**FIEM** *-making cars look beautiful…*

**Company Snapshot –**

FIEM is one of the leading manufacturers of Automotive Lighting & Signalling Equipments and Rear View Mirrors in India. FIEM is among first companies in India introducing LED lights in two wheelers. FIEM has diversified its product portfolio by entering into LED luminaires for Indoor and Outdoor applications and Integrated Passenger Information System for Railways & Buses.

**Products -**

**Raw Material –**

**FIEM has backward integrated facilities for almost all its operations. For instance it manufactures drivers which is the main input in a LED bulb – which no company in India manufactures. Even in case of IPIs and auto lamps, FIEM sources raw materials like plastics, glass, etc. and manufactures from end to end which yields 2-3% additional margins for their stakeholders. Company enjoys the fall in crude prices currently and has good bargaining power with the suppliers.**

**Valuations –**

|  |  |  |  |
| --- | --- | --- | --- |
| **Sr.No.** | **Particulars** | **Value** | **Remarks** |
|   |  |  |   |
| 1 | M.Cap. | 917.87 | **YES** |
| 2 | Debt-Equity Ratio | 0.55 | **YES** |
| 3 | TTM EPS  | 35.52 |  |
| 4 | TTM P/E  | 21.56 | **YES** |
| 5 | Equity Capital | 11.96 |  |
| 6 | Dividend Yield | 0.91 | **YES** |
| 7 | TTM Price/Sales  | 0.876571429 | **Good** |
| 8 | ROE | 21.35% | **YES** |
| 9 | ROCE | 22.32% | **YES** |
| 10 | OPM last year | 12.45% |  |
| 11 | TTM OPM | 12.45% | **Good** |
| 12 | NPM last year | 5.15% |  |
| 13 | TTM NPM | 5.12% | **Good** |
| 14 | 3 years Cash flows | 230.00 |  |
| 15 | Operating Cash Flow last year | 82.10 | **YES** |
| 16 | 3 years Sales growth | 15.54% | **YES** |
| 17 | TTM Sales growth | 14.57% | **Good** |
| 18 | 3 years profit growth | 26% | **Good** |
| 19 | TTM Profit Growth | 14% | **Bad** |
| 20 | Interest Coverage Ratio | 6.05 | **Good** |
| 21 | Debtors/Sales Ratio last year | 11% | **Good** |
| 22 | Debtors/Sales Ratio preceding year | 11% | **Good** |
| 23 | EBIDA/OCF | 1.0348 | **Good** |
| 24 | Other Current Assets/Sales Ratio | 0% | **Good** |
| 25 | Asset turnover ratio | 2.76 | **Good** |
| 26 | Financial Leverage | 1.35 |  |
| 27 | TTM Promoter Stake | 69.96% | **YES** |

**Financials –**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **(in Cr.)** | **2015** | **2014** | **2013** | **2012** | **2011** |
| **Income Statement** |
| Revenue | 824.77 | 718.42 | 602.22 | 533.54 | 421.04 |  |
| Other Income | 0.90 | 0.67 | 0.35 | 0.30 | 0.26 |  |
| Total Income | 825.67 | 719.08 | 602.57 | 533.84 | 421.30 |  |
| Expenditure | -722.34 | -629.94 | -532.35 | -465.89 | -383.04 |  |
| Interest | -12.04 | -14.44 | -12.93 | -20.76 | -9.50 |  |
| PBDT | 91.29 | 74.70 | 57.29 | 47.20 | 28.76 |  |
| Depreciation | -30.63 | -21.79 | -18.35 | -16.88 | -12.98 |  |
| PBT | 60.66 | 52.92 | 38.94 | 30.32 | 15.78 |  |
| Tax | -18.40 | -15.52 | -11.63 | -9.17 | -4.35 |  |
| Net Profit | 42.26 | 37.40 | 27.31 | 21.15 | 11.43 |  |
| Equity | 11.96 | 11.96 | 11.96 | 11.96 | 11.96 |  |
| EPS | 35.33 | 31.27 | 22.83 | 17.68 | 9.55 |  |
| CEPS | 60.94 | 49.48 | 38.17 | 31.79 | 20.40 |  |
| OPM % | 12.53 | 12.41 | 11.66 | 12.74 | 9.09 |  |
| NPM % | 5.12 | 5.21 | 4.54 | 3.96 | 2.71 |  |

**Trigers/Expansion –**

* Gujarat plant commenced this year at a capex of 60 crores. Expected revenue for the first year is 150 crores and for the second year is 200 crores – operating at an asset turnover ratio of more than 2.5 (2nd quarter transcript).
* MOU signed with Japan conglomerate of Honda and Toyota to manufacture car handles, mirrors and lock sets. JV to be very soon entered into by end of the financial year 2016. (concall transcript).
* Bharat V brings new regulations of using canister to protect evaporation of fuel due to high temperature. FIEM has signed MOU with Asian Japan (well known for canister technology). All the new models launched after April 2016 have to be canister protected and all the old models from April 2017.
* Entered into MOU with Yamota Japan for manufacturing wires, switches, etc.
* LED capacities to be increased from mere 60000bulbs a day to 2lacs in a year and 4lacs by next year. Same expansion in public street lights capacities.
* Got order worth 50 crores approved from the Railway development ministry (IPIS).
* FIEM planning to enter in the retail market by next year in the LED business.

**Risks** **–**

* Lot of competition in the LED business – players like Philips, eveready, Syska, etc. have good brand names.
* Auto sector de-growth can affect.

**Moat** **–**

* 45% of sales is to Honda – Honda has a wonderful history of being market leaders in all of its markets. Almost 70-75% of Honda’s LED/lamp requirement is provided by FIEM. This proves the quality and image of the company.
* FIEM manufactures all the raw materials in its facilities. It is the only company in India manufacturing drivers (used in LED). This gives the company benefit of being a low cost producer. Lumax has OPM of 7-8% where as FIEM has of 12%+.
* It has 3 dedicated R&D centres –

1). Japan.

2). Italy.

3). India.

Company was the first one to introduce LED lamps in 2 wheelers in India. It has innovated a couple of things this year which it expects to market the next year.

**Conclusion –**

Company has an excellent management running the business consistently over decades. Company is run by a perfect combination of promoter and professional management. With big triggers lying on road and excellent execution over years, we feel the stock to be much undervalued at a PE of 20-22.