



*Date – August 29, 2016*

## FIEM INDUSTRIES *Lighting India...*

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**Mcap – 1200cr**

**CMP – 1000/-**

**P/E – 20 times (of FY15 earnings)**

**Sector – Auto Ancillary**

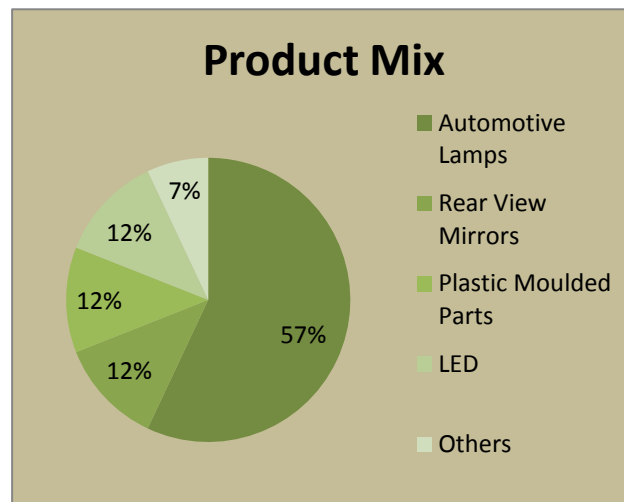
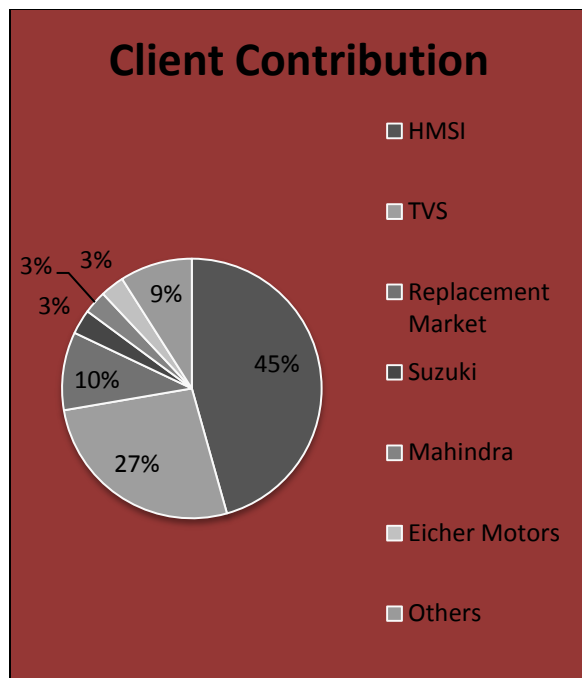
**Rating – Buy**

### **Company Background**

FIEM is one of the leading manufacturers of automotive lighting and signaling equipments and rear view mirrors in India. Its major business comes from the 2-wheeler segment of the vehicle industry. After strengthening its position in the automotive lighting segment, FIEM decided to go for diversification into LED luminaries for indoor and outdoor application and LED IPIS (Integrated Passenger Information System). It has also signed certain MOUs with global players to take the company to the next phase of growth.

FIEM is promoted by Mr. J K Jain, Chairman and Managing Director, who is a first generation entrepreneur. He has a rich experience of 42 years in automotive components industry. FIEM Industries Ltd was incorporated on February 6 1989 as private limited company with the name Rahul Auto Pvt Ltd. The company set up a unit at Kundli Sonapat in Haryana for carrying on the business of manufacturing rear view mirrors for two three and four wheelers. On May 7 1992 the name of the company was changed from Rahul Auto Pvt Ltd to FIEM Industries Pvt Ltd. In November 30 1993 the company was converted into a public limited company and the name was changed to FIEM Industries Ltd. The company came out with the public issue of 4100001 equity shares and the equity shares were listed on the Bombay Stock Exchange and National Stock Exchange with effect from October 19 2006. Today company has 9 plants strategically located close to their OEMs all over India. Company enjoys a decade old relationships with some of its prime customers like Honda Motor and Scooters India Pvt. Ltd., TVS, Yamaha, Suzuki, etc. It is worth noting that FIEM gets 45% and 25% of its sales in Automotive lighting segment from Honda and TVS respectively, but Honda and TVS both source 75% of all its lighting requirements from FIEM.

