BUY (Upgrade from ADD)

CMP: **INR 513** Target Price: **INR 598 (INR 630)** ▲ 17%

ICICI Securities

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25 October 2023

India | Equity Research | Q2FY24 result review

Sona BLW Precision Forgings

Auto Ancillaries

In-line operational numbers; upgrading to BUY post recent correction

Sona BLW's (SONA) Q2FY24 revenue, margin and earnings came in line with our estimates with EBITDAM coming in at 28.2%. BEV revenue was 12% higher QoQ at INR 2.1bn (27% mix), with BEVs contributing 78% of the unexecuted orderbook. In Q2FY24, it won two new EV programmes from i) a North American OEM (new customer) for rotor-embedded differential sub-assemblies and ii) an existing India customer for traction motors for e3Ws. Post ~14% correction in the stock price over the last 3 months, we upgrade SONA to **BUY** from **Add** with a revised DCF-based TP of INR 598 (earlier: INR 630), implying ~44x FY25E EPS vs 42% earnings CAGR in FY23-25E. The change in TP is due to ~5% cut in revenue for FY24E/FY25E each to factor in lower e2W volumes (9-10% of SONA's revenue) led by FAME subsidy reduction.

Conference call takeaways

- Overall revenue growth of 20% was driven by BEV-related revenue growth of 58% YoY (27% mix in Q2). Net unexecuted orderbook remained largely flat QoQ at INR 221bn, with ~78% of it coming from BEVs. SONA secured two fresh EV orders, one from a US new-age OEM for rotor embedded differential assembly and another for traction motors from a leading domestic 3W maker. With a couple of new EU BEV programmes set to start getting executed from CY25, SONA is looking forward to increase its revenue mix of EU beyond 23% in H1FY24. Strike in US impacted revenue by INR 100-150mn in Q2, impacting business from target customers by ~20days in Q2. SONA is aiming to ramp up its non-auto business from ~10% currently, by aiming across all modes of mobility like locomotives, aerospace, waterways etc. beyond traditional automobile space. We are cutting revenue by ~5% for each of FY24E/25E due to the impact on demand of e2Ws post reduction in subsidy Q2 onwards along with adverse macro state in target developed markets currently.
- EBITDAM came in at a 11-quarter high of ~28.2%, driven by favourable mix and raw material price trend. Going ahead, SONA is aiming to sustain its EBITDAM in 25-27% range, with external aspects like PLI scheme, unique product breakthrough with better pricing power and enhanced operating leverage being the drivers of margin outperformance over targeted levels. We are slightly inching up our margin estimates by ~30bps to ~28% average for FY24/25E. With Novelic acquisition completing and other segments (ex-traditional products) at ~23% of revenue already, we believe, SONA is trying to diversify both in terms of products, markets and customers, to maintain pricing power and reduce its susceptibility to competitive intensity.

Financial Summary

Y/E Mar 31 (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	20,487	26,756	34,785	43,131
EBITDA	5,591	6,958	9,725	12,374
EBITDA %	27.3	26.0	28.0	28.7
Net Profit	3,726	3,927	6,083	7,933
EPS (INR)	6.4	6.7	10.4	13.6
EPS % Chg YoY	82.6	5.0	54.9	30.4
P/E (x)	80.3	76.4	49.3	37.8
EV/EBITDA (x)	53.5	43.4	30.7	23.9
RoCE (%)	18.6	17.5	22.5	19.3
RoE (%)	22.6	18.3	24.1	25.9

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Market Data

Market Cap (INR)	300bn
Market Cap (USD)	3,610mn
Bloomberg Code	SONACOMS IN
Reuters Code	SONB BO
52-week Range (INR)	626 /397
Free Float (%)	70.0
ADTV-3M (mn) (USD)	9.3

Price Performance (%)	3m	6m	12m
Absolute	(13.8)	11.9	7.0
Relative to Sensex	(10.7)	4.2	(2.1)

ESG Disclosure	2021	2022	Change
ESG score	38.0	42.5	4.5
Environment	4.7	16.6	11.9
Social	30.6	32.1	1.6
Governance	78.6	78.6	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(4.4)	(6.3)
EBITDA	(3.6)	(4.9)
EPS	(4.4)	(5.9)

