SONA BLW PRECISION FORGINGS LIMITED

Short term pain, long term gain…

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Sona BLW Precision Forgings Ltd (Sona) posted a decent set of numbers in Q4 led by new order book execution. Revenues grew by 19.1% yoy and 13% qoq. The growth came on the back of good growth due to scale-up of revenues from new programs. During the full year, Differentials business grew by 22%, while starter motors grew by 13.3%. Management indicated that light vehicle market (across geographies) remained healthy. However, OHV demand in India and US was weak and is expected to be a drag on the performance in the near term. EV revenue grew 23% qoq and the share of EV revenue stood healthy at 32% during Q4 as the company continues to win new EV orders (79% of net order book). EBITDA margin stood at 27.9% (+100bps yoy, -180bps qoq). Higher freight rates (owing to Red Sea crisis) had an impact of 40bps on margin (exc. which the margins came in at 28.3%). The yoy improvement in margin was led by favourable product mix and higher operating leverage. EBITDA came-in at ₹2.47bn (+23% yoy, +6% qoq). PAT stood at ₹1.48 bn (+20%yoy,+11%qoq). Sona's order book stood at healthy ₹226 bn at the end of FY 24.

EV business expansion remains key to growth

EV revenues during Q4 increased by 34% yoy and 23% qoq to ₹2.7bn. Sequential improvement in EV business was due to ramp-up of new programs. Share of EV revenues stood at 32% during Q4 (29% in FY24). During the quarter, the company added one new EV program - to supply differential assemblies for an electric car worth ₹ ~9bn (commencement in CY 26) for an existing OEM customer in North America; totalling to 54 BEV programs with 30 different customers. Of these, 16 programs are in ramp-up phase and production is yet to commence for 27 programs. We believe the key to growth of Sona remains in the expansion of EV business, which is now 79% of the existing order book (up from 77% qoq).

Majority demand drivers remain intact; pressure in the CV and OHV segments persists in near term

The Light Vehicle demand remains healthy (production grew by 8%) across key geographies like North America, EU and India. However, OHV demand remains weak across both North America and India. Near-term outlook for CV segment in India remains muted, however we expect green shoots in FY 26. The company also indicated that E-2W Traction Motor revenues are expected to remain under pressure in the near-term owing to subsidy related uncertainty and industry pricing pressures. Aggregate value of the net order book declined by ₹14bn qoq to ₹226bn (added ₹12bn, while consumed ₹26bn of the order book).

Key Financials	FY 23	FY 24	FY 25E	FY 26E
Total sales (₹ bn)	27	32	38	44
EBITDA margins (%)	25.4%	28.3%	30.4%	31.8%
PAT margins (%)	14.9%	16.3%	18.3%	20.0%
EPS (₹)	6.8	9.0	11.7	15.1
P/E (x)	89.7	67.9	52.1	40.6
P/BV (x)	15.6	12.8	11.0	9.4
EV/EBITDA (x)	53.2	39.6	31.2	25.2
ROE (%)	17.4%	18.8%	21.1%	23.1%
ROCE (%)	19.8%	21.3%	23.9%	25.9%
Total debt/equity (x)	0.10	0.09	0.08	0.08

Rating	BUY
Current Market Price (₹)	608
12 M Price Target (₹)	678
Potential upside (%)	12

Stock Data	
Sector :	Auto Components
FV (₹) :	10
Total Market Cap (₹ bn) :	359
Free Float Market Cap (₹ bn) :	251
52-Week High / Low (₹) :	719 / 483
BSE Code / NSE Symbol :	543300 / SONACOMS
Bloomberg :	SONACOMS: IN

Shareholding Pattern

(%)	Mar-24	Dec-23	Sep-23	Jun-23
Promoter	29.71	29.71	29.76	29.76
MFs	23.00	23.39	23.14	24.08
FPIs	32.93	32.87	33.35	31.68
Insurance	4.56	3.33	3.33	3.03
Others	9.80	10.70	10.42	11.45

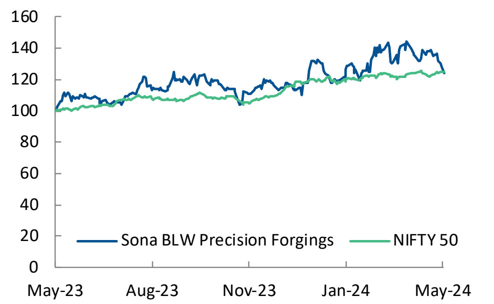
Source: BSE

Price Performance

(%)	1M	3M	6M	1YR
Sona	-10.3%	-3.5%	12.3%	24.3%
Nifty 50	0.9%	3.6%	18.4%	25.2%

** To date / current date : May 2, 2024*

Sona vs Nifty 50



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Orders for EV/ PHEVs stood at 79% of the net order book as at the end of FY24. On the basis of the order wins and OEM program schedules the company expects EVs to continue to drive growth in the medium-to-longer term. Management believes that Hybrids technology may do well in the near-term and act as a bridge before the industry ultimately transitions to BEVs. The company may benefit even in the interim as its content per vehicle is highest in a plug-in hybrids (high-torque DA + Starter Motor + Traction Motor).

