

# Sona BLW Precision Forgings

## BUY

Temporarily blip in international markets

### Summary

Sona BLW Precision Forgings (SONACOMS) Q2FY23 financials were above with our estimates. Sales growth was relatively soft primarily on account of decline in its key markets (European and China PV market). During the first half the Company bagged the major EV order for supplying traction motors to Indian electric 2W OEM. It booked 1 new EV programs during the quarter. Its order book remain flat on QoQ at Rs205bn (9.6x FY22 sales). We believe SONACOMS is likely to be one of fastest growing India based Auto ancillary company with 34% PAT CAGR over FY22-24E and having significant exposure to EV segment. We retain our estimates for FY23 & FY24 and maintain our BUY rating with revised price target of Rs685.

### Key Highlights and Investment Rationale

- Q2FY23 Financial Performance:** Despite significant decline in its key markets (Europe + China PV market) in 1HFY23, SONACOMS reported impressive financials in Q2FY23 wherein its Sales grew by 12%, profit grew by 5% and EBITDA margin decline by 167bps due to high input cost. Given the strong order book of Rs205bn (~9.6x FY22 sales) and recent decline in commodity prices, we retain our earnings estimates for FY23E and FY24E.
- Strong order Book:** SONACOMS continued its strong business momentum with net order booking at Rs205bn (~9.6x FY22 sales) which includes EV segment of Rs140bn (68%) and Non-EV segment Rs65bn (32%). It booked 1 new EV programs which include Traction Motors for Electric 2W from Indian OEM.
- BUY with 47% upside:** SONACOMS has a reputed client credentials with highly profitable self-funded business model which warrants premium valuations. We retain our BUY rating with **revised** price target of Rs.685 (40x FY24 EV/EBITDA – 34% EPS CAGR over FY22-24E).

<b>TP</b>	<b>Rs 685</b>
<b>CMP</b>	<b>Rs 465</b>
Potential upside/downside	47%
Previous Rating	BUY

### Price Performance (%)

	-1m	-3m	-12m
Absolute	0.2	(18.2)	(28.3)
Rel to Sensex	(4.2)	(22.4)	(29.4)

### V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	7	11
Consensus	8	12
% difference	(7.7)	(5.9)

### Key Stock Data

Bloomberg/Reuters	SONACOMS IN
Sector	Auto Ancillary
Shares o/s (mn)	584
Market cap. (Rs mn)	271,461
3-m daily average value (Rs mn)	846.9
52-week high / low	Rs893 / 453
Sensex / Nifty	59,960 / 17,787

### Shareholding Pattern (%)

Promoters	53.6
FII	11.6
DII	23.9
Public	10.9

### Financial snapshot

Year	FY20	FY21	FY22	FY23E	FY24E
Revenue	12,201	15,663	21,306	28,396	38,418
Change (yoy, %)	(15)	28	36	33	35
EBITDA	3,254	4,410	5,591	7,124	9,924
Change (yoy, %)	(21)	36	27	27	39
EBITDA Margin(%)	26.7	28.2	26.2	25.1	25.8
Adj.PAT	2,217	2,152	3,615	4,333	6,373
EPS (Rs)	46	4	6	7	11
Change (yoy, %)	(40)	(92)	65	20	47
PE(x)	10	126	77	64	43
Dividend Yield (%)	-	-	-	-	-
EV/EBITDA (x)	7	62	50	39	28
RoE (%)	18	17	22	20	24
RoCE (%)	16	21	22	24	29

