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FORCE MOTORS LTD

BUY

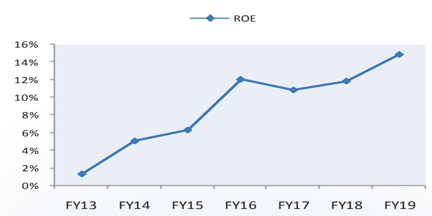
21-Jul-17

INDUSTRY -	AUTOMOBILE
BSE Code -	500033
NSE Code -	FORCEMOT
NIFTY -	9873

Company Data

CMP	4106
Target Price	**4850**
Previous Target Price	**4850**
Upside	**18%**
52wk Range H/L	4839/2980
Mkt Capital (Rs Cr)	5,352
Av. Volume (,000)	24

RoE to increase sharply in FY19

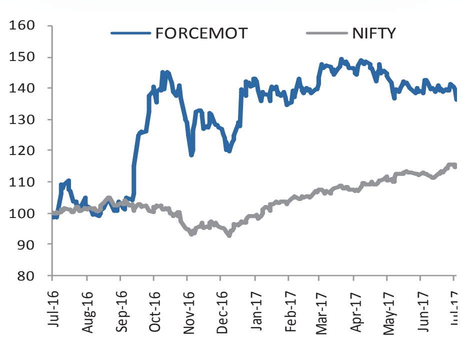


Shareholding patterns %

	4QFY17	3QFY17	2QFY17
Promoters	61.1	61.1	60.1
Public	38.9	38.9	39.9
Total	100.0	100.0	100.0

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	(6.2)	(8.1)	36.8
Rel.to Nifty	(8.7)	(16.1)	21.1



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Key Highlights of the Report:

- ☑ Volume growth in 1QFY18 remained sluggish due to BS-IV transition and GST. Major positive for the quarter remained the auto component business of the company which has posted healthy growth of 9%YoY after two quarters of degrowth.
- ☑ Increasing localisation and GST may provide Force Motors huge opportunity of growth in the luxury car engine segment going ahead.
- ☑ Force Motors Limited has strongly positioned itself in the light and small commercial vehicle segment with market share of over 45%. Travellers, the company's most successful brand holds a market share of 70%.
- ☑ Currently, the stock is trading at 2.5x FY19E P/B. Considering the immense growth potential going ahead, we maintain 'BUY' on Force Motors with a target price of Rs.4850.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	2,364	3,025	3,069	3,579	3,982
EBITDA	147	274	268	332	425
EBIT	66	182	155	208	294
PAT	82	179	180	221	321
EPS (Rs)	63	136	137	168	244
EPS growth (%)	34%	117%	1%	23%	45%
ROE (%)	6%	12%	11%	12%	15%
ROCE (%)	5%	12%	9%	11%	14%
BV	1,001	1,131	1,266	1,418	1,641
P/B (X)	1.4	2.5	3.5	2.9	2.5
P/E (x)	22	21	33	25	17

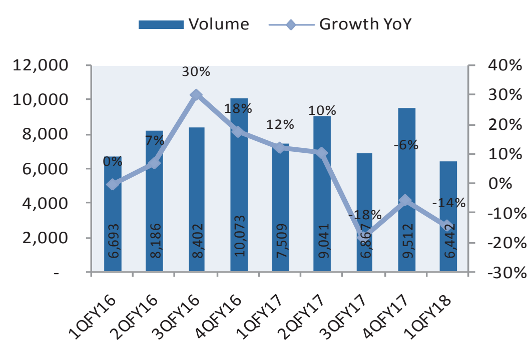
RECENT DEVELOPMENT: Result Discussion

- ✓ Force Motors reported net sales of Rs.845 crore in 1QFY18. Total sales volumes contracted by 14%YoY and Realization was up by 15%YoY.
- ✓ BS-IV transition led price increase supported the realization and it soared by 15%YoY and 31%QoQ during the quarter.
- ✓ EBITDA declined by 48% YoY to Rs.37 crore in 1QFY18 due to increased commodity prices and higher other expenses. EBITDA margin declined by 400bps to 4.4% during the quarter.
- ✓ Profit after tax also declined by 42% YoY to Rs.30 crore during the quarter and further contraction in the PAT was arrested by the higher other income. PAT margin was 3.5% for the quarter.
- ✓ Auto component division of the company reported healthy 9%YoY growth after 12% and 16%YoY degrowth in last two quarters. Higher sales of Mercedes and BMW cars have led to this growth. Lower tax under the GST will provide further headroom of growth for luxury vehicles.

