



TM

Sona BLW Precision Forgings

05 May 2022

RESULT UPDATE

Sector: Auto Rating: BUY

CMP: Rs 614 Target Price: Rs 725

Stock Info

Sensex/Nifty	56,193/16,835
Bloomberg	SONACOMS IN
Equity shares (mn)	573mn
52-wk High/Low	Rs 839/295
Face value	Rs 10
M-Cap	Rs 366bn/USD 4.8bn
3-m Avg volume	USD 0.9mn

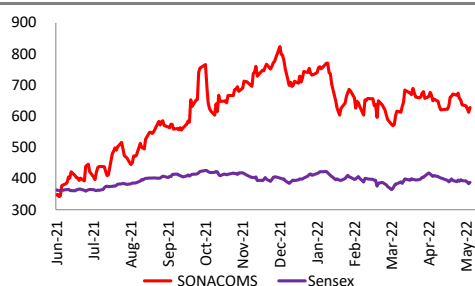
Financial Snapshot (Rs mn)

Y/E Mar	FY22	FY23E	FY24E
Net Sales	21,306	30,298	40,902
EBIDTA	5,591	7,849	11,329
PAT	3,504	5,057	7,566
EPS (Rs)	6.0	8.8	13.2
PE (x)	103	70	47
EV/EBITDA (x)	64	45	31
RoE (%)	18	21	24
RoCE (%)	22	28	33
P/B (x)	18	15	11

Shareholding Pattern (%)

	Mar'22	Dec'21	Sep'21
Promoter	67.2	67.2	67.3
-Pledged	-	-	-
FII	8.8	9.8	10.4
DII	16.4	16.0	16.4
Others	7.6	7.0	5.9

Stock Performance (1-year)



New product introductions continue to excite

Sona BLW's (SONACOMS) 4QFY22 operating performance was 7% /4% ahead of consensus and our estimates, as topline surprised positively. The significant ramp up in battery electric vehicle (BEV) revenues continued; this segment now accounts for 25% of overall sales (vs. 14% last year). The company won new orders in EV programs (6 during 4Q) and built a strong order book of Rs 186bn for the next 10 years (**Exhibit 3,4**). SONACOMS added 2 new products in 4Q for supply of EV transmission (spool gear and epicyclic geartrain), further expanding its product portfolio. The company has also signed technology agreements with Enedym (Canada) and C-Motive (USA) for traction motors, which would further improve its total addressable market (**Exhibit 5**). We see SONACOMS as a [direct play on global electrification](#). The opportunity size from differential assemblies, gears and traction motors is expected to increase to ~USD 5bn per annum by CY30E (from just USD 105mn in CY20). Its technological edge, complemented by manufacturing and engineering capabilities has created high barriers to entry in its business lines. Each product segment thus enjoys an RoCE of >30% and generates free cash flow. We tweak FY23E/24E estimates down to factor in semiconductor led production constraints and retain our BUY rating on the stock, with a target price of Rs 725 (based on DCF).

Call takeaways:

- **Order book:** EVs constitute 62% of SONACOM's net order book of Rs 186bn (vs. 66% at Rs 176bn in 3QFY22; orders added for program wins in 4QFY22 worth Rs 20bn). It has won 6 new BEV programs over the quarter - overall 30 BEV programs (production + order book) across 19 customers as of FY22 end.
- **Product-wise break-up of order book:** Of the 30 EV orders, 19 are for differential assemblies & gears, 8 for traction motors, IMCM (integrated motor controller module launched in 3Q) & PHEV starters and 3 in e-axle (domestic 3W/quadricycle).
- **New products launched:** The company launched 2 new products during 4QFY22 - 1) Epicyclic geartrain for EVs/CVs with a 4 motor architecture (launched in 4Q) - order won for CV application; production to start in FY23, and, 2) Spool gear for EVs, with 3 motor architecture - order has been won from an existing customer; production to start in FY24. Management feels while the value content of these products is very high vs. differential assemblies, volumes could be much lower.
- **Traction motor segment:** The company aims to develop products across segments and power ratings in this space. It has developed products in-house for the 1-10KW segment for E-2Ws/3Ws. It has tied up with Enedym, Canada, for magnetless motors for the 10-3-KW E-3W segment, higher performance 10-20KW E-2W segment, and >20KW LCV segment (expected to commence production in 2023). For magnetless motors in the 5-10KW segment, it has tied up with IRP, Israel, and is expected to commence production by 2024. It has also announced collaboration with C-Motive Technologies, USA, to develop electrostatic drive motors (magnetless/ low copper content) for which production is likely to commence by 2026. The management expects strong growth from this segment going ahead.

