

Stock Note

Fiem Industries Ltd.

May 2, 2023





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Auto Ancillaries	Rs 1776	Buy in Rs 1765-1790 band and add on dips in Rs 1585-1610 band	Rs 1948	Rs 2081	2-3 quarters

HDFC Scrip Code	FIEINDEQNR
BSE Code	532768
NSE Code	FIEMIND
Bloomberg	FIEM IN
CMP Apr 28, 2023	1775.5
Equity Capital (Rs cr)	13.2
Face Value (Rs)	10.0
Equity Share O/S (cr)	1.3
Market Cap (Rs cr)	2325.3
Book Value (Rs)	569.8
Avg. 52 Wk Volumes	88,000
52 Week High (Rs)	2087.0
52 Week Low (Rs)	806.6

Share holding Pattern % (Mar 2023)	
Promoters	66.6
Institutions	4.7
Non Institutions	28.7
Total	100.0



HDFCsec Retail research
stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Fiem Industries Ltd. (FIL) is one of the most renowned names in Automotive Lighting & Signalling Equipment space with a history of around four decades. The company is associated with some of the most prestigious OEM customers in India and has a strong client base of more than 50 OEMs. It is also exporting automotive lighting to Honda Japan, Harley Davidson (USA & Thailand), Kubota Japan (Tractors & Farm equipments) besides exporting to other OEMs in Austria, UK, Germany, Thailand, Indonesia & Vietnam. Automotive lights are witnessing a shift towards LEDs due to better energy savings, safety, and enhanced design capabilities. Being a leading player, this is likely to drive higher kit value for the company.

The company has around 95 new projects under its belt and is working on new models of Hero MotoCorp and Yamaha as well. FIL has expanded its electric vehicle (EV) portfolio and is catering to 23-24 EV players including well-known brands like Hero Electric, Okinawa, Ola, Revolt, Ampere, Tork, Polarity, and Bounce.

Valuation & Recommendation:

Despite a slowdown in the automotive industry, FIL has posted strong topline and PAT growth in the last 3 years. We believe, FIL would continue to outperform the industry as 2W volumes recover in the coming years. We expect FIL's Revenue/EBITDA/PAT to grow at 23/34/58% CAGR over FY22-FY25E, led by recovery in 2W demand. We believe investors can buy the stock in Rs 1765-1790 band and add on dips in Rs 1585-1610 band (9x FY25E EPS) for a base case fair value of Rs 1948 (11x FY25E EPS) and bull case fair value of Rs 2081 (11.75x FY25E EPS) over the next 2-3 quarters.

Financial Summary

Particulars (Rs cr)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	FY22	FY23E	FY24E	FY25E
Operating Income	442	389	13.7	525	-15.8	1,572	1,910	2,291	2,644
EBITDA	60	47	28.1	72	-17.4	194	256	318	373
APAT	32	23	37.4	41	-21.7	94	143	193	233
Diluted EPS (Rs)	24.2	17.7	37.4	31.0	-21.7	71.6	108.8	146.6	177.0
RoE (%)						15.5	20.6	23.5	23.7
P/E (x)						24.8	16.3	12.1	10.0
EV/EBITDA (x)						11.5	8.5	6.4	5.0

(Source: Company, HDFC sec)



Q3FY23 Result Review

FIL reported strong revenue growth of 13.7% YoY in Q3FY23 to Rs 442cr driven by ~17% growth in domestic sales. EBITDA for the quarter came in at Rs 60cr, a growth of 28.1% YoY. EBITDA margin expanded 150bps to 13.5% on account of moderation in material costs and realisation of cost escalations. PAT increased by 33% to Rs 32cr

LED share as a percentage of automotive lighting business has increased to 50% and is expected to reach 60% in FY24. FIL is supplying to 23-24 customers on the EV side. It has 95+ projects under development including export projects valued at ~Rs 850-900cr over the next 3 years. FIL is doing direct exports for Harley Davidson, Piaggio and some models of Suzuki and Yamaha. During the quarter the company incurred a capex of Rs 18cr. It has guided for Rs 50cr capex in FY23 and FY24. Cash balance at the end of Dec'22 stood at Rs 207cr.

