

MM Forgings Ltd. (MMFL)

No. of shares (m)	24.14
Mkt cap (Rscr/\$m)	3068/367.5
Current price (Rs/\$)	1271/15.2
Price target (Rs/\$)	1410/16.9
52 W H/L (Rs.)	1352/825
Book Value (Rs/\$)	338/4.1
Beta	1.0
Daily NSE volume (avg. monthly)	90440
P/BV (FY25e/26e)	3.2/2.7
EV/EBITDA (FY25e/26e)	10.1/9.2
P/E (FY25e/26e)	17.7/16.2
EPS growth (FY24/25e/26e)	14.8/19.6/9.1
OPM (FY24/25e/26e)	18.9/20.0/20.0
ROE (FY24/25e/26e)	19.2/19.4/17.9
ROCE (FY24/25e/26e)	11.0/11.5/11.3
D/E ratio (FY24/25e/26e)	1.1/1.1/0.8
BSE Code	522241
NSE Code	MMFL
Bloomberg	MMFG IN
Reuters	MMFO.NS

Shareholding Pattern%

Promoters	56.3
MFs / Banks / FIs	11.8
Foreign Portfolio Investors	2.3
Govt. Holding	0.00
Public & Others	29.6
Total	100.0

As on March 31, 2024

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 parts.

Quarterly Highlights

- The Company reported 4.1% y-o-y growth in revenue in Q4FY24, and rise in operating profit by ~ 18% (y-o-y), to Rs 75.26 crs from Rs 64.01 crs in Q4FY23. The revenue of MM Forgings grew by 8.1% in FY24 to Rs 1,527.08 crs from Rs 1412.78 crs in FY23. The year saw a higher overseas demand leading to 15% surge in exports as compared to last year. The domestic business contributed ~ 65% to the revenue. Contribution of products in revenue mix being 81% from commercial vehicle, 10% from passenger vehicle and rest from off-highway.
- The Company was able to avail better raw material prices and the product mix also improved. This led to having better margins in Q4FY24. The Tamil Nadu government has decided to increase the power rate by 5% every year, leading to an increased power cost for the Company. MMFL is looking forward to overcome this cost by using renewable energy (wind and solar power). The Company is modifying itself to become more focused on machining rather than just focusing on forging. Currently, machining constitutes to around 60% of the sales and is expected to reach at 75%.
- The Company plans to invest more than Rs 75 crores in its subsidiary, Abhinava Rizel, in the areas of lab facilities and testing. The orders pertain to passenger vehicle segment. However, the production is expected to commence from Q2FY25. MMFL's another subsidiary, Suvarchas Vidyut Pvt. Ltd. (SVPL), is underperforming. Positive outlook remains for businesses in Europe and North America with the sales of Class 8 trucks showing greater momentum.
- The stock is currently trading at 17.7x FY25e EPS of Rs 71.81 and 16.2x FY26e EPS of Rs 78.35. The Company anticipates a growth of nearly 10% in both domestic and export sales in FY25. Cost optimization and product diversification would be seen as major revenue growth drivers going ahead. Value addition would play a key role as investments in machining are being ramped up; though spasmodic nature of CV industry needs little mentioning. MMFL is pulling over all stops to boost exports. Weighing odds, we assign 'accumulate' rating on the stock with revised target of Rs 1410 based on 18x FY26e earnings.

Standalone figures in Rs crs	FY22	FY23	FY24	FY25e	FY26e
Income from operations	1104.64	1412.78	1527.08	1756.35	1929.99
Other Income	18.57	16.40	26.09	24.15	23.85
EBITDA (other income included)	220.31	274.86	314.48	375.42	409.85
PAT after EO	91.76	126.21	144.94	173.35	189.15
EPS(Rs)	38.01	52.28	60.04	71.81	78.35
EPS growth (%)	96.9	37.5	14.8	19.6	9.1

