EMS

1Q results review: Healthy growth on track

- Our EMS coverage universe posted healthy sales/EBITDA/PAT YoY growth of 74%/56%/75%, respectively, in 1Q. The EBITDA margin fell 69bp YoY to 5.8%.
- Companies are optimistic about growth prospects, with Dixon expanding mobile capacity & capitalizing on 5G while Cyient DLM leverages new orders.
- We expect EMS companies to report healthy growth over the next few years. Our top picks include Cyient DLM and Dixon while our top REDUCE is PGEL.

Strong revenue growth sustains in 1QFY25

Our EMS coverage universe reported healthy sales/EBITDA/PAT YoY growth of 74%/56%/75%, respectively, in 1QFY25. Dixon Technologies reported the highest revenue growth of ~101% YoY followed by PG Electroplast (PGEL) at 95% and Syrma SGS at 93%. However, Syrma SGS faced margin pressure during the quarter, which led to a 28% fall in PAT. Avalon Technologies was the major laggard which continues to face headwinds in the US exports that led to a 15% fall in revenue and suffered a net loss in 1Q. The overall margin of our coverage universe fell by 69bp YoY to 5.8%. Consumer EMS companies, which include Dixon Technologies, PGEL, IKIO Lighting and Elin Electronics saw 78% revenue growth while EBITDA & PAT were up 67% and 96% YoY, respectively. PCBA EMS companies witnessed a 57% YoY growth while EBITDA & PAT were up 20% and 21%, respectively. On the profitability front, strong PAT growth was seen in Dixon Technologies (118% YoY), PGEL (147% YoY) and Kaynes Technology (106% YoY).

Management commentaries are optimistic

Company managements are optimistic about the growth prospects, with **Dixon Technologies** expanding its mobile phone production capacity and capitalizing on 5G advancement, **Cyient DLM** leveraging its new contract wins across semiconductor, defence and medtech sectors, and **Syrma SGS** focusing on operational efficiency and a strong order book, despite business model challenges. **Kaynes Technology** is enhancing its capabilities in high-growth sectors, while **Amber Enterprises** is driving growth through a strategic shift to in-house production and high-margin products. **Avalon Technologies** is expanding its box-build solutions and clean energy businesses, despite challenges at its US operations. **PGEL** is investing in new facilities and product categories, while **IKIO Lighting** is focusing on backward integration and geographical expansion to stabilize margins.

Outlook and valuation

We expect EMS companies to report healthy growth over the next few years. We upgraded our rating on Amber Enterprises to ADD (from HOLD) with a higher target price of Rs5,000 (Rs4,200 earlier). Top Picks: We like Cyient DLM, which offers electronics solutions for mission-critical applications with high entry barriers, Dixon Technologies, which is highly scalable and profitable, with high fungibility in its products line. Our top REDUCE-rated companies include PG Electroplast, as a major portion of its growth is likely to come from RACs, as its cooler and washing machine sales are not ramping up fast enough.

Figure 1: Coverage universe summary

Company	Bloomberg Tickers	Rating	Shares (m)	CMP (Rs)	M-Cap (Rs bn)	TP (Rs)	Target P/E (x)
Dixon Technologies	DIXON IN	ADD	59.6	12,375	737	13,400	75
Amber Enterprises	AMBER IN	ADD	33.7	4,144	140	5,000	35
PG Electroplast	PGEL IN	REDUCE	260.3	490	128	185	22
Kaynes Technology	KAYNES IN	HOLD	63.9	5,082	325	4,500	60
Syrma SGS	SYRMA IN	ADD	176.8	411	73	500	28
Avalon Technologies	AVALON IN	REDUCE	65.7	489	32	414	32
Cyient DLM	CYIENTDL IN	ADD	79.3	785	62	1,049	45
IKIO Lighting	IKIO IN	REDUCE	77.3	288	22	260	19 (EV/EBITDA)
Elin Electronics	ELIN IN	ADD	49.7	207	10	264	20

SOURCE: INCRED RESEARCH, COMPANY REPORTS

India

Overweight *(no change)*

Highlighted Companies

Cyient DLM Ltd

ADD, TP Rs1049, Rs785 close

Cyient DLM's revenue is expected to continue its strong export-driven growth. Europe's increased defence spending due to the Russia-Ukraine war and NATO's 2% GDP defence spending target could be a medium-term trigger for growth, particularly for Cyient DLM's clients. This, in our view, could lead to a significant order inflow for Cyient DLM, resulting in order book growth.