Key Triggers

Leadership positioning in the 2W lighting industry

FIL is an established player in the 2W lighting industry. According to the management, the company commands 27-30% market share in headlamps in the overall two-wheelers market in the country. LED lighting is emerging as the natural choice in automotive applications due to its inherent energy efficiency and environment-friendliness. It also enables creative lighting designs that enhance the aesthetics of an automobile. Beyond just headlights and tail-lights, LEDs are now making their way onto dashboards and rear view mirrors too. Interestingly, LEDs have even penetrated into the smaller vehicle market.

Advantage of LED lamps: LED Lamps are easy to install, carry low maintenance requirements, are energy efficient and have higher visibility. These lights emit much less heat and come in a solid state and last long with the same capability as halogen or xenon lights. LED lights provide a brighter and purer quality lighting but they are very much energy efficient and draw a little energy from your car. The high lumen output of the LED lights provides a much longer range of visibility and thereby improves the safety level for a driver too.

The share of LED lamps in FIL's automotive lighting segment (~68% of revenue) has increased to 50% and is expected to grow faster than conventional lamps. Going forward, the management expects the share of LED lamps to increase by 10% every year. Higher utilization of LED capacities is likely to lead to better operating leverage and result in margin expansion.

2W sales expected to recover in FY24

Sales of 2W are on a recovery path and the growth is expected to accelerate in FY24 after falling to seven-year low of 15.9mn units in FY23. Retail sales of two-wheelers rose for a second quarter in a row, indicating a turnaround in consumer sentiment in rural markets where demand has been under pressure the last couple of years amid a sharp increase in vehicle prices. Registrations of motorcycles, scooters and mopeds — a proxy for retail sales — increased by 12.3% to 3,978,169 units in Q4FY23, according to FADA. Several senior industry executives said



better agricultural output, higher minimum support prices for farm commodities and availability of water for irrigation because of healthy reservoir levels would help increase the disposable income, and further improve the consumer sentiment, in rural India, a major market for them.

Healthy order pipeline

As of Q3FY23, FIL had 95 new projects under development. It is also working on new models of Hero Motocorp to be launched in FY24 and is also the sole supplier for 14 models (MT series) of Yamaha. It is also the sole supplier for some of the export models of Yamaha. The company also sees good opportunity in direct exports as it supplies to Harley Davidson and Piaggio and some models of Suzuki and Yamaha. Fiem has ramped up its EV portfolio and is catering to ~23-24 clients including all well-known brands like Hero Electric, Okinawa, Ola, Revolt, Ampere, Tork, Polarity, and Bounce. EV's contribution has tripled in FY23 and currently accounts for ~6% of revenues.

With EVs being the future, FIL is beating the blues with smart strategies of building a robust EV portfolio, better product mix and focusing on export-oriented sales in Yamaha, Harley and Piaggio.

Transition to LED lamps would drive higher kit value

The automobile industry is transitioning to LED lamps due to higher safety, durability and versatile designs in LED lights. Modern LED headlights offer a wide range of vision and can save drivers money over the life of the vehicle, and they are increasingly becoming a standard feature in new vehicle launches. LEDs are very useful light sources because they are bright, require little energy to illuminate, and can last for a very long time.

The company sees a huge potential in the Indian 2-Wheeler Electric Vehicle segment and going forward, it is hopeful of capturing higher market share in this segment. The Management has indicated that the opportunities in the EV segment are enormous and is going to grow rapidly and FIL expects a growth of 20%-25% over the next couple of years. LED lamps have a higher kit value and its increasing use would drive higher topline growth. According to management, margins are the same for both - conventional and LED lamps.

