MM Forgings Ltd. (MMFL)	
No. of shares (m)	24.14
Mkt cap (Rs crs/$m)	742/100.3
Current price (Rs/$)	307/4.2
Price target (Rs/$)	339/4.6
52 W H/L (Rs.)	470/150
Book Value (Rs/$)	185/2.5
Beta	0.8
Daily NSE volume (avg. monthly)	9890
P/BV (FY21e/22e)	1.5/1.5
EV/EBITDA (FY21e/22e)	10.6/8.1
P/E (FY21e/22e)	39.9/18.1
EPS growth (FY20/21e/22e)	-43.2/-59.8/120.2
OPM (FY20/21e/22e)	17.2/16.9/17.2
ROE (FY20/21e/22e)	10.2/3.9/8.3
ROCE (FY20/21e/22e)	6.8/4.1/6.4
D/E ratio (FY20/21e/22e)	1.2/1.0/1.0
BSE Code	522241
NSE Code	MMFL
Bloomberg	MMFG IN
Reuters	MMFO.NS

Shareholding Pattern	%
Promoters	56.3
MFs / Banks /FIs	21.9
Foreign Portfolio Investors	0.0
Govt. Holding	-
Public & Others	21.8
Total	**100.0**

As on September 30, 2020

Recommendation

ACCUMULATE

Phone: + 91 (33) 4488 0011

E- mail: research@cdequi.com

Company Overview

MM Forgings is a manufacturer of automotive components. It manufactures steel forgings in raw, semi-machined and fully machined stages.

Quarterly Highlights

- On the back of an already difficult last fiscal when CV segment posted negative sales growth of 28.8% in India, deterred by the pandemic, the demand for automobiles declined sharply in the first six mothns this fiscal across India and globally. The demand for CV's in India and light weight trucks in America (one of its largest export markets) declined by 56% and 16.6% respectively while demand for PV plummeted 34% in India during April to September 2020. In addition to the pandemic, stress in the banking and financial space, contributed in some part to this tremendous decline.
- Hamstrung by the ensuing effects of the pandemic, MM Forgings witnessed almost two-thirds (64.3%) decline in its revenues to a dismal Rs. 76.40 cr in the first quarter this fiscal as government authorities enforced closure of non-essential businesses in view of pandemic situation till the beginning of May – the plants started reopening in May in a phased manner as the economy gradually reopened.
- Lower revenues led to a massive decline in EBIDTA which fell over 65% during the same period to a mere Rs. 15 cr yet somehow maintaining EBIDTA margin at 19.7% compared to 20.3% a year ago partially due to higher other income (Q1FY21 – Rs. 8.04 cr vs Q1FY20 – Rs. 3.14 cr) . Lower depreciation and interest costs were unable to prevent profit before tax from slipping into the negative territory - PBT for Q1FY21 stood at -4.95 cr from Rs. 20.27 cr in the same period a year ago.
- The stock currently trades at 39.9x FY21e EPS of Rs 7.70 and 18.1x FY22e EPS of Rs 16.95. In view of the anemic growth in the CV and PV industry, we have revised current fiscal earnings (EPS of Rs 7.70 vs earlier estimate of Rs 25.67) With an expected revival in auto demand in the next six months of current fiscal, partially contributed by pent up demand and festive season, we expect MM Forgings to demonstrate some velocity in revenue booking. Higher production capacities (current installed capacity at 110000 tons) could be rendered idle with industry demand expected to take atleast a few years to return to FY19 levels – we expect volumes in FY22 to barely surpass that of FY20, barely strong capacity utilization. Higher financial leverage (debt-equity of 1.2 in FY20) would scarcely allow P/E expansion in the short term. On balance, we recommend 'accumulate' rating on the stock with target price of Rs 339 (previous target Rs 436) based on 20x FY22e EPS of Rs 16.95 over a period of 9-12 months.

