25 October 2023

2QFY24 Results Update | Sector: Automobile

SONA BLW Precision Forging

Estimate change	⟷
TP change	↓
Rating change	⟷

Bloomberg	SONACOMS IN
Equity Shares (m)	585
M.Cap.(INRb)/(USDb)	300.2 / 3.6
52-Week Range (INR)	626 / 397
1, 6, 12 Rel. Per (%)	-7/4/-2
12M Avg Val (INR M)	1234

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	26.8	32.7	41.1
EBITDA (%)	26.0	28.0	28.0
Adj. PAT	4.0	5.2	6.8
EPS (INR)	6.8	8.9	11.6
EPS Gr. (%)	16.9	31.0	29.8
BV/Sh. (INR)	39.1	45.3	53.2
Ratios			
RoE (%)	18.5	21.1	23.4
RoCE (%)	16.8	18.8	21.1
Payout (%)	22.0	30.2	31.8
Valuations			
P/E (x)	75.4	57.6	44.4
P/BV (x)	13.1	11.3	9.6
EV/EBITDA (x)	43.0	32.7	25.9
Div. Yield (%)	0.3	0.5	0.7
FCF Yield (%)	0.7	0.7	1.1

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	29.8	29.8	53.6
DII	27.5	28.2	24.5
FII	33.4	31.7	11.6
Others	9.4	10.4	10.3

FII Includes depository receipts

CMP:INR513 TP: INR565 (+10%) Neutral

Operating performance, enhanced by product mix

Expanding its vision to grow in non-auto mobility segment

- SONACOMS' 2QFY24 results beat our estimates, led by better mix that contributed to an EBITDA margin of 28.2% (vs. est. 27.4%). The company's focus on expanding in EVs remains steadfast, with BEV accounting for ~27% of the revenue (vs. 26% in FY23). Additionally, the company now aims for a long-term growth in the broader non-auto mobility sector, which currently represents ~10% of the revenue.
- We maintain our FY24E/25E EPS projections. We believe the current valuation of ~57.6x/44.4x FY24/25E EPS reflects the company's robust EV order book as well as its impressive earnings and return profile. We maintain our Neutral stance on the stock, with a TP of INR565 (based on ~45x Sep'25E consol EPS).

Lower other expenses due to better product mix

- SONACOMS' 2QFY24 revenue/EBITDA/adj. PAT grew ~20%/35%/39% YoY to INR7.9b/ INR2.2b/INR1.3b. BEV revenue rose 58% YoY to INR2.1b (27% of total revenue), whereas ICE revenue jumped 11% YoY. 1HFY24 revenues/EBITDA/adj. PAT grew 22%/38%/44% YoY.
- Gross margin improved 210bp YoY/-180bp QoQ to 55.1% (est. 56%). The sequential decline in gross margins occurred due to a higher percentage of assembled components, which impacted the overall product mix.
- However, lower other expenses (down 120bp YoY/down 250bp QoQ; as a % of sales) offset the sequential decline in gross margins, leading to EBITDA margin expansion of 300bp YoY to 28.2%. EBITDA grew 35% YoY to INR2.2b (vs. est.INR2.1b).
- The company guided EBITDA margin range of 25-27% in the medium term.
- A better operating performance resulted in higher-than-expected adj. PAT at INR1.3b (up 39% YoY, est. INR1.2b).
- FCFF for 1HFY24 improved to INR1.6b (vs. INR649m in 1HFY23), led by better operating cash flows of INR3b (vs. INR2.3b in 1HFY23). Capex stood at INR1.4b (vs. INR1.7b in 1HFY23).

Highlights from the management commentary

- **BEV contributed 27% of the revenue at INR2.07b in 2QFY24,** resulting in 58% YoY growth. Revenue from BEV grew ~12% QoQ due to the successful ramp up of one large program for traction motor during the quarter.
- **Order book has increased to INR221b at the end of 2QFY24** vs. INR220b by 1QFY24 end, 78% of which is EVs. The company won two new orders- i) A contract from New North American EV OEM valued at INR1.7b. This order pertains to rotor-embedded differential sub assembly and is slated for SOP from 2QFY25, ii) An additional order from an existing 3W EV customer in India for Mid-drive traction motor totaling INR3.7b; it is scheduled to commence production from 3QFY25.

