

SONA BLW Precision Forging

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	SONACOMS IN
Equity Shares (m)	621
M.Cap.(INRb)/(USDb)	400.2 / 4.8
52-Week Range (INR)	769 / 488
1, 6, 12 Rel. Per (%)	-8/-12/0
12M Avg Val (INR M)	1246

Financials & Valuations (INR b)

Y/E Mar	2025E	2026E	2026E
Sales	38.2	45.7	53.6
EBITDA (%)	27.7	28.4	28.5
Adj. PAT	6.3	7.9	9.5
EPS (INR)	10.7	13.5	16.2
EPS Gr. (%)	19.4	26.4	20.1
BV/Sh. (INR)	54.8	63.9	75.7

Ratios

Net D:E	0.1	0.0	0.0
RoE (%)	20.8	22.8	23.2
RoCE (%)	18.0	20.0	20.9
Payout (%)	34.3	32.6	27.1

Valuations

P/E (x)	60.2	47.6	39.6
P/BV (x)	11.7	10.1	8.5
EV/EBITDA (x)	35.4	28.6	24.1
Div. Yield (%)	0.6	0.7	0.7
FCF Yield (%)	0.9	1.3	1.8

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	28.0	29.7	29.8
DII	31.0	29.5	27.5
FII	33.6	32.0	33.4
Others	7.5	8.8	9.4

FII Includes depository receipts

CMP:INR644 **TP: INR685 (+6%)** **Neutral**

Order execution, EV growth drive healthy performance

Entered into an agreement to acquire Escorts Kubota's railway equipment division

- SONA BLW's (SONACOMS) 2QFY25 performance exceeded our estimates with revenue of INR9.3b (est. INR8.8b), driven by order book execution and BEV growth. Higher other income also led to adj. PAT beat. We commend the company's ability to consistently deliver healthy performance despite weakness in its key regions.
- It has agreed to acquire Escorts Kubota's railway equipment division for INR16b (estimated valuation at 8.2x trailing 12M EV/EBITDA). The management has indicated that the acquisition will be EPS-accretive from the first year. While they seem to have acquired a good business at attractive valuations, we fail to understand the synergy benefits of the same with the core. We have not yet included this acquisition in our estimates as we wait for further clarity on financials and the deal closure.
- The company's strong performance is evident in its premium valuations of ~60x/48x FY25E/FY26E EPS, reflecting its robust EV order book and superior earnings and return profile. However, given demand uncertainties in its key markets and limited potential for a re-rating, we **reiterate our Neutral** rating with a TP of INR685, premised on ~46x Sep'26E consol. EPS.

BEV revenue up ~53% YoY, now contributes ~35% of revenue

- 2Q consol. revenue/EBITDA/adj. PAT rose ~17%/14%/20% YoY to INR9.3b/ INR2.5b/INR1.5b (est. of INR8.8b/ INR2.6b/INR1.5b).
- For 1HFY25, revenue/ EBITDA/Adj. PAT grew 19%/19%/22% YoY. For 2H, we expect revenue/EBITDA/PAT to grow ~21%/16%/18% YoY.
- Revenue growth was largely driven by BEV revenue growth of ~53% YoY to INR3.2b as it now account for ~35% of total revenue (vs. ~27% in 2QFY24). Light-vehicle sales in its top-3 markets (North America, India, and Europe) declined by 2%.
- The share of revenue from North America increased to ~44% in 1HFY25 vs. 40% in 1HFY24, while Europe's revenue contribution declined to 22%, down 100bp from 1HFY24. India's revenue share also declined to 28% in 1HFY25 from 30% in 1HFY24.
- Gross margin came in lower at 56% vs. est. 57.2% (+90bp YoY/-160bp QoQ).
- This was offset by lower-than-expected other operating expenses, resulting in EBITDA of INR2.5b, up 14% YoY. EBITDA margin came in line at 27.6% (down 60bp YoY/50bp QoQ) during the quarter.
- Adjusting for the ESOP impact of INR82m, EBITDA margin would have been at 28.5%.

Other financial highlights

- Besides operations, SONACOMS saw net cash inflows of INR23.7b from QIP done in Sep'24.
- Temporary deployment of QIP proceeds, besides surplus operating cash flows, led to an increase in investments by INR18.9b.
- Net loan repayments stood at INR2.24b, the dividend payout was INR880m, and there was an increase in closing cash by about INR3.85b.

