

Sona BLW Precision Forgings HOLD

Resilient and Unstoppable

Summary

Sona BLW Precision Forgings Ltd. (SONACOMS) reported impressive financial performance in Q1FY22. Its adjusted profit grew by 3.1% QoQ. Despite of intense cost pressure, it reported 173 bps expansion in EBITDA margins to 27.7% which is commendable. Increased contribution from Battery operated electric vehicle segment (BEV) from 13% in Q4FY21 to 20% in Q1FY22 (grew by 33% QoQ) and global market share gains in Differential Gears and Starter Motor were the bright spots. The Company has as order book of Rs140bn (9.1x FY21 sales) which provides strong sales visibility over the next 5-7 years. We have retained our sales and PAT estimates for FY22 and FY23 keeping in mind robust financial performance and strong growth outlook. SONACOMS Sales and PAT are expected to grow at 35.9% and 43.1% CAGR over FY21-24E respectively. It is likely to be fastest growing India based Auto ancillary Company. We retain our price target of Rs460 and rate the stock as HOLD.

Key Highlights and Investment Rationale

- Expansion in EBITDA Margins Commendable – Retain Estimates:** During Q1FY22, SONACOMS reported Sales of Rs5bn, 227% increase YoY. Despite lower domestic sales (declined by 24% QoQ) due to lockdown, the Company reported modest decline of 7.2% on QoQ basis. In challenging operating environment due to rise in commodity prices, it reported EBITDA margins 27.7%, 173bps up QoQ is commendable. Based on impressive financial performance and strong growth outlook we retain our sales and PAT estimates for FY22E and FY23E.
- Strong order Book – Market share Gains:** SONACOMS net order book stands at Rs140bn (9.1x FY21 sales) which includes EV segment of Rs80bn (57.1%) and Non-EV segment Rs60bn (42.9%) (Net order book implies aggregate sales in the next 10 years from awarded programs which are either yet to start production or are yet to fully ramp up). Its Global market share in Differential Gears and Starter Motor grew from 5% to 6% and 3% in to 4.6% respectively during CY20-H1CY21.
- HOLD:** SONACOMS has a reputed client credentials with highly profitable self-funded business model which warrants premium valuations. Its Sales and PAT are expected to grow at 35.9% and 43.1% CAGR over FY21-24E respectively. It is likely to be fastest growing India based Auto ancillary entity. We retain our price target of Rs460 and rate the stock as HOLD.

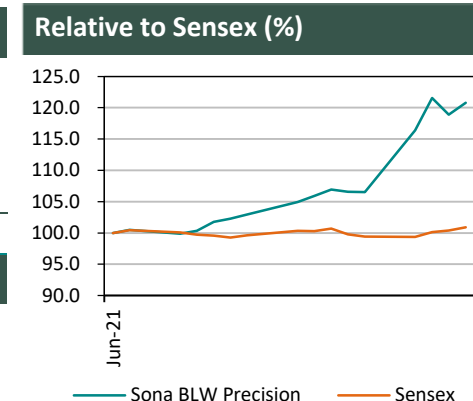
TP	Rs460	
CMP	Rs412	
Potential upside / downside	+12%	

V/s Consensus		
EPS (Rs)	FY22E	FY23E
IDBI Capital	9.1	11.5
Consensus	-	-
% difference	-	-

Shareholding Pattern (%)	
Promoters	67.4
FII	0.0
DII	0.0
Public	32.6

Price Performance (%)			
	-1m	-3m	-12m
Absolute	-	-	-
Rel to Sensex	-	-	-

Key Stock Data	
Bloomberg / Reuters	SONACOMS IN
Sector	Auto Ancillary
Shares o/s (mn)	583
Market cap. (Rs mn)	240,228
Market cap. (US\$ mn)	3,225
3-m daily average value (Rs mn)	--
52-week high / low	Rs428 / 295
Sensex / Nifty	54,278 / 16,238



