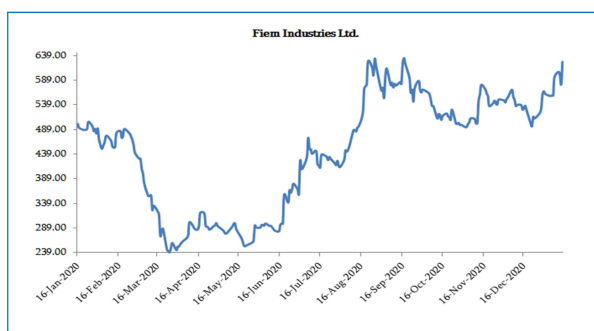


FIEM Industries Ltd. (FIEM)	
Industry	Auto Ancillary
No. of Shares (Crore)	1.32
Face value (Rs)	10.00
Mkt. Cap (Rs. Crore)	756.43
Price (18/2/2021)	574.80
Book Value (Rs)	410.49
P/BV	1.40
BSE Code	532768
NSE Code	FIEMIND
Bloomberg	FIIN.BO
Reuters	FIEM.BO
Avg. Weekly Volume (NSE+BSE)	119820
52 W H/L (Rs)	687.40 / 230.20
Shareholding Pattern	%
Promoters	66.56
DIIs	0.00
FIIIs	8.42
Body Corporate	3.58
Total Public	21.44
Total	100.00
(As on December 31, 2020)	
Recommendation	
BUY	



Company Background

FIEM industries Ltd., is one of the leading manufacturers of automotive lighting & signaling equipment and rear view mirrors in India and its major business comes from the two wheeler segment (96% in FY20) of the automotive components industry. FIEM has diversified into LED Luminaries for indoor and outdoor applications and integrated passenger information system with LED display (IPIS). The company has 9 manufacturing facilities located close to OEM customers offering logistic cost saving and allows operational flexibility.

Investment Rationale

- The company has strong client base of more than 50 OEMs (90.55% revenue from OEMs in 9mFY21) which include renowned companies like Honda, TVS, Yamaha, Suzuki, Eicher, Royal Enfield, Harley Davidson in two wheelers and Tata Marcopolo, Force Motors, Honda Sael, Mahindra Reva etc. in four wheelers. FIEM also exports (Exports: 2.11% of revenue) automotive lighting to Honda & Kubota of Japan, Austria, UK, Germany, Thailand, Indonesia & Vietnam. A new client Piaggio was added during the quarter.
- The company has an in-house R&D unit along with diversified product portfolio of the lighting products, located in India, Italy & Japan. The R&D has helped developing new generation LED technology for automotive and home lighting for modern homes. More than 50 products are under development and around 35 will come in production in the next three year time.
- FIEM got recognition from Yamaha, Japan for development of World's smallest LED Bi-Function Lighting module for two wheelers and had gained long standing business from the company.
- FIEM's top clients are Honda Motorcycle and TVS motor company which held 63.52% of company's total sales in 9mFY21. The company had also shown major improvement in sales contribution by Indian Yamaha from 9.20% in FY20 to 11.61% in 9mFY21.
- Electric vehicles (EVs) are becoming highly disruptive for global auto industry and India is yet to pick the pace of adoption of EVs which would see the company to benefit from LED lighting sales in future.
- The long term growth trajectory of Indian two-wheeler industry is expected to remain strong despite short term hiccups. The industry has significant growth potential, considering that overall penetration levels are low in India (110 per 1000 persons) in comparison to other part of world. Two-wheeler is a thing of necessity rather a luxury for a large part of India's population. It is more popular as an affordable means of commuting. As Company's major business comes from two-wheeler segment, it remains hopeful to reap the dividends of two-wheeler growth story.
- NIP (National Infrastructure Pipeline) launched by GoI on December 2019. envisages an investment of Rs.1.10 lakh crores over the next five years on infrastructure projects with major emphasis on Roads Railways and urban projects which would boost Auto sector majorly. The company is working with 70-75% capacity utilization which can go upto 90% on sales pickup. With strong return ratios and ROE of 15.70% and ROCE of 16.39%. We maintain positive stance on the stock and have a BUY rating with a target price of Rs.700 at 12x FY22 EPS of Rs.58.

Numbers (in Rs. Crs)	Q3FY21	Q3FY20	Var%	9mFY21	9mFY20	Var%	FY20	FY19	FY18
Net Sales	358.39	324.92	10.30	799.99	1057.19	-24.33	1380.02	1449.02	1239.72
PBIDT (Excl OI)	41.83	36.98	-1.71	79.15	118.31	-33.10	156.89	157.03	140.73
Consolidated Net Profit	19.85	24.47	-18.87	18.67	52.23	19.85	74.56	55.65	52.56
PBIDTM (%)	11.67	11.38	2.55	9.89	11.19	11.67	11.37	10.84	11.35
PATM (%)	5.54	7.53	-26.46	2.54	5.24	5.54	5.40	3.84	4.24
EPS (Rs.)	15.09	18.59	-18.87	15.45	42.11	15.09	56.66	42.29	39.94

