Annexure 2

MM Forgings Limited

April 01, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	439.19 (Enhanced from Rs.431.38 crore)	**CARE A; Stable (Single A; Outlook: Stable)**	Reaffirmed
Long-term / Short-term Bank Facilities	173.00 (Enhanced from Rs.152.00 crore)	**CARE A; Stable / CARE A1 (Single A; Outlook: Stable / A One)**	Reaffirmed
Short-term Bank Facilities	171.00 (Enhanced from Rs.90.00 crore)	**CARE A1 (A One)**	Reaffirmed
Total Facilities	**783.19 (Rs. Seven Hundred Eighty-Three Crore and Nineteen Lakhs Only)**		

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MM forgings Limited (MM) continue to factor in experience of the promoters, established track record of MM in the auto components business, the company's significant presence in both export & domestic market with a diversified product portfolio, established engineering capabilities and in-house machining capacity. The ratings also consider MM's healthy business risk profile with steadiness in its profitability margins and company's moderate financial risk profile characterized by moderate gearing as well as debt metrics and adequate liquidity position supported by substantially large liquid investments maintained by the company in line with its stated policy. The ratings also take a note of improvement in operational and financial performance during 9MFY22 (refers to the period from April 1 to December 31) supported by recovery in demand with abatement of covid-19 pandemic. Going forward, CARE Ratings believes that the company shall be able to maintain its profitability margins and grow its scale of operations in the medium term on the back of higher capacity utilization and an increase in machining capacity. Moreover, the company's debt levels have already peaked and it is expected to maintain an incrementally better solvency profile and adequate liquidity position in the medium term.

The above rating strengths are, however, tempered 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.

Rating Sensitivities

Positive Factors – Factors that could lead to positive rating action/upgrade:

- Significant increase in its total operating income (TOI) to beyond Rs.1,000 crore with increase in sales to both domestic and export markets along with sustained improvement in its ROCE beyond 15%
- Improvement in overall gearing to below 0.80x and total debt/PBILDT below 3x on a sustained basis

Negative Factors – Factors that could lead to negative rating action/downgrade:

- Sharp de-growth in the sales volume resulting in under-utilization of capacity
- Deterioration in overall gearing beyond 1.5 times on a gross debt basis.
- Significant reduction in liquid investments maintained by the company

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

Detailed description of the key rating drivers

Key Rating Strengths

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 catering to the global customers. 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 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 and Europe. Of the total sales, ~ 47% is contributed by India, ~20% by North America, ~31% by Europe and South America and remaining from others in FY21.

Established engineering capabilities and machining capacity: MM uses indigenously developed dies and tools in the forging process which helps them 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, which have been giving repeat orders. The advantage of having in-house machining unit has fetched new clients for the company in the past. All of the MM forging plants is equipped with in-house tool rooms. Moreover, the company is increasing its machining capabilities as the demand for forgings requirement in machined condition is increasing.

Recovery in operating performance in current fiscal after moderation in FY20 and FY21: Capacity utilization of MM remained sub optimal over past two years ended FY21. Revenue in FY20 was impacted by slowdown in the auto industry especially in domestic market while Revenue in FY21 was impacted by covid-19 pandemic led demand disruption. During FY21, total operating income (TOI) of MM remained largely stable at Rs.744 crore on Y-o-Y. MM has maintained PBILDT margin in the range of 18%-21% in the past five years ended FY21 mainly due to pass through clause with respect to raw materials with customers albeit with time lag of around one quarter. The company has reported PBILDT margin of 18.73% in FY21 (PY: 19.01%). With largely stable PBILDT margin coupled with broadly stable interest cost and depreciation charge, MM reported stable PAT of Rs.47 crore (PY: Rs.46 crore) and GCA of Rs.104 crore (PY: Rs.102 crore) during FY21.

Domestic sales were impacted in Q1FY22 mainly restrictions imposed by the states due to second wave of covid-19 pandemic which impacted CV demand. However, exports continued to remain strong on the back of steady order flows. With recovery in demand, performance of MM gradually improved on q-o-q basis and y-o-y basis. During 9MFY22, TOI of MM grew by 75% with an improvement in its PBILDT margin.

