



“FIEM Industries Limited
Q3 FY2021 Earnings Conference Call”

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Hosted by Monarch Network Capital Limited



ANALYST: MR. ANUBHAV RAWAT – MONARCH NETWORK CAPITAL LIMITED

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

Moderator: Ladies and Gentlemen, Good day and welcome to the Q3 FY21 Earnings Conference Call of Fiem Industries hosted by Monarch Network Capital Limited. This conference call may contain forward looking statements about the Company which are based on belief, opinions, and expectations of the Company as on date of this call. These 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anubhav Rawat from Monarch Network Capital Limited. Thank you and over to you, sir.

Anubhav Rawat: Thank you Malika. Good evening everyone. On behalf of Monarch Network Capital, I welcome you all to Q3 FY21 conference call of Fiem Industries. We will start the call with the initial comments about the results and the outlook of the Company and we will open the floor for questions and answers. So, without much delay, I now hand over the call to Mr. J.K. Jain – CMD of the Company. Over to you, sir.

J.K. Jain: Good afternoon ladies and gentlemen. We welcome you all to the conference call on the financial results of Fiem Industries for the third quarter and 9 month ended on 31st December 2020. The Company has released its results on 12th February. I believe you all got the chance to go through the same. Along with me on this call, I have Ms. Aanchal Jain – Director, Mr. Rajesh Sharma – Director, Mr. OP Gupta – CFO, Mr. Arvind Chauhan – Company Secretary and other financial team members.

Let me start with a Company performance during the quarter, the financial result will be highlighted by the CFO, then we will start the session on question and answers.

Our growth has remained in line with the growth of our major OEM customers. During the third Quarter of the financial year 2021 the Company has achieved a turnover of Rs. 355 crores which is 10% increase on year-on-year basis. We have expected even higher growth rate during this quarter, but sales in December were impacted during the regular yearly maintenance shutdown by our key OEMs. Our top customers remain shut down for more than two weeks and other customers were shut down for one week.

Looking at medium-term outlook, we are hopeful for the continued demand in two-wheeler across the market which will be mainly driven by the demand in rural market and personal mobility preference by the people.

Announcement in the recent budget with regard to the increase spend on the road infrastructure and voluntarily scrappage policy are favorable for the automobile sector. E-vehicle trend is also getting momentum and mainline OEMs as well as new players are entering into E-vehicle which we think is very positive for industries, environment, as well as for our Company in the times to

come. We are working on these opportunities and closely involved with the OEMs for their new project development. We expect that during the next three years these new development will significantly contribute in overall growth of our Company.

With this, I hand over the line to our CFO – Mr. OP Gupta to update on financials.

OP Gupta:

Thank you sir. Good evening to everyone. I am pleased to inform that the Company has achieved a total sales of Rs. 355 crores in the Quarter 3 of FY20-21 as against the turnover of Rs. 323 crores in corresponding quarter of FY19-20 which has resulted in increase of 10% on year-on-year basis. During the quarter under reporting, the Company had earned an EBITDA of Rs. 42.84 crores which is 12.05% in comparison to EBITDA of Rs. 37.64 crores in Quarter 3 of FY19-20 which was 11.65% thereby indicating an upward trend in the EBITDA margin as compared to the corresponding quarter of last year. PBT for Quarter 3 FY20-21 stood at Rs. 27.30 crores as against the PBT of Rs. 21.15 crores during Quarter 3 of FY19-20 whereby showing growth of 29%. PAT of the Company stood at Rs. 20.68 crores against the PAT of Rs. 26.05 crores during Quarter 3 of 19-20.

During Quarter 3 of FY19-20 the Company had exercised an option for charging income tax at the lower rate as allowed under section 115B AA of the income tax act because of this the Company had made a reversal of deferred tax expenses to the extent of Rs. 7.26 crores during Quarter 3 of FY19-20. Without taking into account the reversal of deferred tax expense in Quarter 3 of FY19-20 the PAT of the Company has increased by 10% during Quarter 3 of FY20-21 as compared to Quarter 3 of FY19-20. Coming to the investment, Company has made an investment of Rs. 8.5 crores in fixed asset during the quarter under reporting. The total borrowings of the Company stood at Rs. 62.47 crores as at 31st December 2020.

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

Moderator:

Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Ashutosh Tiwari from Equirus Securities Private Limited. Please go ahead.

