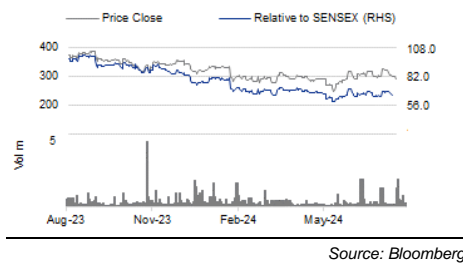


India

REDUCE (no change)

Consensus ratings*:	Buy 0	Hold 0	Sell 1
Current price:	Rs293		
Target price:	Rs260		
Previous target:	Rs260		
Up/downside:	-11.3%		
InCred Research / Consensus:	0.0%		
Reuters:	IKIO.NS		
Bloomberg:	IKIO IN		
Market cap:	US\$311m		
	Rs22,616m		
Average daily turnover:	US\$1.5m		
	Rs107.0m		
Current shares o/s:	77.3m		
Free float:	28.0%		
*Source: Bloomberg			



Price performance	1M	3M	12M
Absolute (%)	(7.9)	2.6	(21.6)
Relative (%)	(6.9)	(6.3)	(35.7)

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

Research Analyst(s)

Vipraw SRIVASTAVA
T (91) 22 4161 1565
E vipraw.srivastava@incredresearch.com
Arafat SAIYED
T (91) 22 4161 1542
E arafat.saiyed@incredcapital.com
Anirvan DIVAKERA
T (91) 02241611548
E anirvan.divakera@incredresearch.com

IKIO Lighting

Margin decline continues

- IKIO Lighting posted 1QFY25 revenue/EBITDA/PAT of Rs1,270m/Rs170m/Rs120m, up 17%, and down 27% & 11%, respectively.
- The critical issue is the decline in gross margin and EBITDA margin by 485bp and 784bp, respectively.
- We are bearish on the company's growth, given its unsustainable margins and slowdown in the US RV business. Retain REDUCE rating with a TP of Rs260.

Lighting business continues to disappoint

IKIO Lighting, on a standalone basis, posted a YoY revenue growth of 8% (Rs665m vs. Rs615m) in 1QFY25. 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 post a CAGR of 7-8% in the market on an optimistic note, which is ~60% of the total topline, and hence doesn't justify its steep valuation.

Entry into low-margin hearables will lead to further margin pressure

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%). Hence, the only margin-accretive business currently is the CRL business, but the total addressable market or 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 posting 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. Moreover, the company has recently ventured into the low-margin hearables and wearables business, which can lead to further margin dilution as this business has an EBITDA margin in the range of 3-4%.

Ramp-up of RV business is slow; retain REDUCE with a TP of Rs260

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 and a high-interest rate environment. Hence, we do not expect much growth in this segment. We retain our earnings estimate and value the stock at 19x FY26F EV/EBITDA. Retain our REDUCE rating on it with an unchanged target price of Rs260. Key upside risks include quick ramp-up of the US RV business followed by operating leverage.

Financial Summary	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	3,318	3,588	4,379	5,163	6,376
Operating EBITDA (Rsm)	773	775	926	959	1,154
Net Profit (Rsm)	505	500	605	560	700
Core EPS (Rs)	20.2	7.7	7.8	7.2	9.1
Core EPS Growth	0.0%	(61.9%)	1.7%	(7.4%)	25.0%
FD Core P/E (x)	14.48	38.02	37.39	40.38	32.30
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)	10.94	26.11	23.11	24.49	19.92
P/FCFE (x)	29.24	157.26	(6.44)	22.73	27.28
Net Gearing	104.7%	84.7%	(21.8%)	14.5%	5.7%
P/BV (x)	6.72	13.38	4.09	3.83	3.51
ROE	58.8%	39.9%	17.4%	9.8%	11.3%
% Change In Core EPS Estimates				(11.24%)	(9.55%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key conference-call takeaways

