M M Forgings Limited

April 3, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	942.36 (Reduced from 1,266.27)	CARE A; Stable	Reaffirmed
Long-term / Short-term bank facilities	398.00 (Enhanced from 298.00)	CARE A; Stable / CARE A1	Reaffirmed
Short-term bank facilities	176.00 (Enhanced from 126.00)	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 domestic and export market, established engineering capabilities, and in-house machining capacity. Ratings also consider MM's healthy business risk profile with consistent improvement in scale of operation in the last few years with range-bounded operating margins. However, ratings are constrained by the expected moderation in capital structure with ongoing debt-funded capital expenditure. Ratings are also constrained by the high dependence on the cyclical auto industry with higher concentration on the commercial vehicle segment, client concentration risk, exposure to the volatility in the raw material prices, and capital-intensive nature of 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 1.5x on a gross debt basis.
- Significant reduction in liquid investments maintained by the company.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has changed its analytical approach for MM from 'Standalone factoring in support to the subsidiaries' to 'consolidated' considering the expected increase in exposure to subsidiaries in view of their expansion plans. List of subsidiaries is given in Annexure-6.

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 key rating drivers:

Key strengths

Experienced promoters and established track record of the company

MM has been in forging business since 1974 with an established presence in the automotive and industrial forgings segment. The company has enjoyed over two decades of relationships with most of its key clients. The day-to-day affairs of the company are managed by Vidyashankar Krishnan, a second-generation entrepreneur, and a postgraduate in engineering from I.I.T Madras, with over 25 years of experience in forging business.

Well-established presence in both domestic and 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 and variants catering to the customer needs. MM supplies components, mainly to the Tier-1 suppliers in export markets, who in turn supply to OEMs. Most of the company exports are to the US and Europe. In FY24, domestic sales comprised 63% of

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

the overall sales followed by 13% of sales from US/Europe region each and the rest from other countries. With the addition of new variants for export customers, contribution from export segment has improved from 37% in FY24 to 40% in 9MFY25. As the export demand is returning to normalcy, the company envisages an improved export contribution in the ensuing period.

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 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. All of the MM forging plants are equipped with in-house tool rooms. The company has also increased its forging capacity by 10000 MTPA by adding higher tonnage press lines in Q4FY24, which helped them to foray into higher weight segment forgings. MM is expanding its forging and machining capabilities in response to increasing demand for heavier forgings in machined condition.

Sustained scale and stable margin

Despite an 18% increase in volume, TOI has shown only modest 7% growth due to decline in steel prices. Although there has been a slight moderation in the volume in the current year, the company has maintained its scale at ₹1,155 crore in 9MFY25, benefiting from improved realisation from export segment, especially for heavier components. PBILDT margin has remained range bound at ~18% for past three years. With improved machining coverage and higher contribution from export customers, PBILDT% has marginally improved to 19.33% in 9MFY25.

Key weaknesses

Client concentration risk

The top 10 customers of MM contributed ~58% of TOI in FY24 (PY: 57%). 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. The company has added three new customers in 9MFY25 and is expected to add more customers with additional capacity in place, helping to reduce customer concentration. 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 1.18x as on March 31, 2024 (PY: 1.13x). The company has liquid investments of ₹209 crore as on March 31, 2024 (PY: ₹218 crore), which it plans to maintain to augment the liquidity position. Debt coverage indicators marked by total debt/PBILDT at 3.18x (PY: 2.77x), while the interest coverage of the company stood at 6.92x (PY: 9.23x) in FY24. The company envisages a total capex of ₹604 crore at the standalone level, supported by ₹524 crore in debt, and ₹75-80 crore at the subsidiary level, supported by ₹50 crore in debt, over the next two years.

With the proposed debt-funded capex, overall gearing expected to be range bound ~1.3x in the medium term. However, the company's cash accruals are projected to be comfortable to meet the debt obligations.

