

<b>Retail Research</b>	<b>IPO Note</b>
<b>Sector: Electronic Manufacturing Services</b>	<b>Price Band (Rs): 270 - 285</b>
<b>5<sup>th</sup> June 2023</b>	<b>Recommendation: Subscribe for long term horizon</b>

## IKIO Lighting Limited

### Company Overview:

The company is a leading Indian manufacturer of light-emitting diode (LED) lighting solutions. The company's unwavering commitment lies in sustainability and strives to provide low-energy LED products that contribute to India's sustainability goals. As an original design manufacturer (ODM), the company's core operations encompass the design, development, manufacturing, and supply of products to esteemed customers (Philips), who subsequently distribute these offerings under their own brands. Additionally, they actively collaborate with their customers to bring their unique product designs to life through manufacturing and supply capabilities.

### Key Highlights:

**Robust Product Portfolio:** The company offers a diverse range of products. Firstly, they provide premium LED lighting solutions, including a wide variety of lights, fittings, fixtures, accessories, and components. Additionally, they specialize in supplying comprehensive lighting solutions, including lights, drivers, and controls, to commercial refrigeration equipment suppliers. They have also developed sustainable ABS piping as an alternative to PVC piping, which is extensively used in plumbing systems for recreational vehicles in the US. Moreover, the company's manufacturing capabilities extend to other products, such as fan regulators, light strips, molding, and various components and spares.

**High customer retention rate with a diverse customer base across industry sectors and geographies:** The company has a strong 10-year relationship with its largest customer, Signify (Philips), resulting in consistent growth. They started with 2 SKU's and expanded to over 600 SKU's in FY22. By developing new SKU's annually, they ensure customer loyalty and a larger share of their customers' business. They have also supplied LED home lighting products internationally and retained long-term customers in the retail store segment. In 9MFY23, repeated customers contributed to around 73.63% of IKIO's proforma consolidated revenues.

**Manufacturing facility and CAPEX:** The company has 4 manufacturing facilities in India. In Haridwar, they have a facility of 42,517 sq ft for LED lights, regulators, and switches. In Noida, they have three facilities with land areas of 80,000 sq ft, 112,077 sq ft, and 57,171 sq ft, respectively. These Noida facilities produce regulators and switches, refrigerator LED lighting and drivers, LED lights, solar panels, and ABS pipes for RVs. The company is undertaking greenfield Capex worth Rs 270 bn for a constructing a 5,00,000 sq ft complex in Noida which will get commercialized in phases over the next 24 – 36 months.

**Valuation: At upper band, the business is trading at P/E multiple of 47.8x 9MFY23 annualised EPS. The IPO looks fairly valued across various valuation parameters when compared with its close peers. Investor can SUBSCRIBE the issue for long term investment horizon.**

Issue Details	
Date of Opening	6 <sup>th</sup> June 23
Date of Closing	8 <sup>th</sup> June 23
Price Band (Rs)	270 – 285
Issue Size (Rs cr)	593 - 607
No. of shares	2,19,62,963 – 2,12,80,702
Face Value (Rs)	10
Post Issue Market Cap (Rs cr)	2,105 – 2,203
BRLMs	Motilal Oswal Investment Advisors Limited
Registrar	KFin Technologies Limited
Bid Lot	52 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB (HNI) shares	15%
Employee Reservation	-
Employee Discount	-

Objects of Issue	
	(Rs Cr.)
Gross Proceed From Fresh Issue	350
(Less) Offer expenses in relation to the fresh issue*	-
Net Proceeds*	-

\*The net proceed to be used for ,1) Repayment or Prepayment of Debt 2) Investment in wholly own subsidiary for setting up a new facility in Noida capital 3) General corporate purpose

Shareholding Pattern		
Pre Issue	No. of Shares	%
Promoter & Promoter Group	6,50,00,000	100.0
Public & Others	-	00.0
<b>Total</b>	<b>6,50,00,000</b>	<b>100.0</b>

Post Issue @Lower Price Band		
	No. of Shares	%
Promoter & Promoter Group	5,60,00,000	71.8
Public & Others	2,19,62,963	28.2
<b>Total</b>	<b>7,79,62,963</b>	<b>100.0</b>

