23 January 2025

3QFY25 Results Update | Sector: Automobile

SONA BLW Precision Forging

Estimate change	↔
TP change	↔
Rating change	↓

Bloomberg	SONACOMS IN
Equity Shares (m)	621
M.Cap.(INRb)/(USDb)	337.2 / 3.9
52-Week Range (INR)	769 / 529
1, 6, 12 Rel. Per (%)	-5/-17/-16
12M Avg Val (INR M)	1312

Financials & Valuations (INR b)

Y/E Mar	2025E	2026E	2027E
Sales	35.4	40.8	45.9
EBITDA (%)	27.4	27.8	28.4
Adj. PAT	6.0	6.6	7.8
EPS (INR)	9.7	10.7	12.5
EPS Gr. (%)	8.0	10.8	17.0
BV/Sh. (INR)	89.6	95.8	103.8
Ratios			
Net D:E	0.0	0.0	0.0
RoE (%)	14.3	11.5	12.5
RoCE (%)	13.1	10.7	11.7
Payout (%)	38.8	42.1	36.0
Valuations			
P/E (x)	56.0	50.6	43.2
P/BV (x)	6.0	5.6	5.2
EV/EBITDA (x)	31.9	27.1	23.4
Div. Yield (%)	0.7	0.8	0.8
FCF Yield (%)	0.9	1.2	1.7

Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	28.0	28.0	29.7
DII	31.2	31.0	27.9
FII	33.3	33.6	32.9
Others	7.6	7.5	9.5

FII Includes depository receipts

CMP:INR541 TP: INR580 (+7%) Neutral

Operationally in line; weak demand across regions

Investment in ClearMotion in line with its diversification strategy

- SONA BLW (SONACOMS) reported 3QFY25 operational performance in line with our estimates, while PAT beat our estimate thanks to higher other income. The company continues to win new orders, especially in its core division, resulting in its ever increasing order backlog. The share of EVs was higher in the order book/revenue at ~76%/39% as of 3QFY25.
- As part of its product advancements strategy, the board has decided to invest USD4m in ClearMotion Inc., a leading software-defined chassis company. It gives SONACOMS access to new products such as proactive suspension.
- SONACOMS is now seeing the impact of a slowdown in the EV transition, with 3Q revenue/EBITDA growth at just 12%/3%. This, coupled with a model change at one of its key OEMs, is likely to further impact revenue in 4Q. Demand remains weak in EU, US OHV, and India CVs. Given these headwinds, valuations at ~51x/43x FY26E/FY27E consol. EPS appear expensive. **Reiterate Neutral with a TP of INR580,** premised on ~44x Dec'26E consol. EPS and assigning INR47 per share for the recently acquired railway business.

Margin down QoQ due to low production and unfavorable product mix

- Consol. revenue/EBITDA/adj. PAT rose ~12%/3%/17% YoY to INR8.7b/INR2.3b/INR1.6b (est. of INR8.8b/ INR2.3b/INR1.4b). For 9MFY25, revenue/EBITDA/adj. PAT grew 17%/13%/20% YoY.
- Geography-wise revenue mix in 9MFY25 (vs. FY24): North America 43% (40%), India 28% (28%), Europe 23% (26%), Asia (excl. India) 6% (5%).
- Light-vehicle sales in its top-3 markets (North America, India, and Europe) grew by only 1%. BEV revenue rose 48%, accounting for 39% of total revenue.
- Gross margin contracted 330bp YoY/10bp QoQ to 55.9% (est. 56.2%) as RM tailwinds were offset by a weak product mix. Despite this, EBITDA margin came in line at 27% (-230bp YoY/-60bp QoQ, est. 27.1%). EBITDA grew ~3% YoY to INR2.3b (in line).
- Higher other income at INR468m due to net finance income from QIP proceeds drove PAT beat at INR1.56b (up 17% YoY, est. INR1.4b).
- PAT included exceptional expenses (post-tax) related to potential acquisition opportunities worth INR43m.
- The net debt-to-EBITDA ratio declined from -0.08x in Mar'24 to -2.66x in Dec'24. ROCE/ROE declined to 19.7%/17.6% in Dec'24 vs. 31%/28.5% in Mar'24 due to QIP funds.

