

# Force Motors

**BUY**

| INDUSTRY                       | AUTOS                   |     |      |
|--------------------------------|-------------------------|-----|------|
| <b>CMP (as on 20 Apr 2017)</b> | <b>Rs 4,468</b>         |     |      |
| <b>Target Price</b>            | <b>Rs 5,350</b>         |     |      |
| Nifty                          | 9,136                   |     |      |
| Sensex                         | 29,422                  |     |      |
| KEY STOCK DATA                 |                         |     |      |
| Bloomberg                      | FML IN                  |     |      |
| No. of Shares (mn)             | 13                      |     |      |
| MCap (Rs bn) / (\$ mn)         | 58 / 901                |     |      |
| 6m avg traded value (Rs mn)    | 430                     |     |      |
| STOCK PERFORMANCE (%)          |                         |     |      |
| <b>52 Week high / low</b>      | <b>Rs 4,839 / 2,801</b> |     |      |
|                                | 3M                      | 6M  | 12M  |
| Absolute (%)                   | 4.0                     | 5.3 | 38.3 |
| Relative (%)                   | (4.9)                   | 0.7 | 24.4 |
| SHAREHOLDING PATTERN (%)       |                         |     |      |
| Promoters                      | 61.06                   |     |      |
| FIs & Local MFs                | 1.95                    |     |      |
| FIs                            | 4.91                    |     |      |
| Public & Others                | 32.08                   |     |      |
| <i>Source : BSE</i>            |                         |     |      |

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## The luxury advantage

Recent interactions with dealers across the country have convinced us that the luxury car market in India has great scope for growth. Sales of luxury cars account for less than 1.3% of the Indian car market, reflecting a huge untapped space. Aspirational demand from India's middle class has led to proliferation of dealerships of luxury car brands (like Audi, BMW, Mercedes, Bentley, Bugatti, Rolls Royce and Porsche) into Tier II cities.

We believe the Indian luxury car market is gradually growing a 'mass-luxury' sub-segment, currently dominated by Mercedes Benz A/B/CLA Class, the BMW X1/1 Series and Audi A3/A4. Luxcar brands have already shifted focus to entry-level cars with smaller engines. To keep prices competitive, these players are increasingly choosing to assemble locally.

Since localisation will naturally keep prices low, we believe the mass-luxury segment can grow sustainably over the medium term. Force Motors Ltd (the sole supplier of powertrain components to Mercedes and BMW) is thus poised to reap indirect benefits.

Given its steady relationships with two luxcar brands, we maintain Buy on FML with a TP of Rs 5,350 (21x FY19E). Our long-term aspirational TP is Rs 8,556 (25x FY20E, 21/25% CAGR over FY16-20E).

### Key highlights

- **Tripling sub-contracting revenues over FY17-22E:** We see a huge opportunity opening up for FML's sub-contracting business for luxcar makers. Revenue (gross) can touch Rs 100bn by FY22E (FY17E Rs ~35bn), on the back of rising volumes, led by increasing affordability.
- **The cost factor:** A competitive environment has forced luxury car players to reduce prices by 10-30% in the last two quarters. Mercedes-Benz and BMW's tie-up with FML for the assembly of powertrain helps them save on duties and control costs (passed on to customers).
- **Increased urbanisation:** The announcement of the 100 smart cities project will lead to a ramp up of urbanisation in India. This, in turn, will create an incremental demand for PVs and luxury cars.

### Financial Summary (Standalone)

| Y/E Mar (Rs. mn) | FY15   | FY16   | FY17E  | FY18E  | FY19E  |
|------------------|--------|--------|--------|--------|--------|
| Net Sales        | 23,637 | 30,601 | 31,189 | 42,990 | 52,366 |
| EBITDA           | 1,470  | 2,744  | 2,651  | 4,084  | 5,289  |
| APAT             | 1,013  | 1,796  | 1,718  | 2,528  | 3,337  |
| Diluted EPS (Rs) | 77.3   | 137.1  | 131.2  | 192.9  | 254.7  |
| P/E (x)          | 58.7   | 33.1   | 34.6   | 23.5   | 17.8   |
| EV / EBITDA (x)  | 38.7   | 20.6   | 21.4   | 13.9   | 10.5   |
| RoE (%)          | 8.0    | 12.8   | 11.0   | 14.4   | 16.4   |

Source: Company, HDFC sec Inst Research

**Luxury car volumes in India are quite low, as the products are relatively costlier as compared to other nations like China, UK and USA**

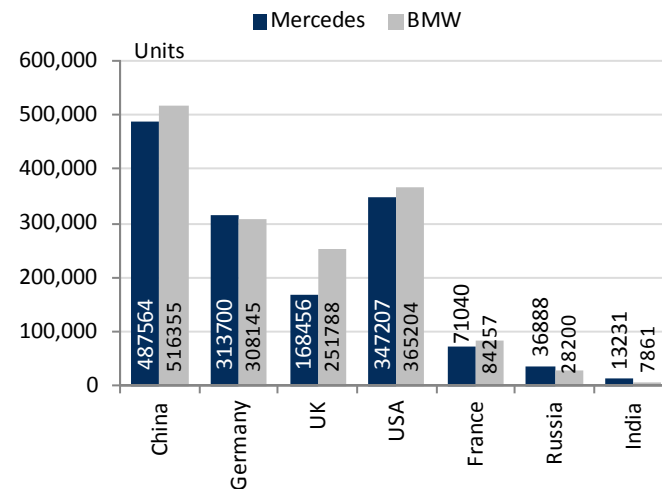
**One of the biggest challenges is the tax levied on luxury cars. The total levy extends to up to 183% of the value of the car**

**There is also an additional ~22% in the form of registration fees, road tax, octroi and insurance, before you can determine the on-road price**

### Luxury cars in India: Can prices be lowered?

- Though the luxury car market in India is witnessing steady growth, the overall market size remains restricted to only a few thousand units (~36K units) vis-à-vis China, where the number is in millions. The key reasons for this are the taxes, duties, cess and surcharges levied on the product.
- Popular models of luxury brands are expensive in India, as compared to UK, China and other nations, even though the per capita income (PPP) here is 1/2 and 1/7th that of China and UK respectively. This is because these cars are either imported or assembled here.
- However, this scenario is changing now, with local content being increasingly used. This helps in lowering prices, along with the push for smaller and more efficient engines to target the mass luxury car segment in India.
- The growth of the Indian luxury car market can be attributed to the rise of young entrepreneurs and professionals in the age group of 30 to 40 years. Most of these individuals are from premier business schools or foreign universities, with an exposure to global markets. Luxury cars allow them to make a style statement at relatively affordable prices.

