

SONA BLW Precision Forging

Estimate change



TP change



Rating change



Bloomberg	SONACOMS IN
Equity Shares (m)	584
M.Cap.(INRb)/(USD)	286.2 / 3.5
52-Week Range (INR)	640 / 397
1, 6, 12 Rel. Per (%)	12/5/-29
12M Avg Val (INR M)	1205

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	26.8	34.0	41.5
EBITDA (%)	26.0	27.4	27.5
Adj. PAT	4.0	5.3	6.7
EPS (INR)	6.8	9.1	11.5
EPS Gr. (%)	16.9	34.0	26.3
BV/Sh. (INR)	39.1	45.5	53.4

Ratios

RoE (%)	18.5	21.5	23.3
RoCE (%)	16.8	19.1	20.9
Payout (%)	22.0	29.5	31.9

Valuations

P/E (x)	71.9	53.7	42.5
P/BV (x)	12.5	10.7	9.2
EV/EBITDA (x)	41.0	30.6	24.8
Div. Yield (%)	0.3	0.6	0.8
FCF Yield (%)	0.7	0.9	1.4

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	33.0	53.5	67.2
DII	31.3	24.4	16.4
FII	24.7	11.3	8.8
Others	11.0	10.8	7.6

FII Includes depository receipts

CMP:INR489

TP: INR465 (-5%)

Neutral

Beat led by healthy order book execution

Won new orders for Electric Class-4 trucks worth INR5b

- 4QFY23 revenue/EBITDA/PAT beat our estimates, driven by a healthy execution of the order book. EBITDA margin was in line at 27.1% (-10bp QoQ). The company has won a new order worth INR5b from a North America-based new-age OEM for their electric Class-4 trucks with SOP from 4QFY24. As a result, the order book stands at INR215b (~77% EVs).
- We increase our FY24E/25E EPS by ~4.5%/6.4% to factor in a healthy order book execution, a ramp-up in new orders in FY25 and operating leverage. Maintain **Neutral** due to rich valuations, with a TP of INR465 (40x Mar'25E consol EPS).

Revenue/EBITDA/PAT higher; EBITDA margin in line at 27.1%

- 4QFY23 revenue/EBITDA/adj. PAT grew ~35%/49%/35% YoY to INR7.4b/ INR2b/ INR1.2b. FY23 revenue/EBITDA/adj. PAT rose ~32%/25%/17% YoY.
- 4QFY23 revenue beat our estimate, largely driven by the scale-up of new programs. BEV revenue grew 37% YoY to INR2b (28% of total revenue).
- Gross margin contracted 150bp QoQ/80bp YoY to 54.3% (est. 55.4%), mainly due to the rise in alloy steel prices.
- This was offset by lower operating costs, resulting in EBITDA margin of 27.1% (in line, +250bp YoY). EBITDA grew 49% YoY to INR2b (est. INR1.9b).
- A better operating performance, along with lower depreciation and lower tax, resulted in higher-than-expected adj. PAT of INR1.2b (+31% YoY, est. INR1.1b).
- The board has approved a dividend of INR1.53 per share for FY23 (v/s INR0.77 per share for FY22).

Highlights from the management commentary

- EV mix continues to expand.** BEV revenue grew 37% YoY to INR2.04b in 4QFY23, contributing ~28% to consol revenue. For FY23, BEV contributed ~26% to revenue (v/s 25%/14% in FY22/21) with revenue growth of ~33% YoY to INR6.7b. The company added one new program during the quarter, resulting in a total of 42 programs at the end of FY23.
- SONACOMS won a new order for Class 4 electric CVs worth INR5.01b**, with SOP from 4QFY24. The company will supply final drive differential, intermediate gears and input rotor/shafts.
- Total order book stood at INR215b at the end of 4QFY23**, with EVs accounting for ~77% of the order book. The company added new orders worth INR80b in FY23 as it won 35 programs and added seven customers.
- SONACOMS generated FCF of INR1.99b in FY23**, and the entire capex of INR3.5b incurred through internal accrual. Moreover, the management has guided for a capex of INR10-11b over the next three years.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view