Outlook & Recommendation

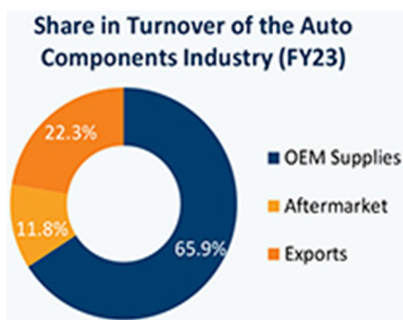
Industry Overview

With the surge in demand for automobiles and government initiatives to boost infrastructural development in the country, the automobile industry has seen substantial sales of both, passenger vehicles and commercial vehicles in FY24. The production of automobiles stood at 28.43 million units whereas the sales of automobiles stood at 23.85 million units in FY24. According to a report by Mordor Intelligence, the automobile industry is expected to grow to \$187.85 bn by 2029 from \$126.67 bn in 2024. The factors that will fuel the growth of the industry are rise in demand of passenger vehicles from the middle-class, growth in industrialization leading to surge in demand of commercial vehicles, and government's target to promote manufacturing of electric vehicles.

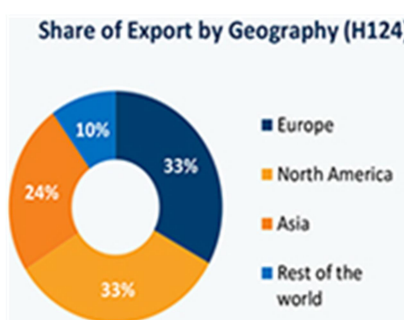


Source: ACMA

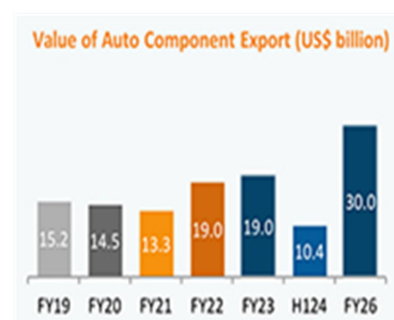
The demand and supply of automobiles has significant impact on the auto component industry. India is emerging as a global hub for auto components making the industry the third largest in the world. According to an industry report, the auto components industry shares 2.3% of India's GDP pie and this share is projected to increase to 5-7% by 2026 and exports of auto components grew by 2.7% to USD 10.4 billion (Rs. 85,870 crore) in H1 2023-2024. According to Automobile Components Manufacturers Association (ACMA), auto components exports from India are anticipated to reach USD 30 billion by 2026. The Indian auto component industry attained a remarkable turnover of Rs. 5.6 trillion (USD 69.7 billion) in FY23, marking a robust growth of 32.8% compared to the previous fiscal year. With the supply chain difficulties minimizing, the future of Indian auto component industry looks promising.



Source: IBEF



Source: IBEF



Source: IBEF

The policies introduced by the government for auto component industry are PLI-AUTO Scheme, National Electric Mobility Mission Plan (NEMMP), National Automotive Testing and R&D Infrastructure Project (NATRIP). In the interim budget of 2024-25, GOI increased the budget outlay for automakers and auto components players to Rs. 3500 crore under the PLI scheme. To effectively implement its vision regarding electric vehicles, the government also announced that custom duty will be exempted from the capital goods and machines which are used for manufacturing of lithium-ion cells for batteries used in electric vehicles.

