

5 November 2024

MM Forgings

Attractive valuation; retaining a Buy

Rating: **Buy**

Target Price (12-mth): Rs.720

Share Price: Rs.490

Broadly in line with our Rs774m estimate, MM Forgings' Q2 EBITDA grew a healthy 7% y/y to Rs769m. We reckon the domestic M&H CV volume uptrend would hold at a 5% CAGR over FY24-27, on economic activity and replacement demand. Growth would be driven by new products (gear blanks, long shafts, larger crankshafts) and market-share gains. The stock quotes at attractive valuations of 13x/11x FY26e/FY27e EPS (a huge discount to peers BHFC's and RMKF's). With a higher wallet-share and sharper focus on EV-specific components, its outperformance would persist. The stock is among our preferred picks in ancillaries. We introduce FY27e, with 14%/15%/21% growth in revenue/ EBITDA/PAT. We retain a Buy, with a lower 12-mth TP of Rs720, 16x FY27e EPS (earlier Rs750, 18x FY26e EPS).

EBITDA in line with estimates. Standalone revenue grew 1% y/y to Rs3.9bn, broadly in line with our estimates. EBITDA grew 7% to Rs769m, broadly in sync with our Rs774m estimate. Domestic declined 11% y/y to Rs2.25bn due to the fall in M&H CV production, while exports grew a strong 26% y/y to Rs1.65bn. Segment-wise mix: CVs 77%, PVs 13%, tractors 8%, Others 1%. The EBITDA margin expanded 100bps y/y, 30bps q/q, to 19.7%. The gross margin rose 620bps y/y, 420bps q/q, to 58.8%. Employee costs grew 20% to Rs391m. Other expenses grew 26% to Rs757m. Depreciation grew 16% to Rs203m. Interest cost rose 86% to Rs161m. Overall, PAT fell 2% to Rs359m, slightly below our Rs376m estimate on higher interest and depreciation costs.

Valuation. We expect a 15% EPS CAGR over FY24-27, driven by a 10% revenue CAGR and a 180bp EBITDA-margin expansion. Our FY25e/FY26e EPS are 5%/9% lower, factoring in lower M&H CV industry growth and margins. We retain a Buy at a lower 12-mth TP of Rs720, 16x FY27e EPS (earlier Rs750, 18x FY26e EPS), the lower multiple due to slow M&H CV growth. **Key risks:** Less-than-expected growth in underlying segments, delay in order executions, adverse commodity/forex movements.

Key financials (YE Mar)	FY23	FY24	FY25e	FY26e	FY27e
Sales (Rs m)	14,128	15,271	15,993	17,878	20,371
Net profit (Rs m)	1,261	1,448	1,521	1,799	2,185
EPS (Rs)	26.1	30.1	31.5	37.3	45.3
Growth (%)	37.5	15.3	4.5	18.3	21.5
P/E (x)	18.8	16.3	15.6	13.2	10.8
EV / EBITDA (x)	11.0	10.3	10.0	8.9	7.9
P/BV (x)	3.4	2.9	2.6	2.3	2.0
RoE (%)	18.2	17.8	16.5	17.3	18.3
RoCE (%)	10.5	10.4	9.9	10.3	11.1
Dividend yield (%)	1.2	1.6	1.7	2.0	2.5
Net debt / equity (x)	0.6	0.7	0.8	0.8	0.8

Source: Company, Anand Rathi Research

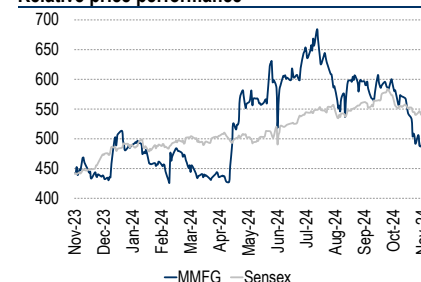
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Key data	MMFG IN / MMFO.NS
52-week high / low	Rs.730 / 421
Sensex / Nifty	78,782 / 23,995
3-m average volume	\$0.5m
Market cap	Rs.24bn / \$281.2m
Shares outstanding	48m

Shareholding pattern (%)	Sep'24	Jun'24	Mar'24
Promoters	56.3	56.3	56.3
- of which, Pledged			
Free Float	43.7	43.7	43.7
- Foreign institutions	3.4	2.7	2.3
- Domestic institutions	10.5	10.6	11.8
- Public	29.8	30.4	29.6

