

July 24, 2024

RESULT REPORT Q1 FY25 | Sector: Automobile

# Sona BLW Precision Forgings Ltd

## Decent operating performance

### Valuation and View

Sona BLW (SONACOMS) 1QFY25 results were a mixed bag as revenues and EBITDA were in-line while Adj.PAT miss was led by higher tax outgo. EBITDA margins were in-line at 28% (+30bp YoY/ flat QoQ) is resilient, led by favorable product mix and operational efficiencies despite higher freight rates and ESOP cost of Rs82m in 1QFY25 (vs Rs80m in 4QFY24). On the positive side, the key highlight of the quarter was, the resilient margins despite multiple headwinds and management comments around no delay in order book ramp-up for BEV given declining EV shift. Further, adjusted new order addition were at ~Rs11b (vs ~Rs12b/Rs20b/ Rs13b/Rs5b/Rs42b/Rs4b/Rs28b/Rs6b orders added in previous 8 quarters). Co's overall orderbook stands at Rs233b (vs Rs226b/Rs215b/Rs186b in FY24/FY23/FY22). EV revenue mix during 1QFY25 were highest at 33% (vs 32%/30%/27%/26% in 4QFY24/3QFY24/2QFY24/1QFY24).

SONACOMS revenue growth of ~22% YoY vs ~3% volume growth in light vehicle segment from top 3 markets is healthy as it continues to serve as a proxy for the global electrification trend, focus on broadening the product portfolio, expanding global scale, and cultivating a diverse customer base. This should translate into strong earnings growth and capital efficiency. Hence, we expect revenue/EBITDA/Adj. PAT to grow 31-36% CAGR over FY24-26E. We have cut FY25/26 consol EPS by 2-6% to factor in for slow domestic growth (led by CV and OHV) and weak Europe/US OHT outlook. We remain neutral with TP at Rs659 given limited upside as valuations factors in positives.

### Result Highlights – Operating performance in-line

- Consol revenues grew 21.8% YoY (+0.8% QoQ) at Rs8.9b (est ~Rs8.8b), outperforming underlying light vehicle industry growth of ~3% in key markets of North America, India and Europe.
- Gross margins expanded 60bp YoY/+110bp QoQ at 57.5% (est 57.2%) largely led by favorable product mix and benign RM.
- EBITDA came in-line at Rs2.49b (+23.5% YoY/+0.9% QoQ, cons ~Rs2.45b) led to margins expansion of +30bp YoY/flat QoQ at 28.2% (est 28.2%, cons 28.6%). Co reported one-offs of staff cost of Rs82m related to ESOP. Led by higher tax at 25% (est 21.5%), Adj.PAT came in below at Rs1.42b (+24.1% YoY/-4.3% QoQ, est ~Rs1.48b, cons ~Rs1.4b).
- Fund raise of upto ~Rs24b - have enabling resolution in place to raise up-to ~Rs24b as evaluating inorganic (in auto and EPIC space) and strategic growth opportunities.

### Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	8,912	8,797	8,589	1.3	3.8	Operating performance in-line while PAT miss was led by higher tax expense
EBITDA	2,493	2,485	2,453	0.3	1.6	
EBITDA margins %	28.0	28.2	28.6	-30bp	-60bp	
Adjusted PAT	1,417	1,487	1,385	(4.7)	2.3	

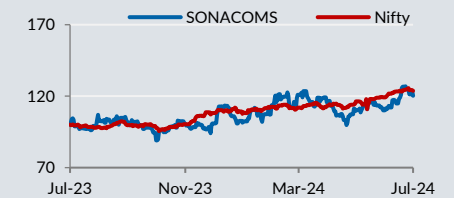
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 687
Target Price	: Rs 659
Potential Return	: -4%

### Stock data (as on Jul 24, 2024)

Nifty	24,414
52 Week h/l (Rs)	765 / 488
Market cap (Rs/USD mn)	4,09,387 / 4,893
Outstanding Shares (mn)	586
6m Avg t/o (Rs mn):	1,140
Div yield (%):	0.5
Bloomberg code:	SONACOMS IN
NSE code:	SONACOMS

### Stock performance



	1M	3M	1Y
Absolute return	+7.8%	+3.1%	+18.4%

### Shareholding pattern (As of Mar'24 end)

Promoter	29.7%
FII+DII	61.7%
Others	8.6%

### Δ in stance

(1-Yr)	New	Old
Rating	Neutral	Neutral
Target Price	659	654

### Δ in earnings estimates

	FY25E	FY26E
EPS (New)	11.6	16.5
EPS (Old)	11.9	17.6
% change	(2.4%)	(6.0%)

