

Equity Research Desk



ALPHA

17 SEP 2022

Sona BLW Precision Forgings Ltd. – EV Player

Market Data	
CMP	Rs. 515
Date	16-Sep-22
Target Price	Rs. 620
Upside Potential	20.00%
52 Week High/Low	840/507
Market Cap	Mid Cap
Sector	Auto Components
Rating	Buy

Sona BLW Precision Forgings Ltd. is one of India's leading automotive technology companies which designs, manufactures and supplies highly engineered, mission critical automotive components such as differential assemblies, gears, conventional and micro hybrid motors, BSG systems and EV Traction motors across all vehicle categories. Initially the company was incorporated as "Sona Okegawa Forgings Limited" in 1995 and subsequently name was changed to "Sona BLW Precision Limited" in 2013. The company has 9 manufacturing and assembly facilities of which 6 are located in India and one each in China, Mexico and USA. Also, it has eight warehouses across India, USA, Germany and Belgium. Sona BLW completed acquisition of 100% equity shares of Comstar Automotive Technologies Pvt Ltd. and Comstar Hong Kong Ltd. and then later adopted "Sona Comstar" as their Brand name.



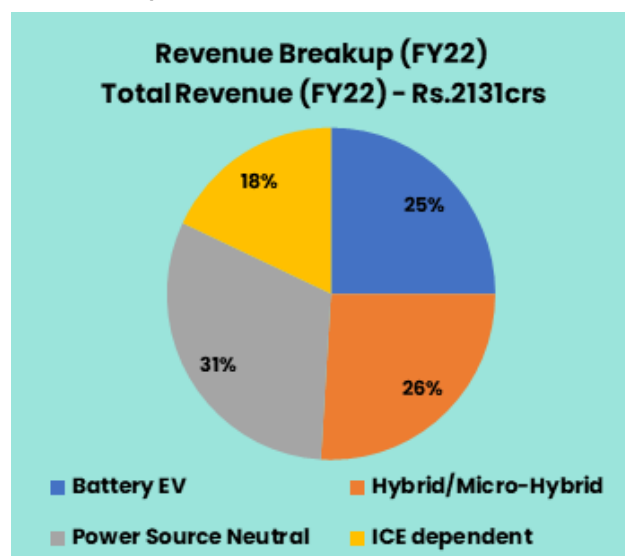
Products & Services: The Company caters to two types of Platforms.

Driveline Technology – Precision Forged gears, Forged couplings, Differential assembly, E-Drive.

Electrical Technology – Starter motor, Alternator, Hub-Wheel motor, Drive motor, BSG (Belt Starter Generator), Controller.

SHP	Jun - 22 (%)	Jun - 21 (%)	Change
Promoters	67.18	67.18	0.00
FPI	8.80	8.79	0.01
DII	16.12	16.42	-0.30
Public & Others	7.90	7.61	0.29
Pledged	0.00	0.00	0.00

Subsidiaries: As at 31st March, 2022, the Company has 4 (four) directly held subsidiaries and 5 (five) step-down subsidiaries.



Margins – FY22	
Gross	56%
EBITDA	26%
PAT	17%



Key Rationale

- **Q1FY23** – Despite significant decline in its key markets (US + China PV market), SONACOMS reported stable financials in Q1FY23 wherein its Sales grew by 17%. However, profit declined by 7.8% on account of ~350bps EBITDA margin decline (27.7% in Q1FY22 to 24.2% in Q1FY23) due to high input cost. Company's Battery EV segment increasing as a % of the overall revenue and continues to be dominant. Pure ICE dependence continues to reduce steadily going from 25% in FY21 to 17% in Q1FY23. Based on the vehicle segment, PV consists of 67% of the overall Q1FY23 revenue, CV with 14%, Off Highway Vehicle with 15% and E2W/E3W with 4%.
- **Strong order Book** – SONACOMS continued its strong business momentum with net order book at Rs.205bn (~9x FY22 sales) which includes EV segment of Rs.137bn (67%) and Non-EV segment Rs.68bn (33%). The company has won new addition of Rs.28 bn worth of orders last quarter. It booked 3 new EV programs which include Traction Motors for Electric 2W from Indian OEM. The Company continues to build on EV order book, and in Q1 company has added six new EV programs from four new EV customers. With this addition of six new EV programs company released 36 EV programs spread across 23 unique customers.
- **Other Highlights** – Sona Comstar reached the landmark of 100,000 EV traction motor production in August 2022, since the start of production in November 2020. The R&D team designed and developed the indigenous EV traction motors in-house and launched them for production in 2020 at their Chennai plant. While it took them 17 months to reach cumulative production of 50,000, the company doubled it from there in just four months. The company's Global market share of Differential Gears stands at 6.3% in CY21 (5% in CY20) while for starter motors at 4.6% in CY21 (3% in CY21). The company is a market leader in Indian market for Differential Gears with share of 55-60% in Passenger vehicles, 80-90% in Commercial Vehicles and 75-85% in Tractors respectively.
- **Financial Performance** – The company generated a 4 Year Revenue and PAT CAGR of 37% and 47% respectively. The company's debt levels have decreased from Rs.447 crs in FY21 to Rs.151 crs in FY22. The revenue share of BEV grown 20x from 1.3% in FY19 to 24.8% in FY22. The absolute revenue from the same segment grown 29x from Rs.17.4 crs in FY19 to Rs.504.2 crs. The Management earlier hinted that they would spend on capex of around Rs.900-1000 crs between FY23-25.