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Highlights from the management commentary

- **Business update:** Weak demand in the EU, US off-highway market, and India's CV market affected the core differential gears and assembly businesses. In North America, inventory build-up in 1H led to significant corrections in recent months; management expects normalization of supply schedules by Mar'25.
- **EVs:** Revenue from BEV grew ~48% YoY to INR3.29b in 3QFY25, making up 39% of total revenue. The order book increased to INR232b as of 3QFY25 from INR231b in 2QFY25.
- **New orders:** It has won a program for differential assembly for electric passenger vehicles for the Indian market. This has added INR3b to the order book, for which SOP is likely from 2QFY27. EVs accounted for ~76% of the order book. In 3QFY25, the company added one new EV program, taking the total number of awarded programs to 57 across 32 customers.
- **Board of directors has approved an investment of USD4m in ClearMotion Inc**., a leading software-defined chassis company. It will own a 1.5% stake in the company after the full conversion.

Valuation and view

- SONACOMS is set 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.
- SONACOMS is now seeing the impact of a slowdown in the EV transition, with 3Q revenue/EBITDA growth at just 12%/3%. This, coupled with a model change at one of its key OEMs, is likely to further impact revenue in 4Q. Demand remains weak in EU, US OHV and India CVs. Given these headwinds, valuations at ~51x FY26E/43x FY27E consol. EPS appear expensive. **Reiterate Neutral with a TP of INR580,** premised on ~44x Dec'26E consol. EPS and assigning INR47 per share for the recently acquired railway business.

Consol. quarterly performance (INR m)

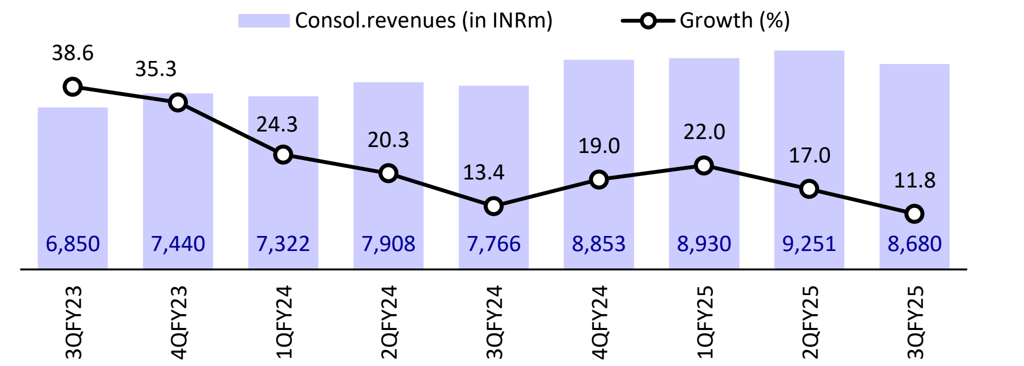
Y/E March	FY24				FY25E				FY24	FY25E	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE
Net operating revenues	**7,322**	**7,908**	**7,766**	**8,853**	**8,930**	**9,251**	**8,680**	**8,550**	**31,848**	**35,411**	**8,625**
Change (%)	24.3	20.3	13.4	19.0	22.0	17.0	11.8	-3.4	19.0	11.2	11.1
EBITDA	**2,034**	**2,233**	**2,273**	**2,481**	**2,512**	**2,549**	**2,342**	**2,301**	**8,651**	**9,704**	**2,337**
EBITDA Margins (%)	27.8	28.2	29.3	28.0	28.1	27.6	27.0	26.9	27.2	27.4	27.1
Depreciation	511	534	559	598	606	626	666	680	2,202	2,578	630
EBIT	**1,523**	**1,699**	**1,714**	**1,883**	**1,905**	**1,923**	**1,677**	**1,621**	**6,449**	**7,126**	**1,707**
EBIT Margins (%)	20.8	21.5	22.1	21.3	21.3	20.8	19.3	19.0	20.2	20.1	19.8
Interest	53	60	73	71	86	106	58	53	258	303	80
Non-Operating Income	54	61	50	75	70	210	468	321	239	1,069	190
PBT	**1,495**	**1,641**	**1,690**	**1,886**	**1,889**	**1,918**	**2,030**	**1,888**	**6,343**	**7,725**	**1,817**
Effective Tax Rate (%)	25.1	24.4	21.0	21.5	25.0	25.1	25.8	20.0	24.3	24.0	23.0
Adjusted PAT	**1,142**	**1,286**	**1,336**	**1,481**	**1,417**	**1,546**	**1,564**	**1,511**	**4,871**	**5,998**	**1,399**
Change (%)	50.6	39.0	24.7	20.2	24.0	20.2	17.1	2.0	31.8	23.1	4.8
Cost Break-up											
RM Cost (% of sales)	43.1	44.9	40.9	43.6	42.4	44.0	44.1	43.9	43.1	43.6	43.8
Staff Cost (% of sales)	6.7	7.0	9.4	8.2	8.5	8.5	9.4	9.4	7.9	9.0	8.8
Other Cost (% of sales)	22.4	19.9	20.4	20.2	20.9	19.9	19.5	19.8	21.8	20.0	20.3

