

Subdued medium term prospects in the offing...

MM Forgings (MMF) reported weak Q1FY21 results in line with large volume declines both domestically and globally in key user industries i.e. CV & PV during the Covid impacted quarter. Net standalone sales were down 64.4% YoY to ₹ 73 crore. Margins fell ~510 bps QoQ to 9.1%, impacted by inventory adjustment. MMF posted loss at PAT level at ₹ 5 crore for Q1FY21.

Sluggishness in CV demand weighs on topline

MMF is a prominent forgings player catering to the CV, PV industries in India, US and Europe (revenue mix - 72% CV, 24% PV, balance from OHT and others). Exports formed ~55% of FY20 revenues (equally split between the US, Europe; US Class 8 trucks contributing 23%) with domestic operations accounting for 45%. On a consolidated basis, top five/top 10 clients account for 60%, 90% of revenues, respectively, with Ashok Leyland and Tata Motors forming ~10% each. The company clocked ~47,000 MT volumes in FY20 and <4,000 MT in Q1FY21, with present utilisation at ~35%. Domestic and international CV demand remains sluggish currently amid slowing economic activity globally and the ongoing concerns posed by the Covid-19 pandemic. However, US and European markets are currently performing better than the Indian CV space, with the management expecting no meaningful uptick in domestic demand before Q4FY21E. We expect MMF to clock volume of 33,000 tonne in FY21E followed by 50,000 tonne in FY22E, implying volume CAGR of 3.1% in FY20-22E.

Peak capex cycle over; margins expected to improve

MMF has undergone a large capacity expansion and improvement programme in the recent past. With capex spend of ~₹ 500 crore over the last three years, production capacities have grown ~54% from ~65,000 MT per annum to ~1 lakh MT per annum at present. MMF has added heavier press lines (6,300 tons, 7,000 tons, 8,000 tons) with a view to enhance offerings (acquired capabilities to provide 60-100 kg weight products vs. 2.5-3 kg weight products earlier). Amid soft demand scenario in key geographies, however, balance capex (of ~₹ 90-100 crore) would be back-ended and dependent on market recovery. Focus on increasing machining capabilities and value addition is expected to aid uptick in margins once volumes return. We build in 17% EBITDA margins in FY21E followed by 19% margins in FY22, a tad below its long period averages.

Valuation & Outlook

We estimate sales, EBITDA, PAT will grow at -1.2%, 3.8%, 1.2% CAGR, respectively, in FY20-22E. Bottoming out of the CV cycle in India and global markets would hold the key to MMF's change in fortunes. With peak capex spends and debt levels now behind it, the company is expected to slowly return to a healthy return ratio trajectory once volume support kicks in. We value the company at 17x FY22E EPS of ₹ 19.6/share to arrive at a target price of ₹ 330. We assign a **HOLD** rating to the stock.

Key Financial Summary

Key Financials	FY18	FY19	FY20P	FY21E	FY22E	CAGR (FY20P-22E)
Net Sales	620.6	903.9	727.3	473.6	710.5	-1.2%
EBITDA	124.4	173.2	125.2	80.5	135.0	3.8%
EBITDA Margins (%)	20.1	19.2	17.2	17.0	19.0	
Net Profit	68.5	81.3	46.2	8.4	47.2	1.2%
EPS (₹)	28.4	33.7	19.1	3.5	19.6	
P/E	10.4	8.8	15.4	84.6	15.1	
RoNW (%)	18.5	18.6	9.8	1.8	9.3	
RoCE (%)	12.4	11.6	8.5	4.3	8.6	

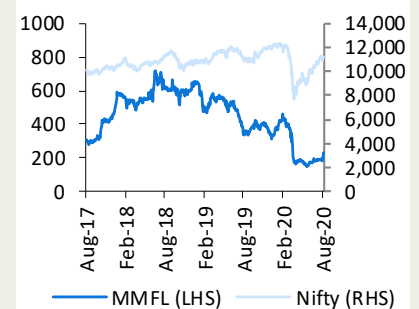
Source: Company, ICICI Direct Research



Particulars

Particular	₹ crore
Market Capitalization	712.2
Total Debt (FY 20P)	566.3
Cash & Investments (FY 20P)	174.5
EV (FY 20P)	1,104.0
Equity capital	24.1
52 week H/L (₹)	470 / 150
Face value	₹ 10

