

SONA BLW Precision Forging

Estimate change



TP change



Rating change



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Bloomberg	SONACOMS IN
Equity Shares (m)	585
M.Cap.(INRb)/(USD\$)	346.3 / 4.2
52-Week Range (INR)	608 / 397
1, 6, 12 Rel. Per (%)	10/19/-11
12M Avg Val (INR M)	1610

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	26.8	33.0	41.6
EBITDA (%)	26.0	27.8	27.7
Adj. PAT	4.0	5.2	6.8
EPS (INR)	6.8	8.9	11.6
EPS Gr. (%)	16.9	31.5	30.3
BV/Sh. (INR)	39.1	45.4	53.3

Ratios

RoE (%)	18.5	21.2	23.6
RoCE (%)	16.8	18.8	21.2
Payout (%)	22.0	30.1	31.5

Valuations

P/E (x)	87.0	66.2	50.8
P/BV (x)	15.1	13.0	11.1
EV/EBITDA (x)	49.7	37.7	29.8
Div. Yield (%)	0.3	0.5	0.6
FCF Yield (%)	0.6	0.6	1.0

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	29.8	33.0	67.2
DII	28.2	31.3	16.1
FII	31.7	24.7	8.8
Others	10.4	11.0	7.9

FII Includes depository receipts

CMP:INR592

TP: INR600 (+1%)

Neutral

Strong in-line performance; order win momentum healthy

Strong growth in ICE segment | EU recovers strongly, Asia declines

- SONACOMS' 1QFY24 operating performance was in line. Its revenue/ EBITDA grew 24%/43% YoY. The company has won a new order worth INR13b in 1QFY24 (total order book was at INR220b) and salience of EV in order book has risen to 78%. Conventional start-motor is now just 11% of revenue.
- We raise our FY24E/25E EPS by ~4%/2.5% to factor in a healthy order book execution and higher margins. Maintain **Neutral** with a TP of INR600 (based on 45x Sep'25E consol. EPS) owing to its expensive valuation.

Operating performance in line; PAT surprised

- SONACOMS' 1QFY24 revenue/EBITDA/adj. PAT grew ~24%/43%/51% YoY to INR7.3b/ INR2.0b/ INR1.1b. BEV revenue rose 13% YoY to INR1.8b (26% of total revenue), whereas ICE revenue jumped 28% YoY.
- Gross margin improved 240bp YoY/260bp QoQ to 56.9% (est. 54.6%), mainly driven by better mix.
- This coupled with operating leverage resulted in EBITDA margin expansion of 360bp YoY (+70bp QoQ) to 27.8% (vs. est. 27%). EBITDA grew 43% YoY to INR2.0b (est. INR1.97b).
- A better operating performance, along with lower depreciation, resulted in higher-than-expected adj. PAT at INR1.14b (+51% YoY, est. INR1.06b).

Highlights from the management commentary

- **BEV revenue** grew 13% YoY (-10% QoQ) to INR1.8b in 1QFY24 and revenue share was at 26% (vs. 28% in 4QFY23), hurt by reduction in FAME-2 subsidies for e-2W from Jun'23.
- **Impact of FAME-2 incentive reduction on e-2Ws:** As compared to its budget, the company estimated a loss of revenue of INR250m in 1QFY24 and INR1.0-1.2b in FY24. However, it expects traction motors business to be much bigger than ICE starter motor business in three years.
- **Order book stable, despite orders going into execution:** It won four new orders worth INR13b, taking the total order book to INR220b (vs. INR215b in 4QFY23). Of these orders, three were in EVs, which formed 78% of the order book.
- It is expanding capacity for traction motors from 400k to 600k, and putting up capacity of 500k for PCB at Chennai by investing ~INR1b. This capacity is for e-2W/3W traction motors as well as to cater to its partnership with Equipmake; the capacity will be ready by FY25.