### Country-wise BMW/Mercedes Volumes In CY16



Source: BMW, Mercedes, HDFC sec Inst Research

### Prices(USD) Of Mercedes/BMW In India Vs China/UK

| Models           | India  | China  | UK    |
|------------------|--------|--------|-------|
| Mercedes A class | 42424  | 35400  | 25838 |
| Mercedes GLA     | 50000  | 40500  | 32719 |
| Mercedes E       | 77273  | 65520  | 43950 |
| Mercedes CLS     | 134848 | 104700 | 61800 |
| Mercedes GLC     | 72727  | 59400  | 45475 |
| Mercedes S class | 180303 | 140700 | 88031 |
| BMW 1 Series     | 46970  | 30000  | 27438 |
| BMW X5           | 104545 | 63000  | 62500 |
| BMW X3           | 72727  | 43000  | 52000 |

Source: BMW, Mercedes, Ex showroom price

**However, companies are looking at ways to increase local content on their cars to reduce prices**

**In the last few quarters, luxury car companies came up with the sub 2-litre engine option vs traditional 3-litre ones**

**Vehicles with smaller engines are 20-25% cheaper because of lower excise and import duty**

- Mercedes, BMW and Audi are considered to be the most prestigious brands in India. However, with localisation and the entry of the sub 2-litre engine variant, the price difference between these and other luxury brands has reduced significantly. This makes them affordable, while keeping the brand status intact. The A, B, CLA, A3 and A4 classes of luxury cars are priced lower at Rs 4mn (ex-showroom), whereas Skoda, Volkswagen and Toyota offer high-end cars at ~Rs 3mn (ex-showroom). This is increasingly enticing consumers to opt for luxury brands. Having the option of purchasing a model in the entry-level segment of the luxury car space is an incentive for first-time buyers.

### Push for smaller, more efficient engines and entry level cars

- In the last six months, Porsche drove in the Macan R4, 718 Boxster and 718 Cayman with a sub 2-litre engine option. These vehicles are 20-25% cheaper than those fitted with traditional 3-litre engines. This

is because lower displacement allows a cut in import taxes and excise duty. The shift to a smaller engine is also a crucial a step in the reduction of emission levels and improving fuel economy.

- Entry-level models are a practical solution to meet the growing demand for high-performance cars in the country, with a fast-growing segment of the affluent, but infrastructure development has failed to keep pace. With roads posing a challenge, a luxury car buyer in India is seldom able to drive his car to its full capacity.
- Luxury car makers like Mercedes-Benz, BMW and Audi introduced the sub-2-litre engine and petrol options at prices as low as half those of their full-feature performance cars. These prices have helped in attracting buyers for luxury cars in small cities and towns as well.
- Mercedes-Benz launched the S43AMG, SLC 43AMG and GLE43 AMG in the last 12 months, priced at almost half the 63AMG series.

### Import Duty Structure

| Criteria / Applicability   | Import Duty in % |
|--|------------------|
| Used car import  | 125              |
| Car CBUs CIF value > \$ 40k<br>or Petrol Engine > 3000 CC<br>or Diesel engine > 2500 CC  | 100              |
| Cars CBUs CIF value <\$ 40K<br>and Petrol Engine < 3000 CC<br>and Diesel engine < 2500 CC  | 60               |
| CKD containing engine or gearbox or transmission mechanism in pre-assembled form but not mounted on a chassis or a body assembly | 30               |
| CKD containing engine, gearbox and transmission mechanism not in a pre-assembled condition                                       | 10               |

Source: SIAM

*The primary methods used to entice younger and less-affluent consumers have been the introduction of new models or product line extensions with lower price points*

*Lower prices reduce the entry barriers for less affluent customers, while leveraging the luxury brand appeal*

*In past few quarters, Mercedes has launched refreshed versions of its entry-level, compact car A and B-Class, and it plans to increase sales of such models by 50% in the near term*

*Entry level compact cars contributes ~ 20% total sales of Mercedes*

### **Audi A3 Facelift with A 1.4 Ltr Petrol Engine**



- Unveiled at a starting price of Rs 2.5mn (ex-showroom, Delhi) in 2017. With such aggressive pricing, the A3 will not just be a threat for other entry-level luxury cars, but may also affect the sales of D2 segment cars and premium SUVs. The previous model was equipped with a 1.8-litre TFSI unit which is now replaced by the 1.4-litre units, that helped bring prices down

### **2017 Mercedes-Benz E-Class 2-Litre Petrol Engine**



- The new E-class was launched in two variant the s, e200 and e350d, powered by a 2-litre petrol engine which is ~ Rs 1.5mn cheaper

### **Audi A4 (Diesel) 2.0 Litre TDI Engine**



- Audi has already launched the A4, and it will be launching a new diesel 2.0 litre at a starting price of Rs 4mn. This has a TDI motor which gives 174 bhp of power and 380 nm of torque. This engine is mated to an 8-speed S-Tronic auto transmission.

### **2017 BMW 5-Series-2-Litre Petrol Engine**



- The MY (Model Year) 2017 BMW 5-series has been unveiled globally and entered the Indian market in the first half of 2017. The new BMW 5 series will be available in a choice of a 2.0-litre turbocharged petrol engine and a 3.0-litre turbocharged diesel engine.

**BMW has been on the back foot in the past, compared to rivals Audi and Mercedes Benz**

**However, the company is fighting back by introducing new 'entry level' products (1-Series and X1 sport utility vehicle) that would help get new customers on board**

**BMW had to refresh its product portfolio for the Indian market in order to regain market share**

**Localisation benefits both the car maker as well as the buyer**

**While the buyer benefits from a lower purchase price and lower long-term maintenance costs, the manufacturer benefits by being able to sell a larger volume of cars.**

### Mercedes-Benz CLA Facelift: 1.8-Litre Petrol Engine



- The CLA comes with three turbo petrol engines and two diesels at a starting price of Rs 3.2mn. The CLA 180 has a 122bhp 1.6-litre turbo four, while the CLA 250 AMG gets a 218bhp 2.0-litre turbo four

Source: Carwale, HDFC sec Inst Research

### Localisation: The key factor

- Luxury car makers have been localising their products to reduce taxes and costs, and increase sales volumes. This is also helping international brands to compete against domestic ones in the local market.
- BMW and Mercedes have a tie-up with various local partners in different geographies. In India, F&M assembles the powertrain for both the BMW and Mercedes.