Estimates revision (%)	FY25e	FY26e
Sales	-4.2	-4.2
EBITDA	-3.7	-7.0
EPS	-4.7	-9.4

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Revenues	14,128	15,271	15,993	17,878	20,371
Growth (%)	28	8	5	12	14
RM cost	6,745	7,150	7,197	8,009	9,126
Employee cost	1,296	1,361	1,506	1,656	1,857
Other expenses	3,502	3,876	4,123	4,564	5,180
Direct costs	11,572	12,387	12,825	14,230	16,163
EBITDA	2,555	2,884	3,168	3,648	4,208
EBITDA margins (%)	18.1	18.9	19.8	20.4	20.7
- Depreciation	694	725	801	892	960
Other income	161	254	304	359	419
Interest expenses	296	426	638	711	747
PBT	1,757	1,994	2,032	2,404	2,921
Effective tax rates (%)	28	27	25	25	25
Net income	1,261	1,448	1,521	1,799	2,185
Adjusted income	1,261	1,455	1,521	1,799	2,185
WANS	48	48	48	48	48
FDEPS (Rs)	26.1	30.0	31.5	37.3	45.3
Growth (%)	37	15	5	18	21

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
PBT	1,759	1,994	2,032	2,404	2,921
+ Non-cash items	859	950	801	892	960
Oper. prof. before WC	2,619	2,944	2,833	3,296	3,880
- Incr. / (decr.) in WC	1,032	1,180	474	290	604
Others incl. taxes	-424	-319	-512	-605	-735
Operating cash-flow	1,162	1,446	1,847	2,401	2,541
- Capex (tang. + intang.)	-1,563	-2,201	-3,500	-2,500	-2,500
Free cash-flow	-401	-755	-1,653	-99	41
- Div. (incl. buyback & taxes)	-145	-145	-485	-573	-696
+ Equity raised	-	-	-	-	-
+ Debt raised	-178	555	1,500	500	500
- Fin investments	-	-	-	-	-
- Misc. (CFI + CFF)	508	409	-0	-0	-0
Net cash-flow	-216	63	-637	-172	-155

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

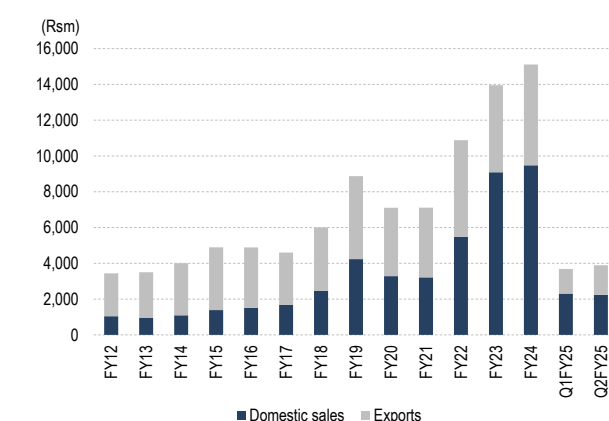
Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	241	241	483	483	483
Net worth	6,902	8,163	9,199	10,425	11,914
Debt	6,539	8,050	9,550	10,050	10,550
Minority interest	-	-	-	-	-
DTL / (Assets)	346	401	401	401	401
Capital employed	13,787	16,615	19,151	20,877	22,866
Net tangible assets	7,797	9,296	11,995	13,603	15,143
CWIP (tang. & intang.)	-	-	-	-	-
Investments (strategic)	407	413	413	413	413
Current assets (excl. cash)	6,501	8,158	8,781	9,132	9,983
Cash	2,029	2,092	1,455	1,283	1,128
Current liabilities	2,948	3,344	3,493	3,554	3,801
Working capital	3,553	4,814	5,288	5,578	6,182
Capital deployed	13,787	16,615	19,151	20,877	22,866

Fig 4 – Ratio analysis

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
P/E (x)	18.8	16.3	15.6	13.2	10.8
EV / EBITDA (x)	11.0	10.3	10.0	8.9	7.9
EV / Sales (x)	2.0	1.9	2.0	1.8	1.6
P/B (x)	3.4	2.9	2.6	2.3	2.0
RoE (%)	18.2	17.8	16.5	17.3	18.3
RoCE (%) - after tax	10.5	10.4	9.9	10.3	11.1
RoIC (%) - after tax	9.4	10.6	10.0	9.7	10.2
DPS (Rs)	6.0	8.0	8.4	9.9	12.0
Dividend yield (%)	1.2	1.6	1.7	2.0	2.5
Dividend payout (%)	23.1	26.6	31.9	31.9	31.9
Net debt / equity (x)	0.6	0.7	0.8	0.8	0.8
Receivables (days)	60	83	87	91	91
Inventory (days)	157	175	175	175	175
Payables (days)	87	88	88	88	88
CFO: PAT (%)	92.1	99.9	121.5	133.5	116.3

