

03 Nov 2015

Initiating Coverage (BUY)

FIEM Industries

CMP

INR 601

Target Price

INR 728

Stock Details

Industry	Auto Ancillaries
Bloomberg Code	FIEM:IN
BSE Code	532768
Face Value (Rs.)	10.00
Market Cap. (Rs. Mn)	7,189.30
52wk. High/Low (Adjusted) ((Rs.)	945.30/475.00

Shareholding Pattern Jun '15

Promoter (%)	69.96
FII (%)	5.12
DII (%)	1.49
Public - Other (%)	23.43
No. of Share Outstanding (mn)	11.96

Valuation Summary

	FY 14A	FY 15A	FY 16E	FY 17E
P/E (x)*	13.22	16.92	14.00	13.50
EV/EBITDA (x)*	6.16	7.40	6.73	6.57
P/BV (x)*	2.50	3.16	2.92	3.25

*Based On CMP on Reco Date for FY 15 and Market Price as on 1st Apr is taken for FY14

Key Financial

Rs. Mn	FY 14A	FY 15A	FY 16E	FY 17E
Net Sales	7,205	8,255	9,237	10,346
EBITDA	891	1,036	1,192	1,331
Net Profit	373	425	561	645
EPS (Rs.)*	31.2	35.6	46.9	54.0

*Unadjusted for any bonus issue

Key Ratios

	FY 14A	FY 15A	FY 16E	FY 17E
EBITDA Margin (%)	12.4	12.6	12.6	12.9
EBIT Margin (%)	9.3	8.8	9.7	9.6
Net Pro. Margin (%)	5.2	5.1	6.1	6.2
Debt/Equity (x)	0.29	0.23	0.08	0.04
RoNW (%)	20.4	20.0	22.6	24.1
RoCE (%)	13.4	14.4	17.9	20.5

One Year Price / Volume



We recommend 'BUY' on FIEM Industries for a target of INR 728 - valuing the company at P/E of 13.5x FY17E Earning.

Continuous order inflow for LED business:

The LED market has emerged as one of the fastest growing industries in India. This industry has been majorly driven by factors such as falling prices of LED lights, increasing initiatives taken by the government and rising concerns with respect to energy conservation. Further, modernization of Indian Railways, Transport Infrastructure Development and metro rail systems will give a big boost to the Integrated Passenger Information System. The key driver of the increased usage of LED's over the next few years will be the government's push to replace street lighting (via municipalities) and residential lighting (via state discoms) to achieve energy efficiency and savings.

Continuous order inflow for LED business can be the revenue driver for Fiem's business in coming years as it is investing aggressively in manufacturing facilities for its LED business.

Major revenue from Two Wheeler Segment which has the highest growth potential in coming periods:

At present most of the Fiem's revenue comes from the two wheeler segment. Fiem's nine manufacturing plants are spread across India to cater to requirements of different OEMs. Today, Indian automobile Industry counts as seventh-largest producer in the world with an average annual production of 17.5 million vehicles. According to CII, the Indian automobile market is estimated to become the 3rd largest in the world by 2025 and will account for more than 5% of global vehicle sales. India is the second-largest two-wheeler manufacturer, the largest motorcycle manufacturer in the world.

The volume production of two wheeler in India has a growth rate of 9.58% in FY14-15 from previous year FY13-14, and with the recovery of economy coming fast, this segment growth is expected to more than the previous growth recorded.

VALUATIONS AND VIEW:

Given the visibility of high growth prospects in coming years in two wheeler industry and LED industry with its strong product base, its strong client base, a 27% CAGR in profits over FY15-17E along with increasing operating margins; we value the business at 13.5x FY17E EPS and recommend a BUY rating on the stock with a target price of INR 728 per share.

RISK & CONCERNS:

Bargaining power of Client: Automobiles and ancillary industries have consistent pricing pressure from their customers (OEMs). In automobile industries, OEMs keep a constant watch on vendor margins. Improvement in vendor profitability margins is commonly followed by requests for discounts by OEMs. In such businesses, companies find it difficult to have high profitability margins.

Capital intensive Industry, may require heavy Capex to multiply growth: Fiem Industries Limited may have to invest heavily in its fixed assets for generating further future growth. This may impact the future cash flow and also may have a impact on external borrowings also.