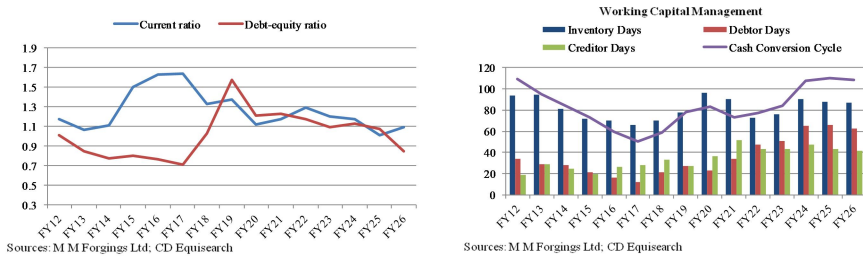
Financials & Valuation

After establishing a name for itself in the forging market for fifty years, MMFL is now aiming to expand its vision and become a component supplier from forging manufacturer. Machining is one segment which the Company looks forward to grow in the years to come. Currently, 57% of sales that the Company makes come from machining. The sale from machining is mostly done in the domestic market where the price is lower than the exports market. Hence, not major improvement was seen in the margins in FY24. The OPM was 18.9% in FY24; operating profit grew by 11.6% to Rs 288.4 crs as on FY24 as against Rs 258.46 crs a year before.

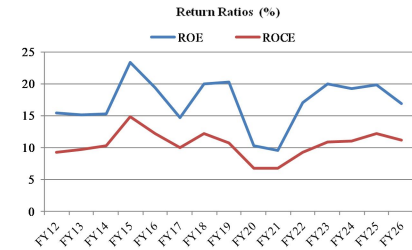


The Company plans to increase its production from 84,800MT in FY24 to nearly 92,500MT in FY25. The sales volume grew by 7% to 77,000MT in FY24 from 72,000 MT in FY23. Average realization per ton was Rs 1.96 lakhs in FY24. MMFL has planned to make investments worth Rs 425 crs in the current fiscal and next. The investments will be funded by both internal accruals and borrowings. Capacity expansion will be done in the segments where demand from customers is more than what company can supply.

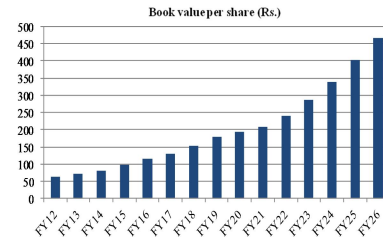
Capex of Rs 222 crs was done in FY24 compared to Rs 157 crs in FY23 (cash flow basis). Capex was mostly done towards machining and debottlenecking of the forgings operations. The Rs 75 crs of capex in Abhinava Rizel will be made to attract orders from the PV segment. The Suvarchas Vidyut unit of the Company, which manufactures electronic components, has shown poor performance of late in terms of sales. Apart from making alternators, few other products will be launched soon in the unit which might prove game changing.



Though the forging industry is expecting to see an overall decline in the export market, the Company is optimistic to see a growth of around 10% as it has secured few orders. Major contributor to the growth in domestic market will be CV segment, which will be witnessed in the second half of the current fiscal. The reason behind MMFL being an outperformer in the domestic market is that it has successfully met the growing demand of front axle beams, knuckles and crankschafts.

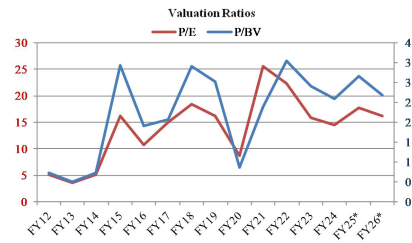


Sources: M M Forgings Ltd, CD Equisearch

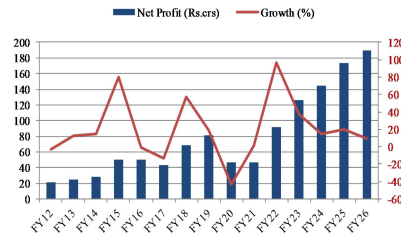


Sources: M M Forgings Ltd, CD Equisearch

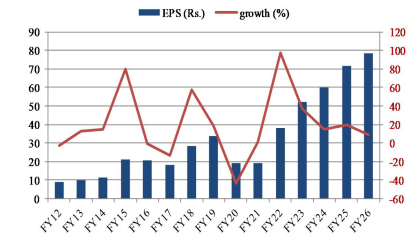
With the increase in capacity, new product launches and growth in the EV segment, a discernible pick up in sales is expected in the coming fiscal. The stock is currently trading at 17.7x FY25e EPS of Rs 71.81 and 16.2x FY26e EPS of Rs 78.35. With marginal rise in OPM, earning is expected to grow by 20% this fiscal. Business scaling would doubtlessly rely on MMF’s ability to increase export orders. ROE would all but stabilize around 19-20% in the ensuing period. Balancing odds, we assign ‘accumulate’ rating on the stock with revised target of Rs 1410 (previous target of Rs 1162) based on 18x FY26e earnings. For more information, refer to our April 2023 report.