Standalone figures in Rs crs	FY18	FY19	FY20	FY21e	FY22e
Income from operations	620.62	903.92	727.29	511.15	706.72
Other Income	12.29	15.87	18.51	20.47	18.29
EBITDA (other income included)	136.73	189.12	143.70	106.87	140.18
PAT after EO	68.39	81.33	46.23	18.59	40.93
EPS(Rs)*	28.33	33.69	19.15	7.70	16.95
EPS growth (%)	57.5	18.9	-43.2	-59.8	120.2

*adjusted for 1:1 bonus

Outlook & Recommendation

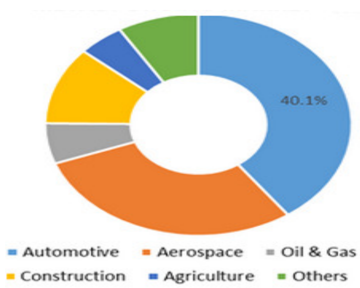
Global Forging Industry

The global metal forging market size was valued at USD 83.9 billion in 2019 and is expected to witness a CAGR of 7.6% from 2020 to 2027 according to a report published by Grand View Research at the start of 2020. Strict regulations pertaining to the use of high-performance lightweight components in the automotive industry drive the demand for metal forging, particularly for aluminum and titanium materials. The automotive industry is a major end user for metal forging and accounted for 51.3% in terms of volume in 2019 according to the same report. The durability, strength, and reliability of forged components have made them a preferred choice in the automotive sector for applications where stress, load, tension, and human safety are key considerations. Thus, the growth in automotive production such as electric vehicles is anticipated to drive the demand for metal forging over the forecast period.

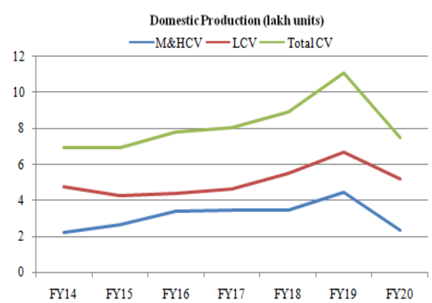
On the other hand, alternative component manufacturing processes, particularly casting, is expected to hinder the demand for metal forging. Factors such as advancements in technology and low cost characteristics drive manufacturers to opt for casting as a preferable method over forging for producing components such as transmission parts and crankshafts.

The segments of the global automotive forging market on the basis of type are classified as closed die, open die, and rolled rings. Amongst them, the closed die segment dominates in terms of revenue and the trend is expected to continue over the next few years according to Fior Markets. This is due to the excellence in performance and finish of products that are obtained using this process. The capital-intensive nature of the global automotive forging market accounts for the clear dominance of well-entrenched players that operate in international markets. This poses challenge for small players that compete with large players with respect to quality, features, functionalities, and services. The use of newer technologies by large players to add qualitative value to existing products will further add to the woes of small players.

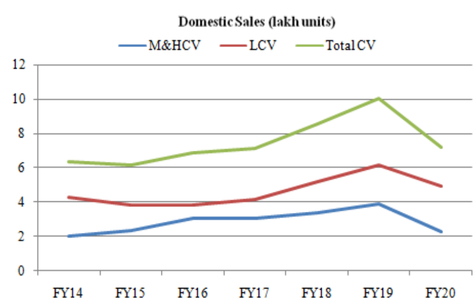
Global Metal Forging Market



Source: www.reportsanddata.com



Source: ACE Equity, SIAM



Source: ACE Equity, SIAM

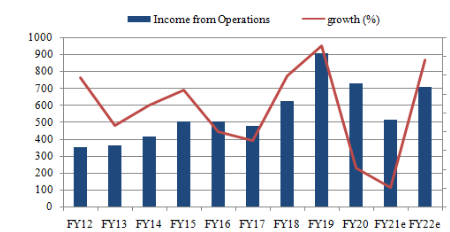
Asia Pacific accounted for over 60.0% volume share in 2019 and is expected to register the highest CAGR over the forecast period. The growth in demand for metal forging is mainly driven by the development of the manufacturing sector in China, India, and other developing economies. China is the largest producer and consumer of forged products in the world. The demand for metal forging in the country is projected to register a CAGR of over 9.0% from 2020 to 2027 according to Grand View Research.

In terms of volume, North America is projected to register a CAGR of 4.8% during the forecast period partially due to the increasing demand for metal forging from the automotive sectors. According to the International Organization of Motor Vehicle Manufacturers, North America held a share of 18.0% of the total world automotive production in 2018. European Union countries play a significant role in the global metal forging market owing to the large production of forged parts. The region is characterized by the presence of prominent car manufacturers and various auto component manufacturers in Germany. This is expected to somewhat drive the demand for metal forging over the forecast period.