Strong financials to support future growth

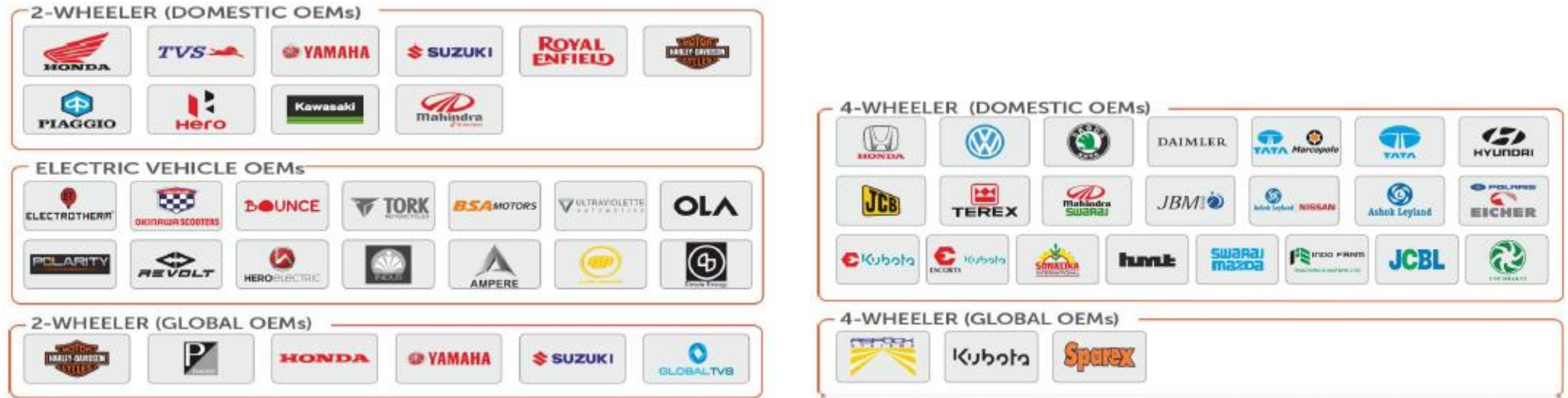
FIL is a net debt free company with modest capital requirements. The management has guided for capex of ~Rs 50cr which would be met through internal accruals. Higher kit value due to increasing use of LED lamps is likely to drive strong topline growth and margin expansion. Despite the slowdown in the automobile industry, Revenue /PAT of the company has grown at CAGR of 9/23% over FY17-FY22. The management is confident of growing at faster than industry rate. The company has consistently paid dividends between 25-40% of its profit. The company has enough landbank and can easily expand their capacity in short span of time.



Strong and diversified client base

FIL is one of the largest players in the automobile lighting segment in India, with presence across OEMs, and aftermarket and export segments. It has been gaining market share with existing customers indicating quality and reliable products. It has also added new customers in domestic as well as overseas markets.

Marquee OEM customer base



(Source: Company, HDFC Sec)

Exit from JV with Aisan

Board of Directors of FIL on February 14, 2022, decided to exit from Joint Venture Company (JV Company) - Aisan Fiem Automotives India Pvt. Ltd. Accordingly, in terms of the JV Agreement, FIL will, in the exercise of the put-option rights reserved under the JV Agreement, offer the entire shares held by the Company in the JV Company to the other Joint Venture Partner(s) for purchase at face value or fair market value, whichever is higher. FIL had invested Rs 26cr for acquiring 26% shareholding in the JV Company. The exit process is expected to be completed within first quarter of next financial year. The JV was formed in FY19 to set-up manufacturing facility for Fuel Injection System for two-wheelers and three-wheelers for Indian market. This exit will help the company to focus on its core lightings business.



Risks & Concerns

Slowdown in automobile industry

FIL supplies to automobile manufacturers and any slowdown in the automobile industry could impact its growth.

Susceptibility to pricing pressure from OEMs and peers

FIL is not able to pass on the increase in costs easily to OEMs and remains susceptible to increasing competition in the auto component segment, and pricing pressures from auto OEMs.

Raw material price volatility

Sharp increase in raw material prices could hurt its performance as there is a lag effect in passing on the increase to its clients.

Competition from peers

With increasing use of LEDs for automotive lighting existing players and many new players are entering the field. Higher competition could lead to competitors taking away company's share of revenue.

Company Background:

Originally incorporated as Rahul Auto Pvt. Ltd. in 1989, FIL was founded by Mr J K Jain, who is a first generation entrepreneur and is in the automotive lighting business since 1970s. FIL has grown to become one of the leading manufacturers of automotive lighting, signalling equipments and rear view mirrors in India. Its major business comes from the two wheeler segment.