### Financial Summary

Y/E Mar (Rs bn)	2024	2025E	2026E
Sales	31.8	41.2	53.6
EBITDA	9.0	11.8	15.6
Adj. PAT	5.2	6.8	9.7
EPS (INR)	8.9	11.6	16.5
EPS Gr. (%)	31.6	29.8	42.4
BV/Sh (INR)	47.7	56.9	70.4
RoE (%)	20.6	22.2	26.0
RoCE (%)	20.7	20.9	24.3
P/E (x)	76.8	59.2	41.5
P/BV (x)	14.4	12.1	9.8
EV/EBITDA (x)	44.6	34.2	25.6
Div. Yield (%)	0.2	0.4	0.4

### DEEP SHAH

Lead Analyst

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## Exhibit 2: Quarterly snapshot

Y/E Mar (Rs m)	Q1FY25	Q1FY24	YoY chg (%)	Q4FY24	FY24	FY23	YoY chg (%)
<b>Net Revenues</b>	<b>8,912</b>	<b>7,314</b>	<b>21.8</b>	<b>8,841</b>	<b>31,848</b>	<b>26,550</b>	<b>20.0</b>
Raw Materials	3,788	3,153	20.1	3,858	13,741	12,200	12.6
% of Net Sales	42.5%	43.1%		43.6%	43.1%	45.9%	
Personnel	761	491	54.8	728	2,501	1,804	38.7
% of Net Sales	8.5%	6.7%		8.2%	7.9%	6.8%	
Manufacturing & Other Exp	1,870	1,644	13.8	1,785	6,584	5,795	13.6
% of Net Sales	21.0%	22.5%		20.2%	20.7%	21.8%	
Total Expenditure	6,419	5,288	21.4	6,371	22,827	19,798	15.3
EBITDA	2,493	2,026	23.1	2,470	9,021	6,752	33.6
<b>EBITDA Margin (%)</b>	<b>28.0%</b>	<b>27.7%</b>		<b>27.9%</b>	<b>28.3%</b>	<b>25.4%</b>	
Depreciation	606	511	18.7	598	2,202	1,781	23.7
EBIT	1,887	1,515	24.5	1,871	6,819	4,971	37.2
Interest Expenses	86	53	61.4	71	258	169	52.5
Non-operating income	88	61		86	240	322	(25.5)
Extraordinary Income	-	28		-	87	34	
Extraordinary Expenses	0	0		0	-	-	
PBT	1,889	1,495	26.3	1,886	6,713	5,090	31.9
Tax-Total	472	375	25.9	405	1,535	1,138	34.9
Tax Rate (%) - Total	25.0%	25.1%		21.5%	22.9%	22.4%	
Reported PAT	1,417	1,120	26.5	1,481	5,178	3,952	31.0
<b>Adj. PAT</b>	<b>1,417</b>	<b>1,142</b>	<b>24.1</b>	<b>1,481</b>	<b>5,243</b>	<b>3,979</b>	<b>31.8</b>
PAT Margin	15.9%	15.6%		16.7%	16.5%	15.0%	

