

## Force Motors Ltd.

₹2816

*India is 5th biggest market for PVs...!!! Buy*

May 11, 2018

## Company Background

Force Motors is an integrated automobile company, Incorporated in the year 1958 with the name Bajaj Tempo Ltd, promoted by N K Firodia. Company started its manufacturing operation in a small plant at Goregaon, in 1959 a suburb of Mumbai, with the production of the HANSEAT 3-wheelers in collaboration with Vidal & Sohn Tempo Werke Germany. Now, it manufacturing Tractors, 3 wheelers, Light Commercial Vehicles, Multi Utility Vehicles and Heavy Commercial Vehicles. Force focuses on design development and manufacture of automotive components, aggregates and vehicles in India. Company has 2 core businesses such as; manufacturing of automobiles & manufacturing of engines and axles for Mercedes-Benz and BMW-India. It is a sole-supplier of engines to BMW and Mercedes in India. It changed its name from Bajaj Tempo Ltd to Force Motors Ltd with effect from May 12, 2005. In the same year it entered into an agreement with Daimler Chrysler AG for sourcing the technology for G32 Gear box. Force has mainly 2 revenue contributors such as Light Commercial Vehicles & Utility Vehicle contributing nearly 57.37 % and Engines are generating around 28 % of total revenue. It has 15 manufacturing units across the country. Till date Force Motors has supplied over 88,000 engines and 73,000 axles to Mercedes Benz India & over 23,000 engines to BMW.

## Key Highlights

- ➔ Force Motors has signed a Joint Venture agreement with subsidiary of Rolls-Royce in March, 2018. For the purpose of development, manufacture and marketing of engines for application in power generation and railways.
- ➔ It will hold 51% stake & Force MTU Power Systems Pvt Ltd, (MTUF) will hold 49%. FML will build a manufacturing facility in Chakan as part of the JV at a cost of ₹ 300 cr. JV will produce complete power generation systems, including associated spare parts for Indian as well as global markets.
- ➔ Force MTU Power Systems will handle the sales and service of engines in India, Nepal and Sri Lanka territory with MTU branding while Rolls-Royce Power Systems will handle the Rest of World territory.
- ➔ It looking for electric technology for its Traveller, process is under validation.

## Key Financials

Year Ended 31 <sup>st</sup>	Mar 15	Mar 16	Mar 17
Revenue (INR mn)	27,046.8	35,235.5	35,804.6
Rev. growth (%)	14.55	30.28	1.62
EBITDA (INR mn)	1,566.4	2,127.7	3,454.4
Net profit (INR mn)	1,013.6	1,787.4	1,799.2
Shares outstanding (mn)	13.2	13.2	13.2
EPS (INR)	75.9	135.6	136.5
EPS growth (%)	29.86	78.69	0.66
P/E (x)	18.42	21.05	32.87
RONW (%)	7.97	12.75	11.41
ROCE (%)	9.87	17.55	14.04

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## Info Codes

Reuters	: FORC.BO
Bloomberg	: FML IN
NSE	: BAJAJTEMPO
BSE	: 500033

## Market Data

52 Wk Range (₹)	: 2725/4665
Shares in Issue (mn)	: 13.20
Market. Cap ( bn)	: 36.70
BSE 2 Wk Avg Vol	: 20000

## Share Holding Pattern (%)

Promoters Holding	: 61.05
Public & Others	: 27.13
Corporate Holding	: 02.13
Foreign Institution	: 06.22
Institutions	: 03.47
Govt Holding	: 00.00

## Investment Theme

Indian automobile industry has successfully doubled the domestic market for passenger vehicle and two wheelers over the past 10 years riding over various challenges and no growth. The industry accounts for 7.1 % of the country's GDP. India has now become the 5th biggest market for passenger vehicles and the biggest market for two wheelers. Over 3 million PVs and 20 million two wheelers are consumed locally per year. Domestic car industry has a strong surge in export of cars from India to more than 100 markets in recent years. India now exports over 7,00,000 cars every year. Any new car that gets launched now must have mandatory airbags. From end of 2019 calendar year all the existing models will also have to be manufactured with air bags.

**India is the biggest market for 2 wheelers...!!!**

## Financial Statements

## Income Statement

(₹ mn)

Year end	Mar 15	Mar 16	% Chg	Mar 17	% Chg
Net Sales	23,637.2	30,246.6	28.0	30,689.9	1.5
Other Income	657.8	714.4	8.6	858.9	20.2
Change in Stocks	61.2	651.9	965.2	(717.9)	(210.1)
Raw Material Con.	16,471.6	22,376.4	35.8	21,305.6	(4.8)
Employee Exp.	2,777.3	3,043.1	9.6	3,500.8	15.0
Indirect Taxes	2,751.8	4,274.5	55.3	4,255.8	(0.4)
Other Exp.	227.8	(1,535.5)	(774.1)	(1,767.5)	15.1
Operating Exp.	22,228.5	28,158.5	26.7	27,294.7	(3.1)
Operating Profit	2,127.7	3,454.4	62.4	3,536.2	2.4
Total Interest	65.5	53.0	(19.1)	55.4	4.5
Gross Profit	2,062.2	3,401.4	64.9	3,480.8	2.3
Net Dep.	812.8	918.9	13.1	1,130.8	23.1
Total Taxation	235.8	695.1	194.8	550.8	(20.8)
Net Profit/Loss	1,013.6	1,787.4	76.3	1,799.2	0.7

