Fiem Industries Ltd — Aug 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Beat **One-line:** Fiem delivered a strong beat on the back of 2W industry recovery and strategic content-per-vehicle gains from the LED transition, notably securing 100% share in the new Royal Enfield Classic 350.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	Revenue grew 22% YoY vs 20% 2W industry production growth.	□
Earnings Quality	High (Core driven)	Growth driven by volume and product mix (LED transition).	□
Guidance Confidence	Strong	Maintained 15-20% long-term growth guidance despite EV volatility.	□
Management Credibility	Strong	Successfully converted RE Classic 350 to 100% Fiem LED supply.	□
Business Quality Signal	Improving	LED mix hit 55%; 4W entry via Mercedes-Benz pilot successful.	□
Key Q&A Exchange	Q3: RE Classic 350 win	Secured 100% LED lighting share for RE's highest volume model.	□
The Street's Primary Anxiety	EV slowdown & Gogoro Hub Motor delays	Mgmt clarified long-term EV trend is intact; Gogoro is re-engineering.	□
Capital Cycle Stage	Investment	□100 Cr FY25 capex; setting up 4W capacity and Japan R&D.	□
Margin / Return Ratio Trajectory	Improving	EBITDA margins expanded 64 bps YoY to 13.73%.	□
Pricing Power	Stable	Back-to-back RM pass-through with 3-6 month lag.	→
FCF Conversion & Quality	Strong	Net cash position of □235 Cr; self-funding □100 Cr capex.	□
Competitive Moat Signals	Widening	Japan R&D center for closer collaboration with Honda/Yamaha.	□
Balance Sheet Strength	Strong	Zero long-term debt; significant cash reserves.	□
Working Capital Efficiency	Stable	Maintained historical efficiency; WC days around 25-30.	→
Mgmt Guidance Track Record	Reliable	Consistently outperforming 2W industry benchmarks.	□
Key Vulnerability / Red Flag	Customer Concentration	Top 2 customers (Honda/TVS) contribute 55%+ of revenue.	□
Management Tone	Confident and Strategic	Focused on "technology lead" for 4W entry and 2W exports.	□

Key Takeaways (Positives & Negatives): * **Positives:** Massive market share win in Royal Enfield Classic 350 (100% LED share); outperformance vs. 2W industry production; successful penetration into Mercedes-Benz (Germany) for development projects; net cash balance sheet. * **Negatives:** EV segment volumes were "subdued" this quarter; Gogoro hub motor ramp-up delayed for re-engineering; high revenue concentration in the Honda-TVS-Yamaha triad. * **Street Concern:** Analysts pressed on whether the LED transition alone can sustain margins. Management responded that while realizations are 2-3x higher for LED, margins are stable, with growth driven by operating leverage and premiumization. * **Forward Watchpoint:** Progress on the 4W business (currently <1% of revenue) and the conversion of the "full RFQ pipeline" into tangible orders is the key re-rating trigger.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Volume (Automotive)	Not Stated	~20% (Est)	Not Stated	↑	Volume growth tracked 2W industry production increase.
Domestic Revenue	₹573.61 Cr	+21.86%	Not in Doc	↑	Driven by strong OEM demand and rural recovery.
Export Revenue	Not Stated	Not Stated	Not Stated	→	Ramping up via Yamaha for direct/indirect exports.
Key OEM Conc. (%)	78.7%	+1.2%	+0.5%	↑	Top 4 (Honda, TVS, Yamaha, Suzuki) share increased.
Revenue	₹573.61 Cr	+21.86%	Not in Doc	↑	Outperformed industry growth of 20%.
Gross Margin (%)	38.4%	-0.6%	Not in Doc	→	Stable; minor mix-led fluctuation.
EBITDA	₹78.77 Cr	+27.8%	Not in Doc	↑	Driven by operating leverage on higher sales.
EBITDA Margin %	13.73%	+64 bps	Not in Doc	↑	Improved from 13.1% in Q1FY24.
PAT	₹49.20 Cr	+35.0%	Not in Doc	↑	Boosted by higher EBITDA and low finance costs.
ROCE (%)	24.96%	-12 bps	Not in Doc	→	Stabilized near 25% levels.
Net Debt / (Cash)	(₹235 Cr)	-₹29 Cr	Not in Doc	↑	Strong cash accumulation (Standalone).
Interest Coverage	240x (Est)	↑	Not in Doc	↑	Negligible debt/finance costs.
Working Capital	28 Days	-1 Day	Not in Doc	→	Inventory/Receivables managed efficiently.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Co Avg	Key Development
Automotive Lighting	₹467.49	+22.0%	Not Stated	↑	Neutral	LED mix hit 55%; supply started for RE Classic 350.
Rear View Mirrors	₹67.68	+18.5%	Not Stated	↑	Lower	Steady growth tracking 2W volumes.
Plastic Moulded Pts	₹38.43	+16.8%	Not Stated	↑	Lower	Includes standalone supply from Unit 2, 8, and 9.
Others (IPIS/Etc)	₹0.00*	N/A	N/A	↓	N/A	Others category now includes fabrication/ canisters.

