



## IndiaNivesh Securities Limited

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# NiveshMonthly

October 2015

### MONTHLY RECOMMENDATIONS

	CMP (Rs.)	RATING	TP (Rs.)
Camlin Fine Sciences Ltd.	107	BUY	136
Force Motors Ltd.	2823	BUY	3150

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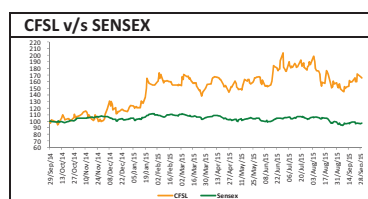
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Current	Previous
<b>CMP: Rs.107</b>	
<b>Rating: BUY</b>	<b>Rating: NR</b>
<b>Target: Rs.136</b>	<b>Target: NR</b>

Units Rs/Mn.	FY15	FY16e	FY17e
Net Sales	5,583	6,197	7,188
EBITDA	838	992	1,223
EBITDA Margin (%)	15.0	16.0	17.0
PAT	547	521	683
PAT Margin (%)	9.8	8.4	9.5
EPS	5.7	5.4	7.1
ROE (%)	40.5	28.5	27.7
P/E	18.8x	19.7x	15.0x
EV/EBITDA	13.7x	11.6x	9.4x

SHAREHOLDING PATTERN	%
(as on Jun. 2015)	
Institutions	1.3
Others, Incl Public	46.7
Promoters	52.0

Source: BSE



Source: Capitaline, IndiaNivesh Research

*Camlin Fine Sciences Ltd (CFSL) is one of the India's leading manufacturers & exporters of Food antioxidant, Fine Chemicals, and Food Grades Products. The company has emerged as niche specialty chemical company with global market leadership in key food antioxidants like TBHQ and BHA. Additionally, its breakthrough into water based synthetic (Solvent Free) technology to manufacture GUAIACOL (Raw Material for Vanillin) gathered attention of many MNC blenders and key manufacturer. The products portfolio offered by CFSL is not available with any domestic player and globally also very few competitors exist. We recommend BUY with target price of Rs.136 on CFSL.*

## Investment Rationale

### Inorganic Action Created Significant Moat...

- Borregaard Industries Ltd acquisition created significant technology moat around CFSL business. The acquisition also mitigated raw material risk. CFSL was dependent on Rhodia for supply of raw materials (Hydroquinone & Catechol), which was not available in right quantity and price. This edge also led to launch of various downstream products like MEHQ, TBC, Veratrole, Catechol, and Guaiacol. Additionally, the technology to manufacture Vanillin was also developed on back of this edge. In last four years (FY12-15), Borregaard delivered 26.5% revenue CAGR on consolidated level. However, on an average 45% of the total sales are only reported and remaining adjusted through internal sale and purchase.

### Emerging Blend Company...

- In order to device customize solutions for food industry; CFSL commissioned blending facility with application laboratory in India at two places [Tarapur on Apr-2014 and Mumbai on Feb-2015]. Further, the blending facility is also commissioned in Indaiatuba, Brazil on Sep-2014. Additionally, CFSL is setting up subsidiary in China, Mexico & US to service these markets closely. The company offers these food formulations/food blends solutions under 'Xtendra' brand name. Major legal approvals like Fragrance & Flavours Association of India (FAFAI) and Federation of Essential Oil & Aroma Traders (IFEAT) are also in place. We forecast contribution of 0.3%/3.0% (Rs 20 mn/Rs.250 mn) to total revenue from antioxidant blend business in FY16E/FY17E.

### Dahej Capacity Expansion Margin Accretive...

- CFSL is setting up an integrated chemical manufacturing facility at Dahej with a total Capex of ~Rs 1,810 mn. The company already acquired 64,407 sq. meters (worth Rs.80 mn) of land in Dahej SEZ. This integrated plant will manufacture 9,000 MTPA Hydroquinone, 6,000 MTPA Catechol and 6,000 MTPA Vanillin. In our view, commencement of Dahej facility would improve sales-to-raw-material ratio further. Additionally, Borregaard can sell Hydroquinone (~4900 MTPA) and Catechol (~2000 MTPA) in Europe & US markets. The Company has already appointed Project management Consultant of international repute and project is expected to be commissioned during 2HFY18 and full-scale manufacturing/commercial operations should start from FY19.

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## New product launch – key growth driver

CFSL as a part of its growth strategy has progressed towards expanding its product portfolio in Food Ingredients and Industrial Products Divisions. On the same line, the company launched four new products (HQMME, MDB-Methylene, 1-Chloro-2,5-DI methoxy Benzene, and MDB-Methylen) in FY16. Given the cost and quality advantage, we expect these products to gain sizeable market share and likely to deliver higher revenue growth over near-to-medium-term. Additionally, the company's launch of Vanillin & Ethi-Vanillin and capacity expansion of Hydroquinone and Catechol in Q2FY18 should bode well on the company's revenue and profitability. On back of proven R&D capabilities, we believe the company is well placed to launch series of new products (25-30) from Diaphenol derivatives. The company also expanded its sales team in Latin America, India and China to increase customer reach and penetrate global markets.