- Operational performance:** Block-1 Commercialization - New facility's operations commenced, focusing on LED home lighting, solar panel systems, and new product lines. Hearables and wearables Launch - Sales commenced with prestigious clients on board. Gulf Market Entry - Expansion into the Gulf region in the product display segment. US Subsidiary Revenue: Generating revenue focusing on the industrial and solar product categories. Capacity Expansion: Block-2 expected to be completed by Mar 2025F. Fine Technologies Merger: Merged with Royalux Lighting.
- Outlook:** FY25 Guidance - Revenue growth of 20-25% YoY, EBITDA margin 20-22%. Operational Leverage: Expected to stabilize margins in the second half of FY25F. Gross Margin Improvement: Expects stability in the margins outside the US subsidiary. US Subsidiary Margin - Likely improvement as operations stabilize. Hearables and Wearables Backward Integration: Focusing on integration to achieve existing business-line margins. RV Market Turnaround: Potential turnaround year, with likely improvement in the second half.
- New Initiatives:** Focus on Innovation - Emphasizing new and innovative product development in the LED lighting segment. Geographical Expansion: Actively pursuing expansion in the domestic and international markets. Product Portfolio Diversification - Committed to expanding the product portfolio. ROCE Target for Hearables/Wearables - Aims to achieve RoCE in the range of 30% to 35%.

Figure 1: IKIO Lighting's earnings snapshot

(Rs m)	1QFY25	1QFY24	YoY	4QFY24	QoQ
Revenue	1,270	1,084	17.2%	948	34.0%
Raw Material Costs	826	652	26.7%	546	51.2%
Gross Profit	444	431	3.0%	401	10.6%
Gross Margin (%)	35.0%	39.8%	-485.1 bps	42.4%	-739.1 bps
Employee Benefit Expenses	165	113	46.2%	129	27.8%
Other Expenses	112	91	23.0%	103	8.9%
EBITDA	167	227	-26.6%	170	-1.4%
EBITDA Margin (%)	13.2%	21.0%	-784.2 bps	17.9%	-473 bp
Depreciation	46	20	133.0%	39	20.3%
Other Income	57	9	522.2%	43	33.1%
EBIT	178	217	-17.8%	174	2.3%
Interest Costs	21	30	-30.5%	25	-14.7%
PBT	157	187	-15.8%	150	5.1%
Tax	34	48	-30.4%	54	-38.3%
PAT	124	138	-10.7%	95	29.9%
NIM	9.7%	12.8%	-304.2 bp	10.0%	-30.8 bp

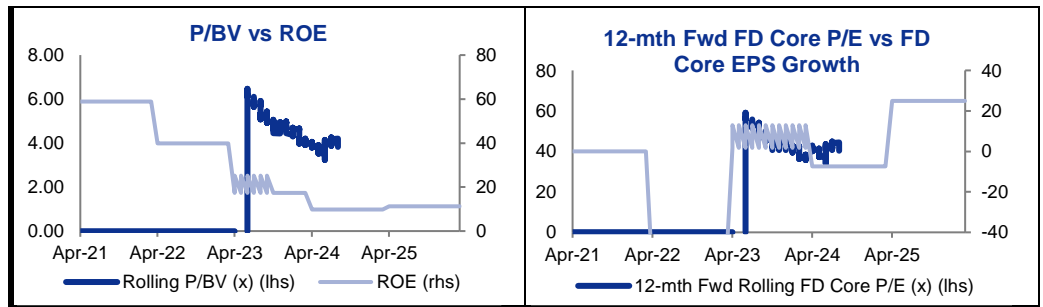
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Cost analysis