- FY23 was a challenging year for SONACOMS given its diversified presence in geographies such as North America and EU (~63% of revenue), which were majorly affected by uncertain macros and weak global supply chains. However, with supply chains returning to normalcy and a relatively stable macro outlook in CY23, we expect a healthy demand recovery for the company in FY24, supported by its strong order book.
- SONACOMS remains a good proxy play for the global electrification trend, with a ~26% revenue mix from EVs and a ~77% mix in the order book. Moreover, its focus on expanding the product portfolio, global scale, and customer base should translate into strong earnings growth and healthy capital efficiency.
- However, valuations at 53.7x/42.5x FY24E/FY25E consol EPS largely factor in these positives. Maintain **Neutral** with a TP of INR465 (~40x Mar'25 consol. EPS).

Consol. Quarterly Performance

Y/E March	(INR m)										
	FY22				FY23E				FY22	FY23	4QE
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
Net operating revenues	5,007	5,857	4,941	5,500	5,892	6,574	6,850	7,440	21,306	26,756	7,070
Change (%)	226.5	52.4	1.0	2.0	17.7	12.2	38.6	35.3	36.0	25.6	28.5
EBITDA	1,387	1,544	1,305	1,354	1,425	1,657	1,862	2,014	5,591	6,958	1,917
EBITDA Margins (%)	27.7	26.4	26.4	24.6	24.2	25.2	27.2	27.1	26.2	26.0	27.1
Depreciation	334	355	357	374	400	429	470	481	1,420	1,780	496
EBIT	1,054	1,189	949	980	1,025	1,228	1,392	1,533	4,171	5,178	1,421
EBIT Margins (%)	21.0	20.3	19.2	17.8	17.4	18.7	20.3	20.6	19.6	19.4	20.1
Interest	86	29	33	35	29	43	51	46	183	169	47
Non-Operating Income	2	6	50	143	10	28	33	45	200	116	36
PBT	1,102	1,166	966	1,223	1,006	1,213	1,373	1,498	4,456	5,091	1,410
Effective Tax Rate (%)	25.4	24.3	10.5	14.5	24.6	23.7	22.0	20.0	18.9	22.5	22.2
Adjusted PAT	719	882	864	912	758	925	1,071	1,232	3,399	3,972	1,097
Change (%)		22.3	3.5	29.4	5.4	4.9	23.9	35.1	39.1	16.9	20.4

E: MOFSL Estimates



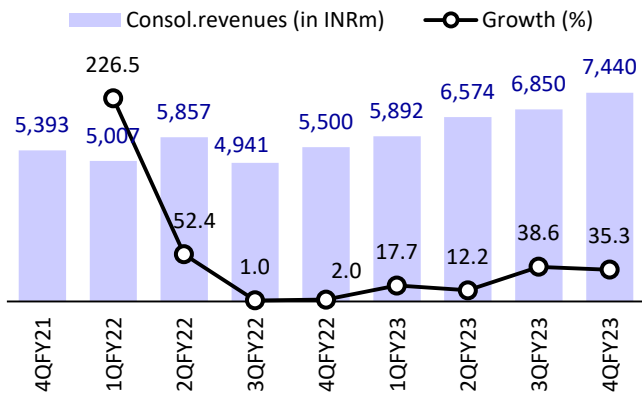
Key takeaways from the management interaction

- **EV mix continues to expand.** BEV revenue grew 37% YoY to INR2.04b in 4QFY23, contributing ~28% to consol revenue. For FY23, BEV contributed ~26% to revenue (v/s 25%/14% in FY22/21), with revenue growth of ~33% YoY to INR6.7b. The company added one new program during the quarter, resulting in a total of 42 programs at the end of FY23. Out of this, 10 programs have fully ramped up, 10 are in the ramp-up phase and the remaining 22 are not yet in production.
- **SONACOMS won new order for Class 4 electric CVs worth INR5.01b**, with SOP from 4QFY24. It will supply final drive differential, intermediate gears and input rotor/shafts. Realization for the company's current product portfolio is between USD600-900.
- **Total order book stands at INR215b at the end of 4QFY23**, with EV now accounting for ~77% of the order book. SONACOMS added new orders worth INR80b in FY23 as it won 35 programs and added seven new customers.
- **SONACOMS generated FCF of INR1.99b in FY23**, and the entire capex of INR3.5b incurred through internal accrual. Moreover, the management has guided for a capex of INR10-11b over the next three years.
- **Benefits of PLI are not expected to realize in FY23.** The government has come up with SOP in Apr'23, and currently the company is evaluating the same. It has