## Opportunity to expand market-share in existing portfolio

In most of the company's performance product portfolio only two manufacturer (CFSL & Rhodai) exist globally. As a result, we believe products like HQMME, Catechol, Veratrole, TBC, MDB-Methylene Dioxybenzene, 1-Chloro-2, 5-Dimethoxy, 4-Methoxy Aceto could command huge market share (MS) going-ahead. The market shares of these products are very low (0% to 24% of the total MS). The capacity expansion of HQMME from 100 MTPA to 1200 MTPA should further facilitate in expanding market share. Additionally, increase in TBHQ capacity from 2,400 to 3,600 and enhancement of Europe facility (HQ and Catechol) from 600 MT/ p.m to 1000 MT/ p.m will further expand the market share.

## Global Expansion – Long-term growth Engine...

In order to improve service, shorten supply time and grow blends business, CFSL established manufacturing facility in Mexico. The plant capacity is at 310 MT/p.m of antioxidant blend. The facility is spread across 11,000 sq. ft. (Kosher facility) equipped with cutting edge technology. CFSL also appointed experienced marketing professionals in Europe to expand food antioxidant blend business. CFSL has appointed a Global Technical Head as part of its initiative to develop food antioxidant blend and other products. In our view, these initiatives will bring more focus and expand revenue in global markets over long-term.

## Risk & Concern

- Elongation in stabilization of Dahej facility
- Increase in Debt level & Interest expenditure
- EBITDA margin deterioration due to production loss

## Valuation

At CMP of Rs.107, the stock is trading at EV/EBITDA multiple of 11.6x FY16E and 9.4x FY17E estimates. Given the technology led moat in business and ability to expand in various diphenol derivatives, CFSL is well positioned to deliver higher revenue and margin over medium-to-long-term. Considering the healthy ROE and ROCE, CFSL is in for re-rating, in-line with other listed Indian chemical players. We value CFSL at EV/EBITDA multiple of 13.0x (Industry average 13.4x) FY17E and arrive at target price of Rs.136 on the stock. Additionally, increasing focus on international subsidiary should bode well on revenue and profitability.

Company (Rs Mn)	Sales (Rs Mn)			Y/Y Gr%			EBITDA			EBITDA %			ROE %			ROCE %			EV/EBITDA (x)			P/E (x)		
	FY15	FY16e	FY17e	FY15	FY16e	FY17e	FY15	FY16e	FY17e	FY15	FY16e	FY17e	FY15	FY16e	FY17e	FY15	FY16e	FY17e	FY15	FY16e	FY17e	FY15	FY16e	FY17e
PI Industries Ltd	19,403	23,105	28,130	21.6	19.1	21.7	3,803	4,617	5,775	19.6	20.0	20.5	30.9	28.4	28.9	27.6	26.9	27.5	22.0	19.2	15.3	35.5	29.0	22.1
Rallis India Ltd	18,218	20,424	23,545	4.3	12.1	15.3	2,824	3,176	3,846	15.5	15.6	16.3	22.7	20.9	22.5	19.0	17.9	19.5	16.1	14.2	11.8	27.0	23.7	18.8
BASF India Ltd	46,949	52,850	59,944	6.3	12.6	13.4	1,637	3,564	4,694	3.5	6.7	7.8	-5.5	6.8	12.4	NA	4.8	10.4	38.6	17.5	13.3	NA	52.7	25.4
Camlin Fine Science Ltd	5,583	6,197	7,188	9.8	11.0	16.0	882	992	1,223	15.8	16.0	17.0	36.2	28.5	27.7	31.0	30.0	29.5	11.3	10.9	8.9	17.5	18.4	14.0

Source: Company Filings; IndiaNivesh Research

## Current Product &amp; Capacities

Products	Location	Capacity				Current Rate Per/Kg USD	Usage	Customers	Rev Mix		Category	Global Market Size (MTPA)	Market Growth %
		FY15 MTPA	FY16E MTPA	FY17E MTPA	FY18E MTPA				Import	Export			
<b>Hydroquinone</b>													
+	ITALY (Ravenna)	5,000	5,000	5,000	5,000	6.5	Antioxidant, Polymers, Rubber, Inhibitors	Germany, Europe, UK	70%	30%	Bulk	60000	4%
+	India (Dahej)			9,000	9,000	6.5							
- Tert-Butyl Hydroquinone(TBHQ)	Tarapur	2,400	3,600	3600	3600	10.0	BULK Chemical: Palm Oil Industry, Packaged Beef Industry, Fast Food Industry	Blend Maker, Oil Processors	20%	80%	Food Application: Antioxidant	6000	3%
- Hydroquinone Mono Methyl Ether (HQMME)	Tarapur	100	1,200	1200	3000	10.0	BULK Chemical: Standard Stabilizer to Acrylate Industry	Plastic & Polymerization	10%	90%	Industrial Monomoro	8000	4%
- Butylated Hydroxyanisole(BHA)	Tarapur	2,000	2,400	2400	2400	15.0	Bulk Chemicals: Fish Liver Oil, Biscuits, Cosmetic, Oils, Pharma, Flavour's, Pet Feed	Blend Maker, Oil Processors	10%	90%	Food Application: Antioxidant	4000	3%
- Ascorbyl Palmitate	Tarapur	0	200	200	200	30.0	Bulk Chemicals: Vitamin C Chemical	Blend Maker, Pharma	0%	100%	Food Application: Antioxidant	300	2%
<b>Catechol</b>													
+	ITALY (Ravenna)	6,000	6,000	6,000	6,000	3.3	Pharma, Agrochem, Food, Dyes, Dyestuff	US, Europe, (India Internal ~3000 MTPA)	60%	40%	Bulk	40000	3%
+	India (Dahej)				6,000	3.3							
- Veratrole	Tarapur	600	1,000	1000	1000	6.0	Agrochemical, Pharma	Synthesis	20%	80%	Performance Chemical	4000	5%
- TBC	Khopali	1,200	1,200	1,200	1,200	5.5	Used in Butadiene, Styrene, VAM & VCM	Stablizer	20%	80%	Industrial Monomoro	6000	10%
- MDB- Methylene Dioxybenzene	Tarapur	Trial Launch (NA)				6.0	Pharma, Agrochem, Fragrance Ind.	Stablizer	0%	0%	Industrial Monomoro	5000	3%
- 1-Chloro-2,5-Dimethoxy Benzene	Tarapur	Trial Launch (NA)				6.0	Specialized Product in Dyestuff Ind	Stablizer	0%	0%	Performance Chemical	5000	4%
- Guaiacol	Tarapur	2,000	4,000	4000	10000	5.5	Food & Flavoring Industry, Pharma Industry	Flavoring & Fragrance Ind	20%	80%	Performance Chemical	50000	4%
<b>Guaiacol</b>													
- 4-Methoxy Acetophenone	Mahad	Trail Launch (NA)				7.0	Pharma, Cosmetics, & Flavoring Agent	Intermediate Chemical	0%	0%	Performance Chemical	4000	3%
- Vanillin & Ethyl Vanilli	Dahej	6000				13.0					Aroma & Flavours	20000	4%
<b>Blends</b>													
- Brazil	Indaiatuba	-	3,410	3,410	3,410		Food Industry	Antioxidant Blends		100%	Aroma & Flavours		

