

CMP: Rs 436

Rating: BUY

Target: Rs 599

Stock Info

INDEX	
BSE	532768
NSE	FIEMIND
Bloomberg	FIEM IN
Reuters	FIIN.NS
Sector	Auto & spare parts
Face Value (Rs)	10
Equity Capital (Rs mn)	132
Mkt Cap (Rs bn)	5.9
52w H/L (Rs)	865 / 408
Avg Weekly Vol (BSE+NSE)	56,430

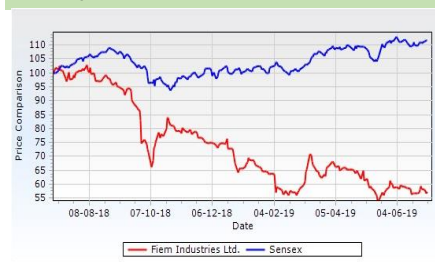
Shareholding Pattern	%
(As on March, 2019)	
Promoters	64.3
Public & Others	35.7

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
FIEM	-15.2	-12.3	-43.0
SENSEX	2.5	12.2	12.6

Source: ACE Equity, Arihant Research

FIEM v/s SENSEX



Source: ACE Equity, Arihant Research

Key financials	FY19	FY20E	FY21E
Net Sales (Rs mn)	14,490	16,805	19,094
EBITDA (Rs mn)	1,572	1,891	2,215
EBITDA margin	10.8%	11.3%	11.6%
PAT (Rs mn)	556	624	789
EPS (Rs)	42.3	47.4	59.9
ROE (%)	11.7%	12.0%	13.7%
ROCE (%)	11.6%	12.8%	14.4%
EV/EBITDA (x)	4.5	3.4	2.6
P/E (x)	10.3	9.2	7.3

Source: Arihant Capital

Ticks {✓} all boxes; Initiating coverage with a potential upside of 37%

We initiate coverage on FIEM, one of the leading manufacturers of automotive lighting in India catering to >35 OEMs. Founded in 1989, Fiem Industries (FIEM) is primarily engaged into manufacturing of automotive lighting for two-wheeler OEMs. Honda 2Ws (41% of sales) and TVS Motor are largest revenue contributors. It offers wide range of products namely automotive lighting (2W headlamps, tail lamps, blinker lamps, fog lamps, LED DRL i.e. day-time running lamps), rear view mirrors, sheet metals and plastic components etc. FIEM operates out of nine manufacturing facilities and three R&D centres including one in Japan and Italy each. FIEM has also undertaken numerous JVs to add new products to its portfolio like canisters, bank (lean) angle sensors etc.

Regulatory tailwinds coupled with fast adoption of LED lights to drive growth

Over medium term, FIEM will benefit from increasing adoption of LEDs vs halogen in the headlamps, tail lamps and DRLs on account of implementation of regulatory AHO (automatic headlamps on) norms where the content per vehicle is 3x vs conventional lamps. The LED lighting industry continues to see growth with the advent of DRLs in two-wheelers (introduced in TVS *Radeon* and *Ntorq*) coupled with lower LED lighting penetration of 15% amongst two wheelers which offers significant opportunity for growth. The company has designed flagship lighting products like headlamp for Honda *Activa 5G*, LED headlamp for Honda *Dio*, LED headlamp and taillamp for Yamaha *FZ 250*, headlamp for Suzuki *Burgman* and DRLs for TVS *mopeds* and *Zest*. Further the Government's EV push will benefit FIEM over the medium term as LED lamps are 10x energy efficient vs the halogens.

Unique strategy - Well-oiled product portfolio with superior R&D capabilities

FIEM has developed industry leading lighting product offerings backed by strong focus on R&D and backward integration with in-house plastic injection moulding facility. The major product offerings are automotive headlamps, tail lamps, blinkers, fog lamps, rear view mirrors, plastic moulded parts, sheet metal parts etc. FIEM also supplies lighting solutions to premium motorcycles including Honda 670cc *Integra-4* etc for Honda Thailand and Vietnam.

New order wins from existing OEMs has led to strong revenue growth

FIEM has been able to negotiate large order wins mainly from 2W OEMs -RE, TVS, Yamaha, Suzuki in 2Ws whereas Tata Motors and Force Motors in CVs which has further led to OE consolidation and reduced dependence on Honda 2Ws (41% of sales vs 45% in FY17). Moreover, FIEM is ready to capitalize on the overall increase in the LED mix through new model launches which have higher LED content.

Industry leading margins in the domestic automotive lighting industry

FIEM has industry leading margins (~11% vs industry levels of 8-9%) in automotive lighting vs the industry peers led by strong R&D capabilities, high cost efficiencies and long standing relationships with OEMs has led to profitable growth for FIEM.

Attractive valuations offer strong entry point; BUY

FIEM is a preferred supplier amongst two-wheeler OEMs and commands market leadership in two-wheeler automotive lighting industry and the increase in LED lighting penetration in two wheelers remains a key growth driver. Further, its automotive LED lighting mix stood at 34% of sales of its lighting revenues in FY19 (vs 10% in FY18) which is expected to reach 50% over the medium term led by fast adoption of LED lights in new models launches. At CMP of Rs 450, FIEM trades at a P/E of 9.2x/7.3x FY20e/FY21e. We have built in revenue/EBITDA/PAT CAGR of 15%/19%/19% over FY19-21e and remain positive on the stock with a strong BUY Rating and value it at 10x FY21e for a target price of Rs 599.

Investment Rationale

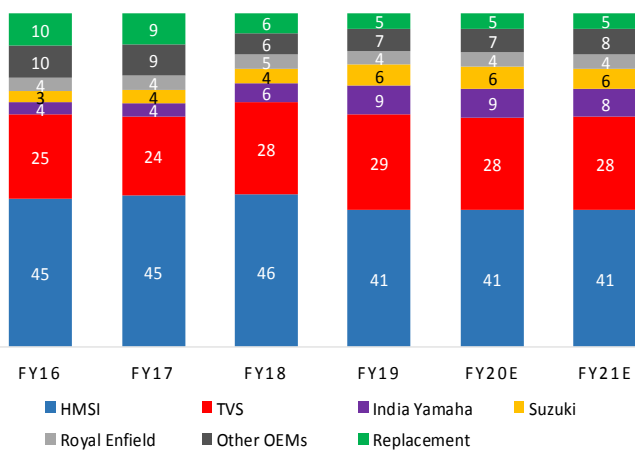
New models from Honda 2Ws, TVS, Yamaha, Suzuki to aid volume growth

FIEM is the largest supplier of lighting components to OEMs like Honda 2Ws (39% SOB's (share of business) in headlamps, 80% in taillamps, 85% in blinkers), TVS (70% SOB), Suzuki (67% SOB), Yamaha (90% SOB). The new models launched by these OEMs have led to strong revenue growth for FIEM as many of the products are equipped with LED auto lamps and have been custom designed in-house by FIEM. Despite sluggish volumes, FIEM is expected to grow at a swift pace on account of increased penetration of LED lights coupled with strong new model launch pipeline by OEMs. New customer addition (India Kawasaki) to supply lighting components and rear view mirrors augurs well for medium term growth for FIEM.

