates but downgrade the rating to REDUCE with a lower TP of Rs297.

Muted revenue growth of the lighting business

IKIO Lighting, on a standalone basis, posted a YoY revenue growth of 4% (Rs675m vs. Rs648m) in 2QFY24. This was expected, as it caters to the high-end decorative lighting segment, a highly fragmented market. Signify is the largest company in this sector with a 50% market share while the remaining portion of the market is quite fragmented. Signify's total purchases of LED lighting products are estimated at around Rs4,800m and IKIO Lighting has currently a 50% wallet share with this company. There is not much scope for IKIO Lighting as far as capturing more wallet share is concerned. We expect the company's lighting business to grow at a CAGR of 7-8% with the market, on an optimistic note, which is ~60% of the total topline, and hence doesn't justify its steep valuation.

Margin pressure on the cards

IKIO Lighting has mainly three business divisions - LED lighting, commercial refrigeration lighting & recreational vehicles (RVs). Out of these three segments, commercial refrigeration lighting (CRL) has the highest EBITDA margin (28%), followed by RVs (18%) and LED lighting (16%). Please note that the margin of the lighting segment has been falling QoQ, and the company has indicated that the trend will continue in the coming quarters. Hence, the only margin-accretive business currently is the CRL business, but the TAM for the company in this segment is very less. The total market for lighting solutions in the CRL segment is around Rs 3,038m (as per IKIO Lighting's DRHP) and is growing at a CAGR of 8-9%. In FY23, IKIO Lighting posted a revenue of Rs1,324m in the CRL segment, translating into a market share of 44%. Hence, here also we expect the company to grow with the market, posting an 8-9% CAGR, but it doesn't justify the steep valuation.

RV business could be a saving grace; downgrade to REDUCE

IKIO Lighting posted a topline of Rs695m in the RV segment in FY23. The total market potential for the company in this segment is Rs5,000m, thus implying a 14% market share. However, YoY RV sales in the US are down 50% due to the prevailing macroeconomic slowdown. Hence, we do not expect much growth in this segment. We have cut the EV/EBITDA multiple from 24x to 19x to arrive at a lower target price of Rs297, from Rs375 earlier. We downgraded our rating on the stock to REDUCE (HOLD earlier). We feel there are not many growth triggers in the medium term and hence, the reduction in the EV/EBITDA multiple. Key upside risks: Improvement in the macroeconomic scenario in the US, followed by the rate cut cycle which could lead to increased consumer demand.

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)	16.74	43.95	50.74	41.43	33.78
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)	12.41	29.94	28.22	23.06	18.47
P/FCFE (x)	33.80	181.79	(17.82)	27.43	25.98
Net Gearing	104.7%	84.7%	(5.1%)	(17.5%)	(26.5%)
P/BV (x)	7.77	15.47	4.97	4.57	4.14
ROE	58.8%	39.9%	15.4%	11.5%	12.9%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

RV sales declining in the US market >

There is a sharp decrease in RV sales in the US because of the macroeconomic slowdown coupled with the consumers exhausting their excess savings which they had accumulated during the Covid-19 pandemic. This has resulted in leading RV manufacturers in the US posting weak results. Hence, we do not expect the RV business to contribute much to the topline of IKIO Lighting in FY24F and FY25F.