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- **Raw material impact:** Operating margin in 4QFY22 was ~140bps lower YoY at 24.6%, due to commodity cost inflation (negative impact of ~260bps and ~80bps due to pass-through lag effect and no pass-through of RM increase), despite a favourable product mix (~200bps positive impact from product mix). The management reiterated its operating margin guidance of 26-28%, which it believes would sustain.
- **Revenue break up:** By geography, Europe, North America, India & Asia (excluding India) accounted for 22%, 33%, 26% & 18% of SONACOM's FY22 revenues (vs. 24%, 31%, 24% & 20% in 9MFY22). Product segment wise, differential gears, differential assemblies, micro-hybrid starter motors & ICE starter motors formed 25%, 26%, 27% & 17% of FY22 revenues (24%, 26%, 27% & 18% in 9MFY22). BEVs accounted for ~25% of FY22 revenues vs. 23% in 9MFY22 (14% in FY21). Segment-wise, domestic E-2W/3Ws formed 1.5% of FY22 revenue.
- **Supply-chain scenario:** Semiconductor shortage continues to impact production and the management expects the situation to resolve over 12 months.
- **Capex:** The management has guided a capex of Rs 9-10bn over FY23-25E.

Outlook & Valuation: We forecast a revenue/EBITDA/PAT CAGR of 42%/41%/58% over FY21-24E, respectively.

Exhibit 1: Reported numbers vs. expectations

Rs mn	Reported	Estimate	Variance %	Consensus	Variance %
Net Sales	5,500	5,040	9.1	5,182	6.1
EBITDA	1,354	1,260	7.4	1,307	3.6
EBITDA Margin (%)	24.6	25.0	(1.5)	25.2	-61
Adj PAT	1,047	720	45.4	698	50.0
Adj EPS	1.8	1.3	45.4	1.2	53.0

Source: Company, Systematix Institutional Research

Exhibit 2: Consolidated financial trend

(Rs mn)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	YoY (%)	QoQ (%)
Net Sales	5,393	5,007	5,857	4,941	5,500	2.0	11.3
- Raw Material	2,312	2,173	2,710	2,102	2,470	6.8	17.5
(% of Net Sales)	46.5	82.3	51.4	47.9	49.8	331	193
- Staff Expenditure	459	430	438	421	399	(13.1)	(5.3)
(% of Net Sales)	9.2	16.3	8.3	9.6	8.0	-118	-155
- Other Expenditure	1,221	1,016	1,165	1,112	1,277	4.6	14.8
(% of Net Sales)	24.6	38.5	22.1	25.3	25.7	119	41
Total Expenditure	3,993	3,620	4,313	3,636	4,146	3.9	14.0
EBITDA	1,401	1,387	1,544	1,305	1,354	(3.4)	3.7
EBITDA Margin (%)	26.0	27.7	26.4	26.4	24.6	-136	-180
Depreciation	281	334	355	357	374	33.0	4.7
EBIT	1,120	1,054	1,189	949	980	(12.5)	3.3
Interest	94	86	29	33	35	(63.2)	4.7
Other Income	3	2	6	50	143	5,181.2	184.2
Exceptional Items	-139	133	0	0	0		
PBT	1,029	969	1,166	966	1,089	5.8	12.7
Tax	293	279	283	101	42	(85.7)	(58.5)
Tax rate (%)	26.6	42.8	28.1	12.0	3.3	-2,327	-864
Reported PAT	596	822	882	864	1,047	75.5	21.1
Adjusted PAT	735	690	882	864	1,047	42.3	21.1
Adjusted EPS (Rs)	1.3	1.2	1.5	1.5	1.8	42.3	21.1