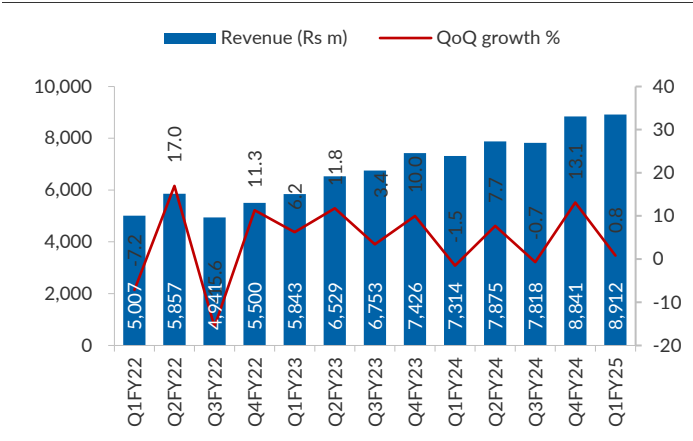
Source- Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- **Revenue share from BEV continues to drive overall growth in 1QFY25 at Rs2.83b (+53% YoY)** with its share in revenues increased to 33%/32%/29%/26% in 1QFY25/4QFY24/FY24/FY23 of revenues.
  - Cumulative number of EV programs awarded increased from 42 in FY23 to 54 in FY24 and 55 in 1QFY25 with 8 new products in 3 years which added ~Rs100b in order book.
  - Of the total 55 programs - ~12 in fully ramp up production, ~15 in ramp-up stage and ~28 not yet part of production.
- **Net order book increased to ~Rs233b in 1QFY25 (vs Rs226b in 4QFY24)** of which Rs4b orders were consumed while Rs11b of orders added in 1QFY25. EV account for ~79% of OB (flat QoQ) at Rs184b in 1QFY25 (vs Rs179b in 4QFY24).
  - **Added an order from a North American new age OEM of Electric CV** to supply Intermediate Gears, Input shafts and Park Gear for its upcoming EV Class 5 truck. Total order size is ~Rs6.8b with SOP expected by 4QFY25. Earlier, co had won the order to supply Final Drive Differential Assembly for this program. Hence the total OB stands at Rs10.85b.
  - **Novelic order wins - The company has won its first product order in the sensors and software business.** This order win is to supply ACAM, or in-cabin sensors, for electric passenger vehicles. It has come from a new customer— an Asia-based new-age OEM of electric PVs. This program has added Rs1.5b to order book, and the SOP is expected in 3QFY27. **First set of customers likely to be in Europe, the US and Asia than India** led by cost aspects. Semiconductor is ~20% of Novelic revenues.
  - Not seeing any program delays and cancellations and impact on the order book from overseas markets while have seen some product launch delays in EV 2Ws in India.
- **PLI benefits not yet accrued** – Have been approved for 4 products (2W/3W EV motors) and remaining products are in process for approval. Don't expect any PLI benefit to accrue in FY25E.
- **Fund raise** – have enabling resolution in place to raise up-to ~Rs24b as evaluating few acquisitions opportunities (in auto and EPIC space) and to support strategic opportunities like JV and collaborations.
- **Couple of products added to technology roadmap – 1) Park gear** – only used in EV drive train and its not used in ICE powertrain. **2) Integrated motor controller** – looking to incorporate technology from drive to hub motors from 96W to 350W (from 3W to LCV). Equipmake is having products in >350W for which development is on as per plan.
- **Sona's content in different powertrain technologies** - highest in plug-in hybrids followed by BEVs followed by hybrids and ICE.
- **EV 2W motor account for ~7% of revenues.** However, the segment is not as profitable as other segment. Not seeing the contribution growing. Will focus on larger value segment.
- **Key challenges for the quarter**
  - US OHT is weak with production decline further which impacted Sona revenues as it has high market share.
  - Red sea crisis continued with increase in freight rates and container availability.
  - Have seen some demand moderation in Europe and slowing down further.
- Have some tax adjustment generally accruing during 4Q every year. Expect the steady state tax rates at 24-25%.