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

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Valuation and view

- After a challenging FY23, SONACOMS is firmly back on strong growth path led by a recovery in the underlying markets and a strong order book. SONACOMS remains a good proxy play for the global electrification trend, with a ~26% revenue mix from EVs and a ~78% 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 66.2x/50.8x FY24E/FY25E consol. EPS largely factor in these positives. We raise our target multiple from 40x to 45x Sep'25 EPS, to reflect the improved visibility and return to strong growth path. Maintain **Neutral** with a TP of INR600 (based on ~45x Mar'25 consol. EPS).

Consol. Quarterly Performance

Y/E March	FY23				FY24E				FY23	FY24E	FY24E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE
Net operating revenues	5,892	6,574	6,850	7,440	7,322	8,067	8,309	9,314	26,756	33,012	7,286
Change (%)	17.7	12.2	38.6	35.3	24.3	22.7	21.3	25.2	25.6	23.4	23.7
EBITDA	1,425	1,657	1,862	2,014	2,034	2,235	2,302	2,591	6,958	9,161	1,967
EBITDA Margins (%)	24.2	25.2	27.2	27.1	27.8	27.7	27.7	27.8	26.0	27.8	27.0
Depreciation	400	429	470	481	511	535	555	575	1,780	2,176	550
EBIT	1,025	1,228	1,392	1,533	1,523	1,700	1,747	2,015	5,178	6,985	1,417
EBIT Margins (%)	17.4	18.7	20.3	20.6	20.8	21.1	21.0	21.6	19.4	21.2	19.5
Interest	29	43	51	46	53	50	50	45	169	199	50
Non-Operating Income	10	28	33	45	54	45	45	46	116	189	40
PBT	1,006	1,213	1,373	1,498	1,495	1,695	1,742	2,016	5,091	6,947	1,407
Effective Tax Rate (%)	24.6	23.7	22.0	20.0	25.1	25.0	25.0	25.0	22.4	25.0	25.0
Adjusted PAT	758	925	1,071	1,232	1,142	1,271	1,306	1,513	3,979	5,232	1,056
Change (%)	5.4	4.9	23.9	35.1	50.6	37.3	22.0	22.8	17.1	31.5	39.2
Cost Break-up											
RM Cost (% of sales)	45.5	47.0	44.2	45.7	43.1	44.5	44.5	44.4	45.6	44.2	45.4
Staff Cost (% of sales)	7.3	6.7	7.0	6.1	6.7	6.3	6.3	6.0	6.7	6.3	6.5
Other Cost (% of sales)	23.0	21.1	21.6	21.1	22.4	21.5	21.5	21.8	21.7	21.8	21.1
Gross Margins (%)	54.5	53.0	55.8	54.3	56.9	55.5	55.5	55.6	54.4	55.9	54.6
EBITDA Margins (%)	24.2	25.2	27.2	27.1	27.8	27.7	27.7	27.8	26.0	27.8	27.0
EBIT Margins (%)	17.4	18.7	20.3	20.6	20.8	21.1	21.0	21.6	19.4	21.2	19.5

E:MOFSL Estimates



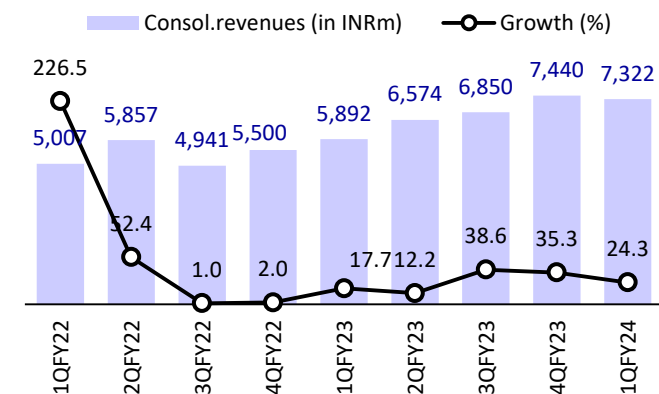
Key takeaways from the management interaction

