

## Integrated manufacturer of LED lights...

**About the Company:** IKIO Lightings (IKIO) is an integrated player providing original design manufacture (ODM) services in the LED lighting segment. The company's LED lighting offerings focus on the premium segment and include lighting, fittings, fixtures, accessories and components.

- IKIO's business segment includes: 1) LED lighting 2) refrigeration lights, 3) ABS piping and 4) other products. LED lighting contributes ~87% to overall revenue. Signify (Philips) is one of the major clients of the company in LED lighting segment
- IKIO is largely into manufacturing premium products. It reported strong revenue, earning CAGR of ~23%, ~54% in FY20-22, respectively

### Key triggers/Highlights:

- Government incentives, China +1 strategy to drive growth of domestic LED lighting EMS industry
- Rising aspirations, incomes to drive high end home & decorative lighting
- Focus on expansion into high margin product categories
- Brownfield expansion through IPO proceeds to drive future revenue growth
- Long term relationships with leading industry customers
- Leveraging existing customer base to push export revenue

**What should investors do?** IKIO Lighting is a fully integrated ODM company in the LED lighting industry. The company is mainly catering into premium lighting segments with "Signify (Philips)" being one of its largest clients. IKIO is also exploring export opportunities in the LED lighting/RV segments through new client additions. IKIO earned ~15% (9MFY23) of its total revenue from exports (mainly to US) while the rest comes from the domestic market. Consolidated revenue grew at CAGR of ~23% over FY20-22 led by LED lighting segment, which grew at CAGR of ~24% during the same period. The EBITDA margin increased 600 bps to 23.3% supported by savings in RM costs and other costs. PAT grew at a CAGR of ~54% to ₹ 51 crore tracking EBITDA margin expansion. At the upper price band of ₹ 285, the stock is priced at 32x FY23 annualised EPS of ₹ 8.8/share (based on fully diluted post issue of equity).

- We assign **UNRATED** rating to the IPO

### Key risk & concerns

- High customer concentration
- Dependency on single product category
- High dependency on imports for supply of raw materials
- Has a high working capital



### IPO Details

#### Issue Details

Issue Opens	6th June 2023
Issue Closes	8th June 2023
Issue Size*	₹ 607 crore
Fresh Issue	₹ 350 crore
Price Band	₹ 270-285
No. of shares on offer (in crore)	2.1
QIB (%)	50
Retail (%)	35
Non-Institutional (%)	15

### Shareholding pattern (%)

	Pre-Issue	Post-Issue
Promoter Group	100.0	72.5
Public	0.0	27.5

### Objects of the issue

Objects of the Issue	₹ crore
Repayment of debt	50.0
Investment in wholly-owned subsidiary for setting up a new facility at Noida, Uttar Pradesh	212
General Corporate Purposes	-
<b>Fresh Issue</b>	<b>350</b>
<b>Offer for sale</b>	<b>257</b>

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### Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	2 Yr CAGR (FY20-22)
Net Sales	220.2	213.4	331.8	22.7
EBITDA	37.3	47.8	77.3	44.0
EBITDA Margin (%)	16.9	22.4	23.3	
Net Profit	21.4	28.8	50.5	53.6
EPS (₹)	2.8	3.7	6.5	
P/E (x)	102.9	76.5	43.6	
Price/Book (x)	61.4	35.0	20.2	
Mcap/Sales (x)	10.0	10.3	6.6	
RoE (%)	59.6	45.8	46.4	
RoCE (%)	37.6	31.1	33.1	

