

# MM Forging

# HOLD

Strong Performance; Outlook remains positive

## Summary

**MM Forgings (MMFG) Q1FY22 result was ahead of our estimates on all parameters. EBITDA margin stood at 18.1% vs our estimates of 16.7% due to lower operating cost. We expect exports to be robust for MMFG on the back of strong North America and Europe growth outlook. Domestic CV market is expected to show strong recovery from multiyear low base on the back of picking up of economic activities like mining, logistics, Infrastructure construction. With easing of lockdown, the fleet utilization is expected to grow along with better freight which will boost the demand for vehicles. We expect revenue/earnings to grow at 25%/26% CAGR over FY21-FY23E with EBITDA margin of ~19%. We have arrived at FY23E EPS at Rs43.3, factoring in strong recovery from export & domestic market and better tonnage/ realizations growth. We maintain our HOLD rating with TP of Rs780 (earlier Rs606) based on PER of 18x FY23E EPS.**

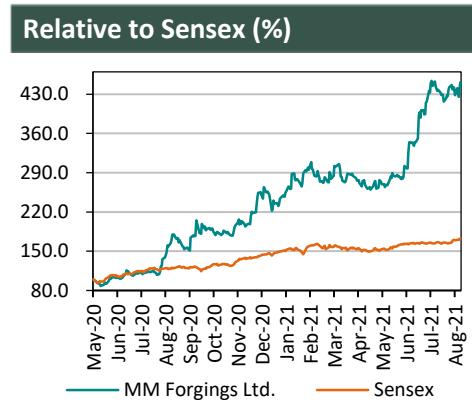
## Key Highlights and Investment Rationale

- Revenue above estimates:** Standalone revenue declined by -16% QoQ to Rs2.4bn on account of decline in domestic PV/CV segment and NA region. Domestic M&HCV truck production for the industry declined by 52% QoQ to 41.7K units whereas NA truck market decline by 8% QoQ to ~64.9k units. European HCV market grew by 9% QoQ to ~63.6k units. RM cost declined by 20% QoQ to Rs1.1bn. Employee cost and other expenses declined by 2%/6% QoQ to Rs262mn and Rs409mn respectively. Overall EBITDA for the quarter declined by 23% QoQ to Rs434mn. Adj. PAT declined by 21% QoQ to Rs238mn.
- Outlook:** We believe, MMFG is well placed to ride the multi-year sustainable growth in Domestic CV, NA Class 8 trucks and European HCV markets. NA class 8 truck productions are expected to grow at double digit in next 18 months. The USA's preference to china plus one strategy for diversifying the supply chain would also be boon to MMFG. Domestic CV Industry is expected to grow at double digit for FY22/FY23 which will also benefit MMFG.

TP CMP	Rs780	Rs775
Potential upside / downside	+1%	
V/s Consensus		
EPS (Rs)	FY22E	FY23E
IDBI Capital	25.1	43.3
Consensus	-	-
% difference	NA	NA

Shareholding Pattern (%)		
	-1m	-3m
Promoters	56.3	
FII	0.1	
DII	21.6	
Public	22.0	
	-12m	
Absolute	1.8	68.3
Rel to Sensex	(3.3)	181.4
	54.5	136.7

Key Stock Data	
Bloomberg / Reuters	MMFG IN/MMFO.BO
Sector	Auto Ancillary
Shares o/s (mn)	24
Market cap. (Rs mn)	18,710
Market cap. (US\$ mn)	252
3-m daily average value (Rs mn)	15.9
52-week high / low	Rs807 / 256
Sensex / Nifty	55,437 / 16,529



Financial snapshot (Rs mn)						
Year	FY19	FY20	FY21	FY22E	FY23E	
Revenue	9,039	7,273	7,256	9,625	11,322	
EBITDA	1,732	1,252	1,213	1,704	2,151	
EBITDA (%)	19.2	17.2	16.7	17.7	19.0	
Adj. PAT	813	462	466	606	1,045	
EPS (Rs)	34	19	19	25.1	43.3	
EPS Growth (%)	19.0	(43.2)	0.8	30.1	72.3	
PE (x)	23.0	40.5	40.1	30.9	17.9	
Dividend Yield (%)	0.6	0.6	0.6	0.8	1.3	
EV/EBITDA (x)	12.2	16.2	16.4	11.6	8.8	
RoE (%)	20.2	10.2	9.6	11.6	17.8	
RoCE (%)	12.8	7.0	6.8	10.0	14.3	

Source: IDBI Capital Research;