Post Issue @Upper Price Band		
	No. of Shares	%
Promoter & Promoter Group	5,60,00,000	72.5
Public & Others	2,12,80,702	27.5
<b>Total</b>	<b>7,72,80,702</b>	<b>100.0</b>

Source: RHP, SSL Research

## Risk factors

- The company's substantial portion of revenue comes from a single customer, Signify innovation India Limited, erstwhile Philips India, and over 85% of the revenue is derived from the top 20 customers.
- Over 86.5% of revenue comes from the LED Lighting products, any reduction in the order from this segment will affect the business.
- Any breakdown in the manufacturing facility will affect the operation of the business.
- The company imports certain components and raw materials from vendors in China, Singapore, Hong Kong and Taiwan, 55.67% of total raw materials are imported.
- They significantly rely on the number of third-party suppliers for key components, materials and stock – in – trade as well as customer support services including product repair.
- The company depends on R&D activities for future success. Any failure in the development of new products in a timely manner and cost-effective manner will affect the business.

## Growth strategy

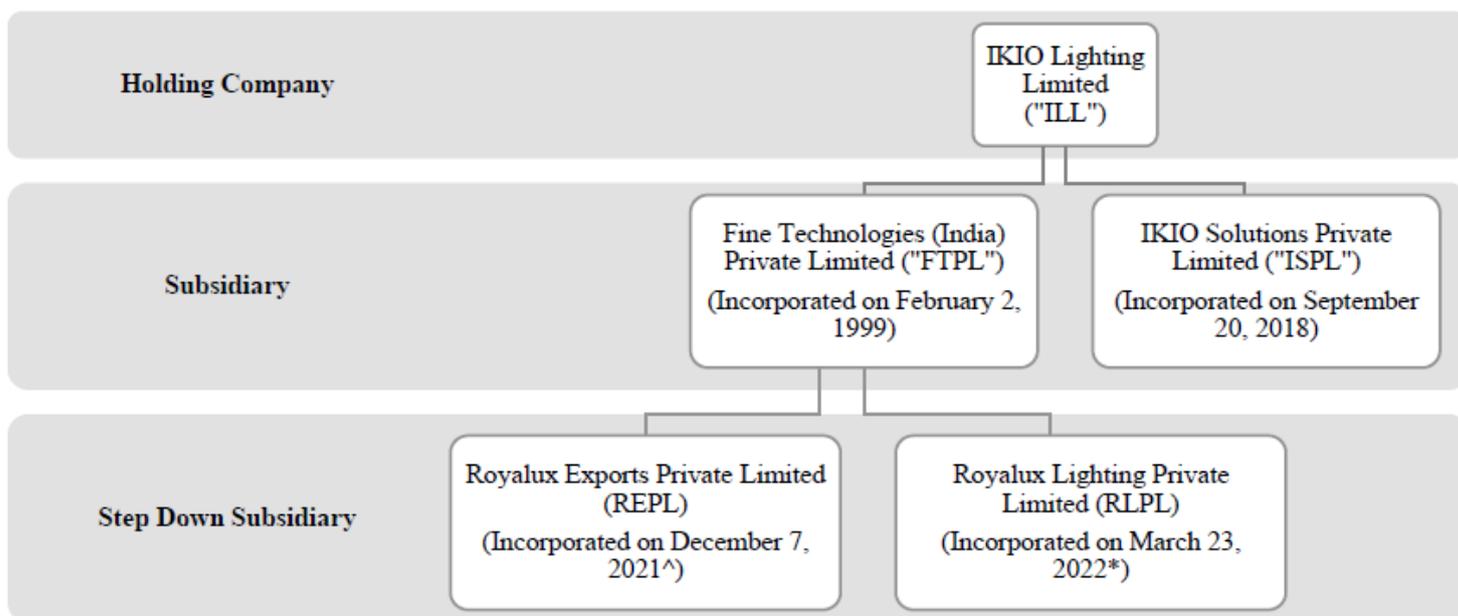
- Expanding into new product lines with a focus on high-margin areas.
- Expand manufacturing capacities for existing and new product lines.
- The company aim is to expand the ODM business into new international markets, with a primary focus on North American markets. They aim to gradually expand into European and Southeast Asian markets, serving both existing and new customers.
- Continue to invest in R&D for better product development and enhance the expansion of ODM business.
- Continue to focus on sustainability through ESG investments.