- **BEV revenues** grew 13% YoY (-10% QoQ) to INR1.8b in 1QFY24 and revenue share was at 26% (vs. 28% in 4QFY23), hurt by reduction in FAME-2 subsidies for e-2W from Jun'23. EV formed 78% of the order book.
- **Non-BEV Revenue** surged 28% YoY while light vehicle sales in its top-3 markets grew 15% YoY.
- **Impact of FAME-2 incentive reduction on e-2Ws:** As compared to its budget, the company estimated a loss of revenue of INR250m in 1QFY24 and INR1.0-1.2b in FY24. However, it expects traction motors business to be much bigger than ICE starter motor business in three years.
- **Order book stable, despite orders going into execution:** It won four new orders worth INR13b, taking the total order book to INR220b (vs. INR215b in 4QFY23). Of these orders three were in EVs. EV orders were for a) differential assembly for Class 5 CVs (INR4b, SOP 4QFY25) from new age OEM, b) hub-wheel motor for e-2W from existing customer (INR3.6b, SOP from 4QFY24), and c) mid-drive traction motor & controller for electric OHVs/3Ws from existing customer in India

(INR0.9b, SOP 4QFY24). Further, it won an order in global recreation OHV segment for a final drive assembly (INR4.3b, SOP 2QFY25).

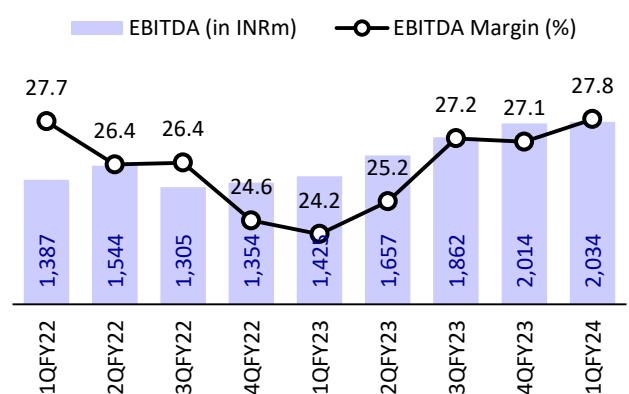
- **Business mix changes in 1QFY24:** a) e-2W/3W declined to 2.5% of sales from 4% in 4QFY23, b) PVs increased to 72% from 69%, c) Asia (ex-India) further declined to 5% from 7% in FY23, whereas EU increased to 23% from 20%, and d) Diff. gears increased to 37% from 32%, whereas conventional starter motors declined to 11% from 15%.
- It is expanding capacity for traction motors to 600k from 400k, and putting up capacity of 500k for PCB at Chennai by investing ~INR1b. This capacity is for e-2W/3W traction motors as well as to cater to its partnership with Equipmake, and will be ready by FY25.
- **Partnership with Equipmake for traction motors for buses, LCVs and PVs:** It has recently entered into partnership with Equipmake for high voltage motor-controller segment in 100-140kW range. Equipmake partnership would help the company enter into the high voltage motor-controller segment. Equipmake's technology offers best power density in this segment globally. SONACOMS has exclusive right for India, Thailand and select South Asian market, and will also manufacture in India for Equipmake's global requirement. Commercial production is expected to start in 2025.
- No customer is >20% and top-5 customers are <60% of revenue. Even in EVs, the largest customer contributes 70-75%.
- Capex guidance of INR4b p.a. for the next two years.

