

CMP: ₹ 900

Target: ₹ 1135 (26%)

Target Period: 12 months

May 18, 2023

BUY

Steady performance, robust growth guidance, inexpensive valuations provide favourable risk-reward

About the stock: MM Forging (MMF) is a prominent forging player serving India, Europe and US markets (FY23 geographical mix – domestic ~65%, exports ~35%).

- FY23 segment mix – CV 80%, PV 11%, off highway & others 9%
- FY23 capacity was at ~1.1 lakh tonnes with utilisation at ~65%

Q4FY23 Results: MMF posted a steady performance in Q4FY23.

- Standalone revenue was at ₹ 372 crore, up 3.4% QoQ
- EBITDA margins were at 17.5%, down 86 bps QoQ, amid higher overhead costs, partially mitigated by ~85 bps QoQ gross margin expansion
- Consequent PAT de-grew ~10.5% sequentially to ₹ 30.3 crore
- Tonnage in FY23 was at 72,500 & guidance for FY24E is pegged at 90,000

What should investors do? The company's stock price has grown at ~8.5% CAGR from ~₹ 560 levels in March 2018, thereby vastly outperforming Nifty Auto Index.

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

Target Price and Valuation: Introducing FY25E and rolling over our valuations, we now value MMF at ₹ 1,135 i.e. 15x PE FY24-25E average EPS of ₹ 75.6

Key triggers for future price performance:

- Robust growth outlook with company guiding for ~₹ 1,800-2,000 crore as sales for FY24E & ~₹ 2,500 crore in a year or two thereafter amid cyclical upswing in domestic CV space, new product development, rise in wallet share with existing clients, new client addition & foray into EV components
- Sales at MMR are seen growing at a CAGR of 18.2% in FY23-25E, amid tonnage CAGR of 17% to ~1 lakh tonne by FY25E (~72,500 tonne in FY23)
- Operating leverage gains, greater machining mix to push margins to 18.8% by FY25E with consequent RoE, RoCE seen healthy at ~19%, 14%, respectively, in FY25E
- Trades at inexpensive valuation of ~11x P/E, ~7.8x EV/EBITDA on FY25E

Alternate Stock Idea: Besides MMF, in ancillary coverage, we like Mahindra CIE.

- Focused on growth capex in India and efficiencies at European operations
- BUY with target price of ₹ 520

Key Financial Summary

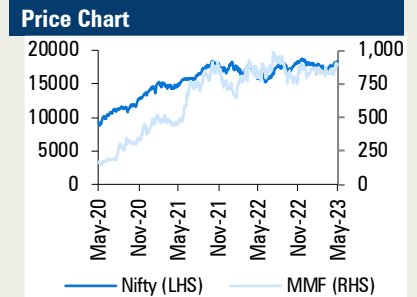
Key Financials	FY19	FY20	FY21	FY22	FY23P	5 year CAGR (FY18-23P)	FY24E	FY25E	2 year CAGR (FY23-25E)
Net Sales	903.9	727.3	725.6	1,104.6	1,409.3	17.8%	1,722.5	1,967.8	18.2%
EBITDA	173.2	125.2	121.3	201.7	255.5	15.5%	318.7	369.0	20.2%
EBITDA Margins (%)	19.2	17.2	16.7	18.3	18.1		18.5	18.8	
Net Profit	81.3	46.2	46.6	91.7	125.6	12.9%	169.5	195.5	24.8%
EPS (₹)	33.7	19.1	19.3	38.0	52.0		70.2	81.0	
P/E	26.7	47.0	46.6	23.7	17.3		12.8	11.1	
RoNW (%)	18.6	9.9	9.3	15.9	18.2		20.1	19.2	
RoCE (%)	10.2	6.7	5.6	10.9	12.7		13.8	14.0	

Source: Company, ICICI Direct Research



Particulars	₹ crore
Market Capitalization	2,172.7
Total Debt (FY23P)	750.8
Cash & Investments (FY23P)	205.4
EV	2,718.0
Equity capital	24.1
52 week H/L (₹)	1036 / 730
Face value	₹ 10

Shareholding pattern	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	56.3	56.3	56.3	56.3
FII	0.8	0.9	1.2	1.7
DII	18.0	16.3	16.7	17.0
Other	24.9	26.4	25.9	25.0



Recent event & key risks

- Posted steady Q4FY23 results.
- Key Risk:** (i) Elevated debt levels limiting RoCE improvement, (ii) Slower than expected increase in machining mix limiting margin recovery over FY23-25E