### BMW X1-2-Litre Diesel Engine



- The 2016 BMW X1 is offered with the 2.0-litre four-cylinder turbocharged diesel engine, that develops 188bhp of power and 400Nm of torque. The BMW X1 was launched against the Mercedes-Benz GLA, the Audi Q3, the Mini Countryman and the Volvo V40 Cross Country in the compact luxury SUV segment at a starting price of Rs 3.2mn.

- Increased localisation and the consequent lower taxes have led to a reduction in prices by 10-30%. Most of these products were brought to India as a completely built unit (CBU) from their home countries, either Germany or the UK, which led to a doubling of rates.
- In the current scenario, manufacturers assemble cars locally, and also source engines and other parts from India. The import of fully-built cars attracts a customs duty of 100% and above, but locally-assembled cars need to pay only 10-30%.

**Luxury car manufacturers are focussing their energies on expanding local assembling operations and distribution networks, and increasing investments in marketing and advertising to penetrate the untapped market in India**

**The current localisation levels of BMW and Mercedes stand at 50/60% respectively**

**Mercedes started local assembling way back in 1995 with E-Class, and gradually added eight models**

**FML started supplying assembled powertrains to BMW from Jan-15 and has set up a dedicated plant in Chennai for the same.**

### Countrywise BMW And Mercedes Assembly Partners Modelwise Price Difference Post Localisation

| Country   | Mercedes   | BMW                         |
|-----------|------------|-----------------------------|
| China     | BAIC Motor | Brilliance China Automotive |
| Russia    | KAMAZ      | Avtotor                     |
| India     | FML        | FML                         |
| Brazil    |            | Dafra                       |
| Indonesia |            | Gaya Motor                  |
| Malaysia  |            | Inokom Corp                 |
| Thailand  | TAAP       |                             |

Source: HDFC sec Inst Research

| Models                      | Old Price | New Price | Difference in % |
|-----------------------------|-----------|-----------|-----------------|
| Jaguar XJ                   | 11.6      | 9         | 28.9            |
| Mercedes S class S500       | 16.7      | 13.6      | 22.8            |
| BMW X5                      | 8.1       | 7.1       | 14.1            |
| Audi Q7                     | 8.2       | 7.3       | 12.3            |
| Mercedes Benz Maybach S500, | 16.7      | 13.2      | 26.5            |
| range Rover evoque          | 5.5       | 4.7       | 17.0            |
| Mercedes Benz CLA           | 3.5       | 3.2       | 9.4             |

Source: Company, HDFC sec Inst Research

#### Mercedes

- Mercedes started local assembly way back in 1995, a year after its entry with the E-Class. Since then, it has gone on to add eight models (Mercedes Maybach S 500, S-Class, C-Class, CLA luxury sedans and the GLA, GLE, GLC and the GLS luxury SUVs). Local assembly will not only help the German auto major cope with the rising demand for its SUV, but will also help reduce the price of the vehicle, which, when imported as a CBU, was attracting higher taxes and duties in India. FML assembles the powertrain for all these models, except Maybach.

#### BMW increased localisation level to 50%

- BMW has started sourcing different components from various Indian manufacturers for local production of its cars in the Chennai plant. The company's suppliers include Force Motors (engines and gearboxes), ZF Hero Chassis (Axles), Draexlmaier India (door panels and wiring harness), Valeo India, Mahle Behr (ACs) and Lear India (seats). With the

addition of new partners, BMW has increased the level of localisation at its Chennai plant to approximately 50%.

#### Jaguar and Audi

- Audi, another German leader, makes its cars and SUVs in Aurangabad in Maharashtra, a facility it shares with sister brand Skoda Auto. Audi makes its A3, A4, A6, Q3, Q5 and Q7 models at the plant in India. It imports seven other models. Jaguar managed to trim prices by starting local assembly at its Pune plant, and also through cost savings realised by manufacturing more than one model.
- Currently, parts of BMW and Mercedes' vehicles are imported in CKD condition, and delivered directly to the assigned vendor in India. The vendor does the assembly and testing, and this enables in only saving the difference in customs duty. The day they localise the castings, forgings and machining is when the OEMs will be able to really drop their prices.

**Between the 2001 and 2011 census, India's urbanisation went up from 27.8% to 31.1%**

**Niti Aayog has predicted that India's urbanisation rate will increase to over 60 % ( vs 32% in 2011) in the next 30 years, assuming a 7-9% rate of economic growth**

**Global car manufacturers have already started investing in establishing a connection with consumers and expanding their dealership network across the country. As of March '17 Mercedes-Benz has 88 dealers across 42 cities in India.**

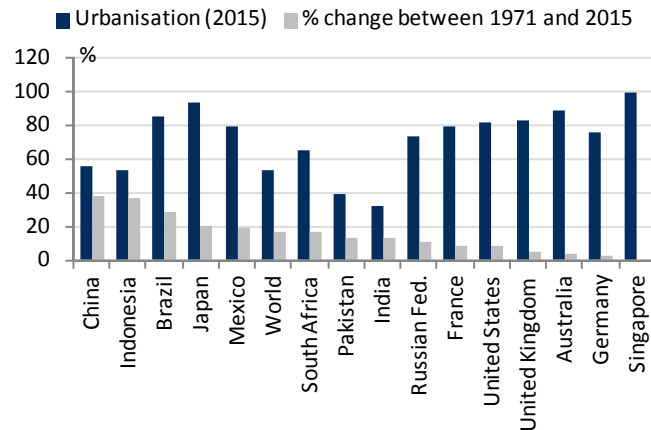
**For Mercedes, 55% of its sales come from markets other than Mumbai and Delhi, and this will continue to be the company's focus, going forward**

**Mercedes has opened as many as 10 showrooms in 2016, particularly in tier-2 and tier-3 cities to boost sales**

### Urbanisation and the growing middle class

- India's rapid economic growth has set the stage for a fundamental change in consumer mindset. The growth, that has pulled millions across the poverty line, is also leading to the burgeoning of a huge middle class, concentrated in India's urban areas. A rising middle class, youthful population and growing urbanisation will drive growth in India's luxury car market.
- Urbanisation has ended in Europe and America, and is in the last stages in China, while it has just begun in India. One of the chief announcements by the Indian Prime Minister was that of the overhauling of urban infrastructure in 100 Indian cities. These policies underline the importance of urbanisation in India's growth story, going ahead.

