CARE Ratings
Professional Risk Opinion

No. CARE/CRO/RL/2019-20/1994
Mr. Vidyashankar Krishnan,
Managing Director,
M M Forgings Limited,
SVK Towers
A25, 8th Floor, Industrial Estate
Guindy, Chennai-600 032

April 01, 2020

Confidential

Dear Sir,

Credit rating for bank facilities

On the basis of recent developments including operational and financial performance of your company for FY19 (audited) and 9MFY20 (provisional), our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	564.53	**CARE A; Stable (Single A; Outlook: Stable)**	**Revised from CARE A+; Negative (Single A Plus; Outlook: Negative)**
Short term Bank Facilities	10.00	**CARE A1 (A One)**	**Revised from CARE A1+ (A One Plus)**
Long-term/Short-term Bank Facilities	182.00	**CARE A; Stable/ CARE A1 (Single A; Outlook: Stable/ A One)**	**Revised from CARE A+; Negative/ CARE A1+ (Single A Plus; Outlook: Negative /A One Plus)**
Total	**756.53 (Rupees Seven hundred fifty six crore and fifty three lakh only)**		

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

2. Refer **Annexure 1** for details of rated facilities

3. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure-2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by April 03, 2020, we will proceed on the basis that you have no any comments to offer.

4. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.

5. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.

6. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.

7. CARE’s ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

8. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.

9. CARE ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you, Yours faithfully,

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<u>Encl.: As above</u>

Disclaimer

CARE’s ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE’s ratings do not convey suitability or price for the investor. CARE’s ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it

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Annexure 1
Details of Rated Facilities

1. Long-term facilities

1.A. Term Loan (Rs. Crore)

Name of Lender	Amount rated	Remark
State Bank of India*	41.99	Repayable in 28 equal quarterly installments from September 2015.
ICICI Bank	145.31	Repayable in 32 equal quarterly installments from Dec 2019.
HDFC Bank	142.50	Repayable in 24 quarterly installments after moratorium of one year
DBS Bank*	81.63	22 equal quarterly installments after moratorium of 18 months
Citibank *	3.10	FY20- 11.88 crore
Proposed	150.00	
Total	**564.53**	

*Foreign currency term loan

Total Long-term facilities - Rs.564.53 crore

2. Short-term Facilities

Non-fund-based limits

(Rs. crore)

Sr. No.	Name of the Bank	Facility	Amount (Rs. crore)
1	State Bank of India	LC	10.00*
	Total		**10.00**

*Sublimit of BG- Rs.3 crore

Total Short-term facilities - Rs.10.00 crore

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3. Long/Short-term Facilities

3.A. Fund-based Limits (Rs. Crore)

Name of Bank	Fund-based Limits	
	Limit	**Facility**
State Bank of India	67.00	CC/PCFC/FDBP/FBEP
DBS	45.00	LPC/EBP
Citibank N.A	10.00	EPC/PCFC
Total	**122.00**	

3.B. Fund-based / Non-fund-based Limits **(Rs. Crore)**

Name of Bank	Limit	Facility	Remarks
HDFC Bank	60.00	Export Bill	Sublimit of Rs 10 cr –LC/BG
Total	**60.00**		

Total Long-term/Short-term facilities Rs.182.00 crore

CARE Ratings Ltd.

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Annexure 2
Press Release
MM Forgings Limited

Ratings

Facilities	Amount (Rs. crore)	Rating[2]	Rating Action
Long term Bank Facilities	564.53	**CARE A; Stable (Single A; Outlook: Stable)**	**Revised from CARE A+; Negative (Single A Plus; Outlook: Negative)**
Short term Bank Facilities	10.00	**CARE A1 (A One)**	**Revised from CARE A1+ (A One Plus)**
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Total	**756.53 (Rupees Seven hundred fifty six crore and fifty three lakh only)**		

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of MM Forgings Ltd (MM) factors in the moderation in Capital Structure and coverage indicators due to on-going debt funded capex. The rating however continues to factor in experience of the promoters, the established track record of MM in the auto components business, significant presence in both export & domestic market with a diversified product portfolio, established engineering capabilities and in-house machining capacity and financial risk profile characterized by healthy profit margins.