Source: IDBI Capital Research

**Conference call takeaways:**

- The company's net order book remained at Rs205bn, of which EVs now contribute more than two-thirds.
- Non-BEV Revenue grew by 14% on YoY while light vehicle sales in top-3 markets (North America, India, and Europe) grew by only 4%.
- EBITDA margin of 25.2% driven by a strong order pipeline, especially in the EV segment. However elevated raw material prices continue to impact margin.
- Company said it has been awarded a new program from an Indian OEM to supply differential assemblies for their upcoming BEV (battery electric vehicle) models. The program's start of production is in FY24.
- The tier 1 supplier added 7 new program and 4 new customers in the first half of FY23, which takes the number of awarded programs to 37 across 27 different customers.
- Company has added a new product to its portfolio – Spiral Bevel Gear, traditionally manufactured by cutting the gear teeth. This will be supplied to a global OEM of farm equipment.
- The company also announced that it is shifting operations from its existing plant in Bhosari, Pune, to a new and larger facility in Chakan, Pune. The new facility is spread across 10 acre compared to the older plant area of 1.12 acre.
- Europe and Asian market remain under pressure, whereas North American and India markets remain robust.
- Decline in ROCE and ROE due to higher working capital and on going CapEx.
- Majority of the newly launched products will enter into production in next 6 quarters.

**Exhibit 1: Quarterly Snapshot**

Consolidated (Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ(%)
<b>Net Sales</b>	<b>6,529</b>	<b>5,857</b>	<b>11.5</b>	<b>5,843</b>	<b>11.8</b>
<b>Expenditure</b>	<b>4,917</b>	<b>4,313</b>	<b>14.0</b>	<b>4,467</b>	<b>10.1</b>
<i>as % of sales</i>	75.3	73.6		76.5	
Consumption of RM	3,089	2,710	14.0	2,683	15.1
<i>as % of sales</i>	47.3	46.3		45.9	
Employee Cost	442	438	0.8	429	2.9
<i>as % of sales</i>	6.8	7.5		7.3	
Other expenditure	1,386	1,165	19.0	1,355	2.3
<i>as % of sales</i>	21.2	19.9		23.2	
<b>EBITDA</b>	<b>1,612</b>	<b>1,544</b>	<b>4.4</b>	<b>1,375</b>	<b>17.2</b>
Depreciation	429	355	20.8	400	7.3
<b>EBIT</b>	<b>1,183</b>	<b>1,189</b>	<b>(0.5)</b>	<b>975</b>	<b>21.3</b>
Other Income	73	6	1,225	60	22.1
Interest	43	29	51.3	29	49.5
<b>PBT</b>	<b>1,213</b>	<b>1,166</b>	<b>4.1</b>	<b>1,006</b>	<b>20.5</b>
Total Tax	288	283	1.5	248	16.0
<b>Adjusted PAT</b>	<b>925</b>	<b>882</b>	<b>4.9</b>	<b>758</b>	<b>22.0</b>
Extra ordinary items	0	0	na	0	na
<b>Reported PAT</b>	<b>925</b>	<b>882</b>	<b>4.9</b>	<b>758</b>	<b>22.0</b>
<b>Adjusted EPS</b>	<b>1.6</b>	<b>1.5</b>	<b>4.9</b>	<b>1.3</b>	<b>22.0</b>
<b>Margins (%)</b>			<b>YoY (bps)</b>		<b>QoQ (bps)</b>
EBIDTA	24.7	26.4	(167)	23.5	115
EBIT	18.1	20.3	(217)	16.7	143
EBT	18.6	19.9	(132)	17.2	135
PAT	14.2	15.1	(89)	13.0	119
Effective Tax rate	23.7	24.3	(59)	24.6	(93)

Source: Company; IDBI Capital Research

**Exhibit 2: Actual vs. Estimates**

	Actual	IDBI Est	Variance (%)
Net Sales	6,529	6,135	6.4
EBIDTA	1,612	1,472	9.5
EBITDA margin (%)	24.7	24.0	69
Adj. PAT	925	832	11.2

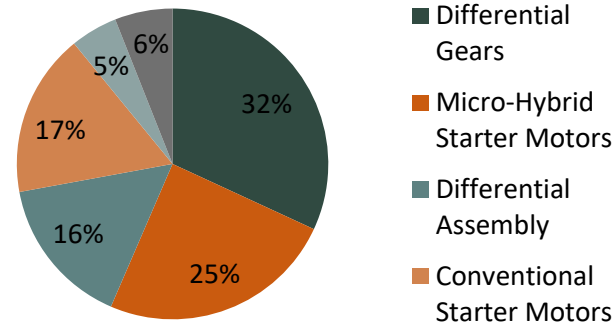
Source: Bloomberg; IDBI Capital Research

**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, Predictive Active Suspension Integrated Motor Controller Module, Epicyclic Set, Spool Gear
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.