Sources: M M Forgings Ltd, CD Equisearch, *forward multiple



Sources: M M Forgings Ltd, CD Equisearch



Sources: M M Forgings Ltd, CD Equisearch

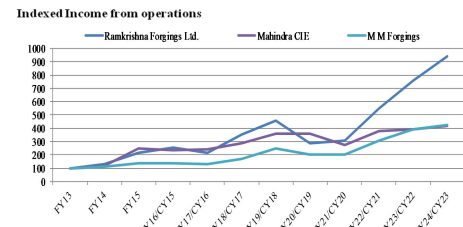
Cross Sectional Analysis

Company	Equity*	CMP	MCAP*	Sales*	Profit*	OPM (%)	NPM (%)	Int Cov	ROE (%)	Mcap/Sales	P/BV	P/E
M M Forgings	24	1271	3068	1527	145	18.9	9.5	5.7	19.2	2.0	3.8	21.1
Ramkrishna Forgings	36	984	17795	3955	341	21.2	8.6	4.0	17.5	4.5	6.9	52.2
CIE Automotive	379	612	23223	9267	808	15.2	8.8	11.3	28.7	2.5	7.4	28.7

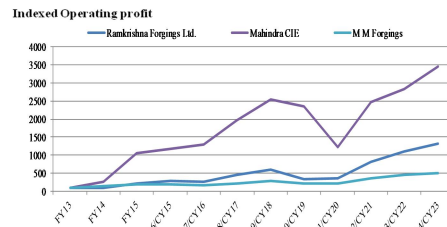
*figures in crores; calculations on ttm basis; based on consolidated data.

The consolidated revenue of Ramkrishna Forgings stood at Rs. 3954.88 crores in FY24, showcasing a 23.9% growth year-on-year. Operating profit grew over 21% to Rs. 840 crores (yoy) in FY24 from Rs. 692.32 crores in FY23. With overall capacity utilization at 91% in Q4FY24, the Company made export sales of Rs 400 crores in Q4FY24. During the March quarter the Company received an order of Rs 270 crores for Vande Bharat train set and a significant order of USD 220 million to supply light vehicle segment across North America. The Company will also be investing Rs 90 crores in setting up a forgings manufacturing plant to manufacture end yokes and tube yokes in Mexico.

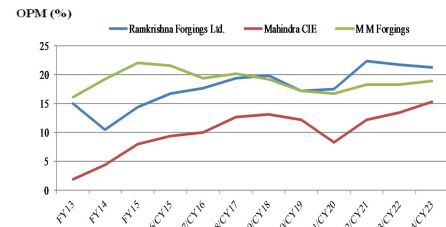
Due to subdued demand, the consolidated sales of CIE Automotive India ltd. grew only by 6% to Rs 9280.35 crores in CY23. Accounting for nearly 60% of the overall mix, the sales in India grew by 5% y-o-y in CY23, while the sales in Europe grew by 10% y-o-y in CY23. The Company sold its subsidiary CI Forgings Germany in CY23 and all the related assets and liabilities has been classified as discontinued operations. With the transition to EVs the Company is optimistic of securing more opportunities. Although the year witnessed uneven sales growth across geographies and market segments, CIE was able to achieve a positive bottom line with the growth in operating profit at 21.50% in CY23.



