

SEPTEMBER 11, 2018

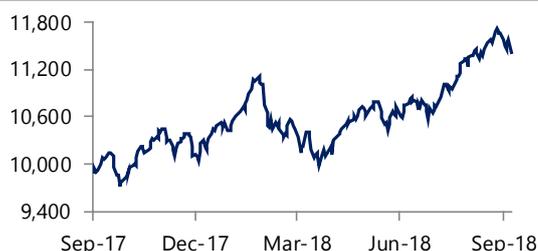
	10-Sep	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	37,922	(1.2)	0.1	7.0
NIFTY Index	11,438	(1.3)	0.1	6.2
NSEBANK Index	27,202	(1.0)	(3.3)	2.8
NIFTY 500 Index	9,740	(1.4)	0.2	4.5
CNXMcap Index	19,242	(1.7)	0.6	2.2
BSESMCAP Index	16,717	(1.1)	(0.4)	(1.0)
World Indices				
Dow Jones	25,857	(0.2)	2.1	2.1
Nasdaq	7,924	0.3	1.1	3.4
FTSE	7,279	0.0	(5.1)	(5.9)
NIKKEI	22,373	0.3	1.3	(0.9)
Hangseng	22,373	0.3	1.3	(0.9)
Shanghai	26,613	(1.3)	(6.4)	(14.6)
Value traded (Rs cr)				
	10-Sep	% Chg Day		
Cash BSE	3,763	14.8		
Cash NSE	33,575	(9.2)		
Derivatives	801,491	18.2		
Net inflows (Rs cr)				
	7-Sep	MTD	YTD	
FII	138	2,017	(3,422)	
Mutual Fund	527	1,992	78,609	
Nifty Gainers & Losers				
	Price	Chg	Vol	
10-Sep	(Rs)	(%)	(mn)	
Gainers				
HCL Tech	1,089	1.4	4.1	
Axis Bank	652	1.0	32.4	
Zee Ent	473	0.5	2.0	
Losers				
Bajaj Finance	2,616	(4.7)	1.6	
Indiabulls Hou	1,161	(4.3)	1.4	
Sun Pharma	638	(4.0)	9.9	

Advances / Declines (BSE)					
10-Sep	A	B	T	Total	% total
Advances	80	380	67	527	100
Declines	349	653	73	1,075	204
Unchanged	3	21	23	47	9

	10-Sep	% Chg		
		1 Day	1 Mth	3 Mths
Crude (US\$/BBL)	77.5	0.1	6.4	1.3
Gold (US\$/OZ)	1,196	(0.0)	(1.5)	(8.2)
Silver (US\$/OZ)	14.2	0.0	(7.7)	(16.5)

Debt / forex market				
	10-Sep	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.2	8.0	7.8	7.9
Re/US\$	72.4	71.7	68.8	67.4