Previous Reports

27-07-2023: Q1FY24 results review

04-05-2023: Q4FY23 results review

Exhibit 1: Q2FY24 result review

INR mn	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Net sales	**7,908**	**6,574**	20%	**7,322**	8%
Materials	3,553	3,089	15%	3,153	13%
As a % sales	44.9%	47.0%	-206 bps	43.1%	186 bps
Gross Profit	**4,355**	**3,485**	**25%**	**4,169**	**4%**
Gross Margin	55.1%	53.0%	206 bps	56.9%	-186 bps
Employee cost	550	442	25%	491	12%
As a % sales	7.0%	6.7%	24 bps	6.7%	25 bps
Other op cost	1,572	1,386	13%	1,644	-4%
As a % sales	19.9%	21.1%	-122 bps	22.4%	-258 bps
EBITDA	**2,233**	**1,657**	35%	**2,034**	10%
EBITDA Margin	28.2%	25.2%	303 bps	27.8%	46 bps
Depreciation	534	429	24%	511	5%
EBIT	**1,699**	**1,228**	38%	**1,523**	12%
EBIT Margin	21.5%	18.7%	281 bps	20.8%	68 bps
Other income	61	28	116%	54	14%
Interest exp	60	43	39%	53	12%
Profit before tax	**1,700**	**1,213**	40%	**1,523**	12%
PBT Margin	21.5%	18.5%	305 bps	20.8%	69 bps
Exceptional loss/(inc)	59	0	#DIV/0!	28	107%
less: tax	401	288	39%	375	7%
% tax rate	23.6%	23.7%	-14 bps	24.6%	-102 bps
Reported PAT	1,241	925	34%	1,120	11%
Adjusted PAT	**1,285**	**925**	39%	**1,142**	13%
EPS	2.2	1.6	39%	2.0	13%

Source: I-Sec research, Company data

Exhibit 2: Estimates revision

	FY24E			FY25E		
	Old	Revised	% change	Old	Revised	% change
Revenue (INR mn)	36,606	34,985	-4.4%	46,448	43,531	-6.3%
EBITDA (INR mn)	10,085	9,725	-3.6%	13,012	12,374	-4.9%
EBITDA margin (%)	27.5%	27.8%	25	28.0%	28.4%	41
Adj. PAT (INR mn)	6,363	6,083	-4.4%	8,430	7,933	-5.9%
EPS (INR)	10.9	10.4	-4.4%	14.4	13.6	-5.9%

Source: I-Sec research, Company data

Downside risks

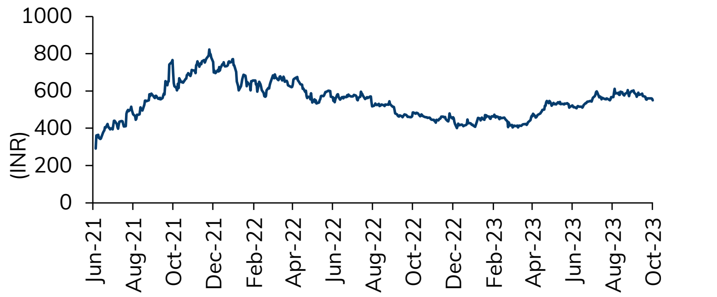
- Slowdown in PV electrification in developed markets.
- Risk in competitive intensity for high margin differential gear assembly from domestic peers.
- Lower-than-expected growth in domestic e2Ws may result in further cut to revenue.

Exhibit 3: Shareholding pattern

%	Mar'23	Jun'23	Sep'23
Promoters	33.0	29.8	29.8
Institutional investors	56.0	59.9	59.8
MFs and others	27.0	24.1	23.1
Insurance Cos	4.3	3.0	3.3
FIIs	24.7	32.8	33.4
Others	11.0	10.3	10.4

Source: Bloomberg, I-Sec research

Exhibit 4: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 5: Profit & Loss

(INR mn, year ending Mar 31)

	FY22A	FY23A	FY24E	FY25E
Net Sales	**20,487**	**26,756**	**34,785**	**43,131**
Operating Expenses	4,571	5,795	7,388	9,121
EBITDA	**5,591**	**6,958**	**9,725**	**12,374**
EBITDA Margin (%)	27.3	26.0	28.0	28.7
Depreciation & Amortization	1,420	1,780	1,904	2,233
EBIT	4,171	5,178	7,821	10,141
Interest expenditure	183	169	140	110
Other Non-operating Income	200	116	139	167
Recurring PBT	**4,189**	**5,125**	**7,820**	**10,198**
Profit / Loss from Associates	-	-	-	-
Less: Taxes	706	1,138	1,737	2,265
PAT	3,483	3,987	6,083	7,933
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	**3,615**	**3,953**	**6,083**	**7,933**
Net Income (Adjusted)	**3,726**	**3,927**	**6,083**	**7,933**

