



“Fiem Industries Limited
Q1FY23 Earnings Conference Call”
August 16, 2022

Hosted by Monarch Network Capital Limited



MANAGEMENT: **MR. J.K JAIN – CHAIRMAN AND MANAGING DIRECTOR**
 MR. RAHUL JAIN – DIRECTOR
 MR. RAJESH SHARMA– DIRECTOR
 MR. O.P GUPTA - CHIEF FINANCIAL OFFICER
 MR. ARVIND CHAUHAN – COMPANY SECRETARY
 OTHER FINANCE TEAM MEMBERS

ANALYST: **MR. SAHIL SANGHVI– MONARCH NETWORK CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good afternoon and welcome to the Fiem Industries Limited Q1 FY'23 Earnings Conference Call, hosted by Monarch Network Capital Limited. Disclaimer: This conference call may contain forward-looking statements about the company which are based on beliefs, opinions and expectations of the company as on date of this call. The statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand over the conference to Mr. Sahil Sanghvi. Thank you and over to you, sir.

Sahil Sanghvi: Thank you, Diksha. Good afternoon, everyone. On behalf of Monarch Network Capital, I welcome you all to the Q1 FY'23 Conference Call of Fiem Industries Limited.

We will start the call with the initial comment about the "Results" and the "Future Outlook of the Company," and then we will open the floor for "Questions and Answers."

So, without much delay, now I'll hand over the call to Mr. J.K. Jain -- Chairman and M.D. of the Company. Over to you, sir.

J.K. Jain: Thank you. Good afternoon, everyone. I welcome you all to the Q1 FY'23 Earning Call of the Fiem Industries Limited.

Joining me on today's call are Mr. Rahul Jain – Director; Mr. Rajesh Sharma – Director; Mr. O.P. Gupta, CFO; Mr. Arvind Chauhan -- Company Secretary and Other Members of the Finance Team.

The "Results" and the "Investor Presentation" has been uploaded on the stock exchange and the company website, which I'm sure you all must have gone through.

Q1 FY'23 has begun on an optimistic note. The overall macro indicators of the economy are strong with the record direct tax and GST collection. Further, forecast of the normal monsoon has an increase in grain prices should result in uplift in the rural economy. All of this is boosting consumer confidence and income, which should help two-wheeler industries to return back to the growth path.

Reflecting the above trend, the two-wheeler industries in Q1 FY'23 have grown to 4.8 million units, which is 38.4% growth on a year-on-year basis. This is a very encouraging trend. Your company continues to perform at its potential and recorded that income of Rs.445 crores in Q1 FY'23 which is a growth of over 52% over the same quarter last year. Net Profit has also grown to Rs.30.45 crores.

Our industry generally perform its best in Q4 being the last quarter of the financial year and followed by relatively lean in Q1. However, we would like to inform you that this has been the best Q1 performance of the company. Seen in this light, we clearly see the growth path for the current financial year. Overall, with this solid base and the upcoming festival season of Gudi Padwa, Akshaya Tritiya and then Diwali, we expect industries to grow at double-digit during this financial year. We continue to move ahead in working jointly with our key customers on the development of several new projects.

The EV segment continues to be driven by attractive incentive schemes provided by both the state and central government. This has helped to bring EV two-wheeler prices closer to or at par with ICE two-wheeler prices in some segments.

I am delighted to inform you that we are now supplying to more than 20 customers in the EV segment. This reflects our strong leadership in this area.

To sum up, I believe that the improving macro environment and a good monsoon will create increasing rural demand and thus help our industries for the next level of growth.

With this I hand over to Mr. Gupta, our CFO, and the Finance team, do Update on Operational Performance. Thank you.

O.P. Gupta:

Thank you, sir. Good afternoon, everyone. I would like to present the Q1 numbers for FY'23 as compared to same quarter last year. The company registered a sales of Rs.441.98 crores in Q1 of current financial year against Rs.272.25 crores in corresponding quarter 2021-22. This represent a 62.34% increase. The EBITDA for the quarter stands at Rs.57.55 crores, translating into an EBITDA margin of 13.02%. This compares with an EBITDA of Rs.31.53 crores in Q1 of previous financial year and margin of 11.58%. PAT of the company has also significantly increased to Rs.30.45 crores as compared to Rs.11.77 crores in Q1 of FY 2021'22. During the quarter, the company has made an insignificant investment in CAPEX. We continue to be a net zero debt company.