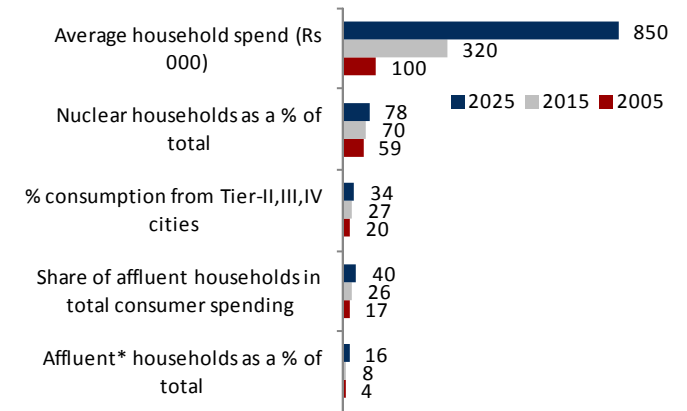
### India Fares Poorly In Urbanisation When Compared To Other Countries



Source: World Bank

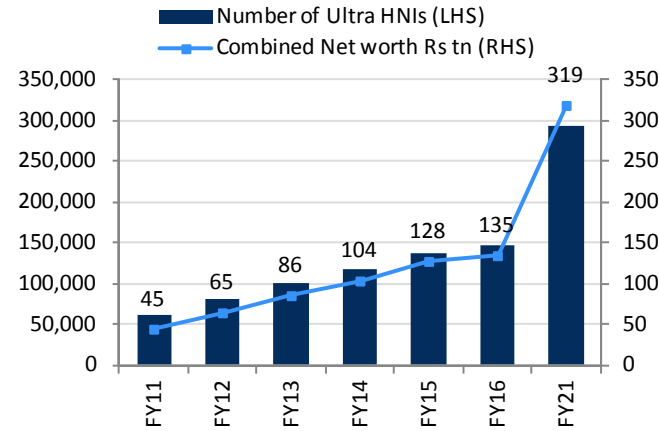
- After achieving significant penetration in urban areas, luxury car manufacturers are targeting smaller cities and towns. Nearly 50% of the country's HNIs actually live in these areas. These households represent an accumulated net worth of Rs 135tn, which has witnessed a compounded growth of 18% over the last five years, as per the Top of Pyramid 2016 report.

### The Changing Face Of Indian Consumers



Source: ICE, \* income more than 1mn

**Growth of Ultra HNI In India**

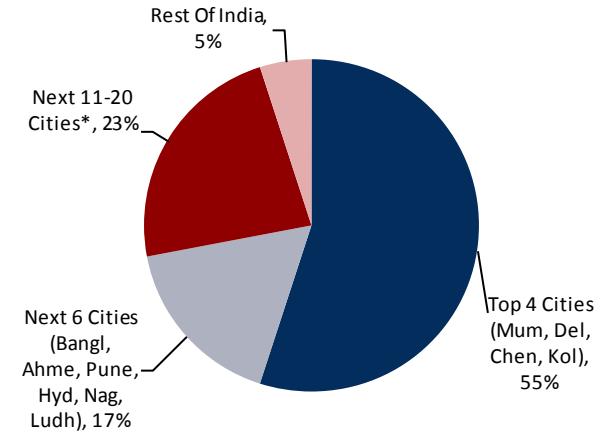


**FML is moving towards a turnover Rs. 100bn**

**FML’s revenue from the sub-contracting business to touch Rs. 52bn by FY22**

- The market for luxury vehicles in India is expected to grow exponentially over the next five years, driven by (1) Strong growth in PV sales, (2) increasing disposable income and massive urbanisation (3) The emerging of a new and wealthy middle class and (4) Local investment by foreign car companies. Given that the penetration of luxury cars in India stands at a meagre 1.3% of PV market volumes vs 2.7% in Brazil, 7% in China and 13% in USA, we expect the 3mn PVs as of FY17, to reach 5.5mn by FY22 with the penetration of luxury cars crossing 2.5%.
- We see a huge opportunity opening up for FML’s sub-contracting business, and expect revenue (gross) to touch Rs. 52bn by FY22.

**Geography-wise HNI Population**



Source: Top of Pyramid 2016 Report, HDFC sec Inst Research

**LCV passenger segment: Key driver for FML**

- Apart from the luxury PV market, FML is also focussing on the growing LCV passenger segment, with its Traveller range of products. With its Monocoque construction, proven and reliable Mercedes-derived driveline (engine) and a choice of 4-wheel base options, it is far ahead of the competition in terms of economy of operations. We believe that FML will continue to benefit from its niche positioning, supported by a continuous introduction of new variants and a favourable demand outlook for the LCV segment. We expect revenue (gross) to grow at a 18% CAGR over FY7-22E to Rs.52bn

*We foresee strong revenue growth from the sub-contracting business (31% CAGR over FY17-22E)*

*A strong demand for Force Traveller from multiple industries will ensure growth (18% CAGR over FY7-22E) in the automobile segment*

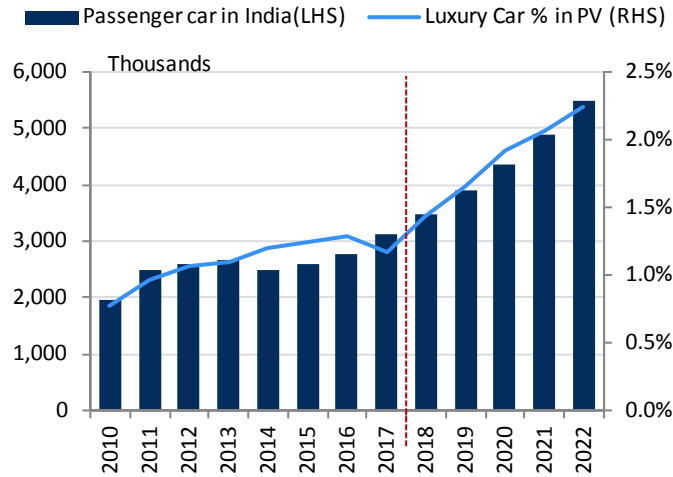
*Given the unique Monocoque chassis structure, fuel system, higher capacity and lower pricing within peers, we believe FML is poised to gain from the niche positioning of Traveller*



