

CMP: ₹ 890

Target: ₹ 1250 (40%)

Target Period: 12 months

June 7, 2022

BUY

Management shares robust growth outlook for FY23E...

About the stock: MM Forgings (MMF) is a prominent forging player serving India, Europe and US markets (FY22 geographical mix – domestic ~46%, exports ~54%).

- FY22 segment mix – CV 85%, PV 10%, Others 5%
- FY22 capacity utilisation at ~61%, capacity to surpass 1.2 lakh tonne in FY23

Q4FY22 Results: MMF reported healthy Q4FY22 results.

- Standalone revenue was at ₹ 313.6 crore up 10% QoQ
- EBITDA margins were at 17.8%, down 160 bps QoQ, amid ~85 bps QoQ gross margin decline as well as higher overhead costs
- Consequent PAT de-grew ~6% sequentially to ₹ 29.2 crore
- Guides for 80,000-90,000 tonnage in FY23E vs. ~62,000 tonnage in FY22

What should investors do? The company's stock price has grown at ~24% CAGR from ~₹ 305 levels in June 2017, thereby vastly outperforming Nifty Auto Index.

- We retain **BUY** rating on the stock amid supportive macroeconomics, increasing share of machining in product profile & inexpensive valuations

Target Price and Valuation: Introducing FY24E, we now value MMF at 14x PE on FY24E basis for a revised target price of ₹ 1250 per share (earlier target price ₹ 1125).

Key triggers for future price performance:

- Healthy demand outlook across served markets. Likely beneficiary of cyclical upswing in the domestic CV space as well as US Class-8 trucks. With introduction of new products as well as increasing share of machining in product profile, sales are seen growing at a CAGR of 28.3% over FY22-24E
- We expect sales volume to grow at a CAGR of 27% over FY22-24E to ~98,000 tonne in FY24E vs. ~62,000-63,000 tonne clocked in FY22
- Operating leverage gains to push margins to 20% by FY24E with consequent RoE seen at healthy ~24% in that timeframe
- Trades at inexpensive valuation of <10x P/E, <7.5x EV/EBITDA on FY24E

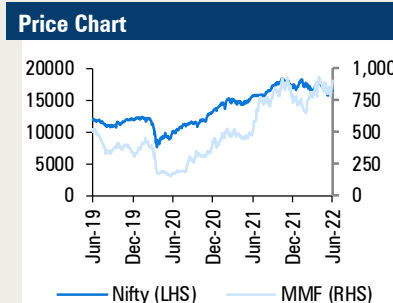
Alternate Stock Idea: Besides MMF, in ancillary coverage, we like Apollo Tyres.

- India CV revival beneficiary focused on debt reduction, higher return ratios
- BUY with target price of ₹ 250



Particulars	₹ crore
Market Capitalization	2,148.5
Total Debt (FY22P)	675.5
Cash & Investments (FY22P)	224.6
EV	2,599.4
Equity capital	24.1
52 week H/L (₹)	989 / 494
Face value	₹ 10

Shareholding pattern	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	56.3	56.3	56.3	56.3
FII	0.1	0.5	0.8	0.8
DII	21.8	21.1	21.2	19.6
Other	21.8	22.0	21.7	23.3



- Recent event & key risks**
- Posted healthy Q4FY22 results.
 - **Key Risk:** (i) Slower than expected recovery in CV space, (ii) Continued commodity led gross margin pressure

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Key Financial Summary

Key Financials	FY20	FY21	FY22P	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	727.3	725.6	1,106.7	18.3%	1,584.7	1,822.4	28.3%
EBITDA	125.2	121.3	203.8	17.0%	301.1	364.5	33.7%
EBITDA Margins (%)	17.2	16.7	18.4		19.0	20.0	
Net Profit	46.2	46.6	111.8	20.8%	164.5	216.0	39.0%
EPS (₹)	19.1	19.3	46.3		68.2	89.5	
P/E	46.5	46.1	19.2		13.1	9.9	
RoNW (%)	9.9	9.3	19.4		22.8	23.6	
RoCE (%)	6.7	5.6	11.1		14.6	16.7	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights...