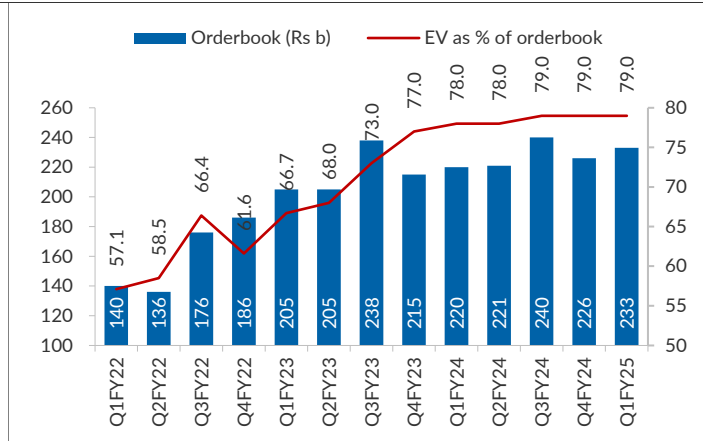
## CHARTS

**Exhibit 1: 1QFY25 revenues declined by 0.8% QoQ**



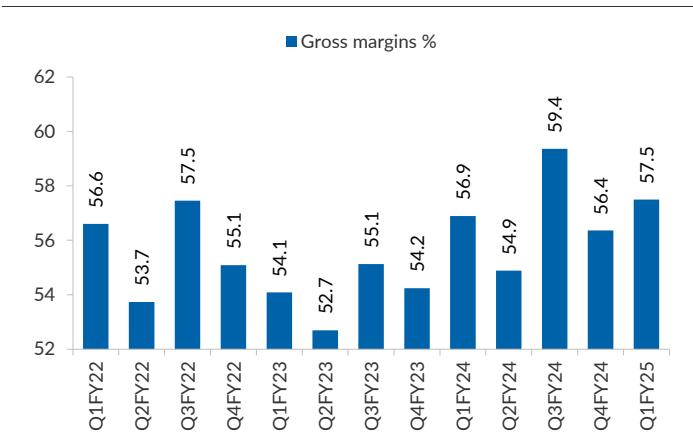
Source: Company, YES Sec

**Exhibit 2: EV accounted for ~79% of orderbook**



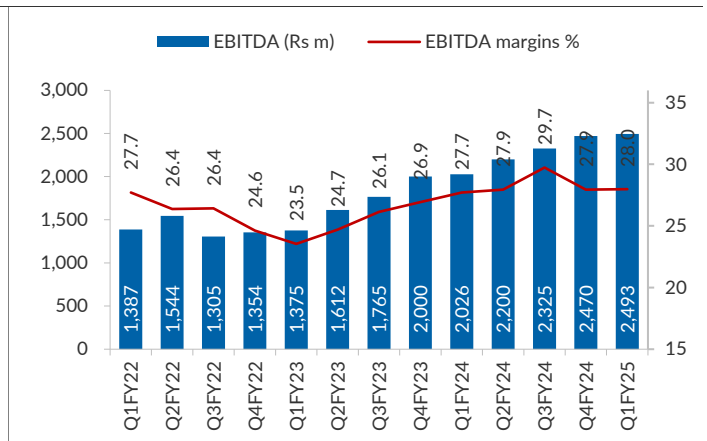
Source: Company, YES Sec

**Exhibit 3: GM expanded ~110bp QoQ at 57.5%**



Source: Company, YES Sec

**Exhibit 4: EBITDA margins were flat QoQ at ~28%**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 5: Balance Sheet

Y/E March (Rs mn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	472	5,730	5,844	5,854	5,864	5,864	5,864
Preference Capital	6	-	-	-	-	-	-
Total Reserves	11,302	8,030	14,159	17,048	22,137	27,484	35,429
<b>Net Worth</b>	<b>11,779</b>	<b>13,759</b>	<b>20,003</b>	<b>22,902</b>	<b>28,001</b>	<b>33,349</b>	<b>41,294</b>
Total Loans	3,672	4,472	1,511	2,952	4,121	3,481	3,331
Deferred Tax Liabilities	1,077	941	884	876	1,261	1,261	1,261
<b>Capital Employed</b>	<b>16,528</b>	<b>19,172</b>	<b>22,398</b>	<b>26,730</b>	<b>33,384</b>	<b>38,091</b>	<b>45,886</b>
Gross Block	10,403	12,343	15,377	19,010	23,027	26,027	30,027
Less: Accum. Deprn.	1,195	1,935	3,294	4,892	7,040	9,708	12,768
<b>Net Fixed Assets</b>	<b>9,209</b>	<b>10,408</b>	<b>12,083</b>	<b>14,118</b>	<b>15,987</b>	<b>16,319</b>	<b>17,259</b>
Goodwill	1,758	1,758	1,758	1,758	3,518	3,518	3,518
Capital WIP	581	832	1,474	911	3,636	3,636	3,636
<b>Total Investments</b>	<b>71</b>	<b>58</b>	<b>130</b>	<b>2,418</b>	<b>527</b>	<b>591</b>	<b>643</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>6,888</b>	<b>8,923</b>	<b>10,512</b>	<b>11,393</b>	<b>14,980</b>	<b>20,495</b>	<b>28,515</b>
Inventory	1,962	3,056	3,634	3,232	3,475	7,186	9,956
Account Receivables	2,336	4,170	4,452	6,089	6,483	9,374	12,578
Cash and Bank Balance	1,673	276	773	698	2,742	1,540	3,466
Loans and Advances	-	-	-	-	-	-	-
Other current assets	916	1,422	1,654	1,373	2,281	2,395	2,515
<b>Curr. Liability &amp; Prov.</b>	<b>1,979</b>	<b>2,807</b>	<b>3,559</b>	<b>3,868</b>	<b>5,266</b>	<b>6,468</b>	<b>7,686</b>
Account Payables	1,861	2,647	3,353	3,629	4,936	6,109	7,305
Provisions	118	159	206	239	330	359	381
<b>Net Current Assets</b>	<b>4,909</b>	<b>6,116</b>	<b>6,953</b>	<b>7,525</b>	<b>9,715</b>	<b>14,027</b>	<b>20,829</b>
<b>Appl. of Funds</b>	<b>16,528</b>	<b>19,172</b>	<b>22,398</b>	<b>26,730</b>	<b>33,384</b>	<b>38,091</b>	<b>45,886</b>

