

Force Motors

Performance highlights

Y/E March (₹ cr)	1QFY13	4QFY12	% chg (qoq)	1QFY12	% chg (yoy)
Total operating income	505	611	(17.4)	431	17.1
Operating profit	17	27	(36)	43	(60)
OPM (%)	3.4	4.4	(99)bp	9.9	(653)bp
Adj. PAT	10	16	(37)	19	(46)

Source: Company, Angel Research

Force Motors Ltd. (FML) reported poor set of numbers for 1QFY2013. The company's top line was 17.4% lower qoq and came in at ₹505cr, which was 8.0% lower than our estimate of ₹549cr. EBITDA declined by 36.0% sequentially to ₹17cr, 38.6% lower than our estimate of ₹28cr. EBITDA margin fell consecutively for second quarter and stood at 3.4%, 100 bps lower than previous quarter. Bottom line stood at ₹10cr (aided by other income of ₹12cr) 37.3% lower sequentially, vis-à-vis our estimate of ₹13cr.

Restructured marketing workforce, new variant of Force One to drive growth

FML has currently restructured its marketing and branding team. The company has recently appointed Mr. Naresh Rattan (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. Moreover, with substantial cash surplus in hand, FML is expected to invest considerable amount on the branding and marketing of its products. The company entered the personal transportation segment with Force One in October'11 and is planning to launch its new variant by September'12, which may assist the top line growth.

Outlook and valuation

We believe FML's recent entry into the SUV segment will enable it to post a top-line CAGR of 21.9% over FY2011-14E to ₹2,765. FML is trading at an attractive PE of 6.0x and EV/Sales of 0.1x on FY2014E. **We maintain our Buy rating on the stock with a target price of ₹591, based on target PE of 8x and implied EV/Sales of 0.2x for FY2014E.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Net sales	774	988	1,525	2,085	2,214	2,765
% chg	(16.8)	27.6	54.3	36.8	6.2	24.9
Adj. net profit	125	60	59	41	52	97
% chg	248.9	(51.5)	(3.0)	(30.0)	26.7	87.3
OPM (%)	(10.1)	3.9	6.7	5.8	4.5	5.4
EPS (₹)	94.5	45.9	44.5	31.1	39.5	73.9
P/E (x)	4.7	9.7	10.0	14.2	11.2	6.0
P/BV (x)	2.6	2.1	1.7	0.5	0.5	0.5
RoE (%)	54.7	21.3	17.5	3.6	4.4	7.6
RoCE (%)	(41.7)	(1.4)	10.2	7.7	3.6	7.5
EV/Sales (x)	0.9	0.7	0.5	0.1	0.1	0.1
EV/EBITDA (x)	(8.9)	17.2	7.4	1.5	2.3	1.7

Source: Company, Angel Research

BUY

CMP	₹445
Target Price	₹591

Investment Period	12 Months
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Stock Info

Sector	Automobile
Market Cap (₹cr)	586
Net Debt (₹cr)	(402)
Beta	0.7
52 Week High / Low	750 / 388
Avg. Daily Volume	3,459
Face Value (₹)	10
BSE Sensex	17,144
Nifty	5,199
Reuters Code	FORC.BO
Bloomberg Code	FML.IN

Shareholding Pattern (%)

Promoters	51.8
Corporate Holding	25.1
FII / NRIs / OCBs	5.9
Indian Public / Others	17.2

Abs.(%)	3m	1yr	3yr
Sensex	(0.3)	(6.4)	19.4
FML	(15.2)	(38.7)	251.1

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Exhibit 1: 1QFY2013 performance (Standalone)

