

## MM Forgings Ltd. (MMFL)

No. of shares (m)	24.14
Mkt cap (Rs/\$m)	2055/250.3
Current price (Rs/\$)	851/10.4
Price target (Rs/\$)	1162/14.2
52 W H/L (Rs.)	1036/730
Book Value (Rs/\$)	279/3.4
Beta	0.7
Daily NSE volume (avg. monthly)	14690
P/BV (FY23e/24e)	3.0/2.6
EV/EBITDA (FY23e/24e)	10.0/8.7
P/E (FY23e/24e)	16.5/14.7
EPS growth (FY22/23e/24e)	96.9/34.1/13.9
OPM (FY22/23e/24e)	18.3/18.4/18.2
ROE (FY22/23e/24e)	17.0/19.5/18.8
ROCE (FY22/23e/24e)	9.3/11.2/11.8
D/E ratio (FY22/23e/24e)	1.2/1.0/0.9
BSE Code	522241
NSE Code	MMFL
Bloomberg	MMFG IN
Reuters	MMFO.NS

## Shareholding Pattern%

Promoters	56.3
MFs / Banks / FIs	17.0
Foreign Portfolio Investors	1.7
Govt. Holding	-
Public & Others	25.0
<b>Total</b>	<b>100.0</b>

As on March 31, 2023

## Recommendation

**BUY**

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## Company Overview

MM Forgings is a manufacturer of automotive components. It manufactures steel forgings in raw, semi-machined and fully machined stages in various grades of carbon, alloy, micro-alloy and stainless steels.

## Quarterly Highlights

- The Company reported 24.9% y-o-y growth in revenue for Q3FY23, and rise in operating profit by 18.4% y-o-y to Rs 66.46 crs from Rs 56.12 crs. With a bullish outlook on the Indian market the company expects significant growth from commercial vehicle segment in India. In Q3FY23 India contributed around 60% to total sales and company sees this share to grow to 65% in coming years. The management expects the government to incur huge expenditure in infrastructure development and it also expects pick up in scrappage policy. The company is transforming itself from a forging supplier to a component supplier.
- The Company sees stable growth in Europe and US in the current financial year. Due to the increase in energy prices in Europe, businesses are seeking alternatives and so some are turning towards India. The company believes that the ageing fleet in the international market creates opportunities for stable growth. Yet, aggressive rate tightening and record inflation may lead US and European economies towards recession. This could result in clients cutting costs.
- The company acquired 88% stake in Abhinava Rizel Private Limited (ARPL) on an aggregate basis. MMF expects to invest Rs 200 crs (\$25 m) in the initiative. ARPL develops EV motors and power technologies which help in improving overall drive cycle efficiency over conventional traction motors. The investment by MMF will be utilized to establish its initial manufacturing facility in Oragadam, Tamil Nadu.
- The stock is currently trading at 16.7x FY23e EPS of Rs 50.99 and 14.7x FY24e EPS of Rs 58.10. Earnings would rise by some 14% in current fiscal year not least due to higher utilization of forgings capacity and increased revenue share of machining business. Perceptible recovery in western economies could benefit exports, though it appears a low chance event in current fiscal year. With little competitive advantage in material sourcing, MMFL would rely on increased value addition (read: machining) to ward off competition. On balance, we retain our buy rating on the stock with revised target price of Rs 1162 (previous target Rs 1080) based on 20x FY24e earnings over a period of 9-12 months.

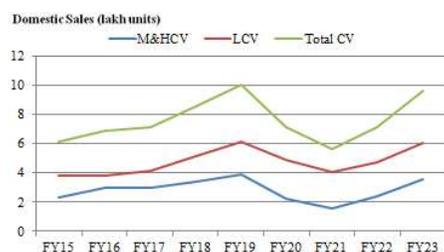
## Standalone figures in Rs crs

	FY20	FY21	FY22	FY23e	FY24e
Income from operations	727.29	725.65	1104.64	1336.10	1581.84
Other Income	18.51	21.59	18.57	15.58	13.29
EBITDA (other income included)	143.70	142.89	220.31	261.70	301.55
PAT after EO	46.23	46.61	91.76	123.09	140.25
EPS(Rs)	19.15	19.31	38.01	50.99	58.10
EPS growth (%)	-43.2	0.8	96.9	34.1	13.9