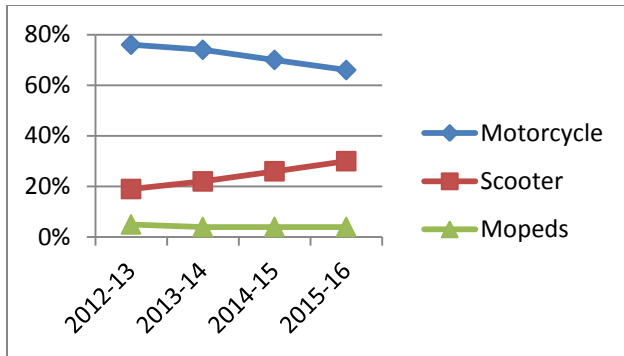
FIEM's top level management also includes Mrs. Seema Jain (wife of Mr. J K Jain), Mr. Rahul Jain (son of Mr. J K Jain), Ms. Anchal Jain (daughter of Mr. J K Jain). Mr. J K Jain and Mrs. Seema Jain looks after the overall growth of the company and takes all the strategic decisions. Mr. Rahul Jain takes care of the business operations and client relationships. Ms. Anchal Jain (MBA in HR) takes care of the HR activities of the company. Promoters have 69.95% stake in the company. Apart from the family members, company also has professionals in its core team having 30-40 years of experience in the automobile sector. Company hired Mr. Piyush Gahalaut last year as the head of LED venture. Mr. Piyush has 21 years of experience in the lighting industry and has served as Vice President at Surya Roshni Ltd. FIEM's core team has been quiet stable for years and displays a good combination of ownership mindset and professional mindset.



## Industry Analysis

- **Automobile Lighting & Signaling Equipment Segment**

Company caters to the scooter segment within the 2 wheeler segment of Indian Automobile industry. The scooter segment has been growing in double digits since last couple of years, mainly because of wide acceptance of scooters among customers and general shift from motorcycles to scooters because of comfort (gearless), increased mileage (close to 50 kmpl) and being unisex (can be used by all the family members). Burgeoning middle class and growing women independence are some of the other major factors behind such impressive growth in scooter sales in India. Inflation, Interest rates and GDP growth are other secondary factors affecting the growth of the 2 wheeler industry. However, 2 wheeler is a more of a necessity rather than a luxury, which diminishes the cyclical effects on the industry. This can be witnessed during the years of crisis like 2008, when the scooter sales were still in low double digits. Increasing rural income, more and more women independence, burgeoning middle class, increase in the number of earning members in a family, launch of CNG scooters (already launched by Honda, approved by Govt., under testing currently) with 80 Kmpl mileage will all drive the double digit growth of the scooter segment. FIEM has developed LED lighting for 2 wheelers (through its R&D) which is well accepted by its prime customers and the technology is expected to be soon out in the market. The Indian automobile lighting segment is an oligopoly with only 3 major players – FIEM, Minda and Lumax. The rest of the industry is fragmented with 1000s of small players. The recent trend in this industry has been consolidation of sourcing requirements to few big players to maintain the quality of the product and to enable quick technology up gradation. FIEM has 3 R&D centres – India, Italy (under JV) and Japan. The R&D centre in India has been approved by the Govt. of India. The quick changes in technology in the lighting industry has forced the automobile players to consolidate their sourcing requirements to the big players like FIEM because of their technology edge over small players. Apart from this, client relationship is the most important strength in this industry. FIEM has been trying to enter into the 4 wheeler markets since a decade but has failed consistently. Similar way, FIEM enjoys strong grip in the scooter market with decade old relations with HMSI and TVS. Satisfying your customer with quality products and delivering the same in timely manner gives a virtual moat to the business.