Financial snapshot					
	(Rs mn)				
Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	12,201	15,663	22,995	32,310	39,348
EBITDA	3,254	4,410	6,401	9,022	10,987
EBITDA (%)	26.7	28.2	27.8	27.9	27.9
Adj. PAT	2,217	2,152	3,672	5,317	6,704
EPS (Rs)	46.4	3.8	6.3	9.1	11.5
EPS Growth (%)	(39.5)	(91.9)	67.6	44.8	26.1
PE (x)	-	-	-	-	-
Dividend Yield (%)	-	-	-	-	-
EV/EBITDA (x)	0.3	0.6	0.4	0.3	(0.1)
RoE (%)	18.2	17.3	22.4	23.8	23.6
RoCE (%)	16.3	21.3	25.1	28.1	29.1

Source: IDBI Capital Research;

Conference call takeaways:

- **EVs:** In Q1FY22, the BEV segment contributed Rs967mn to total revenue, an increase of 33% QoQ. The revenue share from BEV stood at 20% Vs 13% in Q4FY21. The company sells one out of every eight BEV Differential globally as on H1CY21. The company has been awarded 17 BEV programs across 10 customers. The company is steadily reducing its dependence on ICE from 25.1% in FY21 to 20% in Q1FY22.
- **Order Book:** The Company's net order book stands at Rs.140bn i.e. 9.1x FY21 revenue. EV/No-EV mix stands at 57.1%/42.9%. Most of the new order books won are from Europe. It will become sizable in FY23-24. The company has 2 European programs.
- **Market Share:** The Company has increased its global market share in Differential Gears/ Starter Motors from 4.5%/2.5% in CY19 to 6.0%/4.6% in H1CY21. The company is dominant players in domestic differential gears with a market share in PV/CV/Tractors are 55%-60%/80%-90%/75%-85%.
- **Product Mix Transitioning:** The Company has increased its revenue share of differential assembly from 5.6% in FY20 to 23.5% in Q1FY22. The company has reduced its dependence on ICE starter motors. Its contribution in revenue share declined 39.5% in FY18 to 19.4% in Q1FY22.
- **Geographic Mix:** In Q1FY22, the mix favored China as company's US customers were impacted more than anywhere else due to semi-conductor shortage and Indian Customers was impacted by the 2nd wave of COVID.
- **Magnet-less Motors:** SONACOMS collaborated with IRP Nexus Group, Israel for developing the Magnet-less Motors. The product is targeted to 2W/3E EVs for global markets and SONACOMS will have the exclusive rights to manufacture the system in India. It would help in supply security as 95% of the world's rare earth metals and 75% of neodymium magnets come from China. It would also help in cost reduction as Neodymium magnets constitute 25% of total material cost and price fluctuate abnormally due to dynamic geographic situations.
- **Financials**
 - **Ratios:** As of Q1FY22 ROCE/ROE/Net Debt to Equity stands at 35.3%/33.5%/0.02x.
 - **CAPEX:** In FY22, the company would do CAPEX of Rs6.5bn, and in the next 2 years will be Rs3.5bn.
- **Electric Motor Opportunity:** Most of the OEMs will be outsourcing the electric 2W motors and do not manufacture them in-house. OEMs can manufacture controller business in-house.
- **Customer Life Cycle:** The Company has not lost any customer since its inception and Out of the top 20 customers 13 customers is with the company for 15+years.

- **Price pass through:** The Company can pass through the increase in the cost of steel and motors. It generally has a lag of 3-4 months in price reflection. Aluminum prices cannot be passed through to customers.
- **New Products Roadmap:** In Q1FY22, the company is developing motors with magnets, liquid cool inverters, and active biased differential.
- Improvement in earnings margins is because of better product Mix.