With this, I end the financial brief and now the floor is open for questions-and-answers. Thank you.

Moderator:

We will now begin the question-answer session. We take the first question from the line of Aashin from Equirus. Please go ahead.

Aashin:

My first question is regarding the sequential decline which we have seen compared to last quarter in our sales. If we see the two-wheeler industry has grown by approximately 10% quarter-on-quarter, and even our major customers, HMSI and Yamaha have also grown. Why have you seen a quarter-on-quarter in our numbers?

- Rajesh Sharma:** I'm Rajesh Sharma. I'll just reply on your question. There are certain models which we were exporting to Yamaha especially for Europe and US. Those are having some certain fixed quantity, which has been completed by us in last quarter of last financial year. And now we are in regular supplies, regular models for other countries and for India. So, that is the only point which has been contributed the minus for last quarter to this quarter.
- Aashin:** Sir, on HMSI, we have seen a quarter-on-quarter decline?
- Rajesh Sharma:** HMSI is marginal. If you see that is again model-specific, but the key difference is only a slight decrease in Yamaha sales which is explained.
- Aashin:** So, how do we see this Yamaha sales going forward, I mean, we were in talks of getting other models as well?
- Rajesh Sharma:** Yamaha is in progressive growth and we will be continuing those with the new coming models also.
- Harshit:** What could be revenue from electric two-wheelers during this quarter?
- Arvind Chauhan:** This is Rs.18.5 crores.
- Moderator:** We take the next question from the line of Mahek from YellowJersey Investment Advisors. Please go ahead.
- Mahek:** I had just a few questions. First would be, when you say you have SMT line established from year 2006-04, I wanted to know where did you get the SMT line like we could have the access to it or have you patented it or something?
- Arvind Chauhan:** I think you are talking about the surface mounting SMT line. We already have since rather 2006 you have said. Your question is about the sourcing of that line or what is your question actually?
- Mahek:** About the sourcing of the line, where did you get the SMT line?
- Arvind Chauhan:** No-no, actually this is from world reputed manufacturers from various countries like Germany and other countries. We cannot disclose the name of the manufacturer.
- Mahek:** My second question is that you are exiting from the JV, which produce fuel pump module. So, does this mean this product will no longer be in your product portfolio?
- Arvind Chauhan:** Yes, we already exited from this joint venture of fuel pump. All formalities has been completed during the month of June itself. We already got the payment of Rs.26 crores.

- Mahek:** So, the expected revenue that we were expecting around Rs.150 to 200 crores from fuel pump module will no longer be coming?
- Arvind Chauhan:** Naturally, we already exited. So, it will not be part of our group now.
- Mahek:** Third, I wanted to ask what is your per annum capacity as per product wise, like head lamp, tail lamp....
- Arvind Chauhan:** I think the capacity the way you are asking is not relevant in our industry. We supply as per the requirements of the OEMs. And the capacity changes when the product change for the particular products and settings. So, you have to understand the factory itself first to understand the capacity.
- Moderator:** We take the next question from the line of Akshat Mehta from Sameeksha Capital. Please go ahead.
- Akshat Mehta:** If I look at your presentation, your LED share has gone down by 1% from Q4 to Q1. So, is this a normal thing that you kind of see on a quarter-on-quarter basis or there are some headwinds in terms of auto LED lamps? Since for the year, you said that the total share should increase around 3% to 4%? And how do you see that being achieved during the year?
- Arvind Chauhan:** So, your question is about the LED. This is in the same range of 44%, because sometimes one product where the LED content is more, then supplies are more, so it fluctuates. But you have to see the overall trend; see, in FY'2020 it was 39%, in FY'2021, it was 40% and we closed this FY'2022 with 44%. So, the trend is increasing, but quarter-on-quarter exact numbers remains a little bit fluctuation.
- Akshat Mehta:** Sir, over the years, what you said is that 3% or 4% in FY'20, if the market is good, there should be the increase in market share for LED. That guidance still stays?
- Rajesh Sharma:** LED share will increase over the next couple of years, it is heading higher. That's right understanding.
- Akshat Mehta:** One more clarification. In the earnings call, you said 44% share, while in the presentation, you show around 30%, 32% share. So, what is the difference between the two numbers?
- Arvind Chauhan:** When you are referring to the presentation, it is the total of the conventional, LED lighting, the mirror and this plastic part, the others. You are asking the specific question about the LED versus conventional. So, 44% is the LED and rest 56% is the conventional light.
- Akshat Mehta:** Your other expenses on a quarter-on-quarter basis has fallen down sharply by more than 1% of sales, Rs.15 crores absolute as well. What is the change in the other expenses that has caused such a reduction and is it sustainable during the other quarters or it's just a one off-item?

