

Industry	HDFC Sec Scrip Code	CMP	Recommendation	Sequential Targets	Time Horizon
Automobile	FORMOTEQNR	Rs. 2954	Buy at CMP and add on dips between Rs.2632-2750 band	Rs. 3275 & Rs. 3510	2-3 quarters

Company Profile

Force Motors Ltd is a Pune based company engaged in the manufacture of LCVs, SCVs, utility vehicles, agricultural tractors and other products related to automobile industry such as diesel engines. It has currently five plants in India, one each in Akurdi, Pune; Pithampur, Madhya Pradesh; Urse, Pune; Mahindra World City, Tamil Nadu and Chakan, Pune.

Force Motors established in 1958 by Shri N. K. Firodia is a fully vertically integrated automobile company, with expertise in design, development and manufacture of the full spectrum of automotive components, aggregates and vehicles. Force Motors (formerly known as Bajaj Tempo) started production of HANSEAT 3-wheelers in collaboration with Vidal & Sohn Tempo Werke Germany. The company played a pioneering role in the light commercial transport industry in India with iconic brands like the Tempo, the Matador and the Traveller. Its range includes Trump small commercial vehicles, Trax multi-utility and cross country vehicles, Traveller light commercial vehicles/mini buses and the Balwan range of Agricultural Tractors. Force Motors has also entered into the personal vehicles arena with the launch of a genre leading sports utility vehicle, the FORCE ONE in August 2011. The Extreme Off-Roader Vehicle; Gurkha is the second vehicle to be launched under the Personal Vehicles Division.

Force Motors enjoys more than 75% market share in the less than five-tonne category, even as its two main competitors — Mahindra Tourister (10% market share) and Tata Motors (15% market share) — are de-growing. The reason for Traveller's success apart from its versatility is its Monocoque design structure (normally seen in cars and SUV's but rarely in buses) which leads to better performance, road dynamics, and fuel efficiency and guarantees a superior and comfortable ride. FML is among the largest ambulance makers in the country and had registered a growth of almost 12% in this segment in FY15.

Currently, auto components contribute 30% to total revenue and automotive sales contribute 68%. Over the next five years, this ratio could change to auto components contributing 50% and automotive contributing only 48% of the total revenue.

We had issued Stock Note dated 22nd September 2015 at the then CMP of Rs. 2380.7 and had recommended to buy at CMP and add on dips to Rs. 1900-1950 with price targets of Rs. 2969 and Rs. 3272. Both the targets were met in the month of Oct 2015. Here is the link to the main report, http://hdfcsec.com/Research/ResearchDetails.aspx?report_id=3014464

Recent Updates

- During Q3FY16, the company recorded net sales of Rs. 739.79 crore significantly up by ~45%. It recorded at EBITDA of Rs. 61.76 crore as against Rs. 28.14 crore in Q3FY15, rising by nearly 120%. Operating Profit margin rose by ~350 bps to touch 6.4%. Due to the robust operational performance, the bottom line also rose from Rs. 10 crore in Q3FY15 to Rs. 27.42 crore in Q3FY16, nearly a threefold jump YoY. Also the company sold a total of 8042 no. of vehicles (including exports) as against 6456 no. of vehicles in Q3FY15, rising by 30.1% YoY. As far as the latest numbers are concerned, Jan-Feb 2016, the company was able to sell 5310 no. of vehicles as against 4795 vehicles in the same period last year, thus rising by about 11%.