## Company Background

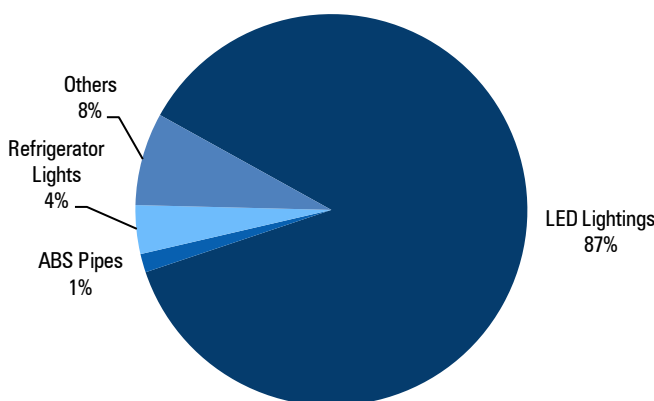
Incorporated in 1999, IKIO Lightings (IKIO) was promoted by Hardeep Singh and Surmeet Kaur. The company’s key business vertical includes (i) LED lighting; (ii) refrigeration lights; (iii) acrylonitrile butadiene styrene (ABS) piping; and (iv) other products. The LED lighting contributes ~87% of its total revenues. The company is a vertically integrated manufacturer of LED lights and fixtures in India. Unlike other electrical manufacturing services companies in India, IKIO is mainly focused on original design manufacturer (ODM) business by controlling the entire value chain of LED light manufacturing. Under its refrigeration lights segments (~4% of revenues) the company provides lighting solutions (lights, drivers and controls) to commercial refrigeration equipment suppliers. IKIO also manufactures an alternative to polyvinyl chloride (PVC) piping called ABS piping (1.5% of revenues) and export it to the US. ABS pipes are used for plumbing applications in the recreational vehicles (RVs). In the “Others” category (~8% of revenues) IKIO manufactures and assembles fan regulators, light strips and mouldings. The key customer of the company includes Signify (erstwhile Philips), Western Refrigeration, Panasonic Life solutions, Rlux RV etc.

Exhibit 1: Company’s presence into various verticals in the lighting segments

Product	Application	Year of Launch	Picture
Rechargeable Bulbs	Home/Office Lighting	2019	
Spotlights	Focus Lighting	2012 (1)	
LED Strip Lights	Strip Lighting	2018	
Decorative Lights	Decorative Lighting	2014 (1)	
Rechargeable Lantern	Indoor / Outdoor Lighting	2013 (1)	
LED Driver	LED Function	2012 (1)	N/A
Downlighter Lights	Home/office Lighting	2012 (1)	
Linear Lights	Gallery/Interior Lighting	2017	
Track Lights	Gallery/Interior Lighting	2019	
RV Lights	Recreational Vehicles	2019	

Source: RHP, ICICI Direct Research

Exhibit 2: Revenue contribution (FY22)



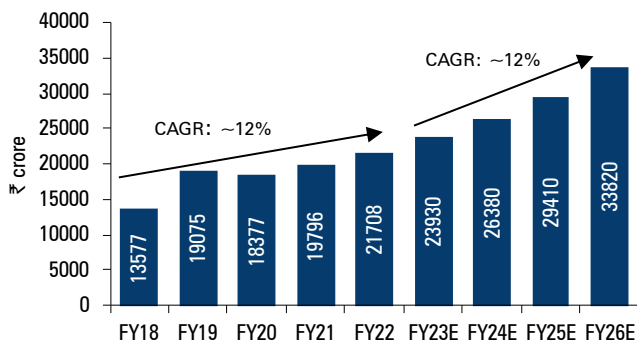
Source: RHP, ICICI Direct Research

## Investment Rationale

### Government incentives, China +1 strategy to drive growth of domestic LED lighting EMS industry

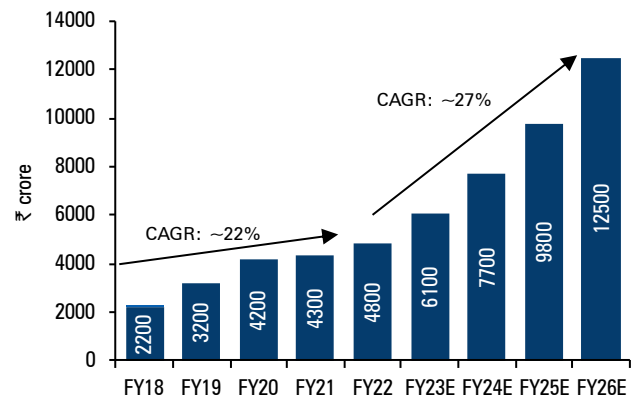
The Indian LED lighting industry is pegged at ~₹ 22,000 crore. It is likely to grow at a CAGR of ~12% over FY22-26E led by an uptick in the real estate industry, increasing demand of energy efficient & smart lighting solutions and government thrust on various infrastructure projects such as smart cities. The lighting EMS, which is currently pegged at ₹ 4,800 crore (~22% of lighting industry) is likely to grow at a higher rate of ~27% over FY22-26E supported by government thrust on domestic manufacturing of LED lights (production linked incentive schemes for white goods launched in April'21 to develop manufacturing value chain) and brands adopting China + 1 strategy to reduce dependence on imports. The original design manufacturers (ODM) business model in the EMS industry is gaining traction. Large EMS companies that have mastered the art of manufacturing and assembly, are now trying to move up the value chain and planning to offer additional services like design, testing and sourcing of components. We believe IKIO Lighting is one of the leading ODM players and is well placed to take the advantage of strong growth in the LED lighting EMS industry.

