

CMP: ₹ 880

Target: ₹ 1125 (28%)

Target Period: 12 months

BUY

November 10, 2021

CV cyclical recovery to fuel strong growth prospects...

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%
- Total 1.2 lakh MTPA production capacity; FY21 utilisation at ~40%

Q2FY22 Results: MMF posted steady Q2FY22 results.

- Standalone revenue growth was at ₹ 261.3 crore for the quarter
- EBITDA margins were flattish at 18.2% amid operating leverage gains; gross margins down ~250 bps sequentially
- Consequent PAT grew ~16% sequentially to ₹ 27.7 crore

What should investors do? The company's stock price has grown at ~33% CAGR from ~₹ 215 levels in November 2016, thereby vastly outperforming Nifty Auto Index

- We retain **BUY** rating on strong growth prospects & inexpensive valuations

Target Price and Valuation: We value MMF at 17x PE on FY23E basis for a revised target price of ₹ 1125 per share (earlier target price ₹ 925)

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 36.1% FY21-23E sales CAGR
- We expect sales volume to grow at a CAGR of 27.5% 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 <14x P/E, <10x 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



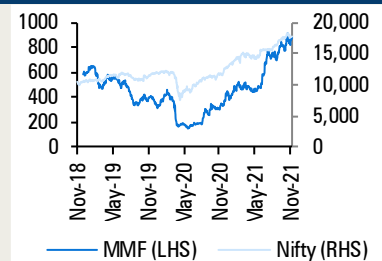
Particulars

Particular	₹ crore
Market Capitalization	2,143.7
Total Debt (FY21)	615.3
Cash & Investments (FY21)	187.2
EV (FY21)	2,571.8
Equity capital	24.1
52 week H/L (₹)	954 / 312
Face value	₹ 10

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	56.3	56.3	56.3	56.3
FII	0.4	0.9	0.1	0.5
DII	21.2	21.1	21.8	21.1
Other	22.0	21.7	21.8	22.0

Price Chart



Recent event & key risks

- Posted steady Q2FY22 results.
- **Key Risk:** (i) Slower than expected sales growth over FY21-23E, (ii) Slower than anticipated margin improvement

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%	1,103.8	1,346.7	36.1%
EBITDA	173.2	125.2	121.3	2.3%	198.7	269.3	46.7%
EBITDA Margins (%)	19.2	17.2	16.7		18.0	20.0	
Net Profit	81.3	46.2	46.6	-1.4%	103.5	159.9	86.0%
EPS (₹)	33.7	19.1	19.3		42.9	66.2	
P/E	26.1	46.0	45.6		20.5	13.3	
RoNW (%)	18.6	9.9	9.3		17.6	22.1	
RoCE (%)	10.2	6.7	5.6		11.0	14.7	