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- **Vision to expand into non-auto mobility.** The current share of non-auto is ~10% of the revenue, which includes farm equipment, off-highway and construction equipment.
- **Added seven new future products to the roadmap during the quarter.** This includes two products in driveline (light weight differential and robotics gears), two in motor (non-auto mobility motors and integrated motor controller), and three in newly acquired sensors business (zone monitoring sensors, 360-degree short range radar sensors and in-cabin sensors).

Valuation and view

- After a challenging FY23, SONACOMS is firmly back on a 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 ~27% 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, its valuations stand at 57.6x/44.4x FY24E/FY25E consol. EPS and largely factor in these positives. We reiterate our **Neutral** stance with a TP of INR565 (based on ~45x Sep'25 consol. EPS).

Consol. Quarterly Performance

Y/E March	FY23				FY24E				FY23	FY24E	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2Q
Net operating revenues	**5,892**	**6,574**	**6,850**	**7,440**	**7,322**	**7,908**	**8,304**	**9,127**	**26,756**	**32,661**	**7,664**
Change (%)	17.7	12.2	38.6	35.3	24.3	20.3	21.2	22.7	25.6	22.1	16.6
EBITDA	**1,425**	**1,657**	**1,862**	**2,014**	**2,034**	**2,233**	**2,325**	**2,541**	**6,958**	**9,133**	**2,100**
EBITDA Margins (%)	24.2	25.2	27.2	27.1	27.8	28.2	28.0	27.8	26.0	28.0	27.4
Depreciation	400	429	470	481	511	534	555	576	1,780	2,176	535
EBIT	**1,025**	**1,228**	**1,392**	**1,533**	**1,523**	**1,699**	**1,770**	**1,964**	**5,178**	**6,957**	**1,565**
EBIT Margins (%)	17.4	18.7	20.3	20.6	20.8	21.5	21.3	21.5	19.4	21.3	20.4
Interest	29	43	51	46	53	60	50	47	169	210	50
Non-Operating Income	10	28	33	45	54	61	50	37	116	202	50
PBT	**1,006**	**1,213**	**1,373**	**1,498**	**1,495**	**1,641**	**1,770**	**1,955**	**5,091**	**6,861**	**1,565**
Effective Tax Rate (%)	24.6	23.7	22.0	20.0	25.1	24.4	25.0	25.4	22.4	25.0	25.0
Adjusted PAT	**758**	**925**	**1,071**	**1,232**	**1,142**	**1,286**	**1,328**	**1,457**	**3,979**	**5,211**	**1,174**
Change (%)	5.4	4.9	23.9	35.1	50.6	39.0	24.0	18.3	17.1	31.0	26.8
Cost Break-up											
RM Cost (% of sales)	45.5	47.0	44.2	45.7	43.1	44.9	44.2	43.4	45.6	43.9	44.0
Staff Cost (% of sales)	7.3	6.7	7.0	6.1	6.7	7.0	6.8	6.4	6.7	6.7	6.6
Other Cost (% of sales)	23.0	21.1	21.6	21.1	22.4	19.9	21.0	22.4	21.7	21.4	22.0
Gross Margins (%)	54.5	53.0	55.8	54.3	56.9	55.1	55.8	56.6	54.4	56.1	56.0
EBITDA Margins (%)	24.2	25.2	27.2	27.1	27.8	28.2	28.0	27.8	26.0	28.0	27.4
EBIT Margins (%)	17.4	18.7	20.3	20.6	20.8	21.5	21.3	21.5	19.4	21.3	20.4