Dixon Technologies

ADD, TP Rs13400, Rs12780 close

Dixon Technologies' business model is highly scalable and profitable, with high fungibility in its product line. Technological upgradation in the 5G infrastructure is poised to open new possibilities for electronic devices, especially in the mobility & communication segments.

PG Electroplast

REDUCE, TP Rs185, Rs520 close

RAC sales are expected to drive PG Electroplast's growth in FY25F, while its cooler and washing machine sales are slow to ramp up. The company plans to incur a capex of Rs37-38bn for new facilities focused on room ACs or RACs and washing machines.

Summary Valuation Metrics

P/E (x)	Mar24-F	Mar25-F	Mar26-F
Cyient DLM Ltd	101.9	51.59	33.33
Dixon Technologies	202.12	118.78	85.85
PG Electroplast	98.65	71.34	64.7

P/BV (x)	Mar24-F	Mar25-F	Mar26-F
Cyient DLM Ltd	6.85	6.04	5.12
Dixon Technologies	45.09	33.04	24.05
PG Electroplast	13.03	10.98	9.33

Dividend Yield	Mar24-F	Mar25-F	Mar26-F
Cyient DLM Ltd	0%	0%	0%
Dixon Technologies	0.02%	0.03%	0.03%
PG Electroplast	0%	0%	0%

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Figure 2: 1QFY25 results summary

	Revenue (Rs m)					EBITDA (Rs m)					PAT (Rs m)				
	Jun-24	Jun-23	YoY (%)	Mar-24	QoQ (%)	Jun-24	Jun-23	YoY (%)	Mar-24	QoQ (%)	Jun-24	Jun-23	YoY (%)	Mar-24	QoQ (%)
Dixon Technologies	65,798	32,715	101.1%	46,580	41.3%	2,479	1,319	88.0%	1,825	35.9%	1,397	642	117.7%	973	43.6%
Amber Enterprises	24,013	17,020	41.1%	28,054	-14.4%	1,962	1,319	48.7%	2,218	-11.6%	747	457	63.5%	990	-24.5%
PG Electroplast	13,207	6,776	94.9%	10,766	22.7%	1,306	658	98.5%	1,165	12.2%	837	338	147.3%	716	16.9%
Kaynes Technology	5,040	2,972	69.6%	6,373	-20.9%	669	403	66.2%	952	-29.8%	508	246	106.0%	813	-37.5%
Syrma SGS	11,599	6,013	92.9%	11,341	2.3%	446	369	20.7%	737	-39.5%	203	283	-28.2%	452	-55.0%
Avalon Technologies	1,995	2,351	-15.2%	2,168	-8.0%	44	162	-73.0%	172	-74.6%	-23	71	-132.6%	71	-132.7%
Cyient DLM	2,579	2,172	18.8%	3,618	-28.7%	200	200	0.0%	380	-47.5%	106	54	97.6%	227	-53.4%
IKIO Lighting	1,270	1,084	17.2%	948	34.0%	167	227	-26.6%	170	-1.4%	124	138	-10.7%	95	29.9%
Elin Electronics	2,936	2,538	15.7%	2,778	5.7%	133	98	35.3%	124	6.8%	59	38	57.1%	35	67.2%
Aggregate	**1,28,436**	**73,640**	**74.4%**	**1,12,626**	**14.0%**	**7,405**	**4,756**	**55.7%**	**7,742**	**-4.4%**	**3,958**	**2,267**	**74.6%**	**4,372**	**-9.5%**