CONFERENCE CALL

Key takeaways from the management interaction

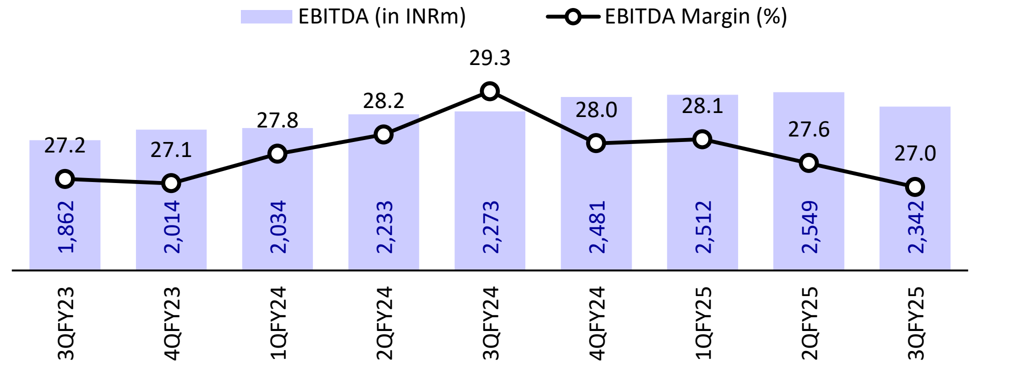
- **Business update**
  - Weak demand in the EU, US off-highway market, and India's CV market adversely affected the core differential gears and assembly businesses.
  - In North America, inventory build-up in 1H led to significant corrections in recent months; management expects normalization of supply schedules by Mar'25.
  - Supplies to a key customer will be impacted over the next two months due to the transition to an upgraded model, with further disruption expected in 4QFY25.
- **EVs:** Revenue from BEV grew ~48% YoY to INR3.29b in 3QFY25, making up 39% of total revenue.
  - Region-wise EV industry outlook: China is likely to remain the fastest-growing market in EV penetration globally. Management does not expect EVs in the US to grow materially next year. While there is a slowdown in the industry, EV penetration is likely to be on an uptrend in Europe. Further, India is likely to be one of the fastest-growing EV markets globally given the strong line-up of new models from many OEMs.
- **New orders:** The order book has increased to INR232b as of 3QFY25 from INR231b.
  - The company has won a program for differential assembly for electric passenger vehicles for the Indian market. This has added INR3b to the order book, for which SOP is likely in 2QFY27.
  - EVs accounted for ~76% of the order book. In 3QFY25, it added one new EV program, taking the total number of awarded programs to 57 across 32 customers.
- **Board of directors has approved an investment of USD4m in ClearMotion Inc.,** a leading software-defined chassis company. It will own a 1.5% stake in the company after the full conversion.
  - Its proactive suspension and road sensing software provide a smooth riding experience even on uneven road surfaces. The initial addressable size for the product is USD4b, largely for premium cars. The company will progressively move to a higher volume segment. ClearMotion has successfully commercialized this technology, and it is already under production for Nio ET9.
  - Differentiated technology: ClearMotion's active suspension technology controlled by SONA's BLDC motor-controller based actuator has 5x lower latency compared to the other existing alternatives available in the market.
- **In 3QFY25, it has commercialized one product**, zone monitoring sensor, and added two new future products- i) Robotics/EVTOL gearbox, and ii) Limited Shift Differential (LSD) to its technology roadmap.
- **Increasing focus on China:** Asia (excl. India) currently contributes just 6% of total revenue. Management has indicated that the company will increasingly focus on having a presence in China, Japan and South Korean regions in a bid to ramp up its global market share further.
- Its global market share has improved in differential gears from 8.1% in CY23 to 8.8% in CY24 and in starter motor from 4.2% to 4.4%.