## Outlook & Recommendation

### Industry Overview

The auto components industry in India is expected to grow at a double digit growth in FY24, driven by both domestic and export markets despite fears of recession in major markets of US and Europe. According to ACMA, the total turnover of Indian auto component industry is projected to increase by 10%-15% in FY24 from 15% growth projected for FY23. According to the President of ACMA Sanjay Kapur, with overseas market of US and Europe transitioning to electric vehicle domestic components manufacturers stand to gain from the increased orders for components of ICE. Mr. Kapur believes that since lot of tier-1 suppliers have discontinued investing in ICE design and development for OEMs, a lot of this business is expected to flow in India.



Source: ACE Equity, SIAM

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Source: ACMA



Source: ACMA

According to ICRA's head of corporate ratings, Shamsher Dewan, the Union Budget FY24's allocation of Rs 10 lakh crores towards total capital investment and Rs 79,000 crores towards affordable housing is expected to benefit the commercial vehicle sector, particularly in the heavier multi-axle vehicle segment. Additionally, the budget's focus on improving first and last-mile connectivity is expected to boost the demand for light commercial vehicles (LCVs). However, the auto sector was expecting to receive some relief in the form of a uniform GST for all component parts, concessions for R&D expenses, and a lower GST on hybrid vehicles. Currently, hybrid vehicles are taxed at 43%, similar to luxury cars, which has been a source of concern for the auto sector.

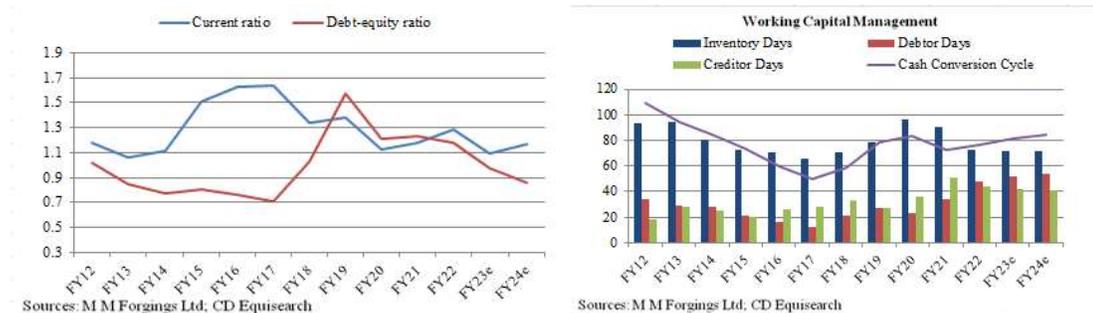
The automotive sector contributes 7.1% to India GDP and generates substantial employment opportunities both directly and indirectly. Finance Minister has recently told that they have identified 100 critical projects for last and first mile connectivity for industries with an investment of Rs 75,000 crs, including Rs 15,000 crs from private sector. The government will also invest Rs 35,000 crs for its zero emission policy by 2070 and Rs 19,700 crs, which is the outlay for promoting the use of clean energy and reducing country dependence on fossil fuel.

## Financials & Valuation

FY23 saw rise in demand of MMF's wares on the back of higher recovery in domestic commercial vehicle industry and stable CV growth from US and European market. Much of the rise in sales during FY23 and FY24 would accrue from higher capacity utilization of forgings and increased transition to machining, which would elevate MMFL from being a forging supplier to a component supplier, thus lending some sort of competitive advantage - increased value addition to help overcome deterrence in business scaling from long replacement cycle of forgings products. It is increasing its capacity from 110,000 tons to 130 000 tons by Q1FY24 which will in turn help boost revenues. Increasing share of machining products will not only aid revenue growth but will also propel margins as the company builds specialization in its manufacturing- though OPM is not estimated to rise this fiscal year.



MMFL plans to incur capex of around Rs 300-350cr over FY23 & 24 of which Rs 100 crs will be channelized in forging business, while 200- 250 crs will go in machining. Driven by increased demand for value added machining products, revenue share of domestic business is estimated to rise to two-thirds by FY24 from some 50% in FY22. Though China+1 strategy has been touted as one of the biggest breakthroughs for Indian auto components industry, MMFL stands to gain from barely weak growth in Indian CV and PV industry over the next few quarters.

