

## Force Motors Ltd

Recommendation	BUY
CMP (22/10/2012)	Rs. 448
Target Price	N/A
Sector	Automobiles

## Stock Details

BSE Code	500033
NSE Code	N/A
Bloomberg Code	FML IN
Market Cap (Rs crs)	585
Free Float (%)	48.25%
52- wk HI/Lo (Rs)	605/388
Avg. volume BSE (Quarterly)	1,546
Face Value (Rs)	10.0
Dividend (FY 12)	100%
Shares o/s (Cr)	1.38

Relative Performance	1Mth	3Mth	1Yr
Force Motors	-2.2%	-12.0%	-25.7%
Sensex	1%	8.1%	10.3%



Shareholding Pattern	30 <sup>th</sup> Sept 12
Promoters Holding	51.75%
Institutional (Incl. FII)	6.03%
Corporate Bodies	25.09%
Public & others	17.13%

Silky Jain (022 3926 8178)	Research Analyst <a href="mailto:silky.jain@nirmalbang.com">silky.jain@nirmalbang.com</a>
Sunil Jain (022 3926 8196)	HOR Retail <a href="mailto:sunil.jain@nirmalbang.com">sunil.jain@nirmalbang.com</a>

## Good Results; Gaining Force...!!!

Force Motors Ltd. (FML) is an integrated automobile company manufacturing Light Commercial Vehicles (LCV) and tractors in India. FML's brands include Traveller, Trax, Trump and Balwan. The company has recently entered into the Sports Utility Vehicle (SUV) with the launch of Force One. Force Motor is also a dominant player in 6-20 seater bus segments and has over 50% market share. Recently it has introduced Bus in 20-30 seat segments and is eyeing for 20% market share in this particular segment. The company has two plants located in Pune and Madhya Pradesh.

Force Motor Q2FY13 results have improved both on QoQ and YoY basis with an improvement in the EBITDA margin on account of cost rationalization. However, sales have remained stagnant during the quarter considering the current market scenario. Other Income has increased substantially in the current year on account of High cash balance with company. Last year company sold its 50% holding in JV with Man Force Trucks Pvt Ltd (Man) for Rs.961cr. Post the divestment the company utilized the proceeds to repay the loan and also paid higher dividend to the shareholders and announced a dividend of Rs 10 in FY12 vs Rs 5 in FY11. After paying tax and loan company has around Rs.469.8 cr in cash balance whereas the current debt is Rs.64.4 cr as on 30<sup>th</sup> September 2012.

In FY12 the sales grew by 36.8% to Rs.2,085 cr driven by volume growth of 17% YoY (30,515 vehicles in FY12 vs 26,037 in FY11). However, EBITDA margin declined by 340 bps to 5.8%. The company reported PAT of Rs 824 cr in FY12 (which included Rs 961 cr in other income from the sale of investments) whereas adjusted PAT stood at Rs.41 cr and adjusted EPS stood at Rs.31.

As on 30<sup>th</sup> September 2012, Force Motor has a Market cap of Rs.585 cr with debt of Rs.64.4 cr and cash balance of around Rs.469.8 cr. The total sales for FY12 stood at Rs 2,085 cr and sales for H1FY13 stood at Rs 981 cr. EPS for Q2FY13 stood at Rs 14.5. Going forward, Management focus on branding and marketing along with new product launches are expected to contribute to the top line performance of the company. Moreover, lower interest costs and higher other income will significantly boost the bottom line performance. **Looking ahead the outlook for the stock looks encouraging and therefore we recommend investors can BUY the stock at current levels for a potential upside of 15-20% in the medium term.**

At CMP, the stock is trading at P/E of 7.59x based on H1FY13 annualized EPS and 5.74x Q2FY13 annualized EPS whereas on P/BV it is trading at 0.5x H1FY13 book value which looks very attractive.

## Risks or Concerns:

- Low Trading volume of around 3,000 shares per day.
- Any increase in the raw material prices can lead to a decline in the EBITDA margins of the company
- Increasing competition and failure to meet the customers' expectations can also impact the overall sales of the company.

Year	Net Sales (Rs crs)	Growth (%)	EBITDA (Rs crs)	Margin (%)	Adj PAT (Rs crs)	Margin (%)	EPS (Rs)	PE (x)	EV/Sales	EV/EBITDA
FY10	1,029	27.6%	78.4	7.6%	60	3.8%	45.8	9.8	0.7	8.6
FY11	1,565	52.1%	144.4	9.2%	59	3.7%	44.5	10.1	0.5	5.4
FY12	2,085	33.2%	121.5	5.8%	41	2.0%	31.3	14.3	0.1	1.2

Force Motors Ltd

**Investment Rationale:**

**Restructuring at the marketing team**

FML has currently restructured its marketing and branding team. The company has appointed Mr. Naresh Ratan (ex. Marketing Head at Honda Motorcycles and Scooters India) as its Chief Operating Officer for the tractor business and as President of Corporate Sales and Marketing. We believe that with some changes happening at the managerial level, more and more focus will be placed on the branding and marketing of the products along with revamping the tractor business which will boost the top line performance of the company.