Exhibit 3: LED lighting industry growth trend (₹ crore)



Source: RHP, ICICI Direct Research

Exhibit 4: LED lighting EMS continues growth at higher rate



Source: RHP, ICICI Direct Research

### Rising aspirations, incomes to drive high end home & decorative lighting

The domestic high-end home and decorative lighting industry is estimated at ₹ 3500 crore. The high-end home and decorative lighting market comprises designer lamps, luminaires, lighting fixtures, etc. High-end decorative lighting is increasingly becoming an important part of many Indian households, especially in urban areas, as living standards and aspirations of people are increasing due to higher disposable incomes among the middle class of the country. The overall high-end home & decorative lighting industry is likely to grow at CAGR of ~14% over FY22-26E led by rising importance of decorative lights to create a visual appeal to the house, stores, malls, hotels, etc.

The decorating lighting industry is further classified into two categories 1) Functional Decorative lights 2) True Blue Decorative Lights.

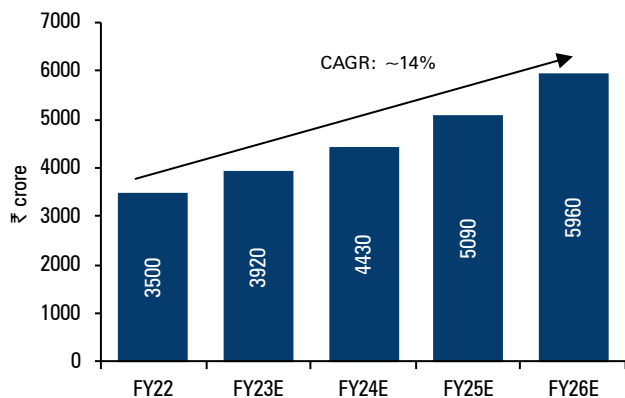
#### Functional Decorative Lights:

Functional decorative lights comprise ~60% of the home and decorative lighting industry. In this category, almost all of functional decorative lighting segment use LEDs and no conventional retrofit solutions sell anymore. Until sometime back, there used be a considerable unorganised sector in the functional decorative lighting market. In particular, every big store in the country would have import arrangements with Chinese suppliers that was privately labelled by the store brand. This arrangement has shrunk considerably. The functional decorative lighting market is now dominated by branded players like Signify, Syska, Havells, Crompton, Wipro.

*True Blue decorative Lights:*

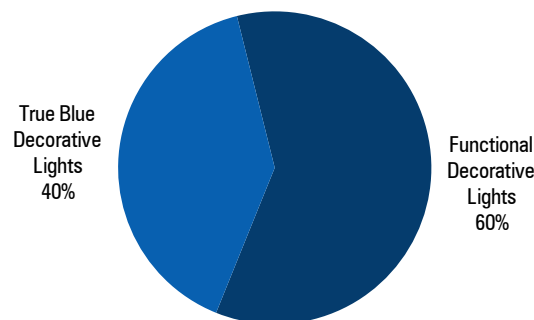
True Blue decorative lighting comprises ~40% of the home and decorative lighting market. True-blue decorative lighting refers to all the traditional kinds of light fittings (floor lights, pendants, chandeliers, wall lights etc). Decorative lighting can provide general illumination for the entire room or even focus on smaller area. They usually come in attractive shapes and colours which complement the décor of the room. The true-blue decorative lighting segment is fragmented and few brands operate in this market. There is Usha, Signify, Havells and Jaquar lightings that are trying to make a mark here. The rest of the market is unorganised since consumers focus on design rather brands.

**Exhibit 5: Home & decorative lighting industry size**



Source: RHP, ICICI Direct Research

**Exhibit 6: Home & decorative LED lighting market break-up**



Source: RHP, ICICI Direct Research

**Focus on expansion into high margin product categories**

IKIO Lighting has started diversifying into new product segments from 2016 onwards. The company entered the interior refrigerator LED lighting segment in 2016, started providing LED lighting solutions for recreational vehicle (RV) in the US in 2019. IKIO also introduced ABS pipes and Solar panels in 2022 for the same RV industry in US to gain wallet share from existing customers. IKIO works as an ODM suppliers to its clients and mainly focus into premium product segments. In the lighting category, the company provides 753 SKUs to its largest customer, Signify in India. In addition, the company is in negotiations with some of its existing customers to supply LED home lighting products to their international supply chain. Focus on launch of new products into premium segments and long-standing relations with existing clients has helped IKIO to gain market share and simultaneously drove overall gross margin up by ~500 bps over FY20-22.