**FML is currently trading at 23x/ 18x on FY18E/FY19E earnings**

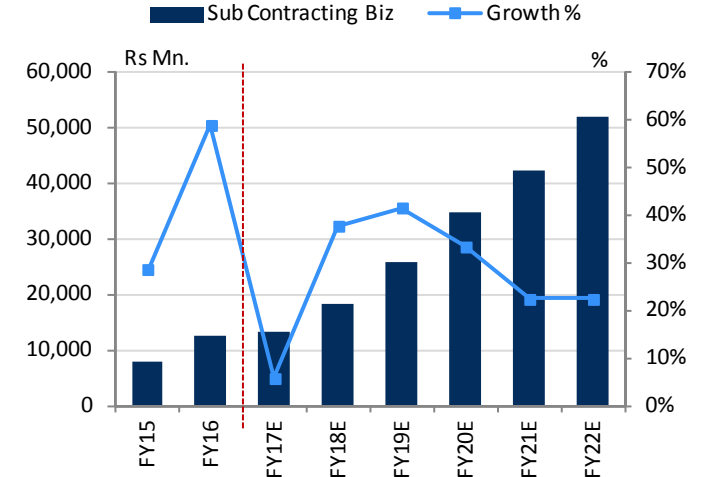
**We maintain Buy on FML with a TP of Rs 5350 (21x FY19E). We assign a long-term aspirational TP of Rs 8,556 (25x FY20E, 21/25% CAGR over FY16-20E).**

**Increasing Share Of Luxury Cars In PVs**



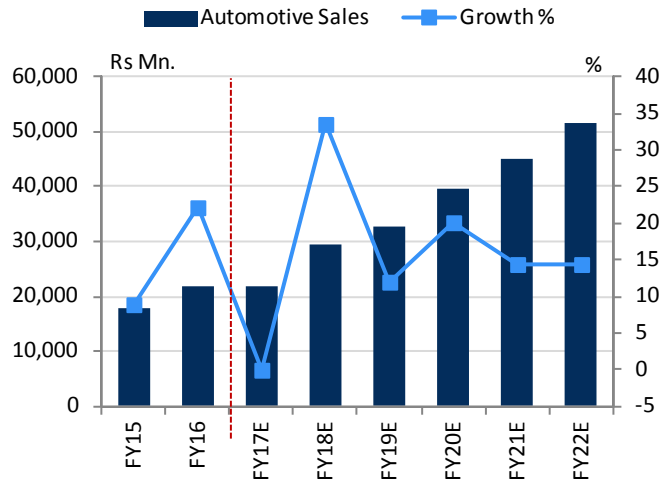
Source: SIAM, HDFC sec Inst Research

**Strong Revenue Growth In Sub-contracting Biz**



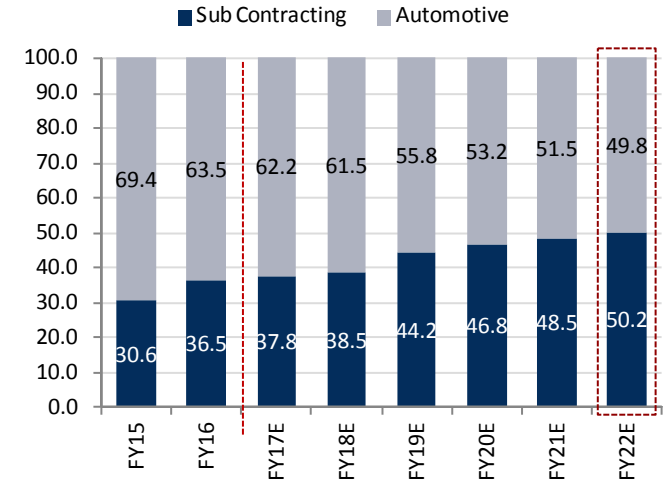
Source: SIAM, HDFC sec Inst Research

**Automobile Sales On The Rise**



Source: SIAM, HDFC sec Inst Research

**Revenue Contribution From OEM/Sub-contract Biz**



Source: SIAM, HDFC sec Inst Research

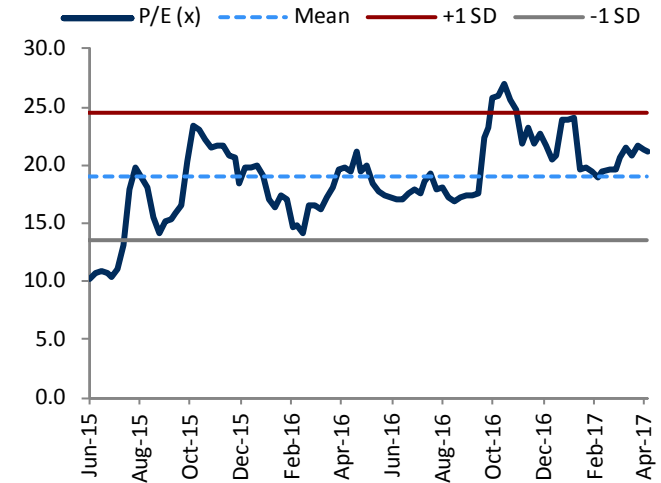
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**Valuation**

- We remain positive, based on the premise that FML continues as the sole supplier of powertrain components for Mercedes and BMW, thus reaping direct benefits from the growing (and relatively underpenetrated) luxury car market in India. Maintain a Buy with a TP of Rs 5,350 (21x FY19E). We assign a long-term aspirational TP of Rs 8,556 (25x FY20E, 21/25% CAGR over FY16-20E).

**One-Year Forward P/E Band**



Source: Company, Bloomberg, HDFC sec Inst Research

*We believe that the stock will continue to trade at higher multiples on a strong earnings trajectory, increased diversification and improving return ratios*

### Key Assumptions

| (Rs mn)                                | FY15            | FY16            | FY17E           | FY18E           | FY19E           |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Automotive Volume(Units)               | 29,362          | 33,098          | 32,929          | 40,522          | 43,076          |
| <b>Automotive Revenue</b>              | <b>17,973</b>   | <b>21,955</b>   | <b>21,949</b>   | <b>29,309</b>   | <b>32,823</b>   |
| Contribution in total revenue (%)      | 68.1            | 63.0            | 61.7            | 61.1            | 55.5            |
| <b>Total Merc + BMW volume (units)</b> | <b>11592</b>    | <b>18921</b>    | <b>20032</b>    | <b>26989</b>    | <b>34135</b>    |
| <b>Component Revenue</b>               | <b>7,925</b>    | <b>12,595</b>   | <b>13,321</b>   | <b>18,353</b>   | <b>25,988</b>   |
| Contribution in total revenue (%)      | 30.0            | 36.1            | 37.5            | 38.2            | 43.9            |
| <b>Spares Revenues</b>                 | <b>204</b>      | <b>17</b>       | <b>19</b>       | <b>20</b>       | <b>22</b>       |
| Service Charges                        | 13              | 4               | 5               | 11              | 12              |
| Other Operating Income                 | 272             | 240             | 264             | 291             | 320             |
| <b>Gross Revenue</b>                   | <b>26,389</b>   | <b>34,852</b>   | <b>35,558</b>   | <b>47,984</b>   | <b>59,166</b>   |
| (-) Excise duty                        | 2,752           | 4,254           | 4,369           | 4,994           | 6,800           |
| Excise duty (%)                        | 10.4            | 12.2            | 12.0            | 12.0            | 12.0            |
| <b>Net Revenues</b>                    | <b>23,637</b>   | <b>30,601</b>   | <b>31,189</b>   | <b>42,990</b>   | <b>52,366</b>   |
| Growth %                               | 16.9            | 29.5            | 1.9             | 37.8            | 21.8            |
| <b>EBITDA</b>                          | <b>1,470.00</b> | <b>2,744.40</b> | <b>2,651.08</b> | <b>4,084.01</b> | <b>5,289.01</b> |
| EBIDTA Margin (%)                      | 6.22%           | 8.97%           | 8.50%           | 9.50%           | 10.10%          |
| <b>APAT</b>                            | <b>1,012.68</b> | <b>1,795.72</b> | <b>1,718.30</b> | <b>2,527.54</b> | <b>3,336.76</b> |
| <b>EPS (Rs)</b>                        | <b>77.30</b>    | <b>137.08</b>   | <b>131.17</b>   | <b>192.94</b>   | <b>254.71</b>   |