Source Company data, I-Sec research

Exhibit 6: Balance sheet

(INR mn, year ending Mar 31)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	9,817	13,095	16,806	22,805
of which cash & cash eqv.	773	698	3,125	5,790
Total Current Liabilities & Provisions	3,557	3,868	5,445	6,775
Net Current Assets	**6,260**	**9,227**	**11,361**	**16,030**
Investments	826	716	716	716
Net Fixed Assets	12,083	14,118	15,714	16,981
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,474	911	911	911
Total Intangible Assets	1,758	1,758	1,758	1,758
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	**22,400**	**26,730**	**30,461**	**36,397**
Liabilities				
Borrowings	815	2,293	1,318	1,118
Deferred Tax Liability	884	876	876	876
Provisions	-	-	-	-
Other Liabilities	698	659	659	659
Equity Share Capital	5,844	5,854	5,854	5,854
Reserves & Surplus	14,159	17,048	21,753	27,890
Total Net Worth	**20,003**	**22,902**	**27,607**	**33,744**
Minority Interest	-	-	-	-
Total Liabilities	**22,400**	**26,730**	**30,461**	**36,397**

Source Company data, I-Sec research

Exhibit 7: Quarterly trend

(INR mn, year ending Mar 31)

	Dec-22	Mar-23	Jun-23	Sep-23
Net Sales	6,850	7,440	7,322	7,908
% growth (YOY)	38.6	35.3	24.3	20.3
EBITDA	1,862	2,014	2,034	2,233
Margin %	27.2	27.1	27.8	28.2
Other Income	33	45	54	61
Extraordinaries		34	28	59
Adjusted Net Profit	1,071	1,225	1,142	1,285

Source Company data, I-Sec research

Exhibit 8: Cashflow statement

(INR mn, year ending Mar 31)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	**4,266**	**2,887**	**8,420**	**8,271**
Working Capital Changes	(981)	(3,041)	293	(2,005)
Capital Commitments	(3,472)	(3,350)	(3,500)	(3,500)
Free Cashflow	**7,738**	**6,237**	**11,920**	**11,771**
Other investing cashflow	(62)	(34)	-	-
Cashflow from Investing Activities	**(3,534)**	**(3,384)**	**(3,500)**	**(3,500)**
Issue of Share Capital	3,041	11	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(2,954)	1,477	(975)	(200)
Dividend paid	(450)	(896)	(1,378)	(1,798)
Others	(100)	(169)	(140)	(110)
Cash flow from Financing Activities	**(463)**	**423**	**(2,493)**	**(2,107)**
Chg. in Cash & Bank balance	269	(74)	2,427	2,664
Closing cash & balance	773	699	3,125	5,790

Source Company data, I-Sec research

Exhibit 9: Key ratios

(Year ending Mar 31)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	6.4	6.7	10.4	13.6
Adjusted EPS (Diluted)	6.4	6.7	10.4	13.6
Cash EPS	8.8	9.7	13.6	17.4
Dividend per share (DPS)	1.5	1.5	2.4	3.1
Book Value per share (BV)	34.3	39.1	47.2	57.6
Dividend Payout (%)	24.1	22.8	22.7	22.7
Growth (%)				
Net Sales	37.6	30.6	30.0	24.0
EBITDA	27.1	24.5	39.8	27.2
EPS (INR)	82.6	5.0	54.9	30.4
Valuation Ratios (x)				
P/E	80.3	76.4	49.3	37.8
P/CEPS	58.1	52.6	37.6	29.5
P/BV	15.0	13.1	10.9	8.9
EV / EBITDA	53.5	43.4	30.7	23.9
EV / Sales	14.6	11.3	8.6	6.9
Profitability Ratios				
Gross Profit Margins (%)	49.6	47.7	49.2	49.8
EBITDA Margins (%)	27.3	26.0	28.0	28.7
EBIT Margins (%)	20.4	19.4	22.5	23.5
Net Profit Margins (%)	18.2	14.7	17.5	18.4
RoCE (%)	18.6	17.5	22.5	19.3
RoE (%)	22.6	18.3	24.1	25.9
Dividend Yield (%)	0.3	0.3	0.5	0.6
Operating Ratios				
Fixed Asset Turnover (x)	1.6	1.8	2.1	2.4
Inventory Turnover Days	62	44	58	58
Receivables Days	76	83	70	70
Payables Days	38	34	38	38
Effective Tax Rate (%)	16.3	22.4	22.2	22.2
Net Debt / Equity (x)	0.0	0.1	(0.1)	(0.1)
Net Debt / EBITDA (x)	0.0	0.2	(0.2)	(0.4)

Source Company data, I-Sec research

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