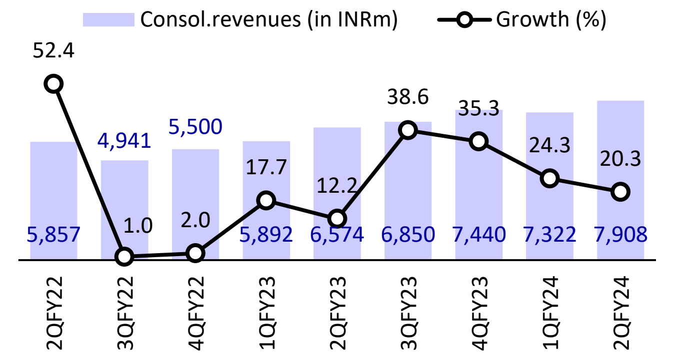
E:MOFSL Estimates

Key takeaways from the management interaction

- **BEV contributed 27% of the revenue at INR2.07b in 2QFY24,** resulting in 58% YoY growth. Revenue from BEV grew ~12% QoQ, due to the successful ramp up of one large program for traction motor during the quarter.
- **Added two new EV programs and one new EV customer**
- The new order book has increased to INR221b at the end of 2QFY24 vs. INR220b at the end of 1QFY24, with EVs accounting for 78% of the total.
- Secured a INR1.7-b order from a North American EV customer for Rotor-embedded differential sub assembly. SOP from 2QFY25.

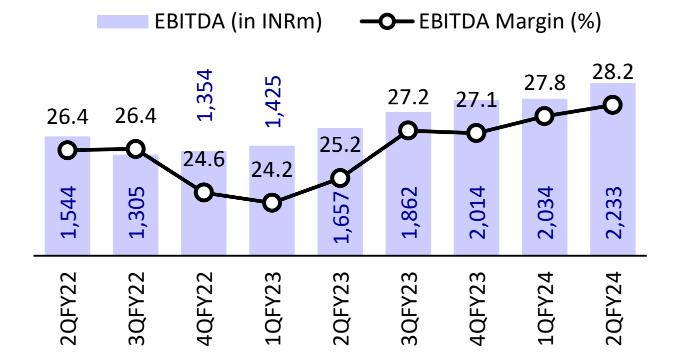
- Another order from an existing customer has been placed for the Mid-drive traction motor designed for electric 3W, with an order size of INR3.7b. The SOP for this order is scheduled from 3QFY25.
- **Added seven new future products to the roadmap during the quarter**
- It has added two products in the driveline business (light weight differential and robotics gears), two in motor business (non-auto mobility motors and integrated motor controller), and three in newly acquired sensors business (zone monitoring sensors, 360-degree short-range radar sensors, and in-cabin sensors).
- These products are under development in the R&D centers at Gurugram and Chennai.
- **Vision to expand into non-auto mobility.** The current share of non-auto is ~10% of the revenue, which includes farm equipment, off-highway and construction equipment. The company is strategically expanding into various sectors of mobility, aligning with its new vision of focusing on mobility in general. The company is actively engaged in the development of drive motors tailored for non-automotive mobility solutions.
- EU geography is doing fairly well. Expect EU to see better growth from FY25 onwards, as two new products are being launched with two major EU OEMs.
- **Impact of UAW strike-** If there had not been a strike, revenue in the second quarter may have exceeded INR8b. Recently, 2 more plants have been struck. The longest strike in the history was for 113 days, 78 years ago and the most recent was 45 days. The current strike has so far crossed 40 days.
- Market share of differential gear is expected to be ~10% in 9MCY23 (vs 7.2% in CY22).