Other highlights of the quarter

1. R&D spends for FY24 stood at 2.5% of net sales. The company plans to increase these spends by 100bps in FY25 to expedite existing projects and investing additional high-potential projects.

2. The company is pivoting Novelic from being an engineering services-led business to a product and semiconductor chip design business by allocating more resources towards R&D and product development. This is expected to generate revenue in medium-to-longer term but may impact Novelic's profitability over next couple of quarters.

3. The company plans to stop making starter motors in its China plant and focus on manufacturing traction motors and suspension motors in this plant owing to strong increase in EV penetration and decline in ICE vehicle sales in China.

4. The company also indicated that investment in Mexican plant will help the company to add new customers.

5. During Q4, the company added one new product - Steering Bevel Gearbox that offers steering accuracy, driver comfort, and ease of installation on a Commercial vehicle.

Quarterly Financial Snapshot

YE Mar (₹ mn)	Q4 FY24	Q3 FY24	% QoQ	Q4 FY23	% YoY
Total Income	8,841	7,818	*13.1%*	7,426	*19.1%*
RM cost	3,858	3,178	*21.4%*	3,397	*13.6%*
Employee cost	728	550	*32.2%*	455	*59.8%*
Other expenses	1,785	1,583	*12.8%*	1,572	*13.5%*
EBITDA	2,470	2,325	*6.2%*	2,001	*23.4%*
EBITDA Margins %	*27.9%*	*29.7%*	*(180 bps)*	*26.9%*	*100 bps*
Other income	86	(2)	*N/A*	59	*N/A*
Depreciation	598	559	*7.0%*	481	*24.4%*
Interest	71	73	*-3.0%*	46	*54.1%*
PBT	1,886	1,690	*11.6%*	1,533	*23.1%*
Tax	405	354	*14.4%*	300	*35.1%*
Adj PAT	1,481	1,336	*10.9%*	1,233	*20.1%*
Adj PAT Margins%	*16.7%*	*17.1%*	*(40 bps)*	*16.6%*	*10 bps*
Exceptional items	-	-	*N/A*	33.7	*N/A*
Reported PAT	1,481	1,336	*10.9%*	1,199	*23.5%*

Source: Company, LKP Research

Outlook and Valuation

Q4 results for Sona were decent with healthy margins yoy. Favorable product mix and operating leverage led to this performance. We continue to like Sona's strategy of expanding its component portfolio to address the intensifying electrification and autonomous trends in global auto industry. Given this, the company continues to add new customers/programs/products in its portfolio. We reiterate our favorable view on the stock owing to 1) new product introductions with significant potential and increasing investment in R&D 2) product portfolio aligned with rapid electrification globally, 3) addition of new segment through Novelic acquisition and Equipmake tie-up (commencement in 2025) 4) diversified revenue, healthy order book with growing EV contribution, & 5) positive operating leverage resulting in superior margins and return ratios. In order to factor in our slight concerns over the Indian and US CV (14% of topline) and OHV (10% of topline) segments in line with a tepid view of the management, we prune down our target from ₹708 to ₹678 by slightly lowering our estimates. However, we maintain BUY rating on Sona with the stock valued at 45x FY26E earnings which is rich, but we believe premium valuations will sustain, given strong long-term growth outlook. Key risks are slower EV adoption and inability to win new customers. Accrual of PLI benefits remains the upside risk.

Income Statement

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
Total Revenues	**26,550**	**31,847**	**37,513**	**44,015**
Raw Material Cost	12,199	13,741	15,755	18,222
Employee Cost	1,803	2,501	2,738	3,081
Other Exp	5,795	6,584	7,615	8,715
EBITDA	**6,753**	**9,020**	**11,404**	**13,997**
EBITDA Margin(%)	*25.4%*	*28.3%*	*30.4%*	*31.8%*
Depreciation	1,780	2,202	2,682	3,055
EBIT	**4,973**	**6,818**	**8,722**	**10,942**
EBIT Margin(%)	*18.7%*	*21.4%*	*23.3%*	*24.9%*
Other Income	322	240	300	400
Interest	169	258	220	200
PBT	**5,126**	**6,800**	**8,802**	**11,142**
PBT Margin(%)	*19.3%*	*21.4%*	*23.5%*	*25.3%*
Tax	1,138	1,535	1,936	2,340
Adjusted PAT	**3,988**	**5,264**	**6,866**	**8,802**
APAT Margins (%)	*15.0%*	*16.5%*	*18.3%*	*20.0%*
Exceptional items	34	87	0	0
PAT	**3,954**	**5,177**	**6,866**	**8,802**
PAT Margins (%)	*14.9%*	*16.3%*	*18.3%*	*20.0%*

