

Strong growth on the anvil; CV cyclical recovery play...

About the stock: MM Forging (MMF) is a prominent forging player serving India, Europe and US markets (FY21 geographical mix – domestic 50%, exports 50%).

- FY21 segment mix – CV 75%, PV 18%, Others 7%
- 1.2 lakh MT per annum production capacity; FY21 utilisation at ~40%

Q1FY22 Results: MMF posted decent Q1FY22 results.

- Standalone revenue decline was limited to 16.2% QoQ at ₹ 239 crore vs. >50% M&HCV volume decline domestically; largely aided by exports
- EBITDA margins were down ~170 bps QoQ to 18.1%, tracking negative operating leverage; gross margins rose ~100 bps sequentially
- Consequent PAT declined ~21% sequentially to ₹ 24 crore

What should investors do? The company's stock price has grown at ~27% CAGR from ~₹ 215 levels in August 2016, thereby vastly outperforming Nifty Auto Index

- We retain **BUY** rating on strong growth prospects & valuation comfort

Target Price and Valuation: We value MMF at 16x PE on FY23E basis for a revised target price of ₹ 925 per share (earlier target price ₹ 790)

Key triggers for future price performance:

- Healthy outlook across served markets; would benefit from impending India CV revival as well as pick-up in US Class 8 truck ordering. Underlying market growth, new product introduction to lead to 31.1% FY21-23E sales CAGR
- We expect sales volume to grow at 27.5% CAGR in FY21-23E to ~78,000 tonne in FY23E vs. ~48,000 tonne clocked in FY21
- Operating leverage gains, better mix to push margins to 20% (FY23E)
- FY23E RoCE at ~15% on margin improvement, sweating of assets
- Trades at inexpensive valuation of ~12x PE, ~8x EV/EBITDA on FY23E

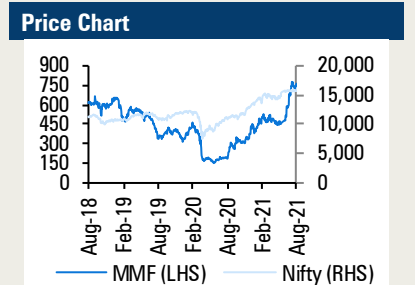
Alternate Stock Idea: Besides MMF, in ancillary coverage, we like Apollo Tyres.

- India CV revival beneficiary focused on debt reduction, higher return ratios.
- BUY with target price of ₹ 275



Particulars	
Particular	₹ crore
Market Capitalization	1,706.8
Total Debt (FY21)	615.3
Cash & Investments (FY21)	187.2
EV (FY21)	2,134.9
Equity capital	24.1
52 week H/L (₹)	807 / 256
Face value	₹ 10

Shareholding pattern				
	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	56.3	56.3	56.3	56.3
FII	0.0	0.4	0.9	0.1
DII	21.9	21.2	21.1	21.8
Other	21.8	22.0	21.7	21.8



- Recent event & key risks**
- Posted decent Q1FY22 results.
 - **Key Risk:** (i) Slower than expected recovery in key markets, (ii) Slower than expected uptick in margins

Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Jaimin Desai
jaimin.desai@icicisecurities.com

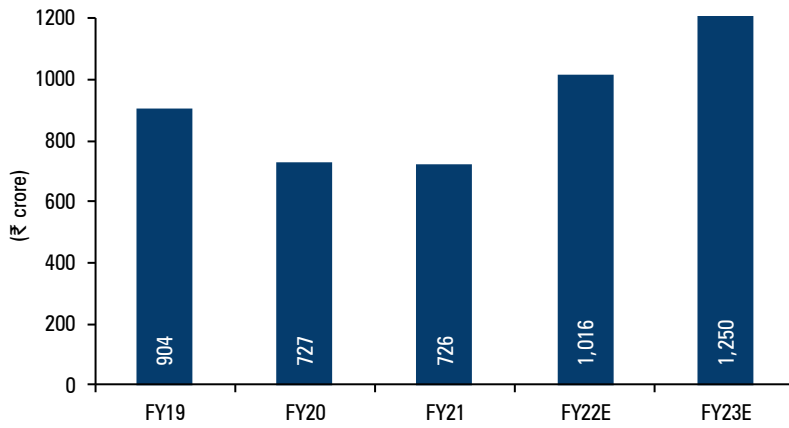
Key Financial Summary

Key Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Sales	903.9	727.3	725.6	7.6%	1,016.0	1,249.6	31.1%
EBITDA	173.2	125.2	121.3	2.3%	182.9	249.9	41.3%
EBITDA Margins (%)	19.2	17.2	16.7		18.0	20.0	
Net Profit	81.3	46.2	46.6	-1.4%	89.1	139.5	73.8%
EPS (₹)	33.7	19.1	19.3		36.9	57.8	
P/E	21.0	36.9	36.6		19.2	12.2	
RoNW (%)	18.6	9.9	9.3		15.6	20.3	
RoCE (%)	10.2	6.7	5.6		10.4	15.0	