Exhibit 1: Trend in revenue



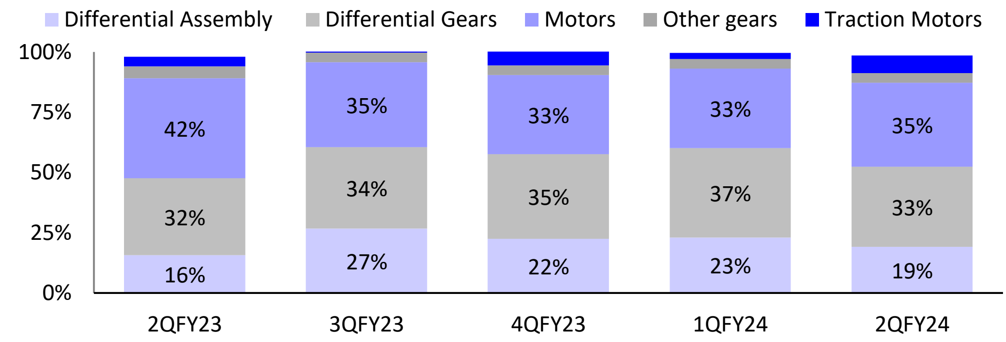
Source: Company, MOFSL

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 27% of revenue in 1HFY24 (vs 26%/25%/14% in FY23/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 vs. 5% in CY20), and starter motors (4.1% in CY22 vs. 3% in CY20). More importantly, it is a truly global player with presence across the key markets of North America (~40%), India (~30%), EU (~23%), Asia (excl India ~6%), 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 that 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 24%/28.5%/30% over FY23-FY25E and RoE expansion of 4.9pp (over FY23) to ~23.4% by FY25.
- **Valuation and view:** We have maintained our FY24E/FY25E estimates. 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 ~27% 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 stand at 57.6x/44.4x FY24E/FY25E consol EPS. We reiterate our **Neutral** stance with a TP of INR565 (based on ~45x Sep'25 consol. EPS).

Exhibit 4: Revisions to our estimates

(INR M)	FY24E			FY25E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	32,661	32,439	0.7	41,082	41,295	-0.5
EBITDA	9,133	8,977	1.7	11,495	11,462	0.3
EBITDA (%)	28.0	27.7	30bp	28.0	27.8	20bp
Net Profit	5,211	5,103	2.1	6,764	6,757	0.1
EPS (INR)	8.9	8.7	2.1	11.6	11.5	0.1