Next-gen lighting products have led to new order wins and OE additions.

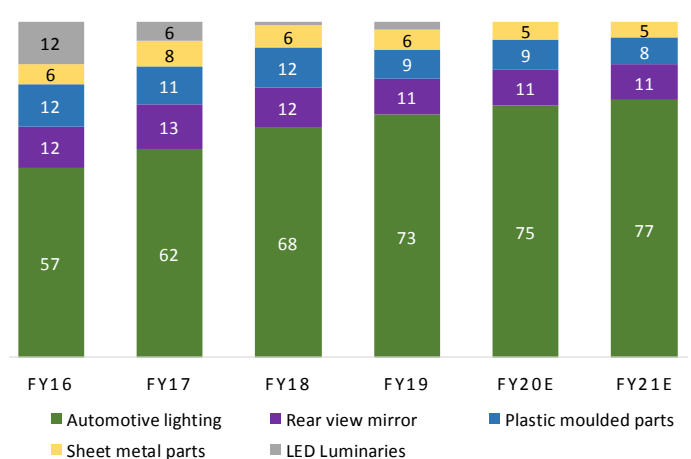
Over the years, FIEM has incurred large investments in R&D to drive new product innovations in automotive lighting designs. The conjunction of a world-class R&D platform, innovative design team and state-of-art manufacturing capabilities has widened the range of new-gen proprietary products. FIEM has an in-house NABL (National Accreditation Board for Testing and calibration Laboratories) accredited design and testing photometry laboratory situated in Sonapat. FIEM also has design centres in Japan and Italy (Fiem Research and Technology s.r.l.).

Exhibit 1: FIEM's OEM mix revenue trend



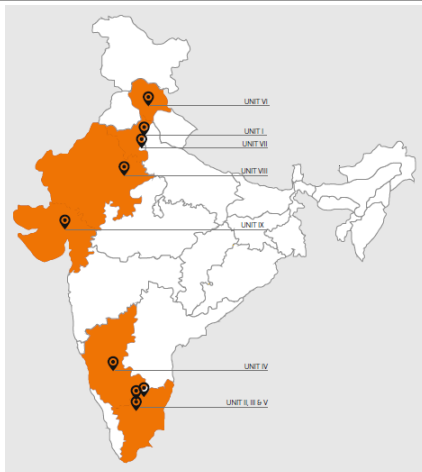
Source: Company, Aриhant Capital Markets

Exhibit 2: FIEM's segment wise revenue mix trend



Source: Company, Aриhant Capital Markets

Exhibit 3: FIEM's has 9 manufacturing facilities



Unit	Location	State	Products manufactured
Unit 1	Kundli	Haryana	Automotive lights and mirrors
Unit 2	Hosur	Tamil Nadu	Automotive lights, mirrors and rear fender assembly
Unit 3	Hosur	Tamil Nadu	Sheet Metal Parts
Unit 4	Mysore	Karnataka	Rear fender assembly
Unit 5	Hosur	Tamil Nadu	Automotive lights and mirrors
Unit 6	Nalagarh	Himachal Pradesh	Automotive lights, mirrors and plastic parts
Unit 7	Rai	Haryana	Automotive lights, LED luminaires & IPIS
Unit 8	Tapukara	Rajasthan	Plastic injection moulded parts and LED luminaires & IPIS
Unit 9	Ahmedabad	Gujarat	Automotive Lights and plastic parts

Source: Company, Aриhant Capital Markets

Vehicle content on uptick owing to path breaking products developed by in-house R&D

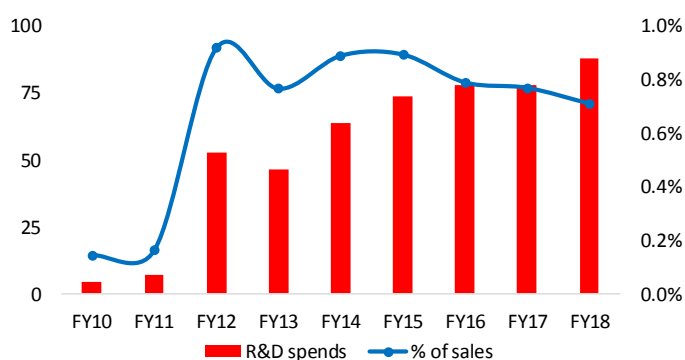
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Supplies lighting products to premium motorcycle OEMs like Harley Davidson and Honda 2Ws

Through its presence in Japan, FIEM supplies lighting products like headlamps, RC lamps, blinker lights to Honda's premium motorcycles (670cc Integra-4 motorcycle) and is further expected to ramp up its volumes in premium category through new business from India Kawasaki. FIEM also supplies lighting components to Honda's plants in Thailand and Vietnam.

FIEM's LED segment was 34% of its lighting revenues in FY19 (vs 10% in FY18) which is expected to reach 50% over the medium term led by fast adoption of LED lights in new models launches.

Exhibit 4: Robust R&D spends and as a % of sales



Source: Company, Aриhant Capital Markets

Exhibit 5: Exports lighting products to premium models



Source: Company, Aриhant Capital Markets

Attractive valuations offer strong entry point; BUY

FIEM is a preferred supplier amongst two-wheeler OEMs and commands market leadership in two-wheeler automotive lighting industry. Further, the increase in LED lighting penetration in two wheelers in new models like TVS *Ntorq*, Honda *Activa 125cc* will remain key growth drivers for FIEM over the medium term.

FIEM stock price under-performance was led by sharp decline in LED luminaries' business from FY17. The decline was mainly due to irrational competition owing to cheaper imports and rising input costs. However, the management has undertaken some corrective measures such as not making any further investments in LED luminaries segment and utilize the capacities from Tapukara plant catering to LED luminaries to automotive division which has seen robust growth over last couple of years.

We thus believe, the automotive lighting is on a strong upward trajectory led by shift from conventional lighting to LED lights. At CMP of Rs450, FIEM trades at P/E of 9.2x/7.3x FY20e/FY21e earnings estimates. We expect FIEM's revenue/EBITDA/PAT to grow at a CAGR of 15%/19%/19% over FY19-21e and we remain positive on the stock with a strong BUY rating and value it at 10x FY21e for a target price of Rs 599.