already applied for product approval and expects to receive benefits in FY24. If the benefits are accrued in the coming years, it would be in a prospective manner rather than retrospective.

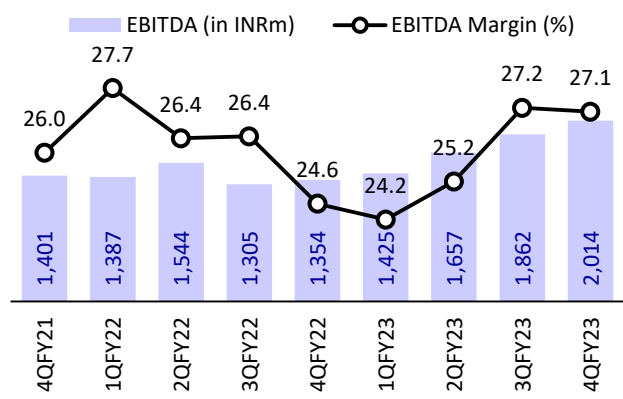
- **The company is seeing a softening in prices of most RMs, except for Alloy steel prices, which remain high (YoY).**
- **SONACOMS aims to reduce customer concentration going forward.** Currently no customer contributes more than 20% of revenue. The management hints at bringing this down to not more than 15%.
- While uncertainty around growing EV penetration will sustain due to a possibility of calling off FAME subsidies, the company believes growth in traction motor business would largely be driven by gaining incremental market share.
- **Progress on magnet-less motor:** It is still in the validation phase, while the company is also working on several technologies. The company had shown one of the motors during the Auto expo as well.

Exhibit 1: Trend in Revenues



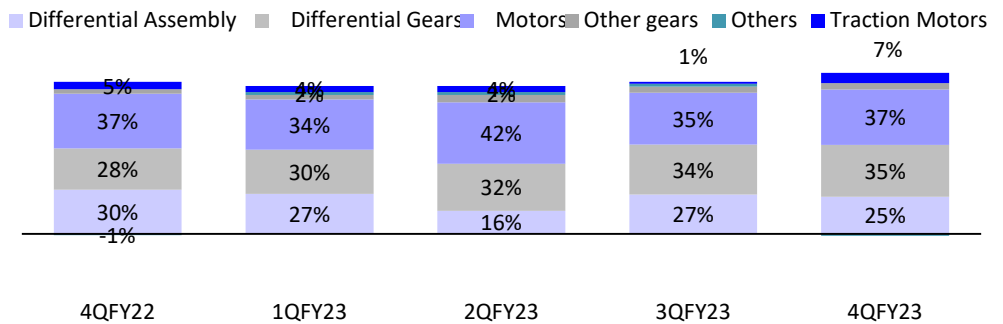
Source: Company, MOFSL

Exhibit 2: EBITDA and EBITDA margin trend



Source: Company, MOFSL

Exhibit 3: Revenue breakup



Source: Company, MOFSL

Valuation and view

Unique blend of increasing EV share, global scale, and strong financials

Best proxy on global megatrends of electrification and premiumization: SONACOMS offers a clean global play on the megatrends of electrification and premiumization. Its product portfolio of differential gears, motors and sensors is on the right side of the Auto industry evolution, with a substantial increase in content in EV products. It is also well prepared for EV-specific components such as traction motors, controllers, and 48V BSG. It also benefits from the structural premiumization trend observed across segments – PVs (SUVs, 4WDs, BEVs), CVs (MAVs), and tractors (higher HP, 4WDs). The BEV segment already contributes 26% of revenues in FY23 (v/s 25%/14% in FY22/FY21) and accounts for 77% of the order book.