Sources: Companies, ACE Equity, FY13=100



Sources: Companies, ACE Equity, FY13=100



Sources: Companies, ACE Equity

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					
	Q4FY24	Q4FY23	% chg	FY24	FY23	% chg
Income From Operations	388.58	373.33	4.1	1527.08	1412.78	8.1
Other Income	7.19	5.33	34.9	26.09	16.40	59.1
Total Income	395.77	378.66	4.5	1553.17	1429.18	8.7
Total Expenditure	313.32	309.32	1.3	1238.69	1154.32	7.3
EBITDA (other income included)	82.45	69.34	18.9	314.48	274.86	14.4
Interest	13.27	7.25	83.0	42.56	29.57	44.0
Depreciation	17.55	17.74	-1.1	72.49	69.35	4.5
PBT	51.63	44.34	16.4	199.43	175.94	13.3
Tax	13.60	16.01	-15.1	53.96	49.55	8.9
PAT	38.04	28.33	34.3	145.46	126.40	15.1
Extraordinary Item	-	-	-	0.52	0.19	178.6
Adjusted Net Profit	38.04	28.33	34.3	144.94	126.21	14.8
EPS (Rs)	15.76	11.74	34.3	60.04	52.28	14.8

Income Statement

	Figures in Rs crs				
	FY22	FY23	FY24	FY25e	FY26e
Income From Operations	1104.64	1412.78	1527.08	1756.35	1929.99
Growth (%)	52.2	27.9	8.1	15.0	9.9
Other Income	18.57	16.40	26.09	24.15	23.85
Total Income	1123.22	1429.18	1553.17	1780.50	1953.83
Total Expenditure	902.91	1154.32	1238.69	1405.08	1543.99
EBITDA (other income included)	220.31	274.86	314.48	375.42	409.85
Interest	27.31	29.57	42.56	59.17	60.42
Depreciation	60.11	69.35	72.49	80.39	92.08
PBT	132.90	175.94	199.43	235.86	257.34
Tax	41.14	49.55	53.96	62.50	68.20
PAT	91.76	126.40	145.46	173.35	189.15
Extraordinary Item	-	0.19	0.52	-	-
Adjusted Net Profit	91.76	126.21	144.94	173.35	189.15
EPS (Rs)	38.01	52.28	60.04	71.81	78.35

Balance Sheet

Figures in Rs crs

	FY22	FY23	FY24	FY25e	FY26e
Sources of Funds					
Share Capital	24.14	24.14	24.14	24.14	24.14
Reserves & Surplus	553.50	666.04	792.19	946.23	1116.06
Total Shareholders' Funds	577.64	690.18	816.33	970.37	1140.20
Long Term Debt	346.19	331.53	387.02	427.02	347.02
Total Liabilities	923.83	1021.71	1203.35	1397.39	1487.23
Application of Funds					
Gross Block	1263.84	1430.08	1600.35	1912.42	2087.42
Less: Accumulated Depreciation	614.01	711.47	782.82	863.21	955.29
Net Block	649.83	718.61	817.53	1049.22	1132.14
Capital Work in Progress	36.35	61.11	112.07	125.00	50.00
Investments	32.88	40.72	41.27	41.27	41.27
Current Assets, Loans & Advances					
Inventory	192.75	289.29	322.48	351.27	386.00
Trade Receivables	166.41	228.88	316.34	316.14	347.40
Cash and Bank	224.55	205.29	209.24	161.49	192.07
Other current assets	30.91	13.00	20.40	23.42	25.16
Total CA & LA	614.62	736.47	868.46	852.33	950.62
Current Liabilities	449.18	584.99	702.18	804.57	826.42
Provisions-Short term	24.48	28.32	38.31	38.06	39.77
Total Current Liabilities	473.66	613.30	740.50	842.63	866.19
Net Current Assets	140.96	123.16	127.97	9.70	84.43
Net Deferred Tax	-35.17	-34.63	-40.13	-49.72	-54.27
Net long term assets	98.97	112.73	144.64	221.93	233.67
Total Assets	923.83	1021.71	1203.35	1397.39	1487.23