Division wise analysis

Automotive lighting and signaling division | 72% of revenue

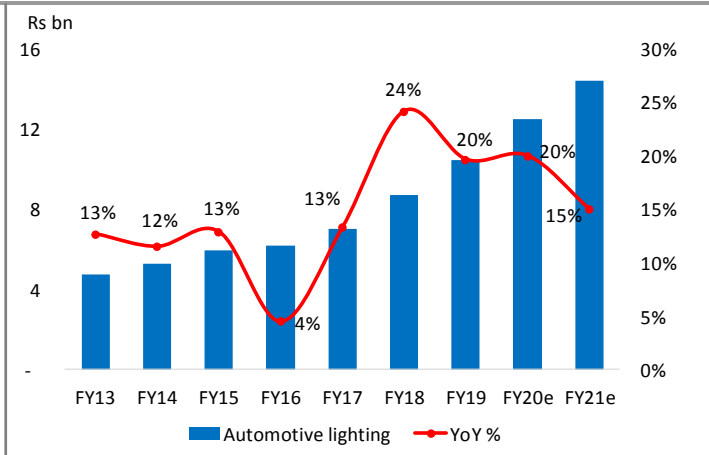
FIEM is a market leader in the automotive lighting mainly catering to two-wheeler OEMs like Honda 2Ws, TVS, RE, Suzuki, Yamaha etc. The lighting portfolio includes head lamps, tail lamps, blinker lamps, fog lamps, warning triangles, interior lamps and beacon lights etc. The segment is major revenue contributor for FIEM. The strong revenue growth has been driven by new business form existing customers like RE, TVS, Yamaha, Suzuki etc. owing to increased adoption of LED lights. Further, the LED lighting is 34% overall sales for FIEM which is expected to increase to 50% of sales over the medium thus offers decent room for growth.

Exhibit 7: FIEM’s automotive lighting portfolio



Source: Company, Aриhant Capital Markets

Exhibit 8: Automotive lighting revenue trend



Source: Company, Aриhant Capital Markets

Rear view mirror division | 11% of revenue

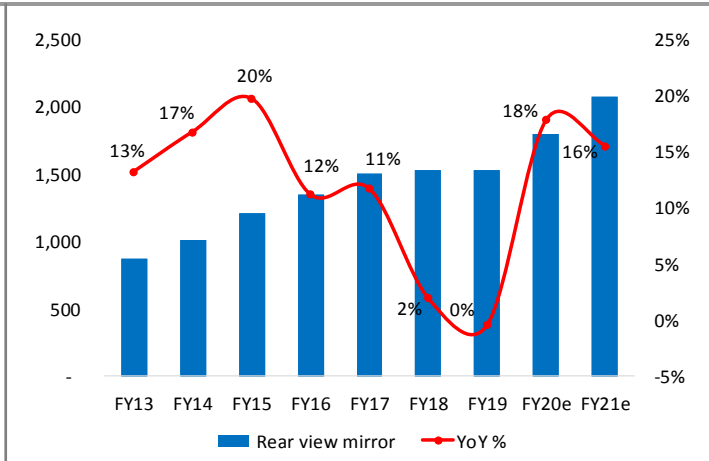
The rear view mirrors are manufactured from its in-house state of art manufacturing facilities including processes like mirror plate making (profile cutting, washing, grinding, convexing), plastic hosting (in-house plastic injection molding), rod making (including machining, bending, welding, powder coating etc.) catering to major OEMs like Honda 2Ws, TVS, Yamaha, Suzuki etc. while the four-wheeler OEMs include Force Motors, Tata Motors, Ashok Leyland etc.

Exhibit 7: FIEM’s rear view mirror products



Source: Company, Aриhant Capital Markets

Exhibit 8: FIEM’s rear view mirror revenue trend



Source: Company, Aриhant Capital Markets

Plastic moulded parts division | 9% of revenue

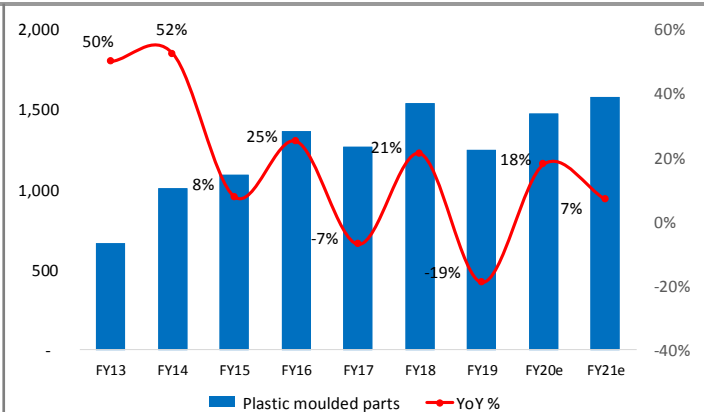
The manufacturing of plastic moulded parts is mainly to provide backward integration for the lighting and rear view mirror division. FIEM has >450 injection moulding machines across all facilities ranging from 5T to 1400T with capacities of upto 2.5kgs. The facilities have fungible capacities to manufacture other plastic products like fender, floor panel, side cover, rear fender, handle bar, seat base etc. The major plastic moulded parts are supplied to OEMs like Honda 2Ws, TVS and Suzuki.

Exhibit 7: FIEM’s plastic moulded parts products



Source: Company, Arihant Capital Markets

Exhibit 8: Plastic moulded parts revenue trend



Source: Company, Arihant Capital Markets

Sheet metal parts division | 6% of revenue

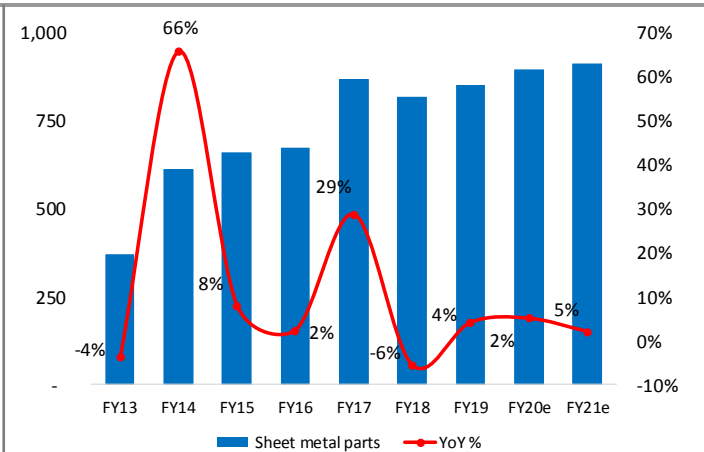
The sheet metal parts division manufactures front and rear mudguards for two-wheelers including mopeds. It has in-house mudguard fabrication facilities including 50 presses including rolling plant, pipe bending, spot welding, projection welding, argon welding, zinc plating etc.