## Revenue Break-up (Rs cr)

Category	LED Lighting		ABS Pipes		Refrigerator Lights		Others		Total Revenue from Operations	
	Revenue (Rs cr)	(% of Revenue from Operations)	Revenue (Rs cr)	(% of Revenue from Operations)	Revenue (Rs cr)	(% of Revenue from Operations)	Revenue (Rs cr)	(% of Revenue from Operations)	Revenue (Rs cr)	(% of Revenue from Operations)
9MFY23	283	86.1%	9.9	3.0%	10.7	3.3%	25.2	7.7%	328.6	100.0%
2022	288	86.8%	5.1	1.5%	13.3	4.0%	25.4	7.7%	331.8	100.0%
2021	186	87.3%	-	-	8.3	3.9%	18.9	8.9%	213.4	100.0%
2020	188	85.2%	-	-	13.4	6.1%	19.1	8.7%	220.2	100.0%

Source: RHP, SSL Research

## Corporate Structure

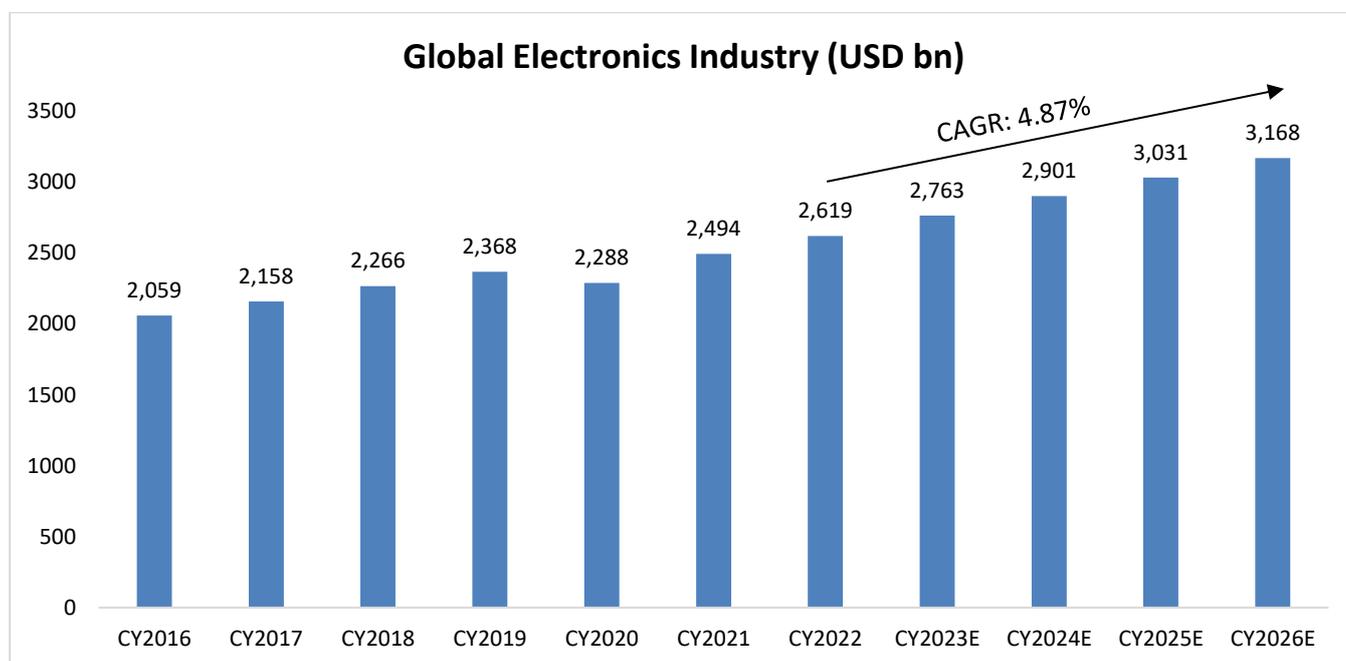


Source: RHP, SSL Research

## Industry Overview

### Global electronics industry

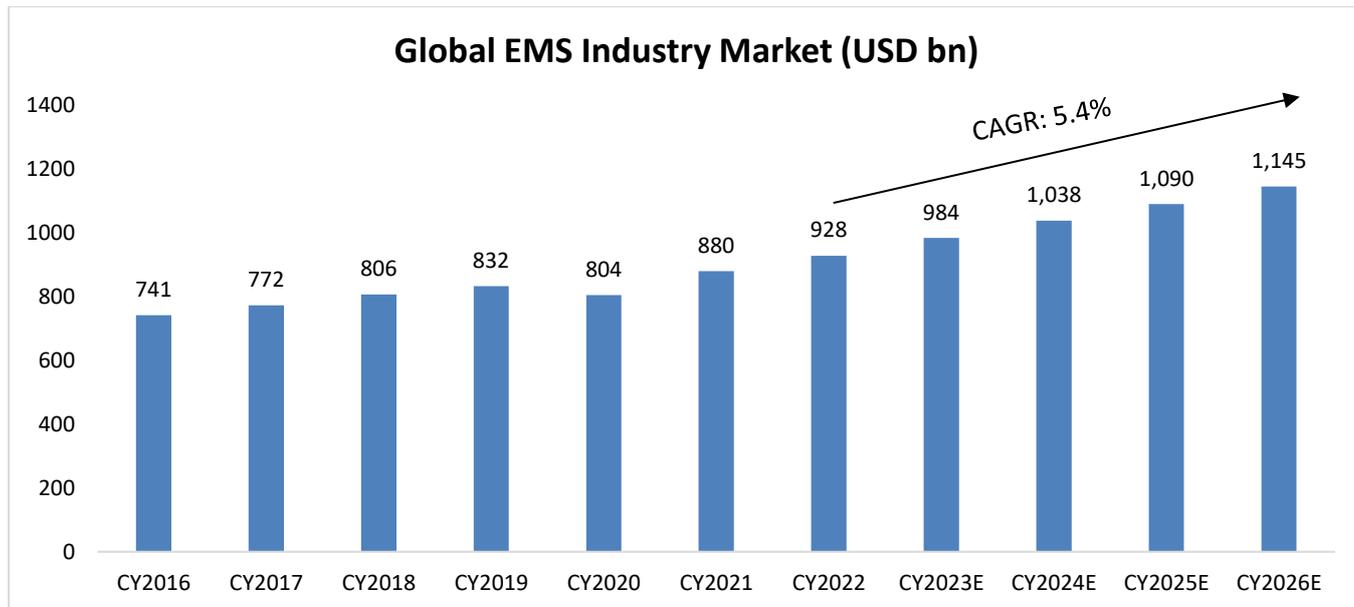
The global electronics industry was valued at USD 2,619 bn in CY22. As per Frost & Sullivan’s analysis, the industry is expected to grow at a **CAGR of 4.9%** to reach USD 3,168 bn by CY26. Some of the critical factors driving this growth are increasing disposable income, higher internet penetration, inclination of the youth towards next generation technologies, the emergence of e-commerce etc.