Key Financial Ratios

	FY22	FY23	FY24	FY25e	FY26e
Growth Ratios (%)					
Revenue	52.2	27.9	8.1	15.0	9.9
EBITDA	54.2	24.6	14.3	19.6	9.2
Net Profit	96.9	37.5	14.8	19.6	9.1
EPS	96.9	37.5	14.8	19.6	9.1
Margins (%)					
Operating Profit Margin	18.3	18.3	18.9	20.0	20.0
Gross Profit Margin	17.5	17.3	17.8	18.0	18.1
Net Profit Margin	8.3	8.9	9.5	9.9	9.8
Return (%)					
ROCE	9.3	10.9	11.0	11.5	11.3
ROE	17.0	19.9	19.2	19.4	17.9
Valuations					
Market Cap/ Sales	1.8	1.4	1.4	1.7	1.6
EV/EBITDA	11.3	9.3	9.0	10.1	9.2
P/E	22.3	15.9	14.6	17.7	16.2
P/BV	3.5	2.9	2.6	3.2	2.7
Other Ratios					
Interest Coverage	5.9	6.9	5.7	5.0	5.3
Debt Equity	1.2	1.1	1.1	1.1	0.8
Current Ratio	1.3	1.2	1.2	1.0	1.1
Turnover Ratios					
Fixed Asset Turnover	1.7	2.1	2.0	1.9	1.8
Total Asset Turnover	1.3	1.5	1.4	1.4	1.3
Debtors Turnover	7.7	7.1	5.6	5.6	5.8
Inventory Turnover	5.0	4.8	4.0	4.2	4.2
Creditor Turnover	8.5	8.4	7.7	8.4	8.8
WC Ratios					
Debtor Days	47.6	51.1	65.2	65.7	62.7
Inventory Days	73.0	76.2	90.1	87.5	87.1
Creditor Days	43.0	43.4	47.7	43.5	41.6
Cash Conversion Cycle	77.7	83.8	107.6	109.7	108.3

Cumulative Financial Data

Rs crs	FY18-20	FY21-23	FY24-26e
Income from operations	2252	3243	5213
Operating profit	423	581	1026
EBIT	320	452	854
PBT	248	364	692
PAT	196	265	507
Dividends	42	44	58
Sales growth (%)	-	44.0	60.8
PAT growth (%)	-	35.0	91.8
OPM (%)	18.8	17.9	19.7
GPM (%)	17.7	17.0	18.0
NPM (%)	8.7	8.2	9.7
Interest coverage	4.5	5.1	5.3
ROE (%)	16.7	15.2	18.5
ROCE (%)	10.7	8.9	11.8
Debt-Equity ratio*	1.2	1.1	0.8
Fixed asset turnover	1.5	1.6	1.9
Total asset turnover	1.2	1.2	1.4
Debtors turnover	50.5	9.0	6.0
Creditors turnover	12.1	7.7	8.2
Inventory turnover	6.2	4.2	4.1
Debtor days	7.2	40.7	60.5
Creditor days	30.1	47.7	44.5
Inventory days	58.9	86.4	88.3
Cash conversion cycle	36.0	79.5	104.3
Dividend payout ratio (%)	21.6	16.4	11.4

FY 18-20 implies three year period ending fiscal 20; *as on terminal year

Positive outlook on the EV segment and surge in overseas demand speaks for the 60.8% growth in the cumulative income from operations during FY24-26e when compared to that in the preceding three year period. MMFL expects the sales volume to rise by nearly 10% in FY25. This surge in income from operations will lead to a rise in cumulative PAT from Rs 265 crores in FY21-23 to over Rs 500 crs in FY24-26e. With the current share of 57% in sales, MMFL's machining business could see increased momentum. To meet the rising demand, the Company is focused in this segment and is confident of machining division to contribute to nearly 75% of sales in the next few years.