Exhibit 1: Trend in revenue



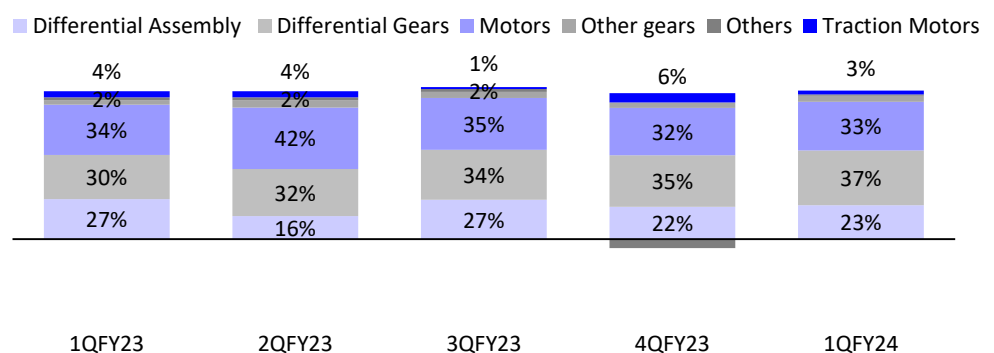
Source: Company, MOFSL

Exhibit 2: EBITDA and EBITDA margin trend



Source: Company, MOFSL

Exhibit 3: Revenue breakup



Source: Company, MOFSL

Valuation and view

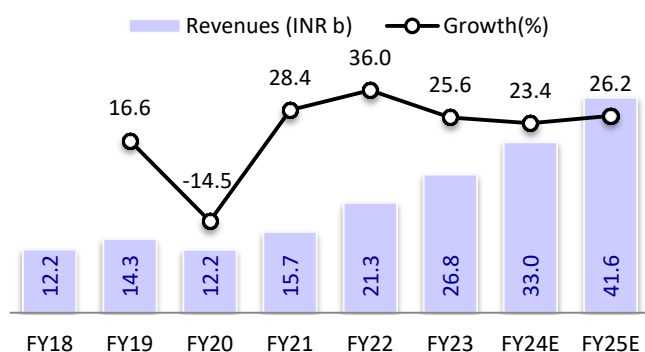
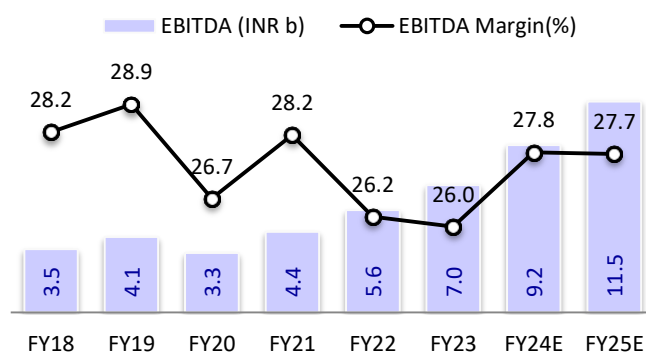
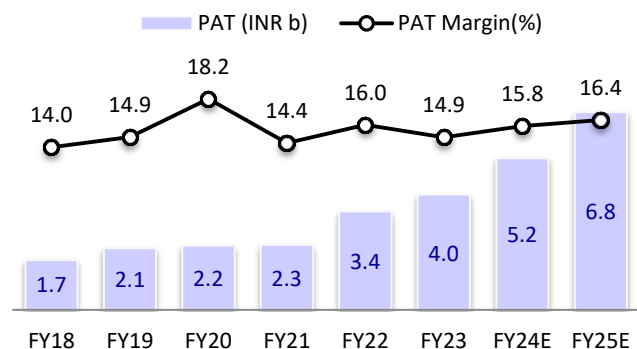
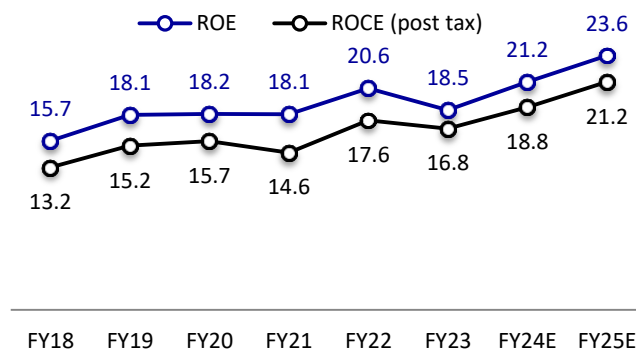
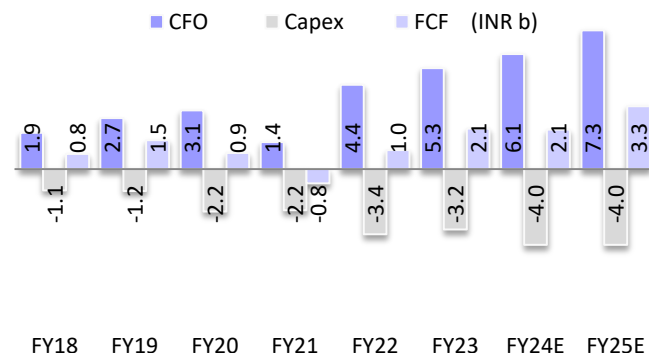
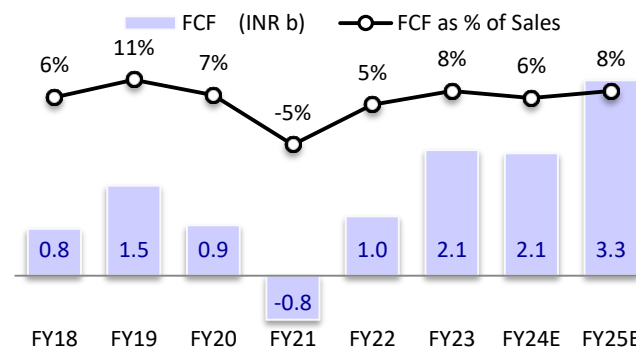
Unique blend of increasing EV share, global scale, and strong financials