Source: RHP, SSL Research

**Global EMS industry market size**

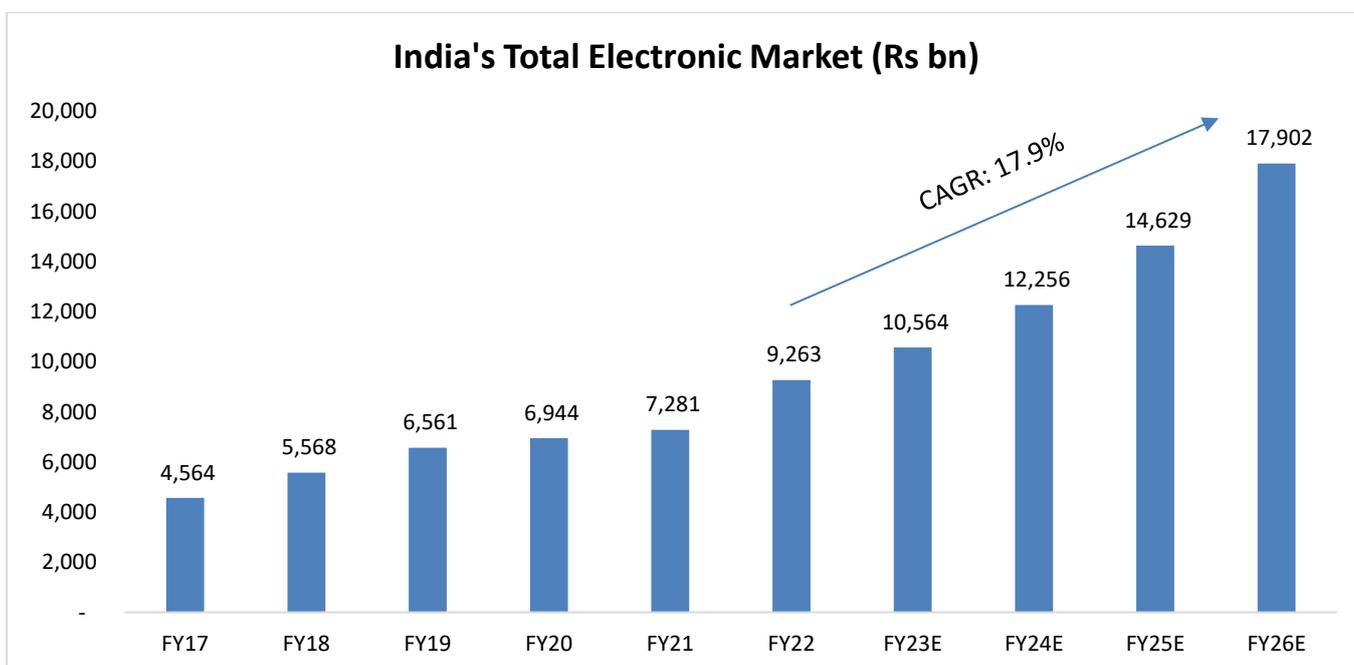
The global EMS market was estimated at USD 928 bn in CY22 and is expected to reach USD 1,145 bn in CY26, at an annual growth rate of 5.4%. The global EMS market witnessed a period of steady growth up to CY18, due to increased outsourcing activities from OEMs and increasing reliance on electronic components.