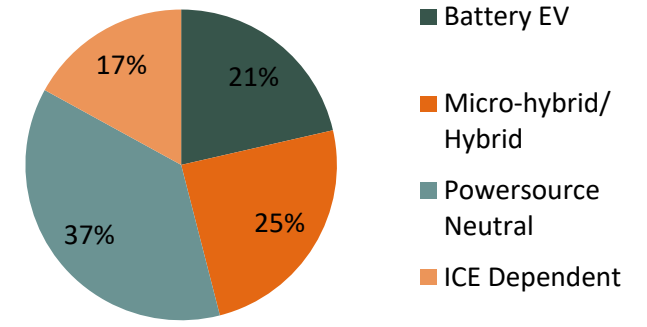
Source: Company Data.

**Exhibit 4: Product Mix (as on Q2FY23)**



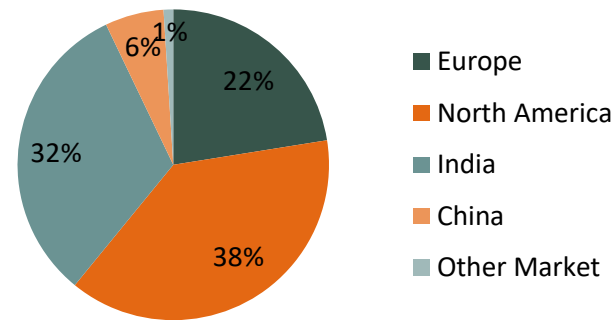
Source: Company, IDBI Capital Research

**Exhibit 5: Powertrain Mix (as on Q2FY23)**



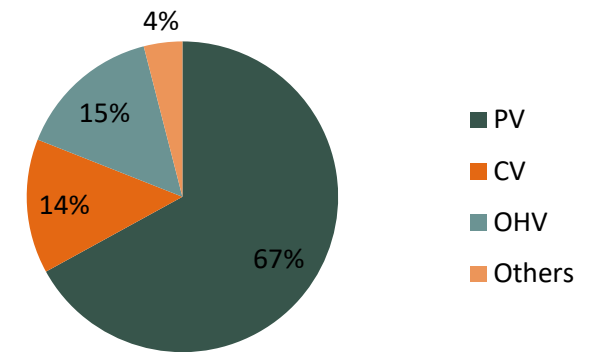
Source: Company, IDBI Capital Research

**Exhibit 6: Geographic Mix (as on Q2FY23)**



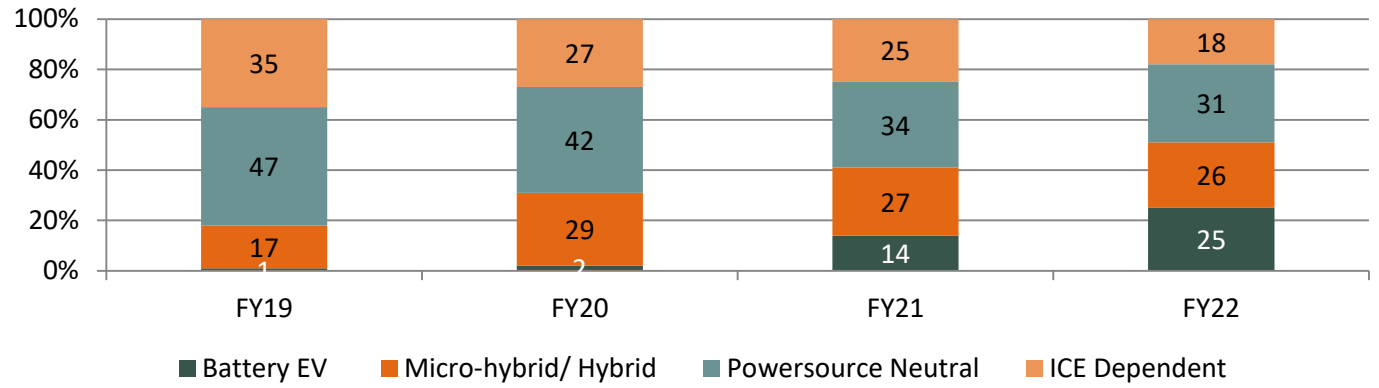
Source: Company, IDBI Capital Research

**Exhibit 7: Segment Wise Mix (as on Q2FY23)**



Source: Company, IDBI Capital Research

**Exhibit 8: Product Mix (as on Q2FY23)**



Source: Company, IDBI Capital Research

## Consolidated Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Net sales</b>	<b>14,277</b>	<b>12,201</b>	<b>15,663</b>	<b>21,306</b>	<b>28,396</b>	<b>38,418</b>
<i>Change (yoy, %)</i>	133	(15)	28	36	33	35
Operating expenses	(10,155)	(8,947)	(11,253)	(15,715)	(21,273)	(28,495)
<b>EBITDA</b>	<b>4,122</b>	<b>3,254</b>	<b>4,410</b>	<b>5,591</b>	<b>7,124</b>	<b>9,924</b>
<i>Change (yoy, %)</i>	155	-21	36	27	27	39
<i>Margin (%)</i>	28.9	26.7	28.2	26.2	25.1	25.8
Depreciation	(722)	(782)	(969)	(1,420)	(1,583)	(1,788)
<b>EBIT</b>	<b>3,400</b>	<b>2,472</b>	<b>3,441</b>	<b>4,171</b>	<b>5,540</b>	<b>8,135</b>
Interest paid	(198)	(269)	(325)	(183)	(64)	(54)
Other income	58	76	23	200	262	360
<b>Pre-tax profit</b>	<b>3,260</b>	<b>2,279</b>	<b>3,139</b>	<b>4,189</b>	<b>5,739</b>	<b>8,441</b>
Tax	(1,131)	(62)	(848)	(706)	(1,406)	(2,068)
<i>Effective tax rate (%)</i>	34.7	2.7	27.0	16.9	24.5	24.5
Minority Interest	-	-	-	-	-	-
<b>Net profit</b>	<b>2,129</b>	<b>2,217</b>	<b>2,291</b>	<b>3,483</b>	<b>4,333</b>	<b>6,373</b>