Source: Company, Ace Equity, AUM Research

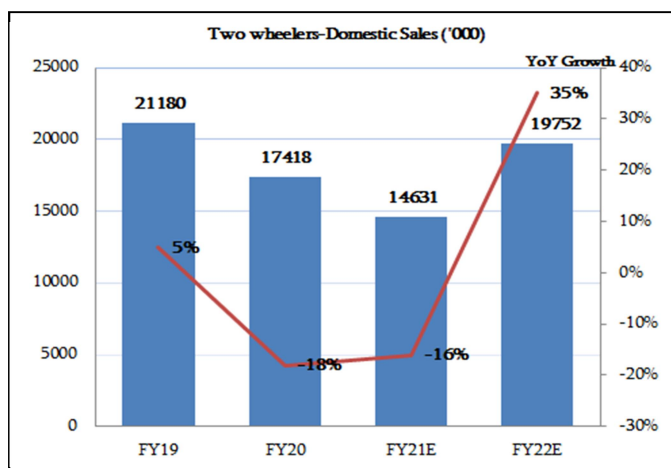
Shift in mobility trends shaping new transport mix

Globally, the pandemic has enforced a massive change in attitudes towards mobility, with health and safety as top priority. A recent global survey (refer to the exhibit below) indicated shifting consumer preferences – as people seek to limit possible exposure to the virus, the preference for private vehicles is expected to rise in the short term, and demand for shared and public transport to fall. These trends could dominate until a vaccine is available at scale.

The transport sector accounts for 4.8% of the India's Gross value addition. (Road Transport 3.1%, Railways 0.8%, Air 0.2% and water 0.1%) Daily passenger suburban rail ridership prior to lock down was 13 million which fell to zero during lock down. People taking public road transport (buses) per day fell from 7 crores, prior to lock down to 40 lakhs during lockdown.

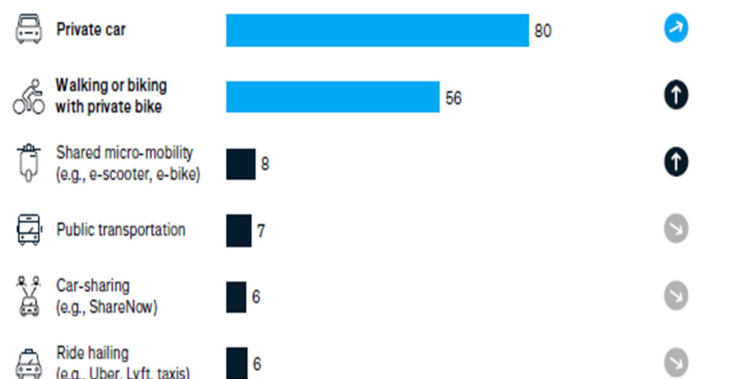
The micro-mobility segment, which comprises electric bikes, bicycles, mini-scooters, among others, could gain more popularity in key international markets as a low-cost private vehicle option. In India, while infrastructure gaps limit the uptake of such options, rental start-ups have started offering long-term rental options on electric bikes. This could in turn transform last-mile delivery in the country amid the pandemic and in the future.

FY22 is expected to bring in a strong recovery in the two wheeler market despite volume contraction of 16% YoY in FY21. The chart below shows PwCs Projections for FY21 and FY22.



Modes of transportation considered safe amid COVID-19¹
 Number of respondents, in percent

Use of transport options
 Outlook for 2020



¹ Aggregated results from the US, UK, Germany, Italy, France, China and Japan; respondents were asked "Which of the following modes of transportation do you consider safe for your health concerning a COVID-19 infection?"

India's auto component sector is among the fastest growing but lags in contribution to manufacturing turnover...

	India ¹	China	Korea	Thailand	Vietnam
Auto-comp turnover USD bn ²	49	850	110	70	9
Growth in auto-comp turnover 2015-19 ²	6%	5%	4%	5%	14%
Contribution to manufacturing turnover ³	3%	4%	7%	14%	4%

...Asian peers outperform India in most of the macro-levers

Labour					
Manufacturing labour cost (USD/hr)	2.1	6.5	25	3.1	2.6
Law					
Tax policy risk ⁴ (100=high risk)	69	44	31	25	44
Logistics					
LPI Ranking ⁵	42	27	23	34	45
Liquidity					
Lending interest rate %	9.5%	4.4%	3.4%	4.1%	7.7%
Leading innovation (R&D spend) % of GDP	0.7%	2.2%	4.8%	1.0%	0.5%

¹ Turnover and growth of auto component industry as reported by ACMA (FY20); manufacturing turnover as reported by IHS Markit

² Turnover and growth as reported by IHS Markit – total sales of Auto component industry (GICS)

³ Share of turnover of auto parts industry in the total turnover of the manufacturing sector as reported by IHS Markit

⁴ Tax policy risk examines if taxes are low, predictable and transparent; reported by EIU Risk Briefing, 100 = High risk

⁵ Logistics performance index reported by the World Bank - timeliness, competence, customs, and international shipments