Source: Company, Anand Rathi Research

Fig 6 – Revenue-mix trend



Source: Company

Mgmt. interview takeaways

- Domestic sales declined 11% y/y, mainly due to the underlying industry fall.
- Exports grew 26% y/y due to new parts addition and growth in the USA market. Management expects double-digit growth in FY25.
- Expects revenues to start flowing for Abhinava Rizel from Q3 FY25 for supply of motors to a PV customer.
- Geographic mix: India 60%, USA 17%, Europe 13%, South America 8%, Others 2%.
- Gross margin expansion q/q due to lower steel prices and value addition. Management expects >20% EBITDA margins in H2 FY25.
- H1 FY25 capex was Rs2.2bn; FY25 outlook unchanged at Rs3.25bn. New press line (16,500 tons) would commence operations from Q1 FY26. Would cater to CV and Industrial segments for both exports and the home market.
- The Board has approved DVS Industries subsidiary amalgamation with MM Forgings. It has a manufacturing unit in Uttarakhand, manufacturing and machining crankshafts. FY24 revenue/EBITDA were Rs919.8m/Rs72.6m.

Results highlights

Fig 7 – Quarterly performance

(Rs m)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YY (%)	Q/Q (%)	FY25 YTD	FY24 YTD	YY(%)
Revenue	3,841	3,881	3,886	3,685	3,894	1.4	5.7	7,580	7,496	1.1
Expenditure	3,122	3,151	3,133	2,970	3,126	0.1	5.2	6,096	6,157	(1.0)
as % of sales	81.3	81.2	80.6	80.6	80.3			80.4	82.1	
Consumption of RM	1,822	1,828	1,727	1,674	1,606	(11.9)	(4.1)	3,280	3,593	(8.7)
as % of sales	47.4	47.1	44.4	45.4	41.2			43.3	47.9	
Employee cost	326	324	377	359	391	20.1	8.9	750	645	16.3
as % of sales	8.5	8.3	9.7	9.7	10.0			9.9	8.6	
Power & fuel	376	362	361	331	372	(1.1)	12.5	703	705	(0.2)
as % of sales	9.8	9.3	9.3	9.0	9.6			9.3	9.4	
Other expenditure	599	637	668	605	757	26.4	25.0	1,362	1,214	12.2
as % of sales	15.6	16.4	17.2	16.4	19.4			18.0	16.2	
EBITDA	719	731	753	715	769	6.9	7.4	1,484	1,340	10.8
Depreciation	175	186	175	194	203	16.0	4.4	397	350	13.5
EBIT	544	544	577	521	566	4.0	8.6	1,087	990	9.8
Other income	51	68	72	69	85	65.4	23.3	154	114	34.6
Interest	87	109	133	145	161	86.1	10.8	306	182	68.6
PBT	509	503	516	444	489	(3.8)	10.1	934	922	1.3
Total tax	143	155	136	120	130	(8.8)	8.3	250	255	(1.9)
Adj. PAT	366	348	380	324	359	(1.9)	10.8	684	667	2.5
Extraordinary items loss/(gain)	0	0	0	0	0			0	0	
Reported PAT	366	348	380	324	359	(1.9)	10.8	684	667	2.5
Adj. EPS (Rs)	7.6	7.2	7.9	6.7	7.4	(1.9)	10.8	14.2	13.8	2.5

Margins (%)						(bps)	(bps)			(bps)
Gross	52.6	52.9	55.6	54.6	58.8	619	421	56.7	52.1	466
EBIDTA	18.7	18.8	19.4	19.4	19.7	102	33	19.6	17.9	171
EBIT	14.2	14.0	14.9	14.1	14.5	36	39	14.3	13.2	113
PAT	13.2	13.0	13.3	12.1	12.6	(68)	51	12.3	12.3	2
Effective tax rates	9.5	9.0	9.8	8.8	9.2	(31)	43	9.0	8.9	12

Source: Company

Valuations

Attractive valuations (trading at a notable discount to peers). The stock quotes at attractive valuations of 13x/11x FY26e/FY27e EPS, a huge discount to peers such as BHFC and RMKF. BHFC and RMKF are trading above +1std valuations; the company is trading only at mean valuations (*Fig 14 for more details*).