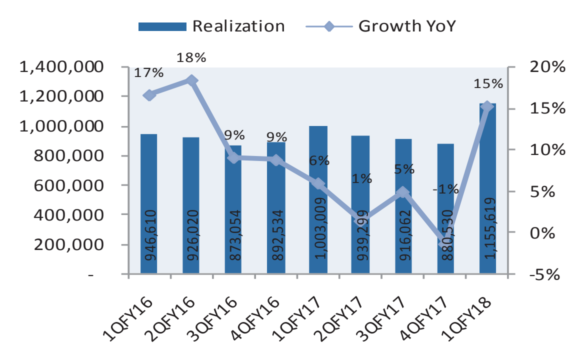
Quarterly Performance

Financials	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Total Volumes	7,509	9,041	6,867	9,512	6,442	-14%	-32%	33,354	32,929	-1%
Realization(Rs.'000)	1,003	939	916	881	1,156	15%	31%	907	932	3%
Net Sales	854	966	716	959	845	-1%	-12%	3,025	3,069	1%
Other Income	18	19	24	24	28	58%	16%	71	85	19%
COGS	540	610	448	605	563	4%	-7%	2,172	2,202	1%
Employee Cost	78	89	95	88	74	-5%	-15%	304	350	15%
Other Expenses	63	76	57	53	70	11%	33%	274	249	-9%
EBITDA	72	75	29	92	37	-48%	-59%	274	268	-2%
Depreciation	25	26	27	34	31	22%	-10%	92	113	23%
Interest	1	1	1	3	3	268%	10%	5	6	5%
PBT	63	67	25	79	31	-51%	-60%	249	234	-6%
Tax	12	18	1	24	1	-89%	-95%	70	55	-21%
PAT	51	50	23	55	30	-42%	-45%	179	180	1%

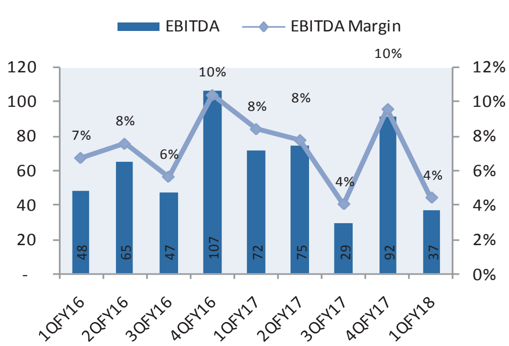
Volume and Volume Growth Trend



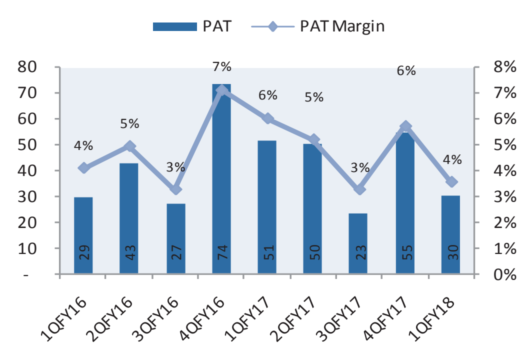
Realization (Rs. per vehicle) and Realization Growth Trend



EBIDTA (Rs. crore) and EBITDA Margin Trend



PAT (Rs. crore) and PAT Margin Trend



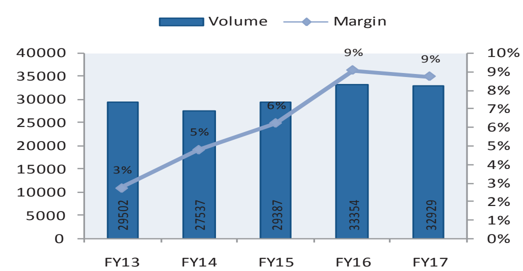
Investment Arguments:

- ✓ **Luxury cars to drive future growth:** Force Motors Limited (FML) assembles engines, gearboxes and axles for Mercedes and BMW in India. The company has separate manufacturing units for both the OEMs. In June 2016 it opened plant for Mercedes in Chakan, Pune which has a capacity of producing 20000 engines per annum. The company has also set up separate plant for manufacturing BMW engines in Chennai and that has a capacity of 20000 units per annum on single shift. The company derives approx.37% of its revenues from its sub-contracting business. We expect this segment has huge growth potential as the OEMs are focusing on localization. GST implementation will also drive the volume growth for luxury cars going ahead because the tax rate will come down by 6% on luxury
- ✓ **Strong traction in Travellers segment:** With strong product portfolio in the small and light commercial vehicles segment, Force Motors has gained over 45% market share in sub 5 ton passenger carrier category. Travellers is most successful brand for the company with market share of over 70%. Force Motors derives approximately 50% of its revenue from the traveller segment. Its presence in school bus, ambulance, corporate commuter, fire and defense segment has given the small and light commercial segment ample opportunity of growth in coming years.

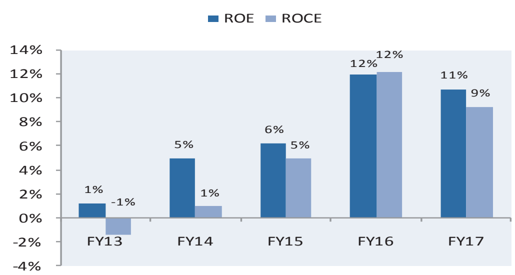
- ✓ **Monsoon to augur well for tractor segment:** Monsoon will be a key trigger for the growth in tractor segment. Force Motors Balwan range tractors has gained good traction in 2016-17. The company has also gained market share in the Maharashtra region. The company has been focusing on this segment as it didn't perform well in the past. Recent growth in the tractor segment has augured well for the company. We expect that the growth in this segment will be driven by good monsoon and government's focus on rural development.

- ✓ **Strong Margin and RoE profile going ahead:** Currently, the company has enough capacities to cater future demand. This will result in the benefit of operating leverage for the company and thus it will give a push to the margins further. The company has strong balance sheet as it can be considered debt free and it has cash equivalent of over Rs.200 crores. Force Motors also generates good cash flow from its operations. We expect that the RoE may increase from 11% to 14.8% in FY18.

Strong volumes to drive margins up



ROE and ROCE trend



View & Valuation

Force Motors Limited has strongly positioned itself in the light and small commercial vehicle segment with market share of over 45%. The company has also a technical edge over its peers as it manufactures and assembles engines for luxury car makers like Mercedes and BMW for Indian market. The company generates about 37% of its revenues from sub-contracting business. Volume growth in 1QFY18 remained sluggish due to BS-IV transition and GST. Major positive for the quarter remained Auto component business of the company which has posted healthy growth of 9%YoY after two quarters of degrowth. We expect RoE to improve by 400 bps to 14.8% in FY19 based on strong traction in travellers segment, favorable demand outlook for luxury cars and improvement in margins on the back of operating leverage. Currently, the stock is trading at 2.5x FY19E P/B. Considering the immense growth potential going ahead, we maintain 'BUY' on Force Motors with a target price of Rs.4850.

