

# **5 MINUTE STOCK IDEA**

BY SMART SYNC INVESTMENT ADVISORY SERVICES

### FIEM INDUSTRIES LTD

### WHAT WE LIKE

#### SURVIVED & THRIVED FOR LONG

Incorporated by Mr. MK Jain in 1989 & listed on exchange in 2006, Fiem is one of the leading manufacturers of Automotive Lighting & Signalling Equipments and Rear-View Mirrors in India. It is also among the first companies in India for LED lights in 2Ws. Fiem has grown its Sales & profits at a CAGR of 10% & 18% respectively.

#### STRONG & DIVERSIFIED CUSTOMER BASE



#### RAMPING UP OF EV PORTFOLIO

From less than 1% of EV(2Ws) in 2020, we have already reached 4.5%. Given the number of players entering in the OEM space on the EV side, growth expectations are strong. Leading OEMs & government have an ambitious target of 30% EV penetration by 2030. TVS & Yamaha, who are existing customers of Fiem, are also having ambitious plans to ramp up their EV product basket. Fiem is a natural beneficiary of all this

## STRONG ORDER BOOKING + FUNGIBLE CAPACITY

Current ongoing new projects for Fiem are 80 (approx) and their long-term average of 40-50 suggesting strong demand for their products.

Management guides a fungible capacity which helps them in shifting production between existing ICE & new EV models smoothly.

### This points at 3 things:

- Ability to grow even when the sector is still not out of the woods
- Visibility of revenue for the next 2-3 years
- Prepared for either scenario: slow pickup of EV Vs fast EV adoption

### STRONG P/L & BALANCE SHEET & REASONABLE VALUATION

Despite the challenges in the auto sector in the last 5 yrs, the following stand out in favour of Fiem:

- 1. Sales grown at double digit
- 2. Maintaining a decent EBITDA margin above 10%
- 3. Reduced long-term debt from 161 Cr to 20 Cr
- 4. Capex done & capacity ready for future growth
- 5. ROE of 15% during tough industry environment
- 6. Valuation of **20** times earnings appears reasonable given the growth outlook for the sector

### WHAT WE DON'T LIKE

#### VAGARIES OF THE SUPPLY SIDE

Autos were expected to do well post the pandemic when other sectors started performing but supply side issues like semi-conductors shortage and other disruptions in supply chain came out of nowhere and slowed down the growth. It is still not clear how long it will take for normalcy on these fronts.

### INFLATION TRAJECTORY IS UNPREDICTABLE

Commodity prices have been all over the place in the last one year. To predict the prices of the next few quarters is equally challenging. How, Fiem will tackle this fluctuation and maintain it's margin in this uncertain and volatile environment is a key monitorable point for us at SSS.

## LOWER GROSS MARGINS REPRESENT LOW PRICING POWER

Gross margins: 50% for auto component players like Sansera Engineering & Craftsman Automation while for Fiem it's in the range of 35% to 40%. Nature of products and capabilities are different & it is not an apple-to-apple comparison. Fiem trades at a discount to Sansera Engineering & Craftsman Automation.

### LOW SCALE OF OPERATION & CAPEX

The notable auto ancillaries that have been there for the last 30 years have either reached huge scale or have maintained a very high margin for their business. Fiem appears to lie somewhere in the middle. It has neither scaled too much nor have industry-leading margins. Moreover, where most auto ancillaries are doing CAPEX upwards of 200-300 Cr annually, Fiem has done a total CAPEX of less than 90 Cr in last 3 years. At a gross block of 950 Cr and an average asset turnover of 2.4 times in the last 10 years, scaling up may be a challenge.

## THE PACE OF EV ADOPTION IS STILL UNCERTAIN

Momentum seems to be there in EV adoption and we have quickly moved from less than 1% to 4.5% EV penetration in 3 years. However, bulk of this growth has come from VC-funded startups. Given the volatility and uncertainties of the global economy, you cannot be certain of the consistency in this growth trajectory. To be fair to Fiem, they have ICE to fall back to but slow EV adoption is a sure risk of growth slowing down for the auto sector.

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