Exhibit 1: Trend in revenue



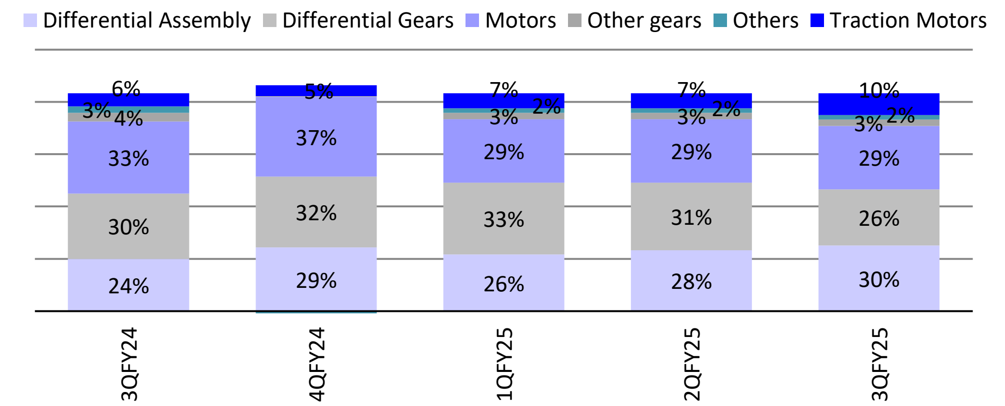
Source: Company, MOFSL

Exhibit 2: EBITDA and EBITDA margin trends



Source: Company, MOFSL

Exhibit 3: Revenue breakup for SONACOMS



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 36% of revenue in 9MFY25 (vs. 29%/26%/25% in FY24/FY23/FY22) and accounted for 76% 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 (8.8% in CY24 v/s 8.1% in CY23), and starter motors (4.4% in CY23 v/s 4.2% in CY23). More importantly, it is truly a 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 the 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 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.
- **To foray into railway equipment business:** SONACOMS is acquiring Escorts Kubota's railway equipment division (RED) for an 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 we will wait to evaluate execution.
- **Valuation and view:** SONACOMS is now seeing the impact of a slowdown in the EV transition, with 3Q revenue/EBITDA growth at just 12%/3%. This, coupled with a model change at one of its key OEMs, is likely to further impact revenue in 4Q. Demand remains weak in EU, US OHV and India CVs. Given these headwinds, valuations at ~51x FY26E/43x FY27E consol. EPS appear expensive. **Reiterate Neutral with a TP of INR580,** premised on ~44x Dec'26E consol. EPS and assigning INR47 per share for the recently acquired railway business.

Exhibit 4: Revisions to our estimates

(INR M)	FY25E			FY26E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	35,411	35,820	-1.1	40,829	40,829	0.0
EBITDA	9,704	9,846	-1.4	11,346	11,346	0.0
EBITDA (%)	27.4	27.5	-10bp	27.8	27.8	0bp
Net Profit	5,998	5,766	4.0	6,646	6,625	0.3
EPS (INR)	9.7	9.8	-1.8	10.7	11.3	-5.3