Exhibit 1: Quarterly Snapshot

(Rs mn)	Q1FY22	Q1FY21	Q4FY21	YoY (%)	QoQ(%)
Net Revenue	5,007	1,534	5,393	226.5	(7.2)
Expenditure	3,620	1,242	3,993	191.5	(9.3)
<i>as % of sales</i>	72.3	81.0	74.0		
Consumption of RM	2,173	662	2,312	228.3	(6.0)
<i>as % of sales</i>	43.4	43.2	42.9		
Employee Cost	430	253	459	70.4	(6.2)
<i>as % of sales</i>	8.6	16.5	8.5		
Other expenditure	1,016	327	1,221	210.7	(16.8)
<i>as % of sales</i>	20.3	21.3	22.6		
EBITDA	1,387	292	1,401	375.2	(1.0)
Depreciation	334	218	281	53.1	18.9
EBIT	1,054	74	1,120	1324.9	(5.9)
Other Income	2	16	3	(89.5)	(38.4)
Interest	86	79	94	8.4	(8.7)
PBT	969	10	1,029	9272.1	(5.8)
Total Tax	246	11	328	2176.3	(24.9)
Adjusted PAT after MI	723	(0)	701	NA	3.1
Extra ordinary items Loss/(Gain)	(99)	-	104	NA	(195.4)
Reported PAT	822	(0)	597	NA	37.7
Adjusted EPS	1.4	(0.0)	1.0	NA	37.7
Margins (%)				(bps)	(bps)
EBIDTA	27.7	19.0	26.0	867	173
EBIT	21.0	4.8	20.8	1,622	27
EBT	19.4	0.7	19.1	1,868	28
PAT	14.4	NA	13.0	NA	144
Effective Tax rate	25.4	NA	31.8	NA	(645)

Source: Company; IDBI Capital Research

Exhibit 2: Order Book Details

Order Book (Rsbn)	EV	Non-EV	Total
PV			
No of Customers	5	9	14
No. of Programs	8	15	23
Order Book (Rsbn)	74	30	104
2W&3W			
No of Customers	3	-	3
No. of Programs	3	-	3
Order Book (Rsbn)	6	-	6
CV			
No of Customers	1	11	12
No. of Programs	1	23	24
Order Book (Rsbn)	0.4	24	24
OHV			
No of Customers	-	11	11
No. of Programs	-	31	31
Order Book (Rsbn)		2.8	2.8
Total Order Book	80	60	140

Source: Company Data.

Exhibit 3: Technology Roadmap	
Category	Products
Legacy Products	Starter Motors (12V), Differential Gears.
Current Products	Low Voltage Inverter [48V-96V], Belt-driven starter Generator [48V], 2W Hub Wheel Motors [48V-60V], 2W/3W Drive Motors [48V-96V], Rigid e-Axle for 3W, Case Diff. Assembly, Independent Suspension e-Axle for 3W.
Future Products	High Voltage Inverter [250V-800V], DC DC Converter, Liquid-cooled Inverter, GaN Inverter, High Voltage Traction Motors [250V-800V], Reduction Drive Unit, Active Biased Differential, Net Spiral/ Hypoid, Epicyclic Set.
Source: Company Data.	

