

M M Forgings Limited

April 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	439.19	CARE A; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	173.00	CARE A; Stable / CARE A1	Reaffirmed
Short Term Bank Facilities	171.00	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and 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. The ratings also take a note of improvement in operational and financial performance during FY22 (refers to the period from April 1 to March 31, 2022) supported by recovery in demand with abatement of covid-19 pandemic.

The rating is, however, constrained by the continuous debt funded expansion plans, 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. Any further large debt-funded capex exerting pressure on the liquidity position would remain a key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

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

Negative factors

- 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

Analytical approach: Standalone factoring in support to the subsidiaries

Outlook: Stable

The stable outlook reflects that the rated entity is likely to maintain its dominant market position which coupled with favourable demand scenario shall enable it to sustain healthy operating performance (or healthy business risk profile) over the medium term.

Detailed description of the key rating drivers:

Key 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, ~48% is contributed by India, ~19.60% by North America, ~18% by Europe and ~ 12 South America in FY22.

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

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

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.

Improvement in operational performance in FY22 and 9MFY23

The Capacity utilization which were sub-optimal for past two years post covid has increased in FY 22 and 9M FY 2023 MM has been performing well in FY22 on the back of the favourable CV demand in India and abroad. In FY22, TOI rose by 50% and stood at Rs. 1088 crores.

The company is experiencing high demand in the heavy forging segment. The growth in sales has brought the share of exports to less than 50% of sales. During 9M FY23, the share of export sales to total revenue has decreased from 53% in 9MFY22 to 35% in 9M FY23, however there is no slowdown in exports, rather European manufacturers are shifting their sourcing from the domestic market to foreign markets in view of high energy costs.

In the domestic market, OEMs are also consolidating their supplier base, so there is high demand from domestic players, as witnessed by increase in domestic sales by 81% y-o-y. The company has been maintaining healthy PBILDT margin between 18-21% for the last three years. The PBILDT margin stood at 19.24% in FY22.

Key Weaknesses

Moderate Capital Structure

The capital structure of the company marked by overall gearing continued to remain moderate at 1.19x as on March 31, 2022 (PY:1.23x). Moreover, the company had liquid investments of Rs.192 crore in debt mutual funds as on March 31, 2022 which it plans to maintain (for at least two years repayment) its comfortable liquidity position. Adjusting for the same, net overall gearing stood at 0.86x as on March 31, 2022 (PY:0.87x). Moreover, debt coverage indicators marked by Total Debt/PBILDT stood at 3.19x (PY: 4.43x) while the interest coverage of the company stood at 7.87x (PY:4.46x) during FY22.

Client concentration risk: The top ten clients of MM contributed around 80% of net sales during FY22 as against 83% in FY21 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.

Continuous debt funded expansion:

In April 2022, MM acquired 100% of Suvarchas Vidyut Private Limited, manufacturers of small electrical motors. During September 2022, MM had acquired 88% of total shares in Abhinava Rizel, expertise in EV motors and Powertrain technologies. Apart from these, MM has two other subsidiaries -DVS Industries and CAFOMA Auto Parts Private Ltd, which are manufacturing crankshafts. On the standalone basis, MM have plans to invest about Rs. 350 crores of Capex in next two years, of which 200 crores will be debt funded. Most of the Capex will be used for increasing the machining capacity and for addition of press capacity in forging segment. During the same period, subsidiaries are expected to do a capex for Rs. 150 crores. The ability of the company to ramp-up its enhanced manufacturing and machining capacity along with improving the performance of subsidiaries and in turn improve its ROCE would be crucial from the credit perspective.

Susceptibility of profitability to raw material price fluctuation

Nearly 45%-50% of the cost of production for the company is the raw material cost. The price of the 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 the difference in the 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 the international prices. The hedging policy depends on the movement of foreign exchange rates and the company changes the quantum hedge depending on market conditions. The 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 the cyclical variations in performance and is very sensitive to various policy changes. MM's performance is susceptible to the 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 FY22, the automobile sector (Commercial Vehicle + Passenger vehicle) contributed to 91% to the total sales of the company, while remaining is contributed by valve/oilfield and off highway segment. In the automobile sector, commercial vehicle contributed around 79%, while passenger vehicle contributed around 12% of the 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 80% for the trailing 10 months ended February 2022 and liquid investments and cash and bank balance aggregating Rs. 224 crores as on March 31,

2022. As on March 31, 2022, MM had liquid investments of Rs.192 crore. MM has term-debt repayment obligation of about Rs.120 crore per annum during the next two years as against envisaged cash accruals of over Rs.200 crore per annum, indicating adequate cushion in its debt servicing.