Figure 1: RV sales decline considerably by 46.2% YoY

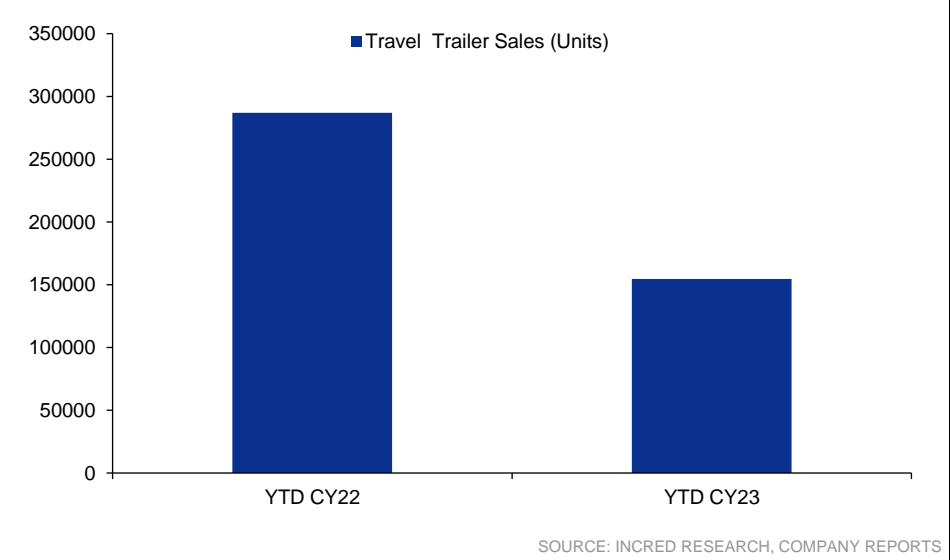


Figure 2: IKIO Lighting’s export business has a relatively lower EBITDA margin

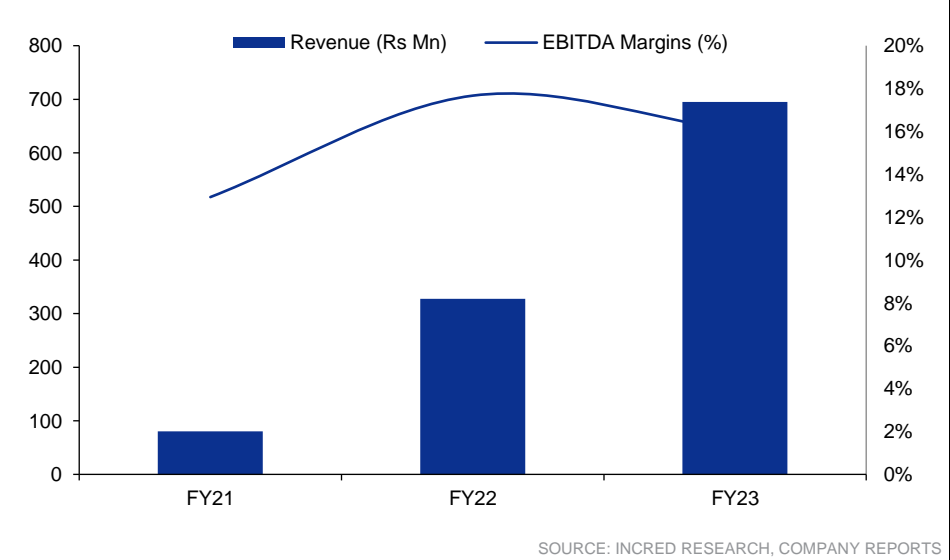
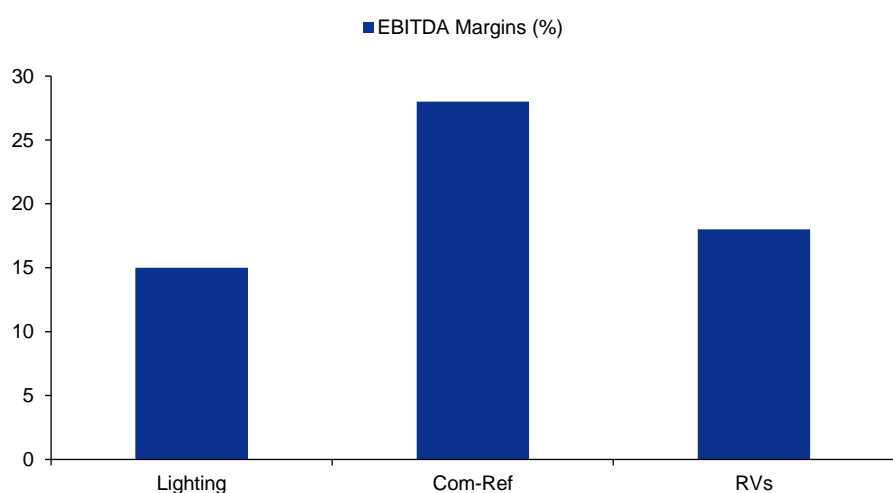


Figure 3: Commercial refrigeration lighting segment has the highest EBITDA margin



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Snapshot of IKIO Lighting's 2QFY24 results

(Rs m)	2QFY24	1QFY24	QoQ	InCred Estimates	Diff
Revenue	1,179	1,084	8.8%	1,069	10.3%
Raw Materials	707	652	8.3%	673	4.9%
Gross Profit	473	431	9.6%	396	19.5%
Gross Margin (%)	40.1%	39.8%	27.1 bp	37.0%	308.5 bp
Employee Benefit Expenses	127	113	12.7%	111.4	14.3%
Other Expenses	78	91	-14.1%	70	11.1%
EBITDA	267	227	17.5%	214	25.0%
EBITDA Margin (%)	22.7%	21.0%	166.9 bp	20.0%	266.2 bp
Depreciation	37	20	83.6%	47	-21.4%
Other Income	62	9	568.1%	21	201.0%
EBIT	292	217	34.9%	126	131.9%
Interest Cost	32	30	5.6%	27	18.6%
PBT	261	187	39.6%	161	61.9%
Tax	78	48	62.1%	40	94.3%
PAT	182	138	31.7%	121	51.1%
NIM	15.5%	12.8%	269.2 bp	7.8%	763.8 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

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	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%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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