**Exhibit 1: Quarterly Snapshot (Standalone)**

Rs mn	Q1FY22	Q1FY21	Q4FY21	YoY (%)	QoQ (%)
<b>Net Revenue</b>	<b>2,394</b>	<b>764</b>	<b>2,858</b>	<b>213.3</b>	<b>(16.2)</b>
<b>Expenditure</b>	<b>1,960</b>	<b>694</b>	<b>2,293</b>	<b>182.3</b>	<b>(14.6)</b>
<i>as % of sales</i>	<i>81.9</i>	<i>90.9</i>	<i>80.2</i>	<i>(899.0)</i>	<i>161.6</i>
Consumption of RM	1,081	403	1,343	168.5	(19.5)
<i>as % of sales</i>	<i>45.2</i>	<i>52.7</i>	<i>47.0</i>	<i>(753.7)</i>	<i>(181.7)</i>
Employee Cost	262	116	269	127.1	(2.3)
<i>as % of sales</i>	<i>11.0</i>	<i>15.1</i>	<i>9.4</i>	<i>(416.5)</i>	<i>156.1</i>
Power, Oil & Fuel	207	80	245	160.2	(15.5)
<i>as % of sales</i>	<i>8.7</i>	<i>10.4</i>	<i>8.6</i>	<i>(177.0)</i>	<i>8.0</i>
Other expenditure	409	96	437	324.8	(6.4)
<i>as % of sales</i>	<i>17.1</i>	<i>12.6</i>	<i>15.3</i>	<i>448.1</i>	<i>179.1</i>
<b>EBITDA</b>	<b>434</b>	<b>70</b>	<b>565</b>	<b>521.2</b>	<b>(23.1)</b>
Depreciation	150	130	167	15.4	(10.4)
<b>EBIT</b>	<b>284</b>	<b>(60)</b>	<b>397</b>	<b>NA</b>	<b>(28.5)</b>
Other Income	45	80	25	(44.5)	78.1
Interest	65	70	80	(6.2)	(18.4)
<b>PBT</b>	<b>263</b>	<b>(49)</b>	<b>342</b>	<b>NA</b>	<b>(23.0)</b>
Total Tax	25	-	41	NA	(38.6)
<b>Adjusted PAT</b>	<b>238</b>	<b>(49)</b>	<b>301</b>	<b>NA</b>	<b>(20.9)</b>
Extra ordinary items Loss/(Gain)	-	-	-	NA	NA
<b>Reported PAT</b>	<b>238</b>	<b>(49)</b>	<b>301</b>	<b>NA</b>	<b>(20.9)</b>
<b>Adjusted EPS</b>	<b>9.9</b>	<b>(2.0)</b>	<b>12.5</b>	<b>NA</b>	<b>(20.9)</b>
 <b>Margins (%)</b>				<b>(bps)</b>	<b>(bps)</b>
EBIDTA	18.1	9.1	19.8	98.3	(8.2)
EBIT	11.9	(7.9)	13.9	NA	(14.6)
EBT	11.0	(6.5)	12.0	NA	(8.1)
PAT	10.0	(6.5)	10.5	NA	(5.6)
Effective Tax rate	9.5	-	11.9	NA	(20.3)

Source: Company; IDBI Capital Research

## Exhibit 2: Actual vs. Estimates

		(Rs mn)	
	Actual	IDBI Est	Var %
Net sales	2,394	1,715	39.6
EBITDA	434	286	51.6
EBITDA margin (%)	18.1	16.7	144 bps
Adj net income	238	67	256.4
FDEPS (Rs)	9.9	2.8	256.4