**Exhibit 7: Product wise revenue contribution (in ₹ crore)**

Service Offerings	FY20		FY21		FY22		9MFY23	
	Revenue	Contribution (%)	Revenue	Contribution (%)	Revenue	Contribution (%)	Revenue	Contribution (%)
LED lightings	187.7	85.2	186.3	87.3	288.0	86.8	282.8	86.0
ABS Pipes		0.0		0.0	5.1	1.5	9.9	3.0
Refrigerator Lights	13.4	6.1	8.3	3.9	13.3	4.0	10.7	3.3
Others	19.1	8.7	18.9	8.9	25.4	7.7	25.2	7.7
<b>Total</b>	<b>220.2</b>	<b>100.0</b>	<b>213.4</b>	<b>100.0</b>	<b>331.8</b>	<b>100.0</b>	<b>328.6</b>	<b>100.0</b>

Source: RHP, ICICI Direct Research

**Brownfield expansion via IPO proceeds to drive future revenue growth**

The LED lighting EMS industry is likely to grow at 27% CAGR over FY22-26E. To capture this projected market growth the company is looking to expand capacity for LED home lightings. The company plans to construct new manufacturing facility in Noida. IKIO plans to utilise ₹ 235 crore from IPO proceeds towards expansions and plans construction of new facility under its subsidiary IKIO Solutions Pvt Ltd (ISPL) in Noida. This expansion will help IKIO to expand its product portfolios and gain market share through new launches into its different product verticals. According to the

company, the future capex will have asset turns of ~5x and will add significant revenue growth, going forward.

In additions, the company also plans to continue its investment plans into various R&D initiatives to develop new products for its ODM customers. The company is actively looking to add more employees to R&D team. Through focus on R&D and developing products with customers, the company will be able to continually launch innovative products which will have better comfort, quality, performance and aesthetics.

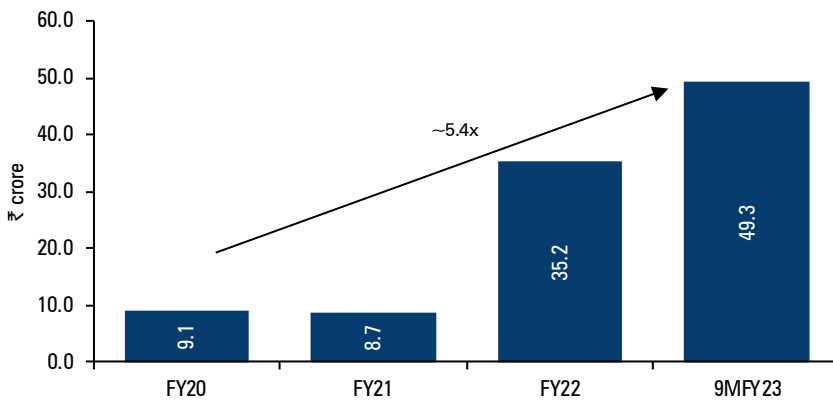
### Long term relationships with leading industry customers

IKIO Lighting has served ~900 domestic customers and 16 international customers in the last four years. Signify is one of the largest customers of the company. According to Frost & Sullivan, Signify has 50% market share in India’s functional decorative lighting category (including LED spotlights, LED downlights and cove lights) and a 10% market share in India’s true-blue decorative lighting segment (including chandeliers, wall lights, pendants, outdoor lights). The company has been increasing the number of SKUs that it manufactures for Signify from 225 in FY18 to 753 in 9MFY23. The company is leveraging its existing relationship with Signify to launch new products for its international operations. In addition to Signify, the company also serves customers across industry sectors and geographies that includes Western Refrigeration Pvt Ltd, Panasonic Life Solutions India Pvt Ltd and Novateur Electrical & Digital Systems Pvt Ltd. The company’s top 10 customers contribute ~80% of its overall topline. IKIO’s long-term relationships and ongoing active engagements with customers helps company to plan capital expenditures, enhance its ability to benefit from increasing economies of scale with stronger purchasing power for raw materials. These enduring customer relationships have also helped IKIO to expand its product offerings.