Ashutosh Tiwari:

So if I look at the revenue number for the quarter it is actually lower than the second quarter sales that we did despite the fact that market was two wheeler generally volumes for companies were higher in the third quarter versus the second quarter, is there any market share loss that we see because if I look at the revenue from Honda Motorcycle last year third quarter it was 42% market share roughly which is equivalent to 135 crores revenue this quarter that number is 34% only which is equivalent to 122 crores there is a decline in Honda revenue that we did in the current quarter versus last year by 10%, so what is the reason behind that?

- Rajesh Sharma:** As our Chairman has already indicated in his speech, HMSI have almost close for 18 days, more than 18 days during December month and that was their maintenance regular maintenance shutdown which has majorly impacted on our sales because as you know HMSI is our biggest customer in our overall sales and other customers also if you see the major other customers are also close for a week during December month that has mainly impacted on our total sales of this quarter.
- Ashutosh Tiwari:** But generally, the sales of companies I mean the volumes of Company in the third quarter was higher than the second quarter despite that we have seen a dip on a quarter-on-quarter basis I am saying?
- J.K. Jain:** No, basically this was normally the maintenance took place in December in two-wheel OEMs and normally the maintenance is only for 7 days. So, this time it was specifically they have made it for 18 days so that is why the sales is less.
- Ashutosh Tiwari:** Looking at the run rate that we saw in maybe January and schedule for third March do you think that the revenue going ahead in say Q4 and all will be higher than this quarter probably?
- J.K. Jain:** We are expecting very good growth.
- Ashutosh Tiwari:** So, can we surpass the Q2 numbers in Q4 in sales side?
- J.K. Jain:** Yes, I hope so.
- Ashutosh Tiwari:** And secondly in terms of this Yamaha global order that we had got was a revenue in this quarter lower than the second quarter and I mean how should we see the ramp up in Yamaha global orders going ahead?
- Arvind Chauhan:** Growth in Yamaha is good means this is higher.
- Ashutosh Tiwari:** So, I am comparing this with second quarter now versus last year number?
- Arvind Chauhan:** You are talking about this September ending quarter?
- Ashutosh Tiwari:** Going ahead we were talking about last time about ramp up further in Yamaha sales because we have won new orders from new country so how should we see the ramp up in that going ahead?
- Rajesh Sharma:** We have already started two projects out of our total development those projects have already started exporting to outside countries through Yamaha of course and those projects are definitely a very good demand as of now projected for next quarter.
- Ashutosh Tiwari:** You mean fourth quarter?

- Rajesh Sharma:** Yes, fourth quarter.
- Ashutosh Tiwari:** So, Yamaha revenue that we did over last two quarters it will increase from Q4 and will it be substantial growth or moderate growth basically?
- J.K. Jain:** It was a moderate growth basically.
- Ashutosh Tiwari:** No, I am asking that let us say we said that we will see some growth in Yamaha further delivery from Q4 for export order so can we see substantial growth from Q4 to Yamaha versus what we did in second and third quarter this?
- Rajesh Sharma:** Of course, Yamaha sales will grow. Of course, there will be growth for last quarter.
- Ashutosh Tiwari:** Compared to second, third quarter as well?
- Rajesh Sharma:** Yes exactly.
- Moderator:** Thank you. The next question is from the line of Anubhav Mukherjee from Prescient Capital Limited. Please go ahead.
- Anubhav Mukherjee:** Sir your competitor Lumax they hosted an earnings call just one and half hours back and beyond the call claim that due to their JV with Stanley, they have a lot of cost competitiveness and technology advantage in LED auto lamp specifically and they specifically sighted that the example of TVS Motors where they have been able to they were not a vender at all and they have been able to gain specifically in LED lamp for their top model, so sir would like to understand some new is it actually that their cost at which they can supply to the OEMs is lower for LED lam compared to us because they were very vocal about it?
- Rajesh Sharma:** See we are as of now if you see as we have taken few of the business from other competitors to us and we have started supplying for SXR model of Piaggio that is 100% of LED. So, it is a model mix whenever customer is required and how come and how fast we can give our solution. So we have also Design partner, our design subsidiary Company in Italy and we are supporting in all kind of electronic designing as well as mechanical designing and substantially we are giving the good competitive prices to our customers and we are getting good business.
- J.K. Jain:** And apart from this we were the first to have SMT line, electronic line production last 7 years, 8 years now, people are doing now, so that is the main thing.
- Anubhav Mukherjee:** Just on the pricing competitiveness is it possible like somebody is willing to work at a lower margin, what is your take on it because like what I understand is that we were the sole suppliers to TVS and that computer has been able to enter, so is it like it is not only about the quality, but is like pricing if something we cannot match up?

