Showing sustainable growth

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Vidyashankar: quality and focus defines success

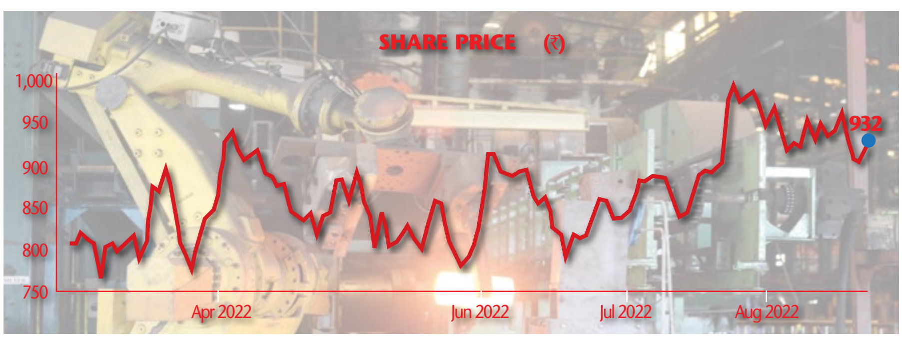
M M Forgings consolidates its position in the market, foraying into EV space

Forging is the backbone of manufacturing industries such as automotive, power, construction, mining, railways, etc, with 85 per cent of it used in automotive sector. Indian forging has been traditionally well-recognised globally for its technical capability and varied product range.

Over the years, forging in India has evolved from being labour-intensive to be a capital-intensive manufacturing sector. And, the Chennai-based M M Forgings Limited (MMFL), one of the oldest players in the segment, has always adopted itself to the changing market scenario and invested in capacity expansion and value addition. Now, intensive research for innovative products and services has begun to pay MMFL rich dividends.

"Our USP is to work closely with customer's need, offer consistent quality and seamless supply," says vice chairman and managing director, Vidyashankar Krishnan. His canny business sense has led MMFL to be the third largest forging player in the country with capacity to produce 110,000 mtpa after Bharat Forge (540,000 mtpa including overseas) and Ramkrishna Forgings (187,000 mtpa). MMFL's consolidated revenue in the last five years rose from ₹650 crore in 2018 to ₹1,153 crore in 2022. The share price hovering at ₹926 a piece on NSE with current market cap is ₹2,238 crore employing 4000 people.

As a part of its growth plan, MMFL is now ready to enter into EV parts manufacturing, in a joint venture. "In the next 7-10 years, the opportunity in EV space will go up manifold," says Vidyashankar. "And, we want to be part of this growth journey, using our engineering excellence in auto sector." However, he refuses to divulge the name of the joint partner-to-be, though the company is likely to announce the details soon. According to an industry source, the new company will make components like motors, controller and power trains for EVs – especially, the higher range motors to be used in two-, three- and four-wheelers. The source also confirms that MMFL



will have a lion's share in the new joint venture. It will gradually ramp up the operation and plans to make full axle unit for EV later. Earlier, the company had formed a wholly-owned subsidiary, Suvarchas Vidyut, to produce electrical and electronic components and sub assemblies for industrial and auto motive applications.

M M Forgings began its journey as Madras Motor Limited in 1946, as an importer of Royal Enfield Motorcycles from the UK. It witnessed a boom in the automotive industry in India, as also the world over in the 1960s and the '70s, which prompted S.E. Krishnan, founding managing director and father of Vidyashankar, to foray into the forging business and set up its unit in 1974 at Singampunari near Madurai, with a capacity to make 780 million tonnes per annum. By the mid 1980s, the company's forging business expanded, with its capacity reaching 3,000 mtpa. The family's dealership business of Royal Enfield was later wound up and the promoter's stake in Enfield India diluted, to focus on the forging vertical in 1990. Subsequently, in 1991, the company launched a second forging plant at Viralimalai, Tamil Nadu, with a capacity of 3,000 mtpa.

IPO oversubscribed

The company rechristened its name from Madras Motors to MM Forgings in 1993, as it went for stock exchange listing to raise funds in 1994. MMFL's major capacity addition at its Viralimalai plant to 12,000 mtpa was funded from this initial public offering. The goodwill of the company has helped the IPO to be oversubscribed by 17 times.

