MM Forgings Limited

January 04, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	619.91 (enhanced from Rs.228.00 crore)	**CARE A+; Negative (Single A Plus; Outlook: Negative)**	**Rating reaffirmed; Outlook revised from Stable to Negative**
Short term Bank Facilities	10.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Long-term/Short-term Bank Facilities	182.00 (enhanced from Rs.147.00 crore)	**CARE A+; Negative/CARE A1+ (Single A Plus; Outlook: Negative/A One Plus)**	**Rating reaffirmed; Outlook revised from Stable to Negative**
Total	**811.91 (Rupees Eight hundred eleven crore and Ninety one lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MM Forgings Ltd (MM) factors in the 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 strong financial risk profile characterized by healthy profit margins and debt protection metrics.

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 also take a note of the ongoing large debt-funded capital expenditure plans for expansion of forgings as well as machining capacity.

The ability of the company to diversify its client base and income across different segments, maintain its margins amidst volatility in the key market segments, ability to maintain capacity utilization post-expansion of its capacity will be the key rating sensitivity.

Outlook: Negative

The revision in outlook to 'negative' reflects that the on-going large debt funded capex project is likely to result in significant moderation in capital structure and coverage indicators. In view of capacity additions by major players in the industry, timely commencement of additional capacities and ramping up of utilization of enhanced capacities is critical and is contingent on industry dynamics.

The outlook may be revised to 'Stable' if going forward; company is able to maintain its capacity utilisation post-expansion and if there is significant improvement in capital structure.

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 day-to-day affairs of the company are managed by Mr Vidyashankar Krishnan with over 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 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, ~ 41% is contributed by India, ~30% by North America, ~29% by Europe in FY18.

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

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% of total product sales.

Improvement in Financial Performance with healthy Profitability margins
MM's financial risk profile is marked by stable operating income and stable PBILDT margin. MM has maintained PBILDT margin in the range of 19%-22% in the past few years mainly due to pass through clause with customers with respect to raw materials. The company has reported total operating income of Rs.632.3 crore in FY18, growth of 29.1% YoY due to strong growth in sales quantity in tonnes and improvement in realization in trend with increase in input costs. The strong growth in sales tonnage can be attributed to strong growth in Indian MHCV (Medium and Heavy Commercial Vehicle) market, introduction of new products and growth in production of class 8 trucks in USA in CY17 (refers to period from January 01 to December 31).Despite increase in steel prices, the company has maintained the PBILDT margin of 21.5% in FY18, almost flat as compared to FY17 mainly due to pass through arrangement with the customers.

Liquidity:
During the twelve months peirod ended Oct 2018 the maximum working capital utilization of the company stood in the range of around 70% to 95%. The increase in working capital can be attributed to strong growth in sales. The company also has liquid investments for Rs.164 crore as on March 31, 2018. The company has maintained the liquid investments of around Rs.160 crore as on September 30, 2018. 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 73 days as on March 31, 2018.

Key Rating Weaknesses
Relatively large size debt funded capex:
MM is in the process of expanding its machining as well as forging capacity. With the addition of new press lines and debottlenecking of existing press line, the forging production capacity will be enhanced to 100,000 Metric Ton per annum (MTPA) by March 2019. Also with the higher tonnage press line of 8000 metric ton (MT), the average weight of product is expected to go up from the average weight of 3.5 kg as on FY18.
MM is also planning to increase its current machining capabilities for the forged products. The machining capacity will be enhanced at existing plants as well as company will be setting up Greenfield project at Lucknow for machining.
MM has planned total capex of around ~Rs.669 crore (gross block of Rs. 755 crore as on March 31, 2018) funded through debt of Rs.535 crore and rest through internal accruals, spread across FY18-FY20 for the expansion of forging production as well as machining capacity stated above.
MM has also acquired Pant Nagar, Uttarakhand based DVS Industries Pvt. Ltd (DVS), a crankshaft machining unit for Commercial vehicle, agriculture and off highway vehicles in February 2018 for consideration of Rs.4.5 crore. MM has also extended advance of Rs 46 crore to DVS in FY18 to repay the entire debt in the books of DVS and adding the capex for Rs 15 crore in FY19 for incremental orders.