- Force Motors has opened its new plant at Mahindra World City in Chennai which became operational from July 2015. In this plant, the company manufactures diesel engines for the BMW X1, X3, X5, 3 Series and 3 GT, 5 Series and 7 Series which will be manufactured in India. The company has already supplied over 6000 engines since start of production in January 2015. This was the first time BMW outsourced the production of engines and considered Force Motors as the most capable manufacturer that can handle this responsibility and with this the Indian automaker became the first company to produce engines for two of the top luxury automakers namely Mercedes-Benz and BMW. Force Motors is producing engines for Mercedes since 1997. The new facility was developed at an investment of Rs. 200 crores under supervision of the German automaker who also trained the 100 engineers that the facility employs to maintain the global standards. The facility at Mahindra World City is capable of producing 20,000 engines every year which can also be increased up to 50,000 units and it also produces transmissions.
- The company at its Chakan plant in Pune would make engines for Daimler vehicles. The annual capacity will be of 50,000 sets a year and the company has invested around Rs 200 crore in it. Force Motors has been making engines and axles for Mercedes cars that are assembled in India for 19 years, and the new plant will cater to all their future requirements. Force Motors has been producing the engines and axles since 1997 and has supplied over 60,000 engines and 50,000 axles till date. Mercedes-Benz India sold 13,502 vehicles in CY2015, with 32% year-on-year growth, which is their best performance ever. In 2015, Mercedes-Benz India added GLA, CLA and the Mercedes-Maybach S 500 to its local production portfolio and doubled the production capacity at its plant in Chakan, Pune. The performance in 2015, gives Mercedes-Benz India the confidence that 2016 will be an exciting year in many ways. For 2016, the company has confirmed 12 new launches and inauguration of 10 new outlets.
- The company is further investing in its Pithampur facility in Madhya Pradesh to expand capacity and expects it to be completed by mid of 2016. This plant assembles Force One SUV. However, according to the media reports, Force Motors is learnt to have decided to gradually exit the SUV market and focus on further strengthening its bread-and-butter utility vehicle (UV) and light commercial vehicles (LCV) businesses. The Force One entered the domestic market with a fully loaded version sporting a price-tag of Rs 10.65 lakh in August 2011. In July 2013, a set of new variants with the lower variant priced at Rs 8.99 lakh were introduced. The Force One was pitted against the likes of the Mahindra Scorpio and Tata Safari but the SUV did not find enough customers. It has sold only 3,008 units between November 2011 and January 2016.
- Force Motors has launched new products in its bread-and-butter UV and van portfolio to further strengthen its position. In February 2016, the company launched two large vans -- Traveller Royal and Traveller Super - to expand its footprint in the segment. The company has priced its 15-seater Traveller Royal in the range of Rs 15 lakh to Rs 25 lakh and 9-seater Traveller Super from Rs 8 lakh to Rs 16 lakh. With Traveller Royal, the company is creating a new segment of luxury vans. It would have all facilities of a luxury bus. It could be useful for providing service in tier II & III places, where operating big luxury buses is not viable. Both these vehicles come with factory fitted air conditioning, luxurious reclining seats, larger sealed glass windows, ABS, EBD and air suspension (offered for the first time in this category).
- Force Motors also in Feb 2016 launched an intra-city smart city bus for up to 21 persons. The 21 seater Traveller Smart Citibus is ideal as a feeder bus to and from the Metro stations in megacities like Delhi and Mumbai. This Traveller Smart Citibus will be the preferred mode of travel in smaller cities with population up to 5 lakhs. 90% of the 100 smart cities identified by the Government under the Smart Cities Mission fall in the "under 5 lakh" population category. The main benefit of these buses are it will be viable to operate in smaller towns with low density routes and in congested areas where operating the large 12m buses are economically unfeasible.

- In a bid to expand its business operations, Force Motors will be venturing into the Defence Vehicles business. This can be on the lines of Tata Motors which has a separate defence vehicle unit where they manufacture plethora of vehicles that can be used by the paramilitary forces. The company is already supplying paramilitary ambulances to the armed forces since the last one year. The company has the capability to customise the vehicles for troop's movement etc, and will make an entry into this segment as and when the demand comes.
- Force Motors had also revealed plans to launch new Firefighting and Rescue vehicles. During the Auto Expo during Feb 2016, the company introduced vehicles useful in disaster management and life support solutions. The Traveller First Responder Vehicle (FRV) and the Traveller Four Stretcher Advanced Life Support Ambulance will provide much needed support for disaster management and relief.
 - The Traveller First Responder as the name suggests will be the first to reach the site of accident and using the 'state of the art' fire-fighting and rescue equipment help extricate victims quickly. The First Responder is equipped with Hydraulic Cutters, Spreaders, Jacks, Chain Saws, and Cordless Saws. It also has on board a generator, compressor to power the hydraulic and battery operated tools including the telescopic lights and quick up ladder. Unlike most disaster management vehicles that are built on the heavy trucks that are slower and not very maneuverable, the Traveller First Responder on account of its compact size and powerful Mercedes derived power train will be able to reach the site earlier.
 - The Traveller Four Stretcher Ambulance can transport four victims at a time to the nearest hospital. Force Motors is the first to develop an ambulance that has four stretchers laid out on the same level enabling attending to all the four patients at the same time. The Advanced Life Support equipment installed ensures medical assistance in transit during the crucial golden hour and help save lives. It also has a vehicle tracking, navigation and surveillance facility for planning the route and monitoring progress. On board cameras can stream live video footage to the hospital control room so that they are fully aware of the patients' condition and are well prepared by the time the ambulance reaches the hospital.