Key operating indicators

Exhibit 5: Expect strong revenue growth over FY25-27

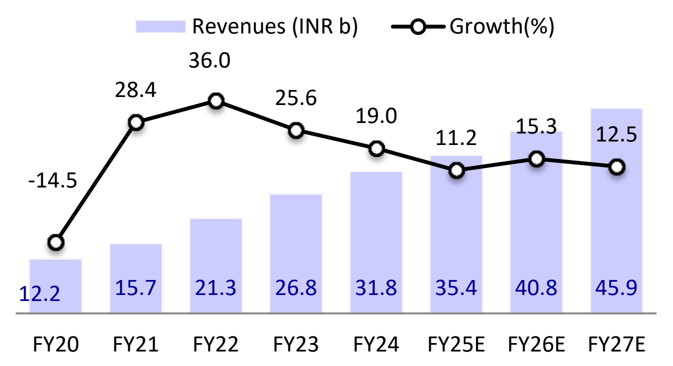


Exhibit 6: EBITDA margin is likely to expand in FY25-27E

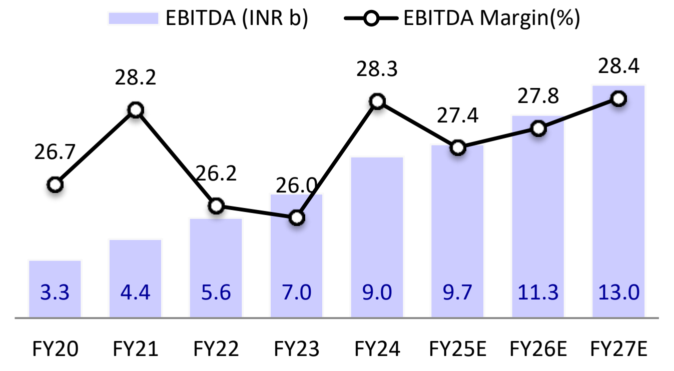


Exhibit 7: Expect 14% PAT CAGR over FY24-26E

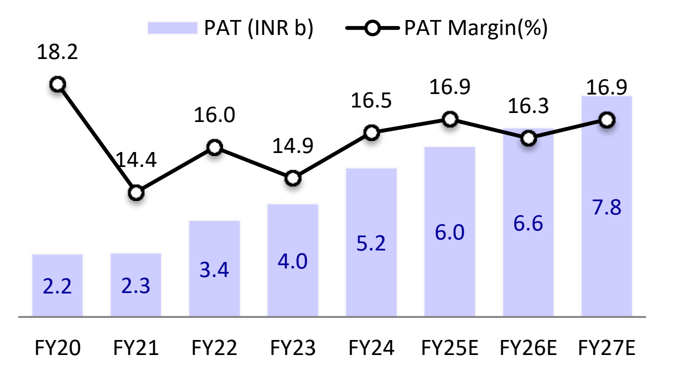


Exhibit 8: RoCE and ROE trend over the years

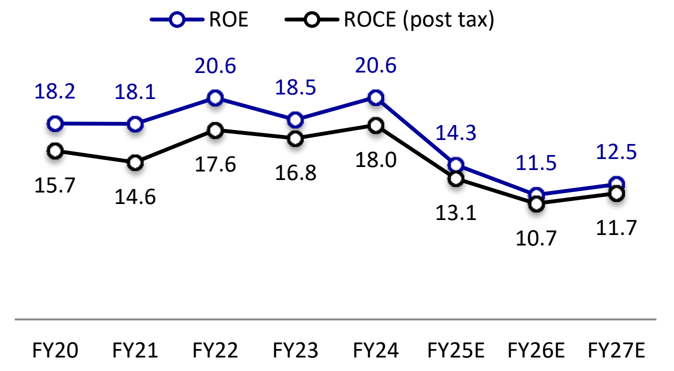


Exhibit 9: Capex to remain high from FY25E onward

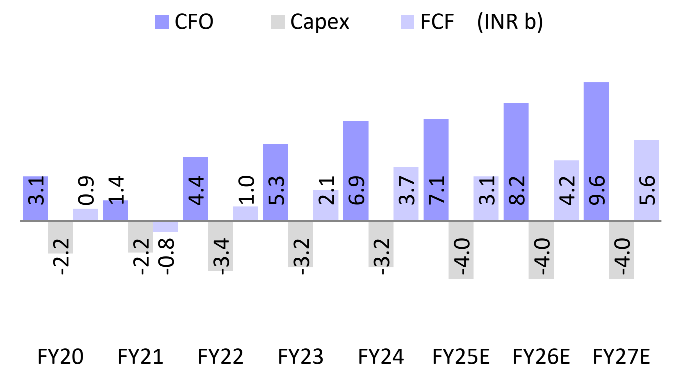
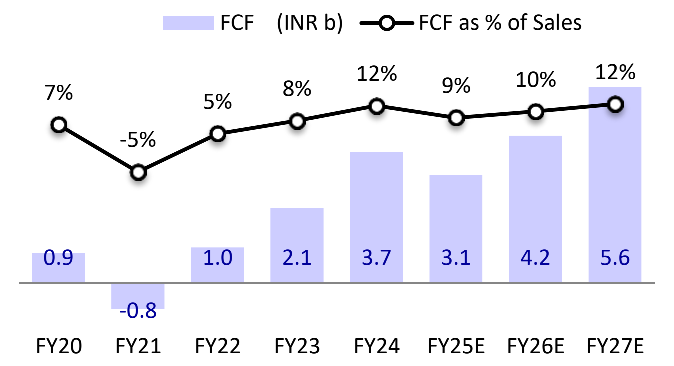


Exhibit 10: FCF should continue to improve



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**	**35,411**	**40,829**	**45,941**
Change (%)	-14.5	28.4	36.0	25.6	19.0	11.2	15.3	12.5
EBITDA	**3,254**	**4,410**	**5,591**	**6,958**	**9,021**	**9,704**	**11,346**	**13,041**
EBITDA Margin (%)	26.7	28.2	26.2	26.0	28.3	27.4	27.8	28.4
Depreciation	782	969	1,420	1,780	2,202	2,578	2,816	3,138
EBIT	2,472	3,441	4,171	5,178	6,819	7,126	8,530	9,903
EBIT Margin (%)	20.3	22.0	19.6	19.4	21.4	20.1	20.9	21.6
Interest cost	269	325	183	169	258	303	205	196
Other Income	76	23	200	116	239	1,069	420	523
Non-recurring Exp/(Inc)	0	139	-267	34	87	167	0	0
PBT after EO	**2,279**	**3,000**	**4,456**	**5,091**	**6,713**	**7,725**	**8,745**	**10,230**
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**	**5,871**	**6,646**	**7,775**
Adj. PAT	**2,217**	**2,251**	**3,399**	**3,979**	**5,245**	**5,998**	**6,646**	**7,775**
Change (%)	4.2	1.5	51.0	17.1	31.8	14.4	10.8	17.0