Source: Company, ICICI Direct Research

Financial story in charts

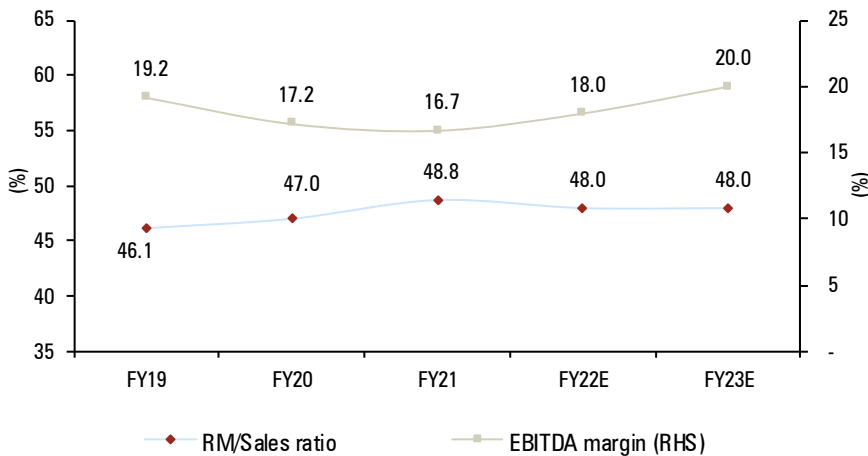
Exhibit 1: Trend in topline



MMF is seen posting 31.1% revenue CAGR over FY21-23E

Source: Company, ICICI Direct Research

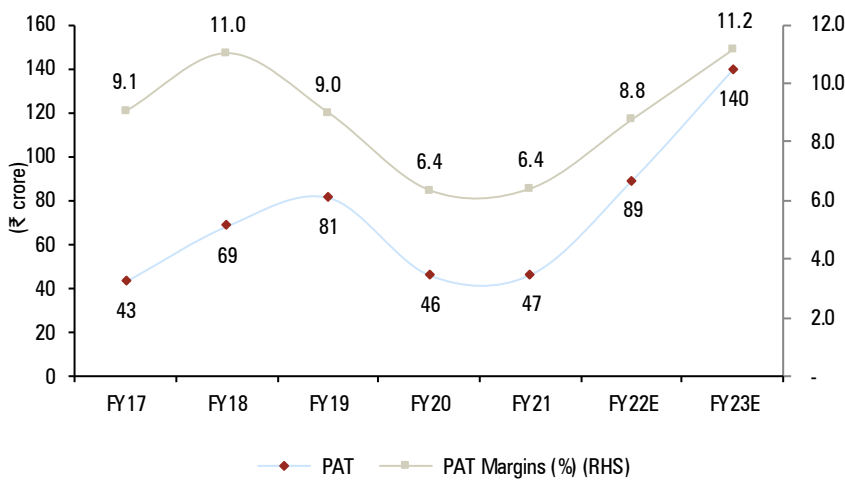
Exhibit 2: Trend in gross and EBITDA margins



Margins are seen rising to 20% by FY23E on operating leverage benefits and higher contribution from heavier press lines

Source: Company, ICICI Direct Research

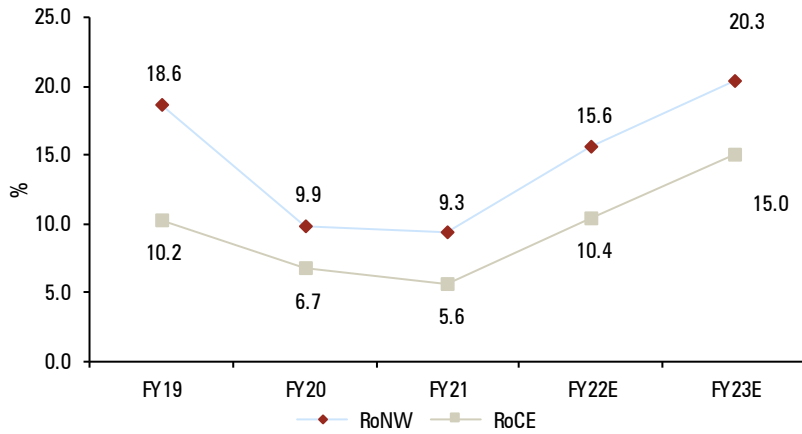
Exhibit 3: Trend in profitability



PAT is expected to grow to ₹ 140 crore in FY23E

Source: Company, ICICI Direct Research

Exhibit 4: Trend in return ratios



RoCE is expected to touch 15% by FY23E, with RoE at 20% amid margin improvement and lower interest outgo

Source: Company, ICICI Direct Research

Exhibit 5: Valuation Summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	904	45.6	33.7	-	21.0	12.8	18.6	10.2
FY20	727	-19.5	19.1	(43.2)	36.9	16.8	9.9	6.7
FY21	726	(0.2)	19.3	0.8	36.6	17.6	9.3	5.6
FY22E	1,016	40.0	36.9	91.3	19.2	11.7	15.6	10.4
FY23E	1,250	23.0	57.8	56.6	12.2	8.3	20.3	15.0