Source: Company, YES Sec

## Exhibit 6: Income statement

Y/E March (Rs mn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Total Income from Operations</b>	12,201	15,663	21,306	26,755	31,848	41,237	53,553
Change (%)	(14.5)	28.4	36.0	25.6	19.0	29.5	29.9
Raw Materials	5,139	6,453	9,456	12,200	13,741	17,878	22,977
% of Sales	42.1	41.2	44.4	45.6	43.1	43.4	42.9
Employees Cost	1,222	1,474	1,689	1,804	2,501	2,950	3,833
% of Sales	10.0	9.4	7.9	6.7	7.9	7.2	7.2
Other Expenses	2,586	3,325	4,571	5,795	6,584	8,630	11,112
% of Sales	21.2	21.2	21.5	21.7	20.7	20.9	20.7
<b>EBITDA</b>	3,254	4,410	5,591	6,958	9,022	11,779	15,632
Margin (%)	26.7	28.2	26.2	26.0	28.3	28.6	29.2
Depreciation	782	969	1,420	1,780	2,202	2,668	3,060
<b>EBIT</b>	2,472	3,441	4,171	5,178	6,819	9,111	12,572
Interest Charges	269	325	183	169	258	379	335
Other Income	76	23	200	116	239	313	574
<b>PBT bef. EO Exp.</b>	2,279	3,139	4,189	5,124	6,801	9,045	12,812
EO Items	-	(139)	133	(34)	(87)	-	-
<b>PBT after EO Exp.</b>	2,279	3,000	4,322	5,091	6,714	9,045	12,812
Total Tax	62	848	706	1,138	1,535	2,237	3,114
Tax Rate (%)	2.7	28.3	16.3	22.4	22.9	24.7	24.3
<b>Reported PAT</b>	2,217	2,152	3,615	3,952	5,178	6,809	9,698
<b>Adjusted PAT</b>	2,217	2,251	3,504	3,979	5,246	6,809	9,698
Change (%)	4.2	1.5	55.7	13.5	31.8	29.8	42.4

Source: Company, YES Sec

## Exhibit 7: Cash Flow Statement

Y/E March (Rs mn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Profit before Tax	2,279	3,000	4,322	5,091	6,713	9,045	12,812
Deprn. & Amort.	782	969	1,420	1,780	2,202	2,668	3,060
Net Interest Exp. / Inc. (-)	238	325	172	161	252	379	335
Inc (-) / Dec in WCap.	4	(2,070)	(890)	(630)	(644)	(5,514)	(4,876)
Others	188	(269)	(34)	33	-42	-	-
Taxes Paid	(398)	(528)	(544)	(1,102)	(1,553)	(2,237)	(3,114)
Operating Cash Flow	3,092	1,427	4,446	5,333	6,928	4,342	8,217
Capex	(2,239)	(2,189)	(3,472)	(3,352)	(3,195)	(3,000)	(4,000)
Free Cash Flow	853	(762)	974	1,980	3,732	1,342	4,217
-Inc/dec in investments	(6,916)	598	(275)	(2,309)	(1,728)	(64)	(52)
Other	(332)	31	213	32	208	-	-
Investing Cash Flow	(9,487)	(1,561)	(3,534)	(5,629)	(4,715)	(3,064)	(4,052)
Inc/(dec) in capital	8,706	-	2,981	40	40	-	-
Dividend+Tax Thereon	(1,731)	(904)	(450)	(1,199)	(1,793)	(1,461)	(1,753)
Inc/dec in loans	1,320	608	(2,954)	1,471	94	(450)	(90)
Net Interest Exp. / Inc. (-)	(205)	(246)	(92)	(12)	(173)	(379)	(335)
Other assets	(1,007)	(125)	(122)	(113)	84	(190)	(60)
Financing Cash Flow	7,083	(667)	(637)	187	(1,747)	(2,480)	(2,238)
Inc / Dec (-) in Cash	689	(800)	275	(109)	465	(1,202)	1,927
Opening cash balance	361	1,050	249	536	441	910	(292)
Movement in Foreign currency translation reserve	-	-	12	14	4	-	-
Closing Cash Balance	1,050	250	536	441	910	(292)	1,635