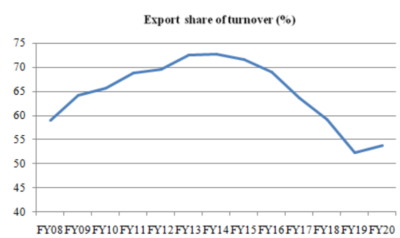
Financials & Valuations

Despite MM Forgings heavily investing to increase its capacity over the last few years from some 65000 tons annually at the end of FY17 to 110000 tons at the end of FY20, its volumes haven't reflected a similar increase, partially contributed by slowdown in the automobile space last fiscal and Covid-19 pandemic this fiscal. Its production at the end of FY20 was some 46000 tons, a far way off from its installed capacity (though installed capacity is barely a true barometer of its true production capacity). With less than optimal economic conditions, we expect its capacity utilization to be low at least till next fiscal mainly due to lack of velocity in commercial vehicle sales across the globe on account of the pandemic and slowdown in freight demand.

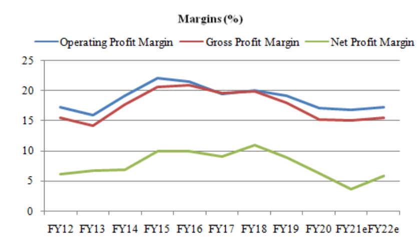
Truncated volumes would lead to lower revenues this fiscal – we expect revenues to drop by almost 30% to Rs 511.15 cr after an already difficult year when revenues declined almost 20%. We estimate improvement in commercial vehicle sales would significantly improve revenues next fiscal to the tune of over 38% to Rs. 711.15 cr – In line with our assessment that revenues would not recover to FY19 levels of Rs. 904 cr before the slowdown hit the auto sector in FY20. According to industry estimates, US Class 8 Trucks and Europe HCV's would not reach 2019 levels before 2022. MM Forgings would still manage to clock operating profits of Rs. 86.39 cr this fiscal, a drop of 31% from last fiscal. Some velocity in revenue booking next fiscal would propel operating profit up by 41.1% to Rs. 122 cr – almost at FY20 levels.



Sources: M M Forgings Ltd; CD Equisearch

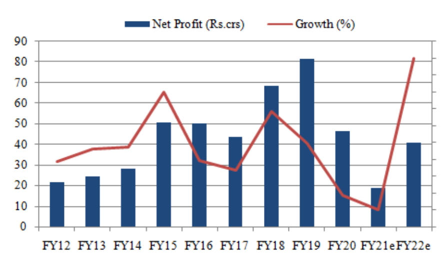


Source: M M Forgings Ltd.

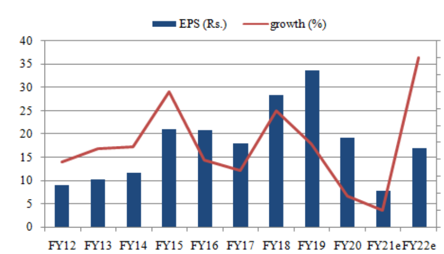


Sources: M M Forgings Ltd; CD Equisearch

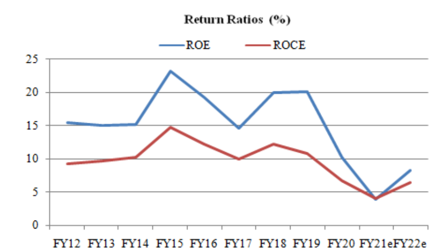
Net profit would rise over 1.2x (albeit on a much smaller base) to Rs. 40.93 cr next fiscal - Net profit margin would somewhat recover to 5.8% next fiscal from a puny 3.6% this fiscal. Successive reductions in long term debt would lead to debt-equity falling to 1 next fiscal. Tepid rise in interest expense next fiscal coupled with higher earnings, would lead to an expansion in interest coverage ratio to 2.8 from 1.8 this fiscal. Decline in earnings coupled with lower asset turnovers this fiscal (fixed asset turnover to decline to 0.8 this fiscal from already low 1.2 in FY20) would reduce ROE to a terrible 3.9% before recovering to some 8.3% next fiscal, still much below its 20% levels of FY18-19.