Source: Company Filings; IndiaNivesh Research

## Consolidated Financials

## Income Statement

Y E March (Rs m)	FY15	FY16e	FY17e	FY18e	FY19e
Net sales	5,583	6,197	7,188	8,303	12,952
Y/Y Ch %	9.8	11.0	16.0	15.5	56.0
COGS	3,609	3,944	4,503	5,118	7,854
SG&A	1,136	1,261	1,463	1,690	2,636
<b>EBITDA</b>	<b>838</b>	<b>992</b>	<b>1,223</b>	<b>1,495</b>	<b>2,462</b>
Y/Y Ch %	35.9	18.4	23.2	22.3	64.7
EBITDA Margin %	15.0	16.0	17.0	18.0	19.0
Depreciation	163	187	205	253	309
<b>EBIT</b>	<b>675</b>	<b>805</b>	<b>1,017</b>	<b>1,243</b>	<b>2,153</b>
EBIT Margin %	12.1	13.0	14.2	15.0	16.6
Interest	238	254	270	302	445
Other Income (Inc Forex)	87	77	77	77	77
Extra Ordinary Exps/(Income)	-	-	-	1	2
<b>PBT</b>	<b>525</b>	<b>628</b>	<b>824</b>	<b>1,017</b>	<b>1,783</b>
Tax	-22	107	141	179	314
Effective tax rate %	-4.2	17.1	17.1	17.6	17.6
<b>Reported PAT</b>	<b>547</b>	<b>521</b>	<b>683</b>	<b>838</b>	<b>1,470</b>
Y/Y Ch %	90.3	-4.8	31.3	22.6	75.4
Minority	0	-	-	-	-
<b>Adj. PAT (APAT)</b>	<b>547</b>	<b>521</b>	<b>683</b>	<b>838</b>	<b>1,470</b>
RPAT Margin %	9.8	8.4	9.5	10.1	11.3
Y/Y Ch %	90.4	-4.7	31.3	22.6	75.4

Source: Company filings; IndiaNivesh Research

## Cash Flow

Y E March (Rs m)	FY15	FY16e	FY17e	FY18e	FY19e
Operating Profit	675	805	1,017	1,243	2,153
Depreciation	163	187	205	253	309
Changes in Working Capital	-520	-143	-247	-270	-1,183
Interest Paid	-238	-254	-270	-302	-445
<b>Cash Flow After Chang in WC</b>	<b>80</b>	<b>594</b>	<b>706</b>	<b>924</b>	<b>834</b>
Tax	22	-107	-141	-179	-314
Others	87	77	77	77	77
<b>Cash flow from operations</b>	<b>189</b>	<b>564</b>	<b>642</b>	<b>822</b>	<b>597</b>
Capital expenditure (net)	-229	-500	-900	-900	-450
<b>Free Cash Flow</b>	<b>-39</b>	<b>64</b>	<b>-258</b>	<b>-78</b>	<b>147</b>
Other income	0	0	0	0	0
Investments	0	0	0	0	0
<b>Cash flow from investments</b>	<b>-229</b>	<b>-500</b>	<b>-900</b>	<b>-900</b>	<b>-450</b>
Long-Term Debt (Decrease) Increase	116	100	200	900	0
Dividend paid (incl tax)	-43	-43	-43	-43	-43
Share Issue / Repurchase & Others	2	0	0	0	0
<b>Cash flow from Financing</b>	<b>74</b>	<b>57</b>	<b>157</b>	<b>857</b>	<b>-43</b>
<b>Net change in cash</b>	<b>35</b>	<b>121</b>	<b>-101</b>	<b>779</b>	<b>104</b>
<b>Cash at the beginning of the year</b>	<b>158</b>	<b>193</b>	<b>314</b>	<b>213</b>	<b>992</b>
<b>Cash at the end of the year</b>	<b>196</b>	<b>314</b>	<b>213</b>	<b>992</b>	<b>1,096</b>

