

SONA BLW Precision Forging

Estimate change	↔
TP change	↓
Rating change	↔

Bloomberg	SONACOMS IN
Equity Shares (m)	585
M.Cap.(INRb)/(USD\$)	340.1 / 4.1
52-Week Range (INR)	670 / 401
1, 6, 12 Rel. Per (%)	1/-6/22
12M Avg Val (INR M)	1380

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	26.8	32.0	41.1
EBITDA (%)	26.0	28.5	28.6
Adj. PAT	4.0	5.3	6.9
EPS (INR)	6.8	9.0	11.8
EPS Gr. (%)	16.9	32.0	31.9
BV/Sh. (INR)	39.1	45.4	53.6

Ratios

RoE (%)	18.5	21.2	23.9
RoCE (%)	16.8	19.0	21.6
Payout (%)	22.0	30.0	31.0

Valuations

P/E (x)	85.3	64.6	49.0
P/BV (x)	14.8	12.8	10.8
EV/EBITDA (x)	48.7	37.1	28.6
Div. Yield (%)	0.3	0.5	0.6
FCF Yield (%)	0.6	0.7	1.0

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	29.7	29.8	53.5
DII	27.9	27.5	24.4
FII	32.9	33.4	11.3
Others	9.5	10.4	10.8

FII Includes depository receipts

CMP:INR580 TP: INR610 (+5%) Neutral

Operating performance beat est, led by reduced RM cost and favorable product mix

EBITDA margin guidance revised to ~28% from earlier guidance of 25-27%

- SONACOMS' 3QFY24 results surpassed our estimates, led by better product mix and lower RM costs, resulting in an EBITDA margin of 29.3% (vs. est. 27.8%). Although the operational performance was healthy, we expect the margins to moderate in the future as RM costs and product mix normalize. The company's focus on expanding in EVs continue with BEV contributing ~30% to the revenue (vs. 26%/27% in FY23/2QFY24).
- We largely maintain our FY24E/25E EPS. We believe the current valuations of ~64.6x/49x FY24/25E EPS factor in its strong EV order book as well as superior earnings and return profile. We reiterate our Neutral stance on the stock with a TP of INR610 (based on ~45x Dec'25E consol EPS).

Higher employee costs dent EBITDA margin expansion

- SONACOMS' 3QFY24 revenue/EBITDA/adj. PAT grew ~13%/22%/25% YoY to INR7.8b/ INR2.3b/INR1.33b. BEV revenue rose 28% YoY to INR2.2b (30% of total revenue), whereas ICE revenue jumped 8% YoY. 9MFY24 revenues/EBITDA/adj. PAT grew 19%/32%/37% YoY.
- Gross margin expanded 330bp YoY to 59.1% (est. 55.7%) due to better mix and lower input cost.
- However, this was offset by higher-than-est. employee expenses (up 240bp YoY; as a % of sales) on account of a newly approved ESOP scheme, causing an impact of INR58m and resulting in an EBITDA margin of 29.3% (up 210bp YoY vs. est.27.8%). Excluding the impact of the ESOP scheme, margins would have been 30%. EBITDA grew 22% YoY to INR2.3b (est. INR2.2b).
- Additional advantages from the expansion of EBITDA margin were transferred to PAT, which stood at INR1.34b (vs. est. INR1.3b).
- The board has declared an interim dividend of INR1.53/share for FY24.

Highlights from the management commentary

- Outlook:** The NA and EU light vehicle markets appear promising going ahead, with major OEMs focusing their attention on electrification. Further, favorable tax rebates for NA customers would propel EV adoption. In contrast, the India market remains a mixed bag with CVs anticipated to experience a decline due to election year and weakness in the off-highway segment. However, PVs are expected to remain stable. The current impact of the Red sea crisis remains negligible; however, it may lead to higher inventories and longer delivery time to NA and EU customers.
- BEV contributed 30% of the revenue (vs. 27% in 2QFY24) at INR2.2b in 3QFY24**, resulting in 28% YoY growth.
- Added 5 new EV programs (including 2 new EV customers)**
- Added a new product- Integrated motor controller** which would be supplied to e-2W OEMs. The product has a compact design and better thermal management system, which would improve electric powertrains.