Nifty



Source: Bloomberg

News Highlights

- ▶ The government estimates the Current Account Deficit (CAD) to be 2.5 per cent of GDP in the current fiscal. The deficit was 1.9 per cent in 2017-18 and 0.6 per cent in 2016-17. (Hindu)
- ▶ Government officials suggested that the Centre may not lower duties as a Rs 2 per litre reduction would impact revenue by Rs 280 bn to 300 bn. Instead, more states are expected to reduce VAT, which will lower prices without impacting the Centre's tax collection. (ToI)
- ▶ The government expects at least half of the 320 mn Jan Dhan accounts to avail the overdraft facility for Rs 2,000 with no conditions attached, a finance ministry official said, that would translate to a Rs 320 bn booster shot for the economy. (ET)
- ▶ The Supreme Court allowed the government to implement safeguard duty on imported solar panels and modules, setting aside an order of the Orissa High Court that stayed the imposition of the levy, three people aware of the development said. (ET)
- ▶ One of the wholly owned subsidiaries of **Sun Pharmaceuticals** has agreed to acquire shares of Tarsius Pharma, Israel, by way of subscription of 3,45,622 ordinary shares of nominal value of NIS 0.01 each, representing 18.75 percent of shares of Tarsius, on a fully diluted basis. (MC)
- ▶ **ICICI Bank** has filed petition under section 7 of the Insolvency and Bankruptcy Code, 2016 against Jaiprakash Associates. The company has been given time to file its reply within seven days and the matter is listed for September 17, 2018. (MC)
- ▶ **Manali Petrochemical** will launch the products of its wholly owned subsidiary Notedome Limited, UK, manufactured at the facilities of the Company in Chennai during September 2018. (MC)
- ▶ Abu Dhabi Investment Authority, Singapore's sovereign wealth fund GIC and Public Sector Pension Investment Board of Canada are in race to pick 25% stake in **Reliance Home Finance** for Rs 15-20 bn. The funds will be used for expansion of the Anil Ambani group company, which is focusing on affordable housing for future growth. (PTI)
- ▶ **Yes Bank's** board and shareholders approve raising Rs 300 bn via debt from domestics as well as foreign buyers. The Capital Raising Committee will consider this issue of tier 2 bonds on or after Sept. 14. (BQ)
- ▶ **BSE** along with **PTC India** and ICICI Bank have filed a petition with the power market regulator CERC for grant of license to set up a new power exchange. (ET)
- ▶ **SpiceJet** said it is launching a dedicated air cargo service to cash in on the "tremendous potential" the logistics industry offers. (ET)

What's Inside

- ▶ **Company Update:** FIEM Industries Ltd

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

Company Update

FIEM INDUSTRIES LTD (FIEM)

Stock Details

Market cap (Rs mn)	:	9475
52-wk Hi/Lo (Rs)	:	1065 / 718
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	7,632
Shares o/s (mn)	:	13

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	12,384	14,675	16,610
Growth (%)	22.1	18.5	13.2
EBITDA	1,407	1,537	1,830
EBITDA margin (%)	11.4	10.5	11.0
Adjusted Net profit	491	568	713
Adjusted EPS (Rs)	37	43	54
Growth (%)	4.5	15.7	25.5
Book value (Rs/share)	341	374	417
Dividend per share (Rs)	9.0	9.0	9.0
ROE (%)	11.4	12.1	13.7
ROCE (%)	15.3	15.7	17.7
P/E (x)	19.3	16.7	13.3
EV/EBITDA (x)	7.7	7.2	5.8
P/BV (x)	2.1	1.9	1.7

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	63.6	63.6	63.6
FII	14.2	14.3	14.3
DII	8.1	8.0	8.3
Others	14.1	14.1	13.9

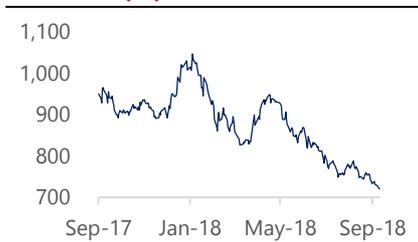
Source: Company

Price Performance (%)

(%)	1M	3M	6M
FIEM Industries	(6.9)	(14.2)	(13.0)
Nifty	0.1	6.2	11.8

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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PRICE RS.720

TARGET RS.1030

BUY

In 2QFY19, two wheeler industry has slowed due to multiple reasons. However, we expect the two wheeler volume growth to improve in 2HFY19. FIEM generates ~95% of revenues by selling auto lamps, rear view mirrors, plastic moulded parts, etc. to the two wheeler segment.

Key highlights

Weak demand in West Bengal and Kerala, Supreme Court directive of mandatory third-party insurance cover for five years for two-wheelers and delayed festive season is expected to hurt two wheeler industry growth in 2QFY19. However, we expect the impact of above mentioned factors to subside in 2HFY19 and as a result we expect pick-up in growth. FIEM's key customers continue to do well and we expect that trend to continue going forward. Increased adoption of LED lights by two wheeler manufacturers would translate into higher sales and better margins for FIEM.