Exhibit 7: FIEM’s Sheet metal parts products



Source: Company, Arihant Capital Markets

Exhibit 8: Sheet metal revenue parts revenue trend

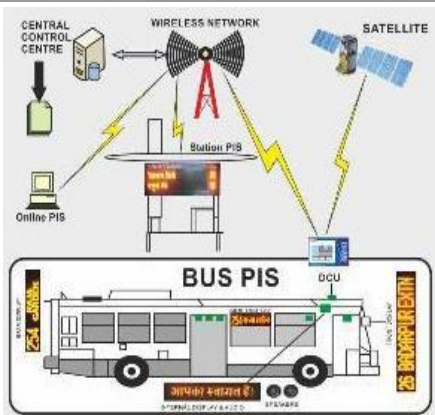


Source: Company, Arihant Capital Markets

Supplies of IPIS to railways and STUs offer meaningful growth opportunity

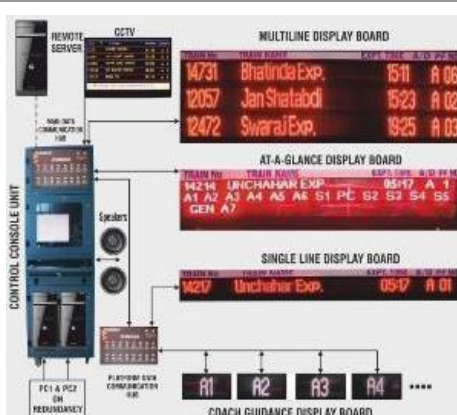
FIEM has received approvals from RDSO (ministry of railways) and a few STUs (State Bus Transport Undertakings) to supply **IPIS (Integrated passenger information system)** to Indian Railways and buses. The products include train indicator, coach guidance etc). The Tapukara unit in Rajasthan caters to manufacturing of IPIS units. Presently, the revenues from IPIS division are <1%.

Exhibit 4: FIEM’s Bus PIS system technology



Source: Company, Arihant Capital Markets

Exhibit 5: LED integrated IPIS system for railways



Source: Company, Arihant Capital Markets

JVs to meaningfully add to PAT from FY21e

Aisan Fiem Automotives JV set to benefit from the BS VI opportunities

FIEM entered into a 26:69:5 JV with Aisan Industry Co Ltd and Toyota Tsusho India Pvt Ltd in 2018 to supply fuel pump modules and IC connector assembly (mandatory for BS VI vehicles to curb pollution levels). FIEM expects the supplies of fuel pumps to Bajaj will commence during the year for which the revenue could be to the tune of Rs 500mn in FY20E. The company expects to full ramp up by FY21E with peak revenue expectations of Rs 2bn over FY21E for the JV. The content per vehicle for this component is ranged between Rs 800-1,000. The supply of canisters to TVS shall commence in H2FY20.

Fiem Kyowa (HK) Mould Company Limited (JV in Hong Kong) is a 50:50 JV with KYOWA Co, Japan to manufacture high class moulds/tools for automotive and other applications.

JV with Toyodenso Co. Ltd. Is a 50:50 JV and shall commence supplies of bank (angle) sensors to Honda 2Ws (expected revenue of Rs 500-600mn in FY21).

Technical collaboration with Aisan Industry Co. Ltd

FIEM has entered a technical license and assistance agreement (TAA) with Aisan Industry Co. Ltd., Japan and Toyota Tsusho Corp, Japan for developing and supplying canisters.

Exhibit 4: Fuel pump module



Exhibit 5: Bank angle sensors

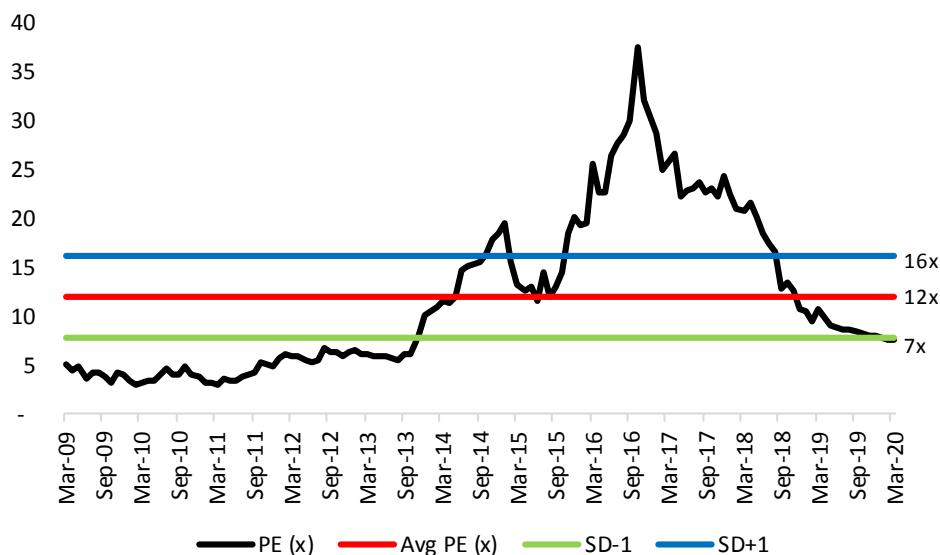


Source: Arihant Capital Markets

FIEM trading at 50% discount to its 10yr avg of 1yr P/E (x)

FIEM's PE valuations have contracted over past couple of years and is currently trading at >50% discount to its 10yr average 1yr forward PE. The decline in PE levels was on account of sharp decrease in LED luminaries' revenues due to irrational pricing and high competitive intensity in the LED bulbs segment thus made the segment unviable. However, the automotive lighting revenues have been on strong upward trajectory and we believe the stock can see strong re-rating over the medium term as it is the major beneficiary of increasing adoption of LED lighting in two-wheelers.