Source: RHP, SSL Research

**India's Total Electronic Market**

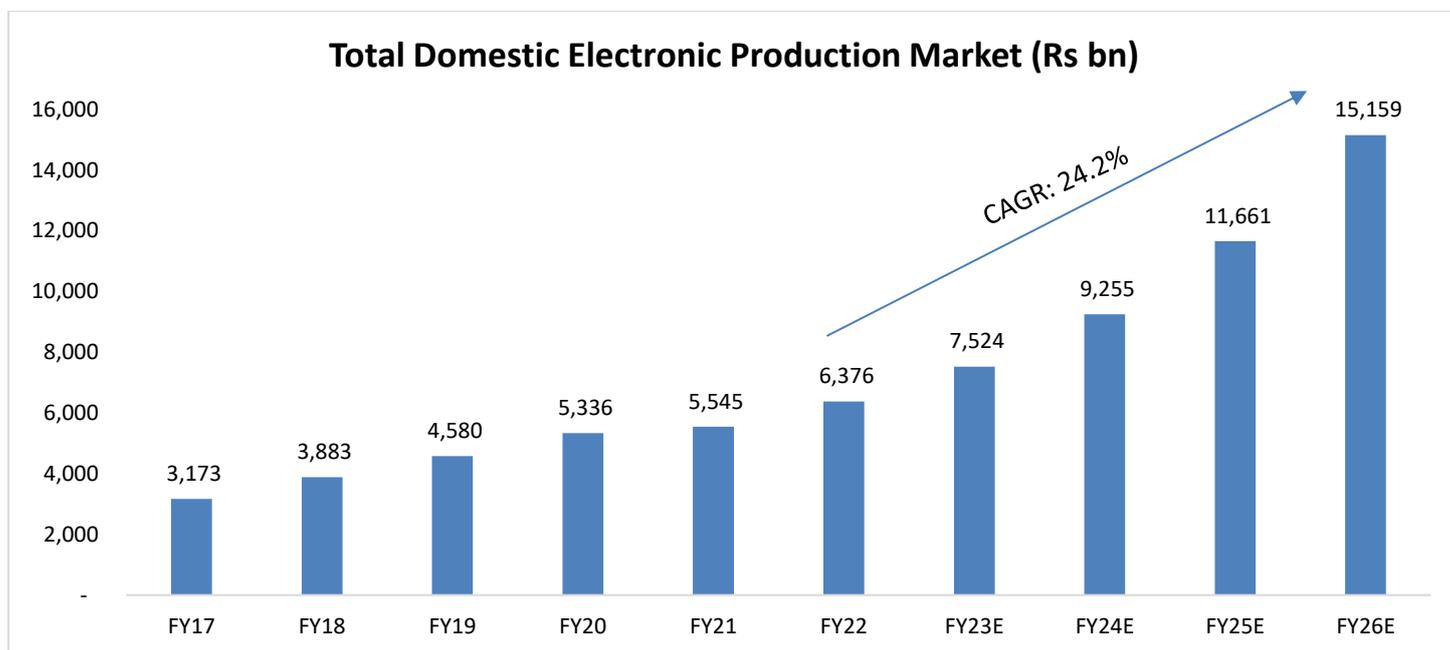
India's demand for electronic items has expanded significantly in recent years, owing mostly to the country's progress in the EMS sector. Low manufacturing costs, together with a skilled workforce and a vast geographical area, are some of the driving elements behind the development of India's electronics ecosystem. Also, the EMS companies are slowly shifting their focus on product mix from high volume low margin products to high margin low volume products.



Source: RHP, SSL Research

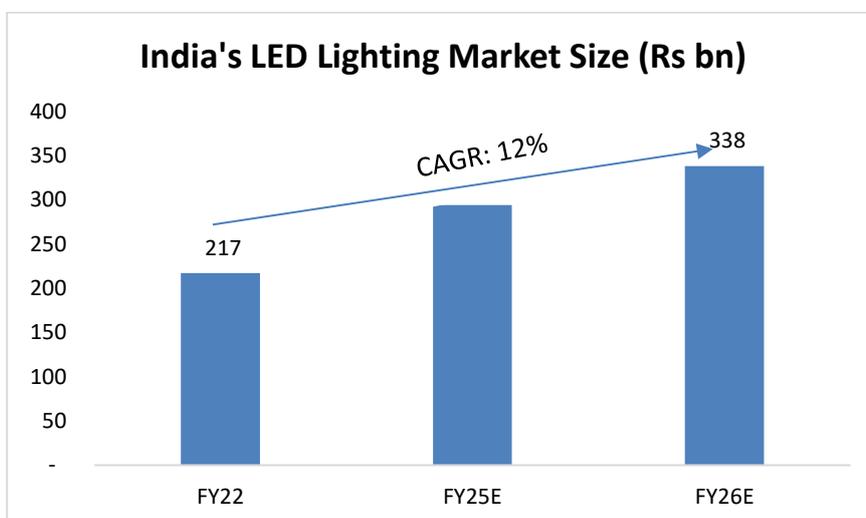
**India’s Total Electronic Production Market**

Electronics production in India is estimated at RS 6,376 bn (USD 86 bn) in FY22 and is expected to grow at a CAGR of 24.2% to reach Rs 15,159 bn (USD 203 bn) by FY26. India has the potential to be one of the most attractive manufacturing destinations and support the objective of “Make in India for the World”. To improve the manufacturing capability of the electronics industry, the government of India has taken several initiatives and developed a series of policies to build the complete electronics manufacturing ecosystem in the country. The success of the PLI scheme for the electronics segment in large-scale manufacturing of electronic products is being viewed with great confidence. Similarly, the National Policy on Electronics (NPE) aims to make India a global hub for electronic system design and manufacturing and has fixed some aspirational targets. The growth of the consumer electronics and appliances, the automotive sector, lighting, electronic components, and the medical electronics sector is expected to drive the growth of electronics manufacturing in India.