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

Key takeaways of quarter

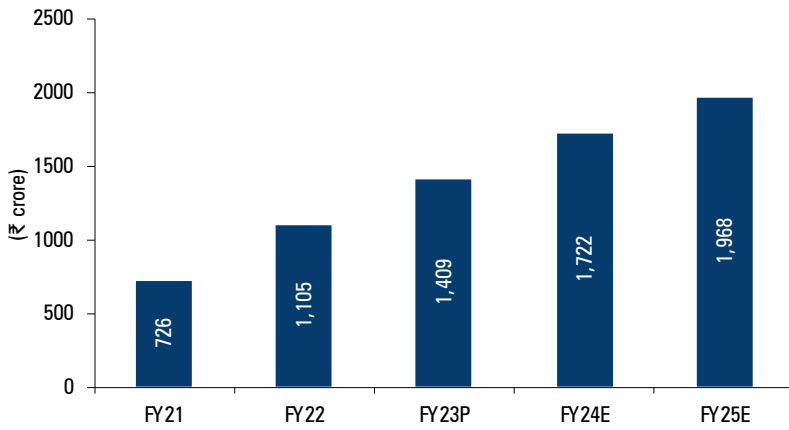
- The company posted a healthy operational performance with topline coming in at ₹ 372 crore, up 3.4% QoQ
- Total production tonnage for Q4FY23 was at ~18,000-19,000 tonnes and for FY23 at ~76,000 tonnes. EBITDA margins for Q4FY23 were at 17.5%, down 86 bps QoQ; gross margin expanded by 85 bps QoQ
- Capacity utilisation during FY23 was at ~65%

Key highlights of conference call

- The management continued to remain optimistic about demand in the domestic market and expects growth in the Indian market to outperform foreign markets. Further, on the export front, the management expects exports as percentage of sales to remain flattish but improve slightly in absolute terms
- Production during FY23 was ~76,000 tonne with sales of ~72,500 tons. The management expect tonnage of ~90,000+ tons in FY24E. Total production capacity was ~1.1 lakh tonnes. Consequent, capacity utilisation for FY23 was at ~65%. The company remains optimistic about achieving 20-25% growth with ~₹ 1,800-2,000 crore of topline by FY24E with exports forming ~30-35% of topline on the back of newer product launches in the CV & PV space domestically
- The management informed about capex of ~₹ 500 crore to be done in FY24-25E of which majority would be done for machining and ~₹ 100 crore will be for EV powertrain related products
- **Geographical mix:** India- 65%; Europe & US- 15%; South America- 5%. **Channel mix:** Export- 35%; Domestic- 65%. **Segment mix:** CV- 80%; PV- 11%; off highway & others - 9%
- The management informed about demand from US class 8 truck to remain range bound in coming years on the back of large pending orderbook. Further, the management expects domestic CV industry to grow 5-12% in FY24E
- The management said RM cost remained high due to lower export mix and slight impact of product mix also. Further power & fuel cost remained high due to increase of ~₹1.5/ unit hike taken by Tamil Nadu electricity board
- Machining mix was at ~60% of overall sales in FY23 and expects it to increase to 65%, going forward, vs. ~51% in FY22
- The company continues to remain focused on the automotive space and does not intend to foray into railways as of now
- The management plans to launch crankshaft & gear blanks for ILCV & PV in FY24E
- On the EV front, the company informed about focusing on motors initially and will develop motor controllers, AC/DC converters & gearbox later on. Further the management said motors were being indigenously developed
- The management informed about increase in inventory days due to newer product launches and greater steel inventory
- Gross debt as of FY23 was at ~₹ 750 crore (~₹ 420 term loans and ~₹ 330 working capital loans). The management foresees term loan to increase by ~₹ 200 crore in FY24E

