

05th April 2017

Initiating Coverage (BUY)

FIEM INDUSTRIES LTD

CMP

INR 1020

Target Price

INR 1310

Stock Details

| | |
|-----------------------------------|------------------|
| Industry | Auto Ancillaries |
| Bloomberg Code | FIEM:IN |
| BSE Code | 532768 |
| Face Value (Rs.) | 10.00 |
| Market Cap. (Rs. Mn) | 12,737.4 |
| 52wk. High/Low (Adjusted) ((Rs.)) | 1509.95/735.55 |

Shareholding Pattern Dec '16

| | |
|-------------------------------|-------|
| Promoter (%) | 63.59 |
| FII (%) | 0.00 |
| DII (%) | 0.00 |
| Public - Other (%) | 36.41 |
| No. of Share Outstanding (mn) | 11.96 |

Valuation Summary

| | FY 15A | FY 16A | FY 17E | FY 18E |
|----------------|--------|--------|--------|--------|
| P/E (x)* | 18.02 | 22.22 | 20.00 | 19.50 |
| EV/EBITDA (x)* | 7.92 | 10.68 | 9.63 | 9.18 |
| P/BV (x)* | 3.37 | 4.66 | 4.13 | 4.02 |

*TTM for current year

Based on Market Price as on 1st Apr is taken for FY1**Key Financial**

| Rs. Mn | FY 15A | FY 16A | FY 17E | FY 18E |
|------------|--------|--------|--------|--------|
| Net Sales | 8,201 | 9,791 | 11,259 | 12,948 |
| EBITDA | 1,021 | 1,273 | 1,469 | 1,674 |
| Net Profit | 425 | 561 | 645 | 803 |
| EPS (Rs.)* | 35.5 | 47.9 | 56.4 | 67.2 |

*Unadjusted

Key Ratios

| | FY 14A | FY 15A | FY 16E | FY 17E |
|---------------------|--------|--------|--------|--------|
| EBITDA Margin (%) | 12.4 | 12.9 | 12.9 | 12.8 |
| EBIT Margin (%) | 8.7 | 9.5 | 9.7 | 10.0 |
| Net Pro. Margin (%) | 5.1 | 5. | 5.9 | 6.2 |
| Debt/Equity (x) | 0.23 | 0.33 | 0.28 | 0.23 |
| RoNW (%) | 20.0 | 22.9 | 22.5 | 22.4 |
| RoCE (%) | 14.4 | 16.1 | 15.7 | 16.4 |

One Year Price / Volume



We recommend 'BUY' on FIEM Industries for a target of INR 1310 - valuing the company at P/E of 19.5x FY18E Earning.

INVESTMENT RATIONALE

- The LED market has emerged as one of the fastest growing industries in India.
- Continuous order inflow for LED business:
- 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.
- 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 and residential lighting 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.
- 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.

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 19.5x FY18E EPS and recommend a BUY rating on the stock with a target price of INR 1310 per share.**

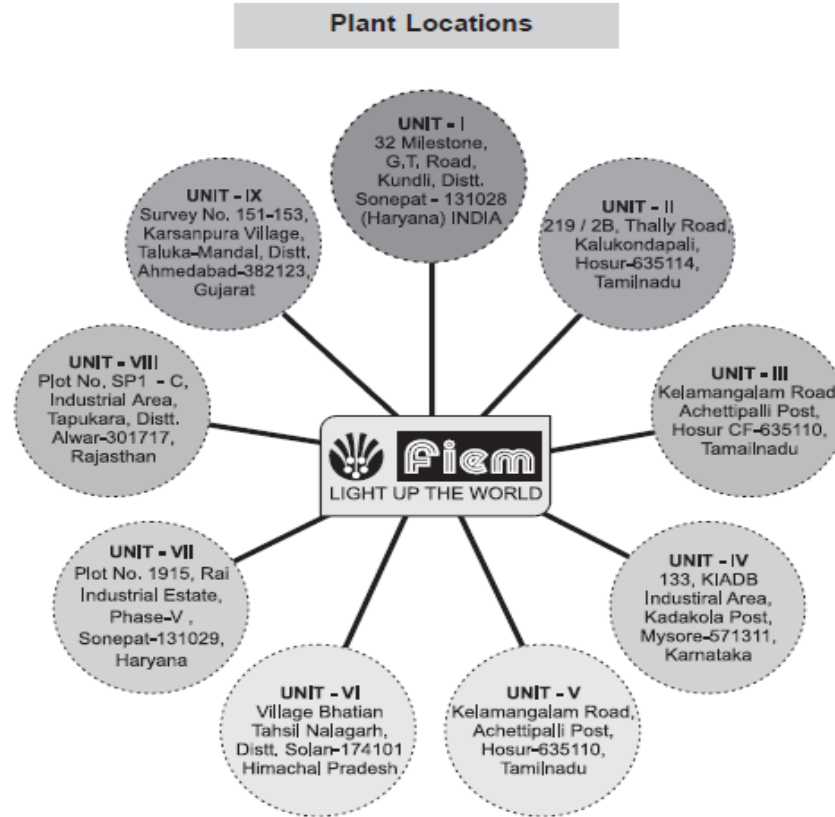
RISK & CONCERNS:

- **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.

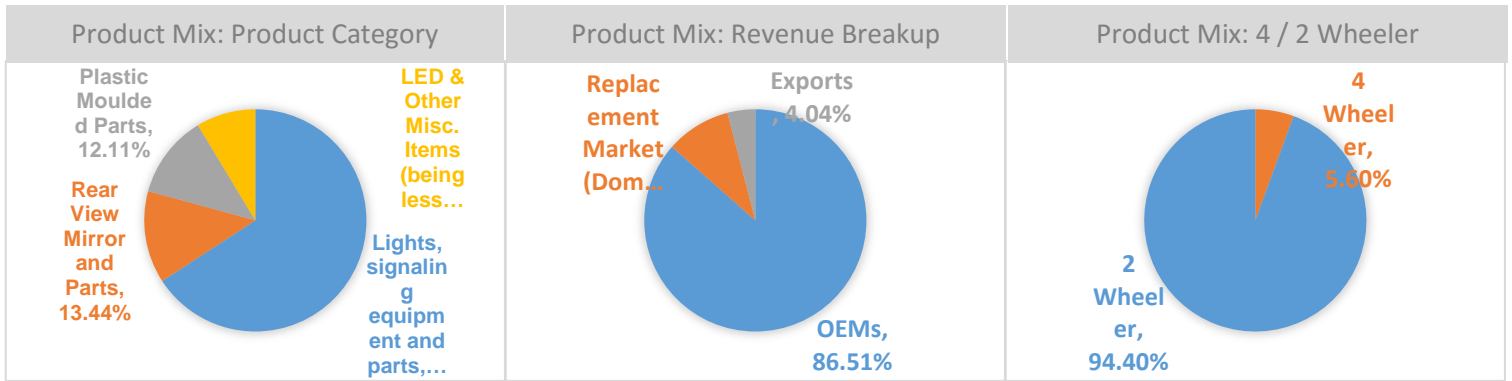
COMPANY BACKGROUND:

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.



Product Mix:



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.

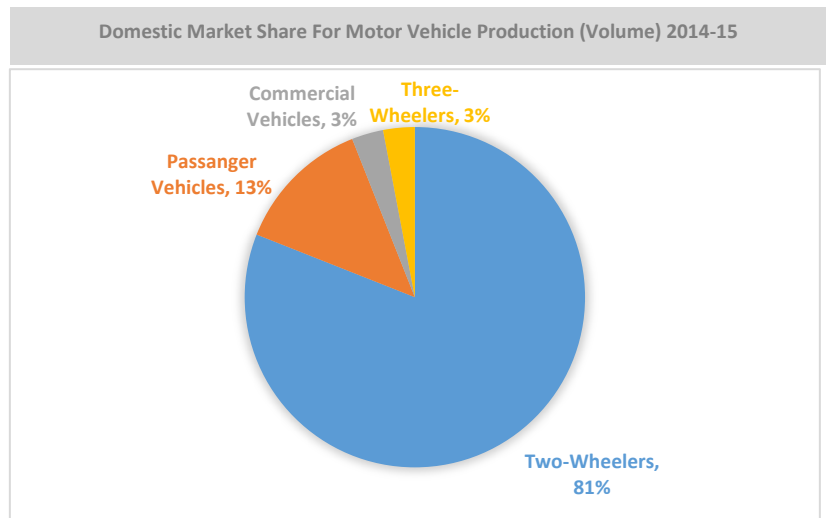
The Indian auto components industry has experienced return of moderate growth over the last one-and-a-half years. The growth can be attributed to factors such as strong buoyancy in the end-user industry, recovery of the global economy, improved consumer sentiment and return of adequate liquidity in the 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