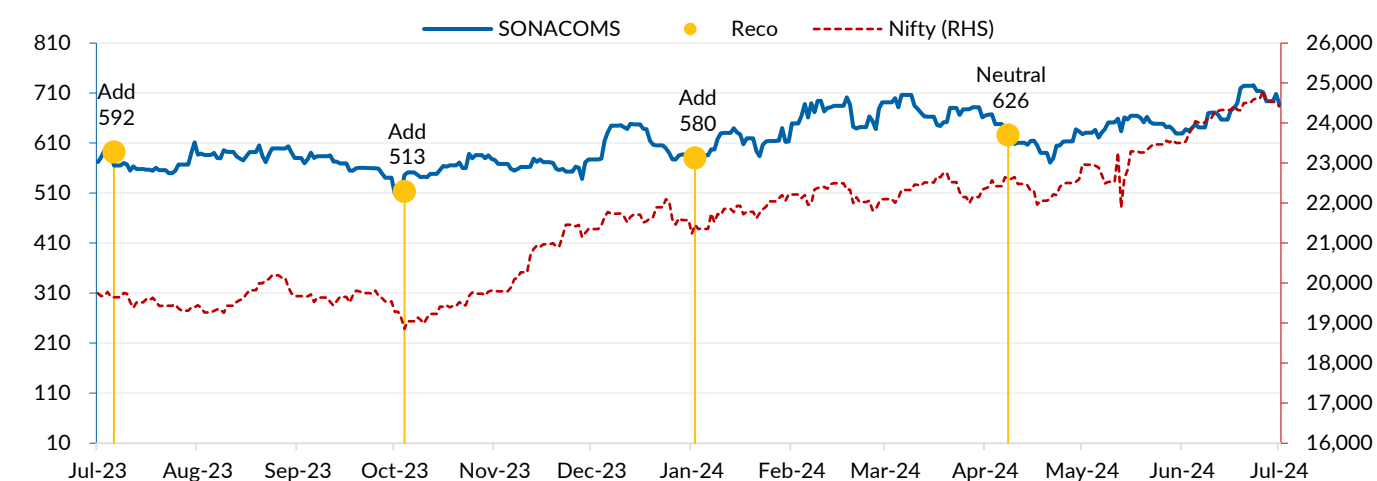
Source- Company, YES Sec

## Exhibit 8: Growth and Ratio matrix

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)							
EPS	3.9	3.9	6.0	6.8	8.9	11.6	16.5
Cash EPS	5.2	5.6	8.4	9.8	12.7	16.2	21.8
BV/Share	20.5	24.0	34.2	39.1	47.7	56.9	70.4
DPS	1.9	1.6	0.8	1.5	1.5	2.5	3.0
Valuation (x)							
P/E	177.5	174.8	114.6	101.1	76.8	59.2	41.5
P/BV	33.4	28.6	20.1	17.6	14.4	12.1	9.8
EV/Sales	32.4	25.3	18.8	15.0	12.6	9.8	7.5
EV/EBITDA	121.4	90.0	71.8	57.7	44.6	34.2	25.6
Dividend Yield (%)	0.3	0.2	0.1	0.2	0.2	0.4	0.4
FCF per share	1.0	0.9	1.5	(1.3)	1.7	3.4	6.4
Return Ratios (%)							
RoE	18.2	17.6	20.8	18.5	20.6	22.2	26.0
RoCE (post-tax)	19.7	19.3	20.7	18.7	20.7	20.9	24.3
RoIC	18.8	16.4	18.9	19.3	21.5	22.8	26.4
Working Capital Ratios							
Asset Turnover (x)	0.7	0.8	1.0	1.0	1.0	1.1	1.2
Inventory (Days)	58.7	71.2	62.2	44.1	39.8	63.6	67.9
Debtor (Days)	69.9	97.2	76.3	83.1	74.3	83.0	85.7
Creditor (Days)	47.4	72.7	50.9	45.9	47.7	53.8	54.6
Leverage Ratio (x)							
Current Ratio	3.5	3.2	3.0	2.9	2.8	3.2	3.7
Interest Cover Ratio	12.1	13.6	30.6	41.1	35.0	31.1	46.7
Net Debt/Equity	0.1	0.2	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)

Source- Company, YES Sec

## Recommendation Tracker



Source – YES Sec



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