Y/E March (₹ cr)	1QFY13	4QFY12	% chg (qoq)	1QFY12	% chg (yoy)	FY2012	FY2011	% chg
Total operating income	505.1	611.4	(17.4)	431.4	17.1	2085.4	1524.9	36.8
Net raw material	364.9	444.9	(18.0)	308.4	18.3	1456.1	996.1	46.2
(% of Sales)	72.2	72.8		71.5		69.8	65.3	
Employee cost	60.2	60.2	0.0	52.8	14.0	258.9	196.7	31.6
(% of Sales)	11.9	9.8		12.2		12.4	12.9	
Other Expenses	62.8	79.5	(21.0)	27.4	129.0	248.6	232.2	7.1
(% of Sales)	12.4	13.0		6.4		11.9	15.2	
Total expenditure	487.9	584.6	(16.5)	388.6	25.6	1963.5	1424.9	37.8
Operating profit	17.2	26.9	(36.0)	42.9	(59.9)	121.9	99.9	22.0
OPM (%)	3.4	4.4	(99)bp	9.9	(653)bp	5.8	6.6	(561)bp
Interest	2.0	10.8	(81.4)	6.0	(1457.1)	35.2	23.3	50.7
Depreciation	16.3	16.4	(0.8)	14.1	15.7	60.4	44.8	34.6
Other income	12.0	981.4	(98.8)	0.1	11929.5	984.7	50.2	1861.9
PBT	10.9	981.0	(98.9)	22.9	(52.3)	1011.1	82.0	1133.5
(% of Sales)	2.2	160.4		5.3		48.5	5.4	
Tax	0.6	182.5	(99.7)	3.6	(83.8)	187.0	23.4	700.7
(% of PBT)	5.3	18.6		15.7		18.5	28.5	
Reported PAT	10.3	798.5	(98.7)	19.3	(46.5)	824.1	58.6	1305.9
PATM (%)	2.0	130.6		4.5		39.5	3.8	

Source: Company, Angel Research

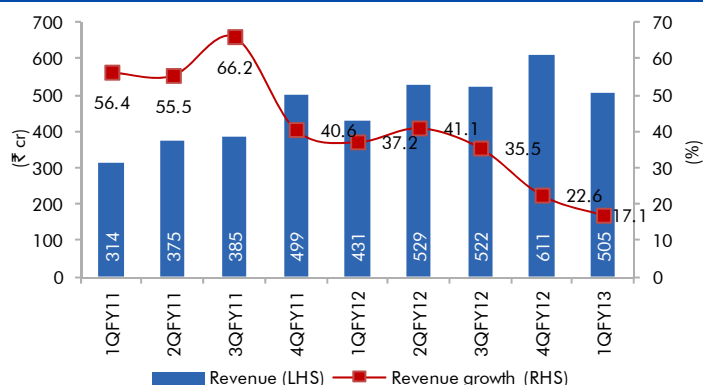
Exhibit 2: Actual v/s Angel's Estimates

Actual v/s Angel's Estimates	Actual (₹cr)	Estimate (₹cr)	% variation
Total Income	505	549	(8.0)
EBITDA	17	28	(38.6)
EBITDA Margin	3.4	8.4	(497)bp
Adjusted PAT	10	13	(20.5)

Source: Company, Angel Research

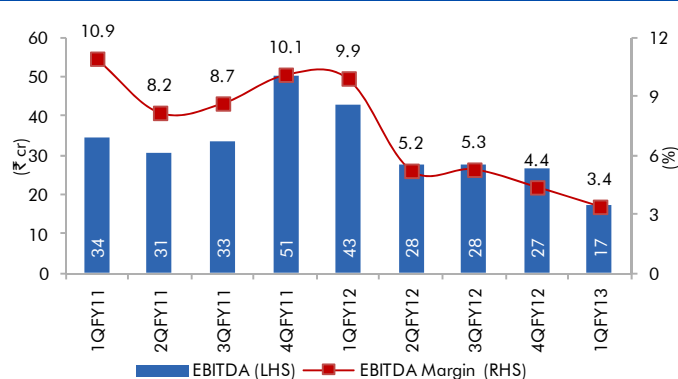
For 1QFY2013, FML's top line came in 17.4% lower qoq at ₹505cr, which was 8.0% lower than our estimate of ₹549cr. EBITDA declined by 36.0% sequentially to ₹17cr, 38.6% lower than our estimate of ₹28cr. EBITDA margin fell consecutively for second quarter and stood at 3.4%, 100 bps lower than previous quarter. The bottom line stood at ₹10cr (aided by other income of ₹12cr), 37.3% lower sequentially, vis-à-vis our estimate of ₹13cr.

Exhibit 3: Revenue growth trend



Source: Company, Angel Research

Exhibit 4: Margin dips owing to high raw material cost



Source: Company, Angel Research

Investment arguments

MFTL divestment leads to huge cash surplus and debt repayment

FML sold off its entire stake in MAN Force Trucks Pvt. Ltd. (MFTL), 50:50 JV between MAN and FML, in March 2012. This has provided the company with cash inflow of EUR150mn (~₹1,014cr), which is almost equal to FML's enterprise value. Debt on the company books as on FY2012 stood at ₹60cr as compared to ₹329cr in Sep'2011 with cash reserves of ₹462cr (MCAP ~₹586cr).