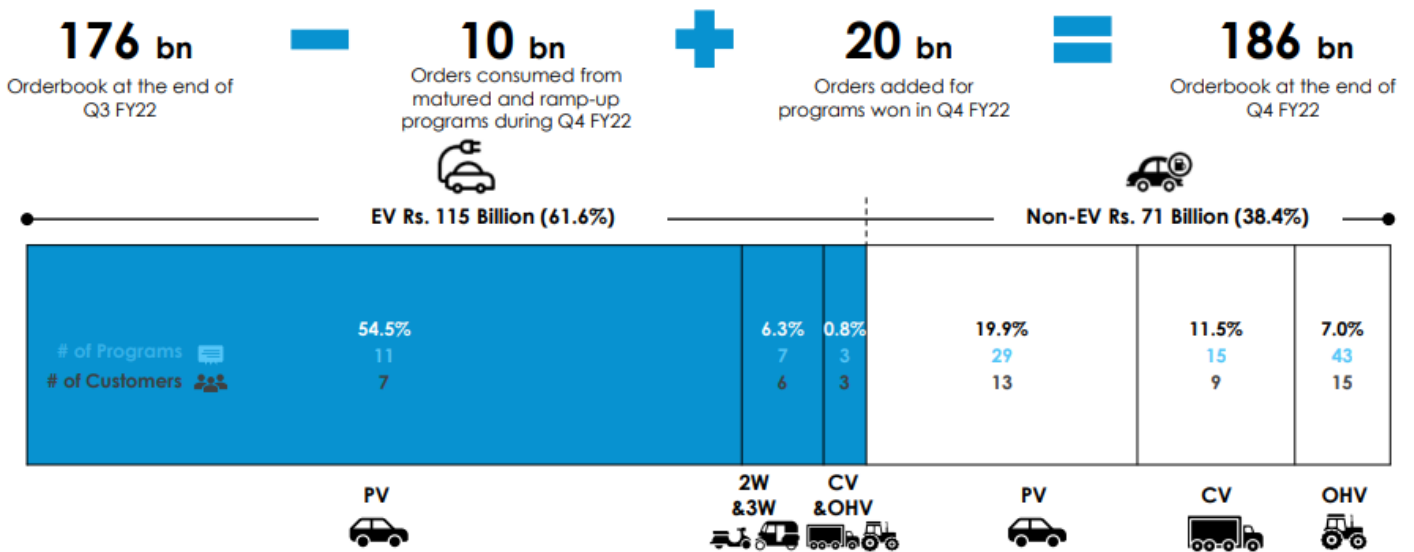
Source: Company, Systematix Institutional Research; Note: All quarters not comparable as consolidation of key subsidiaries under process

Exhibit 3: Quarterly order book trend

Order book (Rs bn)	1QFY22	2QFY22	3QFY22	4QFY22
Total order book	140	136	176	186
of which EVs	80	79	116	115
EV % of order book	57%	58%	66%	62%
No. of programs	12	13	17	21
No. of customers	9	10	13	16
PV (%)	92%	91%	89%	88%
2W/3W (%)	7%	9%	10%	10%
CV (%)	1%	1%	0%	1%
Non-EVs	60	57	60	71
PV (%)	50%	46%	43%	52%
CV (%)	39%	38%	37%	30%
OHV (%)	11%	16%	19%	18%