- **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 contributed 26% of revenue in FY23 (v/s 25%/14% in FY22/FY21) and accounted for 78% 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%/29%/31% over FY23-FY25E and RoE expansion of 5.1pp (over FY23) to ~23.6% by FY25.
- **Valuation and view:** We increase our FY24E/25E EPS by ~4%/2.5% to factor in a healthy order book execution and higher margins. After a challenging FY23, SONACOMS is firmly back on strong growth path led by recovery in the underlying markets and strong order book. SONACOMS remains a good proxy play for the global electrification trend, with a ~26% revenue mix from EVs and a ~78% 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 66.2x/50.8x FY24E/FY25E consol. EPS largely factor in these positives. We raise our target multiple from 40x to 45x Sep'25 EPS, to reflect the improved visibility and return to strong growth path. Maintain **Neutral** with a TP of INR600 (based on ~45x Mar'25 consol. EPS).

Exhibit 4: Revisions to our estimates

(INR M)	FY24E			FY25E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	33,012	32,991	0.1	41,646	40,630	2.5
EBITDA	9,161	8,977	2.0	11,542	11,267	2.4
EBITDA (%)	27.8	27.2	50bp	27.7	27.7	0bp
Net Profit	5,232	5,033	3.9	6,818	6,648	2.5
EPS (INR)	8.9	8.6	3.9	11.6	11.4	2.5

Key operating indicators

Exhibit 5: Expect strong revenue growth over FY23-25 largely driven by strong traction in BEV DA business**Exhibit 6: EBITDA margin to expand driven by better mix and operating leverage****Exhibit 7: Expect 31% PAT CAGR over FY23-25****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	33,012	41,646
Change (%)	16.6	-14.5	28.4	36.0	25.6	23.4	26.2
EBITDA	4,122	3,254	4,410	5,591	6,958	9,161	11,542
EBITDA Margin (%)	28.9	26.7	28.2	26.2	26.0	27.8	27.7
Depreciation	722	782	969	1,420	1,780	2,176	2,502
EBIT	3,400	2,472	3,441	4,171	5,178	6,985	9,040
EBIT Margin (%)	23.8	20.3	22.0	19.6	19.4	21.2	21.7
Interest cost	198	269	325	183	169	199	200
Other Income	58	76	23	200	116	189	250
Non-recurring Exp/(Inc)	0	0	139	-267	34	28	0
PBT after EO	3,260	2,279	3,000	4,456	5,091	6,947	9,090
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	5,210	6,818
Adj. PAT	2,129	2,217	2,251	3,399	3,979	5,232	6,818
Change (%)	24.1	4.2	1.5	51.0	17.1	31.5	30.3

