

CV recovery boosts demand prospect, upgrade to buy

MM Forgings (MMF) is a forgings player (total capacity 1.1 lakh MT per annum, FY20 production at ~46,000 MT) serving domestic, US and European automotive industry - with CV, PV forming 75%, 18%, respectively, of FY20 sales and off-highway & others contributing the rest. India was ~45% of FY20 sales with exports at ~55% (mainly to Europe, US).

Improving domestic CV & US Class 8 outlook bodes well

The domestic CV space has been in the midst of a sharp downturn since FY20, impacted by a host of demand side and supply side factors e.g. increased capacity due to revised axle load norms, slowing economic activity, tighter financing, rise in vehicle costs under BS-VI and the upheaval brought about by the Covid-19 pandemic. While LCV demand has perked up relatively quickly post Covid amid continued demand for last mile connectivity, outlook for the truck segment has also improved in recent months courtesy higher freight rates & movement, steady road construction impetus by the government and an uptick in manufacturing, construction and mining industries. Buses continue to struggle on the back of ongoing apprehension over public transport. Past experience suggests we are near the bottom of the CV cycle domestically and improvement in demand outlook should accompany a cyclical recovery. Similarly, on the US Class 8 trucks front, order readings have picked up substantial pace with November 2020 print at ~53,000 units (~3x YoY, up ~30% MoM). The segment has benefited from enhanced pace of economic activity post Covid. Upturn in demand is expected to lead to higher capacity utilisation at MMF in the near to medium term, with FY20-23E sales CAGR seen at 13.5%.

Steady margin uptick on the cards

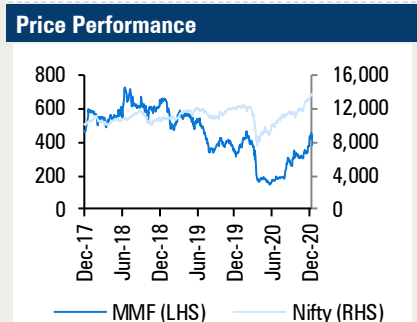
Higher utilisation levels are also expected to be the chief margin accretion lever in the next few years at MMF. The company's cost structure is seen coming under some pressure as a result of the rise in input prices, mainly steel (H1FY21 gross margins at ~51% vs. past three-year average of ~55%). However, higher contribution from recently added heavier press lines would aid in realisation growth. We build ~18% margins by FY23E for MMF.

Valuation & Outlook

MMF has come out of a heavy capex cycle (~₹ 480 crore spent in FY18-20), spent on augmenting tonnage and overall capacity. Expected benefits from demand revival in key markets alongside gradual return to erstwhile margin trajectory makes us turn positive on MMF. Accordingly, we value the company at 15x FY23E EPS of ₹ 35.3/share to arrive at a target price of ₹ 530 (revised from ₹ 330 earlier). We upgrade the stock from HOLD to **BUY**. We have not included the financials of MMF subsidiary i.e. DVS Industries (FY20 sales, EBITDA, PAT at ₹ 42, ₹ 7, -₹ 4 crore) in our target price calculation.



Particulars	₹ crore
Market Capitalization	965.6
Total Debt (FY20)	566.3
Cash & Investments (FY20)	174.5
EV (FY20)	1,357.5
Equity capital	24.1
52 week H/L (₹)	476 / 151
Face value	₹ 10



Key highlights

- Outlook turning positive for key CV markets in India and the US; improved utilisation levels to spruce up topline and margins
- Upgrade from HOLD to BUY with revised target price of ₹ 530

Risks to our call

- Slower than anticipated revival in CV cycle recovery
- Inability to pass on rise in input costs to customers leading to suppressed margins

Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Jaimin Desai
jaimin.desai@icicisecurities.com