Financials Snap Shot

Income Statement

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	3,025	3,069	3,579	3,982
Change (%)	*28%*	*1%*	*17%*	*11%*
Other Operating Income				
EBITDA	*274*	*268*	*332*	*425*
Change (%)	86%	-2%	24%	28%
Margin (%)	**9%**	**9%**	**9%**	**11%**
Dep & Amortization	*92*	*113*	*124*	*132*
EBIT	182	155	208	294
Interest & other finance cost	*5*	*6*	*5*	*5*
Other Income	71	85	101	170
EBT	249	234	304	458
Exceptional Item	-	**1**	-	-
Tax	70	55	83	138
Minority Int & P/L share of Ass.	-	-	-	-
Reported PAT	*179*	*180*	*221*	*321*
Adjusted PAT	**179**	**180**	**221**	**321**
Change (%)	*117%*	*1%*	*23%*	*45%*
Margin(%)	6%	6%	6%	8%

Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E
ROE	12%	11%	12%	15%
ROCE	12%	9%	11%	14%
Asset Turnover	1.3	1.1	1.2	1.2
Debtor Days	18	14	14	14
Inventory Days	66	52	52	52
Payable Days	50	58	58	58
Interest Coverage	34.4	28.0	38.0	53.6
P/E	21.0	32.8	25.2	17.3
Price / Book Value	2.5	3.5	3.0	2.6
EV/EBITDA	*13.5*	*21.7*	*16.2*	*12.3*
FCF per Share	19	(120)	94	165
Dividend Yield	0.4%	0.2%	0.3%	0.4%

Assumptions

Y/E March	FY16	FY17	FY18E	FY19E
Volume	33,354	32,929	34,557	38,422
Volume Growth	13%	-1%	5%	11%
Realization(Rs./vehicle)('000)	907	932	1,036	1,036
Realization Growth	13%	3%	11%	0%
Capex(Rs crore)	248	300	150	150

Balance Sheet

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	13	13	13	13
Reserves	1,476	1,654	1,856	2,148
Networth	**1,490**	**1,668**	**1,869**	**2,162**
Debt	*3*	*198*	*196*	*196*
Other Non Current Liab	96	129	104	104
Total Capital Employed	*1,492*	*1,670*	*1,869*	*2,162*
Net Fixed Assets (incl CWIP)	*997*	*1,132*	*1,158*	*1,176*
Non Current Investments	*8*	*9*	*23*	*51*
Other Non Current Assets	*79*	*63*	*63*	*63*
Non Current Assets	**1,083**	**1,204**	**1,244**	**1,291**
Inventory	548	438	510	568
Debtors	*150*	*115*	*134*	*149*
Cash & Bank	319	236	361	601
Other Current Assets	**104**	**173**	**202**	**225**
Current Assets	-	-	-	-
Creditors	417	485	566	630
Provisions	45	*54*	*33*	*37*
Other Current Liabilities	237	165	193	214
Curr Liabilities	715	705	818	907
Net Current Assets	**506**	**793**	**926**	**1,172**
Total Assets	*2,305*	*2,701*	*2,988*	*3,370*

Cash Flow Statement

Rs in Crores

Y/E March	FY16	FY17E	FY18E	FY19E
PBT	250	234	304	458
(inc)/Dec in Working Capital	(20)	(208)	(76)	(91)
Non Cash Op Exp	92	113	124	132
Interest Paid (+)	4	6	5	5
Tax Paid	(38)	(55)	(83)	(138)
others	(25)	-	-	-
CF from Op. Activities	**263**	**90**	**274**	**367**
(inc)/Dec in FA & CWIP	*(238)*	*(248)*	*(150)*	*(150)*
Free Cashflow	*26*	*(158)*	*124*	*217*
(Pur)/Sale of Investment	-	(1)	(14)	(28)
others	28	-	-	-
CF from Inv. Activities	**(210)**	**(249)**	**(164)**	**(178)**
inc/(dec) in NW	171	178	201	293
inc/(dec) in Debt	(8)	196	(2)	-
Interest Paid	(5)	(6)	(5)	(5)
Dividend Paid (inc tax)	**(24)**	**(16)**	**(19)**	**(28)**
others	(3)	-	-	-
CF from Fin. Activities	(39)	174	(27)	(34)
Inc(Dec) in Cash	14	15	83	155
Add: Opening Balance	**300**	**57**	**86**	**169**
Closing Balance	314	72	169	324