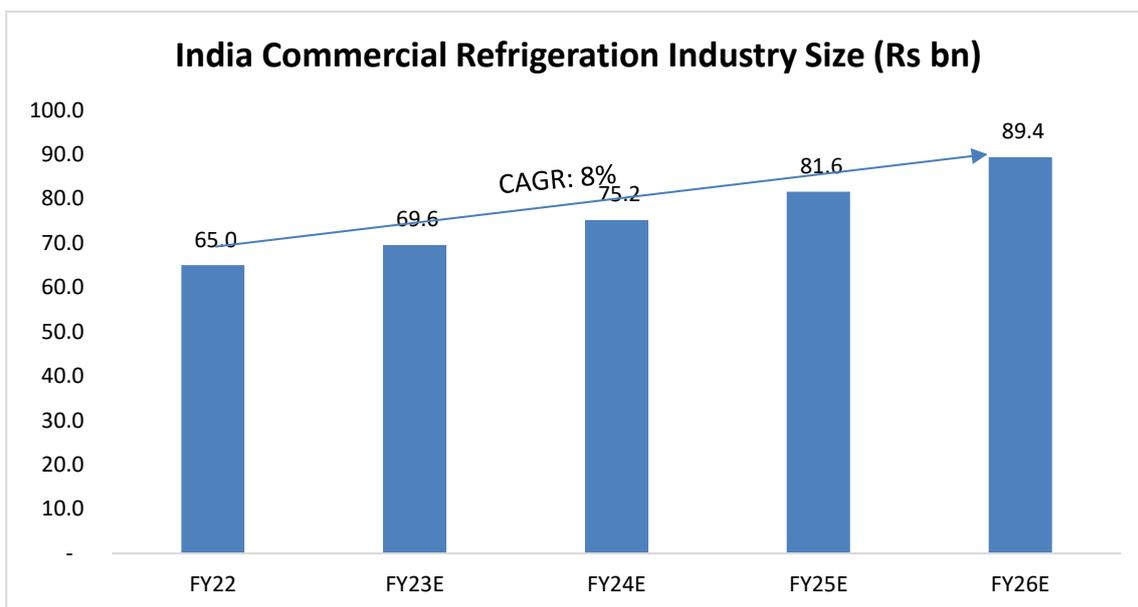
Source: RHP, SSL Research

**India's LED Lighting Market Size**



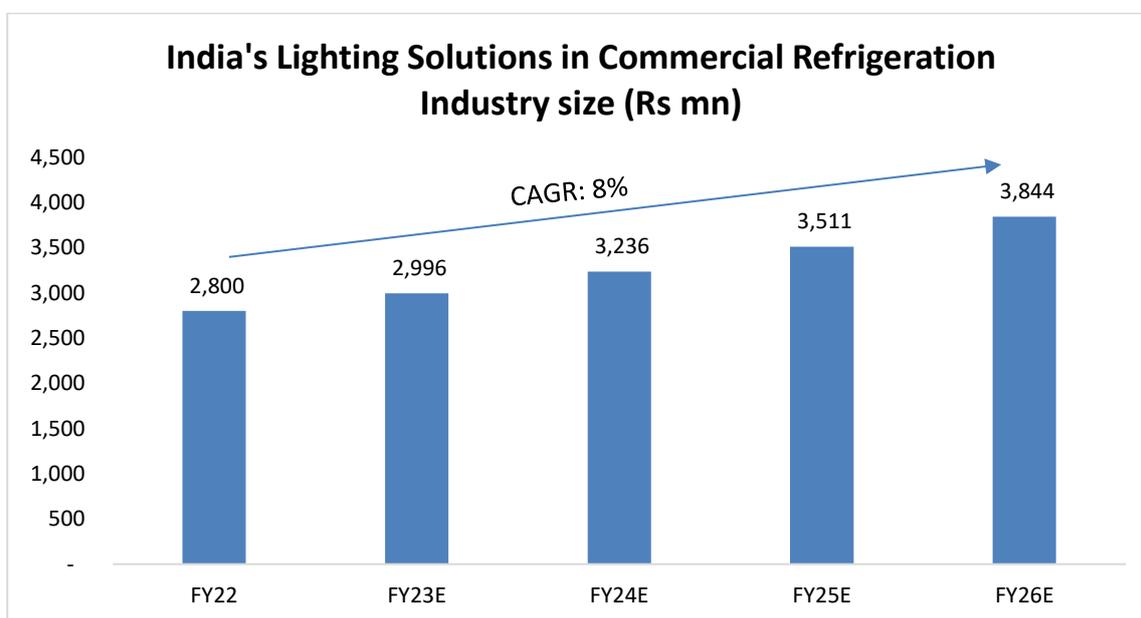
Source: RHP, SSL Research

**India Commercial Refrigeration Industry Size**



Source: RHP, SSL Research

**India's Lighting Solutions in Commercial Refrigeration Industry size**



Source: RHP, SSL Research

## Financial Snapshot

IKIO Lighting Limited			
(Rs. Cr.)	Pre Issue	Post Issue	
	FY22	9MFY23 (Annualised)	
Particulars		Lower band	Upper band
	285.0	270.0	285.0
<b>Net Sales</b>	219.9	321.0	321.0
Total Income	220.7	324.2	324.2
EBIDTA	40.2	66.5	66.5
PAT#	28.0	46.1	46.1
Equity Share Capital	25.0	78.0	77.3
No of Equity Shares	2.5	7.8	7.7
Face Value	10.0	10.0	10.0
<b>EPS</b>	11.2	5.9	6.0
CMP	285.0	270.0	285.0
Cash and Bank	0.7	352.6	352.6
Debt	16.2	136.3	136.3
Market Cap	712.5	2,105.0	2,202.5
BV per share (Rs)	30.6	61.1	61.7
PE(x)	25.4	45.7	47.8
P/BV (x)	9.3	4.4	4.6
Enterprise Value	728.0	1,888.8	1,986.3
Mcap/Sales (x)	3.2	6.6	6.9
EV/Sales (x)	3.3	5.9	6.2
EV/EBIDTA (x)	18.1	28.4	29.9