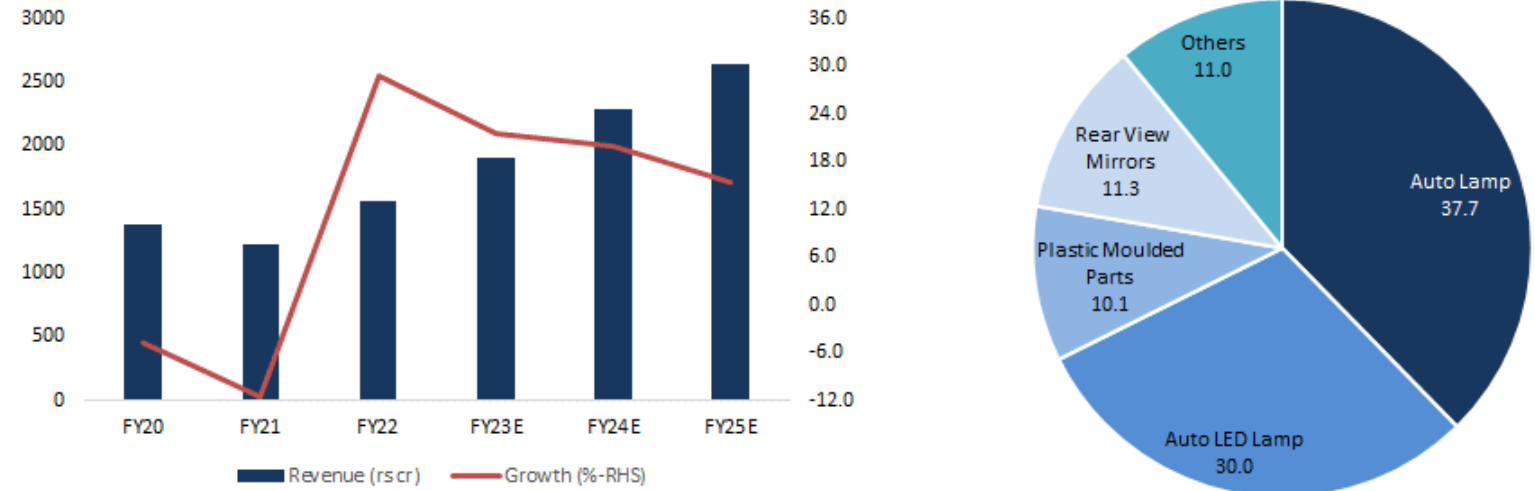
FIL has a diversified product portfolio ranging from head lamps, tail lamps, signalling lamps, roof lamps, rear view mirrors, wheel covers, warning triangles, complete rear fender assembly, frame assembly, mudguards, various automobile sheet metal and plastic parts, Canister and Bank Angle Sensor.

It has diversified its product portfolio by entering into LED luminaires for indoor and outdoor applications and integrated passenger information systems for railways and buses.

The company's top clients in the two-wheeler space are Honda, TVS, Yamaha, Suzuki, Eicher Royal Enfield, Harley Davidson, and Mahindra, among others, and those in the four-wheeler space are Tata Marcopolo, Force Motors, Honda Siel, Hyundai, Daimler, and Mahindra Reva, among a few others.



Revenue growth and breakup (FY22)



(Source: Company, HDFC Sec)

Peer Comparison

(Rs cr)	Mcap	Sales			EBITDA Margin (%)			PAT			RoE (%)			P/E (x)			P/B (x)		
		FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Fiem Ind.	2325	1910	2291	2644	13.4	13.9	14.1	143	193	233	20.6	23.5	23.7	16.3	12.1	10.0	3.1	2.6	2.2
Lumax Ind.	1916	2317	2634	2971	9.5	10.1	10.5	118	137	164	20.9	21.5	23.2	16.3	14.0	11.7	3.2	2.8	2.5
Lumax Auto	2129	1830	2067	2314	10.7	10.8	11.0	105	122	138	17.6	17.7	17.5	20.3	17.5	15.4	3.4	2.9	2.6
Uno Minda	29865	11350	13388	15147	11.3	12.2	12.6	656	889	1074	16.7	19.1	19.6	45.5	33.6	27.8	7.4	6.2	5.2

(Source: HDFC sec, Bloomberg)



Financials

Income Statement

(Rs cr)	FY21	FY22	FY23E	FY24E	FY25E
Net Revenues	1221	1572	1910	2291	2644
Growth (%)	-11.5	28.8	21.5	19.9	15.4
Operating Expenses	1087	1378	1654	1973	2271
EBITDA	134	194	256	318	373
Growth (%)	-14.7	45.0	32.0	24.4	17.1
EBITDA Margin (%)	11.0	12.3	13.4	13.9	14.1
Depreciation	57	59	64	67	70
Other Income	3	3	10	14	16
EBIT	80	138	202	265	319
Interest expenses	12	9	7	6	6
PBT	65	129	195	259	313
Tax	18	34	52	66	80
PAT	47	95	143	193	233
Share of Asso./Minority Int.	0	-1	0	0	0
Adj. PAT	49	94	143	193	233
Growth (%)	-35.0	92.3	52.0	34.8	20.8
EPS	37.2	71.6	108.8	146.6	177.0