- **LED luminaries and IPIS Segment**

Government's focus on energy efficiency to deal with the power deficit issue faced by India since decades, throws a huge opportunity to serious players like FIEM. EESL (a JV between all power sector PSUs) is formed to drive the energy efficiency campaign. LED is the technology of today and FIEM has the right kind of products to offer. Prime Minister Shri Narendra Modi inaugurated the DELP scheme in January 2015, to be executed across 100 cities. Through this scheme, residential consumers are provided with high quality LED bulbs given at a concessional rate of Rs.100-105 as against the market price of Rs 350 to 450. The target of the DELP is to replace all the 77 crore incandescent bulbs sold in India by LEDs. This will result in reduction of 20,000 MW load, energy savings of 100 billion KWh and Green House Gas (GHG) emissions savings of 80 million tons every year. The annual saving in electricity bills of consumers will be Rs. 40,000 crore, considering average tariff of Rs. 4 per kWh. Further these LED bulbs will be provided on EMI basis which will further lead to the wider acceptance of the product. Apart from the LED bulbs, government also aims to convert all the 3.5 crore street lights in India with LED lights. The shape of the lighting industry is completely changed now. The major players like Philips do not have the advantage now. Government is the sole customer and the player who offers quality products at low cost wins the market share. Apart from this, there is a huge corporate and retail market for LED products where there is no government intervention. Government has announced modernization of Indian railways in its last budget which throws a huge opportunity for company like FIEM. Apart from railways; buses, metros, airports also use IPIS.



## **Growth Plans**

- FIEM has set up its 9<sup>th</sup> unit in Ahmedabad, Gujarat, close to its prime customer HMSI to cater to the sourcing needs of its new plant in Gujarat. As per the estimates given by HMSI, company expects a revenue of 150 cr for the first year and 200 cr for the next year. Plant has commenced its operations from January 2016. Total capex done in this plant as on 30<sup>th</sup> June, 2016 is 60 cr. Honda is soon expected to launch its CNG version of 2 wheelers in India, first of its kind in the country which should boost its sales in coming years. The CNG version is expected to give 80 KMPL mileage beating the motorcycle sector in India. HMSI is virtually the leader in every country it operates in, except China. In Brazil, it has dominant share of 80%, Thailand 78%, Vietnam 68% and Indonesia 61%. HMSI will continue to eye sizable share in India. Aggression of HMSI has already started to play out reflected from the fact that its market share has inched up to 22% in FY15 from 8% in FY07. This all should help FIEM grow at 15-18% CAGR for next 2-3 years. The Automobile lighting segment has 12% + EBITDA margins.

- FIEM is aggressively expanding its LED capacities with an aim to become a dominant player in the industry. It has made an investment of 86 cr at Tapukara plant, Rajasthan. It plans to increase its LED bulb capacity from 60000 bulbs per day to 4 lac bulbs per day and street light capacity from 500 street lights per day to 1000 street lights per day. Till today, EESL has successfully distributed 15cr LED bulbs in India through DELP scheme. Out of this FIEM has supplied 1.22cr LED bulbs through EESL tenders which gives FIEM 7.5-9% market share. EESL has floated tenders for conversion of 15-16 lac street lights till today out of which FIEM has successfully got the tender for 1.1 lac street lights which is again a 10-11% market share. Apart from this, FIEM has also expanded its capacities for down lights and is aggressively focusing on catering the corporate and retail market through brand building and marketing. It already has provided LED solutions to corporate clients like Bikanerwala, Hyatt, Mothersonsumi, etc. The LED segment has 15% EBITDA margins. FIEM is the only company in India that manufactures all the LED components in house including the most important part – LED driver (except LED chips which are procured). This gives FIEM a competitive edge over other players.
- FIEM has entered into 4 MOUs to drive the company to the next phase of growth –
  1. MOU with Honda Locks, Japan and Toyota, Japan – Company plans to enter in a JV to manufacture key sets (for both 2 and 4 wheelers), car handles and car mirrors.
  2. MOU with Kyowa, Japan – Company plans to enter in a JV to set up a sophisticated facility with ultra modern infrastructure for development of Mold/Tooling to cater to the Indian market. This will reduce the company's dependency on foreign mold manufacturers and enhance the confidence of clients in the company's products.
  3. MOU with Asian company, Japan – Company plans to enter in a JV for joint working to explore and gain the business of canister for Indian 2 wheeler markets. This business has huge potential because of the new emission norms – Bharat 6.
  4. MOU with Yamato Industrial Co. Ltd., Japan for manufacturing automotive parts, including Control Cables, Pipes, Resin Dies, Throttle Wires, Sensors & Switches