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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.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view

- After a challenging FY23, SONACOMS is firmly back on a growth trajectory, led by the recovery in underlying markets and a strong order book. SONACOMS continues to serve as a reliable proxy for the global electrification trend, with a ~30% revenue mix from EVs and a ~79% representation in the order book. Moreover, its focus on broadening the product portfolio, expanding global scale, and cultivating a diverse customer base should translate into strong earnings growth and healthy capital efficiency.
- However, valuations at ~65x/49x FY24E/FY25E consol. EPS largely factor in these positives. We reiterate our **Neutral** stance on the stock with a TP of INR610 (based on ~45x Dec'25 consol. EPS).

Consol. Quarterly Performance

Y/E March	FY23				FY24E				FY23	FY24E	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE
Net operating revenues	5,892	6,574	6,850	7,440	7,322	7,908	7,766	8,969	26,756	31,965	7,818
Change (%)	17.7	12.2	38.6	35.3	24.3	20.3	13.4	20.6	25.6	19.5	14.1
EBITDA	1,425	1,657	1,862	2,014	2,034	2,233	2,273	2,574	6,958	9,114	2,173
EBITDA Margins (%)	24.2	25.2	27.2	27.1	27.8	28.2	29.3	28.7	26.0	28.5	27.8
Depreciation	400	429	470	481	511	534	559	572	1,780	2,176	540
EBIT	1,025	1,228	1,392	1,533	1,523	1,699	1,714	2,002	5,178	6,938	1,633
EBIT Margins (%)	17.4	18.7	20.3	20.6	20.8	21.5	22.1	22.3	19.4	21.7	20.9
Interest	29	43	51	46	53	60	73	53	169	240	50
Non-Operating Income	10	28	33	45	54	61	50	50	116	215	50
PBT	1,006	1,213	1,373	1,498	1,495	1,641	1,690	1,999	5,091	6,826	1,633
Effective Tax Rate (%)	24.6	23.7	22.0	20.0	25.1	24.4	21.0	25.4	22.4	24.0	23.0
Adjusted PAT	758	925	1,071	1,232	1,142	1,286	1,336	1,491	3,979	5,254	1,258
Change (%)	5.4	4.9	23.9	35.1	50.6	39.0	24.7	21.0	17.1	32.0	17.4
Cost Break-up											
RM Cost (% of sales)	45.5	47.0	44.2	45.7	43.1	44.9	40.9	43.1	45.6	43.0	44.3
Staff Cost (% of sales)	7.3	6.7	7.0	6.1	6.7	7.0	9.4	8.0	6.7	7.8	7.7
Other Cost (% of sales)	23.0	21.1	21.6	21.1	22.4	19.9	20.4	20.2	21.7	20.7	20.2
Gross Margins (%)	54.5	53.0	55.8	54.3	56.9	55.1	59.1	56.9	54.4	57.0	55.7
EBITDA Margins (%)	24.2	25.2	27.2	27.1	27.8	28.2	29.3	28.7	26.0	28.5	27.8
EBIT Margins (%)	17.4	18.7	20.3	20.6	20.8	21.5	22.1	22.3	19.4	21.7	20.9

E:MOFSL Estimates

**Key takeaways from the management interaction**

- **Outlook:** North America (39% contribution) and EU (25% contribution) light vehicle markets (70% revenue contribution in 9MFY24) appear promising going ahead, with major OEMs focusing their attention on electrification (70% of new model launches in CY24/25 are EVs). Further, NA customers are offered USD7,500 tax rebate (USD 3,750 for PHEV), providing an incentive that is expected to drive demand among end users. In contrast, the India market remains a mixed bag with CVs anticipated to experience a decline due to election year and weakness in the off-highway segment. However, PVs are expected to remain stable. The current impact of the Red sea crisis remains negligible; however, it may lead to higher inventories and longer delivery time to NA and EU customers.
- **3Q operational highlights:** Revenue growth stood at 13% YoY (vs. 11% YoY growth in top-3 markets of NA, India, EU). Weakness in the domestic off-highway segment resulted in a decline in revenues for both differential gears and differential assemblies during the quarter. Some e-2W OEMs offered aggressive

discounts (expected to continue for a few more months), which led to a decline in sales for SONACOMS customers, thus impacting the contribution from traction motors. Additionally, the company incurred a revenue loss of INR250m due to the UAW strike in NA in Oct'23. And it expressed confidence in partially recovering this loss 4Q, .