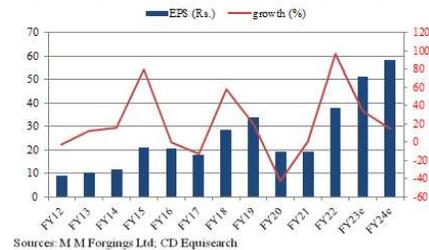
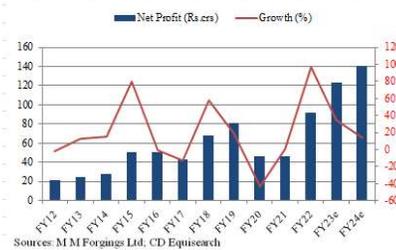
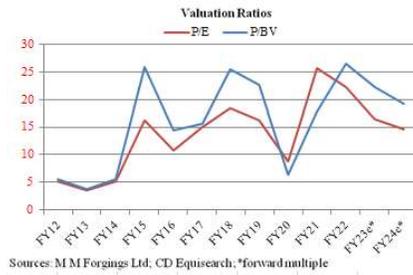


Revenue growth in high teens for FY23 and FY24 explains much of the rise in post-tax earnings as OPM is estimated to flatline - 18.2% for FY24 Vs 18.3% in FY22. Barely stymied fixed asset turnover in FY24 reflects higher capacity utilization of both machining & forging business, which would help in boosting ROE to 18.8% in FY24 from 17% in FY22; ROCE to rise to 11.8% from 9.3%.



# CD Equiresearch Pvt Ltd

The stock currently trades at 16.7x FY23e EPS of Rs 50.99 and 14.7x FY24e EPS of Rs 58.09. With company giving major push to its machining facility, higher machining throughput will aid sales velocity. MMFL's increased focus on machining has emanated from OEMs greater inclination to outsource machining post Covid-19. With machining deriving higher margins, earning growth will improve. As company will increase its capacity to 1.3 lakh tons by FY24, it would benefit from higher operating leverage. Prodded by better than expected revenues, post-tax earning for FY24 is upped by 7%. On balance we maintain on our buy rating of the stock with revised target of Rs 1162 (previous target Rs 1080) based on 20x FY24e earnings over a period of 9-12 months. For more info, refer to our July report.



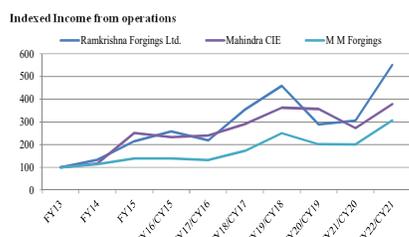
## Cross Sectional Analysis

Company	Equity*	CMP	MCAP*	Sales*	Profit*	OPM (%)	NPM (%)	IntCov	ROE (%)	Mcap/Sales	P/BV	P/E
M M Forgings	24	851	2055	1,351	104	18.1	7.7	6.9	16.6	1.5	3.1	19.7
Ramkrishna Forgings	32	298	4764	3020	264	21.5	8.7	4.0	23.6	1.6	3.9	18.1
Mahindra CIE	379	367	13930	8753	683	13.4	7.8	41.1	37.2	1.6	6.3	20.4

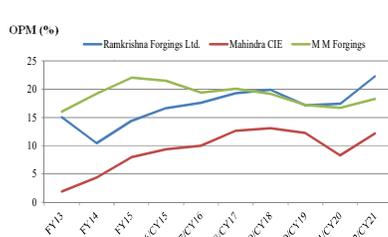
\*figures in crores; calculations on ttm basis; based on consolidated data.

Mahindra CIE has decided to sell its German forging business operations, comprising of CIE Forgings Germany (GmbH) and its subsidiaries. Accordingly, all the German forging operations assets and liabilities have been categorized as assets and liabilities held for sale. The Indian operation during CY22 showed a strong sales growth by 29% amount to Rs 5252.7 crs. However, the Company sees CY23 to be challenging on margin front as it faces inflation in employee costs (international).