| Q4 FY16 Performance Highlight | | | | | | | |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------|---------|
| (in Million) | 4Q FY15 | 1Q FY16 | 2Q FY16 | 3Q FY16 | 4Q FY16 | YoY (%) | QoQ (%) |
| Revenue | 2,585.88 | 2,888.57 | 2,451.82 | 2,918.42 | 2,353.55 | -8.98% | -19.36% |
| Other Income | 5.9 | -3.49 | 1.41 | 4.56 | 20.2 | | |
| Total Income | 2,591.78 | 2,885.08 | 2,453.23 | 2,922.98 | 2,373.75 | -8.41% | -18.79% |
| Expenditure | -2,251.56 | -2,492.06 | -2,139.10 | -2,557.99 | -2,090.90 | | |
| <i>As a % of Sales</i> | <i>87.07%</i> | <i>86.27%</i> | <i>87.25%</i> | <i>87.65%</i> | <i>88.84%</i> | | |
| Interest | -42.41 | -51.24 | -54.72 | -63.47 | -59.41 | 40.08% | -6.40% |
| PBDT | 297.82 | 341.78 | 259.41 | 301.52 | 223.44 | | |
| <i>As a % of Sales</i> | <i>11.52%</i> | <i>11.83%</i> | <i>10.58%</i> | <i>10.33%</i> | <i>9.49%</i> | | |
| Depreciation | -83.89 | -87.9 | -93.9 | -96.86 | -99.89 | | |
| PBT | 213.93 | 253.88 | 165.51 | 204.66 | 123.55 | -42.25% | -39.63% |
| <i>As a % of Sales</i> | <i>8.27%</i> | <i>8.79%</i> | <i>6.75%</i> | <i>7.01%</i> | <i>5.25%</i> | | |
| Tax | -57.24 | -59.38 | -50.94 | -63.89 | -32.97 | -42.40% | -48.40% |
| Net Profit | 156.69 | 194.5 | 114.57 | 140.77 | 90.58 | -42.19% | -35.65% |
| <i>As a % of Sales</i> | <i>6.06%</i> | <i>6.73%</i> | <i>4.67%</i> | <i>4.82%</i> | <i>3.85%</i> | | |
| Equity | 119.62 | 119.62 | 119.62 | 131.6 | 131.6 | 10.02% | 0.00% |
| EPS (Rs) | 13.1 | 16.25 | -- | -- | -- | #VALUE! | #VALUE! |
| CEPS (Rs) | 20.11 | 23.61 | 17.43 | 18.06 | 14.47 | | |
| OPM % | 13.16 | 13.61 | 12.81 | 12.51 | 12.02 | | |
| NPM % | 6.06 | 6.73 | 4.67 | 4.82 | 3.85 | | |

INCOME STATEMENT (CONSOLIDATED)

| Y/E Mar (Rs mn) | FY 12A | FY 13A | FY 14A | FY 15A | FY 16E | FY 17P | FY 18P |
|-------------------------------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
| Net Sales | 6,031 | 7,162 | 8,201 | 9,791 | 11,259 | 12,948 | 14,243 |
| Other Operating Income | 33 | 43 | 53 | 91 | 89 | 97 | 111 |
| Expenditure | 5,361 | 6,321 | 7,227 | 8,609 | 9,890 | 11,383 | 12,531 |
| EBITDA | 703 | 884 | 1,027 | 1,273 | 1,459 | 1,661 | 1,823 |
| Depreciation | 183 | 218 | 307 | 331 | 367 | 369 | 371 |
| EBIT | 520 | 666 | 720 | 942 | 1,091 | 1,292 | 1,452 |
| Interest Expenses | 130 | 145 | 120 | 158 | 173 | 204 | 222 |
| PBT | 390 | 521 | 600 | 784 | 918 | 1,088 | 1,230 |
| Tax | 116 | 155 | 184 | 220 | 254 | 298 | 334 |
| Other Income | 4 | 7 | 9 | 10 | 10 | 13 | 14 |
| Extraordinary Items | - | - | - | - | - | - | - |
| Net Income Before Adjustment | 277 | 373 | 425 | 573 | 674 | 803 | 911 |
| Minority Int./Income from Assoc. | - | - | - | - | - | - | - |
| Adjusted PAT | 277 | 373 | 425 | 573 | 674 | 803 | 911 |