Ratios - FY22

ROE	18%
ROCE	21%
Div. Yield	0.30%
PE Ratio	83.00
Face Value	10.00
EPS	Rs. 6.19

Industry Analysis

The Indian auto-components industry has experienced healthy growth over the last few years. The auto-components industry expanded by a CAGR of 3.28% from FY16 to FY20 to reach US\$ 45.90 billion in FY21. India's auto component sector recorded its highest-ever revenue of Rs. 4.2 trillion (US\$ 52.59 billion) in FY 2021-22, growing by 23% as a result of good aftermarket and export results. Imports of auto parts increased by 33% in FY 2021-22, exports increased by 43% over the same time, said ACMA. The industry is expected to reach US\$ 200 billion by FY26. The auto-components industry accounts for 7.1% of India's Gross Domestic Product (GDP) and employs as many as 5 million people directly and indirectly. According to Crisil, as electrification rises, the auto component sector may expect 9-11% of its revenue to come from EV (Electric Vehicle) parts by 2027. Revenue for electric vehicle components is expected to expand at a compound annual growth rate of almost 76%, from Rs. 4,300 crore (US\$ 538.37 million) last fiscal year to Rs. 72,500 crore (US\$ 9.07 billion) in fiscal 2027.

Growth Drivers

In February 2022, the government has received investment proposals worth Rs. 45,016 crore (US\$ 6.04 billion) from 20 automotive companies under the PLI Auto scheme. This scheme is expected to create an incremental output of Rs. 2,31,500 crore (US\$ 31.08 billion).

India has a competitive advantage in auto components categories such as shafts, bearings and fasteners due to large number of players. This factor is likely to result into higher exports in coming years.

By 2025, 4 million of EVs could be sold each year and 10 million by 2030. The market is expected to reach US\$ 206 billion by 2030.



Peer Analysis

Competitors: Minda Corporation, Samvardhana Motherson International, Bosch, etc.

No listed company has the products similar to Sona and none of the listed peers generating a massive number of revenues from the Hybrid and EV's combined unlike Sona BLW. Though the valuation is little high, the near monopolistic stance of the company is worth it.

Company	CMP	Mcap.	ROE	ROCE	P/E	EPS
Sona BLW	515	30153	18.00%	21.00%	83	6.19
Minda Corp	226	5345	13.00%	11.00%	28	8.03
Samvardhana Motherson	124	56199	5.00%	8.00%	64	1.93

Outlook

Sona Comstar is well placed to benefit from i) huge addressable market due to strong growth potential for EV/hybrid products (~51% of revenue), ii) diversification across geographies (55-60% revenue from exports) and iii) market share gains in key products. The company serves 7 of the world's top 10 PV OEMS, 3 of the world's top 10 CV OEMS and 7 of the world's top 8 Tractor OEMS. The Company also saw an addition in orderbook from Indian OEM of Electric and ICE 2 Wheelers of Rs.913 crs & European OEM of PVs and EVs Rs.1607 crs. With the product offerings spanning across all types of conventional and electrified powertrains, the company is one of the few automotive technology manufacturers that is well-positioned to gain from high growth industry trends as well as various initiatives introduced by the GoI to facilitate the growth of the automotive industry in India.



Valuation

The company has a reputed client credentials with highly profitable self-funded business model which warrants premium valuations. We believe SONACOMS is likely to be fastest growing India based Auto ancillary company with 30% PAT CAGR over FY22-24E and having significant exposure to EV segment. Hence, we recommend a BUY rating in the stock with the target price (TP) of Rs.620, 60x FY22E EPS.

Risks

- **Uncertainty** – EV penetration is still lower specially in India and company might face challenges related to scalability, technological changes and competition.
- **Cyclical Industry** – Company's operations are cyclical in nature as its sales are directly dependent on the level of automotive production globally. Further, the sales are affected by inventory levels of automotive manufacturers, which has been characterized historically by significant periodic fluctuations.
- **Client Concentration Risk** – Revenues from top 10 customers constitute major part of the overall revenues of the company for FY19/20/21/22 and hence loss of any single customer can significantly impact the financials of the company.

Source – Tickertape, Company's Website, BSE Website.

Thanks & Regards

Abeshak C V

Equity Research Analyst – Fundamental
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