Concentrated Client Risk: A significant portion of revenue of auto component business comes from two clients namely HMSI and TVS Motors (44.5% and 26% of revenue). Any adverse impact from these two client can hurt its revenue significantly.

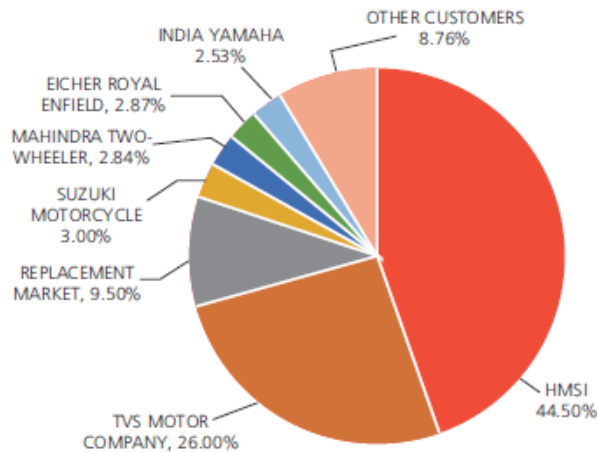
Imports from China: The Indian lighting industry is less energy efficient compared to other countries. Further less Government support compared to global competitors like China, which has become a global manufacturing hub for LED/ electrical components through a lot of government support, is also a disincentive. In addition to this, quality and testing standards are yet to be enforced. Limited testing capacity for LED lighting and heavy dependence on imports for electronic components and LED chips are also a cause of worry.

COMPANY BACKGROUND:

FIEM is one of the leading manufacturers of automotive lighting, signaling equipments and rear view mirrors in India. FIEM is among the first companies in India to introduce LED lights in two wheelers. FIEM has diversified its product portfolio by entering into LED luminaries for indoor and outdoor applications and integrated passenger information system for railways & buses.

Manufactures every component in-house except LED chips and some electricals. Even the most crucial part, i.e. driver for the LED luminaries is manufactured in-house. Apart from giving it an upper edge over its competitors, its policy of in-house production also goes in sync with the spirit of Make in India initiative.

Total Clientele Contribution

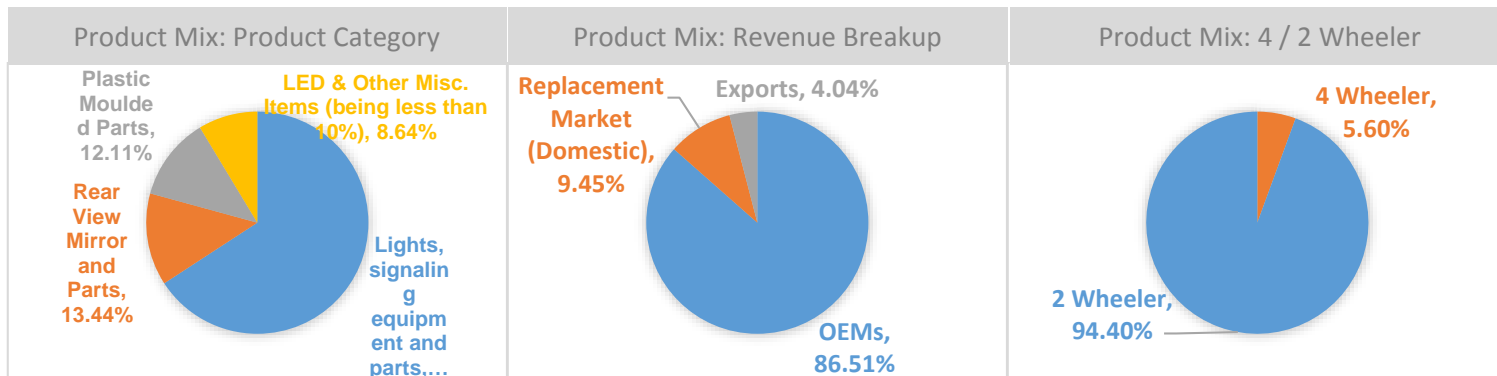


Plant Locations



Product Mix:

Product Category (INR Mn)	2014-15	%age	2013-14	%age	Change (%age)
Lights, signaling equipment and parts	5,924.90	65.8%	5,248.57	66.6%	-0.79%
Rear View Mirror and Parts	1,209.89	13.4%	1,011.32	12.8%	0.61%
Plastic Moulded Parts	1,090.28	12.1%	1,010.54	12.8%	-0.71%
LED & Other Misc. Items (being less than 10%)	777.82	8.6%	609.98	7.7%	0.90%
Total	9,002.88	100.0%	7,880.41	100.0%	



INDUSTRY OVERVIEW:

Automobile & Auto Components Industry:

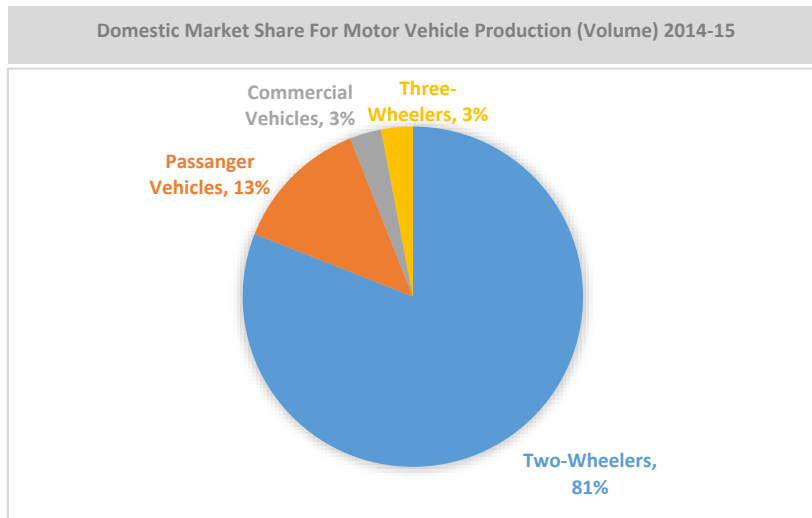
Today Indian automobile Industry counts as under:

- Seventh-largest producer in the world with an average annual production of 17.5 Million vehicles.
- The Indian automobile market is estimated to become the 3rd largest in the world by 2016 and will account for more than 5% of global vehicle sales.
- India is the second-largest two-wheeler manufacturer, the largest motorcycle manufacturer and the fifth largest commercial vehicle manufacturer in the world.

The domestic auto components industry also consists of unorganized players, who are largely small and medium enterprises. However, it is the organized segment that contributes about three fourth of the industry's total revenues. More than 600 organized players are registered with the Auto Component Manufacturers Association.

The Indian auto components industry has experienced return of moderate growth over the last one-and-a-half years. The growth can be attributed to factors such as strong buoyancy in the end-user industry, recovery of the global economy, improved consumer sentiment and return of adequate liquidity in the financial system. The revival of the auto industry was initially driven by the fiscal stimulus programme of the government.

With the government's 'Make in India' initiative boosting manufacturing, commodity prices under control and growth in industrial activity visible – all being indicators of a positive outlook – the Indian auto sector expected for a better ride this fiscal. Buoyancy in the Industry and a return to the former 2011-12 highs expected only after stability and reforms drive in the economy.



Road Ahead:

The rapidly globalising world is opening new avenues for the transportation industry, generating the need for more efficient, safe and reliable modes of transportation, which is consequently adding to the auto component industry's growing opportunities. According to a report by the Confederation of Indian Industry (CII), the Indian auto component industry is set to become the third largest in the world by 2025. Also, by that time, newer verticals and opportunities for component manufacturers will open up as the automobile market will shift towards electric, electronic and hybrid cars and newer technologies will have to be adopted via systematic research and development.

Indian auto component makers are well positioned to benefit from the globalisation of the sector as exports potential could be increased significantly in the days to come because of positive momentum in the Economy and 'Make in India' initiative.

India is probably among the most competitive country in the World for the Automotive Industry. It covers near to 100% of technology or components required to make a car.

LED Lighting and Integrated Passenger Information System (IPIS):

LED Light: The LED market has emerged as one of the fastest growing industries in India. This industry has been majorly driven by factors such as falling prices of LED lights, increasing initiatives taken by the government and rising concerns with respect to energy conservation. Further, modernisation of Indian Railways, Transport Infrastructure Development and Metro Systems will give a big boost to the IPIS.