Source: Company filings; IndiaNivesh Research

## Balance Sheet

Y E March (Rs m)	FY15	FY16e	FY17e	FY18e	FY19e
Share Capital	96	96	96	96	96
Reserves & Surplus	1,253	1,730	2,371	3,166	4,595
<b>Net Worth</b>	<b>1,349</b>	<b>1,826</b>	<b>2,466</b>	<b>3,262</b>	<b>4,691</b>
Minority	0	0	0	0	0
Long-term loans	1600	1700	1900	2800	2800
Others	15	15	15	15	15
<b>Total Liabilities</b>	<b>2,963</b>	<b>3,541</b>	<b>4,381</b>	<b>6,077</b>	<b>7,505</b>
Gross Block	2,979	3,479	4,379	5,279	5,729
Less Depreciation	1,887	2,074	2,279	2,532	2,841
<b>Net Block</b>	<b>1,092</b>	<b>1,405</b>	<b>2,100</b>	<b>2,747</b>	<b>2,888</b>
Long Term Inv & Others	53	53	53	53	53
<b>Current Assets</b>	<b>2,987</b>	<b>3,358</b>	<b>3,704</b>	<b>4,979</b>	<b>7,208</b>
Sundry Debtors	1,134	1,256	1,438	1,638	2,448
Cash & Bank Balance	193	314	213	992	1,096
Inventories	1,364	1,477	1,694	1,933	3,016
Others	296	310	359	415	648
<b>Current Liabilities</b>	<b>1,169</b>	<b>1,274</b>	<b>1,475</b>	<b>1,701</b>	<b>2,643</b>
Trade Payables	1,151	1,256	1,457	1,683	2,626
Provisions	18	17	17	17	17
<b>Net Current Assets</b>	<b>1,818</b>	<b>2,084</b>	<b>2,229</b>	<b>3,278</b>	<b>4,565</b>
<b>Total assets</b>	<b>2,963</b>	<b>3,541</b>	<b>4,381</b>	<b>6,077</b>	<b>7,505</b>

Source: Company filings; IndiaNivesh Research

## Key Ratios

Y E March	FY15	FY16e	FY17e	FY18e	FY19e
Adj. EPS (Rs)	5.7	5.4	7.1	8.7	15.3
Cash EPS (Rs)	7.4	7.4	9.3	11.4	18.6
DPS (Rs)	0.45	0.45	0.45	0.45	0.45
BVPS	14.1	19.0	25.7	34.0	48.9
ROCE %	31.0	30.0	29.5	25.5	34.7
ROE %	40.5	28.5	27.7	25.7	31.3
ROIC %	17.1	13.5	14.7	13.1	19.0
EBITDA Margin %	15.0	16.0	17.0	18.0	19.0
Net Margin %	9.8	8.4	9.5	10.1	11.3
PER (x)	18.8x	19.7x	15.0x	12.2x	7.0x
P/BV (x)	7.6x	5.6x	4.2x	3.1x	2.2x
P/CEPS (x)	14.5x	14.5x	11.5x	9.4x	5.8x
EV/EBITDA (x)	13.7x	11.6x	9.4x	7.7x	4.7x
Dividend Yield %	0.42	0.42	0.42	0.42	0.42
m cap/sales (x)	1.8x	1.6x	1.4x	1.2x	0.8x
net debt/equity (x)	1.0x	0.8x	0.7x	0.6x	0.4x
net debt/ebitda (x)	1.7x	1.4x	1.4x	1.2x	0.7x
Debtors (Days)	73	74	73	72	69
Creditors (Days)	74	74	74	74	74
Inventory (Days)	88	87	86	85	85

Source: Company filings; IndiaNivesh Research

Current	Previous
<b>CMP: Rs.2,823</b>	
<b>Rating: BUY</b>	<b>Rating: NR</b>
<b>Target 1: Rs.3,150</b>	<b>Target: NR</b>
<b>Target 2: Rs.10,011</b>	

Target 1: FY17E, Target 2: FY20E

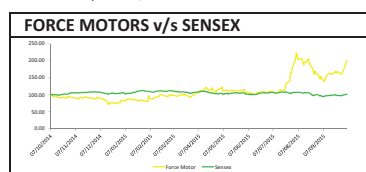
Units Rs/Mn.	FY15	FY16e	FY17e
Net Sales	23,637	29,833	34,598
EBITDA	1,470	2,476	3,079
EBITDA Margin (%)	6.22%	8.30%	8.90%
PAT	1,014	1,640	2,076
PAT Margin (%)	4.29%	5.50%	6.00%
EPS	77	124	158
ROE (%)	8.0	11.8	13.3
P/E	36.71	22.68	17.92
EV/EBITDA	23.32	13.84	10.81

SHAREHOLDING PATTERN	%
(as on Jun. 2015)	
Institutions	7.04
Others, Incl Public	32.84
Promoters	60.12

Source: BSE

STOCK PER. (%)	1m	3m	12m
FORCE MOTORS	36%	84.7%	100.7%
SENSEX	6%	-4.7%	2.0%

Source: Capitaline, IndiaNivesh Research



Source: Capitaline, IndiaNivesh Research

## Vision 2020 (Gazing into the future) Force motor has a potential to touch Rs 10,011 per share

### Rising Share of discretionary spending to boost luxury car demand

Discretionary spending across economy typically starts surging when a country's average income—in terms of purchasing power parity—crosses \$5,000 and will continue to soar until \$10,000, according to a McKinsey and Co. study. India's per capita income on that basis is at \$5,850 and China's at \$11,850, according to the World Bank estimates.