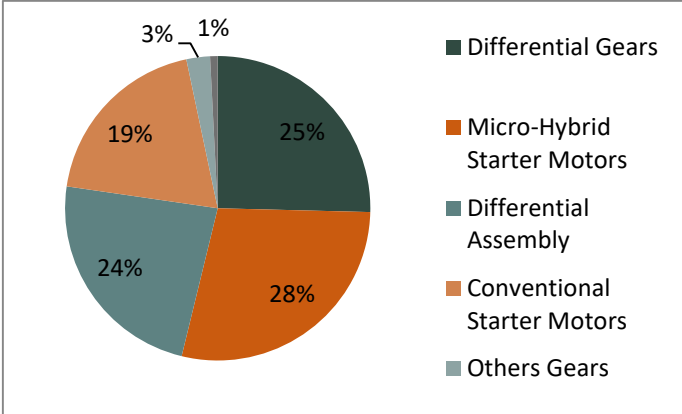
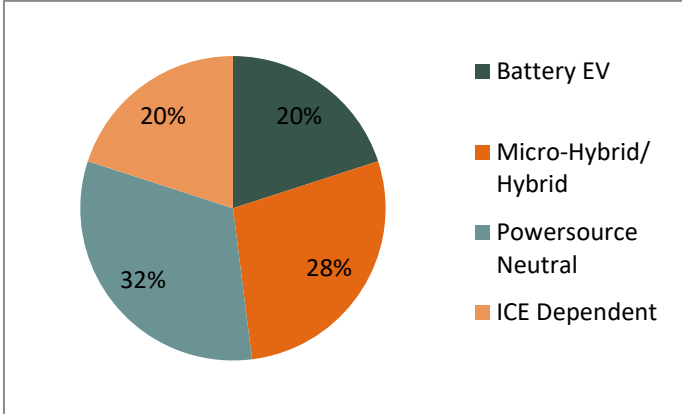
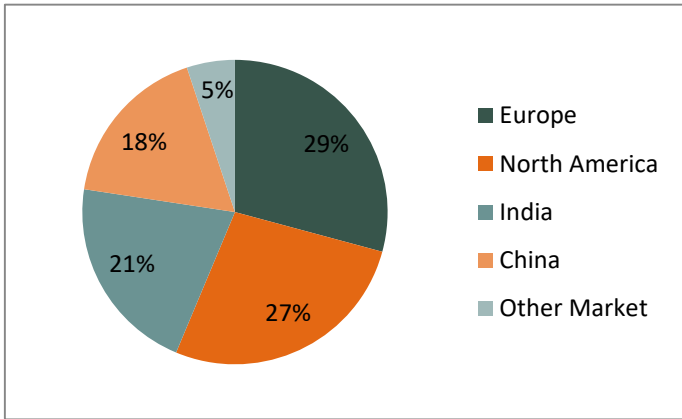
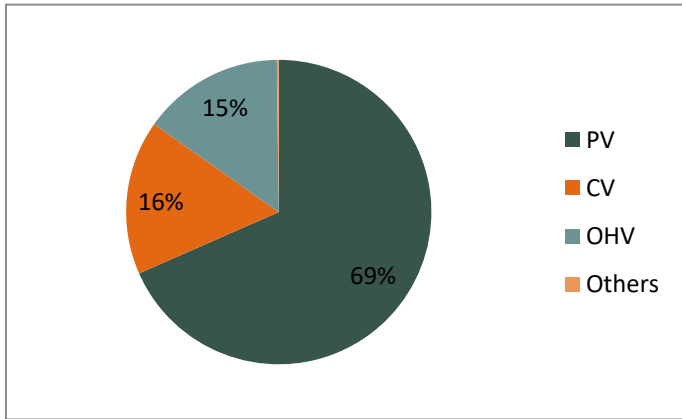
Exhibit 4: Product Mix (as on Q1FY22)	Exhibit 5: Powertrain Mix (as on Q1FY22)																				
 <table><tr><td>25%</td><td>Differential Gears</td></tr><tr><td>28%</td><td>Micro-Hybrid Starter Motors</td></tr><tr><td>24%</td><td>Differential Assembly</td></tr><tr><td>19%</td><td>Conventional Starter Motors</td></tr><tr><td>3%</td><td>Others Gears</td></tr><tr><td>1%</td><td></td></tr></table>	25%	Differential Gears	28%	Micro-Hybrid Starter Motors	24%	Differential Assembly	19%	Conventional Starter Motors	3%	Others Gears	1%		 <table><tr><td>20%</td><td>Battery EV</td></tr><tr><td>28%</td><td>Micro-Hybrid/Hybrid</td></tr><tr><td>32%</td><td>Powersource Neutral</td></tr><tr><td>20%</td><td>ICE Dependent</td></tr></table>	20%	Battery EV	28%	Micro-Hybrid/Hybrid	32%	Powersource Neutral	20%	ICE Dependent
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Exhibit 6: Geography Mix (as on Q1FY22)	Exhibit 7: Segment Mix (as on Q1FY22)									
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Consolidated Financial Summary

Consolidated Profit & Loss Account (Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net sales	15,663	22,995	32,310	39,348
<i>Growth (%)</i>	<i>28.4</i>	<i>46.8</i>	<i>40.5</i>	<i>21.8</i>
Operating expenses	(11,253)	(16,594)	(23,289)	(28,362)
EBITDA	4,410	6,401	9,022	10,987
<i>Growth (%)</i>	<i>35.5</i>	<i>45.1</i>	<i>40.9</i>	<i>21.8</i>
Depreciation	(969)	(1,246)	(1,583)	(1,813)
EBIT	3,441	5,155	7,439	9,173
Interest paid	(325)	(274)	(274)	(184)
Other income	23	15	21	70
Pre-tax profit	3,139	4,896	7,186	9,059
Tax	(848)	(1,224)	(1,868)	(2,355)
<i>Effective tax rate (%)</i>	<i>27.0</i>	<i>25.0</i>	<i>26.0</i>	<i>26.0</i>
Net profit	2,291	3,672	5,317	6,704
Exceptional items	139	-	-	-
Adjusted net profit	2,152	3,672	5,317	6,704
<i>Growth (%)</i>	<i>(3.0)</i>	<i>70.6</i>	<i>44.8</i>	<i>26.1</i>
<i>Shares o/s (mn nos)</i>	<i>573</i>	<i>583</i>	<i>583</i>	<i>583</i>