## **Risks**

- FIEM had entered into 2 MOUs in past – one with Ichikoh, Japan and the other with ZADI corporation. FIEM had plans to enter into a JV with Ichikoh to gain technical support to manufacture lighting equipments for the 4 wheeler market in India and 2 wheeler markets outside India. The JV must have failed since FIEM till today earns only 4% of its total revenues from 4 wheeler market. There had been no mention of the failure by the company in its Annual reports or in media interviews. FIEM had plans to manufacture pedal systems with ZADI, but that also failed. So, the MOUs declared by FIEM today need to be taken with a pinch of salt. However, company has recently taken shareholders approval to make a QIP. This can be taken as a hint of one of the MOUs fructifying since company has already made all the capex needed for the LED business and the new facility in Gujarat. It plans to raise 120 cr through QIP, and with a debt equity ratio of 0.5 company is planning to do a capex of another 180 cr.
- Honda Activa is already a successful model and due to the entrance of new players like Mahindra (gusto) and others, it seems Honda is losing its market share. This can be the reason why FIEM grew at lower than the scooter segment growth last year. But, HMSI plans to introduce 9 new 2 wheelers in its portfolio. Now with the capacity coming up in Ahmedabad, new models introduction and CNG version coming in the market, future looks great for both Honda and FIEM.
- FIEM is a new player in the lighting business and will have to compete with big players like Philips and Syska already having their brand developed. The way FIEM is planning to expand its capacities in LED to cater to the corporate and retail market seems they are very confident in their next phase of growth. The retail LED market is crowded with lot of players including some new players like Eveready. One needs to see how FIEM enters the B2C market.
- Mass transport systems like BRTS busses and metros can be a big risk for the 2 wheeler industry. New age transportation facilities like Ola and Uber can also be a huge issue for the industry's growth. However, if we see a man's personal growth over years; he gradually shifts from a bicycle to a mass transport system to a 2 wheeler, and then to a 4 wheeler (low end car like Maruti Alto) and then to a high end car like Honda City or BMW. Human needs

are ever growing and infinite and this gradual shift has to happen over the years and India has a huge chunk of population living in rural India.

### Financials

Particulars	Value
Receivable Days	33 days
Inventory Days	34 days
Payable Days	60 days
Cash Conversion Cycle	7 days
Debtors to Sales Ratio (FY 15)	9.60%
Debtors to Sales Ratio (FY 14)	9.69%
Bad Debt written off to Sales Ratio	0.02%
Cash Discount on Sales to Sales Ratio	0.16%

Particulars	Value
Debt to Equity Ratio	0.51 times
Interest Coverage Ratio	6.03 times
ROE	20%
EBIDA (after tax) to CFO Ratio	1.034 times
Fixed Asset Turnover Ratio (for Automobile Lighting business)	2.5 times
Fixed Asset Turnover Ratio (for LED business)	5 times
EBITDA Margins in Automobile Lighting Business	12.50%
EBITDA Margins in LED Business	15%

### Valuations

Particulars	Value
EPS (FY16)	47.42 Rs per share
Dividend Payout Ratio	20%
10 year Sales growth	23%
5 year Sales growth	22.90%
TTM Sales growth	21.13%

Particulars	Value
Top line (FY 16)	1028 cr.
Promoter Holding	69.96%
10 year Profit growth	21.78%
5 year Profit growth	31.50%
TTM Profit growth	35.29%

Historically the stock has traded in a PE band of 8 and 24. It was trading at a PE of 8 times during 2008 when the interest rates were high, inflation was in double digits and the economy was in a recession. The stock was trading at a PE of 24 when the economy was in upswing and inflation and interest rates were in single digits and decreasing respectively. The stock is fairly valued at these levels (PE of 20). The stock trades at 12x of FY18 earnings (assuming 25% growth in bottom line for next 2 years). FIEM is a rare combination of a good business in the hands of efficient management with huge growth potential, available at fair valuations. **A good long term buy.**