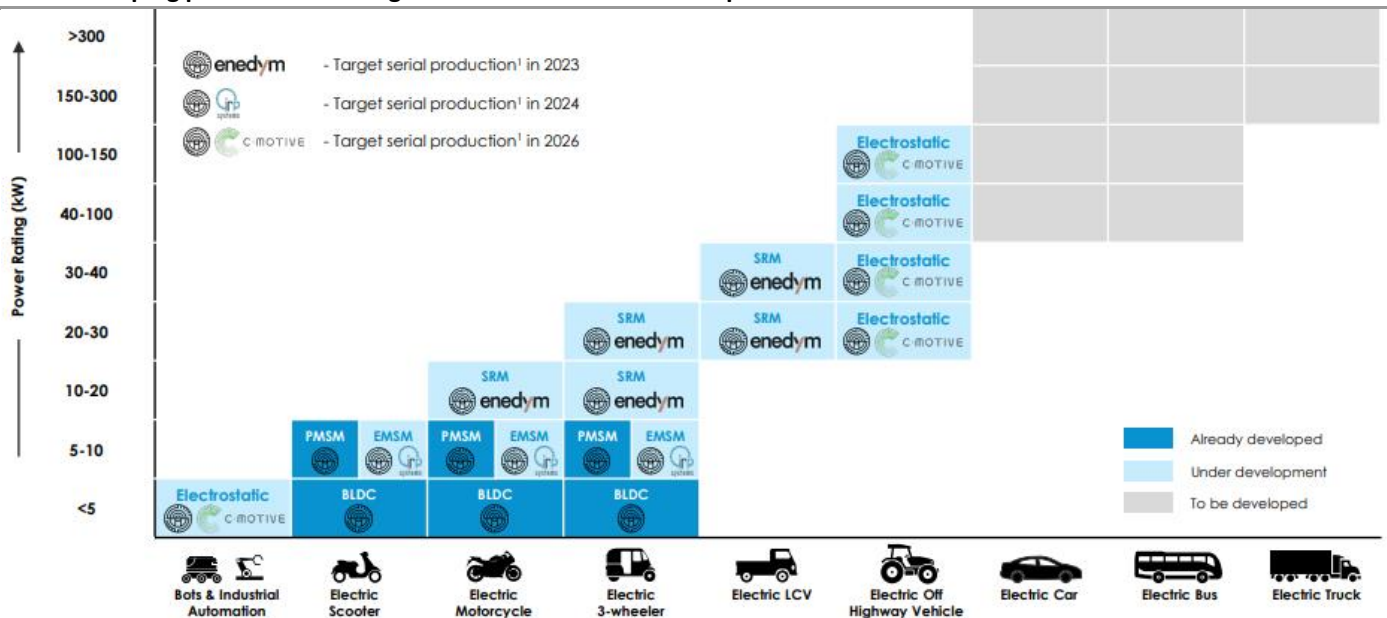
Source: Company, Systematix Institutional Research

Exhibit 4: EVs account for 62% of the current order book of Rs 186bn



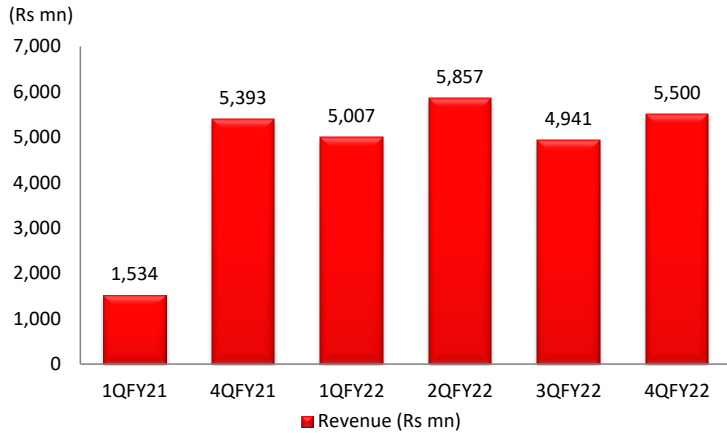
Source: Company, Systematix Institutional Research