Force One variant to be launched soon

FML has entered the SUV segment with the launch of *Force One* in October'11. The engine installed in *Force One* is of Mercedes Benz S-Class range, made under license from Daimler AG, Germany, which is known for its latest technology. The company has signed Mr. Amitabh Bachchan as the brand ambassador of *Force One*. Since the company did not get a positive response for *Force One* it is planning to come up with its variant which is likely to hit the market by September'12. The model is currently under homologation i.e. roadworthy certification, as per management. This is likely to drive the sales in near future.

Marketing and branding workforce restructured

FML has currently restructured its marketing and branding team. The company has recently 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. Moreover, with substantial cash surplus in hand, FML is expected to invest considerable amount on the branding and marketing of its products.

Financials

Exhibit 5: Key assumptions

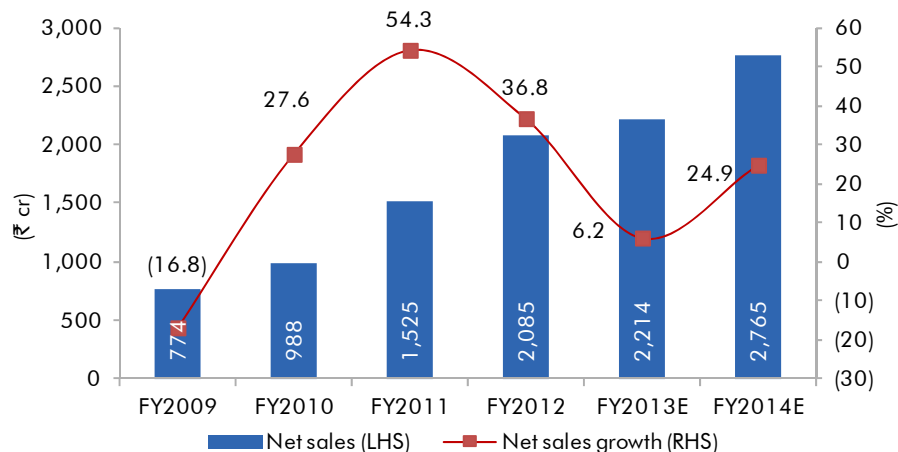
	FY2013E	FY2014E
Capacity utilisation (%)	65	75
Finished goods volume growth (%)		
On-road automobiles	3.2	15.0
Tractors – Agricultural	3.2	15.0

Source: Company, Angel Research

Net sales expected to post a 21.9% CAGR over FY2011-14E

With entry into new segment (SUV), we expect FML's sales to post a 21.9% CAGR over FY2011-14E to ₹2,765cr in FY2014E.

Exhibit 6: Net sales and net sales growth

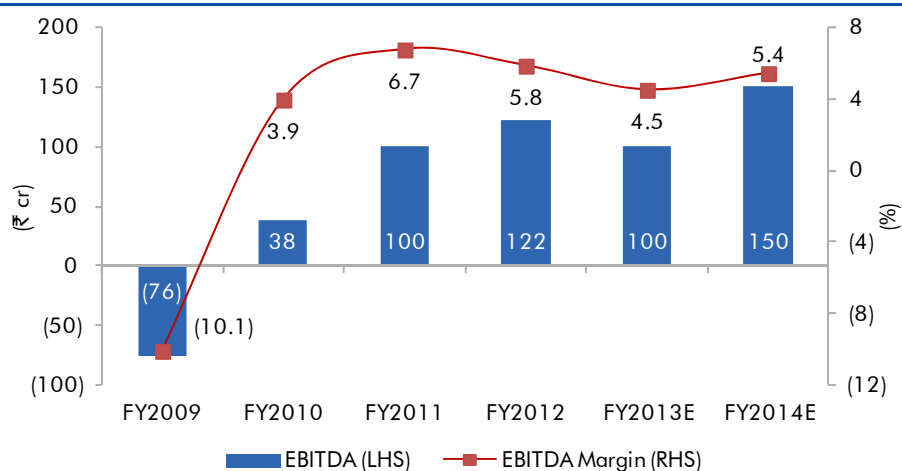


Source: Company, Angel Research

EBITDA to post a 14.5% CAGR over FY2011-14E

The company's EBITDA is expected to rise from ₹122cr in FY2012 to ₹150cr in FY2014E. However, operating margin is expected to dip from 5.8% in FY2012 to 4.5% in FY2013E, mainly due to higher raw-material cost. We expect the margin to rebound to 5.4% in FY2014E, on account of improvement in capacity utilisation to 75% in FY2014E coupled with reduction in raw material cost as a percent of net sales.