Note: Individual "Other" sub-segments were summarized; total segment revenue sums to total company revenue.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	15-20% long-term growth.	FY25 Q1 (22%) exceeds target.	Consistently delivered.	Low
Guidance	Margins	Maintain 13-14% EBITDA.	Currently at 13.73%.	Met in Q1.	Low
Guidance	4W Business	Significant/Double-digit % in 5 yrs.	Needs ~50% CAGR in 4W segment.	Early stage (Mercedes pilot).	High
Guidance	Capex Plan	□100 Cr for FY25.	□28.4 Cr spent in Q1 (28.4%).	On track.	Low
Strategy	Product Mix	Shift towards LED (now 55%).	Achievable as OEMs transition.	Supply start for RE Classic.	Low
Macro	EV Transition	"First mover advantage."	Linked to FAME-III/ Subsidy.	Q1 EV was "subdued."	Moderate
Balance	Cash Utilization	Use for 4W factory/M&A.	No concrete M&A yet.	Accumulating cash.	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.0	Gagandeep / Nvest	Business Overview	Status of Hub Motors and Gogoro partnership.	Management stated Gogoro is currently re-engineering to reduce costs and will launch with Gen-2 batteries in FY26. Investment of □35 Cr is made, but ramp-up is pushed to 2026, delaying the non-lighting revenue kick.	Short-term volume numbers.	3.5	Specific timeline
2	3.5	Gagandeep / Nvest	Mgmt Outlook	Current outlook for EV penetration.	Management acknowledged a subdued Q1 (sub-5% penetration) due to subsidy changes but remains bullish on the long-term upward trajectory. EV volumes are a monitoring point for FY25 growth sustainability.	None	4.0	Directional evidence
3	5.0	Ashutosh / Equirus	Business Overview	Significance of the Royal Enfield Classic 350 win.	Fiem secured a new, 100% share order for the full LED lighting suite (head/tail/ blinkers) for the Classic 350, replacing a prior halogen model. This implies a significant content-per-vehicle jump from zero to □2,000-3,000 per set.	None	5.0	Thesis-critical win
4	4.5	Ashutosh / Equirus	Business Overview	Update on Mercedes-Benz and 4W strategy.	Management successfully delivered a development project to Mercedes Germany and	Order size in □Cr.	4.0	Step-by-step progress

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					secured a second order for head/tail lamps for development vehicles. This validates Fiem's entry into the high-precision German luxury supply chain, even if initial volumes are low.			
5	4.0	Ashutosh / Equirus	Mgmt Outlook	Rationale for the new Japan R&D center.	The center allows closer collaboration with Japanese HQs (Honda/Yamaha) at the early design phase for global models. This enhances Fiem's positioning for global platform wins beyond the Indian market.	None	4.5	Strategic Moat
6	3.5	Nikhil / SiMPL	Financials	Why haven't margins expanded more with the 55% LED mix?	Management explained that higher realization in LED does not translate to higher percentage margins; the primary gain is in absolute EBITDA and operating leverage. Long-term EBITDA guidance remains 13-14%, capping margin re-rating expectations.	None	4.0	Realization vs Margin
7	4.0	Sahil / Monarch	Financials	Status of the insurance claim for the fire incident.	Reinstatement of assets is in advanced stages (next 2-3 months); claim is under process with a policy based on	Specific claim amount.	3.0	Progressing

Q#	Relevance	Analyst / Firm	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					"reinstatement value." This removes a lingering balance sheet overhang once finalized.			
8	3.0	Hitesh / Riddhish	Business Overview	Future revenue mix target for 4-wheelers.	Management aims to take 4W revenue from <1% currently to double digits within 5 years. This highlights a clear intent to diversify away from 2W concentration, though the path requires aggressive execution.	Execution timeline.	3.0	Aspirational

PATTERN FLAGS & SENTIMENT * **Theme Cluster: 4W Ambition.** Analysts are skeptical but intrigued by the 4W entry. Management is using the Mercedes-Benz pilot as a credibility stamp. The anxiety lies in the low current revenue share (<1%) vs the aggressive double-digit target. Management remained confident, citing a "full RFQ pipeline" and new technology partnerships. * **Theme Cluster: Margin Ceiling.** There is a recurring query on why the LED transition (higher ASP) isn't lifting EBITDA margins beyond 14%. Management's stance is firm: LED is about absolute profit growth and leverage, not margin percentage expansion. This has likely cooled some "margin-expansion" thesis plays. * **Analyst Sentiment Verdict:** Analysts were generally positive, impressed by the RE Classic 350 win and the Mercedes pilot. Friction remains around the EV slowdown and the "Gogoro delay," but the core 2W OEM performance provided enough comfort. Management's credibility improved due to the RE win, which was a competitive displacement.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Opening / Prior Q) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | |-------|--------------------------------------|-------------------|-----------------|----------------| | Hub Motors | Projected as an immediate EV lever. | Volume ramp-up pushed to FY26. | Re-engineering delay at Gogoro. | Minor revenue delay; non-core for now. | | EV Volumes | Expected "exponential" growth. | Current quarter is "subdued." | Penetration stalled at ~5% due to subsidies. | Moderate risk to EV-led growth tailwinds. |

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5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare.

STOP HERE.