Traveller First Responder Vehicle (FRV)



Traveller Four Stretcher Ambulance



- Amidst industry slowdown, the tractor segment of the company has grown although on a small base and in single digit. The company is able to gain market share from various existing players. Management expects the sector to pick up by Q4FY16 onwards.

- Force Motors is completely debt free unlike other automobile players in the sector. The company has strong cash reserves of about Rs. 303 crore in FY15 and has grown by about 16% from FY13-FY15. The company follows an accelerated depreciation policy thus it is better to value the company on a Cash EPS basis which was Rs. 138.6 in FY15. Cash per share as on FY15 comes at Rs. 230 which is quite healthy. Due to better operational profitability, the return ratios are expected to grow now. RoCE is expected to reach to 15.6% in FY18E from 9.9% in FY15 and RoNW is expected to grow to 11.0% in FY18E from 7.7% in FY15.

Risks/Concerns

- Elevated levels of commodity prices (steel, rubber, crude oil, etc) could lead to lower profitability.
- Rising price of diesel could impact sale of diesel vehicles. Almost the entire sales of Force Motors are of diesel vehicles.
- Slowdown in tractors industry (due to failure of monsoon or fall in growth of rural incomes) could affect fortunes of its tractor segment.
- Force Motors faces competition in the LCV segment and also in the tractor and Off road segments from M&M, Tata Motors and LCVs manufactured through Ashok Leyland-Nissan JV.
- Since Force Motors has started exporting to newer geographies, any adverse movement in currencies will have a negative impact on margins.
- As imports (including that of components) are much higher than exports, it faces the risk of loss if the rupee depreciates against other currencies including the USD and Euro.
- Extended slowdown in the economy could impact its sales and margins.
- The recent ban on registration of diesel vehicles in Delhi and NCR will impact demand for Force One SUV from Force Motors and indirectly demand for diesel engine supplies to BMW (6 of its vehicles) and Mercedes (11 of its vehicles will come under the ban) will be hit.

Quarterly Financials - Standalone

Particulars	Q3FY16	Q3FY15	VAR [%]	Q2FY16	VAR [%]	9MFY16	9MFY15	VAR [%]
Net Sales	739.79	511.92	44.5	755.97	-2.1	2129.85	1642.71	29.7
Other Operating Income	5.98	5.00	19.6	7.27	-17.7	19.17	18.07	6.1
Other Income	14.57	13.24	10.0	16.71	-12.8	46.45	44.08	5.4
Total Income	760.34	530.16	43.4	779.95	-2.5	2195.47	1704.86	28.8
Total Expenditure	698.58	502.02	39.2	698.60	0.0	1982.45	1573.37	26.0
Raw Material Consumed	565.59	403.11	40.3	540.95	4.6	1585.40	1204.22	31.7
Change in inventories	-28.35	-43.72		0.17		-55.15	-46.18	
Employee Expenses	76.60	70.53	8.6	77.09	-0.6	220.50	204.67	7.7
Other Expenses	84.74	72.10	17.5	80.39	5.4	231.70	210.66	10.0
PBIDT	61.76	28.14	119.5	81.35	-24.1	213.02	131.49	62.0
Interest	0.61	1.31	-53.4	0.53	15.1	1.90	4.94	-61.5
PBDT	61.15	26.83	127.9	80.82	-24.3	211.12	126.55	66.8
Depreciation	23.03	19.11	20.5	21.72	6.0	64.47	60.78	6.1
PBT	38.12	7.72	393.8	59.10	-35.5	146.65	65.77	123.0
Tax (incl. DT & FBT)	10.70	-2.28	-569.3	16.62	-35.6	40.96	10.69	283.2
Reported Profit After Tax	27.42	10.00	174.2	42.48	-35.5	105.69	55.08	91.9
EPS (Rs.)	20.8	7.6		32.2		80.2	41.8	