According to D&B report rising income levels coupled with increasing young working-age population will lead to significant growth in private final consumption expenditure. As per D&B's projections, growth in private final consumption expenditure is expected to average at around 9.1% during FY11-FY20. The share of spending in basic goods (food, beverages & tobacco and clothing & foot wear) in private final consumption expenditure is expected to decline substantially to 28.0% in FY20, versus 40.3% in FY10. On the other hand, share of discretionary spending (rent, fuel & power, furniture, medical care, transport & communication, recreation & education) is projected to increase considerably.

### Millionaire's in India to quadruple by 2020

India's population of High Net Worth (HNW) individuals is expected to grow from 251,000 in 2012 to 1 million by 2020 while the number of ultra-high net worth individuals (UHNIs), also growing rapidly, is forecast to triple by 2020 as per the Wealthinsight Global wealth report.

The Associated Chambers of Commerce and Industry of India (ASSOCHAM) India report also paints a similar picture and projects that India is likely to produce at least a dozen more billionaires and several new millionaires by 2020 as the country's start-ups scene heats up, fueled by sectors like e-commerce, financial services and other technology-driven fields.

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### Is India following China's Growth story a decade later?

From 2005-2010, the average annual salary (in nominal terms at Current USD) in China grew from \$1600-\$4500 (21% CAGR) but luxury cars sales were increasing at CAGR of 54%. One of the major reasons was that car ownership in China had more than doubled in 5 years, from 12% of households in 2004 to 28% in 2009. Currently the car ownership in urban area in India is close to 10%. A similar trend is expected in India in the next 5 years given that India has added more cars in the last decade (2001-11) than we did in the first five decades since Independence (1951-2000). We believe that luxury car market in India can easily grow at CAGR of 30%+ from 2015-2020E

India's automobile industry is following the same trajectory as China's with some important lessons. China was the world's fast growing market for cars until 2010 when the pressures of the slowing world economy finally caught up with it. It was dominated by Audi, BMW and Mercedes Benz and with less than 10% penetration, had huge potential. Its luxury market was growing faster than the overall passenger car market driven by voracious demand from a young, educated wealthy population of Chinese professionals looking to flaunt their social status. The recent financial crises combined with a corruption crackdown has had a dramatic impact on sales volumes prompting high-end car makers to invest in producing compact cars aimed at price-sensitive, first time buyers. While in India, the luxury car makers have always offered number of options in compact car category.

### Luxury car market growth to substantially outpace Passenger vehicle growth

Currently Luxury models account for less than 2% of all passenger vehicles sold in India; this compares to 7% in China and around 11% in the US. We expect the gap to narrow down significantly over next few years with nominal GDP/capita expected to cross \$2000 in 2017. Frost & Sullivan's (the leading consulting firm) study has revealed that the Indian rich will trigger an exponential growth in the segment. We believe that luxury car market can easily grow at CAGR of 30%+ from 2015-2020E.

For Force motors we believe the picture will reverse In FY20 compared to current year with Auto components segment contributing 54% to the revenues (from current 30%) and Automotive sales contribution falling to 44% levels (from current 68%) of the total revenue. With higher volumes, operating leverage would kick in further which could mean an EBITDA margin of close to 10% and NPM of around 7% in 2020. This would result in Net Profit of Rs 4398 million and EPS of ~Rs 334. With such consistent performance of Sales CAGR of 22% and Profit CAGR of 37% over FY15-FY20E, the multiple can easily expand to 30X giving a target price of ~Rs 10,011 in 2020.

Expected Revenue of Force Motors (FY15-FY20E)									
Revenue (in mn)	Units	FY13	FY14	FY15	FY16E	FY17E	FY18E	FY19E	FY20E
<b>Automotive Sales</b>	(Rs mn)	17,297	16,502	17,973	19,187	21,453	24,455	27,778	31,687
% increase/Decrease			-5%	9%	7%	12%	14%	14%	14%
<b>Avg Realization</b>	(Rs)	586302	599237	612048	624289	636775	649510	662500	675750
% increase/Decrease			2%	2%	2%	2%	2%	2%	2%
<b>Luxury Car engine volume</b>									
Mercedes volume	(Nos)	9003	10202	11213	14016	17520	22776	29609	38492
Growth			13%	10%	25%	25%	30%	30%	30%
BMW volume	(Nos)	0	0	1500	7350	7718	8875	10650	13313
Growth					390%	5%	15%	20%	25%
Total Merc + BMW volume (in Nos)	(Nos)	9003	10202	12713	21366	25238	31652	40259	51805
<b>Auto Component Sales</b>	(Rs mn)	4904	6159	7925	13771	16820	21811	28686	38168
% increase/Decrease			26%	29%	74%	22%	30%	32%	33%
Realization per Unit	(Rs)	544745	603688	623338	644532	666446	689105	712535	736761
Realization per Unit Growth			11%	3%	3%	3%	3%	3%	3%
<b>Parts Sales</b>	(Rs mn)	4	94	204	255	273	291	311	333
% increase/Decrease			2315%	116%	25%	25%	25%	25%	25%
<b>Total Sales From Operation</b>	(Rs mn)	22,205	22,755	26,102	33,214	38,545	46,557	56,775	70,188
<b>Service</b>		254	1	13	16	18	21	24	27
% increase/Decrease			-99%	885%	15%	15%	15%	15%	15%
<b>Others</b>		304	255	272	291	311	332	355	380
% increase/Decrease			-16%	7%	7%	7%	7%	7%	7%
<b>Total Gross Sales</b>	(Rs mn)	22,764	23,011	26,388	33,520	38,874	46,910	57,154	70,594