The ratings continue to be constrained by the high dependence on the cyclical auto industry, client concentration risk, exposure to the volatility in the raw material prices and working capital intensive nature of business. The ratings take a note of moderation in financial performance during 9mFY20 (refers to period from April 01 to December 31) on account of slowdown in automobile sector followed by improved performance in FY19 (refers to period from April 01 to March 31). With downward revision in rating and considering comfortable

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

liquidity position as reflected in liquid investments maintained by the company, the outlook is revised from 'Negative' to 'Stable'.

Positive Factors

- Significant improvement in the capital structure on sustained basis
- Consistent increase in the scale of operations by increase in sales to both domestic and Export markets while maintaining profitability

Negative Factors

- Sharpe de-growth in the sales volume to the segment the company caters resulting in under-utilization of capacity
- Detrition in the Capital Structure from current levels

Detailed description of the key rating drivers

Credit Risk Assessment

Experienced promoters and established track record of the company

MM has been in the business of forging since 1974 with established presence in automotive and industrial forgings segment. The company enjoys more than two decades of relationships with most of its key clients. The day-to-day affairs of the company are managed by Mr Vidyashankar Krishnan, a third generation entrepreneur and a post graduate in engineering from I.I.T Madras with more than 25 years of experience in forging business.

Well-established presence in both domestic & export markets and diverse product offering

With strong track record in forging products in terms of quality and metallurgical integrity, MM has a well-established export market. Backed by strong engineering capability, the company has continuously developed new products catering to the needs of the customers offering them with variety of components. MM has commenced supplies of heavier weight products manufactured from its new 8000MT press line. MM supplies components mainly to the Tier-1 suppliers in export markets who in-turn supply to OEM's. Majority of the exports of the company are to USA, Canada and Europe. Of the total sales, ~ 48% is contributed by India, ~26% by North America, ~26% by Europe and others in FY19.

***Established* engineering capabilities and machining capacity**

MM uses indigenously developed dies and tools in the forging process which helps it to maintain better quality and consistency. MM's design and engineering capability and ability to manufacture forging components with consistent quality and reliability is well acknowledged by its Tier I customers and OEMs, who have been giving repeat orders. The advantage of having in-house machining unit has fetched new clients for the company in the past. The Company has recently added higher tonnage press lines to foray into higher weight segment forgings. Also, the company is increasing its machining capabilities as the demand for forgings requirement in machined condition is increasing. With the increase in machining capability, the company is planning to increase its machined forged product to 30-35% of total product sales in next 2 to 3 years from current 20-25%.

Moderation in financial performance during 9mFY20 on account of slowdown in automobile sector followed by improved performance in FY19

The company has reported total operating income of Rs.919.1 crore for FY19, growth of 45.3% YoY due to strong growth in sales quantity in tonnes (growth of 17.1% YoY) and improvement in realization (growth of 28.9% YoY). The growth in sales tonnage and realization can be attributed to strong demand from domestic and export markets and incremental supplies of new products to the customers in FY19.

MM has maintained margins in the range of 20%-22% in the past few years mainly due to pass through clause with customers with respect to raw materials. The company has maintained the PBILDT margin of 20.5% in FY19 (PY: 21.5%). It is to be noted that generally there is time lag of around one quarter in passing on the cost increase to customers. Company reported PAT of Rs.81.3 crore (PY: Rs.68.5 crore) and GCA of Rs.141.3 crore (PY: Rs.107.3 crore) during FY19.

For 9MFY20, the company reported revenue of Rs.582.5 crore, decrease of 14.4% Y-o-Y majorly due to slowdown in the Auto industry especially in domestic market. For 9MFY20, the company reported the PBILDT margin of 19.9% (PY: 20.7%). On account of drop in sales and increase in interest expense due to increase in term loan, the company reported, PAT of Rs.39.6 crore (PY: Rs.63.8 crore).

Relatively large size debt funded capex

The company has on-going relatively large debt funded capex to expand its machining as well as forgings capacity. In order to cater higher weight and new products and machined products to the new as well as existing customers, the company had planned the capacity expansion in FY18. The company has added higher tonnage press line of 8000 metric ton (MT) to focus on higher weight products where supplies commenced in FY18. The company is now able to manufacture higher weight product range up to 100 kg (products like crankshaft, axle beam, axle arm etc.) from the past range of up to 60 kg. MM is expected to supply this higher weight range product to the existing as well as new customers. With the foray into the new higher weight segment forgings, value content per vehicle is also expected to increase. With this, the average weight of product is expected to be in the range of 5 kg-10 kg from the average weight of ~2.5kg as on FY19. With the addition of new press (6300 MT and 7,000 MT) and debottlenecking of existing press line (8000 MT), the forging production capacity will be enhanced to 100,000 Metric Ton per annum (MTPA) by March 2020 from the capacity of 70,000 MTPA as on March 2019.