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	6,212	6,212	6,212
Reserves	11,308	7,309	14,159	17,048	20,639	47,959	51,810	56,789
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**	**55,669**	**59,520**	**64,499**
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	2,231	2,131
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**	**61,462**	**65,212**	**70,091**
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	6,939	9,308	11,998
Net Fixed Assets	**4,264**	**5,042**	**7,193**	**9,644**	**11,515**	**13,384**	**15,016**	**16,325**
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	23,917	25,917	28,917
Curr.Assets, L & Adv.	**6,940**	**8,750**	**10,577**	**11,485**	**15,090**	**18,461**	**19,865**	**21,673**
Inventory	1,962	3,056	3,634	3,229	3,475	3,864	4,455	5,013
Sundry Debtors	2,336	4,170	4,452	6,089	6,483	7,208	8,311	9,351
Cash & Bank Balances	1,673	276	773	698	2,742	4,893	4,409	4,435
Loans & Advances	5	15	65	92	110	97	112	126
Others	963	1,234	1,654	1,376	2,281	2,399	2,579	2,748
Current Liab. & Prov.	**2,503**	**3,676**	**3,669**	**3,984**	**4,856**	**5,480**	**6,319**	**7,110**
Sundry Creditors	1,162	2,241	2,190	2,489	2,981	3,396	3,915	4,405
Other Liabilities	1,223	1,275	1,274	1,256	1,545	1,718	1,981	2,229
Provisions	118	159	206	239	330	366	423	475
Net Current Assets	**4,437**	**5,075**	**6,908**	**7,501**	**10,235**	**12,981**	**13,547**	**14,564**
Application of Funds	**16,004**	**18,073**	**22,288**	**26,614**	**33,793**	**61,462**	**65,212**	**70,091**