Unique positioning of increasing EV sales, global scale, and strong financial profile: SONACOMS's unique positioning is driven by 1) a sizeable and increasing presence in EVs, 2) global scale and presence, 3) an expanding customer base, and 4) a strong financial profile. It is a dominant player in the Indian differential gears market and has been gaining market share globally in key product segments – differential gears (7.2% in CY22 v/s 5% in CY20), and starter motors (4.1% in CY22 v/s 3% in CY20). More importantly, it is a truly global player with a presence across the key markets of North America (~43%), India (~29%), EU (~20%), Asia (excl India ~7%), and RoW (~1%).

Investing in R&D for future growth: Its approach is to own the technology to capture maximum value and offer the best products to its customers. It invests an average of 3-4% of sales in R&D (high in FY21 at ~6%). Its technology roadmap focuses on developing new products, which help the company increase its share from EVs and reduce dependence on ICE vehicles. Additionally, it aims to capitalize on the EV opportunity at both ends of the power spectrum and eventually offer both product categories to all market segments. SONACOMS is among the few players who are well placed to combine their motor-driveline capabilities to offer integrated drive units with three key components: differential assembly, high-voltage traction motors, and high-voltage inverters.

Strong growth ahead: SONACOMS is geared for faster growth than the underlying industry, driven by 1) content increase in the existing portfolio; 2) market share gains in key geographies; and 3) new products such as traction motors, controllers, BSG and sensors. SONACOMS is foraying into a new business vertical of sensor and software. While it will not be a meaningful addition to its financials in the near term, we believe the acquisition is in the right direction strategically, as it will add a new revenue stream beyond its Driveline and motor businesses. We estimate a consolidated revenue/EBITDA/PAT CAGR of 25%/28%/30% over FY23-FY25 and RoCE (post tax) expansion of 4.1pp (over FY23) to ~20.9% by FY25.

Valuation and view: We increase our FY24E/25E EPS by ~4.5%/6.4% to factor in a healthy order book execution, a ramp-up in new orders in FY25 and operating leverage. With supply chains returning to normalcy and a relatively stable macro outlook in CY23, we expect a healthy demand recovery for SONACOMS going forward, aided by its strong order book. The company remains a good proxy play for the global electrification trend with a ~26% revenue mix from EVs and a ~77% mix in the order book. Besides, its focus on expanding the product portfolio, global scale, and customer base should translate into strong earnings growth and healthy capital efficiency. However, valuations at 53.7x/42.5x FY24E/FY25E consol EPS largely factor in these positives. Maintain **Neutral** with a TP of INR465 (~40x Mar-25 consol. EPS).

Exhibit 4: Revisions to our estimates

(INR M)	FY24E			FY25E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	33,959	33,639	1.0	41,487	40,360	2.8
EBITDA	9,291	9,047	2.7	11,417	10,886	4.9
EBITDA (%)	27.4	26.9	50bp	27.5	27.0	50bp
Net Profit	5,333	5,097	4.6	6,737	6,321	6.6
EPS (INR)	9.1	8.7	4.5	11.5	10.8	6.4

Key operating indicators

Exhibit 5: Expect strong revenue growth over FY23-25 largely driven by strong traction BEV DA business