Exhibit 5: Developing products across segments in the traction motor space



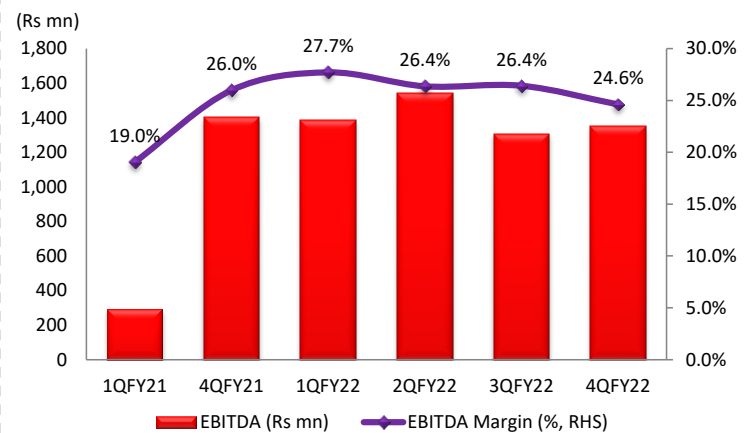
Source: Company, Systematix Institutional Research

Exhibit 6: Quarterly revenue trend



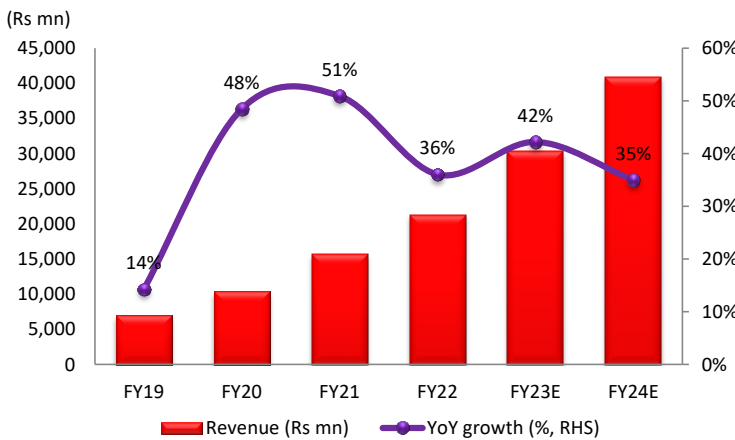
Source: Company, Systematix Institutional Research

Exhibit 7: Quarterly EBITDA and margin profile



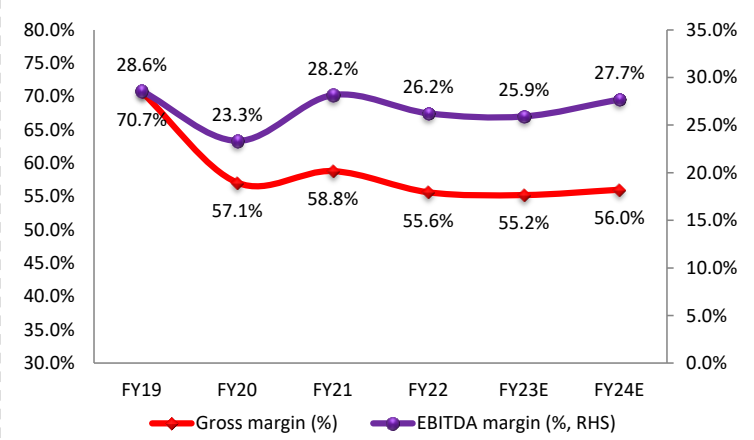
Source: Company, Systematix Institutional Research

Exhibit 8: Revenue and growth trend



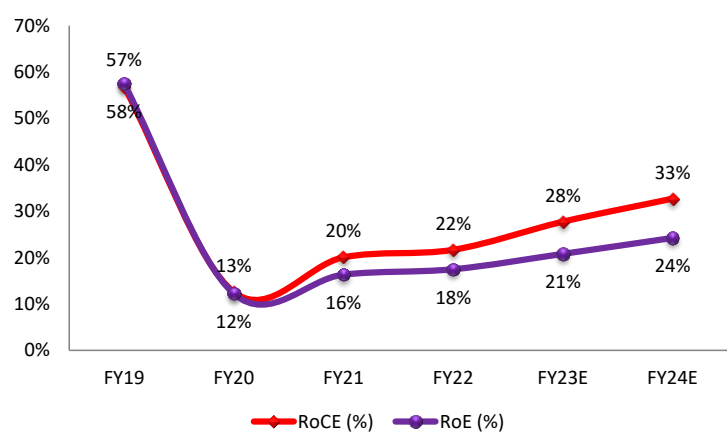
Source: Company, Systematix Institutional Research