Source: ACMA, IHS Markit Global Insights

Financials

Consolidated Quarterly Results (Value in Rs. Crs)						
Particulars	Q3FY21	Q3FY20	Var%	9mFY21	9mFY19	Var%
Net Sales	358.39	324.92	10.30	799.99	1057.19	-24.33
Total Expenditure	316.56	287.93	9.94	720.84	938.89	-23.22
PBIDT (Excl OI)	41.83	36.98	-1.71	79.15	118.31	-33.10
Other Income	0.77	0.88	-13.04	1.33	1.27	4.72
Operating Profit	42.59	37.87	12.49	80.49	119.58	-32.69
Interest	2.88	4.10	-29.75	8.96	14.21	-36.95
Exceptional Items	0.00	0.00	0.00	-3.18	0.00	0.00
PBDT	39.71	33.76	17.62	68.35	105.37	-35.13
Depreciation	13.54	13.39	1.14	41.27	39.58	4.27
Tax	6.44	-5.10	226.19	6.74	10.38	-35.07
Profit After Tax	19.73	25.48	-22.55	20.33	55.41	-63.31
Share of Associate	0.12	-1.01	112.03	-1.67	-3.19	-47.65
Consolidated Net Profit	19.85	24.47	-18.87	18.67	52.23	-64.25
EPS (Rs)	15.09	18.59	-18.87	15.45	42.11	-63.31

Consolidated Income Statement (Value in Rs. Crs)				
Particulars	FY17	FY18	FY19	FY20
Net Sales & Other Operating Income	1014.63	1239.72	1449.02	1380.02
Total Expenditure	897.05	1098.99	1291.99	1223.13
PBIDT (Excl OI)	117.58	140.73	157.03	156.89
Other Income	4.81	4.54	0.99	1.72
Operating Profit	122.39	145.28	158.02	158.61
Interest	23.25	22.72	22.10	17.67
PBDT	99.14	122.55	135.93	140.94
Depreciation	39.23	44.33	48.93	53.20
Exceptional Income/ Expense	-14.19	3.41	0.00	-0.88
Tax	12.60	29.03	30.36	8.17
Profit After Tax	33.13	52.60	56.64	78.69
Minority Interest	0.00	0.00	0.00	0.00
Share of Associate	0.00	-0.04	-0.99	-4.12
Consolidated Net Profit	33.13	52.56	55.65	74.56
EPS (Rs.)	25.17	39.94	42.29	56.66

Source: Company, Ace Equity, AUM Research

February 19, 2021

Consolidated Balance Sheet (Value in Rs. Crs)				
Particulars	FY17	FY18	FY19	FY20
EQUITY AND LIABILITIES				
Share Capital	13.16	13.16	13.16	13.16
Share Warrants & Outstandings	0.00	0.00	0.00	0.00
Total Reserves	396.96	436.18	463.99	512.16
Shareholder's Funds	410.12	449.34	477.15	525.32
Minority Interest	0.00	0.00	0.00	0.00
Secured Loans	119.47	86.50	92.96	58.09
Unsecured Loans	0.00	0.00	0.00	0.00
Deferred Tax Assets / Liabilities	32.50	43.85	51.92	36.85
Other Long Term Liabilities	2.58	1.87	0.00	25.09
Long Term Provisions	2.67	3.85	6.75	5.78
Total Non-Current Liabilities	157.21	136.07	151.64	125.82
Trade Payables	150.43	219.54	188.25	167.37
Other Current Liabilities	83.76	89.76	101.97	96.36
Short Term Borrowings	64.15	37.07	38.47	0.01
Short Term Provisions	3.83	3.61	5.35	5.60
Total Current Liabilities	302.17	349.97	334.04	269.35
Total Liabilities	869.50	935.38	962.82	920.49
ASSETS				
Gross Block	694.71	803.97	861.46	939.63
Less: Accumulated Depreciation	215.48	250.18	297.12	349.00
Net Block	479.22	553.79	564.34	590.62
Capital Work in Progress	5.63	5.61	7.91	0.25
Intangible assets under development	0.00	1.31	3.58	0.00
Non Current Investments	0.29	0.36	25.36	21.24
Long Term Loans & Advances	27.99	24.71	22.52	17.74
Other Non Current Assets	2.19	0.09	2.12	5.93
Total Non-Current Assets	515.32	585.87	625.82	635.77
Currents Investments	86.09	19.10	0.00	0.00
Inventories	102.42	140.27	147.24	129.09
Sundry Debtors	119.45	144.34	146.80	76.98
Cash and Bank	23.06	2.20	4.46	47.54
Other Current Assets	1.76	29.03	18.01	12.27
Short Term Loans and Advances	21.40	14.58	20.48	18.84
Total Current Assets	354.18	349.51	337.00	284.72
Net Current Assets (Including Current Investments)	52.02	-0.46	2.96	15.37
Total Assets	869.50	935.38	962.82	920.49

Source: Company, Ace Equity, AUM Research

Aum Capital RESEARCH DESK

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