The demand for the forgings required in the Machined Conditions is increasing. Also, the forging products manufactured out of recently added 8000MT press line is predominantly required by the customers in the Machined conditions. Due to this, the company was also adding its Machining capacity. The machining capacity will be enhanced at existing plants as well as company had set up Greenfield project at Lucknow for machining.

Out of the total planned capex of around Rs. 695 crore, MM had incurred the capex of around Rs.389 crore till March 2019 (for FY18- MM has incurred Rs.100 crore and for FY19- Rs.289 crore). The Company has availed Rs.385 crore of long term loans for the same till March 2019 for the same (Rs.100 crore in FY18 and Rs.285 in FY19). Capex planned for FY20 is Rs.90 crore, of which around Rs.30 crore is expected to be funded through bank term debt.

The company had acquired DVS Industries Pvt. Ltd (DVS), a crankshaft machining unit for Commercial vehicle, agriculture and off highway vehicles in February 2018. MM has invested around Rs.87 crore in DVS.

Moderation in Capital Structure due to on-going debt funded capex

As stated earlier, the company is in the process of debt funded capex for enhancing forging and machining capability. During FY19, the company has availed the term loan of Rs.285 crore for Capex. With increase in term debt, the overall gearing stood at 1.58x as on March 31, 2019 (PY:1.05x). However, the company has investments of Rs.171.1 crore in debt mutual funds as on March 31, 2019 which it plans to maintain at all points of time to maintain its comfortable liquidity position. Adjusting for the same, overall gearing stood at 1.19x as on March 31, 2019

(PY:0.61x). The Total Debt/GCA stood at 4.90x (PY: 3.62x) while the interest coverage of the company stood at 7.21x (PY:10.76x) as on March 31,2019.

For 9MFY20, the company had not availed any new term debt and the overall gearing stood at 1.29x as on December 31, 2019.

The cost of borrowing is lower as the company utilizes foreign currency loan/borrowings and there is a natural hedge on the same through export sales. Depending on market condition, company hedges the net exposure.

Susceptibility to raw material price fluctuation

Nearly 40-45% of the cost of production for the company is raw material cost. Raw material cost (primarily steel billets) stood at 44.8% of income in FY19 (PY:40.8%). The price of key raw material, steel billets has been volatile in the past. Since majority of MM's contracts with its clients carry price adjustment clause, the company could pass on the increase in the cost to its customers though with a time lag. However, the company is exposed to difference in raw material price movement in the domestic market (where the company sources its material) vis-à-vis that in the international market as export clients absorb price variation only to the extent of movement in international prices. The hedging policy depends on the movement of foreign exchange rates and the company changes the quantum hedge depending on market conditions.

Client concentration risk

The top ten clients of MM contributed to nearly 74% of total operating income during FY19 as against 79% in FY18 whereas the top three clients of MM contributed to nearly 39% of total operating income during FY19 (PY:39%). However, the company has established relationship with its clients and expertise in developing components as per their changing requirements which mitigates risk of losing clientele to some extent. Also Company will be supplying newly developed and greater weight components to the existing customers.

Dependence on cyclical auto industry

Automotive industry is subjected to cyclical variations in performance and is very sensitive to various policy changes. MM's performance is susceptible to cyclical nature of auto industry as majority of the revenues generated by the company is for the automobile industry. Any steep reduction in off-take exposes the Company to high fixed costs. For FY19, the automobile sector (Commercial Vehicle + Passenger vehicle) contributed to 92% to the total sales of the company, off-highway segment contributed around 5% while remaining is contributed by Valve/oilfield. In automobile sector, commercial vehicle contributed around 79% while passenger vehicle contributed around 14% of sales. MM also caters to the requirements of other sectors including equipment used in oil fields, earth moving equipment, engineering, etc. As such, the requirements of forged components are relatively higher in the automobile industry when compared to other sectors and hence the dependence on auto industry is expected to continue in the medium term.