Equity	13.2	13.2		13.2		13.2	13.2	
OPM (%)	6.4	2.9		8.6		7.8	5.3	
PATM (%)	3.7	2.0		5.6		5.0	3.4	

(Source: Company, HDFC sec)

Conclusion & Recommendation

Force Motors has reported improving numbers over the last few quarters driven by higher contribution from outsourcing of components by international giants and better performance from its core automobile business. Most of the vehicles produced by the company are now BS4 compliant and company is focusing on BS5 compliant platforms. Currently, the company operates with an annual capacity of 36,000 vehicles per annum in Traveller and Trax, equally distributed. Management expects CV cycle to pick up from Q4FY16 and sees good growth prospects for next few years. For FY16, the planned capex is about Rs 400 crore predominately on product development, new generation smart vehicles, increase in tooling business and OEM capacity addition.

The Company also plans to produce the modern day vehicles equipped with features like inside cameras, vehicles tracking system (especially for school bus), high end software and hardware. Rapid urbanisation and rural mobility offers a big opportunity for Force's products and the same will be the main focus area for next couple of years. The tooling business is now gaining strength and would require some additional investment for its modernisation. The company expects to double the tooling segment revenue albeit on a small base in current year.

Force Motors is ready to take off with introduction of new generation smart vehicles, high growth potential of OEM business with setting up of new engine plants for BMW and Mercedes-Benz, launch of new Traveller platforms, enhanced tool business, improving product mix, enhanced productivity, cost control and improving margins and return ratios.

We think that investors could buy the stock at the CMP and add on declines to Rs. 2632-2750 band (~11.25-11.75x FY18E Cash EPS) for sequential targets of Rs. 3275 and Rs. 3510 (14x and 15x FY18E Cash EPS) over 2-3 quarters.

Financial Estimates

Particulars (Rs. Cr.)	FY12	FY13	FY14	FY15	FY16OE	FY16RE	FY17E	FY18OE
Net Sales	588.9	1922.2	1997.9	2337.3	2722.9	2869.8	3400.7	4189.7
Other operating revenue	22.5	50.5	23.7	26.5	29.1	28.6	32.6	33.9
Total Operating Revenue	611.4	1972.7	2021.6	2363.7	2752.0	2898.4	3433.3	4223.6
Total Operating Expenses	584.6	1918.8	1924.9	2216.7	2556.8	2683.3	3171.2	3890.1
Operating profit	26.9	53.9	96.7	147.0	195.2	215.1	262.1	333.5
OPM (%)	4.6	2.8	4.8	6.3	7.2	7.5	7.7	8.0
Reported PAT	-162.3	14.3	77.7	101.4	127.2	129.1	157.9	197.6
PATM (%)	-27.6	0.7	3.9	4.3	4.7	4.5	4.6	4.7
EPS (Rs)	-123.1	10.8	59.0	76.9	96.5	97.9	119.8	150.0

(OE: Original Estimates, RE: Revised Estimates)

(Source: Company, HDFC sec)