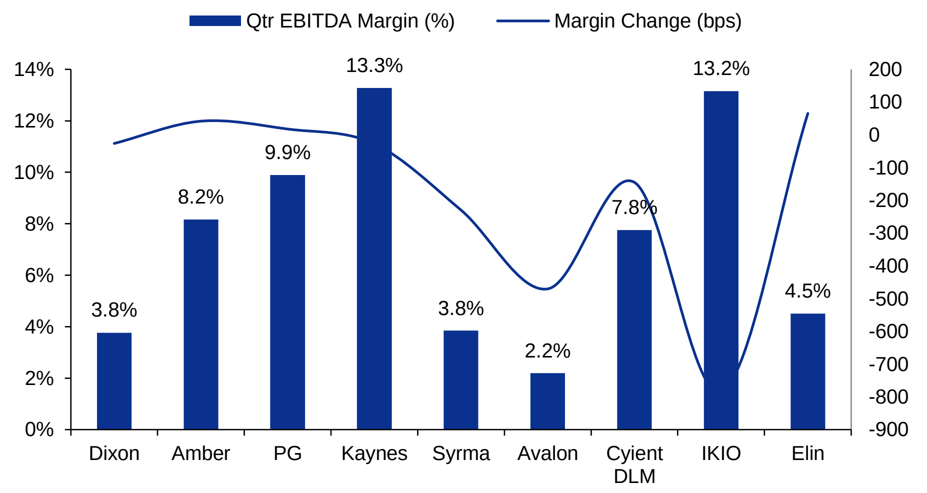
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Quarterly EBITDA margin comparison

Margin (%)	Jun-24	Jun-23	YoY (bp)	Mar-24	QoQ (bp)
Dixon Technologies	3.8%	4.0%	-26	3.9%	-15
Amber Enterprises	8.2%	7.8%	42	7.9%	26
PG Electroplast	9.9%	9.7%	18	10.8%	-93
Kaynes Technology	13.3%	13.5%	-27	14.9%	-167
Syrma SGS	3.8%	6.1%	-230	6.5%	-265
Avalon Technologies	2.2%	6.9%	-470	7.9%	-574
Cyient DLM	7.8%	9.2%	-145	10.5%	-276
IKIO Lighting	13.2%	21.0%	-784	17.9%	-473
Elin Electronics	4.5%	3.9%	65	4.5%	5
Aggregate	**5.8%**	**6.5%**	**-69**	**6.9%**	**-111**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Margin profile



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Revenue, EBITDA and PAT mix of our coverage universe

	Revenue					EBITDA					PAT				
Mix (%)	Jun-24	Jun-23	YoY (bp)	Mar-24	QoQ (bp)	Jun-24	Jun-23	YoY (bp)	Mar-24	QoQ (bp)	Jun-24	Jun-23	YoY (bp)	Mar-24	QoQ (bp)
Dixon Tech.	51%	44%	680	41%	987	33%	28%	575	24%	991	35%	28%	700	22%	1,304
Amber Enterprises	19%	23%	-442	25%	-621	26%	28%	-125	29%	-216	19%	20%	-128	23%	-376
PG Electroplast	10%	9%	108	10%	72	18%	14%	380	15%	260	21%	15%	622	16%	477
Kaynes Tech.	4%	4%	-11	6%	-173	9%	8%	57	12%	-327	13%	11%	196	19%	-576
Syrma SGS	9%	8%	87	10%	-104	6%	8%	-175	10%	-349	5%	12%	-735	10%	-520
Avalon Tech.	2%	3%	-164	2%	-37	1%	3%	-282	2%	-163	-1%	3%	-370	2%	-220
Cyient DLM	2%	3%	-94	3%	-120	3%	4%	-150	5%	-221	3%	2%	31	5%	-253
IKIO Lighting	1%	1%	-48	1%	15	2%	5%	-253	2%	7	3%	6%	-298	2%	95
Elin Electronics	2%	3%	-116	2%	-18	2%	2%	-27	2%	19	1%	2%	-17	1%	69

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Revenue. EBITDA and PAT miss/beat against InCred