Source: Company, IndiaNivesh Securities

Sensitivity of Force Motors Blue Sky Scenario Price to Mercedes + BMW sales and Net Profit Margin in FY 20E										
	Force Motors Profit Margins (FY 20E)									
	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%	
<b>Mercedes + BMW Sales (FY 20E)</b>	31083	5604	6165	6725	7286	7846	8407	8967	9528	10088
	36263	5991	6590	7189	7788	8388	8987	9586	10185	10784
	41444	6378	7016	7653	8291	8929	9567	10204	10842	11480
	46624	6764	7441	8117	8794	9470	10147	10823	11499	12176
	51805	7151	7866	8581	9296	10011	10727	11442	12157	12872
	56985	7538	8291	9045	9799	10553	11306	12060	12814	13568
	62166	7924	8717	9509	10302	11094	11886	12679	13471	14264
	67346	8311	9142	9973	10804	11635	12466	13297	14129	14960
	72527	8698	9567	10437	11307	12177	13046	13916	14786	15656

Source: Company, IndiaNivesh Securities

**We recommend BUY on Force Motors (FML) with target price of Rs 3150.** (We had earlier recommended it at Rs 564 on August 4, 2014 as part of Nivesh Discovery. Our company and/or its associates have certain holding in Force Motors).

**Force Motors is a fully vertically integrated automobile company. Over the last five decades through the associations with leading global automotive names like Daimler, ZF, Ricardo, Bosch and MAN, Force Motors has developed necessary expertise in-house for design, development and manufacture of automobiles, sub-systems, components and aggregates. Force Motors is also the only company in the world to do powertrains (engine, gearbox, axle see figure "Powertrain of Automobile") for both BMW and Mercedes. The company has been assembling engines for Mercedes for the last 18 years and also commenced (started production from January 2015) a new plant near Chennai exclusively for assembling engines for BMW. Considering the growth in Luxury car segment, we see strong revenue growth visibility from Auto component business that will help in overall margin expansion. It is net debt free company, sitting on cash and cash equivalents of around Rs. 2.9 bn (Rs. 220/share) as on 31st March 2015. At CMP of Rs. 2823, stock is trading at 17.9x FY17e earnings; we recommend BUY with target price of Rs. 3150 (based on 20x FY17e earnings).**

### Investment rationale

- **Diversified business Model** - Force Motors Ltd (FML) is a fully, vertically integrated automobile company, with expertise in design, development and manufacture of the full spectrum of automotive components and vehicles. In Automotive segment the company manufactures small and light commercial vehicles, multi-utility vehicles (MUVs), and tractors. The company's primary brands in LCVs and MCVs include Traveller, Trax, and Trump, while its brands in tractors are Balwan and Orchard. FML is among the largest ambulance maker in the country. The company is also gearing up for foray into defense and fire & rescue segment.
- **Increasing demand in LCV passenger segment to boost revenue** - FML focuses on the niche passenger segment of the overall LCV market (where FML has a market share of around 40 per cent), and more specifically in the market for LCVs with a maximum mass of five tonnes (where FML has a market share of around 70 per cent). The company's healthy market position, which has strengthened significantly over the last five years, is supported by its strong brand, 'Traveller'. Their brand "Traveller" has gained good traction over the years and is predominantly used by several travel agencies who rent out vehicles to organizations/ colleges in order to facilitate staff/student commutation. We believe that FML will continue to benefit from its niche positioning in the auto market, supported by steady introduction of new variants and favorable demand outlook for the LCV segment.
- **Tie-up with BMW and Mercedes ensures long term revenue visibility.** FML is also engaged in the contract manufacturing business for leading automobile companies wherein the company assembles engines, axles, and gearboxes for Mercedes-Benz India Pvt Ltd and BMW India Pvt Ltd. With the addition of new customers in the auto component business, FML's revenue dependence on OEM's segments is expected to reduce to 52% by FY17E. Luxury car sales have grown from 8516 units in FY09 to 32362 units in FY15. We have conservative taken ~ 17% CAGR growth in total luxury Car market in FY16e and FY17e and believe Mercedes Benz sales to grow at CAGR of 25% and BMW sales to grow at CAGR of 6% in from FY15-17E. With India's GDP/capita expected to cross \$2000 in 2017, we believe that combination of BMW and Mercedes can easily grow at CAGR of 30%+ from 2017E-2020E

### Valuation

Considering the growth in Luxury car segment, we see strong revenue growth visibility from Auto component business that will help in overall margin expansion. It is net debt free company, sitting on cash and cash equivalents of around Rs. 2.9 bn (Rs. 220/share) as on 31st March 2015. The company's net sale is expected to grow at CAGR 21% while the company's profit is expected to grow at CAGR of 43% for FY15-FY17E. Due to the above reasons, we value the stock at 20X FY17E earnings. At CMP of Rs. 2823, Force Motors is trading at 17.9x FY17e earnings; we recommend BUY with target price of Rs. 3150 (based on 20x FY17e earnings)