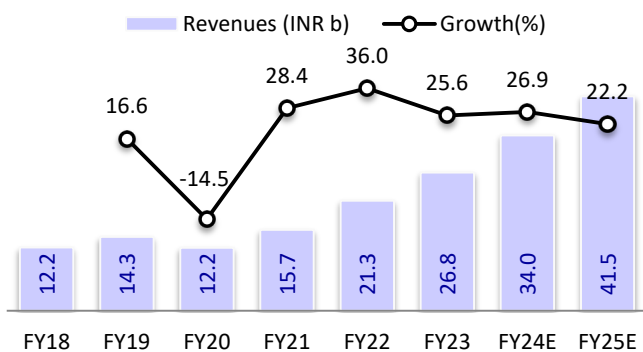


Exhibit 6: EBITDA margin to expand driven by better mix and operating leverage

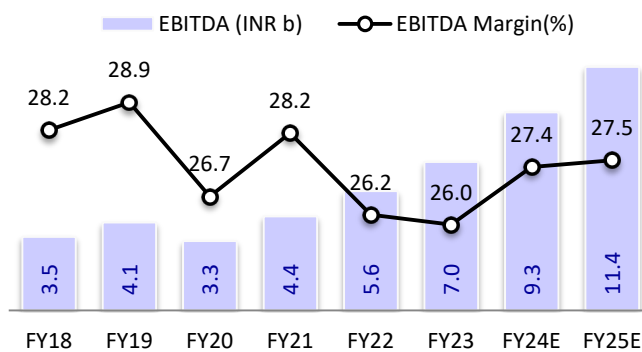


Exhibit 7: Expect 36% PAT CAGR over FY23-25E

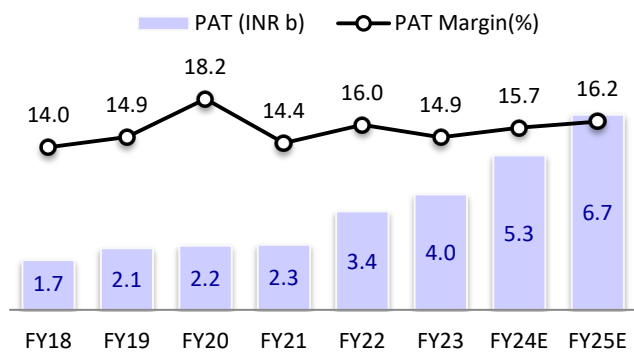


Exhibit 8: ROCE to improve substantially by FY25E

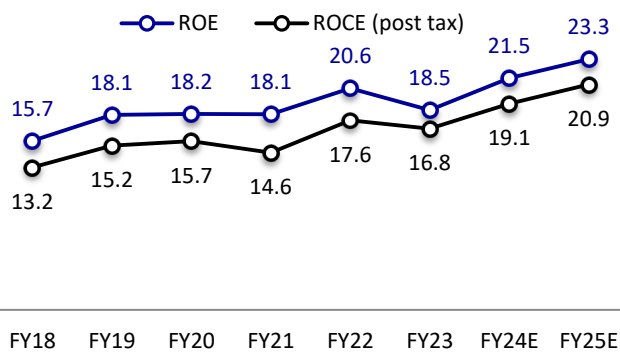


Exhibit 9: Capex levels to moderate from FY24E

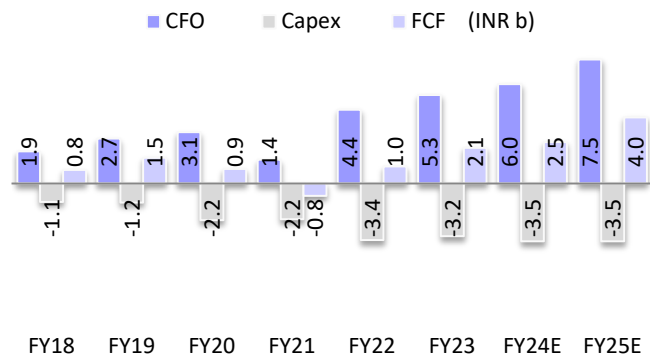
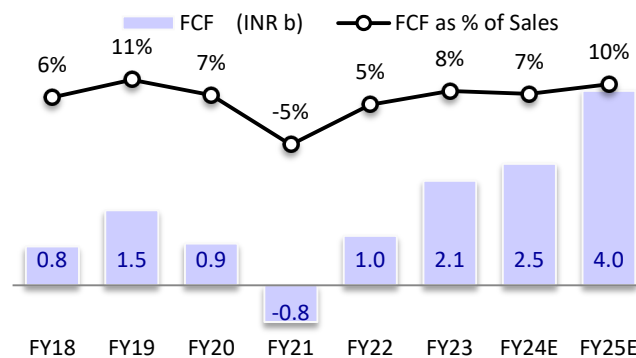


