IKIO® Innovations Only.

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Date: - 15th June, 2024

BSE Limited **Dalal Street,** **Phiroze Jeejeebhoy Towers,** **Mumbai 400 001** **Scrip Code: 543923**	**The National Stock Exchange of India Limited** **Exchange Plaza, 5th Floor, Plot No. C/1,** **G Block, Bandra-Kurla Complex,** **Bandra (East), Mumbai 400 051.** **Symbol: IKIO**

Subject: Credit Rating

Dear Sir/Ma'am,

Pursuant to Regulation 30 read with Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that CRISIL, a Credit Rating Agency has, upgraded its rating on the long-term bank facilities of IKIO Lighting Ltd (ILL; part of the IKIO group) **to 'CRISIL BBB/Stable'** from 'CRISIL BBB-/Positive'.

Copy of Credit Rating received from CRISIL is enclosed herewith.

The above information will also be available on the Website of the Company at https://ikio.in/

You are requested to take the same on record.

Thanking You,
FOR IKIO Lighting Limited

SANDEEP KUMAR AGARWAL
Digitally signed by SANDEEP KUMAR AGARWAL
Date: 2024.06.15 14:11:58 +05'30'

Sandeep Kumar Agarwal
Company Secretary & Compliance Officer

CRISIL Ratings

Rating Rationale

June 14, 2024 | Mumbai

IKIO Lighting Limited

Rating upgraded to 'CRISIL BBB/Stable'

Rating Action

Total Bank Loan Facilities Rated	**Rs.10 Crore**
Long Term Rating	**CRISIL BBB/Stable (Upgraded from 'CRISIL BBB-/Positive')**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its rating on the long-term bank facilities of IKIO Lighting Ltd (ILL; part of the IKIO group) to **'CRISIL BBB/Stable'** from 'CRISIL BBB-/Positive'**.**

The upgrade reflects the improved financial risk profile of the group. After its initial public offering (IPO), networth is estimated at Rs 552.8 crore as on March 31, 2024. The group has also repaid debt of around Rs 50 crore in fiscal 2024, leading to gearing and total outside liabilities to tangible networth (TOL/TNW) ratios of 0.01 time and 0.09 time, respectively. Debt protection metrics remain healthy with strong interest coverage and net cash accrual to total debt ratio (NCATD) ratios. Liquidity supported by cash and cash equivalents of Rs 191 crore as on March 31, 2024 which will be used to fund capital expenditure (capex) plans over fiscals 2025 and 2026.

Revenue declined to Rs 438.0 crore from around Rs 446.7 in fiscal 2023, owing to sluggish demand in overseas markets. However, with the group entering a new market in fiscal 2025, export sales are likely to pick up. The group has also commenced assembly of wearables and hearables, which should contribute to turnover over the medium term. Though operating margin was healthy at 21.2% in fiscal 2024, it has moderated from levels seen in fiscals 2023 and 2022, owing to higher employee cost and operational cost towards new capacities. Sustenance of operating margin along with growth in scale will be a key monitorable.

The rating also reflects the extensive experience of the promoters in the electrical components and equipment industry and healthy product diversity, supporting scale and sustainability. These strengths are partially offset by the large working capital requirement and exposure to risk arising from customer concentration risk and project-related risk.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of ILL, IKIO Solutions Pvt Ltd (ISPL), Royalux Lighting Pvt Ltd (RLPL) and Royalux Exports Pvt Ltd (REPL), together referred to as the IKIO group. This is because ISPL and RLPL are wholly owned subsidiaries of ILL, and REPL is a step-down subsidiary of ILL. The companies engage in similar lines of business and have operational and financial linkages.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Extensive experience of the promoters and healthy product diversity:** Benefits from the three-decade-long experience of the promoters in the electrical components and equipment industry, their strong understanding of market dynamics, and healthy relationships with suppliers and customers, should continue. Longstanding presence of the group and continued investment in new product development have led to a diversified product portfolio and helps mitigate obsolescence risk in case of any new technology entering the market. Though dip in exports impacted the overall turnover in fiscal 2024, healthy growth in the product display segment has aided performance. CRISIL Ratings expects strong relationships with top customers and diverse product portfolio to support the business risk profile over the medium term.

- **Healthy financial risk profile:** After the IPO issuance in fiscal 2024, the group's networth stood at Rs 552.8 crore as on March 31, 2024. The group has also repaid debt of around Rs 50 crore, which has led to comfortable gearing of 0.01 time and TOL/TNW of 0.09 time as on the same date. The debt protection metrics should remain above-average due to moderately healthy profitability. Though operating margin has moderated in to 21.2% in fiscal 2024, interest coverage and net cash accrual to total debt ratios were healthy at 8.02 times and 11.3 times, respectively. In the absence of any debt-funded capex, CRISIL Ratings expects the group's financial risk profile to remain healthy over the medium term.

Weaknesses:

- **Exposure to intense competition and customer concentration in revenue:** Intense competition from several organised players limits the negotiating power with suppliers and customers, and the ability of the group to withstand downturns. Though the operating margin was healthy around 21.2% in fiscal 2024, margin from the ODM business declined to around 11.9%, from 16.1% in fiscal 2023, amidst pricing pressure and higher employee expenses. Nonetheless, the margin from other segments was healthy.