Aniket Mhatre - Research analyst (Aniket.Mhatre@MotilalOswal.com)

Research analyst: Amber Shukla (Amber.Shukla@MotilalOswal.com) | **Aniket Desai** (Aniket.Desai@MotilalOswal.com)

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.

Highlights from the management commentary

- **SONACOMS will acquire Escorts Kubota's Railway Equipment Division (RED)** for an EV of INR16b. RED is the market leader in the railway brake system. They will retain the management team at the RED division of Escorts Kubota. The acquisition is expected to be EPS-accretive for the company from the first year.
- **Demand outlook:** The management hinted at weakness in European PVs, Indian CVs and North American Off-highway market. The rest of the businesses are expected to witness flat growth.
- **Total order book was INR231b as of 2QFY25** vs. INR233b in 1QFY25, of which EVs accounted for 78%. The EU program is delayed by a year and Indian 2W EV program is delayed by six months.
- **EVs-** BEV mix increased to 36% in 2QFY25 (up from 33% in 1QFY25) with reported revenue of INR3.17b, up by 53% YoY.

Valuation and view

- SONACOMS is geared for faster growth than the underlying industry, driven by 1) content enhancement in the existing portfolio; 2) market share gains in key geographies; and 3) new products such as traction motors, controllers, BSG, and sensors. Moreover, its focus on expanding the product portfolio, global scale, and customer base should translate into strong earnings growth and healthy capital efficiency.
- Despite the volatile geopolitical scenario impacting different key geographies globally, SONACOMS reported PAT growth of 20% YoY in 2QFY25, driven by healthy order execution and its focus on the growing EV segment. However, valuations at ~60x/48x FY25E/FY26E consol. EPS largely factor in these positives. **Reiterate Neutral with a TP of INR685 (based on ~46x Sep'26E consol. EPS).**

Consol. Quarterly Performance

Y/E March	FY24				FY25E				FY24	FY25E	2QE
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			
Net operating revenues	7,322	7,908	7,766	8,853	8,930	9,251	9,224	10,823	31,848	38,228	8,768
Change (%)	24.3	20.3	13.4	19.0	22.0	17.0	18.8	22.3	19.0	20.0	10.9
EBITDA	2,034	2,233	2,273	2,481	2,512	2,549	2,555	2,963	8,651	10,579	2,420
EBITDA Margins (%)	27.8	28.2	29.3	28.0	28.1	27.6	27.7	27.4	27.2	27.7	27.6
Depreciation	511	534	559	598	606	626	620	626	2,202	2,478	610
EBIT	1,523	1,699	1,714	1,883	1,905	1,923	1,935	2,337	6,449	8,101	1,810
EBIT Margins (%)	20.8	21.5	22.1	21.3	21.3	20.8	21.0	21.6	20.2	21.2	20.6
Interest	53	60	73	71	86	106	50	15	258	256	80
Non-Operating Income	54	61	50	75	70	210	72	42	239	394	72
PBT	1,495	1,641	1,690	1,886	1,889	1,918	1,957	2,365	6,343	8,129	1,802
Effective Tax Rate (%)	25.1	24.4	21.0	21.5	25.0	25.1	24.0	22.3	24.3	24.0	24.0
Adjusted PAT	1,142	1,286	1,336	1,481	1,417	1,546	1,487	1,838	4,871	6,262	1,369
Change (%)	50.6	39.0	24.7	20.2	24.0	20.2	11.3	24.1	31.8	28.6	6.5
Cost Break-up											
RM Cost (% of sales)	43.1	44.9	40.9	43.6	42.4	44.0	43.7	44.5	43.1	43.7	42.8
Staff Cost (% of sales)	6.7	7.0	9.4	8.2	8.5	8.5	8.6	8.4	7.9	8.5	8.6
Other Cost (% of sales)	22.4	19.9	20.4	20.2	20.9	19.9	20.0	19.7	21.8	20.1	21.0
Gross Margins (%)	56.9	55.1	59.1	56.4	57.6	56.0	56.3	55.5	56.9	56.3	57.2
EBITDA Margins (%)	27.8	28.2	29.3	28.0	28.1	27.6	27.7	27.4	27.2	27.7	27.6
EBIT Margins (%)	20.8	21.5	22.1	21.3	21.3	20.8	21.0	21.6	20.2	21.2	20.6