Source: Company, HDFC sec Inst Research

### Peer Valuation

|                     | Mcap<br>(Rs bn) | CMP<br>(Rs/sh) | Reco       | TP           | Adj EPS (Rs/sh) |              |              | P/E (x)     |             |             | EV/EBITDA (x) |             |             | RoE (%)     |             |             |
|---------------------|-----------------|----------------|------------|--------------|-----------------|--------------|--------------|-------------|-------------|-------------|---------------|-------------|-------------|-------------|-------------|-------------|
|                     |                 |                |            |              | FY17E           | FY18E        | FY19E        | FY17E       | FY18E       | FY19E       | FY17E         | FY18E       | FY19E       | FY17E       | FY18E       | FY19E       |
| Tata Motors         | 1,578           | 465            | BUY        | 516          | 34.5            | 49.3         | 54.2         | 13.5        | 9.4         | 8.6         | 7.2           | 5.1         | 3.9         | 13.6        | 16.9        | 15.9        |
| Maruti Suzuki       | 1,859           | 6,155          | BUY        | 7,070        | 245.0           | 272.4        | 353.5        | 25.1        | 22.6        | 17.4        | 17.6          | 14.7        | 10.9        | 24.6        | 22.7        | 24.8        |
| Bajaj Auto          | 822             | 2,840          | BUY        | 3,400        | 134.8           | 154.0        | 172.4        | 21.1        | 18.4        | 16.5        | 15.4          | 12.8        | 11.0        | 29.9        | 30.5        | 29.8        |
| M&M                 | 756             | 1,280          | BUY        | 1,551        | 56.6            | 75.8         | 86.4         | 22.6        | 16.9        | 14.8        | 12.6          | 10.6        | 8.3         | 14.4        | 17.5        | 17.7        |
| Hero Motocorp       | 644             | 3,227          | BUY        | 3,740        | 162.0           | 184.6        | 208.9        | 19.9        | 17.5        | 15.5        | 13.4          | 11.5        | 9.7         | 37.4        | 36.9        | 37.0        |
| Eicher Motors       | 716             | 26,423         | BUY        | 30,113       | 624.3           | 804.9        | 1,010.0      | 42.3        | 32.8        | 26.2        | 30.8          | 24.3        | 19.6        | 39.4        | 38.9        | 39.3        |
| Ashok Leyland       | 235             | 83             | BUY        | 97           | 3.7             | 4.9          | 6.3          | 22.5        | 16.7        | 13.0        | 12.2          | 9.7         | 8.0         | 18.1        | 21.9        | 24.9        |
| <b>Force Motors</b> | <b>58</b>       | <b>4,468</b>   | <b>BUY</b> | <b>5,350</b> | <b>131.2</b>    | <b>192.9</b> | <b>254.7</b> | <b>34.6</b> | <b>23.5</b> | <b>17.8</b> | <b>21.4</b>   | <b>13.9</b> | <b>10.5</b> | <b>11.0</b> | <b>14.4</b> | <b>16.4</b> |
| SML Isuzu           | 19              | 1,317          | BUY        | 1,640        | 48.0            | 61.2         | 82.0         | 27.4        | 21.5        | 16.1        | 16.4          | 13.2        | 10.0        | 19.8        | 20.9        | 23.8        |
| Atul Auto           | 10              | 454            | BUY        | 528          | 17.7            | 26.2         | 31.1         | 25.6        | 17.3        | 14.6        | 14.5          | 10.2        | 8.4         | 23.1        | 28.5        | 27.7        |

Source: Company, HDFC sec Inst Research

**Income Statement (Standalone)**

| (Rs mn)                           | FY15          | FY16          | FY17E         | FY18E           | FY19E         |
|-----------------------------------|---------------|---------------|---------------|-----------------|---------------|
| <b>Net Revenues</b>               | <b>23,637</b> | <b>30,601</b> | <b>31,189</b> | <b>42,989.6</b> | <b>52,366</b> |
| <b>Growth (%)</b>                 | <b>16.9</b>   | <b>29.5</b>   | <b>1.9</b>    | <b>37.8</b>     | <b>21.8</b>   |
| Material Expenses                 | 16,410        | 21,724        | 22,300        | 30,437          | 36,971        |
| Employee Expenses                 | 2,777         | 3,037         | 3,275         | 3,998           | 4,713         |
| Other Operating Expenses          | 2,980         | 3,096         | 2,963         | 4,471           | 5,394         |
| <b>EBITDA</b>                     | <b>1,470</b>  | <b>2,744</b>  | <b>2,651</b>  | <b>4,084</b>    | <b>5,289</b>  |
| <b>EBITDA Margin (%)</b>          | <b>6.2</b>    | <b>9.0</b>    | <b>8.5</b>    | <b>9.5</b>      | <b>10.1</b>   |
| <b>EBITDA Growth (%)</b>          | <b>51.5</b>   | <b>86.7</b>   | <b>(3.4)</b>  | <b>54.1</b>     | <b>29.5</b>   |
| Depreciation                      | 813           | 919           | 1,052         | 1,154           | 1,257         |
| <b>EBIT</b>                       | <b>657</b>    | <b>1,825</b>  | <b>1,599</b>  | <b>2,930</b>    | <b>4,032</b>  |
| Other Income (Including EO Items) | 658           | 714           | 788           | 681             | 734           |
| Interest                          | 66            | 43            | -             | -               | -             |
| <b>PBT</b>                        | <b>1,249</b>  | <b>2,496</b>  | <b>2,387</b>  | <b>3,611</b>    | <b>4,767</b>  |
| Tax (Incl Deferred)               | 236           | 700           | 668           | 1,083           | 1,430         |
| Minority Interest                 | 1             | 1             | -             | -               | -             |
| <b>APAT</b>                       | <b>1,013</b>  | <b>1,796</b>  | <b>1,718</b>  | <b>2,528</b>    | <b>3,337</b>  |
| <b>APAT Growth (%)</b>            | <b>30.3</b>   | <b>77.3</b>   | <b>(4.3)</b>  | <b>47.1</b>     | <b>32.0</b>   |
| <b>Adjusted EPS (Rs)</b>          | <b>77.3</b>   | <b>137.1</b>  | <b>131.2</b>  | <b>192.9</b>    | <b>254.7</b>  |
| <b>EPS Growth (%)</b>             | <b>30.3</b>   | <b>77.3</b>   | <b>(4.3)</b>  | <b>47.1</b>     | <b>32.0</b>   |
| EO (Loss) / Profit (Net Of Tax)   |               |               |               |                 |               |
| <b>RPAT</b>                       | <b>1,013</b>  | <b>1,796</b>  | <b>1,718</b>  | <b>2,528</b>    | <b>3,337</b>  |