Sources: M M Forgings Ltd; CD Equisearch

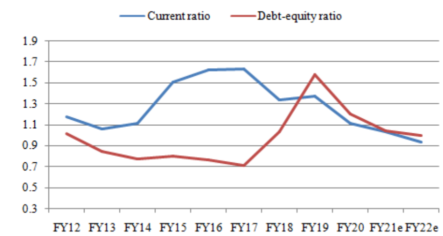


Sources: M M Forgings Ltd; CD Equisearch

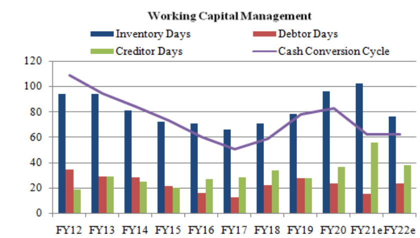


Sources: M M Forgings Ltd; CD Equisearch

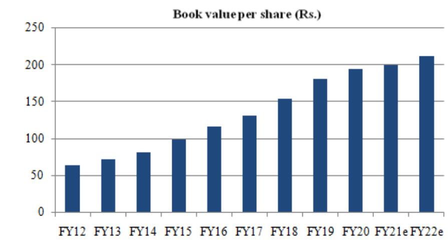
Substantial savings in working capital, mainly driven by inventories and trade receivables meant that despite lower profits last fiscal, MM Forgings posted much higher cash flow from operations – CFO for FY20 stood handsomely at Rs. 234.19 cr from a mere Rs. 6.48 cr a year earlier. Add to that lower capital expenditures last fiscal (FY20 at Rs. 87.6 cr vs Rs. 289.17 cr in FY19), meant MM Forgings could post positive free cash flows to the tune of Rs. 146.59 cr against deficit of Rs. 282.7 cr a year earlier. A decline in debtor days, complimented by a rise in creditor days is expected to sharply bring down the cash conversion cycle to some 62 days this fiscal from 83 days in FY20.



Sources: M M Forgings Ltd; CD Equisearch



Sources: M M Forgings Ltd; CD Equisearch



Sources: M M Forgings Ltd; CD Equisearch

The stock currently trades at 39.9x FY21e EPS of Rs 7.70 and 18.1x FY22e EPS of Rs 16.95. Terrible stress in the automobile industry would lead to almost 60% decline in post tax profits. Yet, MM Forgings' proximity to ports giving it a logistical edge with regards to international supplies is a barely puny competitive advantage. Introduction of scrappage policy is another factor that could drive CV growth over the next few years. The North American truck market is expected to witness a healthy growth after 2020 with the fleet replacement cycle kicking in and the growing presence of e-commerce should increase demand for trucks as per industry estimates. On balance, we recommend 'accumulate' rating on the stock with target price of Rs 339 (previous target Rs 436) based on 20x FY22e EPS of Rs 16.95 over a period of 9-12 months; earnings estimated to record a negative CAGR growth of 20.5% during FY19-22 period. For more information, refer to our February 2020 report.

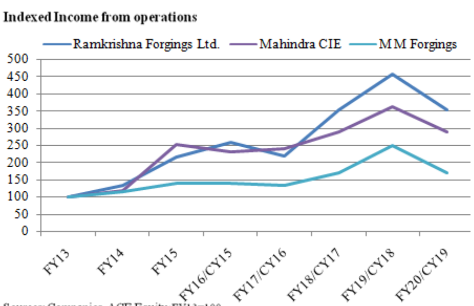
Cross Sectional Analysis

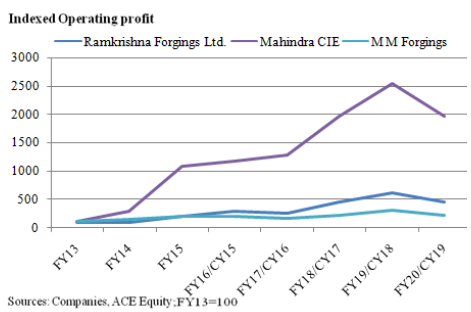
Company	Equity*	CMP	MCAP*	Sales*	Profit*	OPM (%)	NPM (%)	Int Cov	ROE (%)	Mcap/Sales	P/BV	P/E
Ramkrishna Forgings	32	375	1196	888	-33	14.3	-3.7	0.4	-3.9	1.3	1.4	-36.2
Mahindra CIE	379	138	5215	5815	13	7.8	0.2	3.8	1.3	0.9	4.7	389.3
MM Forgings	24	307	742	626	18	15.4	2.9	1.7	4.1	1.2	1.7	40.3