- Finance Team Member:** No, actually if you see that expenses have gone down drastically, because of certain expenses which were put in the last quarter of the customer and this expense of Rs.53 crores this year will continue to remain the same, the deduction has gone only in this quarter.
- Moderator:** We take the next question from the line of Anika Mittal from Invest Research. Please go ahead.
- Anika Mittal:** Sir, company has exited from one of its joint venture, Aisan Fiem Automotives India Private Limited. My question is regarding the valuation of the JV. It is mentioned that sale consideration will be face value of fair market value whichever is higher, and company has invested Rs.26 crores in JV and received the same in Q1 financial year '23. So, is the JV fair market valuation is that of face value?
- Arvind Chauhan:** Yes, your understanding is correct. We exited on the face value because face value was higher.
- Anika Mittal:** Then sir, it is the fair market value?
- Arvind Chauhan:** It is a confidential data, but we have to see what we got. And this remains part of this JV agreement. So, whatever we already shared, it remains same.
- Anika Mittal:** My second question is regarding customers wins of the company. As Ola is entering into the four wheeler segment, will company supply to the Ola two-wheeler also?
- Rajesh Sharma:** It is too early to comment on this subject.
- Anika Mittal:** Ather is also a good EV player. Are you looking to supply to Ather or Ather is already in your customer list?
- Rajesh Sharma:** As of now, not in our customer list, but we are already under discussion.
- Moderator:** We take the next question from the line of Saurabh Savla from Multi-Act. Please go ahead.
- Saurabh Savla:** A couple of questions. First one was what is the mix for the contribution of LED lights in head lamps and tail lamps? And is it that it is materially high in tail lamps or head lamps or is it other way around? And a related question was, what is our market share in this LED lights and halogen lights in the top five customers that we have?
- Arvind Chauhan:** So, regarding the pricing of the head lamp and tail lamp, this head lamp is naturally the higher realization.
- Saurabh Savla:** The head lamp is a higher realization segment you're saying?
- Arvind Chauhan:** Yes, yes.

- Saurabh Savla:** Again, not specific to you, but in terms of the overall industry as well, the LED light penetration is higher in the tail lamps or in the head lamps currently?
- Rajesh Sharma:** It is in both. Almost industries are of course working for tail lamp parts. But now the penetration year-on-year is increasing for the front lighting also. All the EVs are coming with LED lamps on head lamp or tail lamp.
- Saurabh Savla:** Would it be fair to say that we have equally high market share in both the LED and the halogen segment, or is it that we are much stronger in the halogen segment and we are kind of picking up in the LED part for the company's market share?
- Rajesh Sharma:** We are equally strong in both the segments, conventional as well as LED.
- Saurabh Savla:** In the previous conference calls, you have given wallet share amongst different customers and different segments. So, if I compare your market share or wallet share in 2022 versus 2019, then we have lost some wallet share in the tail lamp segment with Honda and TVS, and even with Yamaha, we have lost around 18% to 20% wallet share in tail lamps and in the blinker segment. So, can you help us understand that why we have lost this wallet share?
- Arvind Chauhan:** First of all, there is no loss of the wallet share. I think you are referring three, four years back data. So, if you want, we can give the current wallet share customer wise and the product wise it is already there. So, if you have some doubt, we can clarify. So, I think there is some error in data you are referring.
- Saurabh Savla:** I had the data of 2019 from the con call. So, there you had around 82% market share in tail lamps with Yamaha and in Q4 '22 you had said that it is 64% and similarly for TVS it was 77% in 2019 and 69% in 2022. So, just wanted to understand, whether there is inconsistency of data or you have actually lost wallet share in that?
- Arvind Chauhan:** No, no, nothing. You see the overall turnover also, because turnover is increasing with every customer how we can lose the market share.
- Saurabh Savla:** You are saying maybe in some incremental models or the new launches you might not be present and that's why this number optically is looking slightly lower?
- Finance Team Member:** Exactly, this is not the case. What you're saying is in terms of percentage. When the total sales volume increase, the percentage come down. So, you take the figure in terms of amount, that will be catered to step the increase.
- Saurabh Savla:** One of the competitors has entered with TVS in the LED segment. So, any comments on that?
- Rajesh Sharma:** Every customer is looking for multiple sources and we have taken the businesses from other competitors and some of the business has gone to other company.