	Revenue (Rs m)	EBITDA (Rs m)	PAT (Rs m)	Revenue (Miss)/Beat	EBITDA (Miss)/Beat	PAT (Miss)/Beat
Dixon Technologies	65,798	2,479	1,397	31.2%	6.6%	13.6%
Amber Enterprises	24,013	1,962	747	20.9%	22.6%	31.6%
PG Electroplast	13,207	1,306	837	68.0%	74.9%	108.9%
Kaynes Technology	5,040	669	508	10.1%	0.8%	-6.3%
Syrma SGS	11,599	446	203	31.0%	-24.8%	-41.8%
Avalon Technologies	1,995	44	-23	-13.1%	-73.2%	-136.2%
Cyient DLM	2,579	200	106	-2.6%	-3.4%	6.0%
IKIO Lighting	1,270	167	124	7.2%	-36.7%	-29.3%
Elin Electronics	2,936	133	59	-6.3%	5.7%	-2.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Earnings revision summary

	Revenue Change (%)		EBITDA Change (%)		EPS Change (%)	
	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F
Dixon Technologies	10.7%	14.0%	5.5%	5.9%	6.9%	7.2%
Amber Enterprises	4.5%	3.3%	2.1%	3.3%	3.9%	5.6%
PG Electroplast	9.6%	10.6%	1.5%	3.6%	4.9%	10.2%
Kaynes Technology	4.6%	7.9%	1.7%	5.1%	1.9%	5.9%
Syrma SGS	4.8%	3.2%	-3.2%	-0.4%	-10.7%	-4.2%
Avalon Technologies	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cyient DLM	-2.1%	-2.0%	5.1%	10.9%	7.1%	12.3%
IKIO Lighting	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Elin Electronics	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Aggregate results summary

Aggregate	Jun-24	Jun-23	YoY (%)	Mar-24	QoQ (%)
Revenue (Rs m)	1,28,436	73,640	74.4%	1,12,626	14.0%
EBITDA (Rs m)	7,405	4,756	55.7%	7,742	-4.4%
EBITDA margin (%)	5.8%	6.5%	-69 bp	6.9%	-111 bp
PAT (Rs m)	3,958	2,267	74.6%	4,372	-9.5%
Aggregate (Consumer)	**Jun-24**	**Jun-23**	**YoY (%)**	**Mar-24**	**QoQ (%)**
Revenue (Rs m)	1,07,224	60,133	78.3%	89,126	20.3%
EBITDA (Rs m)	6,047	3,622	67.0%	5,501	9.9%
EBITDA margin (%)	5.6%	6.0%	-38 bp	6.2%	-53 bp
PAT (Rs m)	3,164	1,613	96.1%	2,809	12.6%
Aggregate (PCBA)	**Jun-24**	**Jun-23**	**YoY (%)**	**Mar-24**	**QoQ (%)**
Revenue (Rs m)	21,212	13,507	57.0%	23,500	-9.7%
EBITDA (Rs m)	1,359	1,134	19.8%	2,242	-39.4%
EBITDA margin (%)	6.4%	8.4%	-199 bp	9.5%	-313 bp
PAT (Rs m)	794	654	21.4%	1,563	-49.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY25 result highlights and management commentaries

Dixon Technologies

- **Overview**: Dixon Technologies has expanded its mobile phone production capacity to 45m smart phones and 40m feature phones, achieving about 65% to 70% utilization. The acquisition of Ismartu will add 10m units, and an additional 1m phones are expected monthly. Demand for Motorola smartphones is strong, with orders nearing 1m phones per month, while Xiaomi's production has ramped up to 700,000 units monthly. In the smart TV sector, the company has partnered with Samsung to manufacture TVs using the Tizen operating system and has introduced various Google Team solutions. For laptops, contracts with Lenovo and Acer are in place, with a new Chennai facility planned by 4QFY25F. Additionally, the joint venture with Rexxam reported Rs1.14bn in revenue, and refrigerator production is set to increase to 80,000 units per month, with plans for further expansion.
- Outlook: Over the past few quarters, Dixon Technologies' revenue skewed towards mobile phones, which contribute 79% to its total sales while the margins also have increased in this business. The company has captured a large market share across categories in the consumer electronics outsourcing space, much above its peers. The technological upgradation in 5G infrastructure is poised to open new possibilities for electronic devices, especially in the mobility & communication segments. For FY25F/26F, we have

increased our revenue estimates by 11%/14% and PAT estimates by 6.9%/7.1%, respectively, factoring in higher revenue in the mobile phone segment. We also introduce our FY27F EPS of Rs208 and retain our ADD rating on the stock with a higher target price of Rs13,400, as we roll forward our valuation to Sep 2026F (from FY26F), valuing it at 75x EPS.