Exhibit 7: EBITDA and EBITDA margin

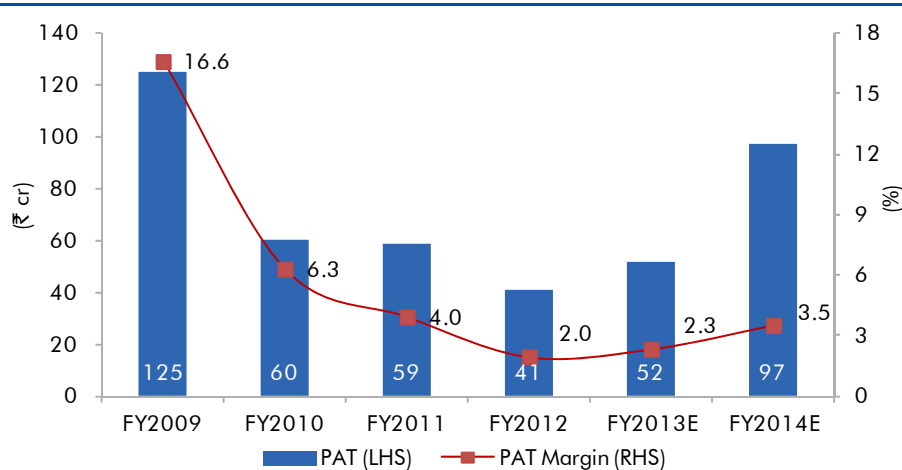


Source: Company, Angel Research

Reduced interest cost & high other income to add to bottom line

FML has reduced its debt from ₹329cr (in Sep'11) to ₹60cr in FY2012, on account of which, we expect the interest cost to decline from ₹35cr in FY2012 to ₹5cr in FY2014E. Moreover, FML's divestment of MFTL joint venture has provided with cash of ~₹1014cr, of which as on FY2012 company has cash surplus of ₹462cr. This surplus is expected to earn FML substantial other income. Driven by these two factors we expect the PAT to grow at 18.2% CAGR over FY2011-14E to ₹97cr.

Exhibit 8: PAT and PAT Margin



Source: Company, Angel Research

Risk Factors

- Increasing competition in the auto industry.
- Cyclical nature of the industry.
- Rising raw-material prices.

Competition

On the valuation front, FML seems to be fairly valued at 6x on PE basis, but the stock looks attractive on the P/BV and EV/EBITDA front at 0.5x and 1.8x, compared to peers' average of 1.2x and 4.4x, respectively.

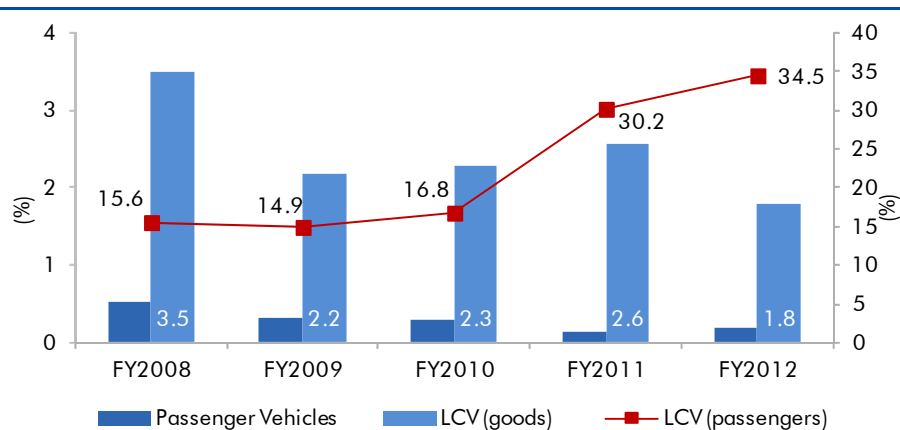
Exhibit 9: Peer comparison

FY2014E	Sales (₹ cr)	OPM (%)	PAT (₹ cr)	EPS (₹)	ROE (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)
Force Motors	2,765	5.4	97	74	8	6.0	0.5	1.8
Eicher Motors	10,027	11.0	584	197	26	9.9	2.0	4.2
Ashok Leyland	16,261	9.7	739	3	17	7.8	1.3	5.2
Tata Motors	212,587	13.4	14,578	45	29	5.1	1.3	3.3

Source: Angel Research, Bloomberg

FML has been consistently raising its market share in the LCV segment for passenger carriers. The company has almost doubled its market share from 15.6% in FY2008 to ~34.5% in FY2012. While in other segments like commercial vehicle and utility vehicle, the company has been losing its share over the years.