Key takeaways of Quarter

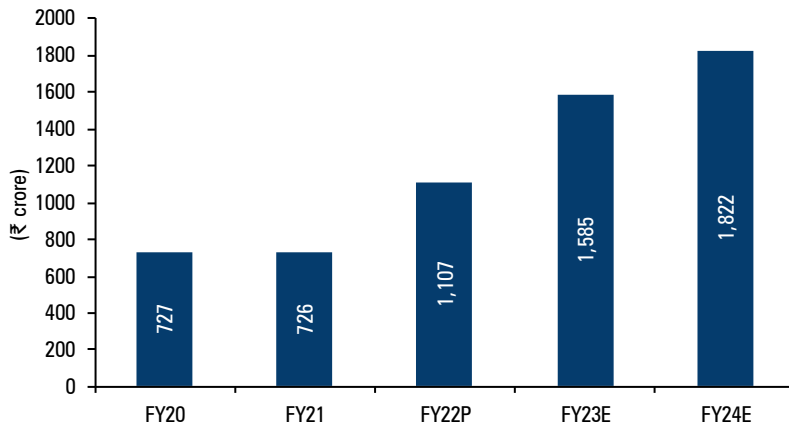
- The company posted a healthy operational performance with topline coming in at ₹ 313.6 crore up 10% QoQ.
- For FY22 total topline was ₹1088 crore, up 53% YoY
- Total sales tonnage for Q4FY22 was at ~17,000 tonne while for FY22 it was at ~62,000-63,000 tonne. EBITDA/tonne for Q4FY22 was at ~₹ 33,250 per tonne while the same for the full year was at ~₹ 33,400 per tonne. EBITDA margins for Q4FY22 was at 17.8%, down 160 bps QoQ; for FY22 margins were at 18.4%, up 170 bps QoQ

Key highlights of conference call

- Production during FY22 was ~61,000 tonne while sales were at ~62,000-63,000 tonne. Total production capacity was ~1 lakh tonnes. Consequent capacity utilisation for FY22 was at ~61%
- Machining components share increased to 51% in FY22 vs. ~43% in FY21 leading to better margins with focus to reach to 60-65% in coming years
- The company guided for production target of 80,000-90,000 tons for FY23, up ~35% YoY based on new order inflows consequent with topline target in range of ₹ 1400-1600 crore
- Geographical mix: India- 46%; Asia, Europe, US- 20%; South America: 34%
- New orders for US Class 8 trucks remained muted riding on huge order backlog and waiting period of >10 months vs. normal waiting time of two months
- The management expects demand to be healthy across the PV and CV space with particular focus on the CV space as it is expected to grow in double digits in FY23 whereas the PV space is expected to continue to be impacted by semiconductor shortage for two to three quarters
- Term debt as on FY22 was at ~₹ 430 crore vs. ~₹ 373 crore in FY21. Net term debt as on FY22 was at ~₹ 240 crore and is likely to increase by ~₹ 100 crore given the capex guidance
- Capex guidance for FY23 was ~₹ 300 crore. It includes ~₹ 200 crore for increasing the machining capacity and ~₹ 100 crore for de-bottlenecking, which will further augment capacities from 1.2 lakh tonne to 1.3-1.35 lakh tonne
- Higher tonnage press of ~6,300 tonne to be operationalised by June 2022
- Top five customers is a mix of OEMS & Tier 1 suppliers and contribute ~50% of sales
- Out of incremental production target of 30,000 tonnes, roughly 15,000-20,000 would be for newly developed products while the rest would be ramp up of demand from existing components
- The company remains optimistic on margin improvement, going forward, amid normalisation of input prices as well as better product mix. EBITDA per tonne is expected to improve to ₹ 35,000/tonne and beyond, going forward, vs. ~₹ 33,400/tonne clocked in Q4FY22