Cyient DLM

- **Overview**: In the first quarter of FY25, Cyient DLM secured four new contracts, including one with a global semiconductor company for EMS services, a defence sector project, a medtech initiative focused on diagnostic equipment, and another contract with a large defence and aerospace company. Cyient DLM expects significant growth in its medtech segment due to these new order wins. However, it experienced a decline in its EBITDA margin due to temporary supply chain problems, which are expected to be resolved by 2QFY25F, facilitating revenue growth. While the net working capital days decreased to 171, Cyient DLM aims to reduce this to 100 days by the year-end. Additionally, the company has nearly US$1bn worth of inquiries in its pipeline, which it expects to convert into orders soon.
- **Outlook**: We maintain Cyient DLM's revenue/EBITDA/PAT estimates for FY25F/26F. We believe that Cyient DLM will benefit from the policy tailwinds in the defence space in India and Europe. This, coupled with inorganic opportunities in the medical segment and new client wins in the industrial segment, will lead to a robust growth of 30%+ in the next couple of years. The air taxi optionality could also play out by FY27F, as Honeywell's largest client Lilium vies for type certification by the end of CY24F. This could result in an incremental order inflow of Rs27bn by FY27F. Thus, we value Cyient DLM at 45x FY26F EPS to arrive at a target price of Rs1,049. We retain our ADD rating on the stock.

Syrma SGS Technology

- **Overview**: Syrma SGS Technology's management is confident about achieving an EBITDA margin of ~ 7% in FY25F, driven by a favourable order mix and operational efficiency, alongside a revenue growth rate of around 45% and an EBITDA target of Rs3bn. In 1QFY25, the company incurred a capex of Rs700-750m and plans to allocate an additional Rs500-700m in 9MFY25F, focusing on new facilities in Pune and Stuttgart, Germany. As of Jun 2024-end, the order book stood at Rs45bn, with an order intake of approximately Rs12bn in 1QFY25. The consumer segment, primarily telecom, contributed 53% to its revenue but is expected to stabilize at 40-45% for the full year, while the automotive segment accounted for 23-25% of the order book and is projected to contribute about 25% to total revenue in FY25F. The healthcare segment, which includes RFID and med-tech devices, is likely to generate over Rs3.5bn in revenue, and the industrial segment, including smart metering, is expected to contribute over Rs2bn. The IT and railway segments represent around 7% of the revenue. The merger of Syrma SGS Technology and SGS Infosystems is progressing well, with finalization expected in the next six-to-nine months after the NCLT's first motion order.
- **Outlook**: We believe there is a fundamental flaw with Syrma SGS Technology's business model as it tries to imitate both Dixon Technologies and Kaynes Technology. Manufacturing at scale is more important for the consumer segment whereas quality and precision matters more for the automotive and industrial sectors. In the EMS space, gross margin is a reliable indicator of the barriers to entry and potential price wars among competitors. Factoring in a healthy order book, order pipeline and margin concerns due to a higher share of the consumer business, we increase our revenue estimates by 4.8%/3.2% and lower our PAT estimates by 10.7%/4.2% for FY25F/26F, respectively. We also introduce our FY27F EPS of Rs21 and retain our ADD rating on the stock with a higher target price of Rs500, as we roll forward our valuation to Sep 2026F.