Outlook and Valuation

Over FY18-FY20E, we expect FIEM's revenue and earnings CAGR of 16% and 21% respectively. At the CMP, the stock trades a PE of 13.3x and EV/EBITDA of 5.8x on FY20 estimates. We retain BUY on the stock with an unchanged price target of Rs1,030.

Two wheeler industry growth has slowed in 2QFY19; full year growth to remain healthy

Domestic two wheeler sales grew by 16% YoY in 1QFY19 – primarily led by strong pick-up in motorcycle demand. While the medium term growth drivers remain intact, two wheeler volume growth in 2QFY19 is expected to be low on following reasons. West Bengal government has made driver's license mandatory for buying two-wheelers. As per media reports, this move has led to significant decline in two wheeler demand in the state. Demand in Kerala has been significantly impacted due to floods. West Bengal and Kerala accounts for ~8% of domestic two wheeler demand. Supreme Court directive of mandatory third-party insurance cover for five years for two-wheelers is likely to hit sales in September 2018. Apart from the above mentioned reasons, delayed festive season as compared with last year will impact dealer inventory buildup in 2QFY19.

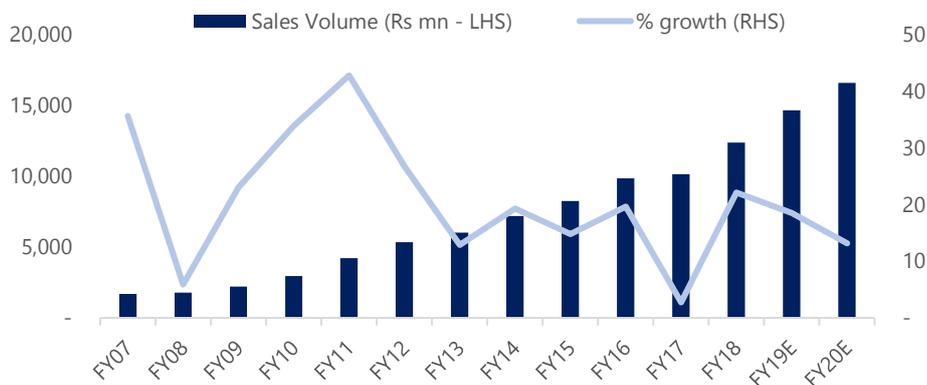
Two wheeler industry sales volume



Source - SIAM

We expect the impact of above mentioned factors on two wheeler demand to subside in 2HFY19 and we thereby expect two wheeler growth to improve in the latter half of FY19. FIEM generates ~95% of revenues by selling auto lamps, rear view mirrors, plastic moulded parts, etc. to the two wheeler segment. In 1QFY19, FIEM reported 24% YoY increase in revenues. We factor in 19%/13% revenue growth for FIEM in FY19/FY20 respectively.