Exhibit 10: FML's market share



Source: SIAM

Outlook and valuation

We believe FML's recent entry into the SUV segment with the launch of *Force One* and upcoming launch of its variant will enable it to post a top-line CAGR of 21.9% over FY2011-14E to ₹2,765. EBITDA and Net Profit of the company are expected to grow at CAGR of 14.5% and 18.2% respectively to ₹150cr and ₹97cr in FY2014E. The stock is currently trading at PE of 11.6x and 6x for FY2013E and FY2014E, respectively. We remain positive on FML and recommend Buy with a target price of ₹591, based on target PE of 8x and implied EV/Sales of 0.2x.

Exhibit 11: One year forward PE



Source: Company, Angel Research

The company

FML is an integrated automobile company manufacturing light commercial vehicles and tractors in India. The company has recently entered into SUV segment with launch of *Force One*. FML's five business segments are as follows:

Exhibit 12: Segments and products

Segments	Brands/ Products
SCV	Trump 15/ 40
LCV	Passenger Carrier: Traveller Smooth, Traveller Luxury, Traveller 3050WB/ 3350WB/ 3700WB. Traveller
	Goods Carrier: Tarveller Delivery Van, Traveller Shaktiman
	Special Purpose Vehicles: Traveller Ambulance, Traveller Scholar
MUV	Trax GAMA, Trax Cruiser, Trax Kargo King, Trax Gurkha
Tractors	Balwan, Orchard
SUV	Force One

Source: Company

FML operates two plants, as follows:

- Akurdi, Pune, Maharashtra: Produces three-wheelers like tractors.
- Pithampur, District Dhar, Madhya Pradesh: Produces four-wheeler LCVs like *Traveller* and *Trax*.

Profit and Loss (Standalone)

Y/E December (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Gross sales	867	1,076	1,693	2,383	2,531	3,161
Less: Excise duty	116	120	211	298	317	396
Net Sales	751	956	1,481	2,085	2,214	2,765
Other operating income	24	32	43	-	-	-
Total operating income	774	988	1,525	2,085	2,214	2,765
% chg	(16.8)	27.6	54.3	36.8	6.2	24.9
Net Raw Materials	598	678	1,017	1,456	1,583	1,951
% chg	(7.6)	13.3	50.1	43.2	8.7	23.2
Other Mfg costs	70	83	131	-	-	-
% chg	(29.5)	18.6	59.0	(100.0)	-	-
Personnel	120	125	197	259	266	332
% chg	(15.8)	4.1	57.1	31.6	2.7	24.9
Other	69	72	101	249	266	332
% chg	(23.3)	4.1	39.9	146.6	6.9	24.9
Total Expenditure	850	951	1,425	1,963	2,115	2,615
EBITDA	(76)	38	100	122	100	150
% chg	58.3	(149.9)	164.8	22.0	(18.3)	50.6
(% of Net Sales)	(10.1)	3.9	6.7	5.8	4.5	5.4
Depreciation & Amortisation	42	42	45	60	67	74
EBIT	(117)	(4)	55	62	32	76
% chg	35.3	(96.4)	(1,390.4)	11.7	(47.6)	134.7
(% of Net Sales)	(15.7)	(0.4)	3.7	3.0	1.5	2.7
Interest & other Charges	35	17	23	35	9	5
Other Income	343	64	50	985	44	55
(% of Net Sales)	44	6	3	47	2	2
Recurring PBT	(153)	(21)	32	26	23	71
% chg	26.0	(86.2)	(250.2)	(17.0)	(12)	206.3
PBT (reported)	190	43	82	1,011	68	126
Tax	66	(18)	23	187	16	29
(% of PBT)	34.5	(41.4)	28.5	18.5	23.0	23.0
PAT (reported)	366	61	59	824	52	97
Extraordinary Expense/(Inc.)	242	1	0	(789)	-	-
ADJ. PAT	125	60	59	41	52	97
% chg	248.9	(51.5)	(3.0)	(30.0)	26.7	87.3
(% of Net Sales)	16.6	6.3	4.0	2.0	2.3	3.5
Basic EPS (₹)	95	46	44	31	39	74
Fully Diluted EPS (₹)	95	46	44	31	39	74
% chg	(248.9)	(51.5)	(3.0)	(30.0)	26.7	87.3