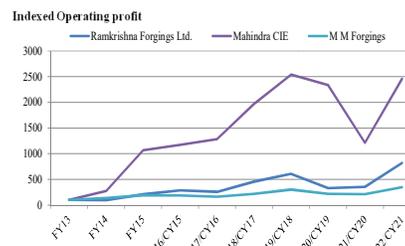
Ramakrishna Forgings showed a 29.3% Y-o-Y growth for Q3 and 43.7 % for nine months FY23 respectively. The company has aimed to reach Rs 5000 crores revenue by FY25 with CAGR of 25-26% over the next two years. It also targets to become net debt free by FY24-25 with debt currently at Rs 1287 crs (standalone). The company will try to maintain EBITDA margin at around 22% as against 21.5% OPM in trailing twelve months. Bolstered by strong sales, operating profit advanced 35.4% in 9M FY23 on YoY Basis.



Sources: Companies, ACE Equity, FY13=100



Sources: Companies, ACE Equity



Sources: Companies, ACE Equity, FY13=100

Note: Graphs on standalone or consolidated data as applicable; Mahindra CIE changed its financial year to calendar year in 2015.

## Financials

### Quarterly Results

Figures in Rs crs

	Q3FY23	Q3FY22	% chg	9MFY23	9MFY22	% chg
<b>Income From Operations</b>	<b>361.08</b>	<b>289.12</b>	<b>24.9</b>	<b>1036.39</b>	<b>789.79</b>	<b>31.2</b>
Other Income	5.56	3.81	46	10.78	13.26	-18.7
<b>Total Income</b>	<b>366.64</b>	<b>292.93</b>	<b>25.2</b>	<b>1047.17</b>	<b>803.05</b>	<b>30.4</b>
Total Expenditure	294.62	233	26.4	846.28	642.57	31.7
<b>EBITDA (other income included)</b>	<b>72.02</b>	<b>59.93</b>	<b>20.2</b>	<b>200.89</b>	<b>160.48</b>	<b>25.2</b>
Interest	7.61	7.41	2.8	22.06	21.16	4.2
Depreciation	17.3	15	15.3	50.3	45	11.8
<b>PBT</b>	<b>47.11</b>	<b>37.52</b>	<b>25.6</b>	<b>128.54</b>	<b>94.32</b>	<b>36.3</b>
Tax	13.25	6.5	103.8	33.25	11.75	183
<b>PAT</b>	<b>33.86</b>	<b>31.02</b>	<b>9.2</b>	<b>95.29</b>	<b>82.57</b>	<b>15.4</b>
Extraordinary Item	-	-	-	-	-	-
<b>Adjusted Net Profit</b>	<b>33.86</b>	<b>31.02</b>	<b>9.2</b>	<b>95.29</b>	<b>82.57</b>	<b>15.4</b>
EPS (Rs)	14.03	12.85	9.2	39.47	34.2	15.4

### Income Statement

Figures in Rs crs

	FY20	FY21	FY22	FY23e	FY24e
<b>Income From Operations</b>	<b>727.29</b>	<b>725.65</b>	<b>1104.64</b>	<b>1336.1</b>	<b>1581.84</b>
Growth (%)	-19.5	-0.2	52.2	21	18.4
Other Income	18.51	21.59	18.57	15.58	13.29
<b>Total Income</b>	<b>745.8</b>	<b>747.24</b>	<b>1123.22</b>	<b>1351.68</b>	<b>1595.13</b>
Total Expenditure	602.1	604.35	902.91	1089.99	1293.58
<b>EBITDA (other income included)</b>	<b>143.7</b>	<b>142.89</b>	<b>220.31</b>	<b>261.70</b>	<b>301.55</b>
Interest	33.05	31.22	27.31	30.00	37.36
Depreciation	53.23	56.73	60.11	67.57	77.19
<b>PBT</b>	<b>57.42</b>	<b>54.93</b>	<b>132.9</b>	<b>164.12</b>	<b>187.00</b>
Tax	11.19	8.32	41.14	41.03	46.75
<b>PAT</b>	<b>46.23</b>	<b>46.61</b>	<b>91.76</b>	<b>123.09</b>	<b>140.25</b>
Extraordinary Item	-	-	-	-	-
<b>Adjusted Net Profit</b>	<b>46.23</b>	<b>46.61</b>	<b>91.76</b>	<b>123.09</b>	<b>140.25</b>
EPS (Rs)	19.15	19.31	38.01	50.99	58.1