Sound domestic performance. Domestic revenue outpaced M&H CV production growth, registering a 17% CAGR over FY19-24 (vs. industry M&H CV volumes declining 2%), powered by market-share gains and an increase in content per vehicle (on a better-tonnage mix). Also, domestic revenue growth (a 17% CAGR over FY19-24) has been better than peers BHFC standalone (9%) and RMKF standalone (10%), on its higher market share than peers, particularly BHFC.

Robust growth profile. In the last five years, growth in standalone revenue/EBITDA/EPS/RoE has been better than BHFC's (*Fig 9 for more details*), led by strong domestic revenue. Ahead, it would continue to be better than BHFC's on a favorable mix of the domestic segment (*Fig. 10 for more details*).

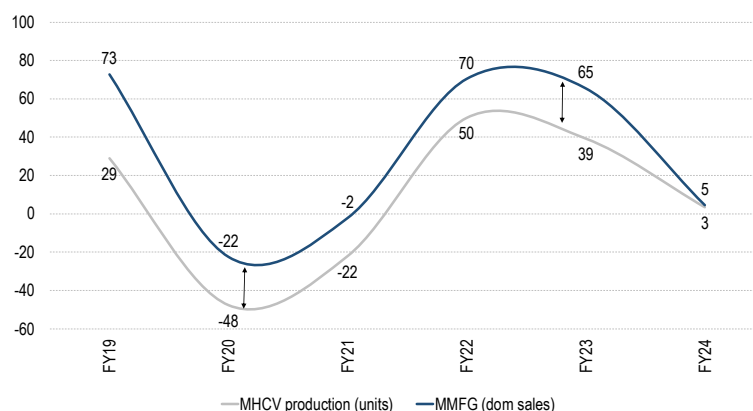
Favorable regional mix. The company has higher domestic revenue (65%) than BHFC's 42% and RMKF's 58%. With weakness in overseas CVs expected, the company would be less affected than peers.

New products such as gear blanks, long shafts and larger crankshafts for CVs/PVs were developed and aided growth in FY24. Recently, PV crankshaft capacity was raised from 40,000 units to 50,000. Besides, the company is focusing on **diversifying** to PVs/non-autos and improving the **machining mix**, expected to rise from 57% in FY24 to 75% over the medium term.

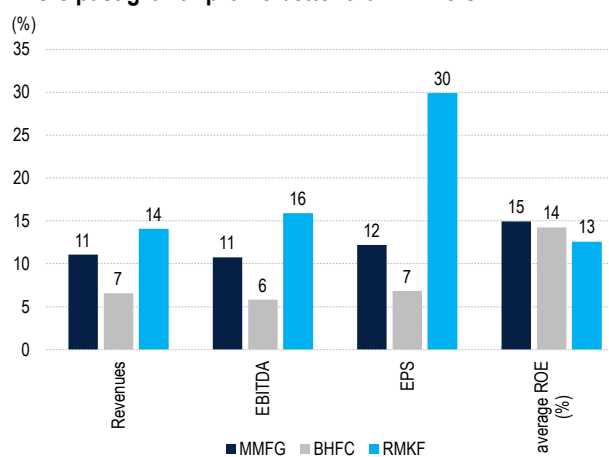
Better mix, operating scale to support margins. We expect the EBITDA margin to rise from 18.9% in FY24 to 20.7% in FY27, aided by the greater scale, machining mix and lower operational costs (manpower, power & fuel). The post-tax RoE/RoCE would be >16%/10%.

Rs3bn capex expected annually over the next three years to expand machining capabilities, forgings capacity (20,000 tonnes) and new products. Installed capacity is 126,000 tonnes at ~67% utilisation. Net debt/equity was stable at 0.7x in FY24 and likely to be steady in FY26 due to higher capex spend.

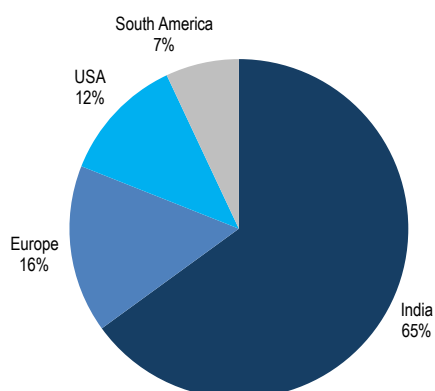
View, Valuations. We expect healthy, 10%/15%, standalone revenue/ EPS CAGRs over FY24-27. Valuations are comfortable at 13x/11x FY26e/FY27e EPS. **We recommend a Buy, with a 12-mth TP of Rs720, 16x FY27e EPS of Rs45.3.** Our multiple is closer to the mean of the past 10-year average.