- J.K. Jain:** Basically, we were not sole suppliers to TVS and because there was Rinder, the second supplier was Rinder since many years. So yes, what you are saying there is a possibility that in one product they may try to enter for a low margin, but to have a low margin in the long run is not sustainable. So, nobody can do that forever. So just to have an entry in any Company, one can give a low level of pricing, but it is not sustainable in the long term.
- Anubhav Mukherjee:** Sir just on this there is a recent shortage of semiconductor which is impacting where the auto industry quite severely, so for us does that impact our production, our Company in anyway because we also would be sourcing the LED chip, so does it impact our sourcing anyway?
- J.K. Jain:** See we were aware of this for last one year and we were having heavy inventory at our end so now we are not impacted, and we have sufficient stock at our end.
- Anubhav Mukherjee:** Sir last question from my side, overall if you could share some details on any new business that you have won in this quarter, any new model or any new OEM added that would be very helpful?
- Rajesh Sharma:** As we intimated in our last call also, we have 50 plus project as of now under development and out of which we are expecting 35 projects will be launched within next three years.
- J.K. Jain:** Few projects we expect that this quarter two, three project will come they will be launching during this quarter.
- Moderator:** Thank you. The next question is from the line of Varun Bakshi from Equirus Securities Private Limited. Please go ahead.
- Varun Bakshi:** Sir firstly my question is on the increasing competitive intensity in the industry like two-wheeler we are seeing many new players entering, so how do you see the pricing pressure particularly on LEDs going ahead have seen a significant drop in the pricing of LED?
- J.K. Jain:** Basically, you know we have been telling earlier also our system is anything cost plus 5% is always reimbursed by our customers. So, we are not having any impact on that.
- Varun Bakshi:** I meant like the difference between LED and conventional lamp earlier it used to range from say 2x to 5x, so now has it come down or is it in the similar range?
- J.K. Jain:** No, it is at the moment similar range, not yet come down.
- Varun Bakshi:** Also, sir last call we had mentioned that there would be an announcement of addition of new big two-wheeler OEM to our customer list any progress on that?
- J.K. Jain:** We are already in touch and we hope basically one order we have got from Piaggio India that is the new addition. We have already started production in this quarter and fourth quarter will also

be ramp up plan it will be a good volume and the same time we will be exporting these lamps to Italy also Piaggio Italy.

Varun Bakshi: And sir if you can specify what would be our capacity utilization now and any plans to further increase the capacity utilization or increase our capacity?

J.K. Jain: Basically, now we have 70% to 75% capacity utilization which we can go up to 90% plus.

Varun Bakshi: So, we do not foresee any significant CAPEX in our near future?

J.K. Jain: Yes.

Moderator: Thank you. The next question is from the line of Priyadarshi Srivastava from Monarch Network Capital Limited. Please go ahead.

Priyadarshi Srivastava: Sir just wanted to know which are the new clients you have added in this quarter sir?

Rajesh Sharma: So, this quarter we have added Piaggio India as well as Piaggio Italy as well as Yamaha export also additionally we added Indonesia.

Priyadarshi Srivastava: Sir any four-wheeler clients update on that anything on boarding how is the progress or how we are looking?

Rajesh Sharma: As of now, passenger car there is no, but of course we are backing with commercial vehicle and tractor segment.

Priyadarshi Srivastava: And any update on boarding of Hero MotoCorp?

Rajesh Sharma: We are still working on that. We will update once things will be moved ahead.

Priyadarshi Srivastava: One more sir can you just help me with a split for the LED and the Halogen auto light?

Arvind Chauhan: Yes, LED is 41% and Halogen is 59%.

Moderator: Thank you. The next question is from the line of Manas saraswat who is an Individual Investor. Please go ahead.

Manas saraswat: Sir I wanted to know what the capital expenditure for FY21 and 22 was and annual maintenance CAPEX?