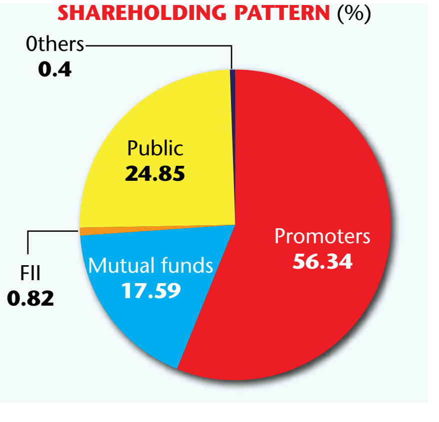
Vidyashankar had joined the company in 1990 as a trainee after completing his studies in engineering from IIT Madras. "In those days, many of my friends and cousins were going abroad for higher studies, but I bucked the trend and decided to join the family business and take the challenge to grow it further," he recalls.

He had to learn the nitty-gritties of the forging industry, before he was given the responsibility to plan and commission a major expansion at the Viralimalai plant in 1994-95. He also led the technical and production teams to guide their activities towards targeted high growth. "It was a tremendous learning for me and it probably defined what I am today," acknowledges Vidyashankar from his office in SVK Towers at Guindy, Chennai.


Core management team: Raman, Venkatakrishnan, Nagarajan, Santhanam and Subramaniam

With his father in poor health, Vidyashankar managed the entire operation of the company under his guidance. When his father passed away in 1999, Vidyashankar took over as managing director of MMFL at the age of 34 years. He is at present the vice-chairman & managing director of the company, while his US-based younger brother Venkatramanan K is the joint managing director, responsible for the export activities of the company.

Now 56, Vidyashankar has contributed his mite to the organisation with passion and a single-minded devotion, to make it the best in the industry. With fresh capital infused, the zeal for growth has seen the single plant of 1974 grow into a giant organisation with a capacity to produce 110,000 mtpa from its 10 manufacturing facilities. The revenue of the company has grown many times after he took over the management control in 1999 -- from ₹50 crore to ₹1,150 crore today and growing.



According to the latest analyst report of B&K Securities, MMFL is gaining higher margins for supplying large components (front axle beams and crankshafts) from high tonnage press line. Further, the company has been spending towards building machining capacity (over 65 per cent of the planned capex in 2022-23 is towards machining) to enhance the share of higher margin machined components.

"We expect M M Forging to improve its performance, driven by the expected upcycle in domestic MHCV segment on revival in infra projects, economic recovery, last mile connectivity and replacement buying," the report states.

The guesstimated forging market size is ₹50,000 crore, growing at 12 per cent year on year. Based on the installed capacity, the forging units may be classified as very large (capacity above 75,000 mt), large (capacity of 30,000-75,000 mt), medium (capacity of 12,500-30,000 mt), small (capacity of 5,000-12,500 mt) and very small (capacity up to 5,000 mt). Only 8-10 per cent of total number of units is very large and large. The rest are small and medium sized units.

"The OEMs want to deal with large organised players for product and supply stability," explains Vidyashankar.

MMFL has a strong reputation in forging for quality and metallurgical integrity in domestic, as also export market. It makes steel forgings in raw, semi-machined and fully machined stages

MMFL plants maintain stringent quality parameters

The machining line operates with micron level accuracy

in various grades of carbon, alloy and stainless steels. It has a wide variety of production lines, spread across its manufacturing locations. The company leads in making closed die hot forgings. Its forging lines are equipped with state-of-the-art billet temperature control mechanisms.

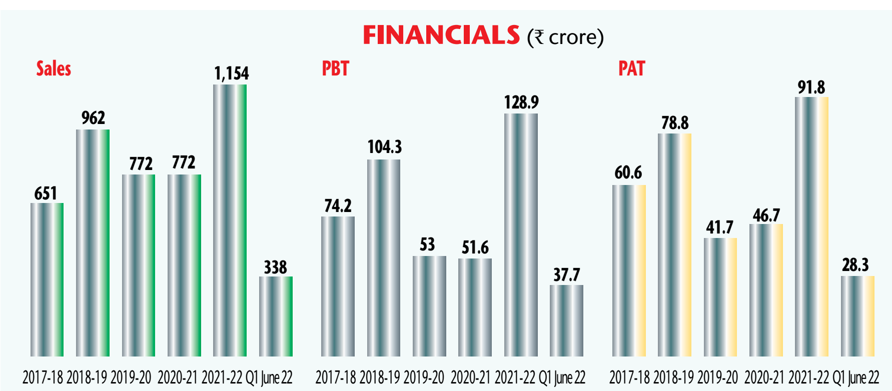
The mechanical forging presses of 1,600-8,000 tonne capacity forms the backbone of MMFL's manufacturing capability. The company produces a wide variety of components in the weight range of 100 gm to 120 kg for commercial vehicles, passenger cars, off highway, high-pressure valves for oil and natural gas, agricultural and engineering equipment. Front axle beam, knuckle, universal joint cross, steering arm, upper arm shaft, connecting rod, sprocket, flang housing, rail forging and crankshaft are among the products rolled out from the company's units, which meets the stringent quality parameters.

