

## MM Forgings Limited

January 04, 2018

### Ratings

Facilities	Amount (Rs. Crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	228	<b>CARE A+; Stable</b> <b>(Single A Plus; Outlook: Stable)</b>	Reaffirmed
Short-term Bank Facilities	10	<b>CARE A1+</b> <b>(A One Plus)</b>	Reaffirmed
Long-term/ Short-term Bank Facilities	147	<b>CARE A+; Stable/ CARE A1+</b> <b>(Single A Plus; Outlook: Stable/ A One Plus)</b>	Reaffirmed
<b>Total Facilities</b>	<b>385</b> <b>(Rupees Three Hundred Eighty Five crore 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 healthy profit margins, comfortable capital structure and debt protection metrics. The ratings also take note of the ongoing large debt-funded capital expenditure plans.

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 ability of the company to diversify its client base and income across different segments, maintain its margins amidst volatility 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. Majority of the exports of the company are to USA, Canada and Europe. Exports contributed to 64% of the company's operating income during FY17 (refers to the period April 1 to March 31). Majority of the exports of the company are to USA, Canada and Europe. Of the total sales, 43% is contributed by India, 17% by US, 30% in Europe and the remaining by others. 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. The company is engaged in manufacturing of steel forgings in raw, semi-machined and fully-machined stages. With increase in demand for machined products; the company is continuously

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

investing in increasing its machining capacity. The fully machined products have contributed around 25% of total forged products in FY17.

**Healthy 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.490 crore in FY17, decrease of 3.6% YoY due to fall in sales realization on fall in exports, rupee appreciation and fall in steel prices(Where company has pass through clause) during FY17. MM's margins are relatively higher(in the range of 19-23%) due to multiple factors like presence of machining capacity, diverse product offering, higher export sales and presence of captive power source. During H1FY18, the company registered total operating income of Rs.276 crore and generated PAT of Rs.26 crore.

The overall gearing of the company remained at 0.73x as on March 31, 2017 as against 0.81x as on March 31, 2016. The debt coverage indicators also remained comfortable marked by interest coverage ratio of 10.44x and total debt/GCA of 2.69x in FY17. As on March 31, 2017 the company also has liquid investments worth Rs.133 crore. Notwithstanding comfortable capital structure at present, MM is undertaking debt funded capex plan.

The company is presently incurring capex of around Rs.250 crore to be completed in the next 9 months. Out of this, Rs 200 crore would be mainly for machining shop for catering to the increase in forging capacity added in the recent past and also for new clients and the remaining Rs 50 crore for capacity addition for debottlenecking the existing capacity post which the capacity is expected to improve to 75,000 MT.

#### Key Rating Weaknesses

**Susceptibility to raw material price fluctuation:** The forging industry is marked by raw material intensive operations. Nearly 50-60% of the cost of production in forging industry is raw material cost. Raw material cost (primarily steel billets) accounted for about 42% of MM's cost of sales in FY17. 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 60% (62.5% in FY16) of MM's total income during FY17. However, the company has established relationship with its clients and expertise in developing components as per their changing requirements which mitigates this risk.

**Dependence on cyclical auto industry:** MM derives majority of its revenues from automobile sector. The automobile sector contributed to 86% of the net sales of the company during FY17. In addition, MM caters to the requirements of other sectors including equipment used in oil fields, Engineering, 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) and has manufacturing facilities located at Karanaithangal Village- Kancheepuram District; Singampunari –Sivagangai District and Erasanayakanpatti-Pudukottai District, all in Tamil Nadu. The forging capacity is also supported by machining capabilities. MM Forgings manufactures steel forgings in raw, semi-machined and fully machined stages. MM manufactures forged

components for automobiles, valves (oil field) and off-highway equipment, catering to both the domestic and international markets. For FY17, automobile segment contributed around 86%, off highway segment contributed around 9% and remaining by Valve/oilfield segment.

For the year ended March 2017, MM has registered PAT of Rs.43 crore on a total operating income of Rs.490 crore. For the six months ended September 2017, MM has registered a PAT of Rs.26 crore on a total operating income of Rs.276 crore.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	508	490
PBILDT	113	104
PAT	50	43
Overall gearing (times)	0.81	0.73
Interest coverage (times)	13.63	10.44

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](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	-	-	December 2022	28.00	CARE A+; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	35.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	10.00	CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	26.00	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+
Proposed Term Loan-Long Term	-	-	-	200.00	CARE A+; Stable

## 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	28.00	CARE A+; Stable	-	1)CARE A+; Stable (27-Feb-17)	1)CARE A+ (25-Feb-16)	1)CARE A+ (24-Dec-14)
2.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	35.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (27-Feb-17)	1)CARE A+ / CARE A1+ (25-Feb-16)	1)CARE A+ / CARE A1+ (24-Dec-14)
3.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1+	-	1)CARE A1+ (27-Feb-17)	1)CARE A1+ (25-Feb-16)	1)CARE A1+ (24-Dec-14)
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	26.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (27-Feb-17)	1)CARE A+ / CARE A1+ (25-Feb-16)	1)CARE A+ / CARE A1+ (24-Dec-14)
5.	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST	10.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (27-Feb-17)	1)CARE A+ / CARE A1+ (25-Feb-16)	1)CARE A+ / CARE A1+ (24-Dec-14)
6.	Fund-based - LT/ ST-Bills discounting/ Bills purchasing	LT/ST	76.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (27-Feb-17)	1)CARE A+ / CARE A1+ (25-Feb-16)	1)CARE A+ / CARE A1+ (24-Dec-14)
7.	Term Loan-Long Term	LT	200.00	CARE A+; Stable	-	-	-	-

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