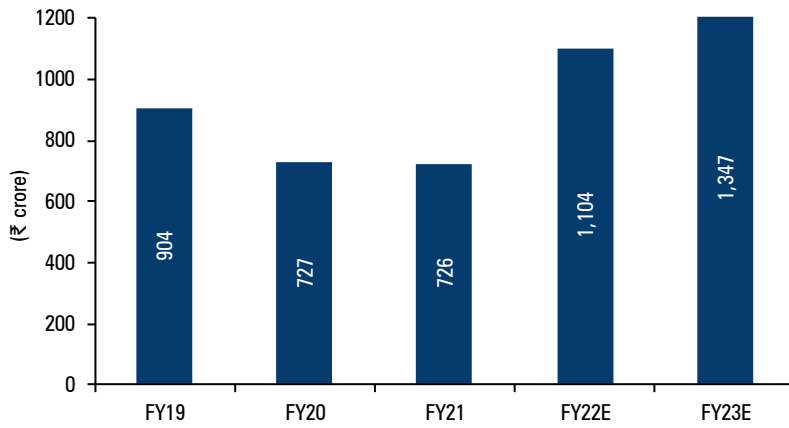
Source: Company, ICICI Direct Research

Key highlights from Q2FY22 conference call

- MMF said it would clock ₹ 1,000-1,100 crore revenues in FY22E, implying >₹ 500 crore revenues for H2FY22E. Revenue guidance for FY24E is pegged at ~₹ 1700-1,800 crore riding on full utilisation (~1 lakh MTPA.). The company should approach revenues of ~₹ 150 crore per month gradually over the next few quarters, including ~₹ 25-30 crore from confirmed orders for new products. New client additions and recent acquisitions are seen as other growth drivers. The new 6,300 tonne press line is seen contributing meaningfully from FY23E onwards
- Demand outlook is good across end user markets and is expected to improve further in Q4FY22E. Supply worries are easing in India. Chip unavailability and other shortages are affecting exports markets, including US Class 8 truck orders over the past few months
- Exports comprised 56% of revenues in Q2FY22. Tonnage for the quarter was at ~16,000 MT vs. ~14,000 tonnes in Q2FY21. Revenues for the quarter were impacted towards the back end due to shipment delays amid ongoing freight challenges as well as slower growth in the company's OEM clients vs. industry trend
- Freight costs are ~₹ 6-7 crore extra than usual run-rate for H1FY22 vs. H1FY21. They have, however, started tapering off slightly. MMF does expect some margin pressures in coming months as it has been unable to pass on some portion of steel cost increases amid prevailing competitive scenario
- Post ramp up from recent acquisitions, crankshaft sales can reach ₹ 400-500 crore annual revenues in two to three years vs. ~₹ 60 crore currently. MMF's crankshaft focus would remain on present segments i.e. CV and farm. Crankshafts are broadly margin accretive for MMF
- The company would have needed to invest >₹ 90 crore for setting up similar capabilities that were recently acquired for ₹ 53 crore. Recent acquisitions have helped diversify MMF segment and client exposure with the addition of industrial applications including tractors (farm), where its crankshaft market share has reached 35% vs. 0% four years ago
- Segment mix was at 70% CV, 15% PV, rest agri and off highway. Within exports, geographical mix is at 40% Europe, 50% North America and rest others. ~80% of North America sales is for the US Class 8 truck market. Within Europe, 65% mix is towards CV, ~15% in PV and rest in off highway
- Capex guidance for H2FY22E is at ~₹ 75 crore, bringing total FY22E capex at ~₹ 125-130 crore vs. earlier guidance of ~₹ 200 crore. Unspent amount this year of ~₹ 70 crore would be spent in FY23E, with total FY23E capex seen at ~₹ 120-130 crore (on machining & specific debottlenecking)
- Debt would be reduced by ~₹ 80-90 crore annually with surplus cash utilised for growth plans. Present long term net debt is at ~₹ 200 crore
- Tax rate, going forward, would be ~15% over the next few years