Exhibit 9: Gross and EBITDA margin trend



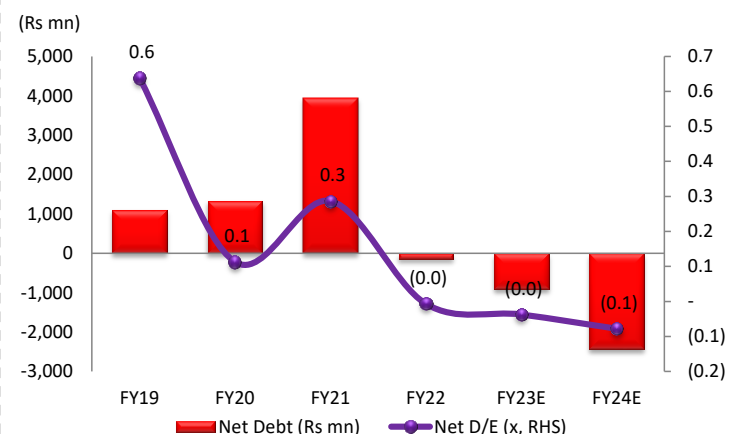
Source: Company, Systematix Institutional Research

Exhibit 10: RoE and RoCE on an uptrend



Source: Company, Systematix Institutional Research

Exhibit 11: Net debt/equity to improve significantly



Source: Company, Systematix Institutional Research

Exhibit 12: Segment-wise revenue break-up and financial summary

Rs mn	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenue							
Differential gears	5,061	5,658	4,111	4,327	5,327	7,724	11,199
Differential assemblies	514	611	658	2,739	5,753	8,341	12,095
Starter motors	5,934	6,939	6,535	7,859	9,162	10,184	9,785
Others	407	442	500	638	1,065	4,048	7,822
Total	11,917	13,650	11,804	15,563	21,306	30,298	40,902
YoY growth %							
Differential gears		12%	-27%	5%	23%	45%	45%
Differential assemblies		19%	8%	316%	110%	45%	45%
Starter motors		17%	-6%	20%	17%	11%	-4%
Others		9%	13%	28%	67%	280%	93%
Total		15%	-14%	32%	37%	42%	35%
EBITDA	1,707	2,000	2,423	4,410	5,591	7,849	11,329
EBITDA margin (%)	27.9%	28.6%	23.3%	28.2%	26.2%	25.9%	27.7%
EBIT	1,474	1,690	1,752	3,441	4,171	6,354	9,552
EBIT margin %	24.1%	24.2%	16.9%	22.0%	19.6%	21.0%	23.4%
APAT	862	1,000	1,445	2,251	3,504	5,057	7,566
APAT margin %	14.0%	14.2%	13.8%	14.4%	16.3%	16.6%	18.4%
RoCE (%)	32%	57%	13%	20%	22%	28%	33%
RoE (%)	48704%	58%	12%	16%	18%	21%	24%

Source: Company, Systematix Institutional Research; Note: Acquired Comstar in FY19. FY18/19 revenues here include Comstar revenues

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Net sales	10,380	15,663	21,306	30,298	40,902
Growth, %	48	51	36	42	35
RM expenses	4,456	6,453	9,456	13,573	17,997
Employee expenses	1,027	1,474	1,689	2,575	3,272
Other expenses	2,474	3,325	4,571	6,300	8,304
EBITDA	2,423	4,410	5,591	7,849	11,329
Growth, %	21	82	27	40	44
Margin, %	23.3	28.2	26.2	25.9	27.7
Depreciation	671	969	1,420	1,495	1,777
EBIT	1,752	3,441	4,171	6,354	9,552
Growth, %	4	96	21	52	50
Margin, %	16.9	22.0	19.6	21.0	23.4
Interest paid	260	325	183	7	(32)
Other Income	58	23	200	220	242
Non-recurring Items	2,368	-139	133	126	120
Pre-tax profit	3,918	3,000	4,322	6,442	9,707
Tax provided	265	848	706	1,482	2,233
Profit after tax	3,653	2,152	3,615	4,960	7,474
Others (Minorities, Associates)	-	-	-	-	-
Net Profit	3,653	2,152	3,615	4,960	7,474
Growth, %	265	-41	68	37	51
Net Profit (adjusted)	1,445	2,251	3,504	5,057	7,566