## Standalone Financial Statements

## Income statement

Y E March (Rs m)	FY13	FY14	FY15	FY16E	FY17E
<b>Net sales</b>	<b>19,727</b>	<b>20,220</b>	<b>23,637</b>	<b>29,833</b>	<b>34,598</b>
Growth %	-5.39%	2.50%	16.90%	26.21%	15.97%
<b>Expenditure</b>					
Raw Material	14,088	14,160	16,410	20,108	23,215
Gross Margin %	<b>28.59%</b>	<b>29.97%</b>	<b>30.57%</b>	<b>32.60%</b>	<b>32.90%</b>
Employee cost	2,623	2,406	2,777	3,520	3,979
Other expenses	2,478	2,683	2,980	3,729	4,325
<b>EBITDA</b>	<b>539</b>	<b>970</b>	<b>1,470</b>	<b>2,476</b>	<b>3,079</b>
Growth %	-55.66%	80.13%	51.47%	68.45%	24.36%
<b>EBITDA Margin %</b>	<b>2.73%</b>	<b>4.80%</b>	<b>6.22%</b>	<b>8.30%</b>	<b>8.90%</b>
Depreciation	702	848	813	849	898
<b>EBIT</b>	<b>(163)</b>	<b>122</b>	<b>657</b>	<b>1,627</b>	<b>2,181</b>
EBIT Margin %	-0.83%	0.60%	2.78%	5.45%	6.30%
Other income	437	599	658	681	702
Exceptional Item	-	-	-	-	-
Interest	82	92	66	30	-
<b>PBT</b>	<b>191</b>	<b>630</b>	<b>1,249</b>	<b>2,278</b>	<b>2,883</b>
<b>Tax</b>	<b>50</b>	<b>(147)</b>	<b>236</b>	<b>638</b>	<b>807</b>
Effective tax rate %	25.88%	-23.39%	18.87%	28.00%	28.00%
Extraordinary Item	-	-	-	-	-
Minority Interest	-	-	-	-	-
<b>Adjusted PAT</b>	<b>142</b>	<b>777</b>	<b>1,014</b>	<b>1,640</b>	<b>2,076</b>
Growth%	-98.28%	448.07%	30.46%	61.82%	26.56%
PAT margin %	0.72%	3.84%	4.29%	5.50%	6.00%

## Cash Flow

Y E March (Rs m)	FY13	FY14	FY15	FY16E	FY17E
<b>Profit before tax</b>	<b>191</b>	<b>630</b>	<b>1,249</b>	<b>2,278</b>	<b>2,883</b>
Depreciation	702	848	813	849	898
Interest	82	92	66	30	-
Other non cash charges	(311)	(599)	(658)	(681)	(702)
Changes in working capital	271	(252)	651	(598)	(261)
Tax	(106)	(21)	(324)	(638)	(807)
<b>Cash flow from operations</b>	<b>829</b>	<b>698</b>	<b>1,797</b>	<b>1,240</b>	<b>2,011</b>
Capital expenditure	(3,386)	(1,282)	(1,173)	(1,859)	(1,424)
Free Cash Flow	(2,556)	(585)	624	(619)	588
<b>Cash flow from investments</b>	<b>(3,041)</b>	<b>(996)</b>	<b>(962)</b>	<b>(1,178)</b>	<b>(722)</b>
Borrowing	56	(216)	(334)	(22)	(85)
Dividend paid (incl tax)	(153)	(46)	(46)	(77)	(125)
<b>Cash flow from Financing</b>	<b>(161)</b>	<b>(302)</b>	<b>(446)</b>	<b>(129)</b>	<b>(210)</b>
Net change in cash	(2,373)	(141)	852	63	904
Cash at the beginning of the year	4,619	2,246	2,105	2,957	3,020
<b>Cash at the end of the year</b>	<b>2,246</b>	<b>2,105</b>	<b>2,957</b>	<b>3,020</b>	<b>3,923</b>
Reconciliation with other balances	5	56	73	-	-
<b>Cash as per balance sheet</b>	<b>2,251</b>	<b>2,161</b>	<b>3,030</b>	<b>3,020</b>	<b>3,923</b>

Source: Company, IndiaNivesh Securities

## Balance sheet

Y E March (Rs m)	FY13	FY14	FY15	FY16E	FY17E
Share Capital	132	132	132	132	132
Reserves & Surplus	11,398	12,128	13,037	14,552	16,470
<b>Net Worth</b>	<b>11,529</b>	<b>12,260</b>	<b>13,169</b>	<b>14,684</b>	<b>16,602</b>
Long term borrowings	420	204	107	85	-
Deferred tax liabilities, net	219	66	266	266	266
Other long term liabilities	40	40	40	40	40
Long term provisions	276	207	192	192	192
<b>Total Non-current Liabilities</b>	<b>955</b>	<b>516</b>	<b>605</b>	<b>583</b>	<b>498</b>
Trade Payables	2,526	3,000	3,928	4,244	4,900
Other current liabilities	1,846	1,689	1,617	1,915	2,206
Short-term provisions	222	254	398	358	415
<b>Total Current Liabilities</b>	<b>4,594</b>	<b>4,942</b>	<b>5,943</b>	<b>6,517</b>	<b>7,522</b>
<b>Total Equity and Liabilities</b>	<b>17,078</b>	<b>17,719</b>	<b>19,717</b>	<b>21,784</b>	<b>24,622</b>
Gross Block	11,564	14,821	15,466	16,848	17,823
Less Depreciation	(5,400)	(8,421)	(9,223)	(10,072)	(10,970)
Net Block	6,164	6,400	6,242	6,776	6,852
Capital Work in Progress	1,890	1,431	1,745	2,045	2,345
Technical Know-how	52	33	133	163	188
Intangible asset under development	-	626	652	799	922
<b>Total fixed assets</b>	<b>8,106</b>	<b>8,491</b>	<b>8,773</b>	<b>9,783</b>	<b>10,309</b>
Non current Investments	12	12	12	12	12
Long term loans and advances	755	763	1,000	895	1,038
<b>Subtotal-Non Current assets</b>	<b>767</b>	<b>775</b>	<b>1,012</b>	<b>907</b>	<b>1,050</b>
Inventories	3,816	3,773	3,925	4,716	5,445
Trade receivables	1,088	1,351	1,087	1,538	1,784
Cash & Cash equivalents	2,251	2,161	3,030	3,020	3,923
Loans & advances	1,018	1,150	1,847	1,790	2,076
Other Current assets	32	19	43	30	35
<b>Total current assets</b>	<b>8,205</b>	<b>8,453</b>	<b>9,932</b>	<b>11,094</b>	<b>13,263</b>
<b>Total Assets</b>	<b>17,078</b>	<b>17,719</b>	<b>19,716</b>	<b>21,784</b>	<b>24,622</b>