Competitive pricing

"Engineering is our basic strength," says Krishnakumar Raman, president, operations. "Our process engineering with competitive pricing defines our success". As much as 75 per cent of the company's production goes to commercial vehicles manufacturers, 13 per cent to passenger vehicles and the balance to non-auto segments like agricultural, mining etc.

Ashok Leyland, Daimler, Escorts, Fuso, Hero, Isuzu, Tata Motors, Maruti Suzuki, Mahindra, Volvo, Renault, Mitsubishi Electric, Tafe and SML Isuzu Sonalika are among some coveted customers of MMFL. About 50 per cent company's revenue comes from export to the US, Canada, the EU, South America, Singapore and Indonesia.

"Today, the new business opportunity in export market is a challenge due to short supply of semi-conductor chip for automakers and stiff hike in ocean freight charges," explains Ramnath Nagarajan, president, marketing. "But, things are improving gradually. At the moment our focus is more on the Indian market, which is poised to witness a robust turnaround". The domestic commercial vehicle production, which peaked in 2018-19 at 444,000 units, has tapered to 234,000 units in 2019-20; 161,000 in 2020-21 and 241,000 in 2021-22. In 2022-23, its production is expected to grow at least to 400,000 units.

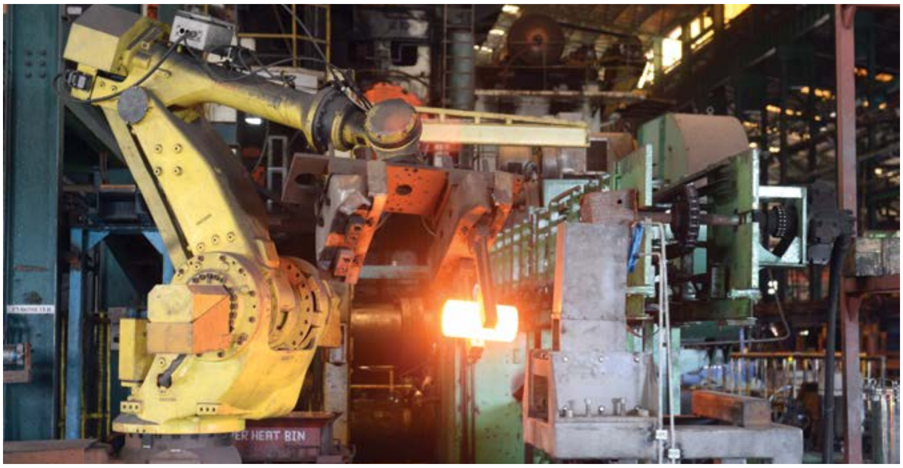


OEMs in Europe will continue to depend on Indian forging, because it is hazardous and labour-intensive. The labour cost in India is one-tenth of what it is in the developed countries. Talking about EVs, Nagarajan says there will be rapid transformation from IC engines to EVs in the passenger cars. But, for commercial vehicles, it will not be so simple. He believes the transformation is expected to take more than a decade now.

"I know M M Forgings since the days I was working with Ashok Leyland," says Vivek Agarwal, now head, sourcing & logistics, Royal Enfield, one of the oldest two-wheeler companies in India. It is known for quality and innovation in the segment and has the ability to meet even the most stringent parameters of the customers". Although M M Forgings is conservative in its approach, the company has expanded its portfolios, including two-wheeler forging. It is a strong contender for our regular forging component's supply line, adds Agarwal.

All plants are equipped with independent designs; and the development team, with advanced software for die designs. "We are a one-stop-shop for forgings' needs," says Vidyashankar. An exclusive R&D centre provides focus on improvement activities and customisation. The company spends 1 per cent of its revenue on R&D.