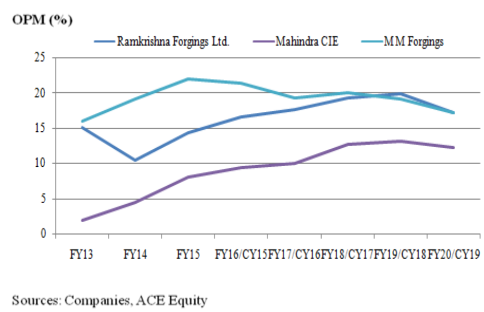
*figures in crores; calculations on ttm basis; standalone or consolidated data as available.

After a difficult first quarter, Ramkrishna Forgings posted almost flat volumes in the second quarter this fiscal in comparison to the same period last fiscal (18421 tons vs 18517 tons in Q2FY20) but its realizations declined over Rs. 2500 per forged tonnage sequentially in both the domestic and export markets in the second quarter. For the half year ended September 2020, Ramkrishna Forgings witnessed 47.3% decline in its revenues to Rs. 365.64 cr, therefore pulling operating profits down to a bony Rs. 40.68 cr in the same period - its operating margins contracted to 11.1% from a robust 17.6% in H1FY20. Loss to the tune of Rs. 28.02 cr in H1FY21 had no meagre impact on its cash flows as cash from operations declined to Rs. -3.48 cr in H1FY21 from Rs. 78.17 cr in the same period last fiscal; also partially due to not so tepid rise in its receivables (up some Rs. 83 cr).

Mahindra CIE experienced a 33.8% dip in its revenues during the first nine months of 2020, strongly hit by the effects of the pandemic in India and globally – Its revenues declined 29% in India (which contributed over 45% to revenues) partially due to the transition to Bharat Stage VI during the second quarter and the nerve wracking effects of the pandemic. Europe, which is its major market, experienced a revenue decline to the tune of 36%, much in line with the IHS August data, estimating a 34% decline in MHCV production for 9 months ended September 2020. With third quarter numbers somewhat back to pre-Covid levels, the company opines that the worst of the pandemic is over. Lower revenues resulted in Mahindra CIE witnessing a massive 68.6% decline in its operating profit to Rs. 236.76 cr during 9MCY20 and failed to post any post tax profit for the period.







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

Financials

Standalone Quarterly Results

Figures in Rs crs

	Q1FY21	Q1FY20	% chg	FY20	FY19	% chg
Income From Operations	**76.40**	**214.30**	**-64.3**	**727.29**	**903.92**	**-19.5**
Other Income	8.04	3.14	156.3	18.51	15.87	16.7
Total Income	**84.44**	**217.43**	**-61.2**	**745.80**	**919.79**	**-18.9**
Total Expenditure	69.41	173.85	-60.1	602.10	730.67	-17.6
EBITDA (other income included)	**15.03**	**43.58**	**-65.5**	**143.70**	**189.12**	**-24.0**
Interest	6.97	9.31	-25.1	33.05	26.14	26.4
Depreciation	13.00	14.00	-7.1	53.23	54.41	-2.2
PBT	**-4.95**	**20.27**	**-124.4**	**57.42**	**108.57**	**-47.1**
Tax	0.00	3.97	-100.0	11.19	27.21	-58.9
PAT	**-4.95**	**16.30**	**-130.3**	**46.24**	**81.35**	**-43.2**
Extraordinary Item	-	-	-	0.00	0.02	-80.4
Adjusted Net Profit	**-4.95**	**16.30**	**-130.3**	**46.23**	**81.33**	**-43.2**
EPS (Rs)*	-2.05	6.75	-130.3	19.15	33.69	-43.2

