

CMP: Rs 384

Rating: BUY

Target: Rs 539

(NR-Not Rated)

Stock Info

INDEX	
BSE	532768
NSE	FIEMIND
Bloomberg	FIEM IN
Reuters	FIIN.NS
Sector	Auto Component
Face Value (Rs)	10
Equity Capital (Rs mn)	132
Mkt Cap (Rs bn)	5
52w H/L (Rs)	775 / 352
Avg Weekly Vol (BSE+NSE)	5K

Shareholding Pattern

	%
(As on March, 2019)	
Promoters	66.5
Public & Others	33.5

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
FIEM	-12.1	-12.5	-48.9
SENSEX	-0.0	4.0	-1.4

Source: ACE Equity, Arihant Research

FIEM IND v/s SENSEX



Source: ACE Equity, Arihant Research

Q1FY20 Result Highlights

Fiem Industries (FIEM) reported strong operating performance in an extremely challenging environment as net sales stood at Rs 3.6bn (-0.8% YoY / +0.7% QoQ) vs our est of Rs 3.4bn led by superior LED mix (higher realizations) in the overall lighting portfolio and improvement in the replacement market mix. EBITDA stood at Rs 398mn (+10.1% YoY) which beat our est on account of strong cost efficiencies (other expenses down 6% YoY) and stable raw material costs (-0.8% YoY). Adj PAT stood at Rs 134mn (+6.8% YoY) which beat our est of Rs 124mn. The out-performance vs 2W OEMs (down 11.6% YoY in Q1) is a commendable feat and is mainly on account of increasing content per vehicle led by increase in LED lighting penetration and new order wins from Yamaha and Suzuki. In Q1, the LED Lighting mix stood at 27.5% (vs 24.5% in FY19) of the overall mix which we expect to improve sharply over next few quarters on account of adoption of premiumization and regulatory tailwinds. We believe, FIEM will largely benefit from the improvement in the 2W demand post the inventory rationalization by the OEMs in the near term.

Concall highlights

- The management remains cautious on the near term **demand outlook** on account of price escalation led by regulatory changes, weak macro sentiments, tightening of liquidity etc. However, meaningful demand recovery to come in from FY21 onwards.
- In Q1, **industry out-performance** was driven by better product and client mix led by diversified lighting products. The decline in revenues from HMSI was largely offset by strong revenues from Yamaha and Suzuki.
- **FIEM's share of business – Yamaha** (headlamp – 91%, taillamp – 82%, blinker lamp – 27%, RVM – 36%), **Suzuki** (headlamp – 100%, taillamp – 87%, side indicator – 25%, RVM – 100%), **TVS** (headlamp – 71%, taillamp – 77%, side indicator lamp – 78%, RVM – 47%), **HMSI** (headlamp – 40%, blinker lamp – 85%, taillamp – 80%, RVM – 100%). New customer addition was Kawasaki.
- **Margin outlook:** EBITDA margin of 11% was achieved on account of strong stringent cost controls (staff and other costs). The management adopted a cautious approach towards spending in the current scenario. Further, FIEM's **working capital cycle** broadly remains insulated from the current slowdown.
- **EV outlook** – The company is working towards EV lighting products and is in talks with Okinawa, Tork Motors and 22 motors.
- The company plans to incur a **capex** of Rs 400mn (including Rs 190mn capex in Q1FY20).
- The **Aisan JV** to meaningfully add to bottom-line from FY21 onwards. The supply of bank angle sensors to see revenues of Rs 500-600mn and canisters to see revenues of Rs 150-200mn in FY20.

Outlook: Compelling valuations offer a strong entry point; maintain BUY

FIEM is a preferred supplier amongst 2W 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. At CMP of Rs 384, FIEM trades at a P/E of 8.1x/6.4x 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 a PE of 9x FY21e (vs 10x earlier) for a target price of Rs 539 (vs Rs 599 earlier) with an upside of 40%.

Quarterly result summary

Consolidated (Rs Mn)	Q1FY20	Q1FY19	Q4FY19	% YoY	% QoQ
Net Sales	3,568	3,596	3,544	-0.8%	0.7%
Other operating income	35	19	38	88.7%	-6.2%
Net Sales	3,604	3,615	3,582	-0.3%	0.6%
Cost of material consumed	2,267	2,285	2,134	-0.8%	6.2%
Purchases of stock-in-trade	18	28	30	-34.9%	-38.6%
Changes in inventories	(39)	(52)	26	-24.9%	-246.9%
Raw Material	2,246	2,262	2,191	-0.7%	2.5%
Staff Cost	494	496	465	-0.4%	6.3%
Other expenses	465	495	490	-6.0%	-5.1%
Total expenses	3,205	3,253	3,146	-1.5%	1.9%
EBITDA	398	362	436	10.1%	-8.7%
Depreciation	129	119	123	8.2%	5.1%
EBIT	269	242	313	11.0%	-14.1%
Interest	54	54	55	-0.9%	-2.5%
Other Income	2	3	2	-29.4%	21.8%
PBT	218	191	260	13.7%	-16.4%
Current Tax	74	65	99	13.4%	-24.9%
Tax	74	65	99	13.4%	-24.9%
PAT	143	126	161	13.9%	-11.2%
Share / loss of JVs	(9)	(0)	(7)	NA	31.6%
Consolidated PAT	134	126	155	6.8%	-13.1%
EPS	10.21	9.56	11.75	6.8%	-13.1%
Margins	Q1FY20	Q1FY19	Q4FY19	% YoY	% QoQ
Gross margins	37.7%	37.4%	38.8%	24	-118
EBITDA	11.0%	10.0%	12.2%	104	-113
PAT	4.0%	3.5%	4.5%	50	-53
Tax Rate	34.1%	34.2%	37.9%	-11	-386

Source: Company, Arianth Capital Markets

continued...

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)	-0.0	-0.4	-9.9	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, Aриhant 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, Aриhant 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, Aриhant Capital Markets

Ratios

YE: Mar	FY17	FY18	FY19	FY20E	FY21E
EPS (INR)	36	37	42	47	60
PER (x)	10.1	10.3	9.1	8.1	6.4
Price/Book (x)	1.2	1.1	1.1	1.0	0.9
EV/EBITDA (x)	4.9	4.3	4.0	3.0	2.3
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, Aриhant Capital Markets

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park ,
 Building No. 10, 1st Floor,
 Andheri Ghatkopar Link Road
 Chakala, Andheri (E).
 Mumbai – 400093
 Tel: (91-22) 42254800
 Fax: (91-22) 42254880

Registered Office

Arihant House
 E-5 RatlamKothi
 Indore - 452003, (M.P.)
 Tel: (91-731) 3016100
 Fax: (91-731) 3016199

Stock Rating Scale**Absolute Return**

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

Research**Analyst****Contact****Website****Email Id****Registration No.**

INH000002764

SMS: 'Arihant' to 56677

www.arihantcapital.comresearch@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
 Andheri Ghatkopar Link Road Chakala, Andheri (E)
 Tel. 022-42254800 Fax. 022-42254880