Arvind Chauhan: This is still under consideration, so in next call we will be able to tell you when this all-annualized figures will come. So far for this quarter it is 8.5 Crore, this is the CAPEX and for the full year it will be around 20 to 25 crores range.

- Manas saraswat:** And sir one more question what is the plan for the free cash flow post debt repayment, and will there be any share buyback or higher dividend possibility?
- Finance Team Member:** No, there will be no buyback, but we will plan for a dividend payout and consider in the last quarter whenever they see the entire year results, final dividend.
- Moderator:** Thank you. The next question is from the line of Ashutosh Tiwari of Equirus Securities Private Limited. Please go ahead.
- Ashutosh Tiwari:** Sir on this Piaggio order can I make a substantial difference to a revenue let us say can it be 1%, 2%, 3% of our sales or it is a smaller because the size of this in India is very small?
- Rajesh Sharma:** Business has just started and it is ramp up now it is totally be depended on the market feedback, but Piaggio is expecting very good growth for their model and we hope we will be also grow along with that.
- Ashutosh Tiwari:** And the content over here would be substantially higher than what we see generally in case of two wheelers?
- Rajesh Sharma:** Yes of course, all LED because, this is a front headlamp and tail lamp, both are completely LED.
- Ashutosh Tiwari:** And just to get a sense again in this Activa what is our current share in the headlamp supplies both LED and halogen headlamp basically?
- Arvind Chauhan:** This is same 40%.
- Ashutosh Tiwari:** That has remained the same both Halogen and LED there is no change over there?
- Moderator:** Thank you. The next question is from the line of Priyadarshi Srivastava from Monarch Network Capital. Please go ahead.
- Priyadarshi Srivastava:** Sir just wanted to know can you share the details the product wise detail in the lighting rear-view and the metal sheet parts for our top five client sir you used to provide it earlier?
- Arvind Chauhan:** You want the share of business.
- Priyadarshi Srivastava:** Yes.
- Arvind Chauhan:** This is the same for HMSI headlamp is 39%, taillamp is 81%, winker is 84%, rear view mirror is 100% we are sole supplier and for RR and Position Lamp, we are sole supplier this is 100%. TVS headlamp is 73%, taillamp is 74%, winker is 85%, RVM is 50%. TVS DRL and license lamp, we are the sole supplier at 100%. For Yamaha, headlamp is 87%, taillamp is 87%, winker is 33% and rear-view mirror is 41%, Yamaha RR we are 100% supplier. For Suzuki headlamp

is 78%, taillamp is 78%, winker is 22%, RVM is 100%, Suzuki RR again we are sole supplier, so 100% share.

Moderator: Thank you. The next question is from the line of Imran Khan from Ratna Traya Capital Partners. Please go ahead.

Imran Khan: Can you please share the gross debt and net debt number?

Finance Team Member: Actually, our gross debt is 62.47 and we have 35 crores in the balance sheet so net debt will remain 27 crores.

Moderator: Thank you. The next question is from the line of Anubhav Rawat from Monarch Network Capital Limited. Please go ahead.

Anubhav Rawat: So, sir in these 9 months in FY21 have we lost any vehicle model or any client?

J K Jain: No, so far nothing.

Anubhav Rawat: And any significant vehicle module client that we have gained sir in 9 months?

J K Jain: Yes, as we told we have started supply to Piaggio India as well as Piaggio Italy.

Anubhav Rawat: Sir any update on new JV and technical collaborations as of now?

J K Jain: Due to COVID things are pending so we will let you during our next call.

Anubhav Rawat: And sir so our estimate was from this bank and us I think roughly around 5 crores to 6 crores for peak revenue, so by when can we expect this sir?

Arvind Chauhan: See, for bank angle sensor our peak revenue is around 30 crores not the 6 crores and for 9 months it is already 20 crores.

Anubhav Rawat: Peak is 30 you are saying right?

Arvind Chauhan: Yes.

Anubhav Rawat: So, assuming that the reach 90% capacity utilization so sir what revenue can we do I mean assuming?

J K Jain: We are expecting up to 1,700 crores.

Anubhav Rawat: And our margins will be remained in this 12% 13%, 14% region is that correct?