E:MOFSL Estimates



Key takeaways from the management interaction

- **SONACOMS to acquire EKL Railway Equipment Division (RED) for EV of INR16b. Escorts Kubota railway equipment division is the market leader in the railway brake system.**
 - RED is a leading supplier of critical components for railways, such as brakes and suspension systems for various rolling stocks
 - Brake system is the largest product segment. It has introduced manufacturing compressed air brake systems in railway applications for the first time in India. It is the oldest among legacy players in the railway component business in India, started in 1961.
 - It has a diversified portfolio of other products like couplers, suspension systems and friction and rubber products. Also, it will have high growth potential for new products such as electrical panels, HVAC system, and automatic plug door system.
 - The management team of RED will come along, and SONACOMS might add more members.
 - Competition- Globally there are three major companies, Escorts Kubota, one EU company and one American company. The process validation is super strict and entry barriers are high.
 - Financials- In FY25, the business reported revenue of ~INR9.5b with EBIT of INR1.79b. The company reported EBITDA margin of 20-21% and PBIT margin of ~19%. Over the past five years, EKL posted a CAGR of 19% in revenue and 18% in EBIT while maintaining return ratios above 35%.
 - Acquisition is expected to be EPS-accretive for SONACOMS from the first year.
- **Demand outlook:** The management hinted at weakness in European PVs, Indian CVs and North American Off-highway market. The rest of the businesses are expected to witness flat growth. Despite this, the company is expected to grow and outperform the industry, led by the execution of the current order book and increasing wallet share.
- **EVs-** BEV mix increased to 36% in 2QFY25 (up from 33% in 1QFY25) with reported revenue of INR3.17b, up by 53% YoY. It has total of 56 EV programs (vs. 55 in 1QFY25) awarded across 32 customers as of 2Q end.
- **Orders**
 - Total order book stood at INR231b as of 2QFY25 vs. INR233b in 1QFY25, of which EVs accounted for 78%.
 - The EU program is delayed by a year and the Indian 2W EV program is delayed by six months. Most of the programs will start from FY27.