## Balance Sheet

Figures in Rs crs

	FY20	FY21	FY22	FY23e	FY24e
<b>Sources of Funds</b>					
Share Capital	24.14	24.14	24.14	24.14	24.14
Reserves & Surplus	444.16	476.22	553.5	659.69	780.63
<b>Total Shareholders' Funds</b>	<b>468.31</b>	<b>500.36</b>	<b>577.64</b>	<b>683.83</b>	<b>804.77</b>
Long Term Debt	334.7	297.32	346.19	302.52	308.86
<b>Total Liabilities</b>	<b>803.01</b>	<b>797.68</b>	<b>923.83</b>	<b>986.36</b>	<b>1113.63</b>
<b>Application of Funds</b>					
Gross Block	1150.08	1171.42	1263.84	1450.2	1630.2
Less: Accumulated Depreciation	497.18	553.91	614.01	681.59	758.77
<b>Net Block</b>	<b>652.91</b>	<b>617.51</b>	<b>649.83</b>	<b>768.61</b>	<b>871.42</b>
Capital Work in Progress	8.71	17.47	36.35	50.00	20.00
Investments	4.88	4.88	32.88	49.72	49.72
<b>Current Assets, Loans &amp; Advances</b>					
Inventory	130.73	168.6	192.75	233.82	276.82
Trade Receivables	12.46	121.67	166.41	213.78	253.09
Cash and Bank	174.36	187.06	224.55	84.22	93.71
Other current assets	23.67	28.59	30.91	38.96	45.10
<b>Total CA &amp; LA</b>	<b>341.22</b>	<b>505.91</b>	<b>614.62</b>	<b>570.78</b>	<b>668.73</b>
Current Liabilities	303.87	416.82	452.52	497.88	542.65
Provisions-Short term	0.00	14.55	24.48	27.16	31.00
<b>Total Current Liabilities</b>	<b>303.87</b>	<b>431.37</b>	<b>477</b>	<b>525.03</b>	<b>573.65</b>
Net Current Assets	37.35	74.55	137.62	45.74	95.08
Net Deferred Tax	-29.81	-30.88	-35.17	-36.17	-36.17
Net long term assets	128.96	114.16	102.31	108.45	113.57
<b>Total Assets</b>	<b>803.01</b>	<b>797.68</b>	<b>923.83</b>	<b>986.36</b>	<b>1113.63</b>

## Key Financial Ratios

	FY20	FY21	FY22	FY23e	FY24e
<b>Growth Ratios (%)</b>					
Revenue	-19.5	-0.2	52.2	21.0	18.4
EBITDA	-24.0	-0.6	54.2	18.8	15.2
Net Profit	-43.2	0.8	96.9	34.1	13.9
EPS	-43.2	0.8	96.9	34.1	13.9
<b>Margins (%)</b>					
Operating Profit Margin	17.2	16.7	18.3	18.4	18.2
Gross Profit Margin	15.2	15.4	17.5	17.3	16.7
Net Profit Margin	6.4	6.4	8.3	9.2	8.9
<b>Return (%)</b>					
ROCE	6.8	6.8	9.3	11.2	11.8
ROE	10.2	9.6	17.0	19.5	18.8
<b>Valuations</b>					
Market Cap/ Sales	0.6	1.6	1.8	1.5	1.3
EV/EBITDA	5.5	11.3	11.3	10.0	8.7
P/E	8.7	25.6	22.3	16.5	14.7
P/BV	0.9	2.4	3.5	3.0	2.6
<b>Other Ratios</b>					
Interest Coverage	2.7	2.8	5.9	6.5	6.0
Debt Equity	1.2	1.2	1.2	1.0	0.9
Current Ratio	1.1	1.2	1.3	1.1	1.2
<b>Turnover Ratios</b>					
Fixed Asset Turnover	1.2	1.1	1.7	1.9	1.9
Total Asset Turnover	0.9	0.9	1.3	1.4	1.5
Debtors Turnover	15.9	10.8	7.7	7.0	6.8
Inventory Turnover	3.8	4.0	5.0	5.1	5.1
Creditor Turnover	10.1	7.1	8.4	8.7	8.9
<b>WC Ratios</b>					
Debtor Days	23.0	33.7	47.6	51.9	53.9
Inventory Days	96.5	90.4	73.0	71.4	72.0
Creditor Days	36.2	51.3	43.7	42.1	41.2
Cash Conversion Cycle	83.3	72.9	77.0	81.2	84.7