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**	**9.7**	**10.7**	**12.5**
EPS Growth (%)	-38.8	-91.6	48.0	16.9	31.6	8.0	10.8	17.0
Cash EPS	63.6	5.4	8.6	9.8	12.6	13.6	15.2	17.6
Book Value per Share	249.8	22.8	34.2	39.1	47.7	89.6	95.8	103.8
DPS	0.0	18.9	0.8	1.5	3.1	3.8	4.5	4.5
Payout (Incl. Div. Tax) %	0.0	504.1	12.4	22.7	34.7	39.7	42.1	36.0
FCF (INR/sh)	18.1	-1.3	1.7	3.6	6.4	5.0	6.8	9.0
Valuation (x)								
P/E	11.5	137.7	93.0	79.6	60.5	56.0	50.6	43.2
EV/EBITDA	8.1	70.9	56.5	45.4	35.1	31.9	27.1	23.4
EV/Sales	2.2	20.0	14.8	11.8	9.9	8.7	7.5	6.6
Price to Book Value	2.2	23.8	15.8	13.8	11.3	6.0	5.6	5.2
Dividend Yield (%)	0.0	3.5	0.1	0.3	0.6	0.7	0.8	0.8
FCF Yield (%)	3.3	-0.2	0.3	0.7	1.2	0.9	1.2	1.7
Profitability Ratios (%)								
RoE	18.2	18.1	20.6	18.5	20.6	14.3	11.5	12.5
RoCE (post-tax)	15.7	14.6	17.6	16.8	18.0	13.1	10.7	11.7
RoIC	17.3	16.2	18.3	18.9	21.2	19.3	21.5	23.4
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	0.7	0.6	0.7
Leverage Ratio								
Net Debt/Equity (x)	0.1	0.2	0.0	0.0	0.0	-0.5	-0.5	-0.5

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	7,725	8,745	10,230
Depreciation & Amort.	782	969	1,420	1,780	2,202	2,578	2,816	3,138
Direct Taxes Paid	-398	-528	-544	-1,102	-1,553	-1,854	-2,099	-2,455
(Inc)/Dec in Working Capital	4	-2,070	-890	-630	-644	-595	-1,050	-991
Interest/Div. Received	-31	-29	-179	-112	-209	-1069	-420	-523
Other Items	457	85	183	307	418	303	205	196
CF after EO Items	**3,092**	**1,427**	**4,446**	**5,333**	**6,928**	**7,088**	**8,197**	**9,595**
(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**	**3,088**	**4,197**	**5,595**
Interest/dividend received	39	22	179	31	204	1,069	420	523
(Pur)/Sale of Invest.	-7,286	598	-275	-2,450	-1,724	23,500	2,000	3,000
CF from Inv. Activity	**-9,487**	**-1,561**	**-3,534**	**-5,615**	**-4,711**	**20,569**	**-1,580**	**-477**
Inc/(Dec) in Debt	1,320	504	-2,954	1,471	94	0	-100	-100
Interest Paid	-205	-246	-92	-12	-173	-303	-205	-196
Dividends Paid	-1,532	-904	-450	-1,199	-1,793	-2,330	-2,796	-2,796
Others	0	-21	-170	-113	84	0	0	0
CF from Fin. Activity	**7,083**	**-667**	**-625**	**187**	**-1,747**	**-2,633**	**-3,101**	**-3,092**
Inc/(Dec) in Cash	**689**	**-800**	**287**	**-95**	**469**	**25,024**	**3,516**	**6,026**
Add: Beginning Balance	361	1,050	249	536	441	910	25,934	29,450
Closing Balance	**1,050**	**249**	**536**	**441**	**910**	**25,934**	**29,450**	**35,476**

E: MOFSL Estimates

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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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