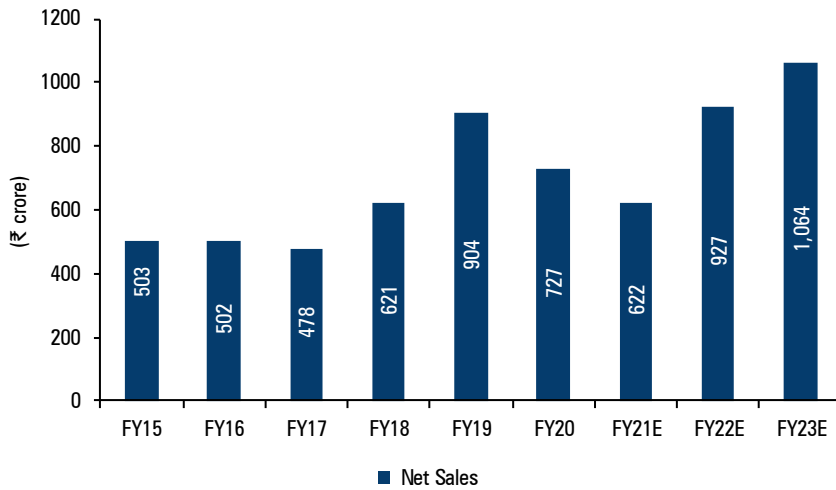
Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	903.9	727.3	622.4	926.8	1,064.2	13.5%
EBITDA	173.2	125.2	74.7	157.6	191.6	15.2%
EBITDA Margins (%)	19.2	17.2	12.0	17.0	18.0	
Net Profit	81.3	46.2	3.0	60.6	85.2	22.7%
EPS (₹)	33.7	19.1	1.2	25.1	35.3	
P/E	11.9	20.9	NM	15.9	11.3	
RoNW (%)	18.6	9.9	0.6	11.7	14.5	
RoCE (%)	10.2	6.7	1.9	8.5	10.5	

Source: Company, ICICI Direct Research

Financial story in charts

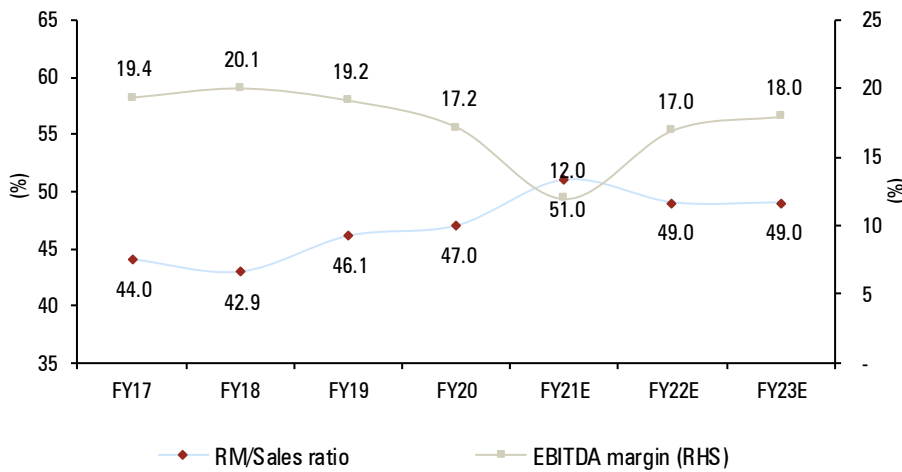
Exhibit 1: Topline trend



Revenues are seen growing at a CAGR of 13.5% in FY20-23E on the back of expected demand pickup in India and US