Price Chart



Key Highlights

- Revenues decline 64.4% YoY in Q1FY21 amid broad based weakness in all served segments
- Margins dip 510 bps QoQ to 9.1%
- Muted prospects for CV space in key markets to weigh on topline in medium term. However, margins expected to pick up
- Maintain HOLD with revised target price of ₹ 330

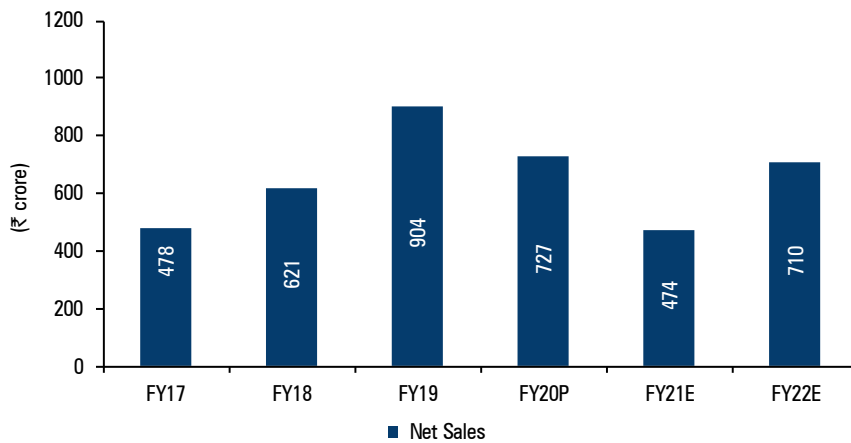
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Financial story in charts

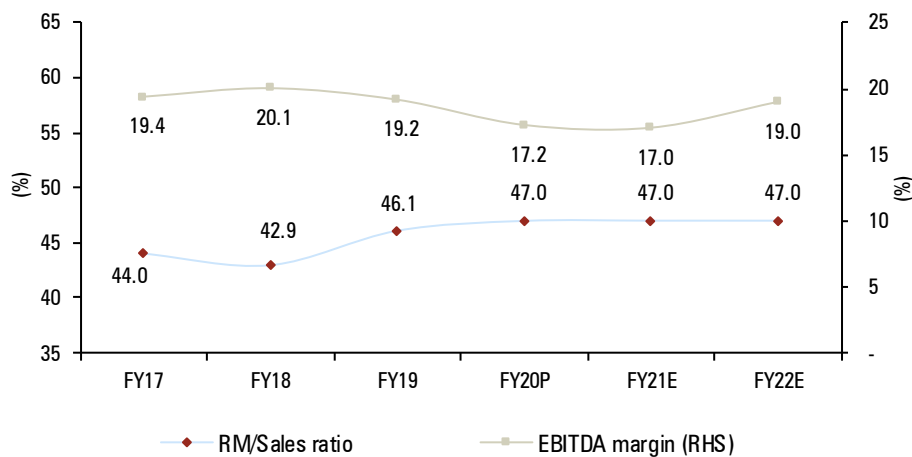
Exhibit 1: Topline trend



We expect sales to grow at a CAGR of -1.2% over FY20P-22E amid 3.1% expected volume growth over that period