- **Raised EBITDA margin guidance to >28% (vs. 25-27%) quoted in earlier interactions.**
- **BEV contributed 30% of the revenue (vs. 27% in 2QFY24) at INR2.2b in 3QFY24, resulting in 28% YoY growth..**
- **Added 5 new EV programs (including 2 new EV customers):**
 - New order book has increased to INR240b at the end of 3QFY24 vs. INR221b by 2QFY24-end, 79% of which is EVs.
 - Won an order from Indian ICE & EV 2W customer of INR3.45b for integrated motor controller. The SOP is scheduled for 1QFY26.
 - Received another order from an existing customer (Global OEM of EVs for electric SUV) for spool gears, with an order size of INR5.7b. The SOP is set for 4QFY24.
 - Received another order from an existing customer (North American new age OEM of electric PVs) for epicyclic geartrain and rotor shaft with an order size of INR990m; SOP from 1HFY27.
- **Added a new product- Integrated motor controller** which would be supplied to e-2W OEMs. The product has a compact design and better thermal management system, which would improve electric powertrains.
- Currently, it is testing and validating EV bus motors with Equipmake; planned launch by 4QCY25/1QCY26
- Its global market share in differential gears/starter motors stood at 8.1%/4.2% in CY23 (vs. 7.2%/4.1% in CY22).

Exhibit 1: Trend in revenue

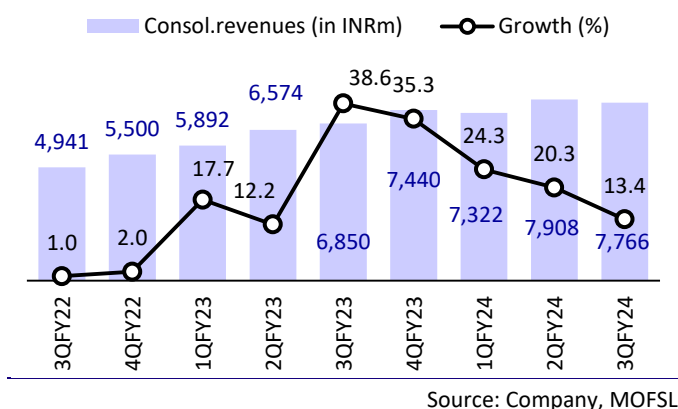


Exhibit 2: EBITDA and EBITDA margin trend

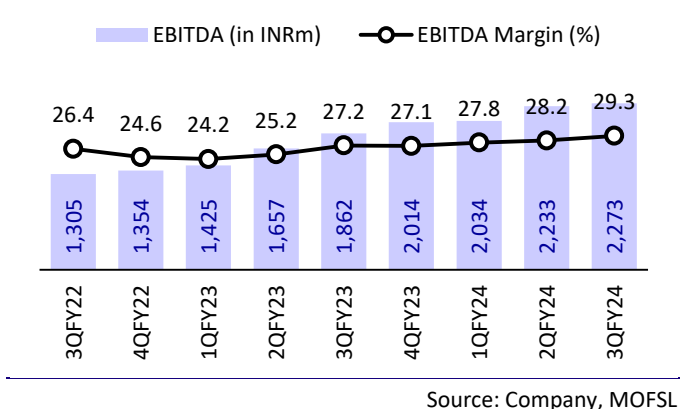
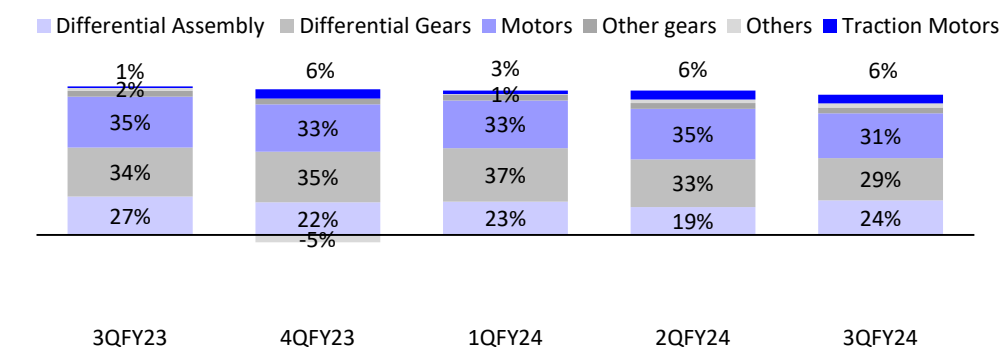