Financial story in charts

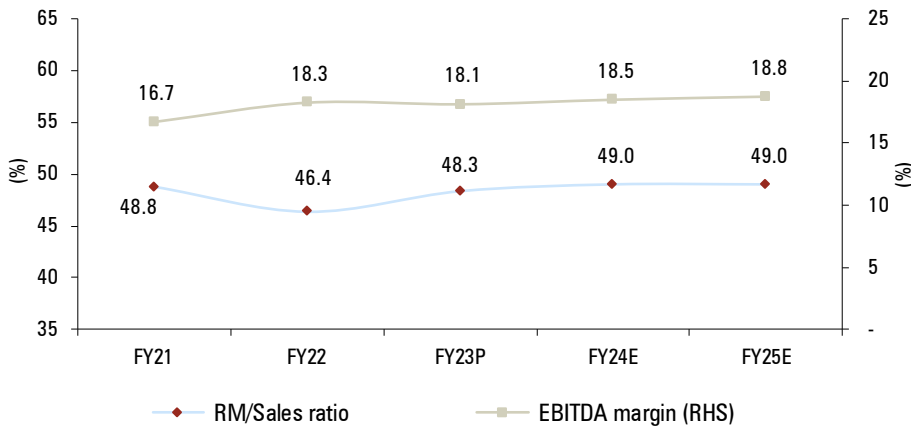
Exhibit 1: Trend in topline



MMF is seen posting 18.2% revenue CAGR over FY23-25E to ₹ 1968 crore in FY25E

Source: Company, ICICI Direct Research

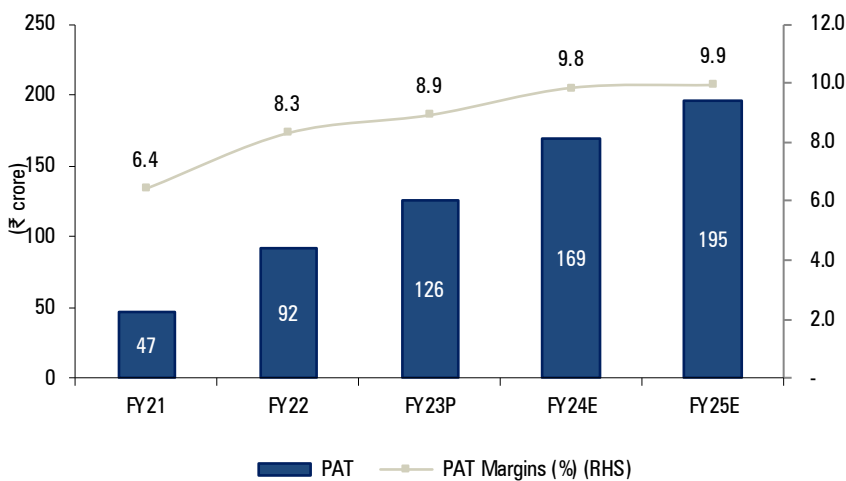
Exhibit 2: Trend in gross and EBITDA margins



Margins are seen rising to ~19% by FY25E on operating leverage benefits and higher contribution from machined products

Source: Company, ICICI Direct Research

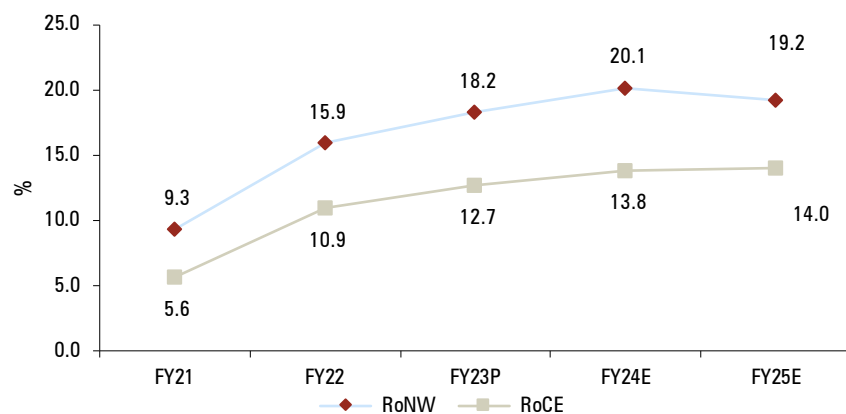
Exhibit 3: Trend in profitability



PAT is expected to grow to ₹ 195 crore in FY25E with PAT margin inching up to ~10% by FY25E

Source: Company, ICICI Direct Research

Exhibit 4: Trend in return ratios



RoCE is expected to improve to 14% by FY25E, with RoE seen at 19% 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	-	26.7	15.5	18.6	10.2
FY20	727	(19.5)	19.1	(43.2)	47.0	20.5	9.9	6.7
FY21	726	(0.2)	19.3	0.8	46.6	21.4	9.3	5.6
FY22	1,105	52.2	38.0	96.9	23.7	13.0	15.9	10.9
FY23P	1,409	27.6	52.0	36.9	17.3	10.6	18.2	12.7
FY24E	1,722	22.2	70.2	34.9	12.8	8.9	20.1	13.8
FY25E	1,968	14.2	81.0	15.3	11.1	7.8	19.2	14.0

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
Total operating Income	1,104.6	1,409.3	1,722.5	1,967.8
Growth (%)	52.2	27.6	22.2	14.2
Raw Material Expenses	504.4	674.4	844.0	964.2
Employee Expenses	112.7	126.5	142.1	157.4
Other Expenses	285.7	352.8	417.7	477.2
Total Operating Expenditure	902.9	1,153.8	1,403.8	1,598.8
EBITDA	201.7	255.5	318.7	369.0
Growth (%)	66.4	26.7	24.7	15.8
Depreciation	60.1	67.6	76.1	90.4
Interest	27.3	29.2	35.0	37.0
Other Income	18.6	16.1	19.1	19.8
PBT	132.9	174.9	226.6	261.3
Total Tax	41.1	49.3	57.1	65.9
Reported PAT	91.7	125.6	169.5	195.5
Growth (%)	96.9	36.9	34.9	15.3
EPS (₹)	38.0	52.0	70.2	81.0