Source: Company, ICICI Direct Research

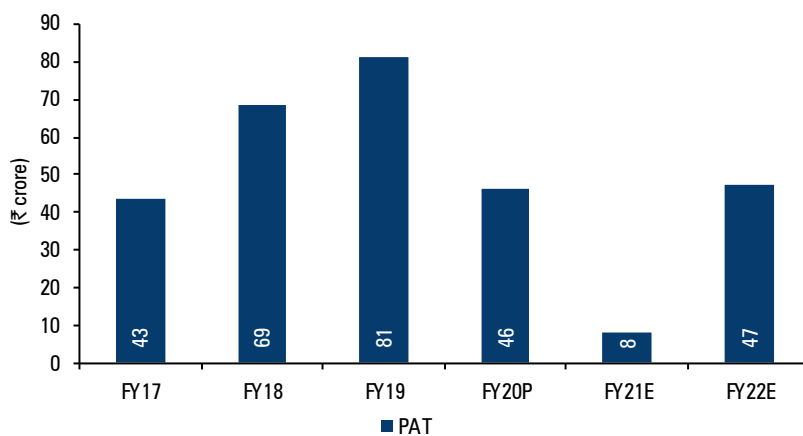
Exhibit 2: Trend in EBITDA margins



Margins are seen improving to 19% by FY22E on the back of improvement in machining mix and some volume support

Source: Company, ICICI Direct Research

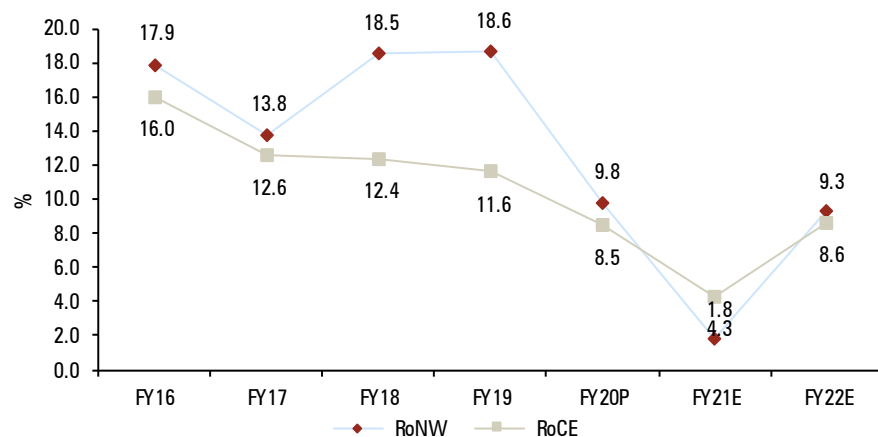
Exhibit 3: Trend in profitability



PAT is seen growing at 1.2% CAGR over FY20P-22E to ₹ 47 crore

Source: Company, ICICI Direct Research

Exhibit 4: Trend in return ratios



Return ratio profile is seen remaining lower than previous levels courtesy low utilisation, heavy capex spends over the past three years

Source: Company, ICICI Direct Research

Exhibit 5: Valuation Summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY 18	621	29.7	28.4	57.8	10.4	7.5	18.5	12.4
FY 19	904	45.6	33.7	18.7	8.8	7.1	18.6	11.6
FY 20P	727	-19.5	19.1	(43.3)	15.4	8.8	9.8	8.5
FY 21E	474	(34.9)	3.5	(81.8)	84.6	12.7	1.8	4.3
FY 22E	710	50.0	19.6	460.8	15.1	7.9	9.3	8.6

Source: Bloomberg, ICICI Direct Research

Exhibit 6: Shareholding pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	56.3	56.3	56.3	56.3	56.3
FII	1.4	1.6	1.7	1.7	0.3
DII	21.6	21.5	21.7	21.9	21.9
Others	20.6	20.5	20.3	20.1	21.5

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Total operating Income	903.9	727.3	473.6	710.5
Growth (%)	45.6	-19.5	-34.9	50.0
Raw Material Expenses	408.8	334.0	222.6	333.9
Employee Expenses	87.5	82.7	56.8	71.0
Other Expenses	234.3	185.4	113.7	170.5
Total Operating Expenditure	730.7	602.1	393.1	575.5
EBITDA	173.2	125.2	80.5	135.0
Growth (%)	39.2	-27.7	-35.7	67.6
Depreciation	54.4	53.2	52.6	54.9
Interest	26.1	33.0	33.6	36.8
Other Income	15.8	18.5	16.2	15.7
PBT	108.5	57.4	10.5	59.0
Total Tax	27.2	11.2	2.1	11.8
Reported PAT	81.3	46.2	8.4	47.2
Growth (%)	18.7	-43.3	-81.8	460.8
EPS (₹)	33.7	19.1	3.5	19.6