BALANCE SHEET (CONSOLIDATED)

| Y/E Mar (Rs mn) | FY 12A | FY 13A | FY 14A | FY 15A | FY 16E | FY 17P | FY 18P |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Equity share capita | 120 | 120 | 120 | 120 | 120 | 120 | 120 |
| Reserves & surplus | 1,561 | 1,849 | 2,153 | 2,612 | 3,142 | 3,775 | 4,493 |
| Share Warrents | - | - | - | - | - | - | - |
| Misc Expenditure | - | - | - | - | - | - | - |
| Net worth | 1,681 | 1,969 | 2,273 | 2,731 | 3,262 | 3,895 | 4,612 |
| Minority Interest | - | - | - | - | - | - | - |
| Share Application Money | - | - | - | - | - | - | - |
| Loan Funds | 762 | 580 | 515 | 909 | 911 | 909 | 907 |
| Net deferred tax liability | 242 | 275 | 276 | 297 | 297 | 297 | 297 |
| Other Long-term Liabilities | 17 | - | - | 2 | 3 | 3 | 3 |
| Long-term Provisions | 8 | 11 | 20 | 85 | 97 | 112 | 123 |
| Total Liabilities | 2,710 | 2,836 | 3,085 | 4,026 | 4,570 | 5,217 | 5,944 |
| Net block | 2,941 | 3,131 | 3,391 | 4,275 | 3,952 | 3,629 | 3,300 |
| Investment, Loan & Adv. | 80 | 56 | 78 | 201 | 231 | 209 | 246 |
| Total Current Assets | 1,311 | 1,364 | 1,544 | 2,111 | 2,630 | 3,944 | 5,209 |
| Current Liabilities & Provisions | 1,623 | 1,716 | 1,930 | 2,564 | 2,244 | 2,567 | 2,813 |
| Net Current Assets | (311) | (352) | (385) | (453) | 386 | 1,377 | 2,396 |
| Total Assets | 2,710 | 2,836 | 3,085 | 4,026 | 4,570 | 5,217 | 5,944 |

CASH FLOW (CONSOLIDATED)

| Y/E Mar (Rs mn) | FY 15A | FY 16E | FY 17P | FY 18P |
|----------------------------|---------|--------|--------|--------|
| Operating Cash Flow | 1,219 | 462 | 1,301 | 1,442 |
| Cash Flow from Investments | (1,081) | (77) | (28) | (82) |
| Cash Flow from Financing | (127) | (187) | (317) | (370) |
| Net Changes in Cash | 10 | 198 | 956 | 990 |
| Opening Cash | 34 | 45 | 243 | 1,199 |
| Closing Cash Balance | 45 | 243 | 1,199 | 2,189 |

PEER COMPARISON

| 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 |
|-------------------|----------------|-------------|----------------|-------------|----------------|--------------------|-------------------|-------------------|-------------|
| Motherson Sumi | 375 | 28.0 | 52,695.9 | 0.63 | 547.3 | 28.25 | 10,604.1 | 12.29 | 9.24 |
| Bosch | 166 | 20.3 | 69,086.0 | 0.39 | 218.2 | (19.94) | 2,672.0 | 7.74 | 5.24 |
| Exide Inds. | 230 | 27.7 | 19,550.0 | 1.04 | NaN | NaN | NaN | NaN | 4.57 |
| Amara Raja Batt. | 908 | 31.8 | 15,515.8 | 0.47 | 112.3 | (17.91) | 1,328.3 | 9.57 | 6.25 |
| Tube Investments | 624 | 24.6 | 11,692.1 | 0.80 | 725.6 | 41.51 | 1,710.8 | (28.48) | 3.52 |
| Sundram Fasten. | 402 | 24.4 | 8,455.5 | 0.53 | 75.3 | 63.39 | 709.3 | 15.54 | 6.79 |
| Sundaram Clayton | 3,671 | 30.8 | 7,428.1 | 1.12 | NaN | NaN | NaN | NaN | 5.58 |
| Fiem Inds. | 1,065.0 | 20.0 | 1,273.7 | 0.72 | 9.1 | (42.18) | 235.4 | (8.98) | 4.66 |

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| | |
|---|-----------------|
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| 1.Analyst ownership of the stocks mentioned above | No |
| 2.Served as an officer, director or employee | No |

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