FIEM's revenue growth expected to be robust

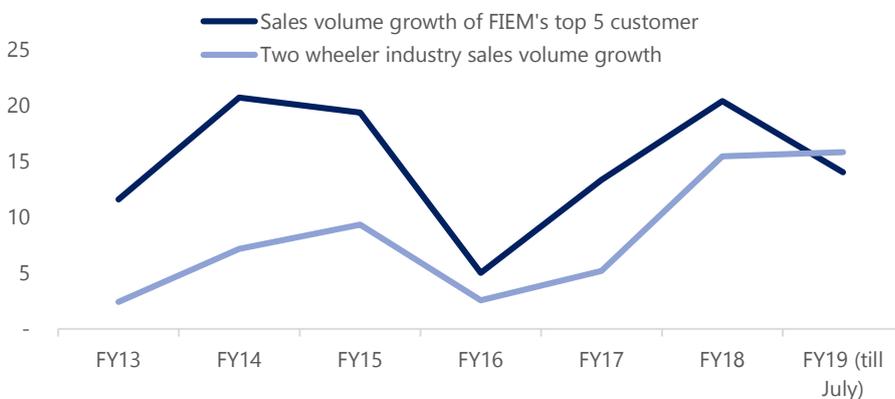


Source - Company, Kotak Securities – Private Client Research

FIEM's key customers likely to grow strongly over the medium to long term

Honda Motorcycle and Scooters India (HMSI) and TVS Motors (TVSM) are FIEM's top two clients and they account for more than 70% of FIEM's revenue. Thereby revenue growth for FIEM depends significantly on the volume growth performance of HMSI and TVSM. Over the years, the strongly performance by FIEM's top clients (primarily HMSI) has translated into robust revenue growth for the company. Despite challenges in certain states, HMSI is targeting double-digit volume growth in FY19. TVSM's overall volume growth (till August 2018) stands at 15%. FIEM's other clients like Royal Enfield, Suzuki Motorcycle and Yamaha India too have posted healthy volume growth so far. Over the medium to long term, we expect FIEM's key clients to cumulatively outperform industry growth.

FIEM's customers has historically outperformed industry sales volume growth



Source - SIAM

Transition to LED headlamps has already started; process expected to expedite in coming years

Head lamps in the domestic two wheeler industry is going through a structural shift – from halogen lamps to LED lamps. In the past few years, two wheeler manufacturers have introduced LED in tail lamps across various models; however LED headlamps were reserved for premium motorcycles. HMSI introduced LED headlamps in the mass model category and we expect more high selling models to shift towards LED headlamps. Increased adoption of LED lights by two wheeler manufacturers would translate into higher sales and better margins for FIEM. Auto lamps accounts for 65% of FIEM's revenue.

FIEM supplies LED lamps to following two-wheeler models

Head Lamp	Rear/Tail Lamp	Parking Lamp	Daytime Running Lamp	Position Lamp
Honda Activa 5G	Yamaha FZ 250	Honda Activa 5G	TVS XL 100	Honda Dio
Yamaha FZ 250	TVS Ntorq		TVS ZEST	
Yamaha R15 V3	Harley Davidson Street Rod		TVS Ntorq	
Suzuki Burgman	Royal Enfield Himalayan			
Royal Enfield Himalayan	TVS Jupiter			

Source - Company

Outlook and Valuation

Over FY18-FY20E, we expect FIEM's revenue and earnings CAGR of 16% and 21% respectively. At the CMP, the stock trades a PE of 13.3x and EV/EBITDA of 5.8x on FY20 estimates. We retain BUY on the stock with an unchanged price target of Rs1,030.

Risk and Concerns

Slowdown in two wheeler demand - For FIEM, majority revenues comes from two wheeler segment. Slowdown in two wheeler demand will have bearing on FIEM's revenues and earnings estimates.

High dependence on few clients - FIEM's revenue dependence is high on Honda Motorcycle and Scooters India (HMSI) and TVS Motors (TVSM). Slowdown in sales for HMSI and TVSM can have significant impact on FIEM's financial performance.

Company background

FIEM is one of the leading manufacturers of automotive lighting and signaling equipment for the two wheeler segment in India. Apart from automotive lighting, FIEM's product portfolio comprises of rear view mirrors, sheet metal parts and plastic components for two /four wheeler segment. FIEM generates ~95% of its revenues from the automotive business and ~5% comes from the LED segment. Within the automotive space, FIEM is largely an OEM focused company with 87% of revenues coming from domestic OEM's and two wheeler segment accounts for 95% of revenues. For FIEM, Honda Motorcycle and Scooters India Limited (HMSI) and TVS Motors (TVSM) are the top clients. In the LED business, the company has presence in LED luminaries and Integrated Passenger Information System (IPIS). FIEM has nine plants across India catering to various clients.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	10,141	12,384	14,675	16,610
% change YoY	2.8	22.1	18.5	13.2
EBITDA	1,173	1,407	1,537	1,830
% change YoY	(7.6)	19.9	9.2	19.1
Depreciation	392	443	492	545
EBIT	781	963	1,045	1,285
% change YoY	(16.9)	23.3	8.4	23.0
Net interest	232	227	211	222
Other Income	47	45	49	44
Exceptional income/(loss)	(142)	34	-	-
Profit before tax	454	816	883	1,107
% change YoY	(42.7)	79.7	8.2	25.5
Tax	126	290	314	394
as % of PBT	27.7	35.6	35.6	35.6
Profit after tax	328	526	568	713
Adjusted PAT	470	491	568	713
% change YoY	(17.8)	4.5	15.7	25.5
Shares OS (mn)	13.2	13.2	13.2	13.2
Adjusted EPS (Rs)	35.7	37.3	43.2	54.2
DPS (Rs)	8.0	9.0	9.0	9.0