Moderate financial risk profile: The capital structure of the company marked by overall gearing ratio continued to remain moderate at 1.24x as on March 31, 2021 (PY:1.21x). Moreover, the company had liquid investments of Rs.186 crore in debt mutual funds as on March 31, 2021. Adjusting for the same, net overall gearing stood at 0.87x as on March 31, 2021 (PY:0.84x). Moreover, debt coverage indicators marked by Total Debt/PBILDT stood at 4.46x (PY: 4.00x) while the interest coverage of the company stood adequate at 4.46x (PY:4.28x) during FY21.

Key Rating Weaknesses

Client concentration risk: The top ten clients of MM contributed to nearly 83% of net sales during FY21 as against 85% in FY20 signifying high reliance on few customers to generate revenues. However, the company has established relationship with its clients and expertise in developing components as per their changing requirements which mitigates risk of losing customers to a large extent. Also, the company will be supplying newly developed and greater weight components to the existing customers which shall support growth in sales.

Capacity expansion for machining apart from acquisition: Due to increasing demand for machined products from customers, MM had earlier planned to increase machining capacity but deferred it due to slowdown in Auto industry and Covid-19 pandemic. The forging products manufactured including 8000 MT press line added in FY20 is predominantly required by the customers in the machined conditions. Now, the company is increasing its machining capacity at cost of around Rs.160 crore which is being funded through term loan of Rs.100 crore and balanced through internal accruals. During October 2021, MM acquired CAFOMA Autoparts Private Limited, engaged in manufacturing of crankshafts for Rs.28 crore in cash and Rs.5 crore of debt. Ability of the company to ramp up its enhanced manufacturing and machining capacity along with improve the performance of subsidiaries and in turn improve its ROCE would be crucial from credit perspective.

Susceptibility of profitability to raw material price fluctuation: Nearly 45-50% of the cost of production for the company is raw material cost. 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. Company mainly avails its borrowings in foreign currency which provides natural hedge against its export to some extent, however, there remains a time gap.

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 FY21, the automobile sector (Commercial Vehicle + Passenger vehicle) contributed to 93% to the total sales of the company while remaining is contributed by Valve/oilfield and off highway segment. In automobile sector, commercial vehicle contributed around 75% while passenger vehicle contributed around 18% 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

MM's liquidity remains adequate marked by moderate fund-based working capital limits utilization of 67% for the trailing 12 months ended February 2022 and liquid investments and cash and bank balance aggregating Rs.186 crore as on March 31, 2021. As on December 31, 2021, MM had liquid investments of Rs.193 crore which it plans to continue to maintain to support its liquidity position. The company has planned a capex of around Rs.160 crore which is being funded through term loan of Rs.100 crore and balanced through internal accruals. Moreover, MM has low term-debt repayment obligation of Rs.70-85 crore per annum during the next two years as against envisaged cash accruals of over Rs.150 crore per annum, indicating adequate cushion in its debt servicing.

Analytical Approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector

[Rating Methodology - Manufacturing Companies](#)
[Rating Methodology - Auto Ancillary Companies](#)
[Liquidity Analysis of Non-Financial Sector Entities](#)

About the company

MM manufactures steel forgings in raw, semi-machined and fully machined stages in various grades of Carbon, Alloy, MicroAlloy and Stainless Steels in the weight range of 0.20 Kg to 100 Kg. The company currently has the capacity to manufacture 100,000 MTPA (Metric tonne per annum) as on December 31, 2021. 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's manufacturing facilities are located at Karanaithangal Village- Kancheepuram District; Singampunari –Sivagangai District and Viralimalai -Pudukottai District, all in Tamil Nadu while machining facility is situated near Luckhnow, UP. MM owns windmills with an aggregate capacity of 35 mn units and solar panels with capacity of 3 mn units.

