# M M Forgings Limited

April 03, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 1,266.27 (Enhanced from 439.19) | CARE A; Stable | Reaffirmed |
| Long-term / Short-term bank facilities | 298.00 (Enhanced from 173.00) | CARE A; Stable / CARE A1 | Reaffirmed |
| Short-term bank facilities | 126.00 (Reduced from 171.00) | CARE A1 | Reaffirmed |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

Ratings assigned to bank facilities of M M Forgings Limited (MM) continue to factor in its established track record in the auto components business with significant presence in both export and domestic market, established engineering capabilities, and in-house machining capacity. Ratings take note of the consistent increase in scale of operations over the last few years with range-bound operating margins. However, ratings are constrained by the moderate capital structure with high debt-funded capital expenditure being envisaged. The company is expected to take an incremental exposure towards its group companies and its performance would need to be monitored given the nascent stage of operations. Ratings are also constrained by the high dependence on the cyclical auto industry, and more specifically, the commercial vehicle segment, client concentration risk, exposure to the volatility in the raw material prices, and capital-intensive business.

## Rating sensitivities: Factors likely to lead to rating actions

### Positive factors

- Significant increase in total operating income (TOI) with increase in sales to both domestic and export markets along with sustained improvement in return on capital employed (ROCE) over 15%.
- Improvement in overall gearing to below 0.80x and total debt/profit before interest, lease rentals, depreciation, and taxation (PBILDT) below 3x on a sustained basis.

### Negative factors

- Sharp de-growth in the sales volume resulting in under-utilisation 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 sustain a 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 forging business since 1974 with an established presence in automotive and industrial forgings segment. The company has enjoyed more than two decades of relationships with most of its key clients. The company's day-to-day affairs are managed by Mr. Vidyashankar Krishnan, a second-generation entrepreneur, and a postgraduate 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 a strong track record in forging products in terms of quality and metallurgical integrity, MM has a well-established export market catering to global customers. Backed by strong engineering capability, the company has continuously developed new products catering to the needs of the customers offering them with a variety of components. MM supplies components mainly to the Tier-1 suppliers in export markets who in turn supply original equipment manufacturers (OEMs). Most of the company exports are to the US and Europe, accounting for around 50% of the overall business in the past. In FY23, domestic sales comprised 65%

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

of the overall sales followed by 15% of sales from US/Europe region and around 5-6% from South America and the rest from other countries. Marginal moderation in Export business was offset by the improved order flow from domestic OEMs. As the export demand is returning to normalcy, the company envisages an improved export contribution during the ensuing period.

**Established engineering capabilities and machining capacity**

MM uses indigenously developed dies and tools in the forging process helping 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 an in-house machining unit has attracted new clients for the company in the past. All the MM forging plants are equipped with in-house tool rooms. The company has also added higher tonnage press lines helping them to foray into higher weight segment forgings. Additionally, MM is expanding its machining capabilities in response to increasing demand for forgings in machined condition.

**Improvement in operational performance in FY23 and 9MFY24**

In FY23, TOI grew at 27% attributed to enhanced demand from existing OEMs and commencement of new parts approved in the previous years. The company could also win competition and acquire larger share of business from some of the prominent OEMs. Volume expanded by 15% in FY23, accompanied by 11% rise in realisations. Although there has been moderation in realisation due to a decline in steel prices in 9MFY24, interim TOI witnessed a 10% year-on-year growth during this period, fuelled by a 20% increase in volume compared to 9MFY23. PBILDT margin continue to range bound around 18% during last three years.

## Key weaknesses

**Client concentration risk**

The top 10 clients of MM contributed around 75% of net sales in FY23 (FY22: 82%). However, the company has established relationships with its clients and expertise in developing components as per their changing requirements, which mitigates the risk of losing clientele to some extent. Additionally, supplying newly developed and heavier components to existing customers will bolster sales growth.

**Moderate capital structure due to continuous debt-funded capex**

Due to the capex intensive nature of the business, the company's capital structure continued to remain moderate marked by overall gearing of 1.09x as on March 31, 2023 (PY: 1.19x). Debt coverage indicators were comfortably marked by total debt to PBILDT at 2.94x (PY: 3.40x) while the interest coverage of the company stood at 8.75x (PY: 7.39x) in FY23. Going forward, the company is envisaging a large debt-funded capital expenditure programme over the next three years at a cost of ₹1,260 crore funded by debt of ₹925 crore and remaining from internal accruals. The capex programme envisages increasing forging capacity by 45% and machining capacity by 40% over three years.

**Exposure to subsidiaries**

The company had exposure of ₹139.24 crore towards its subsidiaries by way of investment (equity investment ₹48.34 crore and unsecured loan of ₹90.90 crore) as of March 2023. Major exposure was in DVS Industries with an unsecured loan of ₹82.68 crore and an equity investment of ₹4.50 crore which is into machining of various auto components. The company is also undertaking a capex of ₹125 crore over the next three years at subsidiaries as part of their expansion to EV business. The capex at the subsidiaries is likely to be funded by way of an unsecured loan from MM over the next three years. With the proposed debt-funded capex and incremental investment in subsidiaries, leverage levels are expected to moderate.