Exceptional items	-	-	139	(133)	-	-
<b>Adjusted net profit</b>	<b>2,129</b>	<b>2,217</b>	<b>2,152</b>	<b>3,615</b>	<b>4,333</b>	<b>6,373</b>
<i>Change (yoy, %)</i>	170	4	(3)	68	20	47
EPS	76.8	46.4	3.8	6.2	7.4	10.9
Dividend per share	-	-	-	-	-	-
<i>Dividend Payout %</i>	-	-	-	-	-	-

**Balance Sheet**

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Shareholders' funds</b>	<b>12,599</b>	<b>11,779</b>	<b>13,039</b>	<b>20,003</b>	<b>23,902</b>	<b>29,638</b>
Share capital	277	477	5,730	5,844	5,844	5,844
Reserves & surplus	12,322	11,302	7,309	14,159	18,059	23,794
<b>Total Debt</b>	<b>1,353</b>	<b>2,614</b>	<b>3,052</b>	<b>970</b>	<b>604</b>	<b>504</b>
Other liabilities	1,243	785	1,073	614	614	614
<b>Curr Liab &amp; prov</b>	<b>2,930</b>	<b>3,036</b>	<b>4,397</b>	<b>3,619</b>	<b>5,115</b>	<b>6,894</b>
Current liabilities	2,802	2,919	4,238	3,513	4,974	6,703
Provisions	128	118	159	106	141	190
<b>Total liabilities</b>	<b>5,526</b>	<b>6,436</b>	<b>8,523</b>	<b>5,203</b>	<b>6,332</b>	<b>8,011</b>
<b>Total equity &amp; liabilities</b>	<b>18,125</b>	<b>18,215</b>	<b>21,562</b>	<b>25,206</b>	<b>30,234</b>	<b>37,649</b>
Net fixed assets	10,347	11,548	12,998	15,315	17,732	18,943
Investments	457	19	-	130	130	130
Other non-curr assets	-	-	-	-	-	-
<b>Current assets</b>	<b>7,321</b>	<b>6,648</b>	<b>8,563</b>	<b>9,494</b>	<b>12,373</b>	<b>18,576</b>
Inventories	1,838	1,962	3,056	3,634	4,700	6,164
Sundry Debtors	2,733	2,336	4,170	4,452	5,356	7,247
Cash and Bank	615	1,673	276	773	1,468	4,018
Loans and advances	31	56	73	65	86	116
<b>Total assets</b>	<b>18,125</b>	<b>18,215</b>	<b>21,562</b>	<b>25,206</b>	<b>30,234</b>	<b>37,649</b>