Exhibit 1: Trend in revenue

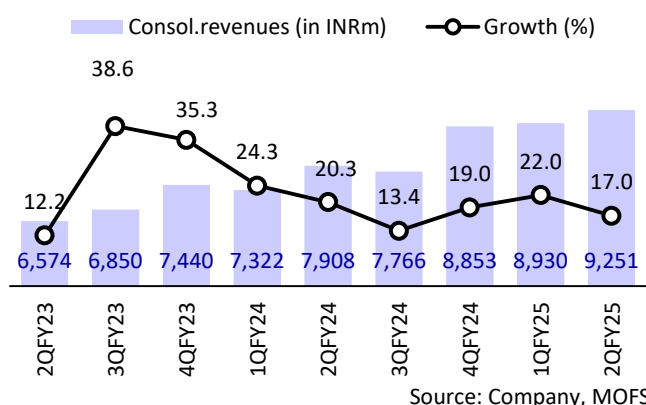


Exhibit 2: EBITDA and EBITDA margin trends

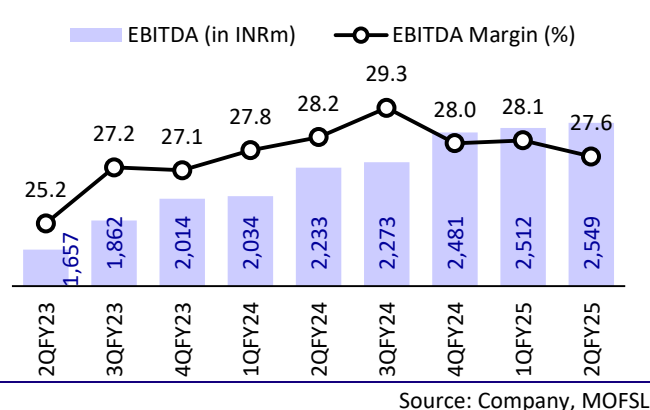
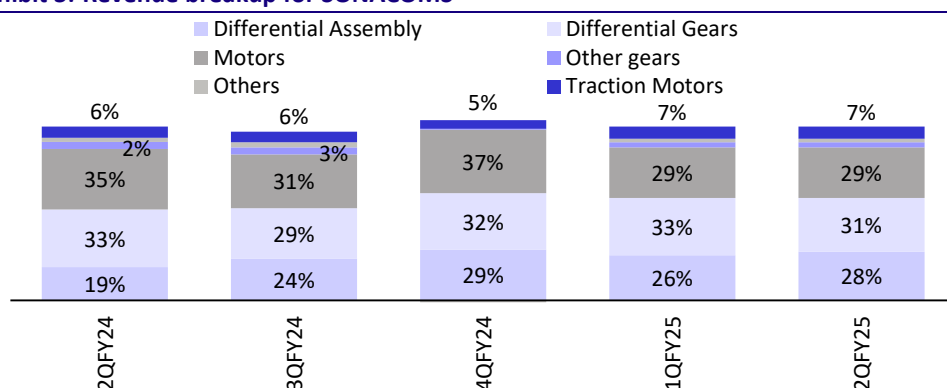


Exhibit 3: Revenue breakup for SONACOMS



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 35% of revenue in 2QFY25 (vs. 29%/26%/25% in FY24/FY23/FY22) and accounted for 78% of the order book.
- Unique positioning of increasing EV sales, global scale, and a strong financial profile:** SONACOMS' 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 (8.1% in CY23 v/s 7.2% in CY22), and starter motors (4.2% in CY23 v/s 4.1% in CY22). More importantly, it is a truly global player with a presence across the key markets of North America (~43%), India (~28%), the EU (~23%) and Asia (ex-India; ~6%).
- 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. Management indicated an increase in R&D spending in FY25 by ~100bp to ~3.3-

3.4% of revenue, signifying its sustained focus on product innovation. 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.

- **To foray into Railway Equipment business:** SONACOMS will acquire Escorts Kubota's railway equipment division (RED) for EV of INR16b. Escorts Kubota is the market leader in the railway brake system. RED is a leading supplier of critical components for Railways, such as brakes and suspension systems for various rolling stocks. Moreover, the acquisition is expected to be EPS accretive for the company from the first year. While this may broaden the company's addressable market, we believe synergies are uncertain due to the new sector focus and will wait to evaluate execution.
- **Valuation and view:** We estimate a consolidated revenue/EBITDA/PAT CAGR of 19%/19%/22% over FY24-FY27E and RoE expansion of 260bp (over FY24) to ~23.2% by FY27. We retain our EPS estimates. 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 ~33% revenue mix from EVs and a ~79% 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 60x/48x FY25E/FY26E factors in these positives. **Reiterate Neutral with a TP of INR685 (based on ~46x Sep'26E consol. EPS).**

Exhibit 4: Revisions to our estimates

(INR M)	FY25E			FY26E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	38,228	37,210	2.7	45,706	44,971	1.6
EBITDA	10,579	10,411	1.6	13,001	12,876	1.0
EBITDA (%)	27.7	28.0	-30bp	28.4	28.6	-20bp
Net Profit	6,262	6,005	4.3	7,918	7,725	2.5
EPS (INR)	10.7	10.2	4.3	13.5	13.2	2.5

Key operating indicators

Exhibit 5: Expect strong revenue growth over FY24-26 largely driven by strong traction in the BEV DA business