Profitability susceptible to raw material price fluctuation

Nearly 45%-50% of the company's production cost is the raw material cost. The price of the key raw material, steel billets, has 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) against that in the international market as export clients absorb price variation only to the extent of movement in international prices. The hedging policy depends on the movement of foreign exchange rates and the company changes the quantum hedge depending on market conditions.

Dependence on cyclical auto industry

The automotive industry is subjected to cyclical variations in performance and is sensitive to 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. In FY24, commercial vehicles contributed ~81%, passenger vehicles contributed ~10%, and balance sales were contributed by tractors. CV segment is relatively more susceptible to the economic downturn among other segments of the auto industry. 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 60-70% for the trailing 12 months ended December 2024 and liquid investments and cash and bank balance aggregating ₹209 crore as on March 31, 2024. The operating cycle has increased from 88 days in FY23 to 109 days in FY24 due to the increase in inventory and receivables holding. MM has term debt repayment obligations ranging ₹120-170 crore per annum in next three years against envisaged cash accruals to the tune of ₹220-260 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 initiatives such as 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 among others, 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 lot of efforts to get water in households in the vicinity of 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.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Auto Components & Equipments
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Automobile and auto components	Auto components	Auto components & equipments

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 110,000 metric tons per annum (MTPA) as on December 31, 2024. 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 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) (Consolidated)	31-03-2023 (A)	31-03-2024 (A)	9M FY25 (UA)
Total operating income	1462	1563	1155
PBILDT	273	293	223
PAT	128	135	97
Overall gearing (times)	1.13	1.18	NA
Interest coverage (times)	9.23	6.92	4.84

A: Audited UA: Unaudited NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Term Loan		-	-	28-02-2027	26.25	CARE A; Stable
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	182.00	CARE A; Stable / CARE A1
Fund-based - LT/ ST-Packing Credit in Foreign Currency		-	-	-	106.00	CARE A; Stable / CARE A1
Fund-based - ST-Bill Discounting/ Bills Purchasing		-	-	-	125.00	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	916.11	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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	26.25	CARE A; Stable	1)CARE A; Stable	1)CARE A; Stable	1)CARE A; Stable	1)CARE A; Stable

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
					(03-Apr-24)	(07-Apr-23)	(07-Apr-22)	(07-Apr-21)
2	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	182.00	CARE A; Stable / CARE A1	1)CARE A; Stable / CARE A1 (03-Apr-24)	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)
3	Non-fund-based - ST-BG/LC	ST	6.00	CARE A1	1)CARE A1 (03-Apr-24)	1)CARE A1 (07-Apr-23)	1)CARE A1 (07-Apr-22)	1)CARE A1 (07-Apr-21)
4	Fund-based/Non-fund-based-LT/ST	LT/ST	110.00	CARE A; Stable / CARE A1	1)CARE A; Stable / CARE A1 (03-Apr-24)	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)
5	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST	106.00	CARE A; Stable / CARE A1	1)CARE A; Stable / CARE A1 (03-Apr-24)	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)
6	Fund-based/Non-fund-based-Short Term	ST	45.00	CARE A1	1)CARE A1 (03-Apr-24)	1)CARE A1 (07-Apr-23)	1)CARE A1 (07-Apr-22)	1)CARE A1 (07-Apr-21)
7	Term Loan-Long Term	LT	916.11	CARE A; Stable	1)CARE A; Stable (03-Apr-24)	1)CARE A; Stable (07-Apr-23)	1)CARE A; Stable (07-Apr-22)	1)CARE A; Stable (07-Apr-21)
8	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	125.00	CARE A1	1)CARE A1 (03-Apr-24)	1)CARE A1 (07-Apr-23)	1)CARE A1 (07-Apr-22)	1)CARE A1 (07-Apr-21)

LT: Long term; ST: Short term

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

Annexure-4: Complexity level of 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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	DVS Industries Private Limited	Full	Subsidiary
2	Suvarchas Vidyut Private Limited	Full	Subsidiary
3	Abhinava Rizel Private Limited	Full	Subsidiary

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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