**Cash Flow Statement**

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Pre-tax profit	3,260	2,279	3,139	4,189	5,739	8,441
Depreciation	722	782	969	1,420	1,583	1,788
Tax paid	(1,131)	(62)	(848)	(706)	(1,406)	(2,068)
Chg in working capital	(6,850)	1,837	(1,952)	(1,212)	(687)	(1,874)
Other operating activities	(14)	(445)	43	-	-	-
<b>Cash flow from operations (a)</b>	<b>(4,013)</b>	<b>4,392</b>	<b>1,352</b>	<b>3,690</b>	<b>5,229</b>	<b>6,287</b>
Capital expenditure	(4,113)	(1,996)	(2,313)	(4,144)	(4,000)	(3,000)
Chg in investments	(452)	438	19	(130)	-	-
Other investing activities	-	-	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(4,565)</b>	<b>(1,558)</b>	<b>(2,294)</b>	<b>(4,274)</b>	<b>(4,000)</b>	<b>(3,000)</b>
Equity raised/(repaid)	10,469	(3,037)	(892)	3,799	-	-
Debt raised/(repaid)	(3,146)	1,261	438	(2,348)	(100)	(100)
Dividend (incl. tax)	-	-	-	(450)	(433)	(637)
Chg in minorities	-	-	-	-	-	-
Other financing activities	-	-	-	-	-	-
<b>Cash flow from financing (c)</b>	<b>7,323</b>	<b>(1,776)</b>	<b>(454)</b>	<b>1,000</b>	<b>(533)</b>	<b>(737)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(1,256)</b>	<b>1,058</b>	<b>(1,397)</b>	<b>417</b>	<b>696</b>	<b>2,550</b>

### Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (Rs)	455	247	23	34	41	51
Adj EPS (Rs)	76.8	46.4	3.8	6.2	7.4	10.9
Adj EPS growth (%)	170	(40)	(92)	65	20	47
EBITDA margin (%)	28.9	26.7	28.2	26.2	25.1	25.8
Pre-tax margin (%)	22.8	18.7	20.0	19.7	20.2	22.0
Net Debt/Equity (x)	0.1	0.1	0.2	0.0	(0)	(0)
ROCE (%)	35	16	21	22	24	29
ROE (%)	34	18	17	22	20	24

### DuPont Analysis

Asset turnover (x)	0.9	0.7	0.8	0.9	1.0	1.1
Leverage factor (x)	2.5	1.5	1.6	1.4	1.3	1.3
Net margin (%)	14.9	18.2	13.7	17.0	15.3	16.6

### Working Capital & Liquidity ratio

Inventory days	47	59	71	62	60	59
Receivable days	70	70	97	76	69	69
Payable days	50	47	73	51	55	56

### Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	6	10	126	77	64	43
Price/Book value (x)	1.0	1.9	20.8	13.9	11.6	9.3
EV/Net sales (x)	1	2	18	13	10	7
EV/EBITDA (x)	3	7	62	50	39	28
Dividend Yield (%)	0	0	0	0	0	0

Source: Company; IDBI Capital Research



# Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com
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**Key to Ratings Stocks:**

**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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