- Moderator:** We take the next question from the line of Naresh Kataria from Money Care Investment. Please go ahead.
- Naresh Kataria:** I wanted to know about the projects which we continue to do on an ongoing basis. Last time you mentioned 80 projects for various models which are in R&D phase. So, can you please tell us something about how they are shaping up and how is the schedules for coming festival season?
- Rajesh Sharma:** There are of course 80 projects are declared during our last con call, after that also 17 projects is being awarded by the customers, that is an addition. Some of the projects will definitely be launched within this year and some in subsequent years...
- J.K. Jain:** 2024.
- Naresh Kataria:** How are the schedules looking for the coming festival season?
- Rajesh Sharma:** For coming festival season, there are a few models will be launched by the customer, out of which overall volume and marketing is very nice.
- Moderator:** We take the next question from the line of Anubhav Mukherjee from Prescient Capital. Please go ahead.
- Anubhav Mukherjee:** Yamaha has grown substantially for you over the years. So, do you see like from a longer-term perspective not something in very near-term, any other OEMs that can grow for you similar to Yamaha?
- Rajesh Sharma:** Yes, we are working with Yamaha of course and other Japanese customers, and we are expecting now very good volume from the domestic as well as export market, and we are under development of few projects which will definitely be launched by next financial year.
- Finance Team Member:** Additionally, there are 20 OEMs which are already signed up in the EV segment. These are of course small in terms of value right now, but as this volume grows, this should be a big kicker.
- J.K Jain:** Moreover, we have already announced about the Hero.
- Anubhav Mukherjee:** Can you elaborate like when we will be supplying, any qualitative data on the scope of business from Hero?
- Rajesh Sharma:** In last quarter also, we had informed we are working on four plus projects with Hero and very soon some of the supplies during this year, but next year will be of course complete.
- Anubhav Mukherjee:** You mentioned international models. So, can you elaborate a bit more like have we added any new OEM for exports or any new businesses in the export area?

- Rajesh Sharma:** See, we are working with all the customers as of now. We are not only concentrating on domestic market. We are concentrating on export business too. And our presence is with almost all the customers as of now to gain more and more business from export segment also.
- Anubhav Mukherjee:** On the EV side, have we added any EV OEM in the passenger vehicles segment because like Tata Motors is going very strongly in the EV segment and even M&M is planning to launch a lot of new models in the EV segment. So, sir are we there in the passenger vehicles segment on the EV side or adding any new business?
- Rajesh Sharma:** We are working for two-wheelers mainly and, of course, where we will get the opportunity, we are already looking in the market where we can penetrate in passenger car also.
- Anubhav Mukherjee:** But as of now, do we have any business or any model?
- Rajesh Sharma:** The EV business was started with Mahindra Reva and we are the sole supplier for head lamp and tail lamp as of now. So, our entry is already in the EV car.
- Moderator:** We take the next question from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.
- Ashutosh Tiwari:** In case of HMSI, we've seen some fall in the revenue from Q4 to Q1 despite the volume going up. Is it the certain models where we supply, there was a production impact due to chip shortage?
- Rajesh Sharma:** There are few models wherein chip shortage is there at HMSI and certain volumes is dropped where our presence was there.
- Rajesh Sharma:** Especially 350 CC H'ness.
- Ashutosh Tiwari:** Secondly, we also got order from Harley-Davidson, USA and Thailand Plant. Have we already started supplying over there and is it meaningful to our revenue?
- Rajesh Sharma:** Yes, we have already started supplying to them, but it is a ramp up right now. So, might be next year will be the full volume which we can see.
- Ashutosh Tiwari:** What would be the potential over there?
- Rajesh Sharma:** Harley Davidson of course will not be having so much of volume because it is not in commute vehicle, but we are expecting good volumes because four or five models which they launched.
- Ashutosh Tiwari:** On Yamaha side, you mentioned that certain models you are supplying to Europe for fixed quantity, that is gotten over last quarter. But we also have talked about new models being added from there. So, any timeline for that?