Source: Company, HDFC sec Inst Research

**Balance Sheet (Standalone)**

| (Rs mn)                            | FY15          | FY16          | FY17E         | FY18E         | FY19E         |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>SOURCES OF FUNDS</b>            |               |               |               |               |               |
| Share Capital – Equity             | 132           | 132           | 132           | 132           | 132           |
| Reserves                           | 13,037        | 14,693        | 16,280        | 18,616        | 21,699        |
| <b>Total Shareholders' Funds</b>   | <b>13,169</b> | <b>14,824</b> | <b>16,412</b> | <b>18,747</b> | <b>21,830</b> |
| Minority Interest                  | -             | 15            | 15            | 15            | 15            |
| Long Term Debt                     | 107           | 26            | -             | -             | -             |
| Short Term Debt                    | -             | -             | -             | -             | -             |
| <b>Total Debt</b>                  | <b>107</b>    | <b>26</b>     | <b>-</b>      | <b>-</b>      | <b>-</b>      |
| Net Deferred Taxes                 | 266           | 677           | 677           | 677           | 677           |
| Long Term Provisions & Others      | 232           | 265           | 265           | 265           | 265           |
| <b>TOTAL SOURCES OF FUNDS</b>      | <b>13,774</b> | <b>15,807</b> | <b>17,369</b> | <b>19,704</b> | <b>22,787</b> |
| <b>APPLICATION OF FUNDS</b>        |               |               |               |               |               |
| Net Block                          | 7,028         | 7,979         | 9,544         | 10,634        | 11,574        |
| CWIP                               | 2,635         | 2,607         | 2,907         | 3,207         | 3,507         |
| Investments                        | 12            | 3             | 12            | 12            | 12            |
| LT Loans & Advances                | 110           | 206           | 329           | 683           | 964           |
| <b>Total Non-current Assets</b>    | <b>9,785</b>  | <b>10,795</b> | <b>12,792</b> | <b>14,536</b> | <b>16,057</b> |
| Inventories                        | 3,925         | 5,475         | 4,825         | 6,671         | 8,103         |
| Debtors                            | 1,087         | 1,504         | 1,320         | 2,120         | 2,582         |
| Other Current Assets               | 1,889         | 2,014         | 1,903         | 2,622         | 3,194         |
| Cash & Equivalents                 | 3,030         | 3,186         | 3,058         | 2,997         | 4,067         |
| <b>Total Current Assets</b>        | <b>9,932</b>  | <b>12,179</b> | <b>11,106</b> | <b>14,411</b> | <b>17,946</b> |
| Creditors                          | 3,928         | 4,172         | 4,158         | 6,004         | 7,293         |
| Other Current Liabilities & Provns | 2,014         | 2,994         | 2,372         | 3,239         | 3,924         |
| <b>Total Current Liabilities</b>   | <b>5,943</b>  | <b>7,167</b>  | <b>6,530</b>  | <b>9,243</b>  | <b>11,217</b> |
| <b>Net Current Assets</b>          | <b>3,989</b>  | <b>5,012</b>  | <b>4,576</b>  | <b>5,168</b>  | <b>6,730</b>  |
| <b>TOTAL APPLICATION OF FUND</b>   | <b>13,774</b> | <b>15,807</b> | <b>17,369</b> | <b>19,704</b> | <b>22,787</b> |