Exhibit 10: FCF should continue to improve



Financials and valuations

Income Statement							(INR m)	
Y/E March	2019	2020	2021	2022	2023	2024E	2025E	
Net operating income	14,277	12,201	15,663	21,306	26,756	33,959	41,487	
Change (%)	16.6	-14.5	28.4	36.0	25.6	26.9	22.2	
EBITDA	4,122	3,254	4,410	5,591	6,958	9,291	11,417	
EBITDA Margin (%)	28.9	26.7	28.2	26.2	26.0	27.4	27.5	
Depreciation	722	782	969	1,420	1,780	2,111	2,411	
EBIT	3,400	2,472	3,441	4,171	5,178	7,181	9,006	
EBIT Margin (%)	23.8	20.3	22.0	19.6	19.4	21.1	21.7	
Interest cost	198	269	325	183	169	199	213	
Other Income	58	76	23	200	116	129	189	
Non-recurring Exp/(Inc)	0	0	139	-267	34	0	0	
PBT after EO	3,260	2,279	3,000	4,456	5,091	7,111	8,982	
Effective Tax Rate (%)	34.7	2.7	28.3	18.9	22.4	25.0	25.0	
Reported PAT	2,129	2,217	2,152	3,615	3,953	5,333	6,737	
Adj. PAT	2,129	2,217	2,251	3,399	3,979	5,333	6,737	
Change (%)	24.1	4.2	1.5	51.0	17.1	34.0	26.3	

Balance Sheet							(INR m)	
Y/E March	2019	2020	2021	2022	2023	2024E	2025E	
Sources of Funds								
Share Capital	277	472	5,730	5,844	5,854	5,854	5,854	
Reserves	12,322	11,308	7,309	14,159	17,048	20,806	25,394	
Net Worth	12,599	11,779	13,039	20,003	22,902	26,660	31,248	
Deferred Tax	1,523	1,077	1,260	884	876	876	876	
Loans	1,353	2,614	3,052	704	2,175	2,500	2,500	
Other non-current liabilities	182	534	721	698	661	661	661	
Capital Employed	15,658	16,004	18,073	22,288	26,614	30,697	35,285	
Application of Funds								
Gross Fixed Assets	4,261	5,494	6,395	9,382	13,213	16,624	20,124	
Less: Depreciation	753	1,230	1,353	2,189	3,569	5,281	7,294	
Net Fixed Assets	3,509	4,264	5,042	7,193	9,644	11,343	12,831	
Intangibles	5,387	5,489	5,948	5,995	5,979	5,979	5,979	
Amortisation	573	860	582	1,105	1,505	1,903	2,302	
Net Intangibles	4,814	4,629	5,366	4,890	4,474	4,076	3,677	
Capital WIP	266	896	832	1,474	911	1,000	1,000	
Goodwill on consolidation	1,758	1,758	1,758	1,758	1,758	1,758	1,758	
Investments	457	19	0	65	2,326	2,326	2,326	
Curr.Assets, L & Adv.	6,202	6,940	8,750	10,577	11,485	15,348	19,990	
Inventory	1,838	1,962	3,056	3,634	3,229	4,099	5,007	
Sundry Debtors	2,733	2,336	4,170	4,452	6,089	7,728	9,441	
Cash & Bank Balances	615	1,673	276	773	698	1,863	3,663	
Loans & Advances	1	5	15	65	92	93	114	
Others	1,015	963	1,234	1,654	1,376	1,566	1,765	
Current Liab. & Prov.	2,748	2,503	3,676	3,669	3,984	5,154	6,296	
Sundry Creditors	1,393	1,162	2,241	2,190	2,489	3,256	3,978	
Other Liabilities	1,227	1,223	1,275	1,274	1,256	1,594	1,948	
Provisions	128	118	159	206	239	303	370	
Net Current Assets	3,454	4,437	5,075	6,908	7,501	10,194	13,693	
Miscellaneous Expenditures	1,399	0						
Application of Funds	15,658	16,004	18,073	22,288	26,614	30,697	35,285	