- Rajesh Sharma:** Yes, we are working further on 10 new models and further developments are on the process right now, and some of the models will be launched within this year and some in the next year and continue.
- Ashutosh Tiwari:** So, considering all this, do you think that the Yamaha revenue will grow in this year basically versus FY'22 full year revenue?
- Rajesh Sharma:** It will be almost similar, not higher than that. But we are looking for good volume this year also.
- Moderator:** We take the next question from the line of Rahil Shah from BXV Investment. Please go ahead.
- Rahil Shah:** Just a couple of questions from my end. If you can help me with the wallet share of our top customers for Q1 and have we seen any decline in Yamaha wallet share?
- Arvind Chauhan:** There is no decline in the wallet share. So, I'm just sharing our wallet share with our top four customers. I start with HMSI, head lamp we are 40%, tail lamp 76%, side indicator 85% and for rearview mirror we are the sole supplier 100% wallet share with HMSI and for RR and Position Lamp 100%. For TVS, head lamp is 73% and tail lamp is 69%, blinker 82% and RVM 55%, License Lamp 50% and DRL is 100%.
- Rahil Shah:** Just want to understand on Yamaha?
- Arvind Chauhan:** For Yamaha, head lamp is 91%, tail lamp is 64%, side indicator is 5% and RVM is 32%, position lamp for Yamaha is 57%. For Suzuki, head lamp is 80%, tail lamp is also 80%, blinker is 23%, RVM 100% and RR is also 100%.
- Rahil Shah:** What is your sense on Ola, how do you see the demand coming in from Ola especially new scooter being launched? But we have seen some key people resigning from Ola as well.
- Rajesh Sharma:** We are expecting very encouraging result in time to come. Especially EV companies were suffering because of semiconductors, which will always be recovered. So, might be in the near quarters, we can see the good results from Ola.
- Rahil Shah:** What would be the overall utilization level for the company as a whole, what will we be operating at?
- Arvind Chauhan:** It's around 75% range.
- Rahil Shah:** Just want to get your sense on the overall outlook for the two-wheeler industry as to how fast can we see the recovery coming in?
- J. K Jain:** Yes, we believe that after a long period of two-wheeler returning back to the growth environment, we have a very robust pipeline of new projects and we are working closely with

our OEM customers. This includes the face lifts and new models. The strong pipeline should help us to grow significantly over the next few years. Further, EV will also act as a major growth driver for our industry, where we are well positioned.

Moderator: We take the next question from the line of Jyoti Singh from Arihant Capital Markets Limited. Please go ahead.

Jyoti Singh: Sir, my question on the revenue side and margin side. As we are seeing good traction on the OEM two-wheeler for the EV in coming months and next year, so, how much revenue we are targeting and how much margin we are expecting going forward?

Arvind Chauhan: So, as far as the revenue is concerned, we are always growing better than industry, so, naturally we will grow better than industry and our margins are best, already our EBITDA margin is 13.02% in this quarter. So, we will try to maintain better margins.

Jyoti Singh: If you can share how much wallet share we are doing for the Hero Motor Corp?

J.K Jain: For Hero, we have not yet started, although where we have mentioned earlier that we have been awarded three, four projects, which we hope that we will start by next year onwards.

Moderator: We take the next question from the line of Chetan Dhruva. Please go ahead.

Chetan Dhruva: In the last call, you had guided for 15% to 20% revenue growth, supposed to be fairly easy given the situation we were in, and a margin of 12% to 12.5%. You're already in that range in terms of margins. And the revenue growth also, you seem to indicate good outlook. So, are you going to revise this further upwards, any chance of revenue and margin guidance band moving upwards?

Finance Team Member: We generally don't give a specific revenue guidance, but given the overall industry, what we did say was that given what we see over the next couple of quarters, we felt confident that we can get there. So, I think our revenue guidance remains broadly in the same region. And also on the margin front, we've maintained that 12.5%, 13% or higher is something that we aspire for, we would rather just keep it at this, but overall, the outlook what we see over the next couple of quarters is fairly positive.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Sahil Sanghvi. Over to you, sir.

Sahil Sanghvi: Thank you, Diksha. Just wanted to thank the management for patiently answering all the questions and thank all the participants for being on the call. Jain sir, would you like to give any closing comments?

J.K. Jain: Yes. Thank you, everyone, for participating in the con call. I do hope we have been able to reply all your queries adequately. We are available for any additional questions you may have. Thank you and goodbye.

Moderator: On behalf of Monarch Network Capital, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Note: For sake of clarity, transcript has been corrected as per audio, post receipt from Chorus Call.