Exhibit 3: Revenue breakup

Source: Company, MOFSL

Valuation and view

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

- Best proxy on global megatrends of electrification and premiumization:** SONACOMS offers a clear global investment opportunity aligned with the megatrends of electrification and premiumization. Its product portfolio of differential gears, motors, and sensors positions the company favorably in the evolving landscape of the automotive industry, with a substantial increase in content for 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 28% of revenue in 9MFY24 (vs. 26%/25%/14% in FY23/FY22/FY21) and accounted for 79% of the order book.
- Unique positioning of increasing EV sales, expanding global scale, and building a strong financial profile:** SONACOMS' unique positioning is driven by 1) a sizeable and increasing presence in EVs, 2) expanding global scale and presence, 3) a growing 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 (8.1% in CY23 vs. 7.2% in CY22), and starter motors (4.2% in CY23 vs. 4.1% in CY22). More importantly, it is truly a global player with presence across the key markets of North America (~39%), India (~29%), EU (~25%), Asia (excl India ~6%), and RoW (~1%).
- Investing in R&D for future growth:** Its approach is to own the technology to maximize value and deliver 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, aiming to enhance the company's market share in EVs, while reducing 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 is well placed to combine its 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 22%/26%/28% over FY23-FY26E and RoE expansion of 5.8pp (over FY23) to ~24.3% by FY256E.

- **Valuation and view:** We have maintained our FY24E/FY25E estimates. After a challenging FY23, SONACOMS is firmly back on a robust growth trajectory, led by recovery in the underlying markets and strong order book. SONACOMS continues to serve as a reliable proxy for the global electrification trend, with a ~30% revenue mix from EVs and a ~79% representation in the order book. Moreover, its focus on broadening the product portfolio, expanding global scale, and cultivating a diverse customer base should translate into strong earnings growth and healthy capital efficiency. However, with valuations at 64.6x/49x FY24E/FY25E consol. EPS largely factor in these positives. We reiterate our **Neutral** stance on the stock with a TP of INR610 (based on ~45x Dec'25 consol. EPS).

Exhibit 4: Revisions to our estimates

(INR M)	FY24E			FY25E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	31,965	32,314	-1.1	41,107	41,005	0.2
EBITDA	9,114	9,076	0.4	11,751	11,510	2.1
EBITDA (%)	28.5	28.1	40bp	28.6	28.1	50bp
Net Profit	5,254	5,229	0.5	6,929	6,767	2.4
EPS (INR)	9.0	8.9	0.5	11.8	11.6	2.4

Key operating indicators

Exhibit 5: Expect strong revenue growth over FY23-26E, largely driven by strong traction in BEV DA business