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2019	2020	2021	2022	2023	2024E	2025E
Basic (INR)							
EPS	76.8	47.0	3.9	5.8	6.8	9.1	11.5
EPS Growth (%)	24.1	-38.8	-91.6	48.0	16.9	34.0	26.3
Cash EPS	102.9	63.6	5.4	8.6	9.8	12.7	15.6
Book Value per Share	454.6	249.8	22.8	34.2	39.1	45.5	53.4
DPS	0.0	0.0	18.9	0.8	1.5	2.7	3.7
Payout (Incl. Div. Tax) %	0.0	0.0	504.1	12.2	22.2	29.5	31.9
FCF (INR/sh)	55.2	18.1	-1.3	1.7	3.6	4.2	6.8
Valuation (x)							
P/E	6.4	10.4	124.4	84.1	71.9	53.7	42.5
EV/EBITDA	3.4	7.4	64.1	51.1	41.0	30.6	24.8
EV/Sales	1.0	2.0	18.1	13.4	10.7	8.4	6.8
Price to Book Value	1.1	2.0	21.5	14.3	12.5	10.7	9.2
Dividend Yield (%)	0.0	0.0	3.9	0.2	0.3	0.6	0.8
FCF Yield (%)	11.3	3.7	-0.3	0.4	0.7	0.9	1.4
Profitability Ratios (%)							
RoE	18.1	18.2	18.1	20.6	18.5	21.5	23.3
RoCE (post-tax)	15.2	15.7	14.6	17.6	16.8	19.1	20.9
RoIC	16.9	17.3	16.2	18.3	18.9	22.4	25.1
Turnover Ratios							
Debtors (Days)	70	70	97	76	83	83	83
Inventory (Days)	47	59	71	62	44	44	44
Creditors (Days)	36	35	52	38	34	35	35
Working Capital (Days)	81	94	116	101	93	92	92
Asset Turnover (x)	1.0	0.8	0.9	1.1	1.1	1.2	1.3
Leverage Ratio							
Net Debt/Equity (x)	0.0	0.1	0.2	0.0	0.0	-0.1	-0.1

E: MOST Estimates

Cash Flow Statement

(INR m)

Y/E March	2019	2020	2021	2022	2023	2024E	2025E
Profit before Tax	3,260	2,279	3,000	4,456	5,091	7,111	8,982
Depreciation & Amort.	722	782	969	1,420	1,780	2,111	2,411
Direct Taxes Paid	-1,164	-398	-528	-544	-1,102	-1,778	-2,246
(Inc)/Dec in Working Capital	-247	4	-2,070	-890	-630	-1,530	-1,698
Interest/Div. Received	-30	-31	-29	-179	-112	-129	-189
Other Items	149	457	85	183	306	199	213
CF from Oper. Activity	2,689	3,092	1,427	4,446	5,333	5,984	7,473
Extra-ordinary Items	0	0	0	0	0	0	0
CF after EO Items	2,689	3,092	1,427	4,446	5,333	5,984	7,473
(Inc)/Dec in FA+CWIP	-1,160	-2,239	-2,180	-3,438	-3,196	-3,500	-3,500
Free Cash Flow	1,529	853	-753	1,008	2,136	2,484	3,973
Interest/dividend received	33	39	22	179	31	129	189
(Pur)/Sale of Invest.	-180	-7,286	598	-275	-2,450	0	0
CF from Inv. Activity	-1,307	-9,487	-1,561	-3,534	-5,615	-3,371	-3,311
Inc/(Dec) in Debt	-249	1,320	504	-2,954	1,471	325	0
Interest Paid	-175	-205	-246	-92	-12	-199	-213
Dividends Paid	-1,032	-1,532	-904	-450	-1,199	-1,576	-2,149
Others	0	0	-21	-170	-113	0	0
CF from Fin. Activity	-1,456	7,083	-667	-625	187	-1,449	-2,361
Inc/(Dec) in Cash	-74	689	-800	287	-95	1,164	1,801
Add: Beginning Balance	435	361	1,050	249	536	441	1,605
Closing Balance	361	1,050	249	536	441	1,605	3,406

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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