Key operating indicators

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

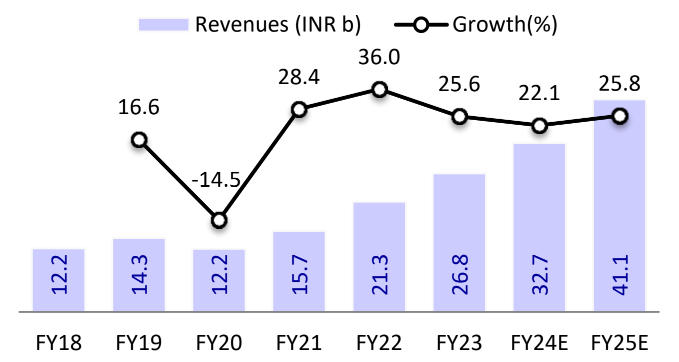


Exhibit 6: EBITDA margin to expand, driven by better mix and operating leverage

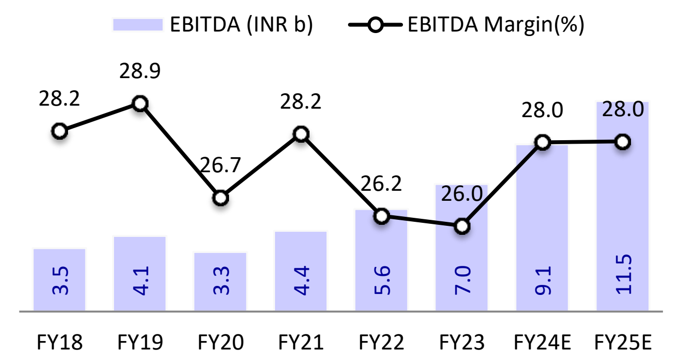


Exhibit 7: Expect 31% PAT CAGR over FY23-25

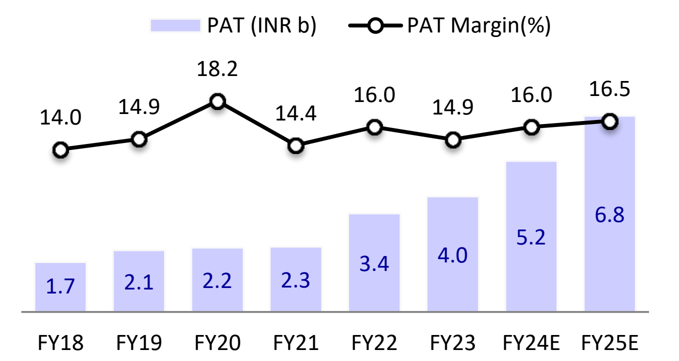


Exhibit 8: ROCE to improve substantially by FY25E

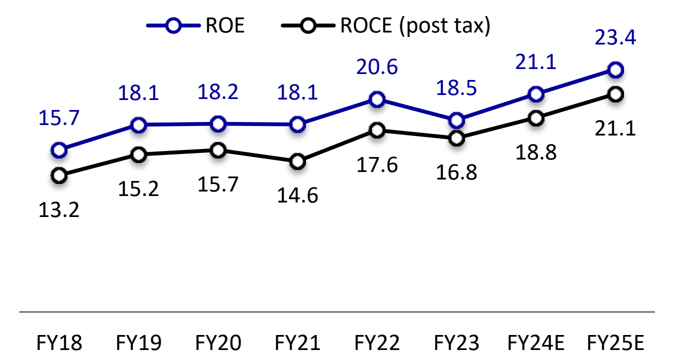


Exhibit 9: Capex levels to moderate from FY24E

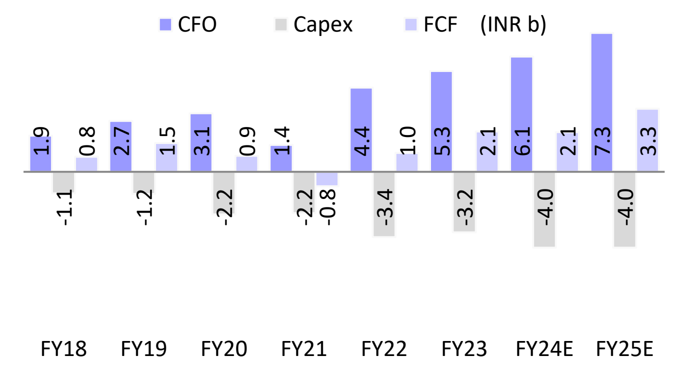
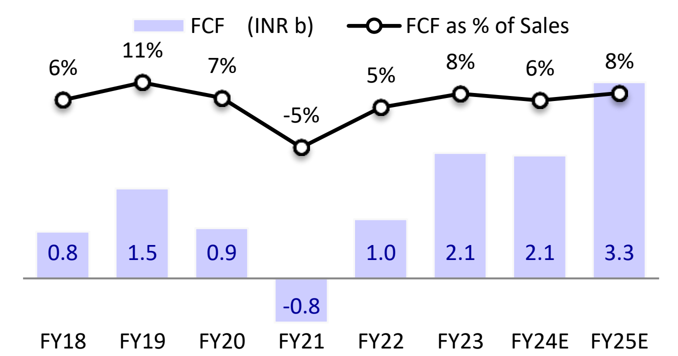


Exhibit 10: FCF should continue to improve



Financials and valuations

Income Statement

Y/E March	2019	2020	2021	2022	2023	2024E	2025E
Net operating income	**14,277**	**12,201**	**15,663**	**21,306**	**26,756**	**32,661**	**41,082**
Change (%)	16.6	-14.5	28.4	36.0	25.6	22.1	25.8
EBITDA	**4,122**	**3,254**	**4,410**	**5,591**	**6,958**	**9,133**	**11,495**
EBITDA Margin (%)	28.9	26.7	28.2	26.2	26.0	28.0	28.0
Depreciation	722	782	969	1,420	1,780	2,176	2,502
EBIT	3,400	2,472	3,441	4,171	5,178	6,957	8,993
EBIT Margin (%)	23.8	20.3	22.0	19.6	19.4	21.3	21.9
Interest cost	198	269	325	183	169	210	225
Other Income	58	76	23	200	116	202	250
Non-recurring Exp/(Inc)	0	0	139	-267	34	87	0
PBT after EO	**3,260**	**2,279**	**3,000**	**4,456**	**5,091**	**6,861**	**9,018**
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**	**5,146**	**6,764**
Adj. PAT	**2,129**	**2,217**	**2,251**	**3,399**	**3,979**	**5,211**	**6,764**
Change (%)	24.1	4.2	1.5	51.0	17.1	31.0	29.8