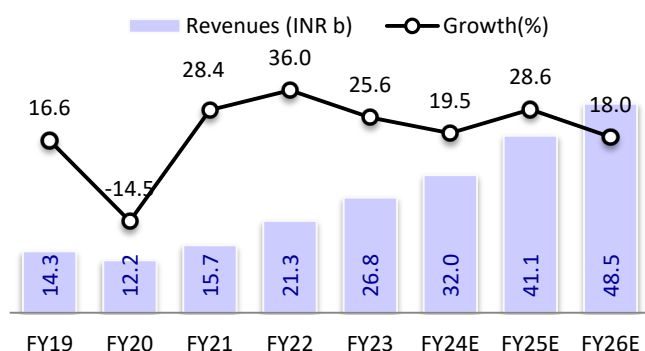


Exhibit 6: EBITDA margin to expand, driven by better mix and operating leverage

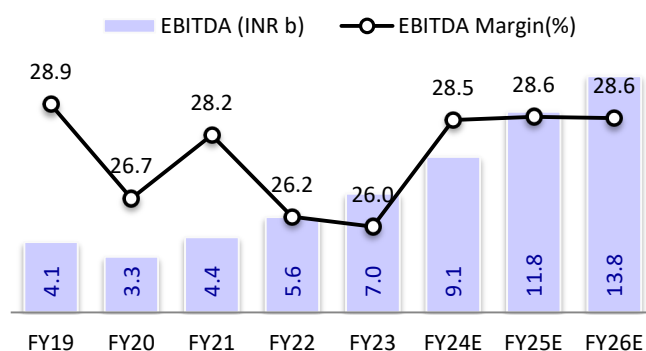
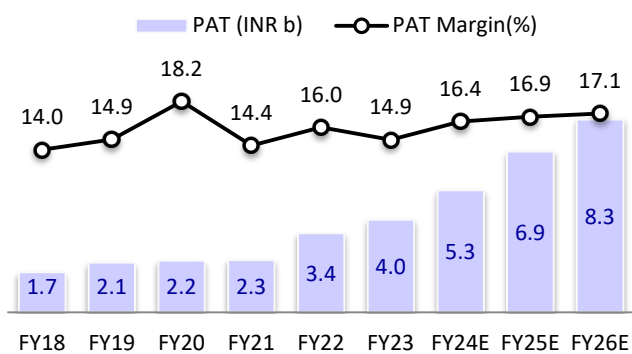
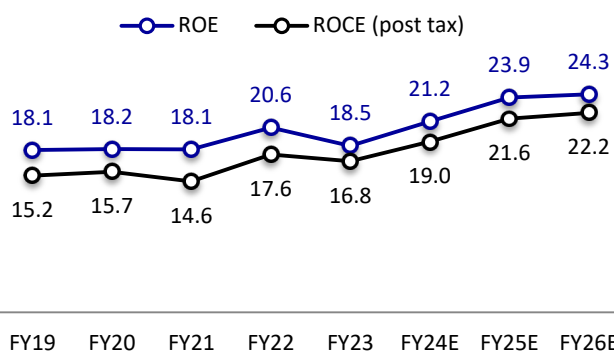
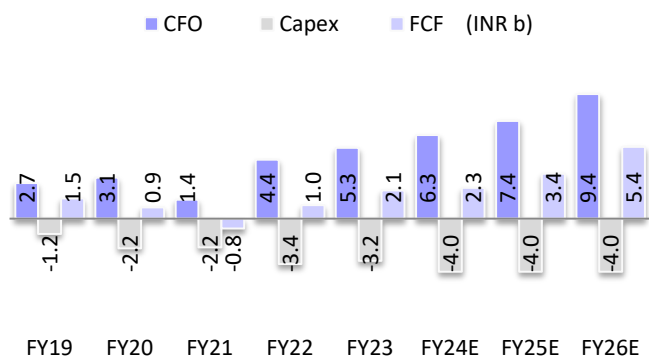
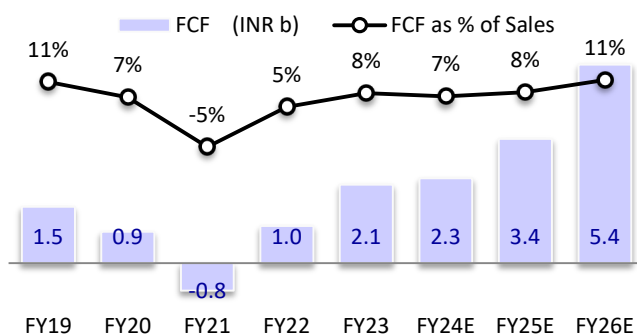


Exhibit 7: Expect 31% PAT CAGR over FY23-26E**Exhibit 8: ROCE to improve substantially by FY25E****Exhibit 9: Capex levels to remain steady from FY24E****Exhibit 10: FCF should continue to improve**