Margin Analysis	1QFY25	1QFY24	YoY	4QFY24	QoQ
Raw Material Costs	65.0%	60.2%	485.1 bp	57.6%	739.1 bp
Employee Costs	13.0%	10.4%	257.8 bp	13.6%	-63.2 bp
Other Expenses	8.8%	8.4%	41.3 bp	10.8%	-202.9 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	3,318	3,588	4,379	5,163	6,376
Gross Profit	1,396	1,285	1,794	1,962	2,436
Operating EBITDA	773	775	926	959	1,154
Depreciation And Amortisation	(51)	(58)	(120)	(144)	(175)
Operating EBIT	722	717	806	815	979
Financial Income/(Expense)	(49)	(90)	(116)	(115)	(132)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	22	32	153	68	112
Profit Before Tax (pre-EI)	695	658	844	767	959
Exceptional Items					
Pre-tax Profit	695	658	844	767	959
Taxation	(190)	(158)	(239)	(207)	(259)
Exceptional Income - post-tax					
Profit After Tax	505	500	605	560	700
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	505	500	605	560	700
Recurring Net Profit	505	500	605	560	700
Fully Diluted Recurring Net Profit	505	500	605	560	700

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	743	697	822	843	1,022
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(791)	(25)	(688)	577	(311)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	49	85	111	115	132
Tax Paid	(156)	(190)	(297)	(207)	(259)
Cashflow From Operations	(155)	568	(52)	1,329	584
Capex	(92)	(194)	(837)	(1,600)	(70)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow		(305)	(1,650)	276	112
Cash Flow From Investing	(92)	(499)	(2,487)	(1,325)	42
Debt Raised/(repaid)	372	14	(695)	991	203
Proceeds From Issue Of Shares	(42)		3,500		
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	(94)	(92)	(148)	(174)	(200)
Cash Flow From Financing	236	(77)	2,657	817	3
Total Cash Generated	(11)	(8)	118	821	629
Free Cashflow To Equity	125	84	(3,234)	995	829
Free Cashflow To Firm	(296)	(16)	(2,650)	(112)	495

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	22	23	1,910	962	1,591
Total Debtors	665	727	969	849	1,048
Inventories	1,098	1,206	1,352	1,316	1,565
Total Other Current Assets	160	227	359	292	358
Total Current Assets	1,945	2,184	4,589	3,419	4,563
Fixed Assets	348	582	1,276	2,561	2,260
Total Investments	5	7	215	7	7
Intangible Assets	1	6	6	6	6
Total Other Non-Current Assets	349	331	491	590	507
Total Non-current Assets	704	926	1,988	3,164	2,780
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	232	241	214	395	540
Other Current Liabilities	143	193	118	279	338
Total Current Liabilities	376	434	331	674	878
Total Long-term Debt	1,066	1,147	452	1,443	1,646
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	96	80	252	379	311
Total Non-current Liabilities	1,161	1,228	703	1,822	1,956
Total Provisions	23	27	14	27	27
Total Liabilities	1,560	1,688	1,049	2,523	2,861
Shareholders Equity	1,089	1,422	5,528	5,912	6,438
Minority Interests					
Total Equity	1,089	1,422	5,528	5,912	6,438

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	55.5%	8.1%	22.0%	17.9%	23.5%
Operating EBITDA Growth	61.7%	0.2%	19.6%	3.5%	20.4%
Operating EBITDA Margin	23.3%	21.6%	21.2%	18.6%	18.1%
Net Cash Per Share (Rs)	(45.57)	(18.53)	15.62	(11.12)	(4.72)
BVPS (Rs)	43.54	21.87	71.53	76.50	83.30
Gross Interest Cover	14.69	7.93	6.98	7.06	7.43
Effective Tax Rate	27.3%	24.0%	28.4%	27.0%	27.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	48.75	65.40	70.67	64.24	54.29
Inventory Days	159.16	182.61	180.63	152.05	133.43
Accounts Payables Days	43.98	37.47	32.08	34.68	43.28
ROIC (%)	24.1%	20.3%	14.6%	12.3%	15.0%
ROCE (%)	39.3%	29.3%	18.2%	11.7%	12.1%
Return On Average Assets	24.7%	19.7%	14.3%	9.8%	11.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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