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	781	963	1,045	1,285
Depreciation	392	443	492	545
Change in working capital	(471)	153	(465)	(148)
Chg in other net current asset	(143)	(121)	268	8
Operating cash flow	559	1,439	1,340	1,690
Interest	(232)	(227)	(211)	(222)
Tax	(97)	(177)	(314)	(394)
Other Income	47	45	49	44
EO income	(142)	34	-	-
Others	(91)	(7)	-	-
Cash flow from operations	44	1,108	864	1,118
Capex	(971)	(1,202)	(600)	(600)
(Inc)/dec in investments	(861)	667	(261)	-
Cash flow from investments (1,832)	(535)	(861)	(600)	(600)
Proceeds from issue of equities	12	-	-	-
Increase/(decrease) in debt	850	(659)	466	(350)
Proceeds from share premium	1,162	(0)	-	-
Dividends	(43)	(127)	(143)	(143)
Cash flow from financing	1,981	(786)	324	(493)
Opening cash	37	228	15	342
Closing cash	228	15	342	368

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	1,089	206	533	559
Accounts receivable	1,294	1,452	1,809	2,048
Inventories	1,024	1,403	1,605	1,817
Loans and Adv & Others	430	674	449	487
Current assets	3,838	3,735	4,397	4,911
LT investments	7	9	270	270
Net fixed assets	4,848	5,607	5,715	5,770
Total assets	8,693	9,351	10,382	10,950
Payables	1,507	2,197	2,292	2,594
Other liabilities	448	571	604	640
Current Liabilities	1,955	2,768	2,896	3,234
Provisions	65	64	75	85
Deferred Tax Liability	325	438	438	438
Debt	2,250	1,590	2,057	1,707
Equity	132	132	132	132
Reserves	3,967	4,358	4,784	5,355
Total liabilities	8,693	9,351	10,382	10,950
BVPS (Rs)	311	341	374	417

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Margins				
EBITDA margin (%)	11.6	11.4	10.5	11.0
EBIT margin (%)	7.7	7.8	7.1	7.7
Adj. net profit margin (%)	4.6	4.0	3.9	4.3
Working capital days				
Inventory (days)	37	41	40	40
Receivable (days)	47	43	45	45
Payable (days)	54	65	57	57
Ratios				
Debt/equity ratio (x)	0.5	0.4	0.4	0.3
ROE (%)	13.8	11.4	12.1	13.7
ROCE (%)	14.9	15.3	15.7	17.7
Valuations				
EV/ Sales	1.1	0.9	0.7	0.6
EV/EBITDA	9.1	7.7	7.2	5.8
Price to earnings (P/E)	20.2	19.3	16.7	13.3
Price to book value (P/B)	2.3	2.1	1.9	1.7

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

- BUY** – We expect the stock to deliver more than 12% returns over the next 12 months
- ACCUMULATE** – We expect the stock to deliver 5% - 12% returns over the next 12 months
- REDUCE** – We expect the stock to deliver 0% - 5% returns over the next 12 months
- SELL** – We expect the stock to deliver negative returns over the next 12 months
- NR** – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
- SUBSCRIBE** – We advise investor to subscribe to the IPO.
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