Exhibit 1: FIEM's 10 year PE Band



Source: Company, Arianth Capital Markets

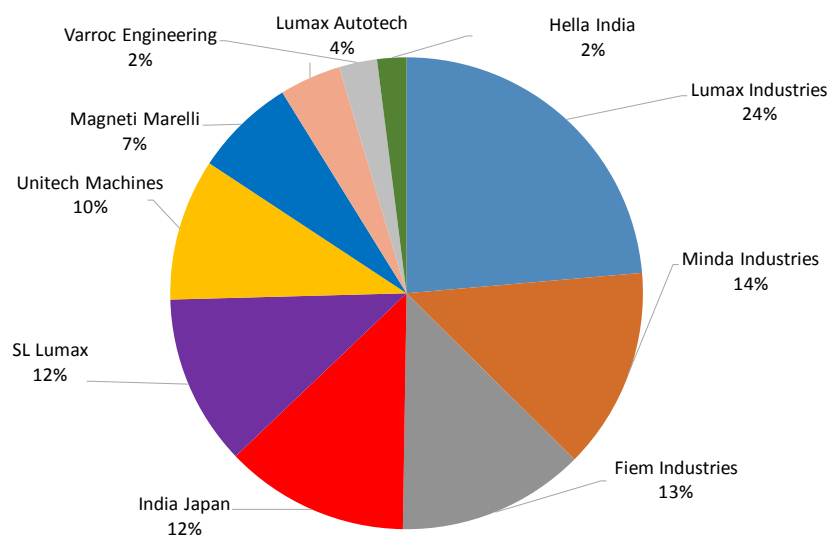
Peer valuations

	CMP	Mcap	EPS (Rs)			PE (x)			EV/EBITDA (x)			RoE (%)		
Domestic valuations	Rs	Rs bn	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Fiem Industries	436	6	42.3	47.4	59.9	10.3	9.2	7.3	4.5	3.4	2.6	12%	12%	14%
Minda Industries	315	78	10.9	14.3	17.8	28.8	22.0	17.7	12.6	10.8	9.2	18%	20%	20%
Lumax industries	1266	13	138.1	116.5	143.2	9.2	10.9	8.8	8.6	6.6	5.5	26%	23%	23%
Varroc Engineering	475	64	33.3	36.6	48.9	14.2	12.9	9.7	7.3	6.1	5.0	13%	14%	16%

Source: Arianth Capital Markets

Automotive lighting industry - On a strong foothold....

Exhibit 4: Domestic automotive lighting industry (FY18)



Source: Yole, Arianth Capital Markets

Automotive lighting industry has thrived on innovations

Automotive lighting technology has seen a notable transformation over last decade where halogen mix has steadily declined on account of shift towards newer lighting technologies such as Xenon and LED. Adaptive front lighting (AFL) is a step forward in advanced lighting technology which have sensors deployed and automatic changes are done suited to the driver. AFL has been adopted by some of the leading OEMs like Mercedes, Audi, BMW, Hyundai etc. Further, new lighting technologies including DMD/digital light projection (DLP), laser based lighting systems, liquid crystal displays (LCDs), and micro-/mini-LEDs are being worked upon by OEMs.

Exhibit 4: Evolution of Automotive lighting



Source: Yole, Arianth Capital Markets

Multiple catalysts underpin the growth in domestic lighting industry

The domestic automotive industry has seen a paradigm shift towards LED lighting on account of multiple catalysts such as 1) Lower penetration levels will lead to faster traction; 2) Implementation of AHO norms to propel demand for LEDs; 3) Premiumization trend driven by demographic upgradation. We believe these catalysts augur well for the automotive lighting industry which has shown resilience despite slowing OEM volumes and shall continue to deliver strong growth over next couple of years.

LED adoption in new models has led to faster growth for lighting industry

The LED lights are known to 1) be energy efficient, 2) emit minimum levels of heat (20% vs 80% in halogen) and 3) have lower penetration levels (35% in PVs, and 15% in 2Ws). These drivers have paved the way for LEDs in the overall lighting mix thus seen fast adoption in newer models.

Features	Halogen	LED
Heat emission	85% of total energy	20% of total energy
Power consumption	~90 Watts	~8 Watts
Lifespan	800 - 1,200 hours	50,000 - 60,000 hours
Average Cost / unit	Rs 200 – Rs 350	Rs 450 – Rs 600
UV Emissions	Minimal	None

Implementation of AHO norms have led to gradual adoption of LEDs in two-wheelers

As per Ministry of road and transport’s notification in March 2017, all two-wheelers are equipped with automatic headlight on (AHO) system from April 2017 in which the two wheelers shall always have their front lights on. This decision was taken to curb pedestrian accidents by easier spotting of the vehicle. Presently, all two wheelers were equipped with the AHO (Automatic Headlamp On) feature and all passenger vehicles are equipped with DRLs. The AHO system were made up of halogen bulbs which resulted in battery drainage and thus the shift was seen towards LED DRLs were inevitable. At present, all new two wheelers come fitted with DRLs.

Exhibit 5: TVS Ntorq and Bajaj Platina come fitted with LED DRL lights



Source: Company, Aриhant Capital Markets

Enhanced lifestyle led to premiumization trend

Moreover, the discretionary spending mix is trending upwards and is expected to rise from 46% in FY2000 to 67% in FY20E. The premiumization trend has led to addition of advanced features in two-wheelers which were part of premium bikes until couple of years back.

Exhibit 7: Trend of growth in urbanization

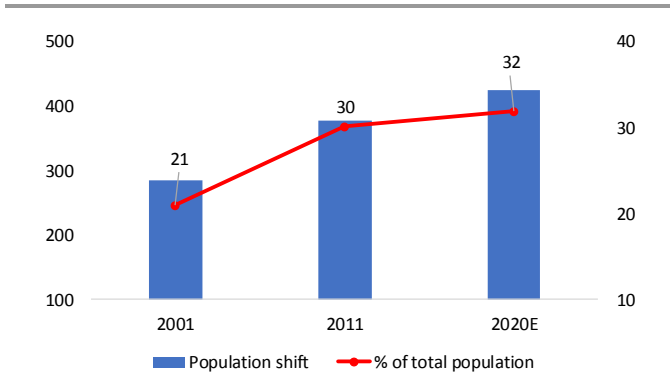
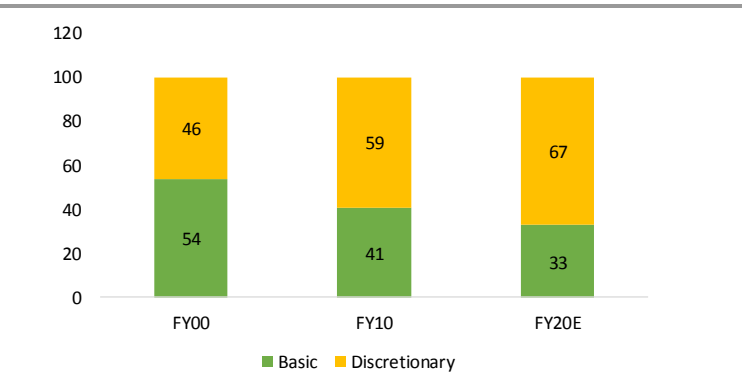