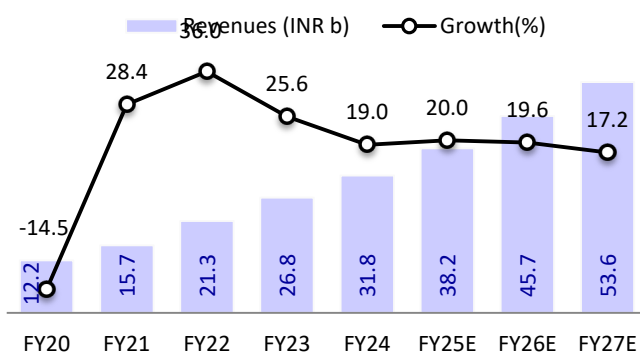


Exhibit 6: EBITDA margin to expand due to a better mix and operating leverage

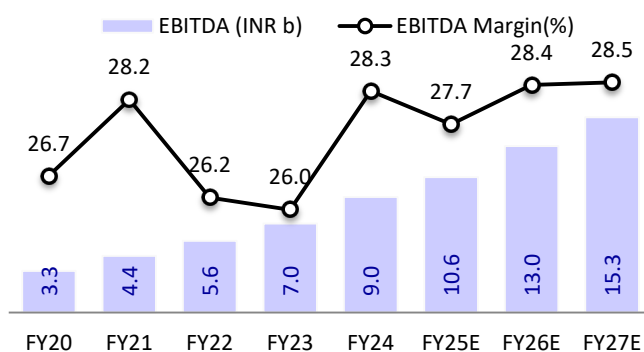


Exhibit 7: Expect 22% PAT CAGR over FY24-26E

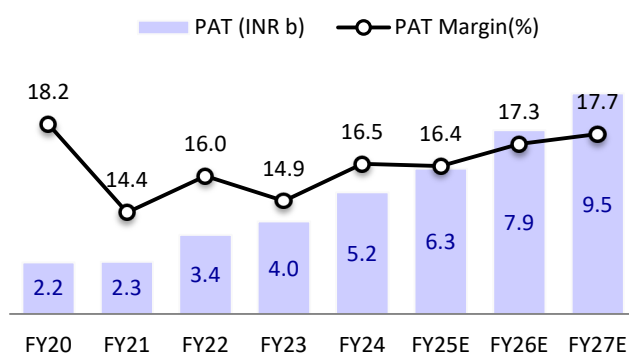


Exhibit 8: RoCE to improve substantially by FY26E

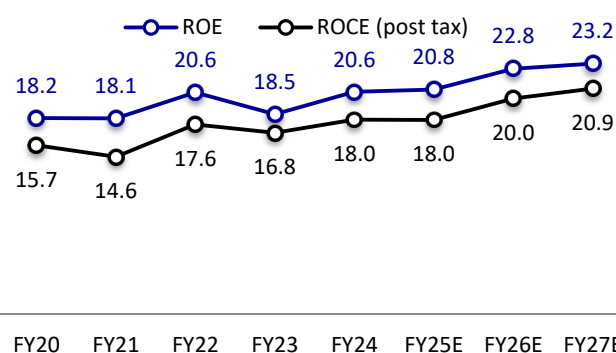


Exhibit 9: Capex to remain at an elevated level from FY25E

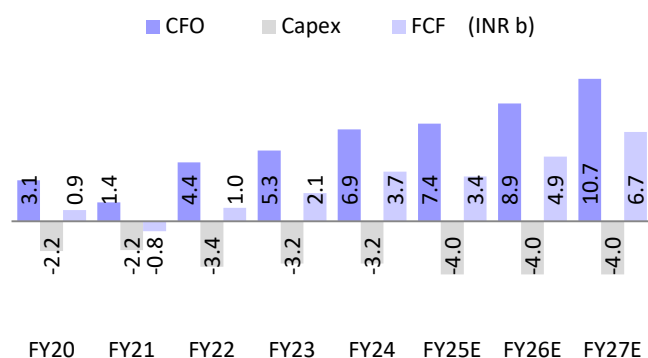
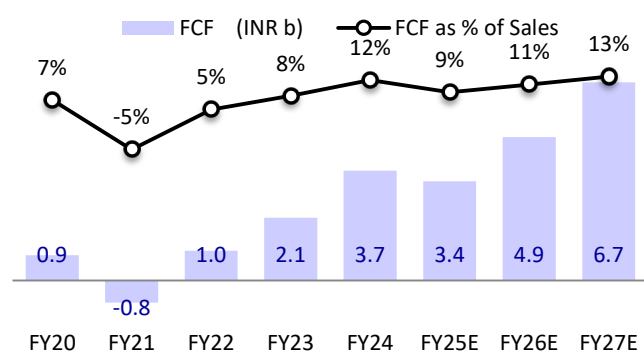