Financials and valuations

Income Statement								(INR m)
Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2026E
Net operating income	14,277	12,201	15,663	21,306	26,756	31,965	41,107	48,505
Change (%)	16.6	-14.5	28.4	36.0	25.6	19.5	28.6	18.0
EBITDA	4,122	3,254	4,410	5,591	6,958	9,114	11,751	13,850
EBITDA Margin (%)	28.9	26.7	28.2	26.2	26.0	28.5	28.6	28.6
Depreciation	722	782	969	1,420	1,780	2,176	2,502	2,856
EBIT	3,400	2,472	3,441	4,171	5,178	6,938	9,249	10,994
EBIT Margin (%)	23.8	20.3	22.0	19.6	19.4	21.7	22.5	22.7
Interest cost	198	269	325	183	169	240	250	250
Other Income	58	76	23	200	116	215	240	340
Non-recurring Exp/(Inc)	0	0	139	-267	34	87	0	0
PBT after EO	3,260	2,279	3,000	4,456	5,091	6,826	9,239	11,084
Effective Tax Rate (%)	34.7	2.7	28.3	18.9	22.4	24.0	25.0	25.0
Reported PAT	2,129	2,217	2,152	3,615	3,953	5,188	6,929	8,313
Adj. PAT	2,129	2,217	2,251	3,399	3,979	5,254	6,929	8,313
Change (%)	24.1	4.2	1.5	51.0	17.1	32.0	31.9	20.0

Balance Sheet								(INR m)
Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2026E
Sources of Funds								
Share Capital	277	472	5,730	5,844	5,854	5,854	5,854	5,854
Reserves	12,322	11,308	7,309	14,159	17,048	20,726	25,506	31,241
Net Worth	12,599	11,779	13,039	20,003	22,902	26,580	31,360	37,095
Deferred Tax	1,523	1,077	1,260	884	876	876	876	876
Loans	1,353	2,614	3,052	704	2,175	2,500	2,500	2,500
Other non-current liabilities	182	534	721	698	661	661	661	661
Capital Employed	15,658	16,004	18,073	22,288	26,614	30,617	35,398	41,132
Application of Funds								
Gross Fixed Assets	4,261	5,494	6,395	9,382	12,889	16,800	20,300	24,300
Less: Depreciation	753	1,230	1,353	2,189	3,245	5,022	7,126	9,583
Net Fixed Assets	3,509	4,264	5,042	7,193	9,644	11,778	13,174	14,717
Intangibles	5,387	5,489	5,948	5,995	5,979	5,979	5,979	5,979
Amortisation	573	860	582	1,105	1,505	1,903	2,302	2,700
Net Intangibles	4,814	4,629	5,366	4,890	4,474	4,076	3,677	3,279
Capital WIP	266	896	832	1,474	911	1,000	1,500	1,500
Goodwill on consolidation	1,758	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	2,326
Curr.Assets, L & Adv.	6,202	6,940	8,750	10,577	11,485	14,531	19,201	24,914
Inventory	1,838	1,962	3,056	3,634	3,229	3,858	4,962	5,854
Sundry Debtors	2,733	2,336	4,170	4,452	6,089	7,274	9,354	11,038
Cash & Bank Balances	615	1,673	276	773	698	1,798	3,018	5,940
Loans & Advances	1	5	15	65	92	88	113	133
Others	1,015	963	1,234	1,654	1,376	1,514	1,755	1,949
Current Liab. & Prov.	2,748	2,503	3,676	3,669	3,984	4,851	6,239	7,361
Sundry Creditors	1,393	1,162	2,241	2,190	2,489	3,065	3,942	4,651
Other Liabilities	1,227	1,223	1,275	1,274	1,256	1,501	1,930	2,277
Provisions	128	118	159	206	239	285	367	433
Net Current Assets	3,454	4,437	5,075	6,908	7,501	9,680	12,962	17,553
Miscellaneous Expenditures	1,399	0						
Application of Funds	15,658	16,004	18,073	22,288	26,614	30,617	35,398	41,132