Exhibit 8: Rising share of discretionary spending trend



Source: Eicher Motors, Aриhant Capital Markets

FIEM's diversified product portfolio

Exhibit 6: FIEM has a robust lighting product portfolio which has inclined towards LEDs

				
LED lamp for Honda Activa 5G	LED position lamp for Honda Dio	Headlamp for Yamaha FZ 250	LED tail lamp for Yamaha FZ 250	LED tail lamp for TVS Ntorq

Source; Company, Arihant Capital Markets

LED AUTOMOTIVE LAMPS

Top OEMs



AUTOMOTIVE LAMPS



REAR VIEW MIRRORS



PLASTIC PARTS



Source: Company, Arihant Capital Markets

Company background

Promoted by Mr. J. K. Jain, FIEM Industries (FIEM) has emerged as one of the leading two-wheeler lighting and signaling equipment manufacturers. The major product categories include automotive lighting (headlamp, tailamps, blinkers, DRL), rear view mirrors, plastic components and sheet metal parts etc. FIEM is mainly focused on two-wheeler OEMs with major contribution from Honda 2Ws, TVS, RE, Yamaha and Suzuki. Automotive segment contributes 96% of revenues while the remaining comes from LED luminaries segment. The company has been able to grow at a fast pace on account of increasing LED mix vs the conventional lamps (cost >3x higher) which has driven the overall profitability for FIEM. FIEM operates out of nine manufacturing facilities 3 R&D centres.

Key management personnel

- **Mr. J. K. Jain** is FIEM's chairman and managing director. He has over four decades of experience in manufacturing of automotive lighting and has been instrumental in driving the growth for FIEM.
- **Mrs. Seema Jain** is the director of FIEM and holds a bachelors' degree in Science from the University of Delhi and is actively involved with the functioning of the firm. She overlooks the finance functions of FIEM.
- **Ms. Aanchal Jain** is the director of FIEM and has completed her MBA from Indian Institute of Technology. She is involved in the HR activities of FIEM.
- **Mr. Rahul Jain** serves as the director at FIEM. He has completed his Bachelor of Science and Management studies from University of Bradford. He is actively involved in close interaction with customers and undertakes initiatives pertaining to new projects of different units.
- **Mr. J. S. S. Rao** is the director at FIEM since 2005. He has an overall experience of 30 years in automotive lighting and component manufacturing industry and is involved in operational and business strategic functions of FIEM.
- **Mr. Kashi Ram Yadav** is associated with FIEM since inception and has over three decade experience in production and manufacturing operations of automotive lightings, signaling equipment and rear view mirrors. He is involved with production and manufacturing operations of FIEM.

Source: Company

Key milestones for FIEM

1989	- Incorporated as Rahul Auto Pvt Ltd
1992	- Converted to FIEM Industries Pvt Ltd
1993	- Converted to public ltd company – FIEM Industries Ltd
1994	- Commences production at its plant at Kundli, Sonapat
1996	- FIEM Sung San JV (India) Ltd was established
1998	- FIEM launched the first multi focal reflector in India
2004-05	- Commissioned manufacturing facilities in Hosur (Units 2 and unit 3) and Mysore (Unit 4)
2005-06	- Commissioned manufacturing facilities in Hosur (Unit 5) and Nalagarh (Unit 6)
2006	- FIEM Industries went public – IPO
2007	- Merged FIEM Sung San India Ltd with FIEM Industries and commissioned LED surface mount technology facility in Kundli (Unit 1) and mirror facility including prismatic mirror facility (unit 5) with technical support from Ichikoh Industries, Japan
2010	- Commissioned new facility in Rai (Unit 7) with modernised testing laboratory

- 2011 - Commissioned manufacturing facility in Tapukara (Unit 8) for manufacturing of LED display panels and buses and railways
- 2015 - Started receiving tenders from Energy Efficiency Services for LED bulbs and streetlights
- 2016 - Commissioned manufacturing unit in Ahmedabad (Unit 9) and received NABL accreditation for photometry laboratory
- 2017 - Developed manufacturing of two-wheeler LED headlamps, for Yamaha India. Set up of facility for canisters in collaboration with Asian Industry Co., Japan. Entered JV with Kyowa Co Ltd, Japan to manufacture high-class moulds and tools for automotive applications
- 2018 - Formed JV with Asian Industry and Toyota Tsusho India to set up plants for fuel pump modules and integrated IC connectors for domestic two-wheelers. Further FIEM entered into technical collaboration with Toyo Denso Japan for manufacturing of bank angle sensors.

Source: Company, Aриhant Capital Markets

Managerial remuneration and related party transactions

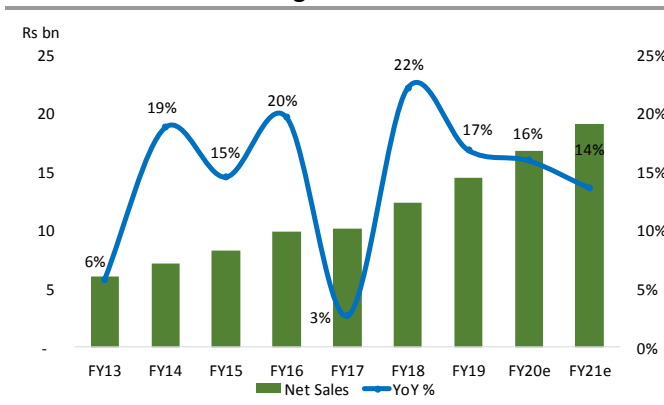
Key managerial personnel	FY16	FY17	FY18
MD remuneration (Rs mn)	24	45	36
% of PAT	5%	9%	6%
Related party transaction	FY16	FY17	FY18
Sales of goods and services	9.5	15.4	6.3
% of total sales	0.1%	0.2%	0.1%
Rent paid	14.2	16.2	16.5
% of total operating expenses	1%	1%	1%
Receivables	8.0	2.0	0.1
% of total operating expenses	1%	0%	0%
Payables	2.1	2.1	2.2
% of total payables	0.1%	0.1%	0.1%
Loans given	2.4	2.3	2.5
% of total loans and advances	2%	1%	1%
Investment in Subsidiaries (Rs mn)			
FIEM Industries Japan Co. Ltd	3	3	5
Investment in JVs			
FIEM Horustech S.R.L.	3	3	3
Fiem Kyowa (HK) Mould Co Ltd	-	-	1

Source: Company, Aриhant Capital Markets

Note: FIEM has invested Rs 260mn in FIEM Aisan JV for a 26% stake and the investment will cater towards manufacturing of fuel pumps and IC connectors. The implementation of the BS VI norms from Apr 2021 will require mandatory installation of fuel pumps and IC connectors in two-wheelers.