Hon'ble Prime Minister, Mr. Narendra Modi has recently launched the "National Programme for LED based Home and Street lighting" with the aim to replace incandescent bulbs (ICLs) with LED lights for residential and street lighting. Driven by the government's initiatives, the LED market is growing with a very fast pace, earlier and faster than expected.

The key driver of the increased usage of LED's over the next few years will be the government's push to replace street lighting (via municipalities) and residential lighting (via state discoms) to achieve energy efficiency and savings. The government expected to ban the sale of 100W, 60W and 40W ICL's in next few years and this along with a further fall in prices of LEDs would fuel a large scale switchover to LEDs. Commercial establishments (retail outlets/offices/shops) to increasingly opt for LED down lights to replace less efficient FTL's and CFL's; the price gap of LED's vs CFL's down lights has narrowed significantly which provides a good incentive to switch to LED lights.

IPIS: Integrated Passenger Information System is a computer based electronic system providing audio and visual information to passengers through multiple displays spanning over the entire station and coaches. It is widely used in Buses and other avenues like Metro, Railway etc. It may be used both physically within a transportation hub and remotely using a web browser or mobile device. IPIS covers various modes of transportation viz Trains, Metro Trains and Public Transport Vehicles like Buses, Railway Stations and Bus Stops etc. The information to the passenger is provided through audio announcement and Visual information through various types of displays.

Way Ahead:

Advent of smartphones and better connectivity are the primary factors among others which will drive the growth and advancement of the Passenger information system market. With the mobile applications installed on a smartphone connected with a network, the information can be accessed any time. Mobile applications in this market are going to be one of the key segments which have a promising future in terms of revenues. On the other hand, passengers are becoming more demanding and to enhance the passenger experiences, transport service providers started offering other features along with scheduling information. These features are mainly entertainment, in-transit connectivity, news, and emergency communication. The vendors in the PIS market are constantly trying to introduce better connectivity into their solutions which will help transport service operators to provide better services to the passengers.

During next 4-5 years, use of LED's to be driven by replacement of streetlights, down lights and retrofit of LED lamps under the government's recent initiative called the "National Programme for LED based home and street lighting", launched by the

Honourable Prime Minister, LED bulbs shall be used to replace existing ICLs in domestic households. Similarly, existing street lights have started to be replaced with cost effective LED Lights.

LED Bulbs for household lighting Incandescent Lamps are primarily used for domestic household lighting. Under the government's initiative, it is expected that ICL's in India top 100 cities would be replaced by LED Bulb to encourage energy efficiency and cost savings. As a step towards phasing out of ICL's and increasing the usage of LED's, ICL will be banned in due course. A total of 780mn ICL's were sold in CY13 (758mn in CY12) as per ELCOMA. Replacement of these ICL's by LED Bulbs which use 85% less energy would help save a total of 50bn units and a cost savings of Rs. 25 bn.

Energy Efficiency Services Ltd. (EESL) – a Joint Venture Company of PSUs under power ministry is nodal agency to implement the energy saving projects in the country. It is emerging as one of the most important facilitator to Govt., local bodies as well as LED manufacturer and other stakeholders.

Domain expert on LED - Fiem has extensive knowledge of LED technology from chips, optics, and thermal management to ingenious design, quality and reliability to make the right choice of components. On the strength of its R&D and Technology understanding, Company has added a host of LED products in its product portfolio.

Company is well equipped to meet the challenges of LED technology and the ever increasing customer expectations. The complete range of LED products helps us in providing the much desired total lighting solution. FIEM's R&D centre ensures that highly efficient and top quality products are delivered.

Innovative design, affordable price, lasting energy savings, and no compromise on quality – it's a winning combination for FIEM.

The speed of market development and the length of the transition period as well as FIEM's ability to react promptly and flexibly to change in market requirements, will determine how successfully we pass through these phases.

Integrated Passenger Information System (IPIS) also provides huge opportunity in Indian Railways and State Transport Buses. Indian Railway planned an unprecedented investment of Rs 1 lac crore for 2015-16 and Rs 8.56 lac crore for the period of 2015-20. The modernization programme which includes new lines, gauge conversion, doubling, tripling and electrifications covers platforms and passenger information / announcement system also. State transport authorities are installing IPIS system in its buses. Private institutions like school buses also use this system.