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	20,704	25,373
Net Worth	12,599	11,779	13,039	20,003	22,902	26,558	31,227
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	30,595	35,264
Application of Funds							
Gross Fixed Assets	4,261	5,494	6,395	9,382	12,889	16,800	20,300
Less: Depreciation	753	1,230	1,353	2,189	3,245	5,022	7,126
Net Fixed Assets	3,509	4,264	5,042	7,193	9,644	11,778	13,174
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	1,500
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	14,668	19,149
Inventory	1,838	1,962	3,056	3,634	3,229	3,985	5,027
Sundry Debtors	2,733	2,336	4,170	4,452	6,089	7,512	9,477
Cash & Bank Balances	615	1,673	276	773	698	1,540	2,763
Loans & Advances	1	5	15	65	92	90	114
Others	1,015	963	1,234	1,654	1,376	1,541	1,769
Current Liab. & Prov.	2,748	2,503	3,676	3,669	3,984	5,010	6,320
Sundry Creditors	1,393	1,162	2,241	2,190	2,489	3,166	3,993
Other Liabilities	1,227	1,223	1,275	1,274	1,256	1,550	1,955
Provisions	128	118	159	206	239	295	372
Net Current Assets	3,454	4,437	5,075	6,908	7,501	9,658	12,829
Miscellaneous Expenditures	1,399	0					
Application of Funds	15,658	16,004	18,073	22,288	26,614	30,595	35,264

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	8.9	11.6
EPS Growth (%)	24.1	-38.8	-91.6	48.0	16.9	31.5	30.3
Cash EPS	102.9	63.6	5.4	8.6	9.8	12.7	15.9
Book Value per Share	454.6	249.8	22.8	34.2	39.1	45.4	53.3
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	30.1	31.5
FCF (INR/sh)	55.2	18.1	-1.3	1.7	3.6	3.6	5.7
Valuation (x)							
P/E	6.4	10.4	124.4	84.1	87.0	66.2	50.8
EV/EBITDA	3.4	7.4	64.1	51.1	49.7	37.7	29.8
EV/Sales	1.0	2.0	18.1	13.4	12.9	10.4	8.3
Price to Book Value	1.1	2.0	21.5	14.3	15.1	13.0	11.1
Dividend Yield (%)	0.0	0.0	3.9	0.2	0.3	0.5	0.6
FCF Yield (%)	11.3	3.7	-0.3	0.4	0.6	0.6	1.0
Profitability Ratios (%)							
RoE	18.1	18.2	18.1	20.6	18.5	21.2	23.6
RoCE (post-tax)	15.2	15.7	14.6	17.6	16.8	18.8	21.2
RoIC	16.9	17.3	16.2	18.3	18.9	21.6	24.9
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	6,975	9,090
Depreciation & Amort.	722	782	969	1,420	1,780	2,176	2,502
Direct Taxes Paid	-1,164	-398	-528	-544	-1,102	-1,744	-2,273
(Inc)/Dec in Working Capital	-247	4	-2,070	-890	-630	-1,316	-1,948
Interest/Div. Received	-30	-31	-29	-179	-112	-189	-250
Other Items	149	457	85	183	307	199	200
CF from Oper. Activity	2,689	3,092	1,427	4,446	5,333	6,101	7,322
Extra-ordinary Items	0	0	0	0	0	0	0
CF after EO Items	2,689	3,092	1,427	4,446	5,333	6,101	7,322
(Inc)/Dec in FA+CWIP	-1,160	-2,239	-2,180	-3,438	-3,196	-4,000	-4,000
Free Cash Flow	1,529	853	-753	1,008	2,136	2,101	3,322
Interest/dividend received	33	39	22	179	31	189	250
(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	-3,811	-3,750
Inc/(Dec) in Debt	-249	1,320	504	-2,954	1,471	325	0
Interest Paid	-175	-205	-246	-92	-12	-199	-200
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	-2,349
Inc/(Dec) in Cash	-74	689	-800	287	-95	841	1,223
Add: Beginning Balance	435	361	1,050	249	536	441	1,282
Closing Balance	361	1,050	249	536	441	1,282	2,506

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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

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