Environment, social, and governance (ESG) risks

Environmental Practices: To reduce carbon footprint and ensuring sustainability across all operations, the Company focuses on various initiatives like using bio-fuels, modern regenerative combustion technology, recycled water, reduced cycle waste & adoption of eco-friendly waste disposal, implementation of scientific tree plantation to reduce atmospheric pollution etc., in its manufacturing operations.

Social efforts: The Company has made special efforts for the people residing in places near the plant locations. The Company has planted saplings in each house of the nearby village. The Company has made lot of efforts to get water in all the households in the vicinity of the plant locations. The Company has contributed for development of a school near the plant.

Governance: The Code of Conduct of MMF provides guidelines and policies on ethics, bribery and corruption. The Code is applicable to all Senior employees including Executive Directors. During the year under review, the Company has not received any complaints in connection with ethics, bribery and corruption.

Applicable criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Auto Ancillary Companies](#)

[Manufacturing Companies](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Auto Components & Equipments

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 metric tonne per annum (MTPA) as on December 31, 2022. 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 the machining facility is situated near Lucknow, UP. MM owns windmills with an aggregate capacity of 35 million units and solar panels with capacity of 3 million units.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9M FY23 (UA)
Total operating income	744	1118	1047
PBILDT	139	215	201
PAT	47	92	95
Overall gearing (times)	1.23	1.19	NA
Interest coverage (times)	4.46	7.87	9.11

A: Audited UA: Unaudited NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for 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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	Feb 27	52.22	CARE A; Stable
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	82.00	CARE A; Stable / CARE A1
Fund-based - LT/ ST-Packing Credit in Foreign Currency		-	-	-	31.00	CARE A; Stable / CARE A1
Fund-based - ST-Bill Discounting/ Bills Purchasing		-	-	-	110.00	CARE A1
Fund-based/Non-fund-based-LT/ST		-	-	-	60.00	CARE A; Stable / CARE A1
Fund-based/Non-fund-based-Short Term		-	-	-	45.00	CARE A1
Non-fund-based - ST-BG/LC		-	-	-	16.00	CARE A1
Term Loan-Long Term		-	-	Jul 28	386.97	CARE A; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	52.22	CARE A; Stable	1)CARE A; Stable	1)CARE A; Stable	1)CARE A; Stable	-

					(07-Apr-22)	(07-Apr-21)	(07-Apr-20)	
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-22)	1)CARE A; Stable / CARE A1 (07-Apr-21)	1)CARE A; Stable / CARE A1 (07-Apr-20)	-
3	Non-fund-based - ST-BG/LC	ST	16.00	CARE A1	1)CARE A1 (07-Apr-22)	1)CARE A1 (07-Apr-21)	1)CARE A1 (07-Apr-20)	-
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-22)	1)CARE A; Stable / CARE A1 (07-Apr-21)	1)CARE A; Stable / CARE A1 (07-Apr-20)	-
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-22)	1)CARE A; Stable / CARE A1 (07-Apr-21)	1)CARE A; Stable / CARE A1 (07-Apr-20)	-
6	Fund-based/Non-fund-based-Short Term	ST	45.00	CARE A1	1)CARE A1 (07-Apr-22)	1)CARE A1 (07-Apr-21)	1)CARE A; Stable / CARE A1 (07-Apr-20)	-
7	Term Loan-Long Term	LT	386.97	CARE A; Stable	1)CARE A; Stable (07-Apr-22)	1)CARE A; Stable (07-Apr-21)	1)CARE A; Stable (07-Apr-20)	-
8	Fund-based - ST-Bill Discounting/Bills Purchasing	ST	110.00	CARE A1	1)CARE A1 (07-Apr-22)	1)CARE A1 (07-Apr-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities – Not Applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings 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.

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About us:

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