Source: Company; IDBI Capital Research

## Financial Summary

Profit & Loss Account (Rs mn)					Cash Flow Statement (Rs mn)				
Year-end: March	FY20	FY21	FY22E	FY23E	Year-end: March	FY20	FY21	FY22E	FY23E
<b>Net sales</b>	<b>7,273</b>	<b>7,256</b>	<b>9,625</b>	<b>11,322</b>	Pre-tax profit	574	549	809	1,393
<i>Growth (%)</i>	(19.5)	(0.2)	32.6	17.6	Depreciation	532	567	663	690
Operating expenses	(6,021)	(6,044)	(7,921)	(9,170)	Tax paid	(0)	(73)	(202)	(348)
<b>EBITDA</b>	<b>1,252</b>	<b>1,213</b>	<b>1,704</b>	<b>2,151</b>	Chg in working capital	1,455	(1,146)	(829)	(784)
<i>Growth (%)</i>	(27.7)	(3.1)	40.4	26.3	Other operating activities	169	204	660	497
Depreciation	(532)	(567)	(663)	(690)	<b>Cash flow from operations (a)</b>	<b>2,730</b>	<b>102</b>	<b>1,100</b>	<b>1,448</b>
<b>EBIT</b>	<b>720</b>	<b>646</b>	<b>1,041</b>	<b>1,461</b>	Capital expenditure	(876)	(301)	(500)	(500)
Interest paid	(331)	(312)	(470)	(324)	Chg in investments	-	-	-	-
Other income	185	216	238	257	Other investing activities	162	180	-	-
<b>Pre-tax profit</b>	<b>574</b>	<b>549</b>	<b>809</b>	<b>1,393</b>	<b>Cash flow from investing (b)</b>	<b>(714)</b>	<b>(121)</b>	<b>(500)</b>	<b>(500)</b>
Tax	(112)	(83)	(202)	(348)	Equity raised/(repaid)	-	-	-	-
<i>Effective tax rate (%)</i>	19.5	15.2	25.0	25.0	Debt raised/(repaid)	(616)	(374)	(788)	(788)
Minority Interest	-	-	-	-	Dividend (incl. tax)	(202)	-	(157)	(241)
<b>Net profit</b>	<b>462</b>	<b>466</b>	<b>606</b>	<b>1,045</b>	Chg in minorities	-	-	-	-
Exceptional items	-	-	-	-	Other financing activities	(1,175)	519	(470)	(324)
<b>Adjusted net profit</b>	<b>462</b>	<b>466</b>	<b>606</b>	<b>1,045</b>	<b>Cash flow from financing (c)</b>	<b>(1,993)</b>	<b>145</b>	<b>(1,414)</b>	<b>(1,353)</b>
<i>Growth (%)</i>	(43.2)	0.8	30.1	72.3	<b>Net chg in cash (a+b+c)</b>	<b>23</b>	<b>126</b>	<b>(815)</b>	<b>(405)</b>
<i>Shares o/s (mn nos)</i>	24	24	24	24					

Balance Sheet					(Rs mn)
Year-end: March	FY20	FY21	FY22E	FY23E	
Net fixed assets	6,616	6,350	6,175	5,889	
Investments	49	49	49	49	
Other non-curr assets	204	167	167	167	
<b>Current assets</b>	<b>4,527</b>	<b>6,065</b>	<b>6,377</b>	<b>6,973</b>	
Inventories	1,307	1,686	2,236	2,597	
Sundry Debtors	125	1,217	1,614	1,898	
Cash and Bank	1,744	1,871	1,236	1,187	
Marketable Securities	-	-	-	-	
Loans and advances	1,351	1,291	1,291	1,291	
<b>Total assets</b>	<b>11,396</b>	<b>12,630</b>	<b>12,768</b>	<b>13,078</b>	
 Shareholders' funds	 4,683	 5,004	 5,453	 6,256	
Share capital	241	241	241	241	
Reserves & surplus	4,442	4,762	5,212	6,015	
<b>Total Debt</b>	<b>3,376</b>	<b>3,004</b>	<b>2,216</b>	<b>1,428</b>	
Secured loans	3,376	3,004	2,216	1,428	
Unsecured loans	-	-	-	-	
Other liabilities	298	309	309	309	
<b>Curr Liab &amp; prov</b>	<b>3,039</b>	<b>4,314</b>	<b>4,790</b>	<b>5,084</b>	
Current liabilities	3,039	4,168	4,488	4,698	
Provisions	-	146	302	387	
<b>Total liabilities</b>	<b>6,713</b>	<b>7,626</b>	<b>7,315</b>	<b>6,822</b>	
<b>Total equity &amp; liabilities</b>	<b>11,396</b>	<b>12,630</b>	<b>12,768</b>	<b>13,078</b>	
<b>Book Value (Rs)</b>	<b>194</b>	<b>207</b>	<b>226</b>	<b>259</b>	

Source: Company; IDBI Capital Research

## Financial Ratios

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	19.1	19.3	25.1	43.3
Adj. EPS growth (%)	(43.2)	0.8	30.1	72.3
EBITDA margin (%)	17.2	16.7	17.7	19.0
Pre-tax margin (%)	7.9	7.6	8.4	12.3
ROE (%)	10.2	9.6	11.6	17.8
ROCE (%)	7.0	6.8	10.0	14.3
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	0.7	0.6	0.8	0.9
Leverage factor (x)	1.8	1.7	1.5	1.3
Net margin (%)	6.4	6.4	6.3	9.2
Net Debt/Equity (x)	0.7	0.7	0.6	0.4
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	143	177	177	177
Receivable days	6	61	61	61
Payable days	78	103	103	103

## Valuation

Year-end: March	FY20	FY21	FY22E	FY23E
P/E (x)	40.5	40.1	30.9	17.9
Price / Book value (x)	4.0	3.7	3.4	3.0
PCE (x)	18.8	18.1	14.7	10.8
EV / Net sales (x)	3.0	3.1	2.3	1.9
EV / EBITDA (x)	17.5	18.3	12.9	9.9
Dividend Yield (%)	0.6	0.6	0.8	1.3



# Notes

Dealing

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