Exhibit 10: FCF should continue to improve



Financials and valuations

Income Statement								(INR m)
Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Net operating income	12,201	15,663	21,306	26,756	31,848	38,228	45,706	53,567
Change (%)	-14.5	28.4	36.0	25.6	19.0	20.0	19.6	17.2
EBITDA	3,254	4,410	5,591	6,958	9,021	10,579	13,001	15,266
EBITDA Margin (%)	26.7	28.2	26.2	26.0	28.3	27.7	28.4	28.5
Depreciation	782	969	1,420	1,780	2,202	2,478	2,816	3,138
EBIT	2,472	3,441	4,171	5,178	6,819	8,101	10,185	12,128
EBIT Margin (%)	20.3	22.0	19.6	19.4	21.4	21.2	22.3	22.6
Interest cost	269	325	183	169	258	256	187	142
Other Income	76	23	200	116	239	394	420	523
Non-recurring Exp/(Inc)	0	139	-267	34	87	110	0	0
PBT after EO	2,279	3,000	4,456	5,091	6,713	8,129	10,418	12,509
Effective Tax Rate (%)	2.7	28.3	18.9	22.4	22.9	24.0	24.0	24.0
Reported PAT	2,217	2,152	3,615	3,953	5,178	6,178	7,918	9,507
Adj. PAT	2,217	2,251	3,399	3,979	5,245	6,262	7,918	9,507
Change (%)	4.2	1.5	51.0	17.1	31.8	19.4	26.4	20.1

Balance Sheet								(INR m)
Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Sources of Funds								
Share Capital	472	5,730	5,844	5,854	5,864	5,864	5,864	5,864
Reserves	11,308	7,309	14,159	17,048	20,639	24,752	30,091	37,019
Minority interest	0	0	0	0	1,498	1,498	1,498	1,498
Net Worth	11,779	13,039	20,003	22,902	28,001	32,114	37,453	44,381
Deferred Tax	1,077	1,260	884	876	1,261	1,261	1,261	1,261
Loans	2,614	3,052	704	2,175	2,331	2,331	1,831	1,331
Other non-current liabilities	534	721	698	661	2,200	2,200	2,200	2,200
Capital Employed	16,004	18,073	22,288	26,614	33,793	37,906	42,745	49,174
Application of Funds								
Gross Fixed Assets	5,494	6,395	9,382	12,889	16,323	20,323	24,323	28,323
Less: Depreciation	1,230	1,353	2,189	3,245	4,808	6,839	9,207	11,898
Net Fixed Assets	4,264	5,042	7,193	9,644	11,515	13,484	15,116	16,425
Intangibles	5,489	5,948	5,995	6,122	6,704	6,704	6,704	6,704
Amortisation	860	582	1,105	1,647	2,232	2,679	3,126	3,573
Net Intangibles	4,629	5,366	4,890	4,474	4,472	4,025	3,578	3,131
Capital WIP	896	832	1,474	911	3,636	3,636	3,636	3,636
Goodwill on consolidation	1,758	1,758	1,758	1,758	3,518	3,518	3,518	3,518
Investments	19	0	65	2,326	417	1,917	3,917	7,917
Curr.Assets, L & Adv.	6,940	8,750	10,577	11,485	15,090	17,241	20,053	22,836
Inventory	1,962	3,056	3,634	3,229	3,475	4,171	4,987	5,845
Sundry Debtors	2,336	4,170	4,452	6,089	6,483	7,781	9,303	10,904
Cash & Bank Balances	1,673	276	773	698	2,742	2,691	2,897	2,939
Loans & Advances	5	15	65	92	110	105	125	147
Others	963	1,234	1,654	1,376	2,281	2,493	2,741	3,001
Current Liab. & Prov.	2,503	3,676	3,669	3,984	4,856	5,916	7,073	8,290
Sundry Creditors	1,162	2,241	2,190	2,489	2,981	3,666	4,383	5,137
Other Liabilities	1,223	1,275	1,274	1,256	1,545	1,855	2,218	2,599
Provisions	118	159	206	239	330	396	473	554
Net Current Assets	4,437	5,075	6,908	7,501	10,235	11,325	12,980	14,546
Application of Funds	16,004	18,073	22,288	26,614	33,793	37,906	42,745	49,174