Kaynes Technology

- **Overview**: Kaynes Technology has shown consistent quarterly performance with significant revenue and profit growth over the past five quarters, despite a slight dip in the EBITDA margin. Management maintains its revenue growth guidance of 50-60% for FY25F, expecting the EBITDA margin to improve to around 15% from 14% currently. The order book as of Jun 2024-end stood at Rs50.4bn, reflecting a 68% year-on-year increase, with the monthly order inflow rising from Rs2.2bn in 1QFY24 to Rs4.8bn in 1QFY25 and the average order value rising from Rs7.6m to Rs11m. The company is close to getting government approval for its OSAT and PCB projects, which are vital for its integrated business strategy. Kaynes Technology aims to reduce its share of high-volume products from 60% to 50% while maintaining its focus on higher-margin sectors like aerospace and medical equipment. The working capital cycle remains stable at 121 days, and the company continues to invest in new initiatives to enhance its competitive position, with an asset turnover ratio of 5.2x.
- **Outlook**: Kaynes Technology consistently adds new capabilities across verticals and expands its customer base, with a specific focus on large customers and high-growth segments. The business model of Kaynes Technology has shifted from low-volume, high-mix in the automotive space to high-volume, low-mix in the industrial and EV segments. For FY25F/26F, we raise revenue estimates by ~5%/8% and PAT estimates by ~2%/6%, respectively, factoring in higher order inflow at a lower margin. We also introduce our FY27F EPS of Rs87, retaining our HOLD rating on the stock with a higher target price of Rs4,500, as we roll forward our valuation to Sep 2026F, at 60x.

Amber Enterprises

- **Overview**: Amber Enterprises' management stated that while the room air-conditioner or RAC industry grew by 35% in the first half of CY24, the company outperformed with a 50% growth. In the consumer durables segment, demand surged due to a strong summer season, leading to a 50% increase in the RAC business and a 39% growth in non-RAC components. The electronics segment also performed well, with strategic acquisitions and a focus on high-margin products, aiming at an EBITDA margin of 7.75% to 8% throughout the year. However, the railway sub-systems faced challenges due to project delays, particularly with the Vande Bharat trains but maintains a positive long-term outlook with an order book of approximately Rs20.8bn. The company is transitioning to in-house production in the AC industry, while subsidiary Sidwal's revenue is expected to be flat this year, and significant growth is likely from 4QFY25F. The EMS division, particularly in printed circuit board assembly, has seen substantial growth, with the revenue growth guidance revised from 35% to 45%. Amber Enterprises continues to leverage favourable government initiatives to reduce import dependence and capitalize on emerging market opportunities.
- **Outlook**: Amber Enterprises continues to leverage favourable government initiatives like Make in India and Atmanirbhar Bharat to reduce the dependence on imports and capitalize on emerging market opportunities. We raise our FY25F/26F revenue estimates by 4.5%/3.3% and PAT estimates by 3.9%/5.6%, respectively, factoring in healthy 1Q results and guidance. We also introduce our FY27F EPS of Rs159 on a revenue of Rs113bn. We upgrade our rating on the stock to ADD (from HOLD) with a higher target price of Rs5,000, rolling forward our valuation to Sep 2026F.

Avalon Technologies

- **Overview**: Avalon Technologies is expecting growth from 2QFY25F, driven by an upward revision of its revenue growth guidance from 14-18% to 16-20% for FY25F, with a focus on enhancing box-build solutions, which accounted for 44% of its revenue in 1QFY25. The company is ramping up production in its clean energy segment and onboarding key partners in the mobility space, aiming to transition from prototypes to commercial production. In the industrial sector, Avalon Technologies has secured significant contracts and expanded its order book to Rs14.6bn, a 32% YoY increase. However, its US operations reported a net loss of Rs144m, prompting a strategic shift to increase manufacturing in India, which currently generates 88% of its revenue with a 9.6% EBITDA margin. The completion of a new export-focused plant in Chennai and the ongoing expansion projects are expected to further bolster its capabilities and profitability in the coming years.
- **Outlook**: We believe Avalon Technologies' expectation that its clean energy portfolio will revive in 2HFY25F is too good to be true. The US solar industry is facing a fundamental risk and there is no clear path for a revival currently. We have a REDUCE rating on the stock and retain our earnings estimates and value the stock at 32x Sep 2026F EPS with an unchanged target price of Rs414.