Balance Sheet (Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
SOURCES OF FUNDS						
Equity Share Capital	13	13	13	13	13	13
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	214	270	321	1,130	1,173	1,261
Shareholders' Funds	228	283	334	1,143	1,186	1,274
Minority Interest	-	-	-	-	-	-
Total Loans	161	148	224	60	30	15
Other long term liability			4	4	4	4
Long term Provisions			31	34	34	34
Net Deferred Tax Liability	34	9	16	19	19	19
Total Liabilities	422	440	610	1,260	1,273	1,346
APPLICATION OF FUNDS						
Gross Block	901	938	1,089	1,301	1,451	1,601
Less: Acc. Depreciation	612	653	697	757	824	899
Net Block	289	284	407	544	627	703
Capital Work-in-Progress	20	12				
Goodwill	47	47	-	-	-	-
Investments	57	57	57	1	-	-
Long Term Loans and advances			56	69	73	92
Current Assets	407	434	528	1,050	1,008	1,090
Cash	17	26	15	462	386	338
Loans & Advances	71	65	40	69	133	166
Other Current Assets			473	519	489	586
Current liabilities	351	348	438	404	435	538
Net Current Assets	56	87	90	646	573	552
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	422	440	610	1,260	1,273	1,346

Key Ratios (Standalone)

Y/E March	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Valuation Ratio (x)						
P/E (on FDEPS)	4.7	9.7	10.0	14.3	11.3	6.0
P/CEPS	3.5	5.7	5.7	5.8	4.9	3.4
P/BV	2.6	2.1	1.8	0.5	0.5	0.5
Dividend yield (%)	-	0.7	1.1	1.1	1.6	1.6
EV/Net sales	0.9	0.7	0.5	0.1	0.1	0.1
EV/EBITDA	(8.9)	17.3	7.4	1.5	2.3	1.8
EV / Total Assets	1.6	1.5	1.2	0.1	0.2	0.2
Per Share Data (₹)						
EPS (Basic)	94.5	45.9	44.5	31.1	39.5	73.9
EPS (fully diluted)	94.5	45.9	44.5	31.1	39.5	73.9
Cash EPS	126.3	77.7	78.5	76.9	90.5	130.3
DPS	-	3.0	5.0	10.0	6.0	6.0
Book Value	172.7	215.0	253.7	867.7	900.1	967.0
DuPont Analysis						
EBIT margin	(15.7)	(0.4)	3.7	3.0	1.5	2.7
Tax retention ratio	0.7	1.4	0.7	0.8	0.8	0.8
Asset turnover (x)	2.7	3.2	2.8	2.6	2.5	2.7
ROIC (Post-tax)	(27.3)	(2.0)	7.3	6.3	2.8	5.8
Cost of Debt (Post Tax)	14.4	16.2	7.4	48.0	23.1	23.1
Leverage (x)	0.4	0.2	0.5	(0.4)	(0.3)	(0.3)
Operating ROE	(43.3)	(6.2)	7.3	21.0	8.9	10.2
Returns (%)						
ROCE (Pre-tax)	(27.8)	(1.0)	9.0	4.9	2.5	5.6
Angel ROIC (Pre-tax)	(41.7)	(1.4)	10.2	7.7	3.6	7.5
ROE	54.7	21.3	17.5	3.6	4.4	7.6
Turnover ratios (x)						
Asset TO (Gross Block)	0.8	1.0	1.4	1.6	1.5	1.7
Inventory / Net sales (days)	95	74	77	63	47	44
Receivables (days)	60	57	40	27	34	34
Payables (days)	151	134	112	75	75	75
WC cycle (ex-cash) (days)	19	23	19	32	31	28
Solvency ratios (x)						
Net debt to equity	0.4	0.2	0.5	(0.4)	(0.3)	(0.3)
Net debt to EBITDA	(1.2)	1.7	1.5	(3.3)	(3.6)	(2.2)
Int. Coverage (EBIT/ Int.)	(3.3)	(0.3)	2.4	1.8	3.6	16.8

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Disclosure of Interest Statement	Force Motors
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

Ratings (Returns):	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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