Source: Company, HDFC sec Inst Research

**Cash Flow Statement(Standalone)**

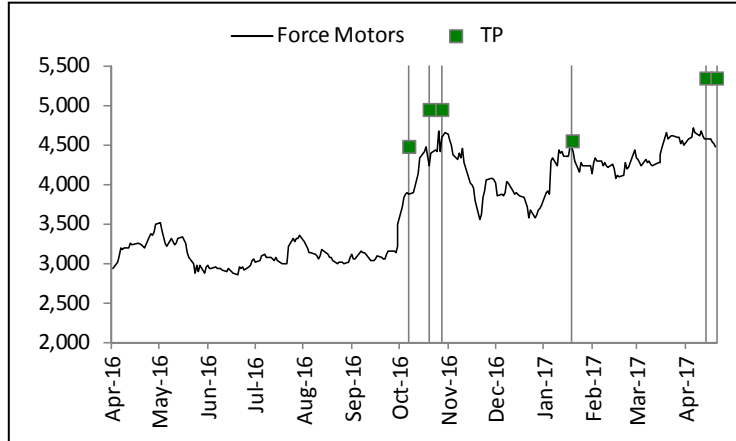
| (Rs mn)                          | FY15         | FY16           | FY17E          | FY18E          | FY19E          |
|----------------------------------|--------------|----------------|----------------|----------------|----------------|
| Reported PBT                     | 1,249        | 2,496          | 2,387          | 3,611          | 4,767          |
| Non-operating & EO items         | (658)        | (714)          | (788)          | (681)          | (734)          |
| Interest expenses                | 66           | 43             | -              | -              | -              |
| Depreciation                     | 813          | 919            | 1,052          | 1,154          | 1,257          |
| Working Capital Change           | 140          | (647)          | 185            | (1,006)        | (776)          |
| Tax Paid                         | (36)         | (289)          | (668)          | (1,083)        | (1,430)        |
| Other operating Items            | (50)         | (17)           | (46)           | (56)           | (73)           |
| <b>OPERATING CASH FLOW ( a )</b> | <b>1,524</b> | <b>1,792</b>   | <b>2,122</b>   | <b>1,938</b>   | <b>3,010</b>   |
| Capex                            | (1,095)      | (2,126)        | (2,917)        | (2,544)        | (2,496)        |
| <i>Free cash flow (FCF)</i>      | <i>429</i>   | <i>(334)</i>   | <i>(796)</i>   | <i>(606)</i>   | <i>513</i>     |
| Investments                      | -            | 9              | (9)            | -              | -              |
| Non-operating Income             | 658          | 714            | 788            | 681            | 734            |
| <b>INVESTING CASH FLOW ( b )</b> | <b>(437)</b> | <b>(1,402)</b> | <b>(2,138)</b> | <b>(1,863)</b> | <b>(1,762)</b> |
| Debt Issuance/(Repaid)           | (97)         | (81)           | (26)           | -              | -              |
| Interest Expenses                | (66)         | (43)           | -              | -              | -              |
| FCFE                             | 267          | (458)          | (822)          | (606)          | 513            |
| Share Capital Issuance           | -            | -              | -              | -              | -              |
| Dividend                         | (55)         | (109)          | (93)           | (136)          | (180)          |
| <b>FINANCING CASH FLOW ( c )</b> | <b>(217)</b> | <b>(233)</b>   | <b>(119)</b>   | <b>(136)</b>   | <b>(180)</b>   |
| <b>NET CASH FLOW (a+b+c)</b>     | <b>870</b>   | <b>156</b>     | <b>(136)</b>   | <b>(61)</b>    | <b>1,068</b>   |
| Closing Cash & Equivalents       | 3,031        | 3,186          | 3,050          | 2,997          | 4,067          |

Source: Company, HDFC sec Inst Research

**Key Ratios (Standalone)**

|   | FY15        | FY16        | FY17E       | FY18E       | FY19E       |
|---|-------------|-------------|-------------|-------------|-------------|
| <b>PROFITABILITY (%)</b>                      |             |             |             |             |             |
| GPM   | 30.6        | 29.0        | 28.5        | 29.2        | 29.4        |
| EBITDA Margin                                 | 6.2         | 9.0         | 8.5         | 9.5         | 10.1        |
| APAT Margin                                   | 4.3         | 5.9         | 5.5         | 5.9         | 6.4         |
| RoE   | 8.0         | 12.8        | 11.0        | 14.4        | 16.4        |
| RoIC (or Core RoCE)                           | (0.0)       | 6.9         | 4.3         | 10.1        | 13.5        |
| RoCE  | 8.0         | 12.4        | 10.4        | 13.6        | 15.7        |
| <b>EFFICIENCY</b>                             |             |             |             |             |             |
| Tax Rate (%)                                  | 18.9        | 28.0        | 28.0        | 30.0        | 30.0        |
| Fixed Asset Turnover (x)                      | 1.5         | 1.8         | 1.6         | 2.0         | 2.2         |
| <i>Inventory (days)</i>                       | <i>60.6</i> | <i>65.3</i> | <i>56.5</i> | <i>56.6</i> | <i>56.5</i> |
| <i>Debtors (days)</i>                         | <i>16.8</i> | <i>17.9</i> | <i>15.5</i> | <i>18.0</i> | <i>18.0</i> |
| <i>Other Current Assets (days)</i>            | <i>29.2</i> | <i>24.0</i> | <i>22.3</i> | <i>22.3</i> | <i>22.3</i> |
| <i>Payables (days)</i>                        | <i>60.7</i> | <i>49.8</i> | <i>48.7</i> | <i>51.0</i> | <i>50.8</i> |
| <i>Other Current Liab &amp; Provns (days)</i> | <i>31.1</i> | <i>35.7</i> | <i>27.8</i> | <i>27.5</i> | <i>27.3</i> |
| Cash Conversion Cycle (days)                  | 14.8        | 21.8        | 17.8        | 18.4        | 18.6        |
| Debt/EBITDA (x)                               | 0.1         | 0.0         | -           | -           | -           |
| Net D/E (x)                                   | (0.2)       | (0.2)       | (0.2)       | (0.2)       | (0.2)       |
| Interest Coverage (x)                         | 10.0        | 42.2        | -           | -           | -           |
| <b>PER SHARE DATA (Rs)</b>                    |             |             |             |             |             |
| EPS   | 77.3        | 137.1       | 131.2       | 192.9       | 254.7       |
| CEPS  | 138.5       | 206.0       | 210.2       | 279.4       | 348.5       |
| Dividend                                      | 5.0         | 10.0        | 8.5         | 12.5        | 16.5        |
| Book Value                                    | 999.2       | 1,124.8     | 1,245.3     | 1,422.5     | 1,656.4     |
| <b>VALUATION</b>                              |             |             |             |             |             |
| P/E (x)                                       | 58.7        | 33.1        | 34.6        | 23.5        | 17.8        |
| P/BV (x)                                      | 4.5         | 4.0         | 3.6         | 3.2         | 2.7         |
| EV/EBITDA (x)                                 | 38.7        | 20.6        | 21.4        | 13.9        | 10.5        |
| EV/Revenues (x)                               | 2.4         | 1.8         | 1.8         | 1.3         | 1.1         |
| OCF/EV (%)                                    | 2.7         | 3.2         | 3.7         | 3.4         | 5.4         |
| FCF/EV (%)                                    | 0.8         | (0.6)       | (1.4)       | (1.1)       | 0.9         |
| FCFE/Met Cap (%)                              | 0.4         | (0.8)       | (1.4)       | (1.0)       | 0.9         |
| Dividend Yield (%)                            | 0.1         | 0.2         | 0.2         | 0.3         | 0.4         |

Source: Company, HDFC sec Inst Research

**RECOMMENDATION HISTORY**


| Date      | CMP   | Reco | Target |
|-----------|-------|------|--------|
| 6-Oct-16  | 3,871 | BUY  | 4,485  |
| 19-Oct-16 | 4,478 | BUY  | 4,952  |
| 28-Oct-16 | 4,422 | BUY  | 4,952  |
| 23-Jan-17 | 4,296 | BUY  | 4,952  |
| 13-Apr-17 | 4,623 | BUY  | 5,350  |
| 20-Apr-17 | 4,468 | BUY  | 5,350  |

**Rating Definitions**

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period  
**NEUTRAL** : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period  
**SELL** : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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