Financial story in charts

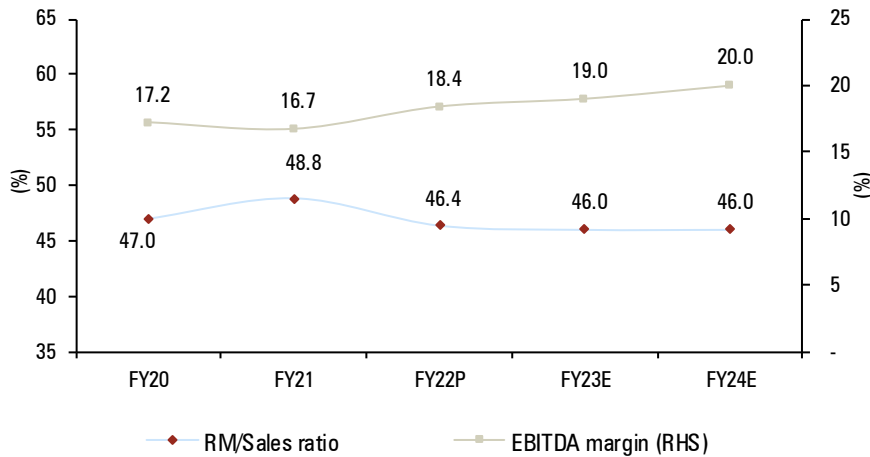
Exhibit 1: Trend in topline



MMF is seen posting 28.3% revenue CAGR over FY22-24E to ₹ 1822 crore in FY24E

Source: Company, ICICI Direct Research

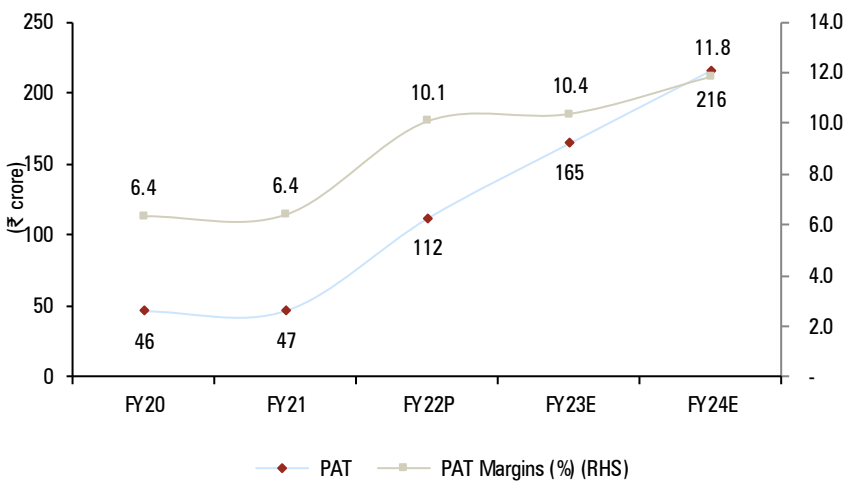
Exhibit 2: Trend in gross and EBITDA margins



Margins are seen rising to 20% by FY24E on operating leverage benefits and higher contribution from machined products

Source: Company, ICICI Direct Research

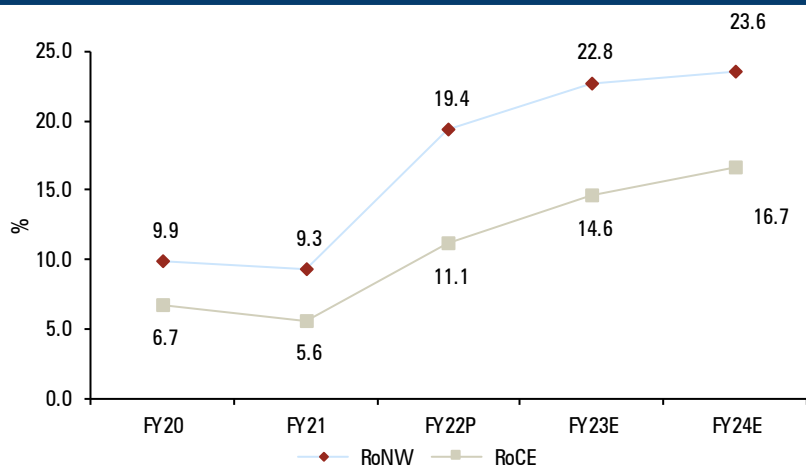
Exhibit 3: Trend in profitability



PAT is expected to grow to ₹ 216 crore in FY24E with PAT margin inching to ~12% by FY24E

Source: Company, ICICI Direct Research

Exhibit 4: Trend in return ratios



RoCE is expected to improve to 17% by FY24E, with RoE seen at 24% in the same period amid margin improvement and increased sales turnover

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	-	26.4	15.4	18.6	10.2
FY20	727	-19.5	19.1	(43.2)	46.5	20.3	9.9	6.7
FY21	726	(0.2)	19.3	0.8	46.1	21.2	9.3	5.6
FY22P	1,107	52.5	46.3	139.9	19.2	12.8	19.4	11.1
FY23E	1,585	43.2	68.2	47.2	13.1	9.3	22.8	14.6
FY24E	1,822	15.0	89.5	31.2	9.9	7.4	23.6	16.7

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
Total operating Income	725.6	1,106.7	1,584.7	1,822.4
Growth (%)	-0.2	52.5	43.2	15.0
Raw Material Expenses	347.0	504.5	729.0	838.3
Employee Expenses	76.5	112.7	134.7	150.4
Other Expenses	180.9	285.7	420.0	469.3
Total Operating Expenditure	604.4	902.9	1,283.6	1,458.0
EBITDA	121.3	203.8	301.1	364.5
Growth (%)	-3.1	68.0	47.8	21.1
Depreciation	56.7	60.1	69.8	75.9
Interest	31.2	27.3	41.3	38.8
Other Income	21.6	16.6	15.6	20.1
PBT	54.9	132.9	205.7	269.9
Total Tax	8.3	21.1	41.1	54.0
Reported PAT	46.6	111.8	164.5	216.0
Growth (%)	0.8	139.9	47.2	31.2
EPS (₹)	19.3	46.3	68.2	89.5