The Company is planning to do cost optimization by reducing operational cost, whereas it foresees the interest cost to rise. The price of power cost will rise as Tamil Nadu government has decided to increase power cost/unit by 5% every year. All things considered, operating profit margin would still show resilience as it is estimated at 19.7% during FY24-26 period from 17.9% in FY21-23. Cumulative post tax earning is expected to nearly double in the projected period. Supported by the rise in earnings, ROE will barely diminish – 18.5% in FY24-26 period from 15.2% in the preceding three year period.

Financial Summary- US Dollar denominated

million \$	FY22	FY23	FY24	FY25e	FY26e
Equity capital	3.2	2.9	2.9	2.9	2.9
Shareholders funds	76.2	83.9	97.9	116.2	136.6
Total debt	89.7	91.9	111.0	125.4	115.8
Net fixed assets (including CWIP)	90.5	94.8	111.5	140.6	141.6
Investments	4.3	5.0	5.0	4.9	4.9
Net current assets	18.6	15.0	15.3	1.2	10.1
Total assets	121.9	124.3	144.3	167.4	178.1
Revenues	148.3	175.7	184.4	210.3	231.3
EBITDA	29.6	34.2	37.9	45.0	49.1
EBDT	25.9	30.5	32.8	37.9	41.8
PBT	17.8	21.9	24.0	28.2	30.8
PAT	12.3	15.7	17.5	20.8	22.7
EPS(\$)	0.51	0.65	0.73	0.86	0.94
Book value (\$)	3.16	3.48	4.06	4.81	5.66

Income statement figures translated at average rates; balance sheet at year end rates; projections at current rates (Rs 83.50/\$). All dollar denominated figures are adjusted for extraordinary items.

Disclosure & Disclaimer

CD Equisearch Private Limited (hereinafter referred to as 'CD Equi') is a Member registered with National Stock Exchange of India Limited, Bombay Stock Exchange Limited and Metropolitan Stock Exchange of India Limited (Formerly known as MCX Stock Exchange Limited). CD Equi is also registered as Depository Participant with CDSL and AMFI registered Mutual Fund Advisor. The associates of CD Equi are engaged in activities relating to NBFC-ND - Financing and Investment, Commodity Broking, Real Estate, etc.

CD Equi is registered under SEBI (Research Analysts) Regulations, 2014 with SEBI Registration no INH300002274. Further, CD Equi hereby declares that –

- No disciplinary action has been taken against CD Equi by any of the regulatory authorities.
- CD Equi/its associates/research analysts do not have any financial interest/beneficial interest of more than one percent/material conflict of interest in the subject company(s) (*kindly disclose if otherwise*).
- CD Equi/its associates/research analysts have not received any compensation from the subject company(s) during the past twelve months.
- CD Equi/its research analysts has not served as an officer, director or employee of company covered by analysts and has not been engaged in market making activity of the company covered by analysts.

This document is solely for the personal information of the recipient and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved) and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. CD Equi or any of its affiliates/group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. CD Equi has not independently verified all the information contained within this document. Accordingly, we cannot testify nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document.

While, CD Equi endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory compliance or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly. Neither, CD Equi nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

CD Equisearch Private Limited (CIN: U67120WB1995PTC071521)

Registered Office: 37, Shakespeare Sarani, 3rd Floor, Kolkata – 700 017; Phone: +91(33) 4488 0000; Fax: +91(33) 2289 2557 Corporate Office: 10, Vasawani Mansion, 5th Floor, DinshawWachha Road, Churchgate, Mumbai – 400 020. Phone: +91(22) 2283 0652/0653; Fax: +91(22) 2283, 2276 Website: www.cdequi.com; Email: research@cdequi.com

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

Exchange Rates Used- Indicative

Rs/\$	FY20	FY21	FY22	FY23	FY24
Average	70.88	74.20	74.51	80.39	82.79
Year end	75.39	73.50	75.81	82.22	83.37

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.