### Leveraging existing customer base to push export revenue

IKIO’s export revenue has grown 5.4x in the last four years on a low base and new customer acquisitions. The company continues to expand into new international markets through its ODM offerings and launch of new products. Company is looking to expand into North America, Europe and South East Asian markets as these markets offer strong demand for premium lighting products. The company plans to deploy dedicated sales & marketing teams whose primary focus will be on business development in international markets, particularly in the said regions. In addition, IKIO will also leverage its relationships with marquee customers like Signify, Honeywell, Frigoglass and Western Refrigeration to showcase the quality of product offerings and ability to provide services globally. We believe IKIO’s current operational set up and financial position will help the company to invest in creating a wider range of product offerings that can cater to the requirements of its new customers.

**Exhibit 8: Strong growth in company’s export revenues**



Source: RHP, ICICI Direct Research

## Key Risks

### High customer concentration

IKIO Lighting derives ~50% of its total revenue from its single customer i.e. Signify. Moreover, the company has not signed any long-term deal (deal validity ranges between two and three years only) with any of its customers. Hence, the business growth of IKIO Lighting depends on the growth and performance of its key customer. We believe any slowdown/order cancellation or delay in price revisions may significantly impact the bottomline of IKIO Lightings.

### Dependency on single product category

LED lighting contributes ~87% of IKIO's total revenue. While the company has expanded its product lines to include ABS pipes, refrigerator lights and other products, we believe that LED lighting product category will continue to comprise a significant percentage of revenue in the near future. Consequently, if the company is unable to expand sales volumes in the LED lighting category, maintain relationship with its key customers, it may experience material fluctuations or decline in the revenue and operating margins.

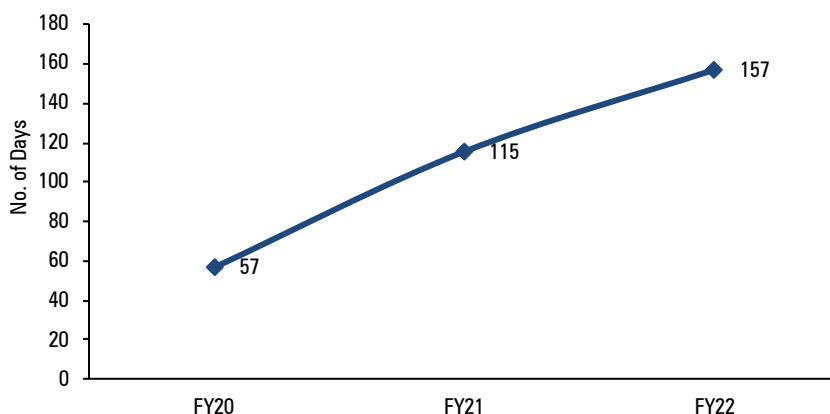
### High dependency on imports for supply of raw materials

The company imports ~55% (9MFY23) of its raw material from vendors based in China, Singapore, Hong-Kong and Taiwan. Of the total, company imports ~90% of its raw materials from China. Any restriction on import of components or raw materials could have an adverse effect on delivery of final products to its customers. Further, any increase in export tariff will increase expenses, which, in turn, may impact business and results of its operations. In addition, to be at par with competition, the company will have to calibrate its pricing accordingly. Any delay in taking price hikes will, in turn, negatively impact the company's margins and operational performance

### Higher working capital days

IKIO's core working capital days have increased from 57 days in FY20 to 157 days in FY22. Consistent increase in working capital days could indicate the company's inefficiency to convert working capital into sales. Further increase in working capital days would require the company to take short term loans thereby impacting the PAT margin of the company.

**Exhibit 9: Working capital ratio movement**



Source: RHP, ICICI Direct Research

## Financial summary (Proforma consolidated)

Exhibit 10: Profit and loss statement		₹ crore		
(Year-end March)	FY20	FY21	FY22	
<b>Revenue</b>	<b>220.2</b>	<b>213.4</b>	<b>331.8</b>	
Growth (%)		-3.1	55.5	
Raw material expense	139.2	120.4	192.2	
Employee expenses	28.7	29.4	42.3	
Other expenses	15.0	15.8	20.0	
Total Operating Exp	182.9	165.6	254.5	
<b>EBITDA</b>	<b>37.3</b>	<b>47.8</b>	<b>77.3</b>	
Growth (%)		28.2	61.7	
Depreciation	4.1	4.7	5.1	
Interest	4.6	4.4	4.9	
Other Income	1.6	1.1	2.2	
PBT	30.2	39.9	69.5	
Total Tax	8.8	11.1	19.0	
<b>PAT</b>	<b>21.4</b>	<b>28.8</b>	<b>50.5</b>	
Growth (%)		34.6	75.4	