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
Profit after Tax	91.7	125.6	169.5	195.5
Add: Depreciation & Interest	87.4	96.8	111.2	127.4
(Inc)/dec in Current Assets	-59.5	-148.7	-123.1	-80.7
Inc/(dec) in CL and Provisions	29.6	45.8	36.1	32.0
CF from operating activities	149.3	119.6	193.6	274.3
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-111.3	-152.3	-250.0	-250.0
Others	-23.6	-13.4	-10.0	-10.0
CF from investing activities	(134.9)	(165.7)	(260.0)	(260.0)
Inc/(dec) in loan funds	64.8	70.6	125.0	50.0
Dividend paid & dividend tax	-14.5	-14.5	-16.9	-19.3
Interest Expense	-27.3	-29.2	-35.0	-37.0
CF from financing activities	23.0	26.9	73.1	(6.3)
Net Cash flow	37.4	-19.2	6.7	7.9
Opening Cash	187.2	224.7	205.4	212.1
Closing Cash	224.7	205.4	212.1	220.0

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
Liabilities				
Equity Capital	24.1	24.1	24.1	24.1
Reserve and Surplus	553.5	664.6	817.2	993.3
Total Shareholders funds	577.6	688.7	841.3	1,017.5
Total Debt	680.2	750.8	875.8	925.8
Deferred Tax Liability	35.2	38.2	38.2	38.2
Minority Interest / Others	3.1	3.6	3.6	3.6
Total Liabilities	1,296.3	1,481.3	1,758.9	1,985.1
Assets				
Gross Block	1,264.3	1,393.6	1,602.9	1,902.9
Less: Acc Depreciation	614.4	682.0	758.2	848.6
Net Block	649.8	711.6	844.8	1,054.4
Capital WIP	36.4	59.3	100.0	50.0
Total Fixed Assets	686.2	770.9	944.8	1,104.4
Investments	4.3	4.9	4.9	4.9
Inventory	192.8	288.1	330.3	377.4
Debtors	166.4	228.2	283.1	296.5
Loans and Advances	30.8	11.7	14.3	16.4
Cash	224.7	205.4	212.1	220.0
Other current assets	0.1	0.6	0.0	0.0
Total Current Assets	614.7	734.1	840.0	910.3
Creditors	118.0	158.5	188.8	215.6
Provisions	24.5	28.3	33.7	38.5
Other current liabilities	0.4	0.5	0.8	0.5
Total Current Liabilities	142.9	187.4	223.3	254.7
Net Current Assets	471.9	546.7	616.7	655.6
Others	106.8	131.9	117.2	105.5
Application of Funds	1,296.3	1,481.3	1,758.9	1,985.1

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
(Year-end March)	FY22	FY23P	FY24E	FY25E
Per share data (₹)				
EPS	38.0	52.0	70.2	81.0
Cash EPS	62.9	80.0	101.7	118.4
BV	239.3	285.3	348.5	421.5
DPS	6.0	6.0	7.0	8.0
Cash Per Share	93.1	85.1	87.9	91.1
Operating Ratios (%)				
EBITDA Margin	18.3	18.1	18.5	18.8
PBT / Net sales	12.8	13.3	14.1	14.2
PAT Margin	8.3	8.9	0.0	0.0
Inventory days	63.7	74.6	70.0	70.0
Debtor days	55.0	59.1	60.0	55.0
Creditor days	39.0	41.1	40.0	40.0
Return Ratios (%)				
RoE	15.9	18.2	20.1	19.2
RoCE	10.9	12.7	13.8	14.0
RoIC	13.7	15.4	16.8	16.2
Valuation Ratios (x)				
P/E	23.7	17.3	12.8	11.1
EV / EBITDA	13.0	10.6	8.9	7.8
EV / Net Sales	2.4	1.9	1.6	1.5
Market Cap / Sales	2.0	1.5	1.3	1.1
Price to Book Value	3.8	3.2	2.6	2.1
Solvency Ratios				
Debt/EBITDA	3.4	2.9	2.7	2.5
Debt / Equity	1.2	1.1	1.0	0.9
Current Ratio	2.7	2.8	2.8	2.7
Quick Ratio	1.4	1.3	1.3	1.2

Source: Company, ICICI Direct Research

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