**Capacity expansion plans**

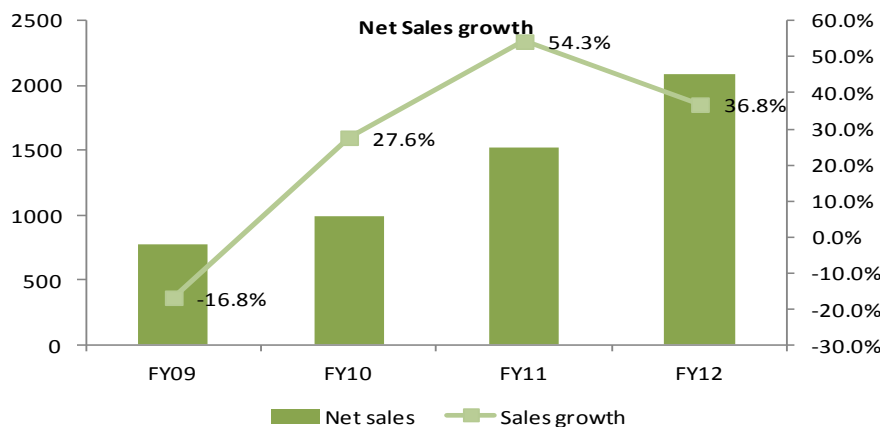
FML has earmarked capex plan of Rs 1,000 cr for capacity expansion and roll out of various new model launches. With this, the company intends to expand the production volumes, sales and thus the market share in various segments.

**Tractor business to witness improvement**

The company is in the process of revamping its tractor business which is also expected to witness new product launches. The company’s sales volume in the tractor segment has been declining from the levels of 4,000 historically. In FY12, sales stood at 1,700 tractors and with efforts from new management the company is targeting to reach the level of 3,000 tractors in FY13E.

**Focus on increasing market share in the 20 seater and above bus segment**

FML plans to garner 20% market share in the 20 to 30 seater bus segment by FY14E. The company has recently introduced Traveller-26 loaded with features offered for the first time in a mid-sized bus of 20-30-seater segment. The company is targeting sales of 1,300 vehicles in the 20-30-seater range in FY13E and around 4,500 vehicles in FY14E. As per the management, the new launch is expected to add Rs 450 cr to the total sales in FY14E.



**Negligible debt**

From the proceeds of the divestment, FML has repaid most of the debts in the books and have reduced its debt level from Rs 329 cr in Q2FY12 to Rs 64.39 cr in H1FY13. Resulting from the lower debt levels, the interest cost has declined substantially from Rs 7.89 cr in Q2FY12 to Rs 2.01 cr in Q2FY13. Going forward, we believe that the declining interest expenses (from Rs 35 cr in FY12) will add to the bottom line of the company.

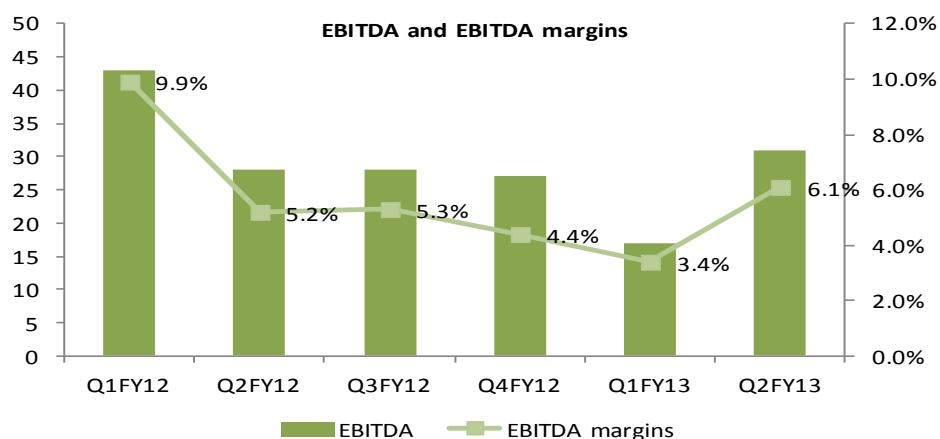
## Force Motors Ltd

### Increase in other income

FML's divestment of MFTL joint venture has provided the company with surplus cash of ~Rs 470 cr is driving the other income of the company and is expected to continue to enhance the bottom line performance of the company.