EBITDA Margins (%)	18.3	20.7	20.7
Net Margins (%)	12.7	14.4	14.4
ROE (%)	44.9	16.7	16.7
ROCE (%)	52.8	18.6	18.6
Debt/Equity	0.2	0.3	0.3
Net worth	76.4	476.6	476.6

Source: RHP, SSL Research (Post Issue)

Year	FY20	FY21	FY22	9MFY23
Net Sales	140.6	159.7	219.9	240.7
EBITDA	26.3	30.3	40.2	49.8
Net Profit	16.0	20.6	28.0	35.0
EBITDA Margin (%)	18.7	19.0	18.3	20.7
Net Profit Margin (%)	11.4	12.9	12.7	14.4

Source: RHP, SSL Research (Post Issue)

## Peer Comparison

Rs cr	IKIO Lighting	Dixon Technology	Amber Ent.	Elin Electronics Ltd.	Syrma SGS Tech.
CMP (Rs)	285.0	3972	2184.0	144.0	386.0
Sales	321	12192	6927.0	1075.0	2048.0
EBITDA	66.5	513	418.0	65.0	188.0
Net Profit	46.1	255	220.0	27.0	123.0
M.Cap	2202.5	23656	7360	715	6824
EBITDA Margin (%)	21	4	6	6	9
PE(x)	47.8	92.7	46.9	26.7	57.2
RoE (%)	16.7	22.4	8.63	7.4	11.3
RoCE (%)	18.6	25.8	10.8	10.90	14.80

(Source: RHP, SSL Research)

For IKIO Lighting Limited: The data is 9MFY23 annualize.

For all others, the data is based on FY23.

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