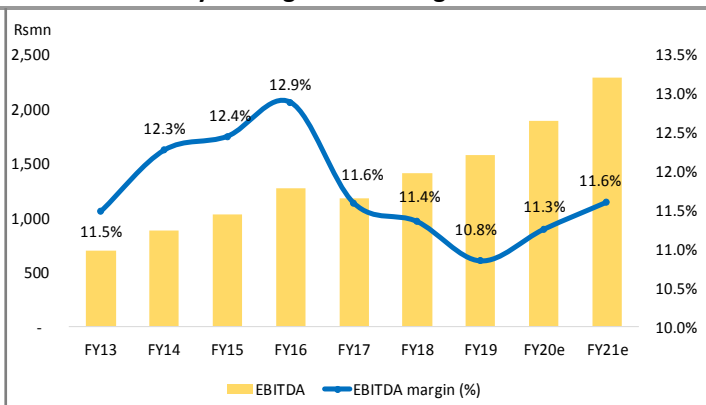
FIEM's story in Charts....

Exhibit 7: FIEM's revenue growth has been robust



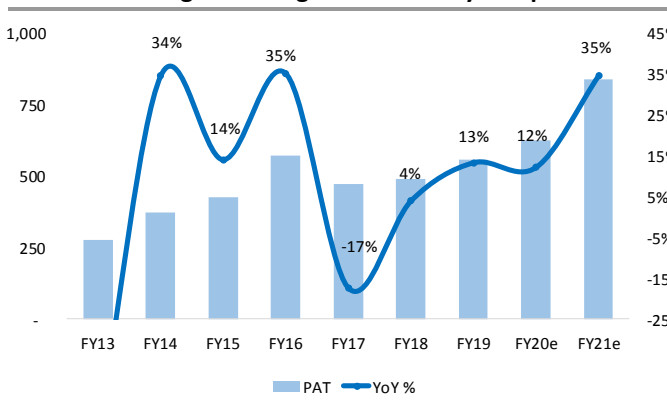
Source: Company, Aриhant Capital Markets

Exhibit 8: Industry leading EBITDA margins



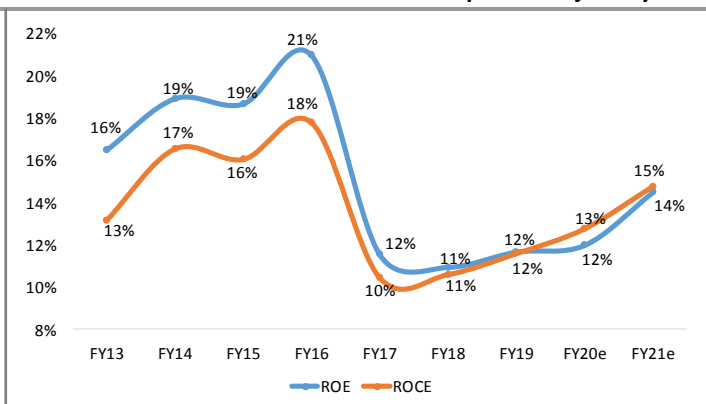
Source: Company, Aриhant Capital Markets

Exhibit 7: Strong revenue growth aided by LED penetration



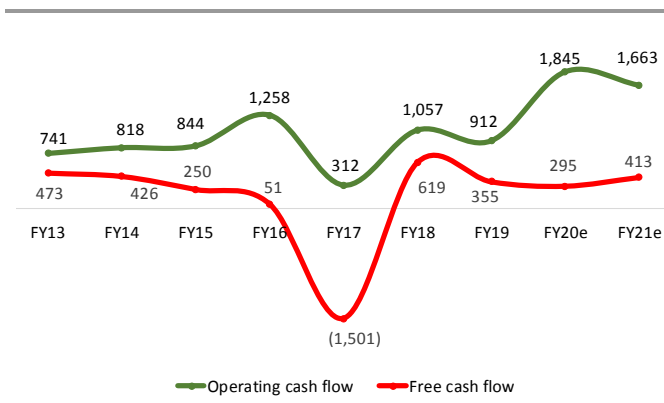
Source: Company, Aриhant Capital Markets

Exhibit 8: FIEM's return ratios are on an upward trajectory



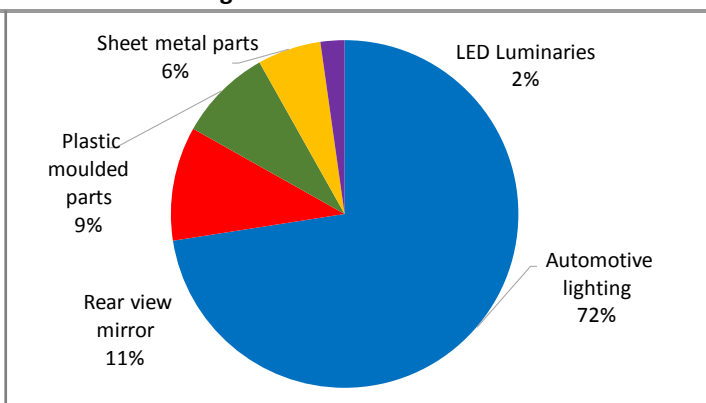
Source: Aриhant Capital Markets, FY17 ROEs lower post the QIP of Rs 1.2bn