The mainstay of MMFL is its four



Technology upgradation is a continuous process

forging plants (in Tamil Nadu) and the six machining units (in UP, Uttarakhand and Tamil Nadu). MMFL has also invested in 2 MW of solar and 22 MW of wind power generations in Tamil Nadu. "Our total power consumption is about 50 MW, part of which is adjusted against our own renewable generation," says R. Venkatakrishnan, CFO.

Trichy in Tamil Nadu is where the flagship plant of the company is located. "We produce 60 per cent of our forgings from the two units in Trichy," informs Raman. "Both the units, forging and heavy forging, have the capacity to produce 70,000 mtpa".

About 80 per cent of the cost of production for forging is steel. MMFL buys different types and grades of steel – carbon steel, chromium steel, brown steel micro-light steel, stainless steel and high alloys steel – for its forging components. "At any point of time, we keep 15 days' inventory," says M.R. Santhanam, head, purchase. The post production scrap in forgings is sold to local foundry.

The machine shop in Trichy – started in 2012 – produces components only for automotive sector. Nearly 70 per cent machining requirements come from its own forging production adjacent to machining unit and the rest is from their Madurai and Chennai units. Forging machining is a precision manufacturing method that involves cleaning up a metal part to the precise dimensions after the forging process. After a component comes out of the forging operation, it is rough and loosely formed. It needs specific dimensions and shapes by scrapping, grinding, and milling turning it suitable for specific application.

This modern machining plant operates with micron level accuracy. The machine shop is capable to handle from 100 grams to 120 kg to make it a finishing component. Today demand for ready components is need of the hour so MMFL has been gradually increasing machining capacity as part of value addition and forward integration.

A one stop solution

The company is adding another machine shop at Trichy, adjacent to its existing unit for crankshaft. "We have already purchased the land and the unit is expected to start by the third quarter of this fiscal," says Raman. The investment would be about ₹100 crore, to produce 180,000 pieces of crankshaft per annum for CV and it will generate employment opportunity for 250 people. "We have changed ourselves from being a simple forging manufacturer to a component supplier. We are a one stop solution for our customers," claims Vidyashankar. All units of the company focus on safe working atmosphere, constantly evolving systems for recognition and reward, consistent communication and imparting skill and training.

DVS Industries, a wholly-owned subsidiary of MMFL, which it acquired in 2018, is a specialist in crankshaft machining and is located in Pant Nagar, Uttarakhand. DVS has the capacity to do 30,000 crankshafts a month for commercial vehicles and tractor industry. The range of crankshafts starts from two cylinders and can go up to six cylinders. The unit has achieved a turnover of ₹66 crore.

Similarly, it took over Cafoma Autoparts for ₹33 crore in 2021. This has increased the company's crankshafts machining capacity. "The company enjoys a significant presence in both domestic and export market backed by strong engineering excellence. Nowadays OEMs want more than one source of supply for their forgings requirement as no one wants to be dependent on Bharat Forge alone. M M Forgings is their right pick," says a senior analyst tracking the sector closely, spoken on the condition of anonymity. MMFL has been consistently demonstrating good performance and healthier corporate governance. It is a preferred forging company among the investment community, he adds.

"M M Forgings is one of the oldest companies in the country, specialised in higher capacity forging and backed by new age technology," observes Deven Doshi, director, Echjay Industries, a forging manufacturer and competitor, based in Gujarat. "The company keeps the cost under control and earn healthy margin."

MMFL has reported consolidated annual sales of ₹1,153.86 crore in March 2022, as against ₹771.62 crore in March 2021. Its profit after tax has risen to ₹91.75 crore in 2022, from ₹46.71 crore in March 2021. For the three months ended in June 2022, the company has achieved revenues of ₹338 crore, as against ₹322.37 crore for the corresponding period in the previous year. The net profit till June 2022 is ₹28.32 crore, against ₹11.42 crore in the last quarter ended in March 2022.

"We have moved up the business through efficiency, capacity enhancement, acquisitions and a great deal of emphasis on the customers need," says Venkatakrishnan. "In the last three years, we have invested ₹350 crore funded through internal accruals and bank finance." Our strong presence in overseas market has given us edge in the competition, adds Venkatakrishnan. The company has set a target to achieve ₹2,500 crore in next three years.

Two generations' careful crafting has resulted in MMFL's success. It is now interesting to see how the company would explore the new avenues efficiently, with its top-down focus and take the business to next level. ◆

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