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Basic (INR)								
EPS	47.0	3.9	5.8	6.8	8.9	10.7	13.5	16.2
EPS Growth (%)	-38.8	-91.6	48.0	16.9	31.6	19.4	26.4	20.1
Cash EPS	63.6	5.4	8.6	9.8	12.6	14.8	18.3	21.6
Book Value per Share	249.8	22.8	34.2	39.1	47.7	54.8	63.9	75.7
DPS	0.0	18.9	0.8	1.5	3.0	3.7	4.4	4.4
Payout (Incl. Div. Tax) %	0.0	504.1	12.2	22.2	33.9	34.8	32.6	27.1
FCF (INR/sh)	18.1	-1.3	1.7	3.6	6.4	5.8	8.6	11.5
Valuation (x)								
P/E	13.7	163.5	110.5	94.5	71.8	60.2	47.6	39.6
EV/EBITDA	9.6	84.1	67.1	53.9	41.7	35.4	28.6	24.1
EV/Sales	2.6	23.7	17.6	14.0	11.8	9.8	8.1	6.9
Price to Book Value	2.6	28.2	18.8	16.4	13.5	11.7	10.1	8.5
Dividend Yield (%)	0.0	2.9	0.1	0.2	0.5	0.6	0.7	0.7
FCF Yield (%)	2.8	-0.2	0.3	0.6	1.0	0.9	1.3	1.8
Profitability Ratios (%)								
RoE	18.2	18.1	20.6	18.5	20.6	20.8	22.8	23.2
RoCE (post-tax)	15.7	14.6	17.6	16.8	18.0	18.0	20.0	20.9
RoIC	17.3	16.2	18.3	18.9	21.2	21.7	25.0	27.5
Turnover Ratios								
Debtors (Days)	70	97	76	83	74	74	74	74
Inventory (Days)	59	71	62	44	40	40	40	40
Creditors (Days)	35	52	38	34	34	35	35	35
Working Capital (Days)	94	116	101	93	80	79	79	79
Asset Turnover (x)	0.8	0.9	1.1	1.1	1.1	1.1	1.1	1.2
Leverage Ratio								
Net Debt/Equity (x)	0.1	0.2	0.0	0.0	0.0	-0.1	-0.1	-0.2

E: MOFSL Estimates

Cash Flow Statement

(INR m)

Y/E March	2020	2021	2022	2023	2024	2025E	2026E	2027E
Profit before Tax	2,279	3,000	4,456	5,091	6,713	8,129	10,418	12,509
Depreciation & Amort.	782	969	1,420	1,780	2,202	2,478	2,816	3,138
Direct Taxes Paid	-398	-528	-544	-1,102	-1,553	-1,951	-2,500	-3,002
(Inc)/Dec in Working Capital	4	-2,070	-890	-630	-644	-1,141	-1,449	-1,524
Interest/Div. Received	-31	-29	-179	-112	-209	-394	-420	-523
Other Items	457	85	183	307	418	256	187	142
CF from Oper. Activity	3,092	1,427	4,446	5,333	6,928	7,377	9,051	10,740
Extra-ordinary Items	0	0	0	0	0	0	0	0
CF after EO Items	3,092	1,427	4,446	5,333	6,928	7,377	9,051	10,740
(Inc)/Dec in FA+CWIP	-2,239	-2,180	-3,438	-3,196	-3,191	-4,000	-4,000	-4,000
Free Cash Flow	853	-753	1,008	2,136	3,736	3,377	5,051	6,740
Interest/dividend received	39	22	179	31	204	394	420	523
(Pur)/Sale of Invest.	-7,286	598	-275	-2,450	-1,724	1,500	2,000	4,000
CF from Inv. Activity	-9,487	-1,561	-3,534	-5,615	-4,711	-2,106	-1,580	523
Inc/(Dec) in Debt	1,320	504	-2,954	1,471	94	0	-500	-500
Interest Paid	-205	-246	-92	-12	-173	-256	-187	-142
Dividends Paid	-1,532	-904	-450	-1,199	-1,793	-2,149	-2,578	-2,578
Others	0	-21	-170	-113	84	0	0	0
CF from Fin. Activity	7,083	-667	-625	187	-1,747	-2,405	-3,266	-3,221
Inc/(Dec) in Cash	689	-800	287	-95	469	2,866	4,206	8,042
Add: Beginning Balance	361	1,050	249	536	441	910	3,776	7,982
Closing Balance	1,050	249	536	441	910	3,776	7,982	16,024

E: MOFSL Estimates

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Explanation of Investment Rating	
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Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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