Source: Company, ICICI Direct Research

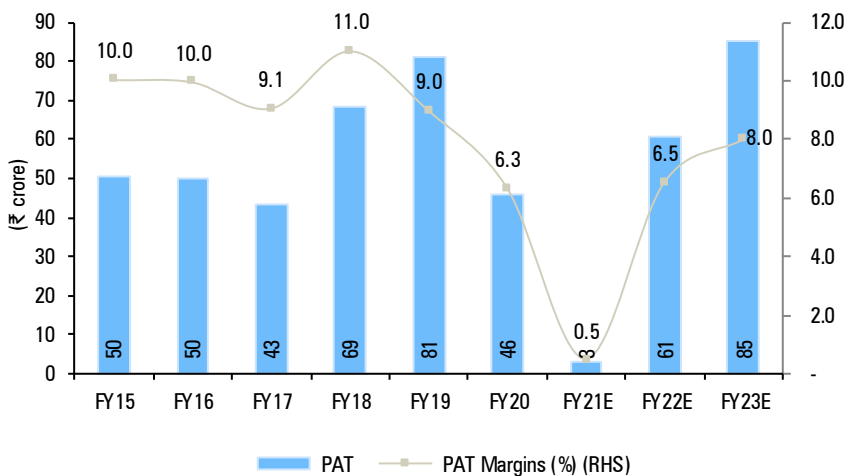
Exhibit 2: EBITDA margin trend



We expect margins to be on a path of gradual recovery to 18% by FY23E courtesy improvement in capacity utilisation and contribution from higher tonnage lines

Source: Company, ICICI Direct Research

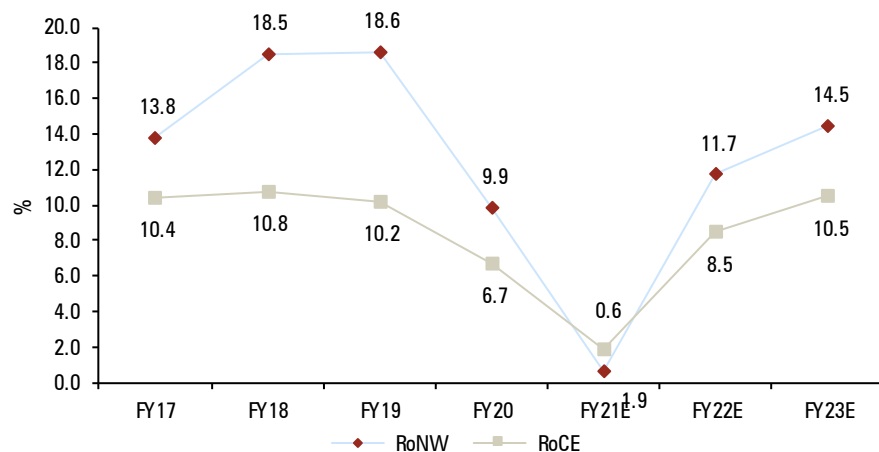
Exhibit 3: PAT trend



PAT is seen growing to ₹ 85 crore by FY23E

Source: Company, ICICI Direct Research

Exhibit 4: Trend in return ratios



We expect MMF to return to double digit return ratio trajectory in FY23E

Source: Company, ICICI Direct Research

Exhibit 5: Valuation summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	904	45.6	33.7	18.7	11.9	8.6	18.6	10.2
FY20	727	-19.5	19.1	(43.3)	20.9	10.8	9.9	6.7
FY21E	622	-14.4	1.2	NM	NM	18.3	0.6	1.9
FY22E	927	48.9	25.1	NM	15.9	9.2	11.7	8.5
FY23E	1,064	14.8	35.3	40.6	11.3	7.5	14.5	10.5

Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total operating Income	727.3	622.4	926.8	1,064.2
Growth (%)	-19.5	-14.4	48.9	14.8
Raw Material Expenses	334.0	317.4	454.1	521.5
Employee Expenses	82.7	68.5	83.4	95.8
Other Expenses	185.4	161.8	231.7	255.4
Total Operating Expenditure	602.1	547.7	769.2	872.7
EBITDA	125.2	74.7	157.6	191.6
Growth (%)	-27.7	-40.3	111.0	21.6
Depreciation	53.2	54.0	57.3	60.7
Interest	33.0	34.9	37.9	37.6
Other Income	18.5	17.9	15.4	15.9
PBT	57.4	3.8	77.7	109.2
Total Tax	11.2	0.8	17.1	24.0
Reported PAT	46.2	3.0	60.6	85.2
Growth (%)	-43.3	NM	NM	40.6
EPS (₹)	19.1	1.2	25.1	35.3