PG Electroplast

- **Overview**: PG Electroplast or PGEL has revised its FY25F operating revenue guidance to Rs425bn, including Rs60bn from its joint venture with Goodworth Electronics, reflecting a robust 55% YoY growth. The net profit guidance has also been raised to Rs21.6bn, marking a 58% increase from FY24. To enhance production capabilities, PGEL plans to invest Rs37-38bn in capex for new facilities focused on room ACs and washing machines. However, the company faces margin concerns, as a flat EBITDA margin was noted despite high revenue growth, primarily due to the absence of prior quarter incentives from the production-linked incentive or PLI scheme and fixed-price contracts that limit renegotiation flexibility. The RAC components business remains relatively small, with the focus on fully assembled units dominating sales. Increased employee and operational costs are a result of heightened production activity, as the company scales up. Management is optimistic about future growth, targeting a CAGR of 25-30% over the next four to five years while exploring new product categories. PGEL aims to capture market share through quality, cost, and delivery, which are seen as crucial competitive advantages. The JV with Goodworth Electronics is expected to stabilize and positively contribute to profits in the coming quarters.
- **Outlook**: We increase our revenue/EBITDA/PAT estimates for FY25F by 10%/2%/5%, respectively, and by 11%/4%/10%, respectively, for FY26F. We believe that with the insourcing capacity coming up in FY26F, coupled with the reopening of AC PLI scheme, there is likely to be a further influx of capacity in the room AC space. This will most likely lead to reduced realization and margins, negatively affecting PGEL. We maintain our REDUCE rating on the stock with a higher target price of Rs185. We value the stock at 22x FY26F EPS.

IKIO Lighting

- **Overview**: For FY25F, IKIO Lighting has set a revenue growth guidance of 20-25% YoY, with an EBITDA margin target of 20-22%. The company has launched its Block-1 facility focused on LED home lighting, solar panel systems, and new product lines. It has introduced hearables and wearables, securing sales with prestigious clients, and is expanding into the Gulf region in the product display segment. Its US subsidiary is generating revenue primarily from industrial and solar products, while Block-2 capacity expansion is expected to be completed by Mar 2025F. The recent merger with Royalux Lighting under Fine Technologies further strengthens its position. The company expects operational leverage to stabilize its margins in 2HFY25F, with an improvement expected in the US subsidiary as its operations stabilize. IKIO Lighting is focusing on backward integration for its hearables and wearables to enhance margins and sees potential for a turnaround in the RV market in the latter half of the year. Additionally, the company emphasizes innovation in LED lighting, pursues geographical expansion, and aims at a RoCE of 30-35% in the hearables and wearables segment.

- **Outlook**: IKIO Lighting posted a topline of Rs695m in the RV segment in FY24. 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 estimates and value the stock at 19x FY26F EV/EBITDA. We retain our REDUCE rating on it with an unchanged target price of Rs260.

Elin Electronics

- **Overview**: Elin Electronics' management has given revenue guidance of Rs11.65-12bn for FY25F. Working capital days are expected to decrease to 40 days in Mar 2025F. Capex outlook is Rs0.35-0.40bn for the year. The EBITDA margin guidance stands at 5.1% to 5.7% for the year. Employee costs are expected to decline to 12.5% of revenue in FY26F. In 1QFY25, Elin Electronics' EBITDA was at Rs133m, up 36% YoY, impacted by the rise in raw material prices and higher employee costs. Consolidated PAT stood at Rs59m, up 55% YoY. Liquidity is strong, with net cash and equivalents at Rs823m as of Jun 2024-end. Capex stood at Rs35m in 1QFY25 for new product development. Working capital cycle was at 64 days as of Jun 2024-end compared to 68 days a year ago.
- **Outlook**: Elin Electronics' current portfolio mainly comprises small appliances ranging from lighting solutions, shavers, trimmers, and ceiling fans. However, the company is transitioning from the small appliances business to medium appliances like oil-filled radiators, which is an import substitution opportunity. Secondly, it is also moving away from the exclusivity contract with Signify Lighting. We believe this will lead to a rerating of the stock. We retain ADD rating on the stock and our FY25F/26F estimates remain unchanged. We value the stock at 20x FY26F EPS, leading to a higher target price of Rs264.

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Add	The stock's total return is expected to exceed 10% over the next 12 months.
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Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

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Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.