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	727.3	725.6	1,016.0	1,249.6
Growth (%)	-19.5	-0.2	40.0	23.0
Raw Material Expenses	334.0	347.0	487.7	599.8
Employee Expenses	82.7	76.5	101.6	112.5
Other Expenses	185.4	180.9	243.8	287.4
Total Operating Expenditure	602.1	604.4	833.1	999.7
EBITDA	125.2	121.3	182.9	249.9
Growth (%)	-27.7	-3.1	50.8	36.7
Depreciation	53.2	56.7	61.3	64.1
Interest	33.0	31.2	28.3	25.8
Other Income	18.5	21.6	15.4	14.4
PBT	57.4	54.9	108.7	174.4
Total Tax	11.2	8.3	19.6	34.9
Reported PAT	46.2	46.6	89.1	139.5
Growth (%)	-43.2	0.8	91.3	56.6
EPS (₹)	19.1	19.3	36.9	57.8

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	45.7	46.6	89.1	139.5
Add: Depreciation & Interest	86.3	88.0	89.6	89.9
(Inc)/dec in Current Assets	114.3	-137.3	-127.0	-113.2
Inc/(dec) in CL and Provisions	17.0	41.1	47.6	37.0
CF from operating activities	263.8	38.3	99.3	153.3
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-87.3	-30.1	-50.0	-50.0
Others	-4.7	1.2	0.0	0.0
CF from investing activities	(92.0)	(28.9)	(50.0)	(50.0)
Inc/(dec) in loan funds	-121.2	46.5	-50.0	-50.0
Dividend paid & dividend tax	-14.5	-12.1	-18.1	-24.1
Interest Expense	-33.0	-31.2	-28.3	-25.8
CF from financing activities	(168.7)	3.3	(96.4)	(99.9)
Net Cash flow	3.1	12.7	-47.0	3.3
Opening Cash	171.4	174.5	187.2	140.2
Closing Cash	174.5	187.2	140.2	143.5

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	24.1	24.1	24.1	24.1
Reserve and Surplus	444.2	476.3	547.3	662.7
Total Shareholders funds	468.4	500.4	571.4	686.8
Total Debt	566.3	615.3	565.3	515.3
Deferred Tax Liability	29.8	30.9	30.9	30.9
Minority Interest / Others	2.9	3.0	3.0	3.0
Total Liabilities	1,067.4	1,149.7	1,170.7	1,236.1
Assets				
Gross Block	1,150.5	1,171.8	1,226.8	1,281.8
Less: Acc Depreciation	497.6	554.3	615.7	679.8
Net Block	652.9	617.5	611.1	602.1
Capital WIP	8.7	17.5	12.5	7.5
Total Fixed Assets	661.6	635.0	623.6	609.6
Investments	0.2	0.2	4.3	4.9
Inventory	130.7	168.6	236.6	291.0
Debtors	12.5	121.7	139.2	171.2
Loans and Advances	23.6	28.6	40.0	49.2
Cash	174.5	187.2	140.2	143.5
Other current assets	0.0	0.1	0.1	0.6
Total Current Assets	341.4	506.2	556.1	655.6
Creditors	71.7	98.0	139.2	171.2
Provisions	0.0	14.6	20.7	25.4
Other current liabilities	41.2	0.4	0.4	0.5
Total Current Liabilities	112.9	112.9	160.2	197.1
Net Current Assets	228.5	393.3	395.8	458.5
Others	16.6	60.0	106.8	131.9
Application of Funds	1,067.5	1,149.7	1,170.7	1,236.1

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	19.1	19.3	36.9	57.8
Cash EPS	41.2	42.8	62.3	84.4
BV	194.0	207.3	236.7	284.5
DPS	5.0	5.0	7.5	10.0
Cash Per Share	72.3	77.6	58.1	59.5
Operating Ratios (%)				
EBITDA Margin	17.2	16.7	18.0	20.0
PBT / Net sales	9.9	8.9	12.0	14.9
PAT Margin	6.4	6.4	8.8	11.2
Inventory days	65.6	84.8	85.0	85.0
Debtor days	6.3	61.2	50.0	50.0
Creditor days	36.0	49.3	50.0	50.0
Return Ratios (%)				
RoE	9.9	9.3	15.6	20.3
RoCE	6.7	5.6	10.4	15.0
RoIC	8.1	6.8	11.9	17.1
Valuation Ratios (x)				
P/E	36.9	36.6	19.2	12.2
EV / EBITDA	16.8	17.6	11.7	8.3
EV / Net Sales	2.9	2.9	2.1	1.7
Market Cap / Sales	2.3	2.4	1.7	1.4
Price to Book Value	3.6	3.4	3.0	2.5
Solvency Ratios				
Debt/EBITDA	4.5	5.1	3.1	2.1
Debt / Equity	1.2	1.2	1.0	0.8
Current Ratio	2.3	2.8	2.6	2.6
Quick Ratio	0.5	1.3	1.1	1.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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