

SINCE 1986

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VALUE PICK
CHASING VALUE, NOT PRICES

December 2017

| | |
|---------------|-------------------------------|
| Company Name | : FORCE MOTORS |
| BSE Code | : 500033 |
| Time Duration | : 1 year |
| CMP | : ₹2993 (as on 14 Dec., 2017) |
| Target Price | : ₹4115 |

The Value Pick for the month of December is Force Motors. It is a leading automobile company having expertise in design, development and manufacture of automotive components, aggregates and vehicles. Its range includes small commercial vehicles, multi-utility vehicles (MUV), light commercial vehicles (LCV), sports utility vehicles (SUV) and agricultural tractors. The company's revenue grew at CAGR of 14.9% over FY15-17, while its net profit grew at CAGR of 34.1% over FY15-17.

Force Motors is the only company that produces engines for leading automobile companies in Europe, namely, BMW and Mercedes. The company manufactures and sells Traveller range of LCVs and Trax range of MUVs which have leading market share in their respective segments.

JV with Rolls Royce

The company is diversifying into the non-auto segment as it has entered into joint venture with Rolls Royce Power Systems to produce engines for power generation and rail application and complete power generation systems, including spare parts, for Indian and global markets. It is a contract manufacturing agreement through which Force Motors will have 51% stake and remaining 49% will be held by Rolls Royce in the JV. Both the parties have invested Rs 300 crore for the project. The firms will build a new dedicated facility that will make engines for the railway and power generation business and will be operational by the beginning of year 2019. This is a big opportunity for the company to explore and expand into global markets. In the long run, this collaboration will be beneficial for the company.

Electric car - an upcoming opportunity

The Indian government has set an aggressive target to ply electric vehicles on India's roads by 2030, to reduce greenhouse gas emissions and reduce oil import spending. Under the GST regime, electric Vehicles (EV) are being taxed at 12%, as against tax rate of 28% on petrol and diesel vehicles, while hybrid vehicles are taxed at 43%. The government is also considering offering benefits that include zero import duties on EVs as well as lower electricity costs. Force Motors has started trials of EVs and expects to start the commercial production in the next three years. The company plans to implement the electrification with its popular Traveller minibus.

Outlook of luxury cars in India

The luxury car market in India has huge scope for growth. The sales of luxury cars contribute less than 1.3% to the overall total sales of cars in the Indian car market. This shows that this segment is unexplored and has immense scope for growth. Luxury car brands have already shifted focus to entry-level cars with smaller engines. To keep prices competitive, these players are increasingly choosing to assemble locally. Force Motors, which has top customers like Mercedes and BMW, will benefit from this. The management has target to reach revenue of Rs 100 bn by FY22 on the back of rising volumes, led by increasing affordability. Urbanisation led by 'Smart Cities' project can also be a driver to boost demand of luxury cars in India.

Growing demand for Mercedes and BMW in India

Mercedes and BMW are the top two brands in the luxury segment of automobiles in India. Between January-September 2017, Mercedes-Benz grew by 19.6 per cent with sales of 11,869 units; while BMW registered a growth of 17.3 per cent with 7138 units during the same period. Although the luxury segment in India is highly under-penetrated, these growth rates show the increasing demand for such cars in India. Some key drivers that are boosting the demand are the rising disposable incomes and the increasing ratio of young qualified population with higher spending capacity. Mercedes-Benz and BMW have introduced low capacity engine cars at affordable prices which have led an uptick in its demand in small cities. This uptick is proving beneficial for Force Motors.

Financial Performance

In FY17, the company's revenue grew marginally to Rs 3068.99 cr from Rs 3024.99 in FY16. Its EBITDA declined by 16.3% YoY to Rs 194.64 cr from Rs 232.46 cr in FY16. The EBITDA margin too declined from 7.69% in FY16 to 6.34% in FY17. However, PAT improved marginally to Rs 179.72 cr from Rs 178.74 cr. The number of vehicles sold during FY17 was 32,929 as against 33,354 vehicles in FY16. Such muted growth was due to demonetisation and changes in emission standards. The company's receivable days improved from 21.26 days in FY13 to 13.87 days in FY17. For

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FY17, its debt-equity ratio was 0.12x which improved the interest coverage ratio to 43.42x from 3.32x in FY13.

Valuation

The company is trading at TTM P/E of 28.14x with TTM EPS of Rs 113.73. It has delivered ROE and ROCE of 11.4% and 14.3%,

respectively, for FY17. We see that increasing demand for luxury cars in India will augur well for the company. Also, its foray into the non-auto segment will improve its scope and diversify its business. The JV with Rolls Royce will enable the company to reap benefits in the long-term. We see an upside potential of 38% from the current level, with target price of Rs 4,115 over a period of one year.

Inc/Exp Statement(Standalone) (Rs in Crore)

| Description | 201703 | 201603 | 201503 | 201403 | 201303 |
|-------------------|---------|---------|---------|---------|---------|
| Net Sales | 3068.99 | 3024.66 | 2363.72 | 2021.63 | 1972.72 |
| Total Income | 3153.93 | 3096.10 | 2429.50 | 2081.56 | 2016.37 |
| Total Expenditure | 2801.25 | 2750.66 | 2216.72 | 1924.91 | 1918.84 |
| PBIDT | 352.68 | 345.44 | 212.78 | 156.65 | 97.53 |
| PAT | 179.92 | 178.74 | 101.36 | 77.69 | 14.28 |
| Dividend % | 100.00 | 100.00 | 50.00 | 30.00 | 30.00 |
| Adj. EPS(Rs) | 136.51 | 135.61 | 76.93 | 58.97 | 10.84 |

Quarter On Quarter (Standalone) (Rs in Crore)

| Particulars | 201709 | 201706 | Q on Q Var% | 201609 | Y on Y Var% |
|-------------------|--------|--------|-------------|--------|-------------|
| Net Sales | 892.99 | 845.27 | 5.65 | 965.54 | -7.51 |
| Total Expenditure | 813.22 | 807.98 | 0.65 | 890.51 | -8.68 |
| PBIDT (Excl OI) | 79.77 | 37.29 | 113.92 | 75.03 | 6.32 |
| PAT | 41.74 | 29.96 | 39.32 | 50.28 | -16.98 |
| PBIDTM% (Excl OI) | 8.93 | 4.41 | 102.49 | 7.77 | 14.93 |
| PBIDTM% | 9.99 | 7.74 | 29.07 | 9.75 | 2.46 |
| PATM% | 4.67 | 3.54 | 31.92 | 5.21 | -10.36 |
| Adj. EPS(Rs) | 31.67 | 22.73 | 39.33 | 38.15 | -16.99 |