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. The company has availed term loan of around ~Rs.335 Crore in FY18 and H1FY19 out of proposed term loan of around Rs.535 crore for capex. With increase in term debt, the overall gearing stood at 1.05x as on March 31, 2018. However, company has investments of Rs.164.0 crore in liquid mutual funds as on March 31, 2018 which it plans to maintain at all points of time to keep its liquidity position comfortable in case of volatility in business environment. Adjusting for the same, overall gearing will be 0.61x as on March 31, 2018. The Total Debt/GCA stood at 3.62x (PY: 2.69x) while the interest coverage of the company stood at 10.76x (PY:10.44x) as on March 31,2018.

Susceptibility to raw material price fluctuation
The forging industry is marked by raw material intensive operations. Nearly 40-45% of the cost of production for the company is raw material cost. Raw material cost (primarily steel billets) stood at 40.8% of income in FY18. 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.

Client concentration Risk
The top eight clients of MM contributed to nearly 72% of net sales during FY18 as against 64% in FY17. 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.

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 FY18, the automobile sector (Commercial Vehicle- 77% + Passenger vehicle- 15%) contributed to 92% to the total income of the company, off-highway segment contributed around 6% while remaining is contributed by Valve/oilfield.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Rating Methodology - Auto Ancillary Companies

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 65,000 MTPA (Metric tonne per annum) as on March 31, 2018 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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	489.5	632.3
PBILDT	103.9	136.1
PAT	43.4	68.5
Overall gearing (times)	0.73	1.05
Interest coverage (times)	10.44	10.76

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

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.*

Analyst Contact:
Name: Mr P Sudhakar
Tel: 044-2850 1003
Email: p.sudhakar@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.
In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo 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.

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	67.67	CARE A+; Negative
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	102.00	CARE A+; Negative / CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	10.00	CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	25.00	CARE A+; Negative / CARE A1+
Fund-based - LT/ ST-Packing Credit in Foreign Currency	-	-	-	10.00	CARE A+; Negative / CARE A1+
Fund-based - LT/ ST-Bills discounting/ Bills purchasing	-	-	-	45.00	CARE A+; Negative / CARE A1+
Term Loan-Long Term	-	-	September 2027	552.24	CARE A+; Negative

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	67.67	CARE A+; Negative	-	1)CARE A+; Stable (04-Jan-18)	1)CARE A+; Stable (27-Feb-17)	1)CARE A+ (25-Feb-16)
2.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	102.00	CARE A+; Negative / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (04-Jan-18)	1)CARE A+; Stable / CARE A1+ (27-Feb-17)	1)CARE A+ / CARE A1+ (25-Feb-16)
3.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1+	-	1)CARE A1+ (04-Jan-18)	1)CARE A1+ (27-Feb-17)	1)CARE A1+ (25-Feb-16)
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	25.00	CARE A+; Negative / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (04-Jan-18)	1)CARE A+; Stable / CARE A1+ (27-Feb-17)	1)CARE A+ / CARE A1+ (25-Feb-16)
5.	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST	10.00	CARE A+; Negative / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (04-Jan-18)	1)CARE A+; Stable / CARE A1+ (27-Feb-17)	1)CARE A+ / CARE A1+ (25-Feb-16)
6.	Fund-based - LT/ ST-Bills discounting/ Bills purchasing	LT/ST	45.00	CARE A+; Negative / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (04-Jan-18)	1)CARE A+; Stable / CARE A1+ (27-Feb-17)	1)CARE A+ / CARE A1+ (25-Feb-16)
7.	Term Loan-Long Term	LT	552.24	CARE A+; Negative	-	1)CARE A+; Stable (04-Jan-18)	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691