Standalone Income Statement

Figures in Rs crs

	FY18	FY19	FY20	FY21e	FY22e
Income From Operations	**620.62**	**903.92**	**727.29**	**511.15**	**706.72**
Growth (%)	29.7	45.6	-19.5	-29.7	38.3
Other Income	12.29	15.87	18.51	20.47	18.29
Total Income	**632.91**	**919.79**	**745.80**	**531.63**	**725.01**
Total Expenditure	496.18	730.67	602.10	424.76	584.83
EBITDA (other income included)	**136.73**	**189.12**	**143.70**	**106.87**	**140.18**
Interest	12.65	26.14	33.05	29.70	30.80
Depreciation	42.00	54.41	53.23	52.32	54.69
PBT	**82.08**	**108.57**	**57.42**	**24.84**	**54.70**
Tax	13.58	27.21	11.19	6.25	13.77
PAT	**68.50**	**81.35**	**46.24**	**18.59**	**40.93**
Extraordinary Item	0.11	0.02	0.00	-	-
Adjusted Net Profit	**68.39**	**81.33**	**46.23**	**18.59**	**40.93**
EPS (Rs)*	28.33	33.69	19.15	7.70	16.95

*adjusted for bonus issue 1:1

Balance Sheet

Figures in Rs crs

	FY18	FY19	FY20	FY21e	FY22e
Sources of Funds					
Share Capital	12.07	24.14	24.14	24.14	24.14
Reserves & Surplus	357.01	412.11	444.16	456.72	485.58
Total Shareholders' Funds	**369.08**	**436.25**	**468.31**	**480.86**	**509.72**
Long Term Debt	168.27	396.29	334.70	275.20	211.43
Total Liabilities	**537.34**	**832.53**	**803.01**	**756.06**	**721.15**
Application of Funds					
Gross Block	754.96	1032.12	1150.08	1200.80	1250.80
Less: Accumulated Depreciation	389.84	444.07	497.18	549.50	604.19
Net Block	**365.12**	**588.06**	**652.91**	**651.30**	**646.61**
Capital Work in Progress	27.37	39.19	8.71	8.00	8.00
Investments	4.30	4.88	4.88	4.88	4.88
Current Assets, Loans & Advances					
Inventory	125.26	187.50	128.45	109.18	135.00
Trade Receivables	56.57	79.25	12.46	30.00	60.00
Cash and Bank	163.98	171.56	174.36	134.07	118.89
Other current assets	30.49	39.51	23.67	18.04	24.20
Total CA & LA	**376.29**	**477.82**	**338.94**	**291.29**	**338.09**
Current Liabilities	275.08	339.70	303.87	282.88	362.89
Provisions-Short term	7.01	7.09	0.00	0.00	0.00
Total Current Liabilities	**282.09**	**346.79**	**303.87**	**282.88**	**362.89**
Net Current Assets	94.20	131.03	35.07	8.41	-24.80
Net Deferred Tax	-13.42	-18.64	-29.81	-31.22	-32.52
Net long term assets	59.77	88.01	131.24	114.69	118.98
Total Assets	**537.34**	**832.53**	**803.01**	**756.06**	**721.15**

Key Financial Ratios

	FY18	FY19	FY20	FY21e	FY22e
Growth Ratios (%)					
Revenue	29.7	45.6	-19.5	-29.7	38.3
EBITDA	31.3	38.4	-24.0	-25.6	31.2
Net Profit	57.5	18.9	-43.2	-59.8	120.2
EPS	57.5	18.9	-43.2	-59.8	120.2
Margins (%)					
Operating Profit Margin	20.1	19.2	17.2	16.9	17.2
Gross Profit Margin	20.0	18.0	15.2	15.1	15.5
Net Profit Margin	11.0	9.0	6.4	3.6	5.8
Return (%)					
ROCE	12.3	10.8	6.8	4.1	6.4
ROE	20.0	20.2	10.2	3.9	8.3
Valuations					
Market Cap/ Sales	2.0	1.5	0.6	1.5	1.1
EV/EBITDA	10.8	9.7	5.5	10.6	8.1
P/E	18.4	16.2	8.7	39.9	18.1
P/BV	3.4	3.0	0.9	1.5	1.5
Other Ratios					
Interest Coverage	7.5	5.2	2.7	1.8	2.8
Debt Equity	1.0	1.6	1.2	1.0	1.0
Current Ratio	1.3	1.4	1.1	1.0	0.9
Turnover Ratios					
Fixed Asset Turnover	1.8	1.9	1.2	0.8	1.1
Total Asset Turnover	1.3	1.3	0.9	0.7	1.0
Debtors Turnover	16.8	13.3	15.9	24.1	15.7
Inventory Turnover	5.2	4.7	3.8	3.6	4.8
Creditor Turnover	11.0	13.4	10.1	6.6	9.7
WC Ratios					
Debtor Days	21.7	27.4	23.0	15.2	23.2
Inventory Days	70.3	78.1	95.8	102.1	76.2
Creditor Days	33.3	27.3	36.2	55.5	37.6
Cash Conversion Cycle	58.8	78.2	82.6	61.8	61.8