## Cumulative Financial Data

Rs crs	FY16-18	FY19-21	FY22-24e
Income from operations	1601	2357	4023
Operating profit	325	420	736
EBIT	237	311	579
PBT	206	221	484
PAT	162	174	355
Dividends	31	43	51
Sales growth (%)	-	47.2	70.7
PAT growth (%)	-	7.6	103.9
OPM (%)	20.3	17.8	18.3
GPM (%)	20.2	16.3	17.1
NPM (%)	10.1	7.4	8.8
Interest coverage	7.7	3.4	6.1
ROE (%)	17.8	13.4	18.1
ROCE (%)	10.5	8.8	10.8
Debt-Equity ratio*	1.0	1.2	0.9
Fixed asset turnover	1.8	1.6	1.8
Total asset turnover	1.2	1.2	1.4
Debtors turnover	12.5	8.8	7.2
Creditors turnover	9.5	8.1	8.6
Inventory turnover	4.2	4.4	4.9
Debtor days	29.3	41.4	51.0
Creditor days	38.2	45.1	42.7
Inventory days	87.5	83.1	74.2
Cash conversion cycle	78.6	79.3	82.5
Dividend payout ratio (%)	19.0	24.6	14.3

FY 16-18 implies three year period ending fiscal 18; \*as on terminal year

Recovery in the commercial vehicle space and strong growth prospects in machining business in the Indian market explains 70.7% growth in cumulative income from operation during FY22-24e when compared to that in proceeding three year period. With machining segment picking up, revenue growth can be accompanied by stable margins- OPM to rise to 18.3% for FY22-24e Vs 17.8% in FY19-21. With domestic business on throes of a strong recovery, cumulative post tax earnings would all but double in the projected period. Yet challenges in growing exports may hinder business momentum.

MMFL's ROE would barely remain suppressed for it is expected to rise to 18.1% in FY22-24e as compared to 13.4% in FY19-21 not least due to better earnings visibility and higher capacity utilization. Higher debtor days and early payment of credit to suppliers would be counterbalanced by better management of inventory, leading to marginal change in cash conversion cycle (see table). Moreover, falling dividend payout ratio would barely help the company in financing its capex program.

## Financial Summary- US Dollar denominated

million \$	FY20	FY21	FY22	FY23e	FY24e
Equity capital	3.2	3.3	3.2	2.9	2.9
Shareholders funds	62.1	68.1	76.2	83.2	98.1
Total debt	75.1	83.7	89.7	81.0	84.4
Net fixed assets (including CWIP)	87.8	86.4	90.5	99.6	108.6
Investments	0.6	0.7	4.3	6.0	6.1
Net current assets	5.0	10.1	18.2	5.6	11.6
Total assets	106.5	108.5	121.9	120.0	135.7
Revenues	102.6	97.8	148.3	166.2	192.7
EBITDA	20.3	19.3	29.6	32.6	36.7
EBDT	15.6	15.0	25.9	28.8	32.2
PBT	8.1	7.4	17.8	20.4	22.8
PAT	6.5	6.3	12.3	15.3	17.1
EPS(\$)	0.27	0.26	0.51	0.63	0.71
Book value (\$)	2.57	2.82	3.16	3.45	4.06

Income statement figures translated at average rates; balance sheet at year end rates; FY24 financials at current rates (Rs 82.07/\$). All dollar denominated figures are adjusted for extraordinary items.

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buy: >20%    accumulate: >10% to ≤20%    hold: ≥-10% to ≤10%    reduce: ≥-20% to <-10%    sell: <-20%

Exchange Rates Used- Indicative

Rs/\$	FY19	FY20	FY21	FY22	FY23
Average	69.89	70.88	74.20	74.51	80.39
Year end	69.17	75.39	73.50	75.81	82.22

All \$ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.