## Key ratios

Y E March	FY13	FY14	FY15	FY16E	FY17E
Diluted EPS (INR)	11	59	77	124	158
Book value per share (INR)	875	930	999	1,114	1,260
ROE (%)	1.2	6.5	8.0	11.8	13.3
ROCE (%)	(1.4)	1.0	5.0	11.0	13.1
<b>Du Point Analysis</b>					
Net profit margin	0.72%	3.84%	4.29%	5.50%	6.00%
Asset turnover	1.16	1.14	1.20	1.44	1.49
Financial leverage	1.48	1.45	1.50	1.49	1.48
<b>Growth (%)</b>					
Revenues	(5.4)	2.5	16.9	26.2	16.0
EBITDA	-55.66	80.13	51.47	68.44	24.36
EPS	-98.28	448.07	30.46	61.81	26.56
<b>Margins (%)</b>					
EBITDA	2.73	4.80	6.22	8.30	8.90
EBIT	1.39	3.57	5.56	7.74	8.33
Net profit	0.72	3.84	4.29	5.50	6.00
<b>Turnover ratio</b>					
Inventory days	96	98	86	86	86
Receivable days	25	22	19	19	19
Payable days	64	71	77	77	77
Cash conversion cycle(Days)	57	49	27	27	27
<b>Valuation ratios</b>					
<b>Year ending 31 March</b>	<b>FY13</b>	<b>FY14E</b>	<b>FY15</b>	<b>FY16E</b>	<b>FY17E</b>
Diluted P/E (x)	262.46	47.89	36.71	22.68	17.92
Price/BV(x)	3.23	3.03	2.83	2.53	2.24
Market cap/sales (x)	1.89	1.84	1.57	1.25	1.08
EV/sales (x)	1.79	1.74	1.45	1.15	0.96
EV/EBITDA (x)	65.66	36.32	23.32	13.84	10.81
Dividend Yield (%)	0.11	0.11	0.18	0.22	0.36

## Past Recommendations Review (CMP as on October 5, 2015)

Sep-15	CMP (Rs)	Date of Reco	Reco Price (Rs)	Rating	High (Rs) (After Rec)	Target (Rs)	Comment
Force Motors	2823	October 06, 2015	2457	Buy	2823	3150	BUY
Camlin Fine Sciences	107	October 01, 2015	99	Buy	108	136	BUY
Jul-15	CMP (Rs)	Date of Reco	Reco Price (Rs)	Rating	High (Rs) (After Rec)	Target (Rs)	Comment
Pennar Industries Ltd.	49	August 6, 2015	63	Buy	71	87	Hold
Torrent Pharmaceuticals Ltd	1575	August 6, 2015	1,488	Buy	1,720	1,673	Achieved
Jul-15	CMP (Rs)	Date of Reco	Reco Price (Rs)	Rating	High (Rs) (After Rec)	Target (Rs)	Comment
Cipla Ltd.**	642	July 7, 2015	654	Buy	752	820	Hold
HDFC Bank Ltd.	1096	July 7, 2015	1,074	Buy	1,128	1,264	BUY
Jun-15	CMP (Rs)	Date of Reco	Reco Price (Rs)	Rating	High (Rs) (After Rec)	Target (Rs)	Comment
Capital First Ltd.	375	June 5, 2015	377	Buy	433	465	Hold
Reliance Industries Ltd.**	886	June 5, 2015	914	Buy	1,067	1,300	BUY
May-15	CMP (Rs)	Date of Reco	Reco Price (Rs)	Rating	High (Rs) (After Rec)	Target (Rs)	Comment
Oil India Ltd.	440	May 11, 2015	472	Buy	504	605	BUY
Apr-15	CMP (Rs)	Date of Reco	Reco Price (Rs)	Rating	High (Rs) (After Rec)	Target (Rs)	Comment
Dewan Hou. Fin. Corp. Ltd.	438	April 7, 2015	462	Buy	526	630	BUY
KPR Mills Ltd.**	812	April 7, 2015	534	Buy	872	1,059	BUY
Mar-15	CMP (Rs)	Date of Reco	Reco Price (Rs)	Rating	High (Rs) (After Rec)	Target (Rs)	Comment
Liberty Shoes Ltd.**	197	March 3, 2015	286	Buy	294	294	Achieved
L&T Finance Holdings Ltd.	68	March 3, 2015	69	Buy	75	84	Hold