## 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 14	Mar 15	Mar 16	Mar 17
<b>SOURCES OF FUNDS</b>	<b>13,035.3</b>	<b>13,608.5</b>	<b>15,293.2</b>	<b>18,971.0</b>
Equity Share capital	131.8	131.8	131.8	131.8
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	12,128.4	13,037.0	14,744.6	16,522.3
Secured Loans	0.0	0.0	0.0	0.0
Unsecured Loans	775.1	439.7	416.8	2,316.9
<b>USES OF FUNDS</b>	<b>13,035.3</b>	<b>13,608.5</b>	<b>15,293.2</b>	<b>18,971.0</b>
Gross Block	15,341.0	16,121.8	18,483.8	20,785.9
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	8,908.1	9,746.3	10,625.1	11,734.5
Net Block	6,432.9	6,375.5	7,858.7	9,051.4
Capital Work in Progress	2,057.7	2,397.6	2,046.0	2,202.6
Investments	12.4	12.2	149.5	159.6
Current Assets	8,453.1	9,931.8	12,167.4	14,930.5
Less : Current Liabilities	4,617.3	5,842.2	7,040.5	7,030.6
Total Net Current Assets	3,835.8	4,089.6	5,126.9	7,899.9
Misc. Expenses not writtenoff	696.5	733.6	112.1	(342.5)
<b>NOTE</b>				
Book Value of Unquoted Investments	9.6	9.6	74.8	72.1
Market Value of Quoted Investments	78.6	100.5	74.7	87.4
Contingent Liabilities	588.6	796.8	962.7	923.3
Dividend (%)	30.0	50.0	100.0	100.0

**Quarterly Income Sheets**

(₹ mn)

Quarter Ended	Mar 17	Jun 17	Sep 17	Dec 17
Net Sales	8,375.6	7,444.5	8,929.9	7,495.2
Cost Of Sales	7,456.2	7,071.6	8,132.2	7,040.5
Operating Profit	919.4	372.9	797.7	454.7
Other Income	241.8	281.6	94.2	96.9
Adjusted PBDIT	1,161.2	654.5	891.9	551.6
Financial Expenses	31.2	34.4	9.9	5.7
Depreciation	341.2	307.8	318.5	327.0
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	788.8	312.3	563.5	218.9
Tax Charges	239.7	12.7	146.1	72.4
Reported Profit	549.1	299.6	417.4	146.5
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	549.1	299.6	417.4	146.5

**52 Week Index Relative Percentage Appreciation**

**Force Motors vs SENSEX**
**Risks Associated**

- ➔ During the 3 Q Net sales was down by 16.07 % to ₹ 7,495.2 mn, financial charges were also down by 42.42 % to ₹ 5.7 mn and net profit was declined by 64.9 % to ₹ 146.5 mn on quarterly basis, for profit decline reason may be demonetisation and vehicles emission standards.

**Scope of Growth**

- ➔ Force Motors is discussing to few German companies for developing electric vehicle. It has set up a team of 45 people who will look at electric solutions for the future. It has already started work on electrifying Traveller, which is presently under validation.
- ➔ Presently, 60 % of its revenues come from vehicle business and the balance from aggregates such as components and engines etc.
- ➔ Indian government has shifted its focus on electric cars in order to meet the emission reduction targets. It has aims to sell only electric cars by 2030 under National Electric Mobility Mission Plan which was launched in 2013.
- ➔ Indian Government will implement the Bharat Stage-V emission norms for vehicles across the country from 2019 and BS-VI emission norms for four-wheelers shall be implemented from 2023 it will leads to technology updation.
- ➔ Automobile manufacturers are expecting good number of rural sales in the current fiscal year as a favourable monsoon & economy growth.
- ➔ Recently, Force Motors has won the order for supply of Light Strike Vehicles to the Indian Army.

## Force Motors

### In a Nutshell

Force Motors offers small commercial vehicles, Multi-Utility Vehicles, Light Commercial Vehicles, Sports Utility Vehicles and Agricultural Tractors. Company has two major business lines, one is manufacturing of automobiles and the second one is manufacturing of engines and axles for Mercedes-Benz and BMW-India. It is only the supplier of engines to BMW and Mercedes in India. In March 2018, Force Motors Limited has signed a Joint Venture agreement with subsidiary of Rolls-Royce for development, manufacture and marketing of engines for application in power generation and railways with a cost of ₹ 300 cr. The new JV company, which will be called Force MTU Power Systems Pvt Ltd. In this Joint venture Force Motors will hold major share. Number of Vehicles sold during the financial year 32,929 as compare to the previous year 33,354 vehicles. Sales for the 2016-17 was ₹ 30,689.9 mn against the previous year sales ₹ 30,246.6 mn. It has announced dividend ₹ 10 per share. India's top automobile manufacturers are expecting robust rural sales in the current fiscal year as a favourable monsoon & faster economic growth are likely to boost farm income. Domestic car industry has a strong rise in export of cars from India to more than 100 markets in recent years. India now exports over 7,00,000 cars per year. Rural market demand for two-wheelers has improved significantly after two straight years of near-normal monsoon. Motorcycle sales grew by over 10% in the year ended 31 March for the first time in six years on improved demand for cheaper motorcycles from rural and semi-urban markets.

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### Rating Interpretation

**Buy** : Expected to appreciate 20% or more over 12-months

**Accumulate** : Expected to appreciate 10% to 20% over 12-months

**Trade Buy** : Expected to appreciate more than 10% over 45-days

**Reduce** : Expected to depreciate up to 10% over 12-months

**Sell** : Expected to depreciate 10% or more over 12-months

**Trade Sell** : Expected to depreciate more than 10% over 45-days

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