FINANCIAL OVERVIEW

Q1 FY16 Performance Highlight (Standalone Basis)							
(in Million)	1Q FY15	2Q FY15	3Q FY15	4Q FY15	1Q FY16	YoY (%)	QoQ (%)
Revenue	178.92	210.47	202.88	232.51	203.42	13.69%	-12.51%
Other Income	0.2	0.05	0.64	0.01	0.35		
Total Income	179.12	210.52	203.52	232.52	203.77	13.76%	-12.36%
Expenditure	-157.03	-184.62	-178.40	-202.29	-178.80		
As a % of Sales	87.77%	87.72%	87.93%	87.00%	87.90%		
Interest	-3.18	-2.81	-2.88	-3.17	-3.11	-2.20%	-1.89%
PBDT	18.91	23.09	22.23	27.06	21.86		
As a % of Sales	10.57%	10.97%	10.96%	11.64%	10.75%		
Depreciation	-7.6	-7.64	-7.66	-7.74	-7.82		
PBT	11.31	15.45	14.57	19.33	14.03	24.05%	-27.42%
As a % of Sales	6.32%	7.34%	7.18%	8.31%	6.90%		
Tax	-3.23	-4.78	-4.48	-5.9	-4.51	39.63%	-23.56%
Net Profit	8.08	10.67	10.09	13.42	9.52	17.82%	-29.06%
As a % of Sales	4.52%	5.07%	4.97%	5.77%	4.68%		
Equity	11.96	11.96	11.96	11.96	11.96	0.00%	0.00%
EPS (Rs)	6.75	8.92	8.44	11.22	7.96	17.93%	-29.06%
CEPS (Rs)	13.11	15.3	14.84	17.69	14.5		
OPM %	12.35	12.31	12.38	13	12.27		
NPM %	4.52	5.07	4.97	5.77	4.68		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17E	FY 18E
Net Sales	5,320	6,031	7,162	8,201	9,182	10,284	11,312
Other Operating Income	32	33	43	53	55	62	69
Expenditure	4,675	5,361	6,321	7,227	8,047	9,016	9,921
EBITDA	677	703	884	1,027	1,190	1,329	1,460
Depreciation	169	183	218	307	294	342	388
EBIT	508	520	666	720	896	987	1,072
Interest Expenses	208	130	145	120	103	78	59
PBT	300	390	521	600	793	910	1,013
Tax	92	116	155	184	234	266	295
Other Income	3	4	7	9	2	2	2
Extraordinary Items	-	-	-	-	-	-	-
Net Income Before Adjustment	211	277	373	425	561	645	720
Minority Int./Income from Assoc.	-	-	-	-	-	-	-
Adjusted PAT	211	277	373	425	561	645	720

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17E	FY 18E
Equity share capita	120	120	120	120	120	120	120
Reserves & surplus	1,318	1,561	1,849	2,153	2,569	2,557	3,060
Share Warrants	-	-	-	-	-	-	-
Misc Expenditure	-	-	-	-	-	-	-
Net worth	1,438	1,681	1,969	2,273	2,689	2,677	3,180
Minority Interest	-	-	-	-	-	-	-
Share Application Money	-	-	-	-	-	-	-
Loan Funds	950	762	580	515	215	115	15
Net deferred tax liability	193	242	275	276	276	276	276
Other Long-term Liabilities	26	17	-	-	-	-	124
Long-term Provisions	6	8	11	20	22	25	28
Total Liabilities	2,613	2,710	2,835	3,084	3,202	3,093	3,623
Net block	2,829	2,941	3,131	3,391	3,610	3,848	3,994
Investment, Loan & Adv.	70	79	55	77	100	105	249
Total Current Assets	1,284	1,311	1,364	1,544	1,736	1,993	2,413
Current Liabilities & Provisions	1,572	1,623	1,716	1,930	2,245	2,854	3,034
Net Current Assets	(288)	(311)	(352)	(385)	(509)	(861)	(621)
Total Assets	2,612	2,710	2,835	3,084	3,202	3,093	3,623