Cumulative Financial Data

Rs crs	FY11-14	FY15-18	FY19-22e
Income from operations	1395	2104	2849
Operating profit	251	436	507
EBIT	153	315	365
PBT	127	275	245
PAT	97	212	187
Dividends	18	39	46
Sales growth (%)	-	50.8	35.4
PAT growth (%)	-	119.9	-11.9
OPM (%)	18.0	20.7	17.8
GPM (%)	16.3	20.3	16.2
NPM (%)	6.9	10.1	6.6
Interest coverage	5.8	7.9	3.1
ROE (%)	16.1	18.8	10.6
ROCE (%)	10.3	11.1	7.9
Debt-Equity ratio*	0.8	1.0	1.0
Fixed asset turnover	2.1	1.9	1.4
Total asset turnover	1.7	1.4	1.1
Debtors turnover	12.1	12.3	12.2
Creditors turnover	19.8	10.8	9.4
Inventory turnover	5.4	4.1	4.5
Debtor days	30.3	29.7	29.9
Creditor days	18.4	33.8	38.9
Inventory days	68.2	88.2	81.1
Cash conversion cycle	80.0	84.1	72.1
Dividend payout ratio (%)	16.6	18.5	24.8

FY 11-14 implies four year period ending fiscal 14; *as on terminal year

Due to its diversified client base and significant presence in the overseas market, MM Forgings reported a cumulative topline growth of 50.8% in FY15-18 period as against FY11-14. Not so robust revenue recognition in FY20 and FY21e (de-growth of around 20% and 30% respectively in both years), would aptly reflect on cumulative revenues for the projected period, as it is expected to rise by just over 35%. Driven by barely robust revenue booking in FY20 and FY21e, PAT would de-grow by almost 12% in the cumulative period FY19-22e Vs 120% growth in FY15-18.

The aftermath of the automobile slowdown and the disastrous effect of the pandemic can be seen in ROE as well – 10.6% in FY19-22e vs 18.8% in FY15-18 mainly attributed to muted earnings growth expected in the projected period (see table). Increase in capacity, from some 65000 MT in FY17 to 110000 MT in FY20 (although, installed capacity is not a true measure of production capacity) would lead to a decline in fixed asset turnover from 1.9 to 1.4 in FY19-22e despite a muted rise in cumulative revenues in the period. A sharp hike in finance cost could explain interest coverage falling not so tepidly to 3.1 during FY19-22e period from 7.9 in the previous four year period. Slower payment to creditors along with lower inventory days would undoubtedly reduce cash conversion cycle from 84.1 days in FY15-18 to some 72 days in FY19-22e (see table).

Financial Summary- US Dollar denominated

million $	FY18	FY19	FY20	FY21e	FY22e
Equity capital	1.9	3.5	3.2	3.3	3.3
Shareholders funds	56.7	63.1	62.1	65.0	68.9
Total debt	58.6	99.4	75.1	67.6	69.0
Net fixed assets (including CWIP)	60.3	90.7	87.8	89.1	88.5
Investments	0.7	0.7	0.6	0.7	0.7
Net current assets	14.5	18.9	4.7	1.1	-3.4
Total assets	82.6	120.4	106.5	102.2	97.5
Revenues	96.3	129.3	102.6	69.1	95.5
EBITDA	21.2	27.1	20.3	14.4	19.0
EBDT	19.2	23.3	15.6	10.4	14.8
PBT	12.7	15.5	8.1	3.4	7.4
PAT	10.6	11.6	6.5	2.5	5.5
EPS($)	0.44	0.48	0.27	0.10	0.23
Book value ($)	2.35	2.61	2.57	2.69	2.85

Income statement figures translated at average rates; balance sheet at year end rates; projections at current rates (Rs 73.97/$).
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/$	FY16	FY17	FY18	FY19	FY20
Average	65.46	67.09	64.45	69.89	75.39
Year end	66.33	64.84	65.04	69.17	70.88

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.