Financial story in charts

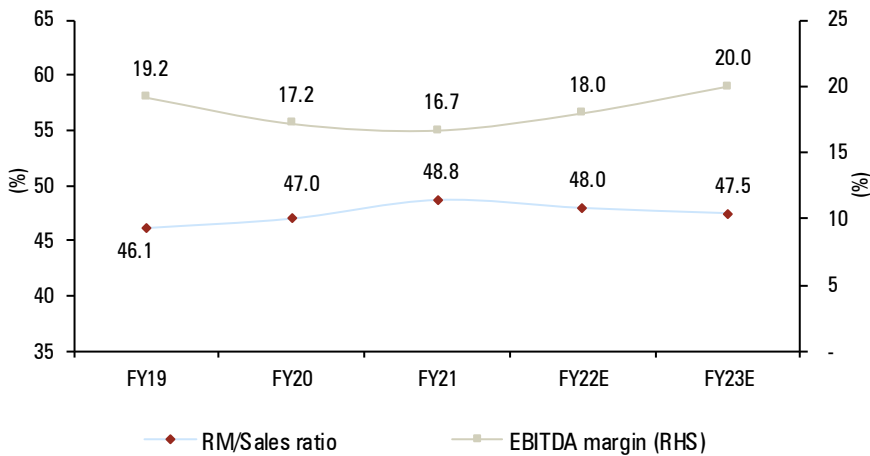
Exhibit 1: Trend in topline



MMF is seen posting 36.1% revenue CAGR over FY21-23E to ₹ 1347 crore in FY23E

Source: Company, ICICI Direct Research

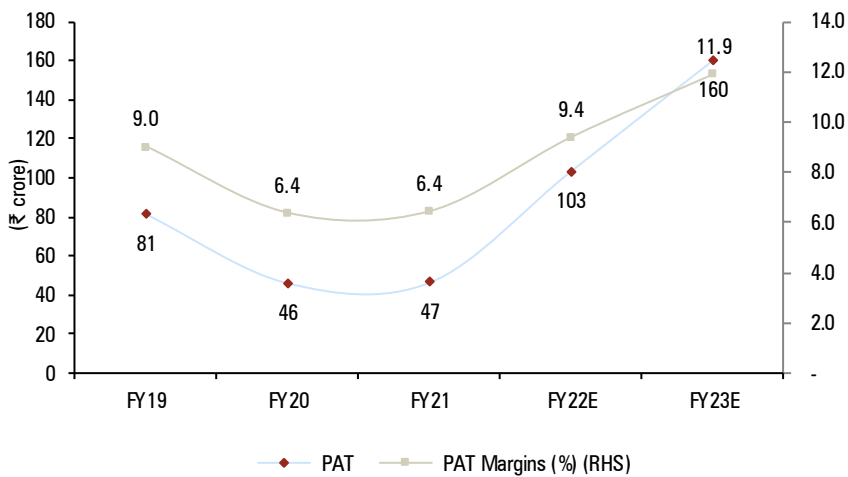
Exhibit 2: Trend in gross and EBITDA margins



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

Source: Company, ICICI Direct Research

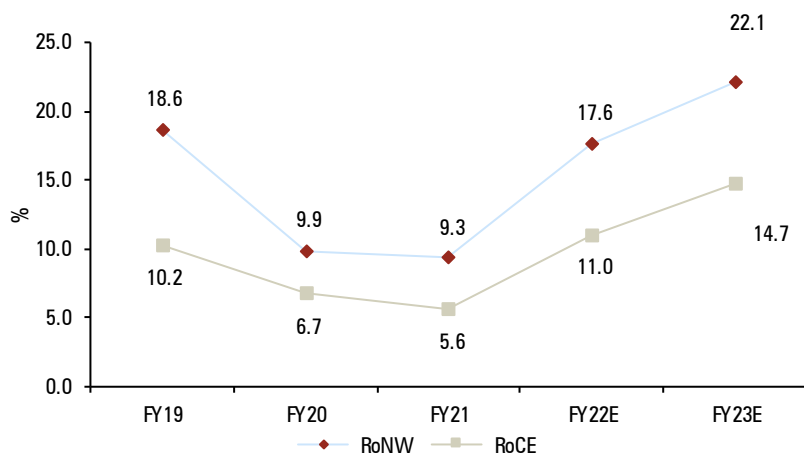
Exhibit 3: Trend in profitability



PAT is expected to grow to ₹ 160 crore in FY23E with PAT margin inching to ~12% by FY23E

Source: Company, ICICI Direct Research

Exhibit 4: Trend in return ratios



RoCE is expected to touch 15% by FY23E, with RoE at 22% 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	-	26.1	15.2	18.6	10.2
FY20	727	-19.5	19.1	(43.2)	46.0	20.1	9.9	6.7
FY21	726	(0.2)	19.3	0.8	45.6	21.0	9.3	5.6
FY22E	1,104	52.1	42.9	122.1	20.5	12.9	17.6	11.0
FY23E	1,347	22.0	66.2	54.5	13.3	9.5	22.1	14.7

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	1,103.8	1,346.7
Growth (%)	-19.5	-0.2	52.1	22.0
Raw Material Expenses	334.0	347.0	529.8	639.7
Employee Expenses	82.7	76.5	110.4	121.2
Other Expenses	185.4	180.9	264.9	316.5
Total Operating Expenditure	602.1	604.4	905.2	1,077.3
EBITDA	125.2	121.3	198.7	269.3
Growth (%)	-27.7	-3.1	63.8	35.6
Depreciation	53.2	56.7	65.1	71.6
Interest	33.0	31.2	29.5	29.3
Other Income	18.5	21.6	17.7	19.7
PBT	57.4	54.9	121.7	188.1
Total Tax	11.2	8.3	18.3	28.2
Reported PAT	46.2	46.6	103.5	159.9
Growth (%)	-43.2	0.8	122.1	54.5
EPS (₹)	19.1	19.3	42.9	66.2