### Improvement in EBITDA

The company witnessed an improvement in EBITDA margins in Q2FY13 primarily on account of lower employee cost and other expenses. Going forward, we believe that the company will continue to witness an improvement in the operating cost (driven by cost efficiencies) and lead to an improvement in the EBITDA margins of the company.



### Q2FY13 result snapshot

Rs. In Cr	Q2FY13	Q1FY13	Q2FY12	QoQ	YoY
Sales	489.2	492.1	504.8	-0.6%	-3.1%
Other Operating Income	14.8	13.0	20.8	13.9%	-28.8%
Total Income	504.1	505.1	525.6	-0.2%	-4.1%
EBITDA	30.9	17.2	26.2	79.6%	17.9%
<b>EBITDA Margin</b>	<b>6.1%</b>	<b>3.4%</b>	<b>5.0%</b>		
Depreciation	17.3	16.29	15.01	6.2%	15.3%
Interest	2.01	2.01	7.89	0.0%	-74.5%
Other Income	12.7	12.0	1.6	5.8%	721.3%
PBT	24.3	10.92	4.85	122.5%	401.0%
Tax	5.15	0.58	0.6		
PAT	19.2	10.3	4.3	85.2%	350.6%
EPS	14.5	7.8	3.2	85.2%	350.6%

Force Motor Q2FY13 result has improved both on QoQ and YoY basis with an improvement in the EBITDA margin on account of cost rationalization. However, the sales have remained stagnant considering the current market scenario. Bottom line performance has been boosted by lower interest expense and higher other income. Tax rate for the quarter stood at 21% in Q2FY13 vs 5% in Q1FY13 and 12.4% in Q2FY12.



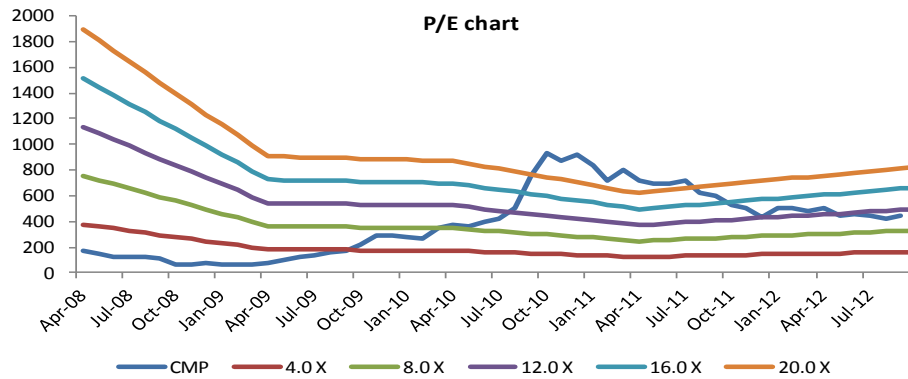
## Force Motors Ltd

### Valuation and Recommendation

Force Motor Q2FY13 result has improved both on QoQ and YoY basis. After paying tax and loan company has around Rs 469.8 cr cash balance whereas the current debt is Rs.64.4 cr as on September 2012.

As on 30<sup>th</sup> September 2012, Force Motor has a Market cap of Rs.585 cr with debt of Rs.64.4 cr and cash balance of around Rs.469.8 cr. The total sales for FY12 stood at Rs 2,085 cr and sales for H1FY13 stood at Rs 981 cr. EPS for Q2FY13 stood at Rs 14.5.

At CMP, the stock is trading at P/E of 7.59x based on H1FY13 annualized EPS and 5.74x Q2FY13 annualized EPS whereas on P/BV it is trading at 0.5x H1FY13 book value which looks very attractive and we believe that the stock can generate a return of **around 15-20% in the medium term**. The risk or concern could be trading volume which is very low around 3,000 shares per day.