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	45.6	3.0	60.6	85.2
Add: Depreciation & Interest	86.3	88.8	95.2	98.3
(Inc)/dec in Current Assets	114.3	-10.1	-152.6	-65.1
Inc/(dec) in CL and Provisions	17.0	-3.6	46.3	17.0
CF from operating activities	263.8	78.1	49.4	135.4
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-87.3	-50.0	-75.0	-75.0
Others	-4.7	0.0	0.0	0.0
CF from investing activities	(92.0)	(50.0)	(75.0)	(75.0)
Inc/(dec) in loan funds	-121.2	15.0	50.0	-5.0
Dividend paid & dividend tax	-14.5	-3.6	-12.1	-12.1
Interest Expense	-33.0	-34.9	-37.9	-37.6
CF from financing activities	(168.7)	(23.5)	0.0	(54.7)
Net Cash flow	3.1	4.6	-25.5	5.8
Opening Cash	171.4	174.5	179.1	153.6
Closing Cash	174.5	179.1	153.6	159.4

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	24.1	24.1	24.1	24.1
Reserve and Surplus	444.2	443.5	492.1	565.2
Total Shareholders funds	468.3	467.7	516.2	589.3
Total Debt	566.3	581.3	631.3	626.3
Deferred Tax Liability	29.8	29.8	29.8	29.8
Minority Interest / Others	2.9	2.9	2.9	2.9
Total Liabilities	1,067.4	1,081.8	1,180.3	1,248.4
Assets				
Gross Block	1,150.5	1,199.2	1,274.2	1,349.2
Less: Acc Depreciation	497.6	551.6	608.9	669.6
Net Block	652.9	647.7	665.3	679.6
Capital WIP	8.7	10.0	10.0	10.0
Total Fixed Assets	661.6	657.7	675.3	689.6
Investments	4.9	4.9	4.9	4.9
Inventory	128.4	127.9	190.4	218.7
Debtors	12.5	42.6	76.2	87.5
Loans and Advances	23.6	20.2	30.1	34.5
Cash	174.5	179.1	153.6	159.4
Other current assets	0.0	0.0	0.0	0.0
Total Current Assets	339.0	369.8	450.3	500.1
Creditors	71.7	68.2	114.3	131.2
Provisions	0.0	0.0	0.0	0.0
Other current liabilities	0.5	0.4	0.6	0.7
Total Current Liabilities	72.2	68.6	114.9	131.9
Net Current Assets	266.8	301.2	335.4	368.2
Others	134.2	118.1	164.8	185.9
Application of Funds	1,067.4	1,081.8	1,180.3	1,248.4

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	19.1	1.2	25.1	35.3
Cash EPS	41.2	23.6	48.9	60.4
BV	194.0	193.7	213.8	244.1
DPS	5.0	1.5	5.0	5.0
Cash Per Share	72.3	74.2	63.6	66.0
Operating Ratios (%)				
EBITDA Margin	17.2	12.0	17.0	18.0
PBT / Net sales	9.9	3.3	10.8	12.3
PAT Margin	0.0	0.5	6.5	8.0
Inventory days	64.5	75.0	75.0	75.0
Debtor days	6.3	25.0	30.0	30.0
Creditor days	36.0	40.0	45.0	45.0
Return Ratios (%)				
RoE	9.9	0.6	11.7	14.5
RoCE	6.7	1.9	8.5	10.5
RoIC	8.1	2.3	9.9	12.1
Valuation Ratios (x)				
P/E	20.9	NM	15.9	11.3
EV / EBITDA	10.8	18.3	9.2	7.5
EV / Net Sales	1.9	2.2	1.6	1.3
Market Cap / Sales	1.3	1.6	1.0	0.9
Price to Book Value	2.1	2.1	1.9	1.6
Solvency Ratios				
Debt/EBITDA	4.5	7.8	4.0	3.3
Debt / Equity	1.2	1.2	1.2	1.1
Current Ratio	2.3	2.8	2.6	2.6
Quick Ratio	0.5	0.9	0.9	0.9

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Shashank Kanodia, CFA, MBA (Capital Markets), and Jaimin Desai, CA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH00000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.