Consolidated Cash Flow Statement (Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Pre-tax profit	3,139	4,896	7,186	9,059
Depreciation	969	1,246	1,583	1,813
Tax paid	(848)	(1,224)	(1,868)	(2,355)
Chg in working capital	(1,952)	(1,958)	(2,611)	(1,917)
Other operating activities	43	-	-	-
Cash flow from operations (a)	1,352	2,960	4,289	6,600
Capital expenditure	(2,313)	(6,000)	(4,000)	(3,000)
Chg in investments	19	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(2,294)	(6,000)	(4,000)	(3,000)
Equity raised/(repaid)	(892)	3,000	-	-
Debt raised/(repaid)	438	-	-	(2,000)
Dividend (incl. tax)	-	-	-	-
Chg in minorities	-	-	-	-
Other financing activities	-	-	-	-
Cash flow from financing (c)	(454)	3,000	-	(2,000)
Net chg in cash (a+b+c)	(1,397)	(40)	289	1,600

Consolidated Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net fixed assets	12,998	17,752	20,170	21,356
Investments	-	-	-	-
Other non-curr assets	-	-	-	-
Current assets	8,563	11,407	16,221	21,240
Inventories	3,056	4,584	6,441	7,844
Sundry Debtors	4,170	5,028	7,065	8,604
Cash and Bank	276	235	524	2,124
Marketable Securities	-	-	-	-
Loans and advances	73	107	150	183
Total assets	21,562	29,159	36,391	42,597
Shareholders' funds	13,039	19,711	25,028	31,732
Share capital	5,730	5,833	5,833	5,833
Reserves & surplus	7,309	13,878	19,195	25,899
Total Debt	3,052	3,052	3,052	1,052
Secured loans	1,907	3,052	3,052	1,052
Unsecured loans	1,145	-	-	-
Other liabilities	1,073	1,073	1,073	1,073
Curr Liab & prov	4,397	5,323	7,237	8,739
Current liabilities	4,238	5,089	6,908	8,339
Provisions	159	234	329	401
Total liabilities	8,523	9,448	11,362	10,865
Total equity & liabilities	21,562	29,159	36,391	42,597
Book Value (Rs)	23	34	43	54

Source: Company; IDBI Capital Research

Consolidated Financial Ratios

Year-end: March	FY21	FY22E	FY23E	FY24E
Adj. EPS (Rs)	3.8	6.3	9.1	11.5
Adj. EPS growth (%)	NA	67.6	44.8	26.1
EBITDA margin (%)	28.2	27.8	27.9	27.9
Pre-tax margin (%)	20.0	21.3	22.2	23.0
ROE (%)	17.3	22.4	23.8	23.6
ROCE (%)	21.3	25.1	28.1	29.1
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.8	0.9	1.0	1.0
Leverage factor (x)	1.6	1.5	1.5	1.4
Net margin (%)	13.7	16.0	16.5	17.0
Net Debt/Equity (x)	0.2	0.1	0.1	0.0
Working Capital & Liquidity ratio				
Inventory days	71	73	73	73
Receivable days	97	80	80	80
Payable days	73	53	53	53

Valuation

Year-end: March	FY21	FY22E	FY23E	FY24E
P/E (x)	109.7	65.5	45.2	35.8
Price / Book value (x)	18.1	12.2	9.6	7.6
PCE (x)	75.6	48.9	34.8	28.2
EV / Net sales (x)	15.2	10.6	7.5	6.1
EV / EBITDA (x)	54.2	38.0	26.9	21.8
Adj. Dividend Yield (%)	0.0	0.0	0.0	0.0



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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