## Force Motors Ltd

### Financials

Profitability (Rs. In Cr)	FY10A	FY11A	FY12A	Balance Sheet (Rs. In Cr)	FY10A	FY11A	FY12A
Net Sales	955.55	1504.29	2003.35	Share Capital	13.18	13.18	13.18
Other op income	73.08	60.51	81.65	Reserves & Surplus	270.14	321.1	1130.12
<b>Total Income</b>	<b>1,029</b>	<b>1,565</b>	<b>2,085</b>	<b>Share Holder's Funds</b>	<b>283</b>	<b>334</b>	<b>1,143</b>
EBITDA	78.4	144.4	121.5	Total Loans	148	247	60
Dep	42	44.82	60.36	Other Liabilities	0	35.3	37.51
<b>Op Income</b>	<b>36</b>	<b>100</b>	<b>61</b>	<b>Total Liabilities</b>	<b>431</b>	<b>617</b>	<b>1,241</b>
Interest	16.78	23.12	35.15	<b>Net Block</b>	284.31	392.53	450.72
Other Income	23.23	5.5	985.31	<b>Investments</b>	56.74	56.74	0.95
<b>PBT</b>	<b>43</b>	<b>82</b>	<b>1,011</b>	Capital Work in Progress	12.23	14.31	93.37
Tax	-17.54	23.35	183.55	Sundry Debtors	150.23	161.36	156.43
Deferred Tax	0	0	3.42	Cash & Bank	25.71	14.76	462.09
<b>PAT</b>	<b>60</b>	<b>59</b>	<b>824</b>	Loans & Advances	64.78	40.44	69.39
Extraordinary Items	0	0	-783.09	Inventories	193.73	311.31	362.4
<b>Adj PAT</b>	<b>60</b>	<b>59</b>	<b>41</b>	<b>Total CA</b>	<b>434</b>	<b>528</b>	<b>1,050</b>
EPS	45.8	44.5	625.4	<b>Curr Liab &amp; Prov</b>	347.78	415.43	404.72
<b>Adj EPS</b>	<b>45.8</b>	<b>44.5</b>	<b>31.3</b>	Net Current Assets	87	112	646
				Othe Assets	0	56.21	69.02
				Deferred Tax Liabilities	31.44	33.64	36.08
				Deferred Tax Assets	22.64	17.91	16.93
				<b>Total Assets</b>	<b>431</b>	<b>617</b>	<b>1,241</b>
				<b>Performance Ratio</b>	<b>FY10A</b>	<b>FY11A</b>	<b>FY12A</b>
				Sales growth (%)	28%	52%	33%
				EBITDA margin (%)	7.6%	9.2%	5.8%
				Adj.PAT margin (%)	3.8%	3.7%	2.0%
				RoE	23.7%	19.0%	5.6%
				RoCE	14.6%	22.9%	9.4%
				<b>Valuation Ratio</b>	<b>FY10A</b>	<b>FY11A</b>	<b>FY12A</b>
				Price Earnings (x)	9.8	10.1	14.3
				Price / Book Value (x)	2.1	1.8	0.5
				EV / Sales	0.7	0.5	0.1
				EV / EBIDTA	8.6	5.4	1.2
				<b>Per Share Data</b>	<b>FY10A</b>	<b>FY11A</b>	<b>FY12A</b>
				Reported EPS	45.8	44.5	625.4
				Adjusted EPS	45.8	44.5	31.3

Quarterly (Rs. In Cr)	March.12	June.12	Sept.12
<b>Net Sales</b>	<b>588.93</b>	<b>492.05</b>	<b>489.23</b>
Op Income	22.49	13.01	14.83
EBITDA	26.86	17.18	30.89
Dep	16.44	16.29	17.3
Interest	10.84	2.01	2.02
Other Income	981.36	12.03	12.73
<b>PBT</b>	<b>981</b>	<b>11</b>	<b>24</b>
Tax	176.98	1.35	4.56
Deferred Tax	5.52	-0.77	0.59
<b>PAT</b>	<b>798</b>	<b>10</b>	<b>19</b>
Extraordinary Items	-781.97	0	0
<b>Adj PAT</b>	<b>16</b>	<b>10</b>	<b>19</b>
EPS	605.8	7.8	14.5
Adj EPS	12.5	7.8	14.5
BV	215.0	253.6	867.5

Source: Company data, Nirmal Bang Research

**NOTES****Disclaimer:**

This Document has been prepared by Nirmal Bang Research (A Division of Nirmal Bang Securities PVT LTD). The information, analysis and estimates contained herein are based on Nirmal Bang Research assessment and have been obtained from sources believed to be reliable. This document is meant for the use of the intended recipient only. This document, at best, represents Nirmal Bang Research opinion and is meant for general information only. Nirmal Bang Research, its directors, officers or employees shall not in anyway be responsible for the contents stated herein. Nirmal Bang Research expressly disclaims any and all liabilities that may arise from information, errors or omissions in this connection. This document is not to be considered as an offer to sell or a solicitation to buy any securities. Nirmal Bang Research, its affiliates and their employees may from time to time hold positions in securities referred to herein. Nirmal Bang Research or its affiliates may from time to time solicit from or perform investment banking or other services for any company mentioned in this document.

**Nirmal Bang Research (Division of Nirmal Bang Securities Pvt. Ltd.)**

B-2, 301/302, Marathon Innova,  
Opp. Peninsula Corporate Park  
Off. Ganpatrao Kadam Marg  
Lower Parel (W), Mumbai-400013  
Board No. : 91 22 3926 8000/8001  
Fax. : 022 3926 8010