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	20,683	25,299
Net Worth	**12,599**	**11,779**	**13,039**	**20,003**	**22,902**	**26,538**	**31,153**
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**	**30,575**	**35,190**
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**	**14,594**	**18,990**
Inventory	1,838	1,962	3,056	3,634	3,229	3,942	4,959
Sundry Debtors	2,733	2,336	4,170	4,452	6,089	7,432	9,349
Cash & Bank Balances	615	1,673	276	773	698	1,599	2,816
Loans & Advances	1	5	15	65	92	89	113
Others	1,015	963	1,234	1,654	1,376	1,532	1,754
Current Liab. & Prov.	**2,748**	**2,503**	**3,676**	**3,669**	**3,984**	**4,957**	**6,235**
Sundry Creditors	1,393	1,162	2,241	2,190	2,489	3,132	3,939
Other Liabilities	1,227	1,223	1,275	1,274	1,256	1,533	1,929
Provisions	128	118	159	206	239	292	367
Net Current Assets	**3,454**	**4,437**	**5,075**	**6,908**	**7,501**	**9,638**	**12,755**
Miscellaneous Expenditures	1,399	0					
Application of Funds	**15,658**	**16,004**	**18,073**	**22,288**	**26,614**	**30,575**	**35,190**

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	31.0	29.8
Cash EPS	102.9	63.6	5.4	8.6	9.8	12.5	15.8
Book Value per Share	454.6	249.8	22.8	34.2	39.1	45.3	53.2
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	30.6	31.8
FCF (INR/sh)	55.2	18.1	-1.3	1.7	3.6	3.6	5.7
Valuation (x)							
P/E	6.7	10.9	130.5	88.2	75.4	57.6	44.4
EV/EBITDA	3.5	7.7	67.2	53.6	43.0	32.7	25.9
EV/Sales	1.0	2.1	18.9	14.1	11.2	9.1	7.2
Price to Book Value	1.1	2.1	22.5	15.0	13.1	11.3	9.6
Dividend Yield (%)	0.0	0.0	3.7	0.1	0.3	0.5	0.7
FCF Yield (%)	10.8	3.5	-0.3	0.3	0.7	0.7	1.1
Profitability Ratios (%)							
RoE	18.1	18.2	18.1	20.6	18.5	21.1	23.4
RoCE (post-tax)	15.2	15.7	14.6	17.6	16.8	18.8	21.1
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	1.1	1.2
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	6,861	9,018
Depreciation & Amort.	722	782	969	1,420	1,780	2,176	2,502
Direct Taxes Paid	-1,164	-398	-528	-544	-1,102	-1,715	-2,255
(Inc)/Dec in Working Capital	-247	4	-2,070	-890	-630	-1,237	-1,900
Interest/Div. Received	-30	-31	-29	-179	-112	-202	-250
Other Items	149	457	85	183	307	210	225
CF from Oper. Activity	**2,689**	**3,092**	**1,427**	**4,446**	**5,333**	**6,094**	**7,341**
(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**	**2,094**	**3,341**
Interest/dividend received	33	39	22	179	31	202	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**	**-3,798**	**-3,750**
Inc/(Dec) in Debt	-249	1,320	504	-2,954	1,471	325	0
Interest Paid	-175	-205	-246	-92	-12	-210	-225
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**	**-1,461**	**-2,374**
Inc/(Dec) in Cash	**-74**	**689**	**-800**	**287**	**-95**	**835**	**1,217**
Add: Beginning Balance	435	361	1,050	249	536	441	1,276
Closing Balance	**361**	**1,050**	**249**	**536**	**441**	**1,276**	**2,493**

E: MOFSL Estimates

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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