Profit & Loss Account

Particulars (Rs. in Cr)	FY12	FY13	FY14	FY15	FY16OE	FY16RE	FY17E	FY18E
INCOME:								
Net Sales	588.93	1922.20	1997.89	2337.27	2722.92	2869.80	3400.71	4189.68
% growth rate(YOY)		226.39%	3.94%	16.99%	16.50%	22.78%	18.50%	23.20%
Other Operating Income	22.49	50.52	23.74	26.45	29.10	28.56	32.59	33.93
Total Operating Income	611.42	1972.72	2021.63	2363.72	2752.02	2898.36	3433.30	4223.61
EXPENDITURE:								
Materials Cost	444.89	1408.76	1416.04	1641.03	1882.90	2051.91	2334.59	2920.21
Employee benefits expenses	60.20	262.32	240.56	277.73	319.94	309.94	396.18	477.62
Other Expenditure	79.47	247.76	268.31	297.95	353.98	321.42	440.39	492.29
Total Operating Expenses	584.56	1918.84	1924.91	2216.72	2556.82	2683.26	3171.16	3890.12
Operating Profit	26.86	53.88	96.71	147.00	195.2	215.10	262.14	333.49
Other Income	20.65	43.65	59.94	65.78	69.07	64.93	66.23	59.61
EBITDA	47.51	97.53	156.65	212.78	264.26	280.03	328.37	393.10
Interest	10.84	8.24	9.18	6.55	6.00	2.53	5.50	6.00
Depreciation & Amortisation	16.44	70.16	84.84	81.28	94.14	98.25	105.03	110.67
Profit Before Tax	20.23	19.13	62.63	124.94	164.12	179.24	217.85	276.43
Total Tax	182.50	4.85	-15.07	23.58	36.93	50.19	59.91	78.78
Reported Profit (before minority interest)	-162.27	14.28	77.69	101.36	127.19	129.05	157.94	197.65
% growth rate(YOY)		-108.80%	444.12%	30.46%	25.48%	27.32%	22.38%	25.14%

(OE: Original Estimates, RE: Revised Estimates)

(Source: Company, HDFC sec)

Balance Sheet

Particulars (Rs. In Cr)	FY12	FY13	FY14	FY15	FY16OE	FY16RE	FY17E	FY18E
Equity & Liabilities								
Shareholders' Funds	1143.3	1152.9	1226.0	1316.9	1444.1	1445.9	1602.0	1803.5
Share Capital	13.2	13.2	13.2	13.2	13.2	13.2	13.2	13.2
Reserves & Surplus	1130.1	1139.8	1212.8	1303.7	1430.9	1432.8	1588.8	1790.3
Non-Current Liabilities	116.4	95.5	51.6	60.5	61.7	81.1	64.7	89.8
Long Term borrowings	59.7	42.0	20.4	10.7	10.5	7.8	10.0	7.0
Deferred Tax Liabilities (Net)	19.1	21.9	6.6	26.6	26.1	46.9	27.1	50.7
Other Long Term Liabilities	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Long Term Provisions	33.6	27.6	20.7	19.2	21.1	22.5	23.7	28.2

Current Liabilities	404.7	459.4	494.2	594.3	628.8	839.6	701.7	1045.1
Short Term Borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade Payables	243.7	252.6	299.9	392.8	412.5	518.5	462.0	650.4
Other Current Liabilities	130.7	184.6	168.9	161.7	174.6	275.9	193.8	339.9
Short Term Provisions	30.3	22.2	25.4	39.8	41.8	45.2	45.9	54.7
Total Equity & Liabilities	1664.4	1707.8	1771.9	1971.7	2134.6	2366.6	2368.5	2938.4
Assets								
Non-Current Assets	614.1	887.3	926.6	978.5	1123.5	1178.2	1241.7	1363.3
Fixed Assets	544.1	810.6	849.1	877.3	1012.3	1039.7	1117.3	1190.0
Non-Current Investments	0.9	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Long -term Loans and Advances	69.0	75.5	76.3	100.0	110.0	137.2	123.2	172.1
Other Non-Current Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Assets	1050.3	820.5	845.3	993.2	1011.1	1188.5	1126.8	1575.1
Current Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	200.0
Inventories	362.4	381.6	377.3	392.5	431.8	510.8	483.6	629.2
Trade Receivables	156.4	108.8	135.1	108.7	117.4	117.0	130.3	141.5
Cash & Cash Equivalents	462.1	225.1	216.1	303.0	254.1	308.4	280.1	293.1
Short Term Loans & Advances and other current assets	69.0	101.8	115.0	184.7	203.1	240.9	227.5	296.8
Other Current Assets	0.4	3.2	1.9	4.3	4.7	11.5	5.2	14.4
Total Assets	1664.4	1707.8	1771.9	1971.7	2134.6	2366.6	2368.5	2938.4

(OE: Original Estimates, RE: Revised Estimates)

(Source: Company, HDFC sec)

One Year Price Chart



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