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16E	FY 17E	FY 18E
Operating Cash Flow	821	985	879	1,064
Cash Flow from Investments	(586)	(512)	(578)	(532)
Cash Flow from Financing	(220)	(463)	(262)	(364)
Net Changes in Cash	14	10	40	167
Opening Cash	20	34	45	85
Closing Cash Balance	35	45	85	252

Peer Comparison (Top 7 companies in the same business)

Company	CMP (Rs)	P/E	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
Bosch	20,522	60.4	64,438	0.41	344	12.08	2,532	7.54	9.0
Motherson Sumi	245	20.8	21,611	1.22	266	49.25	9,252	11.51	6.2
Amtek Auto	39	1.0	853	1.29	-	-	-	-	0.1
Exide Inds.	153	21.6	12,967	1.44	-	-	-	-	3.4
Amara Raja Batt.	892	33.4	15,235	0.40	122	16.41	1,138	11.00	9.3
Tube Investments	395	18.2	7,391	0.51	95	6.07	2,414	7.53	3.2
Sundaram Clayton	1,823	21.9	3,689	1.04	-	-	-	-	3.0
Fiem Inds.	585	16.9	713	1.17	10	17.82	202	13.53	3.2

Disclaimer: This document has been prepared by Wealth Discovery Securities Private Limited (hereinafter referred to as WD) to provide information about the company(ies) and/sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies). This report is for personal information of the selected recipient/s and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and Wealth Discovery Securities Private Limited (hereinafter referred as WD) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur.

WD generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, WD generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing among other things, may give rise to real or potential conflicts of interest. WD and its affiliated company(ies), their directors and employees and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the affiliates of WD even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report Reports based on technical and derivative analysis center on studying charts company's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamental analysis. In addition WD has different business segments / Divisions with independent research separated by Chinese walls catering to different set of customers having various objectives, risk profiles, investment horizon, etc, and therefore may at times have different contrary views on stocks sectors and markets.

Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. The person accessing this information specifically agrees to exempt WD or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold WD or any of its affiliates or employees responsible for any such misuse and further agrees to hold WD or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays. The information contained herein is based on publicly available data or other sources believed to be reliable. Any statements contained in this report attributed to a third party represent WD's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party. This Report is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. While we would endeavor to update the information herein on reasonable basis, WD and/or its affiliates are under no obligation to update the information. Also there may be regulatory, compliance, or other reasons that may prevent WD and/or its affiliates from doing so. WD or any of its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. WD or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and noninfringement. The recipients of this report should rely on their own investigations.

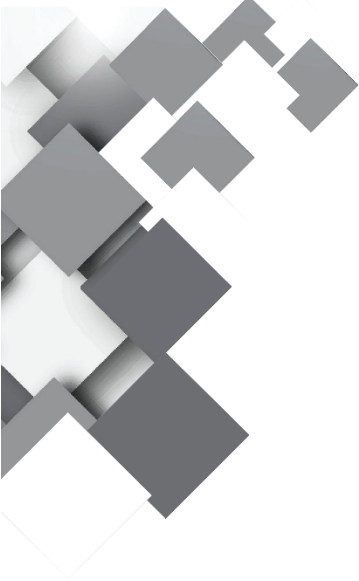
WD and its associates have not received any compensation or other benefits from the subject company or third party in connection with the research report. Subject Company may have been a client of WD or its associates during twelve months preceding the date of distribution of the research report WD and/or its affiliates and/or employees may have interests/positions, financial or otherwise of over 1 % at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report. To enhance transparency, WD has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of WD research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement	FIEM Industries
1.Analyst ownership of the stocks mentioned above	No
2.Served as an officer, director or employee	No

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject WD & its group companies to registration or licensing requirements within such jurisdictions.



Wealth Discovery

Transforming Knowledge into Wealth.

COMPLETE WEALTH MANAGEMENT SOLUTIONS !



Understanding financial needs.
Optimising returns...

Head Office

Wealth Discovery Securities Pvt. Ltd.

1206, 12th Floor,
Kailash Building K.G. Marg.
Connaught Place
New Delhi-110001

Telephone:
91 +11-43444-666
91 +11-43444-623

Email:
info@wealthdiscovery.in

Website:
<http://www.wealthdiscovery.in>