(Rs. Crore)

Brief Financials (Standalone)	FY20 (A)	FY21 (A)	9MFY22 (UA)
Total operating income	743	744	803
PBILDT	141	139	160
PAT	46	47	83
Overall Gearing (times)	1.21	1.24	NA
PBIDLT Interest coverage (times)	4.28	4.46	7.58

A: Audited; UA: Un Audited; NA: Not available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history (last three years): Please refer Annexure-2

Covenants of rated instrument/facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Please refer Annexure-4

Annexure-1: Details of Instrument/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	February 2027	52.22	CARE A; Stable
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	82.00	CARE A; Stable / CARE A1
Non-fund-based - ST-BG/LC		-	-	-	16.00	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		-	-	-	31.00	CARE A; Stable / CARE A1
Fund-based/Non-fund-based-Short Term		-	-	-	45.00	CARE A1
Term Loan-Long Term		-	-	July 2028	386.97	CARE A; Stable
Fund-based - ST-Bill Discounting/ Bills Purchasing		-	-	-	110.00	CARE A1

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	52.22	CARE A; Stable	1)CARE A; Stable (07-Apr-21)	1)CARE A; Stable (07-Apr-20)	-	1)CARE A+; Negative (04-Jan-19)
2	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	82.00	CARE A; Stable / CARE A1	1)CARE A; Stable / CARE A1 (07-Apr-21)	1)CARE A; Stable / CARE A1 (07-Apr-20)	-	1)CARE A+; Negative / CARE A1+ (04-Jan-19)
3	Non-fund-based - ST-BG/LC	ST	16.00	CARE A1	1)CARE A1 (07-Apr-21)	1)CARE A1 (07-Apr-20)	-	1)CARE A1+ (04-Jan-19)
4	Fund-based/Non-fund-based-LT/ST	LT/ST*	60.00	CARE A; Stable / CARE A1	1)CARE A; Stable / CARE A1 (07-Apr-21)	1)CARE A; Stable / CARE A1 (07-Apr-20)	-	1)CARE A+; Negative / CARE A1+ (04-Jan-19)
5	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST*	31.00	CARE A; Stable / CARE A1	1)CARE A; Stable / CARE A1 (07-Apr-21)	1)CARE A; Stable / CARE A1 (07-Apr-20)	-	1)CARE A+; Negative / CARE A1+ (04-Jan-19)
6	Fund-based/Non-fund-based-Short Term	ST	45.00	CARE A1	1)CARE A1 (07-Apr-21)	1)CARE A; Stable / CARE A1 (07-Apr-20)	-	1)CARE A+; Negative / CARE A1+ (04-Jan-19)
7	Term Loan-Long Term	LT	386.97	CARE A; Stable	1)CARE A; Stable (07-Apr-21)	1)CARE A; Stable (07-Apr-20)	-	1)CARE A+; Negative (04-Jan-19)
8	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	110.00	CARE A1	1)CARE A1 (07-Apr-21)	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:

Name of the Instrument	Detailed explanation
A. Financial covenants	NA
I	
Ii	
B. Non financial covenants	NA
I	
Ii	

Annexure-4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-CC/Packing Credit	Simple
3	Fund-based - LT/ ST-Packing Credit in Foreign Currency	Simple
4	Fund-based/Non-fund-based-LT/ST	Simple
5	Non-fund-based - ST-BG/LC	Simple
6	Term Loan-Long Term	Simple
7	Fund-based/Non-fund-based-Short Term	Simple
8	Fund-based - ST-Bill Discounting/ Bills Purchasing	Simple

Annexure-5: Bank Lender Details for this company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Ajay Kumar Dhaka
Contact no.: 8826868795
Email ID: ajay.dhaka@careedge.in

Relationship Contact
Name: Pradeep Kumar V
Contact no.: +91-98407 54521
Email ID: pradeep.kumar@careedge.in

About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

Disclaimer

The ratings issued by CARE Ratings Limited 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. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited’s rating.

Our 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.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**