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	103.5	159.9
Add: Depreciation & Interest	86.3	88.0	94.6	100.9
(Inc)/dec in Current Assets	114.3	-137.3	-33.9	-86.2
Inc/(dec) in CL and Provisions	17.0	41.1	-7.9	23.2
CF from operating activities	263.8	38.3	156.3	197.7
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-87.3	-30.1	-125.0	-125.0
Others	-4.7	1.2	0.0	0.0
CF from investing activities	(92.0)	(28.9)	(125.0)	(125.0)
Inc/(dec) in loan funds	-121.2	46.5	-25.0	-5.0
Dividend paid & dividend tax	-14.5	-12.1	-16.9	-21.7
Interest Expense	-33.0	-31.2	-29.5	-29.3
CF from financing activities	(168.7)	3.3	(71.4)	(56.0)
Net Cash flow	3.1	12.7	-40.1	16.7
Opening Cash	171.4	174.5	187.2	147.1
Closing Cash	174.5	187.2	147.1	163.8

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	562.9	701.1
Total Shareholders funds	468.4	500.4	587.0	725.2
Total Debt	566.3	615.3	590.3	585.3
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	1,211.3	1,344.5
Assets				
Gross Block	1,150.5	1,171.8	1,301.8	1,431.8
Less: Acc Depreciation	497.6	554.3	619.4	691.0
Net Block	652.9	617.5	682.4	740.8
Capital WIP	8.7	17.5	12.5	7.5
Total Fixed Assets	661.6	635.0	694.9	748.3
Investments	0.2	0.2	4.3	4.9
Inventory	130.7	168.6	196.6	239.8
Debtors	12.5	121.7	121.0	147.6
Loans and Advances	23.6	28.6	32.4	39.6
Cash	174.5	187.2	147.1	163.8
Other current assets	0.0	0.1	0.1	0.6
Total Current Assets	341.4	506.2	497.2	591.5
Creditors	71.7	98.0	90.7	110.7
Provisions	0.0	14.6	13.5	16.4
Other current liabilities	41.2	0.4	0.4	0.5
Total Current Liabilities	112.9	112.9	104.6	127.6
Net Current Assets	228.5	393.3	392.6	463.8
Others	16.6	60.0	106.8	131.9
Application of Funds	1,067.5	1,149.7	1,211.3	1,344.5

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	19.1	19.3	42.9	66.2
Cash EPS	41.2	42.8	69.8	95.9
BV	194.0	207.3	243.2	300.4
DPS	5.0	5.0	7.0	9.0
Cash Per Share	72.3	77.6	60.9	67.9
Operating Ratios (%)				
EBITDA Margin	17.2	16.7	18.0	20.0
PBT / Net sales	9.9	8.9	12.1	14.7
PAT Margin	6.4	6.4	9.4	11.9
Inventory days	65.6	84.8	65.0	65.0
Debtor days	6.3	61.2	40.0	40.0
Creditor days	36.0	49.3	30.0	30.0
Return Ratios (%)				
RoE	9.9	9.3	17.6	22.1
RoCE	6.7	5.6	11.0	14.7
RoIC	8.1	6.8	12.7	16.9
Valuation Ratios (x)				
P/E	45.9	45.6	20.5	13.3
EV / EBITDA	20.1	21.0	12.9	9.5
EV / Net Sales	3.5	3.5	2.3	1.9
Market Cap / Sales	2.9	2.9	1.9	1.6
Price to Book Value	4.5	4.2	3.6	2.9
Solvency Ratios				
Debt/EBITDA	4.5	5.1	3.0	2.2
Debt / Equity	1.2	1.2	1.0	0.8
Current Ratio	2.3	2.8	3.3	3.3
Quick Ratio	0.5	1.3	1.5	1.5

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

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

ANALYST CERTIFICATION

I/We, Shashank Kanodia, CFA, MBA (Capital Markets) and Jaimin Desai, CA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc. as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.