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Cash & bank	1,673	276	773	946	1,871
Marketable securities	-	-	-	-	-
Debtors	2,336	4,170	4,452	7,574	10,225
Inventory	1,962	3,056	3,634	5,050	6,817
Loans & advances	56	58	65	89	118
Other current assets	912	1,422	1,654	1,323	1,522
Total current assets	6,940	8,981	10,577	14,982	20,554
Investments	19	0	65	65	65
Gross fixed assets	11,846	14,101	17,196	20,196	23,696
Less: Depreciation	1,195	1,935	3,355	4,850	6,627
Add: Capital WIP	896	832	1,474	1,474	1,474
Net fixed assets	11,548	12,998	15,315	16,820	18,543
Total assets	18,507	21,979	25,958	31,867	39,162
Current liabilities	2,509	2,899	4,161	6,376	7,416
Provisions	118	159	206	227	181
Total current liabilities	2,627	3,058	4,367	6,603	7,597
Debt	4,100	5,161	1,588	988	388
Total liabilities	6,727	8,220	5,955	7,591	7,984
Paid-up capital	477	5,730	5,844	5,730	5,730
Reserves & surplus	11,302	8,030	14,159	18,547	25,448
Shareholders' equity	11,779	13,759	20,003	24,276	31,178
Total equity & liabilities	18,507	21,979	25,958	31,867	39,162

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Pre-tax profit	3,918	3,000	4,322	6,442	9,707
Depreciation	671	969	1,420	1,495	1,777
Chg in working capital	-1,791	-1,694	-589	-2,209	-3,927
Total tax paid	-265	-848	-706	-1,482	-2,233
CFO	2,533	1,427	4,446	4,246	5,324
Capital expenditure	-7,402	-2,190	-3,438	-3,000	-3,500
Chg in investments	-19	19	-65	-	-
Chg in marketable securities	-2,122	611	-31	220	242
CFI	-9,542	-1,561	-3,534	-2,780	-3,258
Free cash flow	-4,887	-744	942	1,246	1,824
Equity / Debt raised/(repaid)	1,852	6,455	-519	-693	-541
Dividend (incl. tax)	-1,170	-905	-3,517	-600	-600
CCF	8,426	-1,264	-415	-1,293	-1,141
Net chg in cash	1,417	-1,397	497	173	926
Opening cash balance	256	1,673	276	773	946
Closing cash balance	1,673	276	773	946	1,871

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY20	FY21	FY22	FY23E	FY24E
EPS (INR)	2.5	3.9	6.0	8.8	13.2
PER (x)	244	157	103	70	47
Price/Book (x)	2	26	18	15	11
EV/EBITDA (x)	13	81	64	45	31
EV/Net sales (x)	3	23	17	12	9
RoE (%)	12	16	18	21	24
RoCE (%)	13	20	22	28	33
Fixed Asset turnover (x)	1.0	1.3	1.4	1.6	1.9
Dividend Yield (%)	3	0	0	0	0
Receivable (days)	81	96	75	90	90
Inventory (days)	68	70	61	60	60
Payable (days)	40	52	37	50	50
Revenue Growth (%)	48	51	36	42	35
EBIDTA Growth (%)	21	82	27	40	44
EPS Growth, %	44	56	53	47	50
Net D/E ratio (x)	0.1	0.3	(0.0)	(0.0)	(0.1)

Source: Company, Systematix Institutional Research

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Disclosure of Interest Statement	Update
Analyst holding in the stock	No
Served as an officer, director or employee	No

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