Exhibit 7: FIEM's OCF and FCF trend



Source: Company, Aриhant Capital Markets

Exhibit 8: FIEM's segment wise revenue mix



Source: Company, Aриhant Capital Markets

Quarterly Snapshot

Particulars (Rs mn)	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Net Sales	2450	2907	3265	2859	3352	3604	3945	3330	3561
COGS	1448	1746	1982	1624	2038	2252	2522	2024	2183
% yoy	-12%	29%	17%	19%	41%	29%	27%	25%	7%
% of sales	59%	60%	61%	57%	61%	62%	64%	61%	61%
Gross profit	1002	1161	1283	1235	1314	1352	1423	1307	1378
% yoy	-19%	6%	-17%	-1%	3%	-10%	11%	6%	5%
% of sales	41%	40%	39%	43%	39%	38%	36%	39%	39%
Operating & mfg expenses	409	448	425	440	507	494	501	461	493
% yoy	-16%	6%	-7%	17%	27%	10%	18%	5%	-3%
% of sales	17%	15%	13%	15%	15%	14%	13%	14%	14%
Employee Cost	356	405	482	437	442	495	526	476	460
% yoy	0%	13%	21%	27%	24%	22%	9%	9%	4%
% of sales	14.5	13.9	14.8	15.3	13.2	13.7	13.3	14.3	12.9
Total other operating expenses	765	853	908	877	949	990	1026	937	953
% yoy	-9%	9%	6%	22%	26%	16%	13%	7%	0%
% of sales	31%	29%	28%	31%	28%	27%	26%	28%	27%
Total operating expenses	2213	2599	2890	2501	2987	3242	3548	2961	3136
% yoy	-11%	22%	13%	20%	36%	25%	23%	18%	5%
% of sales	90%	89%	89%	87%	89%	90%	90%	89%	88%
EBITDA	237	308	375	358	365	362	396	369	425
% yoy	-40%	-2%	-46%	-32%	-31%	-45%	6%	3%	16%
% of sales	9.7%	10.6%	11.5%	12.5%	10.9%	10.0%	10.1%	11.1%	11.9%
Depreciation	102	107	111	113	112	119	122	125	123
EBIT	136	200	264	245	253	243	274	244	302
% yoy	-56%	-9%	-56%	-43%	-40%	-56%	4%	0%	19%
% of sales	6%	7%	8%	9%	8%	7%	7%	7%	8%
Interest	55	60	59	57	50	54	55	56	55
% yoy	7%	10%	-6%	-3%	-8%	-10%	-7%	-2%	9%
Other Income	21	18	13	6	8	3	2	1	2
Profit before tax	102	158	218	194	211	192	222	189	249
% of sales	4%	5%	7%	7%	6%	5%	6%	6%	7%
Total tax	-22	55	74	68	92	65	74	63	94
% yoy	-137%	8%	17%	107%	-522%	19%	-1%	-8%	2%
Effective tax rate	-22%	35%	34%	35%	44%	34%	33%	33%	38%
Adjusted profit after tax	124	103	143	126	119	126	148	126	155
% of sales	5%	4%	4%	4%	4%	4%	4%	4%	4%
Adjusted EPS	9	8	11	10	9	10	11	10	12

Source: Arianth Capital Markets

Profit & Loss Statement

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	10,146	12,397	14,490	16,805	19,094
Growth, %	2.7%	22.2%	16.9%	16.0%	13.6%
RM expenses	5,875	7,377	9,006	10,049	11,361
Employee expenses	1,459	1,771	1,965	2,319	2,673
Other expenses	1,636	1,842	1,948	2,546	2,845
EBITDA	1,176	1,407	1,572	1,891	2,215
Growth, %	-7.6%	19.7%	11.7%	20.3%	17.2%
Margin, %	11.6%	11.4%	10.8%	11.3%	11.6%
Depreciation	392	443	489	639	668
EBIT	784	964	1,082	1,252	1,547
Growth, %	-16.8%	23.0%	12.3%	15.7%	23.5%
Margin, %	7.7%	7.8%	7.5%	7.5%	8.1%
Interest paid	232	227	221	243	255
Other Income	48	45	9	9	10
Non-recurring Items	(142)	34	0	0	0
Pre-tax profit	457	816	870	1,018	1,301
Tax provided	126	290	304	401	531
Profit after tax	331	526	566	617	771
Others (Minorities, Associates)	-0.02	-0.42	-9.911	7	18
Net Profit	331	526	556	624	789
Growth, %	-17.5%	3.9%	13.2%	12.1%	26.4%
Net Profit (adjusted)	473	492	556	624	789

Source: Company, Arianth Capital Markets

Cash Flow

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Pre-tax profit	599	782	870	1,018	1,301
Depreciation	392	443	489	639	668
Others	-125	236	58	405	293
Chg in working capital	-342	-79	-201	184	-108
Total tax paid	-98	-209	-304	-401	-531
CFO	427	1,173	912	1,845	1,624
Capital expenditure	-950	-1,106	-500	-750	-500
Chg in investments	-864	667	-57	-800	-750
CFI	-1,813	-438	-557	-1,550	-1,250
Free cash flow	-1,386	735	355	295	374
Debt raised/(repaid)	745	-601	79	131	93
Dividend (incl. tax)	-115	-115	-190	-188	-237
CFF	1,919	-601	79	131	93
Net chg in cash	533	134	433	426	468
Opening cash balance	231	22	45	40	15
Closing cash balance	230	22	44	40	15

Source: Company, Arianth Capital Markets

Balance Sheet

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Cash & bank	231	22	45	40	15
Debtors	1,194	1,443	1,468	1,867	2,122
Inventory	1,024	1,403	1,472	1,535	1,736
Loans & advances	494	391	280	322	380
Other current assets	17	290	211	211	211
Total current assets	2,961	3,549	3,476	3,975	4,463
Investments	864	197	254	1,054	1,804
Gross fixed assets	6,947	8,040	8,670	9,420	9,920
Less: Depreciation	2,155	2,502	2,991	3,630	4,298
Add: Capital WIP	56	69	79	148	241
Net fixed assets	4,870	5,608	5,899	5,945	5,873
Total assets	8,695	9,354	9,628	10,974	12,139
Current liabilities	2,983	3,464	3,321	4,032	4,457
Provisions	38	36	19	86	161
Total current liabilities	3,021	3,500	3,340	4,118	4,618
Non-current liabilities	1,572	1,361	1,516	1,649	1,763
Total liabilities	4,593	4,860	4,857	5,767	6,380
Paid-up capital	132	132	132	132	132
Reserves & surplus	3,970	4,362	4,640	5,076	5,627
Shareholders' equity	4,101	4,493	4,771	5,208	5,759
Total equity & liabilities	8,695	9,354	9,628	10,974	12,139

Source: Company, Arianth Capital Markets

Ratios

YE: Mar	FY17	FY18	FY19	FY20E	FY21E
EPS (INR)	36	37	42	47	60
EPS (INR)	36	37	42	47	60
PER (x)	12.1	11.7	10.3	9.2	7.3
Price/Book (x)	1.4	1.3	1.2	1.1	1.0
EV/EBITDA (x)	5.5	4.8	4.5	3.4	2.6
EV/Net sales (x)	0.6	0.5	0.5	0.4	0.3
RoE (%)	12%	11%	12%	12%	14%
RoCE (%)	10%	11%	12%	13%	14%
Fixed Asset turnover (x)	1.5	1.5	1.7	1.8	1.9
Dividend Yield (%)	2%	2%	3%	3%	3%
Receivable (days)	42	38	36	40	40
Inventory (days)	52	59	57	55	55
Payable (days)	92	90	82	90	90
Revenue Growth (%)	3%	22%	17%	16%	14%
EBITDA Growth (%)	-8%	20%	12%	20%	17%
EPS Growth, %	-25%	4%	13%	12%	26%
Net D/E ratio (x)	0.2	0.2	0.3	0.1	(0.0)

Source: Company, Arianth Capital Markets

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Stock Rating Scale**Stock Rating Scale**

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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