Key Ratios

YE Mar	FY 23	FY 24	FY 25E	FY 26E
Per Share Data (₹)				
Adj. EPS	6.8	9.0	11.7	15.1
CEPS	9.8	12.6	16.3	20.3
BVPS	39.2	47.9	55.6	65.3
DPS	2.1	3.1	4.1	5.3
Growth Ratios(%)				
Total revenues	24.6%	20.0%	17.8%	17.3%
EBITDA	20.8%	33.6%	26.4%	22.7%
EBIT	19.2%	37.1%	27.9%	25.5%
PAT	14.5%	32.0%	30.4%	28.2%
Valuation Ratios (X)				
PE	89.7	67.9	52.1	40.6
P/CEPS	62.4	48.5	37.5	30.2
P/BV	15.6	12.8	11.0	9.4
EV/Sales	13.5	11.2	9.5	8.0
EV/EBITDA	53.2	39.6	31.2	25.2
Operating Ratios (Days)				
Inventory days	96.6	92.3	90.0	88.0
Recievable Days	83.7	74.3	70.0	68.0
Payables day	34.2	34.2	33.0	32.0
Net Debt/Equity (x)	0.10	0.09	0.08	0.08
Profitability Ratios (%)				
ROCE	19.8%	21.3%	23.9%	25.9%
ROE	17.4%	18.8%	21.1%	23.1%
Dividend payout ratio (%)	30.3%	34.6%	35.0%	35.0%
Dividend yield(%)	0.3	0.5	0.7	0.9

Balance Sheet

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
Equity and Liabilities				
Equity Share Capital	5,854	5,864	5,864	5,864
Reserves & Surplus	17,047	20,638	25,101	30,822
Total Networth	**22,901**	**28,000**	**32,462**	**38,184**
Total debt	487	292	342	392
Deferred tax assets/liabilities	876	1,262	1,262	1,262
Other curent liabilities	845	2,453	2,453	2,453
Total non-current liab and provs	**2,208**	**4,007**	**4,057**	**4,107**
Current Liabilities				
Trade payables	2,489	2,981	3,392	3,859
Short term provss+ borrowings	2,944	3,584	3,784	3,984
Other current liabilities	186	761	761	761
Total current liab and provs	**2,208**	**4,007**	**4,057**	**4,107**
Total Equity & Liabilities	**30,597**	**38,649**	**43,772**	**50,211**
Assets				
Gross block	13,344	16,454	21,454	25,454
Accumulated depreciation	5,135	7,337	10,019	13,073
Net block	8,209	9,117	11,436	12,381
Capital WIP	693	946	1,246	1,546
Other non current assets	8,693	14,514	14,514	14,514
Total fixed assets	**17,596**	**24,577**	**27,196**	**28,441**
Cash and cash equivalents	441	910	2,293	5,973
Other bank balance	257	1,832	1,832	1,832
Inventories	3,229	3,475	3,885	4,393
Trade receivables	6,089	6,483	7,194	8,200
Other current assets	2,986	1,372	1,372	1,372
Total current Assets	**13,001**	**14,071**	**16,576**	**21,770**
Total Assets	**30,597**	**38,649**	**43,772**	**50,211**

Cash Flow

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
PBT	5,092	6,713	8,802	11,142
Depreciation	1,780	2,202	2,682	3,055
Interest	161	251	220	200
Chng in working capital	(630)	(615)	(711)	(1,047)
Tax paid	(1,102)	(1,552)	(1,936)	(2,340)
Other operating activities	33	(70)	-	-
Cash flow from operations (a)	**5,334**	**6,928**	**9,056**	**11,010**
Capital expenditure	(3,351)	(3,191)	(5,300)	(4,299)
Chng in investments	(101)	(3,695)	-	-
Other investing activities	(2,278)	(1,525)	-	-
Cash flow from investing (b)	**(5,629)**	**(4,716)**	**(5,300)**	**(4,299)**
Free cash flow (a+b)	**(295)**	**2,212**	**3,756**	**6,711**
Inc/dec in borrowings	150	-	50	50
Dividend paid (incl. tax)	1,199	1,793	2,403	3,081
Interest paid	12	173	220	200
Other financing activities	(113)	84	-	-
Cash flow from financing (c)	**187**	**(1,747)**	**(2,373)**	**(3,031)**
Net chng in cash (a+b+c)	**536**	**441**	**910**	**2,293**
Closing cash & cash equivalents	**441**	**910**	**2,293**	**5,973**

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