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
Profit after Tax	46.6	111.8	164.5	216.0
Add: Depreciation & Interest	88.0	87.4	111.1	114.6
(Inc)/dec in Current Assets	-137.3	-59.5	-185.4	-100.9
Inc/(dec) in CL and Provisions	41.1	34.4	69.5	32.6
CF from operating activities	38.3	174.1	159.7	262.3
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-30.1	-111.3	-300.0	-100.0
Others	1.2	-23.6	0.0	0.0
CF from investing activities	(28.9)	(134.9)	(300.0)	(100.0)
Inc/(dec) in loan funds	46.5	40.0	150.0	-50.0
Dividend paid & dividend tax	-12.1	-14.5	-19.3	-24.1
Interest Expense	-31.2	-27.3	-41.3	-38.8
CF from financing activities	3.3	(1.8)	89.4	(112.9)
Net Cash flow	12.7	37.4	-50.8	49.4
Opening Cash	174.5	187.2	224.6	173.8
Closing Cash	187.2	224.6	173.8	223.2

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
Liabilities				
Equity Capital	24.1	24.1	24.1	24.1
Reserve and Surplus	476.3	553.5	698.7	890.5
Total Shareholders funds	500.4	577.6	722.8	914.7
Total Debt	615.3	675.5	825.5	775.5
Deferred Tax Liability	30.9	35.2	35.2	35.2
Minority Interest / Others	3.0	3.1	3.1	3.1
Total Liabilities	1,149.8	1,291.5	1,586.7	1,728.5
Assets				
Gross Block	1,171.8	1,288.1	1,550.6	1,685.6
Less: Acc Depreciation	554.3	614.5	684.2	760.1
Net Block	617.5	673.7	866.4	925.6
Capital WIP	17.5	12.5	50.0	15.0
Total Fixed Assets	635.0	686.2	916.4	940.6
Investments	0.2	4.3	4.9	4.9
Inventory	168.6	192.8	282.2	324.5
Debtors	121.7	166.4	238.8	274.6
Loans and Advances	28.6	30.8	44.1	50.8
Cash	187.2	224.6	173.8	223.2
Other current assets	0.1	0.1	0.6	0.0
Total Current Assets	506.2	614.7	739.6	873.1
Creditors	98.0	118.0	173.7	199.7
Provisions	14.6	24.5	36.0	41.4
Other current liabilities	0.4	0.4	0.5	0.8
Total Current Liabilities	112.9	142.9	210.2	242.0
Net Current Assets	393.3	471.8	529.4	631.2
Others	60.0	106.8	131.9	117.2
Application of Funds	1,149.8	1,291.5	1,586.7	1,728.5

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
(Year-end March)	FY21	FY22P	FY23E	FY24E
Per share data (₹)				
EPS	19.3	46.3	68.2	89.5
Cash EPS	42.8	71.2	97.1	120.9
BV	207.3	239.3	299.4	378.9
DPS	5.0	6.0	8.0	10.0
Cash Per Share	77.6	93.0	72.0	92.4
Operating Ratios (%)				
EBITDA Margin	16.7	18.4	19.0	20.0
PBT / Net sales	8.9	13.0	14.6	15.8
PAT Margin	6.4	10.1	10.4	0.0
Inventory days	84.8	63.6	65.0	65.0
Debtor days	61.2	54.9	55.0	55.0
Creditor days	49.3	38.9	40.0	40.0
Return Ratios (%)				
RoE	9.3	19.4	22.8	23.6
RoCE	5.6	11.1	14.6	16.7
RoIC	6.8	13.6	17.0	19.4
Valuation Ratios (x)				
P/E	46.1	19.2	13.1	9.9
EV / EBITDA	21.2	12.8	9.3	7.4
EV / Net Sales	3.6	2.3	1.8	1.5
Market Cap / Sales	3.0	1.9	1.4	1.2
Price to Book Value	4.3	3.7	3.0	2.3
Solvency Ratios				
Debt/EBITDA	5.1	3.3	2.7	2.1
Debt / Equity	1.2	1.2	1.1	0.8
Current Ratio	2.8	2.6	2.6	2.6
Quick Ratio	1.3	1.3	1.3	1.3

Source: Company, ICICI Direct Research

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