

## MM Forgings Limited

February 27, 2017

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	32.73 (reduced from 40.51)	<b>CARE A+; Stable (Single A Plus; Outlook: Stable)</b>	Reaffirmed
Short-term Bank Facilities	10.00	<b>CARE A1+ (A One Plus)</b>	Reaffirmed
Long term/ Short term Bank Facilities	112.00	<b>CARE A+; Stable/ CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)</b>	Reaffirmed
<b>Total Facilities</b>	<b>154.73 (Rupees One Hundred Fifty Four crore and Seventy Three lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MM Forgings Ltd (MM) continue to factor in the experience of the promoters and the established track record of MM in the auto components business, strong presence in the export market with a diversified product portfolio, established engineering capabilities and in-house machining capacity. The ratings also derive strength from strong financial risk profile characterized by relatively stable profit margins, comfortable capital structure 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 note of completion of capacity expansion.

The ability of the company to diversify its client base and income across different segments, maintain its margins amidst slowdown in the key market segments, timely stabilization and utilization of the enhanced capacity will be the key rating sensitivity.

### 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 export market 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. Exports contributed to 69% of the company's operating income during FY16 (refers to the period April 1 to March 31). 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.

##### ***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 & engineering capability and ability to manufacture forging components with consistent quality and reliability is well acknowledged by its Tier I customers, who have been giving repeat orders. With increase in demand for machined products, the company has continuously invested in increasing its machining capacity.

##### ***Stable profitability margins, comfortable capital structure and debt coverage indicators***

MM's financial risk profile is marked by stable operating income, healthy cash accruals, comfortable debt protection metrics and stable PBILDT margins. MM's operating income remained at Rs.494 crore in FY16 driven by increased sales

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

realization during FY16 on account of exchange rate fluctuations though there was 9% decline in the sales volume. MM's margins are relatively higher due to multiple factors like presence of machining capacity, diverse product offering and presence of captive power source. The overall gearing of the company remained at 0.76x as on March 31, 2016 as against 0.80x as on March 31, 2015. The debt coverage indicators also remained comfortable marked by interest coverage ratio of 13.63x and total debt/GCA of 2.44x in FY16. As on March 31, 2016 the company also has liquid investments worth Rs.120 crore.

During 9MFY17, the company registered total operating income of Rs.367 crore and generated PAT of Rs.31 crore.

#### **Key Rating Weaknesses**

##### ***Susceptibility to raw material price fluctuation***

The forging industry is marked by raw material intensive operations. Raw material cost (primarily steel billets) accounted for about 55% of MM's cost of sales in FY16. 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***

Top ten client groups contributed about 65% of MM's total income during FY16. However, the company has established relationship with its clients and expertise in developing components as per their changing requirements which mitigates this risk to some extent.

##### ***Dependence on cyclical auto industry***

MM derives majority of its revenues from automobile sector. The automobile sector contributed to 84% of the net sales of the company during FY16. In addition, MM caters to the requirements of other sectors including equipment used in oil fields, earth-moving equipment 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.

**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 Forgings Ltd (MM), a Chennai-based forging company was originally promoted in the year 1946 as Madras Motors Ltd as dealers of Royal Enfield Motor cycles. Later, the company shifted its focus to forging business, and the dealership business was closed. The company has the capacity to manufacture 65,000 metric tonnes per annum (MTPA) of forgings spread across three units in Tamil Nadu located at Sivagangai, Viralimalai and Padappai near Chennai. The forging capacity is also supported by machining capabilities. MM manufactures forged components for automobiles, valves (oil field) and off-highway equipments, catering to both the domestic and international markets.

For the year ended March 2016, MM has registered PAT of Rs.50 crore on a total operating income of Rs.494 crore. For the nine months ended December 2016, MM has registered a PAT of Rs.31 crore on a total operating income of Rs.367 crore.

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**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	-	-	June 2022	32.73	CARE A+; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	25.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	10.00	CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	1.00	CARE A+; Stable / CARE A1+
Fund-based - LT/ ST-Packing Credit in Foreign Currency	-	-	-	10.00	CARE A+; Stable / CARE A1+
Fund-based - LT/ ST-Bills discounting/ Bills purchasing	-	-	-	76.00	CARE A+; Stable / 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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Term Loan	LT	32.73	CARE A+; Stable	-	1)CARE A+ (25-Feb-16)	1)CARE A+ (24-Dec-14)	1)CARE A (11-Feb-14)
2.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	25.00	CARE A+; Stable / CARE A1+	-	1)CARE A+ / CARE A1+ (25-Feb-16)	1)CARE A+ / CARE A1+ (24-Dec-14)	1)CARE A / CARE A1 (11-Feb-14)
3.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1+	-	1)CARE A1+ (25-Feb-16)	1)CARE A1+ (24-Dec-14)	1)CARE A1 (11-Feb-14)
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	1.00	CARE A+; Stable / CARE A1+	-	1)CARE A+ / CARE A1+ (25-Feb-16)	1)CARE A+ / CARE A1+ (24-Dec-14)	1)CARE A / CARE A1 (11-Feb-14)
5.	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST	10.00	CARE A+; Stable / CARE A1+	-	1)CARE A+ / CARE A1+ (25-Feb-16)	1)CARE A+ / CARE A1+ (24-Dec-14)	1)CARE A / CARE A1 (11-Feb-14)
6.	Fund-based - LT/ ST-Bills discounting/ Bills purchasing	LT/ST	76.00	CARE A+; Stable / CARE A1+	-	1)CARE A+ / CARE A1+ (25-Feb-16)	1)CARE A+ / CARE A1+ (24-Dec-14)	1)CARE A / CARE A1 (11-Feb-14)

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