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2026E
Basic (INR)								
EPS	76.8	47.0	3.9	5.8	6.8	9.0	11.8	14.2
EPS Growth (%)	24.1	-38.8	-91.6	48.0	16.9	32.0	31.9	20.0
Cash EPS	102.9	63.6	5.4	8.6	9.8	12.6	16.1	19.1
Book Value per Share	454.6	249.8	22.8	34.2	39.1	45.4	53.6	63.4
DPS	0.0	0.0	18.9	0.8	1.5	2.7	3.7	4.4
Payout (Incl. Div. Tax) %	0.0	0.0	504.1	12.2	22.2	30.4	31.0	31.0
FCF (INR/sh)	55.2	18.1	-1.3	1.7	3.6	3.9	5.8	9.2
Valuation (x)								
P/E	7.6	12.3	147.6	99.7	85.3	64.6	49.0	40.8
EV/EBITDA	4.0	8.7	76.0	60.6	48.7	37.1	28.6	24.1
EV/Sales	1.1	2.3	21.4	15.9	12.7	10.6	8.2	6.9
Price to Book Value	1.3	2.3	25.5	16.9	14.8	12.8	10.8	9.2
Dividend Yield (%)	0.0	0.0	3.3	0.1	0.3	0.5	0.6	0.8
FCF Yield (%)	9.5	3.1	-0.2	0.3	0.6	0.7	1.0	1.6
Profitability Ratios (%)								
RoE	18.1	18.2	18.1	20.6	18.5	21.2	23.9	24.3
RoCE (post-tax)	15.2	15.7	14.6	17.6	16.8	19.0	21.6	22.2
RoIC	16.9	17.3	16.2	18.3	18.9	21.9	25.7	27.5
Turnover Ratios								
Debtors (Days)	70	70	97	76	83	83	83	83
Inventory (Days)	47	59	71	62	44	44	44	44
Creditors (Days)	36	35	52	38	34	35	35	35
Working Capital (Days)	81	94	116	101	93	92	92	92
Asset Turnover (x)	1.0	0.8	0.9	1.1	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	-0.2

Cash Flow Statement

(INR m)

Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2026E
Profit before Tax	3,260	2,279	3,000	4,456	5,091	6,826	9,239	11,084
Depreciation & Amort.	722	782	969	1,420	1,780	2,176	2,502	2,856
Direct Taxes Paid	-1,164	-398	-528	-544	-1,102	-1,638	-2,310	-2,771
(Inc)/Dec in Working Capital	-247	4	-2,070	-890	-630	-1,080	-2,062	-1,669
Interest/Div. Received	-30	-31	-29	-179	-112	-215	-240	-340
Other Items	149	457	85	183	307	240	250	250
CF from Oper. Activity	2,689	3,092	1,427	4,446	5,333	6,309	7,379	9,410
Extra-ordinary Items	0	0	0	0	0	0	0	0
CF after EO Items	2,689	3,092	1,427	4,446	5,333	6,309	7,379	9,410
(Inc)/Dec in FA+CWIP	-1,160	-2,239	-2,180	-3,438	-3,196	-4,000	-4,000	-4,000
Free Cash Flow	1,529	853	-753	1,008	2,136	2,309	3,379	5,410
Interest/dividend received	33	39	22	179	31	215	240	340
(Pur)/Sale of Invest.	-180	-7,286	598	-275	-2,450	0	0	0
CF from Inv. Activity	-1,307	-9,487	-1,561	-3,534	-5,615	-3,785	-3,760	-3,660
Inc/(Dec) in Debt	-249	1,320	504	-2,954	1,471	392	0	0
Interest Paid	-175	-205	-246	-92	-12	-240	-250	-250
Dividends Paid	-1,032	-1,532	-904	-450	-1,199	-1,576	-2,149	-2,578
Others	0	0	-21	-170	-113	0	0	0
CF from Fin. Activity	-1,456	7,083	-667	-625	187	-1,424	-2,399	-2,828
Inc/(Dec) in Cash	-74	689	-800	287	-95	1,100	1,220	2,922
Add: Beginning Balance	435	361	1,050	249	536	441	1,541	2,761
Closing Balance	361	1,050	249	536	441	1,541	2,761	5,682

E: MOFSL Estimates

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