- J K Jain:** Yes
- Anubhav Rawat:** Last question sir is you said that we will be supplying to CV and tractors so sir for this do we need some additional capacity, will be doing any additional CAPEX for I mean the existing capacity we will suffice?
- J K Jain:** No, basically tractors we are already supplying to many tractor companies especially the Kubota not only here but also in Japan. So basically, we do not need any other CAPEX or anything because still as I told you we are in the capacity of 70%, 75%.
- Moderator:** Thank you. The next question is from the line of Ashutosh Tiwari of Equirus Securities Private Limited. Please go ahead.
- Ashutosh Tiwari:** Just one question on this Honda motorcycle so in case of Honda is our market share higher in scooter versus motorcycle or it is more or less similar across?
- J.K. Jain:** We are more in scooter as compared to motorcycle.
- Ashutosh Tiwari:** That could be one reason why because we have seen bigger drop on quarter-on-quarter basis in scooter sales of Honda that is why our sales is more impacted versus industry?
- J.K. Jain:** Exactly.
- Ashutosh Tiwari:** That should normalize going ahead right?
- Rajesh Sharma:** Yes.
- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.
- Pritesh Chheda:** So, what is your progress on the export side now with the Yamaha and Suzuki?
- Rajesh Sharma:** Of course, the export to Yamaha through Yamaha India, because we cannot count the numbers of course the overall business as of now which is being increased from Yamaha side for LED headlamps and tail lamps, we will be doing exports to Yamaha Italy, Yamaha Japan as well as Yamaha other countries.
- J.K. Jain:** Similarly, Suzuki also the export is through Suzuki India only.
- Pritesh Chheda:** There were few global models on for Suzuki and for Yamaha which we were expecting some ramp up in business, what is the status there?

- Rajesh Sharma:** Yes, Yamaha we are expecting a good growth and we have already started it is under ramp up now, so may be next quarter we can see a good growth and further next year because there are three additional models which are coming during next year, so then we can expect good growth.
- Pritesh Chheda:** And for Suzuki?
- Rajesh Sharma:** Suzuki of course, the existing model they have started exporting and they are also working on the good growth on their side.
- Pritesh Chheda:** And any progress on Hero as a client?
- Rajesh Sharma:** Still going under discussion we may give you information once this will be finalized.
- Pritesh Chheda:** And my last question is there any change in market share for us in the lighting business in the OEM space if any?
- J.K. Jain:** No, rather it has an increase little bit increase our market share not decrease.
- Pritesh Chheda:** This is with reference to which quarter or year that you are referring to?
- J.K. Jain:** Basically, like Piaggio India and Piaggio Italy, last year to this year.
- Pritesh Chheda:** My question I asked specifically because when we see your revenue traction vis-à-vis the industry number it is slightly slower growth, so if you want to highlight any reason there?
- J.K. Jain:** The basic reason is as we told earlier that our main customer was closed almost for more than two weeks and other customer due to the maintenance off, basically in two-wheeler and we are in two-wheeler mainly. So, in December month mostly it is a maintenance off and this time it was you know especially for 18 days our main customers was closed, other customer for 7 days as I told earlier.
- Moderator:** Thank you. The next question is from the line of Anubhav Rawat from Monarch Network Capital Limited. Please go ahead.
- Anubhav Rawat:** So, sir just one question so till now in Q4 have you seen any plant shutdown or going forward any plans by any of our major clients?
- J.K. Jain:** No, we do not see that because there is no shutdown ever, basically it is a maintenance off, every year it is done.
- Anubhav Rawat:** I mean is it safe to assume that every year in third quarter we will probably see a dip?

- J.K. Jain:** Yes, every year it is like that, but this time one customer was more, but rest of them were 7 days, normally the maintenance of this taking place for 7 days.
- Anubhav Rawat:** And sir these receivables from EESL is still at 21 crores?
- J.K. Jain:** It is the same, and we are working on it.
- Moderator:** Thank you. As no further questions from the participants, I would now like to hand the conference over to the management for their closing comments.
- J.K. Jain:** I believe we have been able to reply all your queries adequately. I would like to thank everyone for sparing your valuable time and participating in the concall. Please stay safe and be healthy. Thank you very much.
- Moderator:** Thank you very much members of the management. Ladies and gentlemen on behalf of Fiem Industries and Monarch Network Capital Limited that concludes this conference call. Thank you for joining us and you may now disconnect the lines.

Note: In this transcript, corrections has been carried.