  The group also faces high customer concentration risk as it derives a large proportion of its sales from a single customer. Any change in policies of customers or their preference for vendors could weaken the business risk profile. However, longstanding relationships with top customers and efforts to diversify the overseas clientele should support the business risk profile.

- **Exposure to project risk:** The IKIO group is setting up a new manufacturing facility in Noida. Phase I of the project, in which the group manufactures products for its in-house consumption, was completed in fiscal 2024. Phases II and III are expected to cost Rs 150-160 crore and will be undertaken over fiscals 2025 and 2026. The financing risk remains low as funds from the group's IPO have been earmarked for the capex and no debt will be availed. However, the group faces implementation risk as phases II and III of the project have recently commenced construction. Demand risk is moderate as product lines of the new unit will be similar to existing ones.

- **Large working capital requirement:** The group's working capital cycle remains stretched owing to large inventory estimated around 191 days as on March 31, 2024. Lower demand in overseas markets has led to inventory piling up. Though the group expects the situation to ease over the medium term, this is a key monitorable. Further, stretch in payments from overseas clients led to receivables of 81 days as on March 31, 2024, compared to 68 days and 61 days in the previous two fiscals. However, CRISIL Ratings notes that proceeds from the IPO have supported working capital management.

Liquidity: Adequate

Bank limit utilisation averaged 42% in the 12 months ending April 30, 2024. The group issued an IPO in fiscal 2024, which led to inflow of Rs 350 crore, supporting its liquidity. Cash and cash equivalents were sizeable around Rs 190.9 crore as on March 31, 2024, a large part of which is earmarked for funding capex in fiscals 2025 and 2026. Expected net cash accrual of above Rs 65 crore will suffice to cover the negligible debt obligation over the next two fiscals.

Outlook: Stable

CRISIL Ratings believes the IKIO group will benefit from its established market position in the electrical components and equipment industry and its healthy customer relationships.

Rating Sensitivity factors

Upward factors

- Steady growth in revenue while maintain operating margin above 20%, leading to higher cash accrual
- Timely liquidation of inventory leading to improvement in working capital cycle and hence an improved liquidity

Downward factors

- Decline in operating income or margin (to 14-15%), leading to lower cash accrual
- Any large debt-funded capex or large outflow of funds, weakening the capital structure

About the Company

The IKIO group was set up in 1987, under the brand 'Fine Technologies', by the promoter, Mr Hardeep Singh. It manufactures rotary switches and potentiometers. In 2005, the group entered the LED lighting business to cater to segments such as commercial lighting, horticulture lighting, industrial lighting, and multi-family residential and hospitality lighting. The group has a diversified presence in the United States, India, China, and United Arab Emirates.

RLPL was initially established as a partnership in 2014, to cater to the residential segment and provide hospitality lighting systems for large corporates and LED lights for refrigerators and is managed by Mr. Hardeep Singh. The manufacturing facility is in Noida.

REPL was initially established as proprietorship of Mr Hardeep Singh in October 2018, to provide a wide range of industrial lighting products to the international market. REPL set up its manufacturing unit in Noida Special Economic Zone to avail export incentives provided by the government. It started operations in April 2019 and became a wholly owned subsidiary of FTIPL in September 2022.

ISPL was incorporated in 2018. It is setting up a new manufacturing facility for LED lights and other products in Gautam Buddha Nagar, Uttar Pradesh. Mr Hardeep Singh, Ms Ishween Kaur and Mr Sanjeet Singh are the directors. ISPL was incorporated to support group companies through backward integration in the field of LED light manufacturing. Phase I of its project was completed in March 2024, and phases II and III will be completed over fiscals 2025 and 2026. The company became a wholly-owned subsidiary of ILL in September 2022.

Key financial indicators – Consolidated*

As on / for the period ended March 31		2024	2023
Operating income	Rs crore	438.0	446.7
Reported profit after tax (PAT)	Rs crore	60.6	65.2
PAT margin	%	13.4%	14.4%
Adjusted debt / adjusted networth	Times	0.01	0.72
Interest coverage	Times	8.03	8.55

**CRISIL Ratings adjusted financials*

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity Levels	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	5	NA	CRISIL BBB/Stable
NA	Overdraft Facility	NA	NA	NA	4.8	NA	CRISIL BBB/Stable
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	0.2	NA	CRISIL BBB/Stable

Annexure – List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
IKIO Lighting Ltd	100%	This is because ISPL and RLPL are wholly owned subsidiaries of ILL, and REPL is a step-down subsidiary of ILL. The companies engage in similar lines of business and have operational and financial linkages.
IKIO Solutions Pvt Ltd	100%	
Royalux Lighting Pvt Ltd	100%	
Royalux Exports Pvt Ltd	100%	

Annexure - Rating History for last 3 Years

	Current			2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	10.0	CRISIL BBB/Stable		--	04-07-23	CRISIL BBB-/Positive	26-02-22	CRISIL BBB-/Stable		--	CRISIL BB+/Stable
			--		--	20-03-23	CRISIL BBB-/Positive		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	**5**	**HDFC Bank Limited**	**CRISIL BBB/Stable**
Overdraft Facility	**4.8**	**HDFC Bank Limited**	**CRISIL BBB/Stable**
Proposed Fund-Based Bank Limits	**0.2**	**Not Applicable**	**CRISIL BBB/Stable**

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for Consolidation

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