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement		₹ crore		
(Year-end March)	FY20	FY21	FY22	
Profit after Tax	21.4	28.8	50.5	
Add: Depreciation	4.1	4.7	5.1	
(Inc)/dec in Current Assets	-80.0	-24.8	-80.9	
Inc/(dec) in CL and Provisions	52.1	-19.9	7.7	
Others	4.6	4.4	4.9	
<b>CF from operating activities</b>	<b>2.2</b>	<b>-6.8</b>	<b>-12.7</b>	
(Inc)/dec in Investments	0.0	0.0	0.0	
(Inc)/dec in Fixed Assets	-58.7	-12.7	-12.3	
Others	8.0	-1.4	-3.7	
<b>CF from investing activities</b>	<b>-50.7</b>	<b>-14.1</b>	<b>-15.9</b>	
Issue/(Buy back) of Equity	0.1	0.0	25.0	
Inc/(dec) in loan funds	46.9	22.5	37.2	
Dividend paid & dividend tax	0.0	0.0	0.0	
Others	17.0	-6.2	-34.4	
<b>CF from financing activities</b>	<b>63.9</b>	<b>16.3</b>	<b>27.8</b>	
Net Cash flow	15.4	-4.6	-0.9	
Opening Cash	0.0	8.2	3.6	
Closing Cash	8.2	3.6	2.7	

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet		₹ crore		
(Year-end March)	FY20	FY21	FY22	
<b>Liabilities</b>				
Equity Capital	0.1	0.1	25.0	
Reserve and Surplus	35.8	62.8	83.9	
Total Shareholders funds	35.9	62.9	108.9	
Total Debt	46.9	69.4	106.6	
Other non current liabilities	9.9	10.0	9.6	
<b>Total Liabilities</b>	<b>92.7</b>	<b>142.2</b>	<b>225.0</b>	
<b>Assets</b>				
Gross Block	58.3	63.8	70.7	
Less: Acc Depreciation	4.3	5.3	10.2	
Total Fixed Assets	54.6	62.6	69.8	
Inventory	37.2	57.9	109.8	
Debtors	29.8	32.8	55.9	
Other CA	13.0	14.2	20.1	
Cash	8.2	3.6	2.7	
Total Current Assets	88.3	108.4	188.5	
Creditors	32.5	23.1	23.2	
Provisions	1.1	1.6	2.3	
Other CL	18.6	7.5	14.3	
Total Current Liabilities	52.1	32.2	39.9	
Net current assets	36.1	76.2	148.6	
Other non current assets	1.9	3.4	6.6	
<b>Total Assets</b>	<b>92.7</b>	<b>142.2</b>	<b>225.0</b>	

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios		₹ crore		
(Year-end March)	FY20	FY21	FY22	
<b>Per share data (₹)</b>				
EPS	2.8	3.7	6.5	
Cash EPS	3.3	4.3	7.2	
BV	4.6	8.1	14.1	
DPS	0.0	0.0	0.0	
<b>Operating Ratios (%)</b>				
EBITDA Margin	16.9	22.4	23.3	
PAT Margin	9.7	13.5	15.2	
Asset Turnover	3.8	3.3	4.7	
Inventory Days	61.6	98.9	120.7	
Debtor Days	49.4	56.0	61.5	
Creditor Days	53.8	39.5	25.5	
<b>Return Ratios (%)</b>				
RoE	59.6	45.8	46.4	
RoCE	37.6	31.1	33.1	
RoIC	40.5	32.9	35.0	
<b>Valuation Ratios (x)</b>				
P/E	102.9	76.5	43.6	
EV / EBITDA	60.1	47.4	29.8	
EV / Net Sales	10.2	10.6	7.0	
Market Cap / Sales	10.0	10.3	6.6	
Price to Book Value	61.4	35.0	20.2	
<b>Solvency Ratios</b>				
Debt / Equity	1.3	1.1	1.0	
Current Ratio	1.5	3.3	4.7	
Quick Ratio	0.8	1.5	1.9	

Source: Company, ICICI Direct Research

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