Fig 8 – MMFG's growth better than India's M&H CVs

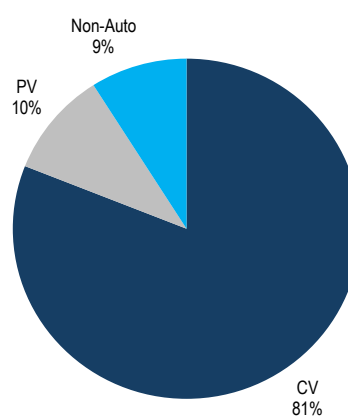
Source: Company, Anand Rathi Research

Fig 9 – MMFG's past growth profile better than BHFC's

Source: Company, Anand Rathi Research

Fig 10 – Geographical mix (FY24)

Source: Company, Anand Rathi Research

Fig 11 – Segment-wise revenue mix (FY24)

Source: Company, Anand Rathi Research

Fig 12 – Key assumptions

(Rs m)	FY22	FY23	FY24	FY25e	FY26e	FY27e	CAGR %, FY24-27
Domestic	5,480	9,090	9,480	9,575	10,628	11,691	7%
Y/Y change, %	70.5	65.9	4.3	1.0	11.0	10.0	
Exports	5,400	4,896	5,631	6,194	7,000	8,400	14%
Y/Y change, %	38.5	-9.3	15.0	10.0	13.0	20.0	
Total	10,880	13,986	15,111	15,769	17,628	20,091	10%
Y/Y change, %	52.9	28.6	8.0	4.4	11.8	14.0	

Source: Company, Anand Rathi Research

Fig 13 – Change in estimates

	Old		Revised		Change (%)		Introducing
(Rs m)	FY25e	FY26e	FY25e	FY26e	FY25	FY26	FY27e
Revenue	16,688	18,665	15,993	17,878	-4.2	-4.2	20,371
EBITDA	3,289	3,921	3,168	3,648	-3.7	-7.0	4,208
% of revenue	19.7	21.0	19.8	20.4			20.7
Adj. PAT	1,595	1,985	1,521	1,799	-4.7	-9.4	2,185
EPS (Rs)	33.0	41.1	31.5	37.3	-4.7	-9.4	45.3

Source: Company, Anand Rathi research

Fig 14 – One-year-forward standard deviation of PE

Source: Bloomberg, Anand Rathi Research

Risks

- Less-than-anticipated growth in underlying segments.
- Delay in executing orders.
- Adverse commodity/forex movements.

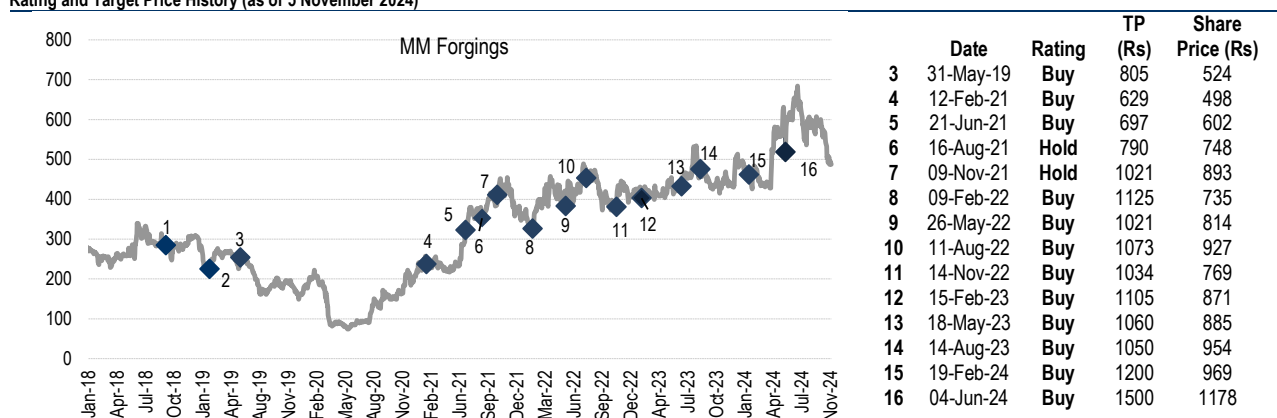
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