**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 prices of the key raw material, steel billets, have been volatile in the past. Since most 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) compared to 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 of the hedge depending on market conditions. The company mainly avails its borrowings in foreign currency, which provides a natural hedge against its export to some extent. However, there remains a time gap.

**Dependence on cyclical auto industry especially commercial vehicles segment**

The automotive industry is subjected to cyclical variations in performance and is sensitive to various policy changes. MM's performance is susceptible to the cyclical nature of the auto industry as most 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 FY23, the automobile sector

(Commercial Vehicle + Passenger vehicle) contributed 91% to the company's total sales, while the balance is contributed by valve/oil-field and off highway segment. In the automobile sector, commercial vehicles contributed around 80%, while passenger vehicle contributed around 11% of the sales. MM also caters to the requirements of other sectors including equipment used in oil fields, earthmoving equipment, and engineering among others. 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 utilisation of 80% for the trailing 12 months ended February 2024 and liquid investments and cash and bank balance aggregating ₹204 crore as on March 31, 2023. MM has term debt repayment obligations ranging ₹140-₹220 crore per annum during the next three years as against envisaged cash accruals to the tune of ₹220-₹280 crore per annum indicating adequate liquidity for 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 biofuels, 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 a 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. The company is listed, and no material deviations from regulatory guidelines observed.

## Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Auto Components & Equipments

## About the company and industry

## Industry classification

| Macro Economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Consumer discretionary | Automobile and auto components | Auto components | Auto components & equipment |

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 100,000 metric tons per annum (MTPA) as on December 31, 2023. 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, 2022 (A) | March 31, 2023 (A) | 9M FY24 (UA) |
|---|---|---|---|
| Total operating income | 1,104.64 | 1,409.28 | 1,138.00 |
| PBILDT | 201.74 | 255.54 | 209.00 |
| PAT | 91.76 | 125.59 | 105.00 |
| Overall gearing (times) | 1.19 | 1.09 | NA |
| Interest coverage (times) | 7.39 | 8.75 | 7.20 |

A: Audited; UA: Unaudited; NA: Not available; Note: 'these 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 to 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 | | - | - | 28-02-2027 | 32.77 | CARE A; Stable |
| Fund-based - LT/ ST-CC/Packing credit | | - | - | - | 157.00 | 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 | | - | - | - | 75.00 | CARE A1 |
| Fund-based/Non-fund-based-LT/ST | | - | - | - | 110.00 | CARE A; Stable / CARE A1 |
| Fund-based/Non-fund-based-Short term | | - | - | - | 45.00 | CARE A1 |
| Non-fund-based - ST-BG/LC | | - | - | - | 6.00 | CARE A1 |
| Term loan-Long term | | - | - | 31-12-2031 | 1233.50 | CARE A; Stable |

## Annexure-2: Rating history for 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 2023-2024 | 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 |
| 1 | Fund-based - LT-Term loan | LT | 32.77 | CARE A; Stable | 1)CARE A; Stable (07-Apr-23) | 1)CARE A; Stable (07-Apr-22) | 1)CARE A; Stable (07-Apr-21) | 1)CARE A; Stable (07-Apr-20) |
| 2 | Fund-based - LT/ ST-CC/Packing credit | LT/ST | 157.00 | CARE A; Stable / CARE A1 | 1)CARE A; Stable / CARE A1 (07-Apr-23) | 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 | 6.00 | CARE A1 | 1)CARE A1 (07-Apr-23) | 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 | 110.00 | CARE A; Stable / CARE A1 | 1)CARE A; Stable / CARE A1 (07-Apr-23) | 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-23) | 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-23) | 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 | 1233.50 | CARE A; Stable | 1)CARE A; Stable (07-Apr-23) | 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 | 75.00 | CARE A1 | 1)CARE A1 (07-Apr-23) | 1)CARE A1 (07-Apr-22) | 1)CARE A1 (07-Apr-21) | - |

LT: Long term; ST: Short term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:** Not applicable

## Annexure-4: Complexity level of 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 - ST-Bill discounting/ Bills purchasing | Simple |
| 5 | Fund-based/Non-fund-based-LT/ST | Simple |
| 6 | Fund-based/Non-fund-based-Short term | Simple |
| 7 | Non-fund-based - ST-BG/LC | Simple |
| 8 | 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.

## Contact us

| Media Contact | Analytical Contacts |
|---|---|
| Mradul Mishra<br>Director<br>**CARE Ratings Limited**<br>Phone: +91-22-6754 3596<br>E-mail: mradul.mishra@careedge.in<br><br>**Relationship Contact**<br><br>Saikat Roy<br>Senior Director<br>**CARE Ratings Limited**<br>Phone: +91-22-6754 3404<br>E-mail: saikat.roy@careedge.in | Sandeep P<br>Director<br>**CARE Ratings Limited**<br>Phone: +91-44-2850 1002<br>E-mail: sandeep.prem@careedge.in<br><br>Ratheesh Kumar<br>Associate Director<br>**CARE Ratings Limited**<br>Phone: +91-44-2850 1009<br>E-mail: Ratheesh.Kumar@careedge.in<br><br>Athithya Narayanan S<br>Analyst<br>**CARE Ratings Limited**<br>E-mail: Athithya.narayanan@careedge.in |

**About us:**

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