Balance Sheet

(Rs cr)	FY21	FY22	FY23E	FY24E	FY25E
SOURCE OF FUNDS					
Share Capital	13	13	13	13	13
Reserves	556	629	737	882	1057
Shareholders' Funds	569	642	750	895	1071
Total Debt	22	46	0	0	0
Net Deferred Taxes	36	33	33	33	33
Other Non-curr. Liab.	25	0	0	0	0
Total Sources of Funds	652	721	783	928	1103
APPLICATION OF FUNDS					
Net Block & Goodwill	547	508	495	478	458
CWIP	3	1	0	0	0
Investments	21	77	97	247	407
Other Non-Curr. Assets	24	19	24	28	33
Total Non Current Assets	595	605	615	753	898
Inventories	117	185	230	264	304
Debtors	81	175	209	251	290
Cash & Equivalents	111	68	69	64	66
Other Current Assets	18	16	30	31	35
Total Current Assets	327	444	539	610	695
Creditors	172	261	273	320	362
Other Current Liab & Provisions	98	67	99	115	128
Total Current Liabilities	270	328	372	435	490
Net Current Assets	57	116	167	175	206
Total Application of Funds	652	721	783	928	1103



Cash Flow Statement

(Rs cr)	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	65	129	195	259	313
Non-operating & EO items	12	-1	-4	-5	-4
Interest Expenses	10	9	7	6	6
Depreciation	57	59	64	67	70
Working Capital Change	10	-67	-51	-12	-29
Tax Paid	-18	-36	-52	-66	-80
OPERATING CASH FLOW (a)	136	92	159	249	276
Capex	-18	-19	-50	-50	-50
Free Cash Flow	118	73	109	199	226
Investments	0	-57	-20	-150	-160
Non-operating income	2	2	0	0	0
INVESTING CASH FLOW (b)	-15	-74	-70	-200	-210
Debt Issuance / (Repaid)	-41	-30	-46	0	0
Interest Expenses	-10	-7	-7	-6	-6
FCFE	69	-19	36	43	60
Share Capital Issuance	0	0	0	0	0
Dividend	-4	-21	-36	-47	-58
Others	-2	-2	0	0	0
FINANCING CASH FLOW (c)	-55	-59	-88	-54	-64
NET CASH FLOW (a+b+c)	65	-40	0	-5	2

Price chart



Key Ratios

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Profitability Ratios (%)					
EBITDA Margin	11.0	12.3	13.4	13.9	14.1
EBIT Margin	6.5	8.7	10.6	11.6	12.1
APAT Margin	4.0	6.0	7.5	8.4	8.8
RoE	9.0	15.5	20.6	23.5	23.7
RoCE	13.6	21.5	28.1	32.3	32.4
Solvency Ratio (x)					
Net Debt/EBITDA	-0.7	-0.1	-0.3	-0.2	-0.2
Net D/E	-0.2	0.0	-0.1	-0.1	-0.1
PER SHARE DATA (Rs)					
EPS	37.2	71.6	108.8	146.6	177.0
CEPS	80.7	116.4	157.2	197.4	230.3
BV	432.6	488.0	569.8	680.4	813.5
Dividend	16.0	20.0	27.0	36.0	44.0
Turnover Ratios (days)					
Debtor days	24	30	37	37	37
Inventory days	37	35	40	39	39
Creditors days	51	50	51	47	47
VALUATION					
P/E	47.7	24.8	16.3	12.1	10.0
P/BV	4.1	3.6	3.1	2.6	2.2
EV/EBITDA	16.8	11.5	8.5	6.4	5.0
EV / Revenues	1.8	1.4	1.1	0.9	0.7
Dividend Yield (%)	0.9	1.1	1.5	2.0	2.5
Dividend Payout (%)	43.0	27.9	24.8	24.6	24.9

(Source: Company, HDFC sec)



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicalities of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

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