Liquidity: Adequate

During the twelve months ended January 2020 the average of maximum working capital utilization of the company was at 83.03%. The company also has liquid investments for Rs.171 crore as on March 31, 2019 to maintain comfortable liquidity position. The company has maintained the liquid investments of around Rs.170 crore as on January 31, 2020. Scheduled Repayment of Long term loan for FY20 is Rs.57.3 crore as against GCA of Rs.79.4 crore for 9MFY20. The company extends credit period of around 60-90 days to its customers and gets credit period of 30-60 days from its suppliers. The stock holding period of the company is higher at 75-80 days due to high exports. The working capital cycle stood at 89 days as on March 31, 2019.

Analytical approach: Standalone

Applicable Criteria

CARE's Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings
Rating Methodology-Manufacturing Companies
Rating Methodology- Auto Ancillary companies
Rating Methodology - Short Term Instruments
CARE's Policy on Default Recognition
Financial ratios (Non-Financial Sector)

About the company

MM manufactures steel forgings in raw, semi-machined and fully machined stages in various grades of Carbon, Alloy, Micro-Alloy and Stainless Steels in the weight range of 0.20 Kg to 100 Kg. The company currently has the capacity to manufacture 70,000 MTPA (Metric tonne per annum) as on March 31, 2019 and has manufacturing facilities located at Karanaithangal

Village- Kancheepuram District; Singampunari –Sivagangai District and Viralimalai -Pudukottai District, all in Tamil Nadu.

The forging capacity is also supported by machining capabilities. MM manufactures forged components for automobiles (mainly commercial vehicles), valves (oil field) and off-highway equipment, catering to both the domestic and international markets. MM owns windmills with an aggregate capacity of 35 mn units and solar panels with capacity of 3 mn units. Power from wind mills and solar panels cater to MM's power requirements. Around 35% of total power requirement met from captive solar and wind power in FY19.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	632.3	919.1
PBILDT	136.1	188.5
PAT	68.5	81.3
Overall gearing (times)	1.05	1.58
Interest coverage (times)	10.76	7.21

A-Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	December 2022	41.99	CARE A; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	67.00	CARE A; Stable / CARE A1
Non-fund-based - ST-BG/LC	-	-	-	10.00	CARE A1
Fund-based/Non-fund-based-LT/ST	-	-	-	60.00	CARE A; Stable / CARE A1
Fund-based - LT/ ST-Packing Credit in Foreign Currency	-	-	-	10.00	CARE A; Stable / CARE A1
Fund-based - LT/ ST-Bills discounting/ Bills purchasing	-	-	-	45.00	CARE A; Stable / CARE A1
Term Loan-Long Term	-	-	September 2027	522.54	CARE A; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	41.99	CARE A; Stable	-	1)CARE A+; Negative (04-Jan-19)	1)CARE A+; Stable (04-Jan-18)	1)CARE A+; Stable (27-Feb-17)
2.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	67.00	CARE A; Stable / CARE A1	-	1)CARE A+; Negative / CARE A1+ (04-Jan-19)	1)CARE A+; Stable / CARE A1+ (04-Jan-18)	1)CARE A+; Stable / CARE A1+ (27-Feb-17)
3.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1	-	1)CARE A1+ (04-Jan-19)	1)CARE A1+ (04-Jan-18)	1)CARE A1+ (27-Feb-17)
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	60.00	CARE A; Stable / CARE A1	-	1)CARE A+; Negative / CARE A1+ (04-Jan-19)	1)CARE A+; Stable / CARE A1+ (04-Jan-18)	1)CARE A+; Stable / CARE A1+ (27-Feb-17)
5.	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST	10.00	CARE A; Stable / CARE A1	-	1)CARE A+; Negative / CARE A1+ (04-Jan-19)	1)CARE A+; Stable / CARE A1+ (04-Jan-18)	1)CARE A+; Stable / CARE A1+ (27-Feb-17)
6.	Fund-based - LT/ ST-Bills discounting/ Bills purchasing	LT/ST	45.00	CARE A; Stable / CARE A1	-	1)CARE A+; Negative / CARE A1+ (04-Jan-19)	1)CARE A+; Stable / CARE A1+ (04-Jan-18)	1)CARE A+; Stable / CARE A1+ (27-Feb-17)
7.	Term Loan-Long Term	LT	522.54	CARE A; Stable	-	1)CARE A+; Negative (04-Jan-19)	1)CARE A+; Stable (04-Jan-18)	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.