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Profit after Tax	96.8	46.2	8.4	47.2
Add: Depreciation	54.4	53.2	52.6	54.9
(Inc)/dec in Current Assets	-137.9	114.2	77.8	-99.1
Inc/(dec) in CL and Provisions	-16.6	15.0	-37.4	16.4
CF from operating activities	7.3	261.6	135.0	56.1
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-289.5	-87.3	-20.0	-50.0
Others	23.2	-4.7	0.0	0.0
CF from investing activities	(266.3)	(92.0)	(20.0)	(50.0)
Inc/(dec) in loan funds	306.6	-119.0	-50.0	50.0
Dividend paid & dividend tax	-14.0	-14.5	-3.6	-12.1
Others	-26.1	-33.0	-33.6	-36.8
CF from financing activities	266.5	(166.6)	(87.2)	1.1
Net Cash flow	7.4	3.1	27.8	7.3
Opening Cash	164.0	171.4	174.5	202.3
Closing Cash	171.4	174.5	202.3	209.6

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Liabilities				
Equity Capital	24.1	24.1	24.1	24.1
Reserve and Surplus	412.1	446.3	451.1	486.3
Total Shareholders funds	436.3	470.5	475.3	510.4
Total Debt	687.9	566.3	516.3	566.3
Deferred Tax Liability	18.6	29.8	29.8	29.8
Minority Interest / Others	18.8	2.9	2.9	2.9
Total Liabilities	1,161.6	1,069.5	1,024.3	1,109.5
Assets				
Gross Block	1,032.7	1,149.2	1,169.2	1,219.2
Less: Acc Depreciation	444.4	497.6	550.2	605.1
Net Block	588.4	651.6	619.0	614.1
Capital WIP	39.2	10.0	10.0	10.0
Total Fixed Assets	627.6	661.6	629.0	624.1
Investments	0.2	0.2	4.3	4.9
Inventory	187.5	128.5	84.3	126.5
Debtors	79.3	12.5	26.0	38.9
Loans and Advances	38.9	23.6	15.4	23.1
Cash	171.4	174.5	202.3	209.6
Other current assets	0.0	0.1	0.1	0.6
Total Current Assets	477.1	339.2	328.0	398.7
Creditors	47.7	69.7	32.4	48.7
Provisions	7.1	0.0	0.0	0.0
Other current liabilities	41.2	0.4	0.4	0.5
Total Current Liabilities	96.0	70.1	32.8	49.2
Net Current Assets	381.1	269.1	295.2	349.5
Others	16.6	60.0	106.8	134.2
Application of Funds	1,161.6	1,069.5	1,024.3	1,109.5

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY19	FY20P	FY21E	FY22E
Per share data (₹)				
EPS	33.7	19.1	3.5	19.6
Cash EPS	56.2	41.2	25.3	42.3
BV	180.7	194.9	196.9	211.4
DPS	5.0	5.0	1.5	5.0
Cash Per Share	71.0	72.3	83.8	86.8
Operating Ratios (%)				
EBITDA Margin	19.2	17.2	17.0	19.0
PBT / Net sales	13.1	9.9	5.9	11.3
PAT Margin	9.1	11.0	9.0	6.3
Inventory days	75.7	64.5	65.0	65.0
Debtor days	32.0	6.3	20.0	20.0
Creditor days	19.3	35.0	25.0	25.0
Return Ratios (%)				
RoE	18.6	9.8	1.8	9.3
RoCE	11.6	8.5	4.3	8.6
RoIC	14.1	9.6	3.9	10.6
Valuation Ratios (x)				
P/E	8.8	15.4	84.6	15.1
EV / EBITDA	7.1	8.8	12.7	7.9
EV / Net Sales	1.4	1.5	2.2	1.5
Market Cap / Sales	0.8	1.0	1.5	1.0
Price to Book Value	1.6	1.5	1.5	1.4
Solvency Ratios				
Debt/EBITDA	4.0	4.5	6.4	4.2
Debt / Equity	1.6	1.2	1.1	1.1
Current Ratio	5.5	2.3	3.8	3.8
Quick Ratio	2.2	0.5	1.3	1.3

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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